

We help people and businesses achieve

Today's
goals
Tomorrow's
aspirations



Nations Trust Bank Annual Report 2014

View the Annual Report online

www.nationstrust.com/investor_relations/index

We help people and businesses achieve

Today's goals Tomorrow's aspirations

Whoever you are, wherever you live, Nations Trust offers you all the financial services and solutions you want, in one place. We're focusing on easy to use financial products, supported by the streamlined branch and online access, faster services and dependable technology that together move us closer to our goal of becoming the Primary Bank for customers everywhere.

At Nations Trust, we deliver much more value with much less fuss. We're making it easy for people to realise their dreams, by helping them achieve today's goals and tomorrow's aspirations.

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About Us

Nations Trust Bank is one of the fastest growing banks in Sri Lanka today. Our portfolio of financial products and services caters to the varying requirements of individual, corporate and institutional clients. As a young and dynamic bank, Nations Trust Bank has immediate appeal for young and sophisticated professionals looking for a bank they can identify with.

We have 89 branches, 124 ATMs, 52 leasing centres, internet banking, sms banking and mobile banking facilities. As a truly customer-centric financial institution, Nations Trust Bank provides tailored service for contemporary lifestyles. Our branches are open for extended hours, unlike most other banks in Sri Lanka which keep to traditional banking hours.

We offer a wide range of great value financial products, from tailor-made treasury products to retail products, from leasing to American Express credit cards. These have ensured the rapid growth of Nations Trust Bank while maintaining market stability.

Our Vision

We help people and businesses achieve today's goals and tomorrow's aspirations

Our Mission

We will work SMART to become the most respected financial services provider

Our Values

Agile
Proactive
Excellence
Winning together
Trust

Today's goals, Tomorrow's aspirations

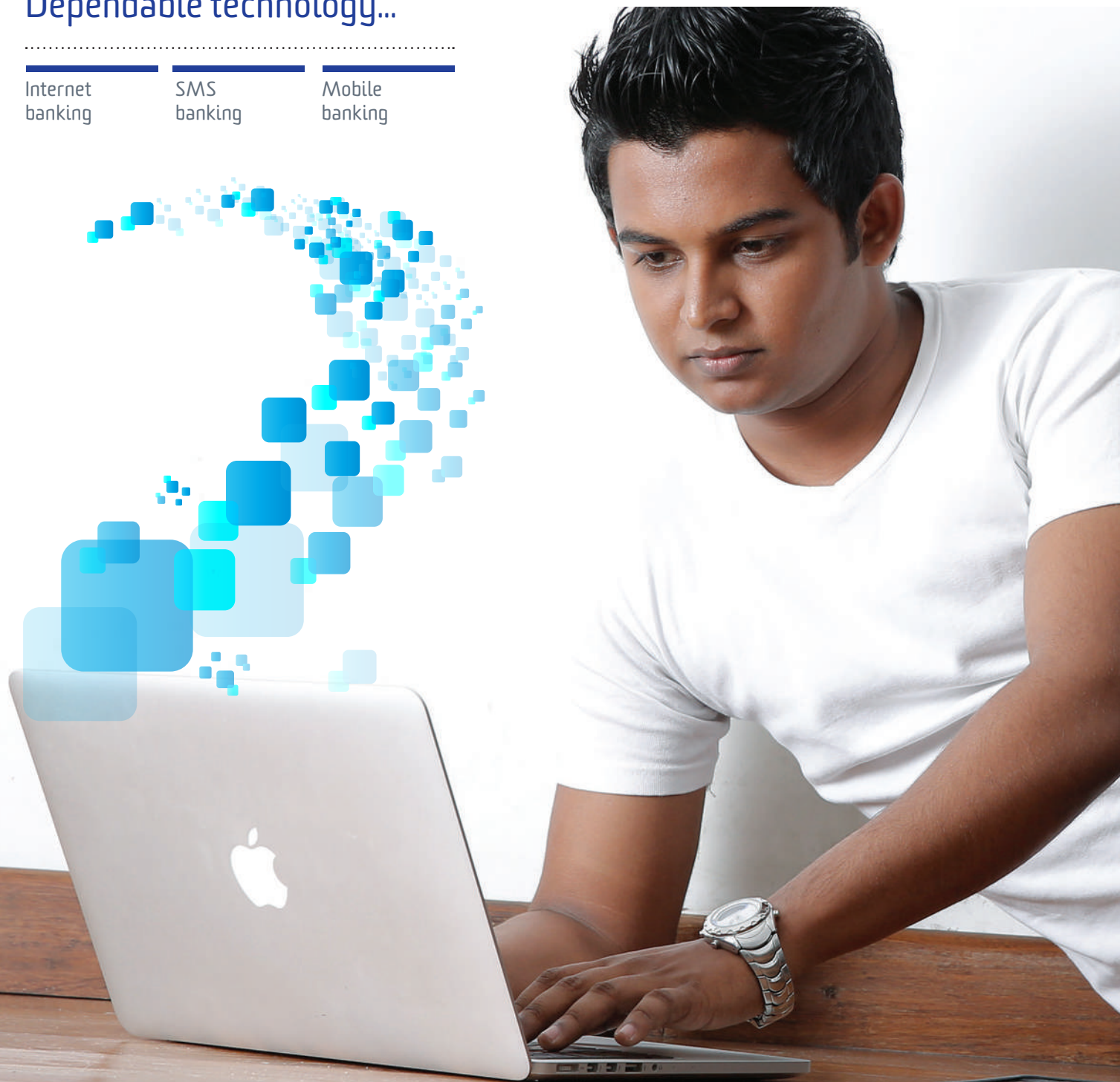
We have focused on a multi-channel approach, with increased investments in self-service banking as well as internet and mobile applications.

Dependable technology...

Internet
banking

SMS
banking

Mobile
banking





Go to www.ntb.com/brandpromise
for more

We are determined to put the customer at the heart of the banking experience, and consistently strive to engage with and understand the needs of our customers.

Strong brand promise...

Unparalleled
customer
experience

Life cycle
products and
services

Operational
excellence

Transactional
excellence

State-of-the-
art delivery

World-class product portfolio...

Treasury
Investment
Banking

Personal Banking
Private Banking
Inner Circle
Nations EmPower
Current Accounts

Savings
Investments
Fixed Deposits

Loans
Leasing
Hire Purchase
Factoring

American Express
Mastercard

Welcome to Our First Integrated Report

In preparing our first integrated report we have sought to tell the story of the year ended 31st December 2014 in a comprehensive and concise manner.

We have changed the way we present our Annual Report and Accounts so we can describe strategic information and our business model in a way that we believe is easier to understand. This information is set out in our Management Discussion and Analysis, with more detailed information, where relevant, included in Financial Statements.

In preparing our first integrated report we have sought to tell the story of the year ended 31st December 2014 in a comprehensive and concise manner.

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We seek to present a balanced review of how we created value for our stakeholders during this period. Any material events after this date and up to the sign off of Board of Directors on page 250 2015 have also been included.

The report is based on the Integrated Reporting Framework issued by the International Integrated Reporting Council and uses the G4 Standards for Sustainability Reporting published by the Global Reporting Initiative which we have adopted on a voluntary basis in keeping with international best practice. The financial statements have been prepared based on Sri Lanka Financial Reporting Standards as required by the Sri Lanka Accounting & Auditing Standards Act No. 15 on 1995 and the Banking Act Direction No. It also conforms to the requirements of the Companies Act No.7 of 2007 and the Continuing Listing Requirements of the Colombo Stock Exchange. We continue to monitor developments in corporate reporting in local and the international context to ensure that our reports are in par with best practice.

The focus of the report is to provide relevant financial and non-financial information on material developments and issues to the principle stakeholders, the capital providers to represent fairly the events that shaped our performance during the reporting

We use a number of technical terms and abbreviations within this document. In the interest of saving paper, we do not define terms or provide explanations every time they are used; please refer to the glossary on pages 255 to 261 for this information.

period and are likely to impact our future performance. In identifying the reporting events the materiality principle was applied. We consider any event or development that affects our ability to create value to the stakeholders over short, medium and long term as material for reporting. Material aspects and boundaries are defined in accordance with the GRI G4 standards with reference to the responses from our stakeholder engagement processes.

Our ability to create value depends on different resources, commonly known as capitals- Financial capital, Human capital, Manufactured capital, Social and Relationship capital, Natural capital. This report aims to provide an insight into our performance in relation to how we used these capitals and how our operations affected these capitals.

Messrs Ernst & Young have provided independent external assurance on the financial report, the Director's statement on Internal Control and have provided independent assurance to the Central Bank on compliance with the Banking Act Direction No.11 of 2007 and subsequent amendments on Corporate Governance for Licensed Commercial Banks in Sri Lanka.

This report also contains forward looking statements which we believe to be correct at the time of sign off and may be based on assumptions and estimates. These statements are not guarantees of the Bank's future operating or financial results or performance which may differ materially due to events that may occur or trends that become apparent after the sign off date.

Cross-referencing tools



Indicates that additional information is available online.



For the latest financial information, refer to our investor relations page www.nationstrust.com/investor_relations/index

Forward looking statements

Furthermore, we have enhanced our reporting of future plans and outlook therefore this report contains many forward looking statements. In most cases these will be indicated by the use of words such as 'target', 'believe', 'expect', 'may', 'anticipate', 'plan', 'will', 'strategy', 'prospect', 'foresee', 'possibility', 'estimate', 'project', 'can', 'intend', and others with similar meaning. These statements are based on our current plans, estimates and projections; therefore such statements involve inherent risks and uncertainties as a number of factors could cause the actual result to deviate from the targeted one. Among the factors that would impact future results are global and local political and economic conditions; changes to government policy; currency and interest rate fluctuations; changes to the competitive landscape; failure to recruit the right employees; unexpected changes in costs and expenses; new investments and divestitures; and our success/failure at marketing new products and services. As such, please note that Nations Trust Bank PLC undertake no obligation to update or revise the forward-looking statements herein, after the distribution of this Annual Report.

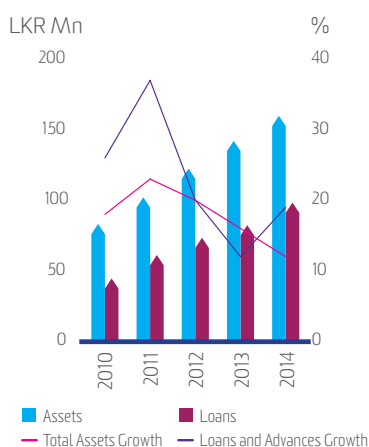
Performance Highlights

Our Vision: We help people and businesses achieve today's goals and tomorrow's aspirations

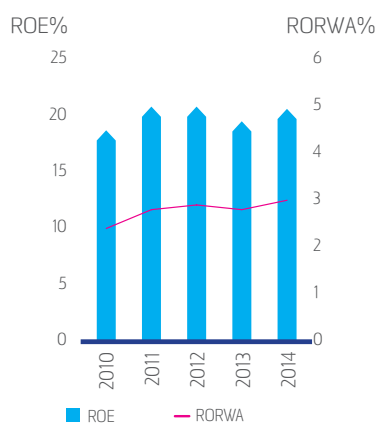
Our Mission: We will work SMART to become the most respected financial services provider

Customers We are committed to delivering sustained growth in earnings and assets whilst safeguarding asset quality. Accordingly, we have delivered 19% growth in post tax profits, 19% growth in loans and advances and 19.8% return on equity. The share price has moved positively from LKR 62/- per share to LKR 97/- and is recommended as a "buy" by key equity researchers.

Assets/Loans

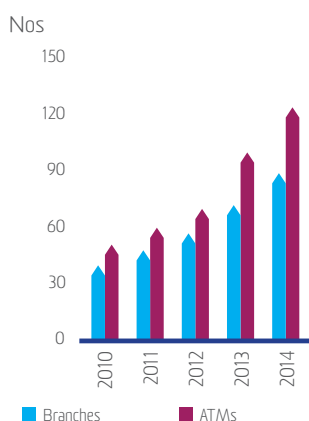


ROE vs. RORWA



Shareholders We are committed to enhancing your convenience and experience through excellence in service delivery and innovation. In fulfilment of this promise, we have increased the number of customer touch points for your convenience and enhanced our electronic channels which has earned us an improved customer satisfaction score of 88.2%

Branches vs. ATMs



Mobile Apps

15,617

Mobile App Downloads

e-banking

10,560

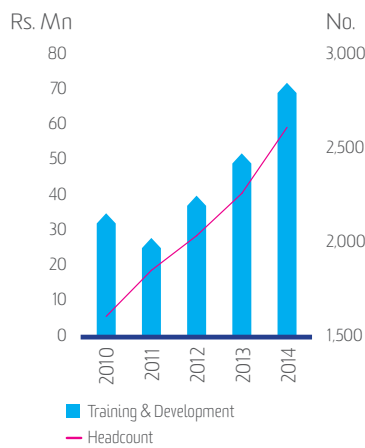
customers registered for e-banking - 2014

Our Vision: We help people and businesses achieve today's goals and tomorrow's aspirations

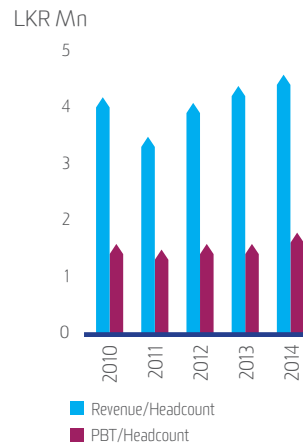
Our Mission: We will work SMART to become the most respected financial services provider

Our team We are differentiated by our service excellence and we invest in rewarding and developing our people to be the best in the industry. Our efforts have been rewarded by consistent enhancement in employee productivity and our ability to attract and retain people of talent and ambition.

Training & Development / Headcount



Efficiency Ratios



Business partners Our business partners and suppliers provide us with linkages across markets and a variety of goods and services necessary for the smooth running of our business.

Correspondent Banks

We added 4 banks to our network in 2014

Exchange Houses

Our network of exchange houses expanded by 9 in 2014.

Suppliers

We spent LKR 2.6 Bn on procuring goods and services during the year

Performance Highlights

Our Vision: We help people and businesses achieve today's goals and tomorrow's aspirations

Our Mission: We will work SMART to become the most respected financial services provider

Government & Regulators We have complied with all Banking regulations in effect as at 31st December 2014 and filed returns and paid our dues as a responsible corporate in a timely manner.

| | | |
|--------------------------|---------------------|----------------------|
| Value Added Tax (LKR Mn) | Income Tax (LKR Mn) | Other Taxes (LKR Mn) |
| 754 | 958 | 1,208 |

Community Our investment in the community was on projects focussing on health, education, environment and disaster recovery.

Financial and Operational Highlights

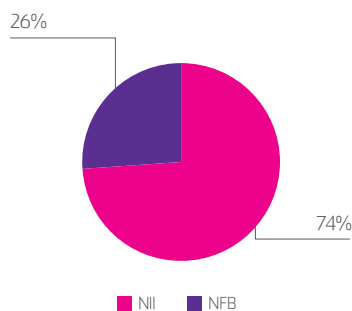
| Financial Highlights | Change % | 2014 | 2013 |
|--------------------------------------|----------|---------|---------|
| Financial Performance (LKR Mn) | | | |
| Gross income | 2 | 20,854 | 20,362 |
| Net profit before tax | 24 | 4,571 | 3,680 |
| Income tax | 27 | 1,290 | 1,015 |
| Net profit | 19 | 2,537 | 2,136 |
| Revenue to the Government | 32 | 2,035 | 1,544 |
| Financial Position (LKR Mn) | | | |
| Borrowings | (8) | 25,402 | 27,508 |
| Shareholders' funds | 18 | 13,895 | 11,738 |
| Total assets | 13 | 159,868 | 142,128 |
| Information per Ordinary Share (LKR) | | | |
| Earnings (Basic/Diluted) | 11 | 10.31 | 9.16 |
| Effective dividends | - | 2.10 | 2.10 |
| Net assets | 16 | 55.46 | 46.79 |

Key business line departments worked together with product specialists and support services to deliver on agreed Key Performance Indicators breaking down silos and giving team work a new meaning.

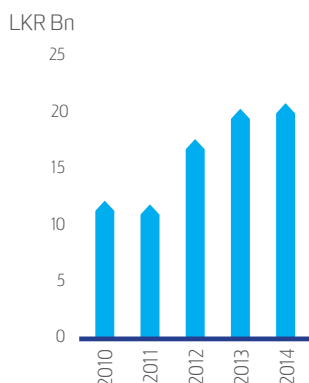
NIM



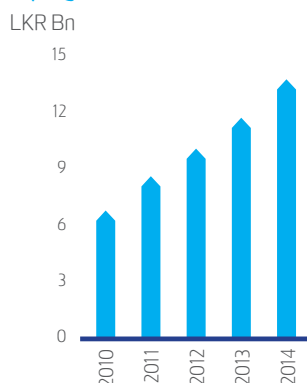
Net Interest Income/NFB Income



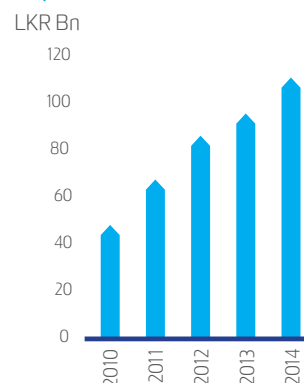
Gross Income



Equity



Deposits



Financial and Operational Highlights

12.12 Bn Revenue +22%

98.40 Bn Loans and Advances +19%

4.57 Bn Profit Before Tax +24%

2.54 Bn Net Profit After Tax +19%

- ★ Krishan Balendra appointed Chairman of Nations Trust Bank PLC
- ★ Kumar Jayasuriya, Gihan Cooray and Harsha Raghavan are appointed to the Board
- ★ Nations Trust Bank recognized as the Fastest Growing Retail Bank in Sri Lanka in 2014 by International Finance Publications Limited
- ★ Nations Trust Bank opens branches in Kottawa, Tissamaharama, Wariyapola, Hikkaduwa, Gampola, Giriulla, Gothatuwa, Minuwangoda, Kegalle, Tangalle, Digana, Weligama, Rajagiriya, Mawathagama, Kaduwela, Elpitiya and Nittambuwa.
- ★ Nations Trust launches the first Chip and PIN based USD Travel Card
- ★ Nations Trust Bank launches Nations Hybrid Bonanza

Engaging Stakeholders

We are committed to maintaining a balance between the diverse stakeholder needs and pursuing win-win strategies

Key stakeholders



Customers

Our customer base comprises individuals, SMEs and corporate clients, spread across the island



Employees

Our talent pool consists of 2562 dynamic employees.



Investors

Institutional and individual investors make up our valued shareholders



Government and Regulators

Our regulators are the Central Bank of Sri Lanka and the Securities and Exchange Commission



Community

The local communities where our branches are located



Business Partners

Includes correspondent banks, exchange houses and our suppliers

The customer charter sets the standard for fair banking practices and provides guidance to employees on customer rights, grievance mechanisms and relief with special provisions for the care of the elderly, disabled and low financial literacy in accessing banking services.

As a rapidly growing financial services provider, we are conscious that our growth is dependent on how we interact with our stakeholders. We have set in place structured processes to embed stakeholder engagement in to our business processes as key driver of the cycle of continuous improvement. Key stakeholders are determined to be key groups with whom we have a legal contract, those that influence how we do business and those who are directly impacted by what we do. The key groups of stakeholders are defined as our customers, employees, investors, regulators, business partners and the communities we serve. The table below summarises how we engage with our key stakeholders.

We are committed to maintaining a balance between the diverse stakeholder needs and pursuing win-win strategies.

Material issues are defined as those that impact our business or stakeholders in a significant manner. The GRI indicators for disclosure have been carefully selected to reflect these material issues and an index is provided on page 137 for easy reference.

The customer charter sets the standard for fair banking practices and provides guidance to employees on customer rights, grievance mechanisms and relief with special provisions for the care of the elderly, disabled and low financial literacy in accessing banking services. Whilst the charter complies with the Central Bank requirements, we have committed to going beyond mere compliance requirements and have a state of the Customer Call Centre that is in operation throughout the year on a 24 hour basis. The Social Report includes a review of how we addressed customer needs from page 60 to 73.

Engaging Stakeholders

| | Primary Engagement Mechanisms | Needs Identified |
|-------------------------|--|--|
| Customers | <ul style="list-style-type: none"> 24/7 Call Centre facilitating comprehensive monitoring of customer issues Multi-layered engagement by branch teams and relationship managers Market research in to key groups of customers by reputed third party organisations Customer satisfaction surveys Comprehensive customer communication plan using print and electronic media | <ul style="list-style-type: none"> Excellence in customer service Convenience of transacting through multiple channels Assistance in transitioning to new technologies |
| Employees | <ul style="list-style-type: none"> Open door management policy Regular structured meetings at department level Voice of Nation bi monthly meetings Performance Appraisals Cross departmental social activities | <ul style="list-style-type: none"> Career growth and personal advancement Reward and remuneration Work life balance Recognition |
| Investors | <ul style="list-style-type: none"> Investor Forums including Annual General Meeting One to one meetings with large investors Relationships with intermediaries Comprehensive communication plan using print and electronic media ensuring compliance with regulatory requirements and timely release of information to investors. | <ul style="list-style-type: none"> Comprehensive but concise information on operations and future outlook at regular intervals Sustainable growth and value creation Returns commensurate with risks assumed Good governance |
| Government & Regulators | <ul style="list-style-type: none"> Submission of regulatory reports in a timely manner Continuous dialogue with regulators | <ul style="list-style-type: none"> Compliance with regulatory direction and contribution to on-going dialogue on financial sector reform Responsible Business Practices upholding the rights of key stakeholder groups i.e. Good governance Value addition to the economy |
| Community | <ul style="list-style-type: none"> Local branch engagement Higher degree of participation | <ul style="list-style-type: none"> Responsible business practices Community Empowerment Employment Financial strength and credibility |
| Business Partners | <ul style="list-style-type: none"> Regular meetings, written communications Transparent bidding process Relationship building | <ul style="list-style-type: none"> Business growth Responsible Business Practices Ease of transacting Strategic partnerships Feedback |

We engage with the local communities where our branches are located as part of our normal business processes as we strive to become part of the socio economic fabric of each location.

Our commitment to employees is encapsulated in the HR policy framework which is approved by the Board of Directors and the HR & Remuneration Committee. These policies are in compliance with the labour laws of the country and are based on equal opportunity irrespective of gender or ethnicity, preservation of human rights and meritocracy. The Social Report from page 60 to 73 provides further information in this regard.

Investor interests are protected by a comprehensive framework of legislation which includes the Companies Act No.7 of 2007, the listing rules of the Colombo Stock Exchange and the corporate governance framework specified in the directions issued by the Central Bank which includes the principles of the Code of Best Practice in Corporate Governance issued by the Securities and Exchange Commission and the Institute of Chartered Accountants of Sri Lanka. We go beyond the requirements to conduct an annual investor forum where we engage with investors to present our strategies and clarify any concerns. More information of how investor interests are upheld is described in the Corporate Governance Report on page 108, a narrative report on our performance in the Financial and Operational reviews from page 34 to 59 together with detailed financial statements from page 162 to 250.

Regulators and Government interests are generally of a compliance nature and is embedded fully in our business processes. We have submitted all regulatory reports in a comprehensive and timely manner and have not incurred any fines for violations during this year.

We engage with the local communities where our branches are located as part of our normal business processes as we strive to become part of the socio economic fabric of each location. Many of the branch staff are hired locally and provide us with knowledge of each community's unique culture. We engage more broadly on philanthropy to develop targeted aspects of communities and preserve the environment. These initiatives are described in the Social and Environment reports from page 60 to 73.

As a bank with ambitious growth plans we engage with our diverse business partners on a one to one basis. Our engagement is based on a mutually beneficial relationship where we support each others' growth. Many of these relationships are governed by written agreements which describe the nature of the relationship, the objectives, obligations and remuneration.

Identifying the Material Issues

We undertake this as a journey and not a destination to be reached and expect to expand the scope of indicators measured in the coming years.

Our Corporate Governance policy frameworks and governance structures are designed to ensure that Nations Trust Bank creates value in a sustainable and responsible manner, balancing their obligations to diverse stakeholder groups. The Corporate Social Responsibility Committee comprises of the CEO, DGM Cards and Strategic Marketing, DGM Legal & Compliance

and the DGM Commercial Banking and they have collectively identified the material issues taking in to account the impact of the Bank's operations on the key stakeholder groups and the Bank's sustainable growth in the long term. In evaluating the impact, we have considered both the frequency of occurrence and the severity of impact on the stakeholder groups and the

| Category | Aspect | Indicator | Impact to Bank | Impact to Stakeholder |
|--|------------------------------------|-----------|----------------|-----------------------|
| Economic | Economic Performance | EC 1 | High | High |
| | | EC 3 | | |
| | Indirect Economic Impacts | EC 7 | High | High |
| | Materials | EN 2 | Moderate | Moderate |
| Environment | Energy | EN 3 | Moderate | Moderate |
| | | EN 6 | | |
| | Water | EN 8 | Low | Moderate |
| | Products & Services | EN 27 | Moderate | High |
| | Overall | EN 31 | Moderate | High |
| | Employment | LA 1 | High | High |
| Social: Labour Practices & Decent Work | | LA 2 | | |
| | Training & Education | LA 9 | Moderate | High |
| | | LA 11 | | |
| | Diversity & Equal Opportunity | LA 12 | Moderate | High |
| Social: Human Rights | Equal Remuneration for men & women | LA 13 | Moderate | Moderate |
| | No Child Labour | HR 5 | Moderate | High |
| Social: Society | Compliance | SO 8 | High | High |
| Product Responsibility | Product & Service Labelling | PR 3 | Moderate | High |
| | Customer Privacy | PR 8 | High | High |

Economic

EC 1

Impact to Bank

High

Environment

EN 3

Impact to Stakeholders

Moderate

Human Rights

HR 5

Impact to Bank

High

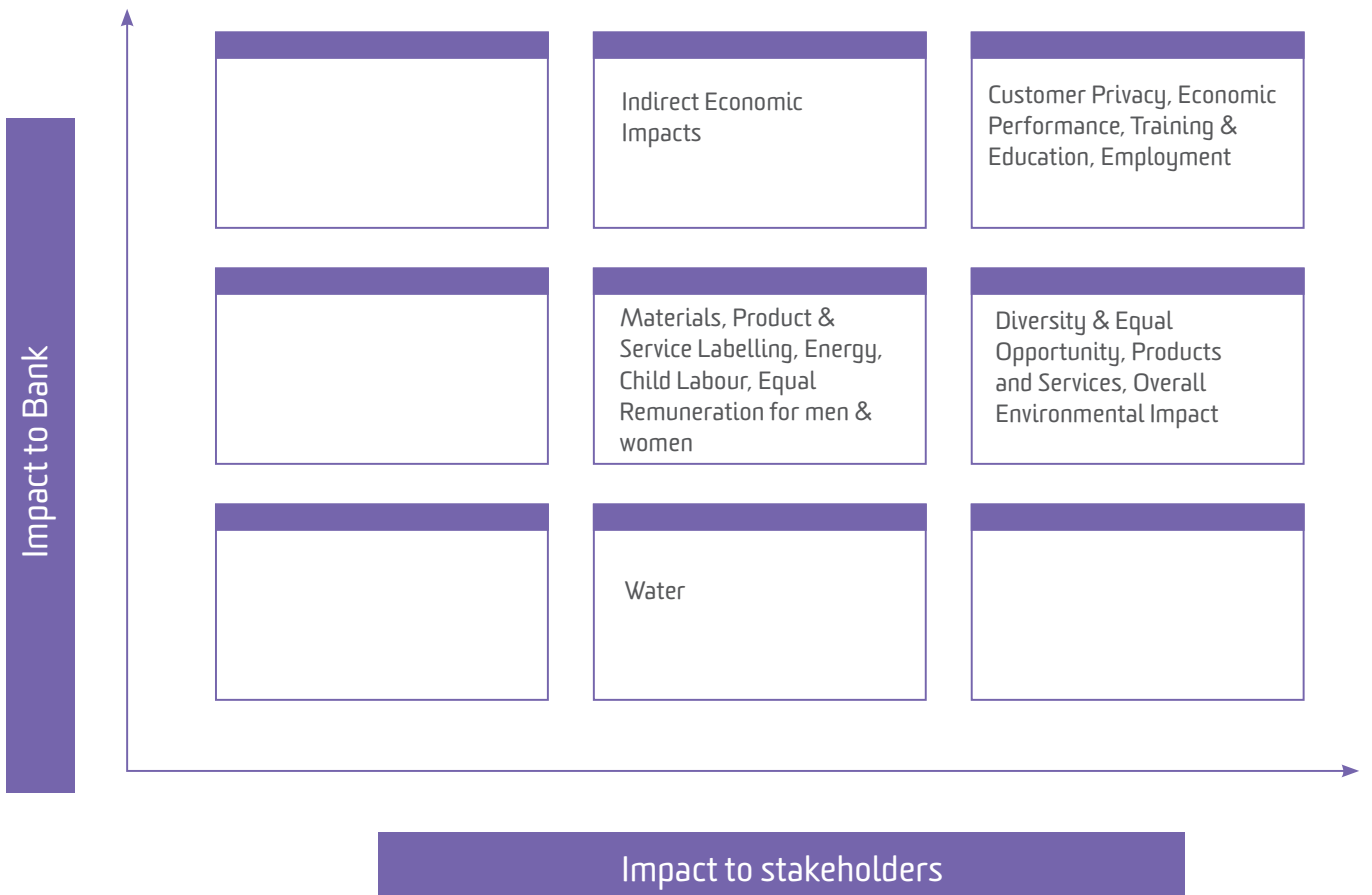
Society

SO 8

High

Bank. The G4 guidelines published by the Global Reporting Initiative were used to provide guidance as to aspects that should be included in the virtuous cycle for measurement, monitoring and improving on the identified indicators. We summarise below the Material Aspects and Indicators selected in accordance with the process outlined and have also provided a heat map indicating the materiality of each indicator. Nations Trust is

committed to improving the sustainability indicators and a number of initiatives are underway throughout the organisation to minimise our footprint. We undertake this as a journey and not a destination to be reached and expect to expand the scope of indicators measured in the coming years as our processes mature and we seek new frontiers.



Chairman's Review

We are confident that we have a strong management team and a clear strategy in place enabling us to differentiate and move forward on delivering excellence in customer service and grow in a competitive market.



Strong performance

It is my pleasure to announce that the Bank have turned in a strong performance for 2014 during a challenging year and we are now well positioned to carry forward the momentum both for growth in business and in earnings during 2015. Profit after tax of Rs. 2.54Bn reflects an encouraging growth of 19% over the previous year and the Bank's return on equity is above the industry average at 19.8%. We have witnessed promising portfolio growth across all business lines with deposit growth and credit growth trending above industry averages. Growth in the current and savings accounts mix in the deposits was a notable achievement as it has a favourable impact on our funding profile. Noteworthy progress was also seen in curtailing the growth of expenses as we reaped the rewards of lean initiatives implemented across the bank's key business processes and increased digitisation across the Bank. The Bank has a stable capital position with a capital adequacy ratio of 18%, well above the regulatory requirement with room for further optimising the use of capital.

7.8%

Economic Growth

A number of strategic initiatives were launched

Successful implementation of core banking system

Focused on talent management and succession planning

It was a year in which a number of strategic initiatives were launched to move our Bank to the next level.

It was a year in which a number of strategic initiatives were launched by the Bank. The core banking system was successfully implemented providing a solid foundation for the roll out of the next phase of our digital strategy. Talent management and succession planning was another key area of focus as we sought to embed our unique culture throughout the organisation. The Board and the Board Supervisory Committee which is a sub-committee of the Board have worked closely with the management team on these initiatives and have provided guidance and monitored its

performance. We are confident that we have a strong management team and a clear strategy in place enabling us to differentiate and move forward on delivering excellence in customer service and grow in a competitive market.

Country Performance

Sri Lanka's economic growth improved marginally to 7.8% comparing favourably with other South Asian countries which experienced lower growth rates. Monetary policy direction was maintained with the reduction of the Standing Lending Facility Rate by 50 basis points and other measures

to encourage banks to lend at lower rates to stimulate private sector credit growth. Against this backdrop, the Sri Lankan rupee remained relatively stable, depreciating 0.26% against a strengthening US dollar whilst appreciating vis a vis the sterling pound by 5.65% and the Euro by 13.19%. Inflation decreased to 2.4% by end 2014 whilst the average for the year was 3.3%. The Balance of payments surplus improved to US\$ 1,400 Mn in 2014 whilst Gross Official Reserves at the close of the year are estimated at US\$ 8.2 Bn equivalent to 5.2 months of imports.

Nations Trust is well positioned to respond to the opportunities and challenges that may arise in the operating environment.

+ 17%

Banking Sector Asset Growth

Banking Sector

Growth of total assets of the Banking sector was 17% in 2014, driven primarily by growth in liquid assets and treasury instruments. Credit growth moderated during the first 3 quarters of the year due to rationalising of pawning portfolios and a moderation in demand for credit from both public and private sectors. Consequently, high levels of liquidity prevailed during the year which contributed to the decline in interest rates which maintained its downward trend during the year. Deposit growth moderated to 12.4% in 2014 due to declining interest rates and high levels of liquidity. Earnings of the banking sector increased as Net Interest Margins were maintained together with improvement in cost income ratios. Fee based income declined as intense competition to attract trade volumes offset gains from increased remittances. The Banking sector remains well capitalised with Tier 1 Capital Adequacy ratio at 13.1% and the Total Capital Ratio at 15.6% a marginal decrease from 14.9% and 17.6% respectively in 2013.

Other key developments that shaped the industry in 2014 include the financial sector consolidation plans announced in early 2014 and the strategic interest shown in the sector by foreign investors. The change in government consequent to the Presidential election in January 2015 is a key factor that

impacts the direction and pace of change in the country. These developments impact the dynamics of the banking sector in the country and the Board will continue to closely monitor these developments to identify opportunities and risks that may arise in the sector.

Board Changes

We welcome Mr. Gihan Cooray, Mr. Kumar Jayasuriya and Mr. Harsha Raghavan who were appointed to the Board during the period under review by our three major shareholders, John Keells Holdings Plc, Central Finance Plc and Fairfax Financial Holdings Ltd. respectively. They bring with them a wealth of knowledge and experience. Mr. A.K. Gunaratne, the former Chairman retired from the Board in April 2014 as he reached the maximum tenure of 9 years on the Board. On behalf of the Bank, I take this opportunity to thank him for the invaluable services he rendered to the Bank both as a Director and as a Chairman during the past nine years. I also take this opportunity to thank Mr. Sarath Piyaratna, Executive Director who stepped down on 31st December 2014 after 8 years of service to the Board and the Bank.

Way Forward

The Board continues to focus on ensuring that the Bank is prepared for emerging opportunities and challenges and to provide strategic direction and guidance to the Bank. Accordingly we monitor, both locally and globally, the changing customer demographics and preferences, the rapid evolution of technology and the regulatory landscape to consider the impacts on our business. We are encouraged by the progress made on implementation of key strategic initiatives to ensure that we are able to embrace the opportunities that we see emerging for the Bank.

We have observed signs of healthy consumer demand and the interim budget presented in January 2015 is expected to sustain this. The global economic outlook points to weak but positive signs of recovery with opportunities for growth in exports and imports. Digitalisation in the financial services industry continues unabated and this too presents exciting opportunities for Sri Lanka when coupled with the mobile penetration rate in excess of 100%. Nations Trust is well positioned to respond to the opportunities presented in the operating environment and also to respond to challenges that may arise.

Appreciation

I wish to commend the team at Nations Trust led ably by the CEO for their dedication and commitment to making the changes necessary to win together as a team. I also wish to express my appreciation of the counsel and direction provided by my colleagues on the Board. On behalf of the Board, I also thank the Governor and the staff of the Central Bank of Sri Lanka for their support and guidance. We are deeply appreciative of the patronage of our customers who have placed their trust in us to create value for them, a responsibility we are committed to fulfil. I wish to also express my sincere appreciation of the support given by our business partners who have grown with us. I thank our shareholders for the trust and confidence placed in the Board to govern and guide the growth of Nations Trust Bank PLC.



K.N.J. Balendra
Chairman

26 February 2015

Chief Executive Officer's Review

We are committed to building a Nations Ecosystem which will cater to the entire life cycle of the customer and provide an unparalleled customer experience.



Delivering growth and profitability

I am delighted to announce that Nations Trust Bank delivered a profit after tax of Rs. 2.54 Bn in 2014 and ROE of 19.8% which is probably the best return on equity achieved in the banking sector.

We went into 2014 with considerable optimism that we would see a reversal of the lacklustre credit demand which prevailed the previous year. However private sector credit growth saw a contraction in the first half of the year led by the sharp drop in pawning portfolios. The real growth kicked in only during the second half of the year. 2014 also brought with it the realisation that the high interest rate, high margin era that had prevailed in the banking industry for so long was fast coming to an end. It was therefore vital for us to understand the implications of these macro changes and develop strategic imperatives to meet the different challenges of a low interest rate environment whilst also taking advantage of the significant opportunities presented.

As the industry adjusted to the low rate environment in 2014 by pricing its assets based predominantly on demand and supply conditions prevailing in the market, we faced intense competition for lending and significant stress on our yields especially in our Corporate and SME portfolios. We met these challenges head on and were able to record some of the highest margins in the industry at an NII margin of 5.9% for the year.

This came about primarily as a result of our sharp focus towards clearly identifying and managing the key levers that drove our margins and profitability rather than writing assets for balance sheet growth. Our value creation model enabled us to optimise profitability through careful and disciplined asset and liability management that leveraged our funding to drive the high yielding assets in our portfolio. Our mix of high yielding Consumer and Leasing assets contributed to 47% of our total loans and advances. Despite pressure on yields, we committed to a policy of adhering to a minimum margin across all our key portfolios where pricing was based on credit and liquidity risk. We also maintained the discipline of pricing- in direct costs such as acquisition and collection costs relevant to key product portfolios. Our cost of funds were benefited by the increased mix of low cost funds which we successfully mobilised during the year. Additionally the high proportion of time deposits in our funding mix allowed for faster re-pricing of our deposits giving us a relatively steeper drop in cost of funds than other players in the industry.

Branch Expansion

With the addition of 17 new branches, our total network increased to 89 branches in 2014.

Asset and Deposit Growth

At growth rates of 16% and 19% respectively, our asset and deposit growth outperformed the industry average.

Cost Management

We embedded lean management concepts across the organisation, resulting in an improved cost-to-income ratio

We also focused our efforts in curtailing the operating expenses despite our rapid network expansion and the migration to a new core banking system. Operating expenses increased by 11% compared to 2013. We continued to entrench the lean management concepts introduced in 2013 across the entire organisation, to enhance both the customer experience and employee productivity. Although our transactional and customer volumes increased rapidly, we were able to restrict our head count increases only to the direct sales areas and the branch expansion. Consequently we reduced the cost income ratio from 58.3% to 52.7%.

On the other hand our charge for provision for impairment increased notably from Rs.451Mn the previous year to Rs.1,157Mn during 2014. This was mainly caused by two factors. Firstly we re-calibrated the impairment methodology in our leasing book in order to get a more granular estimation of impairment, which resulted in booking an additional Rs. 125 Mn as a one- off charge during the year. Secondly, the impairment on our corporate portfolio of Rs. 172 Mn compares to a net reversal in impairment of (Rs. 289 Mn) in 2013. During the year we restructured our SME collection process from a completely decentralized model to a partially centralized model for the small value, early bucket collections, which were moved to our collection shop, where all our consumer collections are handled. Using a similar model to our consumer collections has paid rich

Implementation of the core banking system in October 2014 was a key project and one that is an enabler for a number of other initiatives .

4.1%

NPL Ratio

dividends as evidenced by our impairment on the SME book which moved down marginally during the year, despite a 22% growth in book.

We have also delivered on growth, both in deposits and loans and advances which grew by 16% and 19% above the industry growth rates of 12% and 14% respectively. The contribution to our growth in loans and advances came from all portfolios, indicative of the diversity and stability of our businesses. We have now reached the number 1 position in leasing assets among the commercial banks. The drive towards new customer acquisition through a strong sales culture embedded across all our business units coupled with a customer philosophy based on continuously deepening the customer relationship, were the key success factors which helped us to increase our market share in both loans and deposits. It is pertinent to note that we did not deviate from our stated market segments and targeted risk profiles, especially on the mobilisation of assets.

On the credit cards front we continued to acquire market share in both card numbers as well as spend and receivable parameters and are pleased to report that we achieved the 250,000 card number milestone during 2014. It is commendable that we have now surpassed 20% market share in all parameters.

Our branch expansion enabled us to penetrate new geographies and aggressively acquire new customers in our target market segments in these locations. The success of our strategy to become the primary bank for our customers was evidenced by the focused acquisition of their low cost transactional accounts which helped us to increase our current and savings deposit mix from 25% to 30% of total deposits.

Soundness indicators for the Bank reflect efficient use of capital as we enhanced our income generating capacity and optimised risk management. Tier I and Tier II capital adequacy ratios are 14.2% and 18.3%, comfortably above regulatory requirements and the industry average. The non performing loans ratio of 4.1% remains marginally below industry average of 4.2% although it increased from the previous level of 3.5%. Whilst this was largely attributed to the leasing portfolio we continue to focus attention on reducing this key indicator across all our asset portfolios. Bank liquidity ratio was maintained throughout the year above regulatory levels, at around 26%. This excess liquidity continued to be a concern, until loans and advances picked up in the second half.

Focused Strategy

Our strategic thrust to become the primary bank for our customers which commenced in 2013 continued to gather momentum in 2014 as we implemented the second phase of these initiatives.

Accordingly, the aggressive branch expansion strategy to expand our footprint, continued in 2014 with the addition of 17 branches, further penetrating our presence in the Western, Southern, Central and North Western provinces. As at year end we had 89 branches with the 90th branch being opened in early January 2015.

17.5 Bn

Interest Income

A focussed “Sales Force Effectiveness” Program was successfully rolled out across the entire branch network in early 2014, as part of our branch transformational strategy which commenced in 2013 on a pilot basis. This embedded a strong sales culture and discipline to a standardized sales process, the Nations Way. This enabled us to systematically acquire new customers in these locations and engage with existing customers through product cross sell based on the life cycle needs of each client. Our success is attributable to a comprehensive sales focussed talent management programme that combines rewarding and recognising sales performance coupled with certified training for sales force effectiveness at our own Nations Learning Academy which was launched this year.

Implementation of the Finacle core banking system was one of major projects undertaken by the bank in 2014. The ground work commenced in mid 2013 with the allocation of some of our best talent to this project in order to ensure that we fully realized and leveraged the capability and features of this state of the art system. The migration in October proved to be a seamless experience for our clients and it is now an enabler for a number of our strategies. It provides the solid foundation for driving our core objectives related to the banks digital strategy, delivery, distribution and payment excellence, integrated customer experience and enhancing productivity and efficiencies.

Our strong commitment to lean principles to enable speedier delivery of our products and services, operational efficiency and enhancement to employee productivity became even more urgent as we faced the need for a paradigm shift brought on by the move to a low interest rate environment coupled with rapid changes to customer demands and behaviour. Having completed the first phase of our lean processes in 2013, we continued to entrench these concepts within the bank more strongly. However the review of some of our critical processes related to general

banking transactions on the core banking system were postponed for 2015 due to the need to undertake such process reviews only after the implementation of the new system.

One of the key strengths of our business model is our commitment to constantly identify opportunities we see in the market. This means that, just as much as we are agile in moving to new products and capturing opportunities, we also constantly review our existing products to ensure that these are still relevant. True to this philosophy we undertook a detailed review of our pawning product and decided to rationalize our pawning operations. In terms of new opportunities, we identified the growing need to bring more convenience and options to our customers in payment solutions. We therefore launched the prepaid Travelcard and reached the final stages of negotiation with a third card network operator.

During the year we also realigned our vision and mission to the aforesaid strategic thrust of becoming our customers’ primary bank. A comprehensive bank-wide exercise was undertaken during the year using AON Hewitt Associates. As an initial step, a bank wide culture audit and strategy scan was done across all employee grades and other stakeholders. The feedback and views which came out of this process were used by Hewitt to facilitate the crafting by our senior management team of the new Vision, Mission and Values. The mission statement that we will work “SMART” reflects the direct commitment of our staff to the way they will work – with speed, efficiency, adaptability, responsibility and maximising the use of technology - in order to achieve our vision in helping people and businesses achieve today’s goals and tomorrow’s aspirations. In 2014, we have also commenced the process of aligning our brand to the new vision and mission. We will bring this brand spirit alive internally in 2015.

Managing Talent

Nations Trust Bank prides itself on its dynamic culture which is value driven and performance based. Customer centricity, creativity and innovation are in our DNA. A young employee demographic adds to the vibrancy within the Bank making our team one of the most agile and adaptable to smarter ways of working. This culture has enabled us to embrace digitalisation and embed the concepts of lean management across the organisation with relative ease.

Chief Executive Officer's Review

As Sri Lanka moves to a new era, we are excited by the prospects and opportunities it can bring.

We are firmly committed to investing in the learning and development for our employees. During the year we established the Nations Learning Academy which provides certified training in both technical, leadership and soft skills. We have designed much of the training programs to The Nations Way of doing things so that we deeply embed our domain knowledge and core business and cultural strengths across the bank.

We are encouraged by the recognition of our training efforts by the Human Resources Development Management Committee of the World HRD Congress with the award for Excellence in Training and Development.

We are cognisant of the challenges posed by our very young team and have committed to strengthening our team by bringing in specialists with the skills and experience where necessary not only in the traditional areas of banking such as Risk, Treasury and Credit but notably in the more specialized areas such as digital banking, analytics and research.

During 2014, as part of the succession planning for the Bank, we identified a pool of future leaders who will be the focus of a progressive and intense development in the next few years. They will undergo training together as a core group and will work as a team on special bank wide projects bringing their diverse skills and knowledge to contribute to the bank's transformational process, as we grow. We are encouraged by the progress observed and are confident in our ability to develop our own leaders creating a talent pipeline to meet our future expansion needs.

Our performance culture also recognises and rewards outstanding performance both at organisational level and at department level which enables us to celebrate our successes and share good practices. We much look forward to Nations

52.7%

Cost: Income Ratio

Magnus Awards was held for the second time where 12 outstanding performers were rewarded in various spheres of achievement.

Looking Forward

The recent budget presented by the new government is expected to boost consumer demand as disposable incomes increase and inflation remains low. Whilst there may be some volatility in the interest rates in the short term, we believe that the low interest regime is likely to continue in the medium term as low energy prices, global deflationary and excess liquidity conditions remain. As Sri Lanka moves to a new era, we are excited by the prospects and opportunities it can bring. We are confident that our business model and strategy gives us the edge and muscle to become a force to reckon with in this market.

Globally there is a revolution in customer behaviour and preferences. We are in no doubt that such trends will impact the Sri Lanka consumer sooner rather than later. Bearing this in mind, we are committed to building a Nations Ecosystem which will cater to the entire life cycle of the customer and provide an unparalleled customer experience. We are also transforming our delivery and distribution to an omni-channel platform to

bring a strong value proposition by being easier, faster and cheaper. In 2015 we are taking a number of strategic initiatives to move in this direction. Data Analytics will play a key role in understanding customer preferences and we are systematically building our capability in this. We have engaged with one of the world's leading score card providers, FICO, to bring both underwriting and behavioural score cards for our consumer portfolios which will facilitate deeper understanding of our customers.

Our digital banking enablement will be a game changer as we consolidate our bricks and mortar network and enhance our digital delivery and distribution capability. During 2015, we will implement the second phase of our online banking platform as well as a comprehensive cash management solution for our Corporate and SME customers.

With a fully fledged state of the art core banking system coupled with the investments we have already made in our Work Flow System we are ready to make a significant impact to our cost efficiencies and productivity as the adoption of lean principles in all our critical processes begin to bear fruit.

We will continue to invest in the Training and Development of our Nations Team, the Nations Way, which will be a critical success factor as well as a strategic strength as we move forward.

Appreciation

My sincere appreciation goes to the Nations Team who have worked with dedication and passion in their inimitable Nations Way to push forward even in market conditions which were not always easy. I would like to make a special mention of the core banking system project team and their departmental colleagues who supported them on their day to day responsibilities throughout the year, for their untiring efforts to ensure that we had a seamless migration. I thank the Corporate Management for their wholehearted support in sharing a common vision for our bank, and for their determination to realize our future aspirations. I wish to express my gratitude to the Chairman and the members of the Board for being a source of strength and unstinting support to me at all times. I take this opportunity to also thank the former Governor and officials of the Central

Bank of Sri Lanka for their guidance and Messrs Ernst & Young our external auditors for their invaluable input. I am deeply grateful to all our customer, investors and other stakeholders for their patronage and for placing their confidence in Nations Trust. While assuring you of our commitment to meeting our stakeholder expectations, I look forward to your continued support to Nations Trust in the coming years.



Renuka Fernando
Director / CEO

26 February 2015

Management Discussion and Analysis

The Nations Trust Group comprises Nations Trust Bank PLC and Subsidiaries engaged in providing specialised financial services to clients.

About Us

Characterised by its dynamism and customer centricity, Nations Trust Bank is one of Sri Lanka's fastest growing Licensed Commercial Banks. With an asset base of LKR 160 Bn, a network of 89 branches in 22 districts, and an employee base of 2,562, the Bank serves over 400,000 retail and corporate customers. We are an agile player in the financial services sector in the country and aspire to become the most respected financial services provider through aggressive growth whilst upholding our corporate values. Strong customer relationships and convenience focused innovations enabled us to outpace industry growth and increase our market presence across all key business lines.

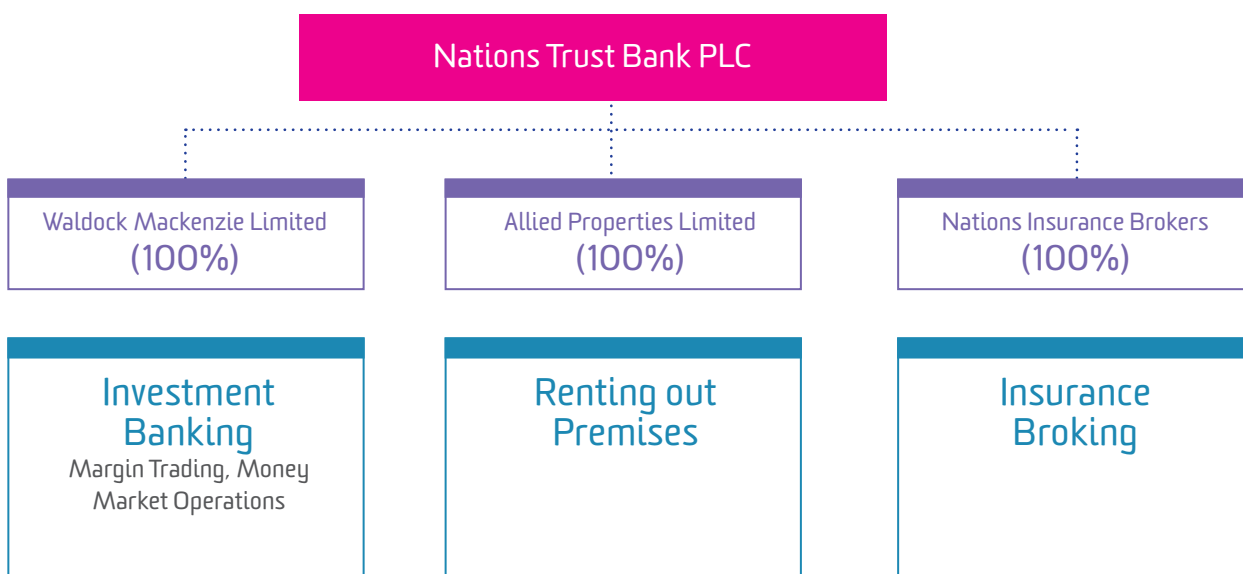
Group Structure

The Nations Trust Group comprises Nations Trust Bank PLC and Subsidiaries engaged in providing specialised financial services to clients. Total assets of the Bank amount to 99% of the Group whilst contributing 95% to the Group's pre-tax profit making it the most significant entity within the Group.

160 Bn

Total Group Assets

- ★ 89 Branches in 22 Districts
- ★ Serving over 400,000 customers
- ★ Employee strength of 2,562



Our Business Model

| Business Activities | Income Statement Impact | KPIs | Risk Management |
|---|---|--|--|
| Income Generation | | | |
| Provision of loans and advances to retail, SME, consumer and corporate clients. | <ul style="list-style-type: none"> Interest Income | <ul style="list-style-type: none"> Credit growth Safeguard Asset quality Number of facilities per customer Facilities screened for environmental and social factors % of facilities from the branches | <ul style="list-style-type: none"> Credit Risk Interest Rate Risk |
| Acceptance of deposits from retail and institutional clients | <ul style="list-style-type: none"> Interest Expense | <ul style="list-style-type: none"> Deposit growth CASA as a % of total deposits Deposit renewal ratio Average size of deposit | <ul style="list-style-type: none"> Interest Rate Risk Liquidity Risk |
| Provision of transactional banking facilities (i.e- debit/credit cards, remittances, alternate channel banking) | <ul style="list-style-type: none"> Fees and Commission Income | <ul style="list-style-type: none"> Number of active cards Conversions from printed to e-statements Remittance volume Increase in customer touch points Increase in number of internet banking customers | <ul style="list-style-type: none"> Credit Risk Operational Risk |
| Offer investment and risk mitigation products to our customers, including foreign exchange and fixed income instruments | <ul style="list-style-type: none"> Interest Income Fees and Commission Income | <ul style="list-style-type: none"> Transaction volumes Profitability | <ul style="list-style-type: none"> Market Risk |
| Investments | | | |
| Investments in attracting, developing and retaining a high-performing team | <ul style="list-style-type: none"> Personnel Costs | <ul style="list-style-type: none"> Staff retention Training hours Staff diversity | |
| Investments in operations, including information technology and infrastructure | <ul style="list-style-type: none"> Depreciation of Property, Plant and Equipment Other Operating Expenses | <ul style="list-style-type: none"> Customer satisfaction Customer retention | |

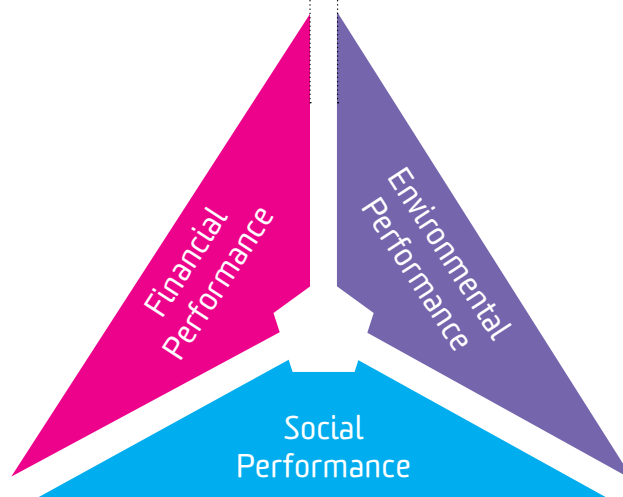
Management Discussion and Analysis

Earnings were strongly supported by increased fee and fund based income and a decrease in the cost income ratio as a result of increased financial discipline.

Performance Highlights in 2014

| | 2014 | 2013 |
|---------------------------|--------|--------|
| Total Income (LKR Mn) | 20,854 | 20,362 |
| Operating Profit (LKR Mn) | 5,728 | 4,132 |
| PBT (LKR Mn) | 3,827 | 3,151 |
| Net Profit (LKR Mn) | 2,537 | 2,136 |
| Earnings per share | 10.3 | 9.2 |
| Return on Equity (%) | 19.8 | 19.6 |

| | 2014 | 2013 |
|--|-------|-------|
| Electricity consumption/ employee (kWh) | 2,975 | 3,361 |
| Water consumed/employee (M ³) | 24 | 23 |
| Loans assessed for environmental criteria | 7,221 | 5,714 |

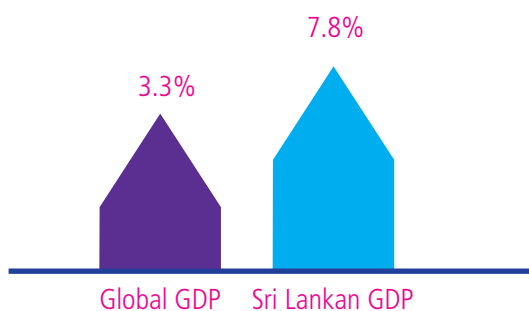


| | 2014 | 2013 |
|----------------------------|---------|---------|
| Number of customers | 464,292 | 384,320 |
| Customer Retention | 80% | 87% |
| Employee Retention | 90% | 87% |
| Training days per employee | 5.5 | 4.6 |

Operating Environment

Global economic conditions were weaker than expected in 2014 demonstrating sluggish signs of recovery, driven by a variety of country specific factors. Global GDP grew by 3.3% during the year in line with the expectations of the International Monetary Fund and stagnant in comparison to similar levels of growth the preceding year. Increasing geopolitical tensions, stagnation of potential growth in advanced economies and a fall in potential growth of emerging markets were factors which impeded a stronger global recovery. Advanced economies expanded by 1.8%, led by USA which grew above expectations whilst the European region continued to experience weak investments, subdued export demand and declining inflation. Emerging Markets and Developing Economies continue to drive global growth, expanding at 4.4% during 2014 although overall activity has been weaker than expected.

Meanwhile, oil prices have recorded a steep decline of over 55% since September owing to unexpected demand shortfall in emerging markets and supply side factors including the decision by the Organisation of Petroleum Exporting Countries to



maintain production despite a steady rise in supply by non-OPEC producers including the USA. The US dollar has appreciated gradually against the backdrop of divergent growth in advanced economies whilst the Japanese yen and other emerging currencies have depreciated. The prospects for 2015 appear more promising, with World Economic Forum forecasting global growth to be 3.8% driven by increasing demand from advanced economies amid an easing monetary policy stance as well as a gradual reduction of geopolitical tensions.

3.3%

Global GDP Growth

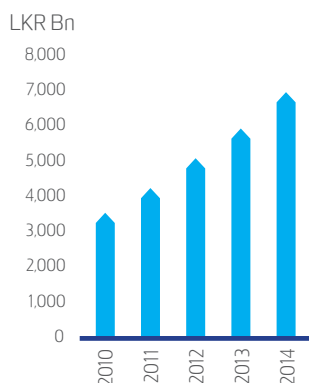
Sri Lanka's economic growth of 7.8% in 2014 (2013: 7.3%) compared well against regional counterparts and was supported by an accommodative monetary policy and a fiscal stance which stimulated private sector investment and economic growth. The Government maintained an easing monetary policy stance by reducing the Standing Lending Facility Rate by 50 basis points and limiting it to a maximum of three times per month after which the rate would be reduced to 5% to encourage banks to lend at reduced rates. Per capita income increased to USD 3,650, and is in line with targets of achieving USD 4,000 by 2016. Inflation declined to 2.1% by end 2014 and average inflation for the year was 3.3%, amidst an improvement in domestic supply conditions, reduction in energy prices and stable price of commodities.

The Services sector accounted for 57% of GDP and expanded by 6.5% during the year led by growth in the Hotel and Restaurant sub sector and thrust towards high value added technology related services such as IT and Business Process Outsourcing. The Industrial sector grew by 12.4% and continued to fuel overall growth, backed by the infrastructure drive and construction activities. The Agriculture sector growth (+1.3% in 2014) was below expectations, however, affected by unfavourable weather conditions which adversely impacted paddy production.

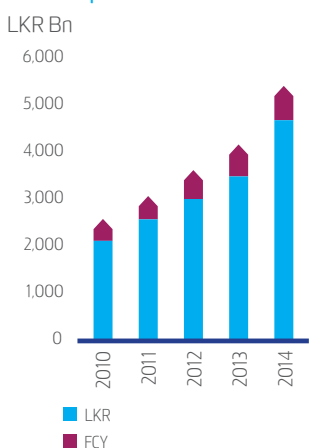
Export growth was 10.4% during the year upheld by stronger demand for textile and garments which grew by 13.7%. Meanwhile, imports increased by 7.8% against the backdrop of stronger demand for consumer goods and petroleum imports. Overall the trade deficit declined as a percentage of GDP to 10.5% during the year (2013: 11.3%), although in absolute terms it increased 9.5% to USD 8.0 Bn. The current account contracted to 3.1% of GDP, upheld by growth in worker remittances and service exports. Remittances increased 9.5% against the backdrop of higher migration of professional and skilled workers. The overall Balance of Payments was also strengthened by Foreign Direct Investment and net inflows to the stock exchange and government securities market. The BOP surplus thus

Management Discussion and Analysis

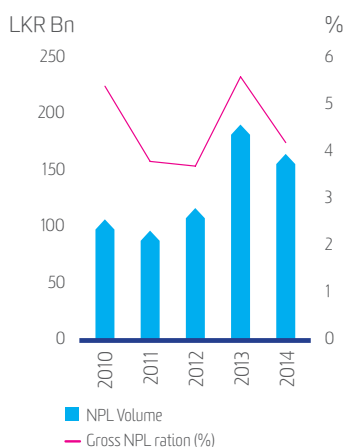
Total Assets



Total deposits



NPL Volume and Gross NPL ratio



improved from USD 985 Mn in 2013 to USD 1400 Mn in 2014 whilst Gross Official Reserves of USD 8.2 Bn were equivalent to 5.2 months of imports by end-2014. In line with the steady foreign inflows, the Sri Lankan Rupee appreciated gradually up to October 2014, although depreciating towards the latter months of year in view of strong import demand. Overall the Sri Lankan rupee depreciated 0.26% against the USD whilst appreciating by 5.6% against the Sterling Pound and 13.19% against the Euro.

The Banking Sector

The country's Banking, Insurance and Real Estate sector growth was commendable at 6.0% during the year, although moderating in comparison to 6.2% the year before. The Banking sector experienced a moderation in growth, particularly during the first three quarters of the year, attributed to lacklustre demand for credit stemming from both the private and public sectors. The gradual decline in interest rates allowed the Bank's to widen the Net Interest Margins (NIM) as inherent maturity mismatches between assets and liabilities came into play. Moderation in credit growth and the purchase of foreign currency inflows by the Central Bank also rendered a highly liquid banking system.

The Banking sector consists of 23 licensed commercial banks and 9 licensed specialised banks by end-2014. The Banks collectively operated 3486 branches by the end of November 2014 which translated to a density (bank branches per 100,000 population) of 16.90. In addition to the branches the sector had 3,045 other outlets and 2,599 ATMs by the end of the year.

Banking sector assets expanded by 17% to LKR 6.97 trillion by end 2014, funded largely by deposits (+12%) and borrowings (+42%). Sector loan growth was 13.7% in 2014 (2013: 8.8%), rebounding mainly during the last quarter of the year. The first 9 months of the year was characterised by fiscal consolidation by the government which led to rationalised borrowing and increased issues of debentures by corporates although credit growth recovered towards the latter part of the year.

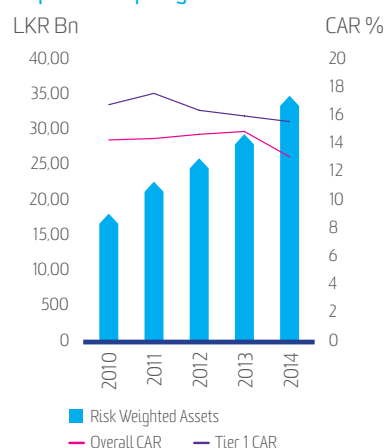
Banking sector assets expanded by 17% to LKR 6.97 trillion by end 2014, funded largely by deposits (+12%) and borrowings (+42%).

The wider NIMs and continued focus on operational efficiencies enabled banks to generate stronger earnings. Fee based income declined during the year due to intense price competition to attract trade volumes, although remittances grew during the same period. Sector profitability, improved marginally with Return on Assets and Return on Equity increasing to 1.4% and 16.5% respectively. Meanwhile, the sector's gross non-performing loans ratio fell to 4.2% (2013: 5.6%) as proactive measures were taken the previous year to strengthen credit appraisal and monitoring processes. Specific provision coverage was 39.7% during the year.

The sector's funding mix tilted more towards borrowings with several Banks raising foreign currency borrowings of USD and debentures in the local market. Foreign currency borrowings represented 60% of total borrowings during the year. Overall, borrowings accounted for 21.6% of total funding whilst deposits accounted for 70%. Capitalisation was strong with Tier 1 Risk Weighted Capital Adequacy ratio at 13.1% and the total capital ratio at 15.6% (2013: 14.9% and 17.6% respectively)

The risk management framework was strengthened during the year with the regulator issuing a number of directives covering several topics including information security, financial reporting

Capital Adequacy



and capitalisation. An off-site surveillance reporting system was also introduced during the year and a framework was developed for consolidated supervision within the existing legal framework. The sector consolidation plans moved forward with 7 non-bank financial institutions completing the consolidation process whilst 22 non-bank financial institutions and four bank acquisitions and mergers are in the pipeline.

Soundness indicators of Banking Sector

| | 2012 | 2013 | 2014 |
|--|-------|-------|-------|
| Capital Adequacy Ratio – Tier 1 Capital Ratio % | 14.7% | 14.9% | 13.1% |
| Capital Adequacy Ratio – Total Capital Ratio % | 16.4% | 17.6% | 15.6% |
| Gross Non-Performing Assets as a % of Total Loans and Advances | 3.7% | 5.6% | 4.2% |
| Net Non-Performing Assets as a % of Capital Funds | 16.7% | 26.3% | 17.5% |
| Return on Assets (%) Before Tax | 2.4% | 1.9% | 2.0% |
| Return on Equity (%) | 20.3% | 16% | 16.5% |
| Liquid Assets Ratio (%) | 31.3% | 37.7% | 39.5% |

Management Discussion and Analysis

Financial Review

The Banking sector's risk management framework was strengthened during the year with the regulator issuing a number of directives

Earnings

Earnings growth measured by profit after tax was 19%, well above last year's profit growth rate of 9%. Earnings were strongly supported by increased fee and fund based income and a decrease in the cost income ratio as a result of increased financial discipline. The Bank's Return on Equity at 19.8% is among the best in the industry and is driven by the Bank's focus on high yielding lending segments.

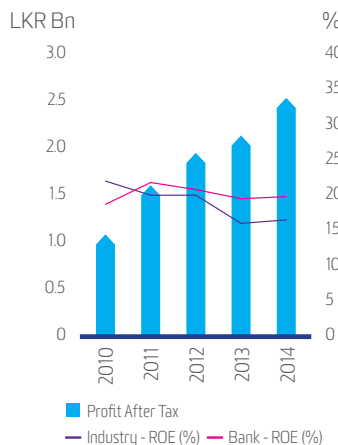
Credit Growth

Loans Advances Growth was 19%, an increase in the pace of growth over 2013 and also above the industry growth rate of 14% in a year of subdued credit growth in the Banking sector.

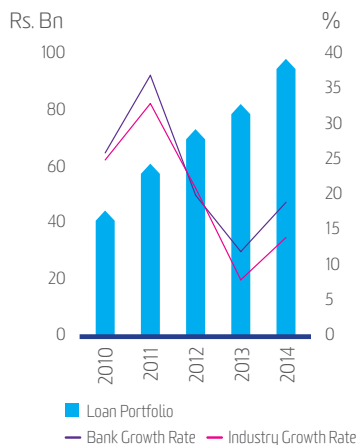
Deposit growth

Our deposit growth remains well above industry growth rates over a 5 year period due to our expanding branch and alternate channel network and the convenience offered to customers thereof.

