



Count on Us



Nations Trust Bank PLC
Annual Report
2017



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Count on Us

At 18 years, Nations Trust Bank is one of the youngest full service commercial banks around. Yet in that short time, we have built a reputation for innovation, service and value that makes us truly proud. Our team is passionate, youthful and energetic, making us a bank that is perfectly positioned to deliver the best experience of SMART banking to our many customers; the service ethic, technological capability and product models that now define us.

Strategic thinking and planning are key elements of our success. It is how we ensure that the design and implementation of our systems and processes, governance policies and sustainable business model are all ahead of their time.

The performance reported in this financial review is another example of how we have realized value through business plans we put in place last year. We also report significant growth in many business areas, most especially in the SME sector; while our emphasis on evolving digital innovation saw the launch of Sri Lanka's first digital bank, FriMi - a next-generation bank account, payment system and e-wallet that will offer convenience, speed and added value to the diverse customers we serve.

This is how we remain a bank trusted and relied upon by the thousands of stakeholders who partner us today. Because they know that whatever their financial requirement might be, they can always count on us.

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Our Vision

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

Our Mission

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

Our Values

Agile
Proactive
Excellence
Winning together
Trust

SMART

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

Digital Technologies «

The digital revolution in financial services has transformed the way banks interact with their customers. For us at Nations Trust Bank, technology and digitisation is part of our DNA and we are always looking to embrace innovation and seek new and better ways of doing things

Group Overview and Governance



About this Report

This is our 4th Integrated Annual Report and primary publication to stakeholders for the year 2017. Through this Report we hope to provide a balanced and concise overview of our financial and non-financial performance, strategic agenda, governance and the risks and opportunities in the operating landscape which shaped our performance during the year.

Scope and Boundary of reporting

This Report covers the operations of Nations Trust Bank PLC and its subsidiaries, Waldock MacKenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited for the period from 1st January to 31st December 2017. The Bank adopts an annual reporting cycle, and this Report builds on the Bank's previous report for 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 27th February 2017 have also been included. There were no significant changes to the Bank's size, structure, shareholding or supply chain during the year under review. The financial information presented and discussed in the narrative report throughout the Integrated Report represents Consolidated numbers while the non-financial information represents only the Bank. Both financial and non-financial information relate to material developments that objectively represent the events that shaped our performance during the year and are likely to impact our future performance. There were no restatements of previously reported economic, social or environmental information.

Targeted readers

As our primary publication to stakeholders the Report is intended to address the information requirements of our investors such as shareholders, funding partners and potential investors. We also present information that is relevant to the way we create value for other

key stakeholders, including our employees, customers, suppliers/business partners and the communities we operate in.

How to read this Report

In determining the content to be included in our Report, we have applied the principle of materiality. Accordingly, we have only included the issues, opportunities and challenges that materially impact the Bank's ability to consistently deliver value to its shareholders and other stakeholders. The process we use for determining material content and our material topics are described from pages 36 to 37 of this Report; these topics influence our strategy and information content in this Report. The narrative report consists of three main chapters, each of which focus on a specific element of value as described below;

Our positioning

Provides a high-level overview of the Bank, its organisational structure and key business lines and how it is positioned to generate long-term value for its stakeholders.

Creating value through Strategy

Discusses how our strategy is crafted by expectations of our stakeholders and the material issues which could impact our ability to create value. This chapter also provides a summary of the Bank's corporate governance practices and key risk exposures during the year.

Delivering value

Discusses the Bank's financial and non-financial performance during the year with reference to the six capital inputs prescribed by the International Integrated Reporting <IR> Framework. Quantitative information is complemented with narrative disclosures wherever appropriate.

Reporting Frameworks

The financial statements presented in 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 narrative report was guided by the principles of the <IR> Framework, published by the International Integrated Reporting Council (IIRC). For sustainability reporting we have opted for early adoption of the Global Reporting Initiative (GRI) Standards 'In Accordance-Core' option and continued disclosures under the G4-Financial Services sector disclosures. The narrative on Corporate Governance (pages 42 to 66) complies with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and the Banking Act Direction No.11 of 2007.

External Assurance

We make use of the various independent financial and non-financial assurance teams to assess and assure elements of our external reporting.

Elements assured	Assurance provider	Scope	Outcome	Frequency
Financial statements	Messrs. Ernst and Young	Annual audit	External audit opinion	Annual
Internal Controls (Director's Statement on Internal Controls)	Messrs. Ernst and Young	Assurance on the effectiveness of the Bank's internal controls	External audit opinion	Annual
Corporate Governance	Messrs. Ernst and Young	Compliance to the Banking Act No. 7 of 2011	Assurance statement	Annual
Sustainability Reporting	Messrs. Ernst and Young	GRI Standards: In accordance- Core option	Assurance statement	Annual

Feedback

Please direct your queries, comments and suggestions regarding this Report to,

Kushlani Allis,

Vice President - Management Reporting and Planning

Kushlani.allis@nationstrust.com

Navigation icons - Six Capitals



Financial Capital



Human Capital



Manufactured Capital



Intellectual Capital



Social and Relationship Capital



Natural Capital

Navigation icons - Strategic priorities



Earnings Growth (EG)



Customer Value Proposition (CV)



Delivery & Distribution (DD)



Internal processes (IP)



Human Resources (HR)

The Year in Numbers

Financial Highlights

Figures in Rs. million	2017	2016	YoY change
Performance of the year (Group)			
Net interest income	12,288	9,786	26%
Gross income	35,333	25,547	38%
Operating profit before tax on financial services	7,052	5,400	31%
Profit for the year	3,371	2,869	18%
Financial Position (Group)			
Customer deposits	194,269	151,502	28%
Loans and receivables	186,746	149,818	25%
Total assets	267,629	211,180	27%
Total liabilities	246,159	193,859	27%
Total equity to equity holders of the Bank	21,470	17,321	24%
Profitability (Group)			
Net interest margin (%)	4.4%	4.5%	
Non-performing-loans ratio (%)	2.29%	2.41%	
Return on assets (%)	1.41%	1.48%	
Return on equity (%)	17.38%	17.66%	
Cost to income ratio (%)	51.9%	55.6%	
Investor Information (Bank)			
Market value per share (Rs.)	78.00	80.90	
Earnings per share-basic	18.12	11.46	
Net asset value per share (Rs.)	87.94	67.54	
Market Capitalisation	17,987	18,656	
Regulatory Ratios (Group)			
Capital adequacy ratios:			
Tier 1 (minimum ratio of 7.25%)*	10.83	11.40	
Total Capital (minimum ratio of 11.25%)*	13.89	15.82	
Statutory liquid assets ratio (DBU)	21.13	21.72	

* Minimum capital ratios applicable as at 31st December 2017

Non-Financial Highlights

Figures in Rs. million	2017	2016	YoY change
Human Capital			
No. of employees	2,943	2,770	6%
Employee Turnover rate (%)	13.2%	14.0%	(6%)
Average age of employee (years)	28	28	
Female representation - overall (%)	40.5%	41.2%	
Female representation - management (%)	22.8%	21.9%	
Payments to employees (Rs.million)	2,653	2,367	12%
Investment in training (Rs.million)	72	70	3%
Total training hours	100,528	94,850	6%
Revenue per employee (Rs.million)	12.0	9.2	30%
Net profit per employee (Rs.million)	1.15	1.04	11%
Social and Relationship Capital			
Number of Customers	667,559	609,276	10%
Interest payments to customers (Rs.million)	14,788	9,047	63%
Customer contact points	158	149	6%
Lending to the SME and micro sectors (Rs.million)	25,031	23,665	6%
Lending outside the Western province (%)	29%	31%	(6%)
Investment in community engagement (Rs.million)	20.4	14.9	37%
Manufactured Capital			
Capital expenditure (Rs.million)	467	248	89%
Investment in IT solutions (Rs.million)	562	328	71%
No. of branches	93	93	0%
No. of ATMs	136	136	0%
No. of CDMs	23	13	77%
Online banking subscribers	64,471	46,482	39%
Mobile Banking Subscribers	28,851	12,400	133%
Natural Capital			
Energy consumption (kWh)	7,383,646	7,824,612	(6%)
Energy intensity (kWh per full time Employee)	2,537	2,825	(10%)
Energy intensity (kWh per Rs.million in Operating Income)	441	584	(25%)
Paper consumption (MT)	37.44	38.65	(3%)
Paper recycled (%)	34.40%	48.50%	(29%)

Our Positioning

This chapter provides an overview of the Bank and Group, including key business lines, leadership team and demonstrates how we are positioned to create value to stakeholders

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Overview of Nations Trust

Nations Trust Bank PLC is one of Sri Lanka's fastest growing banks, operating an agile and responsive model which has enabled it to carve out a niche position in the intensely competitive banking sector.

A young and dynamic leadership team have charted the Bank's unique journey of growth characterised by innovation, digitisation and meaningful customer relationships. The Bank is at the forefront of the industry's digital transformation, introducing several game-changing digital propositions to drive customer convenience and accessibility.

The Bank offers diverse investment and lending solutions to the consumer, small and medium enterprises (SME) and corporate sectors. It also engages in leasing and treasury-related activities. The Nations Trust Group comprises of the Bank and three subsidiaries engaged in providing specialised services including Insurance Broking and Property Management. The Bank is the dominant entity within the Group accounting for 99% of the Group's assets and nearly the entirety of its profits.

Over the last five years, the Bank's asset base has expanded by a compound annual growth rate of 13.5% (compared to the industry's growth rate of 15.1%) underpinned by innovative product offerings, deeper relationships with existing customers and the entry into new market segments. Our strategic agenda is driven by a 2,943 strong team of young and dynamic professionals who serve

over 600,000 customers across the island. We interact with our customers through a network of 93 branches, 136 ATMs, 23 CDMs and several digital channels.

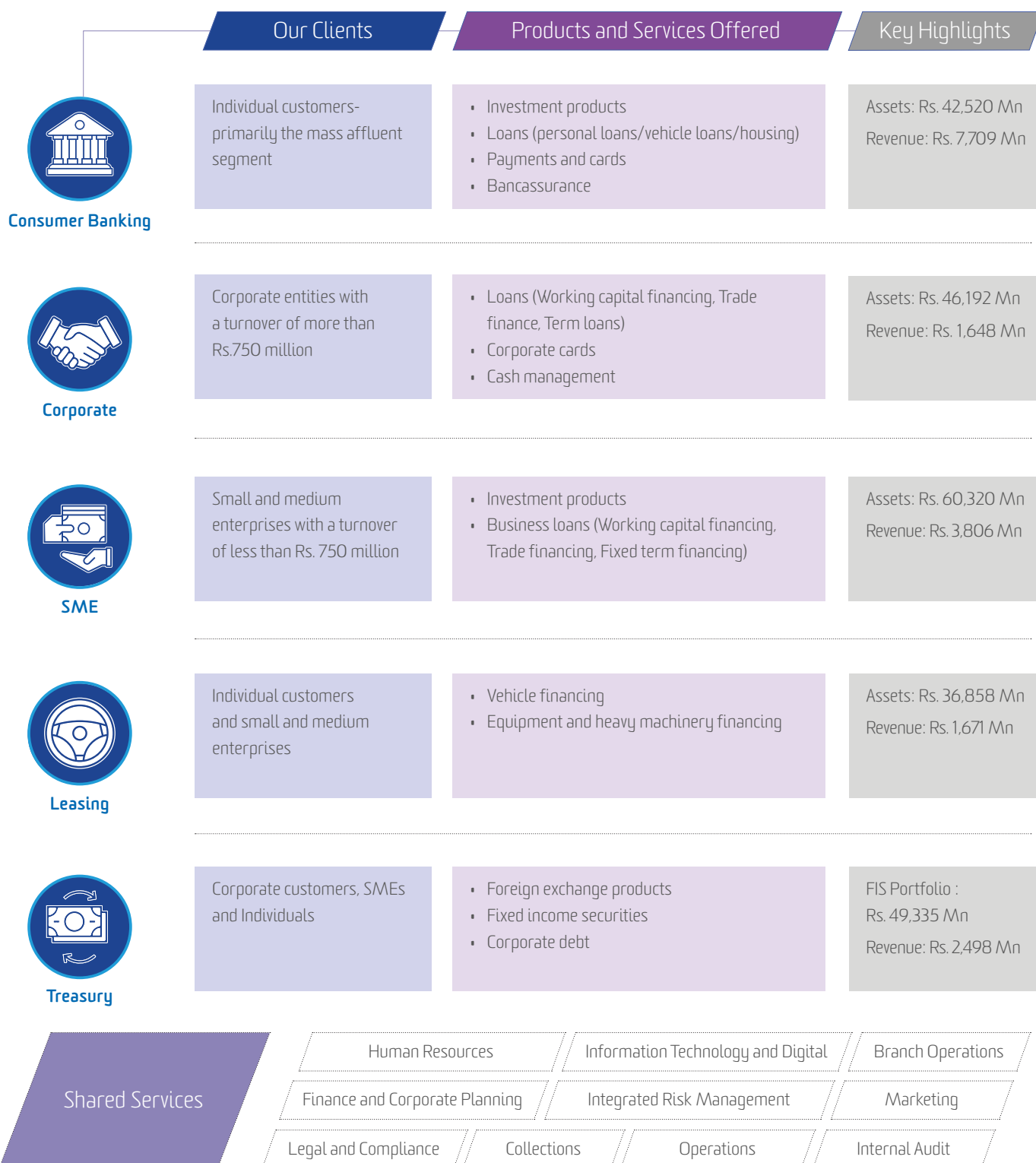
The Bank is listed on the Main Board of the Colombo Stock Exchange, with a public float of approximately 34.8%. Institutional investors hold 64.9% of the Bank's shares led by Sri Lanka's leading diversified conglomerate John Keells Holdings PLC which is the largest shareholder with a holding of 20% as at end-December 2017. The Bank is headquartered in Colombo, Sri Lanka and its operations are primarily limited to the country.

Our positioning in the country's Banking Industry

Sri Lanka's Banking Sector consists of 25 licensed commercial banks (LCB) and 7 licensed specialised banks (LSB), which collectively account for 59% of the country's financial system assets. The Sector is dominated by the 3 largest state-owned banks which account for over 42% of the sector's asset base. As a relatively young bank, Nations Trust Bank's niche strategy has focused on the mass affluent segment of the market for Consumer banking as well as SMEs and Corporates.

Key Business lines

We offer a diverse range of products to our customers through 5 key business lines, which are supported by several shared service functions as illustrated below.



Board of Directors





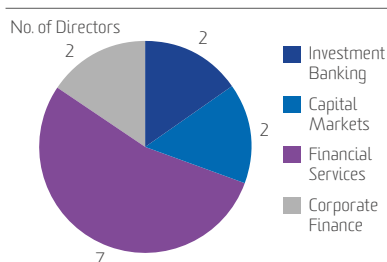
Standing left to right

Russell De Mel - Independent Non Executive Director, **Prasanna De Silva** - Non Executive Director,
Murtaza Jafferjee - Independent Non Executive Director, **Dr. Kemal De Soysa** - Independent Non Executive Director,
Shalini Panditaratne - Independent Non Executive Director, **Conrad D'Souza** - Independent Non Executive Director,
Krishan Balendra - Chairman/Non Executive Director, **Renuka Fernando** - Executive Director/CEO,
Suran Wijesinghe - Non Executive Director, **Kumar Jayasuriya** - Non Executive Director, **Gihan Cooray** - Non Executive Director,
Rachini Rajapaksa - Independent Non Executive Director, **Harsha Raghavan** - Non Executive Director,
Theja Silva - Group Company Secretary/General Counsel

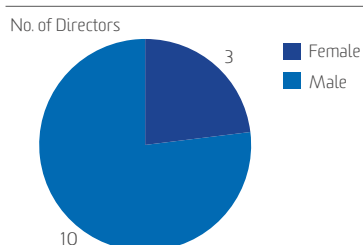
Board of Directors

Nations Trust Bank's Board of Directors is diverse in industry experience, skills and demographics. The Board comprises of six Independent Non-Executive Directors, six Non-Executive Directors and one Executive Director.

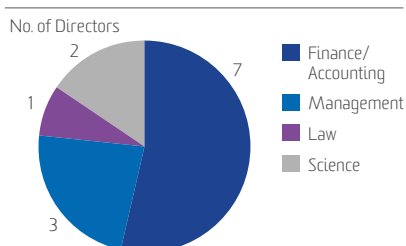
Industry Experience



Gender Representation



Academic/Professional Qualifications



Krishan Balendra

Chairman/Non-Executive Director

Date of appointment:

Appointed to the Board on 1st of December 2009 and appointed as Chairman on 1st May 2014

Current appointments:

- Deputy Chairman of John Keells Holdings PLC and holds responsibility for the Leisure and Transportation industry groups, John Keells Office Automation and John Keells Stockbrokers
- Honorary Consul General for Poland

Previous appointments:

- Former Chairman of the Colombo Stock Exchange

Skills and experience:

Experience in investment banking, focusing primarily on equity capital markets at UBS Warburg, Hong Kong and corporate finance experience at Aitken Spence & Co. PLC Sri Lanka. He holds a law degree (LLB) from the University of London and a MBA from INSEAD.

(Ms) Renuka Fernando

CEO/Executive Director

Date of appointment:

Appointed to the Board 15th September 2012.

Current appointments:

- Chief Executive Officer of Nations Trust Bank PLC

- Chairperson - Nations Insurance Brokers Limited
- Director - Allied Properties Limited
- Director - Waldock Mackenzie Limited
- Chairperson - Sri Lanka Banks' Association (Guarantee) Limited
- Chairperson - The Financial Ombudsman Sri Lanka (Guarantee) Limited

Previous appointments:

- Vice President/ Head - Global Transactional Services and Head of Consumer Banking at ABM Amro Bank N.V, Sri Lanka
- AGM Corporate Financial Solutions, DGM-Retail Banking and DGM-Consumer Banking at NTB
- Appointed as Deputy CEO of NTB in June 2011

Skills and experience:

During her banking career spanning 36 years, Mrs. Fernando has worked at BanqueIndosuez, Sri Lanka as Manager- Corporate Banking and Nederlandsche Middenstands Bank -Hong Kong in addition to her stint at ABN Amro. She is an Associate of Chartered Institute of Bankers, UK and is a graduate of the Harvard Advanced Management Programme.

Murtaza Jafferjee

Independent Non-Executive Director/ Senior Director

Date of appointment:

Appointed to the Board on 15th December 2010

Current appointments:

- Director/CEO of JB Securities (Pvt) Limited
- Advocacy Chair for CFA Society of Sri Lanka
- Independent Non-Executive Director at Serendib Hotels PLC

Previous appointments:

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

Skills and experience:

He has wide-ranging experience in Sri Lankan capital markets and businesses. He holds a Masters in Financial Economics from the University of Colombo, Bachelors in Computer Science and Bachelors in Engineering-Mechanical (Hons) from University of New South Wales, Australia. He is also a Chartered Financial Analyst from the CFA Institute, Charlottesville, Virginia, USA

Dr. Kemal de Soysa

Independent Non-Executive Director

Date of appointment:

Appointed to the Board on 21st January 2011

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

Previous appointments:

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

Skills and 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. He holds 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.

Prasanna De Silva

Non-executive Director

Date of appointment:

Appointed to the Board on 1 January, 2012

Current appointments:

- Director of Central Finance Company PLC

Previous appointments:

- Past Chairman of the Leasing Association of Sri Lanka

Skills and experience:

He has over 26 years' experience in banking and finance of which 16 years have 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. An Associate Member of Chartered Financial Analyst Institute (CFA) USA and a Fellow of Chartered Institute of Management Accountants (CIMA) UK.

(Ms) Shalini Panditaratne

Independent Non-Executive Director

Date of appointment:

Appointed to the Board on 1st January 2012.

Previous appointments:

- VP, Head of Country Credit in Singapore and Thailand for JP Morgan Chase
- Head of Asia Credit and Capital Management, South East Asia for JP Morgan Chase

Skills and experience:

She has international experience in Corporate and Investment Banking at senior management levels, primarily in Credit Risk Management and Analysis. She is a Fellow of the Chartered Institute of Management Accountants, UK (FCMA) and a Fellow of the Institute of Chartered Accountants of Sri Lanka (FCA)

Suran Wijesinghe

Non-Executive Director

Date of appointment:

Appointed to the Board on 1st November 2012.

Current appointments:

- Group Financial Controller and the Chief Financial Officer of the Financial Services sector of John Keells Holdings PLC.

