



Simplify



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At Nations Trust, we want to transform and simplify our customers' day to day lives. That's why we've invested so much into increasing our volumes, consolidating our positions, streamlining products and processes, and optimizing functions throughout our branch network. We also offer a range of digital banking technologies that ensure secure, instant access to our products and services for customers from one end of the island to the other.

Simplify

We're touching more lives than ever before, through a fast growing branch network, making our products and services available to thousands of urban corporates and retail customers and regional SME entrepreneurs as well.

We're making it easier than ever for every Sri Lankan to achieve financial security, with uncomplicated online and real-world processes that make every transaction quick, easy and quite amazingly...simple.

Nations Trust Bank
Simplify

In this Year's Report

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Our Vision

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

Our Values

Trust
Agile
Proactive

Excellence
Winning Together

Vision, Mission

Our Mission

We will work SMART to be the most respected financial services provider.

SMART

Speed, More with less, Adaptable, Responsible, Tech-savvy

Group Overview and Governance



Simplify

Digital Technologies

We're evolving seamless, user friendly digital banking solutions that enable instant access and a host of online financial services.



Welcome to our 3rd Integrated Annual report 2016

Nations Trust Bank PLC's strategy, management practices and operations are informed by a sound appreciation of the capital resources we input to our process and the stakeholder relationships we depend on to generate sustainable value. Our approach to corporate reporting complements this integrated thinking and adoption of the <IR> Framework issued by the International Integrated Reporting Council (IIRC) has enabled us to provide a balanced and comprehensive discussion on our economic, social and environmental performance against our goals, the successes and challenges we faced in generating value as well as our targets going forward.

Scope and boundary

Nations Trust Bank PLC follows an annual reporting cycle and this Report covers the period from 1st January to 31st December 2016. Any material events after this date and up to approval by the Board of Directors on 27 February 2017 have also been included. This is our 3rd integrated report and builds on our previous report for the year ending 31st December 2015. The scope of this report includes the operations of Nations Trust Bank PLC and its subsidiaries, Waldock MacKenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited. There were no significant changes to the Bank's size, structure, shareholding or supply chain during the period under review. The boundary of the report extends to both financial and non-financial performance on material developments which objectively represent the events that shaped our performance during the year and are likely to impact our future performance.

Nations Trust Bank PLC follows an annual reporting cycle and this Report covers the period from 1st January to 31st December 2016.

Standards and principles

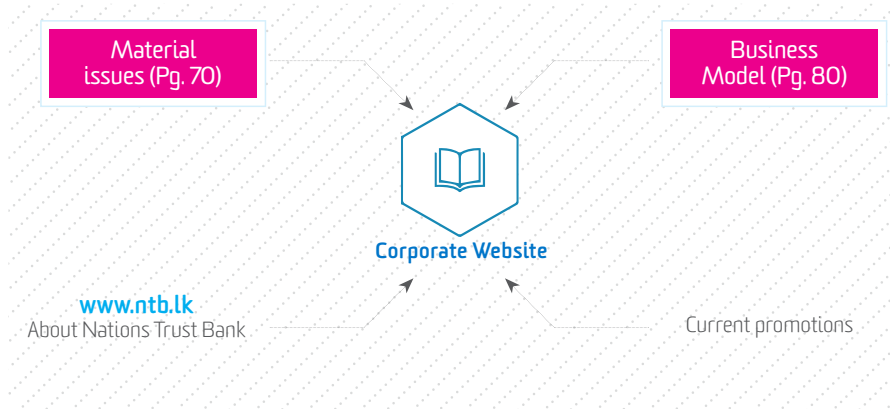
The Financial Statements presented on pages 192 to 196 of this Report have been prepared in accordance with the Sri Lanka Financial Reporting Standards, the Banking Act No. 30 of 1988 and the requirements of the Companies Act No. 7 of 2007. Preparation of the Integrated Report was guided by the principles of the <IR>Framework, published by the International Integrated Reporting Council in December 2013. Our sustainability reporting is informed by the Global Reporting Initiative (GRI) G4 criteria 'In Accordance-Core' option and the Financial Services sector disclosures. The section on Corporate Governance (pages 28 to 39) describes how the Bank complies with the Code of Best Practice on Corporate Governance issued by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka as well as the Banking Act Direction No. 11 of 2007. There were no significant restatements of previously reported economic, social or environmental information.

External assurance

The Bank utilizes the services of independent service providers to assess and provide assurance on elements of our external reporting. Assurance on the financial statements and the Director's Statement of Internal Controls has been provided by Messrs. Ernst and Young, Chartered Accountants. This year, in order to ensure the credibility and validity of our non-financial information, we have also engaged Messrs. Ernst and Young to obtain assurance on our sustainability reporting.

How to read this Report

The content included in this integrated report has been carefully selected and structured to show how the Bank creates, delivers and ensures value creation for its stakeholders.

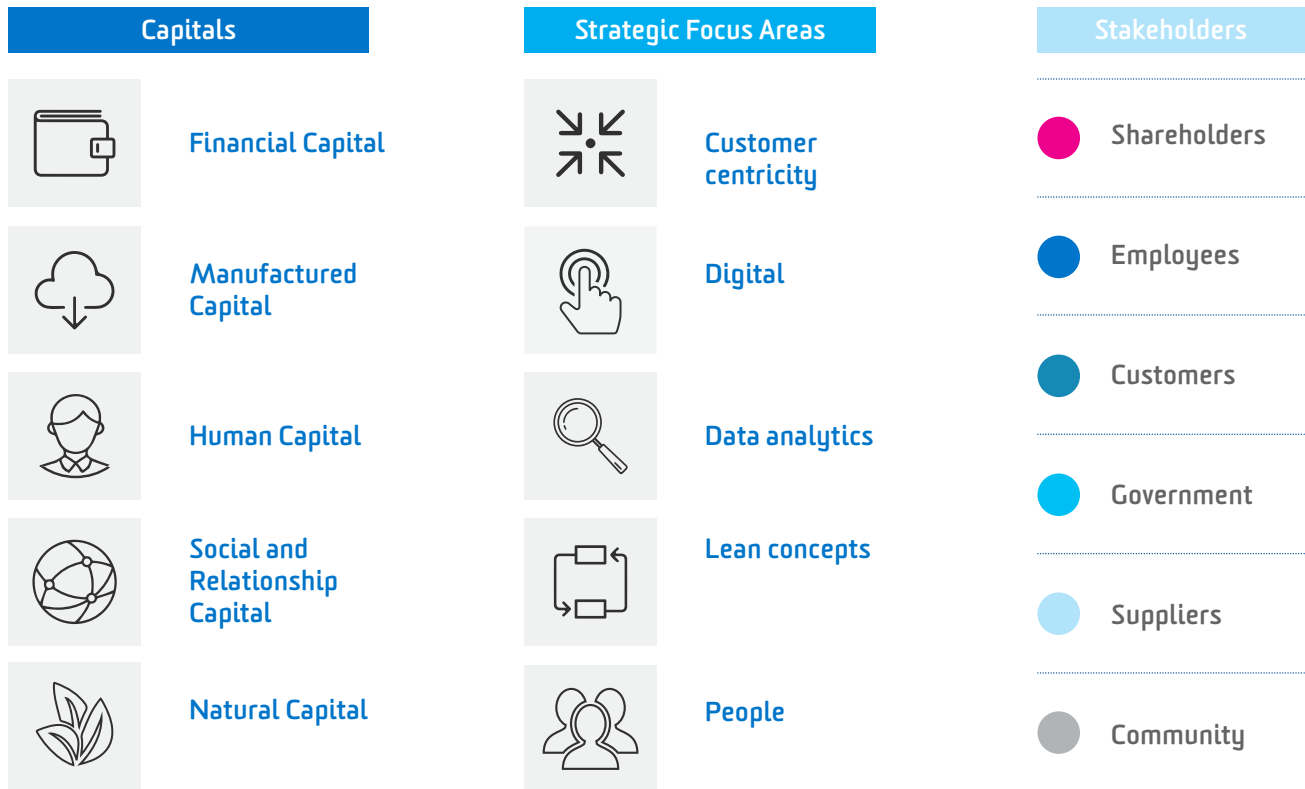


- About the Bank provides the reader with a brief overview of the Organisation, its business model, how the Bank is governed and an overview of how we manage our key risks
- Operating context and strategy describes the landscape in which we operate, the matters that could potentially affect our value creation process and our strategic focus areas
- Our performance demonstrates how we performed against our strategic targets for the year, the successes and challenges and how our key business lines contributed towards delivering our strategy
- Value creation against our capitals demonstrates how we transformed and added value to our capital inputs during the year, ensuring sustainable value creation to all our stakeholders



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Feedback

We strive to continuously enhance the readability and meaningfulness of our Report and welcome your feedback and suggestions. Please direct your feedback and/or queries to,

Kushlani Allis

Chief Manager
Management Reporting and Planning

Email: kushlaniallis@nationstrust.com

Group Overview

About Nations Trust Bank PLC

Total Assets (Rs. Bn)

211.2

As at end December 2016

Customers

609,276

through the island-wide network

Customer Touch Points

93 136

Branches

ATMs

People Employed

2,770

As at end December 2016

Nations Trust Bank PLC is one of Sri Lanka's most dynamic and responsive banks, which has successfully carved out a niche position in the intensely competitive banking sector through offering a unique customer proposition characterized by innovation, convenience, and excellence in customer service.

With an asset and deposit base of Rs. 211.2 Bn and Rs.151.5 Bn respectively as at end-December 2016, the Bank has grown at an average CAGR of 16% per annum over the past 5 years led by deeper relationships with existing customers as well as customer acquisition in new market segments. The Bank's agile and high-performing team of 2,770 employees serves over 600,000 customers through an island-wide network of 93 branches and 136 ATMs.

The Nations Trust Group comprises of the Bank and three subsidiaries engaged in providing specialised services. The Bank contributes approximately 94.50% to the Group's pre-tax profit accounts for 99.63% of its total assets. Nations Trust Bank is listed on the Main Board of the Colombo Stock Exchange with a market capitalisation of Rs. 18.6 Bn as at end-December 2016.



Growth in Assets at a
CAGR of
16%
over the past five years

Business Today
Top 30
Corporates

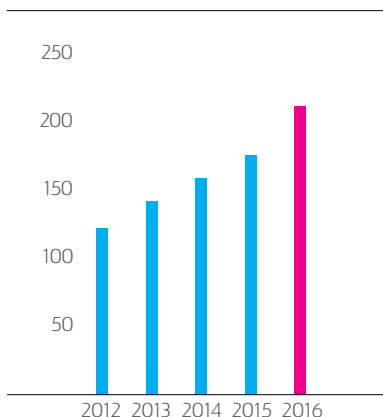
Rs.18.6 Bn
Market Capitalisation



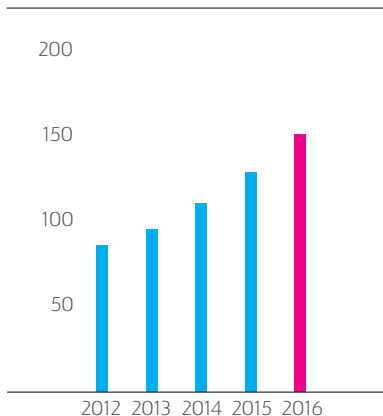
Performance Highlights

Financial Highlights

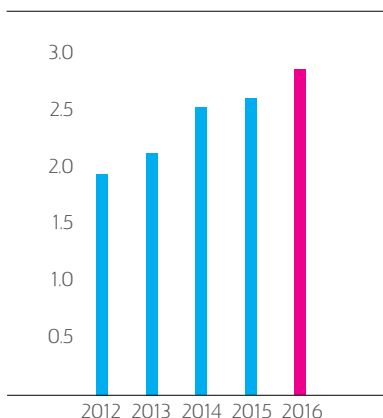
Assets (Rs. Bn)



Deposits (Rs. Bn)



Profit After Tax (Rs. Bn)

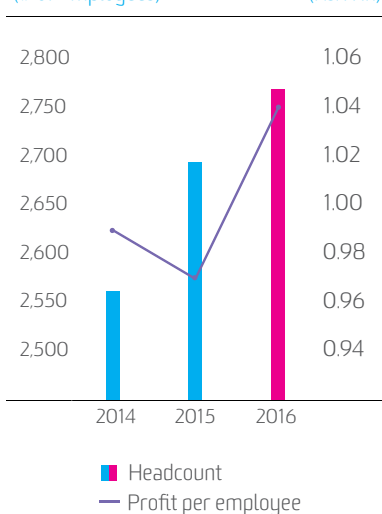


| | 2016 | 2015 | % change |
|---------------------------------------|---------|---------|----------|
| Operating Performance (Rs. Mn) | | | |
| Interest income | 21,384 | 16,628 | 29 |
| Net interest income | 9,786 | 9,105 | 7 |
| Gross income | 25,547 | 20,279 | 26 |
| Operating profit before tax | 5,400 | 4,672 | 16 |
| Profit before income tax | 4,340 | 3,905 | 11 |
| Income tax | 1,471 | 1,291 | 14 |
| Profit after tax | 2,869 | 2,614 | 10 |
| Retained profit | 11,601 | 9,336 | 24 |
| Financial Position (Rs. Mn) | | | |
| Total assets | 211,180 | 176,262 | 20 |
| Gross loans and advances | 149,818 | 121,106 | 24 |
| Total deposits | 151,502 | 129,158 | 17 |
| Shareholders' funds | 17,321 | 15,171 | 14 |
| Performance ratios (%) | | | |
| Return on average assets | 1.48% | 1.56% | |
| Return on equity | 17.70% | 17.99% | |
| Cost to income ratio | 55.58% | 54.81% | |
| Non-performing loans ratio | 2.41% | 2.76% | |
| Loans to deposit ratio | 98.89% | 93.79% | |
| Core capital ratio | 11.40% | 13.15% | |
| Overall capital ratio | 15.82% | 15.53% | |
| Shareholder ratios (Rs) | | | |
| Earnings per share | 12.44 | 11.34 | |
| Net asset value per share | 69.30 | 60.67 | |
| Dividend per share | 2.10 | 2.10 | |
| Price earnings ratio | 6.88 | 8.11 | |
| Market price per share | 80.9 | 86.3 | |

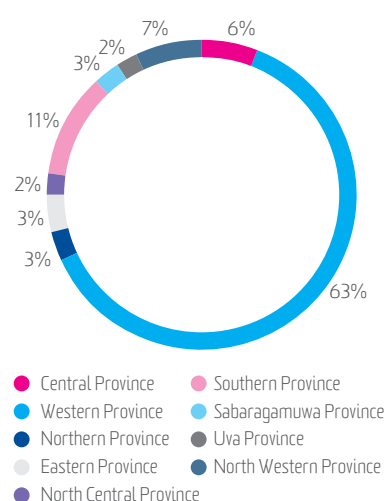
Non-Financial Highlights

Productivity (# of Employees)

(Rs. Mn)



Customer Profile-by Province



| | | 2016 | 2015 | % change |
|------------------------------|--------------|-----------|-----------|----------|
| Customer Value | | | | |
| Customer satisfaction score | % | 76% | 67% | |
| Interest paid | Rs. Mn | 9,047 | 5,719 | 58 |
| Customer contact points | Number | 149 | 131 | 14 |
| SME Seminars held | Number | 16 | 2 | 7 |
| Number of Customers | Number | 609,276 | 547,412 | 11.3 |
| Employee Value | | | | |
| Employees | Number | 2,770 | 2,695 | 3 |
| Value created to employees | Rs. Mn | 2,367 | 2,101 | 13 |
| Employee retention | % | 86 | 85 | - |
| Investment in training | Rs. Mn | 76 | 67 | 13 |
| National contribution | | | | |
| Tax contribution | Rs. Mn | 2,531 | 2,058 | 23 |
| SME disbursements | Rs. Mn | 23,665 | 10,052 | 135 |
| Disbursements in outstations | Rs. Mn | 9,246 | 4,799 | 93 |
| Environmental impact | | | | |
| Paper recycled | Kg | 18,731 | 21,948 | 15 |
| Energy usage | KwH | 7,824,611 | 8,090,000 | (3) |
| Energy intensity | KwH/Employee | 2,824.77 | 3,001.8 | (6) |
| Carbon footprint | tCO2e | 3,717.3 | 3,283.5 | 13 |

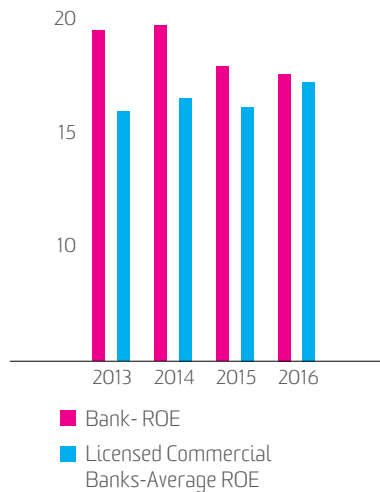
Investment Case

Attractive shareholder returns

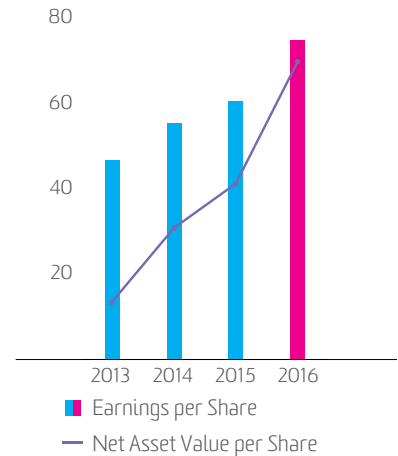
The Bank's Return on Equity (ROE) has consistently exceeded industry average

Consistent growth in Earnings per Share and Net Asset Value per Share

Return on Equity (%)



Earning per Share and Net Asset Value per Share (Rs)



Track record of growth

- Robust expansion in asset base - 16% Compound Annual Growth Rate in Assets over the past 5 years
- Strong deposit franchise - 18% Compound Annual Growth Rate in Deposits over the past 5 years
- Widening customer reach - 17% increase in customers over the past 5 years

Leadership and Governance

- Dynamic, professional and highly-skilled leadership team
- Agile and youthful team of employees (Average age of 28)
- Robust governance framework built on integrity, transparency and professionalism
- Ongoing talent development and performance-driven culture

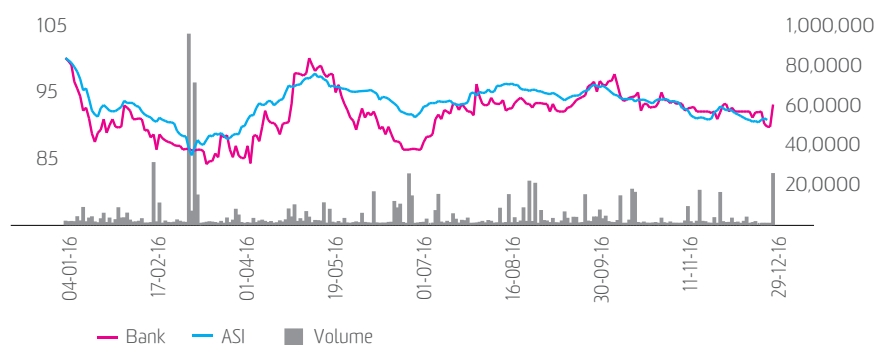
Responsible corporate citizen

- Comprehensive environmental management in place
- Value proposition aimed at providing formal financial access to first time borrowers
- Ongoing community engagement initiatives

Nations Trust Bank's share price declined by 7.0% to Rs. 80.90 as at end-December 2016, from Rs 86.3 the preceding year demonstrating strong correlation to the movement of the broad market. The share traded between Rs.73.0 (March) and Rs.90.0 (January) during the year. Nations Trust Bank's market capitalisation resultantly declined by 6.3% to Rs. 18.6 Bn by the end of the year.

Share price performance

Share Price Movements
Index



Business Pillars

| | | Our Clients | Our Products & Services | Key Highlights |
|------------------|---|--|--|--|
| Consumer banking |  | Individual Customers <ul style="list-style-type: none"> • High Networth • Mass Affluent • Emerging Mass | Investment Products Loans (Personal loans/vehicle loans/housing) Payments and cards Bancassurance | Loan Portfolio: Rs. 35.4 Bn Deposits: Rs. 113.7 Bn |
| SME |  | Small and medium enterprises with annual turnover of less than Rs 600 Mn | Investment Products Business loans (Working capital financing, Trade finance, Fixed Term Financing) | Loan Portfolio: Rs. 42.7 Bn Deposits: Rs. 20.2 Bn |
| Corporate |  | Corporates with an annual turnover of more than Rs 600 Mn | Loans (Working capital financing, Trade finance, Term loans) Corporate cards Cash management | Loan Portfolio: Rs 38.8 Bn Deposits: Rs 13.8 Bn |
| Leasing |  | Individual customers, Small and medium enterprises | Vehicle financing Equipment and heavy machinery financing | Loan Portfolio: Rs. 30.9 Bn Total Revenue: Rs. 1.5 Bn |
| Treasury |  | Corporate customers, Individual & SMEs | Foreign Exchange Products Fixed Income Securities Corporate Debt | Fixed Income Securities: Rs. 36.7 Bn Customer Revenue: Rs. 759 Mn |

Our Business Model

Key Trends in Our Operating Context

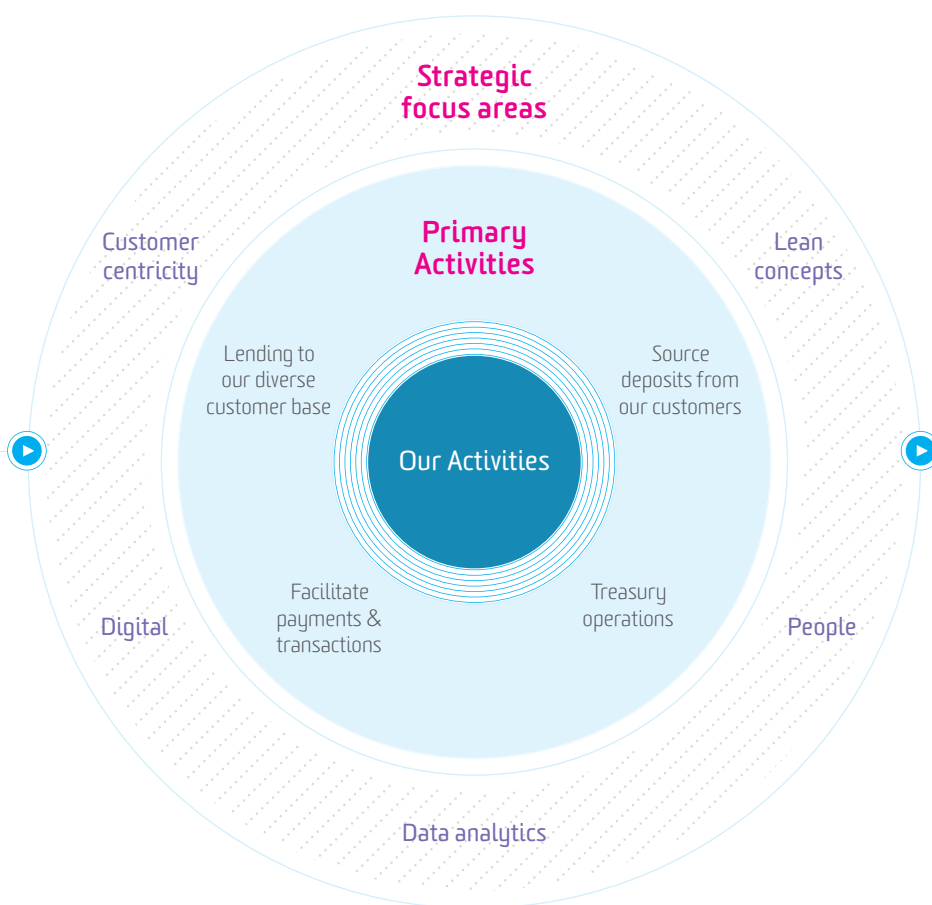
- Digitization in financial services
- Increasing sophistication in customer expectations
- Higher emphasis on governance, risk management and sustainability
- Intensified competitive pressures

page
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Our Resources and Relationships

- Financial resources
- Skills and tacit knowledge of our people
- Strength of our brand
- Our loyal customers
- Suppliers and service providers
- Natural resources

page
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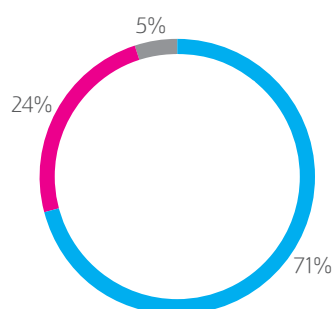
Our Top Risks

- | | |
|-----------------------------------|-------------------------|
| • Credit risk | • Policy uncertainty |
| • Market risk | • Cyber risk |
| • Talent attraction and retention | • Funding and liquidity |

page
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Revenue Sources

- Interest income generated
- Fee and commission income
- Foreign exchange income



- Net Interest Income
- Fee and commission income
- Foreign exchange income

Value Creation to

- Shareholders
- Customers
- Employees
- Business partners
- Communities
- Government/national contribution

Costs

- Impairment charge
- Personnel costs
- Depreciation and amortization
- Other operating expenses
- VAT and NBT
- Income tax

Outputs

- **Shareholder value proposition**
Sustained growth in earnings from an effectively and responsibly governed organisation
- **Employee value proposition**
Provide opportunities for skill and career development in a rewarding and challenging work environment
- **Community value proposition**
Support needs-based development in communities and nurture sustainable community relations
- **Customer value proposition**
Enhance the customer experience through innovative solutions
convenience excellent customer service

Value Addition and Trade-offs in our Capital Inputs

| Relevance of Our Capital | Capital Inputs | Our Value Adding Activities | Outcomes |
|--|--|---|---|
|  Financial Capital The Bank's ability to grow is dependent on its ability to generate financial capital  page 108 | Market Capitalisation: Rs. 18.6 Bn Borrowings: Rs. 23.5 Bn | Achieved a Loan portfolio growth of 24% Deposit growth of 17% Crossed Rs 200 Bn in Total Assets | Profit After Tax: Rs 2.8 Bn Return on Equity: 17.6% Earnings per share: Rs.12.44 |
|  Human Capital We depend on the skills, industry insights and motivation of our employees to drive our strategies and facilitate the customer experience  page 122 | No. of employees: 2,770 A dynamic and diverse leadership team | Investment in nurturing an engaged workforce Ensuring a safe and rewarding environment Investments in skill development | Investment in training and development: Rs. 76 Mn Total rewards to employees: Rs 3,258 Mn Training coverage ratio: 34% Employee retention ratio: 86% |
|  Social and Relationship Capital Understanding and responding to our stakeholder needs is vital in ensuring effective and sustainable operations  page 130 | Customer confidence and trust Constructive relationships with regulators Long-standing, mutually respectful relationships with communities | Ongoing investment in stakeholder engagement Continued focus on customer value through innovation and service excellence Positive social contribution | Customer Satisfaction Score: 76% Tax Contribution: Rs. 2,531 Mn Investment in Community Engagement: Rs. 14.9 Mn |

Relevance of Our Capital



Intellectual Capital

Effective management systems, tacit knowledge and the Bank’s culture are important aspects of its value creation process. Investing in these skills and systems entail financial capital, although it has a positive impact on our human capital



Manufactured Capital

Investments in physical and digital infrastructure determines how we do business and how we interact with our customers

page 120



Natural Capital

Generating stakeholder returns through our activities results in inevitable consumption of natural resources, waste and carbon emissions

page 140

Capital Inputs

Our Value Adding Activities

Outcomes

Systems, processes and procedures
High-performing organisational culture

Ongoing investments in technology to drive internal efficiencies and enhance customer experience
Training initiatives aimed at nurturing a performance-driven culture

Investments in digital:
Rs. 104 Mn
Productivity ratio:
Rs. 1.04 Mn
(Profit per employee)

93
staffed branches
136 ATMs

Investment in Property, Plant and Equipment:
Rs 1,996 Mn

Capital expenditure of
Rs 248 Mn

Addition of a digital branch
Enhanced information systems infrastructure

Energy consumption:
7.8 million Kwh
Paper consumption:
38,654 kg
Water consumption:
61,422.5 m3

Multiple initiatives towards improving energy efficiency

Recycled paper:
18,731 kg
Carbon footprint:
3,717.3 tCO²e

Chairman's Message

Krishan Balendra



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Customer
centricity
driving gro

Bank delivered a strong performance during 2016 by recording a profit growth of 10% and an asset growth of 20% by competing effectively in a rapidly changing market.



Nations Trust Bank delivered a strong performance during 2016 by recording a profit growth of 10% and an asset growth of 20% by competing effectively in a rapidly changing market. Profit after tax for the year ended 2016 was Rs. 2.8 Bn, supported by revenue growth and a constant focus on managing expenses. Increasing interest rates including policy rates, narrowing margins, declining CASA ratios, increased rates of VAT on financial services and intense competition were key challenges experienced by the industry during 2016.

Positive developments included strong credit growth, a relatively stable exchange rate and increased online banking activity as customers responded favourably to digitisation of banking services by the industry.

Total assets amounted to Rs. 211.2 Bn driven by growth in Loans and Advances of 24% which was strongly supported by the SME portfolio growth and balanced growth in Corporate, Leasing and Consumer portfolios. Improvement in asset quality

Chairman's Message

211.2

A clear plan for growth based on customer centricity, digitisation, lean transformation, talent management and data analytics has been key to driving performance in 2016 while leveraging our existing branch network.

Capital adequacy ratios remain well above regulatory requirements at 11.4% and 15.8% for Tier I and Tier II. The Bank remains one of the most profitable in the industry with an ROE of 17.7%.

is supported by reduced impairment charges and reduced non-performing loans, testimony to the strengthened credit evaluation and monitoring processes. Deposit growth of 17% was commendable in an intensely competitive market contributing to fund the expansion of the Bank's loan book. The Bank also issued Rs.5 Bn in debentures during the year to fund growth and strengthen Tier II capital of the Bank while broad basing the investor profile. Capital adequacy ratios remain well above regulatory requirements at 11.4% and 15.8% for Tier I and Tier II. The Bank remains one of the most profitable in the industry with an ROE of 17.7%.

A Cohesive Strategy

A clear plan for growth based on customer centricity, digitisation, lean transformation, talent management and data analytics has been key to driving performance in 2016 while leveraging our existing branch network. These five areas of strategic thrust are interlinked requiring a cohesive approach to both execution by the management team and monitoring by the Board with significant inputs from the Board Committees. Customer centricity has been key to driving growth supported by digitisation which offered both convenience to the customer and scalability for growth. Data analytics was key to improved information based decision making and developing customer intimacy, transforming the Bank's culture and sharpening its focus. Lean transformation

Bn

Total assets

which commenced in 2013 gained traction during the year and supported growth and operational excellence, enabling us to do more with the same resources. Talent management initiatives were key to steering growth in the right direction and tapping in to the potential of a youthful and energetic team. Additionally, the executive leadership was further strengthened with experienced professionals from the industry coming in to drive growth in key business verticals and to strengthen risk management and internal controls.

Several initiatives launched in previous years have underpinned the successful implementation of strategy. Nationwide branch expansion, a learning and mentoring culture, focussed development of a talent pipeline and the Nations Learning Academy are some of such initiatives. I believe the key learning in the recent past for the Team has been adapting to and delivering planned change at every level while strengthening the organisation to deliver the desired outcomes.

Focus on Governance

The Board continued to provide significant inputs to strategy and spend significant time on reviewing performance against strategy. Board committees continue to strengthen their respective areas of oversight, taking time to understand the changes impacting them in order to respond effectively. Accordingly, the Nominations Committee followed due process to nominate directors to fill vacancies that arose during the year, carefully balancing the skills, expertise and diversity of the Board. Additionally, they vetted the appointments of Key Management Personnel to the leadership team which helped to build capacity within the Bank. The Board HR & Remuneration Committee reviewed the remuneration policies and structures to make them more relevant to a young team facilitating employee retention and development.

The Board Audit Committee and the Board Integrated Risk Management Committee strengthened internal controls and risk management processes during the year, facilitating compliance with regulatory requirements and constantly seeking to

adopt best practice. The Board committees work together with the Board to monitor compliance with the phased implementation of Basel III Minimum Capital Requirements which will commence July 2017 for completion by January 2019. Our liquidity coverage ratio is well within the regulatory requirement, facilitated by the alignment of the risk appetite and business model to the same. Compliance remains a key priority and careful attention to changes in the regulatory landscape have ensured that the Bank was well prepared for change.

The Board welcomed two new directors during the year. Ms. Rachini Rajapaksa and Mr. Russell De Mel joined the Board during the year and are actively involved in the deliberations of the Board and its Committees. Ms. Rajapaksa brings her experience in finance across a multitude of industries to the Board while Mr. De Mel brings extensive experience and knowledge of the banking industry to enrich Board deliberations.

Chairman's Message

Nations Trust is better positioned for growth than in previous years as a more balanced portfolio across Corporate, SME, Leasing and Consumer Banking has given significant insights in to a broader market.

Several initiatives launched in previous years have underpinned the successful implementation of strategy.

The Board met 14 times during the year while the Board Committees had a total of 55 meetings to discharge its responsibilities in a conscientious and pragmatic manner. Communications between Board members remain robust, enriching discussions and debate on matters set before the Board. The process of self assessment by the Board and its committees have resulted in fine tuning of work plans and charters to ensure areas identified for improvement are addressed.

Outlook for 2017

Global economic growth is forecast to pick up pace in 2017 in both developed and emerging economies although there are significant uncertainties about the impact of policy changes from a new administration in the US, Brexit in the Euro Area and elections scheduled for key developed economies. Inward looking policy platforms and protectionist policies remain a notable downside risk to forecast global growth of 3.4% in 2017 which is a marginal increase

Warnings of a turn in the credit cycle by Fitch in its Banking Sector Report gives pause for thought and we continue to monitor external trends in this regard and strengthen our risk monitoring and risk mitigation processes to minimise a possible impact.

from 3.1% estimated for 2016. Capital outflows remain a concern in emerging and developing economies.

Sri Lanka's economic growth is expected to pick up pace moving from an estimated 4.5 – 5% in 2016 to 5.5 – 6% in 2017 supported by growth in the industry and services sectors. Fitch Ratings revised its outlook on the country's B+ rating from negative to stable in February 2017 citing improved fiscal finances, policy coherence and credibility and stable growth trends. However, warnings of a turn in the credit cycle by Fitch in its Banking Sector Report gives pause for thought and we continue to monitor external trends in this regard and strengthen our risk monitoring and risk mitigation processes to minimise a possible impact.

Nations Trust is better positioned for growth than in previous years as a more balanced portfolio across Corporate, SME, Leasing and Consumer Banking has given significant insights in to a broader market. A focus on driving growth through our existing branch network engages a wider team driving holistic solutions to our customers. Investments in advanced technology for automation hold the promise of significant progress towards improved operational efficiencies and scalability for growth. Strong governance, comprehensive policies and robust processes underpin our growth aspirations.

Acknowledgements

Dr. Dushni Weerakoon resigned during the year having served as a Director for 9 years and we thank her for her valuable insights and contribution to the Bank. I commend the CEO and the team at Nations Trust for their focussed approach in delivering a well-rounded performance as set out in this Annual Report. I also wish to extend my appreciation to the CBSL officials for their counsel on regulatory matters.

I also wish to thank the customers, the shareholders and other stakeholders of the Bank for the trust and confidence placed in the Bank.

I also take this opportunity to thank my fellow Directors for their support, guidance and insights which has helped steer Nations Trust towards the many successes it has achieved to date.



Krishan Balendra

Chairman

27 February 2017

Corporate Governance Overview

Strong business, strong governance



The Board of Directors which is the apex decision making body in the Bank is cognizant of the vital importance of sound corporate governance practices in providing a fundamental base for ensuring sustainable value creation.

The Board of Directors which is the apex decision making body in the Bank is cognizant of the vital importance of sound corporate governance practices in providing a fundamental base for ensuring sustainable value creation. As an organisation, we are committed to upholding the highest standards of transparency, accountability and ethical conduct and strive to ensure that the Bank's

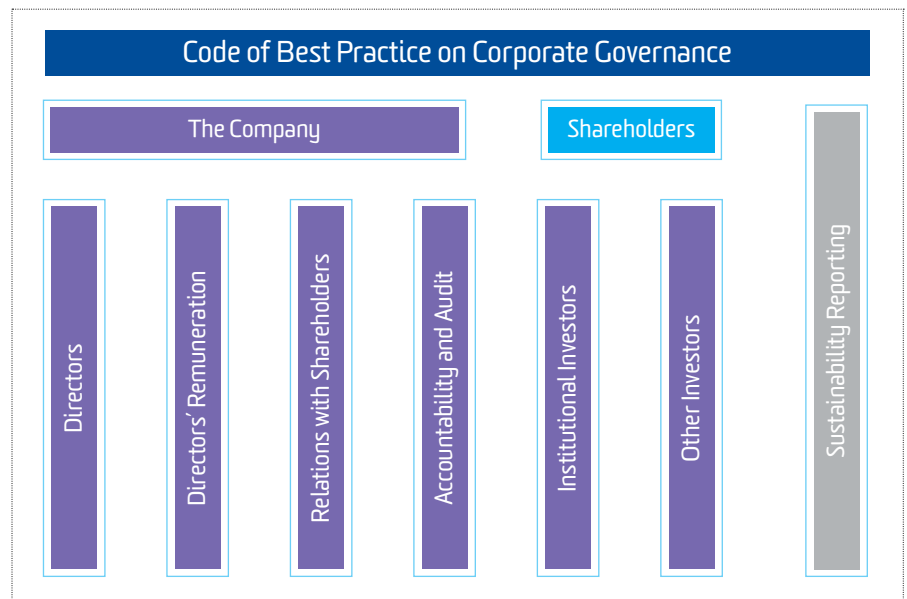
governance structures, processes and policy frameworks remain effective and relevant in a dynamic and complex operating landscape. In addition to legal requirements, the Bank's corporate governance framework complies with voluntary frameworks, embraces market best practices and provides a solid foundation for managing the risks attached to our economic, social and environmental performance.

The Bank's corporate governance framework is based on the following internal and external steering instruments;

| External instruments | Internal standards and principles | Governance mechanisms | |
|--|--------------------------------------|------------------------|--------------------------------|
| Companies Act No. 7 of 2007 | Articles of Association | Stakeholder engagement | Strategic planning |
| Banking Act No.30 of 1988 and amendments thereto | Board and Sub-Committees Charter | | |
| All directions for licensed commercial banks issued by the Central Bank of Sri Lanka including Direction No.11 of 2007 on Corporate Governance | Code of Ethics | Talent management | Risk management and compliance |
| Continuing listing requirements of the Colombo Stock Exchange | Code of Conduct | | |
| Code of Best Practice on Corporate Governance issued by the SEC and ICASL | Integrated Risk Management Framework | IT Governance | Investor relations |
| Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC) | Board approved policy framework | | |
| G4 Standards for Sustainability reporting issued by the Global Reporting Initiative | | | |

The subsequent section of this Report aims to communicate to our stakeholders how the Bank is governed. In order to provide a comprehensive and concise discussion of all the Corporate Governance aspects of the Bank, this Report has been structured in line with the Code of Best Practice on Corporate Governance. Since the Bank complies with the requirements of the Banking Act Direction No.11 of 2007, the CSE has exempted the Bank from the requirements of Section 7.10 of the Continuing Listing Requirements on Corporate Governance. External assurance on the Bank's compliance with the Banking Act Direction No.11 of 2007 has been provided by the external auditors, Messrs. Ernst and Young to the Central Bank of Sri Lanka.

The following section discussing the Bank's governance framework and practices has been structured in line with the following;



Corporate Governance Overview

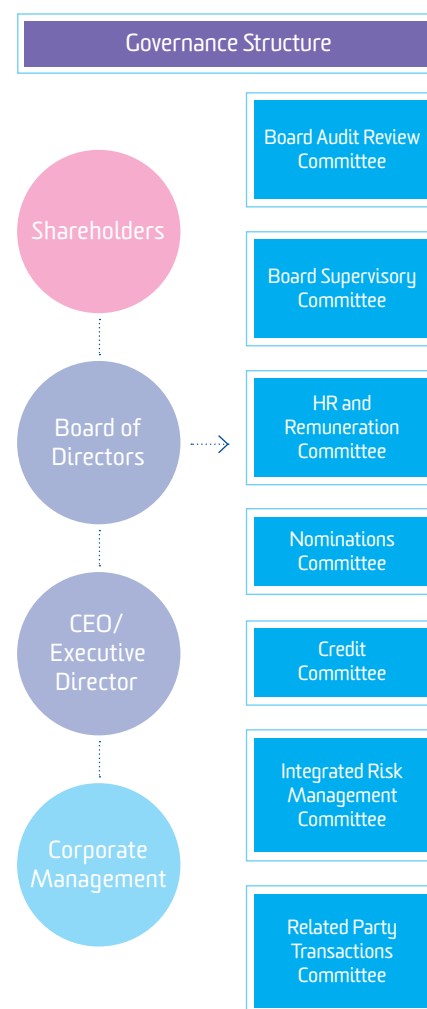
Board of Directors

Principle A1: An Effective Board ☒

Nations Trust Bank's Board comprises of 13 eminent professionals who combine a diverse mix of professional, academic and entrepreneurial perspectives, in the fields of Banking & Finance, Economics and Management. Full profiles of the Directors are available on pages 44 to 47 of this Report. Directors are recommended by the Board Nominations Committee and elected by shareholders at the Annual General Meeting with the exception of the Chief Executive Officer who is appointed by the Board and remains as an Executive Director during the tenure of his/her appointment. The Board has a relatively high level of female representation, with three prominent female professionals holding board positions. The diverse insights and acumen of Board members have generated constructive debate and discussion on key aspects, enhancing the overall effectiveness of the Bank.

Board Sub-Committees

The Board has delegated specific responsibilities to 7 sub-committees comprising of 5 mandatory committees and 2 voluntary committees. The Composition and mandate of the sub-committees are given below.



| Board Sub-Committee | Mandate and areas of oversight | Composition |
|-----------------------------|---|---|
| Audit Review Committee | Review the financial reporting process, internal controls and audit function to ensure the integrity of the financial statements. | Ms. N. Shalini Panditaratne (Chairman) |
| | | Mr. K. O. V. S. M. S. Wijesinghe |
| | | Mr. C. L. K. P. Jayasuriya |
| | | Ms. Rachini Rajapaksa |
| Board Supervisory Committee | Review the Bank's performance to ensure that all business units are focused towards achieving the Bank's strategic objectives | Mr. K. O. V. S. M. S. Wijesinghe (Chairman) |
| | | Mr. Murtaza Jafferjee |
| | | Mr. D. Prasanna De Silva |
| | | Mr. J. G. A. Cooray |

| Board Sub-Committee | Mandate and areas of oversight | Composition |
|--------------------------------------|--|--|
| HR and Remuneration Committee | Assist the Board in the establishment of remuneration policies and practices | Mr. K. N. J. Balendra (Chairman) |
| | | Dr. Kemal de Soysa |
| | | Mr. K. O. V. S. M. S. Wijesinghe |
| | | Mr. C. L. K. P. Jayasuriya |
| Nomination Committee | Appointing new directors and implementing the procedure to select and appoint key management personnel | Mr. Murtaza Jafferjee (Chairman) |
| | | Mr. K. N. J. Balendra |
| | | Dr. Kemal de Soysa |
| | | Mr. D. Prasanna De Silva |
| Credit Committee | Ensuring an optimal balance between the Bank's growth and risk objectives | Mr. K. N. J. Balendra (Chairman) * |
| | | Mr. D. Prasanna De Silva ** |
| | | Mr. Russell De Mel |
| | | * (Alternate : Mr. K. O. V. S. M. S. Wijesinghe) |
| | | ** (Alternate : Mr. C. L. K. P. Jayasuriya) |
| Integrated Risk Management Committee | Ensuring that the Bank has a comprehensive and effective risk management framework | Mr. J. G. A. Cooray (Chairman) |
| | | Dr. Kemal de Soysa |
| | | Mr. D. Prasanna De Silva |
| | | Mr. K. O. V. S. M. S. Wijesinghe |
| Related Party Transactions Committee | To monitor related party transactions | Dr. Kemal de Soysa (Chairman) |
| | | Mr. Murtaza Jafferjee |
| | | Ms. Renuka Fernando |

In addition to the Board sub-committees, the following executive level committees have also been established to support the Board in implementing policy and facilitating co-operation across departments.

| Executive Committees | | |
|-------------------------------|-------------------------------------|----------------------|
| Asset and Liability Committee | Executive Risk Management Committee | Investment Committee |

Corporate Governance Overview

Principle A.1.1: Regular meetings ☒

The Board meets at least on a monthly basis and convened 14 times in 2016. The scheduled dates of meetings for the year are approved by the Board at the first Board meeting of the year and any changes to the planned schedule is notified to Directors at least 7 days prior to the meeting. Meeting agendas and Board papers are circulated to all Board members electronically via secure platforms prior to Board and Sub-committee meetings and Directors are also given the flexibility to join meetings from remote locations.

Attendance at Board and Sub-Committee meetings in 2016 are given in the Annual Report of the Board of Directors and the respective sub committee reports.

Principle A.1.2: Roles and responsibilities of the Board ☒

The Board is collectively responsible for the overall stewardship of the Bank and the roles and responsibilities of the Board as defined in the Board Charter are,

| | |
|---|--|
| Formulation and implementation of strategy | The Board provided guidance in formulating the Bank's Strategic Plan (2017-2019), which is prepared by the Corporate Management team. The Board also regularly monitors the Bank's performance against the defined strategic objectives and KPIs. |
| Ensuring Key Management Personnel have the necessary skills, knowledge and experience | With the assistance of the Nomination Committee, the Board ensures that KMP have the requisite skills to implement the Bank's strategy. A structured program is in place for developing leadership capabilities of selected high performers, ensuring a talent pipeline is retained in the Bank. A comprehensive succession plan is also in place. |
| Ensuring effective risk management frameworks and practices are in place | A comprehensive risk management framework is in place to ensure effective identification and monitoring of all risks. The Board is supported by the BIRMC in ensuring that the Bank's risk profile is in line with the defined risk appetite |
| Ensuring effectiveness of systems in place to secure integrity of information and internal controls | The BARC assists the Board in ensuring the adequacy of internal controls, effectiveness of systems and adopting appropriate accounting policies which are in compliance with financial regulations. |

Principle A.1.3: Act in accordance with laws

Compliance with applicable laws and regulations are ensured through the Bank's comprehensive framework of policies, internal controls and procedures. A dedicated Compliance Unit has been established in line with the requirements of the Banking Act Direction No.11 of 2007 to monitor the Bank's overall compliance risks. The Compliance Unit conducts regular compliance audits and reports to the BIRMC on a monthly basis.

In order to enhance the effectiveness of the Board's decision making and preserve overall independence, Directors have been given the specific power to seek professional independent advice when deemed necessary, coordinated through the Company Secretary..

Principle A.1.4: Access to advise and services of Company Secretary

All Directors have access to the Group's Company Secretary, Mr. Theja Silva who is an Attorney-at-Law and satisfies the provisions contained in Section 43 of the Banking Act. The Company Secretary is responsible for ensuring that Board procedures are followed and that all applicable rules and regulations are complied with. The Articles of the Company specify that the appointment and removal of the Company Secretary should be by resolution involving the entire Board.

Principle A.1.5: Independent judgement

As professionals and industry luminaries, Directors use their independent judgement on aspects relating to strategy, resource

allocation, performance, key appointments as well as standards of business conduct. The Board composition and representation ensures that there is a sufficient balance of power within the Board, with limited tendency for one or few members to dominate decision making.

Principle A.1.6: Dedicate adequate time and effort

Board meetings and Sub-committee meetings are scheduled well in advance and Board agendas and papers are circulated prior to the meeting to enable Directors to prepare adequately. Meanwhile, members of the Corporate Management team also engage with the Board regularly to update Directors on emerging trends in the business environment and operating landscape.

Principle A.1.7: Board induction and training

When first appointed to the Board, Directors undergo a comprehensive induction session which includes provision of an induction pack comprising of the Bank's Articles of Association, Board Charter, regulatory provisions and previous annual reports among others. In addition, Directors undergo training on an ongoing basis in order to keep abreast of developments in the Bank and the external environment. These sessions are coordinated by the Company Secretary and facilitated by,

- Access to the internal/external auditors
- Access to industry experts and other professionals
- Regular updates by the Corporate management team

Principle A.2: Chairman and Chief Executive Officer and Role of Chairman

The positions of the Chairman and the Chief Executive Officer have been clearly separated to ensure appropriate balance of power and authority. The Chairman is a Non-Executive Director whilst the CEO functions as an Executive Director. The roles of the Chairman and the CEO are clearly articulated in the Board Charter. There is no financial, business, personal or other relevant material relationship between the Chairman and the CEO.

Principle A.3: The Chairman's Role

The Chairman provides leadership to the Board, and his specific responsibilities are outlined in the Board Charter which is aligned with the stipulations of the Code of Best Practice, the continuing listing requirements of the CSE and the Banking Act Direction No.11 of 2007.

- Ensure that Board proceedings are conducted in a proper manner, including the circulation of information to Directors and maintenance of proper records
- Facilitating and encouraging the expression of diverse views by Board members and ensuring the participation of all Directors during discussions
- Ensuring compliance to all applicable laws and regulations
- Ensuring shareholder concerns are addressed
- Representing the Group externally and act as a key point of contact for shareholders on all matters related to Corporate Governance

Corporate Governance Overview

Principle A.4: Financial Acumen

The Board has adequate financial acumen and knowledge as the Directors are academically/professionally qualified in finance related subjects and/or have held senior management positions. Qualifications of Directors are described in the Profiles of Directors given in Pages 44 to 47.

Principle A.5: Board Balance

Non-Executive Directors including the Chairman (12 in total) make up a majority of the Board whilst the only Executive Director on the Board is the CEO. Of the Non-Executive Directors, Six are independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially affect the exercise of their independent judgement. Annual declarations of independence or non-independence are obtained from all Directors

Non-Executive Directors are also given the opportunity to meet the Chairman without the Executive Director being present to ensure that all individual views are given due consideration. Meanwhile, no alternate directors were appointed during the year. Mr. Murtaza Jafferjee, an independent non-executive director has been appointed as the Senior Director of the Board.

Principle A.6: Supply of relevant information

Directors are supplied with comprehensive and timely information that is required to discharge their duties effectively. Quantitative and qualitative information

which includes performance against objectives, stakeholder relationships, progress on achieving strategic objectives and risk indicators are furnished to all Directors prior to Board/Sub-Committee meetings. In addition, Directors have open access to KMP to obtain further information or clarify any concerns that may arise. Any Director who does not attend a meeting is updated on proceedings prior to the next meeting through formally documented minutes of meetings in order to ensure continuity of Board discussions.

Principle A.7: Appointments to the Board

During the year two new directors were appointed to the Board. Board appointments follow a transparent procedure, with new Directors being appointed by the Board based on the recommendations of the Board Nomination Committee. The Terms of Reference of the Bank's Nomination Committee comply with the Code of Best Practice and the Central Bank Direction on Corporate Governance. The Board conducts an annual self-assessment of its composition and ascertains the adequacy of the combined skill and experience. Appointments of new directors are promptly communicated to the CSE and shareholders through press releases after obtaining approval from the regulator. This communication would typically include a brief profile of the Director, relevant skills and industry experience and directorships in other entities.

Principle A.8: Re-election

As per the Articles of Association, 3 Directors will offer themselves for re-election at the AGM, depending on those who have held office for the longest time

period since the election/re-appointment. In accordance with this provision, the following directors retire and offer themselves for re-election:

Mr. Prasanna De Silva

Ms. Shalini Panditaratne

Mr. Suran Wijesinghe

If a Director has been appointed as a result of a casual vacancy that has arisen since the previous AGM, he/she is subject to election by shareholders at the first general meeting after their appointment. The Board is actively engaged in succession planning for both executive and non-executive roles..

Principle A.9: Appraisal of Board performance

The Board annually appraises its performance to ensure that they are discharging their responsibilities effectively. Directors are accordingly required to fill a self-evaluation checklist. The checklist/questionnaire details areas such as,

- Diversity and skills on the Board
- Sufficiency of Board information
- Strength of the strategic plan

The responses are reviewed by the Senior Director who compiles a report which is discussed at a Board meeting.

Principle A.10: Disclosure of Information in respect of Directors

Information specified in the Code with regards to Directors is disclosed within this Annual Report as follows:

- Name, qualifications, expertise, material business interests and brief profiles on pages 44 to 47.
- Related party transactions on pages 178 to 179.

- Membership of sub-committees and attendance at Board Meetings and Sub-Committee meetings are given on pages 169 to 174 and 185 to 187.

Principle A.11: Appraisal of CEO

The Board sets financial and non-financial targets for the CEO at the commencement of each financial year, in line with the Bank's broader strategic objectives of the year. The CEO's performance is monitored on an ongoing basis and a formal appraisal is carried out annually by the Board Human Resource and Remuneration Committee. The appraisal takes into account performance against targets, challenges in the operating environment as it considers explanations for areas where performance has been below expected levels.

Directors' Remuneration

Principle B.1: Directors' and Executive remuneration

The Board Human Resources and Remuneration Committee make recommendations to the Board regarding the remuneration of the Executive Directors. The Committee consists entirely of non-executive directors and when required obtains independent professional advice in formulating the Bank's Compensation and Benefits policy. Remuneration for the non-executive directors is set by the Board as a whole.

Principle B.2: The level and make-up of remuneration

Nations Trust Bank's Remuneration policy is designed to ensure that individuals of high caliber are attracted and retained within the Bank. The Compensation and benefits of the Executive Directors are determined in

accordance with the Remuneration policy of the Bank. When determining remuneration policy, the Board strives to ensure that the interests of shareholders and employees are aligned and that the Bank is able to attract and retain high-performing and skilled employees. The Bank also engages in a customized compensation survey at least annually, to benchmark the Bank's compensation to other local and multi-national banks and corporates.

The remuneration of the KMP consist of both fixed and performance related components including perquisites and allowances. The fixed pay includes the monthly salary and allowances which are determined based on the qualifications, competencies, skills, roles and responsibilities of each employee. The performance related component is determined on the Bank's overall performance for the year and peer performance. There is currently no Employee Share Option Scheme in place.

Remuneration for Non-Executive Directors is determined taking into consideration the time commitment, role and responsibilities of each individual Director as well as industry practice. Non-Executive Directors do not receive any performance related payments. There are currently no compensation provisions for early termination however these are addressed on a case by case basis.

Principle B.3: Disclosure of remuneration

The Remuneration Policy and further details on the Remuneration Committee is given on page 173 of this Report. The

aggregate remuneration paid to Executive Directors and Non-Executive Directors is disclosed in the Notes to the Financial Statements on page 242 of this Report.

Relations with shareholders

Principle C.1: Constructive use of the AGM

The Annual General Meeting is used as the main platform for engaging with shareholders and is also the main forum of contact between small shareholders and the Board. In using the AGM constructively towards enhancing the Bank's relationship with its shareholders, the following procedures are followed;

- Notice of the AGM and all relevant papers are sent to the shareholders at least 15 working days prior to the AGM in accordance with the rules stipulated by the Securities and Exchange Commission.
- Directors of the Board, including Chairmen of Audit, Remuneration and Nomination Committees are available to clarify any points raised by the shareholders.
- A summary of procedures governing voting at the AGM is provided in the proxy form, which is also circulated to shareholders 15 working days prior to the AGM.
- Separate resolutions are proposed for each significant item on the Agenda. The adoption of the report and accounts is proposed as a separate resolution.

All lodged proxy votes together with the votes of shareholders present at the AGM are considered for each resolution.

Corporate Governance Overview

Principle C.2: Communication with shareholders

The Bank strives to engage with shareholders in a timely and effective manner through dissemination of accurate and relevant information. In addition to the AGM, the Bank uses multiple channels to facilitate communication with its shareholders, including its corporate website, announcements to the Colombo Stock Exchange and other press articles. Interim performance reports are published in all three languages in leading newspapers within 60 days of the quarter end date whilst Annual Reports are provided to all shareholders either in printed or compact disk (CD) form depending on their preferences.

Shareholders can direct their questions, comments and suggestions to the Board of Directors or Management team through the Company Secretary, who acts as the contact points for shareholder concerns. The Company Secretary maintains a record of all such correspondences received and initiates follow-up action as soon as practically possible.

Principle C.3: Major and material transactions

There were no transactions which would materially affect the Bank's performance or assets nor any major related party transactions other than those disclosed on pages 242 to 243 of this Report.

Accountability and Audit

Principle D.1: Financial Reporting

The Board holds ultimate responsibility in presenting a balanced and understandable assessment of the Bank's financial position, performance and prospects. Interim performance reports are circulated within 45 days of first three quarters and with in 60 days of last quarter end whilst other price sensitive information is disclosed in accordance with the reporting requirements prescribed by the Colombo Stock Exchange and the Central Bank of Sri Lanka. The Bank's financial statements are prepared in accordance with the Sri Lanka Financial Reporting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and comply with the requirements of the Companies Act and the Banking Act. Furthermore the Bank's Annual Report conforms to the G4 guidelines on sustainability reporting, prescribed by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council.

The following specialised information requirements are also included in this Annual Report.

- The Annual Report of the Board of Directors on the Affairs of the Company on pages 175 to 180 of this Report contains the declarations prescribed by the Code.
- The Statement of Directors' Responsibility is given on page 190 of this Report.
- The Directors' Statement on Internal Controls is given on pages 182 to 183 of this Report.
- The Independent Auditor's Report on page 191 of this Report.

In addition, the Management Discussion and Analysis as set out from page 60 to page 140 of this Report, includes the following information specified in the Code of Best Practice

- Industry structure and developments;
- Opportunities and threats;
- Risks and concerns;
- Internal control systems and their adequacy;
- Social and environmental protection activities carried out by the Company;
- Financial performance;
- Material developments in human resource/industrial relations and
- Prospects for the future

The Bank has implemented a Board approved, formalised process for related party transactions, including identification of related parties, types of transactions and avoidance of conflict of interest. A Related Party Transactions Committee was also set up in compliance with the guidelines stipulated by the Colombo Stock Exchange. Directors individually declare their related parties with the Bank on a quarterly basis. The Company Secretary obtains the declarations /affidavits from all Directors prior to their appointment and Directors are required to declare any further transactions as and when they arise.

The annual declarations by the Directors include,

- 1) The grant of any type of accommodation
- 2) The creation of any liabilities for the bank, in the form of deposits, borrowings and investments

- 3) The provision of any financial or non-financial nature provided to the Bank or received from the Bank
- 4) 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 sensitive information

Accommodations granted to Directors or Related Parties of Directors require approval at a Board meeting with at least 2/3rd of the remaining Directors voting in favour of such an accommodation. All Related Party Transactions as defined by the applicable accounting standards are disclosed on Note 41 of the Financial Statements on pages 242 to 243 of this Report.

Principle D.2: Internal controls

The Board is responsible for formulating and implementing appropriate internal controls which ensure that the Bank's assets are safeguarded, proper accounting records are maintained and that information is disbursed to all relevant stakeholders in timely manner. The Board Audit Committee, with the support of the Bank's internal audit function ensures the sufficiency and effectiveness of the Bank's internal control systems.

Risk Management: The Board also defines and regularly reviews the risk appetite of the Bank and ensures that risk parameters are maintained within the defined tolerance limits. The Board Integrated Risk Management Committee is tasked with oversight of the risk management function and meets bi-monthly to monitor the Bank's risk performance. The detailed Risk Management report on page 151 of this Annual Report details the process of risk management adopted by the Bank and the

key risks impacting the achievement of its strategic objectives.

Compliance: The Board also monitors compliance to statutory and mandatory requirements on a consistent basis. The Compliance Unit provides a quarterly compliance report to the Board, signed off by all Heads of Business Units in addition to a monthly compliance certificate which is provided to the BIRMC.

The Director's Report on page 190 includes a declaration on compliance with laws and regulations, review of the internal controls covering risk management and compliance controls and that they have obtained reasonable assurance of their effectiveness and compliance thereof.

Principle D.3: Audit Committee

The Board Audit Committee is chaired by a Non-Executive Independent Director who has substantial and relevant experience in financial management and related areas. The Committee comprises entirely of Non-Executive Directors whilst the CEO, CFO, DGM Internal Audit, and representatives of the External Auditors are invited to attend Committee meetings. The Terms of Reference of the Audit Committee complies with the recommendations of the Code of Best Practice on Board Audit Committees issued by ICASL, the Banking Act Direction No 11 of 2007 on Corporate Governance for Licensed Commercial Banks and applicable regulations from the Colombo Stock Exchange. The key responsibilities of the Bank's Audit Committee are,

- Oversight over financial reporting, internal controls and monitoring auditor independence
- Gaining assurance on the control over the financial processes and the integrity of the Bank's financial reports

- Monitoring performance, objectivity and independence of the External Auditor

Please refer to page 185 of this Report for the Board Audit Review Committee Report.

M/s Ernst & Young are the Bank's external auditors and key oversight is provided by the Audit Committee. The principal auditor has not engaged in any services which are in the restricted category as defined by the CSE for external auditors. The Bank also has in place a policy for ensuring that the independence and objectivity of the Auditor is not impaired. The Audit Committee is also responsible for recommending the appointment/re-appointment of the External Auditors to the Board and reviewing the scope, nature and results of the annual external audit. The audit fees paid by the Bank to its auditors are separately disclosed on page 176 of the Notes to the Financial Statements.

Principle D.3: Code of conduct and ethics

All employees are bound to abide by the ethics, values and expectations set out in the Employee Code of Conduct. The Code of Conduct addresses a range of key issues including conflict of interest, bribery and corruption, confidentiality, fair dealing and compliance among others. The Code is made available to all employees to ensure that the highest standards of integrity and conduct are maintained in dealings and interactions with all stakeholders.

The Chairman of the Board affirms that there was no material violations of any of the provisions stipulated in the Code of Conduct. In instances where violations did take place, they were investigated and handled through well established procedures.

Corporate Governance Overview

This Annual Report is an Integrated Report, prepared in line with the Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC).

Whistleblowing Policy

The Bank has a Whistleblowing Policy in place which serves as a channel for early identification of corporate fraud or risk management by ensuring that employees reporting legitimate concerns on potential wrongdoings occurring within the Bank are guaranteed complete confidentiality. Such complaints are investigated and addressed through a formalised procedure and brought to the notice of the Chairman of the Audit Committee. The procedure is made available through the intranet to ensure awareness by all employees.

Customer Charter

The Bank adopts the Customer Charter prescribed by the Central Bank of Sri Lanka which forms the foundation for its approach to managing customer needs

Principle D.4: Corporate Governance disclosures

The Board of Directors has taken all reasonable steps to ensure that all financial statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the ICASL and the requirements of the Central Bank of Sri Lanka, CSE and other applicable authorities. The Bank is fully compliant with all the mandatory rules and regulations stipulated by, the Banking Act No 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the CBSL and the Listing Rules of the Colombo Stock Exchange. Please refer to the Corporate Governance Report on pages 287 to 312 for detailed disclosures on the Bank's Corporate Governance practices.

Shareholders

Principle E: Institutional investors

Shareholders are encouraged to participate at the Annual General Meeting and exercise their right to vote. The Bank's General Meetings are usually characterized by a high level of shareholder involvement. In addition to the publishing of quarterly performance updates, the Bank also keeps institutional investors apprised of the governance framework and practices as well as changes thereof through the Annual Report, announcements to the CSE and other press releases.

Principle F: Other investors

Individual shareholders are encouraged to carry out their adequate analysis and/or seek independent advice when making investing/divesting decisions. The Bank provides sufficient information through its comprehensive Annual Report, quarterly performance updates to the CSE and the Investor Relations section on the Bank's website to enable retail shareholders to obtain a comprehensive understanding of the Bank's operations. Shareholders are also able to contact the Company Secretary for obtaining further information/clarifications.

The Bank strives to embed the principles of Sustainability to its operations and consistently monitors the opportunities and risks presented to it by economic, environmental and social developments in the operating context. A stakeholder model of governance has been adopted to identify opportunities for sustainable value creation to all our stakeholders as enumerated in pages 108 to 144 of this Report.

Sustainability reporting

The Bank's approach towards reporting has also evolved towards embracing the principles of sustainability and this Report aims to discuss the opportunities, risks and performance of all economic, social and environmental material aspects that can affect the Bank's value creation process and its key stakeholders. This Annual Report is an Integrated Report, prepared in line with the Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC). It also complies with the G4 guidelines of the Global Reporting Initiative.

The main Sustainability disclosures prescribed by the Code of Best Practice are as follows;

| Disclosure | Compliance |
|--|------------|
| Economic Performance | Adopted |
| The Environment | Adopted |
| Labour Practice | Adopted |
| Society | Adopted |
| Product Service and Responsibility | Adopted |
| Stakeholder identification, engagement and effective communication | Adopted |
| Sustainable Reporting and Disclosure | Adopted |

Risk Management Overview

The subsequent discussion will provide a concise, high-level assessment on how the Bank managed its key risk exposures during the year.

Detailed disclosures on our risk management framework, its key components and risk exposures are provided in a comprehensive Risk Management Review from pages 151 to 168 of this Annual Report.

An increasingly dynamic operating environment has reinforced the need to proactively identify, measure and manage evolving risks. At Nations Trust Bank, we adopt a structured and holistic approach to risk management, enabling us to nurture a culture of risk awareness permeating all levels of the organisation.

Risk governance

The Board of Directors holds apex responsibility for the effective management of risk within the Bank including setting the risk appetite, formulating policy and reviewing risk management processes. Directors receive periodic updates on risk performance from the management enabling them to evaluate the effectiveness of the Bank's risk frameworks on a regular basis. The Board of Directors is assisted by several sub-committees and executive committees in the discharge of its duties related to risk management. The Integrated Risk Management Department, led by the Bank's Chief Risk Officer is independent from the business units and assures that the Bank's risk parameters are maintained within risk appetite approved by the Board of Directors. This independence ensures an appropriate balance between risk return dynamics.

Risk management framework

A comprehensive integrated risk management framework (IRM) ensures that risks are managed and mitigated in a consistent way across the Bank. The framework clearly sets out the governance structures, risk-related responsibilities, tools and techniques and standards in place to effectively manage risk. We adopt the globally accepted three lines of defence governance model which ensures transparency and accountability through the clear segregation of duties. The framework comprises of individual policies on credit, liquidity, interest rate, foreign exchange and operational risk among others.

Stress testing

Stress testing is a vital component of the Bank's risk management framework, allowing us to identify vulnerabilities in our business lines and operating model. Regular stress testing enables the Bank to assess the potential impacts that fluctuations in market variables and other risk factors could have on the Bank's risk profile. Impacts are measured with reference to capital, earnings and liquidity positions. The findings of the Bank's stress testing activities are an input into several processes including capital computation under ICAAP, strategic planning and risk management among others.

Risk management highlights of 2016

The Bank's key risk exposures and mitigating mechanisms in place are summarised below;

| Risk | Mitigants | Developments in 2016 |
|---------------------------------|--|---|
| Credit risk | <ul style="list-style-type: none"> Stringent pre-credit analysis and review which includes multiple levels of approval authority, sophisticated risk scoring systems and well defined credit criteria Post-credit monitoring Regular monitoring of portfolio at multiple levels and periodic reporting | <ul style="list-style-type: none"> Enhanced the impairment computation methodology Improved monitoring of early warning signals through system generated reporting Employee training on credit appraisal, risk acceptance and overall awareness on credit risk |
| Market risk | <ul style="list-style-type: none"> Interest rate risk is managed through asset liability repricing gap analysis and interest rate stress testing. Market interest rate trends are monitored on an ongoing basis Foreign exchange risk is managed through continuous monitoring against limits on exposures including dealer and counterparty limits, overnight and intra-day limits and stop loss limits | <ul style="list-style-type: none"> Commenced implementation of an ALM system which is expected to be completed in 2017. The new system will strengthen the Bank's analytical capabilities which include introduction of Value at Risk methods, stress testing tools and risk reporting capabilities |
| Liquidity risk | <ul style="list-style-type: none"> Regular review of the Bank's cash flow projections, funding capabilities, maturity gap levels, pricing decisions and liquidity levels to ensure compliance to internal targets as well as regulatory liquidity requirements. Maintaining a diverse funding base and stock of liquid assets Formalised multiple-level contingency plan | |
| Operational risk | <ul style="list-style-type: none"> Risk and Control Self Assessments (RCSA) are administered to all key business units to evaluate the exposure to defined operational risk parameters Preparation and ongoing review of a bank-wide risk grid highlighting key risks impacting the bank | <ul style="list-style-type: none"> Completed the implementation of a Key Risk Indicator (KRI) framework which ensures that early indicators of risks are given due recognition and corrective action is taken Enhanced the Bank's cyber risk management framework Increased employee communication on Operational Risk Strengthened the RCSA mechanism Reviewed and strengthened the Disaster Recovery and Business Continuity Plans |
| Strategic and reputational risk | <ul style="list-style-type: none"> Strategic and reputational risks are measured using a scorecard based approach which takes into consideration a range of factors including the Bank's size, complexity and sophistication of operations | <ul style="list-style-type: none"> Implementation and effective articulation of a cohesive strategic plan |

Board of Directors





Left to right standing

Kumar Jayasuriya - Non Executive Director, **Conrad D'Souza** - Independent Non Executive Director,
Suran Wijesinghe - Non Executive Director, **Renuka Fernando** - Executive Director/CEO,
Gihan Cooray - Non Executive Director, **Rachini Rajapaksa** - Independent Non-Executive Director,
D. Prasanna De Silva - Non Executive Director, **Murtaza Jafferjee** - Independent Non Executive Director,

Left to right seated

Dr. Kemal de Soysa - Independent Non Executive Director, **Krishan Balendra** - Chairman/Non Executive Director,
Russell De Mel - Independent Non-Executive Director, **Harsha Raghavan** - Non Executive Director,
N. Shalini Panditaratne - Independent Non Executive Director

Board of Directors

Krishan Balendra

Chairman/Non Executive Director

Duration for which the position was held

Appointed to the Board on 1st December, 2009 and as Chairman on 1st May, 2014.

Sub-committees served

Chairman of the Human Resources and Remuneration Committee and the Credit Committee of the Bank and a member of the Nomination Committee. Former member of the Board Supervisory Committee of the Bank from January 2012 to April 2014.

Current appointments

- A member of the Board of John Keells Holdings PLC and 18 other Boards in the JKH Group of Companies. Holds responsibility for the Leisure Sector and John Keells Stock Brokers.
- He is the 'Honorary Consul General for Poland'.

Past appointments

- Former Chairman of the Colombo Stock Exchange.

Experience

- Experience in investment banking, focusing primarily on equity capital markets at UBS Warburg, Hong Kong.
- Experience in corporate finance at Aitken Spence & Co. PLC, Sri Lanka.

Academic Qualifications

- A law degree (LLB) from the University of London and a MBA from INSEAD.

Murtaza Jafferjee

Independent Non Executive Director /Senior Director

Duration for which the position was held

Appointed to the Board in December, 2010

Sub-committees served

Chairman of the Nomination Committee and a member of the Board Supervisory Committee of the Bank.

Current appointments

A Director and the Chief Executive Officer of JB Securities (Pvt) Limited, the Advocacy Chair for CFA Society of Sri Lanka and an Independent Non Executive Director of Serendib Hotel PLC.

Past appointments

A Director of Colombo Stock Exchange from April, 2007 to August, 2009.

Academic Qualifications

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.

Dr. Kemal de Soysa

Independent Non Executive Director

Duration for which the position was held

Appointed to the Board on 21st January, 2011.

Sub-committees served

Chairman of Related Party Transactions Review Committee and a member of the Integrated Risk Management Committee, Nomination Committee and Human Resources and Remuneration Committee of the Bank.

Current appointments

Executive Director of International Distillers Limited and a Director of East India Holdings (Pvt) Ltd, Director of Lynear Wealth Management (Pvt) Ltd, Lynear Partners (Pvt) Ltd, Sun Tan Resorts (Pvt) Ltd, and Nations Insurance Brokers Ltd.

Past appointments

Former Country Head of Amba Research Lanka (Pvt) Ltd from 2009 to 2013.

Experience

- As the Country Head of Amba Research Lanka (Pvt) Ltd he managed the Sri Lanka-based operation of Amba Research (now Moody's Analytics Knowledge Services), 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.

Academic Qualifications

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.

D. Prasanna De Silva

Non Executive Director

Duration for which the position was held

Appointed to the Board on 1 January, 2012

Sub-committees served

A member of Integrated Risk Management Committee, Board Supervisory Committee, Nomination Committee and Board Credit Committee of the Bank.

Current appointments

A Director of Central Finance Company PLC.

Past appointments

A past Chairman of the Leasing Association of Sri Lanka.

Experience

25 years of experience in banking and finance of which 16 years has been in senior management.

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.

Academic Qualifications

An Associate Member of Chartered Financial Analyst Institute (CFA) USA and a Fellow of Chartered Institute of Management Accountants (CIMA) UK.

(Ms) N. Shalini Panditaratne Independent Non Executive Director

Duration for which the position was held

Appointed to the Board on 1 January, 2012.

Sub-committees served

The Chairperson of the Board Audit Review Committee.

Past appointments

She initially worked as an accountant in Sri Lanka and Zambia and commenced her career in corporate banking in Bahrain. After moving to Australia, she worked for seventeen years with JP Morgan Chase Bank Sydney (formerly The Chase Manhattan Bank) in various roles including as Vice President, Head of Country Credit in Singapore and later in Thailand. She also held the position of Head of Asia Credit and Capital Management, S.E Asia. Ms. Panditaratne has provided credit training for Sydney-based financial institutions in corporate credit risk analysis and credit risk management.

Experience

She has international experience in Corporate and Investment Banking at senior management level, primarily in Credit Risk Management and Analysis.

Academic Qualifications

A Fellow of the Chartered Institute of Management Accountants, UK and an Associate Member of the Institute of Chartered Accountants of Sri Lanka.

(Ms) Renuka Fernando Executive Director/CEO

Duration for which the position was held

Appointed to the Board on 15th September, 2012.

Sub-committees served

Member of Related Party Transactions Review Committee of the Bank.

Current appointments

Chief Executive Officer of the Bank.

Past appointments

- Joined the Bank in September, 2001 as AGM- Corporate Financial Solutions and thereafter held the positions of DGM-Retail Banking and DGM-Consumer Banking.
- Appointed as the Deputy CEO of the Bank in June, 2011.

Experience

- Prior to joining the Bank she was with ABN AMRO Bank N.V, Sri Lanka, where she held the positions of Vice President/ Head -Global Transactional Services and Head of Consumer Banking.
- During her banking career spanning 34 years, Ms. Fernando has also worked at Banque Indosuez, Sri Lanka as Manager- Corporate Banking and Nederlandsche Middenstands Bank -Hong Kong.

Academic Qualifications

An Associate of Chartered Institute of Bankers, UK and holds a H. Dip. in Business Administration (Banking).

Suran Wijesinghe Non Executive Director

Duration for which the position was held

Appointed to the Board on 1 November, 2012.

Sub-committees served

Chairman of the Board Supervisory Committee and a member of the Board Audit Review Committee, Integrated Risk Management

Committee and Human Resources and Remuneration Committee of the Bank.

Current appointments

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.

Past appointments

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.

Experience

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.

Academic Qualifications

A Fellow Member of both the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK.

Kumar Jayasuriya Non Executive Director

Duration for which the position was held

Appointed to the Board on 1st May 2014.

Sub-committees served

A member of the Human Resources and Remuneration Committee and Board Audit Review Committee of the Bank.

Board of Directors

Current appointments

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 of the Employers' Federation of Ceylon.

Past appointments

- 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.
- A past Chairman of the Employers' Federation of Ceylon.

Experience

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.

Academic Qualifications

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).

Gihan Cooray

Non Executive Director

Duration for which the position was held

Appointed to the Board on 1st May, 2014

Sub-committees served

Chairman of Integrated Risk Management Committee and a member of the Board Supervisory Committee of the Bank.