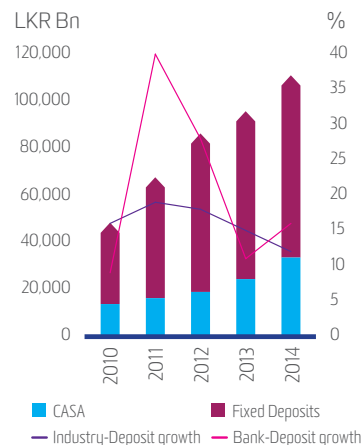
Earnings



Loan Portfolio



Deposits



Asset quality

Gross NPL Ratio

2014

4.1%

2013

3.5%

Impairment Ratio

1.9%

2.1%

Capital Adequacy

Our capital adequacy ratios optimised during the year due to the credit growth witnessed during the 4th quarter of 2014 and remain well above prudential requirements.

| | Bank | CBSL Requirement |
|--------|-------|------------------|
| Tier 1 | 14.2% | 5.0% |
| Tier 2 | 18.3% | 10.0% |

Assets

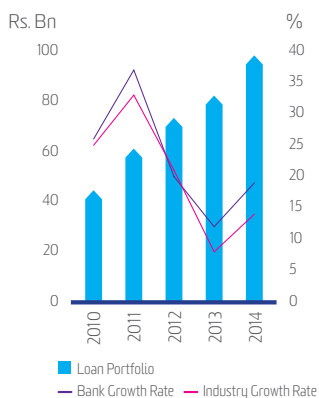
Total assets grew from LKR 142.1 Bn in 2013 to LKR 159.9 Bn by end 2014, a growth rate of 12.5% in a year marked by a moderation in growth across the banking and financial services industry. Growth was mainly attributable to expansion of loans and advances across all core segments of corporate, retail/ consumer and leasing portfolios which grew by 29%, 15% and 20% respectively through customer acquisition, deepening existing relationships and a relentless focus on service excellence. Credit growth which remained stagnant during the first half of the year, recovered from September mainly due to the low interest rate regime that prevailed consequent to the monetary policy stance and the high liquidity.

Liabilities

Liability growth moderated in 2014 due to excess liquidity that prevailed in the market. Deposits continue to be the main source of funding accounting for 76% of liabilities whilst borrowings accounted for 17% as at the end of 2014. The deposit growth rate for 2014 was satisfactory at 16% exceeding the industry growth rate of 12%. The Bank also managed to increase its ratio of current and savings accounts vis a vis time deposits which improved from 25% in 2013 to 30% during 2014 aided by its campaign to become the primary bank, uptake of innovative products such as the Nations Salary Saver coupled with its technology driven transactional products.

Total debt issued and other borrowed funds decreased by (4%) from LKR 10.6 Bn in 2013 to LKR 10.19 Bn by end-2014. Meanwhile, foreign currency borrowings accounted for a reduced 26.7% of total debt during the year, compared to 31.4% in 2013 as other rupee short term borrowings increased to LKR 2.39 Bn by the end of the year. Given the Bank's relatively liquid position during the year, there was no requirement of issuing senior debt during the year.

Loan Portfolio



19%

Growth in Loan Advances

KEY CHALLENGES

Achieving loan portfolio expansion in 2014 was a major challenge for all financial institutions, given the subdued credit demand, particularly during the first half of the year. Despite these operating conditions, Nations Trust was able to successfully grow its lending portfolio by 19.5%.

The easing interest rate environment resulted in the lending book repricing downwards during the year. However, effective management of the asset and liability maturities and repricing decisions as well as optimal allocation of resources to high yielding segments allowed the Bank to improve its NIM to 5.9% during the year.

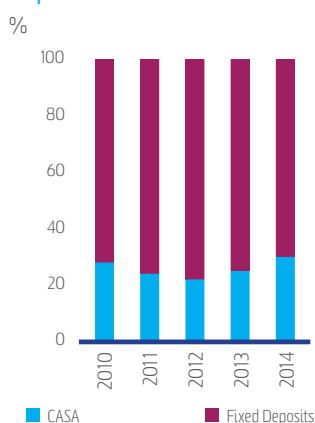
Preserving asset quality in the prevalent economic climate was a key challenge for most industry players. The Bank experienced an increase in NPLs in the leasing portfolio mainly on Agriculture related leases having structured payment plans. Tightening macro economic fundamentals and intense competitive pressures in the leasing industry also contributed to increase in Leasing NPL. Overall, however the Bank's NPL ratio marginally deteriorated to 4.14% from 3.51% the year before.

Despite the slowdown in credit demand, the Bank remained committed to pursuing its branch expansion drive. 17 new branches were added during 2014, resulting in a 11% growth of its overhead cost base. However persistent focus on lean initiatives and process efficiencies, together with the increased automation enabled the Bank to record a decline in its cost to income ratio in 2014.

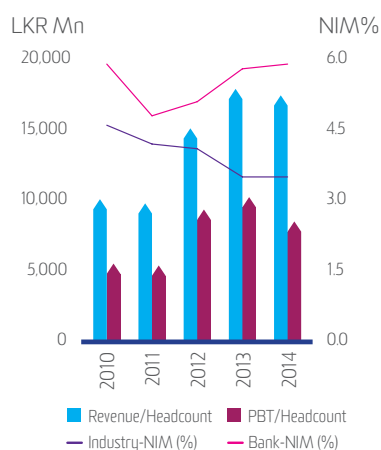
Management Discussion and Analysis

Growth was mainly attributable to expansion of loans and advances across all core segments of corporate, retail/ consumer and leasing portfolios

Deposit Mix



Net interest income



Profitability

Profit before Income tax for 2014 was LKR 3.83 Bn recording a growth of 21% over LKR 3.15 Bn recorded in 2013 which is due to satisfactory interest income and fee based income growth reflecting growth in revenue generating capacity coupled with curtailment of expense growth. The low interest regime that prevailed during the year resulted in higher Net Interest Margins due to a lag in adjusting of borrowing rates. Growth in profits was achieved despite an increased impairment charge for loans and advances arising primarily from the leasing portfolio, which resulted in an impairment provision which amounted to 9.6% of total operating income.

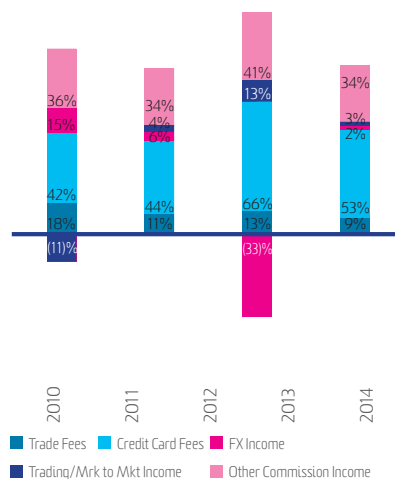
Net Interest Income

Interest income declined marginally to LKR 17.45 Bn from LKR 17.91 Bn in 2013 as the lending portfolio re priced downwards in a falling interest rate environment. However, effective management of fund maturities and timely repricing decisions resulted in the interest expense falling by 17% to LKR 8.51 Bn from LKR 10.24 Bn in 2013. Accordingly, NII increased 16.5% to LKR 8.94 Bn in 2014, accounting for 74% of operating income.

Commission and Fee Based Income

Commission and Fee Based Income recorded growth of 11% to LKR 2.78 Bn and contributed 23% to total operating income. The growth was fuelled primarily by our focus on expanding volumes in the card business, through the introduction of new products and unparalleled customer relationships management. Income from trade services was challenged significantly due to lower volumes, however other fees and commission income grew in line with customer acquisition and harnessing of cross sell opportunities across the product spectrum.

Non Fund Base Income



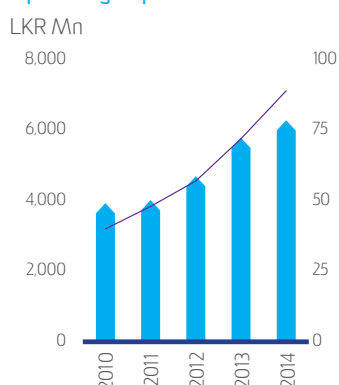
Trading and Other Operating Income

Other Operating Income consists of dividend income, non-trading foreign exchange income and recovery of written-off loans. Trading income comprises foreign exchange gains/losses, profits generate on the sale of securities and other trading income. Net trading income improved to LKR 111.37 Mn from a loss of LKR 478.42 Mn in 2013, as favourable rates and premium movements enabled the Bank to minimise mark to market losses on funding SWAPs whilst generating higher income from customer and trading volumes in the current year. Net trading and other operating income accounted for 4% of total operating income during the year.

Total Operating Income

Total Operating Income grew 22% to LKR 12.11 Bn from LKR 9.91 Bn the previous year, upheld by the improvement in both NII and fee and other income. NII accounted for 74% of total operating income whilst fee and other income grew by 42% to contribute the remainder.

Operating Expenses



Operating Expenses

Operating costs increased 11% to LKR 6.39 Bn in 2014, driven by the aggressive branch expansion and capacity building initiatives. However, we relentlessly pursued cost efficiencies through lean management initiatives and increased automation which led to process efficiencies which resulted in a slowdown of growth in operating expenses compared to 2013. The branches added during the year were a mix of medium and small size units, with a staff per branch ratio of around 10, among the lowest in the industry. The cost to income ratio fell to its lowest 52.7% from 58.4% the previous year.

+19.5%

Loans Growth

Impairment Loss on Loan and Receivables

The impairment charge for loans and receivables increased notably from LKR 451Mn in the previous year to LKR 1,157 Mn during 2014. The impairment estimation methodology was re-calibrated in order to get a more focused view of the portfolio, more specifically in respect of leases, which resulted in booking some additional one-off charges during the year.

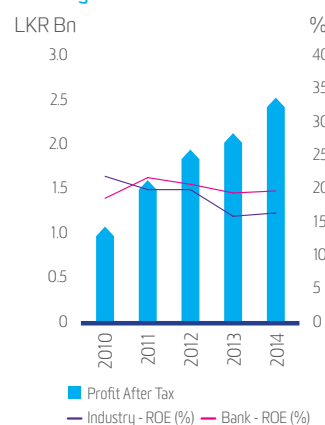
Pre & Post Tax Profit

Profit before VAT and NBT increased 24% to LKR 4.57 Bn in 2014, upheld by growth in NII as timely repricing decisions allowed the Bank to widen its NIM. Post-tax profits also grew 19% to LKR 2.54 Bn from LKR 2.14 Bn in 2013. Despite a challenging year the Bank turned in a strong performance attributed to focused expansion, timely management of assets and liabilities and focus on lean principles and process efficiencies.

Shareholders' Funds

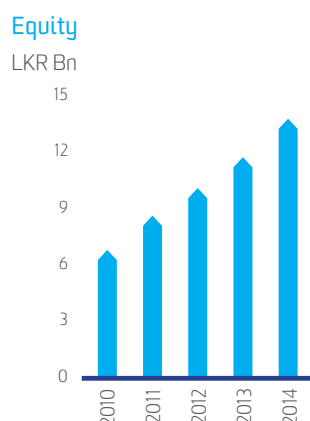
Shareholders' Funds increased to LKR 13.89 Bn from LKR 11.74 Bn in 2014, in view of the relatively strong profits generated during the year. The increase in the investment fund account is a mandatory requirement and consists of retentions amounting to 8% of "value addition" calculated for payment of Financial Services VAT and 5% of profits computed for payment of income tax as per the relevant direction. These funds are to be utilised for lending to specific industry categories and any unutilised amount is to be transferred to the Consolidated Fund. As per CBSL direction IFA ceased to operate w.e.f. 1st October 2014.

Earnings



Management Discussion and Analysis

We were able to successfully grow our lending portfolios by acquiring new customers and deepening existing customer relationships.



Dividends

The Directors have recommended a final cash dividend of LKR 2.1 per share. The Bank will continue to maintain a consistent dividend policy in the ensuing year.

Taxation

The Bank's effective tax rate increased to 45.5% from 41.96% in 2013. This increase is attributed to the extension of Nation Building Tax to the Banking and Financial Services sector from 1st January 2014, computed at 2% on 'value addition'. Furthermore, last year's comparative effective tax rate was contained due to a one-off interim dividend from subsidiaries and a prior year reversal which resulted in a reduction of the actual liability.

Return to Shareholders

| | 2014 | 2013 | % change |
|--------------------------------|-------------|-------------|----------|
| Market price per share | 97.00 | 62.20 | 56 |
| Market capitalisation (LKR Mn) | 22,368 | 14,344 | 56 |
| No. of shares in issue | 230,607,283 | 230,607,283 | 0 |
| Earnings per share (Bank) | 10.31 | 9.16 | 13 |
| Dividend per share (Bank) | 2.1 | 2.1 | 0 |

Performance Ratios

| | 2014 | 2013 |
|----------------------|-------|-------|
| Cost to Income Ratio | 52.7% | 58.3% |
| Return on Assets | 1.68% | 1.61% |
| Return on Equity | 19.8% | 19.6% |

ROA and ROE both increased in line with stronger profitability during the year. The Bank's ROE continues to be among the best in the industry, supported by its relatively high exposure to high-yielding lending products such as leasing and credit cards.

Capital Ratios

| | 2014 | 2013 | Regulatory Requirement |
|-------------------------------------|--------|--------|------------------------|
| Statutory Liquid Assets Ratio (DBU) | 23.17% | 25.26% | 20.00% |
| Capital Adequacy – Tier I | 14.16% | 14.78% | 5.00% |
| Capital Adequacy – Total | 18.28% | 20.00% | 10.00% |

Tier 1 and overall capital adequacy ratios are comfortably above the regulatory minimums, providing ample opportunity for growth in 2015.

Persistent focus on lean initiatives and process efficiencies, together with the increased automation enabled the Bank to record a decline in its cost to income ratio from 58.3% to 52.7% in 2014.

Operational Review

Our operational strategy was compiled embedding our values, leveraging our strengths whilst aggressively improving our vulnerabilities.

Our Goal

Become the most respected financial services brand in Sri Lanka

Key business units worked together with product specialists and support services to deliver on agreed Key Performance Indicators breaking down silos and giving team work a new meaning. Our team demonstrated our values of being agile and proactive,

Strategic Priorities

Delivery and Distribution

Payment excellence

Unique sales and service culture

Operational efficiency and productivity

striving for excellence and winning together with respect for rights of stakeholders and building reputation and respect for the brand. The operations review is a summary of how we performed during 2014 – winning together.

Management Discussion and Analysis

Retail, SME and Consumer Banking

Wide product range

Understanding our Customers

Focus on convenience

Multi-channel approach

Tailor-made solutions

Skills Development



We pursued a strategy focused on convenience by offering customers the opportunity to transact with us on multiple platforms.

Growth through Unparalleled Customer Convenience

Increased customer touch-points

17_{new branches} 24_{new ATMs}

Lending Portfolio Growth of **15%**

Growth in CASA CASA Ratio of
38% **30%**

The Retail, SME and Consumer Banking segment is the largest contributor to the Bank's profits, accounting for 38% of its interest income and 57% of its revenue during the year. It is also the most significant business line in terms of deposit mobilisation. Through its Retail, SME and Consumer Banking segment, the Bank offers a wide range of services which are broadly classified as Loans and Advances, Investment Products and Transaction Products.



Ceremonial branch openings during the year



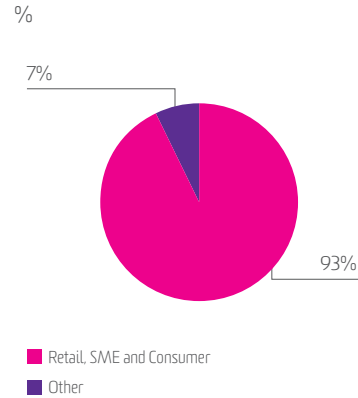
Management Discussion and Analysis

Retail, SME and Consumer Banking

Investment Products

- Current Accounts
- Savings Accounts
- Foreign Currency CASA
- Fixed Deposits
- Securities Investment Accounts
- Investment Plans
- Minor Savings
- Call Deposits

Investment Products

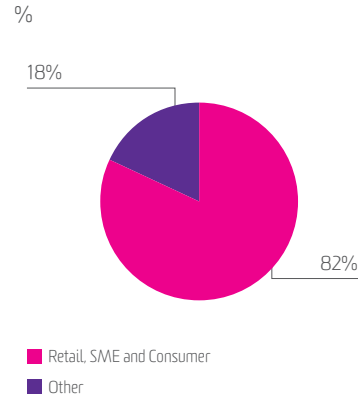


At a total base of LKR 97.85 Bn by end-2014, Retail, SME and Consumer Banking investment products are the most significant source of customer deposits for the Bank. Investment products grew by 19% during 2014, compared to an industry growth of 12%

Transactional Products

- Credit and Debit Cards
- ATM Cards
- Internet Banking
- Mobile Banking
- SMS Banking
- Bancassurance
- Remittances

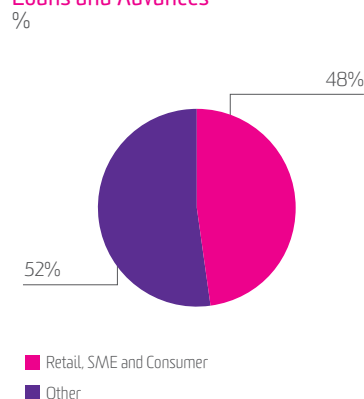
Fee Base Income



Fee and Commission income stemming from the Retail, SME and Consumer segment grew by 10% during the year, supported largely by the expansion in credit card fees. This segment is the largest contributor to the Bank's fee and commission income.

- Personal Loans
- Car Loans
- Housing Loans
- Pawning
- SME Loans
- Credit Cards

Loans and Advances



The single largest contributor to the Bank's advances portfolio, Retail, SME and Consumer loans and advances grew by 15% in 2014, compared to the industry growth of 14%.

Performance

| | 2014 | 2013 |
|--|-------|-------|
| Total Operating Income (LKR Mn) | 6,381 | 5,544 |
| Operating Profit (LKR Mn) | 1,383 | 1,151 |
| Deposits (LKR Bn) | 97.8 | 82.1 |
| Advances (LKR Bn) | 35.4 | 31.3 |
| Outstanding balance on cards (LKR Bn) | 12.1 | 9.9 |
| Growth in customer base | 20% | 25% |
| Average no. of products per customer (or cross sell ratio) | 1.5 | 1.5 |
| Customer touch points | 213 | 172 |

Retail, SME and Consumer Banking advances account for around 48% of the Bank's total advances portfolio. The segment's advances growth was commendable at 15%. Although interest income generated on advances declined slightly in view of the falling interest rates, the faster re-pricing of shorter-tenured deposit liabilities allowed the segment to grow its NII by 12% during the year. Despite operating costs increasing in line with the Bank's aggressive branch expansion and capacity building during the year, segmental profits increased by 20% upheld by the expansion of the high-margin cards portfolio.

In the Retail, SME and Consumer segment, we pursued a strategy focused on convenience, offering customers the opportunity to transact with the Bank on multiple platforms suited to their preference. The Bank was the first in the industry to introduce 365-day banking across all its branches whilst extended banking hours are also available in 84 branches. Meanwhile, the Bank continues to deploy technology to better serve its customers through internet, mobile and SMS banking platforms. A Sales Force Effectiveness initiative was launched across all branches focusing on inculcating a sales culture among all staff and complementing our customer service proposition.

Management Discussion and Analysis

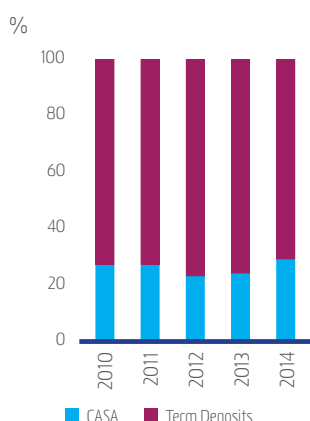
Retail, SME and Consumer Banking

Growth was supported by the aggressive branch expansion together with the Bank's focus on increasing its low-cost deposit base

Investment Products

Growth in the Retail, SME and Consumer deposit base was 19% during 2014, surpassing the overall industry growth rate of 12%. This growth was supported by the aggressive branch expansion together with the Bank's focus on increasing its low-cost deposit base through promotional campaigns and sales incentives. Accordingly, the deposit mix tilted more towards current and savings accounts (CASA), with a share of 30% of total deposits, compared to 25% the previous year.

Retail, SME and Consumer Deposits



Loans and Advances

The entire industry experienced subdued credit demand during the year, due to which growing its loan portfolio was a significant challenge for the Bank. The segment's loan growth was driven by the recent expansion in its branch network and focused expansion in the SME sector, financing a broad spectrum of economic activities particularly in areas outside the Western Province.

Overdraft facilities continued to account for a large portion of the loan portfolio, and grew by 13% during the year.

The consumer loan portfolio, comprising mainly of the Bank's credit card business, grew by 18%. Within the highly competitive housing loan segment, the Bank differentiates itself through offering tailor-made solutions and faster turnaround times.



Nations Salary Saver product campaign in 2014

Exposure to pawning was relatively trivial and had allowed the Bank to withstand the impact of declining gold prices, particularly in 2013.

Portfolio quality is healthy as reflected in the gross NPL ratio of 3.5% by end-December 2014 (2013: 3.6%). We constantly engage with the customer to identify potential difficulties in repayment and provide guidance on managing cash flows in order to ensure consistent debt servicing. The Bank also provides flexibility to the borrower through the restructuring and rescheduling of facilities.

SME Banking

A key thrust area in the Bank's strategic growth agenda, the SME loan book grew by 22% in 2014 and is one of the Bank's primary growth drivers. During the year, the Bank established an SME unit at head office and dedicated SME credit officers were stationed at all zonal offices. The SME proposition was rolled out through the Bank's branches enabling penetration in geographies outside the Western Province.

We also focused on developing the skills of our people to effectively build and maintain relationships with SME customers. The SME Academy was established in partnership with the Frankfurt School of Business and Management and provides structured training for all SME staff. Meanwhile, Nations Business Seminars are conducted by the Bank as an ongoing programme to upskill SME customers throughout the island. During the year, 12 such seminars were carried out with the participation of nearly 1800 customers and were very well received. Seminars are conducted by experts from multi disciplines and themes are selected based on the relevance and interest to the customer profile in the relevant geographies.

In aligning ourselves with the economy's growth sectors, we concentrated on SME customers operating in exports, imports and the agriculture sector. A new product targeting the export/import sector, named Nations Trader was launched during the year; this innovative product offers customers easy access to combined trade facilities and has received encouraging customer response. This product was selected as one of the top 10 among global competitors at the SME Finance Innovation Awards launched by DEG, FMO and Proparco.

The Bank also has in place a reward scheme for business current accounts, with account holders awarded points based on transaction volumes and the balance maintained; the accumulated points can be redeemed at selected merchant outlets.

22%

Growth in SME loan book



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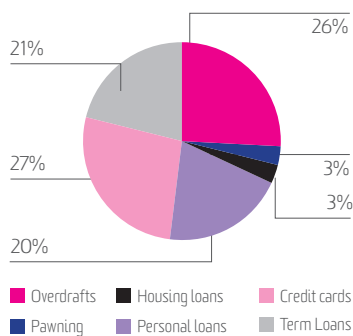
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Saubhagya re-financing through Nations Trust Bank

Retail, SME and Consumer Advances



Management Discussion and Analysis

Retail, SME and Consumer Banking

SME proposition was rolled out through the branches enabling penetration in geographies outside the Western Province.

Transactional Products

In parallel to our branch-led growth strategy, we have also focused on a multi-channel approach, with increased investments in self-service banking as well as internet and mobile applications. Increasing ATM transaction volumes as well as internet and mobile banking users have confirmed customer preferences for automated and digital channels. Customer-centric and affordable products, coupled with the extensive roll-out of branches and alternate channels has allowed us to enhance our customer offering and achieve the critical mass required to improve profitability.

ATM Network: In order to build a strategically located, low-cost branch network it is essential to roll-out self-service automated channels which can facilitate transactions which would be typically performed at a physical branch. During the year, the Bank successfully linked up with the LankaPay Common Switch thereby enabling our customers to obtain services through over 2,500 off-site ATMs spread across the island. We also added 17 of our own ATMs in the new branches that were opened during the year as well as 6 standalone ATMs. The ATM network enables customers to withdraw funds, obtain mini-statements and balance inquiries. On average, monthly disbursements from the ATM network amounts to around LKR 1.6 Bn.

Internet Banking: Our internet banking facility allows customers to perform a wide range of transactions including fund transfers to self and third party accounts, setting up standing orders, payment of utility bills and American Express credit card bills and accessing deposit accounts. During the year, we further enhanced our internet banking application to allow fund transfers to accounts held in other banks. The volume of internet banking transactions performed during the year grew by 6% in 2014.

Mobile Banking: Our mobile banking app was launched in January 2013 and has been rapidly adopted by customers, with over 15,000 downloads during 12 months to December 2014. On

Nations Business Banking

Reward Points for all Your Transactions



Call (011) 4 711 411 or
Talk to your branch manager today



*Conditions apply.
Nations Trust Bank PLC - P2710 (Fitch Rating ABB) |
Nations Trust Bank is a licensed commercial bank supervised by the Central Bank of Sri Lanka



Rewards points for our business banking customers

average, we process over 65,000 monthly transactions through the mobile banking app. The app which is available on Android and Apple operating software allows users to transfer funds within Nations Trust accounts, pay American Express credit card bills and utility payments, obtain foreign currency exchange rates and balance inquiries among others.



ATM Network



Internet Banking



Mobile Banking

Remittances

Migrant workers remittances grew by 9.5% to reach USD 7,017.8 Mn during 2014, and contributed 9.5% to the country's GDP in 3Q2014. The surge in remittances reflects an increase in labour migration (particularly under the professional and skilled categories), increased awareness and availability of money transferring infrastructure and introduction of web based money transferring systems by financial institutions. Migrant workers in the Middle Eastern region are the largest contributor to remittances, with a share of over 55% during the year, followed by the European region (18%) and Far East Asia (8%).

The Bank continued to focus on expanding its overseas network to capture market share in this intensely competitive space. During 2014, the Bank entered three new markets, Japan, Lebanon and Israel whilst it continues to have a strong presence in traditional markets such as Dubai, Qatar, Saudi Arabia, Kuwait as well as several European countries. We have partnered with leading international money transfer organisations such as MoneyGram, Sigue, Ria, Xpress Money and several country specific exchange houses. Despite being a relatively new entrant to this segment, our focus on service delivery and customer convenience has allowed the Bank to differentiate its offering; 365 day banking with extended hours enables migrant worker families to obtain funds remitted by their loved ones at their convenience, even during weekends. During the year, transaction volumes and values increased by 15% and 11% respectively.

During the year, the Bank has successfully carried out numerous overseas promotions including the road show in UAE with our Brand Ambassador Kumar Sangakkara in association with our business partner UAE exchange.

We are one of the few private sector banks to have partnered with the Sri Lanka Bureau of Foreign Employment (SLBFE) in providing pre-departure training to migrant workers and their



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Conditions apply.
Nations Trust Bank PLC - PQIBS (PFR) Rating A/AAA
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Remittances Campaign

families. In training programmes organised by the SLBFE the Bank provides guidance on banking and financial matters as well as maintaining financial discipline and managing savings. During the year over 30 such training programmes were carried out by the Bank within and outside the Western Province. The Bank also opened the first of its kind Banking Centre at the SLBFE which assists migrant workers with the opening of LKR and NRFC accounts, provides a co-branded debit card as well as providing guidance on other available services.

During the year, the Bank introduced foreign currency housing loans to expatriates, another first of its kind. A joint promotion was carried out with a leading Sri Lankan property developer in Qatar targeting skilled and semi-skilled workers. Response for this innovative product has been very encouraging, and we expect to pursue further growth from this in the ensuing year.

Management Discussion and Analysis

Retail, SME and Consumer Banking

Credit & Debit Cards

| | American Express | MasterCard |
|---|---|-----------------------|
| Personal | Sri Lankan Airlines Platinum American Express® Card | Travel Card |
| | American Express® Gold Card | MasterCard World |
| | American Express® Green Card | MasterCard Platinum |
| | American Express® Blue Card | Nations Shopping Card |
| | American Express Centurion Platinum Card | |
| | Nations Trust Bank American Express Travel Card | |
| American Express® Services and Benefits | Travel Insurance | |
| | Wallet Guard: protection against credit card theft | |
| | Global e-shop: enabling online purchasing | |
| | Card member online services | |
| | E-statements | |
| | SMS alerts | |
| | Online payment solutions to over 40 merchants | |
| | Emergency Assistance | |
| | Automated Bill Settlement | |
| | Concierge service | |
| Membership Rewards | | |
| Corporate | American Express® Corporate Gold Card | |
| | American Express® Corporate Green Card | |

Product Portfolio

Nations Trust is the largest local issuer of credit cards, partnering with two leading global card franchises, American Express® and Master Card. The Bank offers varying grades of cards for personal users and corporate clients and has partnered with over 14,500 merchants island-wide. The cards offered by the Bank combine innovative features, attractive rewards and benefits schemes together with global access and a unique international support network. Credit and Debit cards are a significant profit contributor to the Bank, generating 12.3% and over 50% of its interest income and fee and commission income respectively in 2014. The Bank's active debit and credit card users exceeded 350,000 during the year.

Industry Performance: Total number of active credit cards in issue in the country increased by 6.9% year on year to 973,979 by the second quarter of 2014. Meanwhile, volume and value of credit card transactions grew by 8.5% and 10.3% respectively in

the second quarter of 2014, reflecting the increased popularity and usage. Average transactions per card also increased slightly to 6.0 in comparison to the corresponding period of the previous year. CBSL has maintained a cap on the interest chargeable on credit cards whilst this is anticipated to reduce further in the ensuing year in line with government budget proposals; accordingly profit margins from this segment are expected to narrow. Meanwhile, debit cards in issue increased by 3.1% during the same period, whilst total volume and value of transactions recorded significant growth of 42.1% and 33.7% respectively during the second quarter of 2014.

The Bank's strategy was centred on encouraging usage through attractive reward and benefit schemes and a wide range of promotions. Setting yet another benchmark in convenience, customers are able to apply for a credit/debit card online whilst card members are able to obtain multiple services including requesting credit limit increases, viewing reward points, and



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My card takes care of my car.**

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USD Travel Card from the Nations Trust Bank



Make the most of every dollar by using the new Nations Trust Bank Chip and PIN-protected USD Travel Card when you travel overseas. Simply preload your Travel Card in order to enjoy the following benefits:

- ▶ Avoid the risk and hassle of carrying cash overseas
- ▶ Lock in the exchange rate and avoid any currency fluctuations
- ▶ Track and manage your expenses via SMS
- ▶ Safeguard your funds with state-of-the-art Chip and PIN protection
- ▶ Worry-free travel with a complimentary travel insurance cover

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www.nationstrust.com



Amex car care promotion in 2014

Launch of MasterCard Travel Card

redeeming points through the online portal. Meanwhile, key facts pertaining to credit card terms and conditions are available in all three languages on the Bank's website. Average transactions per card was at 20 in 2014, compared to the industry's 6. Growth in active cards was 25% during the year. In 2014, we introduced the country's first Chip and PIN based USD Travel card, a pre-paid card which enables customers to access USD during their overseas travels. The card is accepted by over 32 Mn merchants and provides access to over 2 Mn ATMs worldwide. Towards August 2014 the bank also launched The Nations Trust Bank American Express USD Travel Card. This card provides an array of excellent benefits and enables absolute convenience for Cardmembers when they travel overseas be it for business or pleasure.

Way Forward

Retail, SME and Consumer Banking is a key growth area for the Bank and we will seek to strengthen our position as the primary bank for Sri Lankans. As the country moves towards a

US\$4,000 per capita income in 2016, our prospects for growth in this key business line are positive. Structured products and processes are in place form a strong foundation for asset quality and other prudential concerns. Organisational changes are made to facilitate a more holistic approach to growing the retail and consumer banking operation in the coming year and driving cross sell across the bank. We continue to invest in structured customer engagement mechanisms to understand the needs and assess the experiences of our customers. A number of initiatives have been launched in response to the needs identified which are centred on customer convenience and experience. As a technology driven bank, we will look to strengthen our electronic delivery channels which will strengthen our product offering for the new tech savvy generation. Streamlining of our processes is expected to enhance the customer experience as well as our cost efficiencies making it a mutually beneficial strategy. We are particularly encouraged by the quick wins already achieved in this area as discussed elsewhere in this report.

Management Discussion and Analysis

Leasing

Leasing

Strong portfolio growth

Wider presence

Pioneer in hybrid leasing

Balanced asset mix

Increased customer value addition

New product capabilities

We focused on a strategy of expanding volumes through value addition to the customer and strengthening regional presence.

Growth through expansion of branch footprint

Strong growth in portfolio
Bank surpassed new business volumes of 16.0 Bn in year 2014

20%
Portfolio growth

Leasing

Leasing accounts for 26% of the Bank's total loans and advances and contributes 12% to its net interest income. Demand for leasing facilities picked up during the 2nd half of 2014, supported by the depreciation of the Japanese Yen which led to cheaper vehicle import prices, removal of restrictions on the transferability of permit vehicles and the steep decline in lending rates. Our leasing portfolio grew by 20%, compared to the industry's loan growth of 14%. We focused on a strategy of expanding volumes through value addition to the customer. We strengthened our regional presence by establishing leasing units in 12 of the Bank's new branches, bringing the total leasing network to 52. In line with the Bank's environmental sustainability efforts, emphasis was placed on growing the hybrid vehicle leasing portfolio. Through the Hybrid Bonanza initiative we partnered with over 35 car importers to promote

Leasing portfolio accounts for 26% of the Bank's loans and advances and contributes 24.2% to its interest income. We have a well balanced mix of asset classes and our portfolio is ranked as the largest amongst the Commercial Banks in Sri Lanka.

Nations Hybrid Bonanza
Drive More... Pollute Less...
Rs. 2,202/-
(for Rs. 100,000/- including VAT)
for Vezeet, Prius, Aqua and Fit from Nations Trust Bank
Rs 5,000/- for a tank of fuel | Discount on Insurance | Free registration*
Call: (011) 4 218 218
Nations Trust Bank is a licensed commercial bank supervised by the Central Bank of Sri Lanka.
Nations Trust Bank P.C. - 19, 20 | Value First Banking

"Hybrid Bonanza" from Nations Leasing



Leasing

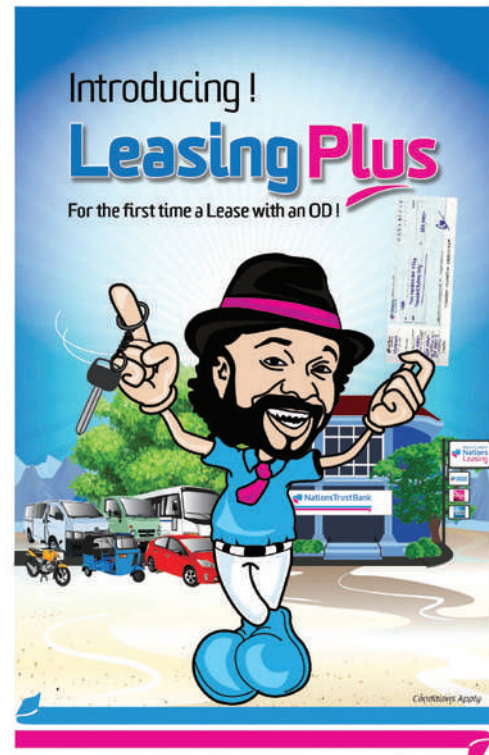
26.8 Bn

Leasing portfolio

hybrid vehicle leasing, offering attractive rates, free vehicle registration and an allowance for fuel. During the year, we harnessed another cross sell opportunity by launching a new product, Lease Plus which entitles lease holders to a current account and pre-approved overdraft facility. Portfolio quality somewhat was unfavourably impacted due to NPLs arising from agriculture related leases having structured payment plans.

Increase in import taxes of hybrid vehicles as mandated by the Interim Budget of 2015 is likely to impact the demand for such vehicles going forward. However, we will continue to pursue volume growth through entering into new markets and leveraging on our branch reach whilst focusing on maintaining the quality of the portfolio.

| | 2014 | 2013 |
|-------------------------------------|----------|--------|
| Outstanding portfolio (LKR Bn) | 26.8 | 22.3 |
| Interest income (LKR Mn) | 1,105.78 | 929.55 |
| Gross NPL ratio (%) | 8.5% | 5.7% |
| Operating Profit (LKR Mn) | 161.59 | 420.8 |
| Customer base growth (%) | 27% | 24% |
| No. of hybrid vehicles leased | 1,163 | 341 |
| Hybrid vehicles as a % of portfolio | 14% | 6% |



A lease is not just a lease any more!
 At Nations Trust Bank your lease is given to you with a current account and a pre-approved OVERDRAFT facility.

Call: **(011) 4 218 218**

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"Leasing Plus" from Nations Leasing

Management Discussion and Analysis

Corporate Banking

Unparalleled customer service

Diversified portfolio

Healthy loan portfolio

Increased process efficiency

Cross-sell opportunities

Deepening customer relationships



Find out more about our Corporate Banking Offers

Rs. 25.3 Bn

Corporate Portfolio Advances

+29%

Growth in Advances

Our strategy focused on achieving growth through deepening customer relationships and providing superior customer service.

Growth through holistic customer solutions

Strong growth in advances

Despite lacklustre demand for credit experienced by the banking sector in the first half, the Bank's Corporate Credit portfolio recorded strong expansion

29% credit growth

Achieved increased process efficiencies

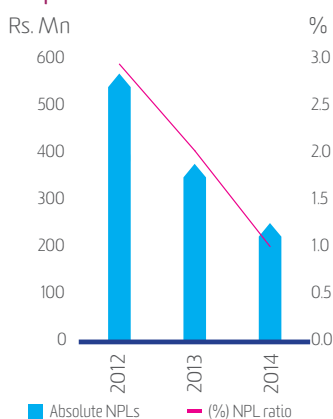
Focus on improving process efficiencies enabled us to reduce the time taken for credit appraisal and approval.

The Corporate Banking portfolio accounts for 26% of the Bank's loans and advances and contributes 12% to its interest income. Through the Corporate Banking unit, we provide solutions for the financing, investment and transactional banking needs of top tier and emerging corporates. Income is derived through interest income, fees and commission, foreign exchange and factoring.

Improvement in Portfolio Quality

The gross NPL ratio of the Corporate Credit portfolio improved to 1.01% in 2014, compared to 2.03% the previous year.

Corporate Credit NPLs



| | |
|---------------------------|-------------------------------|
| Trade Finance | Import Letters of Credit |
| | Shipping guarantees |
| | Inward Bills Collection |
| | Import Loans |
| | Bonds and Guarantees |
| Working Capital Financing | Packing Credit Loans |
| | Overdraft/Short-term Loans |
| | Supplier/Distributor Finance |
| | Commercial Papers |
| Term Funding | Fixed/Floating rate loans |
| | Asset backed debt notes |
| Transactional Banking | Securitisations |
| | Interbank transfers |
| | Telegraphic transfers |
| | Demand Drafts |
| Factoring | Cash and cheque collections |
| | Liquidity Management |
| | Receivables backed finance |
| | Post dated cheque discounting |

Management Discussion and Analysis

Corporate Banking

The customer relationship management process was also structured to develop relationships at multiple levels facilitating a better understanding of the client's requirements, positioning us for growth and enhanced performance.

Product Portfolio

| | 2014 | 2013 |
|---|-------|-------|
| Loans and Advances (LKR Bn) | 25.3 | 19.7 |
| Deposits (LKR Bn) | 6.9 | 12.7 |
| Net Interest Income (LKR Mn) | 778 | 984 |
| Fee based Income (LKR Mn) | 277 | 280 |
| Credit Loss Expense (LKR Mn) | 172 | (289) |
| Operating Profits (LKR Mn) | 257 | 838 |
| Gross NPL Ratio (%) | 1.01 | 2.03 |
| Number of loans screened for environmental criteria | 7,221 | 5,714 |



Growth through deepening client relationships



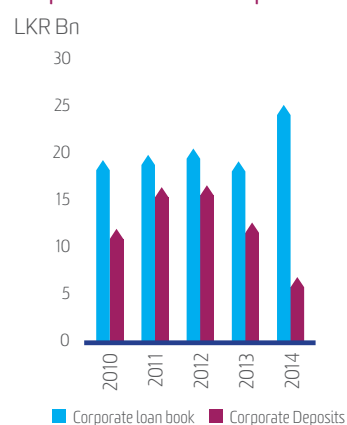
Focused on the export sector primarily in agricultural and industrial exports

The macro economic conditions in 2014 presented a challenging year for Corporate Banking due to moderation of credit demand impacting growth during the 1H of the year and excess liquidity in the system leading to narrow interest margins exacerbated by intense competition amongst industry players. Our strategy for the year was multi-pronged focussing on achieving growth through deepening existing customer relationships, providing superior customer service and customer acquisition. These efforts facilitated growth of the corporate portfolio by 29% by the end of the year, compared to the industry growth of 14%. In line with the industry, significant growth was witnessed only during the 3rd and 4th quarters. Interest income from the portfolio however declined by 21% during the year due to narrowing net interest margins across the industry. Fee based income was sustained to a large extent aided by focused sales of trade and FX products with relationship and product teams supporting each other in a matrix structure to enhance our share of wallet of the customers' business. A charge on the credit loss expense in 2014 of LKR 172 Mn in comparison with the write back of LKR 289 Mn in the previous year contributed to the decline in profitability of the business unit this year.

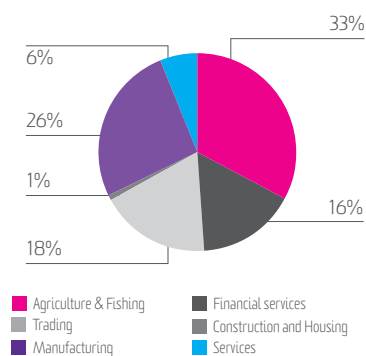
Corporate Banking

Our Corporate portfolio has a core that is a seasoned portfolio of blue chips which is well diversified by industry sector and aligned to the growth sectors identified by the Government such

Corporate Loans and Deposits



Corporate Loans - Sectorial Exposure



as agriculture, apparels and manufacturing. During the year we focused on strengthening our presence in the export sector, primarily in agricultural and industrial exports, through targeted marketing to new customers to expand our corporate banking portfolio. Focusing on the export sector also allowed the Bank to pursue cross sell opportunities by offering foreign currency trading services and transactional banking services to export clients. The customer relationship management process was also structured to develop relationships at multiple levels facilitating a better understanding of the client's requirements positioning us for growth and enhanced performance.

In line with the Bank's overall strategy of expanding market share whilst prudently balancing profitability and risk exposure, the Corporate Banking unit also expanded its target market to include emerging corporates, broadening the traditional focus placed on top tier corporates. The Bank maintained stringent credit appraisal and evaluation standards and strengthened monitoring to facilitate management of asset quality to balance the potential risks from this segment of the market. The Bank has put in place an internal risk rating model developed by CRISIL India where over 95% of corporate customers have been assigned a rating.

We continue to maintain a healthy corporate loan portfolio, reflected by a gross NPL ratio of 1.01% compared to the industry average of 4.2%. The quality of our portfolio is maintained through stringent pre-credit sanctioning, robust internal controls, timely monitoring of early warning signs and strong customer relationship management processes which enable us to better understand the intricacies of the relevant business.

Driving operational efficiencies to reduce costs and improve customer service was a key strategic initiative during the year. The process engineering drive included initiatives such as eliminating rework within the credit approval system, automation of key processes, development of easy to use facility templates and automation of Credit Committee approval system among others. These initiatives resulted in a significant reduction in our response time to the customer. We also shifted several paper based processes to e-based systems, increasing efficiencies in parallel to minimising paper usage. Customers were also encouraged to migrate to alternate platforms, with the use of e-statements and e-advises, a majority of are now receiving communications through e-channel.

Factoring

The Bank offers factoring services and its main clientele are SMEs who are engaged as suppliers by established corporates. The Bank broadened its reach of this product, which had a



Nations Corporate Rally 2014

Colombo centric focus, by driving volume growth through its branch network to service working capital needs of SME customers outside the Western Province. The factoring portfolio grew by 7.6% during 2014, whilst income from this segment increased by 4.6%. Stringent evaluation criteria and timely monitoring, aided by a robust factoring information system has enabled us to maintain the NPL ratio of 1.32% in this segment, significantly lower than the overall industry.

Forward Outlook

Private sector credit demand is expected to strengthen in 2015 against the backdrop of conducive interest rates, as well as macroeconomic policies to boost domestic and foreign investor confidence. The export sector is also anticipated to demonstrate strong performance as reflected in the increasing trend during the last quarter of 2014, as demand from key markets showed rebound particularly for key agricultural crops and textile exports.

Our Corporate Banking Unit will maintain focus on achieving growth through deepening relationships with existing customers and new acquisitions to increase market penetration. Cross sell opportunities will be pursued, in order to increase the share of wallet by providing bundled financing, investment and transactional banking products. We will continue to innovate our service delivery mechanisms through the use of technology in order to improve convenience to the customer as well as drive internal efficiencies and minimise adverse environmental impacts. To this end, a sophisticated corporate internet banking portal and cash management system will be launched in 2015. Emerging corporates from the economy's growth sectors will be a focus area for the Bank whilst continued attention will be placed on prudently managing the risk and return dynamics.

Management Discussion and Analysis

Treasury

Improved product capabilities

Customer-centricity

Effective ALM management

Capacity building

Tailor-made solutions

Extensive analytical support



Find out more about our Treasury and Investment Banking Offers

Rs. 1.9 Bn
Operating Profit

Rs. 40.7 Bn
Fixed Income Securities portfolio

Product capabilities were also enhanced, with the launch of Dual Currency Deposits and tailored derivative products.

Growth through Customer Focus

FIS Portfolio Contribution to Total Assets

26%

Enhanced product capabilities in forex

Launched dual currency deposits and tailor-made variants of forward exchange products during the year.

Strong Performance in Asset Liability Management

Proactive and timely re-pricing of the Bank's assets and liabilities allowed it to take advantage of the interest rate environment during the year.

The Treasury Division was a key income generator to the Bank during the year, contributing 25% and 21% to interest income and revenue respectively. The Division is responsible for managing the Bank's Fixed Income Securities portfolio, Foreign Exchange trading and product support on forex requirements of corporate and retail customers. It also plays a significant role in the Bank's asset liability management and formulation of the overall gapping strategy. Margin trading and investment banking activities are carried out through the Bank's subsidiary, Waldock Mackenzie Limited (WML)



Diversify your investment with
Dual Currency Deposits

- Potentially higher returns
- Buy your desired currency at better exchange rates
- Unbound customization options to choose from

Innovative Treasury products

Management Discussion and Analysis

Treasury

Product Portfolio

| | |
|-------------------------------|---|
| Fixed Income | Management of the Bank's fixed income portfolio comprising government securities and corporate debt. |
| Foreign Exchange | Proprietary trading by the Division's foreign exchange traders. Provide support to Corporate and Retail business units in servicing the forex trading requirements of customers. |
| Asset Liability Management | Formulates the Bank's gapping strategy taking into consideration the interest rate trends and outlook. Provides direction to the business units on the funding strategy, based on the overall gapping strategy. Management of the Bank's liquid assets. |
| W/M/L | Margin trading facilities on customers' equity portfolios, debt structuring and other investment banking activities |

Performance

| | 2014 | 2013 |
|--|---------|-------|
| Total Revenue (LKR Mn) | 2,548.8 | 944.9 |
| Operating Profit (LKR Mn) | 1,922.3 | 550.3 |
| Fixed Income Securities Portfolio (LKR Bn) | 40.7 | 44.8 |
| Customer acquisitions in forex trading | 126 | 117 |

The Treasury Division concluded a year of strong performance, with revenue and profit contributions doubling in comparison to 2013. Favourable interest rate trends together with the Division's timely re-pricing decisions and customer focused service offering enabled this strong growth in earnings during 2014. Interest rates were benign during the most part of the year, as the Central Bank pursued a relatively relaxed monetary policy stance. The Standard Lending Facility Rate was reduced by 50 points during the beginning of the year, resulting in the Standard Rate Corridor being compressed to 150 points. Meanwhile, the 365-day Treasury Yield Rate dropped from 7.14% at the beginning of the year to 6.0% by December.

The declining interest rate environment was favourable to the Bank's fixed income securities portfolio. In line with the fall in interest rates the FIS portfolio recorded mark-to-market and trading gains. The government securities portfolio decreased 9% in value to reach LKR 40.7Bn and accounted for 26% of the Bank's total assets.

The receding interest rate scenario also allowed the Bank to take advantage of the maturity mismatches between the Bank's assets and liabilities. Accordingly, the ALM desk was the key contributor to the Division's profits during the year, contributing 62% to revenue of the unit. The apt positioning of the Bank's balance sheet, timely re pricing decisions and an effective gapping strategy enabled the Division to generate significant returns in 2014. Nevertheless, interest rates are opined to have bottomed out and sustaining similar profitability is likely to be a challenge in the ensuing year.

Strengthening the customer forex trading segment was a key priority during the year. Customer focus was enhanced through extensive analytics and better understanding of customer requirements, facilitated by the addition of two new recruits

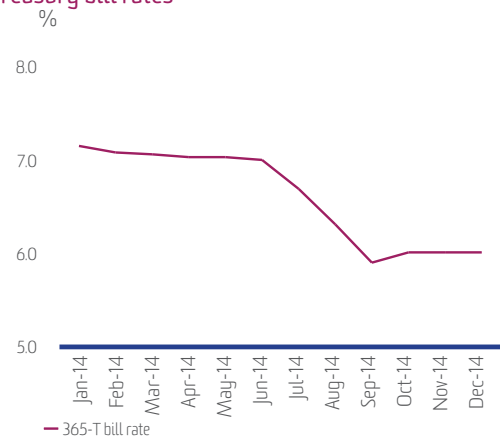
Having clearly identified the market segments that we wish to cater to, the Bank adopts a structured and targeted approach to understanding the requirements of our customers.



Treasury

to the team. Product capabilities were also enhanced, with the launch of Dual Currency Deposits, tailored derivative products and other value additions to customers. Co-ordination between the Business Units (Corporate and Retail) and the Treasury sales team was improved during the year enabling the latter to provide effective, customer-centric support to the relationship units. Meanwhile the Bank's foreign exchange trading business recorded a significant growth in 2014 capitalising on the favourable rate and premium movements. Furthermore, in a predominantly lacklustre year, the margin trading business managed to maintain its lending portfolio at a healthy level and met budgeted revenue for the year.

Treasury bill rates



Forward Outlook

Interest rates are opined to have bottomed out and the potential increase in market interest rates in 2015 is likely to pose a challenge for both the fixed income unit and ALM desk in the ensuing year. As rates trend upwards, the mark to market gains generated on the fixed income securities portfolio is expected to reverse. Meanwhile short-term deposit liabilities will re-price at higher interest rates leading to increased funding costs and ultimately thinner NIMs. In expectation of these market trends, the Treasury Division intends to increase focus on improving volumes through customer forex sales by better understanding of customer needs and forming stronger linkages with the retail and corporate business units.

Management Discussion and Analysis

Social & Environmental Report

Strong customer engagement

Young and vibrant workforce

Bio-diversity conservation

Best practices in Energy Management

Green lending

Community support



Find out more about how we work towards meeting our social and environmental responsibilities

2,562

Total Employees

+20%

Growth in Customer base

Our social report focuses on customers, employees and the community to provide our investors with information regarding our engagement with these stakeholders.

Our social report focusses on three key stakeholder groups, namely the customers, employees and the community to provide our investors with sufficient information regarding our engagement with these groups and how they impact our operations.

Our Customers

| | 2014 | 2013 |
|------------------------------|-------|-------|
| Growth in Customer base (%) | 20% | 25% |
| Customer retention (%) | 80% | 87% |
| Customer Grievances reported | 695 | 863 |
| Customer Touch points | 213 | 172 |
| Customer Satisfaction Score | 88.2% | 87.1% |

Our customer base comprises individuals, SMEs and corporate clients, spread across the island. We are determined to put the customer at the heart of the banking experience, and consistently strive to engage with and understand the needs of our customers. The Customer Charter in place complies with the requirements of the Central Bank and sets the standard for fair banking and provides guidance to employees on customer rights, grievance mechanisms and special provisions for the elderly, disabled and those with low financial literacy.

Listening to our Customers

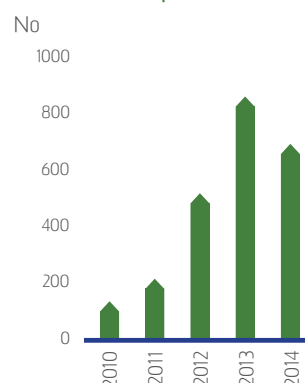
Having clearly identified the market segments that we wish to cater to, the Bank adopts a structured and targeted approach to understanding the requirements of our customers. Mystery Shoppers are engaged at the Bank's branches through the use of a Consultant, and branches are graded using parameters such as responsiveness, courteousness, product knowledge of employees and facilities and ambience of the branches. The results are reported to the Customer Service Steering Committee, comprising of the CEO and several senior managers on a quarterly basis.

A trilingual Call Centre has also been established as a platform for responding to customer inquiries and complaints. The call centre is operational throughout the year on a 24-hour basis. Meanwhile, a daily customer survey is conducted through the Call Centre, with the evaluation of 10 randomly selected transactions. The results are collated and communicated to the Centralised Customer Service Centre on a daily basis.

Customer Grievance Handling

A structured follow-up and feedback process is in place for handling all customer complaints. Customer grievances can be communicated to the Bank through the Call Centre and is routed to the Centralised Customer Service Unit. All complaints are processed and responded to within 48 hours. The monthly customer grievance statistics are reported to the Customer Service Steering Committee which recommends corrective process and/or people related action for repetitive complaints. In 2014, total retail customer complaints declined by 20%, reflecting the Bank's efforts to enhance service quality and customer service.

Customer Complaints



Management Discussion and Analysis

Social & Environmental Report

Our focus in creating a conducive environment include regular high impact training coupled with work life balance initiatives such as flexi working hours which has helped to create a culture where people work smart and live our corporate values.

Educating our Customers

Taking an innovative approach towards educating customers, the Bank conducts Nations Business Seminars for its SME customers on an ongoing basis. These interactive seminars are conducted by multi-disciplinary experts on topics covering Work-life Balance, Entrepreneurship, Leadership and Motivation and Importance of marketing and branding among others.

- ★ Our team of 2,562 employees
- ★ We invested 72 Mn in training and development
- ★ Talent retention levels were at 90%

Employees

Living our corporate values

Our Team Profile

Our team of 2,562 employees are our key strength as they facilitate our customer experience and service excellence that enables us to differentiate ourselves in an intensely competitive market. The Bank invested LKR 72 Mn in training and development focused on creating a unique sales and service culture and driving productivity and operational excellence. Talent retention levels remain satisfactory at 90% despite intense competition for experienced employees within the banking sector due to our talent management initiatives which create sustainable value to the business and to the careers and lives of our employees.

We have a very young workforce due to our recent expansion programme and we need to ensure that working for Nations Trust is exciting and productive for them with opportunities for career progression. Our focus in creating a conducive environment include regular high impact training coupled with work life balance initiatives such as flexi working hours which has helped to create a culture where people work smart and live our corporate values.

By nature of employment

| | Male | Female | Total |
|-----------------------|--------------|--------------|--------------|
| Permanent – Full Time | 1,209 | 914 | 2,123 |
| Contract | 338 | 101 | 439 |
| Total | 1,547 | 1,015 | 2,562 |

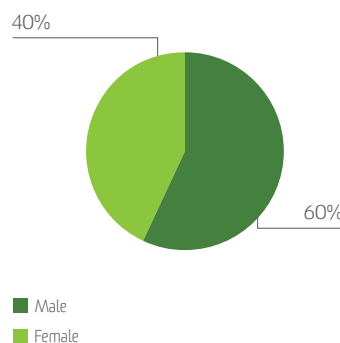
Work life balance

Flexi working hours have helped to create a culture where people work smart.

Young workforce

We ensure that working for Nations Trust is exciting and productive with opportunities for career progression.

Nature of Employment



HR Policy Framework

| Compensation & Benefits | Resourcing | HR Operations | Learning & Development | General |
|---|---|---|---|---|
| 10 policies covering Remuneration, Education Assistance Schemes, Staff Loans, Exit etc. | Policies cover Recruitment, Promotions, Transfers/Job Rotation etc. | Policies cover Leave, Grievance Procedure, Sexual Harassment etc. | Policies cover Learning & Development and Training for Management Trainees. | Policies cover Retention, Code of Ethics, Whistle Blowing, Procedure for Handling Fraud and Disciplinary Inquiries. |

| | | | |
|----------------------|--|------|------|
| Driving productivity | We have consistently increased profit per employee despite our growth in our team numbers by nurturing a unique sales and service culture. | | |
| | | 2014 | 2013 |
| | Operating Expenses per Staff (LKR Mn) | 2.49 | 2.55 |
| | Profit (before tax) per Staff (LKR Mn) | 1.8 | 1.6 |

| | | | |
|-----------|---|--|-------------------------------------|
| Diversity | Gender diversity is a key strength in the Bank with high levels of female representation in the senior management teams as well. This has enabled us to create a unique culture that focusses on productivity in the work place whilst maintaining a work life balance facilitating high levels of employee engagement and retention. | | |
| | Bank Female Participation Rate | Top Management Female Participation Rate | Sri Lanka Female Participation Rate |
| | 48% | 25% | 35.3% |

| | |
|--------------------------------------|---|
| Excellence in Training & Development | Nations Trust Bank PLC won the award for the 'Excellence in Training and Development' an overall award for the Most Innovative Use of Training & Development as an HR Initiative for Organizational Development, at the National Awards for Excellence in Training & Development 2014, held in Mumbai, India. |
|--------------------------------------|---|

Management Discussion and Analysis

Social & Environmental Report

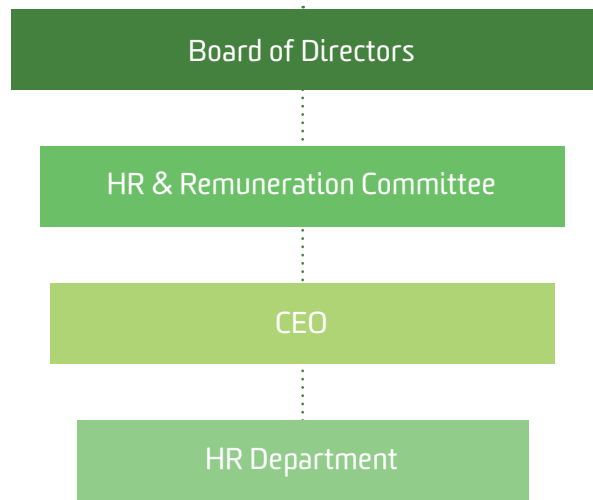
Geographic Distribution of our team

| Province | Male | Female | Total |
|---------------|-------|--------|-------|
| Central | 162 | 72 | 234 |
| Eastern | 42 | 11 | 53 |
| North Central | 28 | 9 | 37 |
| North Western | 74 | 22 | 96 |
| Northern | 29 | 10 | 39 |
| Sabaragamuwa | 46 | 16 | 62 |
| Southern | 137 | 57 | 194 |
| Uva | 51 | 11 | 62 |
| Western | 978 | 807 | 1,785 |
| Total | 1,547 | 1,015 | 2,562 |

Management Approach

Oversight responsibility, equitable remuneration policies, talent management, succession planning and remuneration structures of the Bank lies with the Board HR & Remuneration Committee which comprises of Chairman and four non-executive directors. The Committee also sets goals and targets for key management personnel and conducts their performance evaluations. The HR department reports to the Chief Executive Officer and the HR & Remuneration committee implementing agreed strategy approved by the Board within the agreed policy framework.

and equal pay for men and women, no child labour, gender, ethnic and age diversity within the framework. The Bank does not employ persons below the age of 18 years in any capacity and does not tolerate forced labour. Our team profile is testimony to the scope of these policies. The policies are reviewed on a regular basis and revised as deemed necessary.



Talent Management



A comprehensive HR & Remuneration policy framework in compliance with Sri Lanka labour laws, recommendations of the Employers’ Federation of Sri Lanka and international best practice form the foundation of our talent management initiatives. The policy framework addresses aspects such as preservation of human rights by embedding equal opportunity

Talent Management

Talent management is key to the attraction, development and retention of our staff and to creating the next generation of leaders in the Bank. The framework of policies, governance structures and processes are all designed to facilitate this. Many of our staff join us at entry level grades and have progressed in their careers benefiting from the talent management process.

| Age | Corporate Management | Senior Management | Middle Management | Non Management | Total |
|----------|----------------------|-------------------|-------------------|----------------|-------|
| Above 60 | 0 | 1 | 0 | 2 | 3 |
| 51-60 | 5 | 4 | 4 | 9 | 22 |
| 41-50 | 7 | 27 | 75 | 28 | 137 |
| 31-40 | | 19 | 305 | 158 | 482 |
| 21-30 | | 1 | 290 | 1,452 | 1,743 |
| Below 21 | | 0 | | 175 | 175 |
| Total | 12 | 52 | 674 | 1,824 | 2,562 |

| Gender | Corporate Management | Senior Management | Middle Management | Non Management | Total |
|--------|----------------------|-------------------|-------------------|----------------|-------|
| Male | 9 | 41 | 448 | 1,049 | 1,547 |
| Female | 3 | 11 | 226 | 775 | 1,015 |
| Total | 12 | 52 | 674 | 1,824 | 2,562 |

Staff attraction and retention

During the year, we were able to attract key talent from the market. We were also able to maintain our turnover well below budget and last year to retain majority of our key performers and critical staff, despite the high demand from the external market for our trained staff.

Below are some of the measures initiated in our recruitment and retention strategy:-

- Competitive benefit packages
- Structured training and development initiatives in line with career aspirations
- Structured talent management and succession planning initiatives
- Reward and recognition
- Work life balance initiatives
- Creating belongingness and greater employee engagement via regular interactions with all staff and open door culture.

New recruits analysis by gender and age

| Age | Male | Female | Total |
|---------|------|--------|-------|
| 55 - 60 | 1 | 0 | 1 |
| 45 - 54 | 1 | 1 | 2 |
| 35 - 44 | 18 | 5 | 23 |
| 25 - 34 | 125 | 31 | 156 |
| 18 - 24 | 399 | 216 | 615 |
| Total | 554 | 253 | 797 |

Employee Benefits

We have a high level of employee engagement which is embedded in the organisation culture through a number of initiatives and is fundamental to creating a vibrant and dynamic organisation culture. The open door policy adopted throughout the organisation encourages employees to discuss issues as they arise enabling management to escalate or address the issues immediately, building trust and rapport within departments. The Employee Attitude Survey provides a chance to employees to provide feedback regarding matters outside the performance appraisal which may impact their performance or physical and mental well-being. The Nations Voice committee headed by the CEO meets with departmental representatives bi monthly to identify and address issues related to the work environment and performance. Departmental representatives are nominated by the heads of departments and are rotated to ensure that everyone is able to give voice to their concerns. The sports and welfare club of the bank provides a forum for social gatherings and sports activities enabling building relationships across departments.

Reward and Recognition

In the belief that celebrating success creates winners, we have initiated awards schemes to inspire and motivate our team to reach new heights. Employees who perform beyond the call of duty are nominated to the Star Awards which was launched this year. Additionally, business unit heads are empowered and encouraged to conduct their own awards schemes to drive performance and productivity. These have contributed to the high morale and positive attitude of our staff. The most prestigious awards is the annual Nations Magnus Awards, an annual event where selected employees are honoured for outstanding

Management Discussion and Analysis

Social & Environmental Report

personal and team performance. Coverage of the awards is quite comprehensive with awards for business units as well as for service units and for management and non-management. In 2014, a new award titled “Lean Adahas” was added to the 10 awards which formed the basis of the 2013 inaugural awards as we aligned the awards with our strategic goals and corporate values. Judges selected the winners carefully reviewed over 500 applications which comprised self-nominations as well as third



Nations Magnus Awards 2014

Recruitment and employee turnover by Province

| Province | No of Recruits |
|---------------|----------------|
| Central | 93 |
| Eastern | 19 |
| North Central | 14 |
| North Western | 36 |
| Northern | 8 |
| Sabaragamuwa | 27 |
| Southern | 68 |
| Uva | 24 |
| Western | 508 |
| Total | 797 |

party nominations. The Colombo Hilton provided a fitting venue to celebrate with the winners and enjoy the esprit de corps that pervaded the stately ballroom.

Learning and capability development

This is a key focus area as we strive to reach new heights in operational excellence and service delivery. During the year there were structured training in relation to areas such as sales,

★ Awarded for Excellence in Training and Development

service, technical, leadership and soft skill development, in line with the strategy of the bank. Setting up the Nations Learning Academy was a key mile stone. The academy offers our staff several certifications in areas such as Sales, Credit, Business English, SME and Operations. We have been able to offer our key performers a clear career progression through a structured succession planning process. During the year, our employers were also given many overseas training opportunities, in line with our Banks strategy.

| Type of training | Training days |
|------------------------------------|---------------|
| Internal Training | 7,087 |
| Local External Training Programmes | 6,671 |
| Overseas External Programmes | 152 |
| Total | 13,910 |

| Grade | Total Training Days | Staff count | Average No. of days participated (per person) |
|------------|---------------------|-------------|---|
| M1 & Above | 1004 | 316 | 3.2 |
| AM | 1540 | 440 | 3.5 |
| SG4 | 1063 | 451 | 2.3 |
| SG3 | 1246 | 555 | 2.2 |
| BT | 1776 | 306 | 5.8 |
| FTC | 809 | 292 | 2.8 |
| TFTC | 1586 | 142 | 11.1 |

Succession planning is a key area of focus and developmental roles have been identified for certain key positions in the Bank and periodic feedback on their performance is monitored and discussed. We also periodically conduct Development Centres which use structured methods of assessment for competencies identified as essential in higher roles in order to identify their potential and to address capacity building needs.

Nations Trust Bank PLC won the award for the ‘Excellence in Training and Development’ an overall award for the Most Innovative Use of Training & Development as an HR Initiative

Nations Trust Bank PLC won the award for the 'Excellence in Training and Development Award' an overall award for the Most Innovative Use of Training and Development as an HR Initiative for Organizational Development, at the National Awards for Excellence in Training & Development 2014

Winners of the Nations Magnus Awards

1. Best Service Person: Milinda Silva - Dehiwela Branch
2. Most Productive Unit: Card Verifications- Credit Operations
3. Best sales person of the year: Menuka Piumal - Liability Sales
4. Best cost management unit of the year: Trade Services
5. Best campaign of the year: Nations Trust Bank with Sanga: Middle East Tour 2013 - Remittance Department
6. Best revenue unit: Treasury FIS Desk
7. Best Business Partner: Trade Services
8. Best profit making business: Treasury
9. Lean Adahas of the Year: Card Operations Team
10. Employee of the Year: Lakshan Jinasena - IT
11. Employee of the Year Mgt Category: Damitha Silva - Retail & SME

for Organizational Development, at the National Awards for Excellence in Training & Development 2014, held on 27th June 2014 in Mumbai India. Organized by the Human Resources Development Management Committee of the World HRD Congress, this is the only event of its kind in South Asia that gives public recognition for achievement in training and development to individuals as well as companies. This year Training and Development Excellence Awards were presented to participants of around 40 countries across Asia and the winners of various

categories are giants in the region, such as Hindustan Unilever Ltd. Zurich Insurance (Hong Kong), Apollo Hospitals Enterprise Ltd. Coca Cola to name a few.