Previous appointments:

- Group Finance Director of Securicor Botswana Ltd.

Skills and experience:

He has over 30 years of work experience in the fields of auditing, financial management and general management in both local and overseas organisations. He is 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

Date of appointment:

Appointed to the Board on 1st of May 2014

Current appointments:

- Non-Executive Chairman of Central Finance Company PLC
- Non-Executive Director of Lanka Aluminium Industries PLC
- Non-Executive Director of Acme Printing and Packaging PLC
- Trustee of the Employers' Federation of Ceylon

Board of Directors

Previous appointments:

- Past Chairman of the Employers' Federation of Ceylon
- Past Non- Executive Chairman of Finlays Colombo PLC
- Cost Accountant of Nchanga Consolidated Copper Mines Limited-Chingola Division in Zambia

Skills and experience:

Over 30 years' experience in diverse roles including management accountant, Financial Controller, Finance Director, Deputy Chairman and Chairman and Managing Director of Finlays Colombo PLC. He is a Fellow Member of the Chartered Institute of Management Accountants, UK (FCMA), a Chartered Global Management Accountant (CGMA) and a Fellow Member of the Association of Certified Accountants, UK (FCCA)

Gihan Cooray

Non-Executive Director

Date of appointment:

Appointed to the Board on 1st May 2014.

Current appointments:

- Group Finance Director and Board member of John Keells Holdings PLC holding responsibility for the Finance, Accounting, Taxation, Corporate Finance & Strategy, Treasury and Information Technology functions of the Group.
- Committee Member of the Ceylon Chamber of Commerce

Previous appointments:

- President Retail Sector, Head of Corporate Finance and Treasury of the John Keells Group

Skills and experience:

He has experience in corporate finance, corporate treasury and investor relations in addition to exposure to retail supermarket operations. He has been involved in investment

appraisals, capital raising and structuring transactions for the John Keells Group. He holds a MBA from the Jesse H. Jones Graduate School of Management at Rice University, 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

Date of appointment:

Appointed to the Board on 1st January 2015

Current appointments:

- Managing Director and Chief Executive Officer of Fairbridge Capital Private Limited of Mumbai, India
- 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.
- He 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 (Private) Limited, Travel Corporation India Ltd, Bangalore International Airport Limited, Fairchem Speciality Limited, Sanmar Engineering Services Limited and SOTC Travel Limited among others.

Previous appointments:

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

Skills and experience:

In the above roles, he has executed more than two dozen transactions totalling more than USD 1.5 billion in investment. He holds a MBA and MS in Industrial Engineering degrees both from Stanford University and B.A. in Computer Science and Economics from U.C Berkeley.

Conrad D'Souza

Independent Non-Executive Director

Date of appointment:

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)
- 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, Association of Finance Professionals of India (AFPI), Housing Development Finance Corporation PLC, Maldives and First Housing Finance (Tanzania) Limited.
- Consultant to USAID / UNDP and IFC (Washington) and has undertaken assignments in Asia, Africa and Eastern Europe.

Skills and experience:

In HDFC he 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. He holds a Masters'

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

(Ms) Rachini Rajapaksa

Independent Non-Executive Director

Date of appointment:

Appointed to the Board on 29th April 2016

Current appointments:

- President/Director of CFA Society Sri Lanka,
- Director - Asset Enterprises (Pvt) Ltd and Lanka Bond House Limited

Previous appointments:

- Chief Financial Officer, IBM-Sri Lanka and Bangladesh
- Senior Fund Manager at Ceybank Asset Management
- Audit Supervisor, Pricewaterhouse Coopers Sri Lanka

Skills and experience:

She holds extensive leadership experience in the fields of fund management and finance. She is a Chartered Financial Analyst of the CFA Institute, Charlottesville, Virginia USA and is a Fellow Member of the Chartered Institute of Management Accountants of UK.

Russell De Mel

Independent Non-Executive Director

Date of appointment:

Appointed to the Board on 6th June 2016

Current appointments:

- Serves on the Boards of TAL Lanka Hotels PLC and Sunshine Teas (Pvt) Ltd.

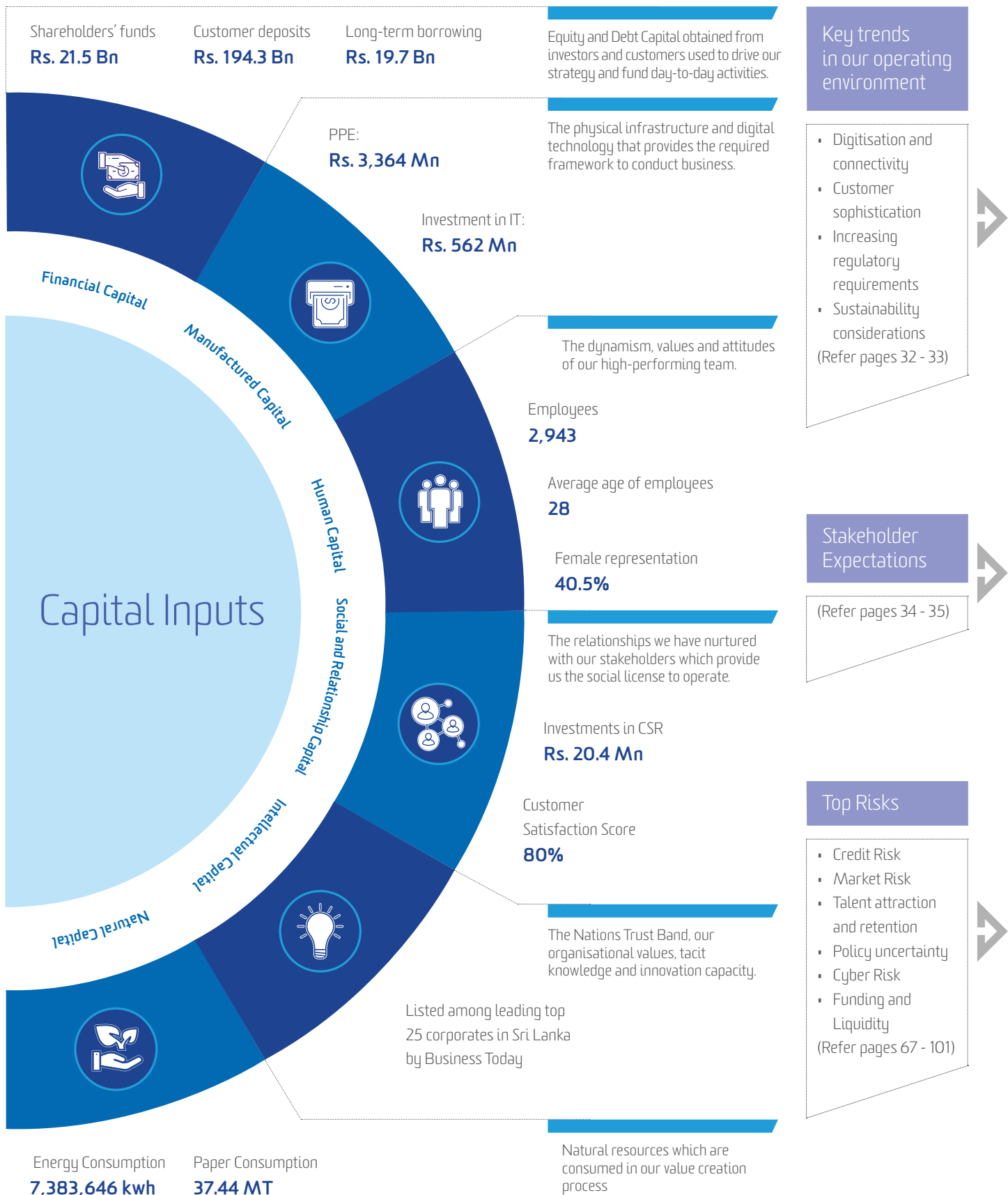
Previous appointments:

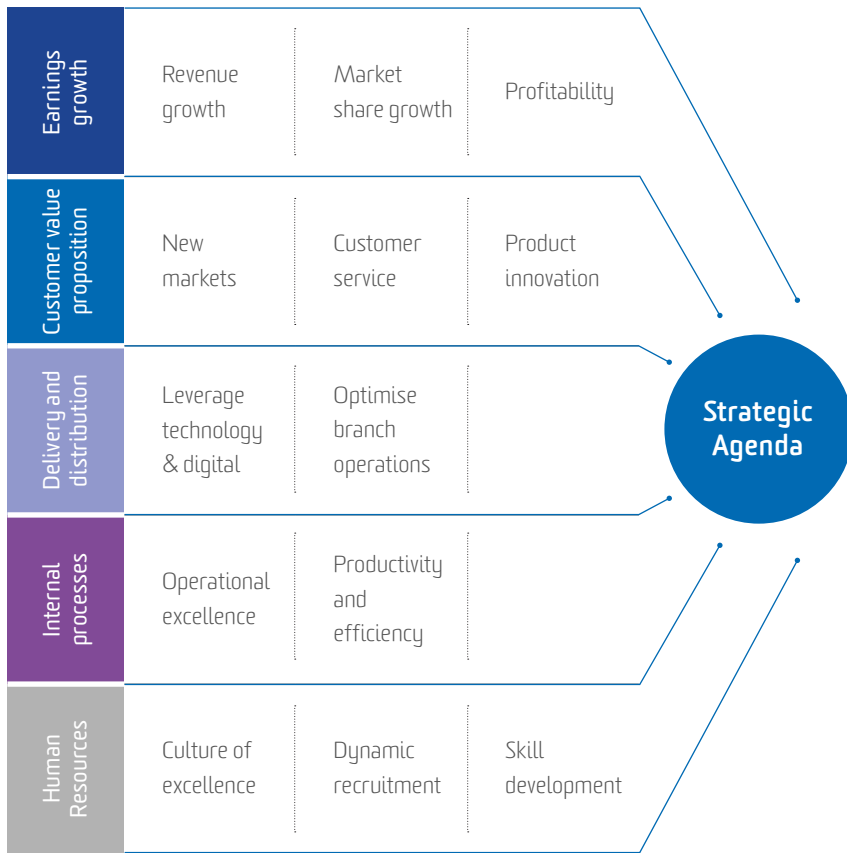
- Served on the Boards of EAP Holdings (Pvt) Ltd, EAP Broadcasting Ltd, EAP Films and Theatres Ltd., Singer Finance Lanka PLC and HDFC Maldives (nominee of IFC)
- Served as Director/CEO and Group CEO at NDB Bank and Group
- Vice President of Group Risk Management and Corporate Banking at NDB
- Served on the Boards of over 25 listed and non-listed companies.

Skills and experience:

He 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. He is a Fellow of the Chartered Institute of Management Accountants, Chartered Global Management Accountant and Fellow of the Certified Management Accountants of Sri Lanka.

Value Creation Model





Outputs and Outcomes



Shareholders

+18%

growth in Group profit attributable to equity holders

+30%

growth in Bank NAVPS
Healthy balance sheet
Strong stewardship



Customers

Innovative solutions
Customer convenience
Affordable pricing



Employees

+12%

growth in employee payments
Rs.72 Mn training & investment
Dynamic work environment



Government and regulators

Group Tax contributions
Rs. 3,680 Mn



Communities

Rs. 20.4 Mn
in CSR

Beneficiaries
over 5,000
Cordial community relationship



Environmental Impacts

5.6%
reduction in energy consumption

10%
reduction in carbon footprint
Lending to green products

Delivered through our key business lines...



Consumer Banking



SME



Corporate



Leasing



Treasury

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Facilitated through our Shared Service functions...

Human Resources	Information Technology and Digital	Branch Operations
Finance and Corporate Planning	Integrated Risk Management	Marketing
Legal and Compliance	Collections	Operations
		Internal Audit

While adopting...

Strong corporate governance practices (Pages 42 - 66)

World-class risk management (Pages 67 - 101)

Chairman's Message



Krishan Balendra

Krishan Balendra
Chairman



Nations Trust Bank continued to raise the bar, recording an asset growth of 27% and a profit growth of 18% to deliver a profit after tax of Rs. 3.37 billion for 2017. Total assets grew to Rs. 268 billion buoyed by strong credit growth of 25%, outpacing industry benchmarks.

Dear Shareholders,

2017 has been a year of delivering inspired innovative solutions as Nations Trust Bank launched FriMi, Sri Lanka's first Digital Bank, marking a paradigm shift in how Sri Lankans bank and of your Bank coming of age as a digital bank. Supported by an ecosystem of merchants, ATMs and Branches which leverage the Bank's comprehensive network capability, FriMi is a decisive step towards realising our digital vision, combining a savings account and the convenience of a virtual debit card with best in class security and a host of other features. The work that goes on behind the scenes on this project provides insights in to the diversity of skills and perspectives of this young bank.

Risk & Rewards

Nations Trust Bank continued to raise the bar, recording an asset growth of 27% and a profit growth of 18% to deliver a profit after tax of Rs. 3.37 billion for 2017. Total assets grew to Rs. 268 billion buoyed by strong credit growth of 25%, outpacing industry benchmarks. All business verticals contributed strong results, reflecting the broad basing of growth despite significant challenges including high interest rates and moderating economic growth. Deposit growth of 28% also outperformed industry and included the highest amount of CASA raised by the Bank despite a marginal decline in the overall CASA ratio. Wide ranging digital transformation and lean initiatives paved the way for a lower cost to income ratio as efficiencies improved across the Bank.

Capital adequacy ratios declined marginally, however these ratios will be strengthened with the rights issue and the debenture issue approved by you at the Extraordinary General Meeting held in January, as we seek to comply with the increased regulatory capital requirement in readiness for the full implementation of the Basel III regulatory

framework. All financial stability ratios remain well above the regulatory requirements and within the Bank's overall risk appetite as we seek an optimal balance between risk and reward. Nations Trust remains one of the most profitable banks in the industry with an ROE of 17.38% and ROA of 1.41%.

Total Assets

Rs. 268^{BN}

PAT growth

+18%

Customer Centric Digitisation

Digitisation is at the core of a customer centric strategy pursued by the Bank as we seek to engage an increasingly tech savvy customer through digital platforms across a range of devices, empowering customers to realise their financial aspirations in a digital economy. Our goal is to inspire our customers and the millennials in particular, to excel in a digitally driven economy, supporting their personal growth. Establishment of Kaffeine Lab, our innovation centre, is core to our strategy of institutionalising innovation, disruption and change as we look beyond banking to the

Chairman's Message

Sri Lanka will benefit from stronger global economic growth, which is expected to pick up pace in 2018 and 2019 as both developing and developed economies recorded higher than forecast growth in 2017. A noteworthy downside risk to the medium term forecast is the potential impact of tightening of monetary policy after a long period of relaxed policy and quantitative easing in advanced economies.

bigger picture of becoming a lifestyle partner to our customers. Our first event, the fintech hackathon organised in collaboration with the IT Faculty of the University of Moratuwa and the Sri Lanka Association for Artificial Intelligence was aimed at creating vibrant talent pools in the country and inspiring

Total Loan Portfolio

Rs. 187 BN

Data analytics is an important aspect of our digitisation as it provides us with useful insights which are integrated in to customer interfaces and product design, enhancing customer experiences. It is also key to shaping our future as it provides high quality management information supporting strategy and objective decision making at management and Board levels.

Process transformation is the other pillar of our digital strategy, strengthening internal controls, enhancing scalability and enhancing work life balance for our employees. Although less visible, they play a key role in achieving sustainable growth and expansion.

Risk Management Committee play key roles in ensuring effectiveness of risk management frameworks, ensuring processes and internal controls are in place and monitoring readiness of the Bank for full compliance with the Basel III regulatory framework as the phased transition nears completion in January 2019. Self-evaluations have been conducted at Board level and feedback provided to formulate action plans for areas identified for further improvement. The Bank was the recipient of the coveted category award for Corporate Governance awarded by the Ceylon Chamber of Commerce, this highlights the commitment of the Board to upholding high standards of corporate governance.

Total Deposits

Rs. 194 BN

tech start-ups. Kaffeine Lab is located away from the Head Office providing the Bank with a new dimension, a tech start up culture being developed alongside a prudent banking culture to challenge the status quo and disrupt prevailing business models.

Steering Growth

Well established governance mechanisms support Board effectiveness in providing strategic guidance and monitoring performance of the Bank. Board Committees remain vigilant in exercising oversight in areas allocated and engage with the management team to deliberate, debate and discuss matters prior to reporting or making recommendations to the Board. There were no changes in the composition of the Board during the year and there is sufficient diversity and expertise within the Board to support strategy formulation and performance management, and to steer the bank to successfully delivering broad based growth and profitability. The Board Audit Review Committee and the Board Integrated

Outlook for 2018

Sri Lanka will benefit from stronger global economic growth which is expected to pick up pace in 2018 and 2019 as both developing and developed economies recorded higher than forecast growth in 2017. A noteworthy downside risk to the medium term forecast is the potential impact of tightening of monetary policy after a long period of relaxed policy and quantitative easing in advanced economies. Inequalities, protectionism and geopolitical tensions remain key concerns.

Exports are expected to maintain growth momentum building on the recovery recorded in 2017 as stronger global demand, GSP+ and emphasis on non-traditional exports support growth. Projects such as the Western Region

Megapolis project and the Strategic Cities Development Project are expected to support economic growth as Sri Lanka pursues its plans to become a regional hub, presenting the Banking sector with lucrative opportunities for growth. A focus on IT literacy supports our growth strategy as smart phone penetration increases providing access to a new world of opportunities.

Nations Trust Bank is well positioned for growth in new dimensions with a high level of appeal to a broad segment of customers. Traditional banking channels are also sufficiently broad-based with balanced portfolios across Corporate, SME, Leasing and Consumer Banking delivering digital solutions to empower their customers. We continue to drive growth across all business verticals which have gained critical mass and migrate customers to digital solutions for ease of transacting. A strong track record of sustained growth and profitability combined with an indomitable spirit and strong governance structures give us confidence to transform our value proposition from the traditional banking model to a more vibrant and relevant lifestyle proposition.

Acknowledgements

The Board joins me in commending the Chief Executive Officer, Renuka Fernando and the Nations Trust Team for delivering a holistic performance across financial and non-financial measures as set out within the pages of this report. We also appreciate the guidance provided by officials of the Central Bank of Sri Lanka on regulatory matters. I thank our stakeholders for being part of our journey and invite you to grow with us as we look forward to a new era of banking.

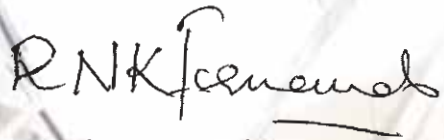
It has been a rewarding year personally, watching the digital transformation at Nations Trust Bank impacting lives and transaction volumes and driving growth in a holistic manner. I look forward to working with the Board and the Nations Trust Team to realise our vision of helping people and businesses achieve today's goals and tomorrow's aspirations.



Krishan Balendra
Chairman

27th February 2018

CEO's Review

A handwritten signature in black ink, reading 'Renuka Fernando'.

Renuka Fernando
Director/CEO



We ushered in a new era of banking in Sri Lanka with the launch of FriMi, the country's first digital bank, which enables any Sri Lankan to open a bank account using a smart phone. It is a lifestyle partner, empowering individuals to make payments, transfer funds, do their banking transactions and manage their finances, all available at their fingertips anytime, anywhere.

Return on Equity

17.8%

Deposit Growth

28%

Nations Trust's performance in 2017 delivers on many fronts as we pursued a customer centric strategy to increase market penetration and build our brand. Broad based growth across business verticals was supported by robust digital platforms, a dynamic branch network, innovation and a strong sales culture.

Making An Impact

We ushered in a new era of banking in Sri Lanka with the launch of FriMi, the country's first digital bank, which enables any Sri Lankan to open a bank account using a smart phone. It is a lifestyle partner, empowering individuals to make payments, transfer funds, do their banking transactions and manage their finances, all available at their fingertips anytime, anywhere. FriMi also brings easy and simple options to the merchants to accept cashless payments through QR codes or mobile to mobile transfers, seamlessly to their bank accounts. We believe this is a game changer which will shape the future of banking in Sri Lanka.