Current appointments

- A member of the Board of John Keells Holdings PLC. He is a President and a member of the Group Executive Committee of the John Keells Group where he currently has responsibility for the Retail Sector and the Corporate Finance and Strategy, 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 Economic Policy Steering Committee of the Ceylon Chamber of Commerce.

Past appointments

Was the Head of Treasury and Head of Corporate Finance of the John Keells Group

Experience

Has experience in corporate finance, corporate treasury and investor relations, in addition to exposure to retail supermarket operations. Involved in investment appraisal, capital raising and structuring transactions for the John Keells Group.

Academic Qualifications

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.

Harsha Raghavan

Non Executive Director

Duration for which the position was held

Appointed to the Board on 1st January, 2015.

Current appointments

- Mr. Raghavan currently serves as the Chief Executive Officer of Fairbridge Capital of Mumbai, India and as Board Member

of Fairfax India Holdings, registered in Canada. 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.

- 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, National Collateral Management Services Limited, Luxe Asia (Sri Lanka), Kuoni India and Kuoni China. He also serves on the Audit and Compensation Committees of all these companies.

Past appointments

Prior to joining Fairbridge Capital, Mr. Raghavan has served with, Candover Partners and Goldman Sachs Principal Investment Area of Mumbai India.

Experience

In the above prior roles, Mr. Raghavan has executed more than two dozen transactions totalling more than \$1.5billion in investment.

Academic Qualifications

He holds MBA and MS in industrial Engineering Degrees, both from Stanford University and B.A. in Computer Science & Economics from U.C. Berkeley.

Conrad D'Souza

Independent Non Executive Director

Duration for which the position was held

Appointed to the Board on 18th January, 2016.

Current appointments

- Member of Executive Management and Chief Investor Relations Officer of Housing Development Finance Corporation Limited (HDFC), a respected housing Finance Company in India. Mr. Conrad D'Souza has been with HDFC since 1984.

- Mr. Conrad D'Souza serves on the Boards of HDFC Investments Ltd., India, HDFC Education And Development Services Pvt. Ltd., India, HDFC Holdings Ltd., India, HDFC Sales Pvt. Ltd., India, Chalet Hotels Pvt. Ltd., India, Kooh Sports Pvt. Ltd., India, Association of Finance Professionals of India (AFPI) and Housing Development Finance Corporation PLC, Maldives and M Mortgage Finance (Tanzania) Limited.

Past appointments

He has been a consultant to USAID / UNDP and IFC (Washington) and has undertaken assignments in Asia, Africa and Eastern Europe.

Experience

In HDFC Mr. D'Souza is responsible for strategy, corporate planning and budgeting, corporate finance and investor relations, wholesale lending to corporate and other non individual entities. He had held the position of Treasurer of HDFC for nine years and responsibilities included fund management, investments, resource mobilisation both domestic and international, asset liability management and investor relations. He has been associated with HDFC's international funding from the multilateral agencies and in the international syndicate loan markets. The Floating Rate Note issue of July 2002 won the IFR Asia India Capital Markets Deal of the year for 2002. Managed HDFC's US \$ 500 million Foreign Currency Convertible Bond issue which was the largest issue out of Asia in 2005.

Academic Qualifications

A Master's Degree in Commerce, a Master's Degree in Business Administration and is a Senior Executive Program (SEP) graduate of the London Business School.

(Ms) Rachini Rajapaksa

Independent Non-Executive Director

Duration for which the position was held

Appointed to the Board on 29th April, 2016.

Sub-committees served

A member of Board Audit Review Committee.

Current appointments

- A Director of CFA Society Sri Lanka and Asset Enterprises (Pvt) Ltd.
- A Senior Consultant at Wealth Lanka Management (Pvt) Ltd.

Past appointments

Prior to joining Wealth Lanka, she was the Chief Financial Officer of IBM Sri Lanka & Bangladesh.

Experience

Having commenced her career at Pricewaterhouse Coopers, she subsequently joined Ceybank Asset Management Company Ltd where she rose to the position of Senior Fund Manager. She possesses extensive leadership experience in the fields of fund management and finance.

Academic Qualifications

A Chartered Financial Analyst of the CFA Institute, Charlottesville, Virginia, USA and Fellow Member of the Chartered Institute of Management Accountants, UK.

Russell De Mel

Independent Non-Executive Director

Duration for which the position was held

Appointed to the Board on 06th June, 2016.

Sub-committees served

A member of Board Credit Committee.

Current appointments

He currently serves on the Boards of TAL Lanka Hotels PLC and Singer Finance Lanka PLC.

Past appointments

- Served on the Boards of EAP Holdings (Pvt) Ltd, EAP Broadcasting Ltd and EAP Films and Theatres Ltd.
- Mr. Russell De Mel has served in the National Development Bank (NDB) and Group as the Director/ CEO and the Group CEO from March 2010 to August 2013. Prior to that he has held the positions of Vice President –Group Risk Management and Vice President of Corporate Banking Group of NDB.

Experience

- Mr. Russell De Mel is a professional accountant with over 20 years experience in Development Banking including Project Financing, SME Financing and Merchant Banking and around 9 years of experience in Commercial and Investment Banking.
- Mr. Russell De Mel has also served on the Boards of over 25 listed and non listed companies, over a period of 25 years, covering a wide range of sectors ie. Industry, Food & Beverage, Banking & Finance Insurance & Capital Markets, Healthcare, Hospitality & Tourism, Plantations, Education & Communication, both within and outside NDB Group and within and outside Sri Lanka.

Academic Qualifications

A Fellow of the Chartered Institute of Management Accountants of UK (FCMA), Chartered Global Management Accountant (CGMA) and Fellow of the Certified Management Accountants of Sri Lanka (FCMA).

CEO'S Review

Renuka Fernando



Results that sp them

“Our performance
in 2016 reflects
the indomitable
spirit of
our team”

Peak for selves



<https://www.nationstrust.com/about/investor-relations/annual-reports/302-ar>

Our performance in 2016 reflects the indomitable spirit of our team as we recorded a profit after tax of Rs.2.8 Bn and balance sheet growth of 20% under trying market conditions. The year was marked by interest rate volatility and tightened liquidity as the Monetary Board increased policy rates twice during the year to curtail consumption based credit growth. AWPLR moved from 11% to 13.2% while AWFDNR moved from 7.57% to 10.46% during the year with competition intensifying particularly for deposits with inevitable pressure on margins. Customers also shifted funds in savings accounts to higher yielding deposits as the disparity in rates widened leading to declining CASA ratios and increasing cost of funds. The continuing ceilings on credit card interest rate, regulated loan to value ratio for leasing, increased import tariffs on vehicle

imports all combined to aggravate the pressure on margins and volumes. Strong credit growth remained a key positive factor throughout the year. The Bank achieved a profit growth of 10% against this backdrop as a result of smart strategy, hard work and objective decision making based on insightful analytics. Asset growth was driven by strong credit growth of 24% as we pursued our strategy to deliver balanced growth. Accordingly, our intent was to grow the loan book at different growth rates for each business vertical to achieve a larger and more balanced portfolio by year end. Consequently the SME portfolio grew by 49% during the year to Rs. 42.7 Bn amounting to 28% of the loan book and the Corporate Banking loan book grew by 23% to Rs. 38.8 Bn maintaining its composition of 25%. The growth in Consumer Banking

CEO's Review

Growth was largely funded by customer deposits which grew by 17% to Rs.151.5 Bn during the year and accounted for 67% of liability growth, a commendable achievement in a fiercely competitive market.

2,869

Profit After Tax

and Leasing portfolios were 17% and 5% respectively thereby rebalancing the loan book and reducing product concentration which was a key rating sensitivity.

Growth was largely funded by customer deposits which grew by 17% to Rs.151.5 Bn during the year and accounted for 67% of liability growth, a commendable achievement in a fiercely competitive market. The Bank raised Rs. 5 Bn through the issue of debentures with 5 year tenor and fixed and floating coupons which was oversubscribed. Capital adequacy ratios remain well above regulatory requirements at 11.4% and 15.8% for Tier I and Tier II respectively.

Business Line Review

Transitioning to becoming a serious player in the Corporate Banking segment was a key focus during the year and we moved beyond trade finance and working capital financing to offer more holistic solutions including project finance and medium term lending. We are encouraged by the response and interest shown by our clients as relationships deepened to gain a higher share of wallet in line with our aspiration to become the primary bank for our customers.

This strategy was also extended to the SME business and the two verticals worked together to review opportunities that would capture the entire eco system of the customer. Benefits to the corporate



customer included our ability to offer financing throughout the value chain capturing suppliers and distributors with SME products while employee financing was supported by Consumer Banking. SME was also able to enhance their product offering to include cash management, trade and forex.

The strong SME growth was encouraging. It is evidence of our commitment to this sector and reflects the insights gained in the sector through high levels of customer engagement with both existing and target clients. We also invested in building the knowledge of our SME clientele through a series of workshops tailored to suit the requirements of various locations and types of industries, using external subject

experts, so that we support our customers in meeting their growth aspirations. We will continue to maintain our focus on this business segment as we strongly believe that they are tomorrow's corporates and are the engine of growth in the country.

Leasing business delivered a commendable performance with little impact to targets despite the introduction of a loan to value ratio of 70%, multiple revisions to import tariffs and distractions caused by the debates on the future of leasing business in commercial banks. Rising interest rates also exerted pressure on margins due to the fixed rate nature of the product. Extensive training for employees engaged in leasing, throughout the branch network, improved the quality of credit and brought focus on

managing collections and impairments, resulting in enhanced profitability which grew by 105%. These initiatives provided a solid foundation for the bank to enter into the two-wheeler market, specifically targeted at the salaried segment, which has seen encouraging results.

The Cards business witnessed double digit growth in the number of debit and credit cards issued and over 20% growth in transaction values. However, it was impacted by the ceiling on interest rates for credit cards despite rapidly increasing interest rates resulting in narrowing margins. We continue to be the largest issuer of cards with the largest merchant network in the country which is testimony to our resilience and agility.

CEO's Review

Deposit growth was also satisfactory as we passed the Rs.150 Bn milestone during the year, reflecting increased branch activity.

Consumer Banking continued its focus on enhancing customer experience using data analytics to understand and cater to the life cycles needs of our customers. Pursuing our aspiration to become the primary bank for our consumer banking customers, we launched our Home Loan Centre, a unique concept for customers to access specialist services relating to all aspects of housing finance, all under one roof. This one stop shop concept is supplemented by collaborations with real estate developers to facilitate customer convenience.

Deposit growth was also satisfactory as we passed the Rs.150 Bn milestone during the year, reflecting increased branch activity. The analytics division, which commenced in 2015, has helped the branch network to gain a better understanding of the customer, his life cycle needs and behavioural patterns. This has enabled the branches to offer holistic, timely, relevant and customized solutions to their consumer banking clients supporting the rapid growth in Consumer Banking.

Operational Review

It is encouraging to note that transaction volumes on digital channels increased over 40% of total transactions volumes. The online customer migration was supported by the launch of our new banking platform with rich features and a general drive towards digital platforms in our communications. We continue to focus on increasing the proportion of digital transactions as we embed our

digital channel strategy to support the branch network in managing customer relationships.

Our lean transformation brought visible improvement in turn around times, customer experience and internal efficiencies. Lean is fast becoming a part of our DNA and the impact of the large as well as the smaller individually done lean projects by our staff across our bank is evidenced by a number of controllable cost lines such as printing and stationary, communication, overtime and courier showing decreases in absolute value over 2015 despite significant increases in transactional volumes. The Branch network customer requests witnessed a 50% reduction in turnaround times through lean processes. The bank's lean yellow belt program to certify our staff on lean management resulted in generating high levels of enthusiasm with a number of projects undertaken by individual staff members to create capacity, reduce waste and enhance quality of work. It is encouraging to note that 30% of our team have participated in lean programs and we are targeting a 100% by the end of 2017.

Our Team

In 2016, we welcomed new members to the Bank's leadership team to head Corporate Banking, IT, Credit Risk, and Internal audit. They are experienced professionals in their fields of specialization. Their contribution to our performance has been significant as they hit the ground running to support delivery of our strategic goals.

The Nations Learning Academy continues to be pivotal to capacity building and facilitating career progression of a team with an average age of 28. The concept Life Cycle training was fully launched in 2016. This comprehensive program ensures that our staff are equipped with the right skills and functional knowledge based on where they are on their career lifecycle. Our ambition is to have 100% compliance to all training by all staff by 2018. In 2016, our first year of launch, we have completed over 30% of all requirements, and target to reach 100% by end 2017. As our team comprises a large proportion of millennials, we are developing strategies to tap in to their potential through effective communication and engagement as well as creating opportunities and empowering them to innovate and implement new ideas within the bank. We also reviewed our remuneration and benefits structure to make it more relevant to their lifestyle, staying true to our belief in extending our concept of customer life cycle to our employees as well. We held our first digital interactive "Town Hall" through social media and strengthened our core values, Vision and Mission through the "Make it Happen" initiative. In 2016 we implemented a comprehensive Human Resource Management System which is the Bank's first cloud based implementation enabling mobility and efficiency in administration. The second phase of the system will enable and enhance our performance management through the system.

The Nations Learning Academy continues to be pivotal to capacity building and facilitating career progression of a team with an average age of 28. The concept Life Cycle training was fully launched in 2016.

Looking Ahead

Economic growth is expected to pick up pace in 2017 with Industry and Services leading growth. The CBSL Governor has also outlined support for the MSME sector as part of regional development plans which will serve to stimulate activity in this key segment. Regulation will be strengthened as we move towards implementation of Basel III which will commence in July 2017 with completion scheduled for January 2019. It is also proposed to amend the Banking Act strengthening the supervisory framework. Proposed changes to the payments and settlements infrastructure of the country are expected to support the country's move to a cashless society.

Our strategy for the next three years is driven by our commitment to becoming the primary bank for our customers and in providing an unparalleled customer experience through operational excellence and technology. A key strategic focus will be in optimizing the existing branch network to make our branches the best in class distribution centres. Building on our heritage, we will strengthen the mass affluent proposition to strengthen our position as the bank of first choice for this sector. We will pursue asset growth while balancing the risk reward metrics to deliver over 20% compounded annual growth over the next three years. Improving our CASA ratio remains a key goal which is closely linked to delivery of other strategic initiatives. We will also deepen the relationships with our existing customers

through collaborative solutions to support their business growth and aspirations. Re-engineering for operational excellence through automation will be a priority in our quest to reach a cost income ratio below 50% by 2019. Our focus on enhancing customer experience through customer intimacy and innovation will be a key focus during the three years as we support their financial needs throughout their lifecycle.

We are committed to the National policy of growing SMEs, Agriculture, Tourism and Exports, Youth and Women and are putting in place strategies to meet these directed lending goals.

Accordingly, we have planned significant investments in technology related to analytics, customer experience, mobility and efficiencies through productivity tools based on artificial intelligence and Robotic Process Automation as well as in communication infrastructure to meet future digital demand. Consolidation efforts on the branch network will gain momentum as we build business volumes to this capacity. Islandwide coverage of 93 branches, 136 ATM locations and a fast growing digital presence gives us significant reach for delivery of our products and services to a customer base demanding increasingly customized solutions. Our strategies are geared to deliver just that, while simplifying banking.

Acknowledgements

Delivery of ambitious goals requires vision, goodwill, cooperation and hard work of many people. I wish to thank the The Board of Directors who have provided significant inputs in to strategy formulation and provided guidance and counsel as we followed our chartered course. I also wish to thank the Officials of the CBSL who have provided clarifications and guidance in our quest to ensure full compliance. I commend the tenacity, creativity and commitment of the team at Nations Trust and extend my sincere appreciation of their hard work that enabled us to deliver a strong performance in a challenging environment.

We look forward into the future with eager anticipation and energy, ready for the challenges we know will come our way. Our track record for achievement and delivery of strategy is sound. In conclusion, it is an exciting time to be at Nations Trust Bank as we continue to adapt and transform our business.



Renuka Fernando
Director/CEO

27 February 2017

Corporate Management





Left to right

Priyantha Talwatte - DGM (American Express Cards and Consumer Banking), **Thilak Piyadigama** - Chief Operating Officer, **Hemantha Gunetilleke** - DGM (Commercial Banking), **Renuka Fernando** - Director/CEO, **Bandara Jayathilake** - DGM (SME Banking), **Anura Yapa** - DGM (Credit), **Shaan Wickremesinghe** - Chief Marketing Officer, **Chamath Munasinghe** - Head of Banking Operations, **Theja Silva** - DGM Legal / Company Secretary, **Gayana Ranaweera** - Deputy Head of Credit, **Ramanika Unamboowe** - DGM (Human Resources), **Nanda Bandara** - DGM (Internal Audit), **Nisala Kodippili** - Chief Information Officer, **Mevan Balalle** - Head of Compliance, **Ajith Akmeemana** - Chief Financial Officer, **Indrajith Boyagoda** - DGM (Treasury), **Priyantha Wijesekera** - DGM (Leasing)

Chief Managers





Left to right standing

Roger Rozairo - Chief Manager (Collection & Recoveries), **Chaminda Senewiratne** - Chief Manager (Digital), **Nilanthie De Meral** - Chief Manager (Corporate Banking), **Menaka Wavita** - Chief Manager (Branches), **Jerome Ratnarajah** - Chief Manager (Market Risk Management), **Sampath Perera** - Chief Data Officer, **Milroy Fernando** - Chief Manager (Branch Operations), **Heshan Samararatne** - Chief Manager (IT Services and Delivery), **Renuka Senadheera** - Chief Manager (Consumer Services), **Dinesh Thomas** - Chief Manager (Lean Management), **Gavin Perera** - Chief Manager (Consumer Credit Risk), **Lasith Ranatunga** - Chief Manager (Corporate & Margin Trading Risk), **Anushan Fernando** - Chief Manager (Operational Risk), **Thushara Asuramanna** - Chief Manager (SME Credit Management), **Arosha Liyanarachchi** - Chief Manager (Corporate Banking), **Tharusha Ekanayake** - Chief Manager (Fixed Income Securities & Debt Sales), **Kushlani Allis** - Chief Manager (Management Reporting & Planning), **Nimesh Fernando** - Head of Cards, **Randil Boteju** - Head of Consumer Sales, **Nisaja Aryasinghe** - Chief Manager (SME Banking), **Rasanja De Silva** - Chief Manager (Branches)

Left to right seated

Chamila Sumathiratne - Acting Chief Risk Officer, **Sheahan Daniel** - Acting Head of Branches

A close-up, side-profile photograph of a man with dark hair, wearing a dark suit, white shirt, and dark tie. He is smiling broadly, looking down at a document or device he is holding. The background is blurred, suggesting an office or professional setting. A semi-transparent grey box with pink text is overlaid on the left side of the image.

Operating Context and Strategy

A man in a dark suit, white shirt, and blue tie is smiling and looking down at a tablet computer. Another person's hand is visible on the left, pointing at the tablet screen. The background is a blurred office setting with large windows.

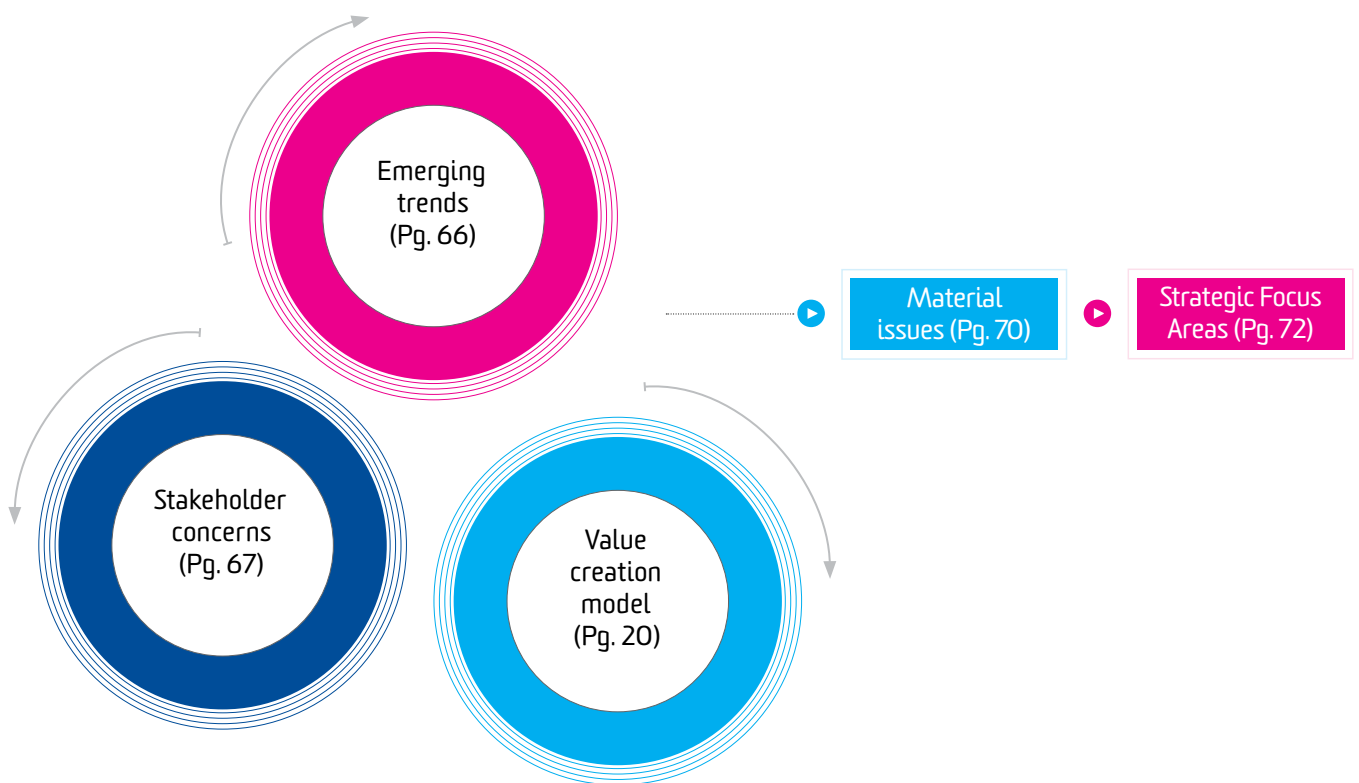
Simplify

Customer Service

We're putting our customers at the heart of our business, offering great service and relationships that endure over time.

Determining Strategy

The Bank's strategy is aimed towards fulfilling its long-term goal of working SMART to deliver an unmatched stakeholder value proposition. Strategy formulation follows extensive stakeholder engagement as well as an evaluation of the distinctive strengths in the Bank's value creation model. Our strategy is also built around the emerging trends in our operating landscape which present opportunities and risks which could potentially impact our ability to create value.



Economic and Industry Overview

With a share of 58.3% the Services sector continued to be the largest contributor to GDP and grew by 4.8% up to September, supported by expansion in wholesale and retail trade (4.5%) and financial services (+14.3%).

Sri Lankan Economy in 2016

Economic growth

Sri Lanka's GDP expanded by 4.0% YoY during the first 9 months of 2016, reflecting moderate expansion in the Industrial and Services sectors. With a share of 58.3% the Services sector continued to be the largest contributor to GDP and grew by 4.8% up to September, supported by expansion in wholesale and retail trade (4.5%) and financial services (+14.3%). The Industrial sector grew by 5.7% (compared to 3.3% in the corresponding period in 2015) as the construction sector rebounded with the recommencement of government and private sector projects. The Agriculture sector contracted by 2.5% compared to the previous year, as adverse weather conditions affected the supply of paddy and several key export crops.

Interest rates

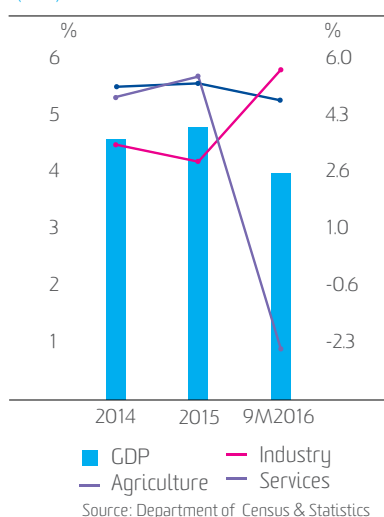
The CBSL adopted a tighter monetary policy stance during the year, raising policy rates twice with the objective of curbing inflationary pressures and supporting the balance of payments. Accordingly, the

Standing Deposit Facility Rate and Standing Lending Facility Rate were increased by 50 basis points each in February and July 2016, closing the year at 7.0% and 8.5% respectively. Meanwhile, the Statutory Reserve Ratio was raised from 6.0% to 7.5% in January 2016. In response to monetary policy adjustments, market interest rates continued to increase steadily during the year.

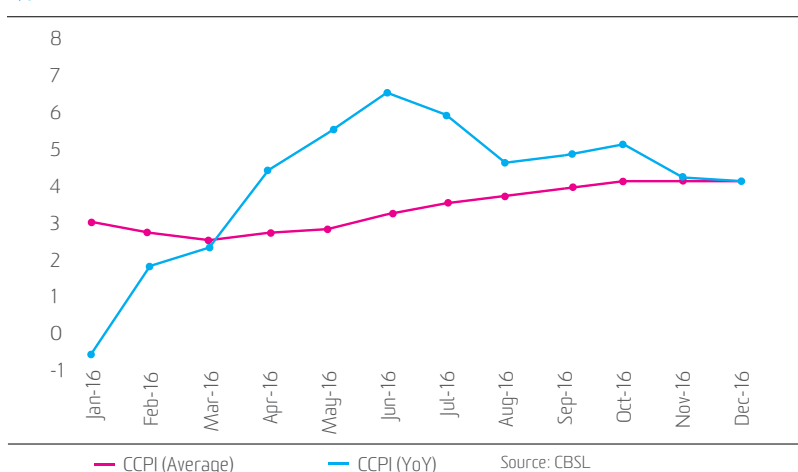
Inflation

Demand driven inflationary pressures, supply constraints in the agriculture sector and revisions to the tax structures resulted in headline and core inflation rising during the first half of the year. Inflation measured by the National Consumer Price Index (NCPI) peaked at 6.4% in June on a year-on-year basis, before declining gradually and stabilizing in the latter half of the year in response to tightening monetary policy measures and contained aggregate demand pressures. Meanwhile core inflation, which reflects the underlying inflation in the economy increased gradually for most part of the year.

GDP Growth
(YoY)



Inflation
%



Economic and Industry Overview

Total exports declined 3.0% YoY during the 9 months to September 2016 primarily due to weaker agricultural exports, reflecting economic woes and geo political tensions in key buying markets.

External sector

Total exports declined 3.0% YoY during the 9 months to September 2016 primarily due to weaker agricultural exports, reflecting economic woes and geo political tensions in key buying markets. Meanwhile, imports also fell by 1.7% during the same period, primarily due to a fall in value of fuel imports and vehicles compared to last year. The trade deficit remained largely unchanged compared to the corresponding period of the previous year. However, strong earnings from tourism (+14.6%), worker's remittances (+3.9%) and foreign inflows to the government (+62.2%) stemming from the issue of an international sovereign bond, resulted in an overall improvement

Impact on the Bank

Growth opportunities in the country's construction, manufacturing and tourism sectors are expected to support expansion in the Bank's Corporate and SME books.

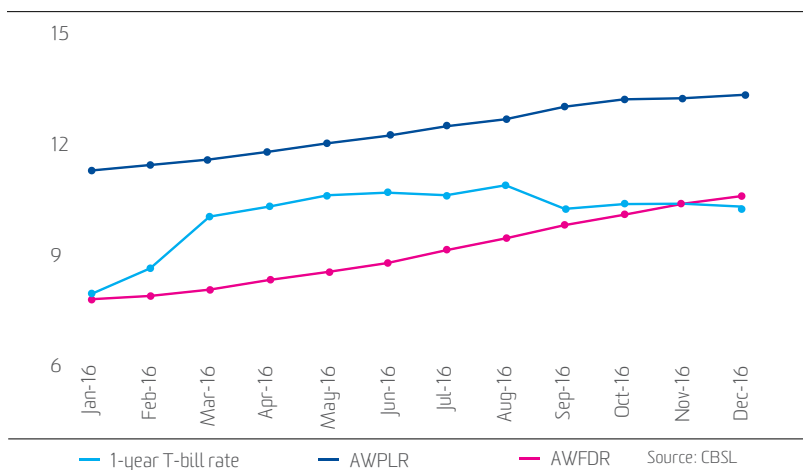
The Bank experienced margin compression during the 1st half of the year, as short-term deposit liabilities repriced upwards in the rising interest rate scenario.

Rising inflation and the resultant reduction in disposable incomes can lead to weaker collections and slower credit demand.

The depreciation of the exchange rate did not have a major impact on the Bank's operations during the year.

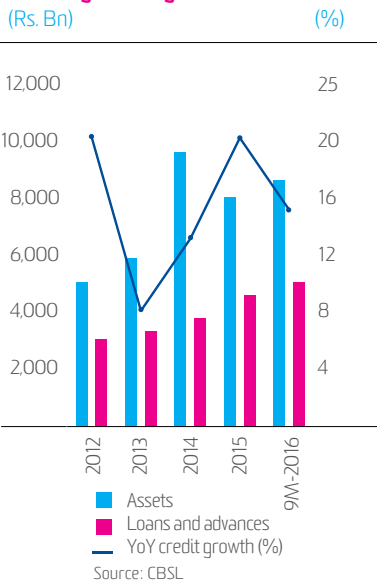
Interest Rate Trends

%



Sri Lanka's gross official reserves increased during the year, mainly due to increased dollar-denominated sovereign borrowing including the issuance of an international sovereign bond.

Banking sector growth trends



in the country's balance of payments, which recorded a surplus of USD 243.1 Mn, compared to a deficit of USD 2316.5 Mn in 2015.

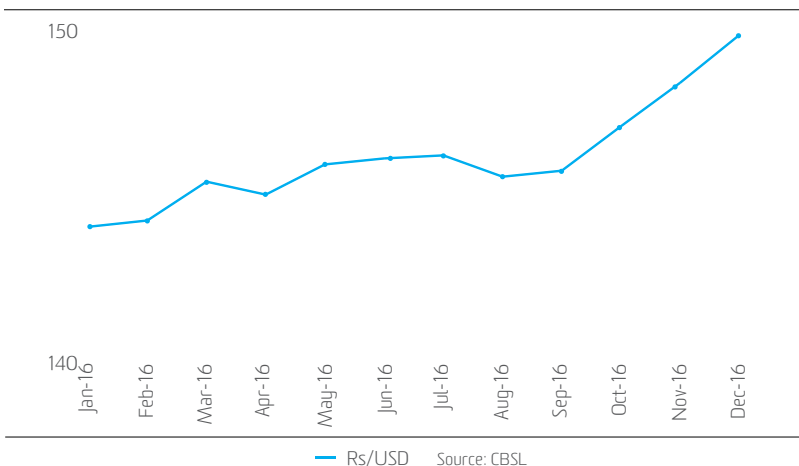
Exchange rate and International Reserves

Sri Lanka's gross official reserves increased during the year, mainly due to increased dollar-denominated sovereign borrowing including the issuance of an international sovereign bond. In November, Sri Lanka also received the second tranche of the IMF facility, following the successful completion of the first review by the IMF. By end-October 2016, gross official reserves amounted to Rs. 6.1 Bn which translated to 5.3 months of imports. Meanwhile, the Sri Lankan rupee depreciated by 3.8% against the US dollar to close the year at a mid-rate of Rs. 149.75.

Economic Outlook for 2017

The impacts of global developments including the policy implications of changes in the United States' political landscape, Brexit and the anticipated slowdown in the Chinese economy is expected to have spillover effect on the domestic economy. As detailed in the Central Bank of Sri Lanka's Roadmap for 2017 and beyond, over the short to medium term key emphasis will be placed on strengthening the country's macroeconomic fundamentals, implementing structural reforms and improving the overall business environment. Revenue based fiscal consolidation remains an immediate priority as reflected by the Budget proposals for 2017. The CBSL will also gradually move towards a flexible inflation targeting framework and a market-based exchange rate system, which is expected to improve the stability and predictability of macro-economic fundamentals. Financial sector reform over the short to medium term will be aimed at strengthening the governance and risk management frameworks of financial institutions while nurturing a financial system that caters to the requirements of sectors of the economy.

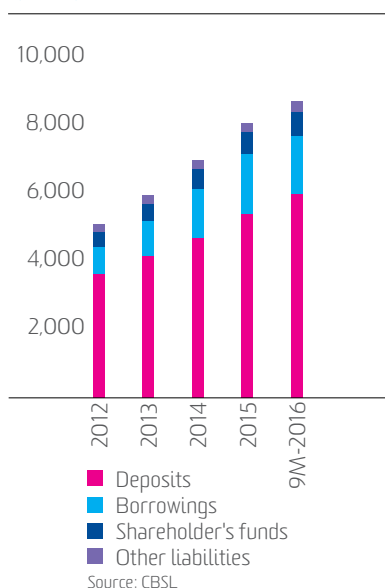
Exchange rates



Economic and Industry Overview

The sector's asset base recorded robust growth during the year, expanding 12.9% YoY during the 9 months ending September 2016, against the backdrop of healthy credit growth particularly during the first half of the year.

Funding (Rs. Bn)



Performance of the Banking Sector in 2016

Sri Lanka's Banking sector comprises of 25 licensed commercial banks and 7 licensed specialised banks, which operate a collective network of 3,582 branches. During the year, the CBSL took measures to further strengthen the risk management and governance frameworks of banks with the introduction of the following regulatory guidelines,

- Submit information on the occurrence of cyber security threats
- Increased transparency on the fees charged by customers for fund transfers, service charges, interest and exchange rates
- Use of the Bloomberg Trading Platform to conduct outright trades of government securities
- The Sector is also required to maintain the Basel III Minimum Capital Requirements and Leverage ratios by 1st of July 2017 and the regulator continuously monitored the sector's preparedness on the same.

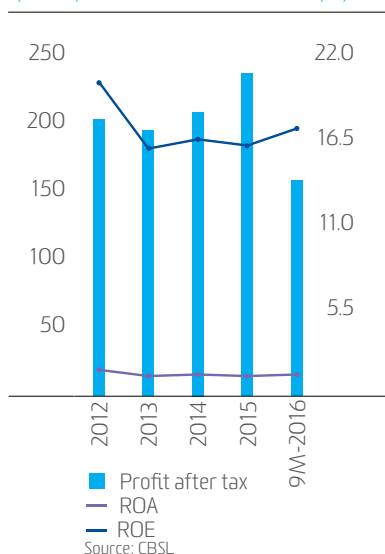
Asset growth

The sector's asset base recorded robust growth during the year, expanding 12.9% YoY during the 9 months ending September 2016, against the backdrop of healthy credit growth particularly during the first half of the year. Net loans and advances thus grew by 15.9% YoY during 9M 2016, accounting for 58.6% of the sector's total assets. Increased credit demand was seen across major sectors such as construction, financial services, manufacturing and consumption. The expansion in loans were funded primarily through deposits, which increased by 16.5% YoY in 9M2016.

Sector performance

Performance was strong during the year, upheld by healthy top line growth and improved portfolio quality although efficiency (as measured by cost to income ratio) declined marginally. The sector's interest income grew by 20.8% YoY during (9 months) 2016, although a faster increase in interest expenses during the period resulted in net interest income growth being contained at 11.7%. Provision charges for the year declined by 46.2% despite the strong expansion in loans and advances, thereby supporting profit growth. Overall, the banking sector's pre-tax profit widened 11.6% to Rs. 223.8 Bn during for the period 9 months 2016.

Earnings (Rs. Bn)



Total NPLs reduced by 15.9% during 9M2016 supported by stronger collection efforts, translating to a historically low gross NPL ratio of 2.9%. Meanwhile the sector's NPL coverage was relatively healthy, with total provision coverage clocking in at 64.5% by end-September 2016.

Asset quality

The sector's asset quality improved during the year as reflected by a decline in its absolute non-performing-loans (NPLs) and gross NPL ratio. Total NPLs reduced by 15.9% during 9M2016 supported by stronger collection efforts, translating to a historically low gross NPL ratio of 2.9%. Meanwhile the sector's NPL coverage was relatively healthy, with total provision coverage clocking in at 64.5% by end-September 2016.

Funding and liquidity

Public deposits continued to dominate the sector's funding mix accounting for 68.6% of total liabilities by end-September 2016. Deposits grew by 16.6% to Rs.5.97 Bn by end-September 2106, supported by the relatively attractive interest rates. Borrowings remained relatively unchanged during the period in comparison to 2015 and funded around 20% of the sector's balance sheet. Liquidity levels were maintained despite the strong loan growth during the year, with the ratio of liquid assets to total assets declining marginally to 28.3% from 29.4% in the corresponding period of last year.

Capitalisation

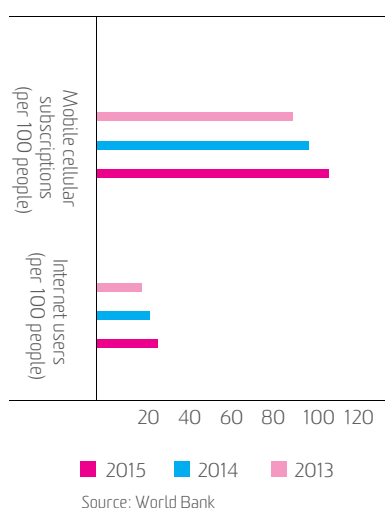
Capital adequacy levels declined during the year, resulting from strong loan expansion during most part of the year. Despite the decline, capital adequacy levels were healthy with most industry players demonstrating sufficient capital buffers to absorb shocks. The sector's tier 1 and overall risk weighted capital adequacy ratios (RWCAR) clocked in at 11.6% and 14.1% respectively by end-September 2016.

Way Forward

CBSL's efforts to curb credit expansion and inflationary pressures in 2016 are anticipated to take effect, with lending expected to moderate in 2017 in response to higher interest rates and reduced consumption-driven demand. Preserving credit quality would be a challenge for the sector, following the rapid growth in lending to vulnerable segments in 2016 as well as trickle down effects of global challenges, while stronger capital buffers may be required to absorb unexpected credit losses.

Emerging Trends in the Operating Context

Growth in Mobile & Internet Users



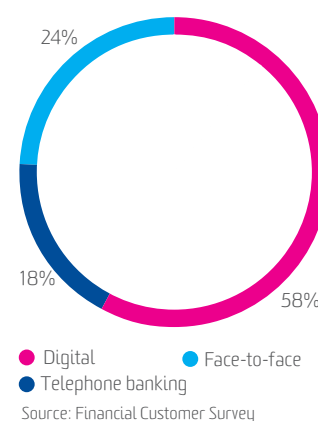
Digitisation in financial services

Customer's increasing propensity to adopt mobile and internet banking services has transformed the way banks interact with its customers while facilitating cost effective distribution platforms and operational efficiencies.

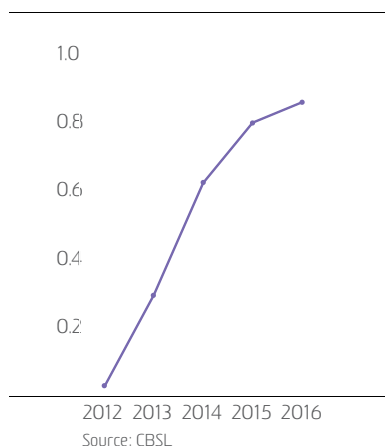
Changing customer preferences

Increased emphasis on convenience is rapidly emerging as a source of competitive advantage for banks, as customers seek out platforms through which banking operations can be conducted seamlessly, where and when they want. Globally channel preferences have recorded dramatic shifts, with more than 75% of customers showing preference for non-traditional channels.

Global preferences



Sri Lanka Prosperity Index



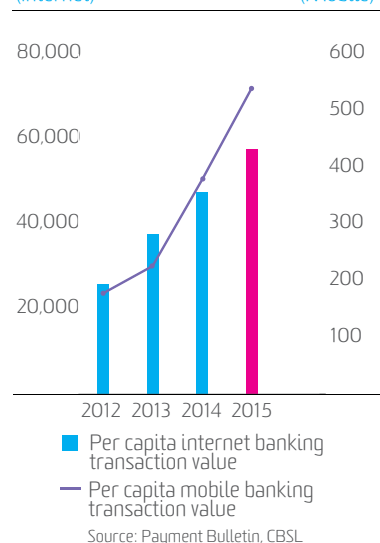
Increased prosperity levels and a growing middle class

Sri Lanka's transition to a upper middle income earning country has resulted in a parallel widening of the middle class as well as a general increase in prosperity, as measured by the Central Bank of Sri Lanka's Prosperity Index. Increasing customer affluence has led to higher demand for sophisticated products and increased focus on customer convenience and service standards.

Increased emphasis on sustainability considerations

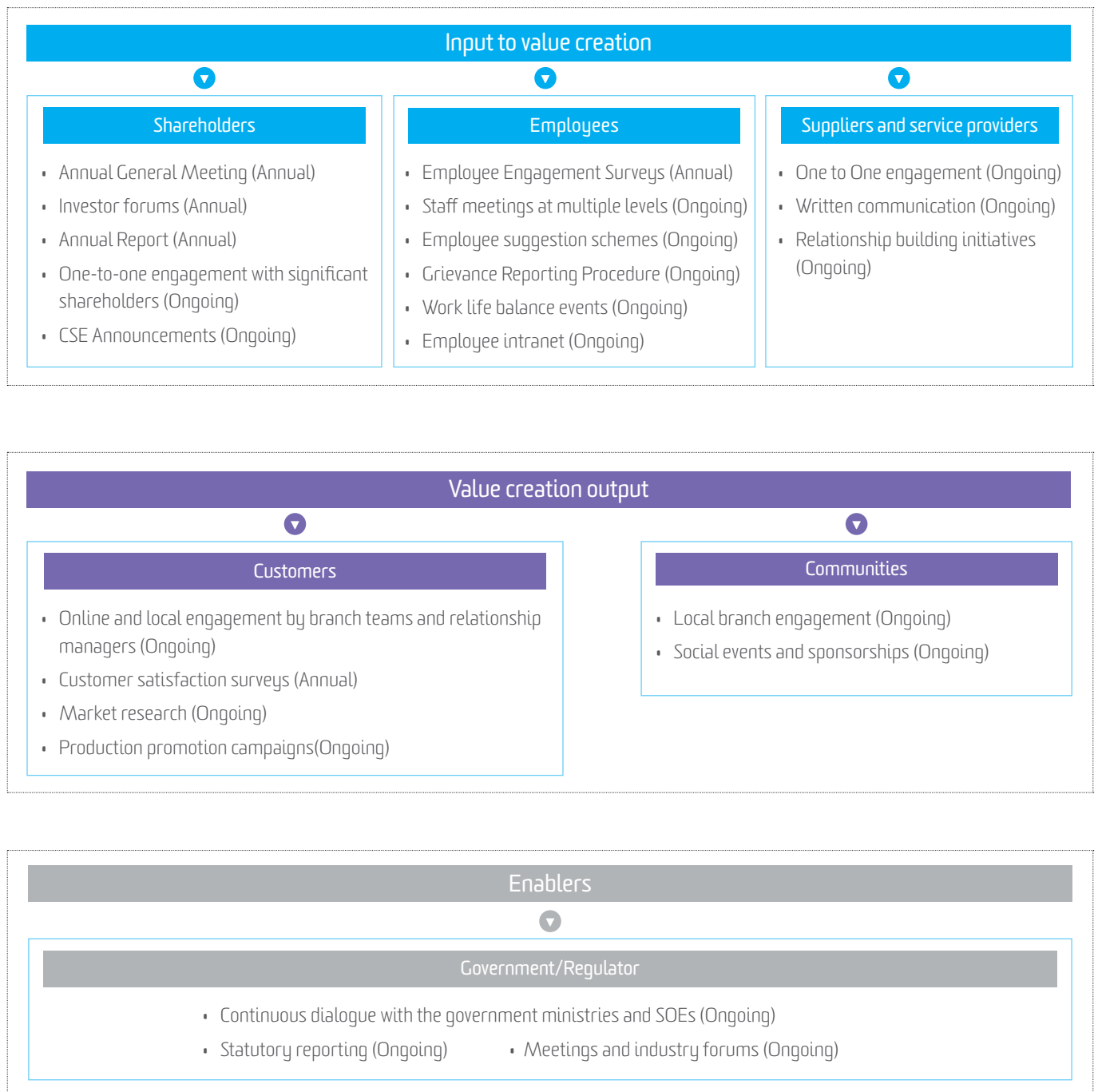
The financial services sector is increasingly expected to play a role in facilitating national economic development and supporting the transition to a low-carbon economy. By integrating environmental and social considerations into business strategy, banks can play a vital role in promoting sustainable development. Meanwhile, failure to effectively manage environmental and social effects may give rise to reputational and/or financial risks in the banking sector.

Mobile or Internet Transaction Value



Stakeholder Relationships

Maintaining effective relationships with our stakeholders enables us to clearly identify and respond to issues that matter to them the most. The Bank has implemented multiple structured and informal engagement mechanisms with the stakeholders which could potentially have the most significant impact on the Bank's value creation process.



Stakeholder Relationships

Understanding and responding to stakeholder concerns

Effective engagement enables us to obtain informed insights into the specific perceptions and concerns of each stakeholder group. As demonstrated below, feedback thus obtained plays a crucial role in shaping the Group's strategy.



Shareholders

Expectations

- Clear and transparent communication on the Bank's performance and strategy
- Returns commensurate with risks taken
- Sustainable growth in earnings
- Robust corporate governance risk management practices

Strategic response

We commit to providing a balanced review of our performance and prospects in our communications with investors ensuring a competitive return on their investment



Customers

Expectations

- Transparent and competitive pricing
- Customer service
- Convenience and flexibility of transacting
- Upholding customer charter
- Product innovation

Strategic response

We uphold the rights of our customers in line with our customer charter ensuring that they understand the terms and conditions relating to services accessed by them.



Employees

Expectations

- Attractive remuneration
- Opportunities for skill and career development
- Performance enabling environment
- Work life balance
- Safe working environment
- Collective bargaining
- Equal Opportunity

Strategic response

We will invest in developing our employees in an environment where they are treated with respect, their health and safety are assured and diversity is valued.





Suppliers and service providers

Expectations

- Business growth
- Responsible Business Practices
- Ease of transacting
- Strategic partnerships
- Transparency in the procurement process
- Open communication

Strategic response

We recognise excellence in service by our suppliers and look to support their growth through mutually rewarding partnerships.



Government/Regulators

Expectations

- Compliance with regulatory directions and contribution to on-going dialogue on financial sector reform
- Stability and growth of financial sector
- Large funding needs of the Governments capital expenditure
- Responsible Business Practices
- Alignment of national priorities to Bank's strategy
- Financial inclusion
- Financing and facilitation of infrastructure projects
- Value addition to stakeholders

Strategic response

The Bank's growth agenda and commitment towards fulfilling its economic, social and environmental obligations are in line with the national strategy for development.



Communities

Expectations

- Responsible business practices
- Community empowerment and development
- Employment generation

Strategic response

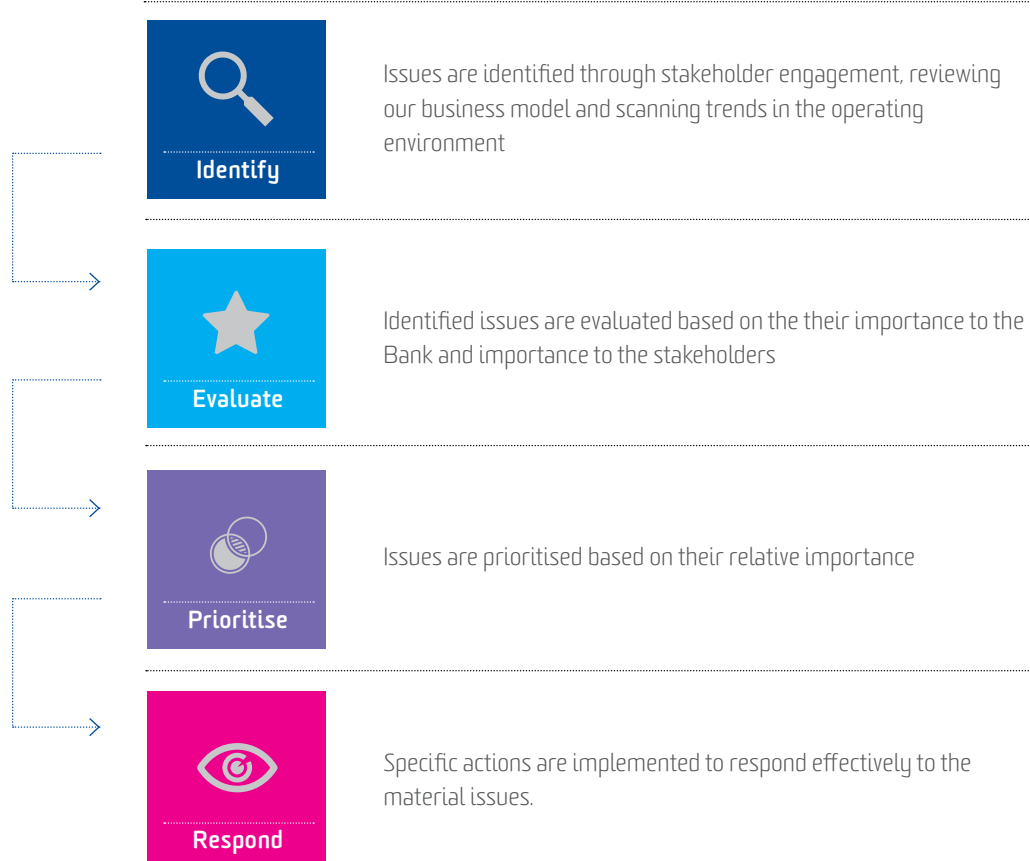
We engage with local communities to develop economic activity providing opportunities and facilitating their socio economic wellbeing.

Defining what is Material

Content to be included in this Integrated Report reflect the Bank's material aspects, which are defined as issues that could potentially impact the Bank's value creation process.

Responsibility for determining material aspects lies with the Bank's Corporate Management. The material aspects thus identified are reviewed on an ongoing basis to ensure relevance and completeness.

The process for identifying material issues is as follows;

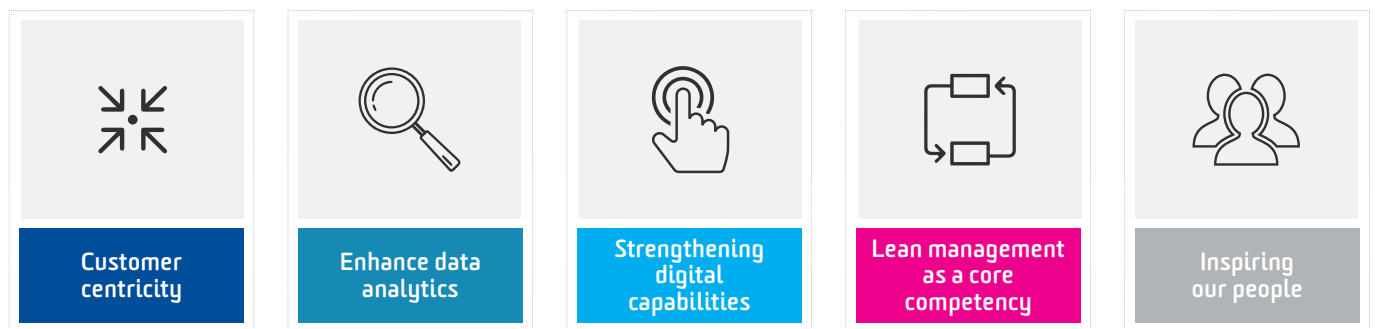


| Material aspect | Change in importance compared to 2015 | Boundary | Corresponding GRI aspect |
|---------------------------------|---------------------------------------|---------------------|--------------------------------------|
| Shareholders | | | |
| Financial performance | - | Internal | Economic Performance |
| Growth | - | Internal | - |
| Corporate governance | - | Internal | - |
| Reputation | - | External | - |
| Customers | | | |
| Access to financial services | - | Internal & External | - |
| Convenience | - | Internal & External | - |
| Customer service | - | Internal & External | - |
| Digital channels | - | Internal & External | - |
| Customer privacy | - | Internal | Customer privacy |
| Product and service labelling | - | External | Product and service labelling |
| Marketing communications | - | External | Marketing communications |
| Employees | | | |
| Training and education | - | Internal | Training and education |
| Diversity | - | Internal | - |
| Grievance mechanism | - | Internal | Labour practices grievance mechanism |
| Health and Safety | - | Internal | Occupational health and safety |
| Productivity | - | Internal | - |
| Environment | | | |
| Energy | - | Internal | Energy |
| Waste | - | Internal | Effluents and waste |
| Materials | - | Internal | Raw materials |
| Water | - | Internal | Water |
| Emissions | - | Internal | Emissions |
| Environmental Assessment | - | External | Product portfolio |
| Community | | | |
| Corporate social responsibility | - | External | - |

Our Strategy

The Bank's strategy is aimed at creating a platform for long-term value creation for all stakeholders.

Previously, our strategy focused on growth and having successfully expanded our customer touch points and widened our market share, the Bank's strategy for 2016 was aimed at enhancing our customer value proposition and offering holistic solutions in order to effectively capture opportunities presented by emerging trends in the industry. The Bank's strategic focus areas during the year were,



Customer centricity

Customer centricity is about placing customers at the center of our offering and developing innovative solutions to address specific and life-cycle needs while enabling an enhanced customer experience. This focus area was developed in response to the emerging trends of increased customer sophistication and prosperity and preference for non-traditional channels. Our objective is to create customer value through innovative perspectives and unparalleled customer service.

Drivers in 2016

- Life cycle propositions
- Customer engagement
- Enable ease of doing business

Data analytics

Rigorous analysis of customer data enable deeper insights into customer behaviour and improved processes which can drive new sources of competitive advantage for the Bank. Empowering our employees with the right information at the right time also enables the Bank to differentiate its customer experience, leading to higher satisfaction and retention levels.

Drivers in 2016

- Data driven decisions
- Enhance customer experience
- Improve data modelling capabilities

Digital capabilities

The successful harnessing of digital capabilities allows banks such as ours to create value in numerous ways. Digital technologies drive increased connectivity, both among customers and employees while also fostering innovation in product development and distribution channels. Digital capabilities in strengthening data analytics can also result in more effective and refined decisions making.

Drivers in 2016

- Develop value additions to enrich the digital experience
- Customer onboarding
- Social media presence

Lean concepts

The Bank commenced its lean journey in partnership with the Boston Consultancy Group in 2013, and continues to maintain focus on it as a strategic priority with the objective of driving process and cost efficiencies while eliminating waste.

Drivers in 2016

- Institutionalising a lean culture
- Enhance domain knowledge
- Process re-engineering

Inspiring our people

Our dynamic and motivated team play a vital role in driving our strategic agenda and facilitating the customer experience. Our efforts will be focused towards attracting, developing and retaining values of our employees in a conducive and rewarding work environment.

Drivers in 2016

- Employee engagement
- Skill development
- Talent management

Simplify

Lean Transformations

We're introducing lean transformation practices across the bank for better strategy deployment, better products and services, better processes and better results.





Delivering Strategy Through our
Business Lines

Delivering Strategy through our Business Lines

The Bank's strategy is driven through five business lines, which although managed independently, operate coherently and work towards the common strategic objectives.

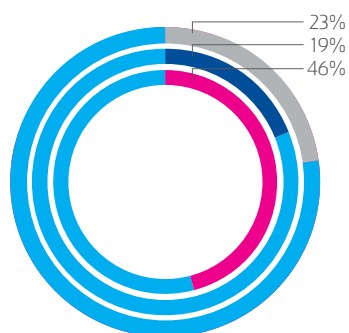
Consumer

We offer a range of innovative solutions in investment, loans and advances and transactional products with focus on accessibility, customer convenience and innovation

SME

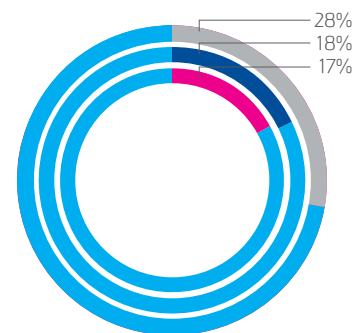
The fastest growing business line in the Bank, we have rapidly captured market share in this highly competitive segment through customized product offerings and personalized service

Contribution to the Group



● Revenue ● Profit ● Loan Book

Contribution to the Group



● Revenue ● Profit ● Loan Book

Highlights

Loan growth:

17%

Deposit growth:

23%

Gross NPL ratio:

4.2%

Cost to income ratio:

77%

Highlights

Loan growth:

49%

Deposit growth:

3%

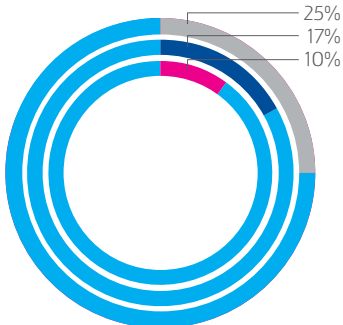
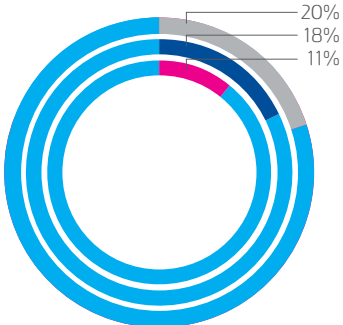
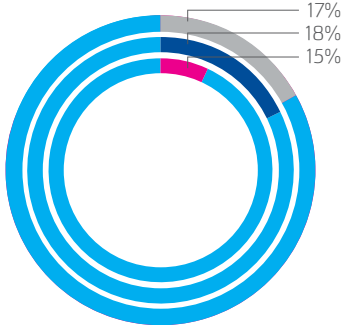
Gross NPL ratio:

3.8%

Cost to income ratio:

42%

Key performance highlights of each of the business lines are graphically illustrated below followed by a comprehensive discussion on key factors driving performance during the year, opportunities and challenges in the operating context and outlook over the short to medium term.

| Corporate | Leasing | Treasury |
|---|--|--|
| Our client portfolio comprises of the country's top and emerging corporates. We offer our clients tailored and innovative solutions, flexibility to transact on chosen platforms and unparalleled customer service. | We are the most sought after leasing provider among the licensed commercial banks. We offer leasing facilities across a wide range of vehicles and increased customer access through our strong regional presence. | The Unit is responsible for managing the Bank's Fixed Income Securities portfolio and Foreign Exchange trading of corporate and retail customers. It also plays a significant role in the Bank's asset liability management. |
| Contribution to the Group  <p>● Revenue ● Profit ● Loan Book</p> | Contribution to the Group  <p>● Revenue ● Profit ● Loan Book</p> | Contribution to the Group  <p>● Revenue ● Profit ● Assets</p> |
| Highlights Loan growth: 23% Deposit growth: 22% Gross NPL ratio: 0.6% Cost to income ratio: 31% | Highlights Loan growth: 5.5% Gross NPL ratio: 2.2% Cost to income ratio: 38% | Highlights Fixed income securities portfolio growth: 16% Customer FX growth: 20% Cost to income ratio: 15% |

Delivering Strategy through our Business Lines



Consumer Banking

A unique customer value proposition characterized by innovative product offerings, excellent customer service and continued emphasis on offering convenience and flexibility in transacting has enabled the Bank to effectively capture growth opportunities in the country's emerging mass affluent segment.

Highlights of 2016

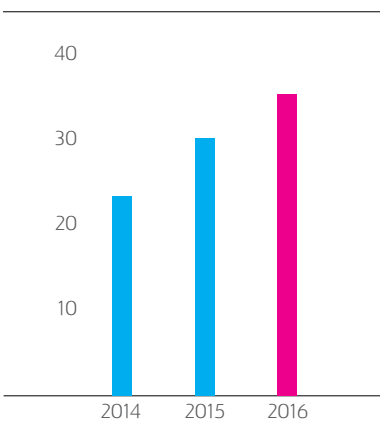
Contribution to Group



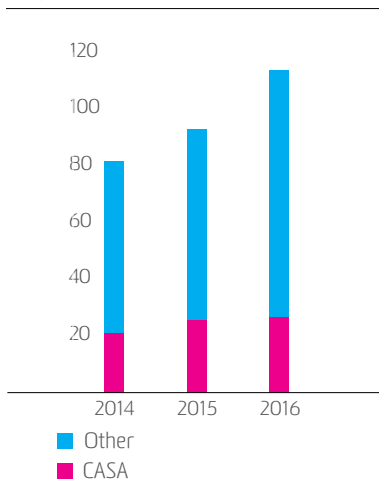
Through its Consumer banking cluster, the Bank offers a range of investment, credit and transactional products catering to the diverse requirements of its target market.



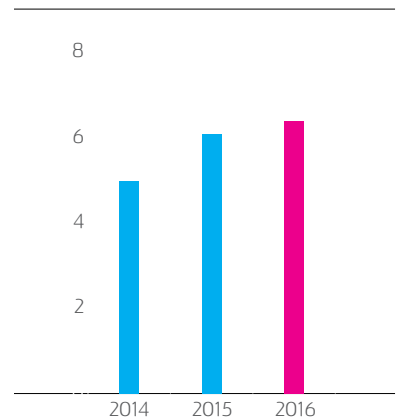
Consumer Loans (Rs. Bn)



Consumer Deposit Portfolio (Rs. Bn)



Consumer Revenue (Rs. Bn)



Loan Portfolio grew by

17%

supported by continued customer engagement, approval process efficiencies

Consumer deposits surpassed the

Rs.100 Bn

milestone

The slow growth in revenue during the year is reflective of industry-wide margin compression

Average loan processing time reduced by 44%

Delivering Strategy through our Business Lines





Consumer Banking

Private sector demand for credit increased sharply during the first half of the year, before plateauing in response to tightening monetary policy conditions.

Operating context

Private sector demand for credit increased sharply during the first half of the year, before plateauing in response to tightening monetary policy conditions. The key challenge for the year stemmed from the ceiling on interest rates for credit cards imposed by the regulator, as rapidly increasing funding costs resulted in severe margin compression across the industry. As short-term deposit liabilities repriced upwards by over 300 bps, fixed rates on the credit card portfolio had a significant impact on profitability during the year.

Strategic focus areas in 2016

| Relevance to overall strategy | Strategic action |
|--|--|
|  Customer Centricity | <ul style="list-style-type: none"> Identified product gaps in the lifecycle proposition and launched the following products in cater to emerging customer needs, <ul style="list-style-type: none"> Nations Home Center: A dedicated center to fulfill customers' housing loan requirements Inner Circle Salary Saver |
|  Data Analytics | <ul style="list-style-type: none"> Continued investment in customer engagement to deepen customer relationships and increase wallet share |
|  Digital | <ul style="list-style-type: none"> Targeted marketing based on customer profiles and life cycle requirements Improved predictability of customer behaviour and requirements |
|  Lean Concepts | <ul style="list-style-type: none"> Enhanced on-line banking portal Focus on improving self-service channels- for example, 12 cash deposit machines were introduced and the 2nd smart branch was opened in Kandy Customer engagement through social media platforms Upgraded telecommunication infrastructure in branches by providing Wi-Fi accessibility to customers and employees Simplification of processes through the use of technology Process re-engineering has enabled faster turnaround times and process efficiencies. For instance, turnaround time for a personal loan approval has reduced from an average of 9 to 5 days. Implementation of 5S in branches |

Despite the multiple challenges presented by the operating landscape, the division achieved a 17% growth in its loan portfolio.

Performance

The Consumer Banking segment continues to be Nations Trust Bank's most significant business line, in terms of revenue and deposit liabilities. Despite the multiple challenges presented by the operating landscape, the division achieved a 17% growth in its loan portfolio. During the year, strategic focus was placed on offering a lifecycle value proposition to selected customer segments, an effort which was facilitated by deeper customer insights gained through robust data analytics. Revenue growth was contained at 6.0%, reflecting narrower interest margins, particularly on the credit card portfolio which was impacted by the interest rate ceiling imposed by the regulator. Ongoing focus on lean initiatives enabled the division to achieve significant process efficiencies although investments in employee capacity building and upskilling, together with a rise in impairment resulted in the division's pre tax profit declining largely attributable to slow growth in revenue.

| Key Performance Indicators | 2016 LKR Mn | 2015 LKR Mn | Achievement over Target |
|------------------------------|----------------|----------------|----------------------------|
| Advances portfolio | 35,424.0 | 30,244.5 | 94% |
| Deposit portfolio | 113,772.2 | 92,808.9 | 101% |
| Total Revenue | 6,445.2 | 6,124.6 | 94% |
| Cost to Income Ratio | 76.8% | 70.7% | - |
| NPA Ratio | 4.2% | 3.25% | - |
| No. of customers | 554,154 | 503,273 | - |
| No. of customer touch points | 229 | 223 | - |



Home Loan Center



Thalawathugoda branch relocation



Havelock town branch refurbishment

Customer needs driven product portfolio

Investment products

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

Loans and advances

- Personal Loans
- Car Loans
- Housing Loans
- Pawning

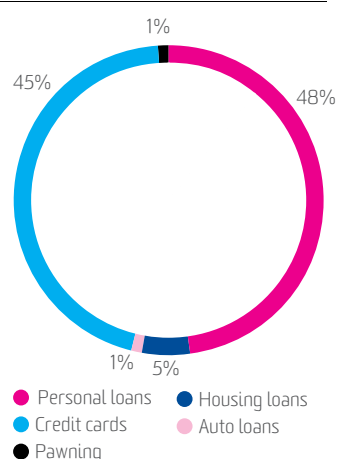
Transactional banking

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

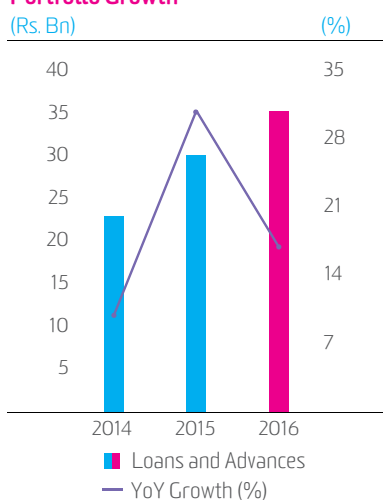
Delivering Strategy through our Business Lines

Consumer Banking

Consumer Loan Portfolio Mix



Consumer Loans Portfolio Growth



Retail awards

Loans and Advances

During the first half of the year, the Bank focused primarily on consolidating its book with more emphasis placed on collections and deepening relationships with existing customers. Rapid loan expansion during the latter part of the year, however, enabled the division to achieve a 17% growth in its loans and advances portfolio in 2016. Growth stemmed mainly from personal loans (+16%), housing loans (+101%) and credit cards (+16%).

The Division's impairment charge for the year increased from Rs. 122.7 Mn in 2015 to Rs. 331.0 Mn in 2016, while the gross NPL ratio for the year clocked in at 4.2% (2015: 3.3%). The moderation of portfolio quality is a reflection of the slight shift in the Division's risk-reward dynamics.

Investment products

A strong deposit franchise

The Division surpassed the Rs.100.0 Bn milestone in deposit mobilization during the year, a testimony to the strength of its deposit franchise. Consumer deposits increased by 22.6% during the year to reach Rs.113.8 Bn by end-December 2016 and retained its position as the Bank's most significant funding source. Customer convenience is a key aspect of our deposit proposition and the Bank continued to widen its self-service channels. Nations Trust Bank was also the first Bank in the country to introduce 365-day banking and extended banking hours. Despite the prevalent rising interest rate scenario, the launch of CASA deposits increased by 4% during the year (compared to the industry growth of 3% for nine months 2016) supported by the launch of the high-yielding Inner Circle Salary Saver deposit product.



Amex Card promotion

Transactional products

Largest local issuer of credit cards

The use of payment cards in the country continued to increase with total debit and credit cards in issue increasing by 11.9% and 19.5% respectively up to the 3rd quarter of 2016. Meanwhile, the value of transactions conducted by debit and credit cards also increased by a respective 32.8% and 22.5% during the same period, reflective of increasing customer acceptance and popularity for this channel product. Meanwhile, the total value of ATM transactions in the country also increased by 25% during the same period.

Nation Trust Bank is licensed to issue the entire range of payment cards including credit, debit and ATM cards affording substantial upside potential in this high-growth segment. As the sole acquirer of American Express cards in Sri Lanka, the Bank is the largest local issuer of credit cards in the country and operates the largest merchant network.

| Credit and Debit Cards | | |
|------------------------|---|-----------------------|
| Personal | American Express | MasterCard |
| | 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 | |
| Personal | Nations Trust Bank American Express Travel Card | |
| | 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 | |
| Corporate | Concierge service | |
| | Membership Rewards | |
| | American Express® Corporate Gold Card | |
| | American Express® Corporate Green Card | |



Amex Card spend promotion



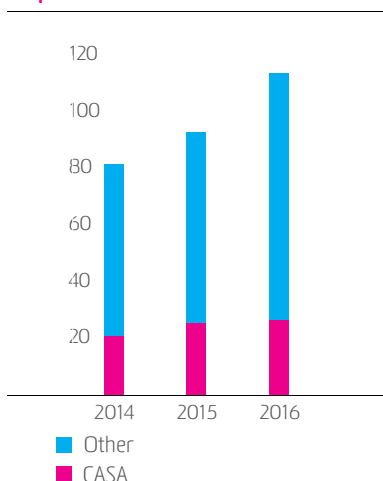
Amex Card spend promotion

Delivering Strategy through our Business Lines

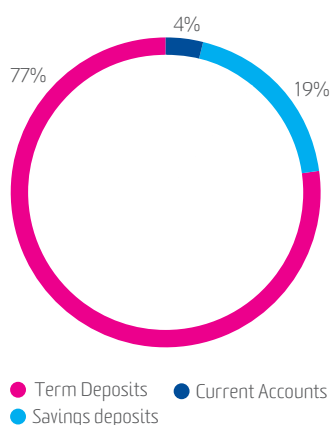
Consumer Banking

Personal online banking customers increased by 139% in volume and 110% in transaction value demonstrating the rising popularity of this channel.

Consumer Deposit Portfolio (Rs. Bn)



Consumer Deposit Mix



Launch of Kidz Club



Opening of SLIIT ATM

Our value proposition in this business line is underpinned by attractive rewards and benefit schemes, global access, and the availability of an international support network. The division continues to leverage on the Bank's data analytical capabilities to engage in targeted marketing and offer tailor-made solutions to card customers through the use of customer profiling and behavioural scorecards. During the year, we issued over 45,000 new credit cards and 67,000 new debit cards, bringing the total active user base to over 72% by end-December 2016. The total spend on debit and credit cards also increased by a respective 43.33% and 13.60% during the year.

Focus on customer convenience

Customers increased their usage of online banking platforms, supported by higher penetration levels of computers, smart phones and tablets. Personal online banking customers increased by 139%

in volume and 110% in transaction value demonstrating the rising popularity of this channel. We continue to invest in enhancing the functionality and features of the internet banking portal and during the year introduced the option to open fixed deposit and savings accounts online. Emphasis was also placed on strengthening the information security infrastructure with specific focus on customer privacy (refer to page 134 for further details)

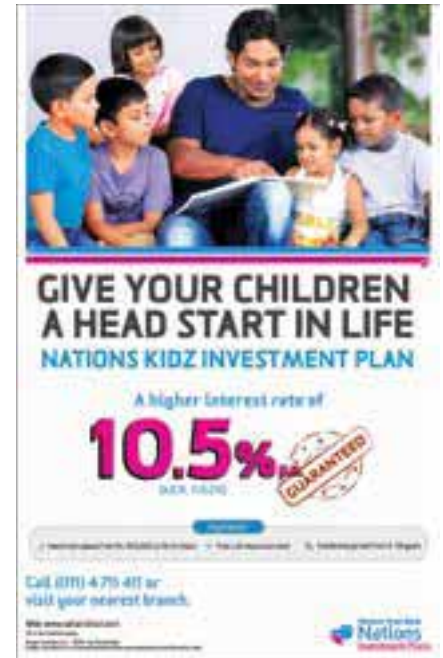
The Bank's mobile banking application is available on Android and iOS platforms and features multiple functions including fund transfer within the Bank's accounts, payment of American Express credit card bills and utility payments, balance enquiries and obtaining foreign currency exchange rates among others. During the year, total app downloads increased by 29.8% to reach a total active user base of around 26,000. The volume and value of transactions performed through mobile banking also increased by a respective 23% and 22% during the year.



Amex spend promotion

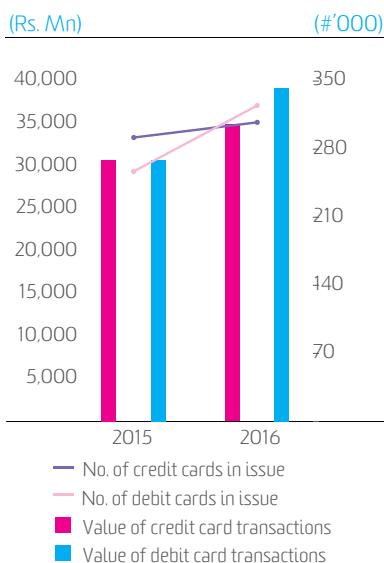


Master Card promotion



Product promotion

Card Usage



Remittances

Sri Lanka's worker's remittances increased by 3.9% in the 9 months ending September 2016, supported by higher contributions from skilled and professional employment categories. Migration under the unskilled categories declined with geopolitical tensions in the Middle Eastern region and government policies aimed at discouraging female migration.

The industry space for remittances is highly competitive, and Nations Trust Bank has sought to differentiate itself through offering customer convenience, wider accessibility and better service delivery. The Bank continued to maintain a strong position in traditional markets such as Dubai, Qatar, Saudi Arabia and Kuwait. In 2016, the Bank achieved a respective 6.5% and 102.2% growth in transaction volumes and values.

Way Forward

Over the short term, the division will focus on consolidating its branch network and pursuing growth opportunities through deepening existing customer relationships. Data analytics will play a vital role in managing customer relationships, affording a strong platform to predict customer behaviour and engage in targeted marketing. Efforts will also be directed towards strengthening collections and rigorous monitoring to maintain portfolio quality.

Delivering Strategy through our Business Lines

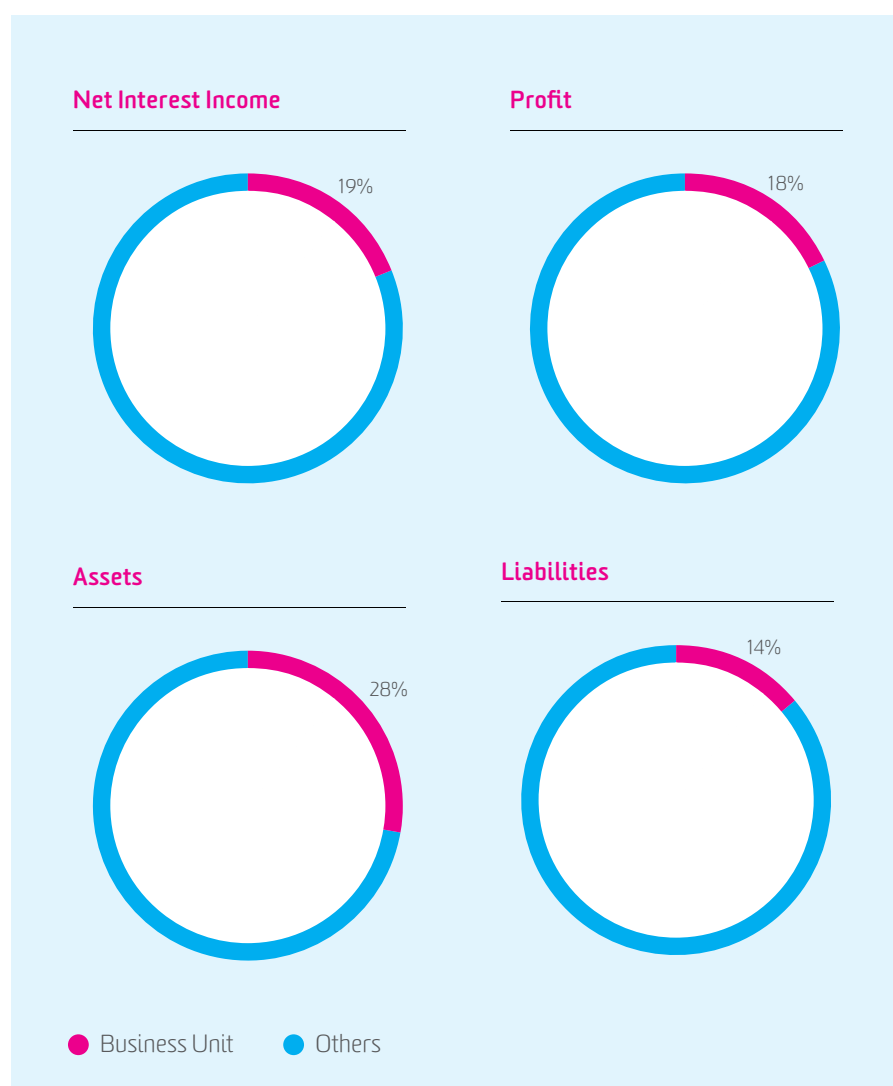


SME Banking

Nations Trust Bank's SME Banking division has successfully gained market share and nurtured long-standing relationships in a highly competitive market space through providing a holistic value proposition delivered through convenient and accessible channels.