Performance Appraisals

The Bank has a very robust performance management system where all staff members are evaluated on predefined objectives and competencies. The Bank carries out an annual performance review of all permanent employees who have been in service for over six months and for other staff at the end of the probation period. The Balanced Score Card Method is used to assess the performance of management staff. We, being a performance based environment, have linked the Banks performance and individual performance to all our reward schemes.

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

Additionally, senior management staff are given a 360 degree feedback to facilitate identification of their strengths and areas for improvement as part of their career progression planning and to create a conducive work environment.

Work place safety

In 2014, the Human Resources Department launched an aggressive campaign to establish a clutter free, hazard free safer working environment by implementing the "5S" initiatives at the Human Resources Department and obtained an international certification. This initiative is now being implemented across the bank. There were no workplace related injuries reported during the year. Safety measures are in place including periodic training of fire wardens from each department. Further, Dengue prevention campaigns and fire alarm checks were also periodically conducted to further ensure a safe working

Management Discussion and Analysis

Social & Environmental Report

environment. A process is in place to obtain regular feedback from our staff through the Nations Voice Forum in relation to work place logistical and safety issues.

Nations Entrepreneur

“Nations Entrepreneur”, is a Business Venture aimed at Nations Trust staff to bring out the passion, innovation and creativity they possess to drive the Businesses. This is a platform provided to the staff members of the bank to think and act as Entrepreneurs. The Bank provides the financial, marketing, operational & technological support to the successful business ideas selected by the panelists. Nations Entrepreneur program is expected to further enhance the working conditions of employees as they are



It is with great pride that we present

NATIONS ENTREPRENEURS FOR 2014/2015



Sumith Manackramage
Leasing Recoveries



Finolla Dutschoorn
Credit Operations



Clive Fernando
Negombo Branch

The Bank will provide the required support to these entrepreneurs, to turn their ideas into reality.



The chosen “Nations Entrepreneurs for the year 2014/2015”

provided with an opportunity to express their creative, innovative thoughts by putting them into action which will support the Banks’ business strategy.

In 2014, more than 60 ideas were suggested from staff members across the bank and 13 ideas were selected for the final round. On 31st of October the final round was held and three staff members were chosen as the “Nations Entrepreneurs for 2014/2015”.



Winners of the talent show “Nations Rising star” - Dancing Category



Winners of the talent show "Nations Rising star" -Singing Category



Nations "Raja Wasala Avurudu-2014"



Event at Nations Sports Day 2014

Employee Sports and Welfare

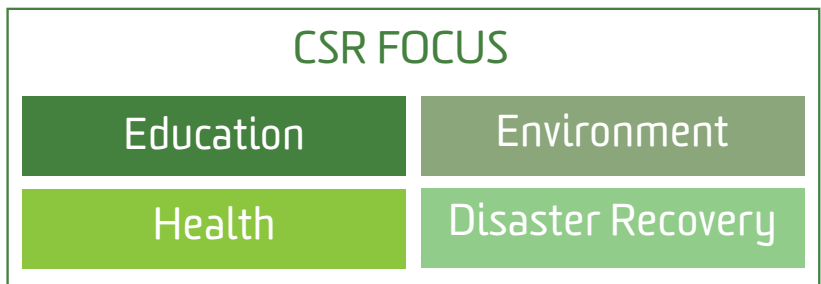
Sports and culture play an important role in the life of Nations Trust employees. Many activities are held during the year to keep staff motivation levels high and encourage networking and team spirit.

Way Forward

We will continue to focus on talent attraction, development and retention as this is key to our strategy. Our foundations are strong as we have a young and vibrant work force who are eager to accept challenges in the belief they can conquer any mountain. We will continue to expand our team to meet business requirements and will also focus on increasing the sales and service capability of all our staff to enhance our productivity.

Management Discussion and Analysis

Social & Environmental Report



Community Engagement

As a responsible corporate citizen, we understand the significant contributions we can make towards enacting change at community level. We consistently engage with the communities we operate in, to identify and effectively respond to their needs in a focused manner. We adopt a strategic approach towards CSR with organisational structures and guidelines in place to facilitate effective allocation of resources to CSR initiatives. The Bank's CSR Committee hold the overall responsibility for the implementation and monitoring of the CSR action plan. The Bank has identified four key thrust areas of community engagement targeting underprivileged communities;

Education

The Bank's education-related CSR activities focus on uplifting the infrastructure and education resources in selected rural schools, catering to students from economically underprivileged communities. In 2014, the Bank continued this programme by funding a computer lab at the Amunutenna Dweethika Kanishta Vidyalaya, in the Ratnapura District. Previously, the Bank had also set up a well-stocked library in the school, subsequent to which sports equipment was donated to supplement the play areas, also constructed by the Bank. Furthermore, funding was provided to improve the sanitation standards of school. The Bank also recently donated a new building of two classrooms to the Nithalawa Kanishta Vidyalaya in the Kurunegala district which schools nearly 250 students.

The Bank also supplied the entire years requirement of writing books and stationery for all the students in the three schools; namely, Amunutenna Dweethika Kanishta Vidyalaya, Nithawala Kanishta Vidyalaya and Mullivaikkal Tamil Government School in Mullativu. The donation included school shoes and school bags. In addition to the continuing projects at the three schools mentioned above Bank also provided the books and stationery requirements of the new Grade One students of Detagamuwa Primary School in Thissamaharama.



Nithalawa primary school class room opening



Nations Trust Bank aids Mullivaikkal - East government Tamil mixed school



At the animal rescue centre - Hiyare

Environment

The Bank places emphasis on bio diversity conservation through an ongoing project at the Hiyare Reserve in the Galle district, a 600-acre rainforest which is home to numerous endemic and rare species of fauna and flora. Conducted in partnership with the Galle Wild Life Conservation Society, this project emphasises the importance of bio diversity conservation through education.

The conservation efforts aim to;

- Educate school children and undergraduates on the bio-diversity heritage of our country and disseminate knowledge on the urgent action required towards preserving threatened species.
- Support the workshop programmes conducted by the Wildlife Conservation Society for various groups, including school children, undergraduates, private sector staff and nature enthusiasts. These comprehensive workshops include visits to the rainforest and hands-on experience in understanding amphibians, reptiles, etc.
- Support the Society's Animal Rescue Programme – an innovative effort that seeks to provide immediate medical care, surgical care and rehabilitation for injured wildlife
- Fund the Captive Breeding Programme for 2 species of freshwater fish and endemic frog that have been declared “nationally threatened species”. The programme is a key aspect of the biodiversity conservation project, and is the first private-sector-funded programme of its kind in Sri Lanka.



The Book launch of “Sri Lankan fresh water fishes”

- Fund efforts to gather data on and research the behaviour patterns of urban and rural purple-faced leaf monkeys. The conservation effort also focuses on restoring the natural habitats of these monkeys by creating corridors of forested areas through the Habitat Restoration Programme.
- The Bank also funded the research and publishing of a book on Fresh Water Fish in Sri Lanka, conducted by researchers at the Hiyare Reserve.

Health

The Bank's health-related CSR programmes consist of two ongoing projects, maintenance of a ward at the Maharagama cancer hospital and the provision of magnetic strip cards to blood banks. During the year, we further extended our support to the Cancer Hospital through undertaking the substantial refurbishment of Ward 19. The scope of the project includes,

- Upgrading the staff and patient lavatories and doctor/nurse stations.
- Constructing a dedicated area for leukaemia, isolation sections, an admission area and a lunch room for patients.
- Donating a laboratory binocular microscope

We have also partnered with the National Blood Transfusion Service of Sri Lanka and facilitated the introduction of magnetic strip donor cards which replaced the traditional red book. Donor cards are issued on three grades, based on the frequency of donations. This initiative has enabled increased convenience for the donors as well as the Blood Bank.

Management Discussion and Analysis

Social & Environmental Report

Disaster Relief

- Donation of 60 water tanks (1000 ltr) and provision of water for ten days to those tanks to assist people of Rajarata affected by the drought in 2014
- Repairing and painting of the OPD unit at the Kiribathgoda hospital
- Providing immediate relief for those affected by the landslides at Haldummulla. Relief included water tanks, infant needs like milk and milk bottles and dry rations for the people at one temporary camp at Poonagala.



Water tank distribution in Polonnaruwa district

The NFresher Programme

The NFresher programme at Nations Trust Bank, now in its second year, offers A Level students across the island a turbo-boost into the next phase of their lives.

The programme is run between September and December and invites young people who have finished their A Level exams and are awaiting their results, to fruitfully use the waiting time by doing an internship at a Nations Trust Bank branch for three months. Our entire branch network invites potential interns in their various localities to gain work experience in our branches, learning the basics of banking, and in particular the workings of new digital channels of banking – ATMs, Internet Banking and Mobile Banking. In this manner Nations Trust Bank is also educating these young people how to use modern means of banking, and how to best use new technologies.

In the course of the internship the NFreshers are brought together several times to our training Centre in Colombo for



Recipient of the ISO 50001 certification

training programmes in Banking, Teamwork and Leadership. In the course of this, in addition to gaining some valuable life skills, they forge bonds with each other, making new and varied friends, coming as they do from all parts of the island. This exposure is greatly beneficial to the development of the NFreshers' self-confidence levels and networking abilities as they enter the wider world, stepping out of the classroom for the first time.

The daily work of the branch gives the NFresher an idea of what it is to work in the corporate world, and specifically in a bank, thus opening up their potential choices as they ponder what careers they will enter. Each NFresher is assigned a Mentor from the branch staff to guide and develop them, and answer their questions.

At the end of the programme the NFreshers receive a Certificate of Participation to kick-start their Curriculum Vitae with some work experience in addition to the much awaited A Level result. Many of them go on to higher studies, some enter the workplace, and a few of them even come to work at Nations Trust Bank. All of them leave us having spent a very useful three months, gaining the discipline required of the workplace, learning about banking and technology, making a network of colleagues from all over Sri Lanka and acquiring personal development skills which will equip them better for the challenges they will face in the next phase of their lives.

Environment Report

As a financial institution, our environmental footprint is relatively small. Energy and paper are the Bank's key use of natural resources and we remain committed to rationalising the use of these resources through proactive measures. We are also conscious of the negative environmental impacts of waste and have taken measures to encourage re-use and recycling of paper within the Organisation.

| Key Performance Indicator | 2014 | 2013 |
|---|-----------|-----------|
| Energy | | |
| Total Electricity consumption (Kwh) | 7,622,955 | 7,602,089 |
| Electricity consumed per employee (Kwh) | 2,975 | 3,361 |
| Water | | |
| Total Water consumption | 62,641 | 52,721 |
| Water consumed per employee (M ³) | 24 | 23 |
| Other indicators | | |
| Total no. of facilities assessed for environment criteria | 7,221 | 5,714 |
| No. of hybrid vehicles leased | 1,163 | 341 |

Energy

Energy is a key environmental concern for the Bank and in 2014 the Bank's Head Office obtained the ISO 50001 certification on Energy Management from the Sri Lanka Standards Institution, the first Sri Lankan Bank to do so. The standard promotes energy management best practices and reinforces good energy management behaviours resulting in the better utilisation of energy consuming assets. In complying with the standard a Consultant was engaged to conduct an Energy Audit, subsequent to which we implemented an Energy Policy and an Energy Management System Manual, created the position of Energy Manager and established a multi-disciplinary Energy Management Team to monitor energy conservation. The key energy-saving initiatives launched during the year are,

- Installation of a capacitor bank for the main electrical system, resulting in improving the power factor efficiency
- Replacement of the fluorescent lights with more energy efficient lighting
- Optimising the physical placement of lighting and switches, in order to minimise wastage

2,975 Kwh

Electricity consumption per employee

- LED computer screens were installed in all branches. Within Head Office 50% of the CRT monitors were replaced with LED monitors.
- Inverter type air conditioners are installed in all new branches
- Increased staff awareness on energy conservation through 8 structured training programmes for all head office staff. A lights-out policy was effected for all security personnel at the branches.

As a direct result of these initiatives the energy consumed per employee declined by 11% in 2014.

Waste

We continue to encourage our credit and debit card customers to migrate to e-statements. Within the Organisation, staff is encouraged to rationalise the use of paper through double-sided printing, re-use of envelopes and use of electronic media for communication with customers and among each other. Meanwhile, the Bank's loan approval system is also largely automated resulting in a substantial paper savings. Used paper is disposed through Neptune Waste Management, a registered recycler.

Water

The Head Office, Processing Centre and Nawam Mawatha collectively house close to 60% of the Bank's staff and in these locations we have installed water purification systems in order to minimise the use of plastic water bottles and chillers. Posters and periodic notices are displayed regularly to raise staff awareness on water conservation. Our staff being relatively young are of a generation that is aware of the need to preserve finite natural resources and are actively engaged in promoting this throughout the organisation.

Green Lending

All corporate credit facilities granted by the Bank are screened for environmental criteria. In 2014, this accounted for 7,221 loans disbursed. The Bank was also the pioneer of hybrid leasing, with hybrid leasing accounting for 14% of total vehicles leased by the Bank.

Risk Management

Integrated Risk Management Framework

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

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

The IRM framework covers management of key potential risks, identification possible sources of such risks, mechanism of management information and reporting to monitor such risks. It also defines relevant officers and committees responsible for risk control and mitigation. The risk management policies and procedures approved by the Board broadly covers:

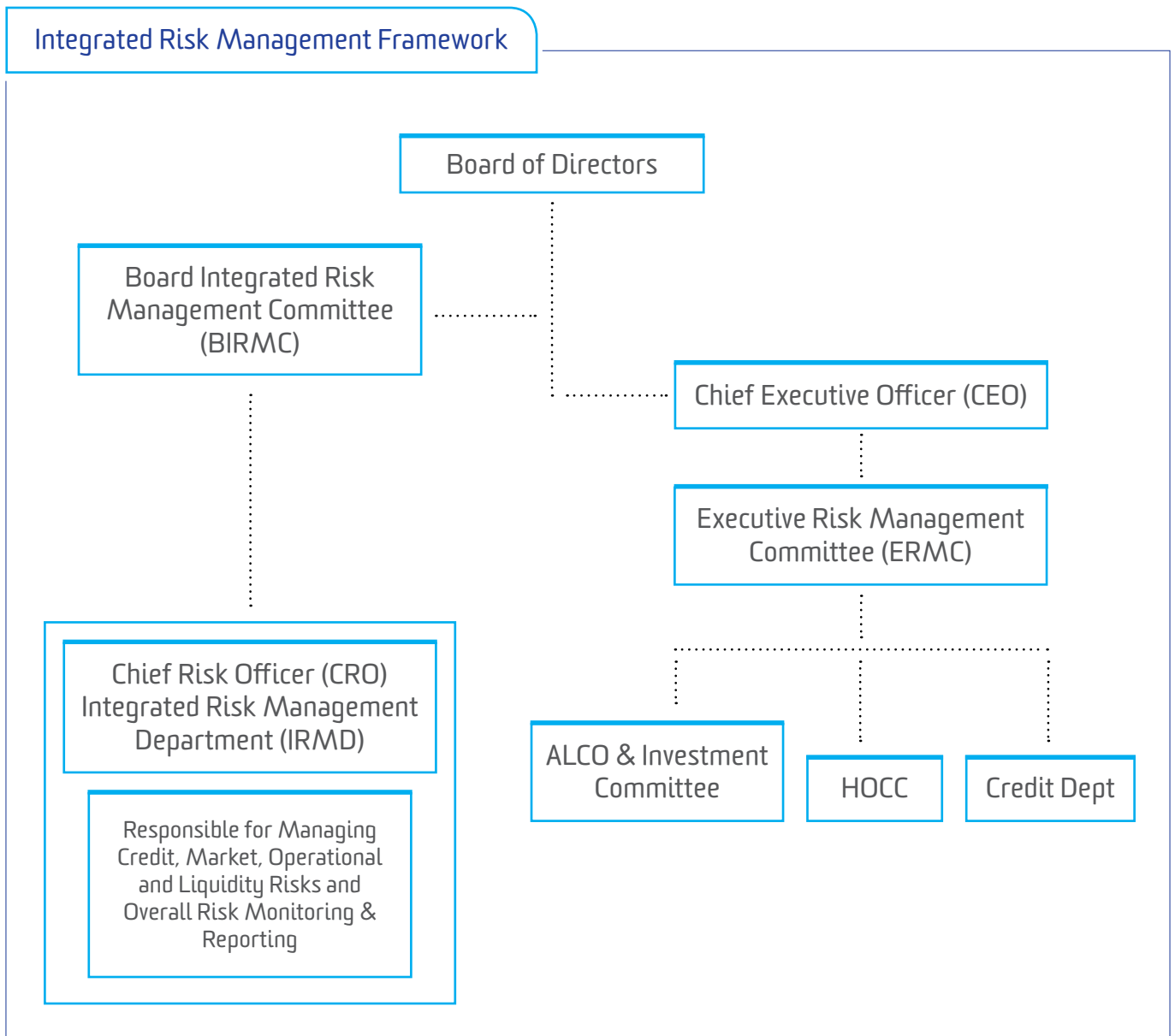
- Measures for risk diversification with limits for various exposures based on risk appetite
- A system to aggregate overall risk exposures for monitoring and control
- Risk measurement approaches such as use of historical databases, stress testing and scenario analyses
- Provision estimates based on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

Risk management structure

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

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

The Integrated Risk Management Department (IRMD), headed by the Chief Risk Officer (CRO), is responsible for capturing and monitoring the Bank's overall risk position against overall risk appetite and limits set by the Board, by integrating the various risk exposures across business units and products within the Bank. They monitor compliance with risk management policies and procedures to ensure an independent control process is maintained. Exceptions are reported on a daily basis, where necessary, to the Chief Executive Officer and various management levels. Relevant actions are taken to address exceptions and any areas of weakness. IRMD is also responsible for developing risk management tools in line with industry best practices. Treasury is responsible for managing the liquidity and market risks of the Bank on a day to day basis in line with the approved policies and procedures. The risk management processes throughout the Bank are audited regularly by the Internal Audit Division (IAD), which examines both the adequacy of the procedures and the Bank's compliance with the procedures. IAD discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Review Committee (BARC).



Risk measurement and reporting systems

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

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

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

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

Risk Management

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

Credit Risk Management

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

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

Structure

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

Credit management function of the Bank directly reports to Chief Executive Officer through Deputy General Manager Credit & Collections and is structured along the similar lines of how the Bank's revenue generating business lines are structured. Accordingly, within the credit management function there are specialized pillars to appraise credit proposals from different segments of clients. Such specialized client segments include Corporate Banking, Retail and SME Banking, Consumer Banking, and more product based Leasing/ Factoring portfolios. Furthermore, delegation of lending powers to individual credit

officers is done on a strict and consistent set of standards which uses the experience of such officers' judgment and ability.

Risk Rating

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

Risk Scoring

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

A customer rating analysis is given in the note 43 to the financial statements.

Risk Pricing

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

Portfolio Management

Credit portfolio management is an important function within the overall credit risk management function. Need for such critical and objective portfolio management emanates from the need to optimize the benefits associated with diversification. It also helps the Bank to identify and address potential adverse impact of concentration of exposures. The Bank has a well

structured portfolio management mechanism which evaluates exposures on the basis of industry concentration, rating quality, internally established pre-specified early warning indicators apart from regulator imposed quantitative ceiling on single borrower and aggregate exposure. Based on the feedback from the credit portfolio management, the credit origination criteria are amended prudently to insulate portfolios from further deterioration. The portfolio management team also undertake, apart from regular portfolio reviews, stress tests and scenario analysis in consultation with the Market Risk Management Unit with regard to liquidity concerns when the external environment, both local and global, undergo swift changes.

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

Large Exposures - As at 31 December 2014

| Particulars | Amount LKR '000 |
|---|--------------------|
| Large Exposures (above 15% of capital) | - |
| Exempted Large Exposures | - |
| Total Large Exposures | - |
| Exposures to the Directors and their Associates | 19,548 |
| Exposures to the Bank's Associates | - |
| Exposures to the Significant Shareholders | 693,106 |
| Total Exposures to Related Parties | 712,653 |

Risk Management

Credit Portfolio Details - As at 31 December 2014

| Asset Category | On and Off Balance Sheet Exposures before CRM LKR '000 | Credit Risk Mitigant (CRM) LKR '000 | Net Credit Exposure before Risk weights LKR '000 |
|---|---|--|---|
| Claims on SL Government (Govt.Securities) | 31,877,501 | 11,013,507 | 20,863,994 |
| Claims on Bank | 3,819,010 | - | 3,819,010 |
| Claims on other Financial Institutions | 6,889,939 | - | 6,889,939 |
| Claims on Corporates | 23,762,358 | 899,102 | 22,863,256 |
| Regulatory Retail Portfolios | 66,652,505 | 12,661,833 | 53,990,672 |
| Claims Secured by Residential Property | 3,871,562 | - | 3,871,562 |
| Claims Secured by Commercial Real Estate | 863,511 | - | 863,511 |
| Past Due Exposure | 2,578,133 | - | 2,578,133 |
| Past Due Residential Mortgage Exposure | 332,018 | - | 332,018 |
| Cash Items and Other Assets | 10,023,350 | 1,139,217 | 8,884,133 |
| Total | 150,669,887 | 25,713,659 | 124,956,228 |

Geographic Distribution of Exposure

| Province | Mix % |
|---------------|-------|
| Western | 79.2% |
| Southern | 5.7% |
| North Western | 4.2% |
| Central | 2.6% |
| Uva | 2.1% |
| Sabaragamuwa | 1.3% |
| North Central | 1.2% |
| Eastern | 2.5% |
| Nothern | 1.1% |

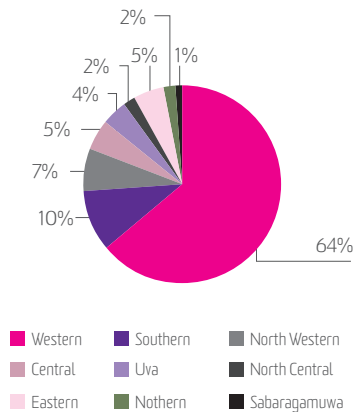
Although majority of the lending is concentrated in the Western province, some portion of the corporate lending is utilized for their island wide operations.

Maturity of Loans Exposure by Type

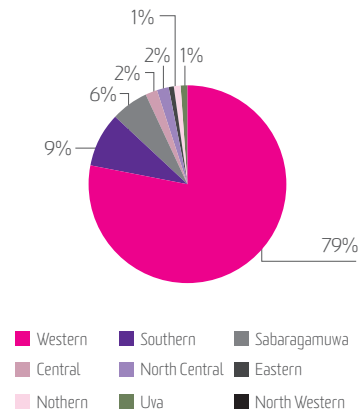
| LKR Mn | 15 Days | 16 Days-1 Month | 2 Months | 3 Months | 4-12 Months | 1-5 Years | Over 5 Years | Total |
|-----------------------|---------|-----------------|----------|----------|-------------|-----------|--------------|--------|
| Corporate | 9,201 | 3,634 | 2,880 | 2,377 | 3,546 | 1,708 | 1,124 | 24,469 |
| Retail,SME & Consumer | 24,635 | 366 | 1,052 | 1,425 | 15,518 | 1,762 | 3,564 | 48,321 |
| Leasing | 333 | 725 | 752 | 790 | 6,454 | 15,716 | 926 | 25,696 |
| Staff Loans | 34 | 23 | 24 | 24 | 1,091 | 95 | 1,201 | 2,492 |

* Based on Contractual Maturities

Past Due but Not Impaired



Impaired Loans



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

Credit Review

The Bank has a robust credit review mechanism which engages discriminatory time schedules for review of different borrower exposures. Lower rated borrowers or borrowers typically categorized in to watch list, whose financials and other contributory parameters show signs of weaknesses are subject to review at least twice a year. In addition to that all clean exposures above a pre- defined threshold are subject to an interim review six months after the regular annual review irrespective of the rating of the borrower. Credit impairment assessment and provisioning methodology is explained in Note 43.2 to the Financial Statements.

In addition to above as prescribed and encouraged by the regulator, the Bank has engaged a structured Loan Review Mechanism (LRM) Process under the purview of a Senior Manager reporting directly to Chief Risk Officer. The LRM process critically evaluates the quality of credit selected on a sample basis covering a minimum of a 30% of the credit portfolio after 03 months of disbursement/review.

Market Risk Management

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The BOD clearly articulate market risk management policies, procedures, prudential risk limits, review mechanisms and reporting systems in the market risk management policies. The policies address the assessment of Bank's exposure on a consolidated basis, considering exposures related to interest rate, currency and liquidity risks. The risk measurement systems capture all material sources of market risk and assess the effects on Bank's capital.

Structure

The Asset and Liability Management Committee (ALCO), consisting of the relevant Corporate Management, including the CEO, function as the top-end operational unit for managing the balance sheet within the performance/risk parameters laid down by the BOD. The ALCO also articulates the Bank's view on various market variables and base its decisions for future business strategy. The Treasury Middle Office (TMO) independent from Treasury Department, track the magnitude of market risk on a daily basis. IRMD is responsible for the implementation of market risk management policies and measurement techniques. Treasury Middle Office (TMO) is responsible for market risk management and control function which is responsible for measuring market risk exposures in accordance with the policies defined by the Board, and monitoring and reporting these exposures against the prescribed limits on a daily basis. Key currency trading positions as at 31.12.2014/2013 are as follows

Risk Management

Foreign Exchange Position as at 31 December 2014

| Currency | On Balance Sheet Positions | | | Forward (a) | | | Overall Exposure in Respective Foreign Currency | Overall Exposure in Sri Lankan Rupees(b) |
|--|----------------------------|-------------------------|-----------------|--------------------|-------------------------|-----------------|---|--|
| | Assets LKR '000 | Liabilities LKR '000 | Net LKR '000 | Assets LKR '000 | Liabilities LKR '000 | Net LKR '000 | | |
| US Dollars | 8,851,941 | 16,284,365 | (7,432,424) | 25,202,560 | 17,924,298 | 7,278,262 | (1,167) | (154,162) |
| Pound Sterling | 18,415 | 1,862,798 | (1,844,383) | 2,082,994 | 240,702 | 1,842,292 | (10) | (2,091) |
| Euro | 37,102 | 614,313 | (577,211) | 1,025,295 | 445,648 | 579,648 | 15 | 2,436 |
| Japanese Yen | 84,641 | 164,874 | (80,233) | 934,235 | 853,897 | 80,338 | 95 | 105 |
| Singapore Dollar | 3,086 | 13,054 | (9,968) | 124,355 | 113,360 | 10,996 | 10 | 1,028 |
| Other Currencies | 63,233 | 1,195,655 | (1,132,422) | 1,272,863 | 133,482 | 1,139,382 | - | 6,959 |
| Total Exposure | | | | | | | | 166,782 (c) |
| Total Equity | | | | | | | | 12,880,042 |
| Total Exposure as a % of Total Equity (Should not exceed 30%) | | | | | | | | 1.29% |

(a) Unsettled and Spot transactions are also included

(b) Exposures indicated against each currency are added ignoring the signs to arrive at total exposure under (c)

Foreign Exchange Position as at 31 December 2013

| Currency | On Balance Sheet Positions | | | Forward (a) | | | Overall Exposure in Respective Foreign Currency | Overall Exposure in Sri Lankan Rupees(b) |
|--|----------------------------|-------------------------|-----------------|--------------------|-------------------------|-----------------|---|--|
| | Assets LKR '000 | Liabilities LKR '000 | Net LKR '000 | Assets LKR '000 | Liabilities LKR '000 | Net LKR '000 | | |
| US Dollars | 4,042,493 | 14,088,780 | (10,046,287) | 25,095,565 | 15,217,379 | 9,878,186 | (1,285) | (168,101) |
| Pound Sterling | 30,621 | 1,500,331 | (1,469,710) | 1,689,173 | 222,646 | 1,466,527 | (15) | (3,182) |
| Euro | 79,727 | 608,289 | (528,562) | 671,544 | 136,862 | 534,682 | 34 | 6,120 |
| Japanese Yen | 98,917 | 80,493 | 18,423 | 494,530 | 513,481 | (18,951) | (422) | (527) |
| Singapore Dollar | 8,785 | 11,988 | (3,203) | 207,493 | 202,842 | 4,651 | 14 | 1,448 |
| Other Currencies | 50,424 | 1,309,516 | (1,259,093) | 1,372,812 | 115,903 | 1,256,908 | - | (2,184) |
| Total Exposure | | | | | | | | 181,562 (c) |
| Total Equity | | | | | | | | 10,790,677 |
| Total Exposure as a % of Total Equity (Should not exceed 30%) | | | | | | | | 1.68% |

(a) Unsettled and Spot transactions are also included

(b) Exposures indicated against each currency are added ignoring the signs to arrive at total exposure under (c)

Further details on management of Interest Rate Risk exposure and Foreign Exchange Risk exposures are explained in the Note 43 to the Financial Statements. The currency risk exposure is also monitored with the preparation of Maturity Gap Analysis of Assets and Liabilities and Interest Rate Sensitivity of Assets and Liabilities for currencies having major exposures as explained under Liquidity Risk Management and Interest Rate Risk Management.

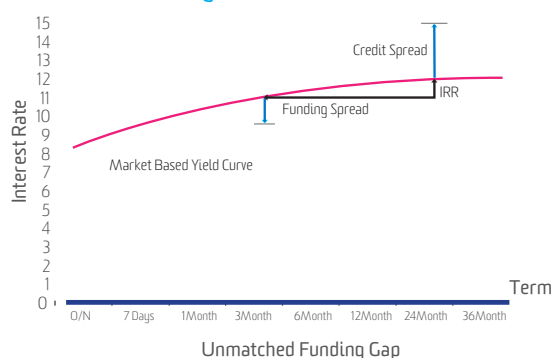
Interest Rate Risk expense as at 31 December

| Interest Rate Shock (bps) | Impact on Equity | | | |
|---------------------------|------------------|-------------------------|------------------|-------------------------|
| | 2014 LKR '000 | Percentage of Equity | 2013 LKR '000 | Percentage of Equity |
| 200 | (755,978) | (5.44%) | (440,448) | (3.75%) |
| 100 | (388,676) | (2.80%) | (224,102) | (1.91%) |
| 50 | (197,132) | (1.42%) | (113,049) | (0.96%) |
| 25 | (99,281) | (0.71%) | (56,778) | (0.48%) |
| -25 | 100,745 | 0.73% | 57,293 | 0.49% |
| -50 | 202,988 | 1.46% | 115,109 | 0.98% |
| -100 | 412,121 | 2.97% | 232,344 | 1.98% |
| -200 | 850,083 | 6.12% | 473,475 | 4.03% |

Fund Transfer Pricing

The Bank manages each business on a Fund Transfer Pricing (FTP) model which accounts for the interest rate risk of each business and products and manage it centrally at Treasury under the oversight of ALCO. It is a dynamic tool which is used to guide the deposit mobilising and the lending units to derive customer/product profitability based on maturities and tenors of portfolios.

Fund Transfer Pricing



The objectives of the transfer pricing mechanism are:

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

Liquidity Risk Management

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due. Liquidity risk management policy at the Bank addresses the risk management structure, liquidity management and funding strategy, limits set for liquidity risk exposures and procedures set for liquidity management under alternative scenarios, including stress situations.

Key objective of the policy is to ensure that:

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

Structure

The ALCO is responsible for implementation of liquidity management policies, procedures and practices approved by the BOD. ALCO meets every month or more frequent if required and review the liquidity position of the Bank through the ALCO reports submitted by Finance Department and Treasury Middle

Risk Management

Office (TMO). ALCO also review the cash flow projections, pricing of products, changes to Asset / Liability profile if warrant by stress testing results, and the funding capabilities.

Implementation and execution of ALCO decisions and managing the overall liquidity position of the Group according to approved parameters on a day to day basis is the

responsibility of the Treasury Department. Treasury monitors the market developments and keeps the ALCO informed with recommendations on a timely basis.

Liquidity Risk Measurement

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

| | | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Limit |
|---|--|--------|--------|--------|--------|--------|
| 1 | Net loans to total assets | 59.3% | 58.6% | 59.6% | 60.9% | <=70% |
| 2 | Loans to customer deposits | | | | | |
| | (i) Loans : Deposit Ratio(%) | 88.4% | 89.4% | 88.5% | 90.6% | <=90% |
| | (ii) Loans : Deposit Ratio - with Specified Borrowings (%) | 80.4% | 81.7% | 80.9% | 83.3% | |
| 3 | Liquid assets to short-term liabilities | | | | | |
| | - 30 days | 255.3% | 222.6% | 245.0% | 192.9% | >=100% |
| | - 60 days | 140.5% | 138.4% | 132.9% | 116.0% | >=80% |
| 4 | Large liabilities (minus) temporary investments to earning assets (minus) temporary investments, where large liabilities represent wholesale deposits which are market sensitive and temporary investments which are those maturing within one year and those investments which are held in the trading book and are readily sold in the market. | -3.6% | -4.4% | -0.1% | 0.2% | <=5% |
| 5 | Purchased funds to total assets, where purchased funds include the entire inter-bank and other money market borrowings, including certificates of deposits and institutional deposits. | 23.8% | 23.5% | 22.0% | 20.0% | <=40% |
| 6 | Commitments to total loans, where the commitment in the nature of Letter of Credits (LCs), guarantees and acceptances | 10.9% | 10.5% | 13.1% | 12.7% | <=20% |

Flow approach

Liquidity risk is further analysed based on construction of a maturity analysis that comprises expected cash inflows and outflows over a series of specified time bands based on the behavioural maturity profile of assets and liabilities. Some of the assets and liability items like overdrafts, savings and current accounts lack any definite contractual maturity. Similarly, a part of time deposit are rolled over on maturity while some loans are topped.

Stock Approach

The Treasury maintains a stock of liquid assets on a daily basis, largely made up of cash, government securities and balances with financial institutions to ensure that sufficient liquidity is maintained within the Bank as a whole, at frequent intervals. The Bank benchmarks the guideline issued by CBSL under its Directive No.5 labeled Integrated Risk Management Framework, for this purpose. The Bank closely monitors the mismatches in the first 12 month time bands while internal limits have been placed for earlier buckets. Forecasting possible future events is an essential part of liquidity planning based on inputs from the business units.

| Bank Consolidated(LKR Mn) | 15 days | 16 days-1 month | 2 months | 3 months | 4-12 months | 1-5 years | Over 5 years | Total |
|---|---------|-----------------|----------|----------|-------------|-----------|--------------|---------|
| Liabilities | | | | | | | | |
| Capital & Reserve | | | | | | | 13,088 | 13,088 |
| Long term Borrowings | | | | | | 7,708 | | 7,708 |
| Short term Borrowings | 1,176 | 2,560 | 156 | 314 | 207 | 1 | | 4,413 |
| Repos | 8,806 | 2,103 | 2,016 | 579 | 829 | 1,002 | | 15,336 |
| Deposits | 6,779 | 8,323 | 8,897 | 7,966 | 33,549 | 16,620 | 27,066 | 109,200 |
| Other Payables & Provisions | 2,400 | | | | | | | 2,400 |
| Interest Payable & Others | 5,387 | | | 1,830 | | | 1,014 | 8,231 |
| Off Balance Sheet Items | 12,992 | 4,554 | 6,641 | 5,679 | 10,810 | 2 | | 40,678 |
| Assets | | | | | | | | |
| Cash & Cash equivalents | 6,912 | 297 | 330 | 281 | 1,196 | 650 | 985 | 10,650 |
| Investments | | 10 | 17 | 54 | 1,043 | 2,976 | 5 | 4,105 |
| Reverse Repo | 2,001 | 5,000 | 3,436 | 500 | | | | 10,937 |
| Tbill & bonds | 15,522 | | | | 4,366 | 8,803 | 698 | 29,389 |
| Advances | 7,357 | 5,226 | 5,049 | 7,946 | 16,474 | 31,105 | 21,412 | 94,569 |
| Interest Receivables & Others | 2,910 | 163 | | 60 | 878 | | 6,714 | 10,726 |
| Off Balance Sheet Items | 10,719 | 2,378 | 3,271 | 2,313 | 10,446 | | | 29,128 |
| Total Liabilities | 37,540 | 17,540 | 17,710 | 16,368 | 45,396 | 25,333 | 41,167 | 201,054 |
| Total Assets | 45,421 | 13,074 | 12,102 | 11,155 | 34,403 | 43,534 | 29,815 | 189,503 |
| GAP | 7,881 | -4,465 | -5,608 | -5,213 | -10,994 | 18,201 | -11,352 | |
| Cumulative GAP | 7,881 | 3,416 | -2,192 | -7,405 | -18,399 | -198 | -11,551 | |
| Cumulative Liabilities | 37,540 | 55,080 | 72,789 | 89,157 | 134,554 | 159,887 | 201,054 | |
| Cumulative GAP as a % of Cumulative Liabilities | 21% | 6% | -3% | -8% | -14% | 0% | -6% | |

* Based on Behavioural maturities as per CBSL IRM Guidelines

Diversified funding base

The diversified liabilities and funding sources of the Bank indicate that it has a sound liquidity profile. The level of diversification is judged according to instrument types and the type of fund provider. Different types of deposit products are available with a large number of individual accounts. The Bank also pursues a rewards and retention programmes for identified deposit products and customer segments. As a strategy, the Bank normally expects to derive liquidity from both sides of the financial position and maintain an active presence in interbank and other wholesale markets when necessary. The Bank also monitors deposits by remaining period to contractual maturity, currency and concentration towards the large deposits in ALCO meetings.

Stress tests for alternative scenarios

The Bank's liquidity risk management also involves stress tests for two pre-defined scenarios. The first scenario relates to an assumed liquidity stress situation specific to the Bank where a

significant part of its liabilities cannot be rolled over or replaced while considerable portion of its commitments are drawn down. The second scenario assumes a general market crisis, wherein a liquidity crunch is affecting the entire banking system, or at least a significant part of it.

Contingency Plan

Temporary or longer term disruption in the access to funding could lead to a contingency situation and potentially would result in a liquidity stress. The cause for this could either be an event specific to the Bank or a market driven event. A contingency plan is put in place in order to fund cash outflows in such a scenario on a timely manner and at a lowest cost. The Contingency Plan articulates a normal scenario and two contingency levels with defined Liquidity Risk triggers for internal events and external events. Results of above liquidity stress tests are an integral part of these triggers. The Finance Department and Treasury Middle Office watch these parameters and report to ALCO. The action plan for each contingency level is entrusted to a Crisis

Risk Management

Management Team which includes the key members of the Corporate and Senior Management headed by the CEO.

Operational Risk Management

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

The Bank has recognized Operational Risk as a distinct and a controllable risk and taken steps to manage it in a structured manner. A separate Operational Risk Management Unit was established and techniques and methodologies associated in managing Operational Risk were brought in via a project assisted by IFC thus improving knowledge levels. Resulting from that a comprehensive Operational Risk Management Policy has been formulated and a robust Operational Risk Management framework has since been established.

Structure

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

Management of operational risks

Over the period Operational Risk Management tools have evolved within the Bank and now the usage of techniques such as Risk and Control Self Assessment (RCSA) and Key Risk Indicators (KRI) have become part and parcel of normal course of business. The Bank has a robust process to capture operational loss events which are centrally fed in to an operational loss data base to be used for modelling when the Bank moves towards the

Advanced Approach under BASEL Guidelines. In addition to above Operational Risk Management Unit oversee the appropriateness and implementation of Business Continuity Plan (BCP) across the Bank. It closely co-ordinate with all relevant units with special emphasis on Mission Critical Business/Support Units (MCUs) in order to carry out a Business Impact Analysis (BIA) with Recovery Time Objectives (RTO) and assessing their disaster recovery plans.

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

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

Operational Risk management tools implemented so far has helped the bank to manage its operational losses in relation to it's operational Income/ Expenses well within internationally accepted norms.

| Policy Name | Coverage |
|---|---|
| Bankers' Indemnity | * Cash and pawning articles * Actions related to employees |
| Combine Electronic and Property All Risk Policy | Losses incurred on computer and electronic equipment, buildings, furniture and fixtures from fire, lighting, explosion, aircraft damage, impact damage, natural disasters, riot & strikes, terrorism and accidental damages. |
| Business Interruption | Additional expenditure that may have to be incurred due to an interruption or interference of business operation. |
| Public Liability | Third party and related properties |
| Electronics and Computer Crime Policy | Crimes affected on or through computer systems, electronic computer programs, electronic data and media, computer virus, electronic and telefacsimile communications, electronic transmissions, electronic securities, customer voice initiated transfer. |
| Group Personal Accident Insurance | Accidental death, permanent total and partial disablement, Temporary total and partial disablement, Riot & Strike, Terrorism. |
| Group Surgical & Hospitalization Cover | Hospitalization for all the employees of the Bank their close family members (i.e. spouses and children under the age 18). |
| Goods in Transit | Movable properties |
| Directors & Officers Liability | Provides coverage for losses or defense costs in the event of suffering a loss as a result of a legal action brought for alleged wrongful acts in the capacity as Directors & Officers. |

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

| Agreement No | Department | Outsourced Company | Nature of Service |
|--------------|--------------------|--|---|
| 1 | Central Operations | AB Securitas (Pvt) Ltd | ATM management (PBC ATM's & outstation offsite ATM's) |
| 2 | Central Operations | AB Securitas (Pvt) Ltd | Banking at your door step |
| 3 | Central Operations | AB Securitas (Pvt) Ltd | Cash management |
| 4 | Collections | Central Management Services (Pvt) Ltd | Investigations & debt collection |
| 5 | Collections | Central Recoveries | Investigations & debt collection |
| 6 | Central Operations | Direct Mailing Services (Pvt) Ltd | Card PIN & letter/advices mailing |
| 7 | AMEX | Direct Marketing International (Pvt) Ltd | Promoting Amex cards (Acquisition) |
| 8 | Collections | Ganegoda Mudiyanseelage Sumith Somaweera | Investigations & debt collection |
| 9 | AMEX | J M Management & Marketing Services | Promoting Amex cards (Acquisition) |
| 10 | AMEX | K & D holdings (Pvt) Ltd | Promoting Amex cards (Acquisition) |
| 11 | Collections | K & D Management Services (Pvt) Ltd | Investigations & debt collection |
| 12 | Central Operations | Lake House Printers | Embossing & data encoding of ATM cards |
| 13 | Central Operations | Lake House Printers | Cheque return notification printing |
| 14 | Central Operations | Lake House Printers | Personalization of cheque books |
| 15 | Collections | M.V.A.D.S.S. Karunasekara | Investigations & debt collection |

Risk Management

| Agreement No | Department | Outsourced Company | Nature of Service |
|--------------|---------------------------|--|--|
| 16 | Credit Operations | Management & Link Placement Services (Pvt) Ltd | "Application screening, CRIB calling, data capture, verifications |
| 17 | Credit Operations | Management & Link Placement Services (Pvt) Ltd | Data entry |
| 18 | Credit Operations | Management & Link Placement Services (Pvt) Ltd | Data entry |
| 19 | Credit Operations | Management & Link Placement Services (Pvt) Ltd | Disbursing loans |
| 20 | Merchant Acquiring | Management & Link Placement Services (Pvt) Ltd | Merchant POS sharing / training operation related back office functions/merchant training sheet handling/ POS terminal inventory related maintenance & update functions/documentary support/'Help Desk' support & merchant services/ merchant statements & letters related functions |
| 21 | Card Business Operations | Management & Link Placement Services (Pvt) Ltd | Fraud guard monitoring |
| 22 | Trade Services | Management & Link Placement Services (Pvt) Ltd | Data input & filing |
| 23 | Treasury Operations | Management & Link Placement Services (Pvt) Ltd | Data input & filing |
| 24 | Nations Insurance Brokers | Management & Link Placement Services (Pvt) Ltd | Data input & filing |
| 25 | Consumer Finance | Management & Link Placement Services (Pvt) Ltd | Tele-sales and application collection for cross sell promotions |
| 26 | Card Underwriting | Management & Link Placement Services (Pvt) Ltd | Documentation |
| 27 | Leasing Department | Management & Link Placement Services (Pvt) Ltd | Documentation / data entry at leasing sales department in Nawam Mawatha and leasing branches |
| 28 | NL Operations | Management & Link Placement Services (Pvt) Ltd | Data input & filing |
| 29 | Card Strategic Marketing | Management & Link Placement Services (Pvt) Ltd | Strategic Marketing Assistant |
| 30 | Credit Operations | Micronet Global Services (Pvt) Ltd | "Application screening, CRIB calling, data capture, verifications |
| " | SRG | Micronet Global Services Pvt Ltd | Marketing Assistant - Field Visit |

| Agreement No | Department | Outsourced Company | Nature of Service |
|--------------|------------------------------|--|---|
| 31 | Merchant Acquiring | Micronet Global Services (Pvt) Ltd | Help Desk' support & merchant services/ coordination of stationary related requests |
| 32 | Strategic Relationship Group | Micronet Global Services (Pvt) Ltd | Marketing Assistant - Field visit |
| 33 | NL Operations | Micronet Global Services (Pvt) Ltd | Data input & filing |
| 34 | IT | Millennium Information Technologies | Network managed services |
| 35 | Central Operations | Obathur | Debit card embossing |
| 36 | Factoring | Pronto (Pvt) Ltd | Collection of receivables |
| 37 | Clearing Department | Ranvil BPO (Pvt) Ltd | Entire clearing data input & certain scrutinization |
| 38 | Operations Support | Ranvil BPO (Pvt) Ltd | Data entry & Central Bank reporting/ voucher bundle control & archiving |
| 39 | Cards Operations | Ranvil BPO (Pvt) Ltd | Data capturing |
| 40 | Account Support | Ranvil BPO (Pvt) Ltd | A/Cs opening related data entry, scanning, Debit/Credit & Loyalty Cards processing activities |
| 41 | Payment Support | Ranvil BPO (Pvt) Ltd | KIP,MT,NKIP KIDS insurance processing/ Master Card remittances and FES data entry |
| 42 | Collections | S.T.B. Recoveries | Investigations & debt collection |
| 43 | Central Operations | Sanje Lanka (Pvt) Ltd | Scanning of card applications & related Docs |
| 44 | Collections | Sensus BPO (Pte) Ltd | Investigations & debt collection |
| 45 | HR | SSP Corporate Services (Pvt) Ltd | Staff payroll/ EPF |
| 46 | AMEX | Task Management Services (Pvt) Ltd | Promoting Amex cards (Acquisition) |
| 47 | Central Operations | Toppan Forms (Colombo) Ltd | Bank and Amex statement printing & security documents printing |
| 48 | Collections | Total Credit Management services lanka (Pvt) Ltd | Investigations & debt collection |
| 49 | Central Operations | Transnational Logistics Solutions (Pvt) Ltd | ATM Management (offsite ATM's within Colombo limits) |
| 50 | Central Operations | Transnational Logistics Solutions (Pvt) Ltd | Corporate client cash transportation services |

Risk Management

Capital Management

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

- To maintain the capital resources commensurate with the business strategy, capital commitments and overall risk appetite
- To maintain an adequate capital buffer for unexpected and stressed economic conditions
- To allocate capital to businesses and products in order to optimize risk adjusted returns and economic value additions
- To comply with regulatory requirements and international best practice relating to capital maintenance in regulatory capital perspective, the Bank applies the Basel 2 framework, as adopted by CBSL in order to calculate the Risk Weighted Assets (RWA) and the capital requirement. For the measurement of RWA, the Bank currently adopts the standardized approach for credit risk and market risk while the Basic Indicator Approach is applied for Operational Risk. The minimum Tier 1 capital is set at 5% of RWA while minimum Total Capital (Tier 1 plus Tier 2) is set at 10% RWA.

| Group (LKR Mn) | 2014 | 2013 |
|---|--------|--------|
| Tier I Capital | 13,781 | 11,729 |
| Tier II Capital | 4,011 | 4,141 |
| Total Capital | 17,792 | 15,870 |
| Risk - Weighted Amount for Credit Risk | 80,468 | 66,397 |
| Risk - Weighted Amount for Market Risk | 2,571 | 2,179 |
| Risk - Weighted Amount for Operational Risk | 14,292 | 10,757 |
| Total Risk - Weighted Amount | 97,331 | 79,332 |
| Risk - Adjusted Capital Ratio against Tier I Capital* (Tier I Capital/Total Risk Weighted Amount) | 14.16% | 14.78% |
| Risk - Adjusted Capital Ratio against Total Capital** (Total Capital/Total Risk Weighted Amount) | 18.28% | 20.00% |
| *Statutory minimum 5% | | |
| **Statutory minimum 10% | | |

The constituents of Group capital and the Capital ratios based on above approaches as at 31.12.2014 are given below.

| | Sources | | | Utilisation | | | | |
|---|-------------------|--------------|--------------------------------|--------------------|---------------------|--------------------------------------|---------------------------------------|--------------|
| | LKR'000 | % | | Balance LKR'000 | Risk Weight % | Risk Weighted Value LKR'000 | Capital Charge (10%) LKR'000 | % |
| Tier - I | | | RWA for Credit Risk | | | | | |
| Stated Capital | 4,297,675 | 4.42 | Due from CBSL | 3,992,118 | - | - | - | - |
| Profit & Loss A/C | 2,536,573 | 2.61 | Govt. Securities | 16,871,876 | - | - | - | - |
| Equity Reserves | 6,946,714 | 7.14 | Cash in Hand | 3,500,754 | - | - | - | - |
| | | | Cash in collection | 1,165,068 | 20 | 233,014 | 23,301 | 0.02 |
| Total Tier I | 13,780,962 | 14.16 | Advances (Direct and indirect) | 3,842,662 | 20 | 768,532 | 76,853 | 0.08 |
| | | | | 6,552,378 | 50 | 3,276,189 | 327,619 | 0.34 |
| | | | | 43,955,424 | 75 | 32,966,568 | 3,296,657 | 3.39 |
| Tier - II | | | | 34,638,552 | 100 | 34,638,552 | 3,463,855 | 3.56 |
| Revaluation Reserves | | | | 2,400,075 | 150 | 3,600,113 | 360,011 | 0.37 |
| Subordinated Term Debt | 4,011,201 | 4.12 | Placements with Banks | 3,809,732 | 20 | 761,946 | 76,195 | 0.08 |
| Total Tier II | 4,011,201 | 4.12 | | 9,278 | 50 | 4,639 | 464 | 0.00 |
| | | | Fixed Assets | 3,526,131 | 100 | 3,526,131 | 352,613 | 0.36 |
| | | | Other Assets | 692,179 | 100 | 692,179 | 69,218 | 0.07 |
| Sub Total (Tier I & Tier II) | 17,792,162 | 18.28 | | 124,956,228 | | 80,467,864 | 8,046,786 | 8.27 |
| | | | Interest Rate | 241,455 | | | | |
| | | | Foreign Exchange | 15,675 | | | | |
| | | | RWA for Market Risk | 257,130 | | 2,571,301 | 257,130 | 0.26 |
| Less : Deduction for investments | - | | RWA for Operational Risk | 1,429,163 | | 14,291,634 | 1,429,163 | 1.47 |
| | | | Required Regulatory Capital | | | 97,330,799 | 9,733,080 | 10.00 |
| | | | Additional Capital Buffer | | | | 8,059,082 | 8.28 |
| Total Regulatory Capital | 17,792,162 | 18.28 | | | | | 17,792,162 | 18.28 |

The Bank is currently in the process of calibrating advanced models and techniques as explained under risk management sections for credit, market and operations risks in order to assess the capital requirement under advanced approaches of Basel II. In arriving at the optimal capital structure both Tier 1 and Tier

2 capital levels have been evaluated considering internal profit generation and retention whilst maximizing leeway available to raise Tier 2 capital. The bank keeps both options open to improve the capital adequacy by altering either the total capital base or the total risk weighted assets.

Board of Directors

Standing left to right

D. Prasanna De Silva (Director), M.E. Wickremesinghe (Director), Murtaza Jafferjee (Director), J.G.A. Cooray Director
C.L.K.P. Jayasuriya (Director), Dr. Kemal de Soysa (Director), Suran Wijesinghe (Director), Harsha Raghavan (Director)

Seated left to right

K.N.J. Balendra (Chairman), A.R. Rasiah (Director), R.N.K. Fernando (Director/CEO), Dr. Dushni Weerakoon (Director),
N. Shalini Panditaratne (Director)





Board of Directors

K.N.J. Balendra

Chairman/Non Executive Director

Mr. Balendra was appointed as the Chairman of Nations Trust Bank PLC on 1st May, 2014. He has been a member of the Board of the Bank since December, 2009. Mr. Balendra serves as the Chairman of the Human Resources and Remuneration Committee and the Credit Committee of the Bank. He is also a member of the Nomination Committee and has served as a member of the Board Supervisory Committee of the Bank. Mr. Balendra is a President and member of the Group Executive Committee of John Keells Holdings PLC and has responsibility for the Retail sector and John Keells Stock Brokers. He is a former Chairman of the Colombo Stock Exchange. He started his professional career at UBS Warburg, Hong Kong, in investment banking, focusing primarily on equity capital markets. After a four year stint in Hong Kong, he continued his career in corporate finance at Aitken Spence & Co. PLC, Sri Lanka prior to joining JKH. Mr. Balendra holds a law degree (LLB) from the University of London and an MBA from INSEAD.

R.N.K. Fernando

Executive Director/CEO

Mrs. Fernando was appointed as the Director/ CEO of Nations Trust Bank PLC on 15 September, 2012. She joined the Bank in September, 2001 as AGM- Corporate Financial Solutions and thereafter held the positions of DGM-Retail Banking and DGM-Consumer Banking. In June, 2011 she was appointed as the Deputy CEO of the Bank. Prior to joining the Bank she was with ABN AMRO Bank N.V, Sri Lanka, where she held the positions of Vice President/ Head -Global Transactional Services and Head of Consumer Banking. During her banking carrier spanning 32 years, Mrs. Fernando has also worked at Banque Indosuez, Sri Lanka as Manager- Corporate Banking and Nederlandsche Middenstands Bank -Hong Kong. Mrs. Fernando is an Associate of Chartered Institute of Bankers, UK and possesses a H. Dip. in Business Administration (Banking).

M.E. Wickremesinghe

Independent Non Executive Director

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

A.R. Rasiah

Independent Non Executive Director / Senior Director

Mr. Rasiah is a Fellow member of The Institute of Chartered Accountants of Sri Lanka and holds a Bachelor of Science Degree from the University of Sri Lanka. Mr. Rasiah possesses well over 32 years of experience in Finance at a very senior level both internationally and locally and currently serves on the Board of Ceylon Cold Stores PLC and Walkers Sons & Co.

Limited, MTD Walkers PLC and EB Creasy Group of Companies. He is also the Chairman of Ceylon Pencil Company. Mr. Rasiah has been a visiting lecturer on Finance and Accounts for Nestlé SA for Africa-Asia and Oceanic Regions and a former visiting lecturer at The Institute of Chartered Accountants of Sri Lanka and for MBA students on Finance at Postgraduate Institute of Management (PIM). A keen social worker, he is a former President of the Benevolent Society of The Institute of Chartered Accountants of Sri Lanka and a Committee member of Sri Lanka Institute of Directors. Mr. Rasiah is also a sportsman of repute having represented Sri Lanka at Table Tennis. Mr. Rasiah was appointed to the Board of Nations Trust Bank PLC on 1 March, 2007 and was designated as the Senior Director in May 2014. Additionally he serves as the Chairman of the Board Audit Review Committee and Integrated Risk Management Committee of the Bank and as a committee member of the Human Resources and Remunerations Committee.

Dr. Dushni Weerakoon

Independent Non Executive Director

Dr. (Ms.) Weerakoon holds a Ph.D. and a MA in Economics from the University of Manchester, United Kingdom and a B.Sc. in Economics from Queens University of Belfast, U. K. Currently, Dr. (Ms.) Weerakoon is carrying-out research and teaching in international economics and macroeconomic policy management. She was appointed to the Board of Nations Trust Bank PLC on 1 March, 2007. She is a member of the Board Audit Review Committee and the Human Resources and Remuneration Committee of the Bank.

Murtaza Jafferjee

Independent Non Executive Director

Mr. Jafferjee holds a Masters in Financial Economics from the University of Colombo, Sri Lanka, Chartered Financial Analyst from CFA Institute, Charlottesville, Virginia, USA, Bachelors in Computer Science and Bachelors in Engineering-Mechanical

(Hons) from University of New South Wales, Australia. He was appointed to the Board of Nations Trust Bank PLC in December, 2010. He is currently a Director and the Chief Executive Officer of JB Securities (Pvt) Limited, the advocacy chair for CFA Society of Sri Lanka and also an Independent Non Executive Director of Serendib Hotel PLC. He was a Director of Colombo Stock Exchange from April, 2007 to August, 2009. He possesses experience and skills in the fields of management, corporate finance, financial statement analysis and industry analysis. He is a member of the Nomination Committee and the Board Supervisory Committee of the Bank.

Dr. Kemal de Soysa

Independent Non Executive Director

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

Board of Directors

N. Shalini Panditaratne

Independent Non Executive Director

Mrs. Shalini Panditaratne is a Fellow of the Chartered Institute of Management Accountants, UK and an Associate Member of the Institute of Chartered Accountants of Sri Lanka. She has international experience in Corporate and Investment Banking at senior management level, primarily in Credit Risk Management and Analysis. She initially worked as an accountant in Sri Lanka and Zambia and commenced her career in corporate banking in Bahrain. After moving to Australia, she worked for seventeen years with JP Morgan Chase Bank Sydney (formerly The Chase Manhattan Bank) in various roles including as Vice President, Head of Country Credit in Singapore and later in Thailand. She also held the position of Head of Asia Credit and Capital Management, S.E Asia. Mrs. Panditaratne has provided credit training for Sydney-based financial institutions in corporate credit risk analysis and credit risk management. She was appointed to the Board of Nations Trust Bank PLC on 1 January, 2012. She serves as a member of the Board Audit Review Committee and Board Credit Committee of the Bank. She has previously served as a member of the Integrated Risk Management Committee of the Bank.

D. Prasanna De Silva

Non Executive Director

Mr. De Silva who is a Director of Central Finance Company PLC, possess 24 years of experience in banking and finance of which 16 years has been in senior management. He was appointed to the Board of Nations Trust Bank PLC on 1 January, 2012. He has had extensive exposure to credit appraisals, recovery, operating systems, tax, regulatory framework and legal aspects at operational and managerial levels during his tenure at Central Finance Company PLC. Mr. De Silva is an Associate Member of Chartered Financial Analyst Institute (CFA) USA and a Fellow of Chartered Institute of Management Accountants (CIMA) UK. He is also a past Chairman of the Leasing Association of Sri Lanka. Mr. De Silva serves as a member of the Board Supervisory Committee, Nomination Committee, Credit Committee and Integrated Risk Management Committee of the Bank. He has also served as a member of the Board Audit Review Committee.

Suran Wijesinghe

Non Executive Director

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

C.L.K.P. Jayasuriya

Non Executive Director

Mr. Jayasuriya was appointed to the Board of the Bank on 1st May 2014. He is a Fellow member of the Chartered Institute of Management Accountants, UK (FCMA), a Chartered Global Management Accountant (CGMA), and a Fellow Member of the Association of Certified Accountants, UK (FCCA). He currently serves as the Non Executive Chairman of Finlays Colombo PLC and as Non Executive Director of Central Finance Company PLC, Lanka Aluminium Industries PLC and Acme Printing & Packaging PLC. He is also the Chairman of the Texlan Group of Companies, an Italian owned, BOI approved hosiery manufacturing company.

He is a Trustee and Past Chairman of the Employers' Federation of Ceylon, a Director of the Employees Trust Fund Board and the Chairman of the Advisory Council of the Ceylon Chamber of Commerce. From 1981 to 2013, he served in diverse roles, including Management Accountant, Financial Controller, Finance Director, Deputy Chairman and Chairman and Managing Director, of Finlays Colombo PLC. Prior to joining the Finlays Group in Sri Lanka, he served in Zambia's Copper Mining Industry as Cost Accountant of Nchanga Consolidated Copper Mines Limited – Chingola Division. Mr. Jayasuriya serves as a member of the Human Resources and Remunerations Committee and Board Audit Review Committee of the Bank

J.G.A. Cooray

Non Executive Director

Mr. Cooray was appointed to the Board of the Bank on 1st May, 2014. Mr. Cooray holds a MBA from the Jesse H. Jones Graduate School of Management at Rice University, in Houston, USA and is an Associate Member of the Chartered Institute of Management Accountants, UK. He is also a Certified Management Accountant of the Institute of Certified Management Accountants, Australia and holds a Postgraduate Diploma in Marketing from the Chartered Institute of Marketing, UK. He is a president and a member of the Group Executive Committee of the John Keells Group where he currently serves as the Head of Corporate Finance and Strategy and also heads the Group Treasury function and John Keells Capital – the investment banking arm of the Group. He has been with the John Keells Group since April 2006. He serves as a member of the sub-committees on Economic, Fiscal and Policy Planning; Investments and Ease of Doing Business; and Young Leaders of the Ceylon Chamber of Commerce. Mr. Cooray serves as a member of the Board Supervisory Committee and Integrated Risk Management Committee of the Bank.

Harsha Raghavan

Non Executive Director (Appointed with effect from 1st January, 2015)

Mr. Raghavan was appointed to the Board of the Bank on 1st January, 2015. He holds MBA and MS in industrial Engineering Degrees, both from Stanford University and B.A. in Computer Science & Economics from U.C. Berkeley. Mr. Raghavan currently serves as the Managing Director and the Chief Executive Officer of Fairbridge Capital of Mumbai, India. Fairbridge Capital is a fully owned investment company of Fairfax Financial Holdings Limited, a Company which has insurance, reinsurance and fund management businesses and is based in Canada. Mr. Raghavan has been with Fairbridge Capital since 2011. Prior to joining Fairbridge Capital, Mr. Raghavan has served in Steer Capital Advisors LLP, Candover Partners and Goldman Sachs Principal Investment Area of Mumbai India. In these prior roles, Mr. Raghavan has executed more than two dozen transactions totalling more than \$1.5 Bn in investment. Mr. Raghavan serves on the Boards of Thomas Cook (India) Limited, Thomas Cook Lanka (Private) Limited, Thomas Cook (Mauritius) Holding Company Limited, Sterling Holiday Resorts Limited, Ikya Human Capital Solutions Limited, Magna Infotech Limited, and Avon Facility Management Services Limited. He also serves on the Audit and Compensation Committees of all these companies. Mr. Raghavan recently joined the Board of Fairfax India Holdings Corporation, a company registered in Canada.

Corporate Management



Left to Right

Renuka Fernando - Director/CEO, Keshini Jayawardena - DGM (Retail & SME Banking),
Priyantha Talwatte - DGM (Cards & Strategic Marketing), Ramanika Unamboowe - DGM (Commercial Banking)
Indrajith Boyagoda - DGM (Treasury), Rohitha Ganegoda - Chief Operating Officer
Theja Silva - Company Secretary, DGM (Legal & Compliance), Ajith Akmeemana - Chief Financial Officer
Anura Yapa - Chief Risk Officer, Priyantha Wijesekera - DGM (Leasing), Arthur Fernandez - DGM (Internal Audit)
Mevan Balalle - Head of Human Resources



Senior Management



Top Left to Right

Bandara Jayathilake - Head of SME Banking, Sanjaya Perera - Head of Branches,
Damith Pallewatte - Deputy Head of Integrated Risk Management,

Below Left to Right

Anushan Fernando - Chief Manager (Operational Risk), Sheahan Daniel - Chief Manager (Leasing Sales),
Gavin Perera - Chief Manager (Consumer Credit Risk), Jerome Ratnarajah - Chief Manager (Market Risk Management)



Top Left to Right

Chamath Munasinghe - Chief Manager (Credit Operations), Nisala Kodippili Arachchige - Chief Manager (Technology & Infrastructure)
Dinesh Thomas - Chief Manager (Business Solutions), Kushlani Allis - Chief Manager (Management Reporting & Planning)

Below Left to Right

Tharusha Ekanayake - Chief Manager (Fixed Income Securities & Debt Sales),
Nisaja Aryasinghe - Chief Manager (Consumer Collections & Recoveries),
Lasith Ranatunga - Chief Manager (Corporate & Margin Trading Risk), Nilanthie De Meral - Chief Manager (Corporate Banking)
Renuka Senadheera - Chief Manager (Central Operations)

Senior Management



Top Left to Right

Deepa Wickramasinghe - Senior Manager (Credit Risk - Leasing and Factoring),

Priyashantha Fernando - Senior Manager (Leasing-North Western & Central Region)

Laksara Marapana - Senior Manager (Legal), Wasantha Senanayake - Senior Manager (Infrastructure and Administration)

Chandima Samarasinghe - Senior Manager (Market Risk Management), Chamila Sumathiratne - Senior Manager (Finance)

Below Left to Right

Samantha Herath - Senior Manager (Branches), Nilmini Gunaratne - Senior Manager (Strategic Marketing)

Dimuth Sigera - Senior Manager (SME Banking & Alternate Channels), Amanthi Motha - Senior Manager (Human Resources)

Prabath Perera - Senior Manager (Branches), Damitha Silva - Senior Manager (Remittances)



Top Left to Right

Priyantha Samaradiwakara - Senior Manager (Leasing - Retail & Western Region),
Thushara Asuramanna - Senior Manager (Credit Risk Managemnt - SME & Retail Credit)
Ursula Wijeyasuriya - Senior Manager (Nations Insurance Brokers), Hirantha Tennakoon - Senior Manager (Factoring)
Chaminda Dheerasinghe - Senior Manager (Litigation), Niluka Gunatilaka - Senior Manager (Cards Business Operations)

Below Left to Right

Rasanja De Silva - Senior Manager (Branches), Rishini Manatunga - Senior Manager (Taxation and Payments)
Randil Boteju - Senior Manager (Card Sales), Thilak Wijesinghe - Senior Manager (Internal Audit - IT & Operations)
Navamali De Silva - Senior Manager (Trade Services)
Saaraa Warnakulasooriya - Senior Manager (Internal Audit - Credit & Support Services)

Senior Management



Left to Right

Naveen Anthonypillai - Senior Manager (Branches - Zone 03), Sampath Perera - Senior Manager (Internal Audit - Treasury & Corp. Support)

Lakmal Randeni - Senior Manager (FX & Money Markets), Menaka Wavita - Senior Manager (Branches)

Ruwan Rodrigo - Senior Manager (Branches), Roger Rozairo - Senior Manager (Consumer Credit Risk)



Left to Right

Chrisanthan Sarvananthan - Senior Manager (NL Operations), Dilani Sooriyaarachchi - Senior Manager (Compliance)
Arosha Liyanaarachchi - Senior Manager (Corporate Banking), Kasun Pathirage - Senior Manager (Treasury Sales)
Suresh Goonewardene - Senior Manager (Loan Review Mechanism), Chaminda Senewiratne - Senior Manager (Digital Banking)
Zamani Zainudeen - Senior Manager (Cards Marketing)

Investor Information

Stock Exchange Listing

The ordinary shares of the Bank are all listed in the Colombo Stock Exchange. The audited Statement of Profit or Loss for the year ended 31 December 2014, and the Statement of Financial Position as at that date will be submitted to the Colombo Stock Exchange within two months of the reporting date.