Nations Trust also launched "Kaffeine Labs" our innovation centre to explore and deliver futuristic solutions which will support the strategy of the bank to bring transformative customer experiences. The innovation lab also held the first ever Hackathon in Sri Lanka's financial services sector, which helped the aspiring, future entrepreneurs to showcase their innovations and compete for start-up funding. We also reviewed the needs of our tech savvy SME clients with a view to providing digital solutions to make their operations simpler. During the year, a number of digital solutions were introduced for the benefit of the SME customers including internet banking, cash management and PDC management solutions which have enabled faster more efficient management of their collections and payments.

Enabling our bank with data analytics, mobility and cloud were key strategies which we set for ourselves in 2017. Our objective to transform the bank and our staff to a data driven mind-set and work culture gained traction in 2017. By using data analytics we were able to get deeper insights to the requirements of our customers, thereby enabling us to customize our offers and solutions in a more relevant manner. During the year the bank also enabled access to real time data on sales volumes, transactions, assets and liability movements at a segment, product and channel level. Branches and businesses are now able to see the achievements of their financial KPIs against budgets on a real time basis on their mobile devices, thereby enabling our staff to make decisions and pursue their objectives in a much more informed manner. In 2018, the bank will roll out the second phase of this project so that all divisions in the bank including the operational departments will have access to real time data, enabling higher operational efficiencies, better management of resources and productivity.

While a key success factor of our Bank has been the complete vertical focus within the product lines and customer segments, we have identified the huge potential for growth in leveraging the various portfolios in these business verticals by offering customers integrated solutions running across multiple businesses. The Integrated Business Development Unit was set up in 2017 to facilitate a structured approach to this strategy and worked with all business verticals to innovate and offer customized solutions, to a number of identified industries and large customers.

I am particularly pleased to see the enhanced levels of cooperation and integration among these businesses who worked together to deliver the results set out in this report.

CEO's Review

Growing our Business

In leveraging our relatively young branch network to drive growth, the bank set its sights on increasing the market share of each branch in its own geography. The full growth potential of each branch was understood and strategies put in place to drive customer acquisitions, deepen existing relationships, increase share of wallet and drive revenue. The branches focused on understanding the lifecycle requirements of their customers and offered the full product basket relevant for each client. We are happy to report that we have converted all our branches to net positive contribution and will continue to leverage the network to spearhead our future growth in all our product and customer segment verticals.

Growing CASA was a core priority during the year. It was supported through the launch of the tremendously successful product; Max Bonus, the CASA sales focus at branches, launch of digital solutions and cross cooperation between business verticals to capture the full wallet and cash flow cycle of customers. This enabled Nations Trust to grow CASA in a year which saw low CASA growth in the industry. It had a significant positive impact to managing the cost of funds of the bank.

End-to-end wallet management and growth in our SMEs was a key driver of growth in 2017. Having been in the SME space for the past five years, we used the insights gained to deepen our penetration in to this sector. The success of the "Nations Road Shows", launched in 2016, continued in 2017 and was a driving force that enabled us to engage with key clients, understand their requirements and provide customised solutions.

We also reviewed our value proposition for SMEs to take customer centricity to the next level, fulfilling all their requirements rather than just the lending aspect. As a result, the Bank's pioneering concept of Business Banking Account Relationship Officers stationed at branches and trained to understand the non-credit based requirements of our SME customers including their payments, collections, trade and treasury needs have paid rich dividends. We recognise

that these services demand technology based solutions, as the leadership of these businesses are being taken over by the second generation of tech savvy entrepreneurs.

Having set up the bank's project finance team in 2016, the Corporate Banking division completed the bank's first structured syndication in 2017, thereby strengthening our value proposition to our customers. We also ventured in to offshore lending in Maldives and Cambodia with strong counter parties, expanding our capabilities and our portfolio. Deepening relationships was the key theme as we focussed on holistic solutions to our Corporate customers which has enabled the bank to support client needs in cash management and trade solutions and enabled the bank to penetrate their wallets to grow our current account business, trade and treasury.

Corporate Banking expanded activities by setting up a Mid-Market segment catering to the specific needs of this high growth sector. The branch network together with the Mid Corporate team made good headway in this sector in 2017 and will continue to develop this proposition to become a key customer segment in the bank, as it also forms a vital part of the value chain facilitating a smooth transition for our customers throughout their life-cycle from SME to Mid Corporate businesses.

Consumer Banking continues to deliver strong growth, revenues and profits through increased penetration from cards, personal loans and retail banking businesses which are complemented with digital solutions. The cards business continued its growth momentum. The success factors of our cards business was replicated to bring best practices to other product and business lines within Consumer. Growth of Home Loans was subdued during the year due to high interest rates which stabilised towards the end of the year and we look to leveraging the specialised Home Loan Centre put in place in 2016 to grow in 2018 and beyond.

In pursuing our vision to bring unmatched customer experiences and become the primary bank for all our customers, we re-launched the Nations Mobile app, incorporating insights gained into user interface and user experience

through focussed efforts to understand how a customer uses the phone. The reviews of the app have been excellent as evidenced by over 35,000 subscribers gained since the launch.

The performance of our leasing business was commendable, as the business overcame significant challenges including lower loan to value ratios directed by the Central Bank in early 2017. They delivered record volumes within the current customer segments resulting in strong portfolio growth, revenue and profitability while driving down the non-performing advances ratio below 1%. It is also pleasing to note that the leasing business which hereto, has been on a central sales model, leveraged and worked as a team with the branch network to bring in significant volumes initiated by the network.

During the year, we piloted an operating and a credit evaluation model for micro enterprise financing. We look forward to using the learnings from this pilot to penetrate this segment further with the use of data analytics, credit models and technology to add a micro enterprise proposition to our portfolio in the future.

Positive Results

Nations Trust recorded a Rs. 3.37 Bn group profit after tax reflecting a 18% growth despite a one off tax charge of Rs. 210Mn arising out of inter-company dividend payments.

The Banks' core operations grew revenue by 23% over the previous year, which was higher than the cost increases driven by higher business volumes. The broad based initiatives discussed above supported the asset growth of 27%, which outpaced the industry to reach a total assets base of Rs.268 Bn. Loans and advances recorded strong growth of 25% taking our portfolio to Rs.187 Bn with deposits recording a growth of 28% to Rs.194 Bn, outpacing industry.

In 2017, the Bank secured a US\$ 50 Mn facility from International Finance Corporation for expanding the SME portfolio, boosting our funding for growth. The Bank raised capital by way of a rights issue amounting to Rs. 3.2 Bn and plans to issue a debenture of

Rs. 3.5 Bn which is Basel III compliant for tier II capital during first quarter of 2018 further strengthening our capital position. Capital adequacy remains well within regulatory requirements at the close of the year with Tier I and Total Capital ratios at 10.83% and 13.89% respectively.

Supporting Growth

Managing the cost income ratio of the bank has high priority and a number of initiatives were implemented to manage costs while increasing productivity, in an environment of exponential volume growth. An organisation wide exercise to identify and prioritise action on areas with potential savings was undertaken and solutions are being implemented to enhance capacities through lean initiatives instilled in to the organisational culture. Along with lean, digitization played a key role in the internal drive to enhance productivity and employee experiences.

We commenced the pilot project “F1” with the objective of transforming our branch network into a new age model, providing our customers with unprecedented experiences and our staff with an easy, simple, frictionless work environment as we take on future growth. It encompasses a granular level review and re-engineering of all aspects of the branch from customer interactions and relationship management to transaction processing and digitalisation and from productivity efficiencies and staff training to ambience and experiences. The roll out will commence from 2018 in a phased manner.

Managing Risks

Close management of the banks funding and margins through a dynamic pricing strategy enabled by Treasury and the ALCO process, were the key priorities in enabling the growth that the bank undertook.

Towards the latter part of 2017, we anticipated a tight credit cycle in 2018 and strengthened credit risk management processes to manage the potential threat. Early warning systems have been reviewed and upgraded and Management have proactively engaged with clients to review

and provide guidance to our clients to manage their risks and discuss solutions to avoid escalation of risks.

We also focused on strengthening operational risk management by creating an operational risk monitoring function between the first and second lines of defence. This function comes within the purview of the COO who reviews the processes and ensures that hot spots are monitored through data driven mechanisms and tools.

Impact assessment of IFRS 9 is underway. Having completed an initial assessment, we are refining it with more advanced data to ensure compliance in 2018.

A New Vibe

An inspired team is vital to drive change. We have a young team whose average age is 28 and 69% of our team are under 30, which has made it easier to embed our digital agenda. It has been gratifying to witness the younger members of our senior team identified into our talent management pool, 'coming of age' to take on higher responsibilities and drive the success of the bank with passion and vigour.

A cloud-based HR system with the digitisation of all aspects of staff administration was launched during the year, enhancing the user experience for our staff and making our HR processes simpler and efficient. The performance management process will be migrated to this system in 2018.

We commenced the concept of digital town-halls where myself and a number of top management conducted these town-hall sessions during the year through a closed group employee Facebook page with questions either emailed prior to the meeting, or received on real time basis as the session progressed, This has enabled the management to respond more meaningfully and engage with staff across the whole bank.

Training and development to upgrading the skills and knowledge of our staff is a key area of focus for the bank. We launched an e-learning portal which is supporting our face to face training in our life cycle program. It has brought greater

flexibility and engagement among our young staff. A number of certification programmes were launched mainly for functions within our branch network so that we bring a standardised approach in carrying out these functions in the 'Nations Way' of doing things.

A Cautiously Positive Outlook

Macroeconomic indicators and rating agencies outlooks indicate a difficult operating environment in 2018 necessitating high levels of vigilance and objective analysis of data to identify growth areas. We believe that there is more profitable and sustainable business that we can secure for growth as we have demonstrated over the past year. Accordingly, we have strengthened our processes to manage identified downside risks and grow in targeted business segments with agile strategy and enhanced risk awareness. We expect well balanced growth in all customer segments and key products. We will continue to realise our aspirations together with our customers to deliver sustainable growth in shareholder value.

Appreciations

A visionary Board charts our course and inspires our growth. Their direction and counsel has been invaluable as we focussed on navigating the course and I wish to convey my sincere appreciation of their inputs. I also thank the officials of CBSL for their guidance to ensure full compliance with regulations. To my team, I offer a heartfelt thank you for accepting the stretched goals that we set for ourselves and overcoming challenges to achieving them, with a 'Can Do' determination, which has permeated to the entire Nations Team. I look forward to working together to lead the Bank on our journey as we change the face of banking in Sri Lanka.



Renuka Fernando
Director/CEO

27th February 2018

Corporate Management





Standing left to right

Niluka Gunatilaka - SVP (Cards), **Sheahan Daniel** - SVP (Branch Network), **Hemantha Gunetilleke** - SEVP (Commercial Banking), **Indrajith Boyagoda** - EVP (Treasury & Investment Banking), **Ajith Akmeemana** - Chief Financial Officer, **Bandara Jayathilake** - SEVP (SME Banking), **Gayan Ranaweera** - Chief Credit Officer, **Nisala Kodippili** - Chief Information Officer, **Priyantha Talwatte** - SEVP (Consumer Banking & Cards), **Thilak Piyadigama** - Chief Operating Officer, **Theja Silva** - Group Company Secretary/General Counsel, **Priyantha Wijesekera** - EVP (Leasing), **Nanda Bandara**, EVP (Internal Audit), **Chamath Munasinghe** - SVP (Banking Operations), **Randil Boteju** - SVP (Sales & Integrated Business Development), **Chamila Sumathiratne** - Acting Chief Risk Officer

Seated left to right

Mevan Balalle - Chief Compliance Officer, **Shaun Wickremesinghe** - Chief Marketing Officer, **Renuka Fernando** - Director/Chief Executive Officer, **Ramanika Unamboowe** - EVP (Human Resources)

SEVP - Senior Executive Vice President

EVP - Executive Vice President

SVP - Senior Vice President

Vice Presidents





Left to right

Tharusha Ekanayake - VP (Fixed Income Securities & Debt Sales), **Menaka Wavita** - VP (Branches - Emerging Market),
Renuka Senadheera - VP (Consumer Services), **Nazeem Mohamed** - VP (Fri/Mi Digital Bank), **Sampath Perera** - Chief Data Officer,
Nisaja Aryasinghe - VP (Retail & SME Credit - Western Province), **Kushlani Allis** - VP (Management Reporting & Planning),
Jerome Ratnarajah - VP (Market Risk Management), **Lakmal Randeni** - VP (FX & Money Markets),
Milroy Fernando - VP (Branch Operations & Compliance), **Roger Rozairo** - VP (Collections & Recoveries),
Rasanja De Silva - VP (Branches - Western Province), **Gavin Perera** - VP (Consumer Credit Risk), **Priyantha Samaradiwakara** - VP (Leasing Sales),
Lasith Ranatunga - VP (Corporate Credit and Special Asset Management), **Yamuna Silva** - VP (Legal), **Arosha Liyanaarachchi** - VP (Corporate Banking),
Thushara Asuramanna - VP (SME Credit Management), **Anushan Fernando** - VP (Operational Risk)

VP - Vice President

Creating Value through Strategy

This chapter provides an overview of how we determine strategy, our key priorities during the year and how our value creation is underpinned by robust governance risk management

32 | **Mega Trends in our Operating Environment** 34 | **Stakeholders to Strategy** 36 | **Material Matters** 38 | **Charting Our Progress**
40 | **Sustainability at Nations Trust Bank** 42 | **Corporate Governance** 67 | **Risk Management Review**

Mega Trends in our Operating Environment



Agriculture
(-3.2%)
9M2017 growth

Our operating landscape is continually being reshaped by changes in economic, social, technological, environmental and regulatory factors. Effectively identifying and responding to these dynamics are crucial in maintaining our ability to generate sustained value.



Industrial
4.5%
9M2017 growth

Macro-economic factors

Sri Lanka's economic growth has been moderate in the past few years, reflecting a persistently weak agriculture sector, structural weaknesses, fiscal pressures and global headwinds. The Government also adopted a tighter fiscal and monetary policy stance aimed at fiscal consolidation and curbing demand pressures, which resulted in lower than anticipated economic growth. That said, the outlook for Sri Lanka's economy in the medium to long-term is positive as reforms targeted towards fiscal consolidation, fostering local and foreign investment and stabilising macro-economic fundamentals is expected to accelerate the pace of growth. While reforms required to place the economy on a higher trajectory of growth have already commenced, the Government's political will and commitment in actioning such plans is critical for success. The International Monetary Fund projects the



Services
4.2%
9M2017 growth



GDP Growth
3.7%
9M2017 growth

Source: Dept. of Census and Statistics

country's economy to expand by 4.6% and 4.7% in 2018 and 2019 respectively.

Competitive factors

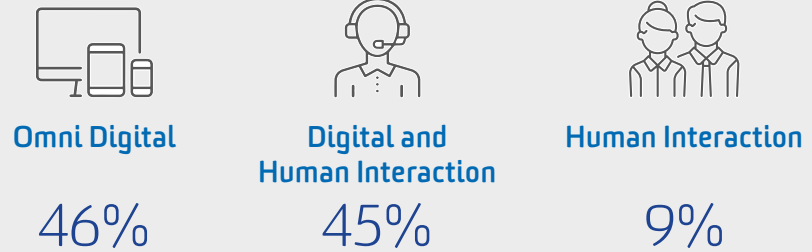
The industry has seen intense competitive pressures in recent years with financial service providers targeting the same client base. This has resulted in rate pressure across the industry, leading to narrower margins. Many banks have also pursued a strategy of regional expansion which has led to increased competitive pressures even in rural markets. Further, advances in technology have prompted non-banking players such as payment facilitators and telecommunication service providers to aim to cross sell financial services to their existing customer base.

Technological factors

The technological revolution in financial services has compelled banks to rethink their customer interaction models. This has been complemented with a dramatic increase in customer connectivity, which has led to rapid growth in the use of mobile and online banking solutions. In addition to transforming the customer value proposition, disruptive technologies such as cloud computing, big data,

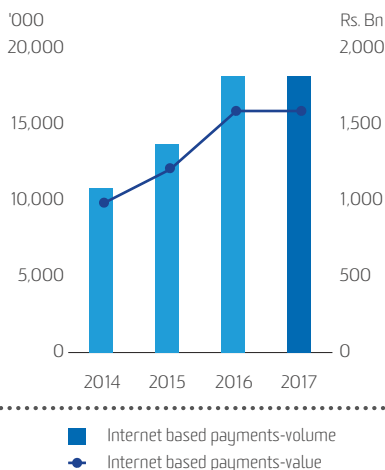
There has been an onset of increased financial sector regulation both globally and domestically, with a view to improving the stability and soundness of financial institutions.

Global Banking Channel Preferences



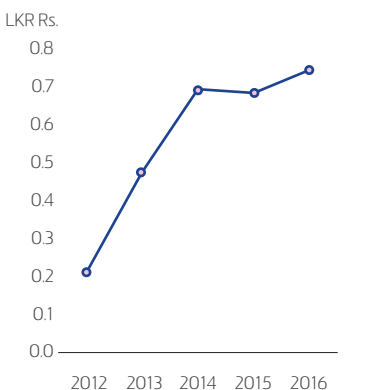
Source: PWC Digital Banking Survey

Internet Based Payments



Source: Payment Bulleting CBSL

Sri Lanka Prosperity Index



Source: CBSL

advanced analytics and artificial intelligence are reshaping the way organisations conduct their business and Banks which are unable to respond to these changes are likely to see an erosion in their competitive position. A recent study conducted by PWC on global digital banking dynamics reveals the rise of an 'omni-digital' segment, where customers use only digital channels to interact with the Bank for everything they do. This segment is estimated to have grown from 27% in 2012 to 46% by 2017.

Regulatory factors

There has been an onset of increased financial sector regulation both globally and domestically, with a view to improving the stability and soundness of financial institutions. The CBSL's approach has centred on establishing sound risk management systems, instilling good corporate governance practices, strengthening capital buffers and promoting financial inclusion. Key regulatory reform in recent years have included,

- Basel III regulations on capital adequacy, liquidity and risk disclosure
- Anti-money laundering regulations
- IFRS 9-Financial Instruments
- Limitations on loan to value ratio for leasing facilities granted by banks

Social and demographic factors




Sri Lanka's transition to an 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 white goods, sophisticated financial products and increased focus on customer convenience and service standards. For Nations Trust Bank, this shift presents exciting avenues for growth given the expansion of its target customer base, the mass affluent segment.

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.

Stakeholders to Strategy

Maintaining effective relationships with our stakeholders enables us to clearly identify and respond to issues that matter to them the most, thereby allowing us to deliver on their needs and expectations. As illustrated in our value creation model on pages 18 - 19, the expectations of our stakeholders are a vital input in our strategy formulation process and ensures that competing interests of stakeholders are managed in a way that results in the ethical and responsible creation of value. When selecting and prioritising stakeholders to engage with, we give due consideration to the potential influence of their decisions on our value creation process and to what level our operations impact them.

	How we engage?	Expectations in 2017	Our response
 <p>Shareholders</p> <p>Ordinary shareholders Potential investors Long-term funding partners Credit rating agencies</p>	<ul style="list-style-type: none"> Annual General Meeting (Annual) Investor forums Annual Report (Annual) One-to-one engagement with significant shareholders (Ongoing) CSE Announcements (Ongoing) Periodic engagement with credit rating agencies 	<ul style="list-style-type: none"> Clear and transparent communication on the Bank's performance and strategy Returns commensurate with risks assumed Sustainable growth in earnings Robust corporate governance risk management practices 	<p>Our performance during the year was directed by a cohesive strategic plan aimed at strengthening the Bank's market position and profitability. We are also committed to providing a balanced review of our performance and prospects in our communications with investors ensuring a competitive return to their investment</p> <p>Relevant strategic pillar</p> <ul style="list-style-type: none"> Earnings growth
 <p>Employees</p> <p>2,943 employees Average age of 28 years 40.5% female representation</p>	<ul style="list-style-type: none"> Employee Engagement Surveys (Annual) Performance appraisals (Annual) Staff meetings at multiple levels (Ongoing) Employee suggestion schemes (Ongoing) Grievance Reporting Procedure (Ongoing) Work-life balance events (Ongoing) Employee intranet and social media interaction (Ongoing) 	<ul style="list-style-type: none"> Attractive remuneration Opportunities for skill and career development Performance enabling environment Work-life balance Safe working environment Collective bargaining Equal opportunity 	<p>In 2017 significant emphasis was placed on upskilling employees as well as driving engagement and efficiencies through increased use of digital technology.</p> <p>Relevant strategic pillar</p> <ul style="list-style-type: none"> Human resources Internal processes
 <p>Customers</p> <p>Individual customers, SMEs and Corporates</p>	<ul style="list-style-type: none"> Online and local engagement by branch teams and relationship managers (Ongoing) Customer satisfaction surveys (Annual) Market research (Ongoing) Production promotion campaigns (Ongoing) 	<ul style="list-style-type: none"> Transparent and competitive pricing Customer service Convenience and flexibility of transacting Upholding customer charter Product innovation 	<p>In line with the strategic agenda for the year, we placed emphasis on enhancing customer convenience and accessibility and product innovation.</p> <p>Relevant strategic pillar</p> <ul style="list-style-type: none"> Customer value proposition Delivery and distribution



Suppliers and Service providers

Suppliers through who we procure office equipment, IT hardware/software etc and service providers who engage in non-critical activities

How we engage?