Highlights of 2016

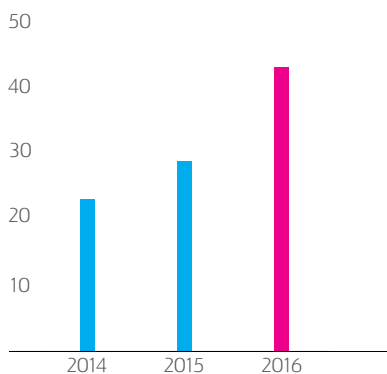
Contribution to Group



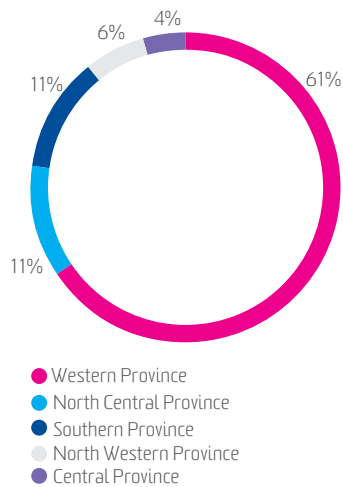
Since venturing into this segment, the Bank has supported the expansion of SMEs island-wide, representing diverse industries including agriculture, trade and manufacturing and construction.



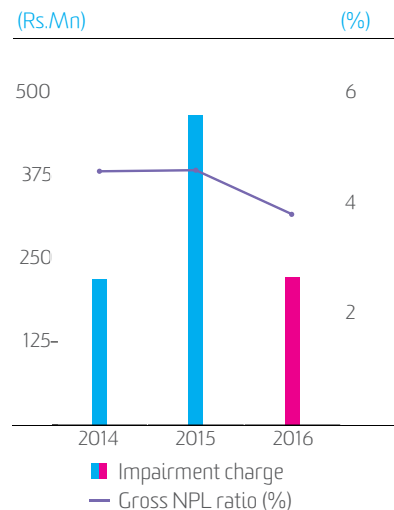
Loans and Advances (Rs. Bn)



Regional disbursement



Asset Quality Trends



Portfolio growth was
49% in 2016,
upheld by a focus on customer
acquisition

Pre-tax profits increased by
125%,
led by top line growth,
cost efficiencies and healthy
portfolio quality

Credit quality continued
to improve, reflecting steps
taken to strengthen the
underwriting and control
environment.

Reduction in cost to income ratio to 42%



Delivering Strategy through our Business Lines





SME Banking

Demand for credit was strong for most part of the year, before tapering in response to monetary policy measures.

Operating context

Demand for credit was strong for most part of the year, before tapering in response to monetary policy measures. In the nine months ending 30th September 2016, the Banking sector witnessed increased credit demand from the construction, manufacturing as well as financial and business service sectors although yields were pressured due to the increase in cost of funds, resulting from higher interest rates.

Strategic focus areas in 2016

| Relevance to overall strategy | Strategic action |
|--|---|
|  Customer Centricity | <p>Improving process efficiencies in approvals and disbursements, this resulted in the average turnaround time for a loan application being cut by nearly 70%. This proved an effective source of competitive advantage in customer acquisition</p> <p>Ongoing customer education through 16 Nations Business Seminars with a total participant base of over 1800</p> |
|  Data Analytics | <p>Leverage on data analytics to offer solutions based on customer predictive behaviour (for example, pre-approved overdrafts)</p> |
|  Lean Concepts | <p>Partnered with the lean team to develop the SME workflow which facilitated substantial process efficiencies, as reflected in the reduction of the division's cost to income ratio to 42%, from 48% the previous year</p> |
|  People | <p>Ongoing training and certification provided through the SME Academy on credit evaluation, collection, monitoring and customer relationship management.</p> |

Proactive customer engagement and targeted, relationship-driven marketing enabled the Bank to grow its SME portfolio by 49% YoY, underpinning the division's impressive performance during the year.

Performance

Proactive customer engagement and targeted, relationship-driven marketing enabled the Bank to grow its SME portfolio by 49% YoY, underpinning the division's impressive performance during the year. The division conducted over 45 roadshows during the year, while cross sell opportunities were also pursued across segments supporting increased customer acquisition. Net interest income growth of 24.7%, coupled with ongoing emphasis on generating cost efficiencies and maintaining the quality of the portfolio enabled the SME division to achieve a pre-tax profit growth of 125% during the year.

| Key Performance Indicators | 2016 LKR Mn | 2015 LKR Mn | Achievement over Target |
|----------------------------|----------------|----------------|----------------------------|
| Advances portfolio | 42,730.6 | 28,707.7 | 115% |
| Deposit portfolio | 20,253.6 | 19,623.3 | 79% |
| Total Revenue | 2,332.9 | 1,848.4 | 94% |
| Cost to Income Ratio | 41.8% | 48.2% | - |
| NPA Ratio | 3.8% | 4.6% | - |

Portfolio growth

49%

During the year under review

PBT growth

125%

During the year under review

Advances portfolio

42.7 Bn

Cost to income ratio

42%

Reduction from 48% last year

Product map

Loans and Advances

- Term facilities
- Working capital facilities
- Trade facilities
- Factoring

Investment Products

- Current accounts
- Savings accounts and term deposits
- Nations Business Investment Planner
- Sweep in/out accounts

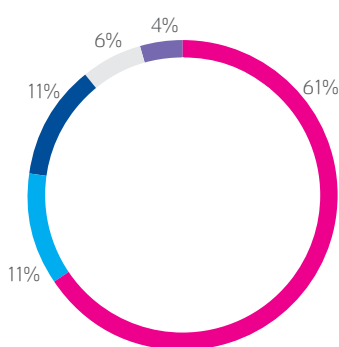
Other Products

- Business banking segmented offering
- CBSL Refinance scheme
- Nations Trader

Delivering Strategy through our Business Lines

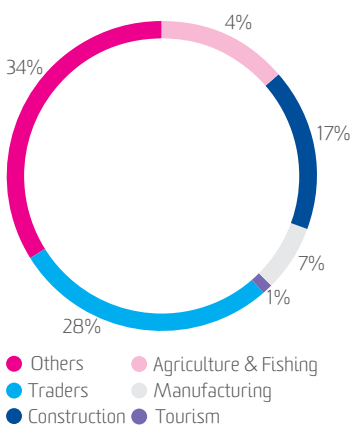
SME Banking

Regional disbursement



- Western Province
- North Central Province
- Southern Province
- North Western Province
- Central Province

Sector-wise disbursements



- Others
- Traders
- Construction
- Agriculture & Fishing
- Manufacturing
- Tourism



Business seminar - Colombo



Business seminar - Gampaha

Responsible lending practices

The SME sector is widely considered to be the engine of socio economic progress and we continued to deploy resources in facilitating growth of this sector. The Bank's SME clientele represent diverse industries, with the majority engaged in agriculture, trading and manufacturing. Outstation regions continue to present substantial opportunities for growth and during the year 31% of our disbursements were targeted to regions outside the Western Province. We are also committed to propagating sustainable practices through our lending, and social and environmental performance criteria are assessed for manufacturing and hotel sector disbursements as well as all facilities above Rs.25.0 Mn. During the year, 421 loans were evaluated for environmental and social criteria, representing 18% of the new loans disbursed division's total loan book.

Focus on customer convenience

Our long-term aspiration is to emerge as the primary bank to our SME clientele, a goal we hope to achieve through providing a unique and holistic value proposition to our customers. Given the highly rate competitive nature of this industry space, we have sought to differentiate our offering

through focusing on customer convenience and ease of conducting business. During the year, attention was placed on simplifying credit approval and disbursement processes through increased collaboration among teams, effective use of technology and streamlining legal procedures. Resultantly, the turnaround time for loan approvals was cut by nearly 70% during the year, while the cost to income ratio continued to trend downwards.

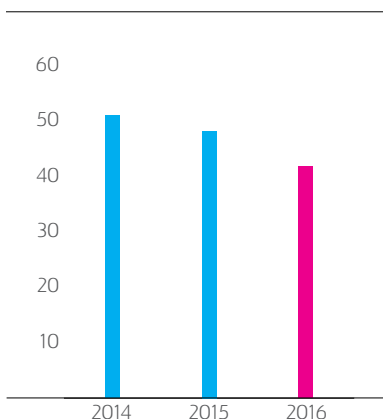
Healthy portfolio

Impairment charges on the SME portfolio declined by 52% during the year while the division's NPL ratio improved to 3.75% from 4.58% the previous year. The quality of the portfolio is testimony to the ongoing focus placed on improving the effectiveness of our collections and monitoring mechanisms. During the year, governance and reporting structures were further refined and collaboration between the sales and collection teams were enhanced to improve the effectiveness of our collection efforts.

Customer education

As part of our holistic customer value proposition, we continue to support our customers through structured training/ educational campaigns and enterprise

Cost to Income Ratio (%)



Impairment charges on the SME portfolio declined by 52% during the year while the division's NPL ratio improved to 3.75% from 4.58% the previous year.

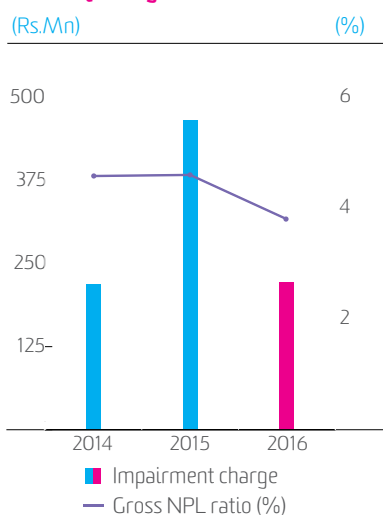


Business seminar - Jaffna



Business seminar - Trinco

Asset Quality Trends



development. During the year, we conducted 16 Nations Business Seminars with the participation of over 1800 SME clients island-wide. These seminars comprise of multi-disciplinary self-development programmes which are conducted regionally under the patronage of external experts.

Way forward

Having put in place a strong foundation for growing the scope and reach of its SME services, the Bank remains optimistic regarding the potential presented by this sector, particularly given the policy impetus towards strengthening SMEs. Our short-to-medium term focus will be on customer acquisition and deepening relationships with existing customers through providing both fund and fee based services, while convenience and quality of service will be key differentiators for the Bank.

| District | No. of participants |
|--------------|---------------------|
| Colombo | 685 |
| Gampaha | 250 |
| Anuradhapura | 125 |
| Kandy | 115 |
| Matale | 50 |
| Matara | 100 |
| Polonnaruwa | 115 |
| Ratnapura | 230 |
| Jaffna | 115 |
| Trincomalee | 100 |

(Please refer to page 133 for further details on Customer education)

Delivering Strategy through our Business Lines



Corporate Banking

Nations Trust Bank's Corporate Banking value proposition is underpinned by relationship driven customer engagement, excellence in service delivery and structured lending solutions that meet the complex funding needs of our large and mid-market corporate customers.

Highlights of 2016

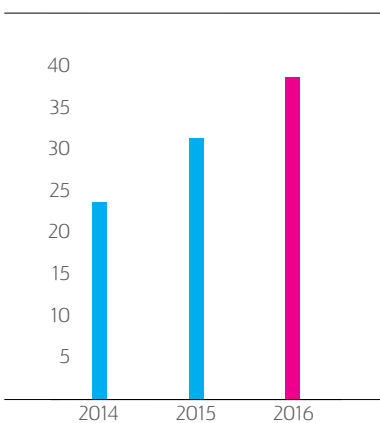
Contribution to Group



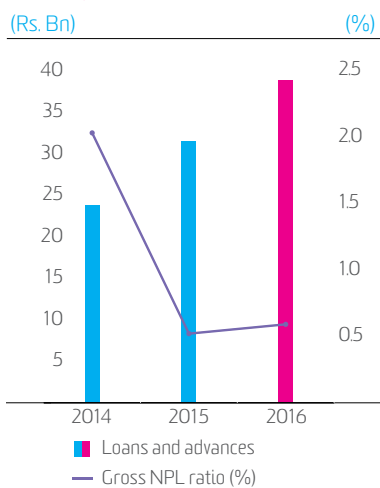
The expertise and dynamism of our team gives us the agility to compete effectively in this highly competitive space and has enabled us to nurture long-term relationships with the country's top and emerging corporates.



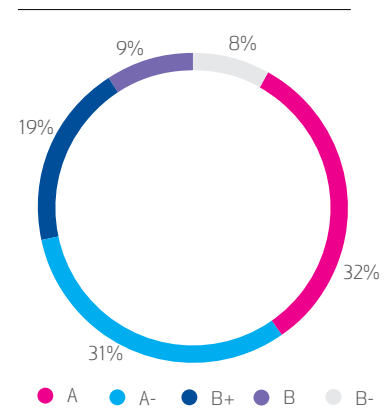
Loans and advances (Rs. Bn)



Asset quality trends



Corporate Loan Book Composition by Risk Grading



The Corporate loan book expanded by

23%

driven by focus on deepening customer relationships

Overhead expenses and the cost to income ratio declined to

31%

during the year

Corporate Banking profit after tax more than doubled, supported strong Net Interest Margins, healthy top line growth, increasing fee income, and zero loan losses.

Total fee based income increased by 31% ▲

Delivering Strategy through our Business Lines




Corporate Banking

Private sector credit demand maintained its upward momentum during the first half of 2016 before slowing down in response to tightening monetary policy conditions towards the latter part of the year.

Operating context

Private sector credit demand maintained its upward momentum during the first half of 2016 before slowing down in response to tightening monetary policy conditions towards the latter part of the year. Growth opportunities in several key economic sectors such as tourism and construction are anticipated to propel the corporate loan books of financial institutions, although rising interest rates are expected to lead to margin compression over the short-term.

Strategic focus areas in 2016

| Relevance to overall strategy | Strategic action |
|--|---|
|  Customer Centricity | <p>High level of customer engagement with focus on deepening existing customer relationships through pursuing cross sell opportunities and extracting value across the Bank's product and customer segments</p> |
|  Digital | <p>Enhanced features of the Corporate online banking platform to include Cash Management solutions</p> <p>Automation of the post-dated cheque handling process in the Pettah branch led to increased efficiencies and faster turnaround time</p> |
|  People | <p>The dedicated corporate banking team at head-office consistently engaged with branch employees to provide training and expertise on managing and retaining corporate banking relationships; the resultant enhancement of skills have enabled branches to retain corporate relationships within the branch.</p> |

The Corporate banking division recorded a year of solid performance to achieve portfolio and profit growth of 23% and 162% respectively during the year.

Performance

The Corporate banking division recorded a year of solid performance to achieve portfolio and profit growth of 23% and 162% respectively during the year. The more pronounced increase in profits reflects the division's strategic focus on driving revenue growth as well as ongoing focus on process efficiencies and maintaining portfolio quality. The division's credit portfolio growth during the year was upheld by efforts to nurture deeper relationships with existing clients through harnessing cross sell opportunities across business lines, and formulating product offerings targeted towards fulfilling customers' lifecycle requirements. Fee income increased by 31% during the year as the Corporate Banking widened its non-fund based revenue sources. Meanwhile, improvements in portfolio quality as reflected in a benign gross NPL ratio of 0.59% and a cost-effective operating model enabled the division to record a pre-tax profit growth of 162% in comparison to the previous year.

| Key Performance Indicators | 2016 LKR Mn | 2015 LKR Mn | Achievement over Target |
|----------------------------|----------------|----------------|----------------------------|
| Advances portfolio | 38,833.1 | 31,521.0 | 99.7% |
| Deposit portfolio | 13,819.0 | 11,372.9 | 99.6% |
| Total Revenue | 1,406.0 | 956.4 | 123.0% |
| Cost to Income Ratio | 31.4% | 60.6% | - |
| NPA Ratio | 0.59% | 0.52% | - |

Portfolio growth

23%

During the year under review

Profit growth

162%

During the year under review

NPA ratio

0.59%

Fee income

increased by

31%

Product map

Trade Finance

- Import letters of Credit
- Shipping guarantees
- Inwards Bills Collection
- Import loans
- Bonds and Guarantees
- Packing Credit Loans

Working Capital Financing

- Overdrafts/short-term loans
- Supplier/Distributor Finance
- Commercial Papers
- Fixed/Floating rate loans

Term Funding

- Syndicated Loans
- Term Loans
- Asset Backed debt
- Asset Securitisation

Transactional Banking

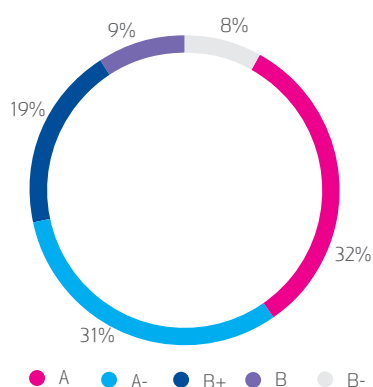
- Interbank transfers
- Telegraphic transfers
- Demand drafts
- Cash and cheque collections
- Liquidity Management

Delivering Strategy through our Business Lines

Corporate Banking

The dedicated Corporate Banking team at head office engaged with branch employees to provide expertise on fulfilling the more sophisticated requirements of customers who transition from SME to corporate level.

Corporate Loan Book Composition by Risk Grading



Corporate Rally

Joined-up Sales

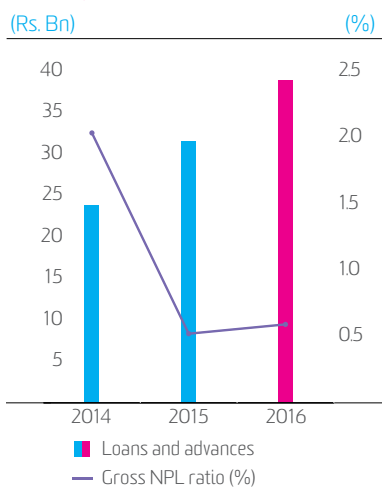
In line with the Bank's overall strategy of unlocking value across product verticals and customer segments, the Corporate Banking division aggressively pursued cross sell opportunities during the year. This initiative was extremely successful in 2016. Integrating products and relationships across the Bank will be a key strategic priority for the Bank over the short- to medium term.

Maintaining portfolio quality

In effectively managing its risk pricing dynamics, Corporate Banking focused on increasing exposure to corporates with healthy credit profiles. Accordingly, total advances to corporates rated above B+ (based on the internal risk ratings) accounted for 71% of the total Corporate Banking portfolio as at end-December 2016. Proactive engagement enabled the Division to deepen existing relationships and grow wallet share among selected corporate groups. Reflective of these efforts, the portfolio's credit quality improved

Total advances to corporates rated above B+ (based on the internal risk ratings) accounted for 71% of the total Corporate Banking portfolio as at end-December 2016.

Asset quality trends



during the year with impairment reversals of Rs. 81 Mn while the gross NPL ratio stood at 0.59% as at end-December 2016.

Emphasis on process efficiencies

Achieving process efficiencies through simplification and automation was a Bank-wide priority in 2016. The Corporate division gave attention to streamlining the credit process through refining delegation authority levels and adopting a simplified and concise risk commentary with the objective of enhancing the turnaround times. Continued emphasis on lean concepts and cost rationalization enabled the Division to achieve a 23.7% reduction in overhead expenses in comparison to 2015 while the cost to income ratio fell sharply to 31.4% from 60.6% the year before.

Way forward

Over the short-to-medium term, Corporate banking will place emphasis on further increasing contribution from non-fund based sources through widening its offering to include more sophisticated transactional banking services. This is expected to increase the stability of earnings while improving the Division's overall risk profile. The solid foundation put in place for acquiring and retaining emerging corporate customers through our branch network will augur well for the Division, as macro-economic stability and improved investor sentiments drive business growth.

Delivering Strategy through our Business Lines

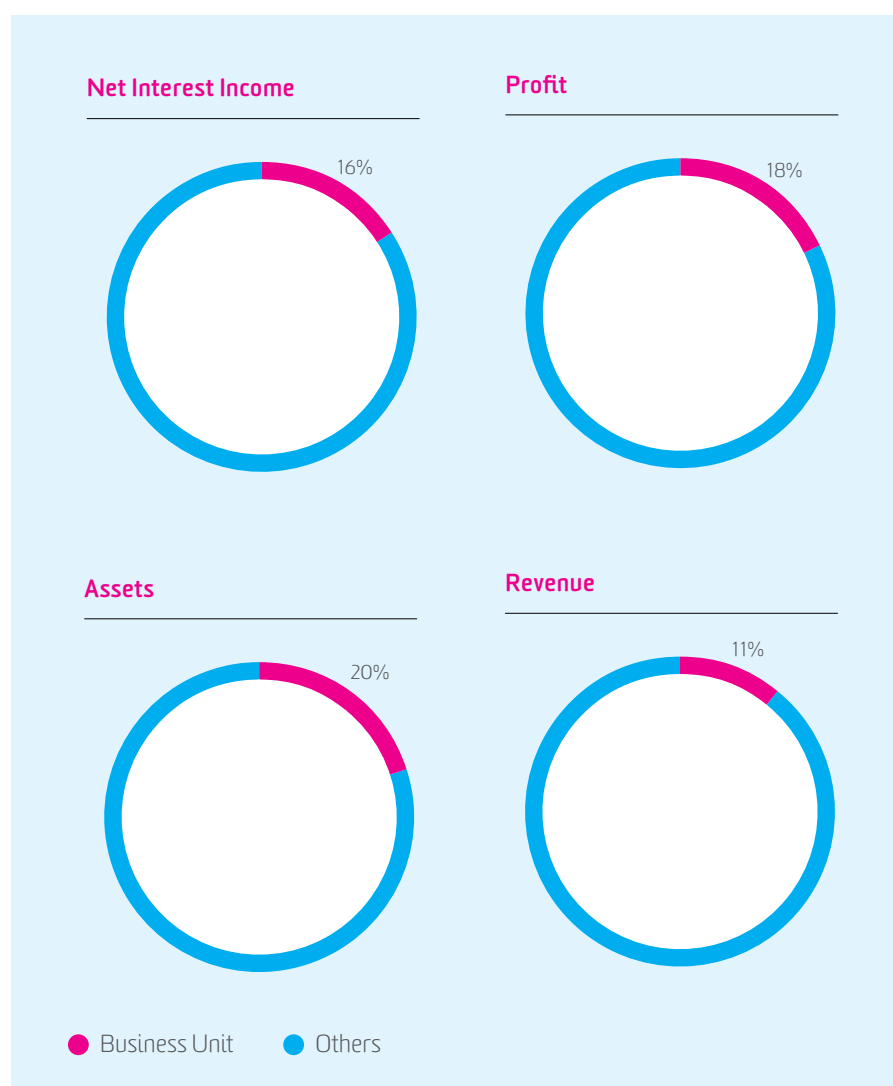


Leasing

The Bank's leasing division demonstrated strong resilience in the face of unprecedented industry challenges, to achieve robust growth in profitability during the year.

Highlights of 2016

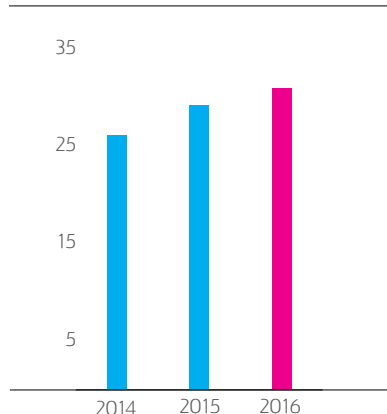
Contribution to Group



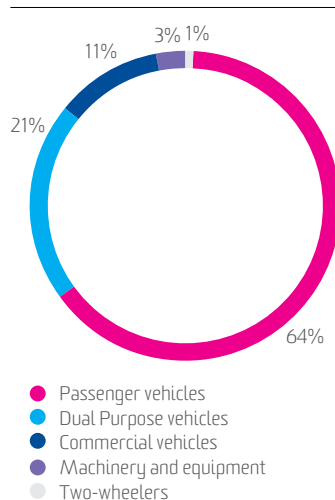
The success of the division is attributed to the astute realignment and meticulous implementation of a strategy which enabled the division to successfully counteract unfavourable market developments.



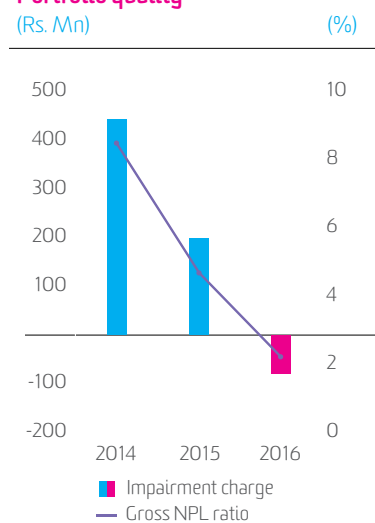
Leasing portfolio
(Rs. Bn)



Leasing Asset Mix



Portfolio quality
(Rs. Mn)



Portfolio growth was
5.5% in 2016,
as the Bank focused on
profitability rather than volume
expansion

The division achieved a near
105% growth
in profits, underpinned by better
portfolio quality

The Gross NPL ratio fell to a
historical low of 2.2% while
impairment reversals
for the year amounted to
Rs. 79.3 Mn

Lending to first time borrowers: Rs. 230 Mn disbursed to 1,225 borrowers

Delivering Strategy through our Business Lines

Leasing

The year under review was one of the most challenging years yet for the leasing industry. The 70:30 Loan to Value ratio rule, which completed a full year of implementation, had a substantial impact on leasing volumes.

Operating context

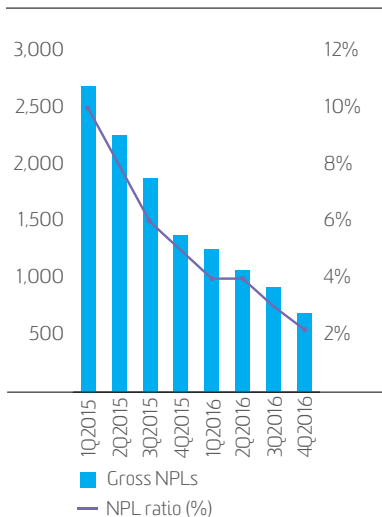
The year under review was one of the most challenging years yet for the leasing industry. The 70:30 Loan to Value ratio rule, which completed a full year of implementation, had a substantial impact on leasing volumes. Meanwhile, multiple revisions to the import tariffs and calculation methodologies resulted in prices of passenger vehicles escalating. The new registration of passenger vehicles thus declined by 60% compared to the previous year, directly impacting the leasing industry. The division was also challenged by rising interest rates for most part of the year, which led to margin compression.

Strategy and Performance

Relentless focus on portfolio quality and profitability

The leasing division turned in a year of remarkable performance, recording its highest ever profit, underpinned by a relentless focus on maintaining portfolio quality. While the overall leasing portfolio and net interest income grew by a respective 5.5% and 17.6% during the year, profit growth was much stronger with pre-tax profits increasing by 105%, mainly due to impairment reversals stemming from substantial improvements in portfolio quality. The division also made efforts to achieve a better spread of business throughout the year by focusing on overall volume distribution. The year also marked the Bank's leasing entry into the two-wheeler leasing segment, a highly lucrative market presenting significant upside potential given the Bank's ability to lend at very competitive rates.

Leasing portfolio quality
(Rs. Mn)



| Key Performance Indicators | 2016 LKR Mn | 2015 LKR Mn | Achievement over Target |
|----------------------------|----------------|----------------|----------------------------|
| Leasing portfolio | 30,997.7 | 29,277.5 | 97% |
| Total Revenue | 1,491.5 | 1,272.2 | 106% |
| Net interest income | 1,393.3 | 1,184.9 | 108% |
| Impairment charge | -32.0 | 218.6 | - |
| Cost to Income Ratio (%) | 38.0 | 50.0 | - |
| NPA Ratio (%) | 2.2 | 4.69 | - |

The leasing division recorded a year of solid performance to achieve portfolio and profit growth of 5.5% and 105% respectively during the year.



Product promotion

Historically low NPLs

Building on the foundation put in place last year to strengthen the quality of the portfolio, the Division focused on enhancing the stringency of its underwriting standards, streamlining its monitoring and recovery processes and fine-tuning its collection philosophy. Investments were also made in upskilling employees on evaluating credit and pursuing collections. As a result of this proactive approach, the Division's gross NPL ratio improved to a historical low of 2.20% from 4.69% the previous year. NPL and impairment reversals during the year amounted to a respective Rs.700 Mn and Rs.77.5 Mn. Meanwhile the quality of the portfolio underwritten in 2016 was substantially better than that of the preceding year, with a gross NPL ratio of 0.38% compared to 0.59% in 2015.



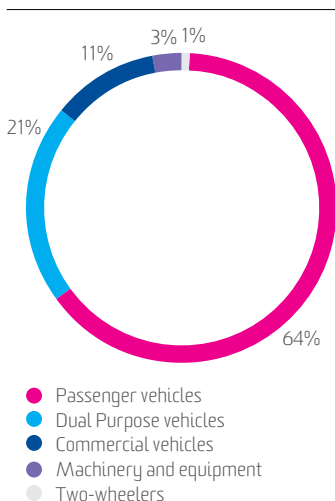
Leasing 2 Wheeler Promotion

relation to other players in this industry space, the Bank is able to offer two-wheeler financing at very competitive rates.

Way Forward

Although the imposition of the 70:30 Loan-to-Value ratio brought about difficulties in expanding our volumes, the Bank embraced the guideline in its intended spirit as a measure of strengthening risk management and building a good quality portfolio. We will continue to maintain a prudent approach in our lending, with more emphasis on profitability than volumes. In 2017, we will also align ourselves to the national economic agenda by diversifying our portfolio to support the construction and infrastructure drive in the country through increasing disbursements for commercial vehicles, machinery and equipment.

Leasing Asset Mix



Entry level product for first-time borrowers

In line with the Bank's overall thrust towards providing formal access to finance to first time borrowers, the Division commenced two-wheeler leasing during the year, an entry level product for aspiring young individuals. During the year, we disbursed Rs. 230 Mn to 1,225 such first-time borrowers. Given its low funding costs in

Delivering Strategy through our Business Lines

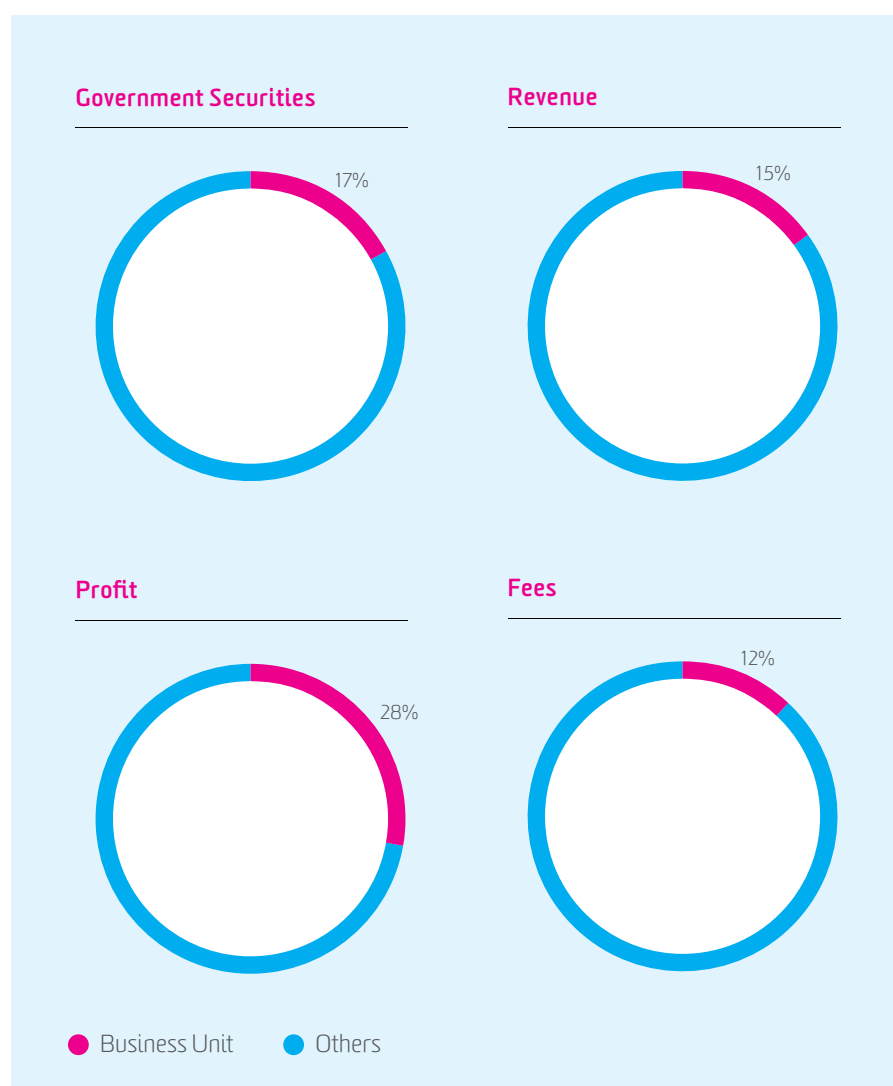


Treasury

The Unit is responsible for managing the Bank's Fixed Income Securities portfolio and Foreign Exchange trading of corporate and retail customers. It also plays a significant role in the Bank's asset liability management.

Highlights of 2016

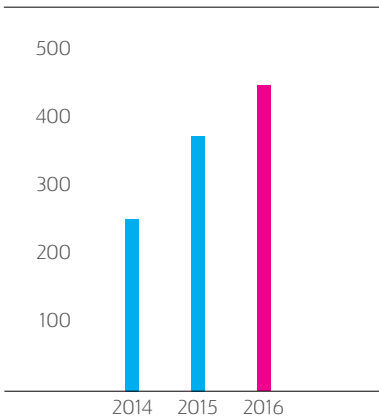
Contribution to Group



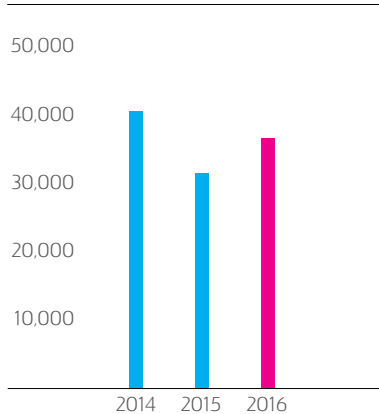
Despite challenging operating conditions, the Unit turned in a commendable performance underpinned by strong growth in the customer forex trading arm and astute management of its fixed income portfolio.



Customer FX (Rs. Mn)



FIS Portfolio (Rs. Mn)



FIS Portfolio Mix (%)



FIS portfolio growth was

16%
in 2016

Customer FX growth was

20%
in 2016

Continued to record one of the lowest cost to income ratios

Strategic priority was to minimise the impact of rising interest rates

Delivering Strategy through our Business Lines

Treasury

On the exchange rate front, the Sri Lankan rupee depreciated by 4.0% against the US dollar to close the year at Rs. 149.75.

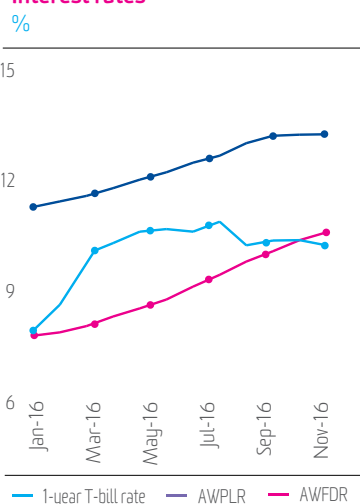
Operating context

The division's operations are highly susceptible to fluctuations in market variables such as interest rates and exchange rates which in turn reflect broader monetary/fiscal policy implications. The regulator adopted a tightening monetary policy stance in 2016 with policy rates raised twice during the year. Accordingly interbank rates, AWDR and AWPLR continued to increase steadily during the year resulting in a slowdown in credit growth towards the latter part of the year. On the exchange rate front, the Sri Lankan rupee depreciated by 4.0% against the US dollar to close the year at Rs. 149.75. Meanwhile the share market performance was sluggish during the year reflecting weaker investor sentiments and upward trajectory in interest rates which result in investors to shifting funds to more attractive fixed income securities.

Strategy and Performance

During the year, the Treasury Division's strategic priorities were to minimise the impact of rising interest rates through rebalancing its fixed income portfolio, pursue further growth in the forex business and manage the Bank's asset and liability mix through appropriate funding strategies. Despite the inevitable mark to market impact of rising interest rates on the Bank's financial investments portfolio, astute management interventions in rebalancing the portfolio and continued focus on engaging with business units in driving tailor-made forex solutions for customer enabled the Division to record moderate earnings during the year.

Interest rates



| Key Performance Indicators | 2016 LKR Mn Actual | 2015 LKR Mn Actual | Achievement over Target (%) |
|-----------------------------------|--------------------------|--------------------------|-----------------------------------|
| Customer Revenue | 759.0 | 588.0 | 77 |
| Fixed income securities portfolio | 36,738.0 | 31,623.0 | 92 |
| Customer foreign exchange income | 449 | 375 | 99 |
| Cost to income ratio (%) | 15 | 11 | - |

Fixed Income

As expected, performance of the fixed income portfolio was dampened by rising interest rates during the year, which resulted in a negative marked to market impact of Rs. 8.5 Mn. Emphasis was placed on rebalancing the portfolio both in terms of volume and duration, with the objective of minimising the earnings impact of increasing interest rates. This had a parallel negative impact on interest income generated by the portfolio. By end-December 2016, the Bank's government securities portfolio was increased by 16% to Rs. 37 Bn as against a budget of Rs. 40 Bn.

The Bank's treasury unit is structured as follows;

| Fixed Income | Asset Liability Management | Forex Trading | WML |
|--|---|---|--|
| <ul style="list-style-type: none"> Government securities Corporate Debt Secondary market operations | <ul style="list-style-type: none"> Managing interest rate and liquidity risks Providing direction on funding strategy | <ul style="list-style-type: none"> Spot & Forward Contracts Currency Swaps Managing FX exposures | <ul style="list-style-type: none"> Margin Trading Corporate Debt |

Forex trading

The Bank's forex operations comprise customer forex trading and proprietary trading. Expanding the customer forex segment is a key strategic priority for the Division and during the year we achieved a 20% growth in revenue from this business. The Forex team maintains a high level of engagement with the Corporate and SME banking units, facilitating tailor made solutions for customers. This segment is expected to present substantial potential for growth, particularly given the Bank's strategic rebalancing towards the Corporate and SME sector.

Meanwhile, the underlying performance of the proprietary trading desk was commendable, surpassing budgetary expectations. However, swap costs arising from the forex portfolio and unfavourable movements in forward premiums resulted in a loss of Rs. 901 Mn which is classified as marked to market losses under IFRS. Overall however, the Bank generated these swaps at a relatively lower cost compared to more expensive rupee funds.

Asset liability management

As the interest rate cycle turned, the ALM desk's performance understandably weakened due to the compression of margins. The Bank takes a long-term view in managing its asset and liability mixes, and adjusts the maturity of its FIS portfolio in line with interest rate expectations. Meanwhile, we reported in last year's Annual Report the division together with the Finance Team launched the first phase of a sophisticated ALM system which has strengthened risk management and reporting capabilities.

WML

Performance of this segment continued to be affected by subdued conditions in the Colombo Stock Exchange. Resultantly interest income dropped by 3% during the year. That said, consistent focus on maintaining the quality of our client portfolio through stringent margin extension policies and ongoing monitoring of the portfolio has enabled the Bank to maintain an extremely healthy margin lending portfolio.

Way Forward

Interest rates are anticipated to start trending downwards gradually as inflationary pressures have been reined in and the government adopts a more expansionary policy to stimulate growth. In line with these expectations the Bank intends to strengthen its FIS portfolio over the short to medium term. The second phase of the ALM system is anticipated to be completed by the first quarter of 2017, facilitating forecasting and scenario analysis capabilities as well as more sophisticated risk management tools. This will also facilitate real time information on a more holistic basis providing a strong analytical tool for balance sheet management.

Value Creation against Our Capitals



Simplify

Talent Management

We believe that our people define our brand, our business and our success. The recruitment and retention of outstanding people remains at the top of our list of priorities.



Value Creation against our Capitals



Financial Capital

Healthy growth in all our key business lines, disciplined cost management and proactive management of credit and other risks enabled us to deliver prudent profit growth while strengthening the balance sheet.

Strategy was realigned and meticulously implemented to effectively respond to market dynamics allowing the continued creation of shareholder value.



Net Interest Income (NII)

grew by
7.5%
to Rs.9.78 Bn



Total operating income

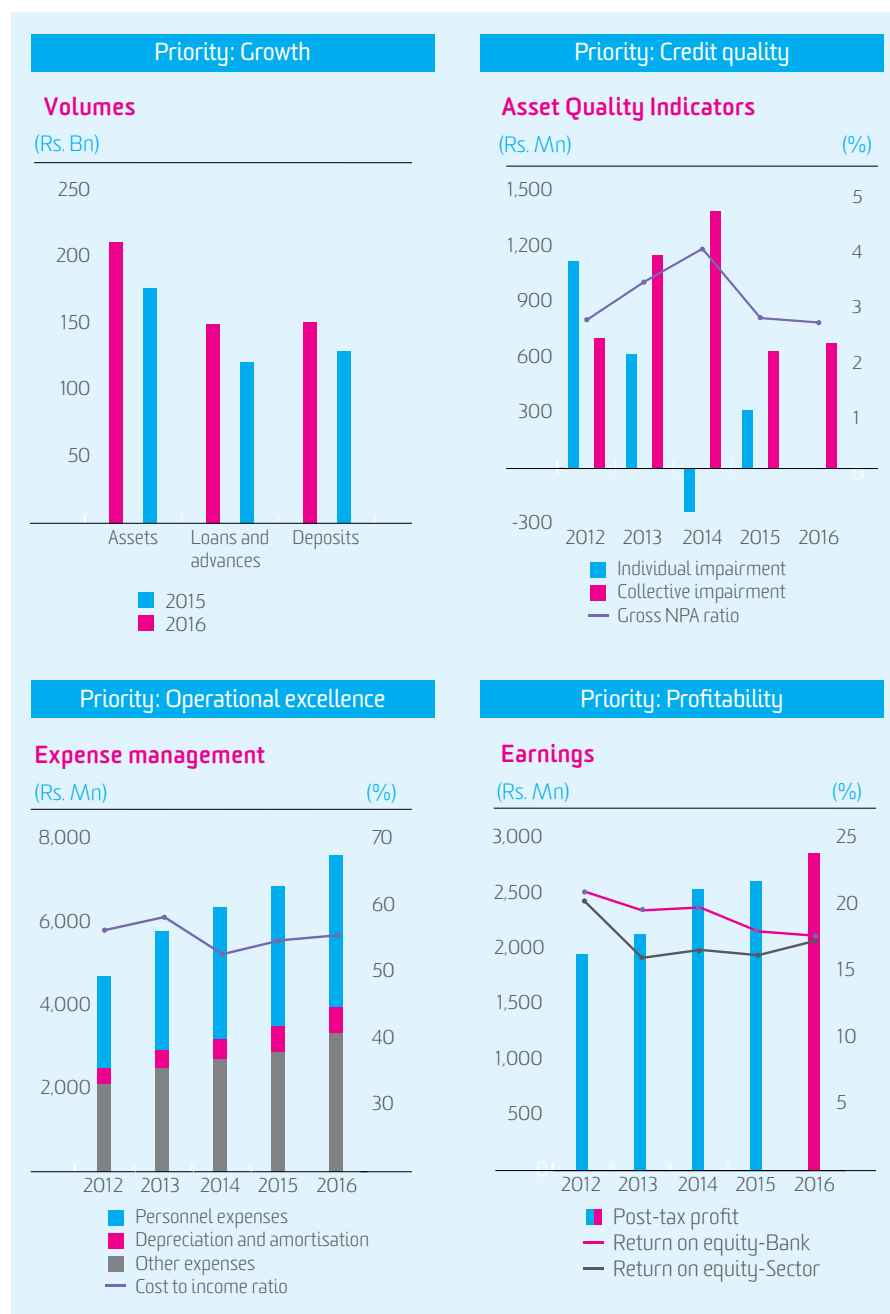
Increased by
9.5%



Return on equity (ROE)

of
17.6%
in 2016

Highlights of 2016

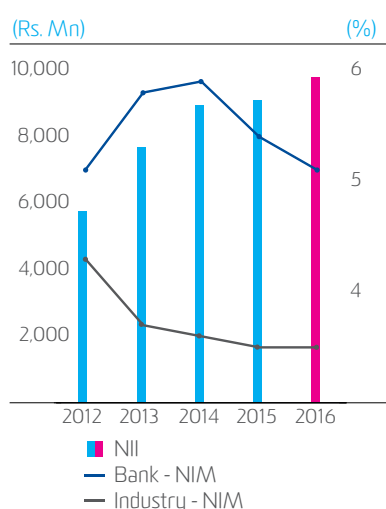


Value Creation against our Capitals

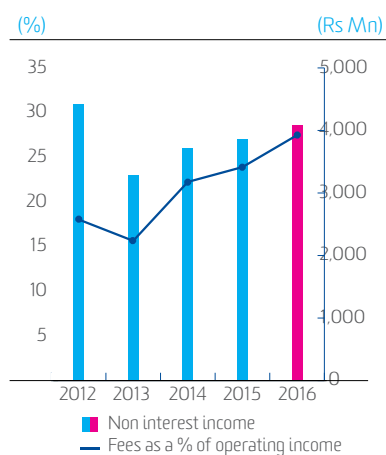
Financial Capital

The Group's net interest income (NII) grew by 7.5% to Rs.9.78 Bn during the year, supported by a 23.7% growth in loans and advances and 17% growth in customer deposits.

NII trends



Non-Interest Income



Analysis of financial performance

The following analysis of the Group's financial performance should be read in conjunction with the section on 'Delivering strategy through our business lines' on pages 78 to 105 and the Financial Statements on pages 192 to 196 of this Report.

Net interest income

Portfolio balancing for sustainable growth

The Group's net interest income (NII) grew by 7.5% to Rs.9.78 Bn during the year, supported by a 23.7% growth in loans and advances and 17% growth in customer deposits. The net interest margin (NIM) of 5.05% continued to outperform the industry average of 3.5%, although narrowing in comparison to the previous year. Margin compression was a reflection of the Group's inability to revise pricing of its fixed-term products while short tenured deposit liabilities repriced upwards and the conscious rebalancing of the portfolio towards corporate and SME assets from consumer lending.

Non- interest income

Growth in fee and commission income from focus on transactional banking

The Group's non-interest income comprised fee and commission income, net trading income and other operating income. During the year non-interest income grew by 14.96% to Rs.3.90 Bn driven by the following:

- Net fee and commission income increased by 12.4% as the Bank placed strategic focus on widening its transactional banking proposition; this included pursuing cross sell opportunities, offering enhanced online banking services, trade related services and customer foreign exchange trading
- Other operating income increased by 85.15%, upheld by profits generated on the disposal of shares held in MasterCard
- Net trading losses for the year amounted to Rs.241.38 Mn (2015: Rs.93.93 Mn); this is reflective of the swap costs arising from a larger forex portfolio and unfavourable movements in forward premiums. IFRS requires this cost to be classified as a foreign exchange trading loss, although overall the Bank benefited from the relatively lower funding costs of the forex swaps compared to the more expensive rupee funds.

Total operating income

Increased stability of the earnings profile

Total operating income grew 9.52% during the year, reflecting healthy growth in both fund and fee based components. Our commitment to improving the stability of our earnings profile through increased focus on the fee-based income is demonstrated by the latter's 26.2% contribution to total operating income while NII contributed 71.4% during the year.

Impairment charges

Consistent improvement in credit quality

The computation of impairment charges on loans and advances comprises two components, individual and collective impairment. Individual impairment is assessed based on individually large facilities which are determined based on thresholds set by the Bank. The thresholds and the impairment triggers are revised annually to ensure they are in line with the Bank's overall appetite. During the year, the threshold for individually significant facilities was increased. Collective impairment is computed by classifying facilities into several large groups based on similar risk profiles and applying a Probability of Default and Loss Given Default based on the historical credit losses of each portfolio.

In 2016, the Group's total impairment charge on loans, advances and Available for Sale assets declined by 30% to Rs. 690.27 Mn, reflecting the overall improvement in credit quality. There was a significantly low charge of individual impairment of Rs. 3.40 Mn, a substantial improvement compared to 2015 which saw a significant one-off charge on a specific facility. Collective impairment increased marginally by 1.6% to Rs. 676.53 Mn.

Credit quality as measured by non-performing-loans also improved during the year, with the Group's NPL ratio measured in accordance with CBSL guidelines declining from 2.76% in 2015 to 2.41% in 2016, better than the industry average of 2.7% as at end-September 2016. Emphasis on strengthening underwriting standards and proactive collection and recovery efforts enabled improvements in credit quality in the leasing, corporate and SME portfolios.

Expenses

Disciplined cost management while investing for growth

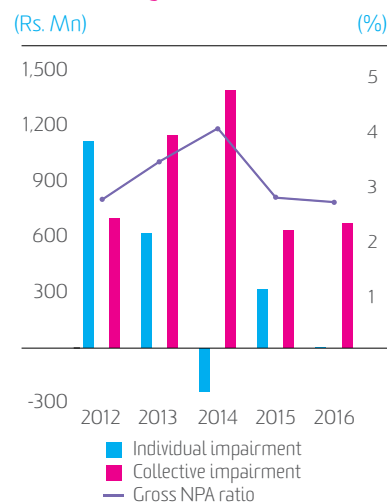
Ongoing lean initiatives resulted in disciplined management of costs which grew by 11.05% to Rs. 7.62 Bn, despite continued investments in strengthening human capital. The Group's operating expenses comprise of personnel expenses (43.7%), depreciation and amortization (8.2%) and other operating expenses (48.1%).

The main cost drivers during the year were,

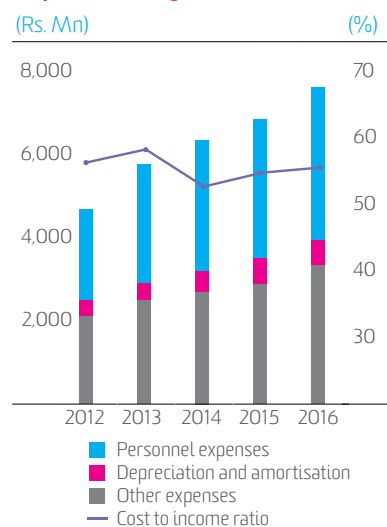
- Personnel expenses rising by 15.5% reflecting an increase in salary costs as new positions were created and highly-skilled individuals were recruited to drive the Group's ambitious strategic agenda. Investments were also made in strengthening the Group's training and talent development proposition as detailed in the Human Capital report on pages 122 to 129.
- Other operating expenses increased by 9.0% mainly due to increased investments in technology in line with the Group's strategic focus on strengthening digital capabilities.

Continued emphasis on streamlining and simplifying process and driving cost

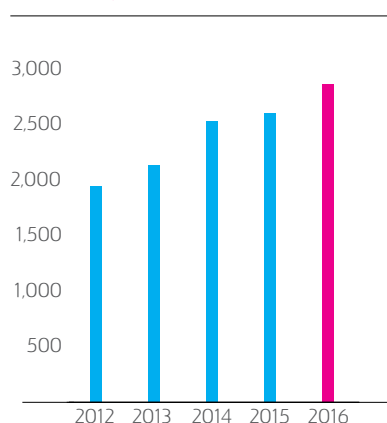
Asset Quality Indicators



Expense management



Post-tax profit (Rs. Mn)

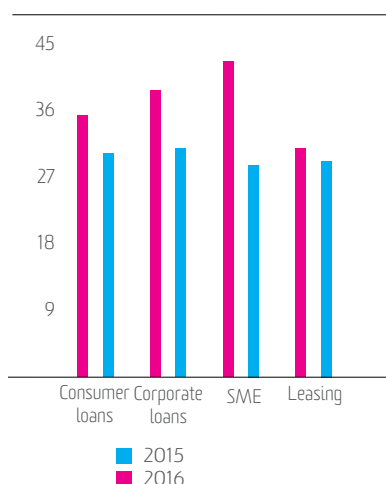


Value Creation against our Capitals

Financial Capital

The Group demonstrated strong resilience in a challenging environment to achieve a profit growth of 9.8% during the year to Rs.2.87 Bn.

Loan Portfolios (Rs. Bn)



efficiencies, enabled the Group to maintain its cost to income ratio relatively unchanged at 55.58% during the year.

Taxation

Continued value creation to government

VAT and NBT on Financial Services increased by 38.3% to LKR 1.06 Bn, whilst income tax expenses also grew by 13.9% to LKR 1.47 Bn. The VAT rate increased from 11% to 15% during 2016 was the main contributor to the increase in Group's effective tax rate to 47% from 44% the previous year.

Other comprehensive income

The fair value of investment securities available for sale recorded an unrealized loss of Rs. 349.11 Mn, resulting from the increase in interest rates during the year. The Bank's Available for Sale portfolio is subject mark to market valuation and comprises of government securities which are maintained primarily for regulatory requirements on liquidity.

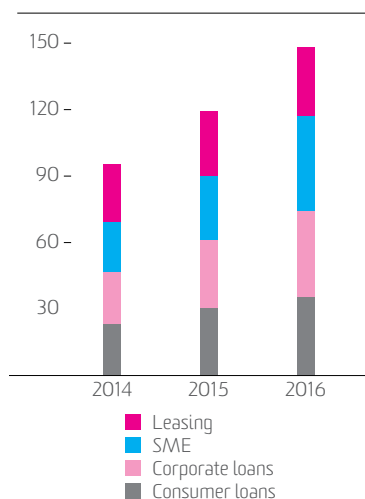
Balance sheet analysis

Capital

Maintaining balance sheet strength to drive strategy

The Group maintained a well-capitalised balance sheet with the tier 1 and overall risk weighted capital adequacy ratios (RWCAR) well within the regulatory minimums and internal targets. In November 2016, the Bank raised Rs.5.0 Bn in tier 2 capital through a subordinated debenture, which has put in place a strong foundation for growth in 2017. The Bank is currently on target to meet the increased minimum capital requirement of Rs.20 Bn by 2018 for licensed commercial banks.

Loan Portfolio Movement (Rs. Bn)



Earnings

Delivering earnings growth

The Group demonstrated strong resilience in a challenging environment to achieve a profit growth of 9.8% during the year to Rs.2.87 Bn. Performance was supported by moderate income growth, an improvement in credit quality and disciplined cost management. Resultantly, Group earnings per share increased to Rs.12.44 from Rs.11.34 in 2015.

| | June-16 | September-16 | December-16 | Regulatory minimum |
|--------------|---------|--------------|-------------|--------------------|
| Tier 1 RWCAR | 10.72% | 10.29% | 11.40% | 5.00% |
| Total RWCAR | 12.35% | 11.62% | 15.82% | 10.00% |

Loans and Advances

Customer centric lending strategy

Loan portfolio growth was relatively lackluster during the first half of 2016 before gaining momentum towards the latter part of the year due to improved investor sentiments and clear policy direction. The Group's loans and advances portfolio grew by 23.7% to Rs.149.82 Bn, which in turn supported total asset growth of 19.8%. Consumer lending grew by 17.1%, driven by targeted marketing to selected customer segments and continued focus on customer convenience. The Corporate book expanded by 23.1%, as the Bank pursued cross sell opportunities and incentivised branches to maintain corporate relationships. SME lending continued to be a key area of growth, with a portfolio expansion of 48.8% led by continued focus on customer acquisition in new markets. Leasing portfolio growth was moderate at 5.5% as the industry experienced a sharp volume drop. The Bank realigned its leasing strategy to focus primarily on credit quality and profitability.

Funding and liquidity

The funding profile remains strong and well diversified. Deposits continue to be the main source of funding and grew by 17.3% to Rs. 151.5 Bn as the Bank pursued a convenience driven value proposition. The current and savings accounts (CASA) base also increased to Rs. 42.3 Bn, despite rising interest environment, a reflection



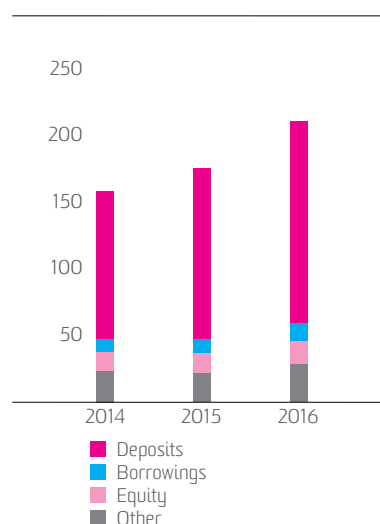
Investor Forum

of the Bank's strong deposit franchise. Borrowings increased by 39.2% to Rs.14.15 Bn and accounted for 6.7% of funding as at end-December 2016. Liquidity level was also healthy, with the statutory liquid asset ratio maintained well above the regulatory minimum.

Shareholder value creation

Nations Trust Bank's return on equity (ROE) of 17.7% in 2016, continued to be above industry average. Shareholder value as measured by EPS and Net Asset Value per Share increased by a respective 10.5% and 14.2% during the year. The Bank's share price, however, declined by 7.0% demonstrating correlation to the All Share Price Index which fell by 9.7% during the year.

Funding Profile (Rs. Bn)



| Indicators for Bank | 2016 | 2015 | 2014 |
|---------------------------|-------|-------|-------|
| Share price (year-end) | 80.90 | 86.30 | 97.00 |
| Earnings per share | 11.76 | 10.64 | 10.31 |
| Net asset value per share | 69.3 | 60.67 | 55.46 |
| Dividends per share | 2.1 | 2.1 | 2.1 |
| P/E ratio (times) | 6.88 | 8.11 | 9.41 |
| Price to book value | 1.17 | 1.42 | 1.75 |

Value Creation against our Capitals

Financial Capital

Investor Information

The ordinary shares of the bank are all listed in the Colombo Stock Exchange. The audited Income Statement for the year ended 31 December 2016, 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, 2016 | Resident | | | Non - Resident | | | Total | | |
|-------------------------|---------------------|---------------|-------|---------------------|---------------|-------|---------------------|---------------|--------|
| Shareholdings | No. of Shareholders | No. of Shares | % | No. of Shareholders | No. of Shares | % | No. of Shareholders | No. of Shares | % |
| 1 - 1000 | 3,964 | 1,481,806 | 0.64 | 41 | 20,594 | 0.01 | 4,005 | 1,502,400 | 0.65 |
| 1001 - 10,000 | 1,891 | 6,060,156 | 2.63 | 34 | 125,717 | 0.05 | 1,925 | 6,185,873 | 2.68 |
| 10,001 - 100,000 | 359 | 10,083,141 | 4.37 | 9 | 327,081 | 0.14 | 368 | 10,410,222 | 4.51 |
| 100,001 - 1,000,000 | 43 | 9,858,369 | 4.27 | 6 | 3,239,170 | 1.40 | 49 | 13,097,539 | 5.67 |
| Over 1,000,000 | 13 | 148,789,759 | 64.53 | 3 | 50,621,490 | 21.96 | 16 | 199,411,249 | 86.49 |
| | 6,270 | 176,273,231 | 76.44 | 93 | 54,334,052 | 23.56 | 6,363 | 230,607,283 | 100.00 |

There were 6,270 Resident and 93 Non - resident shareholders as at 31 December 2016

Analysis of Shareholders

| | 31.12.2016 | | | 31.12.2015 | | |
|---------------|---------------------|---------------|--------|---------------------|---------------|--------|
| | No. of Shareholders | No. of Shares | % | No. of Shareholders | No. of Shares | % |
| Individual | 6,016 | 25,420,506 | 11.02 | 6,200 | 27,057,877 | 11.73 |
| Institutional | 347 | 205,186,777 | 88.98 | 373 | 203,549,406 | 88.27 |
| | 6,363 | 230,607,283 | 100.00 | 6,573 | 230,607,283 | 100.00 |

As per the Rule No. 7.6 (iv) of the Colombo Stock Exchange, percentage of public holding as at 31 December 2016 was 34.84 % (34.85% as at 31 December 2015) Number of public shareholders are 6,347.

Market Information on Ordinary Shares of the Company

| | 2016 | 2015 |
|---------------------------------|-----------|-----------|
| Market value | | |
| Highest Value (LKR) | 90.00 | 115.60 |
| Lowest Value (LKR) | 73.00 | 80.00 |
| Value at end of year (LKR) | 80.90 | 86.30 |
| Trading Statistics | | |
| No. of Transactions | 3,598 | 6,567 |
| No. of shares Traded (Mn) | 8.09 | 38.27 |
| Value of shares Traded (LKR Mn) | 637.63 | 3,890.12 |
| Market Capitalization | | |
| Market Capitalization (LKR Mn) | 18,656.13 | 19,901.41 |

Twenty largest shareholders as at 31 December 2016

| Name of the Shareholder | 2016 | | 2015 | |
|--|---------------|--------|---------------|--------|
| | 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 | 34,591,092 | 15.00 |
| 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 |
| Janashakthi General Insurance Limited | 18,582,682 | 8.06 | 18,582,682 | 8.06 |
| CF Growth Fund LTD A/C No. 01 | 14,813,273 | 6.42 | 14,813,273 | 6.42 |
| HSBC INTL NOM LTD - SSBT - First State Investment ICVC - Stewart Investors Asia Pacific Fund | 14,366,325 | 6.23 | - | - |
| CF Insurance Brokers (PVT) LTD | 10,592,857 | 4.59 | 10,592,857 | 4.59 |
| Janashakthi Insurance PLC (Policy Holders) | 4,091,107 | 1.77 | 4,091,107 | 1.77 |
| Hatton National Bank PLC A/C No.1 | 3,703,543 | 1.61 | 3,703,543 | 1.61 |
| Mr. Hashim | 2,600,000 | 1.13 | 2,600,000 | 1.13 |
| Mr. Somaiya | 1,320,624 | 0.57 | 1,320,624 | 0.57 |
| Timex Garments (PVT) LTD | 1,238,465 | 0.54 | 1,238,465 | 0.54 |
| Bank Of Ceylon - No 2 A/C | 1,236,880 | 0.54 | 1,546,100 | 0.67 |
| Deutsche Bank AG As Trustee For Namal Acuity Value Fund | 1,200,000 | 0.52 | 1,200,000 | 0.52 |
| Malship Ceylon LTD | 1,063,857 | 0.46 | 1,063,857 | 0.46 |
| Mr. Blackler | 1,000,000 | 0.43 | 1,000,000 | 0.43 |
| HSBC INTL NOM LTD - SSBT - Parametric Tax - Managed Emerging Markets Fund | 934,186 | 0.41 | 934,186 | 0.41 |
| Deutsche Bank AG - National Equity Fund | 842,134 | 0.37 | 842,134 | 0.37 |
| Mr. Arachchi | 820,000 | 0.36 | - | - |
| | 202,664,120 | 87.89 | 187,787,015 | 81.43 |
| Others | 27,943,163 | 12.11 | 42,820,268 | 18.57 |
| Total | 230,607,283 | 100.00 | 230,607,283 | 100.00 |

Value Creation against our Capitals

Financial Capital

Debenture Information

The rate unsecured subordinated redeemable debentures 2016/21 and 2013/18 of the bank are listed in the Colombo Stock Exchange

| Debenture Categories | CSE listing | Interest Payable Frequency | Face value 2016/2015 | |
|----------------------|-----------------------------|----------------------------|----------------------|------------------|
| | | | 2016 | 2015 |
| | | | LKR'000 | LKR'000 |
| Fixed Rate | NTBD0164 | Semi -Annually | | 200,000,000.00 |
| Fixed Rate | NTBD0165 | Semi -Annually | | 275,000,000.00 |
| Fixed Rate | NTBD0163 | Semi -Annually | | 1,525,000,000.00 |
| Fixed Rate | NTBD0266 | Semi -Annually | 3,000,000,000 | 3,000,000,000.00 |
| Floating | NTB-BD-08/11/21-C2363 | Semi -Annually | 2,410,000 | |
| Fixed Rate | NTB-BD-08/11/21-C2365-12.65 | Semi -Annually | 3,885,800,000 | |
| Fixed Rate | NTB-BD-08/11/21-C2364-12.8 | Annually | 1,111,790,000 | |
| | | | 8,000,000,000 | 5,000,000,000 |

| Ratios of Debt | 2016 | 2015 |
|-------------------------|--------|--------|
| * Debt / Equity Ratio % | 62.86% | 49.81% |
| Interest Cover (Times) | 6.64 | 6.16 |
| Quick Asset Ratio % | 87% | 87% |

*Debt includes only the subordinated debt as at 31 December

| Market Values 2016 | | | Interest Rates 2016 | | Interest Rate of Comparable Government security | | Other Ratios as at date of last trade | |
|--------------------------------------|--------|----------|---------------------|------------------------|---|------------|---------------------------------------|-------------------|
| Highest | Lowest | Year end | Coupon Rate | Effective Annual yield | 31.12.2016 | 31.12.2015 | Interest Yield | Yield to Maturity |
| LKR | LKR | LKR | % | % | % | % | % | % |
| | | | | | | 6.84 | | |
| | | | | | | 6.84 | | |
| | | | | | | 6.84 | | |
| Not traded during the current period | | | 13.00 | 13.42 | 11.42 | 9.03 | Not traded during the current period | |
| Not traded during the current period | | | 12.02 | 12.38 | 12.15 | N/A | Not traded during the current period | |
| 100.00 | 100.00 | 100.00 | 12.65 | 13.05 | 12.15 | N/A | 12.65 | 12.64 |
| 100.00 | 100.00 | 100.00 | 12.80 | 12.80 | 12.15 | N/A | 12.80 | 12.79 |

Value Creation against our Capitals

Financial Capital

Ten Year Summary (Group)

| Year Ended December 31st | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---------|---------|---------|---------|---------|---------|----------|---------|---------|----------|
| Rs Mn | | | | | | | | | | |
| OPERATING RESULTS | | | | | | | | | | |
| Gross Income | 9,342 | 13,877 | 14,037 | 12,215 | 11,885 | 17,673 | 20,362 | 20,854 | 20,279 | 25,547 |
| Interest Income | 8,011 | 12,094 | 12,049 | 10,090 | 9,795 | 15,113 | 17,911 | 17,452 | 16,628 | 21,384 |
| Interest Expense | (5,900) | (9,185) | (8,329) | (5,525) | (5,391) | (9,358) | (10,237) | (8,513) | (7,523) | (11,598) |
| Net Interest Income | 2,111 | 2,909 | 3,720 | 4,565 | 4,404 | 5,755 | 7,675 | 8,940 | 9,105 | 9,786 |
| Fees & Other Income | 1,331 | 1,783 | 1,988 | 2,125 | 2,089 | 2,576 | 2,235 | 3,177 | 3,414 | 3,925 |
| Net Income | 3,442 | 4,692 | 5,708 | 6,690 | 6,493 | 8,331 | 9,910 | 12,117 | 12,519 | 13,711 |
| Operating Expenses (inc.Imp.Charge/Reversal & VAT) | (2,594) | (3,664) | (4,327) | (4,662) | (4,158) | (5,565) | (6,759) | (8,290) | (8,614) | (9,371) |
| Profit Before Taxation | 848 | 1,028 | 1,381 | 2,028 | 2,335 | 2,766 | 3,151 | 3,827 | 3,905 | 4,340 |
| Provision for Taxation | (343) | (435) | (695) | (944) | (729) | (815) | (1,015) | (1,290) | (1,291) | (1,471) |
| Profit After Taxation | 505 | 593 | 686 | 1,084 | 1,607 | 1,951 | 2,136 | 2,537 | 2,614 | 2,869 |
| Other Comprehensive Income (OCI) | | | | | | | (9) | 104 | (32) | (236) |
| Profit After OCI | | | | | | | 2,127 | 2,641 | 2,582 | 2,633 |

As at December 31st,

ASSETS

| | | | | | | | | | | |
|--------------------------------------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|
| Cash & Short-Term Funds | 3,147 | 4,065 | 1,431 | 1,531 | 3,695 | 2,534 | 3,020 | 6,900 | 6,392 | 4,188 |
| Statutory Deposits with Central Bank | 1,964 | 1,717 | 2,044 | 2,416 | 4,284 | 5,089 | 4,032 | 3,992 | 5,284 | 8,512 |
| Government Treasury Bills & Bonds | 11,331 | 15,688 | 23,894 | 26,876 | 24,982 | 34,038 | 44,812 | 40,696 | 31,623 | 36,738 |
| Investment Securities | 2,392 | 3,781 | 4,239 | 4,020 | 3,153 | 2,221 | 2,315 | 3,949 | 7,065 | 6,926 |
| Loans & Advances | 34,500 | 38,585 | 35,335 | 44,571 | 61,188 | 73,424 | 82,327 | 98,347 | 121,143 | 149,818 |
| Other Assets | 1,209 | 1,914 | 1,210 | 1,287 | 2,280 | 2,591 | 2,894 | 1,419 | 1,386 | 1,814 |
| Property Plant & Equipment | 1,065 | 2,035 | 1,919 | 1,788 | 1,891 | 1,908 | 2,048 | 2,194 | 2,143 | 1,996 |
| Intangible Assets | 79 | 79 | 432 | 759 | 600 | 642 | 680 | 1,283 | 1,224 | 1,189 |
| Total Assets | 55,687 | 67,864 | 70,504 | 83,248 | 102,073 | 122,447 | 142,128 | 158,781 | 176,262 | 211,180 |

LIABILITIES

| | | | | | | | | | | |
|--------------------------|--------|--------|--------|--------|--------|---------|---------|---------|---------|---------|
| Deposits | 28,666 | 34,146 | 44,222 | 48,315 | 67,633 | 86,274 | 95,730 | 111,010 | 129,158 | 151,502 |
| Due to Banks | 1,394 | 1,039 | 391 | 500 | 1,277 | 2,712 | 1,401 | 2,923 | 2,276 | 11,851 |
| Deferred Tax Liabilities | 201 | 436 | 437 | 456 | 236 | 280 | 341 | 413 | 733 | 969 |
| Borrowings | 19,261 | 24,628 | 16,629 | 21,979 | 20,203 | 18,695 | 27,508 | 25,402 | 23,433 | 23,536 |
| Other Liabilities | 3,296 | 3,272 | 4,048 | 5,193 | 4,095 | 4,390 | 5,410 | 5,138 | 5,491 | 6,001 |
| Total Liabilities | 52,818 | 63,521 | 65,727 | 76,443 | 93,444 | 112,351 | 130,390 | 144,887 | 161,090 | 193,859 |

| Year Ended December 31st Rs Mn | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|
| SHAREHOLDERS' FUNDS | | | | | | | | | | |
| Share Capital/Stated Capital | 2,062 | 3,110 | 3,110 | 4,368 | 5,101 | 5,101 | 5,101 | 5,101 | 5,101 | 5,101 |
| Reserve Fund | 57 | 80 | 106 | 156 | 224 | 314 | 419 | 538 | 661 | 796 |
| Reserves | 750 | 1,153 | 1,561 | 2,281 | 3,304 | 4,681 | 6,217 | 8,255 | 9,409 | 11,423 |
| Total Shareholders' Funds | 2,869 | 4,343 | 4,777 | 6,805 | 8,629 | 10,096 | 11,738 | 13,895 | 15,171 | 17,321 |
| Total Liabilities & Shareholders' Funds | 55,687 | 67,864 | 70,504 | 83,248 | 102,073 | 122,447 | 142,128 | 158,781 | 176,262 | 211,180 |
| Commitments & Contingencies | 18,138 | 53,617 | 51,591 | 60,547 | 72,792 | 86,239 | 90,267 | 98,799 | 96,792 | 123,585 |
| RATIOS (Group) | | | | | | | | | | |
| Return on Average Shareholders' Funds (%) | 17.62 | 16.45 | 15.04 | 18.72 | 20.82 | 20.84 | 19.57 | 19.79 | 17.99 | 17.66 |
| Net Income Growth (%) | 30.28 | 36.32 | 21.65 | 17.20 | (2.94) | 28.31 | 18.95 | 22.27 | 3.33 | 9.52 |
| Return On Average Assets (%) | 0.98 | 0.96 | 0.99 | 1.41 | 1.73 | 1.74 | 1.61 | 1.69 | 1.56 | 1.48 |
| Property Plant & Equipment to Shareholders' Funds (%) | 37.12 | 46.86 | 40.17 | 26.27 | 21.91 | 18.90 | 17.45 | 15.79 | 14.13 | 11.53 |
| Total Assets to Shareholders' Funds (Times) | 19.41 | 15.63 | 14.76 | 12.23 | 11.83 | 12.13 | 12.11 | 11.43 | 11.62 | 12.19 |
| Cost/Income Ratio (%) | 65.37 | 65.43 | 57.67 | 58.79 | 61.87 | 56.39 | 58.31 | 52.52 | 54.81 | 55.58 |
| Capital Adequacy Ratio Tier I (%) | 7.20 | 10.31 | 11.79 | 13.43 | 13.42 | 13.82 | 14.78 | 14.16 | 13.15 | 11.40 |
| Capital Adequacy Ratio Tier II (%) | 10.44 | 15.70 | 16.11 | 15.74 | 17.44 | 18.18 | 20.00 | 18.28 | 15.53 | 15.82 |
| SHARE INFORMATION (Bank) | | | | | | | | | | |
| Market Value per Share (Rs) | 29.75 | 22.25 | 36.75 | 83.40 | 57.00 | 56.00 | 62.20 | 97.00 | 86.30 | 80.90 |
| Earnings Per Share (Rs) | 4.28 | 2.95 | 2.99 | 4.66 | 6.97 | 8.46 | 9.16 | 10.31 | 10.64 | 11.76 |
| Price Earning Ratio (Times) | 6.95 | 7.54 | 12.29 | 17.90 | 8.18 | 6.62 | 6.79 | 9.41 | 8.11 | 6.88 |
| Net Asset Value per Share (Rs) | 20.50 | 23.47 | 24.96 | 29.25 | 37.42 | 43.78 | 46.79 | 55.46 | 60.67 | 69.30 |
| Earnings Yield (%) | 14.39 | 13.26 | 8.14 | 5.59 | 12.23 | 15.11 | 14.73 | 10.63 | 12.32 | 14.53 |
| Dividend Per Share (Rs) | 1.33 | 1.50 | 1.50 | 2.00 | 2.10 | 2.10 | 2.10 | 2.10 | 2.10 | 2.10 |
| Dividend Payout Ratio (%) | 31.07 | 50.85 | 50.17 | 42.92 | 30.13 | 24.82 | 22.92 | 20.36 | 19.74 | 17.86 |
| % of 20 Largest Shareholders | 81.07 | 81.32 | 76.38 | 78.58 | 78.22 | 65.78 | 79.64 | 81.53 | 86.02 | 87.69 |
| OTHER INFORMATION (Group) | | | | | | | | | | |
| Number of Employees | 1,239 | 1,615 | 1,532 | 1,608 | 1,853 | 2,037 | 2,262 | 2,562 | 2,695 | 2,770 |
| Number of Branches | 31 | 36 | 38 | 40 | 48 | 57 | 72 | 89 | 92 | 93 |
| No of ATMs | 38 | 47 | 44 | 51 | 60 | 70 | 100 | 124 | 131 | 136 |

Value Creation against our Capitals



Manufactured Capital

The Bank's Manufactured capital consists of tangible and intangible infrastructure which includes the Bank's branch and ATM network as well as its information systems and other digital infrastructure.