Distribution of Ordinary Shareholders

| As at December 31 2014 | Resident | | | Non - Resident | | | Total | | |
|------------------------|---------------------|---------------|-------|---------------------|---------------|-------|---------------------|---------------|--------|
| | No. of Shareholders | No. of Shares | % | No. of Shareholders | No. of Shares | % | No. of Shareholders | No. of Shares | % |
| 1 - 1,000 | 3,964 | 1,561,669 | 0.68 | 42 | 22,197 | 0.01 | 4,006 | 1,583,866 | 0.69 |
| 1,001 - 10,000 | 2,086 | 6,767,337 | 2.93 | 44 | 170,214 | 0.07 | 2,130 | 6,937,551 | 3.00 |
| 10,001 - 100,000 | 393 | 11,550,317 | 5.01 | 10 | 463,503 | 0.20 | 403 | 12,013,820 | 5.21 |
| 100,001 - 1,000,000 | 62 | 16,119,854 | 6.99 | 6 | 2,436,386 | 1.06 | 68 | 18,556,240 | 8.05 |
| Over 1,000,000 | 21 | 155,604,090 | 67.48 | 2 | 35,911,716 | 15.57 | 23 | 191,515,806 | 83.05 |
| | 6,526 | 191,603,267 | 83.09 | 104 | 39,004,016 | 16.91 | 6,630 | 230,607,283 | 100.00 |

Analysis of Shareholders

| | 31.12.2014 | | | 31.12.2013 | | |
|---------------|---------------------|---------------|--------|---------------------|---------------|--------|
| | No. of Shareholders | No. of Shares | % | No. of Shareholders | No. of Shares | % |
| Individual | 6,269 | 29,537,870 | 12.81 | 7,557 | 34,804,281 | 15.09 |
| Institutional | 361 | 201,069,413 | 87.19 | 434 | 195,803,002 | 84.91 |
| | 6,630 | 230,607,283 | 100.00 | 7,991 | 230,607,283 | 100.00 |

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at 31 December 2014 was 34.80% (79.85 % as at 31st December 2013).

Market Information on Ordinary Shares of the Company

| | 2014 | 2013 |
|---------------------------------|-----------|-----------|
| Market Value | | |
| Highest Value (LKR) | 101.90 | 68.90 |
| Lowest Value (LKR) | 62.00 | 56.00 |
| Value at end of year (LKR) | 97.00 | 62.20 |
| Trading Statistics | | |
| No. of Transactions | 11,184 | 10,960 |
| No. of Shares Traded (Mn) | 63.84 | 59.74 |
| Value of Shares Traded (LKR Mn) | 5,427.12 | 3,657.37 |
| Market Capitalisation | | |
| Market Capitalisation (LKR Mn) | 22,368.91 | 14,343.77 |

| Name of the Shareholder | 2014 | | 2013 | |
|--|--------------------|---------------|--------------------|---------------|
| | No. of Shares | % | No. of Shares | % |
| John Keells Holdings PLC. | 46,121,536 | 20.00 | 46,121,536 | 20.00 |
| HWIC Asia Fund | 34,591,092 | 15.00 | 19,048,765 | 8.26 |
| Mackinnons Keells Limited | 22,830,159 | 9.90 | 22,830,159 | 9.90 |
| Central Finance Company PLC A/C No 03 | 20,715,400 | 8.98 | 20,715,400 | 8.98 |
| CF Growth Fund LTD A/C No 01 | 14,813,273 | 6.42 | 14,813,273 | 6.42 |
| CF Insurance Brokers (PVT) LTD. | 10,592,857 | 4.59 | 10,592,857 | 4.59 |
| Seylan Bank PLC./ Janashakthi Limited | 6,341,450 | 2.75 | - | - |
| Janashakthi Insurance PLC-Equity Fund | 4,000,000 | 1.73 | - | - |
| Janashakthi General Insurance Limited | 3,856,244 | 1.67 | - | - |
| The Ceylon Guardian Investment Trust PLC A/C #02 | 3,492,685 | 1.51 | 2,463,350 | 1.07 |
| The Ceylon Investment PLC A/C #02 | 3,173,595 | 1.38 | 2,542,368 | 1.10 |
| Commercial Bank of Ceylon PLC/Janashakthi Limited | 3,000,000 | 1.30 | - | - |
| Mr. M F Hashim | 2,600,000 | 1.13 | 2,600,000 | 1.13 |
| Janashakthi Insurance PLC (Policy Holders) | 2,111,728 | 0.92 | - | - |
| Trading Partners (PVT) LTD | 1,967,731 | 0.85 | - | - |
| Capital Development and Investment Company PLC A/C No 02 | 1,718,611 | 0.75 | - | - |
| Hatton National Bank PLC A/C No 1 | 1,640,604 | 0.71 | - | - |
| AIA Insurance Lanka PLC A/C No 07 | 1,579,795 | 0.69 | - | - |
| Bank of Ceylon - A/C No 02 | 1,546,100 | 0.67 | 1,546,100 | 0.67 |
| Mr. N R Somaiya | 1,320,624 | 0.57 | 1,320,624 | 0.57 |
| | 188,013,484 | 81.53 | 144,594,432 | 62.70 |
| Others | 42,593,799 | 18.47 | 86,012,851 | 37.30 |
| Total | 230,607,283 | 100.00 | 230,607,283 | 100.00 |

* Comparative shareholdings as at 31 December 2013 of the twenty largest shareholders as at 31 December 2014.

DEBENTURE INFORMATION

The rated unsecured subordinated redeemable debentures 2011/16 and 2013/18 of the Bank are listed in the Colombo Stock Exchange.

| Debenture Categories | CSE Listing | Interest Payable Frequency | Face Value 2014/2013 | Market Values | | | Interest Rates | | Interest Rate of Comparable Government Security | | Other Ratios as at date of last trade | |
|-------------------------|-------------|----------------------------|----------------------|---------------|----------|----------|----------------|------------------------|---|------------|---------------------------------------|-------------------|
| | | | | Highest | Lowest | Year End | Coupon Rate | Effective Annual Yield | 31.12.2014 | 31.12.2013 | Interest Yield | Yield to Maturity |
| | | | LKR. '000 | LKR. | LKR. | LKR. | % | % | % | % | % | % |
| Fixed Rate | NTBD0163 | Semi-Annually | 1,525,000 | 1,012.62 | 1,012.62 | 1,012.62 | 11.50 | 11.83 | 6.42 | 11.19 | 11.36 | 10.60 |
| Fixed Rate | NTBD0164 | Semi-Annually | 200,000 | Not traded | | | 11.00 | 11.30 | 6.42 | 11.19 | Not traded | |
| Fixed Rate | NTBD0165 | Semi-Annually | 275,000 | Not traded | | | 11.50 | 11.83 | 6.42 | 11.19 | Not traded | |
| Fixed Rate | NTBD0266 | Semi-Annually | 3,000,000 | Not traded | | | 13.00 | 13.42 | 7.14 | - | Not traded | |
| Total Debentures | | | 5,000,000 | | | | | | | | | |

Investor Information

Ten Year Summary

Group

| Year Ended December 31st LKR Mn | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|
| OPERATING RESULTS | | | | | | | | | | |
| Gross Income | 3,085 | 5,922 | 9,342 | 13,877 | 14,037 | 12,215 | 11,885 | 17,673 | 20,362 | 20,854 |
| Interest Income | 2,448 | 4,991 | 8,011 | 12,094 | 12,049 | 10,090 | 9,795 | 15,113 | 17,911 | 17,452 |
| Interest Expense | (1,504) | (3,280) | (5,900) | (9,185) | (8,329) | (5,525) | (5,391) | (9,358) | (10,237) | (8,513) |
| Net Interest Income | 944 | 1,711 | 2,111 | 2,909 | 3,720 | 4,565 | 4,404 | 5,755 | 7,675 | 8,940 |
| Fees & Other Income | 637 | 931 | 1,331 | 1,783 | 1,988 | 2,125 | 2,089 | 2,576 | 2,235 | 3,177 |
| Net Income | 1,581 | 2,642 | 3,442 | 4,692 | 5,708 | 6,690 | 6,493 | 8,331 | 9,910 | 12,117 |
| Operating Expenses (inc.Imp.Charge/Reversal & VAT) | (1,383) | (2,104) | (2,594) | (3,664) | (4,327) | (4,662) | (4,158) | (5,565) | (6,759) | (8,290) |
| Profit Before Taxation | 198 | 538 | 848 | 1,028 | 1,381 | 2,028 | 2,335 | 2,766 | 3,151 | 3,827 |
| Provision for Taxation | (73) | (215) | (343) | (435) | (695) | (944) | (729) | (815) | (1,015) | (1,290) |
| Profit After Taxation | 125 | 323 | 505 | 593 | 686 | 1,084 | 1,607 | 1,951 | 2,136 | 2,537 |
| Other Comprehensive Income (OCI) | | | | | | | | | (9) | 104 |
| Profit After OCI | | | | | | | | | 2,127 | 2,641 |
| As at December 31st, | | | | | | | | | | |
| ASSETS | | | | | | | | | | |
| Cash & Short-Term Funds | 1,633 | 4,780 | 3,147 | 4,065 | 1,431 | 1,531 | 3,695 | 2,534 | 3,020 | 6,900 |
| Statutory Deposits with Central Bank | 955 | 1,315 | 1,964 | 1,717 | 2,044 | 2,416 | 4,284 | 5,089 | 4,032 | 3,992 |
| Government Treasury Bills & Bonds | 5,341 | 10,323 | 11,331 | 15,688 | 23,894 | 26,876 | 24,982 | 34,038 | 44,812 | 40,696 |
| Investment Securities | 621 | 1,629 | 2,392 | 3,781 | 4,239 | 4,020 | 3,153 | 2,221 | 2,315 | 3,949 |
| Loans & Advances | 15,604 | 26,993 | 34,500 | 38,585 | 35,335 | 44,571 | 61,188 | 73,424 | 82,327 | 98,347 |
| Other Assets | 785 | 998 | 1,209 | 1,914 | 1,210 | 1,287 | 2,280 | 2,591 | 2,894 | 2,506 |
| Property Plant & Equipment | 414 | 1,133 | 1,065 | 2,035 | 1,919 | 1,788 | 1,891 | 1,908 | 2,048 | 2,194 |
| Intangible Assets | 59 | 451 | 79 | 79 | 432 | 759 | 600 | 642 | 680 | 1,283 |
| Total Assets | 25,412 | 47,622 | 55,687 | 67,864 | 70,504 | 83,248 | 102,073 | 122,447 | 142,128 | 159,868 |
| LIABILITIES | | | | | | | | | | |
| Deposits | 14,314 | 20,670 | 28,666 | 34,146 | 44,222 | 48,315 | 67,633 | 86,274 | 95,730 | 111,010 |
| Due to Banks | 199 | 1,077 | 1,394 | 1,039 | 391 | 500 | 1,277 | 2,712 | 1,401 | 2,923 |
| Deferred Tax Liabilities | 100 | 193 | 201 | 436 | 437 | 456 | 236 | 280 | 341 | 413 |
| Borrowings | 7,948 | 20,608 | 19,261 | 24,628 | 16,629 | 21,979 | 20,203 | 18,695 | 27,508 | 25,402 |
| Other Liabilities | 1,388 | 2,212 | 3,296 | 3,272 | 4,048 | 5,193 | 4,095 | 4,390 | 5,410 | 6,225 |
| Total Liabilities | 23,949 | 44,760 | 52,818 | 63,521 | 65,727 | 76,443 | 93,444 | 112,351 | 130,390 | 145,974 |

| Year Ended December 31st LKR Mn | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|
| SHAREHOLDERS' FUNDS | | | | | | | | | | |
| Share Capital/Stated Capital | 850 | 2,062 | 2,062 | 3,110 | 3,110 | 4,368 | 5,101 | 5,101 | 5,101 | 5,101 |
| Reserve Fund | 16 | 29 | 57 | 80 | 106 | 156 | 224 | 314 | 419 | 538 |
| Reserves | 597 | 771 | 750 | 1,153 | 1,561 | 2,281 | 3,304 | 4,681 | 6,217 | 8,255 |
| Total Shareholders' Funds | 1,463 | 2,862 | 2,869 | 4,343 | 4,777 | 6,805 | 8,629 | 10,096 | 11,738 | 13,895 |
| Total Liabilities & Shareholders' Funds | 25,412 | 47,622 | 55,687 | 67,864 | 70,504 | 83,248 | 102,073 | 122,447 | 142,128 | 159,868 |
| Commitments & Contingencies | 3,832 | 13,276 | 18,138 | 53,617 | 51,591 | 60,547 | 72,792 | 86,239 | 90,267 | 98,799 |
| RATIOS (Group) | | | | | | | | | | |
| Return on Average | | | | | | | | | | |
| Shareholders' Funds (%) | 8.92 | 14.94 | 17.62 | 16.45 | 15.04 | 18.72 | 20.82 | 20.84 | 19.57 | 19.79 |
| Net Income Growth (%) | 40.78 | 67.11 | 30.28 | 36.32 | 21.65 | 17.20 | (2.94) | 28.31 | 18.95 | 22.27 |
| Return On Average Assets (%) | 0.53 | 0.88 | 0.98 | 0.96 | 0.99 | 1.41 | 1.73 | 1.74 | 1.61 | 1.68 |
| Property Plant & Equipment to | | | | | | | | | | |
| Shareholders' Funds (%) | 28.30 | 39.59 | 37.12 | 46.86 | 40.17 | 26.27 | 21.91 | 18.90 | 17.45 | 15.79 |
| Total Assets to Shareholders' | | | | | | | | | | |
| Funds (Times) | 17.37 | 16.64 | 19.41 | 15.63 | 14.76 | 12.23 | 11.83 | 12.13 | 12.11 | 11.51 |
| Cost/Income Ratio (%) | 72.49 | 68.55 | 65.37 | 65.43 | 57.67 | 58.79 | 61.87 | 56.39 | 58.31 | 52.72 |
| Capital Adequacy Ratio Tier I (%) | 8.74 | 7.86 | 7.20 | 10.31 | 11.79 | 13.43 | 13.42 | 13.82 | 14.78 | 14.16 |
| Capital Adequacy Ratio Tier II (%) | 13.92 | 11.86 | 10.44 | 15.70 | 16.11 | 15.74 | 17.44 | 18.18 | 20.00 | 18.28 |
| SHARE INFORMATION (Bank) | | | | | | | | | | |
| Market Value per Share (LKR) | 23.50 | 28.25 | 29.75 | 22.25 | 36.75 | 83.40 | 57.00 | 56.00 | 62.20 | 97.00 |
| Earnings Per Share (LKR) | 0.86 | 1.98 | 4.28 | 2.95 | 2.99 | 4.66 | 6.97 | 8.46 | 9.16 | 10.31 |
| Price Earning Ratio (Times) | 27.33 | 14.27 | 6.95 | 7.54 | 12.29 | 17.90 | 8.18 | 6.62 | 6.79 | 9.41 |
| Net Asset Value per Share (LKR) | 13.96 | 20.06 | 20.50 | 23.47 | 24.96 | 29.25 | 37.42 | 43.78 | 46.79 | 55.46 |
| Earnings Yield (%) | 3.66 | 7.01 | 14.39 | 13.26 | 8.14 | 5.59 | 12.23 | 15.11 | 14.73 | 10.63 |
| Dividend Per Share (LKR) | | 1.00 | 1.33 | 1.50 | 1.50 | 2.00 | 2.10 | 2.10 | 2.10 | 2.10 |
| Dividend Payout Ratio (%) | | 50.51 | 31.07 | 50.85 | 50.17 | 42.92 | 30.13 | 24.82 | 22.92 | 20.36 |
| % of 20 Largest Shareholders | 71.91 | 80.08 | 81.07 | 81.32 | 76.38 | 78.58 | 78.22 | 65.78 | 79.64 | 81.53 |
| OTHER INFORMATION (Group) | | | | | | | | | | |
| Number of Employees | 549 | 820 | 1,239 | 1,615 | 1,532 | 1,608 | 1,853 | 2,037 | 2,262 | 2562 |
| Number of Branches | 28 | 30 | 31 | 36 | 38 | 40 | 48 | 57 | 72 | 89 |
| No of ATMs | 33 | 38 | 38 | 47 | 44 | 51 | 60 | 70 | 100 | 124 |

Corporate Governance

Governance Report

The Board of Directors is fully committed to maintaining the highest standards in corporate governance, professionalism and integrity.

Good governance continues to be one of the main areas of focus for the Board of Directors of the Bank. Accordingly, Board ensures a high degree of integrity through transparency and accountability at every level of operations of the Bank. The Board of Directors has established necessary policies and procedures to ensure that the day to day affairs of the Bank are governed by adequate internal control mechanisms in a manner that would enhance stakeholder confidence. The Board of Directors has also ensured that the financial reporting system of the Bank is designed to provide assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting policies. Board is assisted in this effort by six Board Sub Committees. Responsibilities, functions and activities during the financial year of these committees are presented separately.

Whilst ensuring that the business is carried on adhering to the generally accepted corporate governance practices, the Board also ensures compliance with the Corporate Governance Rules under Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka. In compliance with Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka, the Bank has obtained a certificate from the External Auditors on the effectiveness of the internal control mechanism reported by the Board of Directors.

The Board comprises of highly respected individuals who have reached the pinnacle of their chosen fields often displaying multi disciplinary competencies. Expertise on the Board represents a cross section from the Finance, Corporate, Academic and Professional spheres, who together contribute a wealth of practical insight and business acumen. Board currently comprise of a healthy balance of experience and youth. 12 Directors out of a total number of 13 are non executive directors. Board approves a strategic plan and key policies for the Bank and effectively monitors their implementation through the Board sub committees and Key Management Personnel. The non-Executive Directors are independent of the management. Their role is to constructively challenge the Management and monitor the success of Management in delivering the approved targets and

business plans within the risk appetite set by the Board. They have free and open contact with the management at all levels and they engage with the external and internal auditors to address matters concerning the management and oversight of the Bank's business and operations. The Board appoints the Chief Executive Officer (CEO) and Corporate Management who together make up the Key Management Personnel of the Bank.

Names of the Directors and their profiles are given in the Annual Report of the Board of Directors on Page 92 to 95 Chairman of the Bank is a Non Executive Director. The Bank currently has six Independent Directors. Non Executive Independent Director Mr. A. R. Rasiyah has been designated as the Senior Director.

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

Identifying and recommending suitable individuals to be appointed as Directors is the responsibility of the Nomination Committee. Nomination Committee ensures that the Directors are persons of repute who would be able to contribute significantly towards the benefit of the Bank to achieve its strategies, objectives and goals. Nomination Committee also assist the Board to determine whether the Directors and Key Management Personnel are fit and proper persons as required under the Banking Act and Directions issued thereunder.

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

The following table summarises the status of compliance with Corporate Governance Rules under Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka.

| Rule No | Rule | Remarks |
|---------------|--|--|
| 3(1) | THE RESPONSIBILITIES OF THE BOARD | |
| 3 (1) (i) | The board shall strengthen the safety and soundness of the bank by ensuring the implementation of the following; | |
| 3 (1) (i) (a) | Approve and oversee the bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank | <p>Complied</p> <p>The Strategic Plan for the period 2013-2017 has been approved by the Board. Such approved Strategic Plan includes strategic objectives and corporate values.</p> <p>Vision, mission and corporate values have been communicated to the staff via intranet and regular training.</p> |
| 3 (1) (i) (b) | Approve the overall business strategy of the bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years. | <p>Complied</p> <p>Refer comments on 3 (1) (i) (a)</p> <p>Board has approved the Risk Policy which includes the Risk management procedures and mechanisms with measurable goals.</p> <p>The Bank annually revise Risk Goals contained in the Risk Policy in order to dynamically manage risk appetite of the Bank.</p> <p>5 year Strategic Plan for the period 2013 -2017 was approved by the Board at the meeting held on 19th December, 2012.</p> |
| 3 (1) (i) (c) | Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently. | <p>Complied</p> <p>The implementation of the Risk Policy is being monitored by the IRMC and the Board through a well structured Risk reporting mechanism. IRMC minutes are submitted to the Board regularly as stipulated in the Terms of Reference of Integrated Risk Management Committee.</p> |
| 3 (1) (i) (d) | Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers | <p>Complied</p> <p>The Board has approved and implemented a policy of communication.</p> <p>Board approved communication policy has been communicated to the staff via intranet of the Bank.</p> |

Corporate Governance

| Rule No | Rule | Remarks |
|---------------|---|---|
| 3 (1) (i) (e) | Review the adequacy and the integrity of the bank's internal control systems and management information systems | Complied Such review is being carried out routinely by the Board. Internal controls are being looked at by individual departments at predetermined intervals being either monthly or quarterly. Implementation of internal controls is also looked into by the Internal Audit Department. Board monitors these through the Integrated Risk Management Committee and the Board Audit Review Committee (BARC). |
| 3 (1) (i) (f) | Identify and designate key management personnel, as defined in the International Accounting Standards, who are in a position to (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management | Complied The Board has identified Key Management Personnel (KMP), as required by the Direction. |
| 3 (1) (i) (g) | Define the areas of authority and key responsibilities for the board directors themselves and for the Key Management Personnel | Complied Matters reserved for the Board are specifically identified and approved by the Board. Areas of authority and key responsibilities of the other KMP are included in the respective job descriptions |
| 3 (1) (i) (h) | Ensure that there is appropriate oversight of the affairs of the bank by key management personnel, that is consistent with Board policy | Complied Oversight of affairs of the Bank is carried out through the Board Supervisory Committee (BSC) where all KMP present their performance and make themselves available for any clarifications and explanations required by the BSC members. Board monitors this through the Minutes of the BSC. KMP also communicate to the Board via the monthly management report submitted to the Board of Directors. KMP responsible for internal controls and compliance attend every IRMC meeting. Board has delegated the function of overseeing Internal Audit Department (IAD) to a board sub-committee namely, BARC. Board exercise oversight of the affairs of the Bank by KMP through the minutes of the meetings of the BSC, IRMC, BARC, Assets Liabilities Management Committee (ALCO) and Investment Committee tabled at Board meetings. |

| Rule No | Rule | Remarks |
|---------------|--|---|
| 3 (1) (i) (i) | Periodically assess the effectiveness of the board of directors' own governance practices, including (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests and (iii) the determination of weaknesses and implementation of changes where necessary. | Complied The Board appraises its performance annually by using the Board of Directors self assessment questionnaire. The responses received from the Directors are collated by the Senior Director and synopsis of same is submitted to the Board. |
| 3 (1) (i) (j) | Ensure that the bank has an appropriate succession plan for key management personnel. | Complied A comprehensive succession planning process is undertaken for KMP. The process involves identification of senior officers and grooming them to take over Corporate Management positions. Human Resources Department is vested with the responsibility of revising and keeping the succession planning process up to date. Succession at Board levels is ensured through maintaining the Board composition at a level much higher than the statutorily required minimum number. This permits the Board to carefully fill any sudden vacancy created without an adverse impact on the functionality. |
| 3 (1) (i) (k) | Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives | Complied Refer comment on 3 (1) (i) (h) above |
| 3 (1) (i) (l) | Understand the regulatory environment and ensure that the bank maintains an effective relationship with regulators. | Complied The Company Secretary is statutorily responsible for communications with the Registrar of Companies. This is included in the JD of the Company Secretary. Maintaining an effective relationship with the regulators is carried out through diligent compliance with applicable rules and regulations. This is included in the JD of Compliance Officer. Compliance with statutory regulations is monitored regularly by the Board. A Compliance Officer at a senior level has been employed by the Bank who submits a monthly compliance report to the Board through the CEO. A monthly report is submitted to the IRMC by the Compliance Officer capturing interactions with the Regulators and actions to be taken on new regulations. |

Corporate Governance

| Rule No | Rule | Remarks |
|------------------------|---|---|
| 3 (1) (i) (m) | Exercise due diligence in the hiring and oversight of external auditors | Complied Board has delegated this function to the BARC. TOR of the BARC contains provisions for hiring and oversight of external Auditors. |
| 3 (1) (ii) | The board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with direction 3 (5) of these Directions. | Complied Functions and the responsibilities of the Chairman and the CEO have been separated and approved by the Board. |
| BOARD PROCEDURE | | |
| 3 (1)(iii) | The Board shall meet regularly and board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the board's consent through the circulation of written resolutions/papers shall be avoided as far as possible. | Complied Board met 13 times during the year on a monthly basis with two meetings being held in the month of July. All directors actively participate at such meetings. Any concern or comment by such directors requiring action is minuted. Approval of the Board by circular resolutions has been kept to a minimum and resorted to only where necessary. |
| 3 (1) (iv) | The board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank. | Complied Approved Board procedure includes a provision to indicate that all Directors are entitled to include such matters and proposals in the agenda for Board Meetings. |
| 3(1) (v) | The board procedures shall ensure that notice of at least 7 days is given of a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice may be given. | Complied In terms of Clause 1.2 of the Board Procedure, the schedule of dates of meetings for the year is approved by the Board at the first Board meeting of the year and such approved schedule is notified to every Director thereby giving more than 7 days notice. Clause 2.3 provides that any change of the schedule shall be notified to the Directors at least 7 days prior to the date the meeting. Clause 2.4 provides that any meeting other than that contained in the Schedule shall be given 7 days prior notice unless all the directors agree to meet at a shorter notice. |

| Rule No | Rule | Remarks |
|-------------|---|---|
| 3 (1) (vi) | The board procedures shall ensure that a director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance. | <p>Complied</p> <p>Clause 6 of the approved Board procedure contains a similar provision.</p> <p>No director has violated this requirement during the financial year 2014.</p> |
| 3(1)(vii) | The board shall appoint a company secretary who satisfies the provisions of section 43 of the Banking Act No.30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and to carry out other functions specified in the statutes and other regulations. | <p>Complied</p> <p>The Company Secretary who is an Attorney-at-Law satisfies the provisions contained in Section 43 of the Banking Act.</p> <p>JD of the Company Secretary includes the responsibilities to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.</p> |
| 3(1) (viii) | All directors shall have access to advise and services of the company secretary with a view to ensure that board procedures and all applicable rules and regulations are followed. | <p>Complied</p> <p>All Directors have access to the advice and services of the Company Secretary.</p> <p>Clause 8.3 of the Board Procedure provides for same.</p> |
| 3 (1) (ix) | The company secretary shall maintain the minutes of board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director. | <p>Complied</p> <p>Board minutes are maintained by the Company Secretary. Clause 9.1 of the Board Procedure also provides for same.</p> |

Corporate Governance

| Rule No | Rule | Remarks |
|------------|---|--|
| 3(1)(x) | <p>Minutes of board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the board acted with due care and prudence in performing its duties.</p> <p>The minutes shall serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the board meetings. Therefore the minutes of a board meeting shall clearly contain or refer to the following;</p> <p>(a) A summary of data and information used by the board in its deliberations</p> <p>(b) The matters considered by the board</p> <p>(c) The fact finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence.</p> <p>(d) The testimonies and confirmations of relevant executives which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations</p> <p>(e) The board's knowledge and understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted</p> <p>(f) The decisions and board resolutions.</p> | <p>Complied</p> <p>Minutes of Board meetings are recorded in sufficient detail to enable a proper assessment to be made of the depth of deliberations at the meetings.</p> <p>Every paper submitted to the Board seeking approval of the Board contains recommendations from the executive management and also discloses a reasonable basis for making such recommendations.</p> <p>Minutes will refer to the paper which contains the data and opinions relied on by the Board and also contain any other matter considered by the Board outside what is contained in the paper (if any). Minutes are to be read with the relevant board paper. Reference of the paper considered is included in the minute.</p> <p>Clause 9.4 of the Board procedure also provides for the contents of the Board minutes.</p> |
| 3 (1) (xi) | <p>There shall be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advise in appropriate circumstances, at the bank's expense.</p> <p>The board shall resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/her/ their duties to the bank.</p> | <p>Complied</p> <p>Approved Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.</p> |

| Rule No | Rule | Remarks |
|-------------|---|---|
| 3(1)(xii) | <p>Directors shall avoid conflicts of interests, or the appearance of conflicts of interests, in their activities with, and commitments to, other organizations or related parties.</p> <p>If a director has a conflict of interest in a matter to be considered by the board, which the board has determined to be material, the matter should be dealt with at a board meeting, where independent non executive directors [refer to direction 3(2)(iv) of these Directions] who have no material interest in the transaction, are present.</p> <p>Further a director shall abstain from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested, and</p> <p>he/she shall not be counted in the quorum for the relevant agenda item at the board meeting.</p> | <p>Complied</p> <p>Clause 10 of the Board procedure specifically addresses avoidance of conflicts of interest.</p> <p>Board has treated any interest to be material and ensured that any matter in which a board member has an interest is dealt with as provided herein. Board minutes provide evidence of compliance.</p> |
| 3(1)(xiii) | <p>The board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the bank is firmly under its authority.</p> | <p>Complied</p> <p>There is a schedule of matters reserved for Board approval which has been approved by the Board.</p> |
| 3 (1) (xiv) | <p>The board shall, if it considers that the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the bank prior to taking any decision or action.</p> | <p>Complied</p> <p>Such a situation has not arisen. Board is furnished with sufficient information on a regular basis to enable the Board to act in the required manner if such a situation arises.</p> <p>Board has also approved and put in place a robust ALCO mechanism that would keep the liquidity position under control.</p> <p>IRMC discusses in detail the key risk goals at each IRMC meeting and the minutes of the IRMC and a Risk Assessment report are submitted to the Board accordingly.</p> |
| 3 (1) (xv) | <p>The board shall ensure that the bank is capitalized at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.</p> | <p>Complied</p> <p>The Bank is in compliance with regulatory and prudential requirements relating to capital adequacy. Capital Adequacy Ratios are submitted to the Board quarterly. IRMC also monitors this on a monthly basis through Key Risk Goals.</p> |

Corporate Governance

| Rule No | Rule | Remarks |
|--|--|--|
| 3 (1) (xvi) | The board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions. | Complied Report is published in page 108 of the Annual Report of 2014. |
| 3 (1) (xvii) | The board shall adopt a scheme of self assessment to be undertaken by each director annually and maintain records of such assessments. | Complied The Board appraises its performance by using the Board evaluation form which is filled by each director in relation to business strategy and contributions of Board members based on their field of expertise. The responses are collated by the Senior Director and synopsis of same was submitted to the Board. Self Assessment for the year 2013 were collated by the Senior Director and synopsis of same was submitted to the Board in May, 2014. |
| 3 (2) | THE BOARD'S COMPOSITION | |
| 3(2)(i) | The number of directors on the board shall not be less than 7 and not more than 13 | Complied Board composition was in compliance with this requirement throughout the year. |
| 3(2)(ii)(A) | The total period of service of a Director other than a director who holds the position of chief executive officer shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such director up to January 1st, 2008. | Complied None of the directors have exceeded the period of nine years during the year under review. |
| 3(2)(ii)(B) [Direction 3(2)(ii)(B) of Direction 11 of 2007 was replaced with Direction 5 of 2008 dated 15th August, 2008] | In this context the following general exemption shall apply; A Director who has completed nine years as at January 1, 2008 or who completes such term at any time prior to December 31st, 2008, may continue for a further maximum period of 3 years commencing January 1st, 2009. | Not Applicable for the current year, 2014. |
| 3(2)(iii) | An employee of a bank may be appointed, elected or nominated as a director of the bank (hereinafter referred to as an 'executive director') provided that the number of executive directors shall not exceed one-third of the number of directors of the board. In such an event, one of the executive directors shall be the chief executive officer of the bank. | Complied The Board consists of Thirteen directors. Number of Executive Directors has not exceeded the specified number at any time during the year. |

| Rule No | Rule | Remarks |
|----------|--|--|
| 3(2)(iv) | <p>The board shall have at least three independent non executive directors or one third of the total number of directors, whichever is higher. This sub direction shall be applicable from January 1st, 2010 onwards.</p> <p>A non executive director shall not be considered independent if he/she;</p> <ul style="list-style-type: none"> a) has direct and indirect shareholding of more than 1% of the bank; b) currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the bank; c) has been employed by the bank during the two year period immediately preceding the appointment as director d) has a close relation who is a director or chief executive officer or a member of key management personnel or a material shareholder of the bank or another bank. For this purpose a 'close relation' shall mean the spouse or a financially dependent child; e) represents a specific stakeholder of the bank f) is an employee or a director or a material shareholder in a company or business organization; <ul style="list-style-type: none"> 1. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10% of the regulatory capital of the bank, or 11. in which any of the other directors of the bank are employed or are directors or are material shareholders; or 111. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10% of regulatory capital in the bank. | <p>Complied</p> <p>The Bank has six Independent Non Executive Directors out of a total of thirteen Directors.</p> |

Corporate Governance

| Rule No | Rule | Remarks |
|--------------|--|---|
| 3 (2) (v) | In the event an alternate director is appointed to represent an independent director, the person so appointed shall also meet the criteria that applies to the independent director. | Not Applicable No alternate director has been appointed to represent an independent Director. |
| 3(2)(vi) | Non executive directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources. | Complied Directors possess qualifications and experience to meet the criteria specified in the Rule. Nomination committee ensures that the directors possess the required skills and recommends all new appointments to the Board. Central Bank approval is also obtained for all new appointments and for continuing directors annually. |
| 3(2)(vii) | A meeting of the board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless more than one half of the number of directors present at such meeting are non executive directors. This sub direction shall be applicable from January 1, 2010 onwards. | Complied All meetings have been attended by a majority of Non Executive Directors. |
| 3 (2) (viii) | The Independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the bank. The bank shall disclose the composition of the board, by category of directors, including the names of the chairman, executive directors, non executive directors and independent non executive directors in the annual corporate governance report. | Complied Composition of the Board, including the names of the Chairman, Executive Directors, Non Executive Directors and Independent Non- Executive directors are disclosed in page 92 to 95 of the Annual Report, 2014 |
| 3 (2) (ix) | There shall be a formal, considered and transparent procedure for the appointment of new directors to the board. There shall also be procedures in place for the orderly succession of appointments to the board. | Complied A Board composition and succession plan is in place. All appointments are considered and approved by the Nomination Committee and by the full Board thereafter in addition to obtaining approval from the Central Bank of Sri Lanka. |
| 3 (2) (x) | All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment. | Complied Notice and agenda of the AGM for 2015 included in the Annual Report includes proposals to seek shareholders' approval for directors appointed to fill casual vacancies. |

| Rule No | Rule | Remarks |
|---|---|---|
| 3(2)(xi) | <p>If a director resigns or is removed from office, the board shall :</p> <p>(a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and</p> <p>(b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p> | <p>Complied</p> <p>Two directors retired from the Board during the year. Necessary formalities as required by the Rule have been complied.</p> |
| 3(2)(xii) | <p>A director or an employee of a bank shall not be appointed, elected or nominated as a director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.</p> | <p>Complied</p> <p>Based on the quarterly declarations submitted by individual directors in the year 2014, no director is a Director of another Bank.</p> <p>Letter of appointment of employees includes a clause which stipulates that an employee shall not have any dealing with any other financial institution.</p> |
| 3(3) | <p>CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS</p> <p>In addition to provisions of Section 42 of the Banking Act No.30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a director of a bank. Non-compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a director or to continue as a director.</p> | |
| 3(3) (i) (A) [Direction 3(3)(i)(A) and 3(3) (i)(B) of Direction 11 of 2007 was replaced with Direction 5 of 2008 dated 15th August, 2008] | <p>In this context, the following general exemption shall apply</p> <p>A director who has reached the age of 70 years as at January 1st, 2008 or who would reach the age of 70 years prior to December 31st, 2008 may continue in office for a further maximum period of 3 years commencing January 1, 2009.</p> | <p>Not applicable</p> |

Corporate Governance

| Rule No | Rule | Remarks |
|--|--|--|
| 3(3)(ii) | A person shall not hold office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank. | Complied No director of the Bank holds Directorships in more than 20 companies. |
| 3(3)(ii)(A) [Clause 4 of Direction 5 of 2008 dated 15th August, 2008] | In this context, the following general exemption shall apply; If any person holds posts in excess of the limitation as above, such person shall within a maximum period of three years from 1st January, 2009 comply with the above-mentioned limitation and notify the Monetary Board accordingly. | Not applicable. |
| 3 (4) | MANAGEMENT FUNCTIONS DELEGATED BY THE BOARD | |
| 3 (4) (i) | The directors shall carefully study and clearly understand the delegation arrangements in place | Complied Clause 7 of the Board Procedure includes a provision for delegation of powers by the Board. TORs of all Board sub committees have been approved by the Board. All delegations have been done by the Board after due consideration. |
| 3 (4) (ii) | The board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the board as a whole to discharge its functions. | Complied Refer comment on 3.4.(i) above. |
| 3 (4) (iii) | The board shall review the delegation process in place on a periodic basis to ensure that they remain relevant to the needs of the bank. | Complied As and when new requirements have arisen, the Board has reviewed and amended delegation arrangements based on the recommendations made by the management. |
| 3 (5) | THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER | |
| 3 (5) (i) | The roles of the chairman and the chief executive officer shall be separate and shall not be performed by the same individual. | Complied Roles of the Chairman and the CEO are separated and held by two separate individuals. Chairman provides leadership to the Board while the CEO manages the day to day operations of the Bank giving effect to the strategies and policies approved by the Board. |

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| 3 (5) (ii) | <p>The chairman shall be a non executive director and preferably an independent director as well.</p> <p>In the case where the chairman is not an independent director, the board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element.</p> <p>The designation of the Senior Director shall be disclosed in the bank's Annual Report.</p> | <p>Complied</p> <p>Mr. Krishan Balendra, a Non Executive Director is the Chairman.</p> <p>An Independent Non Executive Director Mr. A. R. Rasiah functions as the Senior Director. TOR of the Senior Director is approved by the Board.</p> <p>The designation of the Senior Director has been disclosed in the Annual Report, 2014</p> |
| 3 (5) (iii) | <p>The board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the identity of the chairman and the chief executive officer and the nature of the relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the chairman and the chief executive officer and the relationships among members of the board.</p> | <p>Complied</p> <p>The identity of the chairman and the Chief Executive Officer and the absence of a relationship between the two persons are disclosed in the Annual Report 2014.</p> |
| 3 (5) (iv) | <p>The chairman shall;</p> <p>(a) provide leadership to the board</p> <p>(b) ensure that the board works effectively and discharges its responsibilities; and</p> <p>(c) ensure that all key and appropriate issues are discussed by the board in a timely manner.</p> | <p>Complied</p> <p>These are considered as the three key responsibilities of the Chairman and included in the 'Functions of the Chairman and the CEO' approved by the Board.</p> <p>The requirement is further covered by the self evaluation process of the Board.</p> |
| 3 (5) (v) | <p>The chairman shall be primarily responsible for drawing up and approving the agenda for each board meeting, taking into account where appropriate, any matters proposed by the other directors for inclusion in agenda. The chairman may delegate the drawing up of the agenda to the company secretary.</p> | <p>Complied</p> <p>According to Clause 3 of the approved Board Procedure, drawing up of the agenda has been delegated to the Company Secretary with strict adherence to the guidelines given in the said Procedure.</p> |
| 3 (5) (vi) | <p>The chairman shall ensure that all the directors are properly briefed on issues arising at board meetings and also ensure that directors receive adequate information in a timely manner.</p> | <p>Complied</p> <p>This has been identified as a responsibility of the Chairman, in the paper on 'Functions of the Chairman and the CEO' which was approved by the Board.</p> <p>Provision contained in Clause 2.2 of the approved Board Procedure strengthens this requirement.</p> |

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| 3 (5) (vii) | The chairman shall encourage all directors to make a full and active contribution to the board's affairs and take the lead to ensure that the board acts in the best interests of the bank. | <p>Complied</p> <p>There is active participation by all directors at the Board meetings as well as at Board sub committee meetings as evidenced in the minutes.</p> <p>The Board appraises its performance by using the Board evaluation form which is filled by each director in relation to business strategy and contributions of Board members based on their field of expertise. The responses are collated by the Senior Director and synopsis of same was submitted to the Board.</p> |
| 3 (5) (viii) | The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors | <p>Complied</p> <p>Refer comment under 3 (5) (vii).</p> |
| 3 (5) (ix) | The chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever. | <p>Complied</p> <p>Chairman is a Non Executive Director and does not engage in day to day supervision of management or other executive duties.</p> |
| 3 (5) (x) | The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the board. | <p>Complied</p> <p>This has been identified as a responsibility of the Chairman, in the paper on 'Functions of the Chairman and the CEO' which was approved by the Board.</p> <p>A communications policy has also been approved by the Board. The communication policy includes a provision for communication with shareholders.</p> |
| 3 (5) (xi) | The chief executive officer shall function as the apex executive-in-charge of the day-to-day management of the bank's operations and business. | <p>Complied</p> <p>The Board approved paper on 'Functions of the Chairman and CEO' evidences the requirement of the rule.</p> |

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| 3 (6) | BOARD APPOINTED COMMITTEES | |
| 3 (6) (i) | Each bank shall have at least the following committees; 3(6)(ii) - Audit Committee 3(6)(iii) - Human Resources and Remuneration committee 3(6)(iv) - Nomination Committee 3(6)(v) - Integrated Risk Management Committee | Complied The Bank has established all four Board sub committees as required by the Rule. |
| | Each committee shall report directly to the board. | Complied All minutes of the Board sub committees are submitted to the Board and constitute a regular agenda item. |
| | Each committee shall appoint a secretary to arrange the meetings and maintain, minutes, records etc. under the supervision of the chairman of the committee | Complied All sub committees have formally appointed secretaries. |
| | The board shall present a report of the performance on each committee, on their duties and roles at the annual general meeting | Complied Reports are contained in the Annual Report of 2014. |
| 3 (6) (ii) | AUDIT COMMITTEE | |
| 3 (6) (ii) (a) | The chairman of the committee shall be an independent non-executive director who possesses qualifications and experience in accountancy and /or audit. | Complied Mr. A. R. Rasiah an Independent Non Executive Director was appointed as the Chairman of BARC with effect from 1st July, 2014. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. He has experience both as an auditor as well as an accountant. Previously, Mr. M. E. Wickremesinghe, Independent Non Executive Director was the Chairman of BARC. He is a Fellow of Chartered Institute of Management Accountants of the United Kingdom. |
| 3 (6) (ii) (b) | All members of the committee shall be non-executive directors | Complied The Committee consists of non executive directors. |
| 3 (6) (ii) (c) | The committee shall make recommendations on matters in connection with; (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; | |

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| 3 (6) (ii) (c) | <p>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;</p> <p>(iii) the application of the relevant accounting standards; and</p> <p>(iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not reengaged for the audit before the expiry of three years from the date of the completion of the previous term.</p> | <p>The matters referred to in the Rule are reviewed and appropriate recommendations made by the BARC. A closed session is held with the External Auditors prior to the commencement of each meeting of the BARC. These items are discussed as appropriate and the BARC draws comfort that the relevant items are being taken into account by the External Auditors. The present Audit partner of the External Auditors has been engaged in the Bank's audit from the 2012 financial year.</p> <p>Refer the Report of the Board Audit Review Committee given on page 156</p> |
| 3 (6) (ii) (d) | The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and best practices. | <p>Complied</p> <p>These are reviewed and monitored as detailed above. Further, the Board obtains a declaration from External Auditors on independence.</p> |
| 3 (6) (ii) (e) | <p>The committee shall develop and implement a policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the committee shall consider;</p> <p>I. whenever the skills and experience of the audit firm make it a suitable provider of the non-audit services;</p> <p>11. whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and</p> <p>111. whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the external auditor</p> | <p>Complied</p> <p>The matters referred to in the Rule are covered in the terms of reference of the BARC and are exercised with due care and diligence. Further a separate policy on the engagement of the external auditor to provide non-audit services was developed by the BARC and approved by the Board of Directors on 31st October, 2011. This Policy was reviewed by BARC and reviewed and approved by the Board of Directors on 31st July, 2014. This Policy which inter alia takes cognizance of the matters set out in the rule will be applied in the engagement of the external auditor to provide non-audit services. A quarterly statement is provided to the BARC by the DGM Internal Audit Department (DGM IAD) to confirm compliance with the guidelines.</p> |

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| 3 (6) (ii) (f) | <p>The committee shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit, including;</p> <ul style="list-style-type: none"> (i) an assessment of the bank's compliance with the relevant directions in relation to corporate governance and the management's internal controls over financial reporting; (ii) the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the coordination between firms where more than one audit firm is involved. | <p>Complied</p> <p>The matters referred to in the Rule are discussed in detail at the BARC after satisfying itself on the scope of the work to be undertaken by the external auditors for granting of approval to proceed further. During the tenure of the audit, regular status updates were obtained and discussed at the BARC meeting.</p> |
| 3 (6) (ii) (g) | <p>The committee shall review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the bank's annual report and accounts and quarterly reports before submission to the board, the committee shall focus particularly on;</p> <ul style="list-style-type: none"> (i) major judgemental areas (ii) any changes in accounting policies and practices (iii) significant adjustments arising from the audit (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements. | <p>Complied</p> <p>Regular discussions with the external auditors, (independent of the management as well as with the CEO and the CFO present), discussions with the DGM Internal Audit (independent of the management as well as with the CEO and the CFO present), and regular discussions with the CEO and the CFO are held by the BARC. Separate BARC meetings were held in 2014 to review / discuss and finalize the accounts.</p> <p>The chairman BARC has a one on one meeting with the partner in charge of audit at least once a year.</p> |
| 3 (6) (ii) (h) | <p>The committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.</p> | <p>Complied</p> <p>Regular discussions with the External Auditors, independent of the management is carried out, at every BARC meeting. The External Auditors are invited to draw the attention of BARC to any areas of concern or any matter they wish to raise regarding the accounts or otherwise.</p> |
| 3 (6) (ii) (i) | <p>The committee shall review the external auditor's management letter and the management's response thereto.</p> | <p>Complied</p> <p>Regular discussions with the External Auditors are carried out on the management letter and the management's response thereto.</p> |

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| 3(6) (ii) (j) | <p>The committee shall take the following steps with regard to the internal audit function of the bank;</p> <p>(i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</p> <p>(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</p> <p>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department.</p> <p>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> | <p>Complied</p> <p>This is handled in the following manner;</p> <p>(i) The annual audit plan of the Internal audit department as well as the staff requirements are reviewed/ discussed with the DGM Internal Audit.</p> <p>(ii) The audit progress vis a vis the audit plan is tabled at the BARC at each meeting . The audit report contains a section for the units audited to indicate the action taken based on IAD recommendations. In the case of branches, the Delivery Channels Unit, provides a monthly feedback on the items that are yet to be completed. In the case of departments, there is a robust mechanism to follow up on items that are pending every quarter. Items which in the opinion of IAD are being delayed beyond a reasonable period of time are presented to the BARC at their regular meetings. Further all High and Medium risk findings are sent to the Chief Risk Officer as and when the audit is finalized for inclusion in the Risk Grid. The issues of non compliance are sent to the Senior Manager Compliance upon the completion of each audit.</p> <p>(iii) The staff appraisal of the DGM Internal Audit is undertaken by the chairman of BARC in consultation with the other members of the BARC with adequate input by the CEO. Performance appraisal of senior staff are reviewed by the DGM IA and presented to the BARC for their concurrence.</p> <p>(iv) All senior appointments to the audit team are approved by the BARC. No new appointments were made to the Audit team during the year 2014</p> |

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| | <p>(v) Ensure that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning</p> <p>(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;</p> | <p>(v) A process is in place to ensure that resignations of senior staff members of the internal audit department including the DGM Internal Audit are advised to the Chairman and other members of the BARC at periodic BARC meetings. In the case of the IT audit which are not recurring assignments are awarded to a single entity based on a BARC approved procedure. Upon completion of the assignment the contract with the external party is terminated and a report is submitted.</p> <p>(vi) Regular discussions are held with the DGM IA independent of the management.</p> |
| 3 (6) (ii) (k) | The committee shall consider the major findings of internal investigations and management's responses thereto | Complied Audit reports are tabled at the BARC meeting and the relevant items are discussed in detail with suitable action points agreed upon. Where required, the Corporate Head of the Unit audited is required to attend the BARC to provide clarifications. |
| 3 (6) (ii) (l) | <p>The chief finance officer, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other board members and the chief executive officer may also attend meetings upon the invitation of the committee.</p> <p>However, at least twice a year, the committee shall meet with the external auditors without the executive directors being present.</p> | Complied Regular discussions with the External Auditors, independent of the management are held prior to every BARC meeting. The BARC met the External Auditors eleven times during the year, 2014. The External Auditors and the CEO at the invitation of BARC attend all meetings of BARC. Where it is deemed necessary, other corporate heads including the CFO are called for the meeting. |
| 3 (6) (ii) (m) | <p>The committee shall have</p> <p>(i) explicit authority to investigate into any matter within its terms of reference</p> <p>(ii) the resources which it needs to do so</p> <p>(iii) full access to information; and</p> <p>(iv) authority to obtain external professional advise and to invite outsiders with relevant experience to attend, if necessary</p> | Complied This has been covered in detail in the terms of reference of the BARC. |

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| 3 (6) (ii) (n) | The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities. | Complied The committee met fourteen times during the year, 2014. Adequate notices of issues to be discussed are made available to all members of BARC. Minutes of proceedings of BARC are maintained by the Secretary to the BARC. |
| 3 (6) (ii) (o) | The board shall disclose in an informative way, (i) details of the activities of the audit committee (ii) the number of audit committee meetings held in the year (iii) details of attendance of each individual director at such meetings | Complied Please refer the Board Audit Review Committee Report on page 156 of the Annual Report, 2014. |
| 3 (6) (ii) (p) | The secretary of the Committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings. | Complied Detailed minutes are maintained by the DGM Internal Audit who is the secretary to the BARC. |
| 3 (6) (ii) (q) | The Committee shall review arrangements by which employees of the bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the bank's relations with the external auditor. | Complied The audit charter provides for the confidentiality of potential whistle blowers. The Whistle Blowing Policy was developed by BARC and approved by the Board of Directors on 31 October, 2011. The policy was further reviewed by BARC and reviewed and approved by the Board of Directors on 31 July, 2014. The CEO and the Head of Human Resources have been mandated to advise all staff of this policy. The Training Unit of the Bank will ensure that all new recruits to the Bank are made aware of this policy. Over the past few years this has proved successful, in that, there have been instances, where staff members have alerted the Internal Audit Department of certain improprieties. These have been investigated and where warranted suitable action has been taken. The identity of the whistle blower has been kept confidential. We have established a mechanism to record such complaints. |

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| 3 (6) (iii) | HUMAN RESOURCES AND REMUNERATION COMMITTEE (HRRC) | |
| 3 (6) (iii) (a) | The committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank. | Complied Board approved remuneration policy is in place. |
| 3 (6) (iii)(b) | The committee shall set goals and targets for the directors, CEO and key management personnel. | Complied Goals and targets are set by the Committee for the CEO which gets transformed as goals for the Key Management Personnel through the Balanced Score Card process. |
| 3 (6) (iii) (c) | The committee shall evaluate the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives. | Complied Minutes of the meeting of the HRRC indicate that such an evaluation has been performed for the CEO and other KMP and a policy has been approved for performance based incentives. |
| 3 (6) (iii) (d) | The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed. | Complied Approved TOR includes the provisions stipulated. CEO has attended all meetings and was excused when matters relating to her were discussed. |
| | NOMINATION COMMITTEE | |
| 3 (6) (iv) (a) | The Committee shall implement a procedure to select/ appoint new directors, CEO and key management personnel | Complied Approved TOR of the Nomination Committee includes the provisions stipulated. |
| 3 (6) (iv) (b) | The Committee shall consider and recommend (or not recommend) the re-election of current directors, taking into account the performance and contribution made by the director concerned towards the overall discharge of the board's responsibilities. | Complied The committee has considered and recommended re-election of directors in compliance with the Rule. |
| 3 (6) (iv) (c) | The committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions. | Complied Criteria has been set and included in the JDs of KMP approved by the Nomination Committee. |

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| 3 (6) (iv) (d) | The committee shall ensure that directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes. | <p>Complied</p> <p>Affidavits and Declarations of Directors were submitted to the Committee during 2014 in order for the Committee to determine the suitability of the Directors</p> <p>Having considered the Affidavits & Declarations the Committee decided that the directors are fit and proper persons to hold office.</p> <p>CBSL confirmation also received in relation to the existing Directors and the directors appointed during the year.</p> |
| 3 (6) (iv) (e) | The committee shall consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring directors and key management personnel. | <p>Complied</p> <p>The Committee has met the criteria set out in the Rule.</p> |
| 3 (6) (iv) (f) | <p>The committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors.</p> <p>The CEO may be present at the meetings by invitation.</p> | <p>Complied</p> <p>Chairman-Mr. M. E. Wickremesinghe, Independent Non Executive Director and out of the four members, two including the Chairman are independent.</p> <p>CEO was invited to attend when her presence was deemed required by the Committee.</p> |
| 3 (6) (v) | INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC) | |
| 3 (6) (v) (a) | <p>Committee shall consist of at least three non-executive directors, chief executive officer and key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.</p> <p>The committee shall work with key management personnel very closely and make decisions on behalf of the board within the framework of the authority and responsibility assigned to the committee.</p> | <p>Complied</p> <p>IRMC comprises of Four non executive directors, CEO and other relevant KMP</p> <p>Committee function as per the Board approved TOR in close co-operation with relevant KMP</p> <p>KMP in charge of risk management and control functions attend IRMC meetings regularly and other KMP attend and discuss the risk grids pertaining to their areas once a year.</p> |

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| 3 (6) (v) (b) | The committee shall assess all risks, i.e, credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis. | <p>Complied</p> <p>Risk indicators are monitored by IRMC monthly through the Key Risk Goals paper. Key risks involved in the subsidiary companies are included in the Risk grids of the department overseeing such subsidiary and presented assessed and discussed at IRMC meetings. Each and every business/support unit of the Bank and subsidiary companies have separate risk grids populated using Risk and Control Self Assessment methodology covering all material risks.</p> |
| 3 (6) (v) (c) | The committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee. | <p>Complied</p> <p>Minutes of Management level committees namely Credit Committee, Investment Committee and ALCO are submitted to the Committee to review the adequacy and effectiveness of such committees and the requirements of the rule are met with as evidenced by the minutes.</p> |
| 3 (6) (v) (d) | The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the bank's policies and regulatory and supervisory requirements. | <p>Complied</p> <p>Risks are monitored through monthly submission of Key Risk Goals report. Where necessary corrective action has been taken as reflected in the minutes.</p> |
| 3 (6) (v) (e) | The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans. | <p>Complied</p> <p>The IRMC has held meetings once in two months</p> |
| 3 (6) (v) (f) | The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of Bank Supervision. | <p>Complied</p> <p>Currently Committee monitors risk Management by Departments through the departmental risk grids. In the event action is required against an officer found to have failed in identifying specific risks and take prompt corrective actions as recommended by the committee, action will be taken against him/her in terms of the Bank's established Human Resources policy.</p> <p>The formally documented disciplinary action procedure has been included in the TOR of IRMC.</p> |
| 3 (6) (v) (g) | The committee shall submit a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions. | <p>Complied</p> <p>Reports are submitted to the Board as required by the Rule.</p> |

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| 3 (6) (v) (h) | The committee shall establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically. | Complied The Compliance officer submits a report to the Committee at every meeting. The Bank has established a separate Compliance Division to assess the Bank's compliance. The Compliance Officer carries out the compliance function and report to the committee periodically on Bank's compliance with laws, regulations and approved policies on all areas of business operations. |
| 3 (7) | RELATED PARTY TRANSACTIONS | |
| 3 (7) (i) | The board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purpose of this Direction <ul style="list-style-type: none"> a) Any of the bank's subsidiary companies b) Any of the bank's associate companies c) Any of the directors of the bank d) Any of the bank's key management personnel e) A close relation of any of the bank's directors or key management personnel f) A shareholder owning a material; interest in the bank g) A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest | Complied Board procedure contains provisions on avoiding conflicts of interests. Bank's credit policy contains provisions for ensuring compliance. Necessary steps have been taken by the Board to avoid any conflicts of interests that may arise, in transacting with related parties as per the definition in the direction. Further, as evidenced by the minutes of Board meetings, the board ensures that related parties are not accorded any preferential treatment over and above those accorded to similarly placed non-related parties. Policies and procedures in related party transactions are being strengthened on an ongoing basis |
| 3 (7) (ii) | The type of transactions with related parties that shall be covered by this Direction shall include the following: <ul style="list-style-type: none"> a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments c) The provision of any services of a financial or non financial nature provided to the bank or received from the bank d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. | Complied The Board approved related party policy contains provisions for same. |

| Rule No | Rule | Remarks |
|-------------|---|---|
| 3 (7) (iii) | <p>The board shall ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the bank carrying on the same business. In this context, 'more favourable treatment' shall mean and include treatment, including the;</p> <p>a) Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purpose of this sub- direction;</p> <p>1. 'Accommodation' shall mean accommodation as defined in the Banking Act Directions No.7 of 2007 on Maximum Amount of Accommodation.</p> <p>11. the 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more.</p> <p>b) Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty;</p> <p>c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with related parties;</p> <p>d) Providing services to or receiving services from a related- party without an evaluation procedure;</p> <p>e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p> | <p>Complied</p> <p>Refer comment in 3 (7) (i) above</p> <p>Board approved Related Party Transactions policy contains provisions to ensure compliance.</p> <p>The Bank has commenced submitting a monthly report on related party lending to the Board Supervisory Committee (BSC). Minutes of BSC are submitted to the Board. Bank will further enhance the process for ensuring that no favourable treatment is accorded to related parties in respect of all types of transactions specified in the Direction.</p> |

Corporate Governance

| Rule No | Rule | Remarks |
|----------|--|--|
| 3(7)(iv) | <p>A bank shall not grant any accommodation to any of its directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.</p> | <p>Complied</p> <p>All accommodations to directors and/or their close relatives have been granted with the approval of the Board.</p> |
| 3(7) (v) | <p>(a) where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, steps shall be taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a director.</p> <p>(b) Where such security is not provided by the period as provided in direction 3(7)(v)(a) above, the bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.</p> <p>(c) Any director who fails to comply with the above sub directions shall be deemed to have vacated the office of director and the bank shall disclose such fact to the public.</p> <p>(d) This sub-direction, however, shall not apply to a director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank.</p> | <p>Complied</p> |

| Rule No | Rule | Remarks |
|------------|--|---|
| 3(7)(vi) | A bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7) (v) above | Complied Board approved Related Party Transactions policy contains provisions to ensure compliance. |
| 3(7)(vii) | No accommodation granted by a bank under Direction 3(7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect. | Complied No such facility has been remitted in violation of this rule. |
| 3(8) | DISCLOSURES | |
| 3(8) (i) | The Board shall ensure that: (a) annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English. | Complied |
| 3 (8) (ii) | The Board shall ensure that the following minimum disclosures are made in the Annual Report; (a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. (b) A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. | Complied Included in page 158 of the Annual Report of 2014. Included in page 153 and 154 of the Annual Report of 2014. |

Corporate Governance

| Rule No | Rule | Remarks |
|---------|--|--|
| | (c) The external Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after December 31, 2008. | Assurance Report by auditors under "Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 –Assurance Reports for Banks on Directors' Statements on Internal Control" has been obtained and included in the Annual Report of 2014. |
| | (d) Details of Directors, including names, fitness and propriety <ul style="list-style-type: none"> - transactions with the Bank - the total of fees/remuneration paid by the Bank | Included in pages 145 to 150 of the Annual Report of 2014. |
| | (e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital. | Disclosed under Report of Board of Directors on the Affairs of the Bank included in page 145 to 150 of the Annual Report 2014. |
| | (f) The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by Broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank. | Included in page 148 and 149 of the Annual Report of 2014. |
| | (g) The external auditor's certification of the compliance with these Directions in the Annual Corporate Governance reports published after January 1, 2010. | All findings of the "Factual Findings Reports" of auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in this report. |
| | (h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances | Included in the Annual Report, 2014 |
| | (i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns. | No such matter has been specified by the Monetary Board of CBSL. |

GRI Index

GENERAL STANDARD DISCLOSURES

| Standard Disclosure | Description | Reported/ Not Reported | Reference |
|---|---|------------------------|------------------|
| STRATEGY AND ANALYSIS | | | |
| G4-1 | Statement from the most senior decision-maker of the organization | Reported | Page 18 |
| G4-2 | Description of key impacts, risks, and opportunities. | Reported | Page 74-89 |
| ORGANIZATIONAL PROFILE | | | |
| G4-3 | Name of the organization. | Reported | Inner Back Cover |
| G4-4 | Primary brands, products, and services. | Reported | Page 40-51 |
| G4-5 | Location of the organization's headquarters. | Reported | Inner Back Cover |
| G4-6 | Number of countries where the organization operates, and names of countries where the organization has significant operations. | Reported | Page 3 |
| G4-7 | Nature of ownership and legal form. | Reported | Inner Back Cover |
| G4-8 | Markets served. | Reported | Page 3 |
| G4-9 | Scale of the reporting organization. | Reported | Page 28 |
| G4-10 | Total number of employees by employment contract and gender. | Reported | Page 62 |
| G4-11 | Percentage of total employees covered by collective bargaining agreements. | Not reported | N/A |
| G4-12 | Description of the organization's supply chain. | Reported | Page 13 |
| G4-13 | Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain. | Reported | Page 46 |
| G4-14 | How the precautionary approach or principle is addressed by the organization. | Reported | Page 74-89 |
| G4-15 | Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses. | Not reported | N/A |
| G4-16 | Memberships of associations and national or international advocacy organizations. | Not reported | N/A |
| IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES | | | |
| G4-17 | Entities included in the organization's consolidated financial statements. | Reported | Page 28 |
| G4-18 | Process for defining the report content and the Aspect Boundaries. | Reported | Page 6 |
| G4-19 | Material Aspects identified in the process for defining report content. | Reported | Page 16 |
| G4-20 | Aspect Boundaries within the organization. | Reported | Page 16 |
| G4-21 | Aspect Boundaries outside the organization. | Reported | Page 16 |
| G4-22 | Restatements of information provided in previous reports, and the reasons for such restatements. | Not applicable | N/A |
| G4-23 | Significant changes from previous reporting periods in the Scope and Aspect Boundaries. | Not applicable | N/A |
| STAKEHOLDER ENGAGEMENT | | | |
| G4-24 | Stakeholder groups engaged by the organization. | Reported | Page 13 |
| G4-25 | Basis for identification and selection of stakeholders with whom to engage. | Reported | Page 14 |
| G4-26 | Organization's approach to stakeholder engagement. | Reported | Page 14 |
| G4-27 | Key topics and concerns that have been raised through stakeholder engagement. | Reported | Page 14 |
| REPORT PROFILE | | | |
| G4-28 | Reporting period. | Reported | Page 6 |
| G4-29 | Date of most recent previous report. | Reported | Page 6 |
| G4-30 | Reporting cycle | Reported | Annual |
| G4-31 | Contact point for questions regarding the report or its contents. | Reported | Inner Back Cover |
| G4-32 | Compliance with GRI G4 Guidelines, GRI Content Index and the External Assurance Report. | Reported | Page 6 |
| G4-33 | Policy and current practice with regard to seeking external assurance for the report. | Reported | Page 6 |

GRI Index

| GENERAL STANDARD DISCLOSURES | | | |
|--|--|------------------------|-----------|
| Standard Disclosure | Description | Reported/ Not Reported | Reference |
| GOVERNANCE | | | |
| G4-34 | Governance structure of the organization. | Reported | Page 108 |
| ETHICS AND INTEGRITY | | | |
| G4-56 | Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics. | Reported | Page 3 |
| CATEGORY: ECONOMIC | | | |
| ECONOMIC PERFORMANCE | | | |
| G4-EC1 | Direct economic value generated and distributed. | Reported | Page 206 |
| G4-EC3 | Coverage of the organization's defined benefit plan obligations. | Reported | Page 210 |
| G4-EC4 | Financial assistance received from government. | Not Reported | N/A |
| INDIRECT ECONOMIC IMPACTS | | | |
| G4-EC7 | Development and impact of infrastructure investments and services supported. | Reported | Page 70 |
| G4-EC8 | Significant indirect economic impacts, including the extent of impacts. | Reported | Page 70 |
| CATEGORY: ENVIRONMENTAL | | | |
| MATERIALS | | | |
| G4-EN1 | Materials used by weight or volume. | Not reported | N/A |
| G4-EN2 | Percentage of materials used that are recycled input materials. | Not reported | N/A |
| ENERGY | | | |
| G4-EN3 | Energy consumption within the organization. | Reported | Page 73 |
| WATER | | | |
| G4-EN8 | Total water withdrawal by source. | Partly | Page 73 |
| EFFLUENTS AND WASTE | | | |
| G4-EN23 | Total weight of waste by type and disposal method. | Not reported | N/A |
| OVERALL | | | |
| G4-EN31 | Total environmental protection expenditures and investments by type. | Not reported | N/A |
| SUPPLIER ENVIRONMENTAL ASSESSMENT | | | |
| G4-EN32 | Percentage of new suppliers that were screened using environmental criteria | Not reported | N/A |
| CATEGORY: SOCIAL | | | |
| SUB-CATEGORY: LABOR PRACTICES AND DECENT WORK | | | |
| EMPLOYMENT | | | |
| G4-LA1 | Total number and rates of new employee hires and employee turnover by age group, gender and region. | Reported | Page 65 |
| G4-LA2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees. | Not reported | N/A |
| OCCUPATIONAL HEALTH AND SAFETY | | | |
| G4-LA5 | Percentage of total workforce represented in formal joint management-worker health and safety committees. | Not reported | N/A |
| G4-LA6 | Rate of injury, occupational diseases, lost days and absenteeism. | Not reported | N/A |

GENERAL STANDARD DISCLOSURES

| Standard Disclosure | Description | Reported/ Not Reported | Reference |
|---|---|------------------------|-----------|
| TRAINING AND EDUCATION | | | |
| G4-LA9 | Average hours of training per year per employee by gender, and by employee category. | Reported | Page 66 |
| G4-LA11 | Percentage of employees receiving regular performance and career development reviews, by gender and by employee category. | Reported | Page 67 |
| DIVERSITY AND EQUAL OPPORTUNITY | | | |
| G4-LA12 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity. | Reported | Page 65 |
| EQUAL REMUNERATION FOR WOMEN AND MEN | | | |
| G4-LA13 | Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation. | Reported | Page 13 |
| LABOR PRACTICES GRIEVANCE MECHANISMS | | | |
| G4-LA16 | Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms. | Not reported | N/A |
| SUB-CATEGORY: HUMAN RIGHTS | | | |
| CHILD LABOR | | | |
| G4-HR5 | Operations identified as having significant risk for incidents of child labor. | Reported | Page 64 |
| FORCED OR COMPULSORY LABOR | | | |
| G4-HR6 | Operations and identified as having significant risk for incidents of forced or compulsory labor. | Reported | Page 64 |
| G4-HR9 | Total number and percentage of operations that have been subject to human rights reviews or impact assessments | Reported | Page 64 |
| SUB-CATEGORY: SOCIETY | | | |
| LOCAL COMMUNITIES | | | |
| G4-SO1 | Percentage of operations with implemented local community engagement, impact assessments, and development programs. | Reported | Page 70 |
| G4-SO2 | Operations with significant actual and potential negative impacts on local communities. | Not reported | N/A |
| ANTI-CORRUPTION | | | |
| G4-SO3 | Operations assessed for risks related to corruption and the significant risks identified. | Not reported | N/A |
| G4-SO4 | Communication and training on anti-corruption policies and procedures. | Not reported | N/A |
| G4-SO5 | Confirmed incidents of corruption and actions taken. | Not reported | N/A |
| ANTI-COMPETITIVE BEHAVIOR | | | |
| G4-SO7 | Legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. | Not reported | N/A |
| COMPLIANCE | | | |
| G4-SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. | Reported | Page 13 |
| CUSTOMER PRIVACY | | | |
| G4-PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications. | Not reported | N/A |
| CUSTOMER PRIVACY | | | |
| G4-PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. | Partly | Page 61 |

Board Integrated Risk Management Committee Report

Composition

The Integrated Risk Management Committee (IRMC) comprised of the following Directors until 07th May 2014 ;

Mr. A. R. Rasiah (Chairman)

Dr. Kemal de Soysa

Mr. D. Prasanna De Silva

Mr. Suran Wijesinghe

W.e.f 8th May 2014 composition of Integrated Risk Management Committee (IRMC) was changed as follows;

Mr. A. R. Rasiah (Chairman)

Dr. Kemal de Soysa

Mr. Suran Wijesinghe

Mr. D. Prasanna De Silva

Mr. Gihan Cooray

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

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

Mr. Ajith Akmeemana - Chief Financial Officer

Mr. Rohitha Ganegoda - Chief Operating Officer

Mr. Anura Yapa - Chief Risk Officer

Mr. Indrajith Boyagoda - DGM – Treasury

Mr. Theja Silva - DGM – Legal

Mr. Arthur Fernandez - DGM- Internal Audit

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

Terms of Reference

Integrated Risk Management Committee's mandate includes the following:

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

- Ensuring that a compliance function is in place to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies relating to all areas of Bank operations,
- Ensuring that the Board of Directors is kept updated of the Group's risk exposure.