- One to one engagement (Ongoing)
- Written communication (Ongoing)
- Relationship building initiatives (Ongoing)

Expectations in 2017

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

Our response

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



Regulators

The Bank's main regulators are the Central Bank of Sri Lanka, the Securities and Exchange Commission and The Department of Inland Revenue among others

- Continuous dialogue with the government ministries and SOEs (Ongoing)
- Statutory reporting (Ongoing)
- Meetings and industry forums (Ongoing)

- Compliance to all relevant laws and regulations
- Regulatory reporting
- Transparent and open communication
- Sustainable business practices
- Employment generation

We strive to maintain a strong compliance culture, as well as an open and cordial relationship with all regulators.



Communities

The broader society in which we operate across the country.

- Local branch engagement (Ongoing)
- Social events and sponsorships (Ongoing)

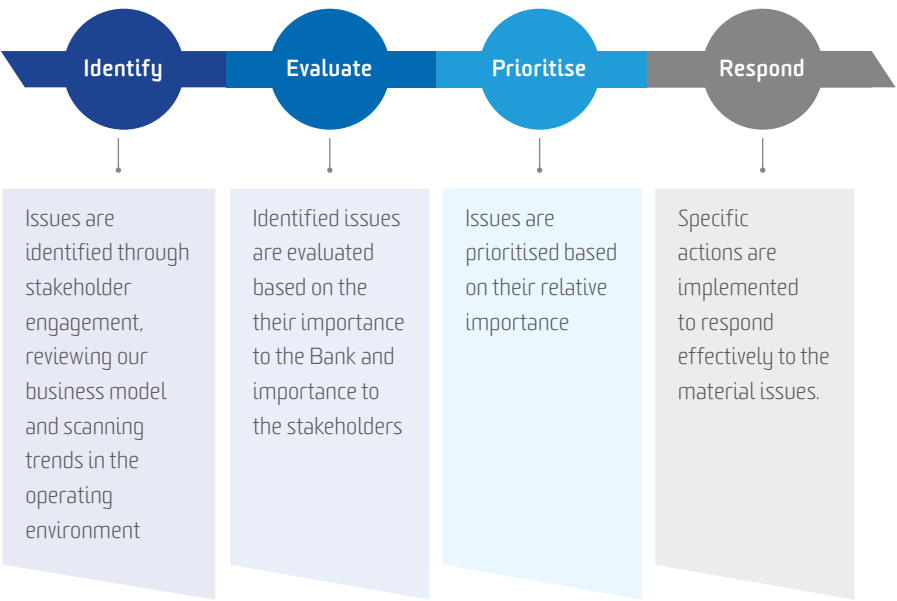
- Responsible business practices
- Community empowerment and development
- Employment generation
- Preserving the environment

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

Material Matters

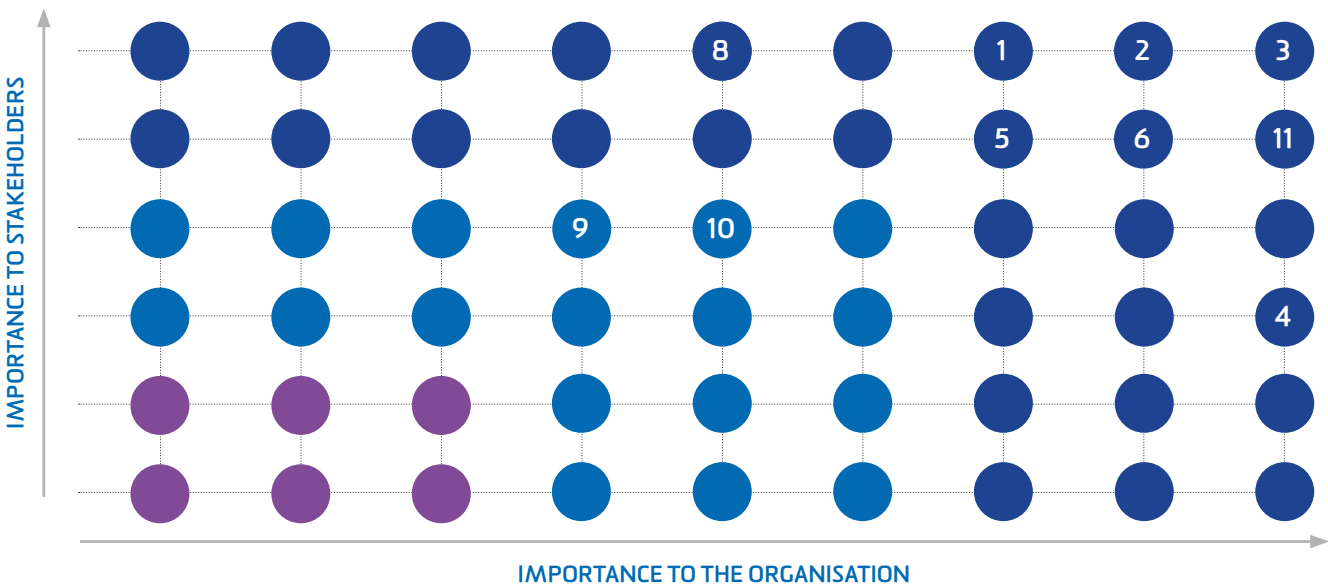
Material topics represent the issues and considerations that could have the most impact on our ability to create value. These topics change over time as industry dynamics shape the operating landscape and stakeholder expectations evolve.

This Integrated Annual Report is anchored by these material topics as they reflect the issues that are most critical to the Bank and to its stakeholders. Responsibility for determining material aspects lies with the Bank’s Corporate Social Responsibility Committee comprising of five corporate heads. The material aspects thus identified are reviewed on an ongoing basis to ensure relevance and completeness. The Bank’s process for determining material content is given below;



Materiality matrix for 2017

The Bank’s material topics are presented below; there were no significant changes to material topics in comparison to the previous year.



	Material topic	Boundary and impact	Strategic relevance	Page reference for further information
1	Growth and profitability	Achieving sustainable growth in earnings is vital in driving shareholder value. Growth is dependent on a range of factors including strategic agenda, employee capabilities and macro-economic variables among others.		120 - 123
2	Customer accessibility and convenience	As customer sophistication continues to increase, providing channel accessibility and convenience is vital in maintaining customer satisfaction.		138 - 143
3	Digitisation	Digitisation has transformed the way banks interact with their customers as well as how business is conducted and risks managed on a day to day basis.		130 - 131
4	Responsible lending	Our approach towards responsible lending is underpinned on ensuring customer rights are protected and that lending is directed towards sustainable businesses.		138 - 143
5	Employee attraction	Recruiting and retaining the employees with the right skills, attitudes and work ethic is vital in achieving our strategic objectives.		132 - 137
6	Training and development	As a bank with a relatively young workforce we are committed towards upskilling our employees to effectively drive our strategy and customer experience.		132 - 137
7	Employee satisfaction	We believe a satisfied and inspired workforce is crucial in driving our ambitious strategies		132 - 137
8	Operational efficiency	Achieving process efficiencies and increased productivity has a direct impact on the Bank's profitability while freeing up employee time for customer interaction.		106 - 129
9	Preserving the environment	As a responsible corporate citizen, we strive to minimise the adverse environmental impacts of our operations.	-	146 - 151
10	Corporate social responsibility	Creating value to the communities we operate in through strategic, ongoing CSR projects can help us sustain our social license to operate.	-	138 - 143
11	Corporate governance	Sustainable value creation is underpinned by robust governance frameworks and practices.	-	42 - 66

Refer to Appendix 1 on pages 153 - 154 to see how the identified material topics correspond to the topics prescribed by the GRI Standards.

Charting Our Progress - Strategic Framework

The Bank implemented its new Strategic Plan for 2017-2019, aimed at widening its market share to be the primary bank for the mass affluent segment and building a future-fit, technology-driven, competitive bank.

The Strategic plan represents 5 strategic pillars, strategic targets that we work towards and clearly defined KPIs to measure performance against these targets.

Strategic Pillars	 Earnings Growth	 Customer Value Proposition
Strategic drivers	Expanding market share through venturing into new markets, deepening existing relationships and strengthening the mass affluent proposition.	Develop innovative solutions which are relevant to emerging customer needs while focusing on ease of transaction and service consistency.
Progress during the year	<ul style="list-style-type: none"> ▪ Focused on increasing the cross-sell ratio ▪ Strong growth in the SME and Cards segments ▪ Launched a new Savings Account ▪ Pursued off-shore opportunities in the Corporate segment 	<ul style="list-style-type: none"> ▪ Launch of FriMi - Sri Lanka's first digital bank ▪ Up-skill Inner Circle and Private Banking employees through a certification programme ▪ Launched mid-market customer segment ▪ Pilot portfolio for micro-enterprises ▪ Established digital customer feedback mechanism in branches
How we measure performance	<ul style="list-style-type: none"> ▪ Portfolio growth ▪ CASA ratio ▪ Growth in revenue Refer to Financial Capital on pages 120 - 123	<ul style="list-style-type: none"> ▪ Customer satisfaction ▪ Cross sell ratio ▪ Digital delivery Refer to Social and Relationship Capital on pages 138 - 143
KPIs in 2017	<div> <div>CASA growth of 28%</div> <div>Revenue Growth 23%</div> </div>	<div> <div>Customer satisfaction score of 80%</div> <div>Cross sell ratio (existing customers) 1.7 times (1.4 in 2016)</div> <div>Alternate channel transactions increased to 47%</div> </div>
Target and outlook for 2018	Will pursue aggressive expansion of the savings account base while refining the mass affluent proposition to nurture deeper customer relationships.	Focus will be placed on driving customer experience through intimacy and innovation. Will also strengthen the online onboarding of products including savings, current accounts, credit cards, loans and leasing facilities.



Delivery and Distribution

Make our branches the best-in-class distribution centres by upskilling employee knowledge and optimising the existing network.

- Launched mobile banking application
- Deployed cash deposit machines
- Established dashboards for daily monitoring

- Average revenue per branch
- Mobile banking subscribers
- Online banking subscribers

Refer to Manufactured Capital on pages 130 - 131

Revenue per branch increased by **45%**

Mobile and Internet transactions increased by **64%**

We plan to complete and roll out a model branch network and further strengthen the digital proposition through improvements to the mobile and online banking platforms



Internal Processes

Achieving operational excellence through automation, lean processes and data analytics

- Established 'first time right theme' across the Bank
- Paperless engagement with customers
- Reviewed branch processes

- Transaction processing time
- Robotic Process Automation (RPA)

Refer to Key Business Lines on pages 106 - 119

Cost to Income Ratio improved from **56% to 52%**

Strengthen RPA within the Bank, review structures in corporate units for lean processes improve the data governance framework.



Human Resources

Acquire and develop the skills required to achieve our strategic agenda.

- Focus on up-skilling knowledge
- Digital avenues for employee engagement
- Strengthened the career development framework

- Employee satisfaction rate
- Employee retention
- Training hours

Refer to Human Capital on pages 132 - 137

Training hours increased by **6%**

Employee retention rate **86.8%**

Strengthen e-learning to become a key mode of training, develop succession plan for senior management positions and adopt a more dynamic recruitment strategy

Sustainability at Nations Trust Bank

As an organisation, we have long-since understood the critical importance of ensuring the sustainability of our resources and the need to embed sustainability considerations into our strategy and daily management of our business.

The Bank is committed towards positive engaging in enhancing the quality of life and in driving changes in the real economy towards sustainable development.

Nations Trust Bank’s Sustainability Policy embodies our approach towards sustainable business through the following key pillars;

- Managing the impacts from our operations and the value chain, in striving for net positive impact on environment and society, and at the same time build-in resilience to counter disruptions.
- Empowering our customers to make sustainable lifestyle and investment decisions by proactively engaging to offer sustainable solutions, making it convenient to transition to a Green Economy.
- Upholding, advocating and supporting adoption of higher standards in Environmental, Social and Governance (E, S, G) performance both within and in our sphere of influence and promote adoption of sustainable best practices.

- Taking an active role in leading the industry through breakthrough innovations and in collaborating nationally and globally to make the transformation necessary to achieve the Sustainable Development Goals

Sri Lanka Banks’ Association’s Sustainable Banking Initiative (SLBA -SBI)

In 2015, Sri Lanka Banks’ Association (SLBA) partnered four European Development Financial Institutions in the ‘Sri Lankan Sustainable Banking Initiative’, which encourages a multi-stakeholder approach towards transitioning to a green economy and contributing towards sustainable development. The initiative aims to facilitate decision making and co-ordinate efforts to increase resource efficiency and integrate environmental and social considerations into core operations of banking.

As a signatory to the initiative, Nations Trust Bank is committed to upholding the following principals of SBI. These principals are also aligned to the UN Sustainable Development Goals and our contribution towards the goals are discussed in subsequent sections of this Report.

11 Sustainable Banking Principles of SLBA - SBI
Business Activities- Environmental and Social Risk Management
Business Operations- Environmental and Social footprint
Rights of the respective stakeholders
Financial inclusion
E&S Governance
Promote ethical finance
Promote green economy growth
Capacity building
Collaborative partnerships
Promote transparency and accountability
No “Race to the Bottom”

Commitment to Sustainable Development Goals

The UN Sustainable Development Goals (SDG) represent 17 goals and specific targets to be achieved over the next 15 years, with the ultimate objectives of ending poverty, ensuring prosperity and protecting the planet.

The Goals were signed into effect in September 2015, with world leaders committing to the new sustainable development agenda. Sri Lanka too committed to the SDGs, and as an organisation Nations Trust Bank is exploring ways in which we can contribute towards achievement of the Goals, as illustrated below.

	<h3>Reducing inequalities</h3> <p>As a Bank, we contribute towards reducing inequalities through providing access to financial services across the country. In 2017, approximately 29% of our SME lending originated in regions outside the Western province, demonstrating our commitment to inclusive banking. During the year we also launched a micro-lending scheme, thereby fostering economic empowerment in a segment that usually lacks access to formal funding.</p>
	<h3>Industry, innovation and infrastructure</h3> <p>We are a technology-driven Bank and have invested substantial time and effort in delivering innovative solutions and methods of interaction. In 2017, Nations Trust Bank launched FriMi- Sri Lanka's first digital bank, which has revolutionised the way customers interact with the Bank and eliminated the need to visit a branch for account opening.</p> <p>We also launched Kaffeine Lab, Sri Lanka's First Financial Sector Innovation Lab, opening up bank's infrastructure for open innovation with start-up incubation and soft loans. The FintechHack 2017 featured 19 teams in the country's first ever hackathon in new financial technology.</p>
	<h3>Decent work and economic growth</h3> <p>The Bank provided employment to 2,943 individuals during the year; our value proposition includes attractive remuneration, opportunities for skill and career development and a conducive and dynamic work environment.</p>
	<h3>Quality education</h3> <p>In 2017, we invested Rs. 72 million in providing 100,528 hours of training. Up-skilling our young team is a key priority for the Bank and we will continue to provide access to world-class learning opportunities to our team.</p>
	<h3>Gender equality</h3> <p>We are an equal opportunity employer, with an overall female representation rate of 40.5%. At senior management level, the ratio is 22.8% among the highest in the industry.</p>
	<h3>Climate action</h3> <p>We make concerted efforts towards minimising the adverse environmental impacts of our operations through initiatives to increase energy efficiency and cut emissions. In 2017, the Bank commissioned a 40Kw Solar PV System which generates approximately 23.81MWh of clean energy.</p>
	<h3>Life on land</h3> <p>The Bank's key environmental preservation initiative comprises the Biodiversity Conservation Project, which centres on the Hiyare rainforest. The project consists of animal rescue, hog deer conservation, research and raising awareness among others.</p>
	<h3>Peace, justice and strong institutions</h3> <p>We are committed to maintaining the highest standards of transparency, accountability and integrity facilitated through robust corporate governance mechanisms.</p>

The Chairman's Statement on Corporate Governance Report

Nations Trust Bank's Board of Directors is committed to maintaining the highest standards of corporate conduct, transparency and integrity, which has always underpinned its approach to long-term stakeholder value creation.

Dear Stakeholder,

Nations Trust Bank's Board of Directors is committed to maintaining the highest standards of corporate conduct, transparency and integrity which has always underpinned its approach to long-term stakeholder value creation. The Bank's governance framework has been designed to comply with all relevant regulations and requirements, while also embracing voluntary standards and industry best practices. Founded on a set of clearly defined values that are continuously reinforced among our employees, our organisational culture and decision making is built on a platform of accountability, fairness, transparency and integrity. The organisation structure put in place by the Board serves to ensure that responsibility is delegated in a judicious manner, facilitating accountability at all levels of the organisation

The Bank benefits from the diverse industry insights, acumen and skills of its Directors. There is also sufficient diversity in terms of age and gender representation. The composition of the Board remains unchanged from the previous year, and this has increased the efficacy of the Board as there is clearer and deeper understanding of the Bank's strategic agenda. The Board had approved a strategic plan for 2017-2019 aimed at increasing its market share and to be the primary bank for its current and potential customers and building a future-fit, technology-driven bank.

The Board is committed to reviewing and revising its policies and governance structures in response to the evolving internal and external landscape and during the year we revisited the Bank's sustainability and CSR policy and sought alignment to the Sustainable Development Goals. The Bank also won the coveted category award for Corporate Governance at the Corporate Citizen Sustainability Awards 2017, conducted by the Ceylon Chamber of Commerce. This attests to the soundness and effectiveness of the corporate governance practices and frameworks that have been implemented by the Bank.

The subsequent sections of this Report describe how the Board has applied principles of good governance in practice and its compliance status with the Corporate Governance regulations made under the Banking Act Direction No 11 of 2007 (and subsequent amendments thereto) for Licensed Commercial Banks issued by the Central Bank of Sri Lanka and with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2013. We also welcome the release of the revised Code of Best Practice in December 2017, and we will evaluate its impact on our governance framework, policies and practices.

As required by the above Code, I hereby confirm that, to the best of my knowledge and available information, I am not aware of any material violations of any of the provisions embodied (i) in the Board procedures by the Board of Directors of the Bank; or (ii) in the Bank's Codes of Conduct and Ethics by any member of the Corporate Management team of the Bank.



Krishan Balendra
Chairman

27th February 2018

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

The Board of Directors of Nations Trust Bank PLC are pleased to present its Annual Report, together with the audited financial statements and Auditor's Report for the year ending 31st December 2017. These disclosures conform to the requirements of the Companies Act No 7 of 2007, Banking Act Direction No 11 of 2007 (Corporate Governance for Licensed Commercial Banks and subsequent amendments thereto) and Listing Rules of the Colombo Stock Exchange (CSE). The Report is also guided by the recommended best practices on Corporate Governance. The Annual Report of the Board of Directors and the Audited Financial Statements were approved by the Directors on 27th February 2018. This year, the scope and depth of the Annual Report of the Board of Directors on Affairs of the company has been widened to enhance disclosures on the Bank's corporate governance practices.