Optimisation and ongoing investments in expanding and enhancing the quality of its manufactured capital has enabled the Bank to unlock future growth potential while simplifying processes and harnessing synergies and efficiencies.



Branches

93

to serve our customers across the island



Investment in Digital

Rs. 104 Mn

to facilitate our digital transformation

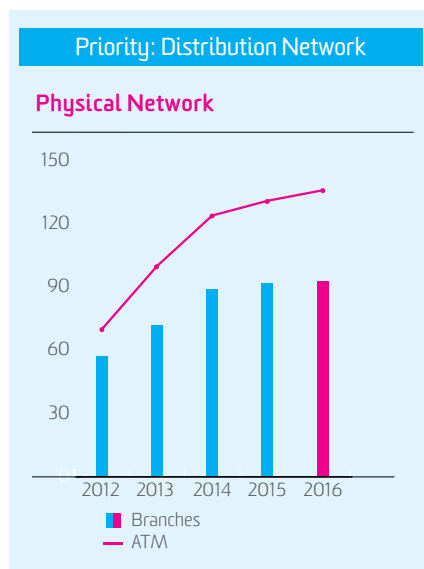


ATM's

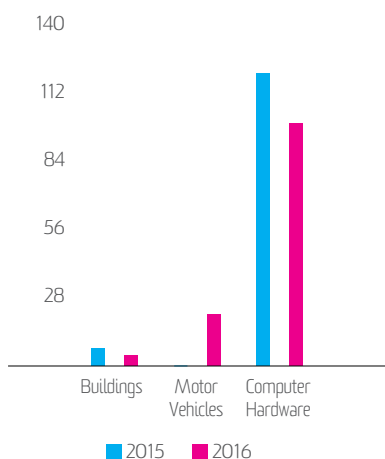
136

across the geographies

Highlights of 2016



Value Addition to Manufactured Capital (Rs. Mn)



Physical infrastructure

The Bank's branches are the key contact point for customer engagement and play a vital role in facilitating the customer experience and nurturing brand recognition. Consumer, SME, Leasing and Corporate (to a lesser extent) product offerings are promoted to customers through the branch network facilitating both deposit mobilization and credit growth.

During the years between 2012 and 2014, the Bank pursued strong expansion of its branch network, with 32 additions over 2 years. In 2016, we focused on consolidating this reach through driving profitability

in these new geographies and improving process efficiencies. We have also adopted a three-tiered branch structure with the objective of realigning and optimising resource allocation to appropriately reflect growth potential. Branches also pursued a deposit drive during the year, with the objective of growing the Bank's low-cost funding base; resultantly our CASA base grew by 2% during the year (SA growth of 6% and CA contraction of 6%) despite an increasing interest rate trajectory which saw the overall industry growth in CASA base slowing down significantly. In strengthening the Bank's self-service proposition, we added one digital branch in Kandy during the year. Implementation of 5S and a lean focus has allowed branches to enhance productivity and efficiency with an average staff to branch ratio of around 8 which is amongst the lowest in the industry. Our physical infrastructure also includes an island-wide network of 136 ATMs.

Digital infrastructure

Driving growth and efficiencies through digital infrastructure is a key pillar of the Bank's strategy and during the year we invested Rs. 104 Mn in facilitating our digital transformation. Emerging technologies have provided a myriad of opportunities for enhancing the customer experience and improving internal efficiencies and during the year we focused on both these aspects through the following;

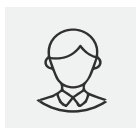
Enhancing the customer proposition

- ▶ Online banking portal with sophisticated features
- ▶ Increased investments in self-service delivery channels
- ▶ Enhanced the information security infrastructure

Driving internal efficiencies

- ▶ Adoption of robotic technology to automate several processes
- ▶ Facilitating management access to real time information
- ▶ ALM model enabling better risk management and internal controls
- ▶ Launched a mobile app for employees

Value Creation against our Capitals



Human Capital

At the heart of our long-term aspirations is a dynamic and agile team of 2,770 employees that is engaged, motivated and empowered to drive our ambitious strategies.

We recognise the importance of having the right people in the right positions while ensuring that our employee value proposition drives personal growth and career advancement.

**Average age**

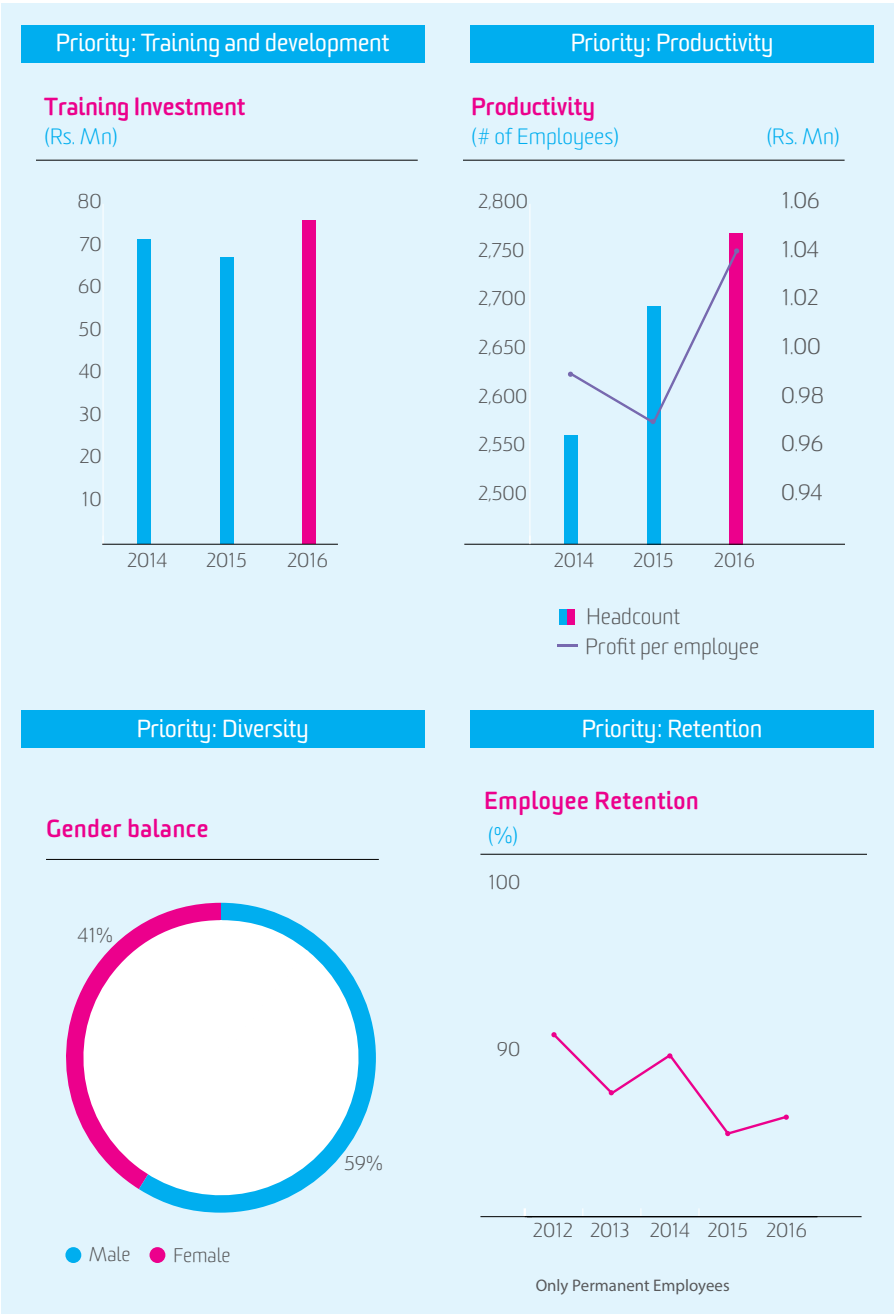
of our team

28**Bank
employed****41%**

Female employees

**Investment
on training &
development****76 Mn**

Highlights of 2016

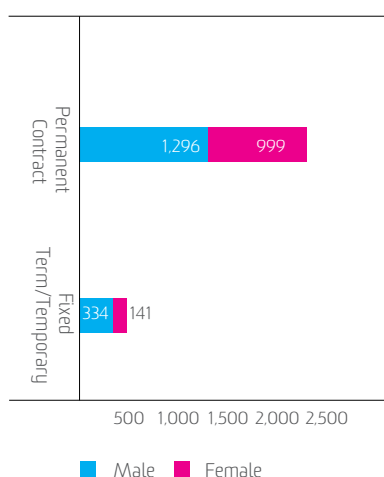


Value Creation against our Capitals

Human Capital

The people strategy for the year was determined with specific reference to the Bank's overall strategic agenda.

Employees by contract and gender
(# of employees)



Approach to people management

Our approach to managing our team is underpinned by a comprehensive framework of policies which has been approved by the Board. The Board is supported by the Remuneration committee in discharging its human capital related duties. Implementation of the HR framework is the responsibility of the HR Department which reports to the CEO. The policy framework has been formulated to ensure compliance with all relevant regulatory requirements including prohibition of child labour and forced/compulsory labour. The framework covers numerous aspects of HR including recruitment, remuneration, talent development and performance management among others.

People strategy in 2016

The people strategy for the year was determined with specific reference to the Bank's overall strategic agenda. Emphasis was placed on equipping employees with the requisite skills and ensuring a conducive work environment to drive the Bank's strategic goals.





Our team

The profile of our team reflects the Bank's ambitions in dynamism and agility. Our workforce is young, energetic and diverse, responding well to change and the increasing digitisation in the sector. The average age of our team is 28 and we strive to create a culture in which all generations of staff are engaged and work collectively towards common goals. Nations Trust Bank also prides itself in having one of the highest representation of females in management in the entire sector.

Workforce by region and gender

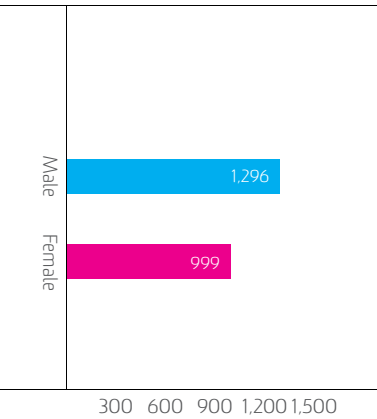
| | Male | Female |
|------------------------|-------|--------|
| Western Province | 1,227 | 985 |
| Central Province | 65 | 37 |
| North Central Province | 19 | 6 |
| Eastern Province | 40 | 12 |
| Southern Province | 110 | 40 |
| North Western Province | 66 | 26 |
| Uva Province | 33 | 7 |
| Sabaragamuwa | 34 | 16 |
| Northern Province | 31 | 11 |
| Overseas | 5 | 0 |

Strategic focus areas in 2016

| Relevance to overall strategy | Strategic action |
|--|---|
|  <p>People</p> | <ul style="list-style-type: none"> Strengthening the talent development proposition through introduction of the Life Cycle Training Framework Employee engagement platforms designed to cater specifically to generations Y and Z Revising the promotions policy to enhance the transparency and objectivity of the process while nurturing a performance driven culture Introduction of several new benefits |
|  <p>Customers</p> | <p>Specialised training on developing employee soft skills including customer service, communication and people management as part of the Life Cycle Training Framework which was launched during the year.</p> |
|  <p>Digital</p> | <p>Launched Nations Connect- a mobile app which allows employees to perform administrative functions such as applying for leave and approving leave via a smart phone</p> |
|  <p>Lean Concepts</p> | <ul style="list-style-type: none"> Recognition of lean efforts through selection of a Lean Champion for the year at the Magnus Awards Provide the opportunity for employees to obtain specific lean training and champion a project of choice |

Permanent Employees by Gender

(# of employees)



*There are no part time employees in the Group



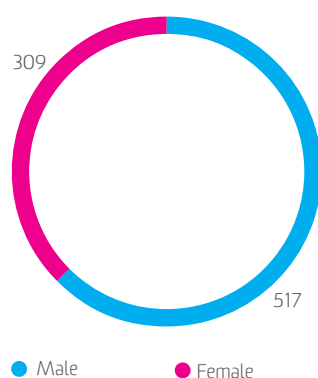
Amazing Race

Value Creation against our Capitals

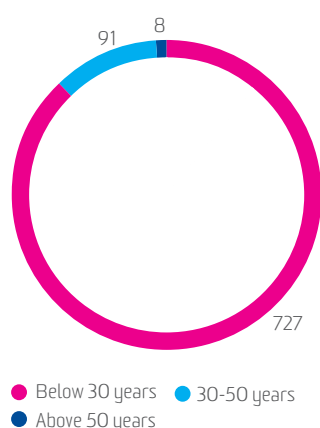
Human Capital

The people strategy for the year was determined with specific reference to the Bank's overall strategic agenda.

New hires- gender breakdown



New hires-age breakdown



Employee engagement

Enhancing employee engagement was a key priority during the year, with specific focus placed on increasing communication with millennials through numerous formal and informal platforms. Routine methods of engagement include employee satisfaction surveys, performance appraisals, recreational activities organized by the Bank's Sports club and the intranet among others. Meanwhile, a dedicated employee engagement manager acts as the contact point for employees' recreational and sports activities. The Bank's employees are not unionised. In 2016, we focused on strengthening engagement with Generation X, Y and Z employees through the following;

- Launch of the Music and Photography clubs which feature year-round activities which are sponsored by the HR department
- Inter-department cricket carnival and Amazing Race
- Providing an opportunity for branch employees to engage with Corporate Management, through structured branch visit programs

Talent attraction

We are an equal opportunity employer and our policies are designed to employ, remunerate and evaluate employees based on their skills, experience and performance

irrespective of gender, age or religion.

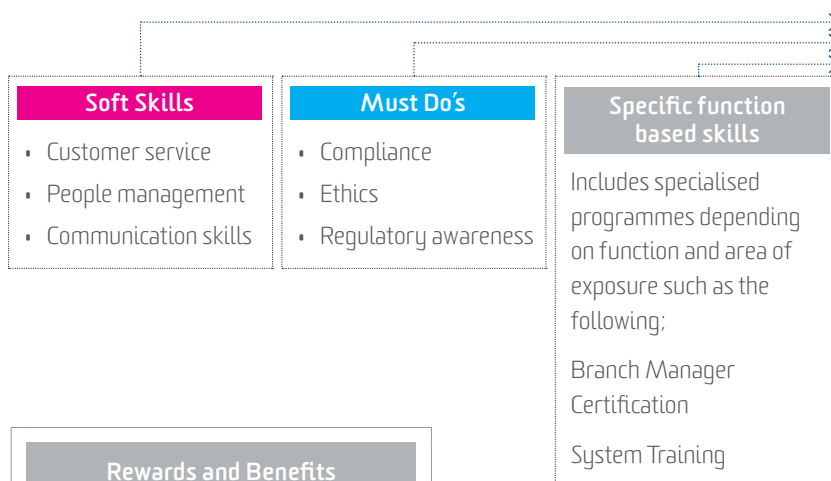
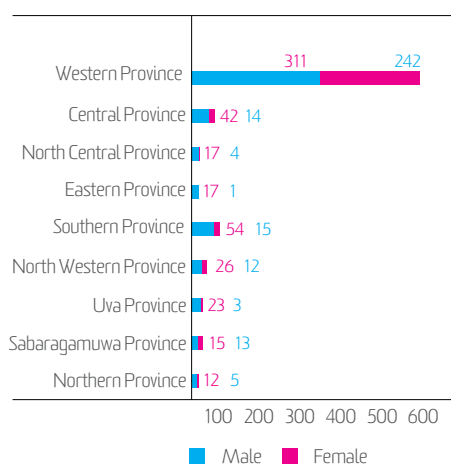
Recruitment and selection processes ensure the attraction of individuals with the right skills and attitudes depending on the relevant position. The Group's brand and reputation as a preferred employer enables it to attract talent at all levels ranging from entry level talent to senior, highly specialised positions. During the year, the Bank hired 826 employees.

Compensation and benefits

The Bank's Compensation and Benefit framework has been structured with the objective of attracting, motivating and retaining skilled employees while balancing the interests of other stakeholders. The reward structures ensure an appropriate balance between guaranteed and performance based components, enabling the Bank to nurture a performance driven culture. The objectives of the CEO, which are set in reference to the Bank's strategic goals, are cascaded down to all employees thereby clearly communicating line manager expectations of performance. All permanent employees are appraised annually on a 1:5 rating scale, which forms the basis for determining performance based bonus, promotions and annual increments. Ratings are reviewed by two committees to ensure consistency in application of rating methodology across the Bank. There is no gender, racial or religious bias in the remuneration policies or scales.

All permanent employees are appraised annually on a 1:5 rating scale, which forms the basis for determining performance based bonus, promotions and annual increments.

New Hires by Region and Gender



| Rewards and Benefits |
|--|
| Reimbursement of professional subscriptions and education assistance |
| Fuel reimbursement |
| Hospitalization Scheme |
| Reimbursement of Club Membership for defined categories |
| Personal Accident Cover |
| Relocation allowance |
| Travelling and vehicle allowance |
| Telephone/internet reimbursement |
| Housing and vehicle loans at concessionary rates |
| Loans at concessionary rates to purchase SMART phones |

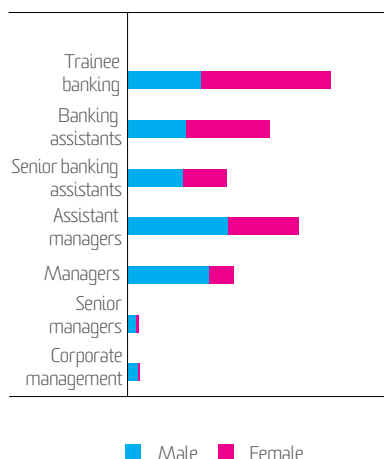
High performers are rewarded with opportunities for career progression, financial rewards and training. The promotion policy was revised during the year to minimize subjective judgement through the application of a comprehensive set of performance indicators (including attitudes, technical and leadership skills, training exposure among others) which are communicated to employees thereby increasing the transparency of the process. At Senior Management level, 360 degree evaluations were introduced to effectively identify the Bank's next generation of leaders and develop the talent pipeline.

Total remuneration and benefits to employees increased by 15% to Rs. 3,258 Mn during the year. A wide range of rewards and benefits are available to permanent employees and the quantum and frequencies of these benefits defer based on the employment category.

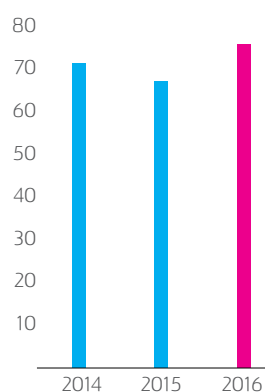
Value Creation against our Capitals

Human Capital

Training hours by gender and category



Training Investment
(Rs. Mn)



Nations Cricket Carnival



Kiddle's Christmas Party



Magnus Awards

Productivity

Employee productivity as measured through profit per employee increased by 7% during the year. This improvement was facilitated by ongoing focus on streamlining and simplifying processes, increasing automation, and employee skill development.

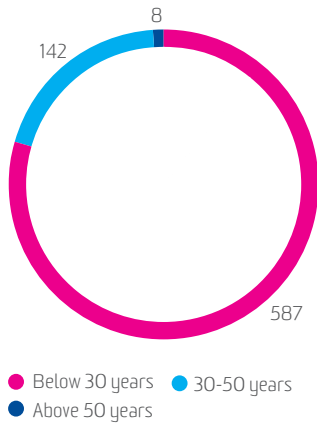
Training and development

Employee training and development is a key pillar of our employee value proposition and we are proud to have nurtured passionate and skilled individuals who will lead the Bank in the years to come. During the year we placed considerable attention on developing and upskilling employees to ensure that they are equipped with the right skills and attitudes to drive the Bank's organisational strategy. We adopted a life cycle approach to training, which consists of structured training interventions for each

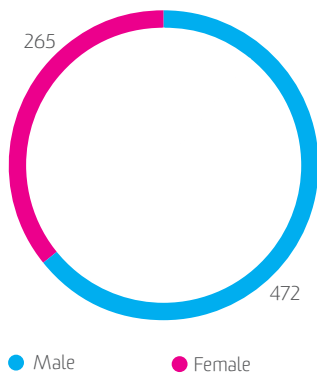
grade ensuring that he/she obtains both the technical and leadership skills to effectively perform his/her role.

In addition to the above, the Nations Learning Academy provides the opportunity for our staff to be trained and certified in critical areas such as sales, service, compliance and business English. Ongoing training and certification is also provided to SME employees through the Nations SME Academy including training on credit evaluation, collection, monitoring and customer relationship management. Aligning with the Bank's strategy of catering to the mass affluent segment of the economy, specialised training is provided to inner circle and private banking ambassadors with particular focus on customer servicing skills, personal grooming and product knowledge.

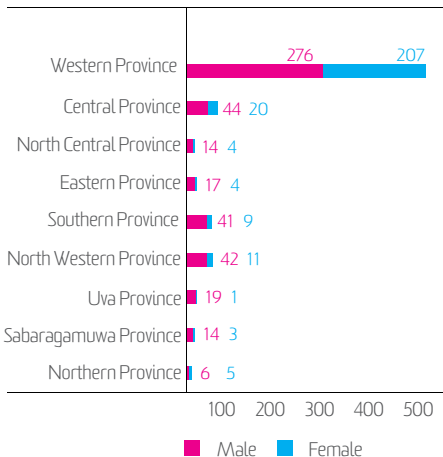
Turnover by Age (Permanent and Contract Staff)



Turnover by Gender (Permanent and Contract Staff)



Turnover by Region and Gender



Sports Day



Dinner Dance

In 2016, we invested Rs. 76 Mn in training and development an increase of 13% in comparison to the previous year. The training coverage ratio for the year under review was 34%. Average training hours for permanent female employees is 36% and average training hours for permanent male employees is 30%.

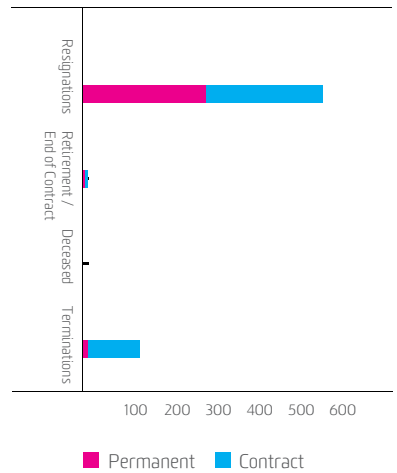
Health and safety

The 5S initiative which was launched in 2014 has enabled us to establish a clutter and hazard free environment. Other safety measures in place include periodic training on fire safety and fire alarm checks and regular feedback is obtained from employees through open dialogue in relation to work place logistical and safety issues. Special allowances are also provided for certain categories of staff in recognition of the additional risks they are exposed to in specific roles, particularly when handling large volumes of cash in the branches.

Employee grievance mechanism

An open door policy and multiple platforms facilitating employee engagement have

Reasons for Attrition (# of employees)



encouraged employees to bring forward grievances and concerns. In addition, a structured grievance handling mechanism is also in place which ensures confidentiality, a fair hearing and action where deemed necessary.

| 2016 | |
|-----------------------------|---|
| No. of grievances filed | 3 |
| No. of grievances addressed | 3 |
| No. of grievances resolved | 2 |

Employee retention

Talent retention continues to be a key challenge faced by the industry with competition for talent intensifying within the Financial Services sector. The Bank's retention levels are relatively high due to talent management policies which provide numerous opportunities for career progression as well as the specific focus placed on motivating, upskilling and empowering millennials, who typically shift jobs frequently. In 2016, the Bank's turnover rate declined marginally in comparison to the previous year.

Value Creation against our Capitals



Social & Relationship Capital

The relationships we have nurtured with our stakeholders provide us the social license to operate and we continue to seek new ways to combine our innovation, expertise and sustainability commitments to ensure better solutions to all our stakeholder groups.

**Customer Satisfaction****76%**

The highest score achieved since 2012

**Number of Customers****>600k**

Our customers consist of individuals, SMEs and corporate clients

**Customer Seminars****16**

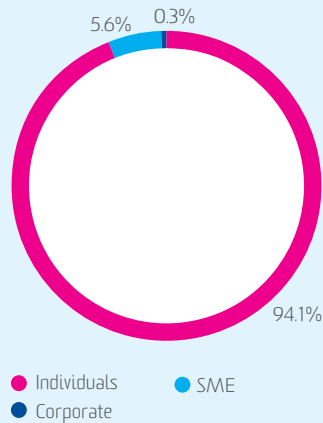
Facilitating customer education through providing access to consultants and expert training

Highlights of 2016



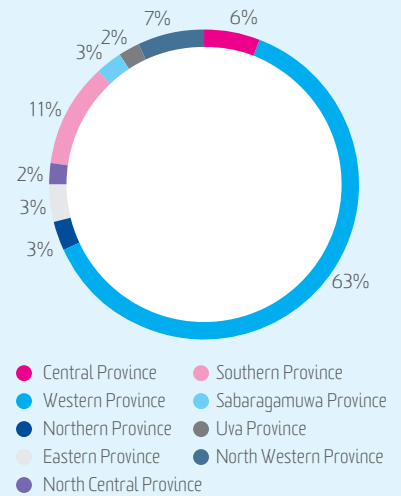
Priority: Customer Segment

Customer Profile by Segment



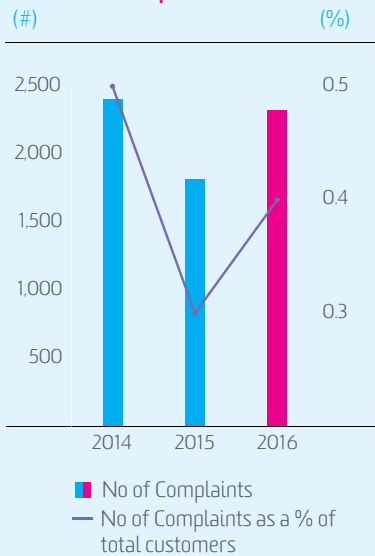
Priority: Customer Distribution

Customer Profile-by Province



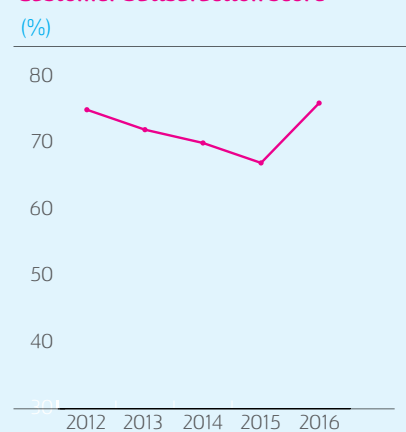
Priority: Customer Feedback

Customer Complaints



Priority: Customer Satisfaction

Customer Satisfaction score

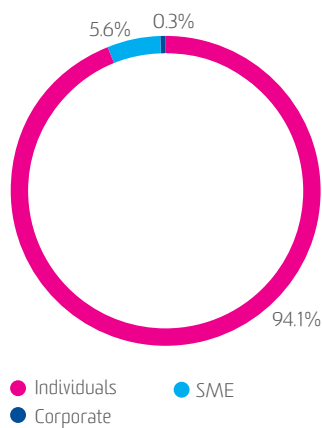


Value Creation against our Capitals

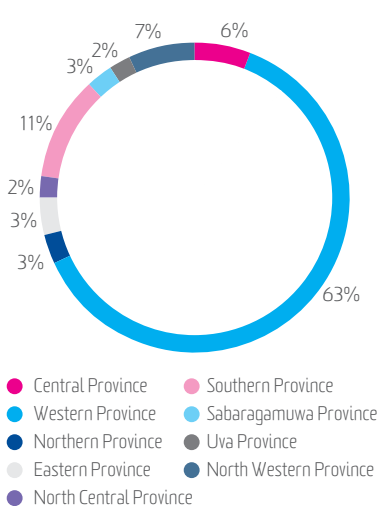
Social & Relationship Capital

Customer satisfaction is measured through recording and analysing feedback received from the Call Centre and Centralised Customer Service Unit.

Customer Profile by Segment



Customer Profile-by Province



Customers

Customer centricity is a vital pillar of the Bank's strategy and we believe that if we are able to successfully engage with and understand the needs of our clients and provide affordable, secure, innovative and convenient solutions we will thrive.

Customer profile and engagement

Our customers consist of individuals, SMEs and corporate clients. We maintain a high level of customer engagement facilitated by continuous dialogue through relationship managers, customer satisfaction surveys and year-round events organized for specific customer segments. This enables us to understand customer needs and cater our product offering to suit emerging requirements.

Measuring customer satisfaction

Satisfaction is measured through recording and analysing feedback received from the Call Centre and Centralised Customer Service Unit. Monthly grievance statistics are reported to the Customer Service Steering Committee which holds responsibility for ensuring customer complaints are addressed and resolved. Accordingly process/people improvements are recommended for repetitive complaints. All grievances are processed and responded to within 48 hours. Customer grievances have continued to decline, reflective of the Bank's persistent efforts to strengthen service quality. During the year under review, the number of customer

complaints as a percentage of the total customers remained largely unchanged. Customer satisfaction at branches is also measured through engaging third-party Mystery Shoppers and during the year the Bank achieved a satisfaction score of 76%, the highest score achieved since commencement of this program.

Accessibility through a multi-channel approach

The Bank continues to drive accessibility through investments in its multi-channel program. Having pursued aggressive expansion of its branch reach several years ago, we are currently focusing in strengthening the digital platforms, effectively responding to customers' growing need for convenience. During the year, we added a new digital branch in Kandy furthering our self-service proposition. The Bank's digital proposition

Digital Channels

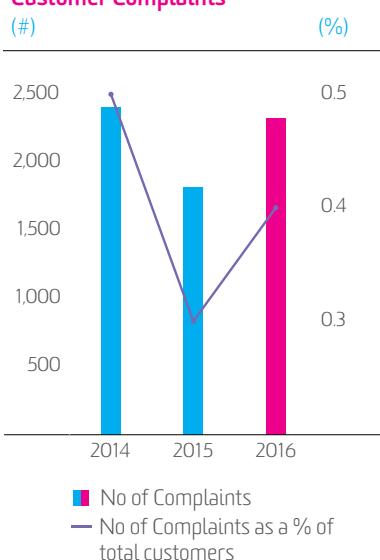
- Online banking platform rich in features
- Social media engagement
- Mobile banking

Physical Channels

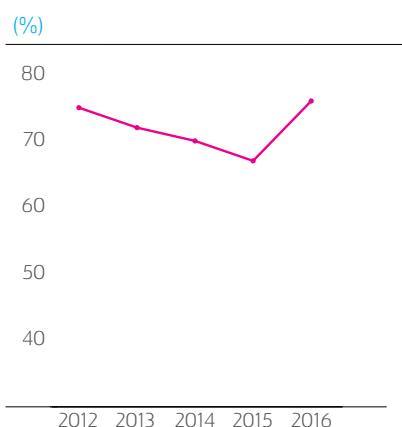
- 93 branches including 2 digital branches
- 136 ATMs

Our customers consist of individuals, SMEs and corporate clients. We maintain a high level of customer engagement facilitated by continuous dialogue through relationship managers, customer satisfaction surveys and year-round events organized for specific customer segments

Customer Complaints



Customer Satisfaction score



has grown in popularity and usage with over 40% of all local banking transactions (cash related) conducted through online platforms.

| Province | Corporate | SME | Consumer |
|---------------|-----------|-------|----------|
| Western | 99.8% | 60.9% | 79.5% |
| Central | 0.0% | 5.7% | 4.8% |
| Southern | 0.2% | 11.0% | 4.6% |
| Northern | 0.0% | 4.0% | 2.4% |
| Eastern | 0.0% | 2.6% | 1.2% |
| North Western | 0.0% | 7.0% | 4.4% |
| North Central | 0.0% | 4.3% | 0.9% |
| Uva | 0.0% | 1.2% | 0.7% |
| Sabaragamuwa | 0.0% | 3.3% | 1.5% |

Customer education

Facilitating customer education through providing access to consultants and expert training is a key aspect of our SME value proposition. Conducted on an ongoing basis throughout the country, in 2016 we held 16 such seminars with a total participant base of over 1,800. The seminars continue to be extremely well received and typically cover a wide range of topics such as entrepreneurship, self-development and work life balance. In addition to enhancing customer engagement and loyalty, these seminars contribute towards improving the business acumen and management skills of customers thereby enabling better financial discipline.

| Province | No. of seminars conducted | No. of participants |
|---------------|---------------------------|---------------------|
| Western | 7 | 935 |
| Central | 2 | 165 |
| Southern | 1 | 100 |
| Northern | 1 | 115 |
| Eastern | 1 | 100 |
| North Western | 0 | 0 |
| North Central | 2 | 240 |
| Uva | 0 | 0 |
| Sabaragamuwa | 2 | 230 |

Value Creation against our Capitals

Social & Relationship Capital

The Bank commenced two-wheeler leasing during the year, an entry level product targeting aspiring individuals.

Facilitating access to finance for first time borrowers

Traditionally a niche player in the market, Nations Trust Bank widened its focus towards the lower-middle income earning segment of the market with the objective of providing formal access to finance for first-time borrowers. These individuals typically have no formal borrowing history and are therefore excluded from the formal banking system, resultantly relying on the informal sector for funding, usually at exorbitant interest rates. In leasing, the Bank commenced two-wheeler leasing during the year, an entry level product targeting aspiring individuals.

Responsible lending practices

The Customer Charter which has been formulated in line with the CBSL's requirements ensures that the terms and conditions applicable to our products and services are clearly understood by all customers. Information which is relevant to particular products such as interest rates on deposits, loans and exchange rates are communicated to customers. Meanwhile, brochures and pamphlets which include detailed information on product features, terms and conditions are available to customers. During the year under review, there were no instances of non-compliance to any relevant product and service and/or product labelling related regulation or other guidelines. Meanwhile, the Bank's marketing communications are designed to ensure compliance to relevant regulatory requirements, ethics and consistency to

our branding guidelines. During the year there were no incidents of non-compliance to any regulations, voluntary codes or other guidelines pertaining to marketing communications nor any fines for non-compliance with laws and regulations concerning the provision and use of products and services.

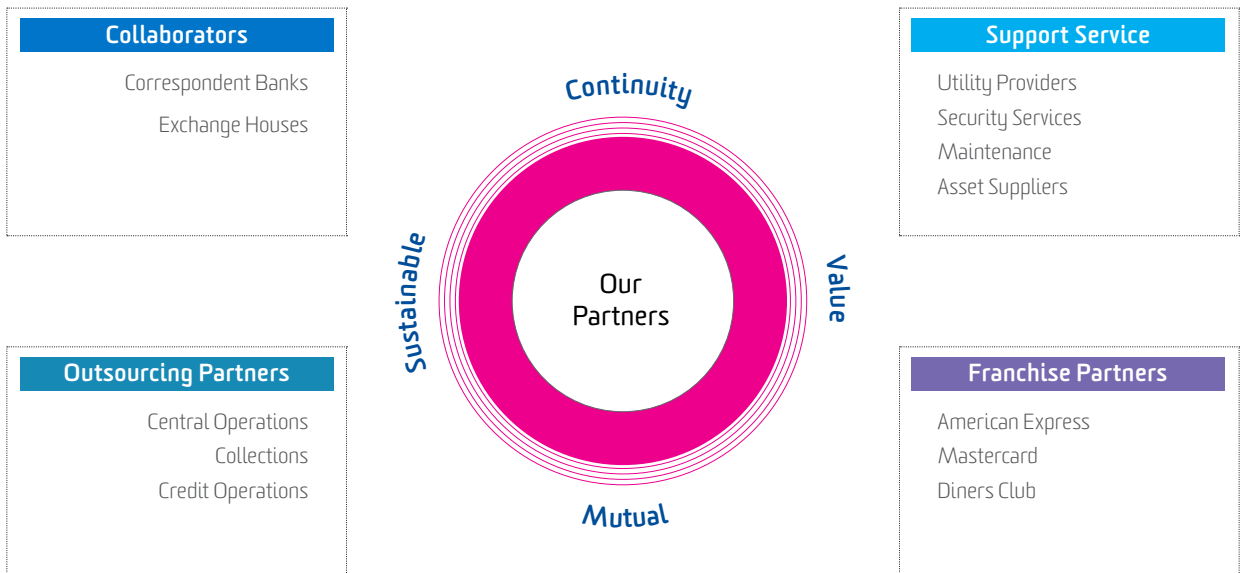
Customer privacy

We understand the obligation we have towards preserving the financial and personal information of our customers. During the year we invested further in ensuring the stability and security of the Bank's IT systems and structures are in place to persistently monitor potential breaches and/or threats to information security. There were no substantiated complaints pertaining to the breach of customer privacy or loss of customer data during 2016.

Business Partners

The Bank strives to develop mutually beneficial relationships with an array of business partners, who facilitate our value creation process.

The Bank's global connectivity is facilitated by 27 correspondent banks, 3 franchise partners and 27 exchange houses that are key collaborators in product innovation. Our correspondent banks comprise of some of the world's largest financial institutions. Franchise partners include American Express, Master Card, and Diners Card allowing our customers international connectivity through global payment



Blood donation campaign

Community Engagement

The Bank’s approach towards Corporate Social Responsibility (CSR) is embodied in a formalised CSR Strategy which provides direction on specific community needs the Bank wishes to address. During the year we formalised this process and refined our CSR focus to two specific areas with the objective of optimising resource allocations and ensuring the maximum impact. The Bank’s CSR Committee is responsible for ensuring the selection, effective implementation and continuous monitoring of all community engagement projects.

Education

We strive to uplift the infrastructure, educational resources and overall educational standards of selected rural schools with the objective of creating more conducive learning environment for economically underprivileged children. The Bank has over the years identified and committed to the development of three such schools which are, in order of engagement, Galgamuwa Nithalawa Kanishta Vidyalaya, Ratnapura Amunuthenna Kanishta

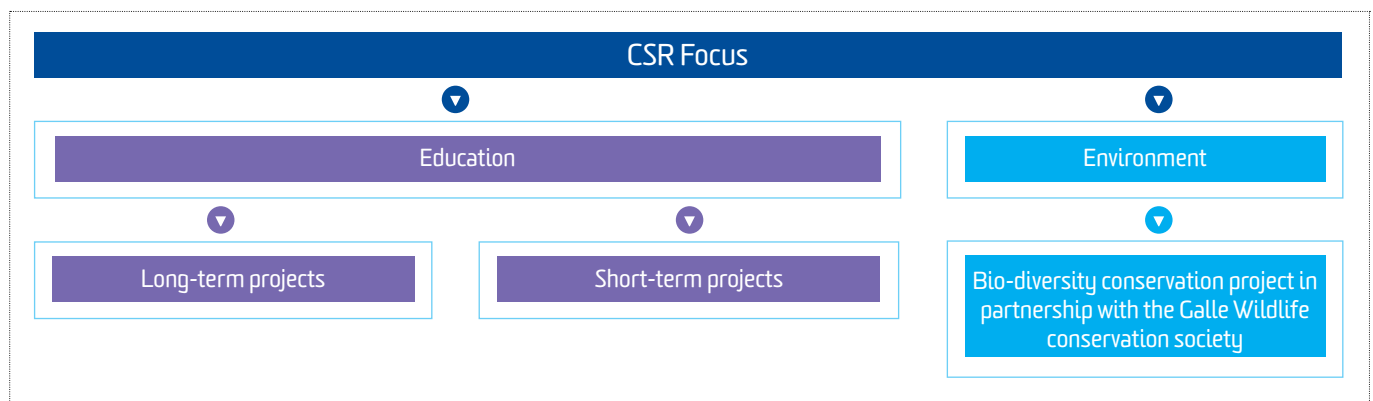
platforms. Exchange houses and agents in the Middle Eastern region, Europe and Canada play a critical role in facilitating our remittance business,

Suppliers who provide support and outsourced services are essential for business continuity and the smooth functioning of the Bank’s operations. Our suppliers include both local and foreign parties. Suppliers are selected using rigorous selection criteria which includes parameters pertaining to compliance with labour laws, human rights and compliance to minimum pay regulations.

Value Creation against our Capitals

Social & Relationship Capital

We have engaged in the construction of class rooms, computer laboratories and donation of stationary and school items.



Stationary Donation

Vidyalaya and Mulaitivu Mullivaikkal East GTM School. Development is carried out on an ongoing basis and we have engaged in the construction of class rooms, computer laboratories and donation of stationary and school items at a total investment of Rs. 4.1 Mn and a beneficiary base of over 400 students.

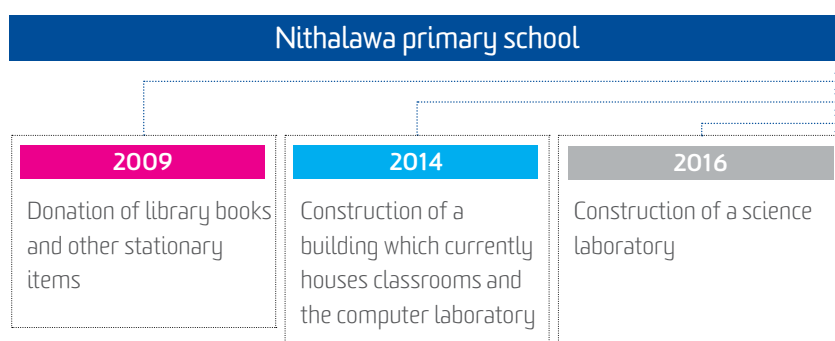
Nithalawa primary school

The Bank has invested Rs. 4.0 Mn on the construction of a fully-fledged science laboratory in the Niththalawa school in the Kurunegala district. This project was conceptualized with the objective of enhancing students' access to Science Technology Engineering and Mathematics (STEM) education as schools in rural areas typically lack access to infrastructure necessary for STEM education. The

Our customers consist of individuals, SMEs and corporate clients. We maintain a high level of customer engagement facilitated by continuous dialogue through relationship managers, customer satisfaction surveys and year-round events organized for specific customer segments



Science Lab, Nithalawa School



construction was completed in November 2016 and handed over to the school in January 2017; it is expected to directly benefit over 140 students every year.

Our Impact

In addition to the above, the Bank also donated a year's worth of stationery, school supplies, teaching aids and provisions, worth over Rs. 1.8 Mn, to the students of the schools that the Bank assists. These initiatives have generated tangible results in the form of improved educational standards in these schools. For example, by 2015 the GCE Ordinary Level Examination success rate of the Nithalawa school improved to 80%, from 28% in 2009 while the average marks of the year-5 scholarship examination also increased to 125, from 95 the year before. Meanwhile, from over 5,000 island-wide schools, Nithalawa school obtained the 12th position in the National Pentathlon Competition organized by Ministry of Education and SirasaTv.

Meanwhile, in the Ratnapura/Amunuthenna Kanishta Vidyalaya we facilitated infrastructure development with construction of class rooms & toilet facilities. The school which had previously failed to produce scholarship exam passes had during the last year produced 3 passes and the average scores have now increased to above 100 marks. Similarly at Mulaitivu/Mullivaikkal School, the Bank had supported the renovation of several school buildings and supported the school in sourcing teachers. In 2016, the Bank further widened the coverage of this project by initiating support to yet another school for infrastructure development in supporting Anuradhapura/Wahalkada D-5 Vidyalaya in Kebithigollewa for the completion of a new building.

Environment

Biodiversity Conservation Project

As a responsible corporate citizen we are committed to preserving the bio diversity of eco-systems in our communities. Our

products and services do not directly or indirectly have an adverse impact on areas which have high biodiversity value. The ongoing Biodiversity Conservation Project carried out in partnership with the Galle Wild Life Conservation Society and the Municipal Council of Galle is a multi-faceted initiative focusing on encouraging environmental conservation through research and education. The project is centered on the Hiyare Rainforest, a 600-acre rainforest which is home to numerous species of endemic and rare flora and fauna. The key initiatives carried out under this project include the following.

Animal Rescue

We provide sponsorship to provide immediate medical care, surgical care and rehabilitation for injured wildlife. Animals are subsequently released to their natural habitat. During the year, 225 animals were rescued from the Southern highway while 87 were treated and released to their natural habitats. As at end-December

Value Creation against our Capitals

Social & Relationship Capital



Hiyare

2016, 56 animals were in rehabilitation at the Hiyare Animal Hospital which was constructed by the Bank in 2011. Since commencement of the program 6 years ago, over 1,000 animals have been rescued.

Hog Deer Conservation

The Bank, in partnership with the Galle Wildlife Conservation Society and the Geoffrey Bawa Trust, established a

rehabilitation program for hog deer, a critically endangered species. The small island in Lunuganga was converted as a habitat for the rehabilitated hog deer. As at end-2016 there were a total of 19 hog deer in this habitat with 3 births recorded during the year.

The Bank, in partnership with the Galle Wildlife Conservation Service and the Geoffrey Bawa Trust, established a rehabilitation program for hog deer, a critically endangered species.

Bio Diversity Breeding Centre

A biodiversity breeding center was also established housing a number of glass tanks where endangered species of freshwater fish such as the Cuming's Barb and Ornate Paradise Fish, as well as the endemic Anthroprogenic shrub frog are bred under controlled conditions. The project aims to enable the observation of their breeding habits to increase their numbers and reintroduce them to areas where the population is significantly low.

Raising Awareness

The project also involves the engagement of school and university students in raising awareness on biodiversity conservation. These include lectures, workshops, practical experience at the bio diversity breeding center and fieldwork experience. In 2016, 1,120 students were engaged in these activities. During the year, a series of public lectures were carried out in partnership with the Wildlife and Nature Protection Society. This included 10 lectures carried out by wildlife enthusiasts and academics on specific topics, such as preserving Sri

An island-wide survey for freshwater fish was also carried out resulting in the identification of various species of fish, which were long thought to have been extinct such as *Macrognathus pentophthalmos* & *Rasboroides nigromaginus*.

Lanka’s leopard population and preventing elephant deaths among others. The series attracted an audience of over 2,000 participants.

Research

The Bank has also sponsored several research projects on biodiversity. In 2013 we sponsored an island-wide survey on the primates of Sri Lanka which enabled researchers to identify and catalogue various species in their natural habitats. The research enabled the identification of a new colour morph of the Southern Purple Faced Langur, which was subsequently published in the Journal of Primate Conservation in 2013.

An island-wide survey for freshwater fish was also carried out resulting in the identification of various species of fish, which were long thought to have been extinct such as *Macrognathus pentophthalmos* & *Rasboroides nigromaginus*. A new species of fish was also discovered through this research- *Rasboroides Rohani*.

In 2016, the Bank initiated sponsorship for a wet zone Leopard Survey, involving the study of leopards’ ecology in the Eastern Sinharaja forest. The primary objective of this survey is to increase local community

awareness and minimise leopard-human confrontations which have led to a large number of leopard deaths in recent years.

| Highlights of the biodiversity conservation project | |
|---|-------|
| Animals rescued in 2016 | 225 |
| Animals treated and released to the wild | 87 |
| Animals undergoing rehabilitation | 56 |
| Hog deer population | 19 |
| Participants of environmental education initiatives | 3,120 |

Environmental awareness programs-Recycling paper

In partnership with the British Council of Kandy, the Bank commenced an initiative to conduct workshops in 10 selected schools in Kandy to create awareness and promote the recycling of paper. The project will involve the provision of the required machinery to each of these schools to engage in paper recycling and produce recycled paper for their daily use. Workshops were conducted to over 65 students on how to engage in recycling. The Bank will continue to monitor each school’s progress through site visits that will be carried out every three months.

Others

In addition to the strategic focus areas of Education and Environment, the Bank also engages in need-based CSR activities on an ongoing basis. In 2016 the Bank provided flood relief aid to over 2,000 families in partnership with the Asia Pacific Alliance for Disaster Management in Sri Lanka. Accordingly, the Bank donated essential items required by the affected families in the Kegalle district which included rations, water, medical supplies and bedding supplies.

Value Creation against our Capitals



Natural Capital

At Nations Trust Bank, we proactively strive to embed sustainability thinking in all aspects of our business and daily operations.

The Bank is committed towards minimizing the environmental impacts of its operations and ensuring that businesses financed by us are conscious of the potential negative environmental impacts of their processes.

**Energy Consumption****7.8** Mn Kwh

3.3% reduction over last year

**Water Consumption****61,423** M³

Marginal increase over last year

**Paper recycled****48.5%**

Recycled out of the total paper usage

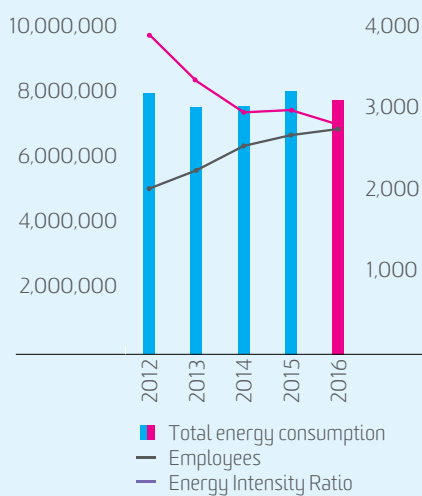
Highlights of 2016



Electricity

Energy Consumption

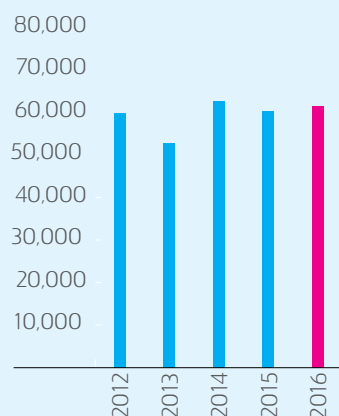
(KwH) (KwH/Employee)



The Bank's electricity consumption declined by 3.3% during the year while electricity intensity also reduced by 5.9% reflecting investments in energy efficient technology and employee attitudinal changes

Water

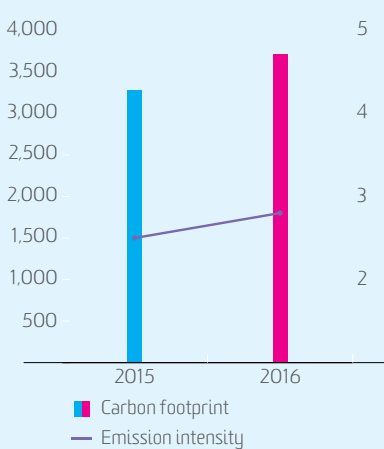
Water Consumption

(M³)

Water consumption increased marginally by 2% during the year while water intensity remained relatively unchanged at 22 cubic meters.

Carbon footprint

Carbon Footprint



The carbon footprint increased by 13.2% during the year and the Bank obtained the carbon conscious certification for three of its main locations

Paper

Total paper consumption was
38,645 Kg of which
48.5%
was sent for recycling during the year

Value Creation against our Capitals

Natural Capital

Nations Trust Bank was the first Bank in the country to obtain the ISO 50001 certification for Energy Management.

Approach to Environmental management

As a financial services provider, the Bank's environmental impact is limited to its consumption of natural resources such as energy, water and paper and outputs from its operations such as waste and emissions. The most significant contribution we can make towards minimising environmental impact arising from our lending operations and our ability to guide customers to engage in responsible environmental practices.

Impacts of climate change

The financial services industry plays a central role in all industry sectors thereby making it inherently vulnerable to climate-related risks. Climate events ranging from drought and floods to an overall warmer climate could potentially adversely impact sectors such as agriculture and fisheries to which the Bank has lending exposure. We are yet to quantify the impact such issues could have on our business.

Lending practices

The Bank applies the precautionary approach when disbursing loans and developing new products. For all corporate facilities and SME facilities above Rs.25.0 Mn, the Bank's credit appraisal includes environmental screening. Criteria considered include the customer's compliance to CEA and other relevant environmental regulations and potential

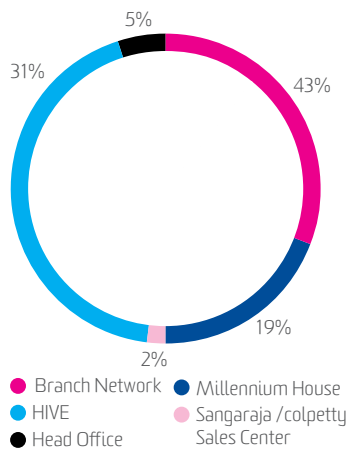
negative environmental impacts of the proposed project. Credit officers also make periodic visits to ensure that environmental and social regulations are continually complied with. In 2016, 421 facilities were screened for environmental performance.

Managing our natural inputs

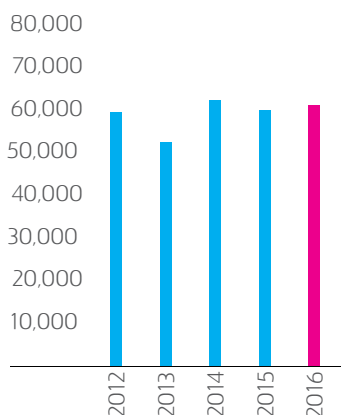
Energy

Nations Trust Bank was the first Bank in the country to obtain the ISO 50001 certification for Energy Management. A comprehensive Energy Policy and Energy Management System manual are in place to provide organisation-wide guidance on the efficient use of energy. Mechanisms are in place to measure and record the organisation-wide energy footprint. A dedicated Energy Manager and multi-disciplinary Energy Management Team is responsible for monitoring energy consumption and recommending areas for improving efficiency. We have continued to invest in energy initiatives and activities carried out in 2016 include,

Energy Consumption by Source



Water Consumption (M³)



| Initiative | Potential savings (in units) |
|---|------------------------------|
| Replace CFL bulbs with LED lighting | 3470KwH |
| Employee awareness through workshops, posters and dangles | NA |
| Installation of inverter air conditioners | 5760 KwH |
| Increased use of hybrid vehicles in the fleet | NA |

The Bank relies entirely on the national grid to fulfill its energy requirements. During the year total energy consumption declined by 3.3% to 7.8 million KwH, while energy intensity (defined as energy consumption per employee) declined by 5.9% to 2683 KwH.

Water

During the year under review, the Bank conducted a water audit at the Millennium House building through which several measures were identified to improve water consumption. Water purification systems have been installed in the Bank's key water consuming locations in order to minimize the use of plastic water bottles and chillers. Employees are engaged in water conservation efforts through periodic notices, emails and posters. In 2016, the Bank's total water consumption increased marginally by 2% to 61,422.5M³

Paper

The Bank's ongoing focus on lean initiatives, simplifying and automating processes and investments in technology has enabled it to significantly reduce its paper consumption. Last year, the Bank simplified the cash depositing process by allowing customers to directly hand over cash to the teller without the requirement of completing a deposit slip. Overall, the Bank's total paper usage was 38654 kg, which amounted to 14.1 kg of paper used per employee.

Managing our outputs

Waste

The key types of waste generated from the Bank's operations are paper, food waste and e-waste. Waste is segregated and disposed of in a responsible manner. Employees are encouraged to re-use and recycle paper and adopt paperless platforms for communication. All waste paper generated from our operations is delivered to a third party recycler approved by the Central Environmental Authority. In 2016, 18731 kg of paper was sent for recycling which is approximately 48.5% of its total paper usage.

E-waste is also disposed through an approved third party recycler. In an initiative launched during the year, the daily food waste generated in the Head Office Canteen is displayed for all to see, with the objective of encouraging employees to minimise food waste.

Value Creation against our Capitals

Natural Capital

The Bank's efforts in reducing energy consumption and its medium-term goal of powering offices through renewable energy is anticipated to result in a sustainable reduction in the Bank's carbon footprint going forward.

Emissions

Reducing carbon footprint is a key environmental priority for the Bank and during the year we obtained the services of a third party consultant to review and calculate the Bank's carbon footprint. We successfully obtained the CarbonConscious® Certification for three key locations including the Head Office.

The carbon footprint was calculated based on the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). The assessment included the following sources;

- Scope 1: Direct emissions come from sources owned or directly controlled by the bank (e.g. company vehicles)
- Scope 2: Indirect emissions relate to purchased energy (e.g. electricity) which the bank is reliant on for all its activities.
- Scope 3: Other indirect emissions relate to all the other indirect emissions sources not covered in Scope 2 including employee commuting, waste generation, etc.

As part of the second year of our Carbon Conscious Certification, the carbon footprint of the three main corporate locations (Head Office, Millenium House and Hive) were calculated for the 2016 financial year.

Carbon dioxide equivalent emissions (tonnes of CO₂e)

| | 2016 | 2015 | % Change |
|--|---------|---------|----------|
| Scope 1 | 313.5 | 100.3 | 212.6 |
| Scope 2 | 1,930.8 | 1,856.0 | 4.0 |
| Scope 3 | 1,472.9 | 1,327.2 | 11.0 |
| Total | 3,717.3 | 3,283.5 | 13.2 |
| Number of Bank Employees | 1,351 | 1,303 | 3.7 |
| Tonnes of CO ₂ e per employee | 2.8 | 2.5 | 9.2 |

The increase in Scope 1 emissions was primarily as a result of refrigerant cylinder replacement of the Air Conditioning system at processing center in Kotahena (Hive Building).

The Bank's efforts to reduce energy consumption and its medium-term goal of powering offices through renewable energy is anticipated to result in a sustainable reduction in the Bank's carbon footprint going forward.

Independent Assurance Report



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Independent Assurance Report to Nations Trust Bank PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report- 2016

Introduction and scope of the engagement

The management of Nations Trust Bank PLC ("the Bank") engaged us to provide an independent assurance on the following elements of the sustainability reporting indicators under the annual report- 2016 ("the Report").

- Limited assurance is provided to the information presented in the Report (GRI Index pages 146 to 150), prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' - Core guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("CASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI G4 'In accordance' - Core guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not

enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

Management of the Bank's responsibility for the Report

The management of the bank is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustaining reporting process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' - Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 26 January 2017. We disclaim any assumption of responsibility for any reliance on this report to any person other than the bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant the bank's personnel to understand the process for collection, analysis, aggregation and presentation of data.

- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the bank on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the bank's audited financial statements for the year ended 31 December 2016.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative G4 'In accordance' - Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that:

- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from GRI-G4-'In accordance' Core Sustainability Reporting Guidelines.

Chartered Accountants

27 February 2017
Colombo

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

Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

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GENERAL STANDARD DISCLOSURES-G4

| Number | Description | Reference/Comments | Page |
|-------------------------------|--|--|--------------------------------------|
| Strategy and Analysis | | | |
| G4-1 | Statement from the most senior decision maker of the Organisation about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability. | Reflections from our Chairman | 22 |
| Organisational Profile | | | |
| G4-3 | Name of the organization | Corporate Information | IBC |
| G4-4 | Primary brands, products, and services | Business Pillars | 17 |
| G4-5 | The location of the organization's headquarters | Corporate Information | IBC |
| G4-6 | Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report. | The Company operates only within Sri Lanka | 314, 315, 316 |
| G4-7 | The nature of ownership and legal form | Corporate Information | IBC |
| G4-8 | The markets served (geographic breakdown, sectors served, and types of customers/beneficiaries) | Business line Review | 78 |
| G4-9 | The scale of the organization, including: Total number of employees Total number of operations Net sales (for private sector organizations) or net revenues (for public sector organizations) Total capitalization broken down in terms of debt and equity (for private sector organizations) Quantity of products or services provided | About Nations Trust Bank PLC About Nations Trust Bank PLC About Nations Trust Bank PLC Financial Statements Financial Statements Business Pillars | 12 12 12 193 192 17 |
| G4-10 | The total number of employees by employment contract and gender. The total number of permanent employees by employment type and gender. The total workforce by employees and supervised workers and by gender. The total workforce by region and gender. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries). | Human Capital Human Capital N/A Human Capital N/A N/A | 124 124 124 126 |
| G4-11 | The percentage of total employees covered by collective bargaining agreements. | Human Capital | 126 |
| G4-12 | Describe the organization's supply chain. | Value Creation Model Social and relationship capital- Our Business Partners | 20, 21 134 |

GENERAL STANDARD DISCLOSURES-G4

| Number | Description | Reference/Comments | Page |
|---|---|---|--------------|
| G4-13 | Any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain, including: Changes in the location of, or changes in, operations, including facility openings, closings, and expansions Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations) Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination | Our Integrated Report Business Line Review N/A N/A | 8 80 |
| G4-14 | Whether and how the precautionary approach or principle is addressed by the organization. | Natural Capital | 142 |
| G4-15 | List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses. | Our Integrated Report | 9 |
| G4-16 | List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization is a member. | Sri Lanka Banker's Association | |
| Identified Material Aspects and Boundaries | | | |
| G4-17 | a. List all entities included in the organization's consolidated financial statements or equivalent documents. b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report. | Our Integrated Report N/A | 8 |
| G4-18 | a. Explain the process for defining the report content and the Aspect Boundaries. b. Explain how the organization has implemented the Reporting Principles for Defining Report Content. | Defining what is material Defining what is material | 70 70 |
| G4-19 | List all the material Aspects identified in the process for defining report content. | Defining what is material | 70 |
| G4-20 | For each material Aspect, the Aspect Boundary within the organization | Defining Material Issues | 71 |
| G4-21 | For each material Aspect, report the Aspect Boundary outside the organization | Defining Material Issues | 71 |
| G4-22 | The effect of any restatements of information provided in previous reports, and the reasons for such restatements. | Our Integrated Report | 9 |
| G4-23 | Significant changes from previous reporting periods in the Scope and Aspect Boundaries. | Defining Material Issues | 71 |
| Stakeholder Engagement | | | |
| G4-24 | List of stakeholder groups engaged by the organization. | Stakeholder Relationships | 68, 69 |
| G4-25 | The basis for identification and selection of stakeholders with whom to engage. | Stakeholder Relationships | 68 |
| G4-26 | The organization's approach to stakeholder engagement | Stakeholder Relationships | 68, 69 |
| G4-27 | Key topics and concerns that have been raised through stakeholder engagement | Stakeholder Relationships | 68, 69 |

GRI Index

GENERAL STANDARD DISCLOSURES-G4

| Number | Description | Reference/Comments | Page |
|----------------------|---|---|------|
| Report Profile | | | |
| G4-28 | Reporting period (such as fiscal or calendar year) for information provided. | Our Integrated Report | 8 |
| G4-29 | Date of most recent previous report (if any). | Our Integrated Report | 8 |
| G4-30 | Reporting cycle (such as annual, biennial) | Annual (Our Integrated Report) | 8 |
| G4-31 | The contact point for questions regarding the report or its contents. | Our Integrated Report | 11 |
| G4-32 | a. Report the 'in accordance' option the organization has chosen. | Core | - |
| | b. Report the GRI Content Index for the chosen option c. Report the reference to the External Assurance Report, if the report has been externally assured. | Our Integrated Report | 9 |
| G4-33 | a. Report the organization's policy and current practice with regard to seeking external assurance for the report. b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided. c. Report the relationship between the organization and the assurance providers. d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report. | External Assurance has been obtained by Messrs.Ernst and Young. Please refer page 145 for the Assurance Report. | |
| Governance | | | |
| G4-34 | The governance structure of the organization, including committees of the highest governing body. | Corporate Governance | 30 |
| Ethics and Integrity | | | |
| G4-56 | The organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics. | Corporate Governance | 37 |
| | | Human Capital | 127 |

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SPECIFIC STANDARD DISCLOSURES

| Material Aspect | DMA/Indicators | Reference/comments/Reasons for omission | Page |
|-----------------------------|--|---|------|
| Economic Performance | | | |
| G4-EC2 | Financial implications and other risks and opportunities for the Organisation's activities due to climate change | Natural Capital | 142 |
| G4-EC3 | Coverage of defined benefit plan obligations | Financial Statements | 229 |
| Environmental | | | |
| Materials | | | |
| G4-EN1 | Materials used by weight or volume | Natural Capital | 143 |
| Energy | | | |
| G4-EN3 | Energy consumption within the organization | Natural Capital | 143 |
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| SPECIFIC STANDARD DISCLOSURES | | | |
| Material Aspect | DMA/Indicators | Reference/comments/Reasons for omission | Page |
| Water | | | |
| G4-EN8 | Total water withdrawal by source | Natural Capital | 143 |
| Biodiversity | | | |
| G4-EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas | Social and relationship capital- Community engagement | 137 |
| G4-EN13 | Habitats protected or restored | Social and relationship capital- Community engagement | 137, 138 |
| G4-EN14 | Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk | Social and relationship capital- Community engagement | 138 |
| Emissions | | | |
| G4-EN15 | Direct greenhouse gas (GHG) emissions | Natural Capital | 144 |
| G4-EN16 | Energy indirect greenhouse gas (GHG) emissions (Scope 2) | Natural Capital | 144 |
| G4-EN17 | Other indirect greenhouse gas (GHG) emissions (Scope 3) | Natural Capital | 144 |
| G4-EN18 | GHG emission intensity | Natural Capital | 144 |
| Effluents and waste | | | |
| G4-EN23 | Total weight of waste by type and disposal method | Natural Capital | 143 |
| Compliance | | | |
| G4-EN29 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | None | |
| SOCIAL | | | |
| Employment: Labour practices and Decent Work | | | |
| G4-LA1 | Total number and rates of new employee hires and employee turnover by age group, gender, and region | Human Capital | 126, 129 |
| G4-LA2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation | Human Capital | 127 |
| Employment: Training and Education | | | |
| G4-LA9 | Average hours of training per year per employee by gender, and by employee category | Human Capital | 128, 129 |
| G4-LA10 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings | Human Capital | 127 |
| G4-LA11 | Percentage of employees receiving regular performance and career development reviews, by gender and by employee category | Human Capital | 126 |

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|--|--|---|----------|
| SPECIFIC STANDARD DISCLOSURES | | | |
| Material Aspect | DMA/Indicators | Reference/comments/Reasons for omission | Page |
| Society: Labour practices grievance mechanism | | | |
| G4-LA16 | Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms | Human Capital | 129 |
| Product Responsibility: Product and service labelling | | | |
| G4-PR3 | Type of product and service information required by the organization's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements | Social and relationship capital | 134 |
| G4-PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes | Social and relationship capital | 134 |
| G4-PR5 | Results of surveys measuring customer satisfaction | Social and relationship capital | 132, 133 |
| Product Responsibility: Marketing Communications | | | |
| G4-PR6 | Sale of banned or disputed products | None | |
| G4-PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes | Social and relationship capital | 134 |
| Product Responsibility: Customer privacy | | | |
| G4-PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data | Social and relationship capital | 134 |
| Product Responsibility: Compliance | | | |
| G4-PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services | Social and relationship capital | 134 |
| Product Responsibility: Product Portfolio | | | |
| G4-FS6 | Percentage of the portfolio for business lines by specific region, size (e.g. micro/sme/large) and by sector | Social and relationship capital | 133 |

Risk Management

The understanding that the business of banking is fundamentally about managing risk is deeply embedded in Nations Trust Bank's organisational culture. As our operating landscape becomes increasingly dynamic it is imperative that we proactively identify, measure and manage evolving risks. This report provides a concise yet comprehensive understanding of the integrated risk management framework

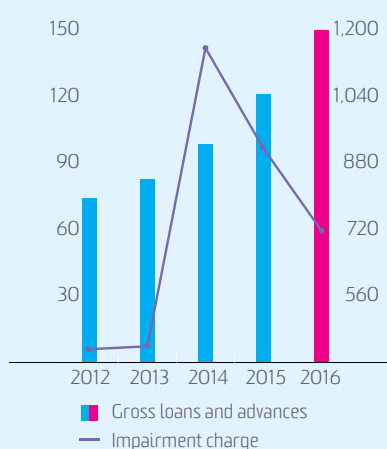
in place within the Bank and key aspects of our risk performance during the year. In keeping this Report concise and relevant to the year under review, we have focused on developments during the year, while the Bank's policies, procedures and management approach are discussed in summary form.

Highlights of 2016



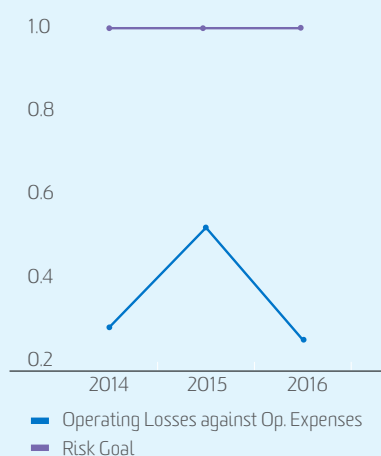
Credit risk
(Rs. Bn)

(Rs. Mn)



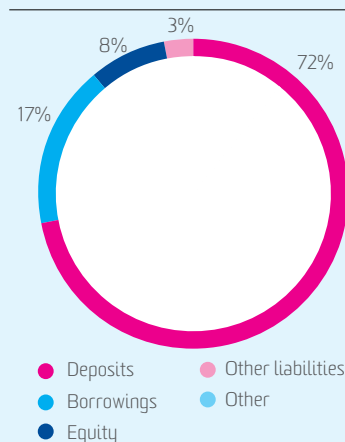
Impairment charges declined by 22% supported by improved credit quality while loans and advances grew by 24%.

Operating Losses against Operating Expenses
(%)



Efforts made to strengthen the operational risk management framework during the year resulted in operational loss events for the year declining by 46% in value.

Funding composition



A diversified funding strategy enables the Bank to contain its liquidity risk as exposure to a single avenue of funding is limited

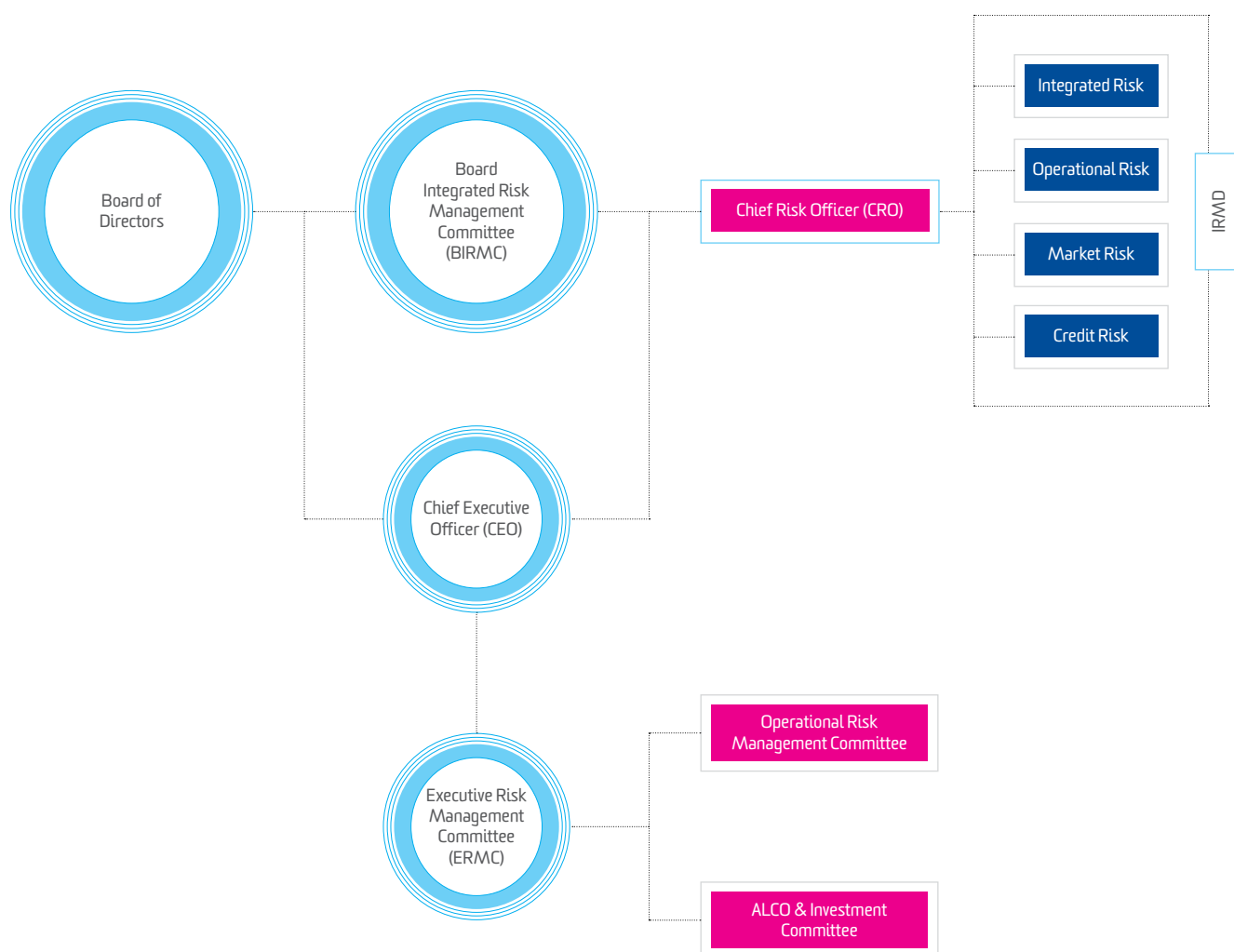
Market Risk

Implemented the first phase of a sophisticated ALM system enabling stronger analytical capabilities and access to real time information.

Risk Management

Risk Governance

The Board of Directors holds apex responsibility for the effective management of risk within the Bank including setting the risk appetite, formulating policy and reviewing risk management processes. Directors receive periodic updates on risk performance from the management enabling them to evaluate the effectiveness of the Bank's risk frameworks on a regular basis. The Board of Directors is assisted by several sub-committees and executive committees in the discharge of its duties related to risk management as illustrated below.



Board Integrated Risk Management Committee (BIRMC)

The BIRMC provides independent oversight of all risk related aspects within the Group including overseeing the formulation of risk management policies and supporting the Board of Directors in determining overall risk appetite. The composition, responsibilities of the BIRMC and its key areas of focus during the year is given on the Committee Report.

Board Audit Review Committee (BARC)

The BARC plays a key role in assessing the adequacy and effectiveness of the Group's internal financial controls, risk management measures and governance structures in place to mitigate current and emerging risks. For further details on the composition and activities of BARC refer the Committee Report.

Board Credit Committee (BCC)

The BCC assists the Board of Directors in formulating credit policies and procedures, provides direction on the Bank's lending exposures (including approving large loan exposures) and consistently monitors the quality of the Bank's credit portfolio. For further details on the composition and activities of BCC, refer the Committee Report.

In addition to these Board Committees, the following Executive Committees are responsible for specific risk management aspects;

Executive Risk Management Committee

The Executive Risk Management Committee provides recommendations to the BIRMC on the Bank's overall risk management policies, risk appetite and risk management procedures. The Committee is also responsible for reviewing the Bank's risk grid and implementing specific actions to mitigate identified risks. This Committee is chaired by the Chief Executive Officer and represented by all members of the Corporate Management team.

Asset and Liabilities Management Committee (ALCO)

Chaired by the CEO, unit heads from business risk and finance, the ALCO is entrusted with the responsibility of managing the Bank's balance sheet within the performance and risk parameters defined by the Board of Directors. The ALCO implements Board approved liquidity management policies, regularly reviews the liquidity, cash flow and asset liability maturity mismatches within the Bank.

IT Steering Committee

In addition to implementing the Bank's digital strategy, the Committee is responsible for ensuring that mechanisms are in place to effectively monitor and manage the Bank's IT projects, systems and information security. Committee membership is held by the Chief Information Officer, CEO, business line heads, COO, CFO and CRO among others.