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

Meetings

The IRMC held six (06) meetings every alternate month during the year under review. The minutes of the IRMC Meetings were regularly forwarded to the Board. IRMC also caused a Risk Assessment Report to be submitted to the Board within a week of every meeting. The IRMC reviewed risk policy frameworks, risk management strategies and key risk indicators were discussed at the meetings and the IRMC is satisfied that the risk exposures of the Bank are being appropriately managed.



A. R. Rasiah

Chairman

Integrated Risk Management Committee

Colombo

26 February 2015

| Name | Eligibility | Attendance | Excused |
|--------------------------|-------------|------------|---------|
| Mr. A.R. Rasiah | 6 | 6 | Nil |
| Dr. Kemal de Soysa | 6 | 5 | 1 |
| Mr. Gihan Cooray | 2 | 2 | Nil |
| Mr. D. Prasanna De Silva | 6 | 5 | 1 |
| Mr. Suran Wijesinghe | 6 | 6 | Nil |
| Ms. Renuka Fernando | 6 | 4 | 2 |

Board Credit Committee Report

The composition of the Board Credit Committee was as follows until 07th May 2014;

Mr. A.K. Gunaratne (Chairman)
(Alternate : Mr. D. Prasanna De Silva)

Mr. K.N.J. Balendra
(Alternate : Mr. Suran Wijesinghe)

Mr. C.H.S.K. Piyaratna

Ms. N. Shalini Panditaratne

W.e.f 8th May 2014 composition of the Board Credit Committee was changed as follows;

Mr. K.N.J. Balendra (Chairman)
(Alternate : Mr. Suran Wijesinghe)

Mr. D. Prasanna De Silva
(Alternate : Mr. C.L.K.P. Jayasuriya)

Ms. N. Shalini Panditaratne

Mr. C. H. S. K. Piyaratna (Resigned w.e.f 31st Dec 2014)

The Board Credit Committee's mandate includes the following:

- Approve/Decline all credit facilities above the level of authority granted to Head Office Credit Committee by the Board of Directors. BCC will constitute the final credit approval authority of the bank having been vested with the full powers to approve /decline credit by the Board of Directors.
- Approve/Decline Interest Waivers and Principal Write-offs in order to facilitate a settlement of a bad debt or to rehabilitate/restructure a bad debt.
- Review the quality of the credit portfolio of the bank including Top 20 Exposures, Watch-listed Customers etc.
- Review, provide input and make recommendations on Credit origination, appraisal, approval and administration processes/procedures.
- Any other matter referred to it by the Board of Directors

The Committee held 13 meetings during the year. The Committee also approved credit proposals by circulation as and when required.

| Name | Eligibility | Attendance | Excused |
|-----------------------------|-------------|------------|---------|
| Mr. K.N.J. Balendra | 13 | 12 | 1 |
| Mr. D. Prasanna De Silva | 13 | 13 | Nil |
| Ms. N. Shalini Panditaratne | 13 | 11 | 2 |
| Ms. Renuka Fernando | 13 | 11 | 2 |
| Mr. C.H.S.K. Piyaratna | 13 | 13 | Nil |

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

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



K.N.J. Balendra
Chairman
Board Credit Committee

Colombo
26 February 2015

Board Supervisory Committee Report

The members of the Board Supervisory Committee (BSC) are appointed by the Board of Directors. The Committee comprised of the following Directors at the beginning of the year;

Mr. A.K. Gunaratne (Chairman)

Mr. K.N.J. Balendra

Mr. Murtaza Jafferjee

Mr. C.H.S.K. Piyaratna

Mr. Suran Wijesinghe

The Committee was reconstituted with effect from 8th May, 2014 and comprised of the following Directors;

Mr. Suran Wijesinghe (Chairman)

Mr. Murtaza Jafferjee

Mr. C.H.S.K. Piyaratna

Mr. J.G.A. Cooray

Mr. D. Prasanna De Silva

Mr. C.H.S.K. Piyaratna resigned from the Board of Directors of the Bank on 31st December 2014 and the BSC currently comprises of the rest of the above Directors.

The Committee meets monthly in advance of the Board meeting and minutes are submitted to the Board of Directors for review. The Corporate Management Team along with Director/CEO attends all meetings by invitation. The BSC is not a committee mandated under the Corporate Governance Directions issued by the Central Bank of Sri Lanka.

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

| Name | Eligibility | Attendance | Excused |
|--------------------------|-------------|------------|---------|
| Mr. A.K. Gunaratne | 07 | 07 | Nil |
| Mr. K.N.J. Balendra | 07 | 07 | Nil |
| Mr. Murtaza Jafferjee | 18 | 18 | Nil |
| Mr. Suran Wijesinghe | 18 | 17 | 01 |
| Mr. C.H.S.K. Piyaratna | 18 | 16 | 02 |
| Mr. D. Prasanna De Silva | 11 | 09 | 02 |
| Mr. J.G.A. Cooray | 11 | 11 | Nil |

Terms of Reference

The mandate of the BSC includes the following;

1. Review the performance of the Bank and its business units to ensure that the Management and staff are focused towards achievement of plans approved and objectives set by the Board. The review also covers the support functions of the Bank and ensure that cost efficiencies and productivity is achieved across the Bank.
2. Approving expenditure within limits delegated by the Board of Directors.
3. Providing input and guidance to CEO and Corporate Management on various initiatives including IT systems, products, distribution channels etc prior to being presented to the Board of Directors for approval.
4. Review, provide input and make recommendations on policy papers, business plans and other such proposals impacting the operations of the Bank prior to such papers, plans and proposals being presented to the Board of Directors for approval.
5. Ensure that adequate policies, procedures and processes are in place to carry out the operations of the Bank and that these are reviewed periodically.



Suran Wijesinghe

Chairman

Board Supervisory Committee

Colombo

26 February 2015

Board Nomination Committee Report

The members of the Nomination Committee are appointed by the Board and comprised of the following Directors at the beginning of the year;

Mr. M.E. Wickremesinghe – Chairman

(Independent Non-Executive Director)

Mr. A. K. Gunaratne (Non-Executive Director)

Mr. K. N. J. Balendra (Non-Executive Director)

Mr. Murtaza Jafferjee (Independent Non-Executive Director)

The Composition of the Committee was changed consequent to the changes to the Board of Directors and comprise of the following Directors with effect from 8th May, 2014;

Mr. M.E. Wickremesinghe – Chairman

(Independent Non-Executive Director)

Mr. K. N. J. Balendra (Non-Executive Director)

Mr. Murtaza Jafferjee (Independent Non-Executive Director)

Mr. D. Prasanna De Silva (Non-Executive Director)

Attendance at the Nomination Committee meetings during the year were as follows;

| Name | Eligibility | Attendance | Excused |
|--------------------------|-------------|------------|---------|
| Mr. M.E. Wickremesinghe | 3 | 3 | Nil |
| Mr. A.K. Gunaratna | 2 | 2 | Nil |
| Mr. K.N.J. Balendra | 3 | 3 | Nil |
| Mr. Murtaza Jafferjee | 3 | 3 | Nil |
| Mr. D. Prasanna De Silva | 1 | 1 | Nil |

The proceedings of the meetings were reported to the Board.

The Committee's main responsibilities include the following;

- Selecting and appointing new Directors, considering and recommending from time to time the requirements of additional/new expertise on the Board and recommending after due consideration the re-election of current Directors.
- Implementing a procedure to select and appoint the Chief Executive Officer and Key Management Personnel of the Bank and setting up criteria for their appointment or promotion.

- Ensuring that the Directors and the Key Management Personnel are fit and proper persons to hold office conforming to the criteria prescribed by the Central Bank of Sri Lanka.
- Ensuring compliance with the provisions of the Articles of Association, written law, the Rules of the Colombo Stock Exchange and Directions of the Monetary Board of the Central Bank of Sri Lanka as may be applicable to the appointment of Directors, the Chief Executive Officer and Key Management Personnel.

The Committee works closely with the Board in evaluating and reviewing, the skills required for the Bank and the Board. When recommending the appointment of new Directors, the Committee considers for each appointment, the particular skills, knowledge and experience that would benefit the Board most significantly. Having carried out this evaluation, the Committee during the course of the year, recommended to the Board that Mr. Gihan Cooray, Mr. Kumar Jayasuriya and Mr. Harsha Raghavan be appointed to the Board. The Committee is satisfied that the representation of skills on the Board is appropriate for the Bank's current needs at Board level.

The Committee also works closely with the Board in ensuring that the Key Management Personnel comprise of persons of required skill and expertise and that their responsibilities and areas of authority are aligned with the Board approved strategy. Committee also considers and determines that the Directors and the Key Management Personnel are fit and proper persons to hold their respective offices.



M. E. Wickremesinghe

Chairman

Nomination Committee

Colombo

26 February 2015

Human Resources and Remuneration Committee Report

The Human Resources and Remuneration Committee (HRRC) comprised of Chairman Mr. A.K. Gunaratne, Mr. A.R. Rasiah, Dr. (Mrs) D. Weerakoon, Mr. K.N.J. Balendra and Dr. Kemal de Soysa. During the year under review one HRRC meeting was held. The Chief Executive Officer and the Executive Director were present at the meeting as invitees except when matters are discussed relating to the Chief Executive Officer and Executive Director.

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

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

In performing this role, the Committee ensures that:

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

In-keeping with the objectives of the Charter, the Committee has, during 2014, placed great emphasis in ensuring that the Compensation & Benefits policies of the Bank are appropriate in attracting and retaining the skills required in pursuing the short term and long term strategic objectives, of the Bank.

In March 2014 at the HRRC meeting, a comprehensive review of the Bank's Compensation and Benefits with recommended amendments and its comparison to industry practice was presented to the Committee. Recommendations for changes to the compensation and benefits were approved and will be adopted in 2014.

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

During the year, the Bank participated in three remuneration surveys carried out by external consulting firms. The findings of the survey will be used as a basis for formulating the remuneration levels for the year 2015.

During 2014, the Committee also evaluated the performance of the CEO, Executive Director and other Key Management Personnel of the Bank against their pre-agreed objectives and targets.

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

| Name | Eligibility | Attendance | Excused |
|-----------------------|-------------|------------|---------|
| Mr. A.K. Gunaratne | 1 | 1 | Nil |
| Mr. A.R. Rasiah | 1 | 1 | Nil |
| Dr. (Ms) D. Weerakoon | 1 | 1 | Nil |
| Mr. K.N.J. Balendra | 1 | 1 | Nil |
| Dr. Kemal de Soysa | 1 | 1 | Nil |

On 8th May 2014, the Human Resources and Remuneration Committee was reconstituted as follows:

Mr. K.N.J. Balendra (Chairman)

Mr. C.L.K.P. Jayasuriya

Dr.(Ms.) Dushni Weerakoon

Mr. A.R. Rasiah

Dr. Kemal de Soysa



K.N.J. Balendra

Chairman

Human Resources and Remuneration Committee

Colombo

26 February 2015

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

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

General

The Directors have pleasure in presenting to the members their Report together with the Audited Financial Statements for the year ended 31st December, 2014 of Nations Trust Bank PLC., a public limited liability company incorporated in Sri Lanka on 21st January 1999 under the Companies Act No. 17 of 1982, quoted in the Colombo Stock Exchange in May 1999 and a licensed commercial bank under the Banking Act No. 30 of 1988. The Bank was re-registered on 14th February 2008 as required under the provisions of the Companies Act No. 7 of 2007.

The Annual Report of the Board of Directors and the Audited Financial Statements were approved by the Directors on 26th February, 2015.

Statement of Compliance on the Contents of the Annual Report

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

Principal Activities

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

Bank

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

Subsidiaries

The principal activities of the Bank's subsidiaries viz. Waldock Mackenzie Ltd., Allied Properties Ltd., and Nations Insurance Brokers Ltd. are carrying out margin trading, money market operations and fund and fee based activities, property rental, and insurance broking, respectively.

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

Mercantile Leasing (Financial Services) Limited (MLFS) which was a non operating subsidiary of the Bank commenced liquidation proceedings in June 2013. Company has now completed all the steps in the winding up process. MLFS was engaged in the business of managing an operating leases portfolio.

Financial Statements

Financial Statements of the Bank and the group are given on pages 162 to 250 of this Annual Report.

Auditors' Report

Auditors' Report on the Financial Statements is given on Page 159.

Significant Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 167 to 179.

The Accounting Policies have been amended in line with the new Sri Lanka Accounting Standards.

Interests Register

All Directors have made general declarations as provided for in Section 192 (2) of the Companies Act No. 7 of 2007. Arising from these, details of contracts in which they have an interest are given on pages 151 to 152 of this Report.

The Following entries were made in the Interests Register during the year under review:

1. Approval of remuneration to Executive Directors by the Board – 31st March, 2014.
2. Approval of remuneration to Non Executive Directors by the Board-31st March, 2014

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

Directors' Shareholdings

Directors' shareholding as at 31st December, 2014 and 2013 are given below.

| Name of the Director | No. of Shares | |
|---|---------------|---------|
| | 2014 | 2013 |
| Mr. A. K. Gunaratne (Resigned on 30th April, 2014) | N/A | 19,432 |
| Mr. A. R. Rasiah | 16,304 | 16,304 |
| Dr.(Ms.) D. Weerakoon | - | - |
| Mr. M. E. Wickremesinghe | - | - |
| Mr. K. N. J. Balendra | 107,700 | 107,700 |
| Mr. C. H. S. K. Piyaratna (Resigned on 31st December, 2014) | 100,400 | 100,400 |
| Mr. M. Jafferjee | - | - |
| Dr. Kemal de Soysa | - | - |
| Mr. D. Prasanna De Silva | - | - |
| Ms. N. Shalini Panditaratne | - | - |
| Mr. Suran Wijesinghe | 39,650 | 39,650 |
| Ms. R. N. K. Fernando | 68,700 | 68,700 |
| Mr. C. L. K. P. Jayasuriya | - | N/A |
| Mr. J. G. A. Cooray | 8,400 | N/A |

Directors' Remuneration

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

| | Bank (LKR '000) | Group (LKR '000) |
|---------------------------------|--------------------|---------------------|
| Executive Directors' emoluments | 47,012 | 47,012 |
| Non Executive Directors' fees | 15,510 | 15,510 |

Corporate Donations

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

Directorate

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

| Name and the Designation | Eligibility | Attendance | Excused |
|--|-------------|------------|---------|
| Non Executive Directors | | | |
| Mr. A. K. Gunaratne (Resigned on 30th April, 2014) | 4 | 4 | Nil |
| Mr. K. N. J. Balendra | 13 | 13 | Nil |
| Mr. D. Prasanna De Silva | 13 | 12 | 1 |
| Mr. Suran Wijesinghe | 13 | 13 | Nil |
| Mr. C. L. K. P. Jayasuriya | 09 | 08 | 1 |
| Mr. J. G. A. Cooray | 09 | 08 | 1 |
| Independent Non Executive Directors | | | |
| Mr. A. R. Rasiah - Senior Director | 13 | 12 | 1 |
| Mr. M. E. Wickremesinghe | 13 | 12 | 1 |
| Dr. (Ms.) D. Weerakoon | 13 | 12 | 1 |
| Mr. Murtaza Jafferjee | 13 | 13 | Nil |
| Dr. Kemal de Soysa | 13 | 13 | Nil |
| Ms. N. Shalini Panditaratne | 13 | 10 | 3 |
| Executive Directors | | | |
| Mr. C. H. S. K. Piyaratna (Resigned on 31st December, 2014) | 13 | 13 | Nil |
| Ms. R. N. K. Fernando | 13 | 11 | 2 |

Mr. A. K. Gunaratna, a Non Executive Director and Mr. C. H. S. K. Piyaratna, an Executive Director resigned from the Board on 30th April, 2014 and 31st December, 2014, respectively. Mr. C. L. K. P. Jayasuriya and Mr. J. G. A. Cooray were appointed to the Board as Non Executive Directors with effect from 1st May, 2014. Mr. Harsha Raghavan was appointed to the Board as a Non Executive Director with effect from 1st January, 2015.

Mr. K. N. J. Balendra was appointed as the Chairman of the Bank. Mr. M. E. Wickremesinghe functioned as the Senior Director till 30th April, 2014. Mr. A. R. Rasiah was designated as the Senior Director of the Bank with effect from 1st May, 2014.

Mr. D. Prasanna De Silva, Ms. N. Shalini Panditaratna and Mr. Suran Wijesinghe retire by rotation and being eligible for re-election are recommended by the Board for re-election as provided for in the Article No. 27 of the Articles of Association of the Bank.

Mr. C. L. K. P. Jayasuriya, Mr. J. G. A. Cooray and Mr. Harsha Raghavan who were appointed to the Board subsequent to the last Annual General Meeting are recommended for election by the shareholders pursuant to Article No.25 of the Articles of Association of the Bank and in terms of Direction No. 3 (2) (x) of Banking Act Direction No. 11 of 2007 (Directions on Corporate Governance for Licensed Commercial Banks).

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

Auditors

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

| | Bank (LKR '000) | Group (LKR '000) |
|-------------------------|--------------------|---------------------|
| Audit Fees | 8,433 | 10,234 |
| Fees for Other Services | 1,118 | 1,118 |

Other services consisted of advisory and tax related work.

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

Results and Dividends

Consolidated Statement of Profit or Loss along with the Bank's Statement of Profit or Loss for the year is given on page 163 Statement of Financial Position of the Bank and the Group are given on page 162.

Having satisfied the solvency test requirement under the Companies Act No. 7 of 2007 the Directors recommend a first and final dividend of LKR. 2.10 per share to the holders of ordinary shares of the Bank registered on the books of the Bank as at end of 31st March, 2015.

Information on Shares and Debentures

Information relating to holdings of shares and debentures is given in pages 104 to 105 of this Report.

Post- Balance Sheet Events

No circumstances have arisen since the reporting date that would require adjustment or disclosure other than those disclosed in Note 46 to the Financial Statements contained on page 250.

Capital Adequacy

The Group's capital adequacy ratios as at 31st December, 2014 were 14.16 for Tier I and 18.28 for Tier I & II and are above the minimum requirements of the Central Bank of Sri Lanka.

Report on Compliance with Prudential Requirements, Regulations, Laws and Internal Controls

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

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

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

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

Transactions with Related Parties

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

| Category of Related Party | Subsidiary Companies * | | Directors of the Bank | | Key Management Personnel (KMP) of the Bank | |
|---|------------------------|--------------------|-----------------------|--------------------|--|--------------------|
| | 2014 (LKR' 000) | 2013 (LKR' 000) | 2014 (LKR' 000) | 2013 (LKR' 000) | 2014 (LKR' 000) | 2013 (LKR' 000) |
| Items in the Statement of Financial Position | | | | | | |
| Assets | | | | | | |
| Accommodation | | | | | | |
| Loans and Advances | 135,435 | 413,365 | 3,332 | 3,687 | 73,938 | 65,667 |
| Credit Cards | - | - | 809 | 1,424 | 4,367 | 4,470 |
| Reverse Repurchase Agreements | - | 907,271 | - | - | - | - |
| Derivative Financial Assets | - | - | - | - | - | - |
| Other Assets | 5,922 | 5,922 | - | - | - | - |
| Total Accommodation | 141,357 | 1,326,557 | 4,141 | 5,111 | 78,305 | 70,137 |
| Less: Cash Collaterals against Total Accommodations | - | - | 5,093 | 4,512 | 46,767 | 53,782 |
| Inv. made in the Bank's Equity and Debt instruments | | | | | | |
| Total Net Accommodation | 141,357 | 1,326,557 | Nil | 599 | 31,538 | 16,355 |
| Total Net Accommodation % of Total Regulatory Capital | 0.85% | 8.88% | - | - | 0.19% | 0.11% |
| Liabilities | | | | | | |
| Due to Customers | - | 304,683 | 74,792 | 83,178 | 100,989 | 86,543 |
| Reverse Repurchase Agreements | 430,975 | 34,007 | 35,822 | - | 22,229 | 701 |
| Other Liabilities/Financial Guarantees | - | 5,653 | - | - | - | - |
| Derivative Financial Liabilities | - | - | - | - | - | - |
| Equity | | | | | | |
| Dividends Paid (Net) | - | - | 712 | 670 | 56 | 54 |
| Commitments | | | | | | |
| Undrawn Facilities | 1,664,565 | 1,061,243 | 1,006 | 3,935 | 6,177 | 22,394 |
| Letter of Credit / Guarantees | - | - | - | - | - | - |
| Forward - Foreign Exchange Contracts | - | - | - | - | - | - |
| Items in the Statement of Profit or Loss | | | | | | |
| Interest Income Earned | 94,812 | 157,404 | 195 | 284 | 4,572 | 6,509 |
| Interest Expenses Paid | 23,986 | 40,195 | 3,641 | 6,552 | 5,708 | 10,165 |
| Other Income Earned | 6,114 | 5,830 | 106 | 33 | 25 | 115 |
| Dividends Received (Gross) | 11,250 | 216,345 | - | - | - | - |
| Expenses Paid | 38,364 | 38,364 | - | - | - | - |
| Compensation paid | | | | | | |
| Short Term Employee Benefits | - | - | 47,012 | 46,953 | 137,591 | 111,262 |
| Post Employment Benefits | - | - | 6,489 | 5,418 | 19,035 | 15,860 |

* Subsidiaries of the Group include Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited .

** Since John Keells Holdings PLC together with Mackinnon Keells Limited, HWIC Asia Fund and Central Finance Company PLC together with CF Growth Fund Limited and CF Insurance Brokers Limited hold material interest in the Bank. Transactions with these companies have been disclosed.

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

Key Management Personnel (KMP) consists of Bank's Directors, members of Corporate Management team, DGM Internal Audit and Compliance Officer as designated by the Corporate Governance structure.

| Close Relations of Directors and KMP | | Shareholders owning a material interest in the Bank ** | | Concerns in which Directors, Close Relations of Directors or material shareholders have a substantial interest | |
|--------------------------------------|--------------------|--|--------------------|--|--------------------|
| 2014 (LKR' 000) | 2013 (LKR' 000) | 2014 (LKR' 000) | 2013 (LKR' 000) | 2014 (LKR' 000) | 2013 (LKR' 000) |
| 14,795 | 10,852 | - | - | 871,498 | 47,535 |
| 585 | 148 | - | 2,211 | 19 | 13 |
| - | - | - | - | - | - |
| - | - | - | - | 2,177 | 198 |
| - | - | - | - | 37,235 | 21,531 |
| 15,380 | 11,000 | - | 2,211 | 910,929 | 69,277 |
| 11,813 | 12,832 | - | - | - | - |
| 3,567 | Nil | Nil | 2,211 | 910,929 | 69,277 |
| 0.02% | - | - | 0.01% | 5.46% | 0.46% |
| 13,977 | 28,034 | 34,140 | 1,005,166 | 312,894 | 3,852,195 |
| - | - | 2,104,446 | 1,978,008 | 818,826 | 520,051 |
| - | - | - | 89,336 | 3,430 | 69,838 |
| - | - | - | - | 3,304 | 1,294 |
| 14 | 6 | 227,231 | 218,824 | - | - |
| 2,444 | 5,690 | 693,106 | 635,476 | 579,065 | 753,329 |
| - | - | 56,894 | 114,525 | 213,445 | 292,018 |
| - | - | - | - | 488,036 | 741,256 |
| 1,417 | 1,592 | 108 | 27,442 | 28,400 | 30,739 |
| 602 | 1,538 | 104,427 | 123,483 | 100,076 | 144,123 |
| 16 | 105 | 2,012 | 2,351 | 43,867 | 11,998 |
| - | - | - | - | - | - |
| - | - | 34,650 | 44,164 | 56,865 | 25,002 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |

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

Directors of Subsidiary Companies

Waldock Mackenzie Limited

Mr. K. N. J. Balendra -

Appointed as the Chairman with effect from 1st May, 2014

Ms. R. N. K. Fernando

Mr. J. G. A. Cooray -

Appointed with effect from 1st January, 2015

Resignations

Mr. A. K. Gunaratne – Chairman – on 30th April, 2014

Mr. C. H. S. K. Piyaratna - on 31st December, 2014

Nations Insurance Brokers Limited

Ms. R. N. K. Fernando -

Appointed as the Chairman with effect from 1st January, 2015

Dr. Kemal de Soysa -

Appointed with effect from 1st January, 2015

Resignations

Mr. C. H. S. K. Piyaratna -

Chairman - on 31st December, 2014

Allied Properties Limited

Mr. K. N. J. Balendra -

Appointed as the Chairman with effect from 1st May, 2014

Ms. R. N. K. Fernando

Resignations

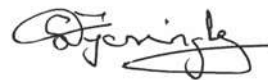
Mr. A. K. Gunaratne –Chairman –on 30th April, 2014

Going Concern

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

Annual General Meeting

Annual General Meeting of the Bank will be held at the Auditorium of the Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 07, Sri Lanka on 31st March, 2015 at 10.30 a.m.



Suran Wijesinghe

Director



R. N. K. Fernando

Director/Chief Executive Officer



Theja Silva

Company Secretary

Colombo

26 February 2015

Directors' Interest in Contracts with the Bank

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

Details of the transactions carried out with Director-related entities during the year 2014

| Name of Related Party | Name of Director | Relationship | Details | Amount Outstanding as at 31.12.2014 LKR |
|---|--------------------------|--------------|---|---|
| Allied Properties Limited | Mr. K. N. J. Balendra | Director | A sum of LKR 15,358,427 was paid as Interest Expense | Nil |
| | Ms. R. N. K. Fernando | Director | A sum of LKR 38,363,785 was paid as Rent Expenses | Nil |
| Beruwala Holiday Resort | Mr. A. R. Rasiah | Director | A sum of LKR 1,970,691 was paid as Accommodation Expenses | Nil |
| | | | A sum of LKR 3,750 was received as Other Income | Nil |
| | | | A sum of LKR 21,649 was paid as Interest Expense | Nil |
| Central Finance Company PLC | Mr. D. Prasanna De Silva | Director | A sum of LKR 34,650,064 was paid as Vehicle Hire Charges | Nil |
| | Mr. Kumar Jayasuriya | Director | A sum of LKR 1,983,636 was received as Other Income | Nil |
| Ceylon Cold Stores PLC | Mr. A. R. Rasiah | Director | A sum of LKR 434,848 was received as Other Income | Nil |
| | | | A sum of LKR 53 was received as Interest Income | Nil |
| Ceylon Pencil Company Ltd | Mr. A. R. Rasiah | Director | A sum of LKR 2,750,580 was received as Other Income | Nil |
| | | | A sum of LKR 21,579,785 was received as Interest Income | Nil |
| CF Insurance Brokers | Mr. D. Prasanna De Silva | Director | A sum of LKR 4,900 was received as Other Income | Nil |
| E.B Creasy & Company ltd | Mr. A. R. Rasiah | Director | A sum of LKR 1,509,461 was received as Other Income | Nil |
| | | | A sum of LKR 2,627,053 was received as Interest Income | Nil |
| East India Holdings (Pvt) Ltd | Dr. Kemal de Soysa | Director | A sum of LKR 11,000 was received as Other Income | Nil |
| Jaykay Marketing Services (Pvt) Limited | Mr. K. N. J. Balendra | Director | A sum of LKR 19,886,089 was paid as Business Promotion Expenses | Nil |
| | | | A sum of LKR 174,050 was received as Other Income | Nil |
| | | | A sum of LKR 105,270 was paid as Interest Expense | Nil |

Directors' Interest in Contracts with the Bank

| Name of Related Party | Name of Director | Relationship | Details | Amount Outstanding as at 31.12.2014 LKR |
|--|---------------------------|--------------|--|---|
| John Keells Stock Brokers | Mr. K. N. J. Balendra | Director | A sum of LKR 450,664 was received as Other Income | Nil |
| | | | A sum of LKR 28,356 was paid as Interest Expense | Nil |
| Nations Insurance Brokers Limited | Ms. R.N.K. Fernando | Director | A sum of LKR 8,628,014 was paid as Interest Expense | Nil |
| | Dr. Kemal de Soysa | Director | A sum of LKR 263,314 was received as Other Income | Nil |
| | Mr. C. H. S. K. Piyaratna | Director | | |
| Nexus Network (Pvt) Ltd | Mr. K. N. J. Balendra | Director | A sum of LKR 1,970,691 was paid as Nexus Loyalty Expenses | Nil |
| | | | A sum of LKR 23,759,018 was received as Nexus Loyalty Management Fee | Nil |
| | | | A sum of LKR 600 was received as Interest Income | Nil |
| Serendib Hotels Limited | Mr. Murtaza Jafferjee | Director | A sum of LKR 2,500 was received as Other Income | Nil |
| South Asia Gateway Terminals (Pvt) Ltd | Mr. K. N. J. Balendra | Director | A sum of LKR 9,826,640 was paid as Interest Expense | Nil |
| Swiss Biogenics Limited | Mr. C. H. S. K. Piyaratna | Director | A sum of LKR 1,588,330 was received as Other Income | Nil |
| | | | A sum of LKR 972,480 was received as Interest Income | Nil |
| Waldock Mackenzie Limited | Mr. K. N. J. Balendra | Director | A sum of LKR 94,812,485 was received as Interest Income | Nil |
| | Ms. R.N.K. Fernando | Director | A sum of LKR 5,851,000 was received as Other Income | Nil |
| | Mr. C. H. S. K. Piyaratna | Director | A sum of LKR 11,249,998 was received as Dividends | Nil |

Details of Accommodation granted and balances outstanding as at 31-December-2014

| Name of Related Party | Name of Director | Relationship | Accommodation Granted | Limit LKR | Amount outstanding as at 31.12.2014 LKR |
|---------------------------|------------------|--------------|---------------------------|-------------|---|
| Ceylon Pencil Company Ltd | Mr. A. R. Rasiah | Director | Commercial Loan | 400,000,000 | 208,446,564 |
| | | | Trade Finance Facility | 800,000,000 | 542,908,398 |
| E.B Creasy & Company | Mr. A. R. Rasiah | Director | Working Capital Financing | 15,000,000 | 15,100,676 |
| | | | Leasing | 550,492 | 550,492 |
| | | | Trade Finance Facility | 150,000,000 | 137,941,957 |

Directors' Statement on Internal Control Over Financial Reporting

Responsibility

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

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

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

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

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

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

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

- Various Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Review Committee. Findings of the Internal audit Department are submitted to the Board Audit Review Committee for review at their periodic meetings.
- The Board Audit Review Committee of the Bank reviews internal control over Financial Reporting issues identified by the Internal Audit Department, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Board Audit Review Committee meetings are forwarded to the Board of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on page 156.
- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. These in turn were observed and checked by

Directors' Statement on Internal Control Over Financial Reporting

the internal audit department for suitability of design and effectiveness on an ongoing basis. In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS, progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure were made whilst further strengthening of processes namely review of disclosures with regard to financial risk management, fair value, commitment and contingencies and quarterly financial reporting will be taking place in the future. The assessment did not include subsidiaries of the Bank.

Confirmation

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

Review Of The Statement By External Auditors

The external auditors have reviewed the above Directors Statement on Internal Control over financial reporting included in the annual report of the Bank for the year ended 31 December 2014 and reported to the Board that nothing has come to their

attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank.

By order of the Board



A.R. Rasiah
Chairman
Board Audit Review Committee



Suran Wijesinghe
Director



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

Colombo
26 February 2015

Auditors' Report on Internal Control over Financial Reporting



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

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

We were engaged by the Board of Directors of Nations Trust Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2014.

Management's responsibility

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

Our responsibilities and compliance with SLSAE 3050

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

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have

adopted in reviewing the system of internal control over financial reporting of the Bank.

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

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

Our conclusion

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

26 February 2015

Colombo

Partners: A.D.B. Tawatche FCA FCMA, M.P.D. Cooray FCA FCMA, R.N. de Saram ACA FCMA, M.S. N.A. De Silva FCA, Ms. Y.A. De Silva FCA, W.R.H. Fernando FCA FCMA, W.K.B.S.P. Fernando FCA FCMA, Ms. J. K.H. Jayawardena FCA, A.P.A. Gunasekera FCA FCMA, A. Herath FCA, D.K. Hulugamuwa FCA FCMA LLB (Lond), T.R.P. Jayasinghe FCA FCMA, Ms. A.A. Ludowyke FCA FCMA, Ms. G.G.S. Murali Inda ACA, T.M. Sulaman ACA ACMA, B.H. Wijesuriya ACA ACMA

A member firm of Ernst & Young Global Limited

Board Audit Review Committee Report

The Board Audit Review Committee (the "BARC") is a sub-committee of the Board of Directors chaired by an independent non-executive director and comprising exclusively of non-executive directors. The DGM Internal Audit of the Bank is the secretary of the BARC. The Director / Chief Executive Officer has attended meetings on the invitation of BARC. Other members of the Corporate Management have attended such meetings as and when required by BARC. The minutes of meetings of the BARC are submitted for review to the Board of Directors. The DGM Internal Audit reports directly to the Chairman of the BARC, a practice that strengthens the independence of the position.

Functions of BARC

The BARC advises the Board of Directors on the Bank's system of internal controls. As and when required, it requests additional information from management in order to satisfy itself of the adequacy of the controls in place. The functions are in accordance with the Banking Direction # 11 of 2007 – Corporate Governance for Licensed Commercial Banks in Sri Lanka.

The functions of BARC include the following

- To make recommendations on matters in connection with the appointment of the External Auditor of the Bank; the implementation of the Central Bank of Sri Lanka guidelines issued to auditors, the application of the relevant accounting standards; and the service period, audit fee and any resignation or dismissal of the External Auditor.
- To review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.
- To develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines.
- To act as the key representative body for overseeing the Bank's relations with the External Auditor.
- To review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein.

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

Activities of the BARC

During the year under review, the BARC met 14 times in the discharge of its functions and

- Reviewed 64 internal audit reports relating to branches including 04 interim audit reports finalized by the Delivery Channel Unit.

- Reviewed 53 departmental, process audit and investigations.
- Paid attention to the adequacy of procedures and effectiveness of internal controls, recommended corrective action whenever necessary;
- Reviewed the adequacy of the insurance cover of the various policies in force
- Monitored Treasury activities and the customer asset portfolio to ensure that credit quality and the inherent risks were addressed, with specific attention to ensure that preventive action was taken to minimize possible losses;
- Discussed issues arising from the internal audit and investigation reports with representatives of the external auditor, who attend the BARC meetings regularly by invitation;
- Reviewed the management letter sent by the auditors, management's response thereto and follow up action;
- Met with the representatives of the External Auditor in the closed sessions of the BARC meetings thereby providing them with an opportunity to express their views independent of management;
- Monitored compliance with requirements laid down by the regulatory authorities;
- Ratified the quarterly financial statements prior to approval by the Board of Directors, publication and submission to the Central Bank, the Colombo Stock Exchange and shareholders;
- Paid special attention to the items highlighted in the last examination report of the Central Bank with a view to ensuring that the highlighted items were brought to a logical conclusion.
- Reviewed the process adopted by the bank in tabulating, selection criteria, threshold levels and other major assumptions in relation to the calculation of the Impairment figures of the Bank.
- Reviewed on a quarterly basis the adherence to the policy on the engagement of the external auditor to provide non-audit services and reviewed the audit and the non-audit work that is assigned to the external auditor
- Ensured that the provision of such services do not impair the external auditors' independence. Based on these reviews the BARC has no reason to doubt the independence and effectiveness of the External Auditor.
- Encouraged the involvement of DGM and Senior Staff of Internal Audit to involve themselves in the initial and ongoing training carried out by the Bank for its employees to proactively instill in the employees a culture of compliance with internal controls, to prevent possible areas of non-compliance, to mitigate risk and to familiarize the employees with the policy of the Bank that enables them to raise concerns in confidence.
- Directions were given for amendments made to the Audit Charter and the Whistle Blowing Policy and reviewed the same.

Attendance at BARC meeting

| Name and Designation | Eligibility | Attendance | Excused |
|---|-------------|------------|---------|
| Mr. Maithri Wickremesinghe Former Chairman | 7 | 6 | 1 |
| Mr. Prasanna De Silva Director | 5 | 5 | - |
| Mr. A.R. Rasiyah Current Chairman | 14 | 13 | 1 |
| Dr. Dushni Weerakoon Director | 14 | 12 | 2 |
| Ms. N. Shalini Panditaratne Director | 14 | 7 | 7 |
| Mr. Suran Wijesinghe Director | 14 | 14 | - |
| Mr. C.L.K.P. Jayasuriya Director | 9 | 8 | 1 |

The BARC is of the view that adequate internal controls and procedures are in place at the Bank and its subsidiaries to provide reasonable assurance that its assets are safeguarded and financial stability maintained. The BARC has recommended to the Board of Directors that Messrs. Ernst & Young be reappointed as External Auditors of the Bank for the financial year ending 31 December 2015 at the next Annual General Meeting.



A.R. Rasiyah
Chairman
Board Audit Review Committee

Colombo
26 February 2015

Directors' Responsibility for Financial Reporting

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Report of the Auditors on page 159 of the Report.

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

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

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

The Directors are also of the view that the Bank and its subsidiaries have adequate resources to continue in operation and have applied the going-concern basis in preparing these Financial Statements.

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

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

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

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

By Order of the Board



Theja Silva
Company Secretary

Colombo

26 February 2015

Independent Auditors' Report



Ernst & Young
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONS TRUST BANK PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Nations Trust Bank PLC, (the "Bank"), and the consolidated financial statements of the Bank and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board of Directors (the "Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness

of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion :
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.
 - The financial statements of the Bank give a true and fair view of the financial position as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - The financial statements of the Bank and the Group, comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

26 February 2015
Colombo

Partners : A.D.B. Tawatche FCA FCMA | M.P.D. Cooray FCA FCMA | R.N. de Saram ACA FCMA | Ms. N.A. De Silva FCA | Ms. Y.A. De Silva FCA | W.R.H. Fernando FCA FCMA |
W.R.B.S.P. Fernando FCA FCMA | Ms. J. K.H. Jayawardena FCA | A.F.A. Gunasekera FCA FCMA | A. Herath FCA | D.R. Hulugamuwa FCA FCMA LLB (Lond) | H.R.A. Jayasinghe FCA FCMA |
Ms. A.A. Ludowyke FCA FCMA | Ms. G.G.S. Muralidha ACA | H.K. Sulaiman ACA ACMA | B.H. Wijesuriya ACA ACMA

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Moving closer to our
goal of becoming the
Primary Bank
for customers
everywhere



Financial Statements



Statement of Financial Position

As at 31 December

| | Notes | Bank | | Group | |
|--|-------|--------------------|--------------------|--------------------|--------------------|
| | | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Assets | | | | | |
| Cash and Cash Equivalents | 5 | 6,898,881 | 3,019,735 | 6,899,905 | 3,019,774 |
| Balances with Central Bank of Sri Lanka | 6 | 3,992,118 | 4,031,763 | 3,992,118 | 4,031,763 |
| Reverse Repurchase Agreements | 7.1 | 11,013,507 | 1,459,506 | 11,013,507 | 552,236 |
| Derivative Financial Instruments | 8.1 | 128,053 | 121,491 | 128,053 | 121,491 |
| Financial Assets - Held for Trading | 9 | 15,648,717 | 23,365,388 | 15,700,388 | 24,460,493 |
| Financial Assets-Available for Sale | 10 | 4,329,449 | 5,460 | 4,329,449 | 5,460 |
| Financial Assets - Held to Maturity | 11 | 9,586,218 | 19,734,821 | 9,653,000 | 19,794,014 |
| Other Financial Assets | 12 | 3,820,746 | 2,193,122 | 3,820,746 | 2,193,122 |
| Loans and Advances to Customers | 13 | 97,068,259 | 81,128,760 | 98,347,049 | 82,327,255 |
| Investments in Subsidiaries | 14 | 678,710 | 678,710 | - | - |
| Other Assets | 15 | 2,437,804 | 2,813,219 | 2,506,351 | 2,893,700 |
| Property, Plant and Equipment | 16 | 1,717,856 | 1,545,426 | 2,194,425 | 2,048,442 |
| Intangible Assets | 17 | 1,271,137 | 665,130 | 1,283,223 | 680,007 |
| Total Assets | | 158,591,455 | 140,762,531 | 159,868,214 | 142,127,757 |
| Liabilities | | | | | |
| Due to Banks | 18 | 2,922,784 | 1,401,473 | 2,922,784 | 1,401,473 |
| Repurchase Agreements | 7.2 | 15,444,206 | 16,318,686 | 15,046,562 | 16,284,679 |
| Derivative Financial Instruments | 8.2 | 166,370 | 633,625 | 166,370 | 633,625 |
| Due to Customers | 19 | 111,046,446 | 96,036,198 | 111,009,668 | 95,729,533 |
| Debt Issued and Other Borrowed Funds | 20 | 9,685,257 | 9,982,566 | 10,189,448 | 10,589,224 |
| Current Tax Liabilities | | 639,359 | 332,732 | 666,345 | 383,318 |
| Other Liabilities | 21 | 5,483,425 | 4,924,811 | 5,559,037 | 5,027,146 |
| Deferred Tax Liabilities | 22 | 415,053 | 341,763 | 413,475 | 340,596 |
| Total Liabilities | | 145,802,900 | 129,971,854 | 145,973,689 | 130,389,594 |
| Equity Attributable to Equity Holders of the Parent | | | | | |
| Stated Capital | 23 | 5,101,369 | 5,101,369 | 5,101,369 | 5,101,369 |
| Statutory Reserve Fund | 24 | 538,205 | 419,305 | 538,205 | 419,305 |
| Retained Earnings | 25 | 7,037,084 | 4,183,983 | 8,143,054 | 5,067,107 |
| Available for Sale Reserve | 26.2 | 111,897 | - | 111,897 | - |
| Other Reserves | 26.1 | - | 1,086,020 | - | 1,150,382 |
| Total Equity | | 12,788,555 | 10,790,677 | 13,894,525 | 11,738,163 |
| Total Liabilities and Equity | | 158,591,455 | 140,762,531 | 159,868,214 | 142,127,757 |
| Contingent Liabilities and Commitments | 43.2 | 98,688,631 | 90,180,741 | 98,799,150 | 90,266,632 |
| Net Assets Value Per Ordinary Share (LKR.) | | 55.46 | 46.79 | 60.25 | 50.90 |

Certification

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



Ajith Akmeemana
Chief Financial Officer

The Notes to the Financial Statements from pages 167 to 250 form an integral part of these Financial Statements. The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board of Directors by ;



Suran Wijesinghe
Director



A.R. Rasiah
Director



Renuka Fernando
Director/ CEO



Theja Silva
Company Secretary

Colombo
26 February 2015

Statement of Profit or Loss

For the Year Ended 31 December

| | Notes | Bank | | Group | |
|---|-------|------------------|------------------|------------------|------------------|
| | | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Interest Income | 27 | 17,267,659 | 17,662,946 | 17,452,461 | 17,911,206 |
| Interest Expense | 28 | (8,521,173) | (10,222,619) | (8,512,713) | (10,236,602) |
| Net Interest Income | | 8,746,486 | 7,440,327 | 8,939,748 | 7,674,604 |
| Fees and Commission Income | 29.1 | 2,862,268 | 2,576,568 | 3,008,084 | 2,719,371 |
| Fees and Commission Expense | 29.2 | (224,576) | (215,174) | (224,576) | (215,189) |
| Net Fees and Commission Income | | 2,637,692 | 2,361,394 | 2,783,508 | 2,504,182 |
| Net Trading Income / (Loss) | 30 | 123,639 | (494,383) | 111,370 | (478,418) |
| Other Operating Income | 31 | 293,146 | 404,356 | 281,897 | 209,655 |
| Total Operating Income | | 11,800,963 | 9,711,694 | 12,116,523 | 9,910,023 |
| Impairment Charge for Loans and Advances | 32 | 1,156,730 | 449,419 | 1,157,409 | 450,610 |
| Net Operating Income | | 10,644,233 | 9,262,275 | 10,959,114 | 9,459,413 |
| Personnel Expenses | 33 | 2,665,130 | 2,455,508 | 2,700,398 | 2,494,662 |
| Depreciation of Property, Plant and Equipment | | 295,244 | 246,265 | 323,753 | 257,814 |
| Amortisation of Intangible Assets | | 168,557 | 153,682 | 171,348 | 156,515 |
| Other Operating Expenses | 34 | 3,190,988 | 2,876,924 | 3,192,188 | 2,869,527 |
| Total Operating Expenses | | 6,319,919 | 5,732,379 | 6,387,687 | 5,778,518 |
| Operating Profit Before Value Added Tax (VAT) & Nations Building Tax (NBT) on Financial Services | | 4,324,314 | 3,529,896 | 4,571,427 | 3,680,895 |
| VAT & NBT on Financial Services | 35 | 726,576 | 508,291 | 744,474 | 529,705 |
| Profit Before Income Tax | | 3,597,738 | 3,021,605 | 3,826,953 | 3,151,190 |
| Income Tax Expense | 36 | 1,219,745 | 899,622 | 1,290,373 | 1,014,789 |
| Profit for the Year | | 2,377,993 | 2,121,983 | 2,536,580 | 2,136,401 |
| Earnings Per Share | | | | | |
| Basic / Diluted Earnings Per Share - LKR | 37 | 10.31 | 9.16 | 11.00 | 9.22 |
| Dividend Per Share - LKR | 38 | 2.10 | 2.10 | 2.10 | 2.10 |

The Notes to the Financial Statements from pages 167 to 250 form an integral part of these Financial Statements.

Statement of Other Comprehensive Income

For the Year Ended 31 December

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Profit for the Year | 2,377,993 | 2,121,983 | 2,536,580 | 2,136,401 |
| Other Comprehensive Income to be reclassified to profit or loss in subsequent periods: | | | | |
| Net gains on re-measuring available-for-sale financial assets | 155,413 | - | 155,413 | - |
| | 155,413 | - | 155,413 | - |
| Other Comprehensive Income not to be reclassified to profit or loss in subsequent periods: | | | | |
| Actuarial Loss on defined benefit plan | (10,746) | (9,151) | (10,983) | (9,223) |
| | (10,746) | (9,151) | (10,983) | (9,223) |
| Total other Comprehensive income | 144,667 | (9,151) | 144,430 | (9,223) |
| Net Income Tax Charge relating to components of other Comprehensive income | (40,507) | - | (40,373) | - |
| Other Comprehensive Income for the Year, Net of Tax | 104,160 | (9,151) | 104,057 | (9,223) |
| Total Comprehensive Income for the Year, Net of Tax | 2,482,153 | 2,112,832 | 2,640,637 | 2,127,178 |
| Attributable to: | | | | |
| Equity Holders of the Parent | 2,482,153 | 2,112,832 | 2,640,637 | 2,127,178 |

The Notes to the Financial Statements from pages 167 to 250 form an integral part of these Financial Statements.

Statement of Changes in Equity

| BANK | Stated Capital | Retained Earnings | Available for Sale Reserve | Statutory Reserve Fund | Investment Fund Account | Total |
|--|----------------|-------------------|----------------------------|------------------------|-------------------------|------------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| As at 01 January 2013 | 5,101,369 | 3,153,852 | - | 313,663 | 593,236 | 9,162,120 |
| Profit for the Year | - | 2,121,983 | - | - | - | 2,121,983 |
| Other Comprehensive Income | - | (9,151) | - | - | - | (9,151) |
| Total Comprehensive Income | - | 2,112,832 | - | - | - | 2,112,832 |
| Dividend Paid for 2012 | - | (484,275) | - | - | - | (484,275) |
| Transfers to the Investment Fund Account | - | (492,784) | - | - | 492,784 | - |
| Transfers to the Statutory Reserve Fund | - | (105,642) | - | 105,642 | - | - |
| As at 31 December 2013 | 5,101,369 | 4,183,983 | - | 419,305 | 1,086,020 | 10,790,677 |
| Profit for the Year | - | 2,377,993 | - | - | - | 2,377,993 |
| Other Comprehensive Income | - | (7,737) | 111,897 | - | - | 104,160 |
| Total Comprehensive Income | - | 2,370,256 | 111,897 | - | - | 2,482,153 |
| Dividend Paid for 2013 | - | (484,275) | - | - | - | (484,275) |
| Transfer from the Investment Fund Account* | - | 1,086,020 | - | - | (1,086,020) | - |
| Transfers to the Statutory Reserve Fund | - | (118,900) | - | 118,900 | - | - |
| As at 31 December 2014 | 5,101,369 | 7,037,084 | 111,897 | 538,205 | - | 12,788,555 |

| GROUP | Stated Capital | Retained Earnings | Available for Sale Reserve | Statutory Reserve Fund | Investment Fund Account | Total |
|--|----------------|-------------------|----------------------------|------------------------|-------------------------|------------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| As at 01 January 2013 | 5,101,369 | 4,044,303 | - | 313,663 | 635,925 | 10,095,260 |
| Profit for the Year | - | 2,136,401 | - | - | - | 2,136,401 |
| Other Comprehensive Income | - | (9,223) | - | - | - | (9,223) |
| Total Comprehensive Income | - | 2,127,178 | - | - | - | 2,127,178 |
| Dividend Paid for 2012 | - | (484,275) | - | - | - | (484,275) |
| Transfers to the Investment Fund Account | - | (514,457) | - | - | 514,457 | - |
| Transfers to the Statutory Reserve Fund | - | (105,642) | - | 105,642 | - | - |
| As at 31 December 2013 | 5,101,369 | 5,067,107 | - | 419,305 | 1,150,382 | 11,738,163 |
| Profit for the Year | - | 2,536,580 | - | - | - | 2,536,580 |
| Other Comprehensive Income | - | (7,840) | 111,897 | - | - | 104,057 |
| Total Comprehensive Income | - | 2,528,740 | 111,897 | - | - | 2,640,637 |
| Dividend Paid for 2013 | - | (484,275) | - | - | - | (484,275) |
| Transfer from the Investment Fund Account* | - | 1,150,382 | - | - | (1,150,382) | - |
| Transfers to the Statutory Reserve Fund | - | (118,900) | - | 118,900 | - | - |
| As at 31 December 2014 | 5,101,369 | 8,143,054 | 111,897 | 538,205 | - | 13,894,525 |

The Notes to the Financial Statements from pages 167 to 250 form an integral part of these Financial Statements.

Statement of Cash Flows

For the Year Ended 31 December

| | Notes | Bank | | Group | |
|--|--------|---------------------|---------------------|---------------------|---------------------|
| | | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Cash Flows from Operating Activities | | | | | |
| Receipts of Interest Income | | 13,705,157 | 16,723,427 | 14,117,853 | 16,960,713 |
| Receipts of Fees and Commission Income | | 2,849,584 | 2,570,102 | 3,018,049 | 2,736,421 |
| Payments of Interest Expense | | (7,608,365) | (9,741,807) | (7,832,288) | (9,748,116) |
| Payments of Fees and Commission Expense | | (224,576) | (215,173) | (213,008) | (209,673) |
| Net Trading Income | | (342,800) | (631,759) | (342,800) | (631,759) |
| Receipts from Other Operating Income | | 292,478 | 400,935 | 281,961 | 222,200 |
| Gratuity Payments Made | 21.2.2 | (22,075) | (26,565) | (25,321) | (27,992) |
| Payments for Operating Expenses | | (5,826,411) | (5,586,131) | (5,889,047) | (5,642,284) |
| Net Cash Flow from Operating Activities Before Income Tax (A) | | 2,822,992 | 3,493,029 | 3,115,399 | 3,659,510 |
| Income Tax Paid | | (546,321) | (668,147) | (634,171) | (738,696) |
| Operating Profit Before Changes in Operating Assets and Liabilities | | 2,276,671 | 2,824,882 | 2,481,228 | 2,920,814 |
| (Increase)/Decrease in Operating Assets | 39.1 | (10,683,825) | (19,742,779) | (10,376,205) | (20,010,563) |
| Increase/(Decrease) in Operating Liabilities | 39.2 | 13,469,971 | 16,802,112 | 13,969,191 | 16,546,746 |
| Net Cash Flows from Operating Activities | | 5,062,817 | (115,785) | 6,074,214 | (543,003) |
| Cash Flows from Investing Activities | | | | | |
| Purchase of Property, Plant and Equipment | 16.1.1 | (467,946) | (385,544) | (470,009) | (387,993) |
| Proceeds from Sale of Property, Plant and Equipment and Intangible Assets | | 941 | 2,173 | 941 | 2,173 |
| Purchase of Intangible Assets | 17 | (774,565) | (204,782) | (774,566) | (205,221) |
| | | (1,241,570) | (588,153) | (1,243,634) | (591,041) |
| Cash Flows from Financing Activities | | | | | |
| Net Change in Debt Issued and Other Borrowed Funds | | 966,542 | (670,705) | (41,806) | (240,599) |
| Proceeds from the issue of Debentures | | - | 3,000,000 | - | 3,000,000 |
| Repayment of Subordinated Debt | | (67,325) | (1,134,650) | (67,325) | (1,134,650) |
| Interest Paid on Subordinated Debt | | (704,638) | (556,461) | (704,638) | (556,461) |
| Dividends Paid to Equity Holders of the Parent | | (484,275) | (484,275) | (484,275) | (484,275) |
| | | (289,696) | 153,909 | (1,298,044) | 584,015 |
| Net Increase in Cash and Cash Equivalents | | 3,531,551 | (550,029) | 3,532,536 | (550,029) |
| Cash and Cash Equivalents at the Beginning of the year | | 6,960,012 | 7,510,041 | 6,960,051 | 7,510,080 |
| Cash and Cash Equivalents at the End of the Year | | 10,491,563 | 6,960,012 | 10,492,587 | 6,960,051 |
| Reconciliation of Cash and Cash Equivalents | | | | | |
| Cash on Hand | 5 | 3,500,746 | 2,526,673 | 3,500,759 | 2,526,681 |
| Statutory Deposit with the Central Bank of Sri Lanka | 6 | 3,992,118 | 4,031,763 | 3,992,118 | 4,031,763 |
| Balances with Banks | | 359,164 | 493,062 | 360,175 | 493,093 |
| Money at Call and Short Notice | | 3,038,971 | - | 3,038,971 | - |
| Deposits from Other Banks | | (399,436) | (91,486) | (399,436) | (91,486) |
| | | 10,491,563 | 6,960,012 | 10,492,587 | 6,960,051 |
| A. Reconciliation of Operating Profit | | | | | |
| Profit Before Income Tax | | 3,597,738 | 3,021,605 | 3,826,953 | 3,151,190 |
| (Profit) / Loss on Disposal of Property, Plant and Equipment and Intangible Assets | | (667) | (1,760) | (667) | (1,760) |
| Impairment Charge / (Reversal) for Loans and Advances | | 1,156,730 | 449,419 | 1,157,409 | 450,610 |
| Provision for Gratuity | | 82,523 | 70,132 | 83,527 | 71,741 |
| (Increase) / Decrease in Interest Receivable | | (2,918,025) | (457,253) | (2,915,805) | (456,426) |
| Increase/ (Decrease) in Interest Payable | | 912,808 | 480,812 | 911,419 | 481,014 |
| Increase / (Decrease) in Financial Guarantee Liabilities | | (12,684) | (6,464) | (12,684) | (6,464) |
| Other Receivables | | (17,906) | 8,158 | (17,172) | 8,158 |
| Other Payables | | 623,366 | 59,682 | 623,362 | 59,682 |
| Other Non Cash items | 39.3 | (578,816) | (104,737) | (515,622) | (70,243) |
| Gratuity Payments Made | | (22,075) | (26,565) | (25,321) | (27,992) |
| | | 2,822,992 | 3,493,029 | 3,115,399 | 3,659,510 |

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 General

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

The Consolidated Financial Statements of Nations Trust Bank PLC for the year ended 31 December 2014 comprises the Bank and its subsidiaries: Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited (together referred to as the 'Group').

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

The Consolidated Financial Statements of Nations Trust Bank PLC, for the year ended 31 December 2014 was authorised for issue in accordance with the resolution of the Board of Directors on 26 February 2015.

1.2 Principal Activities and Nature of Operations

Bank

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

Subsidiaries

The principal activities of the Bank's subsidiaries, namely Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited are carrying out money market, fund and fee based activities, property rental and insurance broking respectively.

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for available for sale investments, derivative financial instruments and

other financial assets and liabilities held for trading, all of which have been measured at fair value.

The Consolidated Financial Statements are presented in Sri Lanka Rupees (LKR) which is the Group's functional and presentation currency. All values are rounded to the nearest Thousand Rupees ('000), except when otherwise indicated.

Statement of compliance

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

The preparation and presentation of these Consolidated Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007. The presentation of these Financial Statement is also in compliance with the requirements of the Banking Act No: 30 of 1998.

Presentation of Financial Statements

The Bank and the Group present its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 41.

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

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

Notes to the Financial Statements

Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, Liabilities, Income and Expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Financial Statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group. When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting

policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.2 Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

Taxation

The Group is subject to Income Taxes and other taxes including VAT on Financial Services. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements. Accordingly, the Group has exercised judgment in determining the tax effect due to the change in the accounting base and the tax base due to first time adoption of Sri Lanka Accounting Standards. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax amounts in the period in which the determination is made.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, however may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Going Concern

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

Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and inputs such as discount rates. The valuation of financial instruments is described in more detail in Note 42.

Impairment Losses on Loans and Advances

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

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

The impairment loss on loans and advances is disclosed in more detail in Note 13 and Note 32.

Impairment of Available-for-Sale (AFS) Investments

The Group reviews its debt securities classified as Available-for-Sale Investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The impairment loss on available-for-sale investments is disclosed in more detail in Note 10.

Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies (See Note 22.1.2).

Employee Benefit Liability – Gratuity

The cost of the defined benefit plan – gratuity is determined using an actuarial valuation. Actuarial valuation involves making assumptions about inter-alia discount rates, future salary increases, remaining working life of employees and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty. Description of employee benefits is given in Note 21.2

Notes to the Financial Statements

2.3 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year. There have been no significant effect to the accounting policies due to the adoption of the SLFRS 10 - Consolidated Financial Statements, SLFRS 11 - Joint Arrangements and SLFRS 12 - Disclosure of Interests in Other Entities. Changes to the disclosure requirements on the adoption of SLFRS 13 - Fair Value Measurement have been disclosed under Note 2.4.2

2.4 Summary of Significant Accounting Policies

(1) Foreign Currency Translation

Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot middle rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other Operating Income' in the Statement of Profit or Loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

(2) Fair Value Measurement

The Group measures financial instruments such as derivatives at fair value at each reporting date. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Note 42.1
- Quantitative disclosures of fair value measurement hierarchy Note 42.2
- Investment in Unquoted Equity Shares Note 10.1
- Financial Instruments (including those carried at amortised cost) Note 42

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The management determines the policies and procedures for both recurring fair value measurement, such as unquoted AFS financial assets, and for non-recurring measurement.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(3) Financial Instruments – Initial Recognition and Subsequent Measurement

(i) Date of Recognition

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

(ii) Initial Measurement of Financial Instruments

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

(iii) Derivatives Recorded at Fair Value Through Profit or Loss

The Bank uses derivatives such as cross-currency swaps, forward foreign exchange contracts and options on foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net Trading Income'.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the Statement of Profit or Loss.

(iv) Financial Assets Held for Trading

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

(v) Held to Maturity Financial Assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial assets are subsequently measured at amortised cost using the Effective Interest Rate (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Profit or Loss. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss in line 'impairment charge'.

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

(vi) Available for Sale Financial Investments

Available for sale investments include debt and equity securities. Securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Group has not designated any loans or receivables as available for sale.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity through other comprehensive income in the 'Available for Sale Reserve'. When the investment is disposed of the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in 'Other Operating Income'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the EIR.

Notes to the Financial Statements

The losses arising from impairment of such investments are recognised in the income statement in 'Impairment Losses on Financial Investments' and removed from the 'Available for Sale Reserve'.

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

'Due from Banks' and 'Loans and Advances to Customers' include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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

(viii) Debt issued and Other Borrowed Funds

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

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

An analysis of the Group's issued debt is disclosed in Note 20.

(ix) 'Day 1' Profit or Loss

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

(4) Derecognition of Financial Assets and Financial Liabilities

(i) Financial assets

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

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

(ii) Financial Liabilities

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

(5) Repurchase and Reverse Repurchase Agreements

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

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including

accrued interest, is recorded in the Statement of Financial Position, within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in 'Interest Income' and is accrued over the life of the agreement using the EIR.

(6) Determination of Fair Value

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 42.

(7) Impairment of Financial Assets

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

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

(i) Financial Assets carried at Amortised Cost

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

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

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

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

Notes to the Financial Statements

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry and past-due status and other relevant factors. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

See Note 13 for details of impairment losses on financial assets carried at amortised cost and analysis of the impairment allowance on loans and advances by class.

(ii) Available-for-Sale Financial Investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used

to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the Statement of Profit or Loss.

(iii) Rescheduled Loans

Where possible, the Group seeks to reschedule loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

(iii) Collateral Valuation

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

To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as immovable property, is valued based on data provided by third parties such as qualified valuers and other independent sources.

(iv) Collateral Repossessed

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

(8) Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset

the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(9) Leasing

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

Group as a Lessee

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

Group as a Lessor

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

(10) Property, Plant and Equipment

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

The Group reviews its assets' residual values, useful lives and method of depreciation at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives. Lands are not

depreciated. The estimated useful lives are as follows:

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

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

(11) Business Combinations

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

(12) Intangible Assets

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

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

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

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting

Notes to the Financial Statements

estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the Income Statement.

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

(13) Impairment of Non-Financial Assets

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

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

(14) Financial Guarantees

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

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

(15) Employee Benefit Liability

(i) Defined Benefit Plan - Gratuity

The Group measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan using the projected unit credit actuarial valuation method.

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

Accordingly, the employee benefit liability is based on the actuarial valuation as of 31 December 2014, carried out by Messers Actuarial and Management Consultants (Private) Limited, actuaries.

The gratuity liability is not externally funded.

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

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

(16) Provisions

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

(17) Taxes

(i) Current Tax

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

Nations Trust Bank PLC

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

Subsidiary - Waldock Mackenzie Limited

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

Subsidiary - Allied Properties Limited

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

Subsidiary - Nations Insurance Brokers Limited

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

(ii) Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

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

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

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

(18) Fiduciary Assets

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

Notes to the Financial Statements

(19) Dividends on Ordinary Shares

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

(20) Equity Reserves

The reserves recorded in equity (Other Comprehensive Income) on the Group's Statement of Financial Position include Available-for-Sale Reserve, which comprises changes in fair value of Available-for-Sale Investments.

(21) Revenue Recognition

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

(i) Interest Income and Expense

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

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

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

(ii) Fee and Commission Income

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

Fee income earned from services that are provided over a certain period of time

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

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

Fee income from providing transaction services

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

(iii) Dividend Income

Dividend income is recognised when the Group's right to receive the payment is established which is generally when the shareholders approve the dividend.

(iv) Net Trading Income

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

(v) Rental Income

Rental income is recognized on an accrual basis.

(vi) Other Income

Other income is recognized on an accrual basis.

(vii) Other Expenses

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

(22) Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the 'Direct Method' in accordance with LKAS 7 on Statement of Cash Flows, whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognized. Cash and cash equivalents as referred to in the Statement of Cash Flows comprises of cash on hand, balances with the Central Bank of Sri Lanka, amounts due from banks on demand or with original maturity of three months or less net of amounts due to banks.

(23) Segment reporting

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

2.5 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 158 for the Statement of the Directors' Responsibility for Financial Reporting.

2.6 Standards issued but not yet effective

The following SLFRS have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRS will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future Financial Statements.

(i) SLFRS 9 -Financial Instruments: Classification and Measurement

In December 2014, the CA Sri Lanka issued the final version of SLFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces LKRS 39 Financial Instruments, Recognition and Measurement. The standard introduces new requirements for classification and measurement impairment, and hedge accounting. SLFRS 9 is effective for annual periods beginning on or after 01 January 2018, with early application permitted. Retrospective application is required, but comparative information is not

compulsory. The adoption of SLFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

(ii) SLFRS 15 -Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. This standard is effective for the annual periods beginning on or after 01 January 2017.

In addition to the above, SLFRS 14 -Regulatory Deferral Accounts will also be effective for the annual periods commencing on or after 01 January 2016.

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

Notes to the Financial Statements

3 SEGMENT INFORMATION

For management purposes, the Group is organised into operating segments based on products and services, as follows:

Corporate Banking: Primary focus of business is providing loans and other credit facilities and mobilizing deposit and current accounts from top to mid tier corporate and institutional customers.

Retail, SME and Consumer Banking : Primary focus of business is deposit mobilization from individual and SME customer segments and providing lending facilities such as loans, overdrafts and credit card facilities to this segment.

Leasing : Primary focus of business is providing finance leases and hire purchase facilities.

Treasury Function: Primary focus of business operations includes foreign exchange trading, fixed income security trading, assets & liabilities gapping management.

Investment Banking: Primary focus is on margin trading, money market operations and fund and fee based activities.

Insurance Brokering: Primary focus is on insurance broking.

Property Management: Primary focus is on renting out premises.

Management monitors the operating results of its business units separately for the purpose of making decisions on resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, are measured differently from operating profits or losses in the consolidated financial statements. A fund transfer pricing mechanism is adopted for sourcing and utilizing of funds.

The following table presents income, expenses and certain asset and liability information regarding the Group's operating segments.