The Bank and Principal Activities

Nations Trust Bank PLC, is a Public Limited Liability Company incorporated in Sri Lanka on 21st January 1999 under the Companies Act No. 17 of 1982, quoted in the Colombo Stock Exchange in May 1999 and a licensed commercial bank under the Banking Act No. 30 of 1988. The Bank was re-registered on 14th February 2008 as required under the provisions of the Companies Act No. 7 of 2007. Principal activities of the Bank include commercial, personal and private banking, trade services, leasing, factoring, treasury and capital market services and fee-based activities. The Nations Trust Bank Group comprises the Bank and its three fully-owned subsidiaries Waldock Mackenzie Ltd., Allied Properties Ltd., and Nations Insurance Brokers Ltd. which are carrying out margin trading, money market operations and fund and fee-based activities, property rental, and insurance broking, respectively. During the year, the Bank

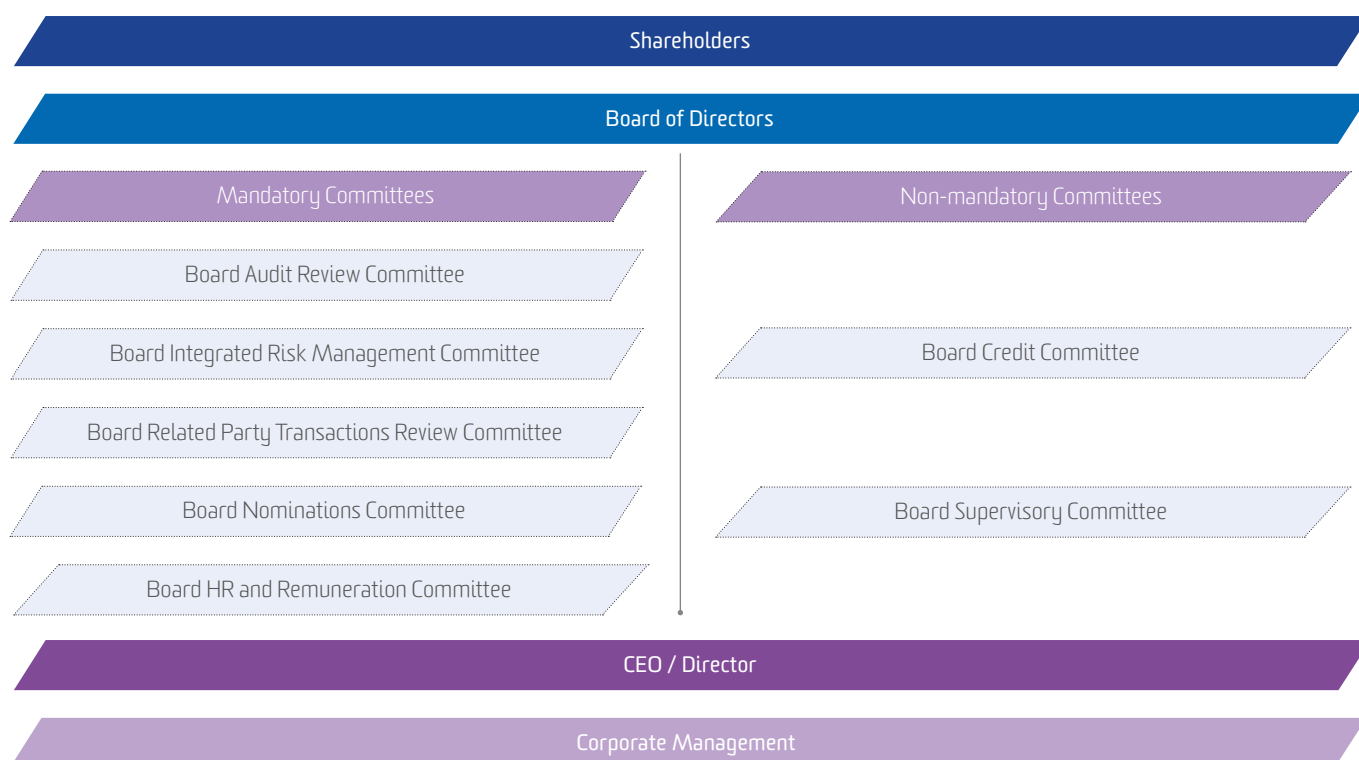
exited the margin trading business, gradually reducing its exposure to this line of operations; other than this there were no material changes to the activities of the Bank or any of the subsidiaries mentioned above during the period under review.

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.

The Financial Statements of the Bank and the Group are given on pages 172 - 176 of this Annual Report and were reviewed and approved by the Board of Directors on 27th February 2018. The Auditor's Report on the Financial Statements is given on page 171. The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 177 - 276. The Accounting Policies have been amended in line with any new Sri Lanka Accounting Standards.

Governance Framework and Structure

The Bank's governance structure is illustrated below;



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

Board of Directors

Nations Trust Board comprises of 13 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 12 to 17 of this Report. The Board also has a relatively high level of female representation, with three 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.

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

Mandate of the Board

The Board is collectively responsible for the overall stewardship of the Bank. The mandate includes, approval of strategy, ensuring that key management personnel have the requisite knowledge, skills and experience to perform their roles effectively and ensuring effective risk management practices are in place in the Bank.

Board Meetings

The Board meets at least on a monthly basis and details of meetings in 2017 are given below. 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.

Name of Director	Eligibility	Attendance	Excused
Non-Executive Directors			
Mr. Krishan Balendra	14	14	Nil
Mr. Prasanna De Silva	14	14	Nil
Mr. Suran Wijesinghe	14	14	Nil
Mr. Kumar Jayasuriya	14	12	02
Mr. Gihan Cooray	14	12	02
Mr. Harsha Raghavan	14	13	01
Independent Non-Executive Directors			
Mr. Murtaza Jafferjee-Senior Director	14	13	01
Dr. Kemal de Soysa	14	14	Nil
Ms. N. Shalini Panditaratne	14	13	01
Mr. Conrad D'Souza	14	13	01
Ms. Rachini Rajapaksa	14	13	01
Mr. Russell De Mel	14	13	01
Executive Director			
Ms. Renuka Fernando	14	14	Nil

Rotations

Mr. K. N. J. Balendra, Mr. Kumar Jayasuriya, Mr. Harsha Raghavan and Mr. Gihan Cooray 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.

Director's Shareholding

Directors' shareholding as at 31st December 2017 and 2016 are given below.

Name of the Director	No. of Shares	
	2017	2016
Mr. Krishan Balendra	107,700	107,700
Mr. Murtaza Jafferjee	70,826	-
Dr. Kemal de Soysa	-	-
Mr. 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	-	-

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 pages 65 to 66 of this Report.

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

- Approval of remuneration to the Executive Director by the Board - 31st March, 2017
- Purchase of shares by Mr. Murtaza Jafferjee, Senior Director on 19th June, 20th June and 22nd June, 2017

Board evaluation

The Board annually appraises its performance to ensure that they are discharging their responsibilities effectively. Each member of the Board carries out a self-assessment of his / her own effectiveness as an individual as well as effectiveness of the Board as a team. The performance of the ED/CEO is assessed by the Board against the short, medium and long-term objectives of the Bank.

Remuneration

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

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

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	10,178	11,893
Fees for Other Services	3,227	3,357

Other services consisted of advisory and tax related work.

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

Compliance

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, Finance Leasing Act No. 56 of 2000, Payment of Gratuity Act No. 12 of 1983, Employees' Provident Fund Act No. 15 of 1958, Employees' Trust Fund Act No. 46 of 1980 etc. and amendments to such statutes.

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

Monetary Board of the Central Bank of Sri Lanka has permitted the two promoter shareholders of the Bank, namely John Keells Group and Central Finance Group to retain their current shareholding percentage in the Ordinary Voting shares of the Bank till 31st December 2020 and to reduce it to 15% each with effect from that date. Monetary Board has also required the Bank to limit the voting rights of the John Keells Group and Central Finance Group to 10% with effect from 31st March 2018.

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.

Results and Dividends

Consolidated Income Statement along with the Bank's Income Statement for the year is given on page 173 and Statement of Financial Position of the Bank and the Group are given on page 172.

Having satisfied the solvency test requirement under the Companies Act No. 7 of 2007, the Directors have declared a first and final scrip dividend of Rs.2.10 per share to holders of both Ordinary Voting shares and Convertible Non Voting shares, to be satisfied by the issue and allotment of new shares of similar description, subject to applicable withholding tax. The scrip dividend is subject to approval of the Colombo Stock Exchange.

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

Related Party Transactions

Bank is in compliance with the Rules of the Colombo Stock Exchange and Directions issued by CBSL on Related Party Transactions.

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

Category of Related Party	Subsidiary Companies *		Directors of the Bank		Key Management Personnel (KMP) of the Bank	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Items in the Statement of Financial Position						
Assets						
Accommodation						
Loans and Advances	-	210,297	5,129	9,007	67,836	90,465
Credit Cards	-	-	1,261	1,767	6,533	5,413
Reverse Repurchase Agreements	-	-	-	-	-	-
Derivative Financial Assets	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-
Total Accommodation	-	210,297	6,389	10,774	74,369	95,878
Less: Cash Collaterals against Total Accommodations	-	-	12,249	10,653	43,441	21,227
Inv. made in the Bank's Equity and Debt Instruments	-	-	-	-	-	-
Total Net Accommodation	-	210,297	-	121	30,928	74,651
Total Net Accommodation % of Total Regulatory Capital	-	0.93%	-	0.00%	0.13%	0.33%
Liabilities						
Due to Customers	26,114	54,451	104,079	48,279	136,872	123,663
Borrowings & Others	378,405	589,663	-	-	587	-
Other Liabilities/Financial Guarantees	-	-	-	-	-	-
Derivative Financial Liabilities	-	-	-	-	-	-
Equity						
Dividends Paid (Net)	-	-	427	426	78	77
Issue of Bonus Shares	-	-	-	-	-	-
Commitments:						
Undrawn Facilities	1,800,000	1,589,836	7,163	4,408	52,609	34,185
Letter of Credit / Guarantees	-	-	-	-	-	-
Forward - Foreign Exchange Contracts	-	-	-	-	-	-
Items in Income Statement						
Interest Income Earned	5,747	15,242	411	678	4,737	4,767
Interest Expenses Paid	57,024	47,891	5,391	1,028	11,134	8,620
Other Income Earned	14,656	13,304	398	102	459	38
Dividends Received (Gross)	440,100	23,489	-	-	-	-
Proceeds from Sale of Shares	671,925	-	-	-	-	-
Expenses Paid	41,686	41,686	1,607	788	-	490
Provision for Investments	-	-	-	-	-	-
Compensation Paid :						
Short Term Employee Benefits	-	-	53,539	44,042	218,240	162,994
Post Employment Benefits	-	-	14,872	4,200	28,063	22,510
No. of Shares of the Bank Bought	-	-	70,826	-	-	-
No. of Shares of the Bank Sold	-	-	-	-	-	-

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

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

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

Close Relations of 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	
2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
24,820	11,072	169,261	378,921	198,855	57,127
1,518	4,712	-	-	766	192
-	-	-	-	-	-
-	-	-	-	-	2,974
-	-	-	-	19,666	13,227
26,338	15,784	169,261	378,921	219,287	73,556
30,026	10,853	-	-	-	-
-	-	-	-	-	-
-	4,932	169,261	378,921	219,287	73,556
-	0.02%	0.73%	1.68%	0.94%	0.33%
85,365	47,464	1,595,022	636,650	1,803,874	1,703,916
-	-	2,942,630	1,766,238	354,664	218,122
-	-	-	-	273,225	65,535
-	-	-	-	11,346	8
20	20	284,474	284,080	-	-
11,352	8,559	639,880	115,240	630,458	286,701
-	-	225,874	265,854	484,320	954,134
-	-	-	-	708,931	594,699
1,015	979	22,682	29,448	4,977	2,133
3,404	2,510	528,294	321,406	153,864	59,282
853	46	3,615	3,643	14,280	15,582
-	-	-	-	-	-
-	-	46,657	48,406	77,770	53,587
-	-	-	-	-	-
-	-	-	-	-	-

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.

As required by rule 9.3.2 (a) of the CSE listing rules, there are no non-recurrent related party transactions which exceeds the lower of 10% of the equity or 5% of the total assets.

As required by rule 9.3.2 (b) of the CSE listing rules, there are no recurrent related party transactions which exceeds 10% of the gross revenue/income.

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

Information on Shares and Debentures

Information relating to holdings of shares and debentures is given in pages 124 to 127 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 276.

Capital Adequacy

The Group's capital adequacy ratios as at 31 December, 2017 were 10.83% for Tier I and 13.89% for Total Capital and are above the minimum requirements of the Central Bank of Sri Lanka.

Directors of subsidiary companies

Waldock Mackenzie Limited

Mr. Prasanna De Silva - Chairman
Mr. Suran Wijesinghe
Ms. Renuka Fernando

Nations Insurance Brokers Limited

Ms. Renuka Fernando - Chairman
Dr. Kemal De Soysa

Allied Properties Limited

Mr. Prasanna De Silva - Chairman
Mr. Suran Wijesinghe
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 29th March, 2018 at 10.00 a.m.



Krishan Balendra
Chairman



Renuka Fernando
Director/Chief Executive Officer



Theja Silva
Company Secretary

Colombo
27th February, 2018

Compliance to the Code of Best Practice on Corporate Governance Issued Jointly by the SEC and Institute of Chartered Accountants of Sri Lanka.

Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
A. The Directors			
A.1 The Board			
Effective Board	A.1	<p>Nations Trust Bank's Board comprises of 13 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 12 to 17 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.</p> <p>The Board has a relatively high level of female representation, with three 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.</p>	Complied
Regular Meetings	A.1.1	The Board meets at least on a monthly basis and convened 14 times in 2017. 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.	Complied
Board's responsibilities: The following procedures are carried out to strengthen the safety and soundness of the Bank			
Ensure the formulation and implementation of sound business strategy	A.1.2	<p>The Board is collectively responsible for the overall stewardship of the Bank and the roles and responsibilities of the Board are,</p> <ul style="list-style-type: none"> • Approval of strategy • Ensuring key management personnel have the necessary skills, knowledge and experience • Ensuring effective risk management practices and frameworks are in place • Ensuring effectiveness of systems in place to secure integrity of information and internal controls 	Complied
Ensure that the Chief Executive Officer (CEO) and management team possess the skills, experience and knowledge to implement the strategy	A.1.2	The Board Nominations Committee ensures that the Board Members and Key Management Personnel have the required skills, experience and knowledge to implement strategy.	Complied

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Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
Ensure effective CEO and senior management succession strategy	A.1.2	High-performing members of the middle management team have been identified and are effectively being groomed to succeed the current senior management team.	Complied
Ensure effective systems to secure integrity of information, internal controls and risk management	A.1.2	Refer to Director's statement on Internal Controls over Financial Reporting given on pages 163 - 164, Board Audit Committee Report on pages 166 - 167 and Board Integrated Risk Management Committee Report on page 157.	Complied
Ensure compliance with laws, regulations and ethical standards	A.1.2	There is a dedicated Compliance function reporting directly to the Board Integrated Risk Management Committee which has responsibility for compliance. Group Compliance Officer reports directly to the Board Integrated Risk Management Committee.	Complied
Ensure all stakeholder interests are considered in corporate decisions	A.1.2	Directors take decisions taking into account the interests of the customers, shareholders, employees and the community. Additionally, there is a Customer Charter, an HR Policy and an investor relations function which ensures that the interests of these key stakeholders are upheld.	Complied
Ensure that the company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations	A.1.2	Audit Committee & Board review accounting policies annually to ensure that they are in line with the business model of the bank and evolving international and local accounting standards and industry best practice.	Complied
Fulfill such other Board functions as are vital, given the scale, nature and complexity of the business concerned	A.1.2	The Board is committed to fulfilling their functions in line with the laws, regulations and good governance practices adopted by the Bank.	Complied
Act in accordance with laws relevant to the organisation and procedure for Directors to obtain independent professional advice.	A.1.3	<p>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.</p> <p>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.</p>	Complied

Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
Access to advice and services of Company Secretary	A.1.4	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.	Complied
Independent judgement	A.1.5	As professionals, 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.	Complied
Dedicate adequate time and effort to matters of the Board and the Company	A.1.6	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.	Complied
Board induction and Training	A.1.7	When first appointed to the Board, Directors undergo a comprehensive induction section which includes provision of an induction pack comprising of the Bank's Articles of Association, Board Procedure, regulatory provisions and previous annual reports among others. In addition, Directors keep abreast of developments in the Bank and the external environment through regular interactions with the Corporate Management.	Complied
A.2 Division Of Responsibilities Between Chairman And CEO			
Separating the activities of the Board from the executive responsibilities of the Company	A.2	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 have been clearly defined and approved by the board. There is no financial, business, personal or other relevant material relationship between the Chairman and the CEO.	Complied

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Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
A.3 Chairman's Role			
Chairman's role in preserving good corporate governance	A.3	<p>The Chairman provides leadership to the Board, and his specific responsibilities have been outlined and approved by the Board 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.</p> <ul style="list-style-type: none"> • ensure that the board works effectively and discharges its responsibilities • ensure that all key and appropriate issues are discussed by the board in a timely manner. • be responsible for the proper conduct of the Board meetings and shareholder meetings in accordance with the law. • Be responsible for communications with shareholders. • Create a constructive relationship with management and act as a conduit between management and the Board but not engage in activities involving direct supervision of management or any other executive functions. • ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the board. • ensure that the information flow to the Board is comprehensive; • respond promptly and comprehensively to concerns raised by other directors; • take leadership on corporate governance issues, including making himself aware of directors' and executives' conflicts of interest and managing any such conflicts. 	Complied
A.4 Financial Acumen			
Availability of financial acumen and knowledge to offer guidance on matters of finance	A.4	The Board has adequate financial acumen and knowledge as several Directors are academically/professionally qualified in finance related subjects and/or have held senior management positions in finance. Qualifications of Directors are described in the Profiles of Directors given in Pages 12 - 17.	Complied
A.5 Board Balance			
Non-executive directors of sufficient calibre and number	A.5.1 and A.5.2	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.	Complied

Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
Independence of Non-Executive directors	A.5.3	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.	Complied
Annual declarations of independence from directors	A.5.4	Annual declarations of independence is obtained from all Independent Directors.	Complied
Annual evaluation of independence	A.5.5	Based on the annual evaluation of independence, the following Directors are deemed to be Independent. <ul style="list-style-type: none"> ▪ Murtaza Jafferjee ▪ Dr. Kemal De Soysa ▪ Ms. Shalini Panditaratne ▪ Conrad D'Souza ▪ Russell De Mel ▪ Ms. Rachini Rajapaksa 	Complied
Senior Independent director	A.5.6 and A.5.7	Mr. Murtaza Jafferjee, an independent non-executive director has been appointed as a Senior Director of the Board in view of the requirements of the Banking Act Direction No.11 of 2007	Complied
SID to meet with other Directors	A.5.8	The Independent Directors met with the SID once during the year.	Complied
Chairman to hold meetings with Non-Executive Directors, without Executive Directors being present	A.5.9	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.	Complied
Recording of Directors' concerns in Board Minutes	A.5.10	Board minutes are prepared in order to record any concerns of the Board as a whole or those of individual Directors regarding matters placed for their approval/guidance/action. These minutes are circulated and formally approved at the subsequent Board meeting. Additionally, directors have access to the past Board papers and minutes in case of need via electronic means at all times.	Complied

Compliance to the Code of Best Practice on Corporate Governance Issued Jointly by the SEC and Institute of Chartered Accountants of Sri Lanka.

Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
A.6 Supply Of Relevant Information			
Provision of appropriate and timely information	A.6.1	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.	Complied
Chairman to ensure all Directors are properly briefed on issues arising at Board meetings	A.6.1	In addition to the comprehensive Board papers, Directors are also regularly kept abreast of changes in the economic and industry landscape that could potentially impact the Bank and are able to seek independent professional advice at the Bank's expense if required.	Complied
Board papers and agenda to be circulated 7 days prior to meetings.	A.6.2	As described above, Board papers are generally circulated 7 days before the meeting. There is provision for circulation of urgent papers within a shorter time frame and also for approval of matters by circulation. However approval by circulation is the exception and not the rule.	Complied
A.7 Appointments To The Board			
Formal and transparent procedure for new appointments through an established Nominations Committee	A.7.1	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 Board Nomination Committee comply with the Central Bank Direction on Corporate Governance.	Complied
Annually assess Board composition	A.7.2	The Board conducts an annual self-assessment of its composition and ascertains the adequacy of the combined skill and experience.	Complied
Disclosure of information to shareholders upon appointment of new directors	A.7.3	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. There were no new appointments to the Board during the year under review.	Complied

Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
A.8 Re-Election			
All directors should submit themselves for re-election at regular intervals	A.8	<p>As per the Articles, 1/3rd of the Directors submit themselves for retirement at each annual General Meeting and be subject to re-election. Such Directors who retire are those who 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:</p> <ul style="list-style-type: none"> Mr. Krishan Balendra Mr. Kumar Jayasuriya Mr. Gihan Cooray Mr. Harsha Raghawan <p>Directors appointed to the Board since the AGM will stand for election for the first time in accordance with the provisions in the Articles of Association.</p> <p>The Board addresses succession planning by ensuring that the board comprises of a number much higher than the required minimum number of 7.</p>	Complied
Non-Executive directors are appointed for specified terms subject to re-election	A.8.1	Non-executive Directors are appointed upon approval of the Central Bank of Sri Lanka and stand for re-election at the AGMs as per the Articles.	Complied
All directors including Chairman to be subject to re-election at first opportunity after appointment and re-election at least every 3 years thereafter	A.8.2	Described in response to A8 above.	Complied
A.9 Appraisal Of Board Performance			
Appraisal of Board Performance	A.9.1	<p>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 in line with the provisions prescribed by the Code of Best Practice. The checklist/questionnaire details areas such as,</p> <ul style="list-style-type: none"> Diversity and skills of the Board Sufficiency of Board information Strength of the Strategic plan <p>The responses are reviewed by the Senior Director who compiles a report which is discussed at a Board meeting.</p>	Complied
Appraisal of Board Sub-Committees	A.9.2	This is included as part of Board self-appraisals	Complied
Disclosure of Board and Sub-Committee method of appraisal	A.9.3	Refer A.9.1 and A.9.2 above	Complied

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Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
A.10 Disclosure Of Information In Respect Of Directors			
Annual Report to disclose specified information regarding directors	A.10.1	<p>Information specified in the Code with regards to Directors are disclosed within this Annual Report as follows:</p> <ul style="list-style-type: none"> Name, qualifications, expertise, material business interests and brief profiles on pages 12- 17 Related party transactions on pages 65 - 66 <p>Membership of sub-committees and attendance at Board Meetings and Sub-Committee meetings on pages 157 - 167.</p>	Complied
A.11 Appraisal Of Chief Executive Officer/Managing Director			
Set reasonable financial and non-financial targets to be met by the CEO	A.11.1	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 for the year.	Complied
Evaluate performance of the CEO with reference to targets	A.11.2	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 and considers explanations for areas where performance has been below expected levels.	Complied
B. Director's Remuneration			
B.1 Remuneration Procedure			
Appointment of a Remuneration Committee	B.1.1	A formal and transparent procedure is in place for determining remuneration of Directors and developing executive remuneration policy. The Board has delegated this responsibility to the Board HR and Remuneration Committee, the details and composition of which are given on page 161 of this Report. The Terms of Reference of the sub-committee are in compliance with the guidelines prescribed by the Code of Best Practice and other investor guidelines.	Complied
Remuneration Committee to comprise exclusively non-executive directors	B.1.2 & B.1.3	<p>The Remuneration Committee comprises of the following directors who are all Non-Executives Directors</p> <p>Mr. Krishan Balendra (Chairman)</p> <p>Dr. Kemal de Soysa</p> <p>Mr. Suran Wijesinghe</p> <p>Mr. Kumar Jayasuriya</p>	Complied

Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
Remuneration for Non-Executive Directors	B.1.4	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.	Complied
Remuneration of Executive Directors	B.1.5	The compensation and benefits of the Executive Director is 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.	Complied
B.2 Level And Make-Up Of Remuneration			
Remuneration for Executive Directors should attract, retain and motivate	B.2.1 & B.2.2	The Bank's remuneration policy is designed to ensure that high calibre individuals are attracted and retained, whilst contributing sustainably and responsibly towards enhancing shareholder value. When determining remuneration policy, the Board considers industry practices and seeks external professional advice if required.	Complied
Positioning company remuneration levels relative to other companies	B.2.3	The HR & Remuneration Committee reviews the Bank's remuneration levels in relation to other Banks in the country annually. 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.	Complied
Performance related elements of remuneration for Executive Directors	B.2.4	Executive Director being the CEO is entitled to a performance related bonus as per the bonus scheme applicable to all employees of the Bank.	Complied
Share option schemes	B.2.5	The Bank currently does not have any executive share option schemes in place.	Complied
Designing schemes of performance related remuneration	B.2.6	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.	Complied
Compensation commitments in the event of early termination	B.2.7	There are currently no compensation provisions for early termination however these are addressed on a case by case basis.	Complied
Dealing with early termination	B.2.8	Directors determine this on a case by case basis.	Complied

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Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
Levels of remuneration for Non-Executive Directors	B2.9	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.	Complied
B.3 Disclosure Of Remuneration			
Composition of Remuneration Committee, Remuneration Policy and disclosure of aggregate remuneration paid to directors	B3.1	The Remuneration Policy and further details on the Remuneration Committee is given on page 161 of this Report. The aggregate remuneration paid to the Executive Director and Non-Executive Directors is disclosed in the Notes to the Financial Statements on page 226 of this Report	Complied
C. Relations With Shareholders			
C.1 Constructive Use of AGM and Other General Meetings			
Constructive use of the AGM & Other General Meetings	C1	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;	Complied
Count of all proxy votes lodged	C.1.1	All lodged proxy votes together with the votes of shareholders present at the AGM are considered for each resolution.	Complied
Separate resolutions for each substantially separate issue	C.1.2	Separate resolutions are proposed for each significant item on the Agenda. The adoption of the report and accounts is proposed as a separate resolution.	Complied
Availability of Board Sub-Committee Chairmen at AGM	C.1.3	Directors of the Board, including Chairmen of Audit, Remuneration and Nomination Committees are available to clarify any points raised by the shareholders.	Complied
Circulation of notice of AGM and related documents to shareholders	C.1.4	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.	Complied
Summary of procedures governing voting at the AGM	C.1.5	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.	Complied
C.2 Communication With Shareholders			

Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
Channel to reach all shareholders	C.2.1	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.	Complied
Policy and methodology for communication with shareholders	C.2.2 & C.2.3	The Bank strives to engage with shareholders in a timely and effective manner through dissemination of accurate and relevant information in accordance with the process described in response to C.2.1	Complied
Contact person for shareholder matters	C.2.4 & C.2.6	Shareholders can direct their questions, comments and suggestions to the Board of Directors or Management team through the Group Company Secretary, who acts as the contact points for shareholder concerns.	Complied
Process to make all Directors aware of major issues and concerns of shareholders	C.2.5	The Group Company Secretary maintains all such correspondences received and initiates follow-up action as soon as practically possible.	Complied
Process of responding to shareholder matters	C.2.7	Refer response to C.2.5 above	Complied
C.3 Major And Material Transactions			
Disclosure of major transactions	C.3.1	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 65 - 66 of this Report.	Complied
D. Accountability & Audit			
Present a balanced and understandable assessment of the Company's financial position, performance and prospects	D1	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 GRI guidelines on sustainability reporting, prescribed by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council	Complied

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Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
Interim reports, price-sensitive public reports, regulatory reports and statutory information requirements	D1.1	<p>Interim performance reports were circulated within 45 days of each quarter end whilst other price sensitive information was disclosed in a comprehensive yet concise manner in accordance with the reporting requirements prescribed by the Colombo Stock Exchange and the Central Bank of Sri Lanka.</p> <p>Reports required by the regulators including Central Bank, Inland Revenue, Registrar of Companies, Colombo Stock Exchange were all filed in a timely manner in compliance with their requirements and these provided sufficient information for the user to obtain a balanced assessment of the Bank's operations.</p>	Complied
Declaration in Directors Report	D1.2	The Annual Report of the Board of Director's on pages 43 - 48 contains the declarations as required by the Code.	Complied
Responsibilities of the Board for the preparation and presentation of Financial Statements and statement by the Auditors about their reporting responsibilities	D1.3	The Statement of Directors' Responsibility on Financial Statements and Report of the Auditors which includes a statement about their reporting responsibilities are provided on pages 170 - 171.	Complied
Include a Management Discussion & Analysis	D1.4	<p>Management Discussion and Analysis as set out from pages 32 - 151 of this Report, includes the following information specified in the Code of Best Practise.</p> <ul style="list-style-type: none"> • 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 	Complied
Declaration of the Directors that the business is a going concern	D1.5	This information is provided in the Annual Report of the Board of Directors on pages 43- 48.	Complied
Notify shareholders in case net assets of the company fall below 50%	D1.6	Not Applicable	Complied

Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
Related Party Transactions	D.1.7	The Bank has implemented a Board approved, formalised process for related party transactions, including identification of related parties, types of transaction and avoidance of conflict of interest. A Related Party 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 from all Directors prior to their appointment and Directors are required to declare any further transactions as and when they arise.	Complied
		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.	Complied
		Internal Control	
Maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets.	D2.1	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 a 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. The Director's Report on pages 163 - 164 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.	Complied
Review need for Internal Audit Function	D2.2	As the Bank has an Internal Audit function, this is not applicable.	Complied

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Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
D.3 Audit Committee			
Establish arrangements for selection and application of accounting policies, financial reporting and internal control principles	D3	<p>The key responsibilities of the Bank's Audit Committee are,</p> <ul style="list-style-type: none"> • Oversight over financial reporting, internal controls and monitoring auditor independence • Gaining assurance on the control over the financial processes and the integrity of the Banks's financial reports • Monitoring performance, objectivity and independence of the External Auditor <p>Please refer to page 166 of this Report for the Board Audit Committee Report.</p>	Complied
Composition and Terms of Reference for Audit Committee	D3.1	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, Chief Financial Officer, EVP (Internal Audit), and representatives of the External Auditors are invited to attend Committee meetings.	Complied
Review of External Audit function and relationship with External Auditors	D3.2	Ernst & Young are the Bank's external auditors and key oversight is provided by the Audit Committee. The principal/consolidation 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 classified on page 222 of the Notes to the Financial Statements.	Complied
Terms of Reference	D3.3	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	Complied

Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
Disclosures regarding Audit Committee	D3.4	<p>The Annual Report of the Board of Directors on pages 43 - 48 of this Report provides the following disclosures;</p> <ul style="list-style-type: none"> • The composition of the Board Audit Committee • A statement pertaining to the Independence of the Auditors 	Complied
D.4 Code Of Business Conduct And Ethics			
Code of Business Conduct and Ethics	D.4.1	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	Complied
Affirmative declaration by Chairman of compliance with Code of Business Conduct & Ethics	D.4.2	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.	Complied
D.5 Corporate Governance Disclosures			
Corporate Governance Report	D.5.1	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 49 - 64 for detailed disclosures on the Bank's Corporate Governance practices	Complied
E. Shareholders-Institutional Investors			
Encourage voting at AGM	E.1	Shareholders are encouraged to participate at the Annual General Meeting and exercise their right to vote.	Complied
Regular structured dialogues with institutional investors	E1.1	A regular structured dialogue is maintained with institutional investors through a formal investor forum	Complied

Compliance to the Code of Best Practice on Corporate Governance Issued Jointly by the SEC and Institute of Chartered Accountants of Sri Lanka.

Principle	SEC and CA Sri Lanka Code Reference	Compliance and Implementation	Adoption Status
E.2 Evaluation Of Governance Disclosures			
Encourage institutional investors to give due weight to relevant governance arrangements	E2	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.	Complied
F. Shareholder Relations-Individual Shareholders			
Individual shareholders are encouraged to do their own analysis or seek independent advice	F.1	Individual shareholders are encouraged to carry out 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. Shareholders also have the opportunity to submit proposals through the Shareholder Relations Forum.	Complied
Encourage shareholders to participate and vote at AGM	F.2	All retail investors are encouraged to participate and vote at the AGM.	Complied
G. Sustainability Reporting			
Principles of sustainability reporting	G.1	<p>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 18 - 19 of this Report.</p> <p>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 GRI guidelines of the Global Reporting Initiative</p>	Complied

Directors' Interest in Contracts with the Bank

The Bank carried out transactions in the ordinary course of its business at commercial rates with the following Director related entities.

Details of the transaction carried out by Director related entities during the year 2017.

Name of the related party	Name of Director	Relationship	Details
Allied Properties Limited	Mr. Krishan Balendra	Director	A sum of LKR 30,098,220 was paid as Interest Expense
	Ms. Renuka Fernando	Director	A sum of LKR 141,120,000 was received as Dividend
	Mr. Prasanna De Silva	Director	A sum of LKR 41,685,660 was paid as Rent Expenses
	Mr. Suran Wijesinghe	Director	
Asian Hotels & Properties PLC	Mr. Krishan Balendra	Director	A sum of LKR 25,646,390 was paid as Interest Expense
			A sum of LKR 2,000 was received as Other Income
			A sum of LKR 14,734,063 was paid as Other Expenses
Central Finance Company PLC	Mr. Prasanna De Silva	Director	A sum of LKR 22,680,609 was received as Interest Income
	Mr. Kumar Jayasuriya	Director	A sum of LKR 412,555,299 was paid as Interest Expense
			A sum of LKR 3,426,523 was received as Other Income
			A sum of LKR 46,657,158 was paid as Vehicle Hire Charges
			A sum of LKR 39,374,741 was paid as Dividend
CF Insurance Brokers (Pvt) Limited	Mr. Prasanna De Silva	Director	A sum of LKR 289 was received as Interest Income
			A sum of LKR 147,381 was received as Other Income
			A sum of LKR 20,134,344 was paid as Dividend
Cinnamon Hotel Management Limited	Mr. Krishan Balendra	Director	A sum of LKR 3,140,000 was paid as Business Promotion
			A sum of LKR 7,699 was received as Other Income
Hedges Court Residencies (Private) Limited	Mr. Prasanna De Silva	Director	
Jaykay Marketing Services (Private) Limited	Mr. Krishan Balendra	Director	A sum of LKR 750 was received as Interest Income
	Mr. Gihan Cooray	Director	A sum of LKR 9,075,390 was paid as Interest Expense
			A sum of LKR 18,677,500 was paid as Business Promotion
			A sum of LKR 3,448,220 was paid as Rent
			A sum of LKR 172,000 was received as Other Income
John Keels Hotel PLC	Mr. Krishan Balendra	Director	A sum of LKR 6,449 was paid as Interest Expense
			A sum of LKR 10,375 was received as Other Income
John Keels Stock Brokers (Private) Limited	Mr. Krishan Balendra	Director	A sum of LKR 5,007,785 was paid as Interest Expense
			A sum of LKR 405,100 was received as Other Income
John Keels Holdings PLC	Mr. Krishan Balendra	Director	A sum of LKR 115,738,858 was paid as Interest Expense
	Mr. Gihan Cooray	Director	A sum of LKR was 1,076 received as Interest Income
			A sum of LKR 87,665,385 was paid as Dividend
			A sum of LKR 40,978 was received as Other Income
Nations Insurance Brokers	Ms. Renuka Fernando	Director	A sum of LKR 19,988,874 was paid as Interest Expense

Directors ' Interest in Contracts with the Bank

Name of the related party	Name of Director	Relationship	Details
	Dr. Kemal De Soysa	Director	A sum of LKR 292,770,000 was received as Dividend A sum of LKR 7,540,034 was received as Other Income
Waldock Mackenzie Limited	Mr. Krishan Balendra	Director	A sum of LKR 6,936,679 was paid as Interest Expense
	Ms. Renuka Fernando	Director	A sum of LKR 5,747,115 was received as Interest Income
	Mr. Gihan Cooray	Director	A sum of LKR 6,210,000 was received as Dividend
	Mr. Prasanna De Silva	Director	A sum of LKR 7,116,418 was received as Other Income
	Mr. Suran Wijesinghe	Director	A sum of LKR 671,925,367 was received as Share repurchase
Walkers Tours Limited	Mr. Krishan Balendra	Director	A sum of LKR 6,651,719 was paid as Interest Expense A sum of LKR 18,900 was received as Other Income
Whittall Boustead (Travel) Ltd	Mr. Krishan Balendra	Director	A sum of LKR 44 was received as Interest Income A sum of LKR 931 was paid as Interest Expense A sum of LKR 4,200 was received as Other Income
Yala Village (Private) Limited	Mr. Krishan Balendra	Director	A sum of LKR 26,903 was paid as Interest Expense A sum of LKR 35,000 was paid as Business Promotion
CF Growth Fund Limited	Mr. Prasanna De Silva	Director	A sum of LKR 28,156,289 was paid as Dividend
Trans Asia Hotels PLC	Mr. Krishan Balendra	Director	A sum of LKR 20,000 was paid as Business Promotion A sum of LKR 1,000 was received as Other Income

Details of accommodation granted and balances outstanding as at 31 December 2017

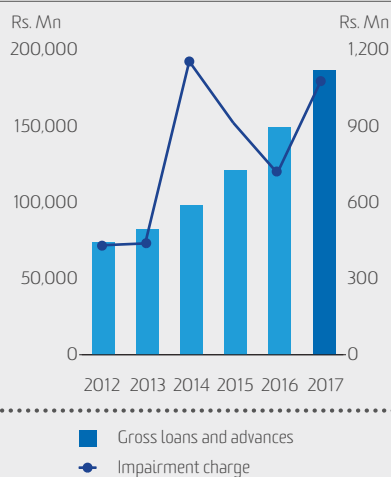
Name of the Related Party	Name of Director	Relationship	Accommodation Granted	Limit-LKR	Amount Outstanding as at 31 December 2017 - LKR
Central Finance Company PLC	Mr. Prasanna De Silva	Director	Working Capital Financing	440,000,000	169,261,494
	Mr. Kumar Jayasuriya	Director			

Risk Management Review

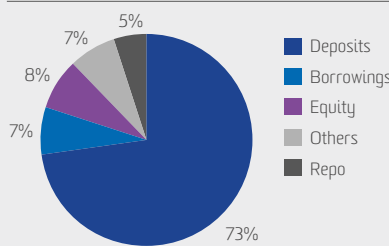
At Nations Trust Bank, the sustainable creation of stakeholder value is underpinned by robust risk management framework and practices which has evolved over the years to become deeply embedded in our culture.

In response to emerging risk trends, regulatory change and an increasingly dynamic business environment, Bank has focused on proactively strengthening its integrated risk management framework, allowing the Bank to be resilient through business cycles. 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.

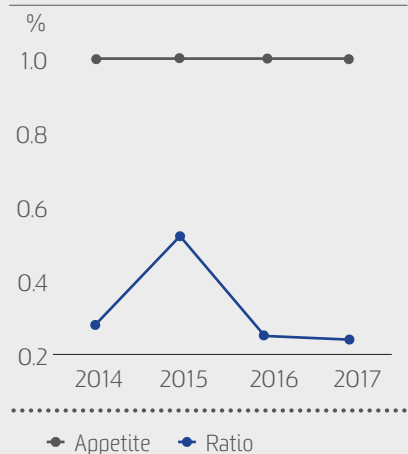
Impairment Trends



Funding Composition



Operational Losses to Operating Expenses Ratio



Risk Management Review

External factors affecting the Bank's risk profile

During the year under review, the following external drivers had an impact on the Bank's overall risk profile,

Macro-economic conditions

The moderate expansion of the country's Industrial and Services sector provided opportunities for growth, while the disappointing performance of the Agriculture Sector somewhat affected our agriculture related lending book.

Regulatory changes

- Implementation of Basel III
- Parallel reporting for Liquidity Coverage Ratio and Net Stable Funding Ratios
- New Foreign Exchange Act
- IFRS 9 implementation

Government policy

A relatively tight monetary policy stance and increased flexibility in determining the exchange rate had an implication on our market risk factors.

Customer preferences

Increasing customer sophistication and need for multi-channel banking, better customer service and wider accessibility has compelled us to revisit our customer service proposition.

Cyber threats

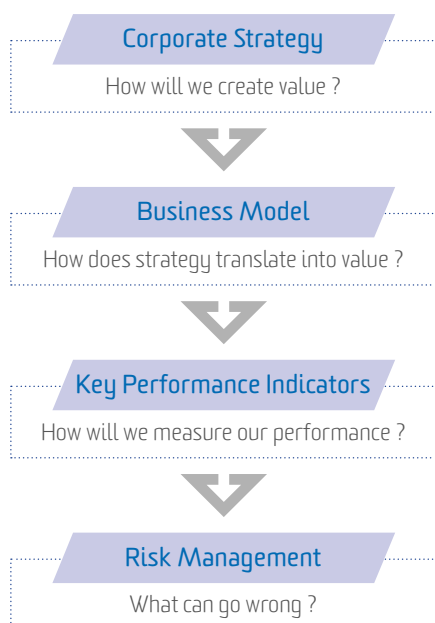
Increasing connectivity has afforded numerous opportunities for customer engagement and servicing, although this is complemented by numerous risks related to cyber security, customer privacy and information system risks.

Climate change

Implications of climate change have been felt through erratic weather conditions including a prolonged drought and floods which have impacted the country's Agriculture sector.