Operational Risk Management Committee (ORMC)

The ORMC is the main interaction point between all operational functions of the bank encompassing end to end process coverage. The Committee is chaired by the Bank's CRO and includes the COO, CIO, Head of Internal Audit and several operational heads. The primary purpose of this committee is to critically assess operational processes and internal controls with a view of strengthening the operational risk management framework at functional level. The Committee will provide its recommendation to ERM and subsequently to IRMC.

Risk Management

Integrated Risk Management Department (IRMD)

Led by the Bank's Chief Risk Officer, the IRMD independently assures that the Bank's risk parameters are maintained within risk appetite approved by the Board of Directors. The IRMD is responsible for multiple aspects of the Bank's risk management framework as illustrated here;

| Nurturing a Risk Culture | Risk Measurement | Risk Monitoring | Risk Management |
|---|---|--|--|
| <ul style="list-style-type: none"> • Nurtures an organisation-wide 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 | <ul style="list-style-type: none"> • Conduct impairment of loans and advances comprehensively ensuring adequate loan loss reserves • Carry out "Loan Review Mechanism" and continuously improve and strengthen same | <ul style="list-style-type: none"> • Monitor compliance with risk management policies and procedures • Monitor the Bank's overall risk profile, including risk aggregation, reporting, trends, and change in material risk positions | <ul style="list-style-type: none"> • Development and review of risk management tools • Devise and implement Credit Portfolio Management techniques and advice management/ BIRMC as appropriate |

Our approach to risk management

The Bank's Integrated Risk Management (IRM) Framework underpins the foundation for managing risk and clearly defines the tools, techniques and activities in place to ensure that all material risks are identified, measured, managed and reported. Clearly defined roles and responsibilities, both at Board and Executive Committee level ensure independence of judgement and judicious empowerment. A comprehensive framework of policies ensures the consistency and clarity in the identification, measurement and management of key risks.

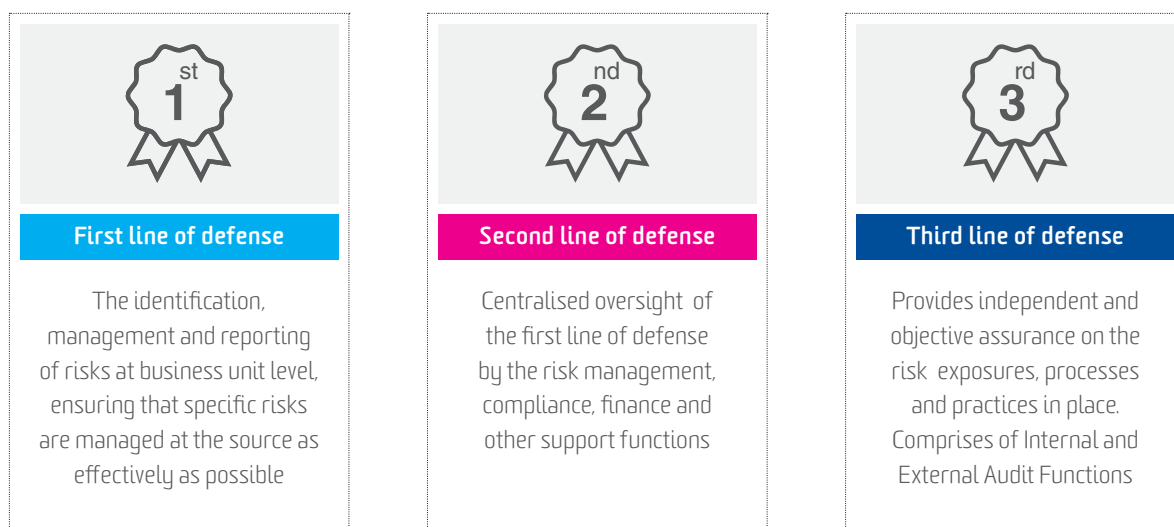


The Bank's key risk management objectives are,

- Establish a framework that supports the business activities to maximize risk adjusted returns within the Board of Directors Risk Appetite and other constraints such as regulatory requirements and the Bank's internal controls
- Accurately identify and measure the sources of these risks
- Recommend appropriate levels of these risks, consistent with the Board of Directors tolerance or appetite for such risks
- Control the level of these risks by establishing limits and routinely monitoring the risk exposures to these limits
- Ensure that there is no breach of relevant CBSL regulatory requirements and applicable laws including Exchange Control regulations, ICASL requirements, Stock Exchange requirements, Company Law requirements etc.
- Seek to enable a balance between controlling these risks and generating optimal returns within these risk constraints
- Add value to the Bank's business units, Senior Management and Board of Directors by providing analysis and recommendations to support the achievement of the Bank's overall strategic objectives

Three lines of defense model

We adopt the globally accepted three lines of defense governance model which ensures transparency and accountability in risk management through clear segregation of duties as depicted below.



Risk Management

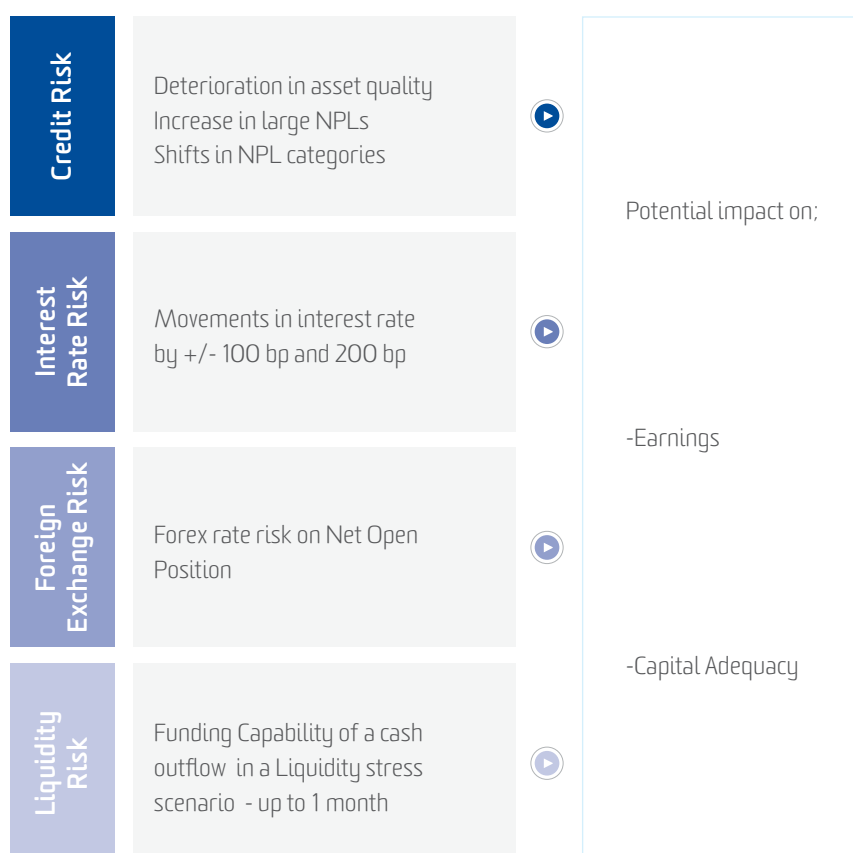
Risk Appetite

The risk appetite is defined by the Board of Directors and clearly articulates the type and quantum of risk the Bank is willing to take in the normal course of business. It is expressed in the form of tolerance levels and triggers across a range of parameters which reflect the key risks the Bank is exposed to. The risk appetite is reviewed and updated regularly by the Board of Directors in line with the Bank's strategic and financial objectives. During the year, certain credit and market risk parameters were revised to reflect evolving risks in the industry as depicted below.

| | Position as at end- Dec 2016 | Limit/ Range for 2016 | Limit/ Range for 2015 |
|---|------------------------------------|-----------------------------|-----------------------------|
| Credit Risk | | | |
| Impairment Ratio | 1.43% | 1.75%-3.00% | 2.00%-3.00% |
| Market Risk | | | |
| Sensitivity of the Trading portfolio against interest rate fluctuations | 0.31% | Below 2% | Below 8% |
| Liquidity Risk | | | |
| Loan to Deposit ratio (L/D ratio) | 101.94% | 100% | 90% |

Stress testing

Stress testing is carried out to gauge the potential impacts that fluctuations in market variables and other risk factors could have on the Bank's risk profile. Impacts are measured with reference to capital, earnings and liquidity positions. The findings of the Bank's stress testing activities are an input into several processes including capital computation under ICAAP, strategic planning and risk management among others. The BIRMC conducts regular reviews of the stress testing outcomes including the major assumptions that underpin them.



Risk Universe

The origins of risk within the Bank evolve from its key business activities and related processes as depicted below;

| | Activity | Risk exposure |
|--|------------------------------|----------------------------|
| Risks arising from the Bank's operations and processes | Lend | Credit risk |
| | Fund | Funding and liquidity risk |
| | Trade | Market risk |
| | Key operations and processes | Operational risk |
| | Compete | Strategic risk |
| | Regulated industry | Compliance risk |
| Risks monitored by the Bank for impact | Geopolitical risk | |
| | Macro-economic risk | |
| | Legal risk | |

Credit Risk

Credit Risk is the potential loss arising to the Bank as a result of customers and/or counterparties failing to discharge their contractual obligations. Credit Risk can arise from default risk, concentration of counterparties, industry sectors and geographical regions.

Credit risk management

The Board Credit Committee (BCC) functions as the steering committee holding overall responsibility for implementing the Bank's credit risk management framework. At an executive level the responsibility of managing the Bank's credit risks have been delegated to the Head Office Credit Committee (HOCC). The HOCC is headed by the CEO and comprises of the Heads of business units with the CRO also contributing as an independent observer. The HOCC conducts independent review for the credit risks lying with the business units and makes recommendations on credit policies, prudential limits on sector exposures and reviews Loan Review Mechanism reports in order to make improvements.

The credit risk management framework is underpinned by the following;

Comprehensive credit policy framework

The credit policy framework is formulated by the BCC on behalf of the Board of Directors. Key aspects of the Group's credit policies include directions on pre-credit sanctioning which includes well defined

credit criteria and prudential limits in line with the defined risk appetite, post-credit monitoring and delegated approval authority at multiple levels. The framework is reviewed and updated regularly based on evolving best practices as well as emerging risks and opportunities.

The Board of Directors defined credit appraisal and monitoring procedures include the following;

Pre-credit sanctioning

- Multiple levels of approval authority
- Sophisticated risk rating and scoring system
- Prudential limits for concentration risk
- Structured and comprehensive credit appraisal and defined credit criteria

Post-credit monitoring

- Portfolio evaluation with emphasis on early warning signals
- Robust credit review mechanism
- Stress testing and scenario analyses
- Review of selected exposures

Portfolio management

- Regular monitoring of concentration risk and other prudential limits
- Structured loan review mechanism
- Creation of loan loss reserves through impairment process
- Periodic reporting to IRMD, ERM, BCC and BIRMC

Risk Management

Risk Scoring

Tailor made risk scorecards which adopt advanced statistical data analytics are utilised when underwriting consumer loans. These scorecards are based on creditworthiness of individual customers, disposal incomes and broader characteristics of the customer demographic group and provide an indication on the level of credit that can be granted based on the projected repayment capacity.

Risk Rating System

The Bank has implemented a sophisticated internal risk rating system to rate its obligors. The system incorporates five rating models which are able to effectively gauge the risk profile of the Bank's diverse client portfolios of large and mid-sized corporates, SMEs and retail/individual customers. The system provides an indicative probability of default for the borrower. The ratings thus derived are mapped into a Bank wide single point indicator rating scale.

Culture of responsible lending

The Bank has been successful in nurturing a culture of risk awareness and responsible lending through a high level of internal communications and comprehensive training programs. Enhancing the credit appraisal skills and risk acceptance of the Bank's credit officers during the year bore results, with several key business lines (such as leasing & corporate) achieving improvements in NPL and impairment positions.

Developments in 2016

- Enhanced the impairment computation methodology: Strengthening data analysis capabilities has enabled the IRMD to obtain relevant impairment

related information directly improving the speed, accuracy and efficiency of impairment computations. Impairment policies and procedures were also reviewed and strengthened during the year.

- Improved monitoring of early warning signals through system generated reporting. This has enabled business units to foresee potential deteriorations in credit quality and be more proactive in collections and monitoring.
- Employee training on credit appraisal, risk acceptance and overall awareness on credit risk
- Credit risk procedure manual was updated

Credit risk performance in 2016

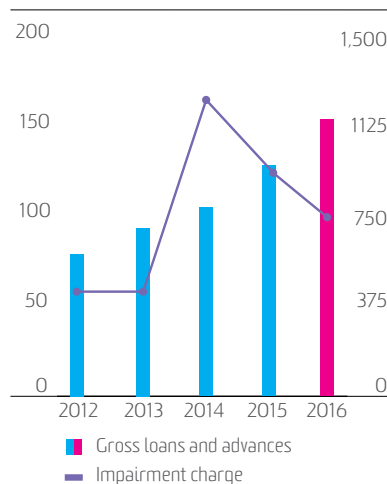
The Group's loans and advances portfolio grew by 24% during the year, upheld by SME, Corporate banking and Consumer lending while the leasing portfolio growth

was relatively moderate. Conscious efforts to rebalance the portfolio towards SME and Corporate Banking have resulted in an overall improvement in the risk profile. Total impairment charge on loans & advances declined by 22%, reflecting the overall improvement in credit quality.

Default risk

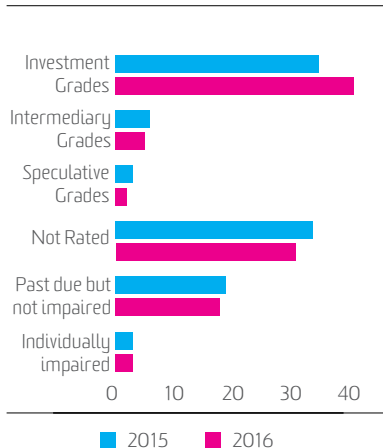
Default risk is the key component of credit risk and are potential losses arising from the default of a borrower or counterparty. During the year, default risk as measured by the Gross NPL ratio (including IIS) improved from 3.15% in 2015 to 2.80% in 2016 with several key business lines recording improvements in credit quality. The healthy portfolio quality is a reflection of stringent pre-credit underwriting standards, intensifying collection efforts and proactive monitoring of the portfolio.

Credit risk performance in 2016
(Rs. Bn) (Rs. Mn)

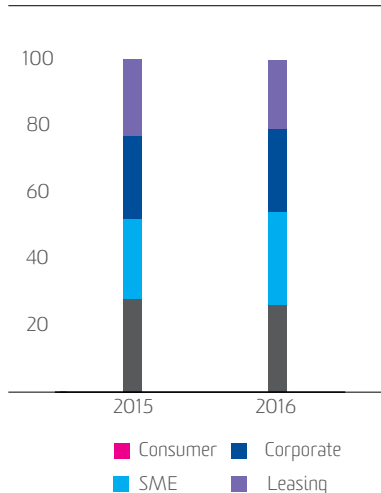


| | 2016 NPL RATIO | 2015 NPL RATIO |
|--------------------|-------------------|-------------------|
| SME banking | 3.8% | 4.6% |
| Commercial banking | 0.6% | 0.5% |
| Consumer banking | 4.2% | 3.3% |
| Leasing | 2.2% | 4.7% |

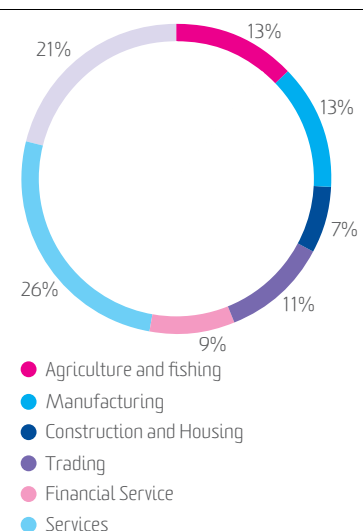
Risk ratings distribution (%)



Product-wise breakdown (%)



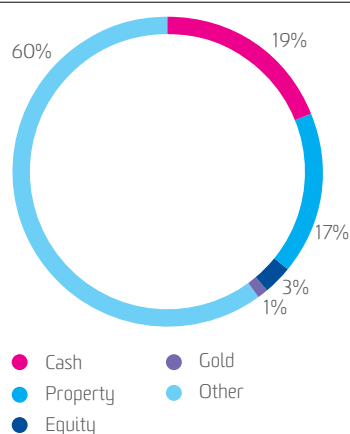
Sectoral distribution of loans



Concentration risk

Concentration risk is measured through the Normalized Herfindahl-Hirschman Index (HHI) and is computed as part of the Bank's ICAAP process in which concentration related to industry sectors, individual customer segments and product maturity are monitored. Rapid growth in the corporate and SME books during the year in line with the Bank's overall strategy has enabled the Bank to reduce dependence on the consumer sector and achieve more balance in its portfolio.

Collateral breakdown (Loans & Receivable Only)



Stress testing-Credit risk

Stress testing for credit risk is carried out in order to gauge the potential impact of the following on the Bank's capital adequacy levels;

- (1) Deterioration in asset quality as determined by an increase in non-performing loans
- (2) Adverse movements within NPL categories
- (3) Credit Concentration Risk - HHI Scale up Stress Testing

| Large exposures | % of total portfolio (Cumulative) |
|-----------------|-----------------------------------|
| Top 5 | 5.27 |
| Top 10 | 8.49 |
| Top 20 | 12.54 |

Risk Management

Market Risk

Market Risk is the potential loss arising from changes in the fair value or future cash flows of financial instruments due to fluctuations in market variables. The key market risks the Bank is exposed to are interest rate risk, foreign exchange risk and liquidity risk.

Market risk exposure originates mainly from the interest rate risk of the Bank's trading and non-trading books and exposure to foreign exchange risk arising from proprietary trading and foreign currency denoted transactions. Exposure to equity risk is limited given the relatively small equity trading portfolio.

The Bank's Market Risk Exposure

| | 2016 | | |
|---|-------------------------------|--------------------------------------|------------------------|
| | Trading book (Rs. million) | Non-trading book (Rs. million) | Total (Rs. million) |
| Assets | | | |
| Cash and Cash Equivalents | - | 4,188 | 4,188 |
| Balances with Central Bank of Sri Lanka | - | 8,512 | 8,512 |
| Reverse Repurchase Agreements | - | 15 | 15 |
| Derivative Financial Instruments | 65 | - | 65 |
| Financial Assets | 1,575 | 35,078 | 36,653 |
| Other Financial Assets | - | 6,861 | 6,861 |
| Loans and Advances to Customers | - | 148,925 | 148,925 |
| Other Assets | - | 1,777 | 1,777 |
| Investments in Subsidiaries | - | 679 | 679 |
| Fixed Assets (PPE & Intangibles) | - | 2,716 | 2,716 |
| | 1,640 | 208,751 | 210,391 |
| Liabilities | | | |
| Due to Banks | - | 11,851 | 11,851 |
| Repurchase Agreements | - | 9,851 | 9,851 |
| Derivative Financial Instruments | 130 | - | 130 |
| Due to Customers | - | 151,560 | 151,560 |
| Debt Issued and Other Borrowed Funds | - | 14,145 | 14,145 |
| Tax Liabilities (Current & Deferred) | - | 1,410 | 1,410 |
| Other Liabilities | - | 5,463 | 5,463 |
| Equity & Other Reserves | - | 15,981 | 15,981 |
| | 130 | 210,261 | 210,391 |
| Contingent Liabilities & Commitments | | | |
| Commitment & Guarantees | - | 95,337 | 95,337 |
| Forward on Government Securities | - | 398 | 398 |
| Derivative Assets- Held for Trading (Net) | 28,283 | - | 28,283 |
| | 28,283 | 95,735 | 124,018 |

Market risk management

The Asset Liability Management Committee (ALCO) holds executive responsibility for overseeing the Bank's market risk exposures. In addition, the IRMD is responsible for the implementation and review of market risk management policies, tools and techniques. As treasury operations can give rise to significant market risks, the Treasury Middle Office (which operates independently from the Treasury Department) monitors treasury related market risks such as open position limits and counterparty limits on a daily basis.

Robust market risk policies

A comprehensive framework of policies is in place to govern all aspects of market risk management. These include the Asset and liability management policy, Treasury management policy, FOREX management policy and policy on stress testing, which provide guidance on the systems, procedures, tools and techniques for the identification, assessment, mitigation, monitoring and reporting on all market related risks. The policies are reviewed and updated regularly in view of emerging market risks.

Risk limits and trigger points

The Board of Directors have defined a range of limits for investment and treasury related activities including open position limits, counterparty limits and dealer limits. Actual performance against these limits is monitored by the Treasury Middle Office

and the IRMD and brought to the attention of the ALCO & BIRMC on a regular basis. Meanwhile thresholds that trigger specific management action is specified to ensure the proactive management of emerging market risks.

Developments in 2016

- Ongoing implementation of an ALM system expected to be completed in 2017. The new system will strengthen the Bank's analytical capabilities which include introduction of Value at Risk methods, stress testing tools and risk reporting capabilities.

Interest rate risk

Interest rate risk arises from the possibility that fluctuations in interest rates will affect the future cash flows or fair values of financial instruments. Exposure to interest rate risks arise from its lending, trading securities and deposit liabilities. Sub types of interest rate risk are,

- Repricing risk arises from the inherent mismatch between the Bank's assets and liabilities which results in repricing timing differences.
- Basis risk arises from the differences between the actual and expected interest margins on the banking book and the implied cost of funds.
- Yield curve risk arises from shifts in the yield curve that have a negative impact on the Bank's earnings/asset values.

The Bank manages its interest rate risks primarily through asset liability repricing gap analyses, which distributes interest rate sensitive assets, liabilities and off-balance

sheet positions into several maturity buckets. Board defined limits are in place for interest rate gaps and positions are monitored on a monthly basis to ensure compliance to the prescribed limits. In addition to the asset liability maturity mismatches, the ALCO regularly monitors trends in market interest rates, as well as results of interest rate stress testing analyses.

Fund transfer pricing

The fund transfer pricing (FTP) is the method adopted by the bank to evaluate the financial performance of its business units. The transfer price is determined based on the interest cost (cost of funds) of deposit mobilization and is centrally managed by treasury with ALCO guidance. Business units mobilizing deposits are allocated a margin above the interest cost of deposits by treasury and such funds are lent at a margin to business units driving asset products. This is a dynamic tool to derive customer/ product profitability on both asset & liability products.

Risk Management

Interest Rate Sensitivity Analysis

| Interest Rate Shock (bps) | Impact on Equity | | | |
|------------------------------|------------------|-------------|------------------|-------------|
| | 2016 LKR '000 | % of Equity | 2015 LKR '000 | % of Equity |
| 200 | (801,656) | (4.63%) | (973,242) | (6.41%) |
| 100 | (410,619) | (2.37%) | (499,762) | (3.29%) |
| 50 | (207,844) | (1.20%) | (253,300) | (1.67%) |
| 25 | (104,567) | (0.60%) | (127,522) | (0.84%) |
| -25 | 105,880 | 0.61% | 129,303 | 0.85% |
| -50 | 213,098 | 1.23% | 260,425 | 1.72% |
| -100 | 431,645 | 2.49% | 528,283 | 3.48% |
| -200 | 885,918 | 5.11% | 1,087,626 | 7.17% |

Foreign Exchange Risk

FOREX risk is the potential loss arising from fluctuations of value in a financial instrument due to changes in foreign exchange rates. The Bank is exposed to foreign exchange risk through its holding of assets denominated in foreign currency.

Executive responsibility for managing the Bank's forex risks lie with the Treasury department with a clear segregation of duties between the front, middle and back offices to ensure the adequacy of internal controls. FOREX risks are managed through limits on exposure to currencies on an individual and aggregate basis, as well as

dealer and counter-party limits, overnight and intra-day limits and stop loss limits. These limits are monitored on a daily basis by the Treasury Middle Office, ensuring clear segregation of responsibilities. These transactions are also governed by the CBSL directions placing a stringent regulatory framework, which includes an approval mechanism and exposure limits.

Stress testing-FOREX risk

| Currency | GBP | EUR | JPY | AUD |
|---|--------|--------|--------|--------|
| Magnitude of shock (% change in rate on adverse side) | 20.00% | 15.00% | 20.00% | 15.00% |
| Impact on earnings (Rs. million) | (0.72) | (0.17) | (0.08) | (0.04) |

Foreign Exchange Position as at 31 December 2016

| Currency | On Balance Sheet Positions | | | Forward (a) | | | Overall Exposure in Respective Foreign Currency '000 | Overall Exposure in Sri Lankan Rupees (b) LKR '000 |
|---|----------------------------|-------------|--------------|-------------|-------------|------------|---|---|
| | Assets | Liabilities | Net | Assets | Liabilities | Net | | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | | |
| US Dollars | 7,970,338 | 20,599,676 | (12,629,338) | 29,945,599 | 17,320,611 | 12,624,988 | (29) | (4,350) |
| Pound Sterling | 21,697 | 1,618,252 | (1,596,555) | 2,178,544 | 580,833 | 1,597,711 | 6 | 1,156 |
| Euro | 90,345 | 960,302 | (869,957) | 1,004,575 | 134,417 | 870,158 | 1 | 202 |
| Japanese Yen | 8,705 | 34,948 | (26,243) | 399,766 | 373,053 | 26,713 | 366 | 471 |
| Singapore Dollar | 3,970 | 20,684 | (16,714) | 112,722 | 96,096 | 16,626 | (1) | (88) |
| Other Currencies | 47,087 | 1,610,970 | (1,563,883) | 2,197,329 | 628,575 | 1,568,753 | - | 4,871 |
| Total Exposure | | | | | | | | 11,138 (c) |
| Total Equity | | | | | | | | 15,981,095 |
| Total Exposure as a % of Total Equity (Should not exceed 30%) | | | | | | | | 0.07% |

(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 2015

| Currency | On Balance Sheet Positions | | | Forward (a) | | | Overall Exposure in Respective Foreign Currency '000 | Overall Exposure in Sri Lankan Rupees (b) LKR '000 |
|---|----------------------------|-------------|-------------|-------------|-------------|-----------|---|---|
| | Assets | Liabilities | Net | Assets | Liabilities | Net | | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | | |
| US Dollars | 7,414,984 | 17,136,544 | (9,721,560) | 22,650,023 | 12,966,018 | 9,684,005 | (260) | (37,555) |
| Pound Sterling | 18,417 | 1,786,980 | (1,768,563) | 2,046,920 | 277,257 | 1,769,663 | 5 | 1,100 |
| Euro | 122,979 | 775,136 | (652,157) | 757,943 | 104,171 | 653,772 | 10 | 1,615 |
| Japanese Yen | 19,235 | 65,785 | (46,550) | 609,486 | 562,772 | 46,714 | 137 | 165 |
| Singapore Dollar | 713 | 40,954 | (40,241) | 110,850 | 70,988 | 39,862 | (4) | (379) |
| Other Currencies | 35,584 | 1,241,217 | (1,205,633) | 1,812,470 | 597,447 | 1,215,023 | - | 9,390 |
| Total Exposure | | | | | | | | 50,204 (c) |
| Total Equity | | | | | | | | 13,990,122 |
| Total Exposure as a % of Total Equity (Should not exceed 30%) | | | | | | | | 0.36% |

(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)

Risk Management

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Bank is exposed to liquidity risk due to the inherent mismatch between its asset and liability maturity profile.

Liquidity risk management

Oversight responsibility for managing the Bank's liquidity risks is with the ALCO, which ensures that a sufficient liquidity buffer is maintained to meet the Bank's financial obligations. The ALCO regularly reviews the Bank's cash flow projections, funding capabilities, pricing decisions and liquidity levels to ensure compliance to internal targets as well as regulatory liquidity requirements. The Committee also works closely with the Treasury Department in the implementation of ALCO decisions on a day to day basis.

Measuring liquidity

Liquidity is measured through the dual approaches of stock and flow. The former assesses liquidity based on the liquid assets held by the Treasury including cash, government securities and balances with financial institutions. The flow approach evaluates liquidity based on the projected cash inflows and outflows over the different time buckets, based on the maturity of assets and liabilities.

| Bank Consolidated(LKR Mn) | Up to 15 days | 16 days - 1 month | 1-2 months | 2-3 months | 4 - 12 months | 1-5 years | Over 5 years | Total |
|---|------------------|----------------------|---------------|---------------|------------------|-----------|-----------------|---------|
| Total Liabilities | 32,633 | 29,944 | 22,214 | 21,141 | 47,948 | 35,405 | 58,488 | 247,773 |
| Total Assets | 49,987 | 15,994 | 15,398 | 10,351 | 37,058 | 72,498 | 37,832 | 239,119 |
| GAP | 17,354 | (13,950) | (6,816) | (10,790) | (10,890) | 37,093 | (20,656) | |
| Cumulative GAP | 17,354 | 3,404 | (3,412) | (14,202) | (25,091) | 12,002 | (8,654) | |
| Cumulative Liabilities | 32,633 | 62,577 | 84,791 | 105,932 | 153,880 | 189,286 | 247,773 | |
| Cumulative GAP as a % of Cumulative Liabilities | 53% | 5% | -4% | -13% | -16% | 6% | -3% | |

Diverse funding base

A diversified funding strategy enables the Bank to contain its liquidity risk as exposure to a single avenue of funding is limited. Retail deposits are the largest funding source with a 72% share of funding followed by debt (17%) and equity (8%). Depositor concentration is also relatively low, with the 20 largest depositors accounting for a mere 8.3% of the total deposit base.

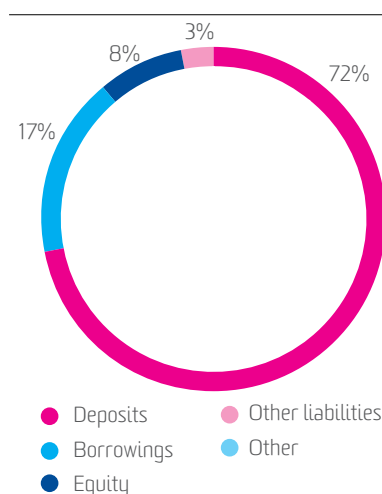
Contingency plan

The Bank has in place a multiple level contingency plan which provides guidance on managing liquidity requirements in stressed conditions. It articulates specific trigger points for activation which are

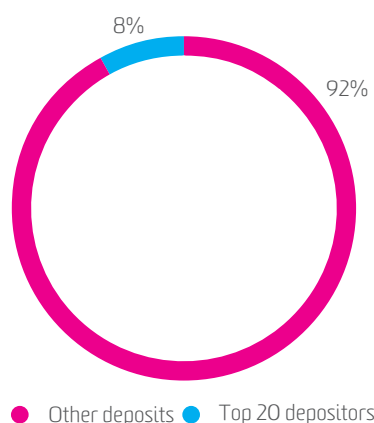
detailed in the liquidity management policy. The action plan for each contingency level is handled by a Crisis Management Team which includes the CEO and other members of the Corporate and Senior Management Team. During the year, the Bank had sufficient stand by liquidity facility agreements(Reciprocal agreement) to buffer against sudden liquidity stresses.

During the year, we maintained liquidity indicators comfortably within regulatory minimums and the limits defined by the Risk Appetite statement. The maturity analysis of assets and liabilities highlighted earlier also indicates a relatively healthy liquidity position.

Funding composition



Deposit concentration



Interest Rate Risk expense as at 31 December

| Liquidity Indicator | 31st March 2016 | 30th June 2016 | 30th Sep 2016 | 31st Dec 2016 |
|--------------------------------|-----------------|----------------|---------------|---------------|
| 1 Liquidity Coverage Ratio | 206% | 186% | 190% | 156% |
| - LKR | | | | |
| - All Currency | 146% | 153% | 139% | 132% |
| 2 Statutory Liquid Asset Ratio | | | | |
| - DBU | 22.02% | 21.47% | 22.58% | 21.72% |
| - FCBU | 41.19% | 35.52% | 24.75% | 33.38% |
| - Console | 22.33% | 21.74% | 22.63% | 21.94% |
| 3 Loans to Deposit Ratio | 92.96% | 96.42% | 94.68% | 101.94% |

Operational Risk

Operational risk is the potential loss resulting from inadequate or failed internal processes, people and systems or from external events. These risks can arise from all spheres of the Bank's activities and all business/functional units hold responsibility for managing the Bank's operational risk exposures within the defined parameters.

Operational risk management

Oversight responsibility for operational risk management has been delegated to a dedicated Operational Risk Management Unit (ORMU) and Operational Risk Management Committee (ORMC). The ORMC is accountable to ERM (Executive Risk Management Committee) on matters related to operational risk management and to foster a culture within the Bank that emphasizes and demonstrates the benefits of a risk based approach to internal control

and management of operational risks of the bank. Meanwhile, the ORMU which functions within the purview of IRMD provides independent verification on the Bank's operational risk exposures.

The operational risk management framework is underpinned by the following:

Identification and assessment

The Bank uses Risk and Control Self Assessments (RCSA) which is administered to all key business units to evaluate the exposure to defined operational risk parameters. It is a structured mechanism for a Business Line, Supporting Unit, Product Line or Process to identify and assess its own risks and introduce measures aimed at improving risk control. In addition, the ownership of key risks and measures introduced to mitigate unacceptable risk exposure is clearly defined.

RCSA process ranks the risks based on its likelihood of occurrence and its impact / severity if that risk materializes. It also critically tests the current controls available to address such risks in terms of its control design and control performance of risks in designing/reviewing suitable action. Stemming from individual departmental risk grids, a bank-wide risk grid is prepared highlighting key risks impacting the bank. This overall bank risk grid is updated once in every two months and presented to the Integrated Risk Management Committee as a "Risk Assessment Report" detailing the management of prevailing and emerging risks.

As discussed in the Risk Review of last year's Annual Report we successfully launched the Key Risk Indicator framework during the year. The KRI's will ensure that early indicators of risks are given due recognition and appropriate action is taken to reduce possible losses arising from such risks.

Risk Management



Limits and tolerance levels

The Board of Directors have defined specific limits and tolerance levels for operational risk indicators including the number of internal and external loss events and the total value of operational losses as among others. Regular reporting to the BIRMC and Board of Directors ensure that parameters are maintained within the defined limits and corrective action is initiated if required.

Risk reporting

The Bank maintains a well structured Operational Loss Data Base which is aligned to the BASEL II requirements. Streamlined processes are in place to capture all operational loss events including near misses, which are then categorized as specified in a BASEL document in order to use them for future modelling activities when the Bank transitions to Advanced Management Approach (AMA) for Operational Risk. The loss events are linked

to the RCSA & KRI Program to ensure that repeat errors are minimized.

Developments in 2016

- Enhanced the Bank's cyber risk management framework: Reviewing of IT related risks were brought under the purview of the ORMU to streamline and improve the effectiveness of IT risk management. The Bank also created a new position and recruited an Information Security Officer with specific responsibilities for identifying emerging cyber risks
- Increased employee communication on Operational Risk: An operational risk update is circulated to all employees as and when incidents occur, promoting knowledge sharing and nurturing a risk culture

- Strengthened the RCSA mechanism: Introduced several new risk assessment grids for business and support units
- Reviewed and strengthened the Disaster Recover and Business Continuity plans
- Completed the development of a KRI framework (discussed above)
- Risk analysis of outsourced service providers

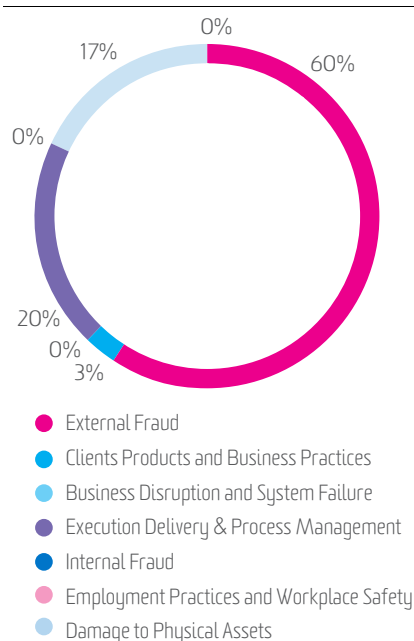
Operational risk performance in 2016

Efforts to strengthen the operational risk management framework during the year resulted in operational loss events for the year declining by 46% in value. All operational risk indicators were maintained within the defined parameters while there were no material loss events during the year.

| | Value ('000) | 2016 | Value ('000) | 2015 |
|--------------------------|---|--------|-----------------|------|
| | | % | | % |
| Basel II Loss Event Type | Internal Fraud | 0 | 132 | 0% |
| | External Fraud | 11,424 | 29,720 | 83% |
| | Employment Practices and Workplace Safety | 0 | 0 | 0% |
| | Clients Products and Business Practices | 489 | 96 | 0% |
| | Damage to Physical Assets | 0 | 0 | 0% |
| | Business Disruption and System Failure | 3,855 | 978 | 3% |
| | Execution Delivery & Process Management | 3,381 | 4,784 | 14% |
| | Total Operating Losses | 19,149 | 35,710 | 100% |

Risk Management

Loss events by value



Strategic and Reputational Risk

Strategic risks are the potential losses arising from the possibility of the Bank's future business plans and strategies being inadequate. Strategic risks arise from external and/or internal factors and inability to respond to emerging risks and opportunities in the operating landscape.

Reputational risks are those that impact the Bank's current or prospective earnings capacity and organisational value arising from the loss of confidence, breakdown in relationships and negative perceptions of transactional stakeholders.

Strategic and reputational risks are measured using a scorecard based approach which takes into consideration a range of factors including the Bank's size, complexity

and sophistication of operations, trends in the operating landscape as well as customer profiling. Effective management of the Bank's strategic and reputational risks is demonstrated by the following;

- Implementation and effective articulation of a cohesive strategic plan
- Sustainable growth in financial performance in recent years despite volatilities in the external environment
- Ranking among best corporate entities
- The Bank's ability to attract the best talent in the industry

Board Integrated Risk Management Committee Report

Composition

The Integrated Risk Management Committee (IRMC) comprised of the following Directors during 2016;

Mr. Gihan Cooray (Chairman)

Mr. D. Prasanna De Silva

Dr. Kemal de Soysa

Mr. Suran Wijesinghe

Mr. D. Prasanna De Silva stepped down as the Chairman of the IRMC with effect from 1st December 2016 and Mr. Gihan Cooray was appointed Chairman effective from the same date.

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

Mr. Ajith Akmeemana
Chief Financial Officer

Mr. Anura Yapa
DGM - Credit

Mr. Chamila Sumathiratne
Acting Chief Risk Officer

Mr. Indrajith Boyagoda
DGM - Treasury

Mr. Theja Silva
DGM - Legal

Mr. Nanda Bandara
DGM - Internal Audit

Mr. Thilak Piyadigama
Chief Operating Officer

Mr. Nisala Kodippili
Chief Information Officer

Mr. Mevan Balalle
Head of Compliance

Mr. Gayan Ranaweera
Deputy Head of Credit

In addition to the above, senior management of the Integrated Risk Management Division & other businesses, when required, 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 in relation to the approved risk appetite.

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 continued to place special emphasis on ensuring that a risk awareness culture is created in the Bank through the development and monitoring of divisional risk grids, divisional meetings which discuss and update the risk grids of the divisions, training and knowledge sharing sessions. These initiatives cascaded the risk awareness culture to the lower levels of staff and enabled the staff to understand and voice their opinions on risks and risk management practices of the Bank in an open and transparent manner.

Meetings

The IRMC held seven (07) meetings during the year under review and minutes of the Meetings were forwarded to the Board. The IRMC also approved 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 at the meetings and was satisfied that the risk exposures of the Bank are being appropriately managed.

| Name | Eligibility | Attendance | Excused |
|--------------------------|-------------|------------|---------|
| Mr. D. Prasanna De Silva | 7 | 7 | Nil |
| Dr. Kemal de Soysa | 7 | 7 | Nil |
| Mr. Gihan Cooray | 7 | 5 | 2 |
| Mr. Suran Wijesinghe | 7 | 7 | Nil |
| Ms. Renuka Fernando | 7 | 7 | Nil |



Gihan Cooray
Chairman
Integrated Risk Management Committee

Colombo
27 February 2017

Board Credit Committee Report

The composition of the Board Credit Committee (BCC) was as follows:

Mr. Krishan Balendra (Chairman)
(Alternate: Mr. Suran Wijesinghe)

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

Ms. N. Shalini Panditaratne
(Ceased w.e.f August 29, 2016)

Mr. Russel De Mel
(Appointed w.e.f June 27, 2016)

Ms. Renuka Fernando

The mandate of the Board Credit Committee includes the following:

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

The Committee held 14 meetings during the year which included 2 special meetings. The Committee also approves credit proposals by circulation.

| Name | Designation | Eligibility | Attendance | Excused |
|-----------------------------|--------------|-------------|------------|---------|
| Mr. Krishan Balendra | Chairman | 14 | 13 | 1 |
| Mr. D. Prasanna De Silva | Director | 14 | 14 | Nil |
| Ms. N. Shalini Panditaratne | Director | 10 | 10 | Nil |
| Mr. Russel De Mel | Director | 6 | 6 | Nil |
| Ms. Renuka Fernando | Director/CEO | 14 | 14 | Nil |

The DGM-Credit 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 to provide guidance to the Management to ensure a balance between risk and growth in the Bank's expansion strategies.



Krishan Balendra
Chairman
Board Credit Committee

Colombo
27 February 2017

Board Supervisory Committee Report

The members of the Board Supervisory Committee (BSC) are appointed by the Board of Directors and comprise of the following Directors;

Mr. Suran Wijesinghe – Chairman
(Non Executive Director)

Mr. Murtaza Jafferjee
(Independent Non Executive Director)

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

Mr. Gihan Cooray
(Non Executive Director)

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 the 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 thirteen meetings during the year under review and the Directors attendance at such meetings were as follows;

| Name | Eligibility | Attendance | Excused |
|--------------------------|-------------|------------|---------|
| Mr. Suran Wijesinghe | 13 | 13 | Nil |
| Mr. Murtaza Jafferjee | 13 | 13 | Nil |
| Mr. D. Prasanna De Silva | 13 | 13 | Nil |
| Mr. Gihan Cooray | 13 | 13 | 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
27 February 2017

Board Nomination Committee Report

The members of the Nomination Committee are appointed by the Board of Directors and comprise of the following Directors;

Mr. Murtaza Jafferjee - Chairman
(Independent Non-Executive Director)

Mr. Krishan Balendra
(Non-Executive Director)

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

Dr. Kemal de Soysa
(Independent Non Executive Director)

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

| Name | Eligibility | Attendance | Excused |
|--------------------------|-------------|------------|---------|
| Mr. Murtaza Jafferjee | 1 | 1 | Nil |
| Mr. Krishan Balendra | 1 | 1 | Nil |
| Mr. D. Prasanna De Silva | 1 | 1 | Nil |
| Dr. Kemal de Soysa | 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 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.



Murtaza Jafferjee
Chairman
Nomination Committee

Colombo
27 February 2017

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 period under review, recommended to the Board that Ms. Rachini Dhanika Rajapaksa and Mr. Neilendra Lomal Russell De Mel 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.

Human Resources and Remuneration Committee Report

The Human Resources and Remuneration Committee (HRRC) comprised of the following Directors.

Mr. Krishan Balendra - Chairman
(Non Executive Director)

Dr. K. De Soysa
(Independent Non Executive Director)

Mr. Kumar Jayasuriya
(Non Executive Director)

Mr. Suran Wijesinghe
(Non Executive Director)

During the year under review one HRRC meeting was held. The Chief Executive Officer was present at the meeting as an invitee except when matters relating to the Chief Executive Officer were being discussed.

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) and other Key Management Personnel of the Bank.
3. To set goals and targets for the CEO and other Key Management Personnel.
4. To evaluate the performance of the CEO 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 during 2016, 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 2016 at the HRRC meeting, a comprehensive review of the Bank's Compensation and Benefits with recommended amendments and its comparison to the industry were

presented to the Committee. Management recommendations for changes to the compensation and benefits were approved.

In creating a performance driven culture, the Bank administers a variable bonus scheme linked to the Bank's performance for the year vis-à-vis the annual budget and the performance of a peer group of banks. Individuals are rewarded based on their individual performance and responsibility levels.

During the latter half of 2016, the Bank participated in a remuneration survey carried out by an external consulting firm in order to ensure that the Bank's compensation & benefits structure is market competitive. The findings of the survey was used as a basis for formulating the remuneration levels for the year 2017.

During 2016, the Committee also evaluated the performance of the CEO 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 of the Director | Eligibility | Attendance | Excused |
|-------------------------|-------------|------------|---------|
| Mr. Krishan Balendra | 1 | 1 | Nil |
| Dr. Kemal de Soysa | 1 | 1 | Nil |
| Mr. C.L.K.P. Jayasuriya | 1 | 1 | Nil |
| Mr. Suran Wijesinghe | 1 | 1 | Nil |



Krishan Balendra

Chairman

Human Resources and Remuneration Committee

Colombo
27 February 2017

Related Party Transactions Review Committee Report

The members of the Related Party Transactions Review Committee (RPTRC) are appointed by the Board of Directors and comprise of the following Directors:

Dr. Kemal de Soysa - Chairman
(Independent Non Executive Director)

Mr. Murtaza Jafferjee
(Independent Non Executive Director)

Ms. Renuka Fernando
(Executive Director)

The Committee meets quarterly and minutes are submitted to the Board of Directors for review. Relevant Corporate Management members attend meetings by invitation.

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

(b) Ensuring that a robust framework exists for approving, managing and reporting related party transactions in accordance with applicable rules.

(c) Establish guidelines for the senior management to follow in its ongoing dealings with Related Parties. Thereafter, the Committee, on an annual basis, shall review and assess ongoing relationships with Related Parties to determine whether they are in compliance with the Committee's guidelines and that the RPT remains appropriate.

During the year under review the Committee approved a mechanism for management of related party transactions and is working with the management to continuously improve the framework for management of related party transactions.

| Name | Eligibility | Attendance | Excused |
|-----------------------|-------------|------------|---------|
| Dr. Kemal de Soysa | 4 | 4 | Nil |
| Mr. Murtaza Jafferjee | 4 | 2 | 2 |
| Ms. Renuka Fernando | 4 | 4 | Nil |

The Committee's main responsibilities include the following:

- (a) Review of Related Party Transactions (RPTs) either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction in accordance with the Listing Rules of the Colombo Stock Exchange and other applicable rules in Sri Lanka.



Dr. Kemal de Soysa
Chairman
Related Party Transactions Review
Committee

Colombo
27 February 2017

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

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

General

The Directors have pleasure in presenting to the members their Report together with the Audited Financial Statements for the year ended 31 December, 2016 of Nations Trust Bank PLC., a public limited liability company incorporated in Sri Lanka on 21 January 1999 under the Companies Act No. 17 of 1982, quoted 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 14 February 2008 as required under the provisions of the Companies Act No. 7 of 2007.

The Annual Report of the Board of Directors and the Audited Financial Statements were approved by the Directors on 27 February, 2017.

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.

Financial Statements

Financial Statements of the Bank and the Group are given on pages 192 to 286 of this Annual Report.

Auditors' Report

Auditors' Report on the Financial Statements is given on Page 191.

Significant Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 197 to 205. 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 is given on page 181 of this Report.

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

1. Approval of remuneration to the Executive Director by the Board - 31 March, 2016.
2. Sale of shares by Mr. D. U. Panditaratne, spouse of Ms. N. S. Panditaratne, an Independent Non Executive Director on 13 January, 2016.

Directors' Shareholdings

Directors' shareholding as at 31 December, 2016 and 2015 are given below;

| Name of the Director | No. of Shares | |
|---|---------------|---------|
| | 2016 | 2015 |
| Dr. (Ms.) D. Weerakoon (Retired on 29th February, 2016) | | |
| Mr. Krishan Balendra | 107,700 | 107,700 |
| Mr. Murtaza Jafferjee | - | - |
| Dr. Kemal de Soysa | - | - |
| Mr. D. Prasanna De Silva | - | - |
| Ms. N. Shalini Panditaratne | - | - |
| Mr. Suran Wijesinghe | 39,650 | 39,650 |
| Mr. Kumar Jayasuriya | - | - |
| Mr. Gihan Cooray | 8,400 | 8,400 |
| Mr. Harsha Raghavan | - | - |
| Ms. Renuka Fernando | 68,700 | 68,700 |
| Mr. Conrad D'Souza | - | - |
| Ms. Rachini Rajapaksa | - | - |
| Mr. Russell De Mel | - | - |

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

Directors' Remuneration

Directors' fees and emoluments paid during the year are given in Note 41.1 (a).

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;

Ms. Rachini Rajapaksa was appointed as an Independent Non Executive Director with effect from 29 April, 2016. Mr. Russell De Mel was appointed as an Independent Non Executive Director with effect from 6 June, 2016.

Mr. D. Prasanna De Silva, Ms. N. Shalini Panditaratne 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.

Ms. Rachini Rajapaksa and Mr. Russell De Mel 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).

Given that and 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 the other 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 | 9,416 | 10,886 |
| Fees for Other Services | 3,755 | 3,755 |

Other services consisted of advisory and tax related work.

| Name and the designation | Eligibility | Attendance | Excused |
|---|-------------|------------|---------|
| Non Executive Directors | | | |
| Mr. Krishan Balendra | 14 | 14 | Nil |
| Mr. D. Prasanna De Silva | 14 | 14 | Nil |
| Mr. Suran Wijesinghe | 14 | 13 | 01 |
| Mr. Kumar Jayasuriya | 14 | 13 | 01 |
| Mr. Gihan Cooray | 14 | 13 | 01 |
| Mr. Harsha Raghavan | 14 | 11 | 03 |
| Independent Non Executive Directors | | | |
| Dr. (Ms.) Dushni Weerakoon (Retired on 29 February 2016) | 03 | 03 | Nil |
| Mr. Murtaza Jafferjee-Senior Director | 14 | 13 | 01 |
| Dr. Kemal de Soysa | 14 | 13 | 01 |
| Ms. N. Shalini Panditaratne | 14 | 13 | 01 |
| Mr. Conrad D'Souza | 14 | 14 | Nil |
| Ms. Rachini Rajapaksa | 08 | 07 | 01 |
| Mr. Russell De Mel | 07 | 07 | Nil |
| Executive Director | | | |
| Ms. Renuka Fernando | 14 | 14 | Nil |

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

Results and Dividends

Consolidated Income Statement along with the Bank's Income Statement for the year is given on page 193 and Statement of Financial Position of the Bank and the Group are given on page 192.

Having satisfied the solvency test requirement under the Companies Act No. 7 of 2007 the Directors have declared a first and final dividend of LKR. 2.10 per share to the holders of ordinary shares of the Bank registered in the books of the Bank as at end of 7 March, 2017.

Information on Shares and Debentures

Information relating to holdings of shares and debentures is given in pages 115 to 117 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 47 to the Financial Statements contained on page 286.

Capital Adequacy

The Group's capital adequacy ratios as at 31st December 2016 were 11.40% for Tier I and 15.82% 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 the 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 sought permission from the Central Bank of Sri Lanka to retain their current shareholding levels which request is under consideration by the Central Bank.

Compliance with Transfer Pricing Regulations

All transactions entered into with associated persons during the period are on an arm's length basis and are comparable with transactions carried out with non-associated persons.

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 Items in the Statement of Financial Position | Subsidiary Companies * | | Directors of the Bank | |
|---|------------------------|------------------|-----------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Assets | | | | |
| Accommodation | | | | |
| Loans and Advances | 210,297 | 274,958 | 9,007 | 5,732 |
| Credit Cards | - | - | 1,767 | 1,248 |
| Reverse Repurchase Agreements | - | - | - | - |
| Derivative Financial Assets | - | - | - | - |
| Other Assets | - | 5,922 | - | - |
| Total Accommodation | 210,297 | 280,880 | 10,774 | 6,980 |
| Less: Cash Collaterals against Total Accommodations | - | - | 10,653 | 3,754 |
| Inv. made in the Bank's Equity and Debt instruments | - | - | - | - |
| Total Net Accommodation | 210,297 | 280,880 | 121 | 3,226 |
| Total Net Accommodation % of Total Regulatory Capital | 0.93% | 1.69% | 0.00% | 0.02% |
| Liabilities | | | | |
| Due to Customers | 54,451 | 80,295 | 48,279 | 44,875 |
| Borrowings & Others | 589,663 | 468,242 | - | - |
| Other Liabilities/Financial Guarantees | - | - | - | - |
| Derivative Financial Liabilities | - | - | - | - |
| Equity | | | | |
| Dividends Paid (Net) | - | - | 426 | 456 |
| Issue of Bonus Shares | - | - | - | - |
| Commitments | | | | |
| Undrawn Facilities | 1,589,836 | 1,525,098 | 4,408 | 6 |
| Letter of Credit / Guarantees | - | - | - | - |
| Forward - Foreign Exchange Contracts | - | - | - | - |
| Items in Income statement | | | | |
| Interest Income Earned | 15,242 | 20,781 | 678 | 197 |
| Interest Expenses Paid | 47,891 | 27,872 | 1,028 | 402 |
| Other Income Earned | 13,304 | 6,490 | 102 | 33 |
| Dividends Received (Gross) | 23,489 | 17,550 | - | - |
| Expenses Paid | 41,686 | 41,893 | 788 | - |
| Provision for Investments | - | - | - | - |
| Compensation paid | | | | |
| Short Term Employee Benefits | - | - | 44,042 | 50,421 |
| Post Employment Benefits | - | - | 4,200 | 3,794 |
| No. of Shares of the Bank bought | - | - | - | - |
| No. of Shares of the Bank sold | - | - | - | - |

* 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 Financial Services Limited and Central Finance Company PLC together with CF Growth Fund Limited and CF Insurance Brokers Limited hold material interest in the Bank, transactions with these companies have been disclosed.

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

Key Management Personnel (KMP) consists of Bank's Board of Directors, Corporate Management and their Close Family Members as designated by the Corporate Governance structure.

| Key Management Personnel (KMP) of the Bank | | 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 | |
|--|------------------|--------------------------------------|------------------|--|------------------|--|------------------|
| 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| 90,465 | 74,848 | 11,072 | 16,647 | 378,921 | 423,412 | 57,127 | - |
| 5,413 | 1,207 | 4,712 | 488 | - | - | 192 | 817 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 2,974 | 22,708 |
| - | - | - | - | - | - | 13,227 | 5,722 |
| 95,878 | 76,055 | 15,784 | 17,134 | 378,921 | 423,412 | 73,556 | 29,247 |
| 21,227 | 49,826 | 10,853 | 9,627 | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 74,651 | 26,229 | 4,932 | 7,507 | 378,921 | 423,412 | 73,556 | 29,247 |
| 0.33% | 0.16% | 0.02% | 0.05% | 1.68% | 2.54% | 0.33% | 0.18% |
| 123,663 | 141,951 | 47,464 | 19,421 | 636,650 | 2,592,369 | 1,703,916 | 364,491 |
| - | 4,888 | - | - | 1,766,238 | 1,543,977 | 218,122 | 589,315 |
| - | - | - | - | - | - | 65,535 | 40,300 |
| - | - | - | - | - | - | 8 | 162 |
| 77 | 69 | 20 | 617 | 284,080 | 283,651 | - | - |
| 34,185 | 9,897 | 8,559 | 2,407 | 115,240 | 189,340 | 286,701 | 150,014 |
| - | - | - | - | 265,854 | 230,215 | 954,134 | 26,369 |
| - | - | - | - | - | - | 594,699 | 678,370 |
| 4,767 | 6,645 | 979 | 966 | 29,448 | 17,699 | 2,133 | 3,345 |
| 8,620 | 9,356 | 2,510 | 611 | 321,406 | 29,589 | 59,282 | 7,144 |
| 38 | 34 | 46 | 11 | 3,643 | 2,981 | 15,582 | 3,690 |
| - | - | - | - | - | - | - | - |
| 490 | - | - | - | 48,406 | 40,770 | 53,587 | 58,418 |
| - | - | - | - | - | - | - | - |
| 162,994 | 135,488 | - | - | - | - | - | - |
| 22,510 | 17,948 | - | - | - | - | - | - |

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

Directors of Subsidiary Companies

Waldock Mackenzie Limited

Mr. Krishan Balendra -Chairman

Ms. Renuka Fernando

Mr. Gihan Cooray

Nations Insurance Brokers Limited

Ms. Renuka Fernando -Chairman

Dr. Kemal de Soysa

Allied Properties Limited

Mr. Krishan Balendra-Chairman

Ms. Renuka Fernando

Going Concern

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

Annual General Meeting

Annual General Meeting of the Bank will be held at the Auditorium of the Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 07, Sri Lanka on 31st March, 2017 at 10.30 a.m.



Krishan Balendra
Chairman



Renuka Fernando
Director/Chief Executive Officer



Theja Silva
Company Secretary

Colombo
27 February, 2017

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 Director related entities during the year 2016.

| Name of Related Party | Name of Director | Relationship | Details |
|---|-----------------------|--------------|--|
| Allied Properties Limited | Mr. Krishan. Balendra | Director | A sum of LKR 26,972,629 was paid as Interest Expense |
| | Ms. Renuka Fernando | Director | A sum of LKR 5,399,998 was received as Dividend |
| | | | A sum of LKR 41,685,659 was paid as Rent Expense |
| | | | A sum of LKR 8,673,463 was paid as Other Expenses |
| Asian Hotels & Properties PLC | Mr. Krishan. Balendra | Director | A sum of LKR 16,393,589 was paid as Interest Expense |
| | | | A sum of LKR 1,000 was received as Other Income |
| Central Finance Company PLC | Mr. Prasanna De Silva | Director | A sum of LKR 29,427,433 was received as Interest Income |
| | Mr. Kumar Jayasuriya | Director | A sum of LKR 186,576,779 was paid as Interest Expense |
| | | | A sum of LKR 3,483,162 was received as Other Income |
| | | | A sum of LKR 47,435,890 was paid as Vehicle Hire Charges |
| CF Insurance Brokers (Pvt) Limited | Mr. Prasanna De Silva | Director | A sum of LKR 139,812 was received as Other Income |
| Cinnamon Hotel Management Limited | Mr. Krishan. Balendra | Director | A sum of LKR 8,340,000 was paid as Business Promotion |
| Hedges Court Residencies (Private) Limited | Mr. Prasanna De Silva | Director | A sum of LKR 375 was received as Other Income |
| Jaykay Marketing Services (Private) Limited | Mr. Krishan. Balendra | Director | A sum of LKR 40,759 was received as Interest Income |
| | Mr. Gihan Cooray | Director | A sum of LKR 8,045,189 was paid as Interest Expense |
| | | | A sum of LKR 169,500 was received as Other Income |
| | | | A sum of LKR 15,287,903 was paid as Business Promotion |
| | | | A sum of LKR 2,389,518 was paid as Other Expenses |
| John Keells Hotels PLC | Mr. Krishan. Balendra | Director | A sum of LKR 724 was received as Interest Income |
| | | | A sum of LKR 17,650 was received as Other Income |
| John Keells Stock Brokers (Private) Limited | Mr. Krishan. Balendra | Director | A sum of LKR 817,254 was paid as Interest Expense |
| John Keells Holdings PLC | Mr. Krishan. Balendra | Director | A sum of LKR 134,772,094 was paid as Interest Expense |
| | | | A sum of LKR 19,866 was received as Other Income |
| | | | A sum of LKR 960,375 was paid as Other Expenses |
| Nations Insurance Brokers | Ms. Renuka Fernando | Director | A sum of LKR 20,918,735 was paid as Interest Expense |
| | Dr. Kemal de Soysa | Director | A sum of LKR 9,899,208 was received as Dividend |
| | | | A sum of LKR 7,406,840 was received as Other Income |
| Waldock Mackenzie Limited | Mr. Krishan. Balendra | Director | A sum of LKR 15,242,457 was received as Interest Income |
| | Ms. Renuka Fernando | Director | A sum of LKR 8,189,998 was received as Dividend |
| | Mr. Gihan Cooray | Director | A sum of LKR 5,896,849 was received as Other Income |
| Walkers Tours Limited | Mr. Krishan. Balendra | Director | A sum of LKR 72,652 was paid as Interest Expense |
| | | | A sum of LKR 17,300 was received as Other Income |
| Whittall Boustead (Travel) Ltd. | Mr. Krishan. Balendra | Director | A sum of LKR 984,210 was paid as Interest Expense |
| | | | A sum of LKR 51,000 was received as Other Income |
| Yala Village (Private) Limited | Mr. Krishan. Balendra | Director | A sum of LKR 53,812 was paid as Interest Expense |
| | | | A sum of LKR 9,000 was received as Other Income |

Details of Accommodation granted and balances outstanding as at 31 December 2016

| Name of the Related Party | Name of Director | Relationship | Accommodation Granted | Limit - LKR | Amount Outstanding as at 31 December 2016 - LKR |
|-----------------------------|-----------------------|--------------|---------------------------|-------------|---|
| Central Finance Company PLC | Mr. Prasanna De Silva | Director | Working Capital Financing | 450,000,000 | 378,920,866 |

Directors' Statement on Internal Control Over Financial Reporting

Responsibility

In line with the Banking Act Direction No. 11 of 2007, section 3 (8) (ii) (b), the Board of Directors present this report on Internal Control over Financial Reporting.

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

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

account principles for the assessment of internal control over Financial Reporting system as given in that 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 185.
- In assessing the internal control system over financial reporting, identified officers of the Bank collated

all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. These in turn were observed and checked by the internal audit department for suitability of design and effectiveness on an ongoing basis. In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS, progressive improvements on processes to comply with 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, and Management Information are being done. 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

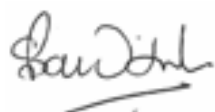
The external auditors have reviewed the above Directors Statement on Internal Control over financial reporting included in the annual report of the Bank for the year ended 31 December 2016 and reported to the Board that nothing has come to their

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



Krishan Balendra
Chairman



N. Shalini Panditaratne
Chairman
Board Audit Review Committee



Renuka Fernando
Director / Chief Executive Officer

Colombo
27 February 2017

Auditors' Report on Internal Control Over Financial Reporting



Ernst & Young
Chartered Accountants
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eysl@lk.ey.com
ey.com

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

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

We were engaged by the Board of Directors of Nations Trust Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2016.

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.

27 February 2017
Colombo

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

A member firm of Ernst & Young Global Limited

Board Audit Review Committee Report

Composition of the BARC

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 Chairman is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants, UK and counts many years of experience in the Financial Services industry.

The following members served in the BARC during the twelve months period ended 31 December 2016;

- Ms. N. Shalini Panditaratne - Chairman
- Mr. C. L. K. P. Jayasuriya
- Dr. Dushni Weerakoon
- Mr. Suran Wijesinghe
- Ms. Rachini Rajapaksa

Ms. Rachini Rajapaksa was appointed a member with effect from 29 April 2016 in place of Dr. Dushni Weerakoon who served the BARC up to 29 February 2016.

Brief profiles of the members are given on pages 44 to 47 of the Annual Report.

The DGM Internal Audit of the Bank is the secretary of the BARC and he reports directly to the Chairman of the BARC, a practice that strengthens the independence of the position.

Meetings

The BARC met on 15 occasions during the year and the minutes of meetings of the BARC are submitted for review to the Board of Directors.

Details of attendance of each BARC member at such meetings are given below.

| Name of the Director | Eligibility | Attendance | Excused |
|-----------------------------|-------------|------------|---------|
| Ms. N. Shalini Panditaratne | 15 | 13 | 02 |
| Mr. C. L. K. P. Jayasuriya | 15 | 12 | 03 |
| Dr. Dushni Weerakoon | 03 | 03 | Nil |
| Mr. Suran Wijesinghe | 15 | 14 | 01 |
| Ms. Rachini Rajapaksa | 11 | 11 | Nil |

Chief Executive Officer and Corporate Management/Senior Management members including the Chief Financial Officer and External Auditors attended these meetings on invitation. Four of these meetings were held to consider and recommend to the Board of Directors the Bank's quarterly and Annual Financial statements.

Terms of Reference

The Charter of the BARC clearly defines the Terms of Reference of the committee. The BARC Charter was last reviewed and approved on 27 June 2016 by the Board of Directors. The BARC is responsible to the Board of Directors and reports on its activities regularly.

Role and Responsibilities

The BARC assists the Board of Directors in fulfilling its oversight responsibilities for the Bank's accounting and financial reporting processes and audits of the financial statements of the Bank, by monitoring the;

- i. integrity of the Bank's financial statements,
- ii. independence and qualifications of its external auditor,
- iii. Bank's system of internal controls and information security,
- iv. performance of the Bank's internal audit process and external auditor, and
- v. Bank's compliance with laws, regulations, codes of conduct with a view to safeguard the interest of all stakeholders of the Bank.

The BARC has discharged the responsibilities assigned by Rule No.3 (6) (ii) of the Corporate Governance Direction No.11 of 2007, issued by the Central Bank of Sri Lanka.

Board Audit Review Committee Report

Financial Reporting

The BARC, as part of its responsibility to oversee the Bank's financial reporting process on behalf of the Board of Directors, has reviewed and discussed with the management, the annual and the quarterly non-audited financial statements prior to their release. In reviewing the bank's annual and quarterly financial statements, the BARC focused particularly on;

- a) Major judgemental areas
- b) Any changes in accounting policies and practices
- c) Significant adjustments arising from the audit
- d) Disclosures made under financial reporting
- e) Compliance with relevant accounting standards and other legal requirements
- f) Material variances in income and expenditure and assets and liabilities, between the current and previous financial periods in order to better understand the reasons for such variances and their validity

The BARC also took into consideration the internal audit reports and management letter issued by the External Auditor in making an overall assessment on the integrity of the Financial Reporting system.

Internal Audit

The audit plan for 2016 was approved by the BARC covering all significant operational areas and the committee periodically reviewed the status of audits carried out during the period.

The BARC also provides a forum for the review of Internal Audit Reports and consideration of findings, recommendations and corrective action taken by the Management to mitigate recurrence of issues identified, with a view to managing significant business risks and improving controls. The department/unit heads attended the meetings when their audit reports were discussed.

Risks and Internal Controls

Internal Audit Department uses an Audit Risk Assessment Framework approved by the BARC to determine the risk levels of auditable units based on the audits conducted as per the approved Audit Plan.

All key controls of the Bank have been documented by the relevant process owners and the internal audit has introduced required audit procedures to relevant audit programmes to test the adequacy and effectiveness of internal controls. The BARC sought and obtained the required assurance from the Head of the unit on the remedial action taken in order to maintain the effectiveness of internal controls. Any significant non-compliance is followed-up by the BARC and where necessary instructions were given to the management to enhance and strengthen the internal controls.

External Audit

The BARC assists the Board of Directors to implement a transparent process;

- (1) in the engagement and remuneration of the External Auditor for audit services with the approval of the shareholders
- (2) in reviewing the non-audit services to ensure that they do not lead to impairment of the independence of the External Auditor

- (3) in assisting the External Auditor to complete the audit programme within the agreed time frame in compliance with relevant guidelines issued by the Central Bank of Sri Lanka

In order to discharge its responsibilities, the BARC met with the External Auditor on eight occasions including two occasions where they met with BARC without the presence of the management. During these meetings with the External Auditor, the BARC;

- (1) discussed and finalized the scope of the audit to ensure that it is in compliance with the guidelines issued by the Central Bank of Sri Lanka.
- (2) reviewed the audited financial statements and obtained the Auditors' opinion on its conformity with the Sri Lanka Accounting Standards.
- (3) reviewed the Management Letters issued by the Auditor together with management responses thereto.
- (4) discussed the further strengthening of the internal controls and adequacy of impairment and provisions.
- (5) reviewed the non-audit services provided by the External Auditor to ensure that provision of such services are not in conflict with the guidelines issued by the Central Bank of Sri Lanka and that the remuneration for such services are not of such value so as to impair their independence
- (6) The Committee has also recommended the adoption of a Policy on the engagement of the External Auditor to provide non-audit services.

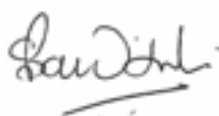
Whistle Blowing Policy

The whistle blowing policy was reviewed by the BARC and approved by the Board of Directors on 27 June 2016 with a view to further strengthen the process by which employees could raise in confidence about suspected fraud, possible improprieties in financial reporting, internal controls or other matters.

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 is maintained.

Reappointment of External Auditors

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 2017 at the next Annual General Meeting.



N. Shalini Panditaratne
Chairman
Board Audit Review Committee

Colombo
27 February 2017



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ANALYSIS OF LOANS & ADVANCES



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 191 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. judgements 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

27 February 2017

Independent Auditors' Report



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
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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 2016, and the statement of profit or loss, statement of 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 2016, 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 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
 - 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.

27 February 2017
Colombo

Statement of Financial Position

| | | Bank | | Group | |
|--|-------|--------------------|--------------------|--------------------|--------------------|
| As at 31 December | | 2016 | 2015 | 2016 | 2015 |
| | Notes | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | |
| Cash and Cash Equivalents | 6 | 4,187,605 | 6,392,393 | 4,187,649 | 6,392,437 |
| Balances with Central Bank of Sri Lanka | 7 | 8,511,509 | 5,283,866 | 8,511,509 | 5,283,866 |
| Reverse Repurchase Agreements | 8.1 | 14,930 | 302,249 | 14,930 | 302,249 |
| Derivative Financial Instruments | 9.1 | 65,356 | 554,030 | 65,356 | 554,030 |
| Financial Assets - Held for Trading | 10 | 1,574,952 | 2,044,144 | 1,574,952 | 2,044,144 |
| Financial Assets-Available for Sale | 11 | 22,148,963 | 16,532,917 | 22,148,963 | 16,532,917 |
| Financial Assets - Held to Maturity | 12 | 12,929,523 | 12,675,717 | 12,998,988 | 12,743,763 |
| Other Financial Assets | 13 | 6,860,950 | 6,511,361 | 6,860,950 | 6,511,361 |
| Loans and Advances to Customers | 14 | 148,924,734 | 120,314,568 | 149,817,941 | 121,143,065 |
| Other Assets | 15 | 1,776,550 | 1,339,553 | 1,813,688 | 1,386,357 |
| Investments in Subsidiaries | 16 | 678,710 | 678,710 | - | - |
| Property, Plant and Equipment | 17 | 1,536,664 | 1,672,448 | 1,996,208 | 2,143,187 |
| Intangible Assets | 18 | 1,180,699 | 1,214,095 | 1,188,841 | 1,224,159 |
| Total Assets | | 210,391,145 | 175,516,051 | 211,179,975 | 176,261,535 |
| Liabilities | | | | | |
| Due to Banks | 19 | 11,850,888 | 2,275,840 | 11,850,888 | 2,275,840 |
| Repurchase Agreements | 8.2 | 9,850,773 | 13,684,942 | 9,261,110 | 13,216,700 |
| Derivative Financial Instruments | 9.2 | 130,017 | 53,327 | 130,017 | 53,327 |
| Due to Customers | 20 | 151,559,668 | 129,240,876 | 151,502,236 | 129,158,190 |
| Debt Issued and Other Borrowed Funds | 21 | 14,145,105 | 10,162,010 | 14,145,105 | 10,162,934 |
| Current Tax Liabilities | | 439,215 | 396,396 | 478,011 | 426,466 |
| Other Liabilities | 22 | 5,463,970 | 4,978,921 | 5,522,850 | 5,064,059 |
| Deferred Tax Liabilities | 23 | 970,413 | 733,553 | 969,154 | 732,579 |
| Total Liabilities | | 194,410,049 | 161,525,865 | 193,859,371 | 161,090,095 |
| Equity Attributable to Equity Holders of the Parent | | | | | |
| Stated Capital | 24 | 5,101,369 | 5,101,369 | 5,101,369 | 5,101,369 |
| Statutory Reserve Fund | 25 | 796,400 | 660,840 | 796,400 | 660,840 |
| Retained Earnings | 26 | 10,261,404 | 8,154,695 | 11,600,912 | 9,335,949 |
| Available for Sale Reserve | 27 | (178,077) | 73,282 | (178,077) | 73,282 |
| Total Equity | | 15,981,096 | 13,990,186 | 17,320,604 | 15,171,440 |
| Total Liabilities and Equity | | 210,391,145 | 175,516,051 | 211,179,975 | 176,261,535 |
| Contingent Liabilities and Commitments | 44.2 | 124,017,916 | 96,818,431 | 123,584,888 | 96,791,786 |
| Net Assets Value per Ordinary Share (LKR.) | | 69.30 | 60.67 | 75.11 | 65.79 |

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 197 to 286 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 ;


Krishan Balendra
Chairman


N. Shalini Panditaratne
Director


Renuka Fernando
Director / CEO


Theja Silva
Company Secretary

Colombo
27 February 2017

Statement of Profit or Loss

| | | Bank | | Group | |
|---|-------|-------------------|-------------------|-------------------|-------------------|
| For the Year Ended 31 December | | 2016 | 2015 | 2016 | 2015 |
| | Notes | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Gross Income | | 25,300,051 | 20,045,087 | 25,547,459 | 20,278,528 |
| Interest Income | 28 | 21,269,532 | 16,511,774 | 21,383,877 | 16,628,050 |
| Interest Expense | 29 | (11,646,713) | (7,543,595) | (11,598,266) | (7,522,866) |
| Net Interest Income | | 9,622,819 | 8,968,179 | 9,785,611 | 9,105,184 |
| Fees and Commission Income | 30.1 | 3,680,228 | 3,301,302 | 3,836,765 | 3,437,530 |
| Fees and Commission Expense | 30.2 | (245,474) | (229,843) | (238,456) | (236,255) |
| Net Fees and Commission Income | | 3,434,754 | 3,071,459 | 3,598,309 | 3,201,275 |
| Net Trading Income / (Loss) | 31 | (241,381) | (92,347) | (241,381) | (93,933) |
| Other Operating Income | 32 | 591,672 | 324,358 | 568,198 | 306,881 |
| Total Operating Income | | 13,407,864 | 12,271,649 | 13,710,737 | 12,519,407 |
| Impairment Charge for Loans and Advances and Available for Sale | 33 | 674,810 | 985,757 | 690,272 | 985,478 |
| Individual Impairment | | 3,402 | 278,926 | 3,402 | 278,926 |
| Collective Impairment | | 661,066 | 636,546 | 676,528 | 636,267 |
| Others - Charges Receivable and Available for Sale | | 10,342 | 70,285 | 10,342 | 70,285 |
| Net Operating Income | | 12,733,054 | 11,285,892 | 13,020,465 | 11,533,929 |
| Personnel Expenses | 34 | 3,301,854 | 2,856,534 | 3,330,970 | 2,883,133 |
| Depreciation of Property, Plant and Equipment | | 347,977 | 363,065 | 362,221 | 377,043 |
| Amortization of Intangible Assets | | 260,292 | 236,155 | 263,495 | 240,021 |
| Other Operating Expenses | 35 | 3,669,804 | 3,396,816 | 3,663,299 | 3,361,620 |
| Total Operating Expenses | | 7,579,927 | 6,852,570 | 7,619,985 | 6,861,817 |
| Operating Profit before Value Added Tax (VAT) and Nations Building Tax (NBT) on Financial Services | | 5,153,127 | 4,433,322 | 5,400,480 | 4,672,112 |
| Value Added Tax (VAT) and Nations Building Tax (NBT) on Financial Services | 36 | 1,046,211 | 755,030 | 1,060,284 | 766,712 |
| Profit before Income Tax | | 4,106,916 | 3,678,292 | 4,340,196 | 3,905,400 |
| Income Tax Expense | 37 | 1,395,707 | 1,225,602 | 1,471,110 | 1,291,409 |
| Profit for the Year | | 2,711,209 | 2,452,690 | 2,869,086 | 2,613,991 |
| Earnings Per Share | | | | | |
| Basic / Diluted Earnings Per Share - LKR | 38 | 11.76 | 10.64 | 12.44 | 11.34 |
| Dividend Per Share - LKR | 39 | 2.10 | 2.10 | 2.10 | 2.10 |

The Notes to the Financial Statements from pages 197 to 286 form an integral part of these Financial Statements.