3 SEGMENT INFORMATION (CONTD.)

3.1 Group - 2014

| Operating Segments | Operating Segments | | | | | | | | | | Total Group | |
|---|--------------------|----------------------------------|-------------|--------------------|--------------------|---------------------|---------------------|---------------------------|-----------|-----------|-------------|-------------|
| | Corporate Banking | Retail, SME and Consumer Banking | Leasing | Treasury Functions | Investment Banking | Insurance Brokering | Property Management | Unallocated/ Eliminations | LKR. '000 | | | |
| | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 |
| Operating Income | 1,182,227 | 6,923,600 | 1,152,571 | 2,548,878 | 149,855 | 130,801 | 87,032 | (58,441) | | | | 12,116,523 |
| Impairment Charge for Loans and Advances | 172,894 | 541,747 | 442,088 | - | - | - | - | 680 | | | | 1,157,409 |
| Net Operating Income | 1,009,333 | 6,381,853 | 710,483 | 2,548,878 | 149,855 | 130,801 | 87,032 | (59,121) | | | | 10,959,114 |
| Extracts of Results | | | | | | | | | | | | |
| Interest Income | 2,067,645 | 6,677,462 | 4,230,079 | 4,447,975 | 279,614 | 8,628 | 15,358 | (274,300) | | | | 17,452,461 |
| Inter-Segment | (936,853) | 3,580,921 | (3,124,299) | 480,231 | - | - | - | - | | | | - |
| Interest Expense | (352,757) | (5,953,590) | - | (2,237,325) | (109,003) | - | (1,337) | 141,299 | | | | (8,512,713) |
| Net Interest Income | 778,035 | 4,304,793 | 1,105,780 | 2,690,881 | 170,611 | 8,628 | 14,021 | (133,001) | | | | 8,939,748 |
| Fees and Commission Income | 277,625 | 2,462,365 | - | - | 3,229 | 116,571 | 73,010 | 75,284 | | | | 3,008,084 |
| Fees and Commission Expense | - | (166,369) | (38,868) | (16,267) | (5,851) | (263) | - | 3,042 | | | | (224,576) |
| Net Fees and Commission Income | 277,625 | 2,295,996 | (38,868) | (16,267) | (2,622) | 116,308 | 73,010 | 78,326 | | | | 2,783,508 |
| Net Trading Income/ (Loss) | 99,799 | 153,150 | - | (130,963) | (18,135) | 5,866 | - | 1,653 | | | | 111,370 |
| Other Operating Income | 26,768 | 169,660 | 85,660 | 5,228 | - | - | - | (5,419) | | | | 281,897 |
| Depreciation of Property, Plant and Equipment | 1,986 | 167,662 | 5,635 | 972 | - | 541 | 12,979 | 133,978 | | | | 323,753 |
| Amortisation of Intangible Assets | 88 | 54,947 | 1,365 | 12,280 | - | 2,791 | - | 99,877 | | | | 171,348 |
| Segment Profit Before Tax | 256,669 | 1,383,161 | 73,547 | 1,922,367 | 122,487 | 76,356 | 41,414 | (49,048) | | | | 3,826,953 |
| Income Tax Expense | - | - | - | - | (39,255) | (24,362) | (5,761) | (1,220,995) | | | | (1,290,373) |
| Profit for the Year | 256,669 | 1,383,161 | 73,547 | 1,922,367 | 83,232 | 51,994 | 35,653 | (1,270,043) | | | | 2,536,580 |
| Capital Expenditures | | | | | | | | | | | | |
| Property, Plant and Equipment | 2,904 | 327,683 | 5,823 | 360 | - | - | - | 134,112 | | | | 470,882 |
| Intangible Assets | 89 | 752,182 | 177 | - | - | - | - | 22,116 | | | | 774,564 |
| Total Assets | 25,525,070 | 47,624,615 | 26,915,334 | 56,940,682 | 1,594,029 | 209,319 | 726,194 | 332,971 | | | | 159,868,214 |
| Total Liabilities | 7,983,800 | 104,918,704 | 804,880 | 31,059,688 | 708,266 | 27,184 | 24,800 | 446,367 | | | | 145,973,689 |

Notes to the Financial Statements

3 SEGMENT INFORMATION (CONTD.)

3.2 Group - 2013

| | Operating Segments | | | | | | | | | | Total Group | |
|--|--------------------|----------------------------------|-------------|--------------------|--------------------|---------------------|---------------------|---------------------------|-----------|-----------|--------------|-----------|
| | Corporate Banking | Retail, SME and Consumer Banking | Leasing | Treasury Functions | Investment Banking | Insurance Brokering | Property Management | Unallocated/ Eliminations | | | | |
| | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 | LKR. '000 |
| Operating Income | 1,377,266 | 6,191,202 | 962,238 | 944,946 | 207,512 | 124,837 | 102,816 | (794) | | | 9,910,023 | |
| Impairment Charge/ (Reversal) for Loans and Advances | (289,722) | 646,496 | 92,637 | - | - | - | - | 1,199 | | | 450,610 | |
| Net Operating Income | 1,666,988 | 5,544,706 | 869,601 | 944,946 | 207,512 | 124,837 | 102,816 | (1,993) | | | 9,459,413 | |
| Extracts of Results | | | | | | | | | | | | |
| Interest Income | 2,752,900 | 6,757,737 | 3,791,081 | 4,372,676 | 406,133 | 14,892 | 33,998 | (218,211) | | | 17,911,206 | |
| Inter Segment | (951,177) | 4,221,839 | (2,816,711) | (453,951) | - | - | - | - | | | - | |
| Interest Expense | (817,158) | (7,139,635) | (44,820) | (2,232,091) | (219,038) | - | - | 216,140 | | | (10,236,602) | |
| Net Interest Income | 984,565 | 3,839,941 | 929,550 | 1,686,634 | 187,095 | 14,892 | 33,998 | (2,071) | | | 7,674,604 | |
| Fees and Commission Income | 280,635 | 2,293,698 | 60,686 | - | 9,952 | 110,275 | 68,818 | (104,693) | | | 2,719,371 | |
| Fees and Commission Expense | | (211,942) | (36,738) | (43,191) | (5,500) | (330) | - | 82,512 | | | (215,189) | |
| Net Fees and Commission Income | 280,635 | 2,081,756 | 23,948 | (43,191) | 4,452 | 109,945 | 68,818 | (22,181) | | | 2,504,182 | |
| Net Trading Income/ (Loss) | 111,991 | 119,072 | - | (705,840) | 15,965 | - | - | (19,606) | | | (478,418) | |
| Other Operating Income | 75 | 150,433 | 8,740 | 7,343 | - | - | - | 43,064 | | | 209,655 | |
| Depreciation of Property, Plant and Equipment | 1,856 | 134,500 | 5,147 | 815 | - | 539 | 11,009 | 103,948 | | | 257,814 | |
| Amortisation of Intangible Assets | 87 | 60,040 | 1,343 | 11,867 | - | 2,833 | - | 80,345 | | | 156,515 | |
| Segment Profit Before Tax | 838,837 | 1,151,435 | 257,203 | 550,325 | 158,037 | 73,836 | 51,791 | 69,726 | | | 3,151,190 | |
| Income Tax Expense | - | - | - | - | (55,221) | (25,360) | (10,896) | (923,312) | | | (1,014,789) | |
| Profit for the Year | 838,837 | 1,151,435 | 257,203 | 550,325 | 102,816 | 48,476 | 40,895 | (853,586) | | | 2,136,401 | |
| Capital Expenditures | | | | | | | | | | | | |
| Property, Plant and Equipment | 3,234 | 242,341 | 6,411 | 1,595 | - | 508 | 1,938 | 131,966 | | | 387,993 | |
| Intangible Assets | 33 | 45,406 | 62 | 3,506 | - | 440 | - | 155,774 | | | 205,221 | |
| Total Assets | 19,425,169 | 39,810,857 | 22,766,238 | 56,291,035 | 2,802,805 | 184,933 | 719,404 | 127,316 | | | 142,127,757 | |
| Total Liabilities | 13,413,381 | 85,113,095 | 509,046 | 30,525,352 | 1,989,583 | 65,450 | 40,558 | (1,266,871) | | | 130,389,594 | |

4 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

4.1 Bank

2014

| | HFT at Fair Value | Financial Derivatives at Fair Value | HTM at Amortised Cost | Available for Sale | L & R at Amortised Cost | Other Financial Liabilities at Amortised Cost | Total |
|---|-------------------|-------------------------------------|-----------------------|--------------------|-------------------------|---|--------------------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | | | |
| Cash and Cash Equivalents | - | - | - | - | 6,898,881 | - | 6,898,881 |
| Balances with Central Bank of Sri Lanka | - | - | - | - | 3,992,118 | - | 3,992,118 |
| Reverse Repurchase Agreements | - | - | - | - | 11,013,507 | - | 11,013,507 |
| Derivative Financial Instruments | - | 128,053 | - | - | - | - | 128,053 |
| Financial Assets - Held for Trading | 15,648,717 | - | - | - | - | - | 15,648,717 |
| Financial Assets - Available for Sale | - | - | - | 4,329,449 | - | - | 4,329,449 |
| Financial Assets - Held to Maturity | - | - | 9,586,218 | - | - | - | 9,586,218 |
| Other Financial Assets | - | - | - | - | 3,820,746 | - | 3,820,746 |
| Loans and Advances to Customers | - | - | - | - | 97,068,259 | - | 97,068,259 |
| Total Financial Assets | 15,648,717 | 128,053 | 9,586,218 | 4,329,449 | 122,793,511 | - | 152,485,948 |
| Liabilities | | | | | | | |
| Due to Banks | - | - | - | - | - | 2,922,784 | 2,922,784 |
| Repurchase Agreements | - | - | - | - | - | 15,444,206 | 15,444,206 |
| Derivative Financial Instruments | - | 166,370 | - | - | - | - | 166,370 |
| Due to Customers | - | - | - | - | - | 111,046,446 | 111,046,446 |
| Debt Issued and Other Borrowed Funds | - | - | - | - | - | 9,685,257 | 9,685,257 |
| Total Financial Liabilities | - | 166,370 | - | - | - | 139,098,693 | 139,265,063 |

4.2 Group

2014

| | HFT at Fair Value | Financial Derivatives at Fair Value | HTM at Amortised Cost | Available for Sale | L & R at Amortised Cost | Other Financial Liabilities at Amortised Cost | Total |
|---|-------------------|-------------------------------------|-----------------------|--------------------|-------------------------|---|--------------------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | | | |
| Cash and Cash Equivalents | - | - | - | - | 6,899,905 | - | 6,899,905 |
| Balances with Central Bank of Sri Lanka | - | - | - | - | 3,992,118 | - | 3,992,118 |
| Reverse Repurchase Agreements | - | - | - | - | 11,013,507 | - | 11,013,507 |
| Derivative Financial Instruments | - | 128,053 | - | - | - | - | 128,053 |
| Financial Assets - Held for Trading | 15,700,388 | - | - | - | - | - | 15,700,388 |
| Financial Assets - Available for Sale | - | - | - | 4,329,449 | - | - | 4,329,449 |
| Financial Assets - Held to Maturity | - | - | 9,653,000 | - | - | - | 9,653,000 |
| Other Financial Assets | - | - | - | - | 3,820,747 | - | 3,820,747 |
| Loans and Advances to Customers | - | - | - | - | 98,347,049 | - | 98,347,049 |
| Total Financial Assets | 15,700,388 | 128,053 | 9,653,000 | 4,329,449 | 124,073,326 | - | 153,884,216 |
| Liabilities | | | | | | | |
| Due to Banks | - | - | - | - | - | 2,922,784 | 2,922,784 |
| Repurchase Agreements | - | - | - | - | - | 15,046,562 | 15,046,562 |
| Derivative Financial Instruments | - | 166,370 | - | - | - | - | 166,370 |
| Due to Customers | - | - | - | - | - | 111,009,668 | 111,009,668 |
| Debt Issued and Other Borrowed Funds | - | - | - | - | - | 10,189,448 | 10,189,448 |
| Total Financial Liabilities | - | 166,370 | - | - | - | 139,168,462 | 139,334,832 |

HFT -Held for Trading
L&R- Loans and Receivables

HTM - Held-to-Maturity
AFS-Available for Sale

Notes to the Financial Statements

4 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

4.3 Bank

2013

| | HFT at Fair Value LKR '000 | Financial Derivatives at Fair Value LKR '000 | HTM at Amortised Cost LKR '000 | Available for Sale LKR '000 | L & R at Amortised Cost LKR '000 | Other Financial Liabilities at Amortised Cost LKR '000 | Total LKR '000 |
|---|-------------------------------|---|-----------------------------------|--------------------------------|-------------------------------------|---|--------------------|
| Assets | | | | | | | |
| Cash and Cash Equivalents | - | - | - | - | 3,019,735 | - | 3,019,735 |
| Balances with Central Bank of Sri Lanka | - | - | - | - | 4,031,763 | - | 4,031,763 |
| Reverse Repurchase Agreements | - | - | - | - | 1,459,506 | - | 1,459,506 |
| Derivative Financial Instruments | - | 121,491 | - | - | - | - | 121,491 |
| Financial Assets - Held for Trading | 23,365,388 | - | - | - | - | - | 23,365,388 |
| Financial Assets - Available for Sale | - | - | - | 5,460 | - | - | 5,460 |
| Financial Assets - Held to Maturity | - | - | 19,734,821 | - | - | - | 19,734,821 |
| Other Financial Assets | - | - | - | - | 2,193,122 | - | 2,193,122 |
| Loans and Advances to Customers | - | - | - | - | 81,128,760 | - | 81,128,760 |
| Total Financial Assets | 23,365,388 | 121,491 | 19,734,821 | 5,460 | 91,832,886 | - | 135,060,046 |
| Liabilities | | | | | | | |
| Due to Banks | - | - | - | - | - | 1,401,473 | 1,401,473 |
| Repurchase Agreements | - | - | - | - | - | 16,318,686 | 16,318,686 |
| Derivative Financial Instruments | - | 633,625 | - | - | - | - | 633,625 |
| Due to Customers | - | - | - | - | - | 96,036,198 | 96,036,198 |
| Debt Issued and Other Borrowed Funds | - | - | - | - | - | 9,982,566 | 9,982,566 |
| Total Financial Liabilities | - | 633,625 | - | - | - | 123,738,923 | 124,372,548 |

4.4 Group

2013

| | HFT at Fair Value LKR '000 | Financial Derivatives at Fair Value LKR '000 | HTM at Amortised Cost LKR '000 | Available for Sale LKR '000 | L & R at Amortised Cost LKR '000 | Other Financial Liabilities at Amortised Cost LKR '000 | Total LKR '000 |
|---|-------------------------------|---|-----------------------------------|--------------------------------|-------------------------------------|---|--------------------|
| Assets | | | | | | | |
| Cash and Cash Equivalents | - | - | - | - | 3,019,774 | - | 3,019,774 |
| Balances with Central Bank of Sri Lanka | - | - | - | - | 4,031,763 | - | 4,031,763 |
| Reverse Repurchase Agreements | - | - | - | - | 552,236 | - | 552,236 |
| Derivative Financial Instruments | - | 121,491 | - | - | - | - | 121,491 |
| Financial Assets - Held for Trading | 24,460,493 | - | - | - | - | - | 24,460,493 |
| Financial Assets - Available for Sale | - | - | - | 5,460 | - | - | 5,460 |
| Financial Assets - Held to Maturity | - | - | 19,794,014 | - | - | - | 19,794,014 |
| Other Financial Assets | - | - | - | - | 2,193,122 | - | 2,193,122 |
| Loans and Advances to Customers | - | - | - | - | 82,327,255 | - | 82,327,255 |
| Total Financial Assets | 24,460,493 | 121,491 | 19,794,014 | 5,460 | 92,124,150 | - | 136,505,608 |
| Liabilities | | | | | | | |
| Due to Banks | - | - | - | - | - | 1,401,473 | 1,401,473 |
| Repurchase Agreements | - | - | - | - | - | 16,284,679 | 16,284,679 |
| Derivative Financial Instruments | - | 633,625 | - | - | - | - | 633,625 |
| Due to Customers | - | - | - | - | - | 95,729,533 | 95,729,533 |
| Debt Issued and Other Borrowed Funds | - | - | - | - | - | 10,589,224 | 10,589,224 |
| Total Financial Liabilities | - | 633,625 | - | - | - | 124,004,909 | 124,638,534 |

HFT -Held for Trading
L&R- Loans and Receivables

HTM - Held-to-Maturity
AFS-Available for Sale

5 CASH AND CASH EQUIVALENTS

| | Bank | | Group | |
|--------------------------------|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Cash in Hand | 3,500,746 | 2,526,673 | 3,500,759 | 2,526,681 |
| Balances with Banks | 359,164 | 493,062 | 360,175 | 493,093 |
| Money at Call and Short Notice | 3,038,971 | - | 3,038,971 | - |
| | <u>6,898,881</u> | <u>3,019,735</u> | <u>6,899,905</u> | <u>3,019,774</u> |

6 BALANCES WITH CENTRAL BANK OF SRI LANKA

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Statutory Deposit with the Central Bank of Sri Lanka | <u>3,992,118</u> | <u>4,031,763</u> | <u>3,992,118</u> | <u>4,031,763</u> |

As required by the provisions of section 93 of the Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka.

As at 31 December 2014, the minimum cash reserve requirement was 6% (2013: 6%) of the rupee deposit liabilities of Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities in Domestic Banking Unit and the deposit liabilities in Foreign Currency Banking Unit.

7 TRANSFERRED FINANCIAL ASSETS

Reverse Repurchase /Repurchase Agreements

7.1 Reverse Repurchase Agreements

| | Bank | | Group | |
|---------------------------------------|-------------------|------------------|-------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Due from Banks | 11,003,449 | 50,009 | 11,003,449 | 50,009 |
| Due from Other Financial Institutions | - | 495,102 | - | 495,102 |
| Due from Other Counterparties | 10,058 | 914,396 | 10,058 | 7,125 |
| | <u>11,013,507</u> | <u>1,459,506</u> | <u>11,013,507</u> | <u>552,236</u> |

7.2 Repurchase Agreements

| | Bank | | Group | |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Due to Banks | 2,014,498 | 7,778,432 | 2,014,498 | 7,778,432 |
| Due to Other Financial Institutions | 5,849,490 | 5,808,901 | 5,849,490 | 5,800,900 |
| Due to Other Counterparties | 7,580,218 | 2,731,353 | 7,182,574 | 2,705,348 |
| | <u>15,444,206</u> | <u>16,318,686</u> | <u>15,046,562</u> | <u>16,284,679</u> |

Notes to the Financial Statements

The Group has a programme to sell securities under agreements to repurchase ('repos') and to purchase securities under agreements to resell ('reverse repos').

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. The counterparty is allowed to sell or repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. These transactions are conducted under the terms based on the applicable International Swaps and Derivative Association (ISDA) Collateral Guidelines.

The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received.

Similarly, the Group may sell or re-pledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognised by the Group, which instead records a separate asset for the collateral provided.

As the counterparty of securities lending and repurchase agreement is allowed to sell or repledge the securities in the absence of default by the Bank/Group, those securities, for a total face value of LKR 17.1 Bn (Market value LKR 17.2 Bn) [2013 – face value LKR 18.9 Bn (Market value – LKR 18.4 Bn)] are presented in the Statement of Financial Position under the captions of financial assets held for trading, held to maturity and available for sale.

8 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their notional (contract) amounts.

Settlement of these contracts against customers is on delivery against payment basis which eliminates the credit risks. Settlements against Bank is on a gross basis subject to approved credit limits.

The notional amounts indicate the volume of transactions outstanding at the year end are indicative of neither the market risk nor the credit risk.

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

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

8.1 Derivative Assets- Held for Trading

At a Gain Position

| | Bank/Group | | Bank/Group | |
|---|----------------------|-----------------|----------------------|-----------------|
| | Fair Value of Assets | Contract Amount | Fair Value of Assets | Contract Amount |
| | 2014 | | 2013 | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Forward Foreign Exchange Contracts and Currency Swaps | 128,053 | 16,801,235 | 121,491 | 6,878,050 |
| | 128,053 | 16,801,235 | 121,491 | 6,878,050 |

8.2 Derivative Liabilities - Held for Trading

At a Loss Position

| | Bank/Group | | Bank/Group | |
|---|---------------------------|-----------------|---------------------------|-----------------|
| | Fair Value of Liabilities | Contract Amount | Fair Value of Liabilities | Contract Amount |
| | 2014 | | 2013 | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Forward Foreign Exchange Contracts and Currency Swaps | 166,370 | 12,503,904 | 633,625 | 20,320,463 |
| | 166,370 | 12,503,904 | 633,625 | 20,320,463 |

9 FINANCIAL ASSETS - HELD FOR TRADING

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Government Treasury Bills - Held for Trading | 6,618,490 | 19,025,714 | 6,618,490 | 19,966,952 |
| Government Treasury Bonds - Held for Trading | 9,030,227 | 4,339,674 | 9,081,898 | 4,493,541 |
| | 15,648,717 | 23,365,388 | 15,700,388 | 24,460,493 |

10 FINANCIAL ASSETS - AVAILABLE FOR SALE

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Government Treasury Bills - Available for Sale | 2,861,780 | - | 2,861,780 | - |
| Government Treasury Bonds - Available for Sale | 1,308,791 | - | 1,308,791 | - |
| Unquoted Equity Shares * (Note 10.1) | 158,878 | 5,460 | 158,878 | 5,460 |
| | 4,329,449 | 5,460 | 4,329,449 | 5,460 |

10.1 Unquoted Equity Shares

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| MasterCard Incorporated 13,590 Class B Common Stock | 153,390 | - | 153,390 | - |
| Lanka Clear (Private) Limited 150,000 Ordinary Shares of LKR 10/- each | 1,500 | 1,500 | 1,500 | 1,500 |
| Credit Information Bureau (CRIB) 9,000 Ordinary Shares of LKR 10/- each | 90 | 90 | 90 | 90 |
| Lanka Financial Services Bureau 112,500 Ordinary Shares of LKR 10/- each | 1,125 | 1,125 | 1,125 | 1,125 |
| Society of Worldwide Interbank Financial Telecommunication (SWIFT) 5 Ordinary Shares | 2,773 | 2,745 | 2,773 | 2,745 |
| | 158,878 | 5,460 | 158,878 | 5,460 |

11 FINANCIAL ASSETS - HELD TO MATURITY

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Government Treasury Bills - Held for Maturity | - | 13,655,422 | - | 13,655,422 |
| Government Treasury Bonds - Held for Maturity | 9,586,218 | 6,079,399 | 9,653,000 | 6,138,592 |
| | 9,586,218 | 19,734,821 | 9,653,000 | 19,794,014 |

Notes to the Financial Statements

12 OTHER FINANCIAL ASSETS

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Sri Lanka Development Bonds *(Note 12.1) | 2,669,818 | 1,584,892 | 2,669,818 | 1,584,892 |
| Quoted Debentures *(Note 12.2) | 951,039 | 150,010 | 951,039 | 150,010 |
| Unquoted Debentures *(Note 12.3) | 199,889 | 458,220 | 199,889 | 458,220 |
| | 3,820,746 | 2,193,122 | 3,820,746 | 2,193,122 |

12.1 The Investment in Sri Lanka Development Bonds amounts to USD 20 mn (2013: USD 12 mn) and mature in year 2015 & 2017. (2013: 2014 & 2015)

12.2 Quoted Debentures

| Company | Type | Par Value LKR | No of Debentures | | Bank / Group LKR '000 | |
|---|----------------------------------|------------------|------------------|---------|--------------------------|----------------|
| | | | 2014 | 2013 | 2014 | 2013 |
| | | | | | | |
| Housing and Development Finance Corporation | Secured, Redeemable Debentures | 100/- | 779,400 | 779,400 | 80,789 | 77,940 |
| ABANS PLC | Unsecured, Redeemable Debentures | 100/- | 720,700 | 720,700 | 77,156 | 72,070 |
| Hemas Holdings PLC | Unsecured, Redeemable Debentures | 100/- | 223,900 | - | 23,011 | - |
| Peoples' Leasing and Finance Company PLC | Unsecured, Redeemable Debentures | 100/- | 1,595,400 | - | 163,326 | - |
| Lion Brewery(Ceylon) PLC | Unsecured, Redeemable Debentures | 100/- | 1,686,000 | - | 169,470 | - |
| Seylan Bank PLC | Unsecured, Redeemable Debentures | 100/- | 3,000,000 | - | 300,636 | - |
| Alliance Finance Company PLC | Unsecured, Redeemable Debentures | 100/- | 1,365,498 | - | 136,651 | - |
| | | | | | 951,039 | 150,010 |

12.3 Unquoted Debentures

| Company | Type | Par Value LKR | No of Debentures | | Bank / Group LKR '000 | |
|--|----------------------------------|------------------|------------------|---------|--------------------------|----------------|
| | | | 2014 | 2013 | 2014 | 2013 |
| Peoples' Leasing and Finance Company PLC | Unsecured, Redeemable Debentures | 1,000/- | 37,500 | 187,500 | 37,521 | 187,606 |
| Senkadagala Finance PLC | Secured, Redeemable Debentures | 1,000/- | 150,000 | 250,000 | 162,368 | 270,614 |
| | | | | | 199,889 | 458,220 |

13 LOANS AND ADVANCES TO CUSTOMERS

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Corporate Loans | 24,035,973 | 18,462,120 | 25,314,493 | 19,659,664 |
| Retail,SME and Consumer Lending | 46,157,688 | 39,914,774 | 46,157,687 | 39,914,774 |
| Housing Loans | 1,310,648 | 1,418,237 | 1,310,648 | 1,418,237 |
| Leases | 25,695,994 | 21,738,216 | 25,695,994 | 21,738,216 |
| | 97,200,303 | 81,533,347 | 98,478,822 | 82,730,891 |
| Less : Allowance for Impairment Losses | (1,936,597) | (1,775,194) | (1,936,326) | (1,774,243) |
| | 95,263,706 | 79,758,153 | 96,542,496 | 80,956,648 |
| Staff Loans | 2,491,861 | 2,181,943 | 2,491,861 | 2,181,943 |
| Less : Allowance for Day 1 Difference | (687,308) | (811,336) | (687,308) | (811,336) |
| | 1,804,553 | 1,370,607 | 1,804,553 | 1,370,607 |
| | | | | |
| | 97,068,259 | 81,128,760 | 98,347,049 | 82,327,255 |

13.1.1 Gross Loans and Advances by Currency

| | Bank | | Group | |
|----------------------|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| By Currency | | | | |
| Sri Lanka Rupee | 94,658,368 | 79,487,044 | 95,936,888 | 80,684,588 |
| United States Dollar | 4,924,891 | 4,160,868 | 4,924,891 | 4,160,868 |
| Others | 108,905 | 67,378 | 108,904 | 67,378 |
| | 99,692,164 | 83,715,290 | 100,970,683 | 84,912,834 |

13.1.2 Gross Loans and Advances by Product

| | Bank | | Group | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| By Product | | | | |
| Bills of Exchange | 46,132 | 434,973 | 46,132 | 434,973 |
| Overdrafts | 19,230,866 | 17,809,525 | 19,230,866 | 17,809,525 |
| Term Loans | 30,801,884 | 23,782,041 | 32,080,405 | 23,782,041 |
| Staff Loans | 2,491,861 | 2,181,943 | 2,491,861 | 2,181,943 |
| Import Loans | 4,117,463 | 1,910,080 | 4,117,463 | 1,910,080 |
| Packing Loans | 2,313,360 | 1,446,652 | 2,313,360 | 1,446,652 |
| Leases | 25,695,994 | 21,738,216 | 25,695,994 | 21,738,216 |
| Credit Cards | 12,066,137 | 9,997,774 | 12,066,137 | 9,997,774 |
| Pawning | 1,261,819 | 2,422,265 | 1,261,819 | 2,422,265 |
| Corporate Debt Securities | 1,531,212 | 1,578,457 | 1,531,212 | 1,578,457 |
| Other Advances | 135,436 | 413,364 | 135,434 | 1,610,908 |
| | 99,692,164 | 83,715,290 | 100,970,683 | 84,912,834 |

Notes to the Financial Statements

13 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

13.2 Impairment Allowance for Loans and Advances to Customers

13.2.1 Bank

| | Corporate Loans | Retail, SME and Consumer Lending | Housing Loans | Leases | Total |
|---|--------------------|--|------------------|----------|-----------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| As at 01 January 2013 | 1,024,024 | 525,068 | 115,154 | 161,044 | 1,825,290 |
| Charge/ (Reversal) for the year | (301,024) | 655,061 | (8,560) | 92,637 | 438,114 |
| Amounts written off | (159,810) | (276,273) | (17,308) | (34,819) | (488,210) |
| As at 31 December 2013 | 563,190 | 903,856 | 89,286 | 218,862 | 1,775,194 |
| Charge/ (Reversal) for the year | 151,596 | 548,391 | 14,654 | 442,089 | 1,156,730 |
| Amounts written off | (342,649) | (545,372) | (8,862) | (98,444) | (995,327) |
| As at 31 December 2014 | 372,137 | 906,875 | 95,078 | 562,507 | 1,936,597 |
| Impairment - As at 31 December 2013 | | | | | |
| Individual impairment | 453,643 | 122,666 | 37,596 | 7,073 | 620,978 |
| Collective impairment | 109,547 | 781,190 | 51,690 | 211,789 | 1,154,216 |
| | 563,190 | 903,856 | 89,286 | 218,862 | 1,775,194 |
| Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance | | | | | |
| | 1,503,410 | 2,259,702 | 62,374 | 315,825 | 4,141,311 |
| Impairment - As at 31 December 2014 | | | | | |
| Individual impairment | 249,296 | 79,466 | 21,274 | 33,201 | 383,237 |
| Collective impairment | 122,841 | 827,409 | 73,804 | 529,306 | 1,553,360 |
| | 372,137 | 906,875 | 95,078 | 562,507 | 1,936,597 |
| Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance | | | | | |
| | 881,548 | 1,744,776 | 100,423 | 532,513 | 3,259,260 |

13 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

13.2 Impairment Allowance for Loans and Advances to Customers

13.2.2 Group

| | Corporate Loans LKR '000 | Retail, SME and Consumer Lending LKR '000 | Housing Loans LKR '000 | Leases LKR '000 | Total LKR '000 |
|---|--------------------------------|--|------------------------------|--------------------|-------------------|
| As at 01 January 2013 | 1,021,882 | 525,068 | 115,154 | 161,044 | 1,823,148 |
| Charge/ (Reversal) for the year | (299,833) | 655,061 | (8,560) | 92,637 | 439,305 |
| Amounts written off | (159,810) | (276,273) | (17,308) | (34,819) | (488,210) |
| As at 31 December 2013 | 562,239 | 903,856 | 89,286 | 218,862 | 1,774,243 |
| Charge/ (Reversal) for the year | 152,276 | 548,390 | 14,655 | 442,088 | 1,157,409 |
| Amounts written off | (342,649) | (545,372) | (8,862) | (98,443) | (995,326) |
| As at 31 December 2014 | 371,866 | 906,874 | 95,079 | 562,507 | 1,936,326 |
| Impairment - As at 31 December 2013 | | | | | |
| Individual impairment | 453,643 | 122,666 | 37,596 | 7,073 | 620,978 |
| Collective impairment | 108,596 | 781,190 | 51,690 | 211,789 | 1,153,265 |
| | 562,239 | 903,856 | 89,286 | 218,862 | 1,774,243 |
| Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance | | | | | |
| | 1,503,410 | 2,259,702 | 62,374 | 315,825 | 4,141,311 |
| Impairment - As at 31 December 2014 | | | | | |
| Individual impairment | 249,296 | 79,466 | 21,275 | 33,200 | 383,237 |
| Collective impairment | 122,570 | 827,408 | 73,804 | 529,307 | 1,553,389 |
| | 371,866 | 906,874 | 95,079 | 562,507 | 1,936,326 |
| Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance | | | | | |
| | 881,548 | 1,744,776 | 100,423 | 532,513 | 3,259,260 |

13.2.3 Movement in Individual Impairment during the Year

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| As at 01 January | 620,978 | 1,120,502 | 620,978 | 1,120,502 |
| Reversals during the year, net of write off | (237,741) | (499,524) | (237,741) | (499,524) |
| As at 31 December | 383,237 | 620,978 | 383,237 | 620,978 |

Notes to the Financial Statements

14 INVESTMENTS IN SUBSIDIARIES

| Unquoted | | Bank | | | |
|-----------------------------------|--------------------------|----------------|----------------|--------------------|--------------------|
| Name of Company | Country of Incorporation | 2014 Holding % | 2013 Holding % | 2014 Cost LKR '000 | 2013 Cost LKR '000 |
| Waldock Mackenzie Limited | Sri Lanka | 99.99 | 99.99 | - | - |
| Allied Properties Limited | Sri Lanka | 99.99 | 99.99 | 652,907 | 652,907 |
| Nations Insurance Brokers Limited | Sri Lanka | 99.99 | 99.99 | 25,803 | 25,803 |
| Net Carrying Amount | | | | 678,710 | 678,710 |

Mercantile Leasing (Financial Services) Limited (MLFS) which was a non operating subsidiary of the Bank commenced liquidation proceedings in June 2013. Company has now completed all the steps in the winding up process.

15 OTHER ASSETS

| Name of Company | Bank | | Group | |
|--------------------------|---------------|---------------|---------------|---------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Deposits and Prepayments | 309,717 | 587,635 | 375,596 | 580,333 |
| Unamortised Staff Cost | 687,308 | 811,336 | 687,308 | 811,336 |
| Items-in-Transit | 1,118,938 | 1,156,273 | 1,118,938 | 1,156,273 |
| Other Receivables | 321,841 | 257,975 | 324,509 | 345,758 |
| | 2,437,804 | 2,813,219 | 2,506,351 | 2,893,700 |

16 PROPERTY, PLANT AND EQUIPMENT

16.1 Bank

| | Land - Freehold | Land - Leasehold | Buildings | Motor Vehicles | Other Equipment | Computer Hardware | Furniture and Fittings | Leasehold Improvements | Total |
|--|-----------------|------------------|-----------|----------------|-----------------|-------------------|------------------------|------------------------|-----------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| 16.1.1 Gross Carrying Amounts - at Cost | | | | | | | | | |
| As at 01 January 2013 | 559,440 | - | 107,316 | 27,227 | 371,491 | 1,066,500 | 507,062 | 167,836 | 2,806,872 |
| Additions | - | - | - | - | 83,765 | 186,159 | 68,474 | 47,146 | 385,544 |
| Disposals | - | - | - | (1,264) | (1,579) | (5,541) | (4,060) | (730) | (13,174) |
| Reclassification* | - | - | - | - | (1,352) | 13,430 | 874 | - | 12,952 |
| As at 31 December 2013 | 559,440 | - | 107,316 | 25,963 | 452,325 | 1,260,548 | 572,350 | 214,252 | 3,192,194 |
| Additions | - | - | 5,161 | 199 | 127,231 | 203,543 | 102,358 | 30,326 | 468,818 |
| Disposals | - | - | - | (2,225) | - | (2,627) | (733) | - | (5,585) |
| Reclassification* | - | - | - | - | - | 277 | 126 | (126) | 277 |
| As at 31 December 2014 | 559,440 | - | 112,477 | 23,937 | 579,556 | 1,461,741 | 674,101 | 244,452 | 3,655,704 |

16.1.2 Depreciation

| | | | | | | | | | |
|-------------------------------|---|---|--------|---------|---------|-----------|---------|---------|-----------|
| As at 01 January 2013 | | | 27,858 | 16,195 | 186,745 | 854,073 | 217,552 | 108,567 | 1,410,990 |
| Charge for the year | - | - | 2,354 | 4,025 | 48,006 | 100,661 | 61,437 | 29,782 | 246,265 |
| Disposals | - | - | - | (1,264) | (1,480) | (5,537) | (3,746) | (730) | (12,757) |
| Reclassification* | - | - | - | - | - | 2,270 | - | - | 2,270 |
| As at 31 December 2013 | | | 30,212 | 18,956 | 233,271 | 951,467 | 275,243 | 137,619 | 1,646,768 |
| Charge for the year | - | - | 2,430 | 4,058 | 62,766 | 134,175 | 67,044 | 24,771 | 295,244 |
| Disposals | - | - | - | (2,225) | - | (2,570) | (518) | - | (5,313) |
| Reclassification* | - | - | 2 | - | - | 1,149 | - | (2) | 1,149 |
| As at 31 December 2014 | | | 32,644 | 20,789 | 296,037 | 1,084,221 | 341,769 | 162,388 | 1,937,848 |

16.1.3 Net Book Value

| | | | | | | | | | |
|-------------------------------|---------|---|--------|--------|---------|---------|---------|--------|-----------|
| As at 01 January 2013 | 559,440 | - | 79,458 | 11,032 | 184,746 | 212,427 | 289,510 | 59,269 | 1,395,882 |
| As at 31 December 2013 | 559,440 | - | 77,104 | 7,007 | 219,054 | 309,081 | 297,107 | 76,633 | 1,545,426 |
| As at 31 December 2014 | 559,440 | - | 79,833 | 3,148 | 283,519 | 377,520 | 332,332 | 82,064 | 1,717,856 |

16.1.4 During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of LKR 468.8 Mn (2013: LKR 385 Mn). Cash payments amounting to LKR 479.6Mn (2013: LKR 385 Mn) were made during the year for purchase of Property, Plant and Equipment.

16.1.5 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of LKR 1,116.89 Mn (2013: LKR 1,004.9Mn).

Notes to the Financial Statements

16 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

16.2 Group

| | Land - Freehold | Land - Leasehold | Buildings | Motor Vehicles | Other Equipment | Computer Hardware | Furniture and Fittings | Leasehold Improvements | Total |
|--|-----------------|------------------|-----------|----------------|-----------------|-------------------|------------------------|------------------------|-----------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| 16.2.1 Gross Carrying Amounts - at Cost | | | | | | | | | |
| As at 01 January 2013 | 707,440 | - | 546,698 | 27,397 | 372,731 | 1,074,096 | 508,406 | 167,835 | 3,404,603 |
| Additions | - | - | 1,675 | - | 84,028 | 186,544 | 68,600 | 47,146 | 387,993 |
| Disposals | - | - | - | (1,264) | (1,579) | (5,541) | (4,062) | (730) | (13,176) |
| Reclassification* | - | - | - | - | (1,352) | 13,430 | 874 | - | 12,952 |
| As at 31 December 2013 | 707,440 | - | 548,373 | 26,133 | 453,828 | 1,268,529 | 573,818 | 214,251 | 3,792,372 |
| Additions | - | - | 6,369 | 199 | 127,327 | 204,293 | 102,368 | 30,326 | 470,882 |
| Disposals | - | - | - | (2,225) | - | (2,627) | (735) | - | (5,587) |
| Reclassification* | (148,000) | 148,000 | - | - | - | 277 | 126 | (126) | 277 |
| As at 31 December 2014 | 559,440 | 148,000 | 554,742 | 24,107 | 581,155 | 1,470,472 | 675,577 | 244,451 | 4,257,944 |

16.2.2 Depreciation

| | | | | | | | | | |
|-------------------------------|---|--------|---------|---------|---------|-----------|---------|---------|-----------|
| As at 01 January 2013 | - | - | 104,729 | 16,363 | 187,986 | 860,940 | 218,021 | 108,565 | 1,496,604 |
| Charge for the year | - | - | 13,364 | 4,025 | 48,006 | 101,059 | 61,578 | 29,782 | 257,814 |
| Disposals | - | - | - | (1,264) | (1,480) | (5,537) | (3,747) | (730) | (12,758) |
| Reclassification* | - | - | - | - | - | 2,270 | - | - | 2,270 |
| As at 31 December 2013 | - | - | 118,093 | 19,124 | 234,512 | 958,732 | 275,852 | 137,617 | 1,743,930 |
| Charge for the year | - | 16,883 | 13,477 | 4,058 | 62,805 | 134,560 | 67,199 | 24,771 | 323,753 |
| Disposals | - | - | - | (2,225) | - | (2,570) | (518) | - | (5,313) |
| Reclassification* | - | - | 2 | - | - | 1,149 | - | (2) | 1,149 |
| As at 31 December 2014 | - | 16,883 | 131,572 | 20,957 | 297,317 | 1,091,871 | 342,533 | 162,386 | 2,063,519 |

16.2.3 Net Book Value

| | | | | | | | | | |
|-------------------------------|---------|---------|---------|--------|---------|---------|---------|--------|-----------|
| As at 01 January 2013 | 707,440 | - | 441,969 | 11,034 | 184,745 | 213,156 | 290,385 | 59,270 | 1,907,999 |
| As at 31 December 2013 | 707,440 | - | 430,280 | 7,009 | 219,316 | 309,797 | 297,966 | 76,634 | 2,048,442 |
| As at 31 December 2014 | 559,440 | 131,117 | 423,170 | 3,150 | 283,838 | 378,601 | 333,044 | 82,065 | 2,194,425 |

16.2.4 During the financial year, the Group acquired Property, Plant and Equipment to the aggregate value of LKR 470.9 Mn (2013: LKR 388 Mn). Cash payments amounting to LKR 474.8 Mn (2013: LKR 388 Mn) were made during the year for purchase of Property, Plant and Equipment.

16.2.5 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of LKR 1,125.17Mn (2013 : LKR 1,012 Mn).

17 INTANGIBLE ASSETS

17.1 Bank

| | Computer Software LKR '000 | Other License Fees LKR '000 | Total LKR '000 |
|-------------------------------|-------------------------------|--------------------------------|-------------------|
| Cost | | | |
| As at 01 January 2013 | 792,719 | 486,793 | 1,279,512 |
| Additions | 204,782 | - | 204,782 |
| Reclassifications* | (12,952) | - | (12,952) |
| At 31 December 2013 | 984,549 | 486,793 | 1,471,342 |
| Additions | 774,564 | - | 774,564 |
| Disposals | (180,976) | (155,505) | (336,481) |
| Reclassifications* | (277) | - | (277) |
| As at 31 December 2014 | 1,577,860 | 331,288 | 1,909,148 |
| Amortisation | | | |
| As at 01 January 2013 | 421,522 | 232,804 | 654,326 |
| Charge for the year | 120,553 | 33,129 | 153,682 |
| Reclassifications* | (1,796) | - | (1,796) |
| At 31 December 2013 | 540,279 | 265,933 | 806,212 |
| Disposals | (180,976) | (155,505) | (336,481) |
| Charge for the year | 135,428 | 33,129 | 168,557 |
| Reclassifications* | (277) | - | (277) |
| As at 31 December 2014 | 494,454 | 143,557 | 638,011 |
| Net Book Value | | | |
| As at 01 January 2013 | 371,197 | 253,989 | 625,186 |
| As at 31 December 2013 | 444,270 | 220,860 | 665,130 |
| As at 31 December 2014 | 1,083,406 | 187,731 | 1,271,137 |

During the financial year, the Bank acquired Intangible Assets to the aggregate value of LKR 774.6 Mn (2013- LKR 204.7 Mn). Cash payments amounting to LKR 858.9 Mn (2013- LKR 204.7 Mn) were made during the year for purchase of Intangible Assets

Notes to the Financial Statements

17 INTANGIBLE ASSETS (CONTD.)

17.2 Group

| | Computer Software LKR '000 | Other License Fees LKR '000 | Total LKR '000 |
|-------------------------------|-------------------------------|--------------------------------|-------------------|
| Cost | | | |
| As at 01 January 2013 | 812,190 | 486,794 | 1,298,984 |
| Additions | 205,221 | - | 205,221 |
| Disposals | (380) | - | (380) |
| Reclassifications* | (12,952) | - | (12,952) |
| At 31 December 2013 | 1,004,079 | 486,794 | 1,490,873 |
| Additions | 774,564 | - | 774,564 |
| Disposals | (180,976) | (155,505) | (336,481) |
| Reclassifications* | (277) | - | (277) |
| As at 31 December 2014 | 1,597,390 | 331,289 | 1,928,679 |
| Amortisation | | | |
| As at 01 January 2013 | 423,724 | 232,803 | 656,527 |
| Charge for the year | 123,006 | 33,129 | 156,135 |
| Disposals | - | - | - |
| Reclassifications* | (1,796) | - | (1,796) |
| At 31 December 2013 | 544,934 | 265,932 | 810,866 |
| Charge for the year | 138,219 | 33,129 | 171,348 |
| Disposals | (180,976) | (155,505) | (336,481) |
| Reclassifications* | (277) | - | (277) |
| As at 31 December 2014 | 501,900 | 143,556 | 645,456 |
| Net Book Value | | | |
| As at 01 January 2013 | 388,466 | 253,991 | 642,457 |
| At 31 December 2013 | 459,145 | 220,862 | 680,007 |
| As at 31 December 2014 | 1,095,490 | 187,733 | 1,283,223 |

During the financial year, the Group acquired Intangible Assets to the aggregate value of LKR 774.6 Mn (2013- LKR 205.2 Mn). Cash payments amounting to LKR 858.9 Mn (2013- LKR 205.2 Mn) were made during the year for purchase of Intangible Assets

*Reclassification under Intangible Assets relates to the change in Property, Plant and Equipment classification.

18 DUE TO BANKS

| | Bank | | Group | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Money Market Borrowing | 2,523,348 | 1,309,987 | 2,523,348 | 1,309,987 |
| Deposits from Other Banks | 399,436 | 91,486 | 399,436 | 91,486 |
| | 2,922,784 | 1,401,473 | 2,922,784 | 1,401,473 |

19 DUE TO CUSTOMERS

| | Bank | | Group | |
|--|--------------------|-------------------|--------------------|-------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| 19.1 Due to Customers - By Products | | | | |
| Demand Deposits | 16,018,845 | 9,486,207 | 15,982,067 | 9,435,599 |
| Savings Deposits | 21,056,451 | 14,878,257 | 21,056,451 | 14,878,257 |
| Call Deposits | 365,849 | 732,078 | 365,849 | 732,078 |
| Fixed Deposits | 71,846,374 | 68,072,294 | 71,846,374 | 67,816,237 |
| Certificate of Deposits | 1,758,927 | 2,867,362 | 1,758,927 | 2,867,362 |
| | <u>111,046,446</u> | <u>96,036,198</u> | <u>111,009,668</u> | <u>95,729,533</u> |
| 19.2 Due to Customers - By Currency | | | | |
| Sri Lanka Rupee | 93,784,974 | 80,200,902 | 93,748,195 | 79,894,237 |
| United States Dollar | 13,496,457 | 12,291,060 | 13,496,457 | 12,291,060 |
| Sterling Pound | 1,887,759 | 1,523,846 | 1,887,759 | 1,523,846 |
| Others | 1,877,256 | 2,020,390 | 1,877,257 | 2,020,390 |
| | <u>111,046,446</u> | <u>96,036,198</u> | <u>111,009,668</u> | <u>95,729,533</u> |

20 DEBT ISSUED AND OTHER BORROWED FUNDS

| | Bank | | Group | |
|---|------------------|------------------|-------------------|-------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| 20.1 Senior Debt | | | | |
| US Dollar 7.5Mn Loan (Note 20.4) | 992,618 | 988,341 | 992,618 | 988,341 |
| | <u>992,618</u> | <u>988,341</u> | <u>992,618</u> | <u>988,341</u> |
| 20.2 Subordinated Debt | | | | |
| Euro 5 Mn - Loan 1 (Note 20.4) | - | 71,807 | - | 71,807 |
| US Dollar 13 Mn - Loan 2 (Note 20.4) | 1,727,760 | 1,706,371 | 1,727,760 | 1,706,371 |
| Rated, Unsecured, Redeemable Debentures (Note 20.5) | 5,067,273 | 5,062,959 | 5,069,548 | 5,066,583 |
| | <u>6,795,033</u> | <u>6,841,137</u> | <u>6,797,308</u> | <u>6,844,761</u> |
| 20.3 Other Borrowings | | | | |
| Refinance Borrowings | 760 | 950 | 760 | 950 |
| Other Short Term Borrowings | 1,896,846 | 2,152,138 | 2,398,762 | 2,755,172 |
| | <u>1,897,606</u> | <u>2,153,088</u> | <u>2,399,522</u> | <u>2,756,122</u> |
| | <u>9,685,257</u> | <u>9,982,566</u> | <u>10,189,448</u> | <u>10,589,224</u> |

Notes to the Financial Statements

20 DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

20.4 Senior / Subordinated Debt

These borrowings are from Foreign Development Finance Institutions with an original maturity ranging from 5-10 years. Interest is payable on a variable base with a fixed spread.

20.5 Details of Subordinated Debentures Issued by the Bank

| Issued Date | Face Value 2014/2013 LKR '000 | Coupon Rate | Interest Terms | Maturity Date | Amortised Cost Bank | | Amortised Cost Group | | Interest rate of Comparable Government Security | |
|-------------|-------------------------------------|----------------|-------------------|------------------|---------------------|------------------|----------------------|------------------|---|-----------|
| | | | | | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 | 2014 % | 2013 % |
| 29-Aug-11 | 1,525,000 | 11.50% | Semi - Annually | 29-Aug-16 | 1,588,884 | 1,793,705 | 1,591,159 | 1,797,329 | 6.42 | 11.19 |
| 29-Aug-11 | 200,000 | 11.00% | Semi - Annually | 29-Aug-16 | 209,452 | - | 209,452 | - | 6.42 | 11.19 |
| 29-Aug-11 | 275,000 | 11.50% | Semi - Annually | 29-Aug-16 | 285,830 | 285,830 | 285,830 | 285,830 | 6.42 | 11.19 |
| 19-Dec-13 | 3,000,000 | 13.00% | Semi - Annually | 19-Dec-18 | 2,983,106 | 2,983,424 | 2,983,106 | 2,983,424 | 7.14 | - |
| | <u>5,000,000</u> | | | | <u>5,067,273</u> | <u>5,062,959</u> | <u>5,069,548</u> | <u>5,066,583</u> | | |

| Ratios of Debt - Bank | 2014 | 2013 |
|-------------------------|--------|--------|
| * Debt / Equity Ratio % | 52.53% | 62.72% |
| Interest Cover (Times) | 6.08 | 6.79 |

* Debt includes only the subordinated debt as at 31 December.

20.6 All the liabilities were issued by Nations Trust Bank PLC, except when otherwise indicated. The Bank has not had any defaults of principal, interest or other breaches with regard to any liabilities as of 31 December 2014.

21 OTHER LIABILITIES

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Accounts Payable and Sundry Creditors | 1,174,862 | 1,604,075 | 1,189,113 | 1,639,147 |
| Obligations under Financial Guarantees (Note 21.1) | 43,612 | 29,247 | 43,612 | 29,247 |
| Margin Balances | 391,548 | 559,904 | 391,548 | 559,904 |
| Pay Orders | 1,036,849 | 570,019 | 1,439,878 | 570,019 |
| Items-In-Transit | 1,086,932 | 1,129,186 | 1,086,932 | 1,129,186 |
| Employee Benefit Liability (Note 21.2) | 368,816 | 303,921 | 374,175 | 310,825 |
| Others | 1,380,806 | 728,459 | 1,033,779 | 788,818 |
| | <u>5,483,425</u> | <u>4,924,811</u> | <u>5,559,037</u> | <u>5,027,146</u> |

21.1 The movement in 'Obligations under Financial Guarantees' during the year is as follows:

| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
|-------------------------|------------------|------------------|------------------|------------------|
| As at 01 January | 29,247 | 35,711 | 29,247 | 35,711 |
| Arising during the Year | (162,038) | (68,523) | (162,038) | (68,523) |
| Utilized | 176,403 | 62,059 | 176,403 | 62,059 |
| As at 31 December | <u>43,612</u> | <u>29,247</u> | <u>43,612</u> | <u>29,247</u> |

21.2 Employee Benefit Liability

The Group measures the Present Value of Defined Benefit Obligation (PVDBO) which is a defined benefit plan with the advice of an actuary using the Projected Unit Credit Method.

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

Accordingly, the employee benefit obligation is based on the actuarial valuation as of 31 December 2014, carried out by Messrs Actuarial and Management Consultants (Private) Limited, actuaries.

The key assumptions used by the actuary include the following:

| | 2014 | 2013 |
|-------------------------|-------------|-------------|
| Rate of Interest | 8.5% | 11% |
| Rate of Salary Increase | 8.0% | 10% |
| Retirement Age | 55-60 years | 55-60 years |

Notes to the Financial Statements

21.2.1 Net benefit expense categorized under personnel expenses.

| | Bank | | Group | |
|----------------------|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Interest Cost | 33,431 | 27,786 | 34,191 | 28,518 |
| Current Service Cost | 49,092 | 42,346 | 49,798 | 43,223 |
| | 82,523 | 70,132 | 83,989 | 71,741 |

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

| | Bank | | Group | |
|----------------------|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| As at 01 January | 303,921 | 252,600 | 310,825 | 259,250 |
| Interest Cost | 33,431 | 27,786 | 34,191 | 28,518 |
| Current Service Cost | 49,092 | 42,346 | 49,798 | 43,223 |
| Gratuity Payable | (6,299) | (1,397) | (6,299) | (1,397) |
| Benefits Paid | (22,075) | (26,565) | (25,321) | (27,992) |
| Actuarial Loss | 10,746 | 9,151 | 10,983 | 9,223 |
| As at 31 December | 368,816 | 303,921 | 374,175 | 310,825 |

21.2.3 In order to illustrate the significance of the salary escalation rates and discount rates assumed in this valuation a sensitivity analysis for all employees assuming the above is as follows;

| Group 2014 | | | | Group 2013 | | | |
|------------------------|---------------|-------------------|--|------------------------|---------------|-------------------|--|
| Salary Escalation Rate | Discount Rate | PVDBO LKR '000 | Effect on Other Comprehensive Income LKR '000 | Salary Escalation Rate | Discount Rate | PVDBO LKR '000 | Effect on Other Comprehensive Income LKR '000 |
| 8.0% | 9.5% | 352,791 | 21,384 | 10% | 12% | 294,098 | 16,727 |
| 8.0% | 7.5% | 398,182 | (24,007) | 10% | 10% | 329,466 | (18,641) |
| 9.0% | 8.5% | 399,781 | (25,605) | 11% | 11% | 330,876 | (20,051) |
| 7.0% | 8.5% | 350,996 | 23,179 | 9% | 11% | 292,551 | 18,274 |

21.2.4 Average Future working Life Time as per the assumptions made in year 2014: 7.11 years (Year 2013: 7.06 years).

21.2.5 Group Maturity Profile of the Defined Benefit Obligation as at 31 December 2014

| Future Working Life Time | Defined Benefit Obligation LKR '000 |
|---------------------------|--|
| Within the next 12 months | 48,650 |
| Between 1 - 2 years | 83,562 |
| Between 2 - 5 years | 77,753 |
| Between 5 - 10 years | 91,474 |
| Beyond 10 years | 72,737 |
| | 374,175 |

Weighted Average duration of Defined Benefit Obligation is 3.60 years

22 DEFERRED TAXATION

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| As at 01 January | 341,763 | 280,881 | 340,596 | 280,155 |
| Net Charge during the Year (Note 22.1.3) | 73,290 | 60,882 | 72,879 | 60,441 |
| As at 31 December | 415,053 | 341,763 | 413,475 | 340,596 |

22.1.1 Deferred Tax Liability

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Accelerated Depreciation Allowances for Tax Purposes- Lease Rentals Receivable | 531,464 | 362,158 | 531,464 | 362,157 |
| Accelerated Depreciation Allowances for Tax Purposes- Property, Plant and Equipment | 214,869 | 135,981 | 214,623 | 135,912 |
| Net gains on re-measuring available -for-sale financial assets | 43,516 | - | 43,515 | - |
| | 789,849 | 498,139 | 789,602 | 498,069 |

22.1.2 Deferred Tax Assets

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Specific provision for loans and advances and lease receivables | (115,068) | - | (115,068) | - |
| Adjustment due to change in accounting base and tax base on adoption of SLFRS | (71,278) | (71,278) | (71,278) | (71,278) |
| Retirement Benefit Plan -Gratuity | (105,033) | (85,098) | (106,364) | (86,195) |
| Tax losses on Lease Business | (83,417) | - | (83,417) | - |
| | (374,796) | (156,376) | (376,127) | (157,473) |
| Net Deferred Tax Liability | 415,053 | 341,763 | 413,475 | 340,596 |

22.1.3 Net Charge during the Year

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Recognised in Profit or Loss | 32,783 | 60,882 | 32,506 | 60,441 |
| Recognised in Other Comprehensive Income | 40,507 | - | 40,373 | - |
| | 73,290 | 60,882 | 72,879 | 60,441 |

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

Notes to the Financial Statements

23 STATED CAPITAL

| Ordinary Shares | Bank /Group | | Bank /Group | |
|------------------------------|--------------------|------------------|--------------------|------------------|
| | 2014 | | 2013 | |
| | Number | LKR '000 | Number | LKR '000 |
| Issued and fully paid | | | | |
| As at 01 January | 230,607,283 | 5,101,369 | 230,607,283 | 5,101,369 |
| As at 31 December | 230,607,283 | 5,101,369 | 230,607,283 | 5,101,369 |

24 STATUTORY RESERVE FUND

24.1 Statutory reserve fund is maintained as per the requirement in terms of Section 20 of the Banking Act No. 30 of 1988. Accordingly, a sum equivalent to 5% of profits after tax is transferred to the Reserve Fund until Reserve Fund is equal to 50% of the Banks' Stated Capital. Thereafter a further 2% of profits will be transferred until the said reserve fund is equal to the Banks' Stated Capital.

| | Bank | | Group | |
|--|----------------|----------------|----------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| 24.2 Movement in Statutory Reserve Fund | | | | |
| As at 01 January | 419,305 | 313,663 | 419,305 | 313,663 |
| Transfers during the Year | 118,900 | 105,642 | 118,900 | 105,642 |
| As at 31 December | 538,205 | 419,305 | 538,205 | 419,305 |

25 RETAINED EARNINGS

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| As at 01 January | 4,183,983 | 3,153,852 | 5,067,107 | 4,044,303 |
| Total Comprehensive Income | 2,370,256 | 2,112,832 | 2,528,740 | 2,127,178 |
| Dividend Paid | (484,275) | (484,275) | (484,275) | (484,275) |
| Transfers (to) / from Investment Fund Account (Note 26.1) | 1,086,020 | (492,784) | 1,150,382 | (514,457) |
| Transfers to Reserve Fund (Note 24.2) | (118,900) | (105,642) | (118,900) | (105,642) |
| As at 31 December | 7,037,084 | 4,183,983 | 8,143,054 | 5,067,107 |

26 OTHER RESERVES

26.1 Investment Fund Account (IFA Reserve)

26.1.1 Investment Fund Account is established and operated based on the Guidelines on the Operations of the Investment Fund Account issued by the Central Bank of Sri Lanka on 29 April 2011 with the concurrence of the Commissioner - General of Inland Revenue. However the operations of Investment Fund Account (IFA) was ceased from 01 October 2014. Accordingly, as per Central Bank guidelines dated 31 July 2014 the remaining balance in IFA was transferred to Retained Earnings through the Statement of Changes in Equity.

Tax saving on the reduction of tax rates are transferred to the Investment Fund as per the guidelines issued by Central Bank of Sri Lanka. Loans amounting to LKR 988 Mn (2013: LKR 821 Mn) were granted under this scheme.

26 OTHER RESERVES (CONTD.)

26.1 Investment Fund Account (IFA Reserve) (Contd.)

| | Bank | | Group | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| As at 01 January | 1,086,020 | 593,236 | 1,150,382 | 635,925 |
| Net Transfers during the Year | (1,086,020) | 492,784 | (1,150,382) | 514,457 |
| As at 31 December | - | 1,086,020 | - | 1,150,382 |

26.1.3 Utilization of Investment Fund Account (IFA Reserve)

| | Bank | | | Group | | | |
|--|------------------|-----------------------|------------------|--|--|---|---|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 | 2013 LKR '000 | | |
| A) Total Transferred to IFA | - | 1,086,020 | - | - | 1,150,382 | | |
| B) Total Loans Granted | | | | | | | |
| Sector Description | No of Loans | Interest Rate % | Tenure | Bank 2014 Disbursed Amount LKR '000 | Bank 2013 Disbursed Amount LKR '000 | Group 2014 Disbursed Amount LKR '000 | Group 2013 Disbursed Amount LKR '000 |
| a. Long-term loans for cultivation of plantation crops/ agriculture crops including fruits, vegetables, cocoa and spices and for livestock and fisheries | 9 | 13 to15 | 5-7 Years | 381,000 | 246,000 | 381,000 | 246,000 |
| b. Factory/mills modernization/ establishment/ expansion | 6 | 11 to16 | 5-7 Years | 143,200 | 113,200 | 143,200 | 113,200 |
| c. Small and medium enterprises: loans up to Rs.200 mn to enterprises with annual turnover less than Rs. 600 mn | 15 | 9.5 to16 | 5-8 Years | 281,500 | 273,500 | 281,500 | 273,500 |
| e. Infrastructure development | 1 | 15 | 7 Years | 5,000 | 5,000 | 5,000 | 5,000 |
| f. Education: vocational training and tertiary education | 2 | 16 | 7 Years | 22,000 | 19,300 | 22,000 | 19,300 |
| i. Construction of hotels and for related purposes | 5 | 14.49 to 16 | 5-7 Years | 48,962 | 73,962 | 48,962 | 73,962 |
| l. Restructuring of loans extended for above purposes | 9 | 9.5 to16 | 5-7 Years | 107,258 | 90,258 | 107,258 | 90,258 |
| | | | | 988,920 | 821,220 | 988,920 | 821,220 |
| C) Total Investments in Government Securities - Short Term | | | | 97,100 | 131,510 | 97,100 | 136,679 |
| Total Investments in Government Securities - Long Term | | | | - | 133,290 | - | 192,483 |
| Net Transfers to / from Retained Earnings | | | | (1,086,020) | - | (1,086,020) | - |
| Total Granted | | | | - | 1,086,020 | - | 1,150,382 |
| D) Balance Available for Utilization | | | | - | - | - | - |

26.2 Available for Sale Reserve

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| As at 01 January | - | - | - | - |
| Net unrealised gain on Available for Sale financial investment | 111,897 | - | 111,897 | - |
| As at 31 December | 111,897 | - | 111,897 | - |

Notes to the Financial Statements

27 INTEREST INCOME

| | Bank | | Group | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Reverse Repurchase Agreements | 216,360 | 192,131 | 216,360 | 129,795 |
| Due from Banks | 4,282 | 34,030 | 4,282 | 34,030 |
| Loans and Advances to Customers | 12,462,564 | 13,059,271 | 12,599,168 | 13,256,133 |
| Financial Assets - Held for Trading | 1,883,705 | 3,062,815 | 1,924,170 | 3,170,273 |
| Financial Assets - Available for Sale | 33,988 | - | 33,988 | - |
| Financial Assets - Held to Maturity | 2,074,059 | 967,658 | 2,081,792 | 974,404 |
| Other Financial Assets | 180,742 | 161,920 | 180,742 | 161,450 |
| Interest Income accrued on Impaired Financial Assets | 411,959 | 185,121 | 411,959 | 185,121 |
| | <u>17,267,659</u> | <u>17,662,946</u> | <u>17,452,461</u> | <u>17,911,206</u> |

Interest Income from government securities earned during the year 2014 amounts to LKR 4,092 Mn (2013: LKR 4,098 Mn) and the Group LKR 4,193 Mn (2013: LKR 4,213 Mn). These government securities include; Treasury Bills, Treasury Bonds and Sri Lanka Development Bonds.

28 INTEREST EXPENSE

| | Bank | | Group | |
|--------------------------------------|------------------|-------------------|------------------|-------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Due to Banks | 24,764 | 29,712 | 24,764 | 29,712 |
| Repurchase Agreements | 1,182,890 | 1,174,233 | 1,217,196 | 1,311,919 |
| Due to Customers | 6,405,093 | 8,111,961 | 6,399,475 | 8,080,309 |
| Debt Issued and Other Borrowed Funds | 907,405 | 756,633 | 868,920 | 809,572 |
| Others | 1,021 | 150,080 | 2,358 | 5,090 |
| | <u>8,521,173</u> | <u>10,222,619</u> | <u>8,512,713</u> | <u>10,236,602</u> |

29 NET FEES AND COMMISSION INCOME

29.1 Fees and Commission Income

| | | | | |
|--|------------------|------------------|------------------|------------------|
| Portfolio and Other Management Fees | 23,759 | 43,528 | 26,988 | 53,480 |
| Credit Card Related Fees and Commissions | 1,876,051 | 1,658,732 | 1,875,788 | 1,658,402 |
| Commission on Trade Finance Facilities & Remittances | 363,407 | 317,856 | 363,407 | 317,856 |
| Commission on Services-Loans | 313,642 | 338,468 | 313,642 | 338,468 |
| Commission on Services-Deposits | 240,284 | 189,041 | 240,284 | 189,041 |
| Other Fees | 45,125 | 28,943 | 187,975 | 162,124 |
| | <u>2,862,268</u> | <u>2,576,568</u> | <u>3,008,084</u> | <u>2,719,371</u> |

29.2 Fees and Commission Expenses

| | | | | |
|---------------------|------------------|------------------|------------------|------------------|
| Brokerage Fees | (40,002) | (40,436) | (40,002) | (40,436) |
| Credit Related Fees | (184,574) | (174,738) | (184,574) | (174,753) |
| | <u>(224,576)</u> | <u>(215,174)</u> | <u>(224,576)</u> | <u>(215,189)</u> |
| | <u>2,637,692</u> | <u>2,361,394</u> | <u>2,783,508</u> | <u>2,504,182</u> |

30 NET TRADING INCOME / (LOSS)

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Unrealised- Gains/ (Losses) on forward foreign exchange Contracts | 473,797 | (310,349) | 473,797 | (310,349) |
| Realised Gains/ (Losses) | (578,685) | (810,515) | (578,685) | (810,515) |
| Net Gain on retranslation of account balances | 133,957 | 357,176 | 133,957 | 357,176 |
| Net Foreign Exchange Gains/ (Losses) | 29,069 | (763,688) | 29,069 | (763,688) |
| Profit on Sale of Securities | 101,927 | 131,929 | 101,927 | 132,302 |
| Other Trading Income /(Loss) | (7,357) | 137,376 | (19,626) | 152,968 |
| | <u>123,639</u> | <u>(494,383)</u> | <u>111,370</u> | <u>(478,418)</u> |

Other Trading Income includes the impact of fair value changes due to movement in the financial assets recorded as held for trading.

31 OTHER OPERATING INCOME

| | Bank | | Group | |
|--------------------------------|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Dividend Income | 12,521 | 195,252 | 1,271 | 537 |
| Non-Trading Foreign Exchange | 33,318 | 23,893 | 33,318 | 23,893 |
| Recovery of Loans Written -Off | 146,721 | 133,414 | 146,721 | 133,414 |
| Others | 100,586 | 51,797 | 100,587 | 51,811 |
| | <u>293,146</u> | <u>404,356</u> | <u>281,897</u> | <u>209,655</u> |

32 IMPAIRMENT CHARGE / (REVERSAL) FOR LOANS AND ADVANCES

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Loans and Advances to Customers | | | | |
| Corporate Loans | 151,595 | (301,024) | 152,275 | (299,833) |
| Retail SME and Consumer Lending | 548,390 | 655,061 | 548,390 | 655,061 |
| Housing Loans | 14,656 | (8,560) | 14,655 | (8,560) |
| Leases | 442,089 | 92,637 | 442,089 | 92,637 |
| | <u>1,156,730</u> | <u>438,114</u> | <u>1,157,409</u> | <u>439,305</u> |
| Direct Write off | - | 11,305 | - | 11,305 |
| | <u>1,156,730</u> | <u>449,419</u> | <u>1,157,409</u> | <u>450,610</u> |

33 PERSONNEL EXPENSES

| | | | | |
|---|------------------|------------------|------------------|------------------|
| Salaries | 1,443,599 | 1,288,388 | 1,466,031 | 1,312,716 |
| Employee Benefits - Defined Contribution Plan | 215,488 | 192,263 | 218,686 | 195,756 |
| Employee Benefits - Defined Benefit Plan | 82,523 | 70,132 | 83,989 | 71,741 |
| Amortisation of Staff Loan Day 1 Difference | 66,823 | 113,644 | 66,823 | 113,644 |
| Other Allowances | 856,697 | 791,081 | 864,869 | 800,805 |
| | <u>2,665,130</u> | <u>2,455,508</u> | <u>2,700,398</u> | <u>2,494,662</u> |

Notes to the Financial Statements

34 OTHER OPERATING EXPENSES

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Business Promotion and Advertising | 478,300 | 303,083 | 478,300 | 303,083 |
| Administrative Expenses | 654,074 | 509,766 | 684,392 | 539,298 |
| Operating Lease Expenses | 262,110 | 234,452 | 221,160 | 193,553 |
| Professional Fees | 19,359 | 283,006 | 19,792 | 282,891 |
| Directors Fees* | 19,440 | 11,115 | 19,440 | 11,115 |
| Auditors Fees and Expenses | 8,433 | 8,742 | 10,234 | 10,557 |
| Non Audit fees and Expenses to Auditors | 1,118 | 720 | 1,118 | 720 |
| Legal Fees | 10,257 | 16,441 | 10,257 | 16,441 |
| Penalty Charges | - | 188 | - | 188 |
| Transport | 152,710 | 123,140 | 154,170 | 124,470 |
| Credit Related Operating Expenses | 513,044 | 451,277 | 513,044 | 451,277 |
| Other | 1,072,143 | 934,994 | 1,080,279 | 935,934 |
| | <u>3,190,988</u> | <u>2,876,924</u> | <u>3,192,188</u> | <u>2,869,527</u> |

*The emoluments of Directors of the Bank / Group for the year ended 31 December 2014 amounts to LKR 51.01 Mn (2013: LKR 50.59 Mn). This includes the amount paid to Executive Directors including CEO which is recorded under Personnel Expenses in Note 33 above.