(a) Linking Business Strategy to Risk Management

At Nations Trust Bank, risk management is considered an integral element of all organisational processes that create, sustain and protect value. Risk management is embedded into strategic planning including projects and all daily operations. In addition to regulatory requirements, our risk management framework embraces globally accepted, best practices in identifying, assessing, measuring and managing the key risks faced, including the critical interdependencies between the risks.



Our business model and risk exposures

The Bank's risk profile is reinforced by its business model which represents the business activities and processes in place to transform inputs into long-term value for stakeholders. The risk management framework is aligned to the Bank's overall business strategy, enabling it to proactively identify, measure, mitigate and respond to emerging risks arising due to the Bank's strategic agenda. Key risks stemming from the Bank's business model are given 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 (systems, people, inadequate processes, external events)
	Compete	➤ Strategic risk
	Regulated industry	➤ Compliance risk
Risks monitored by the Bank for impact	Geopolitical risk	
	Macro-economic risk	
	Legal/regulatory risk	

The risk assessment of the components of the business model enables the Bank to evaluate the robustness of the existing business model and identify the events that could impact the efficient and effective delivery of sustainable value creation. The assessment also identifies opportunities for improving operational and compliance efficiency. This helps the Bank to identify the risks it is willing to take – often defined or characterised as the risk appetite.

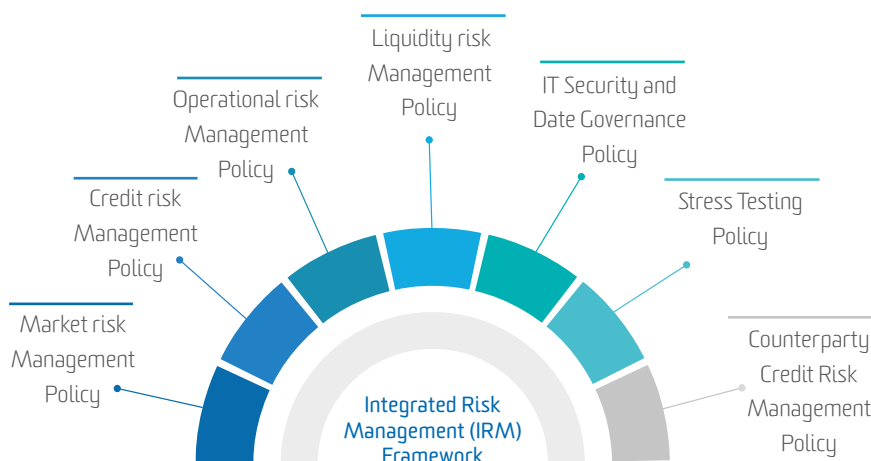
efficiency and to consistent, comparable and reliable results. It is underpinned by setting objectives, strategies, policies, risk appetite and tolerance limits for key types of risks.

Integrated Risk Management Framework

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

(b) Approach for Risk Management

Our systematic, timely and structured approach to risk management contributes to



Risk Management Review

independence of judgment and judicious empowerment. A comprehensive framework of policies ensures the consistency and clarity in the identification, measurement, management and reporting of key risks.

The Bank's key risk management objectives are,

- Establish a framework that supports the business activities to maximise risk-adjusted returns within the Board approved Risk Appetite and other aspects such as regulatory requirements and the Bank's internal controls
- Accurately identify and measure the sources of these risks
- Recommend appropriate levels of risks, consistent with the Board of Directors appetite or tolerance for such risks
- Control the level of 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 guidelines, Stock Exchange Requirements, CSE regulations, 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 overall Bank's strategic objectives.

Risk Appetite

An integral part of Bank's Integrated Risk Management (IRM) is the development of key risk metrics, exposure limits, and governance and oversight processes to ensure enterprise-wide risks are within acceptable and manageable levels. A best-practice approach to addressing these requirements is to implement a clearly defined Risk Appetite Statement (RAS).

While developing the Bank's RAS, we have considered following fundamental aspects with respect to strategy, risk management, and operations, including:

- The strategies for the overall organisation and individual business units, the key assumptions underlying those strategies
- The significant risks and aggregate risk levels that the bank is willing to accept in order to achieve our objectives

- The governance structures and risk management policies to oversee and control risks
- Assess and quantify the key risks so that bank can monitor our exposures and key trends over time
- Establish the appropriate risk tolerances given our business objectives, profit and growth opportunities, and regulatory requirements
- Integrate our risk appetite into strategic and tactical decision making in order to optimize our risk profile
- Establish an IRM feedback loop and provide effective reporting to the Board and senior management

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 2017	Limit/Range for 2017	Limit/Range for 2016
Credit Risk			
Impairment Ratio	1.32%	1.5% - 2.25%	1.75% - 3.00%
Market Risk			
Sensitivity of the Trading portfolio against interest rate fluctuations	0.05%	Below 2%	Below 2%
Liquidity Risk			
Loan to Deposit Ratio (L/D Ratio)	98.9%	100%	100%
Operational Risk			
Operational Losses to Operating Expenses Ratio	0.24%	1%	1%

Risk Appetite Dashboard Structure

Define risk tolerances for five primary risks:

Strategic/Business: The impact on earnings or value arising from adverse business decisions or lack of responsiveness to industry changes

Financial: The risk to income, cash flows or valuation of equity resulting from adverse movements in market rates or prices

Operational: The risk of adverse economic impact resulting from human error or malfeasance, failed internal processes or systems, or external events are monitored through Key Risk Indicators (KRI) framework

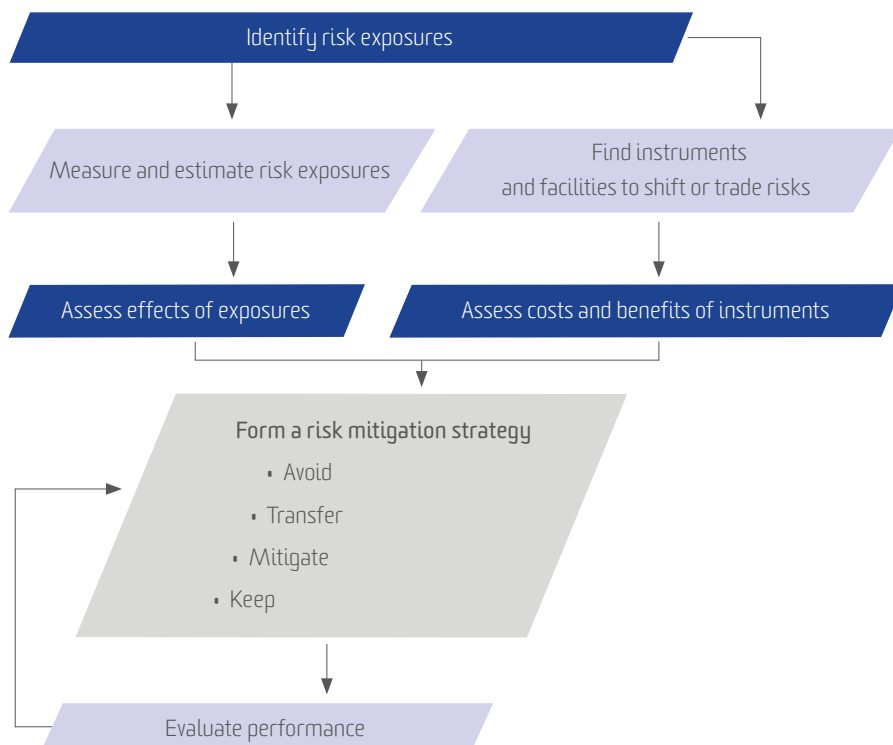
Compliance: The risk of legal or regulatory sanctions, financial loss, or damage to reputation as a result of the company's failure to comply with laws and regulations

Reputational: The risk arising from negative opinion as viewed by the company's stakeholders



Risk Management process

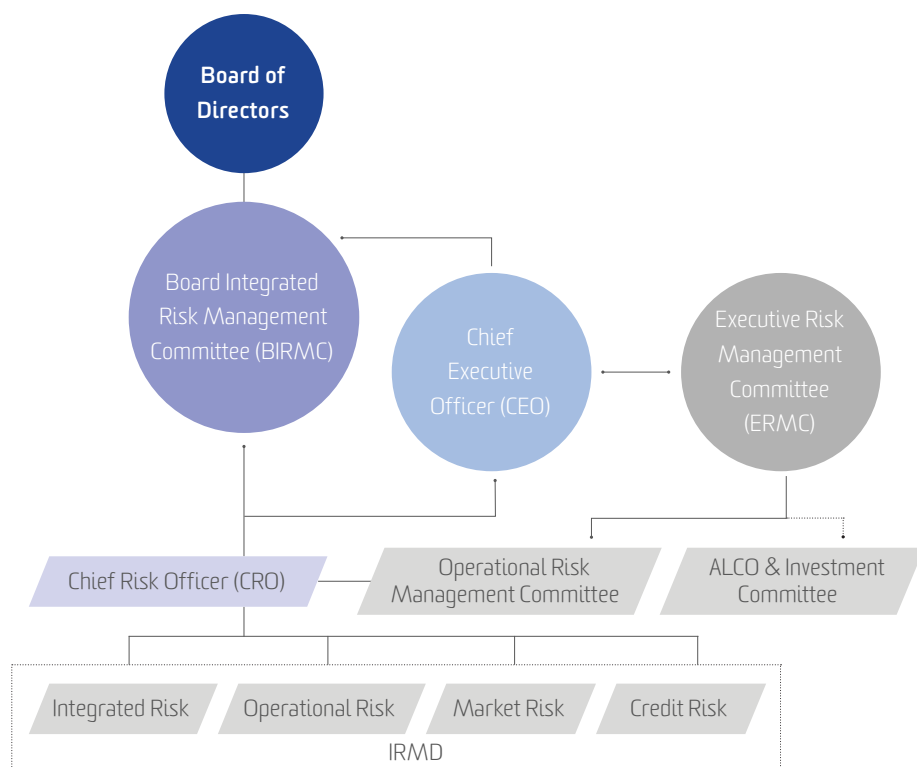
The Bank's risk management process comprises the following steps;



Risk Management Review

(c) Risk Governance

Clearly defined risk governance structures enable the segregation of duties and judicious empowerment of employees. 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-related management processes. 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 Bank 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 controls on financial reporting, risk management measures and governance structures in place to mitigate current and emerging risks. For further details on the composition and activities of BARC, please 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, please 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 (ERM)

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, all heads of business units and managers from the risk, management reporting and financial risk reporting divisions, 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, pricing of assets and liability products, 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 CEO, CIO, Business line heads, COO, CFO and CRO among others.

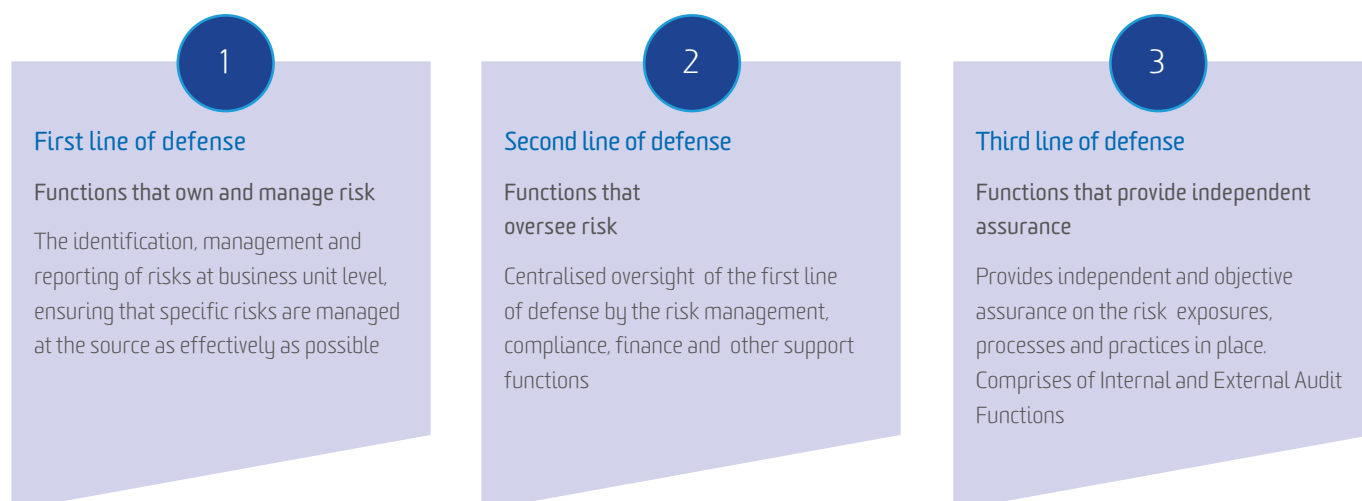
Operational Risk Management Committee (ORMC)

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, EVP (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 a functional level. The committee will provide its recommendation to ERMCM and subsequently to BIRMC as may become necessary.

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.



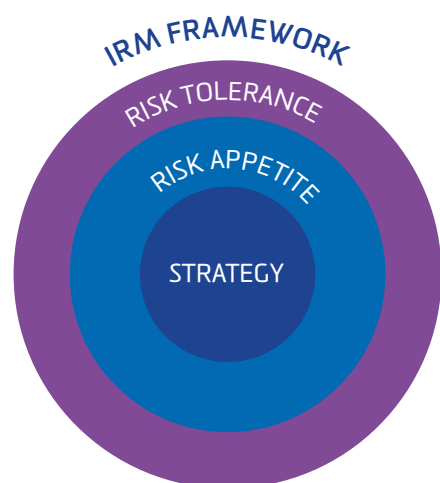
The Integrated Risk Management Department (IRMD)

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 below;

Nurturing a Risk Culture	Risk Measurement	Risk Monitoring	Risk Management
Nurtures an organisation-wide risk culture through development of a common risk language and Bank-wide risk training and support	Carry out impairment of loans and advances comprehensively ensuring adequate loan loss reserves	Monitor compliance with risk management policies and procedures	Development and review of risk management tools
Provides interpretation of risk-related regulations/ leading practices and disseminates to business units	Carry out "Loan review Mechanism" and continuously improve and strengthen lending processes and practices	Monitor the Bank's overall risk profile, including risk aggregation, reporting, trends, and change in material risk positions	Devise and implement Credit Portfolio Management techniques and advice management/BIRMC as appropriate

Risk Management Review

The key linkages between IRM, Risk Appetite, Risk Culture



RISK CULTURE

Tone from the Top

Risk Culture Surveys

Talent Management

Incentive Programmes

Training Programmes

(d) Risk Culture

The success of the risk management frameworks and practices implemented within the Bank are ultimately dependent on the values, attitudes and awareness of our employees. We persistently strive to nurture a culture of risk awareness among our employees through numerous engagement mechanisms, ongoing communication and risk-related training. Procedure manuals are in place for all critical operations, compelling employees to follow standards guidelines in

day to day activities. Ongoing communication through news bulletins, social media (Yammer group updates) collaboration tools and e-mails are aimed towards strengthening the risk dialogue within the Organisation. Risk also forms a vital part of the Bank's training proposition, comprising several mandatory training modules for all employees. The Risk Reporting process which include the Risk and Control Self Assessment (RCSA) Process and Transaction In Difficulty (TID) / Operation Loss Events (OLE) reporting have helped to instil a culture of risk-awareness.

(e) Risk Measurement

The Bank adopts an array of tools and techniques to measure its key risk exposures as listed below;

Risk exposure	Tools and techniques	Frequency of measurement
Credit Risk	Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD). Trends and Sector Concentration, NPL Ratios, Early Warnings monitoring	Monthly
Market Risk	Maturity/Interest Rate Risk Gap analysis, Interest Rate Risk Ratio, PVBP, VAR, Duration Analysis, Sensitivity Analysis, Stress Testing on IRR in Trading/ Banking book (EAR/EVE), Duration Analysis	Daily/Monthly
Operational Risk	Transaction In Difficulty (TID), Risk Control Self Assessment (RCSA)/Heat map/Scenario Analysis/Key Risk Indicators	Daily/Monthly
Reputational Risk	Customer feedback/complaints, Positive/Negative publicity through qualitative scorecard approach	Daily
Strategic Risk	Banks financial performance/Peer performance and strategic initiatives through Qualitative scorecard approach	Monthly

(f) Risk Reporting

Clearly defined risk reporting mechanisms ensure that key risk exposures are identified and escalated to the relevant personnel and ultimately the Board of Directors in a timely and relevant manner. Risk reporting encompasses all key risk exposures as given below and are clearly communicated to the all relevant employees across the organisation.

Risk Exposure	Reporting line	Risk Reporting	Content
Credit Risk	Board of Directors	Credit Risk Summary	Portfolio Health / aging & trend analysis, Allowance for Impairment, Concentration Risk Analysis, NPL vintage Analysis
		Exposure vs Risk Appetite	NPL ratio Net of IIS, Specific Provision Cover, Impairment Ratio, NPA stress test, Sectoral exposures, Accommodation to related parties, Rating-wise exposures"
		Loan Review Mechanism (LRM) Reports	LRM findings & recommendations
	Management/ Management Sub committees	Credit Risk Management Report	Top 20 Exposures, Portfolio Health / aging & trend analysis, Analysis of Impairment assessment
		Early Warning Signals Summary	Analysis of Early warnings / exposures
		Watch lists	Management watch list customer updates
Market Risk	Board of Directors	Exception Report	Breaches of FX Net Open Position Limits, Stop loss Limits and other Market Risk limits
		FIS performance	Government Security movement and performance
		USD and other Investments Report	Performance on investment in foreign currency securities and corporate debt securities
		Exposure vs Risk Appetite	Interest rate Risk, Sensitivity of the Trading portfolio against interest rate fluctuations, FX Rate Risk, Projected Net Cash Inflow/(Outflow) in Bank books, Liquidity Coverage Ratio, Statutory Liquidity Ratio, Loans / Deposit Ratio (L/D)
		Quarterly Stress testing on Trading book	Stress testing based on historical market rate movements
	Management/ Management Sub committees	Treasury Performance Report	Liquidity Reserve ratio, M 2 M of FX and FIS portfolios, Daily Treasury Profitability, Treasury Exceptions
		ALCO Report	Maturity Gap, Liquidity Reserve ratio, Liquidity Coverage Ratio, Liquidity Stress Testing, Other Liquidity Stock ratios, Monitoring of Contingency Funding plan, Interest rate risk ratios, FX Risk and Sensitivity Analysis
		Management Report	Performance of Investments in Government Securities
Operational Risk	Board of Directors	Exposure vs Risk Appetite	Uninsured Operational Losses Vs net income, Total operational losses Vs operating expenses Summary of Operational Losses & Loss Events,
	Management/ Management Sub committees	Monthly Operational Risk Management Report	Operational Risk - Risk Appetite, Detailed analysis of Operational Losses

Risk Management Review

(g) Stress Testing

Stress testing is conducted on an ongoing basis to identify 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.

Credit Risk	Deterioration in asset quality Increase in large NPLs Shifts in NPL categories
Interest Rate Risk	Movements in interest rate by +/- 100 bps and 200 bps
Foreign Exchange Risk	Forex Risk on Net Open Position
Liquidity Risk	Funding Capability of a cash outflow in a Liquidity stress scenario - up to 1 month
Operational Risk	Scenarios based on historical events from internal and external loss data

➤

Potential impact on:
 • Capital Adequacy • Funding Capability/Liquidity
 • Earnings

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

Stress Testing - Liquidity Risk

Mild Stress Scenario - Bank Specific Crisis

In this scenario it is assumed that the Bank's liabilities cannot be rolled over or replaced, resulting in the need to utilize its liquidity cushion. For retail banks, this scenario is likely to entail an acute deposit run. Such a

scenario would typically include the following characteristics:

- Significant daily run-off rates for deposits, with increasing requests from customers to redeem their time deposits before maturity;
- Interbank deposits repaid at maturity;
- No new unsecured or secured funding obtainable from the market;
- Forced sale of marketable securities at discounted prices.

Moderate Stress Scenario - Market Crisis Scenarios

This scenario is characterised by a market-wide liquidity squeeze, with severe contraction in the availability of secured and unsecured funding sources, and a simultaneous drying up of market liquidity in previously highly liquid

markets. Implications are likely to be,

- Counterparty defaults
- Substantial discounts needed to sell or repo assets and wide differences in funding access among banks due to the occurrence of a severe tearing of their perceived credit quality (i.e. flight to quality);
- Restrictions on currency convertibility; and
- Severe operational or settlement disruptions affecting one or more payment or settlement systems.