Statement of Comprehensive Income

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| For the Year Ended 31 December | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Profit for the Year | 2,711,209 | 2,452,690 | 2,869,086 | 2,613,991 |
| Other Comprehensive Income / (Expense) to be reclassified to profit or loss in subsequent periods: | | | | |
| Net gains / (loss) on re-measuring available-for-sale financial assets | (138,564) | (53,632) | (138,564) | (53,632) |
| Less: Reclassification adjustment to the Statement of Profit or Loss | (210,546) | - | (210,546) | - |
| Net income tax (charge) / reversal relating to components of re-measuring available-for-sale financial assets | 97,751 | 15,017 | 97,751 | 15,017 |
| | (251,359) | (38,615) | (251,359) | (38,615) |
| Other Comprehensive Income / (Expense) not to be reclassified to profit or loss in subsequent periods: | | | | |
| Actuarial gain / (loss) on defined benefit plan | 21,299 | 7,504 | 21,823 | 8,755 |
| Net income tax charge / (reversal) relating to components of defined benefit plan | (5,964) | (2,101) | (6,111) | (2,429) |
| | 15,335 | 5,403 | 15,712 | 6,326 |
| Total Other Comprehensive Income / (Expense) | (236,024) | (33,212) | (235,647) | (32,289) |
| Total Comprehensive Income for the Year, Net of Tax | 2,475,185 | 2,419,478 | 2,633,439 | 2,581,702 |
| Attributable to: | | | | |
| Equity Holders of the Parent | 2,475,185 | 2,419,478 | 2,633,439 | 2,581,702 |

The Notes to the Financial Statements from pages 197 to 286 form an integral part of these Financial Statements.

Statement of Changes in Equity

| For the Year Ended 31 December | Stated Capital | Retained Earnings | Available for sale Reserve | Statutory Reserve Fund | Total |
|---|----------------|-------------------|----------------------------|------------------------|------------|
| BANK | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| As at 01 January 2015 | 5,101,369 | 7,037,084 | 111,897 | 538,205 | 12,788,555 |
| Charge relating to Super Gain Tax | - | (733,572) | - | - | (733,572) |
| Profit for the year | - | 2,452,690 | - | - | 2,452,690 |
| Other Comprehensive Income | - | 5,403 | (38,615) | - | (33,212) |
| Total Comprehensive Income | - | 2,458,093 | (38,615) | - | 2,419,478 |
| Dividend paid for 2014 | - | (484,275) | - | - | (484,275) |
| Transfers to the Statutory Reserve Fund | - | (122,635) | - | 122,635 | - |
| As at 31 December 2015 | 5,101,369 | 8,154,695 | 73,282 | 660,840 | 13,990,186 |
| Profit for the year | - | 2,711,209 | - | - | 2,711,209 |
| Other Comprehensive Income | - | 15,335 | (251,359) | - | (236,024) |
| Total Comprehensive Income | - | 2,726,544 | (251,359) | - | 2,475,185 |
| Dividend paid for 2015 | - | (484,275) | - | - | (484,275) |
| Transfers to the Statutory Reserve Fund | - | (135,560) | - | 135,560 | - |
| As at 31 December 2016 | 5,101,369 | 10,261,404 | (178,077) | 796,400 | 15,981,096 |

| | Stated Capital | Retained Earnings | Available for sale Reserve | Statutory Reserve Fund | Total |
|---|----------------|-------------------|----------------------------|------------------------|------------|
| GROUP | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| As at 01 January 2015 | 5,101,369 | 8,143,054 | 111,897 | 538,205 | 13,894,525 |
| Charge relating to Super Gain Tax | - | (820,512) | - | - | (820,512) |
| Profit for the year | - | 2,613,991 | - | - | 2,613,991 |
| Other Comprehensive Income | - | 6,326 | (38,615) | - | (32,289) |
| Total Comprehensive Income | - | 2,620,317 | (38,615) | - | 2,581,702 |
| Dividend paid for 2014 | - | (484,275) | - | - | (484,275) |
| Transfers to the Statutory Reserve Fund | - | (122,635) | - | 122,635 | - |
| As at 31 December 2015 | 5,101,369 | 9,335,949 | 73,282 | 660,840 | 15,171,440 |
| Profit for the year | - | 2,869,086 | - | - | 2,869,086 |
| Other Comprehensive Income | - | 15,712 | (251,359) | - | (235,647) |
| Total Comprehensive Income | - | 2,884,798 | (251,359) | - | 2,633,439 |
| Dividend paid for 2015 | - | (484,275) | - | - | (484,275) |
| Transfers to the Statutory Reserve Fund | - | (135,560) | - | 135,560 | - |
| As at 31 December 2016 | 5,101,369 | 11,600,912 | (178,077) | 796,400 | 17,320,604 |

The Notes to the Financial Statements from pages 197 to 286 form an integral part of these Financial Statements.

Statement of Cash Flows

| | | Bank | | Group | |
|--|--------|---------------------|---------------------|---------------------|---------------------|
| For the Year Ended 31 December | | 2016 | 2015 | 2016 | 2015 |
| | Notes | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Cash Flows from Operating Activities | | | | | |
| Receipts of Interest Income | | 20,395,332 | 15,341,128 | 20,635,355 | 15,553,713 |
| Receipts of Fees and Commission Income | | 3,676,301 | 3,289,985 | 3,855,703 | 3,425,246 |
| Payments of Interest Expense | | (10,030,686) | (6,273,715) | (10,108,746) | (6,353,699) |
| Payments of Fees and Commission Expense | | (245,474) | (229,843) | (232,882) | (223,583) |
| Net Trading Income | | (232,852) | 138,192 | (232,852) | 138,192 |
| Receipts from Other Operating Income | | 584,536 | 330,756 | 578,783 | 313,634 |
| Gratuity Payments Made | 22.2.2 | (57,073) | (50,284) | (57,504) | (50,743) |
| Payments for Operating Expenses | | (7,753,475) | (6,876,405) | (7,798,626) | (6,896,267) |
| Net Cash Flow from Operating Activities before Income Tax (A) | | 6,336,609 | 5,669,814 | 6,639,231 | 5,906,493 |
| Income Tax paid | | (760,145) | (911,088) | (819,584) | (1,056,538) |
| Super Gain Tax Paid | | - | (733,574) | - | (820,511) |
| Operating Profit before Changes in Operating Assets and Liabilities | | 5,576,464 | 4,025,152 | 5,819,647 | 4,029,444 |
| (Increase)/Decrease in Operating Assets | 40.1 | (34,524,687) | (17,691,144) | (35,159,359) | (17,979,157) |
| Increase/(Decrease) in Operating Liabilities | 40.2 | 18,170,559 | 13,544,008 | 18,427,127 | 13,983,159 |
| Net Cash Flows from Operating Activities | | (10,777,664) | (121,984) | (10,912,585) | 33,446 |
| Cash Flows from Investing Activities | | | | | |
| Purchase of Property, Plant and Equipment | 17.1.1 | (244,731) | (283,030) | (247,779) | (291,177) |
| Proceeds from Sale of Property, Plant and Equipment and Intangible Assets | | 7,618 | 3,456 | 7,618 | 3,456 |
| Purchase of Intangible Assets | 18 | (226,898) | (223,592) | (228,182) | (225,434) |
| | | (464,011) | (503,166) | (468,343) | (513,155) |
| Cash Flows from Financing Activities | | | | | |
| Net change in other Borrowings | | 10,530,327 | 2,884,412 | 10,669,581 | 2,663,658 |
| Proceeds from the issue of Debentures | | 5,076,876 | - | 5,076,876 | - |
| Repayment of Subordinated Debt | | (2,084,596) | - | (2,084,596) | - |
| Interest paid on Subordinated Debt | | (761,621) | (697,068) | (761,621) | (697,068) |
| Dividends paid to Equity Holders of the Parent | | (484,275) | (484,275) | (484,275) | (484,275) |
| | | 12,276,711 | 1,703,069 | 12,415,965 | 1,482,315 |
| Net Increase in Cash and Cash Equivalents | | 1,035,036 | 1,077,916 | 1,035,034 | 1,002,608 |
| Cash and Cash Equivalents at the beginning of the year | | 11,569,479 | 10,491,563 | 11,569,525 | 10,566,918 |
| Cash and Cash Equivalents at the end of the year | | 12,604,515 | 11,569,479 | 12,604,559 | 11,569,526 |
| Reconciliation of Cash and Cash Equivalents | | | | | |
| Cash on Hand | 6 | 3,745,304 | 3,763,144 | 3,745,317 | 3,763,159 |
| Statutory Deposit with the Central Bank of Sri Lanka | 7 | 8,511,509 | 5,283,866 | 8,511,509 | 5,283,866 |
| Balances with Banks | | 442,301 | 1,129,002 | 442,332 | 1,129,034 |
| Money at Call and Short Notice | | - | 1,500,247 | - | 1,500,247 |
| Deposits from Other Banks | | (94,599) | (106,780) | (94,599) | (106,780) |
| | | 12,604,515 | 11,569,479 | 12,604,559 | 11,569,526 |
| A. Reconciliation of Operating Profit | | | | | |
| Profit before Income Tax | | 4,106,916 | 3,678,292 | 4,340,196 | 3,905,400 |
| (Profit) / Loss on disposal of Property, Plant and Equipment and Intangible Assets | | (7,136) | 6,398 | (7,136) | 6,398 |
| Impairment charge / (Reversal) for Loans and Advances | | 674,812 | 985,757 | 690,273 | 985,478 |
| Provision for Gratuity | | 88,421 | 80,160 | 89,435 | 81,186 |
| (Increase) / Decrease in Interest Receivable | | (681,288) | (902,432) | (681,049) | (899,432) |
| Increase/ (Decrease) in Interest Payable | | 1,616,026 | 1,269,880 | 1,616,103 | 1,267,992 |
| Increase / (Decrease) in Financial Guarantee Liabilities | | (3,928) | (11,318) | (3,928) | (11,318) |
| Other Receivables | | 14,618 | (6,121) | 8,857 | (5,697) |
| Other Payables | | 84,612 | 12,772 | 84,612 | 12,771 |
| Other Non cash items | 40.3 | 500,629 | 606,710 | 559,372 | 614,458 |
| Gratuity Payments Made | | (57,073) | (50,284) | (57,504) | (50,743) |
| | | 6,336,609 | 5,669,814 | 6,639,231 | 5,906,493 |

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 2016 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 2016 was authorized for issue in accordance with the resolution of the Board of Directors on 27 February 2017.

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.

1.3 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 190 for the Statement of the Directors' Responsibility for Financial Reporting.

2. Significant 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.

2.2 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 this Financial Statements is also in compliance with the requirements of the Banking Act No: 30 of 1998.

2.3 Prior year figures and phrases

Certain prior year figures and phrases have been rearranged whenever necessary for better presentation and to conform to the current year's presentation.

2.4 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 42.

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 generally reported gross in the consolidated statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Bank and/or its counterparties

Positions recognised on a net basis primarily include balances with exchanges, clearing houses and brokers.

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

2.5 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year.

2.6 Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries as at 31 December 2016. 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. 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. Specifically, the Group controls an investee if, and only if the Group;

- 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

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 derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value, at the date of loss of control.

3. Summary Of Significant Accounting Policies

3.1 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 into the functional currency 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 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.

3.2 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 recognized 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 tax amounts in the period in which the determination is made.

Management has used its judgement on the application of tax laws including transfer pricing regulations involving identification of associated undertakings, estimation of the respective arms length and selection of appropriate pricing mechanism.

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 43.

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 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 utilization, 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 14 and Note 33.

Impairment of Available-for-Sale Investments

The Group reviews its debt and equity securities classified as Available-for-Sale Investments at each reporting date to assess whether they are impaired.

Deferred Tax Assets

Deferred tax assets are recognized 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 utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies (Note 23).

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 22.2

3.3 Financial Instruments – Initial Recognition and Subsequent Measurement

(i) Date of Recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to

Notes to the Financial Statements

customers, 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. Loans and advances to customers are recognised when funds are transferred to the customers' account. The Bank recognises due to customer balances when funds reach the Bank.

(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

A derivative is a financial instrument or other contract with all three of the following characteristics:

- a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.
- b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that

would be expected to have a similar response to changes in market factors.

- c) It is settled at a future date.

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'.

(iv) Financial Assets Held for Trading

The Bank classifies financial assets as held for trading when they have been purchased primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short-term profit taking.

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

(v) Held to Maturity Financial Assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, that the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial assets are subsequently measured at amortized cost using the Effective Interest Rate (EIR) less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition

and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of profit or loss. The losses arising from impairment of such investments are recognized in the statement of profit or loss within '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. Debt securities in this category are intended to be held for a definite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions. Equity investments classified as available-for-sale are those which neither classified as held for trading nor designated at FVTPL.

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.

Unrealized gains and losses are recognized 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 recognized in equity is recognized in the Profit or Loss 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, which takes into account any discount/premium that are an integral part of instrument's yield. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the Profit or Loss in 'Impairment losses on financial investments' and removed from the 'Available for Sale Reserve'.

Further details on impairment of available-for-sale investments is provided in Note 3.5 (ii)

(vii) Due from Banks and Loans and advances to customers

'Due from Banks' and 'Loans and Advances to Customers' includes 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 amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any fees, discount or premium on acquisition and costs that are an integral part of the EIR. The amortization is included in 'Interest Income' in the Profit or Loss. The losses arising from impairment are recognized in the 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 amortized cost using the EIR. Amortized 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 21.

(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 with the variables including only data from observable markets, the Group immediately recognizes 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.

(x) The Effective Interest Rate method

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset

or financial liability. The amortised cost of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change in is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. The accounting policies for the EIR method vary by instruments and are further explained in Notes:

- 11 for 'Available-for-sale instruments'
- 12 for 'Held-to-maturity investments'
- 14 for 'Due from banks and loans and advances to customers'
- 21 for 'Debt issued and other borrowed funds'
- 10 for 'Financial assets and liabilities designated at fair value through profit or loss'
- 14 & 33 for 'Impairment of financial assets'
- 27 & 28 for 'Recognition of income and expenses'

3.4 De-recognition 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 derecognized 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

Notes to the Financial Statements

(ii) Financial Liabilities

A financial liability is derecognized 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 de-recognition 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 recognized in Profit or Loss.

3.5 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-organization; 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 Amortized Cost

The Bank's impairment methodology for assets carried at amortised costs comprises:

- a) Specific impairment losses for individually significant or specifically identified exposures
- b) Collective impairment of:
 - I. Individually not significant exposures
 - II. Incurred but not yet identified losses (IBNI)
- c) Specific impairment losses for individually significant or specifically identified exposures

For financial assets carried at amortized 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, recognized 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 recognized in the 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 a 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 realized 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 recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in the 'Other Operating Income'.

The present value of the estimated future cash flows is discounted by 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 reprising date.

The calculation of the present value of the estimated future cash flows of a collateralized 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.

(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 amortized cost.

The amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the Profit or

Loss. 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 recognized in the income statement, the impairment loss is reversed through the Profit or Loss.

In the case of equity investments classified as available-for-sale, objective evidence includes:

- A 'significant' or 'prolonged' decline in the fair value of the investment below its cost
- And/or
- Other information about the issuer that may negatively affect an equity issuer's performance
- The Bank treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is removed from equity and recognised in impairment losses on financial investments in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

(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.

(vi) 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.

Notes to the Financial Statements

3.6 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.

3.7 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 recognized 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 recognized less cumulative amortization recognized in the Profit or Loss, 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 Profit or Loss in 'Impairment Charge'. The premium received is recognized in the Profit or Loss in 'Net Fees and Commission Income' on a straight line basis over the life of the guarantee.

3.8 Provisions

Provisions are recognized 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 Profit or Loss net of any reimbursement.

3.9 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.

3.10 Leasing

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

3.10.1 Bank as a Lessee

Leases that do not transfer to the Bank substantially all of 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 it is incurred.

3.10.2 Bank as a Lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. 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.

3.11 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 amount due to banks.

3.12 Standards issued but not yet effective

Certain new accounting standards and amendments /improvements to existing standards have been published, that are not mandatory for 31 December 2016 reporting period. None of those have been early adopted by the Group/Bank.

3.12.1 SLFRS 09 – Financial instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39. SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The bank completed the diagnostic phase of IFRS 9 adaptation in FY2016 with the assistance of external consultants. The gaps identified will be addressed during FY2017. Also the framework on financial asset classification and model on impairment, being the key areas under review with the new standard will be formalized in 2017.

3.12.2 SLFRS 15 – Revenue from contracts with customers

SLFRS 15 establishes principles for recognizing revenue and will be applicable for all contracts with customers except interest and fee income related to financial instruments and leases which will continue to fall outside the scope of SLFRS 15 and be regulated by other applicable standards. SLFRS 15 replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Revenue under SLFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The entity does not anticipate early adopting SLFRS 15.

A preliminary evaluation of the existing contracts which falls mainly under fee and commission based income of the bank has been performed in relation to the adoption of SLFRS 15. The bank's current assessment has not revealed a significant change to the revenue recognition pattern. However, the bank is currently in the process of evaluating and quantifying the accounting impact and any impacts on the current systems and processors will be modified where necessary.

3.12.3 SLFRS 16–Leases

This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. SLFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

The following amendments and improvements are not expected to have a significant impact on the Bank's/ Group's financial statements.

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LKAS 16 and LKAS 38).
- Equity Method in Separate Financial Statements (Amendments to LKAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28).
- Annual Improvements to SLFRSs 2012–2014 Cycle – various standards.
- Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28)
- Disclosure Initiative (Amendments to LKAS 1)

Notes to the Financial Statements

4 Segment Information

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

For management purposes, the Group is organised into operating segments based on customer segments and products, 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.

Consumer Banking : Primary focus of business is deposit mobilization from high networth, mass affluent and emerging mass customer segments and providing personal financing including personal, home loans and credit card facilities.

SME Banking: Primary focus of business is providing business financing for small and medium customer segment including lending facilities and transactional banking.

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 gap management.

Investment Banking: Primary focus on margin trading, money market operations and fund and fee based activities.

Insurance Broking: Primary focus on insurance broking.

Property Management: Primary focus 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.

Last year Consumer banking includes SME banking where as the current year SME is key pillar of performance for the Bank hence the need to change the reporting to be in line with how management views and monitors business pillars. (Note No 4.1) In order to ensure the comparability, current year segment information is also presented as per the segments used in prior year (Note No 4.2/4.3)

The following table presents income and expenses and certain asset and liability information regarding the Group's operating segments.

4 Segment Information (Contd.)

4.1 Operating Segments - As per current segmentation

| 31 December 2016 | Corporate Banking | Consumer Banking | SME Banking | Leasing | Treasury Functions | Investment Banking | Insurance Brokering | Property Management | Unallocated/ Eliminations | Total Group |
|---|----------------------|---------------------|----------------|-------------|-----------------------|-----------------------|------------------------|------------------------|------------------------------|----------------|
| | 31.12.2016 | 31.12.2016 | 31.12.2016 | 31.12.2016 | 31.12.2016 | 31.12.2016 | 31.12.2016 | 31.12.2016 | 31.12.2016 | 31.12.2016 |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Operating Income | 1,393,628 | 6,678,605 | 2,302,637 | 1,540,685 | 1,974,746 | 120,422 | 141,039 | 108,539 | (549,564) | 13,710,737 |
| Impairment Charge for Loans and Advances | (81,396) | 430,691 | 225,272 | (11,527) | 111,976 | - | - | - | 15,256 | 690,272 |
| Net Operating Income | 1,475,024 | 6,247,914 | 2,077,365 | 1,552,212 | 1,862,770 | 120,422 | 141,039 | 108,539 | (564,820) | 13,020,465 |
| Extracts of Results | | | | | | | | | | |
| Interest Income | 3,087,560 | 5,177,909 | 4,385,467 | 4,207,653 | 4,476,115 | 129,587 | 20,919 | 26,973 | (128,306) | 21,383,877 |
| Inter Segment | (1,444,191) | 5,676,625 | (1,668,770) | (2,817,436) | 253,772 | - | - | - | - | - |
| Interest Expense | (713,681) | (7,501,407) | (999,048) | - | (2,501,515) | (15,242) | - | (370) | 132,997 | (11,598,266) |
| Net Interest Income | 929,688 | 3,353,127 | 1,717,649 | 1,390,217 | 2,228,372 | 114,345 | 20,919 | 26,603 | 4,691 | 9,785,611 |
| Fees and Commission Income | 303,436 | 3,017,162 | 430,393 | - | 1,686 | 11,966 | 127,527 | 81,931 | (137,336) | 3,836,765 |
| Fees and Commission Expense | (16,523) | (163,559) | (30,637) | - | (14,693) | (5,897) | (7,407) | - | 260 | (238,456) |
| Net Fees and Commission Income | 286,913 | 2,853,603 | 399,756 | - | (13,007) | 6,069 | 120,120 | 81,931 | (137,076) | 3,598,309 |
| Net Trading Income/(Loss) | 177,027 | 86,451 | 185,233 | - | (240,619) | - | - | - | (449,473) | (241,381) |
| Other Operating Income | - | 385,424 | - | 150,468 | - | 8 | - | 6 | 32,292 | 568,198 |
| Depreciation of Property, Plant and Equipment | 1,270 | 231,730 | 1,607 | 5,410 | 1,615 | - | 703 | 13,541 | 106,345 | 362,221 |
| Amortization of Intangible Assets | 80 | 38,486 | 20 | 1,454 | 12,009 | - | 3,202 | - | 208,244 | 263,495 |
| Segment Profit Before Tax | 803,496 | 884,193 | 886,606 | 707,731 | 1,195,283 | 100,686 | 105,024 | 65,595 | (408,418) | 4,340,196 |
| Income Tax Expense | - | - | - | - | - | (32,160) | (29,410) | (9,191) | (1,400,349) | (1,471,110) |
| Profit for the Year | 803,496 | 884,193 | 886,606 | 707,731 | 1,195,283 | 68,526 | 75,614 | 56,404 | (1,808,767) | 2,869,086 |
| Capital Expenditures | | | | | | | | | | |
| Property, Plant and Equipment | 3,083 | 155,587 | 1,492 | 4,252 | 808 | - | - | 3,047 | 79,450 | 247,719 |
| Intangible Assets | - | 39,032 | 33 | 588 | 820 | - | 1,284 | - | 186,425 | 228,182 |
| Total Assets | 37,154,068 | 36,200,508 | 42,377,246 | 31,694,688 | 55,810,743 | 1,198,246 | 324,296 | 801,659 | 5,618,521 | 211,179,975 |
| Total Liabilities | 12,410,823 | 119,994,976 | 20,614,376 | 1,070,289 | 34,988,727 | 250,760 | 33,086 | 23,025 | 4,473,309 | 193,859,371 |

Notes to the Financial Statements

4 Segment Information (Contd.)

4.2 Operating Segments - As per previous segmentation

31 December 2016

| | Corporate Banking | Consumer Banking | Leasing | Treasury Functions | Investment Banking | Insurance Broking | Property Management | Unallocated/ Eliminations | Total Group |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------------|------------------------|
| | 31.12.2016 LKR '000 | 31.12.2016 LKR '000 | 31.12.2016 LKR '000 | 31.12.2016 LKR '000 | 31.12.2016 LKR '000 | 31.12.2016 LKR '000 | 31.12.2016 LKR '000 | 31.12.2016 LKR '000 | 31.12.2016 LKR '000 |
| Operating Income | 1,393,628 | 8,981,242 | 1,540,685 | 1,974,746 | 120,422 | 141,039 | 108,539 | (549,564) | 13,710,737 |
| Impairment Charge for Loans and Advances | (81,396) | 655,963 | (11,527) | 111,976 | - | - | - | 15,256 | 690,272 |
| Net Operating Income | 1,475,024 | 8,325,279 | 1,552,212 | 1,862,770 | 120,422 | 141,039 | 108,539 | (564,820) | 13,020,465 |
| Extracts of Results | | | | | | | | | |
| Interest Income | 3,087,560 | 9,563,376 | 4,207,653 | 4,476,115 | 129,587 | 20,919 | 26,973 | (128,306) | 21,383,877 |
| Inter Segment | (1,444,191) | 4,007,855 | (2,817,436) | 253,772 | - | - | - | - | - |
| Interest Expense | (713,681) | (8,500,455) | - | (2,501,515) | (15,242) | - | (370) | 132,997 | (11,598,266) |
| Net Interest Income | 929,688 | 5,070,776 | 1,390,217 | 2,228,372 | 114,345 | 20,919 | 26,603 | 4,691 | 9,785,611 |
| Fees and Commission Income | 303,436 | 3,447,555 | - | 1,686 | 11,966 | 127,527 | 81,931 | (137,336) | 3,836,765 |
| Fees and Commission Expense | (16,523) | (194,196) | - | (14,693) | (5,897) | (7,407) | - | 260 | (238,456) |
| Net Fees and Commission Income | 286,913 | 3,253,359 | - | (13,007) | 6,069 | 120,120 | 81,931 | (137,076) | 3,598,309 |
| Net Trading Income/(Loss) | 177,027 | 271,684 | - | (240,619) | - | - | - | (449,473) | (241,381) |
| Other Operating Income | - | 385,424 | 150,468 | - | 8 | - | 6 | 32,292 | 568,198 |
| Depreciation of Property, Plant and Equipment | 1,270 | 233,337 | 5,410 | 1,615 | - | 703 | 13,541 | 106,345 | 362,221 |
| Amortization of Intangible Assets | 80 | 38,506 | 1,454 | 12,009 | - | 3,202 | - | 208,244 | 263,495 |
| Segment Profit Before Tax | 803,496 | 1,770,799 | 707,731 | 1,195,283 | 100,686 | 105,024 | 65,595 | (408,418) | 4,340,196 |
| Income Tax Expense | - | - | - | - | (32,160) | (29,410) | (9,191) | (1,400,349) | (1,471,110) |
| Profit for the Year | 803,496 | 1,770,799 | 707,731 | 1,195,283 | 68,526 | 75,614 | 56,404 | (1,808,767) | 2,869,086 |
| Capital Expenditures | | | | | | | | | |
| Property, Plant and Equipment | 3,083 | 157,079 | 4,252 | 808 | - | - | 3,047 | 79,450 | 247,719 |
| Intangible Assets | - | 39,065 | 588 | 820 | - | 1,284 | - | 186,425 | 228,182 |
| Total Assets | 37,154,068 | 78,577,754 | 31,694,688 | 55,810,743 | 1,198,246 | 324,296 | 801,659 | 5,618,521 | 211,179,975 |
| Total Liabilities | 12,410,823 | 140,609,352 | 1,070,289 | 34,988,727 | 250,760 | 33,086 | 23,025 | 4,473,309 | 193,859,371 |

4 Segment Information (Contd.)

4.3 Operating Segments

31 December 2015

| | Corporate Banking | Consumer Banking | Leasing | Treasury Functions | Investment Banking | Insurance Brokerage | Property Management | Unallocated/ Eliminations | Total Group |
|---|----------------------|---------------------|------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------------|-------------------|
| | 31.12.2015 | 31.12.2015 | 31.12.2015 | 31.12.2015 | 31.12.2015 | 31.12.2015 | 31.12.2015 | 31.12.2015 | 31.12.2015 |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Operating Income | 908,792 | 7,918,037 | 1,264,210 | 2,241,521 | 105,951 | 135,386 | 92,765 | (147,255) | 12,519,407 |
| Impairment Charge for Loans and Advances | 40,345 | 685,990 | 222,336 | 37,086 | - | - | - | (279) | 985,478 |
| Net Operating Income | 868,447 | 7,232,047 | 1,041,874 | 2,204,435 | 105,951 | 135,386 | 92,765 | (146,976) | 11,533,929 |
| Extracts of Results | | | | | | | | | |
| Interest Income | 1,798,576 | 6,949,890 | 4,090,517 | 3,742,173 | 137,056 | 11,194 | 16,677 | (118,033) | 16,628,050 |
| Inter Segment | (1,021,982) | 3,175,239 | (2,926,072) | 772,815 | - | - | - | - | - |
| Interest Expense | (244,040) | (5,508,998) | - | (1,795,397) | (28,097) | - | (1,178) | 54,844 | (7,522,866) |
| Net Interest Income | 532,554 | 4,616,130 | 1,164,445 | 2,719,591 | 108,959 | 11,194 | 15,499 | (63,188) | 9,105,184 |
| Fees and Commission Income | 247,593 | 3,096,060 | - | - | 4,779 | 130,892 | 77,266 | (119,060) | 3,437,530 |
| Fees and Commission Expense | - | (194,563) | (6,644) | (9,838) | (6,202) | (6,700) | - | (12,308) | (236,255) |
| Net Fees and Commission Income | 247,593 | 2,901,497 | (6,644) | (9,838) | (1,423) | 124,192 | 77,266 | (131,368) | 3,201,275 |
| Net Trading Income/(Loss) | 128,645 | 246,575 | - | (476,543) | (1,586) | - | - | 8,976 | (93,933) |
| Other Operating Income | - | 153,835 | 106,409 | 8,311 | - | - | - | 38,326 | 306,881 |
| Depreciation of Property, Plant and Equipment | 2,145 | 180,778 | 5,823 | 1,188 | - | 657 | 13,320 | 173,132 | 377,043 |
| Amortization of Intangible Assets | 110 | 122,565 | 1,377 | 12,111 | - | 3,866 | - | 99,992 | 240,021 |
| Segment Profit Before Tax | 189,498 | 1,643,838 | 280,004 | 1,627,652 | 82,544 | 96,509 | 49,887 | (64,532) | 3,905,400 |
| Income Tax Expense | - | - | - | - | (28,087) | (29,554) | (6,215) | (1,227,553) | (1,291,409) |
| Profit for the Year | 189,498 | 1,643,838 | 280,004 | 1,627,652 | 54,457 | 66,955 | 43,672 | (1,292,085) | 2,613,991 |
| Capital Expenditures | | | | | | | | | |
| Property, Plant and Equipment | 1,693 | 122,006 | 3,472 | 3,887 | - | - | - | 118,385 | 249,443 |
| Intangible Assets | 473 | 78,229 | 30 | - | - | - | - | 158,409 | 237,141 |
| Total Assets | 31,162,094 | 61,613,890 | 29,521,137 | 49,726,217 | 1,250,668 | 253,440 | 752,858 | 1,981,231 | 176,261,535 |
| Total Liabilities | 13,123,696 | 117,617,190 | 1,107,215 | 30,486,329 | 362,762 | 27,014 | 24,702 | (1,658,813) | 161,090,095 |

Notes to the Financial Statements

5 Analysis of Financial Instruments By Measurement Basis

5.1 Bank

31 December

| | 2016 | | | | | | Total |
|---|-------------------|-------------------------------------|-----------------------|--------------------|-------------------------|---|--------------------|
| | HFT at Fair Value | Financial Derivatives at Fair Value | HTM at Amortized Cost | Available for Sale | L & R at Amortized Cost | Other Financial Liabilities at Amortized Cost | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | | | |
| Cash and Cash Equivalents | - | - | - | - | 4,187,605 | - | 4,187,605 |
| Balances with Central Bank of Sri Lanka | - | - | - | - | 8,511,509 | - | 8,511,509 |
| Reverse Repurchase Agreements | - | - | - | - | 14,930 | - | 14,930 |
| Derivative Financial Instruments | - | 65,356 | - | - | - | - | 65,356 |
| Financial Assets - Held for Trading | 1,574,952 | - | - | - | - | - | 1,574,952 |
| Financial Assets-Available for Sale | - | - | - | 22,148,963 | - | - | 22,148,963 |
| Financial Assets - Held to Maturity | - | - | 12,929,523 | - | - | - | 12,929,523 |
| Other Financial Assets | - | - | - | - | 6,860,950 | - | 6,860,950 |
| Loans and Advances to Customers | - | - | - | - | 148,924,734 | - | 148,924,734 |
| Total Financial Assets | 1,574,952 | 65,356 | 12,929,523 | 22,148,963 | 168,499,728 | - | 205,218,522 |
| Liabilities | | | | | | | |
| Due to Banks | - | - | - | - | - | 11,850,888 | 11,850,888 |
| Repurchase Agreements | - | - | - | - | - | 9,850,773 | 9,850,773 |
| Derivative Financial Instruments | - | 130,017 | - | - | - | - | 130,017 |
| Due to Customers | - | - | - | - | - | 151,559,668 | 151,559,668 |
| Debt Issued and Other Borrowed Funds | - | - | - | - | - | 14,145,105 | 14,145,105 |
| Total Financial Liabilities | - | 130,017 | - | - | - | 187,406,434 | 187,536,451 |

5.2 Group

31 December

| | 2016 | | | | | | Total |
|---|-------------------|-------------------------------------|-----------------------|--------------------|-------------------------|---|--------------------|
| | HFT at Fair Value | Financial Derivatives at Fair Value | HTM at Amortized Cost | Available for Sale | L & R at Amortized Cost | Other Financial Liabilities at Amortized Cost | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | | | |
| Cash and Cash Equivalents | - | - | - | - | 4,187,649 | - | 4,187,649 |
| Balances with Central Bank of Sri Lanka | - | - | - | - | 8,511,509 | - | 8,511,509 |
| Reverse Repurchase Agreements | - | - | - | - | 14,930 | - | 14,930 |
| Derivative Financial Instruments | - | 65,356 | - | - | - | - | 65,356 |
| Financial Assets - Held for Trading | 1,574,952 | - | - | - | - | - | 1,574,952 |
| Financial Assets-Available for Sale | - | - | - | 22,148,963 | - | - | 22,148,963 |
| Financial Assets - Held to Maturity | - | - | 12,998,988 | - | - | - | 12,998,988 |
| Other Financial Assets | - | - | - | - | 6,860,950 | - | 6,860,950 |
| Loans and Advances to Customers | - | - | - | - | 149,817,941 | - | 149,817,941 |
| Total Financial Assets | 1,574,952 | 65,356 | 12,998,988 | 22,148,963 | 169,392,979 | - | 206,181,238 |
| Liabilities | | | | | | | |
| Due to Banks | - | - | - | - | - | 11,850,888 | 11,850,888 |
| Repurchase Agreements | - | - | - | - | - | 9,261,110 | 9,261,110 |
| Derivative Financial Instruments | - | 130,017 | - | - | - | - | 130,017 |
| Due to Customers | - | - | - | - | - | 151,502,236 | 151,502,236 |
| Debt Issued and Other Borrowed Funds | - | - | - | - | - | 14,145,105 | 14,145,105 |
| Total Financial Liabilities | - | 130,017 | - | - | - | 186,759,339 | 186,889,356 |

HFT -Held for Trading

HTM - Held-to-Maturity

L&R- Loans and Receivables

AFS-Available for Sale

5 Analysis of Financial Instruments By Measurement Basis

5.3 Bank

31 December

| | 2015 | | | | | | |
|---|-------------------|-------------------------------------|-----------------------|--------------------|-------------------------|---|--------------------|
| | HFT at Fair Value | Financial Derivatives at Fair Value | HTM at Amortized Cost | Available for Sale | L & R at Amortized Cost | Other Financial Liabilities at Amortized Cost | Total |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | | | |
| Cash and Cash Equivalents | - | - | - | - | 6,392,393 | - | 6,392,393 |
| Balances with Central Bank of Sri Lanka | - | - | - | - | 5,283,866 | - | 5,283,866 |
| Reverse Repurchase Agreements | - | - | - | - | 302,249 | - | 302,249 |
| Derivative Financial Instruments | - | 554,030 | - | - | - | - | 554,030 |
| Financial Assets - Held for Trading | 2,044,144 | - | - | - | - | - | 2,044,144 |
| Financial Assets-Available for Sale | - | - | - | 16,532,917 | - | - | 16,532,917 |
| Financial Assets - Held to Maturity | - | - | 12,675,717 | - | - | - | 12,675,717 |
| Other Financial Assets | - | - | - | - | 6,511,361 | - | 6,511,361 |
| Loans and Advances to Customers | - | - | - | - | 120,314,568 | - | 120,314,568 |
| Total Financial Assets | 2,044,144 | 554,030 | 12,675,717 | 16,532,917 | 138,804,437 | - | 170,611,245 |
| Liabilities | | | | | | | |
| Due to Banks | - | - | - | - | - | 2,275,840 | 2,275,840 |
| Repurchase Agreements | - | - | - | - | - | 13,684,942 | 13,684,942 |
| Derivative Financial Instruments | - | 53,327 | - | - | - | - | 53,327 |
| Due to Customers | - | - | - | - | - | 129,240,876 | 129,240,876 |
| Debt Issued and Other Borrowed Funds | - | - | - | - | - | 10,162,010 | 10,162,010 |
| Total Financial Liabilities | - | 53,327 | - | - | - | 155,363,668 | 155,416,995 |

5.4 Group

31 December

| | 2015 | | | | | | |
|---|-------------------|-------------------------------------|-----------------------|--------------------|-------------------------|---|--------------------|
| | HFT at Fair Value | Financial Derivatives at Fair Value | HTM at Amortized Cost | Available for Sale | L & R at Amortized Cost | Other Financial Liabilities at Amortized Cost | Total |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | | | |
| Cash and Cash Equivalents | - | - | - | - | 6,392,437 | - | 6,392,437 |
| Balances with Central Bank of Sri Lanka | - | - | - | - | 5,283,866 | - | 5,283,866 |
| Reverse Repurchase Agreements | - | - | - | - | 302,249 | - | 302,249 |
| Derivative Financial Instruments | - | 554,030 | - | - | - | - | 554,030 |
| Financial Assets - Held for Trading | 2,044,144 | - | - | - | - | - | 2,044,144 |
| Financial Assets-Available for Sale | - | - | - | 16,532,917 | - | - | 16,532,917 |
| Financial Assets - Held to Maturity | - | - | 12,743,763 | - | - | - | 12,743,763 |
| Other Financial Assets | - | - | - | - | 6,511,361 | - | 6,511,361 |
| Loans and Advances to Customers | - | - | - | - | 121,143,065 | - | 121,143,065 |
| Total Financial Assets | 2,044,144 | 554,030 | 12,743,763 | 16,532,917 | 139,632,978 | - | 171,507,832 |
| Liabilities | | | | | | | |
| Due to Banks | - | - | - | - | - | 2,275,840 | 2,275,840 |
| Repurchase Agreements | - | - | - | - | - | 13,216,700 | 13,216,700 |
| Derivative Financial Instruments | - | 53,327 | - | - | - | - | 53,327 |
| Due to Customers | - | - | - | - | - | 129,158,190 | 129,158,190 |
| Debt Issued and Other Borrowed Funds | - | - | - | - | - | 10,162,934 | 10,162,934 |
| Total Financial Liabilities | - | 53,327 | - | - | - | 154,813,664 | 154,866,991 |

HFT -Held for Trading

HTM - Held to Maturity

L&R- Loans and Receivables

AFS-Available for Sale

Notes to the Financial Statements

6 Cash and Cash Equivalents

| | Bank | | Group | |
|--------------------------------|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Cash in Hand | 3,745,304 | 3,763,144 | 3,745,317 | 3,763,157 |
| Balances with Banks | 442,301 | 1,129,002 | 442,332 | 1,129,033 |
| Money at Call and Short Notice | - | 1,500,247 | - | 1,500,247 |
| | 4,187,605 | 6,392,393 | 4,187,649 | 6,392,437 |

7 Balances With Central Bank of Sri Lanka

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Statutory Deposit with Central Bank of Sri Lanka | 8,511,509 | 5,283,866 | 8,511,509 | 5,283,866 |

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 2016, the minimum cash reserve requirement was 7.5% (2015: 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.

8 Transferred Financial Assets

Reverse Repurchase /Repurchase Agreements

Accounting Policy

The Group has a programme to sell securities under agreements to repurchase ('repos') and to purchase securities under agreements to resell ('reverse repos').

Securities sold under agreements to repurchase at a specified future date are not derecognized from the Statement of Financial Position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the 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 the agreement using the EIR. When the counterparty has the right to sell or re-pledge 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' or to 'Financial Investment available for sale pledged as collateral' or to 'Other Financial Assets pledged as Collateral' as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized 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.

8.1 Reverse Repurchase Agreements

| | Bank | | Group | |
|------------------------|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Due from; | | | | |
| - Banks | - | 300,835 | - | 300,835 |
| - Other Counterparties | 14,930 | 1,414 | 14,930 | 1,414 |
| | 14,930 | 302,249 | 14,930 | 302,249 |

8.2 Repurchase Agreements

| | Bank | | Group | |
|------------------------------------|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| On Government Securities | | | | |
| Due to; | | | | |
| - Banks | 760,354 | - | 760,354 | - |
| - Other Financial Institutions | 4,040,443 | 6,474,034 | 4,040,443 | 6,474,034 |
| - Other Counterparties | 1,701,705 | 4,400,088 | 1,701,705 | 3,931,846 |
| | 6,502,502 | 10,874,122 | 6,502,502 | 10,405,880 |
| On Other Securities | | | | |
| Due to; | | | | |
| - Other Financial Institutions | 269,635 | - | - | - |
| - Other Counterparties | 3,078,636 | 2,810,820 | 2,758,608 | 2,810,820 |
| | 3,348,271 | 2,810,820 | 2,758,608 | 2,810,820 |
| Total repurchase agreements | 9,850,773 | 13,684,942 | 9,261,110 | 13,216,700 |

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.

Notes to the Financial Statements

9 Derivative Financial Instruments

The below table shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their notional (contract) amounts.

Settlement of these contracts against customer is on delivery against payment basis which eliminates credit risks. Settlements against Bank is on a gross basis subject to approved credit limits.

The notional amounts that 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 favourable movements in rates.

Derivatives entered into for risk management purposes that do not meet the hedge accounting criteria are also included under this classification.

9.1 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 |
| | 2016 | | 2015 | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Forward Foreign Exchange Contracts and Currency Swaps | 65,356 | 14,932,760 | 554,030 | 16,897,676 |
| | 65,356 | 14,932,760 | 554,030 | 16,897,676 |

9.2 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 |
| | 2016 | | 2015 | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Forward Foreign Exchange Contracts and Currency Swaps | 130,017 | 13,349,855 | 53,327 | 3,711,545 |
| | 130,017 | 13,349,855 | 53,327 | 3,711,545 |

10 Financial Assets - Held for Trading

| | Bank | | Group | |
|---------------------------|-----------|-----------|-----------|-----------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Government Treasury Bills | 531,522 | 1,549,414 | 531,522 | 1,549,414 |
| Government Treasury Bonds | 1,043,430 | 494,730 | 1,043,430 | 494,730 |
| | 1,574,952 | 2,044,144 | 1,574,952 | 2,044,144 |

11 Financial Assets - Available for Sale

| | Bank | | Group | |
|---------------------------------------|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Government Treasury Bills* | 5,196,174 | 6,362,143 | 5,196,174 | 6,362,143 |
| Government Treasury Bonds* | 16,946,924 | 10,011,297 | 16,946,924 | 10,011,297 |
| Unquoted Equity Shares (Note 11.1) | 5,865 | 196,563 | 5,865 | 196,563 |
| | 22,148,963 | 16,570,003 | 22,148,963 | 16,570,003 |
| Impairment Provision on AFS portfolio | - | (37,086) | - | (37,086) |
| | 22,148,963 | 16,532,917 | 22,148,963 | 16,532,917 |

*This includes treasury bills and bonds with a carrying value of LKR 1,239 Mn (2015 LKR 2,779 Mn) which have been given as collateral against repurchase contracts and the counterparty has the right to sell or re-pledge the securities.

11.1 Unquoted Equity Shares

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| MasterCard Incorporated 13,590 Class B Common Stock | - | 190,821 | - | 190,821 |
| 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 | 3,150 | 3,027 | 3,150 | 3,027 |
| | 5,865 | 196,563 | 5,865 | 196,563 |

Notes to the Financial Statements

12. Financial Assets Held to Maturity

| | Bank | | Group | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Government Treasury Bonds | 12,929,523 | 12,675,717 | 12,998,988 | 12,743,763 |
| | 12,929,523 | 12,675,717 | 12,998,988 | 12,743,763 |

This includes treasury bonds with a carrying value of LKR 5,689 Mn (2015 LKR 9,360 Mn) which have been given as collateral against repurchase contracts and the counterparty has the right to sell or re-pledge the securities.

13 Other Financial Assets

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Sri Lanka Development Bonds (Note 13.1) | 3,943,597 | 3,784,984 | 3,943,597 | 3,784,984 |
| Quoted Debentures (Note 13.2) * | 2,917,353 | 2,672,254 | 2,917,353 | 2,672,254 |
| Unquoted Debentures (Note 13.3) | - | 54,123 | - | 54,123 |
| | 6,860,950 | 6,511,361 | 6,860,950 | 6,511,361 |

13.1 The investment in Sri Lanka Development Bonds amounts to USD 26 Mn (2015: USD 26 mn) and mature in years 2017 - 2019.

* This includes Quoted debentures with a carrying value of LKR 2,781 Mn (2015 - LKR 1,901 Mn) which have been given as collateral against repurchase contracts and the counter party has the right to sell or re-pledge the securities.

13.2 Quoted Debentures

| Bank/ Group | | | | | |
|---|-----------------------------------|-------------------|-----------|-----------|-----------|
| Company | Type | No. of Debentures | | LKR '000 | |
| | | 2016 | 2015 | 2016 | 2015 |
| Housing and Development Finance Corporation | Secured, Redeemable Debentures | - | 779,400 | - | 80,789 |
| Abans PLC | Unsecured, Redeemable Debentures | - | 720,700 | - | 77,156 |
| Hemas Holdings PLC | Unsecured, Redeemable Debentures | 223,900 | 223,900 | 23,011 | 23,011 |
| Peoples' Leasing And Finance Company PLC | Unsecured, Redeemable Debentures | 1,595,400 | 1,595,400 | 173,500 | 173,500 |
| Lion Brewery (Ceylon) PLC | Unsecured, Redeemable Debentures | 1,686,000 | 1,686,000 | 171,936 | 171,926 |
| Seylan Bank PLC | Unsecured, Redeemable Debentures | 3,000,000 | 3,000,000 | 300,636 | 300,636 |
| Alliance Finance Company PLC | Unsecured, Redeemable Debentures | 1,365,498 | 1,365,498 | 148,940 | 136,651 |
| Singer (Sri Lanka) PLC | Unsecured, Redeemable Debentures | 2,000,000 | 2,000,000 | 208,647 | 208,670 |
| DFCC Vardhana Bank | Unsecured, Redeemable Debentures | 1,988,600 | 1,988,600 | 209,024 | 209,023 |
| MTD Walkers PLC | Unsecured, Redeemable Debentures | 2,000,000 | 2,000,000 | 204,968 | 204,967 |
| Housing and Development Finance Corporation | Unsecured, Redeemable Debentures | 2,500,000 | 2,500,000 | 253,021 | 253,021 |
| Access Engineering PLC | Unsecured, Redeemable Debentures | 3,500,000 | 3,500,000 | 354,226 | 354,324 |
| Sanasa Development Bank PLC | Guaranteed, Redeemable Debentures | 3,784,500 | 3,784,500 | 397,286 | 378,552 |
| Sanasa Development Bank PLC | Guaranteed, Redeemable Debentures | 1,000,000 | 1,000,000 | 105,178 | 100,028 |
| Senkadagala Finance PLC | Unsecured, Redeemable Debentures | 611,500 | - | 62,348 | - |
| Peoples Leasing & Finance PLC | Unsecured, Redeemable Debentures | 3,000,000 | - | 304,632 | - |
| | | | | 2,917,353 | 2,672,254 |

13.3 Unquoted Debentures

| Bank/ Group | | | | | |
|-------------------------|--------------------------------|-------------------|--------|----------|--------|
| Company | Type | No. of Debentures | | LKR '000 | |
| | | 2016 | 2015 | 2016 | 2015 |
| Senkadagala Finance PLC | Secured, Redeemable Debentures | - | 50,000 | - | 54,123 |
| | | | | - | 54,123 |

Notes to the Financial Statements

14 Loans and Advances to Customers

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Corporate Loans | 37,882,588 | 30,571,614 | 38,775,375 | 31,399,562 |
| Retail, SME and Consumer Lending | 77,173,248 | 59,464,335 | 77,173,247 | 59,464,334 |
| Housing Loans | 2,497,417 | 1,376,117 | 2,497,417 | 1,376,117 |
| Leases | 31,422,446 | 28,936,324 | 31,422,446 | 28,936,324 |
| | 148,975,699 | 120,348,390 | 149,868,485 | 121,176,337 |
| Less : Allowance for Impairment Losses | (2,278,077) | (2,060,334) | (2,277,656) | (2,059,784) |
| | 146,697,622 | 118,288,056 | 147,590,829 | 119,116,553 |
| Staff Loans | 2,807,963 | 2,596,464 | 2,807,963 | 2,596,464 |
| Less : Allowance for Day 1 Difference | (580,851) | (569,952) | (580,851) | (569,952) |
| | 2,227,112 | 2,026,512 | 2,227,112 | 2,026,512 |
| | 148,924,734 | 120,314,568 | 149,817,941 | 121,143,065 |

14.1 Gross Loans and Advances by Currency

| | Bank | | Group | |
|----------------------|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| By Currency | | | | |
| Sri Lanka Rupee | 145,554,006 | 118,939,511 | 146,446,792 | 119,767,458 |
| United States Dollar | 6,128,774 | 3,891,630 | 6,128,774 | 3,891,630 |
| Others | 100,882 | 113,713 | 100,882 | 113,713 |
| | 151,783,662 | 122,944,854 | 152,676,448 | 123,772,801 |

14.2 Gross Loans and Advances by Product

| | Bank | | Group | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| By Product | | | | |
| Bills of Exchange | 86,716 | 39,050 | 86,716 | 39,050 |
| Overdrafts | 30,583,231 | 24,213,353 | 30,583,231 | 24,213,353 |
| Term Loans | 60,141,853 | 42,952,414 | 61,034,639 | 43,780,362 |
| Staff Loans | 2,807,963 | 2,596,464 | 2,807,963 | 2,596,464 |
| Import Loans | 6,654,468 | 6,105,279 | 6,654,468 | 6,105,279 |
| Packing Loans | 2,028,229 | 1,782,633 | 2,028,229 | 1,782,633 |
| Leases | 31,422,446 | 28,936,324 | 31,422,446 | 28,936,324 |
| Credit Cards | 16,282,718 | 13,960,650 | 16,282,718 | 13,960,650 |
| Pawning | 455,544 | 655,734 | 455,544 | 655,734 |
| Corporate Debt Securities | 948,429 | 1,427,994 | 948,429 | 1,427,994 |
| Other Advances | 372,065 | 274,959 | 372,065 | 274,958 |
| | 151,783,662 | 122,944,854 | 152,676,448 | 123,772,801 |

14 Loans And Advances To Customers (Contd.)

14.3 Impairment Allowance for Loans and Advances to Customers

14.3.1 Bank

| | 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 2015 | 372,137 | 906,875 | 95,078 | 562,507 | 1,936,597 |
| Charge/ (Reversal) for the period | 33,853 | 701,754 | (9,171) | 189,136 | 915,472 |
| Amounts written off | (212,120) | (350,035) | - | (229,580) | (791,735) |
| As at 31 December 2015 | 193,770 | 1,258,594 | 85,907 | 522,063 | 2,060,334 |
| Reclassification of impairment allowance | 37,086 | - | - | - | 37,086 |
| Charge/ (Reversal) for the period | 30,375 | 662,074 | (6,112) | (21,869) | 664,468 |
| Amounts written off | - | (302,354) | - | (181,457) | (483,811) |
| As at 31 December 2016 | 261,131 | 1,618,314 | 79,795 | 318,837 | 2,278,077 |
| Impairment - As at 31 December 2015 | | | | | |
| Individual impairment | 126,730 | 511,693 | 21,153 | 2,586 | 662,162 |
| Collective impairment | 67,040 | 746,901 | 64,754 | 519,477 | 1,398,172 |
| | 193,770 | 1,258,594 | 85,907 | 522,063 | 2,060,334 |
| Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance | | | | | |
| - As at 31 December 2015 | 1,888,153 | 1,578,775 | 21,153 | 93,050 | 3,581,131 |
| Impairment - As at 31 December 2016 | | | | | |
| Individual impairment | 220,537 | 471,666 | 323 | 10,124 | 702,650 |
| Collective impairment | 40,694 | 1,146,648 | 79,472 | 308,613 | 1,575,427 |
| | 261,231 | 1,618,314 | 79,795 | 318,737 | 2,278,077 |
| Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance | | | | | |
| - As at 31 December 2016 | 737,643 | 3,154,163 | 13,834 | 73,348 | 3,978,988 |

Notes to the Financial Statements

14 Loans And Advances To Customers (Contd.)

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

14.3.2 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 2015 | 371,866 | 906,875 | 95,078 | 562,507 | 1,936,326 |
| Charge/ (Reversal) for the period | 33,474 | 701,754 | (9,171) | 189,136 | 915,193 |
| Amounts written off | (212,120) | (350,035) | - | (229,580) | (791,735) |
| As at 31 December 2015 | 193,220 | 1,258,594 | 85,907 | 522,063 | 2,059,784 |
| Reclassification of impairment allowance | 37,086 | - | - | - | 37,086 |
| Charge/ (Reversal) for the period | 45,837 | 662,074 | (6,112) | (21,869) | 679,930 |
| Amounts written off | (15,230) | (302,354) | - | (181,457) | (499,144) |
| As at 31 December 2016 | 260,913 | 1,618,314 | 79,795 | 318,737 | 2,277,656 |
| Impairment - As at 31 December 2015 | | | | | |
| Individual impairment | 126,730 | 511,693 | 21,153 | 2,586 | 662,162 |
| Collective impairment | 66,490 | 746,901 | 64,754 | 519,477 | 1,397,622 |
| | 193,220 | 1,258,594 | 85,907 | 522,063 | 2,059,784 |
| Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance - As at 31 December 2015 | 1,888,153 | 1,578,775 | 21,153 | 93,050 | 3,581,131 |
| Impairment - As at 31 December 2016 | | | | | |
| Individual impairment | 220,219 | 471,666 | 323 | 10,124 | 702,650 |
| Collective impairment | 40,694 | 1,146,648 | 79,472 | 308,613 | 1,575,006 |
| | 260,913 | 1,618,314 | 79,795 | 318,737 | 2,277,656 |
| Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance - As at 31 December 2016 | 737,643 | 3,154,163 | 13,834 | 73,348 | 3,978,988 |

14.3.3 Movement in Individual Impairment during the year

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| As at 01 January | 662,162 | 383,237 | 662,162 | 383,237 |
| Reclassification of impairment allowance | 37,086 | - | 37,086 | - |
| Reversal for the year, net of write-off | 3,402 | 278,925 | 3,402 | 278,925 |
| As at 31 December | 702,650 | 662,162 | 702,650 | 662,162 |

14.4 Rental Receivable on Leases

| | Bank/ Group 2016 | | | | Bank/ Group 2015 | | | |
|--|------------------------------|----------------------------|-----------------------------|-------------------|------------------------------|----------------------------|-----------------------------|-------------------|
| | Within 1 year LKR '000 | 1 - 5 years LKR '000 | Over 5 years LKR '000 | Total LKR '000 | Within 1 year LKR '000 | 1 - 5 years LKR '000 | Over 5 years LKR '000 | Total LKR '000 |
| Gross Rentals Receivables | 10,679,215 | 28,488,310 | 33,544 | 39,201,069 | 9,798,239 | 25,835,691 | 14,570 | 35,648,500 |
| Less : Unearned Income | 304,440 | 7,473,740 | 443 | 7,778,623 | 276,990 | 6,435,020 | 166 | 6,712,176 |
| Net Rentals Receivables | 10,374,775 | 21,014,570 | 33,101 | 31,422,446 | 9,521,249 | 19,400,671 | 14,404 | 28,936,324 |
| Less : Allowance for Impairment Losses | | | | 318,737 | | | | 522,063 |
| Total Net Rentals Receivables | 10,374,775 | 21,014,570 | 33,101 | 31,103,709 | 9,521,249 | 19,400,671 | 14,404 | 28,414,261 |

15 Other Assets

| | Bank | | Group | |
|------------------------------|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Deposits and Prepayments | 630,004 | 427,391 | 641,419 | 426,572 |
| Unamortized Staff Cost | 580,851 | 569,952 | 580,851 | 569,952 |
| Receivable on Senior Citizen | 195,602 | 99,122 | 195,602 | 99,122 |
| Other Receivables | 370,093 | 243,088 | 395,816 | 290,711 |
| | 1,776,550 | 1,339,553 | 1,813,688 | 1,386,357 |

16 Investments In Subsidiaries
Unquoted

| | | Bank | | | |
|-----------------------------------|-----------------------------|----------------------|----------------------|--------------------------|--------------------------|
| Name of Company | Country of Incorporation | 2016 Holding % | 2015 Holding % | 2016 Cost LKR '000 | 2015 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 |

Notes to the Financial Statements

17 Property, Plant and Equipment

Accounting Policy

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 depreciation 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.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following;

- the cost of materials and direct labour
- any other costs directly attributable to bringing the assets to a working condition for their intended use
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located.

Any gain or loss on disposal is recognized in other operating income in profit or loss.

Subsequent expenditure and replacement

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

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 |

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

De-recognition

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

Leasehold improvements are derecognized 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 recognized in 'Other Operating Income' or 'Other Operating Expenses' as appropriate in the Statement of Profit or Loss in the year the asset is derecognized.

Capital work-in-progress

Capital work-in-progress is stated at cost. These are the expenses of a capital nature directly incurred in the construction of buildings, awaiting capitalization.

17.1 Bank

| Gross Carrying Amounts - at Cost | Land -Free hold | Land -Lease hold | Buildings | Motor Vehicles | Office Eq and Electrical Equipments | Computer hardware | Furniture, Fixtures and Fittings | Leasehold improvements | Capital Work In Progress | Total |
|----------------------------------|-----------------|------------------|-----------|----------------|-------------------------------------|-------------------|----------------------------------|------------------------|--------------------------|-----------|
| | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 |
| At 01 January 2015 | 559,440 | - | 112,477 | 23,937 | 579,556 | 1,461,741 | 674,101 | 244,452 | - | 3,655,704 |
| Additions | - | - | 2,902 | - | 50,029 | 119,598 | 40,328 | 28,180 | - | 241,037 |
| Disposals | - | - | - | (3,038) | (477) | (24,264) | (1,895) | - | - | (29,674) |
| Reclassification* | - | - | - | - | - | 44,576 | - | - | - | 44,576 |
| Transfer | - | - | - | - | (17) | 170 | - | - | - | 153 |
| Capital WIP Additions | - | - | - | - | - | - | - | - | 32,057 | 32,057 |
| At 31 December 2015 | 559,440 | - | 115,379 | 20,899 | 629,091 | 1,601,821 | 712,534 | 272,632 | 32,057 | 3,943,853 |
| Additions | - | - | 1,237 | 21,200 | 32,546 | 99,651 | 44,779 | 45,260 | 59 | 244,731 |
| Disposals | - | - | (20) | (16,100) | (4,499) | (266) | (3,604) | - | - | (24,488) |
| Capitalized during the year | - | - | - | - | - | - | - | - | (32,057) | (32,057) |
| At 31 December 2016 | 559,440 | - | 116,596 | 25,999 | 657,138 | 1,701,206 | 753,709 | 317,892 | 59 | 4,132,039 |
| Depreciation | | | | | | | | | | |
| At 01 January 2015 | - | - | 32,644 | 20,789 | 296,037 | 1,084,221 | 341,769 | 162,388 | - | 1,937,848 |
| Charge for the year | - | - | 2,592 | 2,733 | 75,351 | 179,450 | 74,899 | 26,449 | - | 361,474 |
| Disposals | - | - | - | (3,038) | (474) | (24,261) | (1,815) | - | - | (29,588) |
| Reclassification * | - | - | - | - | - | 1,591 | - | - | - | 1,591 |
| Transfer | - | - | - | - | - | 80 | - | - | - | 80 |
| At 31 December 2015 | - | - | 35,236 | 20,484 | 370,914 | 1,241,081 | 414,853 | 188,837 | - | 2,271,405 |
| Charge for the year | - | - | 2,647 | 933 | 73,446 | 163,137 | 74,815 | 32,999 | - | 347,977 |
| Disposals | - | - | (13) | (16,100) | (4,498) | (266) | (3,130) | - | - | (24,007) |
| At 31 December 2016 | - | - | 37,870 | 5,317 | 439,862 | 1,403,952 | 486,538 | 221,836 | - | 2,595,375 |
| Net Book Value | | | | | | | | | | |
| At 01 January 2015 | 559,440 | - | 79,832 | 3,148 | 283,519 | 377,520 | 332,332 | 82,064 | - | 1,717,856 |
| At 31 December 2015 | 559,440 | - | 80,143 | 415 | 258,177 | 360,740 | 297,681 | 83,795 | 32,057 | 1,672,448 |
| At 31 December 2016 | 559,440 | - | 78,726 | 20,682 | 217,276 | 297,254 | 267,171 | 96,055 | 59 | 1,536,664 |

During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of LKR 244.6 Mn. (2015 - LKR 241 Mn). Cash payments amounting to LKR 275.8 Mn. (2015 - LKR 291 Mn.) were made during the year for purchase of Property, Plant and Equipment.

Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of LKR. 1,585.5 Mn. (2015- LKR1,340.4 Mn.).

*During the year 2015 items were reclassified under Computer Hardware from Computer Software.

Notes to the Financial Statements

| 17.2 Group | Gross Carrying Amounts - at Cost | | | | | | | | | | Total |
|-----------------------------|----------------------------------|-------------------|-----------|----------------|-------------------|-------------------|----------------------------------|------------------------|--------------------------|----------|-----------|
| | Land - Free hold | Land - Lease hold | Buildings | Motor Vehicles | Office Equipments | Computer hardware | Furniture, Fixtures and Fittings | Leasehold improvements | Capital Work In Progress | | |
| | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 | LKR'000 |
| At 01 January 2015 | 559,440 | 148,000 | 554,742 | 24,107 | 581,155 | 1,470,472 | 675,577 | 244,451 | - | - | 4,257,944 |
| Additions | - | - | 7,146 | - | 51,988 | 120,402 | 41,693 | 28,180 | - | - | 249,410 |
| Disposals | - | - | - | (3,038) | (1,265) | (24,294) | (1,920) | - | - | - | (30,517) |
| Reclassification* | - | - | (668) | - | 2,447 | 42,195 | 602 | - | - | - | 44,576 |
| Transfers | - | - | - | - | 17 | (170) | - | - | - | - | (153) |
| Capital WIP - Additions | - | - | - | - | - | - | - | - | 32,057 | 32,057 | 32,057 |
| At 31 December 2015 | 559,440 | 148,000 | 561,220 | 21,069 | 634,342 | 1,608,605 | 715,952 | 272,631 | 32,057 | 32,057 | 4,553,316 |
| Additions | - | - | 4,284 | 21,200 | 32,546 | 99,651 | 44,779 | 45,260 | 59 | 59 | 247,779 |
| Disposals | - | - | (20) | (16,100) | (4,951) | (3,836) | (3,798) | - | - | - | (28,705) |
| Capitalized during the year | - | - | - | - | - | - | - | - | (32,057) | (32,057) | (32,057) |
| At 31 December 2016 | 559,440 | 148,000 | 565,484 | 26,169 | 661,937 | 1,704,420 | 756,933 | 317,891 | 59 | 59 | 4,740,333 |
| Depreciation | | | | | | | | | | | |
| At 01 January 2015 | - | 16,883 | 131,572 | 20,957 | 297,317 | 1,091,870 | 342,533 | 162,386 | - | - | 2,063,518 |
| Charge for the year | - | 1,893 | 13,731 | 2,733 | 75,605 | 179,802 | 75,238 | 26,449 | - | - | 375,451 |
| Disposals | - | - | - | (3,038) | (1,262) | (24,371) | (1,840) | - | - | - | (30,511) |
| Reclassification* | - | - | - | - | 2,317 | (726) | - | - | - | - | 1,591 |
| Transfer | - | - | - | - | - | 80 | - | - | - | - | 80 |
| At 31 December 2015 | - | 18,776 | 145,303 | 20,652 | 373,977 | 1,246,655 | 415,931 | 188,835 | - | - | 2,410,129 |
| Charge for the year | - | 1,893 | 13,862 | 933 | 73,787 | 163,530 | 75,217 | 32,999 | - | - | 362,221 |
| Disposals | - | - | (13) | (16,100) | (4,951) | (3,836) | (3,325) | - | - | - | (28,225) |
| At 31 December 2016 | - | 20,669 | 159,152 | 5,485 | 442,813 | 1,406,349 | 487,823 | 221,834 | - | - | 2,744,125 |
| Net Book Value | | | | | | | | | | | |
| At 01 January 2015 | 559,440 | 131,117 | 423,170 | 3,150 | 283,838 | 378,602 | 333,044 | 82,065 | - | - | 2,194,425 |
| At 31 December 2015 | 559,440 | 129,224 | 415,917 | 417 | 260,365 | 361,950 | 300,021 | 83,796 | 32,057 | 32,057 | 2,143,187 |
| At 31 December 2016 | 559,440 | 127,331 | 406,332 | 20,684 | 219,124 | 298,071 | 269,110 | 96,057 | 59 | 59 | 1,996,208 |

During the financial year, the Group acquired Property, Plant and Equipment to the aggregate value of LKR 247.7 Mn. (2015 - LKR 249.4 Mn.). Cash payments amounting to LKR 278.9 Mn. (2015- LKR 307.4 Mn.) were made during the year for purchase of Property, Plant and Equipment.

Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of LKR. 1,589.6 Mn. (2015- LKR 1,348.7 Mn.)

*During the year 2015 items were reclassified under Computer Hardware from Computer Software.

18 Intangible Assets

Accounting Policy

The Group's intangible assets include the cost of computer software and Licenses. An intangible asset is recognized 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. Following the initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization 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 amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is presented as a separate line item in the Profit or Loss.

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.

18.1 Bank

| | Computer Software LKR '000 | Other License Fees LKR '000 | Total LKR '000 |
|----------------------------|----------------------------------|-----------------------------------|-------------------|
| Cost | | | |
| At 01 January 2015 | 1,577,859 | 331,288 | 1,909,147 |
| Additions | 235,300 | - | 235,300 |
| Disposal | (49,697) | - | (49,697) |
| Reclassifications* | (44,576) | - | (44,576) |
| At 31 December 2015 | 1,718,886 | 331,288 | 2,050,174 |
| Additions | 226,896 | - | 226,896 |
| At 31 December 2016 | 1,945,782 | 331,288 | 2,277,070 |
| Amortization | | | |
| At 01 January 2015 | 494,454 | 143,557 | 638,011 |
| Disposals | (38,087) | - | (38,087) |
| Charge for the year | 204,617 | 33,129 | 237,746 |
| Reclassifications* | (1,591) | - | (1,591) |
| At 31 December 2015 | 659,393 | 176,686 | 836,079 |
| Charge for the year | 227,163 | 33,129 | 260,292 |
| At 31 December 2016 | 886,556 | 209,815 | 1,096,371 |
| Net Book Value | | | |
| At 01 January 2015 | 1,083,405 | 187,731 | 1,271,137 |
| At 31 December 2015 | 1,059,493 | 154,602 | 1,214,095 |
| At 31 December 2016 | 1,059,226 | 121,473 | 1,180,699 |

During the financial year, the Bank acquired Intangible Assets to the aggregate value of LKR. 226.8 Mn. (2015- LKR. 235.3 Mn.). Cash payments amounting to LKR.473.4 Mn (2015- LKR. 322 Mn.) were made during the year for purchase of Intangible Assets.

*During the year 2015 items were reclassified under Computer Hardware from Computer Software.

Notes to the Financial Statements

18.2 Group

| | Computer Software LKR '000 | Other License Fees LKR '000 | Total LKR '000 |
|----------------------------|----------------------------------|-----------------------------------|-------------------|
| Cost | | | |
| At 01 January 2015 | 1,597,391 | 331,288 | 1,928,679 |
| Additions | 237,143 | - | 237,143 |
| Disposals | (49,697) | - | (49,697) |
| Reclassifications* | (44,576) | - | (44,576) |
| At 31 December 2015 | 1,740,261 | 331,288 | 2,071,549 |
| Additions | 228,177 | - | 228,177 |
| At 31 December 2016 | 1,968,438 | 331,288 | 2,299,726 |
| Amortization | | | |
| At 01 January 2015 | 501,900 | 143,557 | 645,457 |
| Disposals | (38,087) | - | (38,087) |
| Charge for the year | 208,482 | 33,129 | 241,611 |
| Reclassifications* | (1,591) | - | (1,591) |
| At 31 December 2015 | 670,704 | 176,686 | 847,390 |
| Charge for the year | 230,366 | 33,129 | 263,495 |
| At 31 December 2016 | 901,070 | 209,815 | 1,110,885 |
| Net Book Value | | | |
| At 01 January 2015 | 1,095,491 | 187,731 | 1,283,223 |
| At 31 December 2015 | 1,069,557 | 154,602 | 1,224,159 |
| At 31 December 2016 | 1,067,368 | 121,473 | 1,188,841 |

During the financial year, the Group acquired Intangible Assets to the aggregate value of LKR 228 Mn. (2015- LKR 237.1 Mn.). Cash payments amounting to LKR 474.3 Mn (2015- LKR 325 Mn.) were made during the year for purchase of Intangible Assets.

*During the year 2015 items were reclassified under Computer Hardware from Computer Software.

19 Due to Banks

| | Bank | | Group | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Money Market Borrowing | 11,756,289 | 2,169,060 | 11,756,289 | 2,169,060 |
| Deposits from Other Banks | 94,599 | 106,780 | 94,599 | 106,780 |
| | 11,850,888 | 2,275,840 | 11,850,888 | 2,275,840 |

20 Due to Customers

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| 20.1 Due to Customers - By Products | | | | |
| Demand Deposits | 14,067,435 | 15,014,444 | 14,010,003 | 14,931,758 |
| Savings Deposits | 28,365,967 | 26,758,717 | 28,365,967 | 26,758,717 |
| Call Deposits | 131,417 | 275,130 | 131,417 | 275,130 |
| Fixed Deposits | 106,553,799 | 84,800,820 | 106,553,799 | 84,800,820 |
| Certificate of Deposits | 2,441,050 | 2,391,765 | 2,441,050 | 2,391,765 |
| | 151,559,668 | 129,240,876 | 151,502,236 | 129,158,190 |
| 20.2 Due to Customers - By Currency | | | | |
| Sri Lanka Rupee | 133,529,178 | 113,124,574 | 133,471,746 | 113,041,888 |
| United States Dollar | 13,785,142 | 12,171,177 | 13,785,142 | 12,171,177 |
| Sterling Pound | 1,615,662 | 1,824,662 | 1,615,662 | 1,824,662 |
| Others | 2,629,686 | 2,120,463 | 2,629,686 | 2,120,463 |
| | 151,559,668 | 129,240,876 | 151,502,236 | 129,158,190 |

21 Debt Issued and Other Borrowed Funds

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| 21.1 Senior Debt | | | | |
| US Dollar 10 Mn Loan (Note 21.4) | 1,527,406 | 2,183,069 | 1,527,406 | 2,183,069 |
| | 1,527,406 | 2,183,069 | 1,527,406 | 2,183,069 |
| 21.2 Subordinated Debt | | | | |
| US Dollar 13 Mn - Loan 2 (Note 21.4) | 1,978,310 | 1,892,023 | 1,978,310 | 1,892,023 |
| Rated, Unsecured, Redeemable Debentures (Note 21.5) | 8,068,388 | 5,076,108 | 8,068,388 | 5,077,032 |
| | 10,046,698 | 6,968,131 | 10,046,698 | 6,969,055 |
| 21.3 Other Borrowings | | | | |
| Refinance Borrowings | 8,380 | 10,570 | 8,380 | 10,570 |
| Other Short Term Borrowings | 2,562,621 | 1,000,240 | 2,562,621 | 1,000,240 |
| | 2,571,001 | 1,010,810 | 2,571,001 | 1,010,810 |
| | 14,145,105 | 10,162,010 | 14,145,105 | 10,162,934 |

Notes to the Financial Statements

21 Debt Issued and Other Borrowed Funds (Contd.)

21.4 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.

21.5 Details of Subordinated Debentures Issued by the Bank

| Issued Date | Face Value | | Coupon Rate | Interest Terms | Maturity Date | Amortized Cost - Bank | | Amortized Cost - Group | | Interest rate of Comparable Government Security | |
|-------------|------------------|------------------|-------------|----------------|---------------|-----------------------|------------------|------------------------|------------------|---|-----------|
| | 2016 LKR '000 | 2015 LKR '000 | | | | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 | 2016 % | 2015 % |
| 29-Aug-11 | - | 1,525,000 | 11.50% | Semi-Annually | 29-Aug-16 | - | 1,593,927 | - | 1,594,851 | - | 6.84 |
| 29-Aug-11 | - | 200,000 | 11.00% | Semi-Annually | 29-Aug-16 | - | 209,041 | - | 209,041 | - | 6.84 |
| 29-Aug-11 | - | 275,000 | 11.50% | Semi-Annually | 29-Aug-16 | - | 285,830 | - | 285,830 | - | 6.84 |
| 19-Dec-13 | 3,000,000 | 3,000,000 | 13.00% | Semi-Annually | 19-Dec-18 | 2,991,512 | 2,987,310 | 2,991,512 | 2,987,310 | 11.42 | 9.03 |
| 8-Nov-16 | 2,410 | - | 12.02% | Semi-Annually | 8-Nov-21 | 2,445 | - | 2,445 | - | 12.15 | - |
| 8-Nov-16 | 3,885,800 | - | 12.65% | Semi-Annually | 8-Nov-21 | 3,945,355 | - | 3,945,355 | - | 12.15 | - |
| 8-Nov-16 | 1,111,790 | - | 12.80% | Annually | 8-Nov-21 | 1,129,076 | - | 1,129,076 | - | 12.15 | - |
| | 8,000,000 | 5,000,000 | | | | 8,068,388 | 5,076,108 | 8,068,388 | 5,077,032 | - | - |

| Ratios of Debt | | 2016 | 2015 |
|-------------------------|--------|------|--------|
| * Debt / Equity Ratio % | 62.87% | | 49.81% |
| Interest Cover (Times) | 6.60 | | 6.16 |
| Quick Asset Ratio % | 87% | | 87% |

*Debt includes only the subordinated debt as at 31 December

21.6 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 2016 and 2015.

22 Other Liabilities

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Accounts Payable and Sundry Creditors | 1,236,806 | 1,131,081 | 1,254,616 | 1,141,564 |
| Obligations under Financial Guarantees (Note 22.1) | 78,460 | 33,748 | 78,460 | 33,748 |
| Margin Balances | 179,902 | 287,380 | 179,902 | 287,380 |
| Pay Orders | 1,073,580 | 1,452,627 | 1,073,580 | 1,452,627 |
| Employee Benefit Liability (Note 22.2) | 394,062 | 385,568 | 398,797 | 390,244 |
| Others | 2,501,160 | 1,688,517 | 2,537,495 | 1,758,496 |
| | 5,463,970 | 4,978,921 | 5,522,850 | 5,064,059 |

22.1 The movement in 'Obligations under Financial Guarantees' during the year is as follows:

| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
|-------------------------|------------------|------------------|------------------|------------------|
| As at 01 January | 33,748 | 43,612 | 33,748 | 43,612 |
| Arising during the Year | (190,542) | (189,088) | (190,542) | (189,088) |
| Utilized | 235,254 | 179,224 | 235,254 | 179,224 |
| As at 31 December | 78,460 | 33,748 | 78,460 | 33,748 |

22.2 Employee Benefit Liability

Accounting Policy

(i) 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.

(ii) 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 method as recommended by revised LKAS 19 "Employee benefits" and resulting actuarial gain/loss is recognized in full in the Other Comprehensive Income (OCI).

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 2016, carried out by Messer's Actuarial and Management Consultants (Private) Limited, actuaries.

The gratuity liability is not externally funded.