35 VALUE ADDED TAX (VAT) AND NATIONS BUILDING TAX (NBT) ON FINANCIAL SERVICES

| | Bank | | Group | |
|----------------------------|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Value Added Tax (VAT) | 619,071 | 508,291 | 634,357 | 529,705 |
| Nations Building Tax (NBT) | 107,505 | - | 110,117 | - |
| | <u>726,576</u> | <u>508,291</u> | <u>744,474</u> | <u>529,705</u> |

36 INCOME TAX EXPENSE

36.1 Amounts recognised in Profit or Loss

The component of Income Tax expense for years ended 31 December 2014 & 2013 are ;

Current Tax

| | | | | |
|---|-----------|----------|-----------|----------|
| Current Income Tax on Profit for the Year (Note 36.2) | 1,186,962 | 875,665 | 1,256,617 | 967,583 |
| 10% Withholding Tax on Subsidiary Dividend | - | - | 1,250 | 23,690 |
| Adjustments of Taxes in Respect of Prior Years | - | (36,925) | - | (36,925) |

Deferred Tax

| | | | | |
|--|--------|--------|--------|--------|
| Adjustments of Taxes in respect of Prior Years- Deferred Tax | - | 16,925 | - | 16,925 |
| Charge for Deferred Tax | 32,783 | 43,957 | 32,506 | 43,516 |

| | | | | |
|--|------------------|----------------|------------------|------------------|
| | <u>1,219,745</u> | <u>899,622</u> | <u>1,290,373</u> | <u>1,014,789</u> |
|--|------------------|----------------|------------------|------------------|

36.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by Government of Sri Lanka's tax rate for the years ended 31 December 2014 and 2013 is as follows.

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Accounting Profit (Profit before Taxation) | 3,597,738 | 3,021,605 | 3,826,953 | 3,151,190 |
| Add: Disallowable Expenses | 10,195,838 | 8,181,690 | 10,218,315 | 8,216,711 |
| | 13,793,576 | 11,203,295 | 14,045,268 | 11,367,901 |
| Less: Allowable Expenses | (9,348,508) | (7,796,822) | (9,362,682) | (7,799,414) |
| Exempt Income | (205,918) | (279,096) | (194,668) | (279,096) |
| Statutory Income | 4,239,150 | 3,127,377 | 4,487,918 | 3,289,391 |
| Taxable Income | 4,239,150 | 3,127,377 | 4,487,918 | 3,289,391 |
| Income Tax expenses for the year is made up of : | | | | |
| Current Income Tax Expense | 1,186,962 | 875,665 | 1,256,617 | 967,583 |
| 10% Withholding Tax on Subsidiary Dividend | - | - | 1,250 | 23,690 |
| Adjustments of Taxes in Respect of Prior Years | - | (36,925) | - | (36,925) |
| Adjustments of Taxes in respect of Prior years- Deferred Tax | - | 16,925 | - | 16,925 |
| Charge for Deferred Tax | 32,783 | 43,957 | 32,506 | 43,516 |
| | 1,219,745 | 899,622 | 1,290,373 | 1,014,789 |
| Effective Income Tax Rate | 33.90% | 29.77% | 33.72% | 32.20% |

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

36.3 Amount recognised in Other Comprehensive Income (OCI)

| | Bank | | | Group | | |
|---|---------------------------------------|--|--------------------------------------|---------------------------------------|--|--------------------------------------|
| | 2014 | 2014 | 2014 | 2014 | 2014 | 2014 |
| | Amount recognised in OCI , Before tax | Income Tax Charge/ (Reversal) for the year | Amount recognised in OCI , After tax | Amount recognised in OCI , Before tax | Income Tax Charge/ (Reversal) for the year | Amount recognised in OCI , After tax |
| Net gains on re-measuring of available -for-sale financial assets | 155,413 | 43,516 | 111,897 | 155,413 | 43,515 | 111,898 |
| Actuarial loss on defined benefit plan | (10,746) | (3,009) | (7,737) | (10,983) | (3,142) | (7,841) |
| | 144,667 | 40,507 | 104,160 | 144,430 | 40,373 | 104,057 |

Notes to the Financial Statements

37 BASIC/ DILUTED EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year. The following table shows the income and share data used in the basic earnings per share calculation.

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Amount Used as the Numerator: | | | | |
| Net Profit Attributable to Ordinary Shareholders | 2,377,993 | 2,121,983 | 2,536,580 | 2,136,401 |
| Number of Ordinary Shares Used as the Denominator: | | | | |
| Ordinary Shares at the beginning of the Year | 230,607,283 | 230,607,283 | 230,607,283 | 230,607,283 |
| Weighted Average Number of Ordinary Shares in Issue at the End of the Year | 230,607,283 | 230,607,283 | 230,607,283 | 230,607,283 |
| Basic / Diluted Earnings per Ordinary Share - Basic (LKR) | 10.31 | 9.16 | 11.00 | 9.22 |

38 DIVIDENDS PAID AND PROPOSED

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| 38.1 Declared and Paid During the Year | | | | |
| Dividends on Ordinary Shares: | | | | |
| First and Final Dividend for 2013 : LKR 2.10 per Share (2012 : LKR 2.10 per Share) | 484,275 | 484,275 | 484,275 | 484,275 |
| | 484,275 | 484,275 | 484,275 | 484,275 |
| 38.2 Proposed for Approval at Annual General Meeting (not recognised as a liability as at 31 December) | | | | |
| Dividends on Ordinary Shares: | | | | |
| First and Final Dividend for 2014: LKR 2.10 per Share (2013: LKR 2.10 per Share) | 484,275 | 484,275 | 484,275 | 484,275 |
| | 484,275 | 484,275 | 484,275 | 484,275 |

39 CASH FLOW INFORMATION

39.1 (Increase)/Decrease in Operating Assets

| | Bank | | Group | |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Reverse Repurchase Agreements | (9,478,187) | 1,820,332 | (9,987,629) | 2,152,222 |
| Derivative Financial Instruments | (6,562) | 206,351 | (6,562) | 206,351 |
| Financial Assets Held for Trading | 8,859,817 | (2,984,245) | 9,882,306 | (3,244,583) |
| Financial Assets-Available for Sale | (4,168,576) | - | (4,168,576) | - |
| Financial Assets-Held to Maturity | 11,784,725 | (9,493,298) | 11,777,136 | (9,552,491) |
| Other Financial Assets | (1,610,120) | (285,833) | (1,717,111) | (319,781) |
| Loans and Advances to Customers | (16,458,248) | (8,755,328) | (16,521,155) | (9,006,277) |
| Other Assets | 393,326 | (250,758) | 365,386 | (246,004) |
| | (10,683,825) | (19,742,779) | (10,376,205) | (20,010,563) |

39.2 Increase/(Decrease) in Operating Liabilities

| | Bank | | Group | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Repurchase Agreements | (862,471) | 6,412,144 | (353,029) | 6,080,254 |
| Due to Customers | 14,938,936 | 9,303,949 | 14,952,766 | 9,404,235 |
| Derivative Financial Instruments | (467,255) | 105,153 | (467,255) | 105,153 |
| Other Liabilities | (139,239) | 980,866 | (163,291) | 957,104 |
| | 13,469,971 | 16,802,112 | 13,969,191 | 16,546,746 |

39.3 Other Non cash items included in Profit before Tax

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Depreciation of Property, Plant and Equipment | 295,241 | 246,265 | 323,160 | 257,814 |
| Amortisation of Intangible Assets | 168,555 | 153,682 | 171,348 | 156,515 |
| Provision for Fair Valuation of Trading Portfolio | (466,439) | (137,376) | (466,440) | (137,376) |
| Amortisation of Income generated from Government Securities | (164,213) | (182,188) | (153,686) | (182,188) |
| Interest Income Accrued on Impaired Financial Assets | (411,960) | (185,120) | (411,960) | (185,121) |
| Others | - | - | 21,956 | 20,113 |
| | (578,816) | (104,737) | (515,622) | (70,243) |

40 RELATED PARTY DISCLOSURES

The Bank has carried out transactions with related parties as defined in LKAS 24 - Related Party Disclosures. The pricing applicable to such transactions were 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 such related parties.

40.1 Transactions with Key Management Personnel

W.e.f 01 January 2014 the Bank revisited the application of the definition of 'Key Management Personnel' and concluded that only the Board of Directors and Chief Executive Officer (CEO) of the Bank falls under such definition. Accordingly comparatives have been adjusted.

(a) Compensation to Key Management Personnel

| | 2014 LKR '000 | 2013 LKR '000 |
|------------------------------|------------------|------------------|
| Short Term Employee Benefits | 47,012 | 47,028 |
| Post Employment Benefits | 6,489 | 5,418 |
| | 53,501 | 52,446 |

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

Notes to the Financial Statements

(b) Transactions Arrangements and Agreements involving Key Management Personnel

| | Key Management Personnel & their Close Family Members(CFM) | | | | Entities in which KMPs and CFMs have control or joint control | | | |
|---|---|---------|------------------|---------|---|---------|------------------|---------|
| | | | Maximum Balances | | | | Maximum Balances | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 |
| Items in the Statement of Financial Position | | | | | | | | |
| Assets | | | | | | | | |
| Loans and Advances | 14,704 | 14,540 | 18,218 | 19,226 | - | - | - | - |
| Credit Cards | 1,394 | 1,572 | 1,967 | 7,559 | - | - | - | - |
| Liabilities | | | | | | | | |
| Due to Customers | 88,769 | 105,651 | 128,943 | 164,744 | - | 62,980 | 2,411 | 337,136 |
| Repurchase Agreements | 35,822 | - | 35,822 | - | - | 42,062 | - | 241,407 |
| Equity | | | | | | | | |
| Dividends paid (Net) | 722 | 673 | - | - | - | - | - | - |
| Commitments | | | | | | | | |
| Undrawn Facilities | 3,450 | 9,625 | - | - | - | - | - | - |
| Items in Statement of Profit or Loss | | | | | | | | |
| Interest Income Earned | 1,611 | 1,876 | - | - | - | 4,817 | - | - |
| Interest Expenses Paid | 4,243 | 7,781 | - | - | 60 | 4 | - | - |
| Other Income Earned | 122 | 138 | - | - | - | - | - | - |

40.2 Post-Employment Benefits Plan

The Employees' Private Provident Fund of the Bank is managed by a Committee of Trustees appointed by the members.

The Bank has contributed a sum of LKR 178.08 Mn (2013 - LKR 155.6Mn) to the Fund during the year.

As at 31 December 2014, the Fund has invested a sum of LKR 409.62 Mn (2013 - LKR 214.69 Mn) with the Bank.

During the year, the Bank has incurred a sum of LKR 29.63 Mn (2013 - LKR 19.68Mn) as interest expense to the Fund out of which a sum of LKR 6.1 Mn (2012 - LKR 1.5 Mn) is payable as of 31 December 2014.

40.3 Transactions with Related Entities

| Items in the Statement of Financial Position | Subsidiaries * | | | Significant Investors ** | | | Significant Investor Related Entities *** | | | |
|--|----------------|-----------|----------|--------------------------|-----------|-----------|---|----------|-----------|-----------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | |
| Assets | | | | | | | | | | |
| Loans & Advances | 135,435 | 413,365 | 787,942 | 1,286,375 | - | - | 698,642 | 35,007 | 42,487 | 319,126 |
| Corporate Credit Cards | - | - | - | - | - | 2,211 | 2,317 | 19 | 19 | 71 |
| Reverse Repurchase Agreements | - | 907,271 | 943,862 | 907,271 | - | - | - | - | - | - |
| Derivative Financial Assets | - | - | - | - | - | - | - | 2,177 | - | - |
| Other Assets | 5,922 | 5,922 | 5,922 | 5,922 | - | - | - | 37,235 | - | 25,470 |
| Liabilities | | | | | | | | | | |
| Due to Customers | - | 304,683 | - | 500,147 | 34,140 | 1,005,166 | 1,926,588 | 286,834 | 3,789,215 | 3,789,215 |
| Borrowing & Others | 430,975 | 34,007 | 70,292 | 435,637 | 2,104,446 | 1,978,008 | 1,978,008 | 803,624 | 477,989 | 734,317 |
| Other Liabilities/Financial Guarantees | - | 5,653 | - | - | - | 89,336 | 114,614 | 3,430 | 72,052 | 72,052 |
| Derivative Financial Liabilities | - | - | - | - | - | - | - | 3,304 | 1,294 | - |
| Equity | | | | | | | | | | |
| Dividends paid (Net) | - | - | - | - | 227,231 | 218,824 | - | - | - | - |
| Commitments | | | | | | | | | | |
| Undrawn Facilities | 1,664,565 | 1,061,243 | - | - | 693,106 | 635,476 | - | 100,347 | 753,329 | - |
| Letter of Credit / Guarantees | - | - | - | - | 56,894 | 114,525 | - | 39,147 | 292,018 | - |
| Forward - Foreign Exchange Contracts | - | - | - | - | - | - | - | 488,036 | 741,256 | - |
| Items in Statement of Profit or Loss | | | | | | | | | | |
| Interest Income Earned | 94,812 | 157,404 | - | - | 108 | 27,442 | - | 3,219 | 30,739 | - |
| Interest Expenses Paid | 23,986 | 40,195 | - | - | 104,427 | 123,483 | - | 90,030 | 139,306 | - |
| Other Income Earned | 6,114 | 5,830 | - | - | 2,012 | 2,351 | - | 37,999 | 11,994 | - |
| Dividend Received (Gross) | 11,250 | 216,345 | - | - | - | - | - | - | - | - |
| Expenses Paid | 38,364 | 38,364 | - | - | 34,650 | 44,164 | - | 56,865 | 25,002 | - |

* Subsidiaries of the Group includes Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited.

** Significant Investors include John Keells Holdings PLC, Mackinnons Keells Limited, Central Finance Company PLC, CF Growth Fund Limited and CF Insurance Brokers (Pvt) Ltd.

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

In addition to the above, the Bank has carried out various promotional activities with related entities during the year. Furthermore, a sum of LKR 5.5 Mn (2013 - LKR 12.7 Mn) and LKR 24.8 Mn (2013 - LKR 29.9 Mn) is accounted in Nations Insurance Brokers Ltd as a receivable and commission income respectively from a subsidiary of a significant investor. This is the only related party transaction at the group level.

Notes to the Financial Statements

41 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

| | Bank | | | Group | | |
|---|---------------------|--------------------|--------------------|---------------------|--------------------|--------------------|
| | Within 12 Months | After 12 Months | Total | Within 12 Months | After 12 Months | Total |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| 41.1 As at 31 December 2014 | | | | | | |
| Assets | | | | | | |
| Cash and Cash Equivalents | 6,898,881 | - | 6,898,881 | 6,899,905 | - | 6,899,905 |
| Balances with Central Bank of Sri Lanka | 3,992,118 | - | 3,992,118 | 3,992,118 | - | 3,992,118 |
| Reverse Repurchase Agreements | 11,013,507 | - | 11,013,507 | 11,013,507 | - | 11,013,507 |
| Derivative Financial Instruments | 128,053 | - | 128,053 | 128,053 | - | 128,053 |
| Financial Assets - Held for Trading | 15,648,717 | - | 15,648,717 | 15,700,388 | - | 15,700,388 |
| Financial Assets-Available for Sale | 4,323,960 | 5,488 | 4,329,449 | 4,323,960 | 5,488 | 4,329,449 |
| Financial Assets - Held to Maturity | 1,310,024 | 8,276,194 | 9,586,218 | 1,310,879 | 8,342,120 | 9,653,000 |
| Other Financial Assets | 883,976 | 2,936,770 | 3,820,746 | 883,977 | 2,936,770 | 3,820,747 |
| Loans and Advances to Customers | 62,631,504 | 34,436,756 | 97,068,259 | 63,910,022 | 34,437,027 | 98,347,049 |
| Investments in Subsidiaries | - | 678,710 | 678,710 | - | - | - |
| Other Assets | 1,597,212 | 840,593 | 2,437,804 | 1,665,758 | 840,593 | 2,506,350 |
| Property, Plant and Equipment | - | 1,717,856 | 1,717,856 | - | 2,194,425 | 2,194,425 |
| Intangible Assets | - | 1,271,137 | 1,271,137 | - | 1,283,223 | 1,283,223 |
| Total Assets | 108,427,951 | 50,163,505 | 158,591,455 | 109,828,567 | 50,039,646 | 159,868,214 |
| Liabilities | | | | | | |
| Due to Banks | 2,922,784 | - | 2,922,784 | 2,922,784 | - | 2,922,784 |
| Repurchase Agreements | 14,441,926 | 1,002,280 | 15,444,206 | 14,044,282 | 1,002,280 | 15,046,562 |
| Derivative Financial Instruments | 166,370 | - | 166,370 | 166,370 | - | 166,370 |
| Due to Customers | 102,615,522 | 8,430,924 | 111,046,446 | 102,578,744 | 8,430,924 | 111,009,668 |
| Debt Issued and Other Borrowed Funds | 2,180,155 | 7,505,101 | 9,685,257 | 2,684,346 | 7,505,101 | 10,189,448 |
| Current Tax Liabilities | 639,359 | - | 639,359 | 666,345 | - | 666,345 |
| Other Liabilities | 4,884,128 | 599,297 | 5,483,425 | 4,954,381 | 604,656 | 5,559,037 |
| Deferred Tax Liabilities | - | 415,053 | 415,053 | - | 413,475 | 413,475 |
| Total Liabilities | 127,850,244 | 17,952,655 | 145,802,900 | 128,017,252 | 17,956,437 | 145,973,689 |
| Net | (19,422,293) | 32,210,850 | 12,788,555 | (18,188,685) | 32,083,209 | 13,894,525 |

41 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTD.)

| | Bank | | | Group | | |
|---|---------------------|-------------------|--------------------|---------------------|-------------------|--------------------|
| | Within | After | Total | Within | After | Total |
| | 12 Months | 12 Months | | 12 Months | 12 Months | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| 41.2 As at 31 December 2013 | | | | | | |
| Assets | | | | | | |
| Cash and Cash Equivalents | 3,019,735 | - | 3,019,735 | 3,019,774 | - | 3,019,774 |
| Balances with Central Bank of Sri Lanka | 4,031,763 | - | 4,031,763 | 4,031,763 | - | 4,031,763 |
| Reverse Repurchase Agreements | 1,459,506 | - | 1,459,506 | 552,236 | - | 552,236 |
| Derivative Financial Instruments | 121,491 | - | 121,491 | 121,491 | - | 121,491 |
| Financial Assets - Held for Trading | 23,365,388 | - | 23,365,388 | 24,460,493 | - | 24,460,493 |
| Financial Assets-Available for Sale | - | 5,460 | 5,460 | - | 5,460 | 5,460 |
| Financial Assets - Held to Maturity | 15,492,821 | 4,242,000 | 19,734,821 | 15,483,514 | 4,310,500 | 19,794,014 |
| Other Financial Assets | 820,932 | 1,372,190 | 2,193,122 | 820,932 | 1,372,190 | 2,193,122 |
| Loans and Advances to Customers | 50,951,139 | 30,177,621 | 81,128,760 | 52,150,825 | 30,176,430 | 82,327,255 |
| Investments in Subsidiaries | - | 678,710 | 678,710 | - | - | - |
| Other Assets | 2,780,014 | 33,205 | 2,813,219 | 2,860,495 | 33,205 | 2,893,700 |
| Property, Plant and Equipment | - | 1,545,426 | 1,545,426 | - | 2,048,442 | 2,048,442 |
| Intangible Assets | - | 665,130 | 665,130 | - | 680,007 | 680,007 |
| Total Assets | 102,042,789 | 38,719,742 | 140,762,531 | 103,501,523 | 38,626,234 | 142,127,757 |
| Liabilities | | | | | | |
| Due to Banks | 1,401,473 | - | 1,401,473 | 1,401,473 | - | 1,401,473 |
| Repurchase Agreements | 16,318,358 | 328 | 16,318,686 | 16,284,351 | 328 | 16,284,679 |
| Derivative Financial Instruments | 633,625 | - | 633,625 | 633,625 | - | 633,625 |
| Due to Customers | 90,098,025 | 5,938,173 | 96,036,198 | 89,791,359 | 5,938,174 | 95,729,533 |
| Debt Issued and Other Borrowed Funds | 2,325,154 | 7,657,411 | 9,982,565 | 2,931,814 | 7,657,411 | 10,589,224 |
| Current Tax Liabilities | 332,732 | - | 332,732 | 383,318 | - | 383,318 |
| Other Liabilities | 4,620,891 | 303,920 | 4,924,811 | 4,723,225 | 303,921 | 5,027,146 |
| Deferred Tax Liabilities | - | 341,763 | 341,763 | - | 340,596 | 340,596 |
| Total Liabilities | 115,730,259 | 14,241,595 | 129,971,854 | 116,149,164 | 14,240,430 | 130,389,594 |
| Net | (13,687,470) | 24,478,147 | 10,790,677 | (12,647,641) | 24,385,804 | 11,738,163 |

Notes to the Financial Statements

42 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models. The models incorporate various inputs including foreign exchange spot and forward rates.

Financial Assets Held for Trading

Financial assets held for trading are valued using a valuation technique consists of debt securities issued by Government of Sri Lanka. The Bank values the securities using discounted cash flow valuation models which incorporate observable data. Observable inputs include assumptions regarding current yield rates/ market prices published by Central Bank of Sri Lanka.

Financial Assets Available for Sale

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted equities and debt securities issued by the government of Sri Lanka and certain unquoted equity securities. Such debt securities are valued using current yield rates / market prices published by the Central Bank of Sri Lanka. Unquoted equities are valued using models that use both observable and unobservable data.

42.1 Determination of Fair Value and Fair Value Hierarchy

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Bank uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

Fair values are determined according to the following hierarchy:

(a) Level 1 – Quoted market price

Financial instruments with quoted prices for identical instruments in active markets that the group can access at the measurement date.

(b) Level 2 – Valuation technique using observable inputs

Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

(c) Level 3 – Valuation technique with significant unobservable inputs

Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

42 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

42.2 Assets and Liabilities Measured at Fair Value - Fair Value Hierarchy

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy in to which the fair value measurement is categorised. The amounts are based on the value recognized in the Statement of Financial Position in the Financial Statements.

| Bank As At 31 December 2014 | Date of Valuation | Quoted Prices in Active Markets (Level 1) LKR '000 | Fair Value Measurement Using | | | Total LKR '000 |
|---|----------------------|--|--|--|--|-------------------|
| | | | Significant Observable Inputs (Level 2) LKR '000 | Significant Unobservable Inputs (Level 3) LKR '000 | | |
| | | | | | | |
| Financial Assets | | | | | | |
| Derivative Financial Instruments | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-14 | - | 128,053 | - | | 128,053 |
| Financial Assets Held for Trading | | | | | | |
| Government Treasury Bills | 31-Dec-14 | 6,618,490 | - | - | | 6,618,490 |
| Government Treasury Bonds | 31-Dec-14 | 8,167,437 | 862,790 | - | | 9,030,227 |
| Financial Assets Available for Sale | | | | | | |
| Government Treasury Bills | 31-Dec-14 | 2,861,780 | - | - | | 2,861,780 |
| Government Treasury Bonds | 31-Dec-14 | 1,308,791 | - | - | | 1,308,791 |
| Unquoted Equity Shares | 31-Dec-14 | - | 153,390 | 5,488 | | 158,878 |
| Total Financial Assets | | 18,956,498 | 1,144,233 | 5,488 | | 20,106,219 |
| Financial Liabilities | | | | | | |
| Derivative Financial Instruments | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-14 | - | 166,370 | - | | 166,370 |
| Total Financial Liabilities | | - | 166,370 | - | | 166,370 |
| As At 31 December 2013 | | | | | | |
| Financial Assets | | | | | | |
| Derivative Financial Instruments | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-13 | - | 121,491 | - | | 121,491 |
| Financial Assets Held for Trading | | | | | | |
| Government Treasury Bills | 31-Dec-13 | 19,025,714 | - | - | | 19,025,714 |
| Government Treasury Bonds | 31-Dec-13 | 4,339,674 | - | - | | 4,339,674 |
| Financial Assets available for sale | | | | | | |
| Unquoted Equity Shares | 31-Dec-13 | - | - | 5,460 | | 5,460 |
| Total Financial Assets | | 23,365,388 | 121,491 | 5,460 | | 23,492,339 |
| Financial Liabilities | | | | | | |
| Derivative Financial Instruments | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-13 | - | 633,625 | - | | 633,625 |
| Total Financial Liabilities | | - | 633,625 | - | | 633,625 |

There are no non-financial assets or non-financial liabilities measured at fair value as at the reporting date.

Notes to the Financial Statements

42 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

42.2 Assets and Liabilities Measured at Fair Value - Fair Value Hierachy (Contd.)

| Group As At 31 December 2014 | Date of Valuation | Quoted Prices in Active Markets (Level 1) LKR '000 | Fair Value Measurement Using | | Total LKR '000 |
|---|----------------------|---|--|--|-------------------|
| | | | Significant Observable Inputs (Level 2) LKR '000 | Significant Unobservable Inputs (Level 3) LKR '000 | |
| | | | | | |
| Financial Assets | | | | | |
| Derivative Financial Instruments | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-14 | - | 128,053 | - | 128,053 |
| Financial Assets Held for Trading | | | | | |
| Government Treasury Bills | 31-Dec-14 | 6,618,490 | - | - | 6,618,490 |
| Government Treasury Bonds | 31-Dec-14 | 8,219,108 | 862,790 | - | 9,081,898 |
| Financial Assets Available for Sale | | | | | |
| Government Treasury Bills | 31-Dec-14 | 2,861,780 | - | - | 2,861,780 |
| Government Treasury Bonds | 31-Dec-14 | 1,308,791 | - | - | 1,308,791 |
| Unquoted Equity Shares | 31-Dec-14 | - | 153,390 | 5,488 | 158,878 |
| Total Financial Assets | | 19,008,169 | 1,144,233 | 5,488 | 20,157,890 |
| Financial Liabilities | | | | | |
| Derivative Financial Instruments | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-14 | - | 166,370 | - | 166,370 |
| Total Financial Liabilities | | - | 166,370 | - | 166,370 |
| As At 31 December 2013 | | | | | |
| Financial Assets | | | | | |
| Derivative Financial Instruments | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-13 | - | 121,491 | - | 121,491 |
| Financial Assets Held for Trading | | | | | |
| Government Treasury Bills | 31-Dec-13 | 19,025,714 | - | - | 19,025,714 |
| Government Treasury Bonds | 31-Dec-13 | 4,339,674 | - | - | 4,339,674 |
| Financial Assets Available for Sale | | | | | |
| Unquoted Equity Shares | 31-Dec-13 | - | - | 5,460 | 5,460 |
| Total Financial Assets | | 23,365,388 | 121,491 | 5,460 | 23,492,339 |
| Financial Liabilities | | | | | |
| Derivative Financial Instruments | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-13 | - | 633,625 | - | 633,625 |
| Total Financial Liabilities | | - | 633,625 | - | 633,625 |

42 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

42.2 Determination of Fair Value and Fair Value Hierarchy (Contd.)

Reconciliation of the financial assets Available-for-sale ,classified as “Level 3” in the fair value hierarchy.

| | Bank / Group | Bank / Group |
|--|--------------|--------------|
| | 2014 | 2013 |
| | LKR '000 | LKR '000 |
| Balance as at 01 January | 5,460 | 5,397 |
| Change in value due to exchange rate fluctuation | 28 | 63 |
| Balance as at 31 December | 5,488 | 5,460 |

Financial Assets Available for sale , classified as “Level 3” in the fair value hierarchy comprises of Unquoted Equity Shares. Further details are given in Note 10.1

42.3 Financial Assets and Financial Liabilities not carried at fair value

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank’s financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

| Bank | 2014 | | | | | 2013 | |
|---|-----------------------------|---|---|----------|--------------------|-----------------------------|------------------------|
| | Carrying Amount LKR '000 | Fair Value Measurement Using | | | Total LKR '000 | Carrying Amount LKR '000 | Fair Value LKR '000 |
| Quoted Prices in Active Markets (Level 1) LKR '000 | | Significant Observable Inputs (Level 2) LKR '000 | Significant Observable Inputs (Level 3) LKR '000 | | | | |
| Financial Assets | | | | | | | |
| Financial Assets - Held to Maturity | 9,586,218 | 8,599,060 | 1,522,989 | - | 10,122,049 | 19,734,821 | 20,179,141 |
| | 9,586,218 | 8,599,060 | 1,522,989 | - | 10,122,049 | 19,734,821 | 20,179,141 |
| Loans and Advances to Customers | | | | | | | |
| Corporate Loans | 23,664,107 | - | 23,654,599 | - | 23,654,599 | 17,899,881 | 17,751,256 |
| Retail, SME and Consumer Lending | 45,250,813 | - | 44,985,706 | - | 44,985,706 | 39,010,918 | 38,841,838 |
| Housing Loans | 1,215,296 | - | 1,221,145 | - | 1,221,145 | 1,328,951 | 1,177,235 |
| Leases | 25,133,488 | - | 24,536,984 | - | 24,536,984 | 21,519,354 | 21,304,145 |
| Staff Loans | 1,804,552 | - | 2,456,165 | - | 2,456,165 | 1,370,606 | 1,721,417 |
| Total Loans and Advances | 97,068,256 | - | 96,854,599 | - | 96,854,599 | 81,129,710 | 80,795,891 |
| Total Financial Assets | 106,654,474 | 8,599,060 | 98,377,588 | | 106,976,648 | 100,864,531 | 100,975,032 |
| Financial Liabilities | | | | | | | |
| Repurchase Agreements | 15,444,206 | - | 15,383,749 | - | 15,383,749 | 18,101,824 | 18,104,300 |
| Due to Customers | 111,046,446 | - | 109,778,337 | - | 109,778,337 | 96,036,198 | 96,720,079 |
| Debt Issued and Other Borrowed Funds | 9,685,257 | - | 8,511,176 | - | 8,511,176 | 8,199,428 | 7,977,001 |
| Total Financial Liabilities | 136,175,909 | - | 133,673,262 | - | 133,673,262 | 122,337,450 | 122,801,380 |

Notes to the Financial Statements

42 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

42.3 Financial Assets and Financial Liabilities not carried at fair value (Contd.)

| Group | Carrying Amount LKR '000 | 2014 Fair Value Measurement Using | | | Total LKR '000 | 2013 | |
|--|-----------------------------|--|--|--|-------------------|--------------------------------|---------------------------|
| | | Quoted Prices in Active Markets (Level 1) LKR '000 | Significant Observable Inputs (Level 2) LKR '000 | Significant Observable Inputs (Level 3) LKR '000 | | Carrying Amount LKR '000 | Fair Value LKR '000 |
| Financial Assets | | | | | | | |
| Financial Assets - Held to Maturity | 9,653,000 | 8,599,060 | 1,599,816 | - | 10,198,876 | 19,794,014 | 20,238,334 |
| | 9,653,000 | 8,599,060 | 1,599,816 | - | 10,198,876 | 19,794,014 | 20,238,334 |
| Loans and Advances to Customers | | | | | | | |
| Corporate Loans | 24,942,357 | - | 24,932,849 | - | 24,932,849 | 19,097,425 | 18,948,800 |
| Retail, SME and Consumer Lending | 45,250,812 | - | 44,985,706 | - | 44,985,706 | 39,010,918 | 38,841,838 |
| Housing Loans | 1,215,571 | - | 1,221,419 | - | 1,221,419 | 1,328,951 | 1,177,235 |
| Leases | 25,133,488 | - | 24,536,984 | - | 24,536,984 | 21,519,354 | 21,304,145 |
| Staff Loans | 1,804,552 | - | 2,456,165 | - | 2,456,165 | 1,370,606 | 1,721,417 |
| Total Loans and Advances | 98,346,780 | - | 98,133,123 | - | 98,133,123 | 82,327,254 | 81,993,435 |
| Total Financial Assets | 107,999,780 | 8,599,060 | 99,732,939 | - | 108,331,999 | 102,121,268 | 102,231,769 |
| Financial Liabilities | | | | | | | |
| Repurchase Agreements | 15,046,562 | - | 14,986,104 | - | 14,986,104 | 18,067,817 | 18,065,341 |
| Due to Customers | 111,009,667 | - | 109,788,866 | - | 109,788,866 | 95,729,533 | 95,045,652 |
| Debt Issued and Other Borrowed Funds | 10,189,448 | - | 7,337,096 | - | 7,337,096 | 9,685,257 | 9,462,830 |
| Total Financial Liabilities | 136,245,677 | - | 132,112,066 | - | 132,112,066 | 123,482,607 | 122,573,823 |

42 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

42.3 Financial Assets and Financial Liabilities not carried at fair value (Contd.)

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values.

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature to reprice to current market rates frequently;

Assets

Cash and Cash Equivalents
Balances with Central Bank of Sri Lanka
Reverse Repurchase Agreements
Other Financial Assets

Liabilities

Due to banks

This assumption is also applied to demand deposits, call deposits and savings deposits without a specific maturity.

It is also assumed that the amortised cost of floating rate financial instrument approximate the fair value as the amortised cost represent most recent fair value.

Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. There is a significant difference between carrying value and fair value of Reverse Repurchase Agreements and Repurchase Agreements with original tenors above one year. In fair valuing held to maturity securities, rates published by the CBSL for similar trading securities were used. Loans and Advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. Interest rates based on Treasury Bond rates with similar tenors with an adjustment for premium have been used to arrive at the fair value of Debentures Issued.

43. FINANCIAL RISK MANAGEMENT

43.1 Introduction

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability. The Bank is primarily exposed to credit risk, liquidity risk, market risk and operational risks.

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

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

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.1 Introduction (Contd.)

The Board of Directors is responsible for establishing the overall Risk Management Framework within the Bank. This consists of approval of a risk governance structure and approval of detailed risk management policies and procedures with risk appetite and tolerance limits.

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

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

The Integrated Risk Management Department (IRMD), headed by the Chief Risk Officer (CRO), is responsible for developing and implementing the Bank's Risk Management Framework. Responsibilities of the IRMD include the following:

- Oversee formulation of risk policies and procedures
- Develop risk management standards and measurement tools
- Monitors the Bank's overall risk profile, including risk aggregation, reporting, trends and change in material risk positions
- Monitors compliance with risk policies and procedures
- Compiles risk across business units and escalates risk and control issues to senior management
- Develops and presents reports on aggregate risk profile of the Bank in relation to capital on quarterly basis. These reports are submitted to BIRMC
- Supports the organization risk culture through development of a common risk language and Bank-wide risk training and support
- Provides interpretation of risk-related regulations/ leading practices and disseminates to Business Units

43. FINANCIAL RISK MANAGEMENT (CONTD.)

Risk Measurement and Reporting Systems

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

Managing of risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept with additional emphasis on selected industries.

Information compiled from all the relevant departments are examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the members of Board Supervisory Committee, BIRMC and the heads of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. The BIRMC receives a risk assessment report bi-monthly, which is designed to provide a wide range of information to assess and conclude on the overall risks of the Bank.

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

Risk Mitigation

As part of its overall risk management, the Bank uses derivatives to manage exposures resulting from changes in foreign currencies. The Bank also accepts various types of collateral as a credit risk mitigant whilst insurance is used to transfer operational types of risks.

Excessive Risk Concentration

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

43.2 Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations and by monitoring exposures in relation to such limits and by taking appropriate collateral.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. A scientifically developed internal risk rating mechanism has been implemented via a work flow based software covering various types of customer segments of the Bank excluding consumer products. Such risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Impairment Assessment

For financial reporting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer faces bankruptcy or other financial reorganization
- Observable data that suggests that there is a decrease in the estimated future cash flows

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis above a predetermined threshold limit. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout if bankruptcy happens, the availability of other financial support, the realizable value and timing of collateral and expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. The Bank has currently set Individually Significant Threshold at Rupees Twenty Million and every customer having an aggregate exposure above that limit is individually assessed for objective evidence of incurred loss (OEIL). If the Bank finds such customers are having OEIL, those customers are individually impaired taking in to account the estimated value of future cash flows.

Collectively Assessed Allowances

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

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether allowance should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio such as historical losses on the portfolio, levels of arrears and expected receipts and recoveries once impaired.

The Bank generally bases its analysis on historical experience. However, when there are significant market developments, the Bank also include macro- economic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, levels of bad debts and delinquency trends, Inflation, movements in Gross Domestic Product (GDP), macro environment stability in financial industry, revisions in the Interest rates, changes in regulatory environment and other available consumer data. The Bank uses aforementioned factors as appropriate to adjust the impairment allowances.

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

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

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

In order to assess impairment provision at appropriate granular level, the Bank has stratified certain collective portfolios further reflecting grouping of similar risk customer profiles. Such stratification of the portfolios has helped the Bank to make an accurate assessment of required impairment provisions as it focuses on avoiding generalization of possible potential loss indicative parameters.

Credit Quality by Class of Financial Assets

The Bank manages the credit quality of Corporate, Retail and SME, Leasing and Factoring customers through a credit rating mechanism and a credit rating system. Customers in consumer lending portfolio have not been rated.

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

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

| Credit Quality Category | Definition | Description |
|---|------------------|--|
| High Grade | Very High Safety | The exposure to the government, Banks and Reverse Repurchase transactions backed by Government Securities are identified as 'High Grade'. The external rating of the Banks have not been considered in this regard as these exposures are highly liquid and are of self liquidating nature. Chances of default are negligible and highly unlikely. The obligor/counterparty is likely to honour its commitments even under adverse business/market conditions. |
| Investment Grade (A+& B-) | High Safety | The ability to honour the terms of trade is high. The obligor/counterparty is likely to honour its commitments even under adverse business conditions. There would be insignificant likelihood of default associated with adverse economic events of significant scale. |
| Intermediary Grade (C+ and C) | Moderate Safety | The ability to honour the terms of trade is strong, but not as strong as in Investment Grade. The obligor/counterparty may take longer than anticipated/planned to honour its commitments under adverse business conditions. There is a moderate likelihood of default. |
| Speculative Grade (C- and D) | Low Safety | The ability to honour the terms of trade is low. Any adverse changes in the business/ economic conditions may impair the obligor's/counterparty's ability to honour its commitments. |
| Customers whose credit quality is not yet finalized | Safe | The ability to honour the terms of trade is assumed acceptable but yet to be confirmed by way of a finalized rating. |

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

Credit Risk exposure for each internal credit risk rating

| Bank's Internal Credit Rating | Historical Default Rates | | Amortized Cost | |
|---|--------------------------|----------------|-----------------|-----------------|
| | 2014 % | 2013 % | 2014 LKR'000 | 2013 LKR'000 |
| Investment Grade | | | | |
| A | Less than 1% | Less than 1% | 13,270,292 | 11,098,235 |
| B | Less than 4.5% | Less than 4.5% | 15,600,562 | 7,816,742 |
| Intermediary Grade | | | | |
| C + and C | Less than 6.5% | Less than 6.5% | 1,193,679 | 1,891,248 |
| Speculative Grade | | | | |
| C- | Less than 7.5% | Less than 7.5% | 5,755,413 | 4,350,208 |
| D | Minimum of 23% | Minimum of 23% | 110,572 | 22,357 |
| Past Due - Rated Portfolio | | | 5,134,990 | 8,175,288 |
| Individually Impaired - Rated Portfolio | | | 2,025,529 | 3,611,800 |
| Sum of Amortized Cost of Rated Customers | | | 43,091,037 | 36,965,879 |

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

It is the Bank policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of obligor risk. All internal risk ratings are tailored to measure specific default characteristics and risks inherent in various business segments. All such segment specific models are then mapped in to a single common scale across the Bank based on the underlying probability of default. The attributable risk ratings are assessed and updated regularly.

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

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

| Bank - 31 December 2014 | Neither past due nor impaired | | | | | | | Total |
|---|-------------------------------|-------------------|---------------------|--------------------|--|---------------------------|-----------------------|--------------------|
| | High Grade | Investment Grades | Intermediary Grades | Speculative Grades | Customers whose credit rating is not yet finalized | Past due but not impaired | Individually impaired | |
| | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 |
| Cash and Cash Equivalents | 6,898,877 | - | - | - | - | - | - | 6,898,877 |
| Balances with Central Bank of Sri Lanka | 3,992,118 | - | - | - | - | - | - | 3,992,118 |
| Reverse Repurchase Agreements | 11,003,449 | - | - | - | 10,058 | - | - | 11,013,507 |
| Derivative Financial Instruments | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 65,603 | 30,537 | - | - | 31,914 | - | - | 128,053 |
| Financial Assets - Held for Trading | | | | | | | | |
| Government Treasury Bills and Bonds | 15,648,717 | - | - | - | - | - | - | 15,648,717 |
| Financial Assets - Held to Maturity | | | | | | | | |
| Government Treasury Bills and Bonds | 9,586,218 | - | - | - | - | - | - | 9,586,218 |
| Financial Assets-Available for Sale | | | | | | | | |
| Government Treasury Bills and Bonds | 4,170,571 | - | - | - | - | - | - | 4,170,571 |
| Unquoted Equity Shares | - | - | - | 158,878 | - | - | - | 158,878 |
| Other Financial Assets | | | | | | | | |
| Sri Lanka Development Bonds | 2,669,818 | - | - | - | - | - | - | 2,669,818 |
| Quoted Debentures | 300,636 | 650,403 | - | - | - | - | - | 951,039 |
| Unquoted Debentures | - | 199,889 | - | - | - | - | - | 199,889 |
| | <u>2,970,454</u> | <u>850,293</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,820,747</u> |
| Loans and Advances to Customers (Gross) | | | | | | | | |
| Corporate Loans | - | 21,953,136 | 92,992 | 358,011 | - | 772,157 | 866,771 | 24,043,068 |
| Retail ,SME and Consumer | - | 6,917,718 | 1,100,687 | 5,507,974 | 19,543,195 | 11,328,562 | 1,759,553 | 46,157,688 |
| Housing Loans | - | - | - | - | 731,002 | 479,224 | 100,423 | 1,310,648 |
| Leases | - | - | - | - | 15,526,537 | 9,636,944 | 532,513 | 25,695,994 |
| Staff Loans | - | - | - | - | 2,418,053 | 73,808 | - | 2,491,861 |
| | <u>-</u> | <u>28,870,854</u> | <u>1,193,679</u> | <u>5,865,985</u> | <u>38,218,787</u> | <u>22,290,695</u> | <u>3,259,260</u> | <u>99,699,259</u> |
| Total | <u>54,336,006</u> | <u>29,751,683</u> | <u>1,193,679</u> | <u>6,024,863</u> | <u>38,260,759</u> | <u>22,290,695</u> | <u>3,259,260</u> | <u>155,116,944</u> |

Note : Past Due loans include any loan that is in arrears for more than one day. Out of LKR 22.3Bn categorized under "past due but not impaired" category LKR 8.5Bn (38%) is in arrears for less than 30 days, LKR 10.9Bn (49%) is in arrears for more than 30 days but less than 90 days & LKR 2.9Bn (13%) is in arrears for more than 90 Days.

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

| Bank - 31 December 2013 | Neither past due nor impaired | | | | | | | Total |
|---|-------------------------------|-------------------|---------------------|--------------------|--|---------------------------|-----------------------|--------------------|
| | High Grade | Investment Grades | Intermediary Grades | Speculative Grades | Customers whose credit rating is not yet finalized | Past due but not impaired | Individually impaired | |
| | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 |
| Cash and Cash Equivalents | 3,019,735 | - | - | - | - | - | - | 3,019,735 |
| Balances with Central Bank of Sri Lanka | 4,031,763 | - | - | - | - | - | - | 4,031,763 |
| Reverse Repurchase Agreements | 1,455,060 | - | - | 4,447 | - | - | - | 1,459,506 |
| Derivative Financial Instruments | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 102,553 | 18,917 | - | 21 | - | - | - | 121,491 |
| Financial Assets - Held for Trading | | | | | | | | |
| Government Treasury Bills and Bonds | 23,365,388 | - | - | - | - | - | - | 23,365,388 |
| Financial Assets - Held to Maturity | | | | | | | | |
| Government Treasury Bills and Bonds | 19,734,821 | - | - | - | - | - | - | 19,734,821 |
| Financial Assets-Available for Sale | | | | | | | | |
| Unquoted Equity Shares | - | - | - | 5,460 | - | - | - | 5,460 |
| Other Financial Assets | | | | | | | | |
| Sri Lanka Development Bonds | 1,584,892 | - | - | - | - | - | - | 1,584,892 |
| Quoted Debentures | - | 150,010 | - | - | - | - | - | 150,010 |
| Unquoted Debentures | - | 458,220 | - | - | - | - | - | 458,220 |
| | 1,584,892 | 608,230 | - | - | - | - | - | 2,193,122 |
| Loans and Advances to Customers (Gross) | | | | | | | | |
| Corporate Loans | - | 14,041,413 | 77,561 | 1,325,741 | - | 1,520,282 | 1,503,410 | 18,468,407 |
| Retail, SME and Consumer | - | 4,873,564 | 1,813,687 | 3,046,824 | 17,795,489 | 10,125,509 | 2,259,702 | 39,914,775 |
| Housing Loans | - | - | - | - | 812,506 | 543,357 | 62,374 | 1,418,237 |
| Leases | - | - | - | - | 12,014,028 | 9,408,363 | 315,825 | 21,738,216 |
| Staff Loans | - | - | - | - | 2,157,334 | 24,608 | - | 2,181,943 |
| | - | 18,914,978 | 1,891,248 | 4,372,565 | 32,779,357 | 21,622,120 | 4,141,310 | 83,721,578 |
| Total | 53,294,211 | 19,542,125 | 1,891,248 | 4,382,493 | 32,779,357 | 21,622,120 | 4,141,310 | 137,652,864 |

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

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

| Group - 31 December 2014 | Neither past due nor impaired | | | | | | | Total |
|---|-------------------------------|-------------------|---------------------|--------------------|--|---------------------------|-----------------------|--------------------|
| | High Grade | Investment Grades | Intermediary Grades | Speculative Grades | Customers whose credit rating is not yet finalized | Past due but not impaired | Individually impaired | |
| | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 |
| Cash and Cash Equivalents | 6,899,901 | - | - | - | - | - | - | 6,899,901 |
| Balances with Central Bank of Sri Lanka | 3,992,118 | - | - | - | - | - | - | 3,992,118 |
| Reverse Repurchase Agreements | 11,003,449 | - | - | - | 10,058 | - | - | 11,013,507 |
| Derivative Financial Instruments | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 65,603 | 30,537 | - | - | 31,914 | - | - | 128,053 |
| Financial Assets - Held for Trading | | | | | | | | |
| Government Treasury Bills and Bonds | 15,700,388 | - | - | - | - | - | - | 15,700,388 |
| Financial Assets - Held to Maturity | | | | | | | | |
| Government Treasury Bills and Bonds | 9,653,000 | - | - | - | - | - | - | 9,653,000 |
| Financial Assets-Available for Sale | | | | | | | | |
| Government Treasury Bills and Bonds | 4,170,571 | - | - | - | - | - | - | 4,170,571 |
| Unquoted Equity Shares | - | - | - | 158,878 | - | - | - | 158,878 |
| Other Financial Assets | | | | | | | | |
| Sri Lanka Development Bonds | 2,669,818 | - | - | - | - | - | - | 2,669,818 |
| Quoted Debentures | 300,636 | 650,403 | - | - | - | - | - | 951,039 |
| Unquoted Debentures | - | 199,889 | - | - | - | - | - | 199,889 |
| | <u>2,970,454</u> | <u>850,293</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,820,747</u> |
| Loans and Advances to Customers (Gross) | | | | | | | | |
| Corporate Loans | - | 21,817,701 | 92,992 | 919,708 | - | 772,157 | 866,771 | 24,469,329 |
| Retail, SME and Consumer | - | 6,917,718 | 1,100,687 | 6,360,233 | 19,543,195 | 11,328,562 | 1,759,553 | 47,009,947 |
| Housing Loans | - | - | - | - | 731,002 | 479,224 | 100,423 | 1,310,648 |
| Leases | - | - | - | - | 15,526,537 | 9,636,944 | 532,513 | 25,695,994 |
| Staff Loans | - | - | - | - | 2,418,053 | 73,808 | - | 2,491,861 |
| | <u>-</u> | <u>28,735,418</u> | <u>1,193,679</u> | <u>7,279,941</u> | <u>38,218,787</u> | <u>22,290,695</u> | <u>3,259,260</u> | <u>100,977,779</u> |
| Total | <u>54,455,483</u> | <u>29,616,248</u> | <u>1,193,679</u> | <u>7,438,819</u> | <u>38,260,759</u> | <u>22,290,695</u> | <u>3,259,260</u> | <u>156,514,942</u> |

Note: Past Due loans include any loan that is in arrears for more than one day. Out of LKR 22.3Bn categorized under "past due but not impaired" category LKR 8.5Bn (38%) is in arrears for less than 30 days, LKR 10.9Bn (49%) is in arrears for more than 30 days but less than 90 days & LKR 2.9Bn (13%) is in arrears for more than 90 Days

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

| Group - 31 December 2013 | Neither past due nor impaired | | | | | | | Total |
|---|-------------------------------|-------------------|---------------------|--------------------|--|---------------------------|-----------------------|--------------------|
| | High Grade | Investment Grades | Intermediary Grades | Speculative Grades | Customers whose credit rating is not yet finalized | Past due but not impaired | Individually impaired | |
| | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 |
| Cash and Cash Equivalents | 3,019,774 | - | - | - | - | - | - | 3,019,774 |
| Balances with Central Bank of Sri Lanka | 4,031,763 | - | - | - | - | - | - | 4,031,763 |
| Reverse Repurchase Agreements | 547,789 | - | - | 4,447 | - | - | - | 552,236 |
| Derivative Financial Instruments | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 102,553 | 18,917 | - | 21 | - | - | - | 121,491 |
| Financial Assets - Held for Trading | | | | | | | | |
| Government Treasury Bills and Bonds | 24,460,493 | - | - | - | - | - | - | 24,460,493 |
| Financial Assets - Held to Maturity | | | | | | | | |
| Government Treasury Bills and Bonds | 19,794,014 | - | - | - | - | - | - | 19,794,014 |
| Financial Assets-Available for Sale | | | | | | | | |
| Unquoted Equity Shares | - | - | - | 5,460 | - | - | - | 5,460 |
| Other Financial Assets | | | | | | | | |
| Sri Lanka Development Bonds | 1,584,892 | - | - | - | - | - | - | 1,584,892 |
| Quoted Debentures | - | 150,010 | - | - | - | - | - | 150,010 |
| Unquoted Debentures | - | 458,220 | - | - | - | - | - | 458,220 |
| | 1,584,892 | 608,230 | - | - | - | - | - | 2,193,122 |
| Loans and Advances to Customers (Gross) | | | | | | | | |
| Corporate Loans | - | 13,628,049 | 77,561 | 1,843,152 | - | 1,520,282 | 1,503,410 | 18,572,454 |
| Retail, SME and Consumer | - | 4,873,564 | 1,813,687 | 4,140,322 | 17,795,489 | 10,125,509 | 2,259,702 | 41,008,273 |
| Housing Loans | - | - | - | - | 812,506 | 543,357 | 62,374 | 1,418,237 |
| Leases | - | - | - | - | 12,014,028 | 9,408,363 | 315,825 | 21,738,216 |
| Staff Loans | - | - | - | - | 2,157,334 | 24,608 | - | 2,181,943 |
| | - | 18,501,613 | 1,891,248 | 5,983,475 | 32,779,357 | 21,622,120 | 4,141,310 | 84,919,123 |
| Total | 53,541,277 | 19,128,760 | 1,891,248 | 5,993,402 | 32,779,357 | 21,622,120 | 4,141,310 | 139,097,475 |

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

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

Management monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim

| Bank - 31 December 2014 | Maximum Exposure to Credit Risk LKR'000 | Net Collateral LKR'000 | Net Exposure LKR'000 |
|---|---|---------------------------|-------------------------|
| Cash and Cash Equivalents | 6,898,881 | - | 6,898,881 |
| Balances with Central Bank of Sri Lanka | 3,992,118 | - | 3,992,118 |
| Reverse Repurchase Agreements | 11,013,507 | 11,013,507 | - |
| Derivative Financial Instruments | 128,053 | - | 128,053 |
| Financial Assets - Held for Trading | 15,648,717 | - | 15,648,717 |
| Financial Assets - Held to Maturity | 9,586,218 | - | 9,586,218 |
| Financial Assets-Available for Sale | 4,329,449 | - | 4,329,449 |
| Other Financial Assets | 3,820,747 | 243,157 | 3,577,590 |
| Loans and Advances to Customers (Gross) | 99,692,164 | 53,587,897 | 44,640,356 |
| Financial Guarantees | 105,716 | 11,180 | 94,536 |
| Letters of Credit | 4,043,903 | 299,775 | 3,744,129 |
| Other Commitments | 94,539,012 | 13,246,478 | 81,292,534 |
| | 253,798,484 | 78,401,993 | 173,932,579 |

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

| Bank - 31 December 2013 | Maximum Exposure to Credit Risk LKR'000 | Net Collateral LKR'000 | Net Exposure LKR'000 |
|---|---|---------------------------|-------------------------|
| Cash and Cash Equivalents | 3,019,735 | - | 3,019,735 |
| Balances with Central Bank of Sri Lanka | 4,031,763 | - | 4,031,763 |
| Reverse Repurchase Agreements | 1,459,506 | 1,459,506 | - |
| Derivative Financial Instruments | 121,491 | - | 121,491 |
| Financial Assets - Held for Trading | 23,365,388 | - | 23,365,388 |
| Financial Assets - Held to Maturity | 19,734,821 | - | 19,734,821 |
| Financial Assets-Available for Sale | 5,460 | - | 5,460 |
| Other Financial Assets | 2,193,122 | - | 2,193,122 |
| Loans and Advances to Customers (Gross) | 83,721,578 | 49,263,145 | 34,479,949 |
| Financial Guarantees | 245,100 | 28,620 | 216,480 |
| Letters of Credit | 2,922,428 | 467,779 | 2,454,649 |
| Other Commitments | 87,013,216 | 6,330,484 | 80,682,732 |
| | <u>227,833,608</u> | <u>57,549,534</u> | <u>170,305,590</u> |

| Group - 31 December 2014 | Maximum Exposure to Credit Risk LKR'000 | Net Collateral LKR'000 | Net Exposure LKR'000 |
|---|---|---------------------------|-------------------------|
| Cash and Cash Equivalents | 6,899,905 | - | 6,899,905 |
| Balances with Central Bank of Sri Lanka | 3,992,118 | - | 3,992,118 |
| Reverse Repurchase Agreements | 11,013,507 | 11,013,507 | - |
| Derivative Financial Instruments | 128,053 | - | 128,053 |
| Financial Assets - Held for Trading | 15,700,388 | - | 15,700,388 |
| Financial Assets - Held to Maturity | 9,653,000 | - | 9,653,000 |
| Financial Assets-Available for Sale | 4,329,449 | - | 4,329,449 |
| Other Financial Assets | 3,820,747 | 243,157 | 3,577,590 |
| Loans and Advances to Customers (Gross) | 100,970,684 | 55,001,852 | 44,504,920 |
| Financial Guarantees | 105,716 | 11,180 | 94,536 |
| Letters of Credit | 4,043,903 | 299,775 | 3,744,129 |
| Other Commitments | 94,649,530 | 13,246,478 | 81,403,053 |
| | <u>255,307,000</u> | <u>79,815,949</u> | <u>174,027,139</u> |

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

| Group - 31 December 2013 | Maximum Exposure to Credit Risk LKR'000 | Net Collateral LKR'000 | Net Exposure LKR'000 |
|---|---|---------------------------|-------------------------|
| Cash and Cash Equivalents | 3,019,774 | - | 3,019,774 |
| Balances with Central Bank of Sri Lanka | 4,031,763 | - | 4,031,763 |
| Reverse Repurchase Agreements | 552,236 | 552,236 | - |
| Derivative Financial Instruments | 121,491 | - | 121,491 |
| Financial Assets - Held for Trading | 24,460,493 | - | 24,460,493 |
| Financial Assets - Held to Maturity | 19,794,014 | - | 19,794,014 |
| Financial Assets-Available for Sale | 5,460 | - | 5,460 |
| Other Financial Assets | 2,193,122 | - | 2,193,122 |
| Loans and Advances to Customers (Gross) | 84,919,123 | 50,874,055 | 34,066,584 |
| Financial Guarantees | 245,100 | 28,620 | 216,480 |
| Letters of Credit | 2,922,428 | 467,779 | 2,454,649 |
| Other Commitments | 87,099,106 | 6,330,484 | 80,768,622 |
| | <u>229,364,109</u> | <u>58,253,174</u> | <u>171,132,452</u> |

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

Analysis of Risk Concentration

The Bank's concentrations of risk are managed by industry sector. The following table shows the risk concentration by industry for the components of the Statement of Financial Position. Assets concentrated as "Other" include Consumer Loans, Credit Cards and Leases. A major portion of the leases consist of leases granted to individuals for the purpose of facilitating their small/ micro level business activities which cannot be directly attributable to a single identified sector, hence the classified under "Other".

| Bank - 31 December 2014 | Agriculture & Fishing LKR'000 | Financial Services LKR'000 | Government LKR'000 | Trading LKR'000 | Construction and Housing LKR'000 | Manufacturing LKR'000 | Services LKR'000 | Other LKR'000 | Total LKR'000 |
|---|----------------------------------|-------------------------------|-----------------------|--------------------|-------------------------------------|--------------------------|---------------------|------------------|------------------|
| Cash and Cash Equivalents | - | 6,898,877 | - | - | - | - | - | - | 6,898,877 |
| Balances with Central Bank of Sri Lanka | - | - | 3,992,118 | - | - | - | - | - | 3,992,118 |
| Reverse Repurchase Agreements | - | - | 11,003,449 | - | - | - | - | 10,058 | 11,013,507 |
| Derivative Financial Instruments | | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 209 | 122,937 | - | - | - | 1,846 | 2,179 | 882 | 128,053 |
| Financial Assets - Held for Trading | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 15,648,717 | - | - | - | - | - | 15,648,717 |
| Financial Assets - Held to Maturity | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 9,586,218 | - | - | - | - | - | 9,586,218 |
| Financial Assets-Available for Sale | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 4,170,571 | - | - | - | - | - | 4,170,571 |
| Unquoted Equity Shares | - | - | - | - | - | - | 5,488 | 153,390 | 158,878 |
| Other Financial Assets | | | | | | | | | |
| Sri Lanka Development Bonds | - | - | 2,669,818 | - | - | - | - | - | 2,669,818 |
| Quoted Debentures | - | 681,402 | - | 269,637 | - | - | - | - | 951,039 |
| Unquoted Debentures | - | 199,889 | - | - | - | - | - | - | 199,889 |
| | - | 881,291 | 2,669,818 | 269,637 | - | - | - | - | 3,820,747 |
| Loans and Advances to Customers | | | | | | | | | |
| Corporate Loans | 8,066,391 | 4,035,947 | - | 3,803,574 | 339,267 | 6,373,617 | 1,366,064 | 51,113 | 24,035,973 |
| Retail, SME and Consumer | 2,043,511 | 362,557 | - | 4,734,550 | 1,042,461 | 1,753,826 | 2,106,597 | 34,114,186 | 46,157,688 |
| Housing Loans | - | - | - | - | 1,310,648 | - | - | - | 1,310,648 |
| Leases | 1,444,795 | 93,597 | - | 970,871 | 1,092,022 | 690,771 | 3,448,932 | 17,955,007 | 25,695,994 |
| Staff loans | - | 1,804,552 | - | - | - | - | - | - | 1,804,552 |
| | 11,554,696 | 6,296,654 | - | 9,508,994 | 3,784,399 | 8,818,213 | 6,921,594 | 52,120,306 | 99,004,856 |
| Impairment for Loans and Advances | - | - | - | - | - | - | - | - | (1,936,597) |
| Net Loans and Advances | - | - | - | - | - | - | - | - | 97,068,259 |
| | 11,554,905 | 14,199,763 | 47,070,890 | 9,778,632 | 3,784,399 | 8,820,059 | 6,929,261 | 52,284,636 | 152,485,948 |

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

| Bank-31 December 2013 | Agriculture & Fishing LKR'000 | Financial Services LKR'000 | Government LKR'000 | Trading LKR'000 | Construction and Housing LKR'000 | Manufacturing LKR'000 | Services LKR'000 | Other LKR'000 | Total LKR'000 |
|---|----------------------------------|-------------------------------|-----------------------|--------------------|-------------------------------------|--------------------------|---------------------|------------------|------------------|
| Cash and Cash Equivalents | - | 3,019,735 | - | - | - | - | - | - | 3,019,735 |
| Balances with Central Bank of Sri Lanka | - | - | 4,031,763 | - | - | - | - | - | 4,031,763 |
| Reverse Repurchase Agreements | - | 1,402,373 | 50,009 | - | - | - | - | 7,125 | 1,459,506 |
| Derivative Financial Instruments | | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | - | 121,271 | - | 199 | - | - | - | 21 | 121,491 |
| Financial Assets - Held for Trading | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 23,365,388 | - | - | - | - | - | 23,365,388 |
| Financial Assets - Held to Maturity | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 19,734,821 | - | - | - | - | - | 19,734,821 |
| Financial Assets-Available for Sale | | | | | | | | | |
| Unquoted Equity Shares | - | - | - | - | - | - | 5,460 | - | 5,460 |
| Other Financial Assets | | | | | | | | | |
| Sri Lanka Development Bonds | - | - | 1,584,892 | - | - | - | - | - | 1,584,892 |
| Quoted Debentures | - | 77,940 | - | 72,070 | - | - | - | - | 150,010 |
| Unquoted Debentures | - | 458,220 | - | - | - | - | - | - | 458,220 |
| | - | 536,160 | 1,584,892 | 72,070 | - | - | - | - | 2,193,122 |
| Loans and Advances to Customers | | | | | | | | | |
| Corporate Loans | 5,814,171 | 3,093,041 | - | 4,662,579 | 196,075 | 3,766,342 | 929,912 | - | 18,462,120 |
| Retail, SME and Consumer | 1,675,550 | 2,640,383 | - | 7,715,762 | 1,274,424 | 901,645 | 3,534,281 | 22,172,729 | 39,914,775 |
| Housing Loans | - | - | - | - | 1,418,237 | - | - | - | 1,418,237 |
| Leases | 1,480,769 | 57,702 | - | 994,003 | 718,196 | 544,629 | 3,104,930 | 14,837,988 | 21,738,216 |
| Staff loans | - | 1,370,606 | - | - | - | - | - | - | 1,370,606 |
| | 8,970,489 | 7,161,732 | - | 13,372,344 | 3,606,931 | 5,212,616 | 7,569,123 | 37,010,717 | 82,903,954 |
| Impairment for Loans and Advances | - | - | - | - | - | - | - | - | (1,775,194) |
| Net Loans and Advances | - | - | - | - | - | - | - | - | 81,128,760 |
| | 8,970,489 | 12,241,270 | 48,766,873 | 13,444,613 | 3,606,931 | 5,212,616 | 7,574,583 | 37,017,863 | 135,060,046 |

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

| Group - 31 December 2014 | Agriculture & Fishing LKR'000 | Financial Services LKR'000 | Government LKR'000 | Trading LKR'000 | Construction and Housing LKR'000 | Manufacturing LKR'000 | Services LKR'000 | Other LKR'000 | Total LKR'000 |
|--|-------------------------------------|----------------------------------|-----------------------|--------------------|--|--------------------------|---------------------|------------------|------------------|
| Cash and Cash Equivalents | - | 6,899,901 | - | - | - | - | - | - | 6,899,901 |
| Balances with Central Bank of Sri Lanka | - | - | 3,992,118 | - | - | - | - | - | 3,992,118 |
| Reverse Repurchase Agreements | - | - | 11,003,449 | - | - | - | - | 10,058 | 11,013,507 |
| Derivative Financial Instruments | | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 209 | 122,937 | - | - | - | 1,846 | 2,179 | 882 | 128,053 |
| Financial Assets - Held for Trading | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 15,700,388 | - | - | - | - | - | 15,700,388 |
| Financial Assets - Held to Maturity | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 9,653,000 | - | - | - | - | - | 9,653,000 |
| Financial Assets-Available for Sale | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 4,170,571 | - | - | - | - | - | 4,170,571 |
| Unquoted Equity Shares | - | - | - | - | - | - | 5,488 | 153,390 | 158,878 |
| Other Financial Assets | | | | | | | | | |
| Sri Lanka Development Bonds | - | - | 2,669,818 | - | - | - | - | - | 2,669,818 |
| Quoted Debentures | - | 681,402 | - | 269,637 | - | - | - | - | 951,039 |
| Unquoted Debentures | - | 199,889 | - | - | - | - | - | - | 199,889 |
| | - | 881,291 | 2,669,818 | 269,637 | - | - | - | - | 3,820,747 |
| Loans and Advances to Customers | | | | | | | | | |
| Corporate Loans | 8,066,391 | 3,915,012 | - | 4,287,793 | 339,267 | 6,373,617 | 1,429,041 | 51,113 | 24,462,234 |
| Retail, SME and Consumer | 2,043,511 | 850,309 | - | 4,782,091 | 1,042,461 | 1,753,826 | 2,107,505 | 34,430,245 | 47,009,947 |
| Housing Loans | - | - | - | - | 1,310,648 | - | - | - | 1,310,648 |
| Leases | 1,444,795 | 93,597 | - | 970,871 | 1,092,022 | 690,771 | 3,448,932 | 17,955,007 | 25,695,994 |
| Staff loans | - | 1,804,552 | - | - | - | - | - | - | 1,804,552 |
| | 11,554,696 | 6,663,471 | - | 10,040,754 | 3,784,399 | 8,818,213 | 6,985,478 | 52,436,365 | 100,283,376 |
| Impairment for Loans and Advances | - | - | - | - | - | - | - | - | (1,936,326) |
| Net Loans and Advances | - | - | - | - | - | - | - | - | 98,347,051 |
| | 11,554,905 | 14,567,604 | 47,189,343 | 10,310,392 | 3,784,399 | 8,820,059 | 6,993,145 | 52,600,695 | 153,884,216 |

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

| Group - 31 December 2013 | Agriculture & Fishing LKR'000 | Financial Services LKR'000 | Government LKR'000 | Trading LKR'000 | Construction and Housing LKR'000 | Manufacturing LKR'000 | Services LKR'000 | Other LKR'000 | Total LKR'000 |
|---|----------------------------------|-------------------------------|-----------------------|--------------------|-------------------------------------|--------------------------|---------------------|------------------|------------------|
| Cash and Cash Equivalents | - | 3,019,774 | - | - | - | - | - | - | 3,019,774 |
| Balances with Central Bank of Sri Lanka | - | - | 4,031,763 | - | - | - | - | - | 4,031,763 |
| Reverse Repurchase Agreements | - | 495,102 | 50,009 | - | - | - | - | 7,125 | 552,236 |
| Derivative Financial Instruments | | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | - | 121,271 | - | 199 | - | - | - | 21 | 121,491 |
| Financial Assets - Held for Trading | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 24,460,493 | - | - | - | - | - | 24,460,493 |
| Financial Assets - Held to Maturity | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 19,794,014 | - | - | - | - | - | 19,794,014 |
| Financial Assets-Available for Sale | | | | | | | | | |
| Unquoted Equity Shares | - | - | - | - | - | - | 5,460 | - | 5,460 |
| Other Financial Assets | | | | | | | | | |
| Sri Lanka Development Bonds | - | - | 1,584,892 | - | - | - | - | - | 1,584,892 |
| Quoted Debentures | - | 77,940 | - | 72,070 | - | - | - | - | 150,010 |
| Unquoted Debentures | - | 458,220 | - | - | - | - | - | - | 458,220 |
| | - | 536,160 | 1,584,892 | 72,070 | - | - | - | - | 2,193,122 |
| Loans and Advances to Customers | | | | | | | | | |
| Corporate Loans | 5,814,171 | 2,703,543 | - | 5,042,529 | 196,075 | 3,766,342 | 1,043,506 | - | 18,566,166 |
| Retail, SME and Consumer | 1,675,550 | 2,650,905 | - | 7,755,705 | 1,289,604 | 1,163,167 | 3,534,827 | 22,938,516 | 41,008,273 |
| Housing Loans | - | - | - | - | 1,418,237 | - | - | - | 1,418,237 |
| Leases | 1,480,769 | 57,702 | - | 994,003 | 718,196 | 544,629 | 3,104,930 | 14,837,988 | 21,738,216 |
| Staff loans | - | 1,370,606 | - | - | - | - | - | - | 1,370,606 |
| | 8,970,489 | 6,782,756 | - | 13,792,237 | 3,622,111 | 5,474,138 | 7,683,263 | 37,776,504 | 84,101,499 |
| Impairment for Loans and Advances | - | - | - | - | - | - | - | - | (1,774,243) |
| Net Loans and Advances | - | - | - | - | - | - | - | - | 82,327,255 |
| | 8,970,489 | 10,955,062 | 49,921,170 | 13,864,507 | 3,622,111 | 5,474,138 | 7,688,723 | 37,783,650 | 136,505,607 |

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (Contd.)