Notes to the Financial Statements

The key assumptions used by the actuary include the following:

| | 2016 | 2015 |
|-------------------------|-------------|-------------|
| Rate of Discount | 12.4% | 10.0% |
| Rate of Salary Increase | 8.0% | 8.0% |
| Retirement Age | 55-60 years | 55-60 years |

22.2.1 Net benefit expenses categorized under personnel expenses:

| | Bank | | Group | |
|----------------------|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Interest Cost | 38,557 | 31,349 | 39,024 | 31,805 |
| Current Service Cost | 49,864 | 48,811 | 50,411 | 49,382 |
| | 88,421 | 80,160 | 89,435 | 81,187 |

22.2.2 Changes in the present value of the Retirement Benefit Plan are as follows:

| | Bank | | Group | |
|------------------------|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| As at 01 January | 385,568 | 368,816 | 390,244 | 374,175 |
| Interest Cost | 38,557 | 31,349 | 39,023 | 31,805 |
| Current Service Cost | 49,864 | 48,811 | 50,411 | 49,382 |
| Gratuity Payable | (1,555) | (5,620) | (1,555) | (5,620) |
| Benefits Paid | (57,073) | (50,284) | (57,503) | (50,743) |
| Actuarial (Gain) /Loss | (21,299) | (7,504) | (21,823) | (8,755) |
| As at 31 December | 394,062 | 385,568 | 398,797 | 390,244 |

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

| Group | | | | | | | |
|------------------------|---------------|----------|--------------------------------------|------------------------|---------------|----------|--------------------------------------|
| Salary Escalation Rate | 2016 | | | Salary Escalation Rate | 2015 | | |
| | Discount Rate | PVDBO | Effect on Other Comprehensive Income | | Discount Rate | PVDBO | Effect on Other Comprehensive Income |
| | | LKR '000 | LKR '000 | | | LKR '000 | LKR '000 |
| 8.0% | 13.4% | 381,226 | 17,572 | 8.0% | 11.0% | 370,762 | 19,482 |
| 8.0% | 11.4% | 418,086 | (19,289) | 8.0% | 9.0% | 411,866 | (21,622) |
| 9.0% | 12.4% | 420,516 | (21,719) | 9.0% | 10.0% | 413,787 | (23,543) |
| 7.0% | 12.4% | 378,736 | 20,061 | 7.0% | 10.0% | 368,717 | 21,527 |

22.2.4 Average Future working Life Time as per the assumptions made in year 2016: 6.87 years (Year 2015: 5.58 years).

22.2.5 Group Maturity Profile of the Retirement Benefit Plan as at 31 December 2016

| Future Working Life Time | Retirement Benefit Plan LKR '000 |
|--------------------------|-------------------------------------|
| Within next 12 months | 73,184 |
| Between 1 - 2 years | 90,299 |
| Between 2 - 5 years | 106,427 |
| Between 5 - 10 years | 84,769 |
| Beyond 10 years | 44,118 |
| | 398,797 |

Weighted Average duration of Defined Benefit Obligation is 5.16 years (2015 - 3.36 years)

Notes to the Financial Statements

23. Taxes

Accounting Policy

(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 recognized 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 recognized 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 utilized, except:

- When 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 recognized 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 utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets (DTA) and liabilities (DTL) are measured at the tax rates that are expected to apply in the year when the asset is realized 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.

23.1 Deferred Taxation

| Bank | 2016 | | | | | 2015 | | | |
|---|-----------------------|----------------------|----------------------|---------------------------------|-------------------------|-----------------------|----------------------|----------------------|-------------------------|
| | 01/01/16 DTL/(DTA) | Recognised in P&L | Recognised in OCI | Setoff Against IT Payable | 31/12/2016 DTL/(DTA) | 01/01/15 DTL/(DTA) | Recognised in P&L | Recognised in OCI | 31/12/2015 DTL/(DTA) |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Accelerated depreciation allowances for tax purposes-property plant and equipment and Intangible assets | 257,799 | 43,771 | - | - | 301,570 | 214,868 | 42,931 | - | 257,799 |
| Accelerated depreciation allowances for tax purposes- lease rentals receivable | 875,571 | 380,013 | - | - | 1,255,584 | 531,464 | 344,107 | - | 875,571 |
| Net gains on re-measuring of available -for-sale financial assets | 28,499 | - | (97,751) | - | (69,252) | 43,516 | - | (15,017) | 28,499 |
| Carry forward Tax losses on Lease Business | (247,506) | (159,041) | - | - | (406,547) | (83,417) | (164,089) | - | (247,506) |
| Adjustment due to change in Accounting base and tax base on adopting SLFRS | (71,278) | - | - | 71,278 | - | (71,278) | - | - | (71,278) |
| Retirement Benefit Plan -Gratuity | (109,532) | (7,374) | 5,964 | - | (110,942) | (105,032) | (6,601) | 2,101 | (109,532) |
| Specific provision for loans & advances & lease receivables | - | - | - | - | - | (115,068) | 115,068 | - | - |
| Total Timing Difference | 733,553 | 257,369 | (91,787) | 71,278 | 970,413 | 415,053 | 331,416 | (12,916) | 733,553 |

| Group | 2016 | | | | | 2015 | | | |
|---|-----------------------|----------------------|----------------------|---------------------------------|-------------------------|-----------------------|----------------------|----------------------|-------------------------|
| | 01/01/16 DTL/(DTA) | Recognised in P&L | Recognised in OCI | Setoff Against IT Payable | 31/12/2016 DTL/(DTA) | 01/01/15 DTL/(DTA) | Recognised in P&L | Recognised in OCI | 31/12/2015 DTL/(DTA) |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Accelerated depreciation allowances for tax purposes-property plant and equipment and Intangible assets | 257,583 | 43,442 | - | - | 301,025 | 214,623 | 42,960 | - | 257,583 |
| Accelerated depreciation allowances for tax purposes- lease rentals receivable | 875,571 | 380,013 | - | - | 1,255,584 | 531,464 | 344,107 | - | 875,571 |
| Net gains on re-measuring of available -for-sale financial assets | 28,498 | - | (97,751) | - | (69,253) | 43,515 | - | (15,017) | 28,498 |
| Carry forward Tax losses on Lease Business | (247,505) | (159,041) | - | - | (406,546) | (83,417) | (164,088) | - | (247,505) |
| Adjustment due to change in Accounting base and tax base on adopting SLFRS | (71,278) | - | - | 71,278 | - | (71,278) | - | - | (71,278) |
| Retirement Benefit Plan -Gratuity | (110,290) | (7,456) | 6,090 | - | (111,656) | (106,364) | (6,355) | 2,429 | (110,290) |
| Specific provision for loans & advances & lease rentals receivables | - | - | - | - | - | (115,068) | 115,068 | - | - |
| Total Timing Difference | 732,579 | 256,958 | (91,661) | 71,278 | 969,154 | 413,475 | 331,692 | (12,588) | 732,579 |

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

Notes to the Financial Statements

24 Stated Capital

| | Bank/ Group | | Bank/ Group | |
|--------------------------|-------------|-----------|-------------|-----------|
| | 2016 | | 2015 | |
| | Number | LKR '000 | Number | LKR '000 |
| Ordinary Shares | | | | |
| 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 |

25 Statutory Reserve Fund

25.1 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 profit after tax is transferred to the reserve fund until reserve fund is equal to 50% of the Bank's Stated Capital. Thereafter a further 2% of profits will be transferred until the said reserve fund is equal to the Bank's Stated Capital.

25.2 Movement in Statutory Reserve Fund

| | Bank | | Group | |
|-------------------------------------|----------|----------|----------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| As at 01 January | 660,840 | 538,205 | 660,840 | 538,205 |
| Transfers during the year (Note 26) | 135,560 | 122,635 | 135,560 | 122,635 |
| As at 31 December | 796,400 | 660,840 | 796,400 | 660,840 |

26 Retained Earnings

The reserves recorded in equity on the Group's Statement of Financial Position include Retained Earnings, Available-for-Sale Reserve, which comprises changes in fair value of Available-for-Sale Investments and Statutory Reserve Fund.

| | Bank | | Group | |
|---------------------------------------|------------|-----------|------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| As at 01 January | 8,154,695 | 7,037,084 | 9,335,949 | 8,143,054 |
| Charge relating to Super Gain Tax | - | (733,572) | - | (820,512) |
| Total Comprehensive Income | 2,726,544 | 2,458,093 | 2,884,798 | 2,620,317 |
| Dividend Paid | (484,275) | (484,275) | (484,275) | (484,275) |
| Transfers to Reserve Fund (Note 25.2) | (135,560) | (122,635) | (135,560) | (122,635) |
| As at 31 December | 10,261,404 | 8,154,695 | 11,600,912 | 9,335,949 |

27. Available for Sale Reserve

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| As at 01 January | 73,282 | 111,897 | 73,282 | 111,897 |
| Net unrealized loss on available-for-sale financial instruments | (138,564) | (38,615) | (138,564) | (38,615) |
| Net realized gains on available for sale financial instruments reclassified to the income statement | (210,546) | - | (210,546) | - |
| Net tax reversal relating to components of re-measuring available-for-sale financial assets | 97,751 | - | 97,751 | - |
| As at 31 December | (178,077) | 73,282 | (178,077) | 73,282 |

Recognition of Income and Expenses**Accounting Policy**

Revenue is recognized 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 recognized.

(i) Interest Income and Expense

For all financial instruments, interest income or expense is recorded using the EIR. The calculation takes in to account all of the contractual terms of the financial instrument 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.

When 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 recognized 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 three categories:

(a) 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 deferred over that period. These fees include commission income and asset management fees, custody and other management and advisory fees.

(b) Fee income from providing financial services are earned on the execution of a significant act

Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the lending transactions or other securities are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(c) Fee income forming an integral part of the corresponding financial instrument

Fees that the Bank considers to be an integral part of the corresponding financial instruments include: loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognized as interest income through an adjustment to the EIR. The exception is, when it is unlikely that a loan will be drawn down, the loan commitment fees are recognized as revenue on expiry.

Notes to the Financial Statements

(iii) Dividend Income

Dividend income is recognized 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.

28 Interest Income

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Reverse Repurchase Agreements | 65,625 | 247,682 | 65,625 | 247,682 |
| Due from Banks | 90,317 | 9,222 | 90,317 | 9,222 |
| Loans and Advances to Customers | 16,904,406 | 13,029,182 | 17,010,465 | 13,133,826 |
| Financial Assets - Held for Trading | 226,219 | 718,786 | 226,219 | 722,302 |
| Financial Assets - Available for Sale | 2,102,562 | 951,885 | 2,102,562 | 951,885 |
| Financial Assets - Held to Maturity | 1,304,375 | 1,151,099 | 1,312,661 | 1,159,214 |
| Other Financial Assets | 436,306 | 274,864 | 436,306 | 274,864 |
| Interest Income accrued on Impaired Financial Assets | 139,722 | 129,054 | 139,722 | 129,055 |
| | 21,269,532 | 16,511,774 | 21,383,877 | 16,628,050 |

Interest Income from government securities earned during the year 2016 amounts to LKR 3,814 Mn (2015: LKR 2,964 Mn) and the Group LKR 3,821 Mn (2015: LKR 2,975 Mn). The Government Securities represents; Treasury Bills, Treasury Bonds and Sri Lanka Development Bonds.

29 Interest Expense

| | Bank | | Group | |
|--------------------------------------|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Due to Banks | 531,909 | 64,725 | 531,909 | 64,725 |
| Repurchase Agreements | 1,202,917 | 970,904 | 1,169,624 | 943,031 |
| Due to Customers | 9,062,070 | 5,719,352 | 9,047,472 | 5,719,352 |
| Debt Issued and Other Borrowed Funds | 848,823 | 788,613 | 847,898 | 794,580 |
| Others | 994 | 1 | 1,363 | 1,178 |
| | 11,646,713 | 7,543,595 | 11,598,266 | 7,522,866 |

30 Net Fees and Commission Income**30.1 Fees and Commission Income**

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Credit Card Related Fees and Commissions | 2,468,074 | 2,229,160 | 2,467,653 | 2,228,864 |
| Commission on Trade Finance Facilities & Remittances | 403,735 | 388,713 | 403,735 | 388,713 |
| Commission on Services-Loans | 263,784 | 209,910 | 263,784 | 209,910 |
| Commission on Services-Deposits | 426,442 | 386,898 | 426,442 | 386,898 |
| Portfolio and Other Management Fees | - | - | 4,651 | 4,779 |
| Other Fees | 118,193 | 86,621 | 270,500 | 218,366 |
| | 3,680,228 | 3,301,302 | 3,836,765 | 3,437,530 |

30.2 Fees and Commission Expenses

| | | | | |
|--------------------------|-----------|-----------|-----------|-----------|
| Brokerage Fees | (22,008) | (16,482) | (14,693) | (16,482) |
| Credit Card Related Fees | (223,466) | (213,361) | (223,763) | (219,773) |
| | (245,474) | (229,843) | (238,456) | (236,255) |
| | 3,434,754 | 3,071,459 | 3,598,309 | 3,201,275 |

31 Net Trading Income/(Loss)

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Unrealized Gains on foreign exchange forward contracts | 565,444 | 538,925 | 565,444 | 538,925 |
| Realized Gains / (Losses) on foreign exchange forward contracts | 158,430 | (212,587) | 158,430 | (212,587) |
| Net Gain / (Loss) on retranslation of account balances | (990,765) | (187,080) | (990,765) | (187,080) |
| Net Foreign Exchange Gains / (Losses)* | (266,891) | 139,258 | (266,891) | 139,258 |
| Profit / (Loss) on Sale of Securities | 34,039 | (1,066) | 34,039 | (1,066) |
| Other Trading Gain / (Loss) | (8,529) | (230,539) | (8,529) | (232,125) |
| | (241,381) | (92,347) | (241,381) | (93,933) |

Other Trading Income includes the impact of fair value changes due to movement in the financial assets recorded as held for trading.

*Net Foreign Exchange Gains/(Losses) of Bank/Group includes a loss LKR 737 Mn (2015 - 278 Mn) from interbanks and a gain of LKR 470 Mn (2015-417 Mn) from Customers.

32 Other Operating Income

| | | | | |
|--|---------|---------|---------|---------|
| Dividend Income | 26,754 | 19,377 | 3,265 | 1,827 |
| Non-Trading Foreign Exchange | 63,192 | 7,183 | 63,192 | 7,183 |
| Recovery of Loans Written -Off | 161,544 | 139,358 | 161,544 | 139,358 |
| Profit on Disposal of Equity Instruments | 211,145 | - | 211,145 | - |
| Others | 129,037 | 158,440 | 129,052 | 158,513 |
| | 591,672 | 324,358 | 568,198 | 306,881 |

Notes to the Financial Statements

33 Impairment Charge / (Reversal) for Loans and Advances and Available for Sale

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Loans and Advances to Customers | | | | |
| Corporate Loans | 30,375 | 33,753 | 45,837 | 33,474 |
| Retail SME and Consumer Lending | 662,074 | 701,754 | 662,074 | 701,754 |
| Housing Loans | (6,112) | (9,171) | (6,112) | (9,171) |
| Leases | (21,869) | 189,136 | (21,869) | 189,136 |
| | 664,468 | 915,472 | 679,930 | 915,193 |
| Add: Direct Write offs on others - Available for Sale and charges receivable | 10,342 | 70,285 | 10,342 | 70,285 |
| | 674,810 | 985,757 | 690,272 | 985,478 |

34 Personnel Expenses

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Salaries | 1,871,542 | 1,628,307 | 1,890,340 | 1,647,962 |
| Employee Benefits - Defined Contribution Plan | 279,468 | 241,867 | 282,238 | 244,698 |
| Employee Benefits - Defined Benefit Plan | 88,421 | 80,160 | 89,435 | 81,187 |
| Amortization of Staff Loan Day 1 Difference | 46,193 | 49,882 | 46,193 | 49,882 |
| Other Allowances | 1,016,230 | 856,318 | 1,022,764 | 859,404 |
| | 3,301,854 | 2,856,534 | 3,330,970 | 2,883,133 |

35 Other Operating Expenses

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Operating Lease Expenses | 369,522 | 316,223 | 324,957 | 245,510 |
| Professional Fees | 52,952 | 25,877 | 53,318 | 26,294 |
| Auditors Fees and Expenses | 9,416 | 9,332 | 10,886 | 11,175 |
| Non Audit fees and Expenses to Auditors | 3,754 | 3,780 | 3,754 | 3,780 |
| Legal Fees | 14,292 | 12,287 | 14,292 | 12,287 |
| Transport | 180,698 | 151,463 | 181,304 | 152,539 |
| Office Administration & Establishment | 3,039,170 | 2,877,854 | 3,044,788 | 2,910,035 |
| | 3,669,804 | 3,396,816 | 3,663,299 | 3,361,620 |

36 Value Added Tax (VAT) and Nations Building Tax (NBT) on Financial Services

| | | | | |
|----------------------------|-----------|---------|-----------|---------|
| Value Added Tax (VAT) | 903,736 | 636,257 | 915,671 | 646,061 |
| Nations Building Tax (NBT) | 142,475 | 118,773 | 144,613 | 120,651 |
| | 1,046,211 | 755,030 | 1,060,284 | 766,712 |

37 Income Tax Expense

37.1 Amount recognized in profit or loss

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| The component of Income Tax expense for years ended 31 December 2016 & 2015 are ; | | | | |
| Current Tax | | | | |
| - Current Income Tax on Profit for the Year (Note 37.2) | 1,149,976 | 1,009,254 | 1,221,149 | 1,072,835 |
| - 10% Withholding Tax on Subsidiary Dividend | - | - | 2,610 | 1,950 |
| - Over Provision in respect of Prior Years | (11,638) | (115,068) | (9,607) | (115,068) |
| Deferred Tax | | | | |
| - Charge for Deferred Tax | 257,369 | 331,416 | 256,958 | 331,692 |
| | 1,395,707 | 1,225,602 | 1,471,110 | 1,291,409 |
| Effective Income Tax Rate | 33.98% | 33.32% | 33.90% | 33.07% |

37.2 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 2016 and 2015 is as follows.

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Accounting Profit (Profit before Taxation) | 4,106,916 | 3,678,292 | 4,340,196 | 3,905,400 |
| Add: Disallowable Expenses | 16,922,361 | 12,625,590 | 16,922,931 | 12,642,641 |
| | 21,029,277 | 16,303,882 | 21,263,127 | 16,548,041 |
| Less: Allowable Expenses | (16,235,644) | (12,369,642) | (16,238,795) | (12,404,276) |
| Exempt Income | (686,573) | (329,760) | (663,084) | (312,211) |
| Statutory Income | 4,107,060 | 3,604,480 | 4,361,248 | 3,831,554 |
| Taxable Income | 4,107,060 | 3,604,480 | 4,361,248 | 3,831,554 |
| Current Income Tax Expense for the year | 1,149,976 | 1,009,254 | 1,221,149 | 1,072,835 |

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.

Notes to the Financial Statements

38 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 | |
|---|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Amount Used as the Numerator: | | | | |
| Net Profit Attributable to Ordinary Shareholders (LKR '000) | 2,711,209 | 2,452,690 | 2,869,086 | 2,613,991 |
| Number of Ordinary Shares Used as the Denominator: | | | | |
| Weighted Average Number of Ordinary Shares in issue | 230,607,283 | 230,607,283 | 230,607,283 | 230,607,283 |
| Basic / Diluted Earnings per Ordinary Share (LKR) | 11.76 | 10.64 | 12.44 | 11.34 |

39 Dividends Paid, Proposed and Declared

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

| | Bank | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| 39.1 Declared and Paid During the Year | | | | |
| Dividends on ordinary shares: | | | | |
| First and Final dividend for 2015 : LKR 2.10 Per Share (2014 : LKR 2.10 per Share) | 484,275 | 484,275 | 484,275 | 484,275 |
| | 484,275 | 484,275 | 484,275 | 484,275 |
| 39.2 Declared by the Board of Directors/ Proposed for approval at Annual General Meeting (not recognized as a liability as at 31 December) | | | | |
| Dividends on ordinary shares: | | | | |
| First and Final dividend for 2016: LKR 2.10 per Share (2015: LKR 2.10 per share) | 484,275 | 484,275 | 484,275 | 484,275 |

40 Cash Flow Information

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| 40.1 (Increase)/Decrease in Operating Assets | | | | |
| Reverse Repurchase Agreements | 287,631 | 10,635,826 | (29,793) | 10,196,982 |
| Derivative Financial Instruments | 488,674 | (425,977) | 488,674 | (425,977) |
| Financial Assets Held for Trading | 461,654 | 13,207,746 | 461,654 | 13,256,330 |
| Financial Assets-Held to Maturity | (341,496) | (2,606,006) | (342,911) | (2,607,273) |
| Financial Assets-Available for Sale | (5,814,595) | (12,010,429) | (5,814,595) | (12,010,430) |
| Other Financial Assets | (312,981) | (2,647,131) | (434,643) | (2,719,131) |
| Loans and Advances to Customers | (28,938,440) | (23,961,736) | (29,141,685) | (23,789,092) |
| Other Assets | (355,134) | 116,563 | (346,060) | 119,434 |
| | (34,524,687) | (17,691,144) | (35,159,359) | (17,979,157) |
| 40.2 Increase/(Decrease) in Operating Liabilities | | | | |
| Repurchase Agreements | (3,808,901) | (4,585,845) | (3,491,478) | (4,147,000) |
| Due to Customers | 21,508,453 | 17,684,209 | 21,533,707 | 17,652,131 |
| Derivative Financial Instruments | 76,690 | (113,043) | 76,690 | (113,043) |
| Other Liabilities | 394,317 | 558,687 | 308,208 | 591,071 |
| | 18,170,559 | 13,544,008 | 18,427,127 | 13,983,159 |
| 40.3 Other Non cash items included in Profit before Tax | | | | |
| Depreciation of Property, Plant and Equipment | 380,034 | 363,065 | 418,529 | 358,815 |
| Amortization of Intangible Assets | 260,292 | 236,155 | 263,495 | 236,155 |
| Provision for Fair Valuation of Trading Portfolio | 8,529 | 230,539 | 8,232 | 232,127 |
| Amortization of Income generated from Government Securities | (8,504) | (93,994) | (8,504) | (93,994) |
| Interest Income Accrued on Impaired Financial Assets | (139,722) | (129,055) | (139,722) | (129,055) |
| Others | - | - | 17,342 | 10,413 |
| | 500,629 | 606,710 | 559,372 | 614,458 |

41 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 non related parties.

Notes to the Financial Statements

41.1 Transactions with Key Management Personnel

Key Management Personnel (KMP) include the Board of Directors of the Bank, Chief Executive Officer of the Bank.

(a) Compensation to Key Management Personnel

| | 2016 LKR '000 | 2015 LKR '000 |
|-----------------------------------|------------------|------------------|
| Key Management Personnel Benefits | 44,042 | 50,421 |
| Post Employment Benefits | 4,200 | 3,794 |
| | 48,242 | 54,215 |

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

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

| | Key Management Personnel & their Close Family Members(CFM) | | | | Entities in which KMPs and CFMs have control or joint control | | | |
|--|---|------------------|--------------------------------------|--------------------------------------|--|------------------|--------------------------------------|--------------------------------------|
| | 2016 LKR '000 | 2015 LKR '000 | Maximum Balances 2016 LKR '000 | Maximum Balances 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 | Maximum Balances 2016 LKR '000 | Maximum Balances 2015 LKR '000 |
| Items in the Statement of Financial Position | | | | | | | | |
| Assets | | | | | | | | |
| Loans & Advances | 20,079 | 14,141 | 20,079 | 16,591 | - | - | - | - |
| Credit Cards | 2,965 | 1,715 | 2,965 | 2,483 | 36 | - | 128 | - |
| Liabilities | | | | | | | | |
| Due to Customers | 68,122 | 57,504 | 84,436 | 57,504 | - | - | - | - |
| Equity | | | | | | | | |
| Dividends paid (Net) | 433 | 1,073 | - | - | - | - | - | - |
| Commitments | | | | | | | | |
| Undrawn Facilities | 12,967 | 19,319 | - | - | 964 | - | - | - |
| Items in Statement of Profit or Loss | | | | | | | | |
| Interest Income Earned | 1,657 | 1,164 | - | - | - | - | - | - |
| Interest Expenses Paid | 1,377 | 625 | - | - | - | - | - | - |
| Other Income Earned | 137 | 43 | - | - | - | - | - | - |
| Expenses Paid | 788 | - | - | - | - | - | - | - |

41.2 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 224.96 Mn (2015 - LKR 195.46 Mn) to the Fund during the year.

As at 31 December 2016, the Fund has invested a sum of LKR 441.42 Mn (2015 - LKR 553.4 Mn.) with the Bank.

During the year, the Bank has incurred a sum of LKR 42.07 Mn (2015 - LKR 46.18Mn) as interest expense to the Fund out of which a sum of LKR 17.8 Mn (2015 - LKR 6.7 Mn) is payable as of 31 December 2016.

41.3 Transactions with Related Entities

| Items in the Statement of Financial Position | Subsidiaries * | | | | Significant Investors ** | | | | Significant Investor Related Entities *** | | | |
|--|------------------|------------------|------------------|------------------|--------------------------|------------------|------------------|------------------|---|------------------|------------------|------------------|
| | Maximum Balances | | | | Maximum Balances | | | | Maximum Balances | | | |
| | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Assets | | | | | | | | | | | | |
| Loans & Advances | 210,297 | 274,958 | 210,297 | 742,639 | 378,921 | 423,412 | 488,036 | 423,412 | 57,127 | - | 57,127 | 85,700 |
| Corporate Credit Cards | - | - | - | - | - | - | - | - | 192 | 817 | 580 | 817 |
| Derivative Financial Assets | - | - | - | - | - | - | - | - | 2,974 | 22,708 | - | - |
| Other Assets | - | 5,922 | - | - | - | - | - | - | 13,227 | 5,722 | - | - |
| Liabilities | | | | | | | | | | | | |
| Due to Customers | 54,451 | 80,295 | 101,649 | 111,452 | 636,650 | 2,592,369 | 2,645,595 | 3,226,830 | 1,703,916 | 364,491 | 1,703,916 | 513,308 |
| Borrowing & Others | 589,663 | 468,242 | 1,701,427 | 468,242 | 1,766,238 | 1,543,977 | 2,207,531 | 2,918,150 | 218,122 | 589,315 | 768,383 | 681,333 |
| Other Liabilities | - | - | - | - | - | - | - | - | 65,535 | 40,300 | - | - |
| Derivative Financial Liabilities | - | - | - | - | - | - | - | - | 8 | 162 | - | - |
| Equity | | | | | | | | | | | | |
| Dividends paid (Net) | - | - | - | - | 284,080 | 283,651 | - | - | - | - | - | - |
| Commitments | | | | | | | | | | | | |
| Undrawn Facilities | 1,589,836 | 1,525,098 | - | - | 115,240 | 189,340 | - | - | 286,701 | 150,014 | - | - |
| Letter of Credit / Guarantees | - | - | - | - | 265,854 | 230,215 | - | - | 954,134 | 26,369 | - | - |
| Forward - Foreign Exchange Contracts | - | - | - | - | - | - | - | - | 594,688 | 678,370 | - | - |
| Items in Income statement | | | | | | | | | | | | |
| Interest Income Earned | 15,242 | 20,781 | - | - | 29,448 | 17,699 | - | - | 2,133 | 3,345 | - | - |
| Interest Expenses Paid | 47,891 | 27,872 | - | - | 321,406 | 29,589 | - | - | 59,282 | 7,144 | - | - |
| Other Income Earned | 13,304 | 6,490 | - | - | 3,643 | 2,981 | - | - | 15,582 | 3,690 | - | - |
| Dividend Received (Gross) | 23,489 | 17,550 | - | - | - | - | - | - | - | - | - | - |
| Expenses Paid | 41,686 | 41,893 | - | - | 48,406 | 40,770 | - | - | 53,587 | 58,418 | - | - |

In addition to the above, the bank has carried out various promotional activities with related entities during the year.

Borrowing & Others prior year (2015) balance of LKR 548Mn was split between Due to Customers and Borrowing & Other as LKR 80,295Mn and LKR 468,242Mn, respectively. Other liabilities prior year (2015) balance was restated with Merchant payable balance of LKR 36,788.

Furthermore, a sum of LKR 2.5 Mn (2015 - LKR 5.2 Mn) and LKR 18,09 Mn (2015 - 237 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.

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

** Significant Investors include John Keells Holdings PLC, Mackinnon Keells Limited, HWIC Asia Fund, 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.

Notes to the Financial Statements

42. Maturity Analysis of Assets and Liabilities

| | Bank | | | Group | | |
|---|---------------------------------|--------------------------------|--------------------|---------------------------------|--------------------------------|--------------------|
| As at 31 December 2016 | Within 12 Months LKR '000 | After 12 Months LKR '000 | Total LKR '000 | Within 12 Months LKR '000 | After 12 Months LKR '000 | Total LKR '000 |
| Assets | | | | | | |
| Cash and Cash Equivalents | 4,187,605 | - | 4,187,605 | 4,187,649 | - | 4,187,649 |
| Balances with Central Bank of Sri Lanka | 5,151,846 | 3,359,663 | 8,511,509 | 5,151,846 | 3,359,663 | 8,511,509 |
| Reverse Repurchase Agreements | 14,930 | - | 14,930 | 14,930 | - | 14,930 |
| Derivative Financial Instruments | 65,356 | - | 65,356 | 65,356 | - | 65,356 |
| Financial Assets - Held for Trading | 1,574,953 | - | 1,574,953 | 1,574,953 | - | 1,574,953 |
| Financial Assets-Available for Sale | 22,143,098 | 5,865 | 22,148,962 | 22,143,098 | 5,865 | 22,148,962 |
| Financial Assets - Held to Maturity | 5,518,238 | 7,411,285 | 12,929,523 | 5,517,267 | 7,481,721 | 12,998,988 |
| Other Financial Assets | 2,694,349 | 4,166,600 | 6,860,949 | 2,694,349 | 4,166,600 | 6,860,949 |
| Loans and Advances to Customers | 93,745,941 | 55,178,793 | 148,924,734 | 94,639,148 | 55,178,793 | 149,817,941 |
| Other Assets | 1,063,101 | 713,449 | 1,776,550 | 1,100,069 | 713,619 | 1,813,688 |
| Investments in Subsidiaries | - | 678,710 | 678,710 | - | - | - |
| Property, Plant and Equipment | - | 1,536,664 | 1,536,664 | - | 1,996,206 | 1,996,206 |
| Intangible Assets | - | 1,180,700 | 1,180,700 | - | 1,188,846 | 1,188,846 |
| Total Assets | 136,159,415 | 74,231,729 | 210,391,144 | 137,088,664 | 74,091,311 | 211,179,975 |
| Liabilities | | | | | | |
| Due to Banks | 11,850,888 | - | 11,850,888 | 11,850,888 | - | 11,850,888 |
| Repurchase Agreements | 9,850,773 | - | 9,850,773 | 9,261,110 | - | 9,261,110 |
| Derivative Financial Instruments | 130,017 | - | 130,017 | 130,017 | - | 130,017 |
| Due to Customers | 144,226,923 | 7,332,745 | 151,559,668 | 144,169,491 | 7,332,745 | 151,502,235 |
| Debt Issued and Other Borrowed Funds | 2,909,007 | 11,236,099 | 14,145,105 | 2,909,007 | 11,236,099 | 14,145,105 |
| Current Tax Liabilities | 439,215 | - | 439,215 | 478,011 | - | 478,011 |
| Other Liabilities | 4,757,560 | 706,411 | 5,463,971 | 4,807,988 | 714,861 | 5,522,849 |
| Deferred Tax Liabilities | - | 970,413 | 970,413 | - | 969,153 | 969,153 |
| Total Liabilities | 174,164,382 | 20,245,667 | 194,410,049 | 173,606,511 | 20,252,858 | 193,859,369 |
| Net | (38,004,967) | 53,986,062 | 15,981,095 | (36,517,848) | 53,838,453 | 17,320,606 |

Note: Balances with CBSL is allocated based on LKR deposit maturity mix. (2015 Figures reinstated accordingly)

42. Maturity Analysis of Assets and Liabilities (Contd.)

| | Bank | | | Group | | |
|---|---------------------------------|--------------------------------|--------------------|---------------------------------|--------------------------------|--------------------|
| As at 31 December 2015 | Within 12 Months LKR '000 | After 12 Months LKR '000 | Total LKR '000 | Within 12 Months LKR '000 | After 12 Months LKR '000 | Total LKR '000 |
| Assets | | | | | | |
| Cash and Cash Equivalents | 6,392,393 | - | 6,392,393 | 6,392,437 | - | 6,392,437 |
| Balances with Central Bank of Sri Lanka | 3,175,255 | 2,108,611 | 5,283,866 | 3,175,255 | 2,108,611 | 5,283,866 |
| Reverse Repurchase Agreements | 302,249 | - | 302,249 | 302,249 | - | 302,249 |
| Derivative Financial Instruments | 554,030 | - | 554,030 | 554,030 | - | 554,030 |
| Financial Assets - Held for Trading | 2,044,144 | - | 2,044,144 | 2,044,144 | - | 2,044,144 |
| Financial Assets-Available for Sale | 16,336,355 | 196,563 | 16,532,917 | 16,336,355 | 196,563 | 16,532,917 |
| Financial Assets - Held to Maturity | 1,489,160 | 11,186,556 | 12,675,717 | 1,488,273 | 11,255,490 | 12,743,763 |
| Other Financial Assets | 297,251 | 6,214,110 | 6,511,361 | 297,251 | 6,214,110 | 6,511,361 |
| Loans and Advances to Customers | 74,685,197 | 45,629,371 | 120,314,568 | 75,513,694 | 45,629,371 | 121,143,065 |
| Other Assets | 714,197 | 625,355 | 1,339,553 | 761,002 | 625,355 | 1,386,357 |
| Investments in Subsidiaries | - | 678,710 | 678,710 | - | - | - |
| Property, Plant and Equipment | - | 1,672,448 | 1,672,448 | - | 2,143,187 | 2,143,187 |
| Intangible Assets | - | 1,214,095 | 1,214,095 | - | 1,224,159 | 1,224,159 |
| Total Assets | 105,990,231 | 69,525,820 | 175,516,051 | 106,864,691 | 69,396,846 | 176,261,536 |
| Liabilities | | | | | | |
| Due to Banks | 2,275,840 | - | 2,275,840 | 2,275,840 | - | 2,275,840 |
| Repurchase Agreements | 10,874,122 | - | 10,874,122 | 10,405,880 | - | 10,405,880 |
| Derivative Financial Instruments | 53,327 | - | 53,327 | 53,327 | - | 53,327 |
| Due to Customers | 119,619,693 | 9,621,183 | 129,240,876 | 119,537,007 | 9,621,183 | 129,158,190 |
| Debt Issued and Other Borrowed Funds | 5,668,914 | 7,303,916 | 12,972,830 | 5,669,838 | 7,303,916 | 12,973,754 |
| Current Tax Liabilities | 396,396 | - | 396,396 | 426,466 | - | 426,466 |
| Other Liabilities | 4,291,118 | 687,803 | 4,978,921 | 4,361,096 | 702,963 | 5,064,059 |
| Deferred Tax Liabilities | - | 733,553 | 733,553 | - | 732,579 | 732,579 |
| Total Liabilities | 143,179,411 | 18,346,455 | 161,525,866 | 142,729,455 | 18,360,641 | 161,090,095 |
| Net | (37,189,180) | 51,179,365 | 13,990,185 | (35,864,764) | 51,036,205 | 15,171,441 |

Notes to the Financial Statements

43 Fair Value of Financial Instruments

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarized below:

- Level 1 financial instruments - Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the reporting date.
- Level 2 financial instruments - Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.
- Level 3 financial instruments - Those that include one or more unobservable input that is significant to the measurement as whole.

43.1 Determination of Fair Value

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk. Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for those financial instruments. The Bank estimates the value of its own credit from market observable data, such as secondary prices for its traded debt.

The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary based on the facts at the end of the reporting period.

43.2 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 categorized. The amounts are based on the value recognized in the Statement of Financial Position in the Financial Statements.

43. Fair Value Of Financial Instruments (Contd.)

| Bank | Fair Value Measurement Using | | | | |
|---|------------------------------|---|---|---|------------|
| | Date of Valuation | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| As At 31 December 2016 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Financial Assets | | | | | |
| Derivative Financial Instruments | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-16 | - | 65,356 | - | 65,356 |
| Financial Assets Held for Trading | | | | | |
| Government Treasury Bills | 31-Dec-16 | 531,522 | - | - | 531,522 |
| Government Treasury Bonds | 31-Dec-16 | 997,479 | 45,952 | - | 1,043,430 |
| Financial Assets Available for Sale | | | | | |
| Government Treasury Bills | 31-Dec-16 | 5,196,174 | - | - | 5,196,174 |
| Government Treasury Bonds | 31-Dec-16 | 16,233,097 | 713,827 | - | 16,946,924 |
| Unquoted Equity Shares | 31-Dec-16 | - | - | 5,865 | 5,865 |
| Total Financial Assets | | 22,958,272 | 825,135 | 5,865 | 23,789,271 |
| Financial Liabilities | | | | | |
| Derivative Financial Instruments | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-16 | - | 130,017 | - | 130,017 |
| Total Financial Liabilities | | - | 130,017 | - | 130,017 |

Notes to the Financial Statements

43. Fair Value Of Financial Instruments (Contd.)

| Bank | Fair Value Measurement Using | | | | Total |
|---|------------------------------|---|---|---|------------|
| | Date of Valuation | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| As At 31 December 2015 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Financial Assets | | | | | |
| Derivative Financial Instruments | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-15 | - | 554,030 | - | 554,030 |
| Financial Assets Held for Trading | | | | | |
| Government Treasury Bills | 31-Dec-15 | 1,549,415 | - | - | 1,549,415 |
| Government Treasury Bonds | 31-Dec-15 | 230,563 | 264,167 | - | 494,730 |
| Financial Assets Available for Sale | | | | | |
| Government Treasury Bills | 31-Dec-15 | 6,362,143 | - | - | 6,362,143 |
| Government Treasury Bonds | 31-Dec-15 | 9,774,375 | 199,836 | - | 9,974,211 |
| Unquoted Equity Shares | 31-Dec-15 | - | 190,821 | 5,742 | 196,563 |
| Total Financial Assets | | 17,916,496 | 1,208,854 | 5,742 | 19,131,092 |
| Financial Liabilities | | | | | |
| Derivative Financial Instruments | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-15 | - | 53,327 | - | 53,327 |
| Total Financial Liabilities | | - | 53,327 | - | 53,327 |

*There are no non-financial assets or non-financial liabilities measured at fair value as at the reporting date.

43. Fair Value Of Financial Instruments (Contd.)

| Group | Fair Value Measurement Using | | | | |
|---|------------------------------|---|---|---|------------|
| | Date of Valuation | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| As At 31 December 2016 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Financial Assets | | | | | |
| Derivative Financial Instruments | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-16 | - | 65,356 | - | 65,356 |
| Financial Assets Held for Trading | | | | | |
| Government Treasury Bills | 31-Dec-16 | 531,522 | - | - | 531,522 |
| Government Treasury Bonds | 31-Dec-16 | 997,479 | 45,952 | - | 1,043,430 |
| Financial Assets Available for Sale | | | | | |
| Government Treasury Bills | 31-Dec-16 | 5,196,174 | - | - | 5,196,174 |
| Government Treasury Bonds | 31-Dec-16 | 16,233,097 | 713,827 | - | 16,946,924 |
| Unquoted Equity Shares | 31-Dec-16 | - | - | 5,865 | 5,865 |
| Total Financial Assets | | 22,958,272 | 825,135 | 5,865 | 23,789,271 |
| Financial Liabilities | | | | | |
| Derivative Financial Instruments | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-16 | - | 130,017 | - | 130,017 |
| Total Financial Liabilities | | - | 130,017 | - | 130,017 |

Notes to the Financial Statements

43. Fair Value Of Financial Instruments (Contd.)

| Group | Fair Value Measurement Using | | | | Total |
|---|------------------------------|---|---|---|------------|
| | Date of Valuation | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| As At 31 December 2015 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Financial Assets | | | | | |
| Derivative Financial Instruments | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-15 | - | 554,030 | - | 554,030 |
| Financial Assets Held for Trading | | | | | |
| Government Treasury Bills | 31-Dec-15 | 1,549,415 | - | - | 1,549,415 |
| Government Treasury Bonds | 31-Dec-15 | 230,563 | 264,167 | - | 494,730 |
| Financial Assets Available for Sale | | | | | |
| Government Treasury Bills | 31-Dec-15 | 6,362,143 | - | - | 6,362,143 |
| Government Treasury Bonds | 31-Dec-15 | 9,774,375 | 199,836 | - | 9,974,211 |
| Unquoted Equity Shares | 31-Dec-15 | - | 190,821 | 5,742 | 196,563 |
| Total Financial Assets | | 17,916,496 | 1,208,854 | 5,742 | 19,131,092 |
| Financial Liabilities | | | | | |
| Derivative Financial Instruments | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 31-Dec-15 | - | 53,327 | - | 53,327 |
| Total Financial Liabilities | | - | 53,327 | - | 53,327 |

Reconciliation of the financial assets Available-for-sale ,classified as “Level 3 “ in the fair value hierarchy.

| | Bank/Group | Bank/Group |
|--|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 |
| Balance as at 01 January | 5,742 | 5,488 |
| Change in value due to exchange rate fluctuation | 123 | 254 |
| Balance as at 31 December | 5,865 | 5,742 |

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 12.1

43 Fair Value Of Financial Instruments (Contd.)

43.2 Financial Assets and Financial Liabilities not carried at fair value (Contd.)

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's /Group's financial instruments that are not measured at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

| Bank | As at 31 December 2016 | | | | | | | | | | As at 31 December 2015 | | | | |
|--------------------------------------|---|--|--|----------|--------------------|---|--|--|----------|--------------------|------------------------|----------|----------|----------|----------|
| | Fair Value Measurement Using | | | | | | | | | | | | | | |
| | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total | Carrying amount | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total | Carrying amount | | | | | |
| | 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 | LKR '000 | LKR '000 |
| Financial Assets | | | | | | | | | | | | | | | |
| Financial Assets - Held to Maturity | 129,29,523 | 7,266,943 | 5,196,076 | - | 12,463,019 | 12,675,717 | 8,636,414 | 3,784,174 | - | 12,420,588 | | | | | |
| Other Financial Assets | 6,860,950 | - | 6,632,591 | - | 6,632,591 | 6,511,361 | - | 6,436,019 | - | 6,511,361 | | | | | |
| | 19,790,473 | 7,266,943 | 11,828,667 | - | 19,095,610 | 19,187,078 | 8,636,414 | 10,220,193 | - | 12,420,588 | | | | | |
| Loans and Advances to Customers | | | | | | | | | | | | | | | |
| Corporate Loans | 37,882,588 | - | 37,502,844 | - | 37,502,844 | 30,571,614 | - | 30,121,006 | - | 30,121,006 | | | | | |
| Retail, SME and Consumer Lending | 77,173,248 | - | 72,581,999 | - | 72,581,999 | 59,464,335 | - | 57,744,443 | - | 57,744,443 | | | | | |
| Housing Loans | 2,497,417 | - | 2,218,949 | - | 2,218,949 | 1,376,117 | - | 1,319,855 | - | 1,319,855 | | | | | |
| Leases | 31,422,446 | - | 29,634,784 | - | 29,634,784 | 28,936,324 | - | 28,662,985 | - | 28,662,985 | | | | | |
| Staff Loans | 2,227,112 | - | 1,751,261 | - | 1,751,261 | 2,026,512 | - | 2,596,464 | - | 2,596,464 | | | | | |
| | 151,202,811 | - | 143,689,837 | - | 143,689,837 | 122,374,902 | - | 120,444,753 | - | 120,444,753 | | | | | |
| Total Financial Assets | | | | | | | | | | | | | | | |
| | 170,993,284 | 7,266,943 | 155,518,504 | - | 162,785,447 | 141,561,980 | 8,636,414 | 130,664,946 | - | 139,301,360 | | | | | |
| Financial Liabilities | | | | | | | | | | | | | | | |
| Repurchase Agreements | 9,850,773 | - | 9,850,773 | - | 9,850,773 | 13,684,942 | - | 13,684,958 | - | 13,684,958 | | | | | |
| Due to Customers | 151,559,668 | - | 151,296,122 | - | 151,296,122 | 129,240,876 | - | 128,829,852 | - | 128,829,852 | | | | | |
| Debt Issued and Other Borrowed Funds | 14,145,105 | - | 14,092,531 | - | 14,092,531 | 10,162,010 | - | 10,275,980 | - | 10,275,980 | | | | | |
| Total Financial Liabilities | 175,555,546 | - | 175,239,426 | - | 175,239,426 | 153,087,828 | - | 152,790,790 | - | 152,790,790 | | | | | |

Notes to the Financial Statements

43 Fair Value Of Financial Instruments (Contd.)

43.2 Financial Assets and Financial Liabilities not carried at fair value (Contd.)

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's /Group's financial instruments that are not measured at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

| Group | As at 31 December 2016 | | | | | | | | | | As at 31 December 2015 | | | |
|--|------------------------------|---|---|---|-------------|-----------------|---|---|---|-------------|---|---|---|----------|
| | Fair Value Measurement Using | | | | | | | | | | | | | |
| | Carrying amount | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total | Carrying amount | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| | 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 | LKR '000 |
| Financial Assets | | | | | | | | | | | | | | |
| Financial Assets - Held to Maturity | 12,998,988 | 7,266,943 | 5,196,076 | - | 12,463,019 | 12,743,763 | 8,636,414 | 3,784,174 | - | 12,420,588 | | | | |
| Other Financial Assets | 6,860,949 | - | 6,632,591 | - | 6,632,591 | 6,511,361 | - | 6,436,019 | - | 6,436,019 | | | | |
| | 19,859,937 | 7,266,943 | 11,828,667 | - | 19,095,610 | 19,255,124 | 8,636,414 | 10,220,193 | - | 18,856,607 | | | | |
| Loans and Advances to Customers | | | | | | | | | | | | | | |
| Corporate Loans | 38,775,375 | - | 37,502,844 | - | 37,502,844 | 31,399,562 | - | 30,121,006 | - | 30,121,006 | | | | |
| Retail, SME and Consumer Lending | 77,173,248 | - | 72,581,999 | - | 72,581,999 | 59,464,334 | - | 57,744,443 | - | 57,744,443 | | | | |
| Housing Loans | 2,497,417 | - | 2,218,949 | - | 2,218,949 | 1,376,117 | - | 1,319,855 | - | 1,319,855 | | | | |
| Leases | 31,422,446 | - | 29,634,784 | - | 29,634,784 | 28,936,324 | - | 28,662,985 | - | 28,662,985 | | | | |
| Staff Loans | 2,227,112 | - | 1,751,261 | - | 1,751,261 | 2,026,512 | - | 2,596,464 | - | 2,596,464 | | | | |
| | 152,095,598 | - | 143,689,837 | - | 143,689,837 | 123,202,849 | - | 120,444,753 | - | 120,444,753 | | | | |
| Total Financial Assets | 165,094,582 | 7,266,943 | 155,518,504 | - | 162,785,447 | 142,457,973 | 8,636,414 | 130,664,946 | - | 139,301,360 | | | | |
| Financial Liabilities | | | | | | | | | | | | | | |
| Repurchase Agreements | 9,261,110 | - | 9,850,773 | - | 9,850,773 | 10,405,880 | - | 13,684,958 | - | 13,684,958 | | | | |
| Due to Customers | 151,502,236 | - | 151,296,122 | - | 145,818,776 | 129,158,190 | - | 128,829,852 | - | 128,829,852 | | | | |
| Debt Issued and Other Borrowed Funds | 14,145,105 | - | 14,092,531 | - | 14,209,885 | 12,973,754 | - | 10,275,980 | - | 10,275,980 | | | | |
| Total Financial Liabilities | 174,908,450 | - | 175,239,426 | - | 175,356,740 | 152,537,824 | - | 152,790,790 | - | 152,790,790 | | | | |

43. Fair Value Of Financial Instruments (Contd.)

43.3 Assets and Liabilities measured at fair value - Fair Value hierarchy (Contd.)

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

For 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.

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 / Liabilities

Cash and Cash Equivalents Due to banks

Balances with Central Bank of Sri Lanka

Reverse Repurchase Agreements

Other Financial Assets

This assumption is also applied to demand deposits, call deposits and savings deposits which does not have a specific maturity. It is also assumed that the amortized cost of floating rate financial instrument approximate the fair value as the amortized 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 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 average 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 rate offered to customers as at the reporting date. 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.

Notes to the Financial Statements

44. Financial Risk Management

44.1 Introduction

Risks 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. In addition Cyber security threats have emerged as a significant risk to the industry in recent times.

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.

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. It acts as the second line of defense in managing risks. Responsibilities of the IRMD include the following:

Monitor

- Formulation of Risk policies & procedures
- Compliance with Risk policies & procedures
- Bank's overall risk profile & changes in overall risk positions
- Risk across business units and escalate risk and control issues to management

Develop and Report

- Risk management standards and measurement tools
- Aggregate risk profile of the Bank in relation to capital

Support

- Banks' risk culture through development of a common risk language and Bank wide training
- Interpretation of risk related regulations / leading practices to business units

44. Financial Risk Management (Contd.)

44.1 Introduction (Contd.)

Risk Measurement and Reporting Systems

The Bank uses appropriate risk measurement techniques, models and industry best practices to evaluate its various risk exposures. Such risks identified are managed through establishment of limits. These limits reflect the business strategy and the Bank's stance in the market environment as well as the level of risk that the Bank is willing to accept.

The Bank also carries out a detail stress testing exercise, which is a key component of the internal capital adequacy assessment process (ICAAP) as well as the risk management framework. This exercise measures the extent of risks the Bank is exposed to when variables associated with its risks are simulated considering plausible changes in the external/internal environment.

The risk so measured is presented to relevant board committees & heads of each business division at regular intervals.

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.

44.2 Credit Risk

Credit risk is the risk that the Bank will incur a loss resulting from its customers or counterparties failing to or delaying meeting their contractual obligations. This arises from loans and receivables and investments in debt instruments forming direct funding exposures (on Balance Sheet exposure) or indirect liabilities such as Letters of Credit and guarantees (off Balance Sheet exposure).

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. A score card based model is used to evaluate credit risk of consumer products as these were not evaluated through the established internal risk rating system.

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

Impairment Assessment

For financial reporting purposes, the Bank uses an incurred loss model for recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer faces bankruptcy or other financial reorganization
- Observable data that suggests that there is a decrease in the estimated future cash flows

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis above a predetermined threshold limit. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout if bankruptcy happens, the availability of other financial support, the realizable value and timing of collateral and expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. The Bank has currently set Individually Significant Threshold at Rupees Twenty Five Million and every customer having an aggregate exposure above that limit is individually assessed for objective evidence of incurred loss (OEIL). The bank applies a risk based approach on its corporate banking portfolio where exposures between Rupees Twenty Five Million and Rupees Hundred Million are assessed against limited number of OEIL and exposures above Rupees Hundred Million are assessed using total list of OEILs. 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 requiring an 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.

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

Description of approaches and statistical methods followed for collective 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 | A combination of Rating Migration Matrix and Net Flow Rate method | Corporate Loans |
| SME & Retail Banking | Based on Internal Risk Rating | "Loss Category" | Probability of Loan moving into "Loss" category | A combination of Rating Migration Matrix and Net Flow Rate method | Retail SME and Consumer |
| Leasing | Based on Time Buckets indicating Days Past Due (DPD) and Portfolio is stratified into 5 segments | 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) and portfolio is stratified in to 2 segments | 360 DPD | Probability of Loan moving into "361 - 391DPD" 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) and Portfolio is stratified into 4 segments | 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) | 90 DPD | Probability of advance moving into more than "90 DPD" Bucket | 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.

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

Credit Quality by Class of Financial Assets

The Bank manages the credit quality of Corporate, Retail and SME customers through a credit rating mechanism. Customers in Consumer lending portfolio have not been rated.

Qualities 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 or fully secured by cash. 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. |

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

Credit Risk exposure for each internal credit risk rating

| Bank's Internal Credit Rating | Historical Default Rates | | Amortized Cost | |
|---|--------------------------|----------------|------------------|------------------|
| For the Year Ended 31 December | 2016 % | 2015 % | 2016 LKR '000 | 2015 LKR '000 |
| Investment Grade | | | | |
| A | Less than 1% | Less than 1% | 23,112,718 | 18,690,001 |
| B | Less than 1.5% | Less than 1.5% | 39,310,000 | 24,831,099 |
| Intermediary Grade | | | | |
| C + and C | Less than 2.5% | Less than 2.5% | 7,780,434 | 7,505,972 |
| Speculative Grade | | | | |
| C- | Less than 5.5% | Less than 5.5% | 1,888,702 | 2,304,350 |
| D | Minimum of 13% | Minimum of 13% | 374,722 | 552,721 |
| Past Due - Rated Customers | | | 13,843,935 | 8,576,018 |
| Past Due - Fully Secured by Cash | | | 1,854,078 | 2,729,399 |
| Individually Impaired - Rated Customers | | | 3,399,860 | 3,082,929 |
| Sum of Amortized Cost of Rated Customers | | | 91,564,449 | 68,272,487 |

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

Historical default rates have been calliberated combining Risk Migration and the Net Flow Rate methods. New default rates are more reflective of the Bank's existing loan portfolio.

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

| Bank As at 31 December 2016 | 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 | 4,187,605 | - | - | - | - | - | - | 4,187,605 |
| Balances with Central Bank of Sri Lanka | 8,511,509 | - | - | - | - | - | - | 8,511,509 |
| Reverse Repurchase Agreements | - | - | - | - | 14,930 | - | - | 14,930 |
| Derivative Financial Instruments | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 48,640 | 16,716 | - | - | - | - | - | 65,356 |
| Financial Assets - Held for Trading | | | | | | | | |
| Government Treasury Bills and Bonds | 1,574,952 | - | - | - | - | - | - | 1,574,952 |
| Financial Assets-Available for Sale | | | | | | | | |
| Government Treasury Bills and Bonds | 22,143,098 | - | - | - | - | - | - | 22,143,098 |
| Unquoted Equity Shares | - | - | - | - | 5,865 | - | - | 5,865 |
| Financial Assets - Held to Maturity | | | | | | | | |
| Government Treasury Bills and Bonds | 12,929,523 | - | - | - | - | - | - | 12,929,523 |
| Other Financial Assets | | | | | | | | |
| Sri Lanka Development Bonds | 3,943,597 | - | - | - | - | - | - | 3,943,597 |
| Quoted Debentures | 509,660 | 2,407,692 | - | - | - | - | - | 2,917,352 |
| Unquoted Debentures | - | - | - | - | - | - | - | - |
| | 4,453,256 | 2,407,692 | - | - | - | - | - | 6,860,950 |
| Loans and Advances to Customers (Gross) | | | | | | | | |
| Corporate Loans | - | 35,569,262 | 14,107 | 297,094 | - | 1,251,776 | 750,348 | 37,882,588 |
| Retail ,SME and Consumer | - | 22,417,843 | 2,690,410 | 1,950,184 | 29,023,458 | 17,935,842 | 3,155,510 | 77,173,248 |
| Housing Loans | - | - | - | - | 2,010,054 | 473,528 | 13,834 | 2,497,417 |
| Leases | - | 4,435,613 | 5,075,916 | 16,146 | 13,629,590 | 8,193,180 | 72,001 | 31,422,446 |
| Staff Loans | - | - | - | - | 2,782,940 | 25,023 | - | 2,807,963 |
| | - | 62,422,718 | 7,780,434 | 2,263,425 | 47,446,042 | 27,879,350 | 3,991,693 | 151,783,662 |
| Total | 53,848,583 | 64,847,126 | 7,780,434 | 2,263,425 | 47,466,836 | 27,879,350 | 3,991,693 | 208,077,448 |

Note : Past Due loans include any loan that is in arrears for more than one day. Out of LKR 27.9Bn categorized under "past due but not impaired" category LKR 14.7Bn (53%) is in arrears for less than 30 days, LKR 11.0Bn (39%) is in arrears for more than 30 days but less than 90 days & LKR 2.2Bn (8%) is in arrears for more than 90 Days.

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

| Bank As at 31 December 2015 | High Grade | Neither past due nor impaired | | | Customers whose credit rating is not yet finalized | Past due but not impaired | Individually impaired | Total |
|---|------------|-------------------------------|---------------------|--------------------|--|---------------------------|-----------------------|-------------|
| | | Investment Grades | Intermediary Grades | Speculative Grades | | | | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Cash and Cash Equivalents | 6,392,393 | - | - | - | - | - | - | 6,392,393 |
| Balances with Central Bank of Sri Lanka | 5,283,866 | - | - | - | - | - | - | 5,283,866 |
| Reverse Repurchase Agreements | - | 300,834 | - | - | 1,414 | - | - | 302,249 |
| Derivative Financial Instruments | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 526,912 | 3,969 | - | - | 23,149 | - | - | 554,030 |
| Financial Assets - Held for Trading | | | | | | | | |
| Government Treasury Bills and Bonds | 2,044,144 | - | - | - | - | - | - | 2,044,144 |
| Financial Assets-Available for Sale | | | | | | | | |
| Government Treasury Bills and Bonds | 16,336,355 | - | - | - | - | - | - | 16,336,355 |
| Unquoted Equity Shares | - | 190,821 | - | 5,742 | - | - | - | 196,563 |
| Financial Assets - Held to Maturity | | | | | | | | |
| Government Treasury Bills and Bonds | 12,675,717 | - | - | - | - | - | - | 12,675,717 |
| Other Financial Assets | | | | | | | | |
| Sri Lanka Development Bonds | 3,784,984 | - | - | - | - | - | - | 3,784,984 |
| Quoted Debentures | 509,658 | 2,162,596 | - | - | - | - | - | 2,672,254 |
| Unquoted Debentures | - | 54,123 | - | - | - | - | - | 54,123 |
| | 4,294,642 | 2,216,719 | - | - | - | - | - | 6,511,361 |
| Loans and Advances to Customers (Gross) | | | | | | | | |
| Corporate Loans | - | 26,116,979 | 115,645 | 1,007,006 | - | 1,443,981 | 1,888,153 | 30,571,763 |
| Retail ,SME and Consumer | - | 15,123,824 | 2,311,307 | 1,834,826 | 26,272,117 | 12,343,241 | 1,578,875 | 59,464,190 |
| Housing Loans | - | - | - | - | 960,976 | 393,988 | 21,153 | 1,376,117 |
| Leases | - | 2,270,533 | 5,079,019 | 15,239 | 12,763,083 | 8,715,398 | 93,050 | 28,936,324 |
| Staff Loans | - | - | - | - | 2,576,773 | 19,690 | - | 2,596,464 |
| | - | 43,511,337 | 7,505,972 | 2,857,070 | 42,572,949 | 22,916,298 | 3,581,231 | 122,944,857 |
| Total | 47,554,029 | 46,223,679 | 7,505,972 | 2,862,812 | 42,597,513 | 22,916,298 | 3,581,231 | 173,241,535 |

Note : Past Due loans include any loan that is in arrears for more than one day. Out of LKR 22.9Bn categorized under “past due but not impaired” category LKR 9.2Bn (40%) is in arrears for less than 30 days, LKR 11.3Bn (49%) is in arrears for more than 30 days but less than 90 days & LKR 2.4Bn (11%) is in arrears for more than 90 Days.

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

| Group As at 31 December 2016 | 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 | 4,187,649 | - | - | - | - | - | - | 4,187,649 |
| Balances with Central Bank of Sri Lanka | 8,511,509 | - | - | - | - | - | - | 8,511,509 |
| Reverse Repurchase Agreements | - | - | - | - | 14,930 | - | - | 14,930 |
| Derivative Financial Instruments | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 48,640 | 16,716 | - | - | - | - | - | 65,356 |
| Financial Assets - Held for Trading | | | | | | | | |
| Government Treasury Bills and Bonds | 1,574,952 | - | - | - | - | - | - | 1,574,952 |
| Financial Assets-Available for Sale | | | | | | | | |
| Government Treasury Bills and Bonds | 22,143,098 | - | - | - | - | - | - | 22,143,098 |
| Unquoted Equity Shares | - | - | - | - | 5,865 | - | - | 5,865 |
| Financial Assets - Held to Maturity | | | | | | | | |
| Government Treasury Bills and Bonds | 12,998,988 | - | - | - | - | - | - | 12,998,988 |
| Other Financial Assets | | | | | | | | |
| Sri Lanka Development Bonds | 3,943,597 | - | - | - | - | - | - | 3,943,597 |
| Quoted Debentures | 509,660 | 2,407,692 | - | - | - | - | - | 2,917,352 |
| Unquoted Debentures | - | - | - | - | - | - | - | - |
| | 4,453,256 | 2,407,692 | - | - | - | - | - | 6,860,950 |
| Loans and Advances to Customers (Gross) | | | | | | | | |
| Corporate Loans | - | 35,358,965 | 14,107 | 1,037,665 | - | 1,251,776 | 750,348 | 38,412,862 |
| Retail, SME and Consumer | - | 22,417,843 | 2,690,410 | 2,312,697 | 29,023,458 | 17,935,842 | 3,155,510 | 77,535,761 |
| Housing Loans | - | - | - | - | 2,010,054 | 473,528 | 13,834 | 2,497,417 |
| Leases | - | 4,435,613 | 5,075,916 | 16,146 | 13,629,590 | 8,193,180 | 72,001 | 31,422,446 |
| Staff Loans | - | - | - | - | 2,782,940 | 25,023 | - | 2,807,963 |
| | - | 62,212,420 | 7,780,434 | 3,366,509 | 47,446,042 | 27,879,350 | 3,991,693 | 152,676,448 |
| Total | 53,918,092 | 64,636,829 | 7,780,434 | 3,366,509 | 47,466,836 | 27,879,350 | 3,991,693 | 209,039,743 |

Note : Past Due loans include any loan that is in arrears for more than one day. Out of LKR 27.9Bn categorized under "past due but not impaired" category LKR 14.7Bn (53%) is in arrears for less than 30 days, LKR 11.0Bn (39%) is in arrears for more than 30 days but less than 90 days & LKR 2.2Bn (8%) is in arrears for more than 90 Days.

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

| Group As at 31 December 2015 | High Grade | Neither past due nor impaired | | | Customers whose credit rating is not yet finalized | Past due but not impaired | Individually impaired | Total |
|---|------------|-------------------------------|---------------------|--------------------|--|---------------------------|-----------------------|-------------|
| | | Investment Grades | Intermediary Grades | Speculative Grades | | | | |
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Cash and Cash Equivalents | 6,392,437 | - | - | - | - | - | - | 6,392,437 |
| Balances with Central Bank of Sri Lanka | 5,283,866 | - | - | - | - | - | - | 5,283,866 |
| Reverse Repurchase Agreements | - | 300,834 | - | - | 1,414 | - | - | 302,249 |
| Derivative Financial Instruments | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | 526,912 | 3,969 | - | - | 23,149 | - | - | 554,030 |
| Financial Assets - Held for Trading | | | | | | | | |
| Government Treasury Bills and Bonds | 2,044,144 | - | - | - | - | - | - | 2,044,144 |
| Financial Assets-Available for Sale | | | | | | | | |
| Government Treasury Bills and Bonds | 16,336,355 | - | - | - | - | - | - | 16,336,355 |
| Unquoted Equity Shares | - | 190,821 | - | 5,742 | - | - | - | 196,563 |
| Financial Assets - Held to Maturity | | | | | | | | |
| Government Treasury Bills and Bonds | 12,743,763 | - | - | - | - | - | - | 12,743,763 |
| Other Financial Assets | | | | | | | | |
| Sri Lanka Development Bonds | 3,784,984 | - | - | - | - | - | - | 3,784,984 |
| Quoted Debentures | 509,658 | 2,162,596 | - | - | - | - | - | 2,672,254 |
| Unquoted Debentures | - | 54,123 | - | - | - | - | - | 54,123 |
| | 4,294,642 | 2,216,719 | - | - | - | - | - | 6,511,361 |
| Loans and Advances to Customers (Gross) | | | | | | | | |
| Corporate Loans | - | 25,842,020 | 115,645 | 1,710,978 | - | 1,443,981 | 1,888,153 | 31,000,778 |
| Retail, SME and Consumer | - | 15,123,824 | 2,311,307 | 2,233,759 | 26,272,117 | 12,343,241 | 1,578,875 | 59,863,123 |
| Housing Loans | - | - | - | - | 960,976 | 393,988 | 21,153 | 1,376,117 |
| Leases | - | 2,270,533 | 5,079,019 | 15,239 | 12,763,083 | 8,715,398 | 93,050 | 28,936,324 |
| Staff Loans | - | - | - | - | 2,576,773 | 19,690 | - | 2,596,464 |
| | - | 43,236,378 | 7,505,972 | 3,959,977 | 42,572,949 | 22,916,298 | 3,581,231 | 123,772,805 |
| Total | 47,622,120 | 45,948,721 | 7,505,972 | 3,965,719 | 42,597,513 | 22,916,298 | 3,581,231 | 174,137,573 |

Note : Past Due loans include any loan that is in arrears for more than one day. Out of LKR 22.9Bn categorized under "past due but not impaired" category LKR 9.2Bn (40%) is in arrears for less than 30 days, LKR 11.3Bn (49%) is in arrears for more than 30 days but less than 90 days & LKR 2.4Bn (11%) is in arrears for more than 90 Days.

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.2 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 As at 31 December 2016

| | Maximum Exposure to Credit Risk LKR '000 | Net collateral LKR '000 | Net exposure LKR '000 |
|---|---|----------------------------|--------------------------|
| Cash and Cash Equivalents | 4,187,605 | - | 4,187,605 |
| Balances with Central Bank of Sri Lanka | 8,511,509 | - | 8,511,509 |
| Reverse Repurchase Agreements | 14,930 | 14,930 | - |
| Derivative Financial Instruments | 65,356 | - | 65,356 |
| Financial Assets - Held for Trading | 1,574,952 | - | 1,574,952 |
| Financial Assets-Available for Sale | 22,148,963 | - | 22,148,963 |
| Financial Assets - Held to Maturity | 12,929,523 | - | 12,929,523 |
| Other Financial Assets | 6,860,950 | 526,217 | 6,334,732 |
| Loans and Advances to Customers (Gross) | 151,783,662 | 64,251,470 | 87,532,192 |
| Financial Guarantees | 261,894 | 18,190 | 243,704 |
| Letters of Credit | 5,407,169 | 52,506 | 5,354,663 |
| Other Commitments | 118,348,853 | 5,232,078 | 113,116,775 |
| | 332,095,364 | 70,095,389 | 261,999,974 |

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

Bank As at 31 December 2015

| | Maximum Exposure to Credit Risk LKR '000 | Net collateral LKR '000 | Net exposure LKR '000 |
|---|---|----------------------------|--------------------------|
| Cash and Cash Equivalents | 6,392,393 | - | 6,392,393 |
| Balances with Central Bank of Sri Lanka | 5,283,866 | - | 5,283,866 |
| Reverse Repurchase Agreements | 302,249 | 302,249 | - |
| Derivative Financial Instruments | 554,030 | - | 554,030 |
| Financial Assets - Held for Trading | 2,044,144 | - | 2,044,144 |
| Financial Assets-Available for Sale | 16,532,917 | - | 16,532,917 |
| Financial Assets - Held to Maturity | 12,675,717 | - | 12,675,717 |
| Other Financial Assets | 6,511,361 | 216,781 | 6,294,581 |
| Loans and Advances to Customers (Gross) | 122,944,857 | 61,429,775 | 61,526,552 |
| Financial Guarantees | 406,918 | 46,424 | 360,494 |
| Letters of Credit | 3,801,772 | 242,341 | 3,559,431 |
| Other Commitments | 92,609,742 | 7,391,144 | 85,218,597 |
| | 270,059,966 | 69,628,713 | 200,442,722 |

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

Group As at 31 December 2016

| | Maximum Exposure to Credit Risk LKR '000 | Net collateral LKR '000 | Net exposure LKR '000 |
|---|---|----------------------------|--------------------------|
| Cash and Cash Equivalents | 4,187,649 | - | 4,187,649 |
| Balances with Central Bank of Sri Lanka | 8,511,509 | - | 8,511,509 |
| Reverse Repurchase Agreements | 14,930 | 14,930 | - |
| Derivative Financial Instruments | 65,356 | - | 65,356 |
| Financial Assets - Held for Trading | 1,574,952 | - | 1,574,952 |
| Financial Assets-Available for Sale | 22,148,963 | - | 22,148,963 |
| Financial Assets - Held to Maturity | 12,998,988 | - | 12,998,988 |
| Other Financial Assets | 6,860,950 | 526,217 | 6,334,732 |
| Loans and Advances to Customers (Gross) | 152,676,448 | 65,354,554 | 87,321,895 |
| Financial Guarantees | 261,894 | 18,190 | 243,704 |
| Letters of Credit | 5,407,169 | 52,506 | 5,354,663 |
| Other Commitments | 117,915,825 | 5,233,234 | 112,682,590 |
| | 332,624,631 | 71,199,630 | 261,425,001 |

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

Group As at 31 December 2015

| | Maximum Exposure to Credit Risk LKR '000 | Net collateral LKR '000 | Net exposure LKR '000 |
|---|---|----------------------------|--------------------------|
| Cash and Cash Equivalents | 6,392,437 | - | 6,392,437 |
| Balances with Central Bank of Sri Lanka | 5,283,866 | - | 5,283,866 |
| Reverse Repurchase Agreements | 302,249 | 302,249 | - |
| Derivative Financial Instruments | 554,030 | - | 554,030 |
| Financial Assets - Held for Trading | 2,044,144 | - | 2,044,144 |
| Financial Assets-Available for Sale | 16,532,917 | - | 16,532,917 |
| Financial Assets - Held to Maturity | 12,743,763 | - | 12,743,763 |
| Other Financial Assets | 6,511,361 | 742,997 | 5,768,364 |
| Loans and Advances to Customers (Gross) | 123,772,805 | 62,532,681 | 61,251,593 |
| Financial Guarantees | 406,918 | 46,424 | 360,494 |
| Letters of Credit | 3,801,772 | 242,341 | 3,559,431 |
| Other Commitments | 92,583,096 | 7,391,144 | 85,191,952 |
| | 270,929,358 | 71,257,836 | 199,682,992 |

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.2 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 classified under "Other".

| Bank As at 31 December 2016 | Agriculture & Fishing LKR '000 | Financial Services LKR '000 | Government LKR '000 | Trading LKR '000 | Construction & Manufacturing Housing LKR '000 | LKR '000 | Services LKR '000 | Other LKR '000 | Total LKR '000 |
|---|-----------------------------------|--------------------------------|------------------------|---------------------|---|------------|----------------------|-------------------|-------------------|
| Cash and Cash Equivalents | - | 4,187,605 | - | - | - | - | - | - | 4,187,605 |
| Balances with Central Bank of Sri Lanka | - | - | 8,511,509 | - | - | - | - | - | 8,511,509 |
| Reverse Repurchase Agreements | - | - | - | - | - | - | - | 14,930 | 14,930 |
| Derivative Financial Instruments | | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | - | 62,275 | - | 106 | - | - | 2,974 | - | 65,356 |
| Financial Assets - Held for Trading | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 1,574,952 | - | - | - | - | - | 1,574,952 |
| Financial Assets-Available for Sale | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 22,143,098 | - | - | - | - | - | 22,143,098 |
| Unquoted Equity Shares | - | - | - | - | - | - | 5,865 | - | 5,865 |
| Financial Assets - Held to Maturity | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 12,929,523 | - | - | - | - | - | 12,929,523 |
| Other Financial Assets | | | | | | | | | |
| Sri Lanka Development Bonds | - | - | 3,943,597 | - | - | - | - | - | 3,943,597 |
| Quoted Debentures | - | 1,954,564 | - | 208,647 | 354,226 | 171,936 | - | 227,979 | 2,917,352 |
| | - | 1,954,564 | 3,943,597 | 208,647 | 354,226 | 171,936 | - | 227,979 | 6,860,950 |
| Loans and Advances to Customers | | | | | | | | | |
| Corporate Loans | 11,244,565 | 5,032,525 | - | 7,627,993 | 858,282 | 5,896,480 | 6,845,659 | 377,085 | 37,882,588 |
| Retail, SME and Consumer | 5,031,499 | 3,954,825 | - | 6,758,106 | 5,185,944 | 8,932,705 | 18,166,776 | 29,143,393 | 77,173,248 |
| Housing Loans | - | - | - | - | 2,497,417 | - | - | - | 2,497,417 |
| Leases | 3,258,623 | 1,246,781 | - | 1,735,949 | 2,821,552 | 5,359,634 | 13,882,743 | 3,117,164 | 31,422,446 |
| Staff loans | - | 2,227,112 | - | - | - | - | - | - | 2,227,112 |
| | 19,534,687 | 12,461,242 | - | 16,122,047 | 11,363,195 | 20,188,820 | 38,895,177 | 32,637,643 | 151,202,811 |
| Impairment for Loans and Advances | - | - | - | - | - | - | - | - | (2278,077) |
| Net Loans and Advances | - | - | - | - | - | - | - | - | 148,924,734 |
| | 19,534,687 | 18,665,686 | 49,102,679 | 16,330,801 | 11,717,421 | 20,360,755 | 38,904,016 | 32,880,552 | 205,218,520 |

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

| Bank As at 31 December 2015 | Agriculture & Fishing LKR '000 | Financial Services LKR '000 | Government LKR '000 | Trading LKR '000 | Construction & Housing LKR '000 | Manufacturing LKR '000 | Services LKR '000 | Other LKR '000 | Total LKR '000 |
|---|-----------------------------------|--------------------------------|------------------------|---------------------|------------------------------------|---------------------------|----------------------|-------------------|-------------------|
| Cash and Cash Equivalents | - | 6,392,393 | - | - | - | - | - | - | 6,392,393 |
| Balances with Central Bank of Sri Lanka | - | - | 5,283,866 | - | - | - | - | - | 5,283,866 |
| Reverse Repurchase Agreements | - | 301,891 | - | - | - | - | - | 358 | 302,249 |
| Derivative Financial Instruments | | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | - | 530,715 | - | - | - | - | 22,680 | 634 | 554,030 |
| Financial Assets - Held for Trading | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 2,044,144 | - | - | - | - | - | 2,044,144 |
| Financial Assets-Available for Sale | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 16,336,355 | - | - | - | - | - | 16,336,355 |
| Unquoted Equity Shares | - | - | - | - | - | - | 5,742 | 190,821 | 196,563 |
| Financial Assets - Held to Maturity | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 12,675,717 | - | - | - | - | - | 12,675,717 |
| Other Financial Assets | | | | | | | | | |
| Sri Lanka Development Bonds | - | - | 3,784,984 | - | - | - | - | - | 3,784,984 |
| Quoted Debentures | - | 1,632,198 | - | 285,827 | 559,293 | 171,927 | - | 23,009 | 2,672,254 |
| Unquoted Debentures | - | 54,123 | - | - | - | - | - | - | 54,123 |
| | - | 1,686,321 | 3,784,984 | 285,827 | 559,293 | 171,927 | - | 23,009 | 6,511,361 |
| Loans and Advances to Customers | | | | | | | | | |
| Corporate Loans | 9,896,054 | 5,135,056 | - | 5,500,047 | 626,058 | 5,801,796 | 2,605,226 | 1,007,527 | 30,571,763 |
| Retail, SME and Consumer | 2,756,265 | 768,322 | - | 2,497,247 | 2,768,444 | 1,622,241 | 2,757,426 | 46,294,245 | 59,464,190 |
| Housing Loans | - | - | - | - | 1,376,117 | - | - | - | 1,376,117 |
| Leases | 1,664,902 | 858,113 | - | 655,950 | 1,340,936 | 2,644,999 | 10,749,777 | 11,021,643 | 28,936,320 |
| Staff loans | - | 2,026,512 | - | - | - | - | - | - | 2,026,512 |
| | 14,317,221 | 8,788,002 | - | 8,653,244 | 6,111,555 | 10,069,036 | 16,112,428 | 58,323,415 | 122,374,902 |
| Impairment for Loans and Advances | - | - | - | - | - | - | - | - | (2,060,334) |
| Net Loans and Advances | - | - | - | - | - | - | - | - | 120,314,568 |
| | 14,317,221 | 17,699,322 | 40,125,066 | 8,939,071 | 6,670,848 | 10,240,963 | 16,140,851 | 58,538,238 | 170,611,245 |

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

| Group As at 31 December 2016 | Agriculture & Fishing LKR '000 | Financial Services LKR '000 | Government LKR '000 | Trading LKR '000 | Construction & Manufacturing Housing LKR '000 | LKR '000 | Services LKR '000 | Other LKR '000 | Total LKR '000 |
|---|-----------------------------------|--------------------------------|------------------------|---------------------|---|------------|----------------------|-------------------|-------------------|
| Cash and Cash Equivalents | - | 4,187,649 | - | - | - | - | - | - | 4,187,649 |
| Balances with Central Bank of Sri Lanka | - | - | 8,511,509 | - | - | - | - | - | 8,511,509 |
| Reverse Repurchase Agreements | - | - | - | - | - | - | - | 14,930 | 14,930 |
| Derivative Financial Instruments | | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | - | 62,275 | - | 106 | - | - | 2,974 | - | 65,356 |
| Financial Assets - Held for Trading | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 1,574,952 | - | - | - | - | - | 1,574,952 |
| Financial Assets-Available for Sale | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 22,143,098 | - | - | - | - | - | 22,143,098 |
| Unquoted Equity Shares | - | - | - | - | - | - | 5,865 | - | 5,865 |
| Financial Assets - Held to Maturity | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 12,998,988 | - | - | - | - | - | 12,998,988 |
| Other Financial Assets | | | | | | | | | |
| Sri Lanka Development Bonds | - | - | 3,943,597 | - | - | - | - | - | 3,943,597 |
| Quoted Debentures | - | 1,954,564 | - | 208,647 | 354,226 | 171,936 | - | 227,979 | 2,917,352 |
| | - | 1,954,564 | 3,943,597 | 208,647 | 354,226 | 171,936 | - | 227,979 | 6,860,950 |
| Loans and Advances to Customers | | | | | | | | | |
| Corporate Loans | 11,244,565 | 5,104,712 | - | 8,041,687 | 858,282 | 5,896,480 | 6,890,051 | 377,085 | 38,412,862 |
| Retail, SME and Consumer | 5,031,499 | 3,960,203 | - | 6,791,094 | 5,185,944 | 8,932,705 | 18,167,866 | 29,466,450 | 77,535,761 |
| Housing Loans | - | - | - | - | 2,497,417 | - | - | - | 2,497,417 |
| Leases | 3,258,623 | 1,246,781 | - | 1,735,949 | 2,821,552 | 5,359,634 | 13,882,743 | 3,117,164 | 31,422,446 |
| Staff loans | - | 2,227,112 | - | - | - | - | - | - | 2,227,112 |
| | 19,534,687 | 12,538,807 | - | 16,568,729 | 11,363,195 | 20,188,820 | 38,940,660 | 32,960,699 | 152,095,597 |
| Impairment for Loans and Advances | - | - | - | - | - | - | - | - | (2,277,656) |
| Net Loans and Advances | - | - | - | - | - | - | - | - | 149,817,941 |
| | 19,534,687 | 18,743,295 | 49,172,144 | 16,777,483 | 11,717,421 | 20,360,755 | 38,949,499 | 33,203,608 | 206,181,235 |

44. Financial Risk Management (Contd.)

44.2 Credit Risk (Contd.)

| Group As at 31 December 2015 | Agriculture & Fishing LKR '000 | Financial Services LKR '000 | Government LKR '000 | Trading LKR '000 | Construction & Housing LKR '000 | Manufacturing LKR '000 | Services LKR '000 | Other LKR '000 | Total LKR '000 |
|---|-----------------------------------|--------------------------------|------------------------|---------------------|------------------------------------|---------------------------|----------------------|-------------------|-------------------|
| Cash and Cash Equivalents | - | 6,392,437 | - | - | - | - | - | - | 6,392,437 |
| Balances with Central Bank of Sri Lanka | - | - | 5,283,866 | - | - | - | - | - | 5,283,866 |
| Reverse Repurchase Agreements | - | 301,891 | - | - | - | - | - | 358 | 302,249 |
| Derivative Financial Instruments | | | | | | | | | |
| Forward Foreign Exchange Contracts and Currency Swaps | - | 530,715 | - | - | - | - | 22,680 | 634 | 554,030 |
| Financial Assets - Held for Trading | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 2,044,144 | - | - | - | - | - | 2,044,144 |
| Financial Assets-Available for Sale | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 16,336,355 | - | - | - | - | - | 16,336,355 |
| Unquoted Equity Shares | - | - | - | - | - | - | 5,742 | 190,821 | 196,563 |
| Financial Assets - Held to Maturity | | | | | | | | | |
| Government Treasury Bills and Bonds | - | - | 12,743,763 | - | - | - | - | - | 12,743,763 |
| Other Financial Assets | | | | | | | | | |
| Sri Lanka Development Bonds | - | - | 3,784,984 | - | - | - | - | - | 3,784,984 |
| Quoted Debentures | - | 1,632,198 | - | 285,827 | 559,293 | 171,927 | - | 23,009 | 2,672,254 |
| Unquoted Debentures | - | 54,123 | - | - | - | - | - | - | 54,123 |
| | - | 1,686,321 | 3,784,984 | 285,827 | 559,293 | 171,927 | - | 23,009 | 6,511,361 |
| Loans and Advances to Customers | | | | | | | | | |
| Corporate Loans | 9,896,054 | 5,116,733 | - | 5,897,573 | 626,058 | 5,801,796 | 2,655,037 | 1,007,527 | 31,000,778 |
| Retail, SME and Consumer | 2,756,265 | 774,138 | - | 2,534,109 | 2,768,444 | 1,622,241 | 2,758,730 | 46,649,197 | 59,863,123 |
| Housing Loans | - | - | - | - | 1,376,117 | - | - | - | 1,376,117 |
| Leases | 1,664,902 | 858,113 | - | 655,950 | 1,340,936 | 2,644,999 | 10,749,777 | 11,021,643 | 28,936,320 |
| Staff loans | - | 2,026,512 | - | - | - | - | - | - | 2,026,512 |
| | 14,317,221 | 8,775,496 | - | 9,087,631 | 6,111,555 | 10,069,036 | 16,163,544 | 58,678,367 | 123,202,849 |
| Impairment for Loans and Advances | - | - | - | - | - | - | - | - | (2,059,784) |
| Net Loans and Advances | - | - | - | - | - | - | - | - | 121,143,065 |
| | 14,317,221 | 17,686,860 | 40,193,112 | 9,373,458 | 6,670,848 | 10,240,963 | 16,191,966 | 58,893,189 | 171,507,833 |

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.2 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.

| | 2016 | | 2015 | |
|---|--------------------|--------------------|-------------------|-------------------|
| For the Year Ended 31 December | Bank LKR '000 | Group LKR '000 | Bank LKR '000 | Group LKR '000 |
| Bonds | 9,087,235 | 9,087,235 | 5,924,297 | 5,924,297 |
| Acceptance | 2,465,570 | 2,465,570 | 2,051,537 | 2,051,537 |
| Guarantees | 261,894 | 261,894 | 406,918 | 406,918 |
| Letters of Credit | 5,407,169 | 5,407,169 | 3,801,772 | 3,801,772 |
| Foreign Exchange Contracts ** | 28,282,615 | 28,282,615 | 20,653,370 | 20,653,370 |
| Forward Contracts to Buy/Sell Government Securities | 398,431 | 398,431 | - | - |
| Undrawn Commitments | | | | |
| Credit Cards | 29,780,493 | 29,780,493 | 25,323,210 | 25,323,210 |
| Other | 48,334,509 | 47,901,481 | 38,657,327 | 38,630,681 |
| | 78,115,003 | 77,681,975 | 63,980,537 | 63,953,891 |
| Total Commitments and Guarantees | 124,017,916 | 123,584,888 | 96,818,431 | 96,791,786 |

** 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 431 Mn as at end of 2016 and LKR 348Mn as at end of 2015 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 would 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.