Commitments and Guarantees

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The table below shows the Group/ Bank's maximum credit risk exposure for commitments and guarantees.

| | 2014 | | 2013 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Bank LKR'000 | Group LKR'000 | Bank LKR'000 | Group LKR'000 |
| Bonds | 5,756,180 | 5,756,180 | 4,633,534 | 4,633,534 |
| Acceptance | 2,176,265 | 2,176,265 | 1,540,076 | 1,540,076 |
| Guarantees | 105,716 | 105,716 | 245,100 | 245,100 |
| Letters of Credit | 4,043,903 | 4,043,903 | 2,922,426 | 2,922,426 |
| Foreign Exchange Contracts and Currency Swaps** | 29,330,449 | 29,330,449 | 27,198,512 | 27,198,512 |
| Forward Contracts to buy / sell Government Securities | - | - | 244,712 | 244,712 |
| Undrawn Commitments | | | | |
| Credit Cards | 22,192,040 | 22,192,040 | 18,255,940 | 18,255,940 |
| Other | 35,084,078 | 35,194,597 | 35,140,441 | 35,226,332 |
| | 57,276,118 | 57,386,637 | 53,396,381 | 53,482,272 |
| Total Commitments and Guarantees | 98,688,631 | 98,799,150 | 90,180,741 | 90,266,632 |

** Forward Exchange Contract amounts shown above are the total of gross purchase and sales contracts with the counter parties. However, the net exposure on these contracts are estimated at LKR 262Mn as at end of 2014 and LKR 350Mn as at end of 2013 based on a 2.5% price premium on 6 month forward exchange rate as at end of each year.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. Undrawn commitments mainly consist of unutilized credit card limits and facilities granted to corporate customers where the Bank reserves the right to unconditionally cancel or recall the facility at its discretion.

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.3 Liquidity Risk and Funding Management

Liquidity risk is the inability to meet the financial obligations of the Bank in a timely and cost effective manner. Liquidity risk arises from various factors including those outside the Bank's control. The Bank manages liquidity risk according to the liquidity risk management policy. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. Maturity gap analysis is one of the techniques used by the management to monitor liquidity risk.

The Bank performs liquidity stress testing on a regular basis, to evaluate the effect of both industry-wide and Bank-specific stress events on the Bank's liquidity position.

The Bank maintains a liquidity contingency plan that specifies an approach for analyzing and responding to potential liquidity crisis events. In order to manage the same the Bank is having two standard liquidity facility agreements amounting to LKR 1Bn (Reciprocal agreement) and 500Mn. The plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication and identifies potential counter measures to be considered at various stages of an event. A contingency plan is maintained both at the parent level as well as for major subsidiaries.

The Bank actively manages the diversification of its deposit liabilities by source and type of deposit

The Bank maintains a pool of highly liquid, unencumbered assets that can be readily sold or pledged to secure borrowings under stressed market conditions or due to Bank-specific events.

| | 2014 | | 2013 | |
|--------------------|-------|-------|-------|-------|
| | DBU | FCBU | DBU | FCBU |
| Liquid Asset Ratio | 23.2% | 58.5% | 25.3% | 41.9% |

Liquid assets mainly consist of cash, short-term Bank deposits, standing deposit facilities and government securities. In addition, the Bank maintains a statutory deposit with the Central Bank of Sri Lanka equal to 6% of Sri Lanka Rupee customer deposits.

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2014 under the flow approach.

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.3 Liquidity Risk and Funding Management (Contd.)

| Bank-As at 31 December 2014 | On demand (Less than 15 days) LKR'000 | 16 days - 3 Months LKR'000 | 3 to 12 months LKR'000 | 1 to 5 years LKR'000 | Over 5 years LKR'000 | Total LKR'000 |
|---|--|----------------------------------|------------------------------|-------------------------|-------------------------|--------------------|
| Financial Assets | | | | | | |
| Cash and Cash Equivalents | 6,899,170 | - | - | - | - | 6,899,170 |
| Balances with Central Bank of Sri Lanka | 3,992,118 | - | - | - | - | 3,992,118 |
| Reverse Repurchase Agreements | 2,019,587 | 9,040,084 | 171 | - | - | 11,059,842 |
| Financial Assets - Held for Trading | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 1,163,450 | 6,078,275 | 3,788,425 | 5,599,075 | 133,600 | 16,762,825 |
| Financial Assets - Held to Maturity | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 121,240 | 22,500 | 1,848,932 | 9,031,336 | 914,363 | 11,938,371 |
| Financial Assets-Available for Sale | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | - | - | 3,253,750 | 1,240,250 | - | 4,494,000 |
| Unquoted Equity Shares | - | - | - | - | 158,878 | 158,878 |
| Other Financial Assets | 12,825 | 336,808 | 694,700 | 3,318,038 | - | 4,362,372 |
| Loans & Advances to Customers | 40,164,095 | 14,732,777 | 17,694,193 | 36,943,208 | 3,620,385 | 113,154,658 |
| Total Undiscounted Financial Assets | 54,372,484 | 30,210,444 | 27,280,171 | 56,131,908 | 4,827,226 | 172,822,233 |
| Financial Liabilities | | | | | | |
| Due to Banks | 1,272,146 | 1,652,567 | - | - | - | 2,924,713 |
| Repurchase Agreements | 8,832,630 | 4,778,498 | 874,336 | 1,098,340 | - | 15,583,803 |
| Due to Customers | 45,461,453 | 25,642,921 | 34,770,658 | 11,320,209 | - | 117,195,241 |
| Debt Issued and Other Borrowed Funds | 295,625 | 1,539,092 | 827,214 | 9,354,319 | - | 12,016,249 |
| Total Undiscounted Financial Liabilities | 55,861,854 | 33,613,077 | 36,472,208 | 21,772,868 | - | 147,720,006 |
| Net Undiscounted Financial Assets/ (Liabilities) | (1,489,369) | (3,402,633) | (9,192,037) | 34,359,040 | 4,827,226 | 25,102,227 |
| Gross Settled Derivatives not Held for Trading | | | | | | |
| Financial Assets | | | | | | |
| Contractual Amounts Receivable | 4,392,944 | 3,984,302 | 8,423,989 | - | - | 16,801,235 |
| Contractual Amounts Payable | (4,392,944) | (3,984,302) | (8,423,989) | - | - | (16,801,235) |
| | - | - | - | - | - | - |
| Financial Liabilities | | | | | | |
| Contractual Amounts Receivable | 5,840,204 | 4,448,849 | 2,214,851 | - | - | 12,503,904 |
| Contractual Amounts Payable | (5,840,204) | (4,448,849) | (2,214,851) | - | - | (12,503,904) |
| | - | - | - | - | - | - |
| Total Gross Settled Derivative Assets (Liabilities) not Held for Trading | - | - | - | - | - | - |
| Total Net Financial Assets/(Liabilities) | (1,489,369) | (3,402,633) | (9,192,037) | 34,359,040 | 4,827,226 | 25,102,227 |

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.3 Liquidity Risk and Funding Management (Contd.)

| Bank-As at 31 December 2013 | On demand (Less than 15 days) LKR'000 | 16 days - 3 Months LKR'000 | 3 to 12 months LKR'000 | 1 to 5 years LKR'000 | Over 5 years LKR'000 | Total LKR'000 |
|--|--|----------------------------------|------------------------------|-------------------------|-------------------------|--------------------|
| Financial Assets | | | | | | |
| Cash and Cash Equivalents | 3,019,735 | - | - | - | - | 3,019,735 |
| Balances with Central Bank of Sri Lanka | 4,031,763 | - | - | - | - | 4,031,763 |
| Reverse Repurchase Agreements | 1,452,559 | 7,123 | - | - | - | 1,459,682 |
| Financial Assets - Held for Trading | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 2,342,875 | 9,948,700 | 8,234,778 | 3,862,202 | - | 24,388,555 |
| Financial Assets - Held to Maturity | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 53,380 | 22,500 | 17,242,455 | 4,793,490 | 177,910 | 22,289,735 |
| Financial Assets-Available for Sale | | | | | | |
| Unquoted Equity Shares | - | - | - | - | 5,460 | 5,460 |
| Other Financial Assets | 21,375 | 149,548 | 747,567 | 1,504,050 | - | 2,422,541 |
| Loans & Advances to Customers | 34,184,893 | 10,570,479 | 16,231,355 | 33,610,724 | 4,061,966 | 98,659,418 |
| Total Undiscounted Financial Assets | 45,106,579 | 20,698,351 | 42,456,154 | 43,770,467 | 4,245,336 | 156,276,888 |
| Financial Liabilities | | | | | | |
| Due to Banks | 1,401,864 | - | - | - | - | 1,401,864 |
| Repurchase Agreements | 11,676,717 | 4,319,118 | 2,255,962 | 451 | - | 18,252,248 |
| Due to Customers | 32,746,095 | 26,325,996 | 32,768,483 | 8,105,971 | - | 99,946,545 |
| Debt Issued and Other Borrowed Funds | 369,000 | 136,755 | 682,528 | 10,088,997 | - | 11,277,280 |
| Total Undiscounted Financial Liabilities | 46,193,676 | 30,781,870 | 35,706,972 | 18,195,418 | - | 130,877,936 |
| Net Undiscounted Financial Assets/ (Liabilities) | (1,087,096) | (10,083,519) | 6,749,182 | 25,575,048 | 4,245,336 | 25,398,951 |
| Gross Settled Derivatives not Held for Trading | | | | | | |
| Financial Assets | | | | | | |
| Contractual Amounts Receivable | 4,440,566 | 2,100,999 | 336,485 | - | - | 6,878,050 |
| Contractual Amounts Payable | (4,440,566) | (2,100,999) | (336,485) | - | - | (6,878,050) |
| Financial Liabilities | | | | | | |
| Contractual Amounts Receivable | 7,077,747 | 4,562,627 | 8,680,089 | - | - | 20,320,463 |
| Contractual Amounts Payable | (7,077,747) | (4,562,627) | (8,680,089) | - | - | (20,320,463) |
| Total Gross Settled Derivative Assets/ (Liabilities) not Held for Trading | - | - | - | - | - | - |
| Total Net Financial Assets/(Liabilities) | (1,087,096) | (10,083,519) | 6,749,182 | 25,575,048 | 4,245,336 | 25,398,951 |

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.3 Liquidity Risk and Funding Management (Contd.)

| Group-As at 31 December 2014 | On demand (Less than 15 days) LKR'000 | 16 days - 3 Months LKR'000 | 3 to 12 months LKR'000 | 1 to 5 years LKR'000 | Over 5 years LKR'000 | Total LKR'000 |
|--|--|----------------------------------|------------------------------|-------------------------|-------------------------|--------------------|
| Financial Assets | | | | | | |
| Cash and Cash Equivalents | 6,900,194 | - | - | - | - | 6,900,194 |
| Balances with Central Bank of Sri Lanka | 3,992,118 | - | - | - | - | 3,992,118 |
| Reverse Repurchase Agreements | 2,019,587 | 9,040,084 | 171 | - | - | 11,059,842 |
| Financial Assets - Held for Trading | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 1,165,075 | 6,078,275 | 3,840,050 | 5,599,075 | 133,600 | 16,816,075 |
| Financial Assets - Held to Maturity | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 121,336 | 22,717 | 1,854,658 | 9,055,492 | 994,498 | 12,048,701 |
| Financial Assets-Available for Sale | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | - | - | 3,253,750 | 1,240,250 | - | 4,494,000 |
| Unquoted Equity Shares | - | - | - | - | 158,878 | 158,878 |
| Other Financial Assets | 12,825 | 336,808 | 694,700 | 3,318,038 | - | 4,362,372 |
| Loans & Advances to Customers | 41,442,616 | 14,732,777 | 17,694,193 | 36,943,208 | 3,620,385 | 114,433,179 |
| Total Undiscounted Financial Assets | 55,653,750 | 30,210,661 | 27,337,522 | 56,156,064 | 4,907,361 | 174,265,358 |
| Financial Liabilities | | | | | | |
| Due to Banks | 1,272,146 | 1,652,567 | - | - | - | 2,924,713 |
| Repurchase Agreements | 8,832,630 | 4,377,734 | 874,336 | 1,098,340 | - | 15,183,039 |
| Due to Customers | 45,424,674 | 25,642,921 | 34,770,658 | 11,320,209 | - | 117,158,462 |
| Debt Issued and Other Borrowed Funds | 798,674 | 1,539,092 | 827,214 | 9,354,319 | - | 12,519,299 |
| Total Undiscounted Financial Liabilities | 56,328,124 | 33,212,313 | 36,472,208 | 21,772,868 | - | 147,785,513 |
| Net Undiscounted Financial Assets/ (Liabilities) | (674,374) | (3,001,652) | (9,134,686) | 34,383,196 | 4,907,361 | 26,479,845 |
| Gross Settled Derivatives not Held for Trading | | | | | | |
| Financial Assets | | | | | | |
| Contractual Amounts Receivable | 4,392,944 | 3,984,302 | 8,423,989 | - | - | 16,801,235 |
| Contractual Amounts Payable | (4,392,944) | (3,984,302) | (8,423,989) | - | - | (16,801,235) |
| | - | - | - | - | - | - |
| Financial Liabilities | | | | | | |
| Contractual Amounts Receivable | 5,840,204 | 4,448,849 | 2,214,851 | - | - | 12,503,904 |
| Contractual Amounts Payable | (5,840,204) | (4,448,849) | (2,214,851) | - | - | (12,503,904) |
| | - | - | - | - | - | - |
| Total Gross Settled Derivative Assets/ (Liabilities) not Held for Trading | - | - | - | - | - | - |
| Total Net Financial Assets/(Liabilities) | (674,374) | (3,001,652) | (9,134,686) | 34,383,196 | 4,907,361 | 26,479,845 |

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.3 Liquidity Risk and Funding Management (Contd.)

| Group-As at 31 December 2013 | On demand (Less than 15 days) LKR'000 | 16 days - 3 Months LKR'000 | 3 to 12 months LKR'000 | 1 to 5 years LKR'000 | Over 5 years LKR'000 | Total LKR'000 |
|--|--|----------------------------------|------------------------------|-------------------------|-------------------------|--------------------|
| Financial Assets | | | | | | |
| Cash and Cash Equivalents | 3,019,774 | - | - | - | - | 3,019,774 |
| Balances with Central Bank of Sri Lanka | 4,031,763 | - | - | - | - | 4,031,763 |
| Reverse Repurchase Agreements | 545,288 | 7,123 | - | - | - | 552,412 |
| Financial Assets - Held for Trading | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 2,344,500 | 9,948,700 | 9,342,278 | 3,915,452 | - | 25,550,930 |
| Financial Assets - Held to Maturity | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 53,380 | 22,717 | 17,247,707 | 4,815,366 | 255,866 | 22,395,035 |
| Financial Assets-Available for Sale | | | | | | |
| Unquoted Equity Shares | - | - | - | - | 5,460 | 5,460 |
| Other Financial Assets | 21,375 | 149,548 | 747,567 | 1,504,050 | - | 2,422,541 |
| Loans & Advances to Customers | 35,382,438 | 10,570,479 | 16,231,355 | 33,610,724 | 4,061,966 | 99,856,963 |
| Total Undiscounted Financial Assets | 45,398,518 | 20,698,568 | 43,568,906 | 43,845,593 | 4,323,292 | 157,834,876 |
| Financial Liabilities | | | | | | |
| Due to Banks | 1,401,864 | - | - | - | - | 1,401,864 |
| Repurchase Agreements | 11,676,717 | 4,284,909 | 2,255,962 | 451 | - | 18,218,038 |
| Due to Customers | 32,695,486 | 26,069,996 | 32,768,483 | 8,105,971 | - | 99,639,936 |
| Debt Issued and Other Borrowed Funds | 973,011 | 136,755 | 682,528 | 10,088,997 | - | 11,881,290 |
| Total Undiscounted Financial Liabilities | 46,747,077 | 30,491,661 | 35,706,972 | 18,195,418 | - | 131,141,129 |
| Net Undiscounted Financial Assets/ (Liabilities) | (1,348,560) | (9,793,093) | 7,861,934 | 25,650,174 | 4,323,292 | 26,693,748 |
| Gross Settled Derivatives not Held for Trading | | | | | | |
| Financial Assets | | | | | | |
| Contractual Amounts Receivable | 4,440,566 | 2,100,999 | 336,485 | - | - | 6,878,050 |
| Contractual Amounts Payable | (4,440,566) | (2,100,999) | (336,485) | - | - | (6,878,050) |
| | - | - | - | - | - | - |
| Financial Liabilities | | | | | | |
| Contractual Amounts Receivable | 7,077,747 | 4,562,627 | 8,680,089 | - | - | 20,320,463 |
| Contractual Amounts Payable | (7,077,747) | (4,562,627) | (8,680,089) | - | - | (20,320,463) |
| | - | - | - | - | - | - |
| Total Gross Settled Derivative Assets/ (Liabilities) not Held for Trading | - | - | - | - | - | - |
| Total Net Financial Assets/(Liabilities) | (1,348,560) | (9,793,093) | 7,861,934 | 25,650,174 | 4,323,292 | 26,693,748 |

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.3 Liquidity Risk and Funding Management (Contd.)

Whilst the management understands above contractual maturity gaps, more emphasis is given for the behavioral nature of these cash flows when managing the overall liquidity profile. Management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing asset growth with liquidity in mind whilst monitoring future cash flows and liquidity.

In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

Contractual Maturity of Commitments and Guarantees

| Bank | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|--|-------------------|--------------------|-------------------|------------------|--------------|-------------------|
| 31 December 2014 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 |
| Bonds | 464,275 | 1,098,943 | 3,180,154 | 1,012,807 | - | 5,756,180 |
| Acceptance | 385,708 | 1,474,314 | 316,243 | - | - | 2,176,265 |
| Guarantees | 105,716 | - | - | - | - | 105,716 |
| Letters of Credit | 396,605 | 3,316,991 | 328,554 | 1,754 | - | 4,043,903 |
| Foreign Exchange Contracts and Currency Swaps | 10,258,459 | 8,433,151 | 10,638,839 | - | - | 29,330,449 |
| Undrawn Commitments | 57,276,118 | - | - | - | - | 57,276,118 |
| Total Commitments and Guarantees | 68,886,881 | 14,323,399 | 14,463,790 | 1,014,561 | - | 98,688,631 |

| Bank | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|-------------------|--------------------|-------------------|----------------|--------------|-------------------|
| 31 December 2013 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 |
| Bonds | 852,764 | 761,214 | 2,138,433 | 881,123 | - | 4,633,534 |
| Acceptance | 243,265 | 868,117 | 428,694 | - | - | 1,540,076 |
| Guarantees | 170,167 | 74,933 | - | - | - | 245,100 |
| Letters of Credit | 478,785 | 1,975,851 | 467,790 | - | - | 2,922,426 |
| Foreign Exchange Contracts and Currency Swaps | 3,998,883 | 9,794,585 | 13,405,044 | - | - | 27,198,512 |
| Forward Contracts to buy/ sell Government Securities | 244,712 | - | - | - | - | 244,712 |
| Undrawn Commitments | 53,396,381 | - | - | - | - | 53,396,381 |
| Total Commitments and Guarantees | 59,384,957 | 13,474,700 | 16,439,961 | 881,123 | - | 90,180,741 |

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.3 Liquidity Risk and Funding Management (Contd.)

| Group | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|--|-------------------|--------------------|-------------------|------------------|--------------|-------------------|
| 31 December 2014 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 |
| Bonds | 464,275 | 1,098,943 | 3,180,154 | 1,012,807 | - | 5,756,180 |
| Acceptance | 385,708 | 1,474,314 | 316,243 | - | - | 2,176,265 |
| Guarantees | 105,716 | - | - | - | - | 105,716 |
| Letters of Credit | 396,605 | 3,316,991 | 328,554 | 1,754 | - | 4,043,903 |
| Foreign Exchange Contracts and Currency Swaps | 10,258,459 | 8,433,151 | 10,638,839 | - | - | 29,330,449 |
| Undrawn Commitments | 57,386,637 | - | - | - | - | 57,386,637 |
| Total Commitments and Guarantees | 68,997,399 | 14,323,399 | 14,463,790 | 1,014,561 | - | 98,799,150 |

| Group | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|-------------------|--------------------|-------------------|----------------|--------------|-------------------|
| 31 December 2013 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 |
| Bonds | 852,764 | 761,214 | 2,138,433 | 881,123 | - | 4,633,534 |
| Acceptance | 243,265 | 868,117 | 428,694 | - | - | 1,540,076 |
| Guarantees | 170,167 | 74,933 | - | - | - | 245,100 |
| Letters of Credit | 478,785 | 1,975,851 | 467,790 | - | - | 2,922,426 |
| Foreign Exchange Contracts and Currency Swaps | 3,998,883 | 9,794,585 | 13,405,044 | - | - | 27,198,512 |
| Forward Contracts to buy/ sell Government Securities | 244,712 | - | - | - | - | 244,712 |
| Undrawn Commitments | 53,482,272 | - | - | - | - | 53,482,272 |
| Total Commitments and Guarantees | 59,470,848 | 13,474,700 | 16,439,961 | 881,123 | - | 90,266,632 |

43.4 Market Risk

Market risk is the risk of loss from changes in market prices including interest rates, credit spreads, equity prices and foreign exchange rates. The Bank manages market risk both on trading and non trading portfolios through comprehensive market risk management framework.

The Bank uses market risk limits to monitor and control the above mentioned risks. The objective of the Bank's market risk management strategy is to reduce exposure to these risks and minimize volatility in economic income and cash flows.

The Board of Directors approves market risk limits for trading and non trading portfolios. A daily report summarizes the Bank's market risk exposure against approved limits. The daily report is scrutinized by the relevant management team including the CEO.

Interest Rate Risk

Interest rate risk (IRR) arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Any mismatches in the cash flows (fixed rate assets or liabilities) or re-pricing dates (floating rate assets or liabilities) expose the Banks' Net Interest Income to variations. The Board has established limits on the interest rate gaps. The Bank's policy is to monitor positions on a monthly basis and to ensure positions are maintained within the established limits.

IRR exposure is primarily managed with Repricing Gap analysis that distributes interest rate sensitive assets, liabilities and off-balance sheet positions at carrying amount into a number of pre-defined time-bands according to their residual term to maturity (fixed rate) or residual term for their next re-pricing (floating rate).

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.3 Market Risk (Contd.)

| Bank-As at 31 December 2014 | Total LKR'000 | On demand (Less than 15 days) LKR'000 | 16 days- 3 Months LKR'000 | 3 to 12 months LKR'000 | 1 to 5 years LKR'000 | Over 5 years LKR'000 | Non- interest bearing LKR'000 |
|--|--------------------|--|---------------------------------|------------------------------|-------------------------|----------------------------|--|
| Assets | | | | | | | |
| Cash and balances with Central Bank of Sri Lanka | 7,492,864 | - | - | - | - | - | 7,492,864 |
| Loans and Advances | 96,667,470 | 35,586,041 | 20,293,472 | 13,267,546 | 21,454,363 | 3,901,996 | 2,164,053 |
| Investments | 44,430,444 | 3,096,176 | 16,678,706 | 8,889,240 | 14,593,990 | 806,950 | 365,382 |
| Other | 40,912,983 | 13,876,430 | 7,962,526 | 10,446,358 | - | - | 8,627,669 |
| Total Assets | 189,503,761 | 52,558,647 | 44,934,704 | 32,603,144 | 36,048,352 | 4,708,946 | 18,649,967 |
| Liabilities | | | | | | | |
| Deposits | 109,199,600 | 27,064,930 | 24,695,951 | 32,866,217 | 8,172,085 | - | 16,400,416 |
| Borrowings | 27,457,817 | 10,963,002 | 7,727,536 | 2,753,934 | 6,003,040 | - | 10,306 |
| Other | 57,637,681 | 10,745,002 | 8,007,834 | 10,481,873 | - | - | 28,402,971 |
| Total Shareholder Funds and Liabilities | 194,295,097 | 48,772,934 | 40,431,321 | 46,102,025 | 14,175,125 | - | 44,813,693 |
| Total Interest Sensitivity Gap | | 3,785,713 | 4,503,383 | (13,498,880) | 21,873,228 | 4,708,946 | (26,163,726) |

** The Classifications are based on the way that ALCO monitors repricing gaps

| Bank-As at 31 December 2013 | Total LKR'000 | On demand (Less than 15 days) LKR'000 | 16 days- 3 Months LKR'000 | 3 to 12 months LKR'000 | 1 to 5 years LKR'000 | Over 5 years LKR'000 | Non- interest bearing LKR'000 |
|--|--------------------|--|---------------------------------|------------------------------|-------------------------|----------------------------|--|
| Assets | | | | | | | |
| Cash and balances with Central Bank of Sri Lanka | 6,558,495 | - | - | - | - | - | 6,558,495 |
| Loans and Advances | 80,815,080 | 33,151,726 | 17,120,547 | 9,565,361 | 16,703,125 | 1,199,401 | 3,074,918 |
| Investments | 47,196,575 | 3,834,877 | 10,763,054 | 25,093,482 | 9,045,590 | 144,745 | (1,685,173) |
| Other | 33,119,868 | 4,452,473 | 9,788,333 | 12,770,042 | - | - | 6,109,020 |
| Total Assets | 167,690,017 | 41,439,076 | 37,671,934 | 47,428,885 | 25,748,715 | 1,344,146 | 14,057,261 |
| Liabilities | | | | | | | |
| Deposits | 94,753,329 | 23,329,532 | 25,026,644 | 30,237,184 | 5,743,922 | - | 10,416,048 |
| Borrowings | 27,502,372 | 13,400,223 | 5,190,407 | 3,896,631 | 5,000,328 | - | 14,784 |
| Other | 47,390,505 | 4,001,478 | 7,022,706 | 13,440,116 | - | - | 22,926,205 |
| Total Shareholder Funds and Liabilities | 169,646,206 | 40,731,232 | 37,239,757 | 47,573,930 | 10,744,250 | - | 33,357,037 |
| Total Interest Sensitivity Gap | | 707,844 | 432,177 | (145,045) | 15,004,465 | 1,344,146 | (19,299,776) |

** The Classifications are based on the way that ALCO monitors repricing gaps

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.3 Market Risk (Contd.)

| Group-As at 31 December 2014 | Total LKR'000 | On demand (Less than 15 days) LKR'000 | 16 days- 3 Months LKR'000 | 3 to 12 months LKR'000 | 1 to 5 years LKR'000 | Over 5 years LKR'000 | Non- interest bearing LKR'000 |
|--|--------------------|--|---------------------------------|------------------------------|-------------------------|----------------------------|--|
| Assets | | | | | | | |
| Cash and balances with Central Bank of Sri Lanka | 7,492,864 | - | - | - | - | - | 7,492,864 |
| Loans and Advances | 97,945,991 | 36,864,562 | 20,293,472 | 13,267,546 | 21,454,363 | 3,901,996 | 2,164,053 |
| Investments | 44,548,897 | 3,096,176 | 16,678,706 | 8,939,240 | 14,593,990 | 882,051 | 358,733 |
| Other | 40,919,205 | 13,876,430 | 7,962,526 | 10,446,358 | - | - | 8,633,891 |
| Total Assets | 190,906,956 | 53,837,168 | 44,934,704 | 32,653,144 | 36,048,352 | 4,784,047 | 18,649,541 |
| Liabilities | | | | | | | |
| Deposits | 109,199,600 | 27,064,930 | 24,695,951 | 32,866,217 | 8,172,085 | - | 16,400,416 |
| Borrowings | 27,959,710 | 11,464,895 | 7,727,536 | 2,753,934 | 6,003,040 | - | 10,306 |
| Other | 58,539,039 | 10,745,002 | 8,007,834 | 10,481,873 | - | - | 29,304,330 |
| Total Shareholder Funds and Liabilities | 195,698,349 | 49,274,827 | 40,431,321 | 46,102,025 | 14,175,125 | - | 45,715,051 |
| Total Interest Sensitivity Gap | | 4,562,341 | 4,503,383 | (13,448,880) | 21,873,228 | 4,784,047 | (27,065,510) |

** The Classifications are based on the way that ALCO monitors repricing gaps

| Group-As at 31 December 2013 | Total LKR'000 | On demand (Less than 15 days) LKR'000 | 16 days- 3 Months LKR'000 | 3 to 12 months LKR'000 | 1 to 5 years LKR'000 | Over 5 years LKR'000 | Non- interest bearing LKR'000 |
|--|--------------------|--|---------------------------------|------------------------------|-------------------------|----------------------------|--|
| Assets | | | | | | | |
| Cash and balances with Central Bank of Sri Lanka | 6,558,560 | - | - | - | - | - | 6,558,560 |
| Loans and Advances | 82,012,736 | 34,349,383 | 17,120,547 | 9,565,361 | 16,703,125 | 1,199,401 | 3,074,918 |
| Investments | 48,350,872 | 4,834,877 | 10,763,054 | 25,193,482 | 9,095,590 | 213,245 | (1,749,375) |
| Other | 33,135,049 | 4,452,473 | 9,788,333 | 12,770,042 | - | - | 6,124,201 |
| Total Assets | 170,057,217 | 43,636,732 | 37,671,934 | 47,528,885 | 25,798,715 | 1,412,646 | 14,008,304 |
| Liabilities | | | | | | | |
| Deposits | 94,753,329 | 23,329,532 | 25,026,644 | 30,237,184 | 5,743,922 | - | 10,416,048 |
| Borrowings | 29,009,459 | 14,907,309 | 5,190,407 | 3,896,631 | 5,000,328 | - | 14,784 |
| Other | 48,247,473 | 4,001,478 | 7,022,706 | 13,440,116 | - | - | 23,783,173 |
| Total Shareholder Funds and Liabilities | 172,010,261 | 42,238,319 | 37,239,757 | 47,573,930 | 10,744,250 | - | 34,214,005 |
| Total Interest Sensitivity Gap | | 1,398,413 | 432,177 | (45,045) | 15,054,465 | 1,412,646 | (20,205,701) |

** The Classifications are based on the way that ALCO monitors repricing gaps

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.3 Market Risk (Contd.)

The ALCO monitors the above gaps and the sensitivity on the Income Statement and equity for Sri Lanka Rupee and US Dollar denominated assets and liabilities on a Bank and Group basis against the set limits. The sensitivity of the Income Statement and equity is measured by calculating the change in the present value of above interest rate sensitive gaps, based on assumed changes in interest rates along the yield curve.

The following table demonstrates the sensitivity of the Bank's income statement to a reasonably possible parallel shift in the interest rate yield curve, with all other variables held constant.

| Bank Asset/Liabilities | Increase /(Decrease) in basis points 2014 | Sensitivity to Profit after Tax 2014 LKR'000 | Sensitivity to Equity after Tax 2014 LKR'000 |
|---------------------------|---|---|---|
| LKR | +100/-100 | +54,342/-55,183 | -350,603/+372,167 |
| USD | +50/-50 | -8,815/+8,894 | -18,220/+18,658 |

| Bank Asset/Liabilities | Increase /(Decrease) in basis points 2013 | Sensitivity to Profit after Tax 2013 LKR'000 | Sensitivity to Equity after Tax 2013 LKR'000 |
|---------------------------|---|---|---|
| LKR | +100/-100 | -6,424/+107 | -183,408/+190,803 |
| USD | +50/-50 | -14,540/+14,658 | -19,530/+19,720 |

| Group Asset/Liabilities | Increase /(Decrease) in basis points 2014 | Sensitivity to Profit after Tax 2014 LKR'000 | Sensitivity to Equity after Tax 2014 LKR'000 |
|----------------------------|---|---|---|
| LKR | +100/-100 | +53,888/-54,722 | -352,659/+374,350 |
| USD | +50/-50 | -8,815/+8,894 | -18,220/+18,658 |

| Group Asset/Liabilities | Increase /(Decrease) in basis points 2013 | Sensitivity to Profit after Tax 2013 LKR'000 | Sensitivity to Equity after Tax 2013 LKR'000 |
|----------------------------|---|---|---|
| LKR | +100/-100 | -6,819/+7,170 | -185,230/+192,710 |
| USD | +50/-50 | -14,539/+14,658 | -19,530/+19,720 |

Exposure to market risk in the trading book is separately monitored and measured by setting limits on products, maturity profile of the portfolio, cut-loss limits and by setting sub-limits within above interest rate sensitive gap analysis.

Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (CONTD.)

43.3 Market Risk (Contd.)

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Exposure to each currency is arrived at by calculating the Net Asset or Liability position including the spot and forward contracts of the relevant currency.

The Board has set following limits to mitigate against currency risk exposures;

- Exposure on currencies on individual and an aggregate basis
- Exposure for each currency by maturity for forward currency contracts
- Dealer and counter-party Limits
- Overnight and Intra-day Limits
- Stop-loss limits

Treasury Middle Office (TMO) monitors the above positions on a daily basis to ensure positions are maintained within established limits.

The table below indicates the currencies to which the Bank had material exposures at 31 December 2014. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Sri Lankan Rupee, with all other variables held constant, on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Sri Lankan Rupee would have resulted in an equivalent but opposite impact. The given below is the sensitivity related to trading position in the Domestic Banking Unit.

| Currency | Change in Currency Rate in % 2014 | Change in Currency Rate in % 2013 | Effect on Profit after tax 2014 LKR'000 | Effect on Profit after tax 2013 LKR'000 |
|----------|--------------------------------------|--------------------------------------|---|---|
| USD | +5 | +5 | (5,549.8) | (6,030.8) |
| GBP | +5 | +5 | (63.2) | (120.0) |
| EUR | +5 | +5 | 84.0 | 230.2 |
| AUD | +5 | +5 | (29.8) | (141.4) |
| JPY | +5 | +5 | 6.5 | (14.6) |
| Other | +5 | +5 | 332.3 | 154.6 |

In addition to above trading exposures, the Bank carries a structural position arising from the negative US dollar reserves accumulated in Foreign Currency Banking Unit books. The sensitivity to Income Statement from this exposure is as follows;

| Currency | Change in Currency Rate in % 2014 | Change in Currency Rate in % 2013 | Effect on Profit after tax 2014 LKR'000 | Effect on Profit after tax 2013 LKR'000 |
|----------|--------------------------------------|--------------------------------------|---|---|
| USD | +5 | +5 | (12,281.5) | (13,819.5) |

44 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank. (Note 43)

Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

44.1 Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

44.2 Capital Commitments

The commitment for acquisition of Property, Plant and Equipment and Intangible Assets incidental to the ordinary course of business as at 31 December are as follows:

44.2 Capital Commitments

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Capital Commitments for Property, Plant and Equipment | | | | |
| Approved and Contracted for | 82,067 | 83,763 | 82,067 | 83,763 |
| Approved but not Contracted for | 20,054 | 41,979 | 20,054 | 41,979 |
| | <u>102,121</u> | <u>125,742</u> | <u>102,121</u> | <u>125,742</u> |
| Capital Commitments for Intangible Assets | | | | |
| Approved and Contracted for | 99,114 | 10,348 | 99,114 | 10,348 |
| Approved but not Contracted for | 5,800 | 295,463 | 5,800 | 295,463 |
| | <u>104,914</u> | <u>305,811</u> | <u>104,914</u> | <u>305,811</u> |
| | <u>207,035</u> | <u>431,553</u> | <u>207,035</u> | <u>431,553</u> |

44.3 Lease Arrangements

44.3.1 Operating Lease Commitments – Bank as Lessee

The Bank has entered into commercial leases for premises. These leases have an average life of ten years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are, as follows:

| | 2014 LKR '000 | 2013 LKR '000 |
|---|------------------|------------------|
| Within one year | 182,771 | 165,627 |
| After one year but not more than five years | 362,070 | 437,654 |
| More than five years | 8,304 | 14,622 |
| | <u>553,145</u> | <u>617,903</u> |

Notes to the Financial Statements

44.3.2 Operating Lease Receivable – Group as Lessor

The table below provides an analysis of finance lease receivables for leases of certain property in which the Group is the lessor.

| | 2014 LKR '000 | 2013 LKR '000 |
|---|------------------|------------------|
| Within one year | 18,414 | 48,617 |
| After one year but not more than five years | 5,959 | 11,918 |
| More than five years | - | - |
| | 24,373 | 60,536 |

45 CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the Central Bank of Sri Lanka. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Sri Lanka in supervising the Bank.

45.1 Capital Management

The primary objectives of the Bank's capital management policy are to ensure that the bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

Regulatory capital consists of Tier 1 Capital, which comprises share capital, share premium, retained earnings including current year profit. The other component of regulatory capital is Tier II Capital, which includes subordinated long term debt.

45.2 Net Assets Value per Ordinary Share

Net Assets Value per Ordinary Share is calculated by dividing the Equity Attributable to Equity Holders of the Parent by the Ordinary Shares.

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2014 LKR '000 | 2013 LKR '000 | 2014 LKR '000 | 2013 LKR '000 |
| Amount Used as the Numerator: | | | | |
| Equity Attributable to Equity Holders of the Parent | 12,788,555 | 10,790,677 | 13,894,525 | 11,738,163 |
| Number of Ordinary Shares Used as the Denominator: | | | | |
| Ordinary Shares at the beginning of the year | 230,607,283 | 230,607,283 | 230,607,283 | 230,607,283 |
| Number of Ordinary Shares in Issue at the End of the Year | 230,607,283 | 230,607,283 | 230,607,283 | 230,607,283 |
| Net Assets Value per Ordinary Share (LKR) | 55.46 | 46.79 | 60.25 | 50.90 |

46 EVENTS AFTER THE REPORTING DATE

No material events have taken place since 31 December 2014 that require disclosure or/and adjustments in these accounts, except for the following;

a) Proposed Dividends

Subject to approval of the shareholders at the forthcoming Annual General Meeting, the Directors recommended a payment of a first and final dividend of LKR 2.10 per share for the year ended 31 December 2014.

b) Super Gain Tax

The Minister of Finance announced at the interim budget proposals on 29 January 2015, (which was passed in parliament on 07 February 2015) that an additional one off tax of 25% is to be charged on profits of entities which earned in excess of LKR 2,000 Mn for the year of assessment 2013/2014. The Bank made a profit in excess of such amount for the said year of assessment, and accordingly may be liable to pay such additional tax in the future.

Details of Freehold Land & Buildings

| | Extent (perches) | Cost of Land | Land - Value | Cost of Building | Building - Value | Total Cost | Total Value | Accumulated Depreciation | Net Book Value - 2014 | Net Book Value - 2013 |
|---|---------------------|-----------------|-----------------|---------------------|---------------------|---------------|----------------|-----------------------------|-----------------------------|-----------------------------|
| | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 |
| Head Office 242, Union Place, Colombo 02 | 77.20 | 543,985 | 567,750 | 140,379 | 226,050 | 684,364 | 793,800 | 44,267 | 640,098 | 631,274 |
| City Office 76, York Street, Colombo 01 | 10.82 | 15,455 | 81,150 | 25,053 | 24,615 | 40,507 | 105,765 | 15,905 | 24,603 | 24,115 |

The freehold land and buildings of the Bank was revalued during 2014, by a professionally qualified independent valuer. The revaluation was carried out by taking into account the prices in property markets or recent market transactions on arm's length basis. The revaluation gains have not been booked.

Service Network

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

Telephone : 011 4711411

Fax : 011 2307854

E-Mail : customerservice@nationstrust.com

Website : www.nationstrust.com

| Branches | Address |
|---------------------|---|
| 1 Akkaraipathu | No. 210, Main Street, Akkaraipathu |
| 2 Akuressa | No. 73, Matara Road, Akuressa |
| 3 Aluthgama | No. 156, Galle Road, Aluthgama |
| 4 Ambalangoda | No. 20, 5th Cross Street, Ambalangoda |
| 5 Ambalantota | No 61, Main Street, Ambalantota |
| 6 Anuradhapura | No. 249 A, Maithripala Senanayaka Mawatha, Anuradhapura |
| 7 Badulla | No. 10, Bank Road, Badulla |
| 8 Balangoda | No. 86/A, Bans Ratwatte Mawatha, Balangoda |
| 9 Bandaragama | No 18/2, Kalutara Road, Bandaragama |
| 10 Bandarawela | No. 326, Badulla Road, Bandarawela |
| 11 Battaramulla | No. 103 A, Pannipitiya Road, Battaramulla |
| 12 Batticaloa | No. 29, Bar Road, Batticaloa |
| 13 Boralesgamuwa | No. 36, Lake Road, Boralesgamuwa |
| 14 Borella | No, 67, D.S. Senanayake Mawatha, Borella, Colombo 8 |
| 15 Chillaw | No. 43, Kurunegala Road, Chillaw |
| 16 Cinnamon Gardens | No. 4 A, Independence Avenue, Colombo 7 |
| 17 City | No. 76, York Street, Colombo 01 |
| 18 Corporate | No. 242, Union Place, Colombo 02 |
| 19 Crescat | B 14, Basement, Crescat Boulevard, Galle Road, Colombo 03 |
| 20 Dehiwala | No. 163, Galle Road, Dehiwala |
| 21 Deniyaya | No. 11, Main Street, Deniyaya |
| 22 Digana | No. 964/6, Nilagama, Digana, Rajawella |
| 23 Elpitiya | No. 42, Ambalangoda Road, Elpitiya |
| 24 Embilipitiya | No. 70, New Town Road, Embilipitiya |
| 25 Galle | No. 16, Matara Road, Galle |
| 26 Gampaha | No. 112, Baudhaloka Mawatha, Gampaha |
| 27 Gampola | No. 13, Nawalapitiya Road, Gampola |
| 28 Giriulla | No.145/A, Kurunegala Road, Giriulla |
| 29 Gothotuwa | No.35, New Town, Gothatuwa, IDH |
| 30 Hambantota | No. 39, Main Road, Hambantota |
| 31 Havelock Town | No. 100, Havelock Road, Colombo 05 |
| 32 Hikkaduwa | No. 08, Galle Road, Hikkaduwa |
| 33 Homagama | No. 113/A, High Level Road, Homagama |
| 34 Horana | No. 192 B, Ratnapura Road, Horana |
| 35 Ja-ela | No. 176, Colombo Road, Ja-ela |
| 36 Jaffna | No. 35, Stanley Street, Jaffna |
| 37 Kadawatha | No 144/1A, Sumitomo Building, Kandy Road, Kadawatha |
| 38 Kaduruwela | No. 292, Sawmill Junction, Kaduruwela, Polonnaruwa |
| 39 Kaduwela | No.510, Colombo Road, Kaduwela |
| 40 Kalmunai | No. 174, Batticaloa Road, Kalmunai |
| 41 Kandy | No. 147, Kotugodella Veediya, Kandy |
| 42 Karapitiya | No 241, Hirimbura Road, Karapitiya |

| Branches | Address |
|----------------------|---|
| 43 Katugastota | No. 146, Kurunegala Road, Katugastota |
| 44 Kegalle | No. 176, Wallwawatta, Kegalle |
| 45 Kiribathgoda | No.69, Makola Road, Kiribathgoda |
| 46 Kohuwala | No. 96/B, Dutugemunu Street, Kohuwela |
| 47 Kollupitiya | No 314, R.A.De Mel Mawatha, Colombo 03 |
| 48 Kotahena | No. 258, George R. De Silva Mawatha, Colombo 13 |
| 49 Kottawa | No. 269/1, Mahawarawa Junction, Kottawa |
| 50 Kuliyaipitiya | No. 72 A, Hettipola Road, Kuliyaipitiya |
| 51 Kurunegala | No. 37, Puttalam Road, Kurunegala |
| 52 Mahabage | No. 590, Negombo Road, Mahabage |
| 53 Maharagama | No. 129, High Level Road, Maharagama |
| 54 Malabe | No. 410/4, Athurugiriya Road, Malabe |
| 55 Matara | No. 56, Esplanade Road, Matara |
| 56 Mathugama | No. 123/1, Agalawatta Road, Matugama |
| 57 Mawathagama | No 56, Kurunegala Road, Mawathagama |
| 58 Millennium | No. 46/58, Nawam Mawatha, Colombo 02 |
| 59 Minuwangoda | No.59, Negombo Road, Minuwangoda |
| 60 Monaragala | No. 190, Wellawaya Road, Monaragala |
| 61 Moratuwa | No. 89, New Galle Road, Moratuwa |
| 62 Mt Lavinia | No 269, Galle Road, Mount Lavinia |
| 63 Narahenpita | No 255/2, Kirula Road, Colombo 5 |
| 64 Nawala | No. 267/A, Nawala Road, Nawala |
| 65 Negombo | No. 72 A, Old Chillaw Road, Negombo |
| 66 Nelliady | No. 171/1, Jaffna - Point Pedro Road, Nelliady |
| 67 Nittambuwa | No. 39, Kandy Road, Nittambuwa |
| 68 Nugegoda | No. 128, High Level Road, Nugegoda |
| 69 Nuwara Eliya | No. 86, Kandy Road, Nuwara Eliya |
| 70 Old Moor Street | No. 360, Old Moor Street, Colombo 12 |
| 71 Panadura | No. 229, Galle Road, Panadura |
| 72 Peradeniya | Royal Mall Shopping Complex, No. 903/18, William Gopallawa Mawatha, Kandy |
| 73 Pettah 2 | No. 54 A, Bankshall Street, Colombo 11 |
| 74 Pettah | No. 244, Main Street, Pettah |
| 75 Piliyandala | No. 30, Moratuwa Road, Piliyandala |
| 76 Rajagiriya | No. 196, Sri Jayawardenapura Mawatha, Welikada, Rajagiriya |
| 77 Ratnapura | No. 189, Main Street, Ratnapura |
| 78 Sri Sangaraja | No. 545 A, Sri Sangaraja Mawatha, Colombo 10 |
| 79 Tangalle | No 110, Tissa Road, Tangalle |
| 80 Thalawathugoda | No. 755, Madhiwela Road, Thalawathugoda |
| 81 Tissamaharama | No. 43/2, Kachcheriyagama, Hambanthota Road, Tissamaharama |
| 82 Trincomalee | No. 96, Main Street, Trincomalee |
| 83 Vavuniya | No. 222, Kandy Road, Vavuniya |
| 84 Ward Place (ODEL) | ODEL, No. 10, Ward Place, Colombo 07 |
| 85 Wariyapola | No 84, Puttalam Road, Wariyapola |
| 86 Wattala | No.492, Negombo Road, Wattala |
| 87 Weligama | No. 354/29, Samaraweera Place, Sirimavo Bandaranayake Mawatha, Weligama |
| 88 Wellawatte | No. 292, Galle Road, Wellawatte |
| 89 Wennappuwa | No. 289, Chilaw Road, Wennappuwa |

Service Network

OFF Site ATM's

| Branches | | Address |
|----------|--------------------------------|--|
| No | Location | Address |
| 1 | Asiri Hospital Ltd | No. 181, Kirula Road, Narahenpita |
| 2 | Asiri Surgical Hospital | No. 21, Kirimandala Mawatha, Narahenpita |
| 3 | Athurugiriya | No. 25, Malabe Road, Athurugiriya |
| 4 | Attidiya | L & S Engineering (Pvt) Ltd, No 208, Main Road, Attidiya |
| 5 | Borella | Keells Super- Borella, No 85, Dr N.M. Perera Mawatha, Colombo 08 |
| 6 | Cinnamon Lakeside | No: 115, Sir Chitthampalam A Gardiner Mawatha, Colombo 02 |
| 7 | Dankotuwa | Dankotuwa Industrial Park, Bujjampola Road, Dankotuwa |
| 8 | Ganemulla | Sri Lanka Railway Station, Ganemulla |
| 9 | Hyde Park Corner | Arpico Super Centre, No. 69, Hyde Park Corner, Colombo 02 |
| 10 | Kaduwela | The Main Bus Stand, Awissawella Road, Kaduwela |
| 11 | Kandana | Keells Super Kandana, No. 176, Nagoda Road, Kandana |
| 12 | Kandy | Sri Lanka Railway Station, Kandy |
| 13 | Kohuwala | Laughs Sun-up Super Market, No. 17, Sunethradevi Mawatha, Kohuwala |
| 14 | Kolonnawa | Laugfs Supermarket, No. 228, Kolonnawa Road, Kolonnawa |
| 15 | Liberty Arcade | Liberty Arcade, Ground Floor, R.A. De Mel Mawatha, Colombo 03 |
| 16 | Matara | SK Cinema (Pvt) Limited, No. 07, Beach Road, Matara |
| 17 | Mawaramandiya | Biyagama Multi Corporative Society Limited, "Samupakara Mandiraya", Mawaramandiya, Siyambalape |
| 18 | Miriswatta | Lanka Filling Station, No. 144, Kandy Road, Miriswatte, Mudungoda |
| 19 | Moratumulla | Laughs Sun-up Super Market, No. 289, De Zoyza Road, Molpe, Moratuwa |
| 20 | Mount Lavinia | Keells Super Mt. Lavinia, No.388 Galle Road, Mt. Lavinia |
| 21 | Nadimala | Laughs Sun-up Super Market, No. 288, Hill Sreet, Dehiwala |
| 22 | National Hospital of Sri Lanka | National Hospital of Sri Lanka, Doctors Quarters, Regions Street, Colombo 10 |
| 23 | Navinna | Arpico Super Centre, No. 310, High Level Road, Navinna, Maharagama |
| 24 | Negombo | Keells Super Negombo, No. 41, Archbishop Nicholas Marcus Fernando Mawatha, Negombo |
| 25 | Orion City | Orion Management Consortium Ltd, No 752/1, Base Line Road, Colombo 09 |
| 26 | Pitakotte | No. 338, Kotte Road, Pitakotte |
| 27 | Processing Centre | No. 256, Sri Ramanathan Mawatha, Kotahena, Colombo 15 |
| 28 | Ragama | Leesons Hospital, No. 32, Thewatta Road, Ragama |
| 29 | Rajagiriya | Keells Super Rajagiriya, No.475, Sri Jayawardenapura Road, Rajagiriya |
| 30 | Rathmalana | Lanka Sathosa Limited, Rathmalana Mega, Police Trans Camp, No. 650/A, Galle Road, Rathmalana |
| 31 | Seeduwa | Laughs Sun-up Super Market, No: 10, Kotugoda Road, Seeduwa |
| 32 | Southern Express Way A | Canowin Arcade A, Southern Highway, Welipenna |
| 33 | Southern Express Way B | Canowin Arcade B, Southern Highway, Welipenna |
| 34 | Wattala | Keells Super-Wattala, No. 385, Negombo Road, Wattala |
| 35 | World Trade Center | Level 3, Westblock, World trade Center, Echelon Square, Colombo 01 |

Glossary

A

ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

ACCEPTANCES

The signature on a Bill of Exchange indicates that the person on whom it is drawn accepts the conditions of the bill. In other words a bill of exchange that has been accepted.

ACCRUAL BASIS

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

AMORTISATION

The deduction of capital expenses over a specific period of time (usually over the asset's life)

AMORTISED COST

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

AVAILABLE –FOR –SALE FINANCIAL ASSETS

Non derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

B

BILLS FOR COLLECTION

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

C

COMPOUNDED ANNUAL GROWTH RATE (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

CAPITAL ADEQUACY RATIO

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

CAPITAL GAIN (CAPITAL PROFIT)

The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

CAPITAL RESERVES

Capital Reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act, No 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

CARRYING VALUE

Value of an asset or a liability as per books of the organisation before adjusting for fair value.

CASH EQUIVALENTS

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

COLLECTIVELY ASSESSED LOAN IMPAIRMENT PROVISIONS

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the Consumer Banking business (Housing, personal, vehicle loans etc) are assessed on a portfolio basis.

COMMITMENTS

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

Glossary

CONTINGENCIES

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or nonoccurrence of one or more future events.

CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and the direction of entity, the supervision of executive actions and accountability to owners and others.

COST TO INCOME RATIO

Operating expenses (excluding provision for bad and doubtful debts) expressed as a percentage of net Income

CONTRACTUAL MATURITY

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

CORRESPONDENT BANK

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment in debt/equity securities.

COST METHOD

A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee.

CURRENCY RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

CREDIT RISK MITIGATION

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

CREDIT RATINGS

An evaluation of a corporate ability to repay its obligations or likelihood of not defaulting carried out by an independent rating agency.

COLLECTIVELY ASSESSED IMPAIRMENT

Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

COMMERCIAL PAPER ('CP')

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

CUSTOMER DEPOSITS

Money deposited by account holders. Such funds are recorded as liabilities.

D

DEBT RESTRUCTURING / RESCHEDULING

This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge reduction.

DELINQUENCY

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

DERECOGNITION

Removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

DEPRECIATION

The systematic allocation of the depreciable amount of an asset over its useful life.

DIVIDEND COVER

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

DIVIDEND YIELD

Dividend earned per share as a percentage of its market value.

DEFERRED TAX

Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

DERIVATIVE

Contracts whose value is derived from the performance of underlying market factors.

DOCUMENTARY CREDITS

Commercial Letters of Credit provided for payment by a bank to the named beneficiary, usually the seller of merchandise, against delivery of documents specified in the credit.

E

EARNINGS PER ORDINARY SHARE

Profit after taxation and after dividend on Preference Shares divided by the number of ordinary shares in issue.

EFFECTIVE INCOME TAX RATE

Provision for taxation divided by the profit before taxation.

EMPLOYEE ENGAGEMENT INDEX

A measure of the extent employees are engaged with the organisation. An increase in the index reflects a situation where employees feeling engaged and finding personal meaning and motivation in work, receiving positive interpersonal support and operating in an efficient work environment.

EFFECTIVE INTEREST RATE

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

EQUITY METHOD

The equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter

for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

ECONOMIC VALUE ADDED (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

EQUITY RISK

The risk arising from positions, either long or short, in equities or equity based instruments, which create exposure to a change in the market price of the equities or equity instruments.

EXPECTED LOSS ('EL')

A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

EXPOSURE

A claim, contingent claim or position which carries a risk of financial loss.

F

FAIR VALUE

Rational and unbiased estimate of the potential market price of a good, a service or an asset.

FINANCE LEASE

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

FINANCIAL ASSET

Is any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

FINANCIAL LIABILITY

Is a contractual obligation to deliver cash or another financial asset to another entity

Glossary

FINANCIAL GUARANTEE CONTRACT

Is a contract that requires the issuer 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 original or modified terms of a debt instrument.

FINANCIAL ASSET OR FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

FINANCIAL INSTRUMENT

Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FOREIGN EXCHANGE CONTRACT

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

FOREIGN EXCHANGE PROFIT

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Balance Sheet date and the settlement/ Balance Sheet date. Also arises from trading in foreign currencies.

G

GUARANTEES

Three party agreement involving a promise by one party (the guarantor) to fulfill the obligations of a person owning a debt if that person fails to perform.

GROSS DIVIDENDS

The portion of profits distributed to the shareholders including tax withheld.

GROUP

A group is a parent and all its subsidiaries.

H

HELD TO MATURITY INVESTMENTS

Non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

I

IMPAIRMENT ALLOWANCE

A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for incurred losses inherent in the lending book. An impairment allowance may either be identified or unidentified and individual or collective.

IMPAIRMENT CHARGE / (REVERSAL)

The difference between the carrying value of an asset and the sum of discounted future cash flows generating from the same asset.

INTANGIBLE ASSET

An asset that is not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill and brand recognition are all common intangible assets in today's marketplace.

INTEREST MARGIN

Net interest income expressed as a percentage of interest earning assets.

IMPAIRED LOANS

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

INDIVIDUALLY ASSESSED IMPAIRMENT

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

INTEREST RATE RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

INTEREST COVER

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

INTEREST IN SUSPENSE

Interest suspended on non-performing loans and advances.

INVESTMENT PROPERTIES

Investment property is property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

INVESTMENT SECURITIES

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

INCREMENTAL COST

Costs that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

INDIVIDUALLY SIGNIFICANT LOAN IMPAIRMENT PROVISIONS

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Corporate Banking business of the Group are assessed individually.

INTEREST SPREAD

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

INTEREST RATE SWAP

An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount.

K

KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

LIQUID ASSETS RATIO

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities.

LOANS TO DEPOSITS RATIO

Total loans and advances expressed as a percentage of the total deposit portfolio.

LOAN LOSSES AND PROVISIONS

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

LOSS GIVEN DEFAULT ('LGD')

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

M

MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of a share as at the year-end.

MATERIALITY

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

MARKET RISK

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

N

NET ASSETS VALUE PER ORDINARY SHARE

Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

Glossary

NET DIVIDENDS

Dividends net of withholding tax.

NET INTEREST INCOME

Difference between what banks earn on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

NPL RATIO

Non Performing Loans expressed as a percentage of the total loans and advances.

NON-PERFORMING ADVANCES (NPA)

All loans are classified as nonperforming when a payment is 90 days in arrears.

NON-PERFORMING ADVANCES COVER (NPA COVER)

Cumulative loan loss provision as a percentage of total Non-Performing Advances (net of Interest in Suspense).

NPA RATIO

Total non-performing advances (net of Interest in Suspense) divided by total advances portfolio (net of Interest in Suspense).

NET-INTEREST INCOME

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and interbank borrowings.

O

OFF-BALANCE SHEET TRANSACTIONS

Transactions that are not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

OPERATIONAL RISK

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P

PRUDENCE

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of

uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

PAST DUE

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

PROBABILITY OF DEFAULT ('PD')

The probability that an obligor will default within a one-year time horizon.

R

RETURN ON ASSETS

Profit after tax divided by assets.

RETURN ON EQUITY

Profit after Tax divided by the average shareholders' funds.

RELATED PARTIES

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

RETURN ON AVERAGE ASSETS

Profit after Tax divided by the average assets.

RISK WEIGHTED ASSETS

On Balance Sheet assets and the credit equivalent of off Balance Sheet assets multiplied by the relevant risk weighting factors.

REPURCHASE AGREEMENT

Contract to sell and subsequently repurchase securities at specified date and price.

REVERSE REPURCHASE AGREEMENT

Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.

REVENUE RESERVE

Reserves set aside for future distribution and investment.

REPURCHASE AGREEMENT

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

RIGHTS ISSUE

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

S

SEGMENTAL ANALYSIS

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

SHAREHOLDERS' FUNDS

Total of stated capital and capital and revenue reserves.

STATUTORY RESERVE FUND

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

SUBSIDIARY COMPANY

An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as a parent).

SUBSTANCE OVER FORM

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

SWAPS (CURRENCY)

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively a simultaneous spot sale and forward purchase of a currency.

SHARE PREMIUM

Amount paid by a shareholder, over and above the par value of a share.

T

TIER I CAPITAL

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

TIER II CAPITAL

Supplementary capital representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debt.

TOTAL CAPITAL

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

U

UNIT TRUST

An undertaking formed to invest in securities under the terms of a trust deed.

VALUE ADDED

Value of wealth created by providing banking and other related services, less the cost of providing such services.

Y

YIELD TO MATURITY

Discount rate at which the present value of future payments would equal the security's current price.

Notice of Meeting

Notice is hereby given that the Sixteenth Annual General Meeting of Nations Trust Bank PLC will be held on 31st March, 2015 at 10.30 a.m. at the Auditorium of the Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 07, Sri Lanka.

The business to be brought before the meeting will be:

1. To read the notice convening the Meeting.
2. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December, 2014 with the Report of the Auditors thereon.
3. To declare a first and final dividend of Rs. 2.10 per share on the ordinary shares of the Company.
4. To re-elect Mr. D. Prasanna De Silva who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.
5. To re-elect Ms. N. Shalini Panditaratne who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.
6. To re-elect Mr. Suran Wijesinghe who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.
7. To elect Mr. C. L. K. P. Jayasuriya, as a Director in terms of Article 25 of the Articles of Association of the Company.
8. To elect Mr. J. G. A. Cooray, as a Director in terms of to Article 25 of the Articles of Association of the Company.
9. To elect Mr. Harsha Raghavan, as a Director in terms of Article 25 of the Articles of Association of the Company.
10. To reappoint Auditors and to authorise the Directors to determine their remuneration.
11. To authorise the Directors to determine and make donations.
12. To consider any other business of which due notice has been given.

Notes:

- i. A member unable to attend is entitled to appoint a proxy to attend and vote in his/her place.
- ii. A proxy need not be a member of the Company.
- iii. A member wishing to vote by proxy at the meeting may use the Proxy Form enclosed.
- iv. To be valid, the completed Proxy Form must be lodged at the Registered Office of the Company not less than 48 hours before the meeting.

By Order of the Board



Theja Silva
Company Secretary
Colombo

26 February 2015

Form of Proxy

I/We of
 being a member/members of Nations Trust Bank PLC., hereby
 appoint of or failing him/her

| | |
|-----------------------------|----------------|
| Mr. K. N. J. Balendra | or failing him |
| Mr. A.R. Rasiah | or failing him |
| Mr. M.E. Wickremesinghe | or failing him |
| Dr. Dushni Weerakoon | or failing her |
| Mr. M. Jafferjee | or failing him |
| Dr. Kemal de Soysa | or failing him |
| Mr. D. Prasanna De Silva | or failing him |
| Ms. N. Shalini Panditaratne | or failing her |
| Mr. Suran Wijesinghe | or failing him |
| Mr. C. L. K. P. Jayasuriya | or failing him |
| Mr. J. G. A. Cooray | or failing him |
| Mr. Harsha Raghavan | or failing him |
| Ms. R. N. K. Fernando | |

as my/our Proxy to represent me/us and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 31st March, 2015 at 10.30 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

The Proxy may vote as he/she thinks fit on any other resolution brought before the meeting and may also speak on my/our behalf at the meeting.

In witness I/we placed my/our hand/s hereto on this (....) day of March, 2015 .

.....
 Signature/s

Please indicate with a (✓) in the space below how you wish your votes to be cast:

| | For | Against |
|---|--------------------------|--------------------------|
| 1. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December 2014 with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To declare a first and final dividend of Rs. 2.10/- per share on the ordinary shares of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To re-elect Mr. D. Prasanna De Silva, who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To re-elect Ms. N. Shalini Panditaratne, who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To re-elect Mr. Suran Wijesinghe, who retires by rotation at the Annual General meeting as a Director pursuant to Article 27 of the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To elect Mr. C. L. K. P. Jayasuriya, as a Director in terms of Article 25 of the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. To elect Mr. J. G. A. Cooray, as a Director in terms of Article 25 of the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. To elect Mr. Harsha Raghavan, as a Director in terms of Article 25 of the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. To reappoint Auditors and to authorise the Directors to determine their remuneration. | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. To authorise the Directors to determine and make donations. | <input type="checkbox"/> | <input type="checkbox"/> |

Instructions as to Completion

1. Please perfect the Form of Proxy by filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 242, Union Place, Colombo 2, not less than 48 hours before the time appointed for the holding of the Meeting.
3. If the Form of Proxy is signed by an Attorney, the Power of Attorney should accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the appointer is a Company or Corporation, this Form must be executed under the Common Seal or the hand of a duly Authorised Officer.
5. If this Form is returned without any indication as to how the person appointed as Proxy shall vote, the Proxy shall exercise his/her discretion as to how he/she votes, or whether he/she abstains from voting.

Please fill in the following details:

| | |
|------------------|--|
| NIC No.: | |
| Share Folio No.: | |
| Name: | |
| Address: | |
| Jointly with: | |

Corporate Information

Registered Name

Nations Trust Bank PLC

Legal Form

A Licensed Commercial Bank established under the Banking Act No. 30 of 1988. A Public Limited Liability Company incorporated in Sri Lanka.

Company Registration Number

PQ 118

Date of Incorporation

21st January 1999

Registered Office

No. 242, Union Place, Colombo 2.

Telephone : 011-4313131

Facsimile : 011-2307854

E-mail : info@nationstrust.com

Web page : www.nationstrust.com

Company Secretary

Theja Silva

Auditors

Messrs. Ernst & Young

Chartered Accountants,

No. 201, De Saram Place,

Colombo 10.

Credit Rating

A (lka) from Fitch Ratings Lanka Ltd.

Directors

K.N.J. Balendra - Chairman

A.R. Rasiah - Senior Director

M.E. Wickremesinghe

Dr. (Ms.) D. Weerakoon

Murtaza Jafferjee

Dr. Kemal de Soysa

D. Prasanna De Silva

Ms. N. Shalini Panditaratne

Suran Wijesinghe

C.L.K.P. Jayasuriya

J.G.A. Cooray

Harsha Raghavan (Appointed with effect from 1st January 2015)

Ms. R.N.K. Fernando

Board Supervisory Committee

Suran Wijesinghe - Chairman

J.G.A. Cooray

Murtaza Jafferjee

D. Prasanna De Silva

Board Audit Review Committee

A.R. Rasiah - Chairman

Dr. (Ms.) D. Weerakoon

Ms. N. Shalini Panditaratne

Suran Wijesinghe

C.L.K.P. Jayasuriya

Human Resources and Remuneration Committee

K.N.J. Balendra - Chairman

C.L.K.P. Jayasuriya

Dr. (Ms.) D. Weerakoon

A.R. Rasiah

Dr. Kemal de Soysa

Nomination Committee

M.E. Wickremesinghe - Chairman

K.N.J. Balendra

D. Prasanna De Silva

Murtaza Jafferjee

Credit Committee

K. N. J. Balendra - Chairman

(Alternate – Suran Wijesinghe)

D. Prasanna De Silva

(Alternate C.L.K.P. Jayasuriya)

Ms. N. Shalini Panditaratne

Integrated Risk Management Committee

A.R. Rasiah - Chairman

Dr. Kemal de Soysa

D. Prasanna De Silva

Suran Wijesinghe

J.G.A. Cooray

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