44. Financial Risk Management (Contd.)

44.3 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 a standard liquidity facility agreement amounting to LKR 1Bn (Reciprocal agreement). 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.

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.

| For the Year Ended 31 December | 2016 | | 2015 | |
|--------------------------------|-------|-------|-------|-------|
| | DBU | FCBU | DBU | FCBU |
| Liquid Asset Ratio | 21.7% | 33.4% | 21.8% | 33.2% |

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 7.5% (2015-6%) of Sri Lanka Rupee customer deposits.

While the general market risk is monitored according to the board approved risk parameters on daily basis (some of the parameters are monitored online), the market risk management unit perform stress testing on the trading book periodically. Probable adverse macro-economic scenarios are considered while designing the stress testing framework and the results of the stress testing are presented to Integrated Risk Management Committee of the Bank.

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.3 Liquidity Risk and Funding Management (Contd.)

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2016 under the flow approach.

Bank As at 31 December 2016

| | On demand (Less than 15 days) | 16 days to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|-------------------------------------|------------------------|---------------------|-------------------|-------------------|--------------------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Financial Assets | | | | | | |
| Cash and Cash Equivalents | 4,187,605 | - | - | - | - | 4,187,605 |
| Balances with Central Bank of Sri Lanka | 475,708 | 2,201,587 | 2,474,551 | 1,287,621 | 2,072,042 | 8,511,509 |
| Reverse Repurchase Agreements | - | 15,021 | - | - | - | 15,021 |
| Financial Assets - Held for Trading | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 2,650 | 32,756 | 894,608 | 824,020 | 67,938 | 1,821,971 |
| Financial Assets-Available for Sale | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 2,992,800 | 2,105,100 | 8,362,500 | 8,985,038 | - | 22,445,438 |
| Unquoted Equity Shares | - | - | - | - | 5,865 | 5,865 |
| Financial Assets - Held to Maturity | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 115,740 | 182,025 | 5,878,516 | 6,162,743 | 4,788,179 | 17,127,203 |
| Other Financial Assets | 802 | 1,268,217 | 1,701,487 | 4,792,868 | - | 7,763,374 |
| Loans & Advances to Customers | 58,090,087 | 20,829,148 | 26,702,418 | 61,135,135 | 9,344,239 | 176,101,027 |
| Total Undiscounted Financial Assets | 65,865,391 | 26,633,854 | 46,014,080 | 83,187,425 | 16,278,262 | 237,979,012 |
| Financial Liabilities | | | | | | |
| Due to Banks | 11,893,855 | - | - | - | - | 11,893,855 |
| Repurchase Agreements | 4,070,015 | 4,876,825 | 991,547 | - | - | 9,938,387 |
| Due to Customers | 50,504,924 | 44,339,389 | 52,969,044 | 9,226,078 | 3,100 | 157,042,536 |
| Debt Issued and Other Borrowed Funds | - | 494,479 | 3,676,105 | 14,883,438 | - | 19,054,022 |
| Total Undiscounted Financial Liabilities | 66,468,794 | 49,710,694 | 57,636,696 | 24,109,516 | 3,100 | 197,928,800 |
| Net Undiscounted Financial Assets/ (Liabilities) | (603,403) | (23,076,839) | (11,622,617) | 59,077,909 | 16,275,162 | 40,050,212 |
| Gross Settled Derivatives not Held for Trading | | | | | | |
| Financial Assets | | | | | | |
| Contractual Amounts Receivable | 1,691,636 | 8,920,929 | 4,320,196 | - | - | 14,932,760 |
| Contractual Amounts Payable | (1,691,636) | (8,920,929) | (4,320,196) | - | - | (14,932,760) |
| Financial Liabilities | | | | | | |
| Contractual Amounts Receivable | 2,958,088 | 9,172,906 | 1,218,861 | - | - | 13,349,855 |
| Contractual Amounts Payable | (2,958,088) | (9,172,906) | (1,218,861) | - | - | (13,349,855) |
| Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading | - | - | - | - | - | - |
| Total Net Financial Assets/ (Liabilities) | (603,403) | (23,076,839) | (11,622,617) | 59,077,909 | 16,275,162 | 40,050,212 |

Note: Balances with CBSL is allocated based on LKR deposit maturity mix. (2015 Figures reinstated accordingly)

44. Financial Risk Management (Contd.)

44.3 Liquidity Risk and Funding Management (Contd.)

| Bank As at 31 December 2015 | On demand (Less than 15 days) LKR'000 | 16 days to 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 | 6,392,393 | - | - | - | - | 6,392,393 |
| Balances with Central Bank of Sri Lanka | 281,948 | 1,218,702 | 1,674,605 | 847,574 | 1,261,037 | 5,283,866 |
| Reverse Repurchase Agreements | 301,460 | 1,214 | - | - | - | 302,674 |
| Financial Assets - Held for Trading | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 12,075 | 1,121,827 | 658,502 | 351,725 | - | 2,144,129 |
| Financial Assets-Available for Sale | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 241,097 | 2,823,713 | 6,077,162 | 8,903,737 | - | 18,045,708 |
| Unquoted Equity Shares | - | - | - | - | 196,563 | 196,563 |
| Financial Assets - Held to Maturity | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 115,840 | 98,775 | 2,048,282 | 9,972,511 | 4,249,042 | 16,484,449 |
| Other Financial Assets | 54,275 | 53,948 | 512,891 | 7,036,884 | - | 7,657,998 |
| Loans & Advances to Customers | 45,646,243 | 18,608,264 | 20,385,472 | 48,320,074 | 5,336,463 | 138,296,515 |
| Total Undiscounted Financial Assets | 53,045,330 | 23,926,443 | 31,356,913 | 75,432,504 | 11,043,104 | 194,804,295 |
| Financial Liabilities | | | | | | |
| Due to Banks | 1,987,964 | 289,635 | - | - | - | 2,277,599 |
| Repurchase Agreements | 5,015,945 | 5,224,168 | 689,632 | - | - | 10,929,744 |
| Due to Customers | 47,743,715 | 29,910,215 | 44,194,581 | 12,215,025 | - | 134,063,535 |
| Debt Issued and Other Borrowed Funds | 1,170,195 | 2,079,136 | 3,197,647 | 8,549,108 | - | 14,996,085 |
| Total Undiscounted Financial Liabilities | 55,917,819 | 37,503,153 | 48,081,859 | 20,764,133 | - | 162,266,964 |
| Net Undiscounted Financial Assets/ (Liabilities) | (2,872,488) | (13,576,710) | (16,724,946) | 54,668,372 | 11,043,104 | 32,537,331 |
| Gross Settled Derivatives not Held for Trading | | | | | | |
| Financial Assets | | | | | | |
| Contractual Amounts Receivable | 2,300,580 | 9,265,559 | 5,331,536 | - | - | 16,897,676 |
| Contractual Amounts Payable | (2,300,580) | (9,265,559) | (5,331,536) | - | - | (16,897,676) |
| | - | - | - | - | - | - |
| Financial Liabilities | | | | | | |
| Contractual Amounts Receivable | 1,442,223 | 2,024,211 | 245,112 | - | - | 3,711,545 |
| Contractual Amounts Payable | (1,442,223) | (2,024,211) | (245,112) | - | - | (3,711,545) |
| | - | - | - | - | - | - |
| Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading | - | - | - | - | - | - |
| Total Net Financial Assets/ (Liabilities) | (2,872,488) | (13,576,710) | (16,724,946) | 54,668,372 | 11,043,104 | 32,537,331 |

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.3 Liquidity Risk and Funding Management (Contd.)

Group As at 31 December 2016

| | On demand (Less than 15 days) LKR '000 | 16 days to 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 | 4,187,649 | - | - | - | - | 4,187,649 |
| Balances with Central Bank of Sri Lanka | 475,708 | 2,201,587 | 2,474,551 | 1,287,621 | 2,072,042 | 8,511,509 |
| Reverse Repurchase Agreements | - | 15,021 | - | - | - | 15,021 |
| Financial Assets - Held for Trading | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 2,650 | 32,756 | 894,608 | 824,020 | 67,938 | 1,821,971 |
| Financial Assets-Available for Sale | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 3,086,891 | 2,320,675 | 9,171,449 | 10,233,077 | 5,865 | 24,817,957 |
| Unquoted Equity Shares | - | - | - | - | 5,865 | 5,865 |
| Financial Assets - Held to Maturity | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 115,836 | 182,242 | 5,884,242 | 6,252,459 | 4,790,675 | 17,225,455 |
| Other Financial Assets | 802 | 1,268,217 | 1,701,487 | 4,792,868 | - | 7,763,374 |
| Loans & Advances to Customers | 58,983,202 | 20,829,148 | 26,702,418 | 61,135,135 | 9,344,239 | 176,994,143 |
| Total Undiscounted Financial Assets | 66,852,739 | 26,849,646 | 46,828,755 | 84,525,181 | 16,286,622 | 241,342,943 |
| Financial Liabilities | | | | | | |
| Due to Banks | 5,552,002 | 5,954,707 | 387,147 | - | - | 11,893,855 |
| Repurchase Agreements | 4,070,015 | 4,276,801 | 991,547 | - | - | 9,338,363 |
| Due to Customers | 50,447,492 | 44,339,389 | 52,969,044 | 9,226,078 | 3,100 | 156,985,103 |
| Debt Issued and Other Borrowed Funds | - | 494,479 | 3,676,105 | 14,883,438 | - | 19,054,022 |
| Total Undiscounted Financial Liabilities | 60,069,508 | 55,065,376 | 58,023,843 | 24,109,516 | 3,100 | 197,271,343 |
| Net Undiscounted Financial Assets/ (Liabilities) | 6,783,230 | (28,215,730) | (11,195,088) | 60,415,665 | 16,283,522 | 44,071,600 |
| Gross Settled Derivatives not Held for Trading | | | | | | |
| Financial Assets | | | | | | |
| Contractual Amounts Receivable | 1,691,636 | 8,920,929 | 4,320,196 | - | - | 14,932,760 |
| Contractual Amounts Payable | (1,691,636) | (8,920,929) | (4,320,196) | - | - | (14,932,760) |
| Financial Liabilities | | | | | | |
| Contractual Amounts Receivable | 2,958,088 | 9,172,906 | 1,218,861 | - | - | 13,349,855 |
| Contractual Amounts Payable | (2,958,088) | (9,172,906) | (1,218,861) | - | - | (13,349,855) |
| Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading | - | - | - | - | - | - |
| Total Net Financial Assets/ (Liabilities) | 6,783,230 | (28,215,730) | (11,195,088) | 60,415,665 | 16,283,522 | 44,071,600 |

Note: Balances with CBSL is allocated based on LKR deposit maturity mix. (2015 Figures reinstated accordingly)

44. Financial Risk Management (Contd.)

44.3 Liquidity Risk and Funding Management (Contd.)

Group As at 31 December 2015

| | On demand (Less than 15 days) LKR'000 | 16 days to 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 | 6,392,437 | - | - | - | - | 6,392,437 |
| Balances with Central Bank of Sri Lanka | 281,948 | 1,218,702 | 1,674,605 | 847,574 | 1,261,037 | 5,283,866 |
| Reverse Repurchase Agreements | 301,460 | 1,214 | - | - | - | 302,674 |
| Financial Assets - Held for Trading | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 12,075 | 1,121,827 | 658,502 | 351,725 | - | 2,144,129 |
| Financial Assets-Available for Sale | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 241,097 | 2,823,713 | 6,077,162 | 8,903,737 | - | 18,045,708 |
| Unquoted Equity Shares | - | - | - | - | 196,563 | 196,563 |
| Financial Assets - Held to Maturity | | | | | | |
| Government Debt Securities - Treasury Bills and Bonds | 115,936 | 98,992 | 2,054,008 | 10,051,667 | 4,268,137 | 16,588,740 |
| Other Financial Assets | 54,275 | 53,948 | 512,891 | 7,036,884 | - | 7,657,998 |
| Loans & Advances to Customers | 46,474,191 | 18,608,264 | 20,385,472 | 48,320,074 | 5,336,463 | 139,124,463 |
| Total Undiscounted Financial Assets | 53,873,418 | 23,926,660 | 31,362,639 | 75,511,661 | 11,062,200 | 195,736,578 |
| Financial Liabilities | | | | | | |
| Due to Banks | 1,987,964 | 289,635 | - | - | - | 2,277,599 |
| Repurchase Agreements | 4,545,602 | 5,224,168 | 689,632 | - | - | 10,459,402 |
| Due to Customers | 47,661,028 | 29,910,215 | 44,194,581 | 12,215,025 | - | 133,980,849 |
| Debt Issued and Other Borrowed Funds | 1,170,195 | 2,079,136 | 3,197,647 | 8,549,108 | - | 14,996,085 |
| Total Undiscounted Financial Liabilities | 55,364,790 | 37,503,153 | 48,081,859 | 20,764,133 | - | 161,713,935 |
| Net Undiscounted Financial Assets/ (Liabilities) | (1,491,371) | (13,576,493) | (16,719,220) | 54,747,528 | 11,062,200 | 34,022,643 |
| Gross Settled Derivatives not Held for Trading | | | | | | |
| Financial Assets | | | | | | |
| Contractual Amounts Receivable | 2,300,580 | 9,265,559 | 5,331,536 | - | - | 16,897,676 |
| Contractual Amounts Payable | (2,300,580) | (9,265,559) | (5,331,536) | - | - | (16,897,676) |
| | - | - | - | - | - | - |
| Financial Liabilities | | | | | | |
| Contractual Amounts Receivable | 1,442,223 | 2,024,211 | 245,112 | - | - | 3,711,545 |
| Contractual Amounts Payable | (1,442,223) | (2,024,211) | (245,112) | - | - | (3,711,545) |
| | - | - | - | - | - | - |
| Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading | - | - | - | - | - | - |
| Total Net Financial Assets/ (Liabilities) | (1,491,371) | (13,576,493) | (16,719,220) | 54,747,528 | 11,062,200 | 34,022,643 |

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.3 Liquidity Risk and Funding Management (Contd.)

Whilst the management understands above contractual maturity gaps, more emphasis is given for the behavioural 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.

| As at 31 December 2016 | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|-------------------|--------------------|-------------------|------------------|--------------|--------------------|
| Bank | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Bonds | 333,836 | 1,752,841 | 4,942,741 | 2,055,867 | 1,949 | 9,087,235 |
| Acceptance | 268,554 | 1,592,810 | 587,594 | 16,611 | - | 2,465,570 |
| Guarantees | 261,894 | - | - | - | - | 261,894 |
| Letters of Credit | 640,327 | 4,343,563 | 423,279 | - | - | 5,407,169 |
| Foreign Exchange Contracts | 4,649,724 | 18,093,834 | 5,539,057 | - | - | 28,282,615 |
| Forward Contracts to Buy/Sell Government Securities | - | - | - | 398,431 | - | 398,431 |
| Undrawn Commitments | 78,115,003 | - | - | - | - | 78,115,003 |
| Total Commitments and Guarantees | 84,269,338 | 25,783,049 | 11,492,671 | 2,470,909 | 1,949 | 124,017,916 |

| As at 31 December 2015 | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|-------------------|--------------------|------------------|----------------|--------------|-------------------|
| Bank | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Bonds | 597,606 | 1,411,857 | 3,342,802 | 572,032 | - | 5,924,297 |
| Acceptance | 412,105 | 1,343,973 | 295,459 | - | - | 2,051,537 |
| Guarantees | 406,918 | - | - | - | - | 406,918 |
| Letters of Credit | 595,103 | 2,841,265 | 365,404 | - | - | 3,801,772 |
| Foreign Exchange Contracts | 3,768,981 | 11,307,741 | 5,576,648 | - | - | 20,653,370 |
| Forward Contracts to Buy/Sell Government Securities | - | - | - | - | - | - |
| Undrawn Commitments | 63,980,537 | - | - | - | - | 63,980,537 |
| Total Commitments and Guarantees | 69,761,251 | 16,904,835 | 9,580,313 | 572,032 | - | 96,818,431 |

| As at 31 December 2015 | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|-------------------|--------------------|-------------------|------------------|--------------|--------------------|
| Group | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Bonds | 333,836 | 1,752,841 | 4,942,741 | 2,055,867 | 1,949 | 9,087,235 |
| Acceptance | 268,554 | 1,592,810 | 587,594 | 16,611 | - | 2,465,570 |
| Guarantees | 261,894 | - | - | - | - | 261,894 |
| Letters of Credit | 640,327 | 4,343,563 | 423,279 | - | - | 5,407,169 |
| Foreign Exchange Contracts | 4,649,724 | 18,093,834 | 5,539,057 | - | - | 28,282,615 |
| Forward Contracts to Buy/Sell Government Securities | - | - | - | 398,431 | - | 398,431 |
| Undrawn Commitments | 77,681,975 | - | - | - | - | 77,681,975 |
| Total Commitments and Guarantees | 83,836,310 | 25,783,049 | 11,492,671 | 2,470,909 | 1,949 | 123,584,888 |

44. Financial Risk Management (Contd.)

44.3 Liquidity Risk and Funding Management (Contd.)

| As at 31 December 2015 | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|-------------------|--------------------|------------------|----------------|--------------|-------------------|
| Group | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Bonds | 597,606 | 1,411,857 | 3,342,802 | 572,032 | - | 5,924,297 |
| Acceptance | 412,105 | 1,343,973 | 295,459 | - | - | 2,051,537 |
| Guarantees | 406,918 | - | - | - | - | 406,918 |
| Letters of Credit | 595,103 | 2,841,265 | 365,404 | - | - | 3,801,772 |
| Foreign Exchange Contracts | 3,768,981 | 11,307,741 | 5,576,648 | - | - | 20,653,370 |
| Forward Contracts to Buy/Sell Government Securities | - | - | - | - | - | - |
| Undrawn Commitments | 63,953,891 | - | - | - | - | 63,953,891 |
| Total Commitments and Guarantees | 69,734,605 | 16,904,835 | 9,580,313 | 572,032 | - | 96,791,786 |

44.4 Market Risk

Market Risk denotes the risk of losses in the banking book as a result of unfavourable movements in market indices such as interest rates, foreign exchange rates, credit spreads, equity prices and commodity prices. The values of these indices are set in public market and the risk cannot be eliminated through diversification.

The Bank manages the market risk on both trading and non-trading portfolios through a comprehensive market risk management framework. The objective of such framework is to reduce the exposure to the aforementioned unfavourable movements and mitigate the impact on the economic income and cash flows.

The Bank sets market risk limits for both trading and non-trading portfolios which carries the concurrence of the board of directors. These limits are reviewed periodically and all revisions and amendments are subject to Board approval. A daily report summarizes the Bank's market risk exposure against approved limits and same being scrutinized by the relevant members in the management team which includes the Chief Executive Officer as well.

Types of Market Risk

Both trading and non-trading activities of the Bank are exposed to unfavourable movements in the market indices which reflect in the profit and losses. Bank identifies two types of market risks which directly influence the banking book.

- » Interest Rate Risk
- » Currency Risk

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).

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.4 Market Risk (Contd.)

Bank As at 31 December 2016

| | Total | On demand (Less than 15 days) | 16 days to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing |
|--|--------------------|-------------------------------------|------------------------|---------------------|-------------------|------------------|-------------------------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | | | |
| Cash and balances with Central Bank of Sri Lanka | 12,698,790 | - | - | - | - | - | 12,698,790 |
| Loans and Advances | 148,506,436 | 60,182,215 | 25,784,443 | 25,951,154 | 31,967,981 | 2,162,644 | 2,457,999 |
| Investments | 44,074,650 | 2,992,800 | 4,070,480 | 16,519,820 | 16,230,888 | 3,532,600 | 728,063 |
| Other | 33,836,176 | 4,650,811 | 17,987,322 | 5,364,353 | - | - | 5,833,689 |
| Total Assets | 239,116,053 | 67,825,826 | 47,842,246 | 47,835,328 | 48,198,869 | 5,695,244 | 21,718,541 |
| Liabilities | | | | | | | |
| Deposits | 148,141,258 | 36,114,808 | 42,268,974 | 49,034,977 | 6,690,178 | 3,100 | 14,029,222 |
| Borrowings | 35,424,487 | 9,508,023 | 13,677,951 | 4,234,732 | 8,003,780 | - | - |
| Other | 56,018,944 | 4,777,312 | 18,112,114 | 5,523,314 | - | - | 27,606,204 |
| Total Shareholder Funds and Liabilities | 239,584,689 | 50,400,143 | 74,059,039 | 58,793,023 | 14,693,958 | 3,100 | 41,635,426 |
| Total Interest Sensitivity Gap | | 17,425,683 | (26,216,793) | (10,957,695) | 33,504,911 | 5,692,144 | (19,916,885) |

** The Classifications are based on the way that ALCO monitors repricing gaps.

Bank As at 31 December 2015

| | Total | On demand (Less than 15 days) | 16 days to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing |
|--|--------------------|-------------------------------------|------------------------|---------------------|-------------------|------------------|-------------------------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | | | |
| Cash and balances with Central Bank of Sri Lanka | 9,047,010 | - | - | - | - | - | 9,047,010 |
| Loans and Advances | 120,510,409 | 45,539,083 | 23,786,538 | 19,924,554 | 27,511,802 | 2,045,565 | 1,702,866 |
| Investments | 37,857,166 | 589,200 | 5,692,477 | 9,331,770 | 18,588,390 | 3,106,950 | 548,379 |
| Other | 32,198,495 | 5,827,137 | 11,469,762 | 5,642,168 | - | - | 9,259,429 |
| Total Assets | 199,613,080 | 51,955,420 | 40,948,777 | 34,898,492 | 46,100,192 | 5,152,515 | 20,557,683 |
| Liabilities | | | | | | | |
| Deposits | 126,825,303 | 32,548,149 | 28,893,711 | 41,196,382 | 9,014,697 | - | 15,172,364 |
| Borrowings | 25,879,843 | 8,035,657 | 9,077,289 | 5,639,456 | 3,008,380 | - | 119,060 |
| Other | 50,824,464 | 4,285,949 | 11,192,770 | 5,501,083 | - | - | 29,844,662 |
| Total Shareholder Funds and Liabilities | 203,529,610 | 44,869,755 | 49,163,771 | 52,336,921 | 12,023,077 | - | 45,136,086 |
| Total Interest Sensitivity Gap | | 7,085,665 | (8,214,994) | (17,438,429) | 34,077,116 | 5,152,515 | (24,578,402) |

** The Classifications are based on the way that ALCO monitors repricing gaps.

44. Financial Risk Management (Contd.)

44.4 Market Risk (Contd.)

Group As at 31 December 2016

| | Total | On demand (Less than 15 days) | 16 days to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing |
|--|--------------------|-------------------------------------|------------------------|---------------------|-------------------|------------------|-------------------------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | | | |
| Cash and balances with Central Bank of Sri Lanka | 12,714,055 | - | - | - | - | - | 12,714,055 |
| Loans and Advances | 149,399,356 | 61,075,135 | 25,784,443 | 25,951,154 | 31,967,981 | 2,162,644 | 2,457,999 |
| Investments | 44,144,115 | 2,992,800 | 4,070,480 | 16,519,820 | 16,303,589 | 3,535,000 | 722,426 |
| Other | 33,869,280 | 4,650,811 | 17,987,322 | 5,364,353 | - | - | 5,866,794 |
| Total Assets | 240,126,806 | 68,718,746 | 47,842,246 | 47,835,328 | 48,271,570 | 5,697,644 | 21,761,273 |
| Liabilities | | | | | | | |
| Deposits | 148,141,258 | 36,114,808 | 42,268,974 | 49,034,977 | 6,690,178 | 3,100 | 14,029,222 |
| Borrowings | 35,156,487 | 9,508,023 | 13,409,951 | 4,234,732 | 8,003,780 | - | - |
| Other | 57,297,697 | 4,777,312 | 18,112,114 | 5,523,314 | - | - | 28,884,957 |
| Total Shareholder Funds and Liabilities | 240,595,442 | 50,400,143 | 73,791,039 | 58,793,023 | 14,693,958 | 3,100 | 42,914,179 |
| Total Interest Sensitivity Gap | | 18,318,603 | (25,948,793) | (10,957,695) | 33,577,612 | 5,694,544 | (21,152,906) |

** The Classifications are based on the way that ALCO monitors repricing gaps.

Group As at 31 December 2015

| | Total | On demand (Less than 15 days) | 16 days to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing |
|--|--------------------|-------------------------------------|------------------------|---------------------|-------------------|------------------|-------------------------|
| | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 | LKR '000 |
| Assets | | | | | | | |
| Cash and balances with Central Bank of Sri Lanka | 9,047,071 | - | - | - | - | - | 9,047,071 |
| Loans and Advances | 121,338,357 | 46,367,031 | 23,786,538 | 19,924,554 | 27,511,802 | 2,045,565 | 1,702,866 |
| Investments | 37,925,212 | 589,200 | 5,692,477 | 9,331,770 | 18,645,390 | 3,125,051 | 541,324 |
| Other | 32,203,399 | 5,827,137 | 11,469,762 | 5,642,168 | - | - | 9,264,332 |
| Total Assets | 200,514,039 | 52,783,368 | 40,948,777 | 34,898,492 | 46,157,192 | 5,170,616 | 20,555,593 |
| Liabilities | | | | | | | |
| Deposits | 126,825,303 | 32,548,149 | 28,893,711 | 41,196,382 | 9,014,697 | - | 15,172,364 |
| Borrowings | 25,879,843 | 8,035,657 | 9,077,289 | 5,639,456 | 3,008,380 | - | 119,060 |
| Other | 51,725,423 | 4,285,949 | 11,192,770 | 5,501,083 | - | - | 30,745,620 |
| Total Shareholder Funds and Liabilities | 204,430,569 | 44,869,755 | 49,163,771 | 52,336,921 | 12,023,077 | - | 46,037,044 |
| Total Interest Sensitivity Gap | | 7,913,613 | (8,214,994) | (17,438,429) | 34,134,116 | 5,170,616 | (25,481,451) |

** The Classifications are based on the way that ALCO monitors repricing gaps.

Notes to the Financial Statements

44. Financial Risk Management (Contd.)

44.4 Market Risk (Contd.)

The ALCO monitors the above gaps and the sensitivity on the Profit or Loss 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 Profit or Loss 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 Profit or Loss 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 2016 LKR '000 | Sensitivity to Profit after Tax 2016 LKR '000 | Sensitivity to Equity after Tax 2016 LKR '000 |
|----------------------------|---|--|--|
| LKR | +100/-100 | +74,538/-75,531 | -400,417/+421,091 |
| USD | +50/-50 | -1,559/+1,559 | -4,400/+4,474 |
| Bank Asset/Liabilities | Increase / (Decrease) in basis points 2015 LKR '000 | Sensitivity to Profit after Tax 2015 LKR '000 | Sensitivity to Equity after Tax 2015 LKR '000 |
| LKR | +100/-100 | +93,765/-95,210 | -482,748/+510,468 |
| USD | +50/-50 | -2,935/+2,947 | -7,032/+7,202 |
| Group Asset/Liabilities | Increase / (Decrease) in basis points 2016 LKR '000 | Sensitivity to Profit after Tax 2016 LKR '000 | Sensitivity to Equity after Tax 2016 LKR '000 |
| LKR | +100/-100 | +74,206/-75,194 | -401,890/+422,622 |
| USD | +50/-50 | -1,559/+1,559 | -4,400/+4,474 |
| Group Asset/Liabilities | Increase / (Decrease) in basis points 2015 LKR '000 | Sensitivity to Profit after Tax 2015 LKR '000 | Sensitivity to Equity after Tax 2015 LKR '000 |
| LKR | +100/-100 | +93,538/-94,981 | -484,478/+512,291 |
| USD | +50/-50 | -2,935/+2,947 | -7,032/+7,202 |

44. Financial Risk Management (Contd.)

44.4 Market Risk (Contd.)

Exposure to market risk in the trading book is separately monitored and measured by setting limits on products, maturity profile of the portfolio, cut-loss limits and by setting sub-limits within above interest rate sensitive gap analysis.

Currency Risk

Currency risk is the potential risk of loss due to unfavourable movements in foreign exchange rates when the Bank has foreign currency denominated assets, liabilities or trading positions. 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 2016. 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 Profit or Loss. A negative amount in the table reflects a potential net reduction in Profit or Loss, 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 sensitivity related to trading position in the Domestic Banking Unit is given below.

| Currency | Change in Currency Rate in % 2016 LKR '000 | Change in Currency Rate in % 2015 LKR '000 | Effect on Profit after tax 2016 LKR '000 | Effect on Profit after tax 2015 LKR '000 |
|----------|---|---|---|---|
| USD | +5 | +5 | 219.5 | (1,352.0) |
| GBP | +5 | +5 | 26.4 | 101.1 |
| EUR | +5 | +5 | 5.0 | 88.6 |
| AUD | +5 | +5 | (115.6) | (95.7) |
| JPY | +5 | +5 | 17.4 | 5.6 |
| Other | +5 | +5 | 296.5 | 425.6 |

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 Profit or Loss from this exposure is as follows;

| Currency | Change in Currency Rate in % 2016 LKR '000 | Change in Currency Rate in % 2015 LKR '000 | Effect on Profit after tax 2016 LKR '000 | Effect on Profit after tax 2015 LKR '000 |
|----------|---|---|---|---|
| USD | +5 | +5 | (16,439.9) | (15,243.4) |

Notes to the Financial Statements

45 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 recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank. (Note 44)

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 credit risk similar to loans.

45.1 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 is reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

45.2 Capital Commitments

The commitment for acquisition of Property, Plant and Equipment and Intangible Assets incidental to the ordinary course of business as at 31 December are as follows;

| | Bank /Group | |
|--|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 |
| Capital Commitments for Property, Plant and Equipment | | |
| Approved and Contracted for | 95,502 | 233,786 |
| Approved but not Contracted for | 43,087 | 58,380 |
| | 138,589 | 292,166 |
| Capital Commitments for Intangible Assets | | |
| Approved and Contracted for | 314,473 | 359,645 |
| Approved but not Contracted for | 87,800 | 8,468 |
| | 402,273 | 368,113 |
| | 540,862 | 660,279 |

45.3 Lease Arrangements

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 lesser

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 recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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 recognized as an expense in the Profit or Loss on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they are incurred.

45.3.1 Operating Lease Commitments – Bank as Lessee

The Bank has entered into commercial leases for premises. These leases have an average life of five 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 such operating leases as at 31 December are, as follows:

| | Bank /Group | |
|---|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 |
| Within one year | 269,199 | 255,811 |
| After one year but not more than five years | 381,145 | 443,218 |
| More than five years | 79,733 | 75,600 |
| | 730,077 | 774,629 |

45.3.2 Operating Lease Receivable – Group as Lessor

The table below provides an analysis of operating lease receivables for leases of certain property in which the Group is the lessor.

| | Bank /Group | |
|---|------------------|------------------|
| | 2016 LKR '000 | 2015 LKR '000 |
| Within one year | 36,459 | 26,902 |
| After one year but not more than five years | 23,022 | 43,217 |
| | 59,480 | 70,119 |

Notes to the Financial Statements

46 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) and adopted by the Central Bank of Sri Lanka in supervising the Bank.

46.1 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 maximize shareholder value. Regulatory capital consists of Tier 1 Capital, which comprises share capital, share premium and retained earnings including current year profit. The other component of regulatory capital is Tier II Capital, which includes subordinated long term debt.

46.2 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 weighted average number of Ordinary Shares as at the reporting date.

| | Bank | | Group | |
|--|------------------|------------------|------------------|------------------|
| For the Year Ended 31 December | 2016 LKR '000 | 2015 LKR '000 | 2016 LKR '000 | 2015 LKR '000 |
| Amount Used as the Numerator: | | | | |
| Net Assets Attributable to Equity Holders of the Parent | 15,981,095 | 13,990,186 | 17,320,604 | 15,171,440 |
| Number of Ordinary Shares Used as the Denominator: | | | | |
| 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 |
| Net Assets Value per Ordinary Share (LKR) | 69.30 | 60.67 | 75.11 | 65.79 |

47 Events After The Reporting Date

No material events have taken place since 31 December 2016 that require disclosure or/and adjustments in these accounts, except for the following;

a) Dividends declared

The Board of Directors declared a payment of a first and final dividend of LKR 2.10 per share for the year ended 31 December 2016.

Corporate Governance

| Rule Number | 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 2017-2019 has been approved by the Board at the Board meeting held in December 2016. 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>A three year business plan covering the period from 2017 to 2019 was approved by the Board in December 2016.</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> |
| 3 (1) (i) (e) | Review the adequacy and the integrity of the bank's internal control systems and management information systems | <p>Complied</p> <p>Such review is being carried out routinely by the Board. Internal controls are being looked at by individual departments at predetermined intervals being either monthly or quarterly. Implementation of internal controls is also looked into by the Internal Audit Department. Board monitors these through the Integrated Risk Management Committee and the Board Audit Review Committee (BARC).</p> |

Corporate Governance

| Rule Number | Rule | Remarks |
|---------------|--|---|
| 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 KMPs 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 make regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas. 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, Board Audit Review Committee (BARC). Board exercise oversight of the affairs of the Bank by KMP through the minutes of the meetings of the BSC, IRMC, BARC, Assets Liabilities Management Committee (ALCO) and Investment Committee tabled at Board meetings. |
| 3 (1) (i) (i) | Periodically assess the effectiveness of the board of 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 and matters of concern are addressed by the Board. |

| Rule Number | Rule | Remarks |
|---------------|---|---|
| 3 (1) (i) (j) | Ensure that the bank has an appropriate succession plan for key management personnel. | <p>Complied</p> <p>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.</p> <p>Succession Plan for KMP has been approved by the Board.</p> <p>The Bank is also in the process of developing the leadership capabilities of certain corporate management members via a structured leadership development program through which the Bank may identify a possible successor to the CEO within the next two years. However the Bank also would keep the option open to identify a successor from the external market based on the requirements of the Bank. Hence the currently approved succession plan does not identify a person for succession to the position of CEO and Compliance Officer.</p> <p>Human Resources Department is vested with the responsibility of revising and keeping the succession planning process up to date.</p> <p>Succession at Board levels is ensured through maintaining the Board composition at a level 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.</p> |
| 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 | <p>Complied</p> <p>Refer comment on 3 (1) (i) (h) above</p> |
| 3 (1) (i) (l) | Understand the regulatory environment and ensure that the bank maintains an effective relationship with regulators. | <p>Complied</p> <p>The Company Secretary is statutorily responsible for communications with the Registrar of Companies. This is included in the JD of the Company Secretary.</p> <p>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.</p> <p>Compliance with statutory regulations is monitored regularly by the Board. The Compliance Officer of the Bank submits a monthly compliance report which includes all returns submitted to the regulators, 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.</p> |

Corporate Governance

| Rule Number | Rule | Remarks |
|---------------|--|---|
| 3 (1) (i) (m) | Exercise due diligence in the hiring and oversight of external auditors | <p>Complied</p> <p>Board has delegated this function to the BARC. TOR of the BARC contains provisions for hiring and oversight of external Auditors. The appointment of the External Auditor is made at the Annual General Meeting.</p> |
| 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. | <p>Complied</p> <p>Functions and the responsibilities of the Chairman and the CEO have been separated and approved by the Board.</p> |
| | Board procedure | |
| 3 (1)(iii) | <p>The Board shall meet regularly and board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular board meetings shall normally involve active participation in person of a majority of directors entitled to be present.</p> <p>Obtaining the board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.</p> | <p>Complied</p> <p>Board met 14 times in the year on a monthly basis with two meetings being held in the months of February and March each. Directors actively participate at such meetings. Any concern or comment by such directors requiring action is minuted.</p> <p>Approval of the Board by circular resolutions has been kept to a minimum and resorted to only where necessary. Such resolutions are also submitted to the subsequent Board meeting as an agenda item for confirmation enabling a further discussion on the matter if required.</p> |
| 3 (1) (iv) | The board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank. | <p>Complied</p> <p>Approved Board procedure includes a provision to indicate that all Directors are entitled to include such matters and proposals in the agenda for Board Meetings. Also monthly meetings are scheduled and informed to the Board at the beginning of each year to facilitate this.</p> |
| 3(1) (v) | The Board procedures shall ensure that notice of at least 7 days is given of a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice may be given. | <p>Complied</p> <p>In terms of Clause 1.2 of the Board Procedure, the schedule of dates of meetings for the year is approved by the Board at, or before the, first Board meeting of the year and such approved schedule is notified to every Director thereby giving more than 7 days notice.</p> <p>Clause 2.3 provides that any change of the schedule shall be notified to the Directors at least 7 days prior to the date of the meeting.</p> <p>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.</p> |

| Rule Number | 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>Details of the Directors attendance is set out on Page 176 of the Annual Report, 2016.</p> <p>No director has violated this requirement during the financial year 2016</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. The Directors have access to the Board papers and minutes through a secure electronic link.</p> |

Corporate Governance

| Rule Number | 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> <ul style="list-style-type: none"> (a) A summary of data and information used by the Board in its deliberations (b) The matters considered by the board (c) The fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence. (d) The testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations (e) The Board's knowledge and understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted (f) The decisions and board resolutions. | <p>Complied</p> <p>Minutes of Board meetings are recorded in sufficient detail to enable a proper assessment to be made of the depth of deliberations at the meetings.</p> <p>Every paper submitted to the Board seeking approval of the Board contains recommendations from the executive management and also discloses a reasonable basis for making such recommendations.</p> <p>Minutes will refer to the paper which contains the data and opinions relied on by the Board and also contain any other matter considered by the Board outside what is contained in the paper (if any). Minutes are to be read with the relevant board paper. Reference of the paper considered is included in the minute.</p> <p>Clause 9.4 of the Board procedure also provides for the contents of the Board minutes.</p> |
| 3 (1) (xi) | <p>There shall be a procedure agreed by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.</p> <p>The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/her/their duties to the bank.</p> | <p>Complied</p> <p>Approved Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.</p> |

| Rule Number | 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 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 made a determination as to what should be considered as material and such matters have been dealt by the Board as required by the Rule. Directors abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest. Board minutes provide evidence of compliance.</p> |
| 3(1)(xiii) | The board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the bank is firmly under its authority. | <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) | 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>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 are submitted to the Board accordingly.</p> |
| 3 (1) (xv) | The board shall ensure that the bank is capitalized at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds. | <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> |
| 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. | <p>Complied</p> <p>Report is published in page 28 of the Annual Report of 2016.</p> |

Corporate Governance

| Rule Number | Rule | Remarks |
|--------------|--|---|
| 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. | <p>Complied</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, annually. The responses are collated by the Senior Director and a synopsis of same is submitted to the Board.</p> <p>The records of these assessments are maintained with the Company Secretary.</p> |
| 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 | <p>Complied</p> <p>Board composition was in compliance with this requirement throughout the year.</p> |
| 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. | <p>Complied</p> <p>No Director served for a period exceeding Nine years during the year.</p> |
| 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. | <p>Complied</p> <p>The Board consisted of thirteen directors with one Executive Director and twelve Non Executive Directors as at 31st December, 2016. Number of Executive Directors has not exceeded the specified number at any time during the year.</p> |

| Rule Number | 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 had six Independent Non Executive Directors out of a total of thirteen Directors as at 31 December, 2016 which complies with the requirement.</p> |

Corporate Governance

| Rule Number | 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. Brief profiles of the Directors are given on pages 44 to 47 of the Annual Report, 2016. Directors nominate names of eminent professionals or academics from various disciplines to the Board Nomination Committee which peruse the profiles and recommends suitable candidates 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 44 to 47 of the Annual Report, 2016. |
| 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 for the AGM to be held in 2017 includes proposals to seek shareholders' approval for directors appointed to fill casual vacancies. |

| Rule Number | Rule | Remarks |
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| 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>One director retired from the Board during the year. Necessary formalities as required by the Rule have been complied with.</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 2016, 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) | <p>The age of a person who serves as a director shall not exceed 70 years.</p> | <p>There are no directors who are over 70 years of age.</p> |
| 3(3)(ii) | <p>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.</p> | <p>Complied</p> <p>No director of the Bank holds Directorships in more than 20 companies.</p> |
| 3 (4) | Management functions delegated by the Board | |
| 3 (4) (i) | <p>The directors shall carefully study and clearly understand the delegation arrangements in place</p> | <p>Complied</p> <p>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.</p> |

Corporate Governance

| Rule Number | Rule | Remarks |
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| 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. |
| 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 Mr. Krishan Balendra, a Non Executive Director is the Chairman.</p> <p>An Independent Non Executive Director Mr. Murtaza Jafferjee 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, 2016.</p> |
| 3 (5) (iii) | 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. | Complied 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 2016. |
| 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 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> |

| Rule Number | Rule | Remarks |
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| 3 (5) (v) | 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>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) | The chairman shall ensure that all the directors are properly briefed on issues arising at board meetings and also ensure that directors receive adequate information in a timely manner. | <p>Complied</p> <p>This has been identified as a responsibility of the Chairman, in the paper on 'Functions of the Chairman and the CEO' which was approved by the Board.</p> <p>Provision contained in Clause 2.2 of the approved Board Procedure strengthens this requirement.</p> |
| 3 (5) (vii) | The chairman shall encourage all 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> |

Corporate Governance

| Rule Number | Rule | Remarks |
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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. |
| | <ul style="list-style-type: none"> 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. |
| | <ul style="list-style-type: none"> 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. |
| | <ul style="list-style-type: none"> 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 2016. |
| 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 The Chairman of the Board Audit Review Committee is an independent Non Executive Director. She is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants, UK and she possesses the relevant experience required for the position. |
| 3 (6) (ii) (b) | All members of the committee shall be non-executive directors | Complied All members of the Board Audit Review Committee are non executive directors. |

| Rule Number | Rule | Remarks |
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| 3 (6) (ii) (c) | <p>The committee shall make recommendations on matters in connection with;</p> <ul style="list-style-type: none"> (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not reengaged for the audit before the expiry of three years from the date of the completion of the previous term | <p>Complied</p> <ul style="list-style-type: none"> • The reappointment of the external auditor for audit services has been recommended by the Board Audit Review Committee. • Board Audit Review Committee has discussed the implementation of CBSL guidelines issued to auditors from time to time and the application of the relevant accounting standards. <p>The Board Audit Committee ensures that the service period of the engagement of the External Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</p> |
| 3 (6) (ii) (d) | <p>The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and best practices.</p> | <p>Complied</p> <p>The Board Audit Review Committee obtains representations from the External Auditor on their independence and that the audit is carried out in accordance with the Sri Lanka Auditing Standards.</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> <ul style="list-style-type: none"> I. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services; 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 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>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.</p> |

Corporate Governance

| Rule Number | Rule | Remarks |
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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 committee met with the External Auditor to discuss and finalize the scope of the audit and the audit plan. 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>The committee reviews / comments and suggests recommendations on the Bank's financial information and reports that are submitted by the CEO/CFO and ensure the relevance of the Financial statements prepared for disclosure and published in the Bank's annual report and in the quarterly unaudited Financial statements and reports.</p> <p>Separate BARC meetings were held in 2016 to review / discuss and finalize the accounts.</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>The BARC met the External Auditors in the absence of the management of the bank. The External Auditors were 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 were carried out on the management letter and the management's response thereto. The BARC has also issued appropriate recommendations and guidance where necessary to ensure that such matters are resolved satisfactorily.</p> |

| Rule Number | Rule | Remarks |
|----------------|---|---|
| 3 (6) (ii) (j) | <p>The committee shall take the following steps with regard to the internal audit function of the bank;</p> <ul style="list-style-type: none"> (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department. (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care; | <p>Complied</p> <p>This is handled in the following manner;</p> <ul style="list-style-type: none"> (i) BARC reviews the adequacy of the internal audit function and ensures that it conforms with the Internal Audit Charter which was reviewed in 2016 and approved by the Board of Directors. The annual audit plan of the Internal audit department as well as the staff requirements were reviewed/ discussed with the DGM Internal Audit. BARC with the approval of the Board engaged the services of a firm of Chartered Accountants to carry out 11 branch internal audits in order to supplement the internal audit function. (ii) The audit programmes were reviewed by BARC in 2016 along with the review of the Internal Audit Manual which was approved by the Board of Directors. Further, BARC reviewed the progress of the audit plan on a regular basis. <p>The committee reviewed the internal audit reports and considered the findings, recommendations and corrective action.</p> <ul style="list-style-type: none"> (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 appraisals of senior staff are reviewed by the DGM IA and presented to the BARC for their concurrence. (iv) All senior appointments to the audit team were recommended by the BARC. Three new appointments, including the appointment of DGM IA were made to the Audit team during the year 2016. (vi) 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 BARC at periodic BARC meetings. (vi) Internal Audit department directly reports to DGM IA who directly reports to BARC for independence. The audits are performed with impartiality, proficiency and due professional care. |
| 3 (6) (ii) (k) | <p>The committee shall consider the major findings of internal investigations and management's responses thereto</p> | <p>Complied</p> <p>Investigation reports were tabled at the BARC meeting together with a status update on ongoing investigations and the relevant issues were discussed in detail with suitable action points agreed upon.</p> |

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| Rule Number | Rule | Remarks |
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| 3 (6) (ii) (l) | <p>The chief finance officer, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other board members and the chief executive officer may also attend meetings upon the invitation of the committee.</p> <p>However, at least twice a year, the committee shall meet with the external auditors without the executive directors being present.</p> | <p>Complied</p> <p>During the period under review, BARC met with the External Auditor on two occasions without the presence of the CEO. CEO attends all BARC meetings upon invitation. Where it is deemed necessary, other corporate heads including the CFO are called for the meetings.</p> |
| 3 (6) (ii) (m) | <p>The committee shall have</p> <ul style="list-style-type: none"> (i) explicit authority to investigate into any matter within its terms of reference (ii) the resources which it needs to do so (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary | <p>Complied</p> <p>This has been covered in detail in the Terms of Reference of the BARC and Internal Audit Charter.</p> |
| 3 (6) (ii) (n) | The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities. | <p>Complied</p> <p>The committee met fifteen times during the year, 2016. 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.</p> |
| 3 (6) (ii) (o) | <p>The board shall disclose in an informative way,</p> <ul style="list-style-type: none"> (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 | <p>Complied</p> <p>Please refer the Board Audit Review Committee Report on page 185 of the Annual Report, 2016.</p> |
| 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. | <p>Complied</p> <p>Detailed minutes are maintained by the DGM Internal Audit who is the secretary to the BARC.</p> |

| Rule Number | Rule | Remarks |
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| 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. | <p>Complied</p> <p>The committee reviews issues relating to violation of internal controls if any and the arrangements by which the staff of the Bank may in confidence raise concerns about possible improprieties. The Committee also ensured that the procedures for the independent investigations of such matters are appropriate and are in place.</p> <p>The audit charter provides for the confidentiality of potential whistle blowers. The Whistle Blowing Policy was developed by BARC and last reviewed and approved by the Board of Directors on 27 June 2016.</p> |
| 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. | <p>Complied</p> <p>Board approved remuneration policy is in place</p> |
| 3 (6) (iii) (b) | The committee shall set goals and targets for the directors, CEO and key management personnel. | <p>Complied</p> <p>Goals and targets are set by the Committee for the CEO which gets transformed as goals for the Key Management Personnel through the Balanced Scorecard process.</p> |
| 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. | <p>Complied</p> <p>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.</p> |
| 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. | <p>Complied</p> <p>Approved TOR includes the provisions stipulated. CEO has attended all meetings and was excused when matters relating to her were discussed.</p> |
| 3 (6) (iv) | Nomination Committee | |
| 3 (6) (iv) (a) | The Committee shall implement a procedure to select/appoint new directors, CEO and key management personnel | <p>Complied</p> <p>Approved TOR of the Nomination Committee includes the provisions stipulated.</p> |
| 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. | <p>Complied</p> <p>The Committee has considered and recommended re-election of directors in compliance with the Rule.</p> |
| 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. | <p>Complied</p> <p>Criteria has been set and included in the JDs of KMP approved by the Nomination Committee.</p> |

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| Rule Number | Rule | Remarks |
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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 the Directors and CEO were submitted to the Committee during 2016 in order for the Committee to determine the suitability of the Directors and CEO. Having considered the Affidavits & Declarations the Committee decided that the Directors and CEO are fit and proper persons to hold office. CBSL confirmation was also received on the fit and proper status of Directors. .</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>Mr. Murtaza Jafferjee, an Independent Non Executive Director and the Senior Director functions as the Chairman.</p> <p>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 functions 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> |
| 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> |

| Rule Number | Rule | Remarks |
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| 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>The committee reviews the adequacy and effectiveness of all management level committees that has a relevance to risk. Minutes of Management level committees namely Investment Committee and ALCO are submitted to the Committee to review the adequacy and effectiveness of same. However in view of the role played by the Board credit Committee, minutes of the management level credit committee have not been submitted to IRMC.</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 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 Committee is authorized to direct Chief Executive Officer to take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee and is documented 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>A report has been submitted to the Board after each IRMC meeting as required by the Rule. In addition minutes of all IRMC meetings have been submitted to the Board.</p> |
| 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. | <p>Complied</p> <p>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.</p> |

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| Rule Number | Rule | Remarks |
|-------------|---|---|
| 3 (7) | Related Party Transactions | |
| 3 (7) (i) | <p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purpose of this Direction</p> <ul style="list-style-type: none"> a) Any of the bank's subsidiary companies b) Any of the bank's associate companies c) Any of the directors of the bank d) Any of the bank's key management personnel e) A close relation of any of the bank's directors or key management personnel f) A shareholder owning a material; interest in the bank g) A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest | <p>Complied</p> <p>Board procedure contains provisions on avoiding conflicts of interests. Bank's credit policy contains provisions for ensuring compliance. Necessary steps have been taken by the Board to avoid any conflicts of interests that may arise, in transacting with related parties as per the definition in the direction.</p> <p>Further, as evidenced by the minutes of Board meetings, the Board ensures that related parties are not accorded any preferential treatment over and above those accorded to similarly placed non-related parties. Policies and procedures in related party transactions are being strengthened on an ongoing basis.</p> |
| 3 (7) (ii) | <p>The type of transactions with related parties that shall be covered by this Direction shall include the following;</p> <ul style="list-style-type: none"> a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments c) The provision of any services of a financial or non financial nature provided to the bank or received from the bank d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. | <p>Complied</p> <p>The Board approved related party policy contains provisions for same.</p> |

| Rule Number | 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> <ul style="list-style-type: none"> a) Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purpose of this sub- direction; 1. 'Accommodation' shall mean accommodation as defined in the Banking Act Directions No.7 of 2007 on Maximum Amount of Accommodation. 11. the 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more. b) Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty; c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with related parties; d) Providing services to or receiving services from a related- party without an evaluation procedure; e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions. | <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>Board has taken steps to establish a Related Party Transactions Review Committee which has been entrusted with the task of ensuring that a robust framework exists for approving, managing and reporting related party transactions in accordance with applicable rules. This committee met four times during the year 2016 and is engaged in continuously improving the mechanism on management of related party transactions.</p> |

Corporate Governance

| Rule Number | Rule | Remarks |
|-------------|--|---|
| 3(7)(iv) | A bank shall not grant any accommodation to any of its directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in 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>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>Not applicable</p> <p>This situation has not arisen in the Bank to date. However the Company Secretary obtains declarations from all the Directors prior to their appointment and they are requested to declare the transactions.</p> |

| Rule Number | Rule | Remarks |
|-------------|--|---|
| 3(7)(vi) | A bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above | Complied Board approved Related Party Transactions policy contains provisions to ensure compliance. |
| 3(7)(vii) | No accommodation granted by a bank under Direction 3(7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect. | Complied No such facility has been remitted in violation of this rule. |
| 3(8) | Disclosures | |
| 3(8) (i) | 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 190 of the Annual Report of 2016. Included in page 182 and 183 of the Annual Report of 2016. |

Corporate Governance

| Rule Number | Rule | Remarks |
|-------------|--|---|
| | (c) The external Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after December 31, 2008. | 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 2016. |
| | (d) - Details of Directors, including names, fitness and propriety - transactions with the Bank - the total of fees/remuneration paid by the Bank | Included in pages 169 to 175 of the Annual Report of 2016. |
| | (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 178 and 179 of the Annual Report 2016. |
| | (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 181 of the Annual Report of 2016. |
| | (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, 2016 |
| | (j) 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. |

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 - 2016 | LKR '000 Net Book Value - 2015 |
|------------------------------|---------------------|-----------------|-----------------|---------------------|---------------------|------------|-------------|-----------------------------|--------------------------|--------------------------------------|
| Head Office | | | | | | | | | | |
| 242, Union Place, Colombo 02 | 77.20 | 543,985 | 956,000 | 90,764 | 145,000 | 634,749 | 1,101,000 | 23,730 | 611,019 | 634,906 |
| City Office | | | | | | | | | | |
| 76, York Street, Colombo 01 | 10.82 | 15,455 | 140,000 | 23,163 | 34,000 | 38,618 | 174,000 | 13,421 | 25,197 | 29,840 |

The freehold land and buildings of the bank was revalued during 2016, 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

Branches

| No | Branch | Address |
|----|------------------|---|
| 1 | Akkaraipattu | No 210, Main Street, Akkaraipattu |
| 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 249A, Maithripala Senanayake Mawatha, Anuradhapura |
| 7 | Avissawella | No 107, Rathnapura Road, Avissawella |
| 8 | Badulla | No 10, Bank Road, Badulla |
| 9 | Balangoda | No 86/A, Bans Ratwatte Mawatha, Balangoda |
| 10 | Bandaragama | No 18/2, Kalutara Road, Bandaragama |
| 11 | Bandarawela | No 326, Badulla Road, Bandarawela |
| 12 | Battaramulla | No 103A, Pannipitiya Road, Battaramulla |
| 13 | Batticaloa | No 29, Bar Road, Batticaloa |
| 14 | Boralesgamuwa | No 36, Lake Road, Boralesgamuwa |
| 15 | Borella | No 67, D. S. Senanayake Mawatha, Borella, Colombo 8 |
| 16 | Chilaw | No 43, Kurunegala Road, Chilaw |
| 17 | Cinnamon Gardens | No 4 A, Independence Avenue, Colombo 07 |
| 18 | City | No 76, York Street, Colombo 01 |
| 19 | Corporate | No 242, Union Place, Colombo 02 |
| 20 | Crescat | B 14, Basement, Crescat Boulevard, Galle Road, Colombo 03 |
| 21 | Dehiwala | No 163, Galle Road, Dehiwala |
| 22 | Deniyaya | No 11, Main Street, Deniyaya |
| 23 | Digana | No 964/6, Nilagama, Digana, Rajawella |
| 24 | Elpitiya | No 42, Ambalangoda Road, Elpitiya |
| 25 | Embilipitiya | No 70, New Town Road, Embilipitiya |
| 26 | Galle | No 16, Matara Road, Galle |
| 27 | Gampaha | No 112, Baudhaloka Mawatha, Gampaha |
| 28 | Gampola | No 13, Nawalapitiya Road, Gampola |
| 29 | Giriulla | No 145/A, Kurunegala Road, Giriulla |
| 30 | Gothatuwa | No 35, New Town, Gothatuwa, IDH |
| 31 | Hambantota | No 39, Main Road, Hambantota |
| 32 | Havelock Town | No 100, Havelock Road, Colombo 05 |
| 33 | Hikkaduwa | No 08, Galle Road, Hikkaduwa |
| 34 | Homagama | No 113/A, High Level Road, Homagama |
| 35 | Horana | No 192 B, Ratnapura Road, Horana |
| 36 | Ja-Ela | No 176, Colombo Road, Ja-ela |
| 37 | Jaffna | No 35, Stanley Road, Jaffna |
| 38 | Kadawatha | No 144/1A, Sumito Building, Kandy Road, Kadawatha |
| 39 | Kaduruwela | No 292, Sawmill Junction, Kaduruwela, Polonnaruwa |
| 40 | Kaduwela | No 510, Colombo Road, Kaduwela |
| 41 | Kalmunai | No 174, Batticaloa Road, Kalmunai |

| No | Branch | Address |
|----|-----------------------|---|
| 42 | Kandy | No 147, Kotugodella Street, Kandy |
| 43 | Kandy City Centre | L1-17, Level 1, No 5, Kandy City Centre, Dalada Veediya, Kandy |
| 44 | Karapitiya | No 241, Hirimbura Road, Karapitiya |
| 45 | Katugastota | No 146, Kurunegala Road, Katugastota |
| 46 | Kegalle | No 176, Walawwa Watta, Kegalle |
| 47 | Kiribathgoda | No 69, Makola Road, Kiribathgoda |
| 48 | Kohuwala | No 135 A, Dutugemunu Street, Kohuwela |
| 49 | Kollupitiya | No 314, R.A.De Mel Mawatha, Colombo 03 |
| 50 | Kotahena | No 258, George R De Silva Mawatha, Colombo 13 |
| 51 | Kottawa | No 269/1, Mahawarawa Junction, Kottawa |
| 52 | Kuliyapitiya | No 72A, Hettipola Road, Kuliyapitiya |
| 53 | Kurunegala | No 37, Puttalam Road, Kurunegala |
| 54 | Mahabage | No 590, Negombo Road, Mahabage |
| 55 | Maharagama | No 129, High Level Road, Maharagama |
| 56 | Malabe | No 410/4, Athurugiriya Road, Malabe |
| 57 | Matale | No 237/241, Main Street, Matale |
| 58 | Matara | No 56, Esplanade Road, Matara |
| 59 | Matugama | No 123/1, Agalawatta Road, Matugama |
| 60 | Mawathagama | No 56, Kurunegala Road, Mawathagama |
| 61 | Millennium | No 46/58, Nawam Mawatha, Colombo 02 |
| 62 | Minuwangoda | No 59, Negombo Road, Minuwangoda |
| 63 | Monaragala | No 190, Wellawaya Road, Monaragala |
| 64 | Moratuwa | No 89, New Galle Road, Moratuwa |
| 65 | Mt Lavinia | No 269, Galle Road, Mount Lavinia |
| 66 | Narahenpita | No 255/2, Kirula Road, Colombo 05 |
| 67 | Nawala | No 267A, Nawala Road, Nawala |
| 68 | Negombo | No 72/A, Old Chillaw Road, Negombo |
| 69 | Nelliady | No 171/1, Jaffna - Point Pedro Road, Nelliady |
| 70 | Nittambuwa | No 39, Kandy Road, Nittambuwa |
| 71 | Nugegoda | No 128, High Level Road, Nugegoda |
| 72 | Nuwara Eliya | No 86, Kandy Road, Nuwara Eliya |
| 73 | Old Moor Street | No 360, Old Moor Street, Colombo 12 |
| 74 | Panadura | No 229, Galle Road, Panadura |
| 75 | Peradeniya | No 903/18, Royal Mall Complex, William Gopallawa Mawatha, Kandy |
| 76 | Pettah | No 244, Main Street, Pettah |
| 77 | Pettah 2 | No 54 A, Bankshall Street, Colombo 11 |
| 78 | Piliyandala | No 30, Moratuwa Road, Piliyandala |
| 79 | Rajagiriya | No 196, Sri Jayawardenapura Mawatha, Welikada, Rajagiriya |
| 80 | Ratnapura | No 189, Main Street, Ratnapura |
| 81 | Sri Sangaraja Mawatha | No 545 A, Sri Sangaraja Mawatha, Colombo 10 |
| 82 | Tangalle | No 110, Tissa Road, Tangalle |
| 83 | Thalawathugoda | No 245/2, Pannipitiya Road, Thalawathugoda |

Service Network

| No | Branch | Address |
|----|--------------------|---|
| 84 | Tissamaharama | No 43/2, Kachcheriyagama, Hambanthota Road, Tissamaharama |
| 85 | Trincomalee | No 96, Main Street, Trincomalee |
| 86 | Vavuniya | No 222, Kandy Road, Vavuniya |
| 87 | Ward Place | No 16, Ward Place, Colombo 07 |
| 88 | Wariyapola | No 84, Puttalam Road, Wariyapola |
| 89 | Wattala | No 492, Negombo Road, Wattala |
| 90 | Weligama | No 354/29, Samaraweera Place, Sirimavo Bandaranayake /Mawatha, Weligama |
| 91 | Wellawatte | No 595, Galle Road, Wellawatte |
| 92 | Wennappuwa | No 289, Chilaw Road, Wennappuwa |
| 93 | World Trade Centre | Unit L03/EB/01, Level 03, East Tower, Echelon Square, Colombo 01 |

Off-site ATM

| 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 | Avissawella | Union Apparel (Pvt) Ltd, Block C1, C.V.Gunaratne Industrial Park, Seethawakapura, Avissawella |
| 6 | Borella | Keells Super, No 85, Dr N.M. Perera Mawatha, Colombo 08 |
| 7 | Cinnamon Lakeside | No 115, Sir Chittampalam A Gardiner Mawatha, Colombo 02 |
| 8 | Dankotuwa | Dankotuwa Industrial Park, Bujjampola Road, Dankotuwa |
| 9 | Campaha | Railway Station, Campaha |
| 10 | Ganemulla | Railway Station, Ganemulla |
| 11 | Home Loan Center | No 400, Galle Road, Colombo 03 |
| 12 | Hyde Park Corner | Arpico Super Centre, No 69, Hyde Park Corner, Colombo 02 |
| 13 | Kaduruwela | Texwin Clothing (PVT) LTD, BOP 398, Abayapura, Pulasthigama, Kaduruwela |
| 14 | Kaduwela | Main Bus Stand, Awissawella Road, Kaduwela |
| 15 | Kandana | Arpico Daily, No 88, Negombo Road, Kandana |
| 16 | Kandy | Railway Station, Kandy |
| 17 | Keells Kalubowilla | No 53, Hospital Road, Kalubowilla, Dehiwala |
| 18 | Kohuwala | Laugfs Sun-up Super Market, No 17, Sunethradevi Mawatha, Kohuwala |
| 19 | Kolonnawa | Laugfs Supermarket, No 228, Kolonnawa Road, Kolonnawa |
| 20 | Kottawa | Keells Super, No 119, Horana Road, Kottawa |
| 21 | Matara | SK Cinema (Pvt) Limited, No 07, Beach Road, Matara |
| 22 | Mawaramandiya | Biyagama Multi Corporative Society Limited, "Samupakara Mandiraya", Mawaramandiya, Siyambalape |
| 23 | Miriswatta | Lanka Filling Station, No 144, Kandy Road, Miriswatte, Mudungoda |
| 24 | Mount Lavinia | Keells Super, No 388, Galle Road, Mt. Lavinia |
| 25 | Nadimala | Laugfs Sun-up Super Market, No 288, Hill Street, Dehiwala |
| 26 | National Hospital of Sri Lanka | National Hospital of Sri Lanka, Doctors Quarters, Regions Street, Colombo 10 |
| 27 | Navinna | Arpico Super Centre, No 310, High Level Road, Navinna, Maharagama |
| 28 | Negombo | Keells Super, No 41, Archbishop Nicholas Marcus Fernando Mawatha, Negombo |
| 29 | Orion City | Orion Management Consortium Ltd, No 752/1, Base Line Road, Colombo 09 |
| 30 | Panadura | Arpico Super Center, No 542, Galle road, Panadura |
| 31 | Pitakotte | No 338, Kotte Road, Pitakotte |
| 32 | Hive | No 256, Sri Ramanathan Mawatha, Kotahena, Colombo 15 |
| 33 | Ragama | Leesons Hospital, No 32, Thewatta Road, Ragama |
| 34 | Rajagiriya | Keells Super, No 475, Sri Jayawardanapura Road, Rajagiriya |
| 35 | Rathmalana | Lanka Sathosa Limited, Rathmalana Mega, Police Trans Camp, No 650/A, Galle Road, Rathmalana |
| 36 | Royal Park Rajagiriya | Royal Park Management Corporation, No 115, Lake Drive, Rajagiriya |
| 37 | Seeduwa | Laugfs Sun-up Super Market, No 10, Kotugoda Road, Seeduwa |
| 38 | SLIIT | SLIIT, New Kandy Road, Malabe |
| 39 | Southern Express Way A | Canowin Arcade A, Southern Highway, Welipenna |
| 40 | Southern Express Way B | Canowin Arcade B, Southern Highway, Welipenna |
| 41 | Wattala | Keells Super, No 385, Negombo Road, Wattala |

Glossary

A

Acceptances

The signature on a Bills 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.

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Amortization

The 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 organization before adjusting for fair value.

Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collectively Assessed Loan Impairment Provisions

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the Consumer Banking business (Housing, personal, vehicle loans etc) are assessed on a portfolio basis.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

Contingencies

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence 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.

Glossary

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

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.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

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.

Glossary

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.

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 non-performing 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).

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.

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.

V

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.

Notes

[illegible]

Notice of Meeting

Notice is hereby given that the Eighteenth Annual General Meeting of Nations Trust Bank PLC will be held on 31 March, 2017 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 31 December, 2016 with the Report of the Auditors thereon.
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.
4. 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.
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 elect Ms. Rachini Rajapaksa as a Director in terms of Article 25 of the Articles of Association of the Company.
7. To elect Mr. Russell De Mel as a Director in terms of Article 25 of the Articles of Association of the Company.
8. To reappoint Auditors and to authorise the Directors to determine their remuneration.
9. To authorise the Directors to determine and make donations.
10. 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

27 February 2017

Form of Proxy

I/We.....ofbeing a member/
members of Nations Trust Bank PLC., hereby appoint of or failing him/her

| | |
|-----------------------------|----------------|
| Mr. Krishan Balendra | or failing him |
| Mr. Murtaza 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. Kumar Jayasuriya | or failing him |
| Mr. Gihan Cooray | or failing him |
| Mr. Harsha Raghavan | or failing him |
| Mr. Conrad D'Souza | or failing him |
| Ms. Rachini Rajapaksa | or failing her |
| Mr. Russell De Mel | or failing him |
| Ms. Renuka 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 31 March, 2017 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, 2017.

.....
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 2016 with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. 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"/> |
| 3. 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"/> |
| 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 elect Ms. Rachini Rajapaksa as a Director in terms of Article 25 of the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To elect Mr. Russell De Mel as a Director in terms of Article 25 of the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. To reappoint Auditors and to authorise the Directors to determine their remuneration. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. 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

21 January 1999

Registered Office

No. 242, Union Place, Colombo 2.

Telephone : 4313131

Facsimile : 2307854

E-mail : info@nationstrust.com

Web page : www.nationstrust.com

Company Secretary

Theja Silva

Auditors

Messrs. Ernst & Young
Chartered Accountants,
No. 201, De Saram Place,
Colombo 10.

Credit Rating

A (lka) from Fitch Ratings Lanka Ltd.

Directors

Krishan Balendra - Chairman
Murtaza Jafferjee - Senior Director
Dr. Kemal de Soysa
D. Prasanna De Silva
Ms. N. Shalini Panditaratne
Suran Wijesinghe
Kumar Jayasuriya
Gihan Cooray
Harsha Raghavan
Conrad D'Souza
Ms. Rachini Rajapaksa (Appointed with effect from 29 April 2016)
Russell De Mel (Appointed with effect from 6 June 2016)
Ms. Renuka Fernando

Board Supervisory Committee

Suran Wijesinghe - Chairman
Gihan Cooray
Murtaza Jafferjee
D. Prasanna De Silva

Board Audit Review Committee

Ms. N. Shalini Panditaratne - Chairman
Suran Wijesinghe
Kumar Jayasuriya
Ms. Rachini Rajapaksa

Human Resources and Remuneration Committee

Krishan Balendra - Chairman
Kumar Jayasuriya
Dr. Kemal de Soysa
Suran Wijesinghe

Nomination Committee

Murtaza Jafferjee-Chairman
Krishan Balendra
D. Prasanna De Silva
Dr. Kemal de Soysa

Credit Committee

Krishan Balendra - Chairman
(Alternate - Suran Wijesinghe)
D. Prasanna De Silva
(Alternate - Kumar Jayasuriya)
Russell De Mel

Integrated Risk Management Committee

Gihan Cooray - Chairman
D. Prasanna De Silva
Dr. Kemal de Soysa
Suran Wijesinghe

Related Party Transactions Review Committee

Dr. Kemal de Soysa - Chairman
Murtaza Jafferjee
Ms. Renuka Fernando

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Nations Trust Bank PLC

No. 242, Union Place,
Colombo 2.