Severe Stress Scenario - Combination of Bank specific and Market crisis scenario

Integration of bank specific and market crisis scenarios with acute deposits runs and credit quality deterioration.

Stress Testing - Interest Rate Risk

Stress testing is conducted on interest sensitive assets in the Trading and AFS portfolios in order to measure the impact of plausible economic downturns. The exercise is performed quarterly in line with bank's stress testing policy. Based on the analysis on macro-economic variables, portfolios are stressed under three scenarios namely Major, Moderate and Minor. A parallel shift on yield curves are applied under these scenarios and the results are presented to BIRMC.

Stress Testing - Exchange Rate Risk

Based on historical movements of foreign currency values as well as macro-economic variables the Bank perform stress testing on its currency positions on a quarterly basis. USD/LKR rate is stressed under three different scenarios whereas other major currencies are stressed under worst possible conditions. Results are presented to BIRMC on quarterly basis.

Stress Testing - Operational Risk

As part of stress testing for operational risk, scenarios of potential events, which are plausible, forward looking and having severe

impact to the Bank if they occur are identified and analysed. Identified external events forms another key component of such scenarios. Modeling stressed losses based on historical loss data sets has the inherent limitation of not being able to predict the unknown events that might not yet have materialized but are plausible in the future, while inadequate external loss data is another challenge. Despite these inherent limitations, the existing framework for stress testing of operational risk forms an integral part of stress testing.

(h) Mitigating Key Risk Exposures

The Bank's key risk exposures during the year under review are illustrated below;



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 composite with following;

• Comprehensive credit policy framework

The credit risk 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 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 analysis
- 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 assessment.
- Periodic reporting to HOCC, BCC and BIRMC

• Risk Scoring

Tailor-made risk scorecards which adopt advanced statistical data analytics are utilised when underwriting consumer and SME loans. These scorecards are based on credit-worthiness of individual customers, disposable 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 have borne results, with several key business lines (such as leasing portfolios & corporate) achieving significant improvements in NPL and impairment positions.

Areas of focus in 2017

- **Strengthened pre-credit sanctioning and collections:** Proactively providing independent assessments for approvals while increased vigilance on certain sectors such as real estate, apartments and motor vehicle imports among others.
- **Strengthened the Consumer Credit Policy:** In response to increased impairment in the 2nd quarter of the year, we revised the policies on minimum salary thresholds,

Risk Management Review

amount of disbursement and strengthened credit evaluation of the portfolio of organisations to which we were providing salaried employee loans.

- **Post-credit monitoring:** Strengthened the early warning signal system, enabling business units to foresee potential deteriorations in credit quality and be more proactive in collections and monitoring.
- **Enhanced the continuous feedback loop:** Improved coordination and communication between the pre-credit sanctioning and post-credit monitoring divisions.
- **IFRS 9 Implementation:** Introduced mechanisms to strengthen the impairment assessment methodology in line with the requirements of IFRS 9.
- **Training:** Employee training on credit appraisal, risk acceptance and overall awareness on credit risk.

Credit Risk Performance in 2017

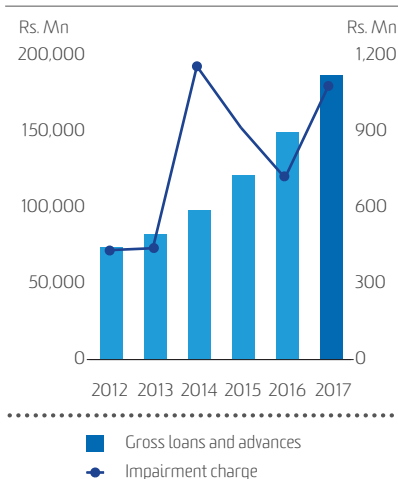
Operating Context: The Bank sought regional diversification through corporate offshore banking with new customers in Cambodia and Maldives, giving rise to credit risk although this is balanced by the Bank's partnership with strong funding partners and counterparties. Meanwhile, the weaker agriculture sector affected the working capital and cash cycles of the trading sector leading to an increase in NPLs from the SME segment.

Overall portfolio growth was 25%, supported by strong volume growth in the SME sector. 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 increased by 63%, stemming primarily from the increased impairment in consumer portfolio and SME Sector.

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 decreased marginally from 2.80% in 2016 to 2.72% in 2017, due to prudent credit risk management and strong loan book growth contributing towards the improvement.

Impairment Trends



Individually Impaired Loans (as per financial reporting) (in LKR '000)

	Exposure		Impairment Provision	Impairment		Age Analysis		
	On Balance sheet	Off Balance Sheet		Net Present Value of Future Cash Flows*	Write Offs During the period	0 - 30 Days	31 -90 Days	Above 90 Days
Corporate Loans	1,466,105	-	246,817	1,219,218	-	1,179,494	100,682	216,503
Retail, SME & Consumer	3,690,898	-	803,954	2,886,944	-	1,943,266	1,151,320	596,313
Housing Loans	-	-	-	-	-	-	-	-
Leasing	168,933	-	6,193	162,740	-	100,085	68,848	-
	5,325,936	-	1,056,964	4,268,972	-	3,222,845	1,320,850	812,816

*Sum of net present value of cash flows expected through normal business activities or collateral liquidation

Collectively Impaired Loans (as per financial reporting) (in LKR '000)

	Exposure		Impairment		Age Analysis		
	On Balance sheet	Off Balance Sheet	Impairment Provision	Write Offs During the period	0 - 30 Days	31 -90 Days	Above 90 Days
Corporate Loans	44,270,709	-	63,139	-	43,804,911	441,032	24,766
Retail, SME & Consumer	96,884,936	-	1,297,361	553,291	87,589,227	7,303,520	1,992,189
Housing Loans	3,202,405	-	65,899	-	2,955,257	89,992	157,156
Leasing	37,084,757	-	125,550	199,739	29,049,740	7,847,162	187,855
	181,442,807	-	1,551,949	753,030	163,399,135	15,681,706	2,361,966

* Staff Loans and Off Balance Sheet exposures are not assessed for impairment.

NPL Ratios - Key Business Lines

	Gross NPL ratio (%)	
	2017	2016
Consumer	4.3%	4.2%
Leasing	0.9%	2.2%
Corporate	0.2%	0.6%
SME Portfolio	4.2%	3.8%

Performing & Non Performing Loans (as per regulatory reporting) (in LKR '000)

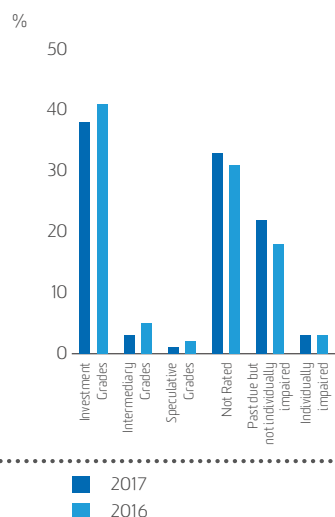
	Performing Loans				Non Performing Loans						
	Exposure		Exposure		Provision		Age Analysis*				
	On Balance Sheet	Off Balance Sheet	On Balance Sheet	Off Balance Sheet	Specific Provision	Collateral Information	Write Offs During the Period	Special Mention	Substandard	Doubtful	Loss
Corporate Loans	45,477,797	-	289,591	-	208,162	-	-	48,322	37	22,604	218,627
Retail, SME & Consumer	96,623,198	-	3,952,637	-	1,875,482	1,019,486	553,291	1,958,608	818,581	211,656	963,791
Housing Loans	2,998,748	-	203,657	-	45,421	280,190	-	67,525	8,566	22,358	105,209
Leasing	36,919,790	-	333,900	-	51,404	-	199,739	253,164	22,327	19,974	38,436
	182,019,533	-	4,779,785	-	2,180,469	1,299,676	753,030	2,327,619	849,511	276,592	1,326,063

Note: Rs 3,806 Mn worth of NPL contracts were not impaired individually and assessed under collective impairment as they were below individually significant threshold.

*Age analysis is based on regulatory sub classification criteria.

Risk Management Review

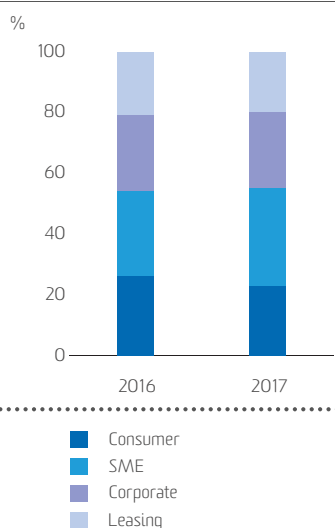
Risk Ratings Distribution



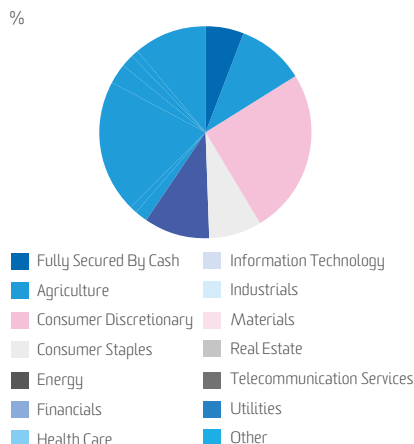
Concentration risk

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.

Product-wise Breakdown



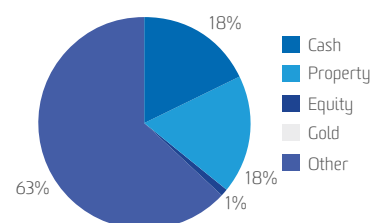
Sectoral Distribution of Loans



Large exposures

Large exposures	% of total portfolio (Cumulative)
Top 5	4.20%
Top 10	7.47%
Top 20	12.07%
Other	87.93%

Collateral Breakdown



Further details of exposures subject to credit risk by major types, geographical areas, sectors and residual maturity are available with notes 14, 42 and 44 to financial statements.

Market Risk Management

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.

The Bank's Market Risk Exposure

Assets	2017		
	Trading book (Rs. million)	Non-trading book (Rs. million)	Total (Rs. million)
Cash and Cash Equivalents	-	6,867	6,867
Balances with Central Bank of Sri Lanka	-	11,193	11,193
Reverse Repurchase Agreements	-	11	11
Derivative Financial Instruments	230	-	230
Financial Assets	521	48,732	49,253
Other Financial Assets	-	6,798	6,798
Loans and Advances to Customers	-	186,537	186,537
Other Assets	-	1,893	1,893
Investments in Subsidiaries	-	679	679
Fixed Assets (PPE & Intangibles)	-	3,733	3,733
Total Assets	751	266,443	267,194
Liabilities			
Due to Banks	-	10,714	10,714
Repurchase Agreements	-	12,319	12,319
Derivative Financial Instruments	495	-	495
Due to Customers	-	194,297	194,297
Debt Issued and Other Borrowed Funds	-	19,738	19,738
Tax Liabilities (Current & Differed)	-	2,541	2,541
Other Liabilities	-	6,282	6,282
Equity & Other Reserves	-	20,808	20,808
Total Liabilities	495	266,699	267,194
Commitment & Guarantees	-	134,932	134,932
Forward on Government Securities	-	-	-
Derivative Assets- Held for Trading (Net)	38,199	-	38,199
Contingent Liabilities & Commitments	38,199	134,932	173,131

The Asset Liability Management Committee (ALCO) holds executive responsibility for overseeing the Bank's market risk exposures. On the other hand Investment Committee is responsible for overseeing investment and reinvestment of the Bank's funds and also

evaluating investment performance. The evaluation will take into account compliance with investment policies and guidelines and risk tolerance levels. 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 Foreign Currency Net Open Position (NOP) 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, liquidity risk management policy, FOREX risk 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 foreign currency net open position limits, counterparty limits, stop loss limits, minimum liquidity stop ratios and other market risk related limits. Actual performance against these limits are monitored by the 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 proactive management of emerging market risks.

Areas of focus in 2017

Revised the liquidity management policy:

Revised to include more robust monitoring, wider measurement tools and techniques comprising new ratios and more stringent stress testing mechanisms with embedded macro-economic scenarios.

Implementation of ALM System:

Dynamic and Static modules to strengthen analytical capabilities which include system generated gap analyses, Value at Risk methods, stress testing tools and risk reporting capabilities.

Risk Management Review

New dimension of Interest Rate Risk

measurements: IRRBB and Interest Rate Risk Ratios to comply with requirements of our international funding agencies.

Foreign Exchange Risk

Foreign Exchange (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 independently monitored on a daily basis by the Treasury Middle Office, ensuring Market Risk exposures are within the board approved limits. These transactions are also governed by the CBSL which has in place a stringent regulatory framework which includes an approval mechanism and exposure limits.

Net Open Position of Foreign Currency Denominated Assets and Liabilities of Domestic Banking Unit * (in millions of respective currency)

Currency	As at 31st December 2017	Up to One month	1 - 3 months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	NOP
USD	Assets (on and off BS)	66.191	39.934	87.435	41.706	10.196	10.656	2.225	(1.053)
	Liabilities (on and off BS)	75.739	19.211	30.109	26.245	12.198	54.341	41.553	
	Periodic gap	(9.548)	20.723	57.326	15.461	(2.002)	(43.685)	(39.328)	
GBP	Assets (on and off BS)	6.925	1.505	1.007	0.022	0.064	0.049	0.023	(0.018)
	Liabilities (on and off BS)	0.754	0.684	1.693	0.970	0.709	0.267	4.536	
	Periodic gap	6.171	0.821	(0.686)	(0.948)	(0.645)	(0.217)	(4.514)	
EUR	Assets (on and off BS)	3.366	1.297	6.340	5.085	0.231	0.067	0.010	0.006
	Liabilities (on and off BS)	0.624	0.515	6.596	5.735	0.660	0.253	2.007	
	Periodic gap	2.742	0.782	(0.255)	(0.651)	(0.429)	(0.186)	(1.997)	
AUD	Assets (on and off BS)	8.683	6.905	0.707	0.011	0.040	0.038	0.025	(0.039)
	Liabilities (on and off BS)	1.147	1.867	1.492	1.827	1.314	0.512	8.290	
	Periodic gap	7.537	5.039	(0.785)	(1.816)	(1.274)	(0.475)	(8.265)	
JPY	Assets (on and off BS)	47.773	0.192	0.297	0.602	2.648	1.573	-	0.318
	Liabilities (on and off BS)	39.413	0.442	0.919	0.492	4.079	1.538	5.883	
	Periodic gap	8.360	(0.251)	(0.623)	0.110	(1.431)	0.035	(5.883)	

* As per regulatory monitoring of Net Open Position

Liquidity Risk

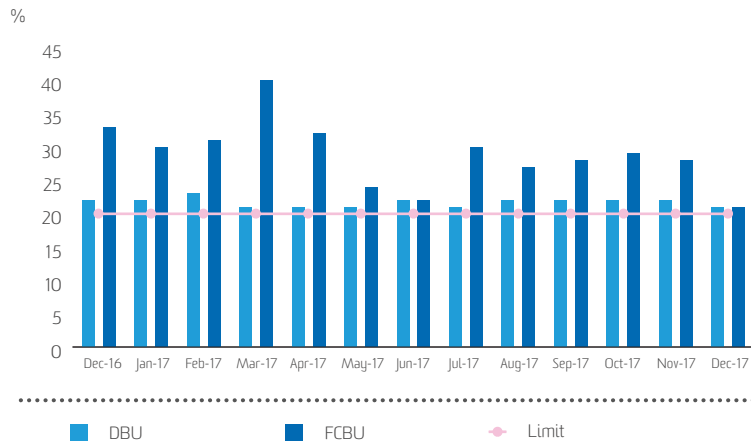
Oversight responsibility for managing the Bank's liquidity risks is with the ALCO, which ensures that a sufficient liquidity buffer is maintained to meet the Bank's financial obligations. The ALCO regularly reviews

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.

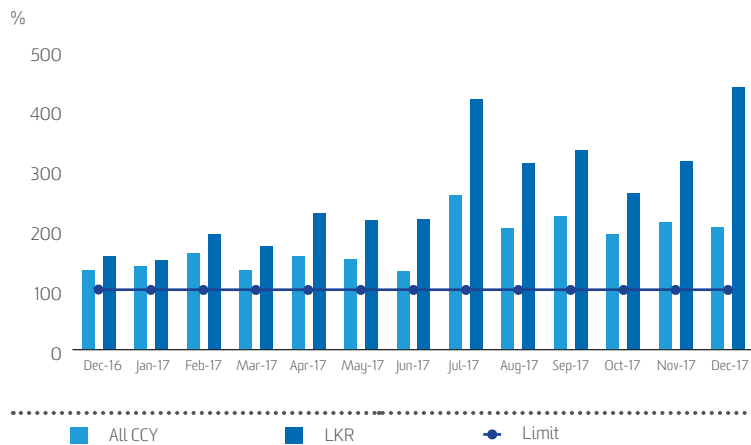
Healthy level of liquidity buffers were maintained throughout the year. Liquidity indicators were maintained comfortably within regulatory minimums and the limits defined by the Risk Appetite statement. Maturity analysis of assets and liabilities highlighted below also indicates a relatively healthy liquidity position.

Trend in Liquidity Ratios

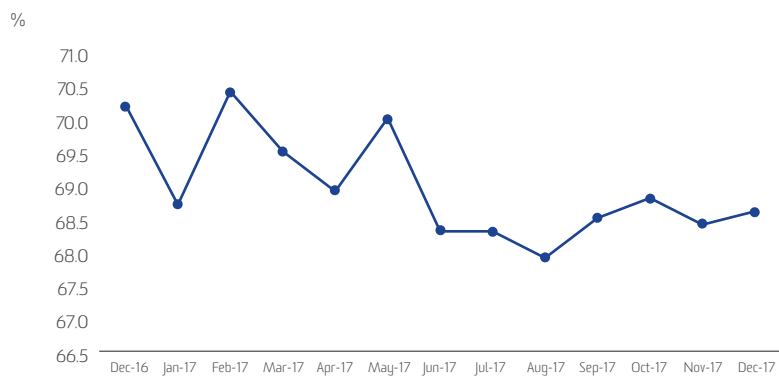
Statutory Liquidity Ratio



Liquidity Coverage Ratio

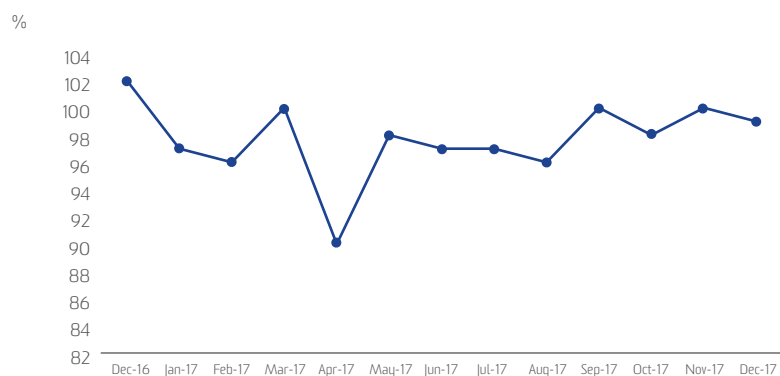


Net loans to Total Assets Ratio

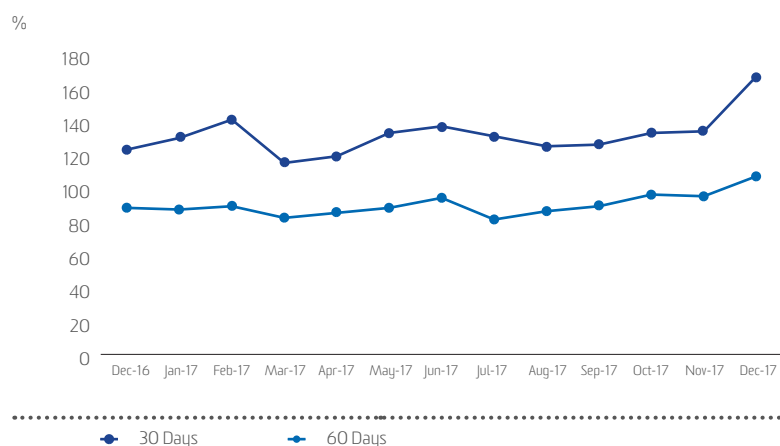


Risk Management Review

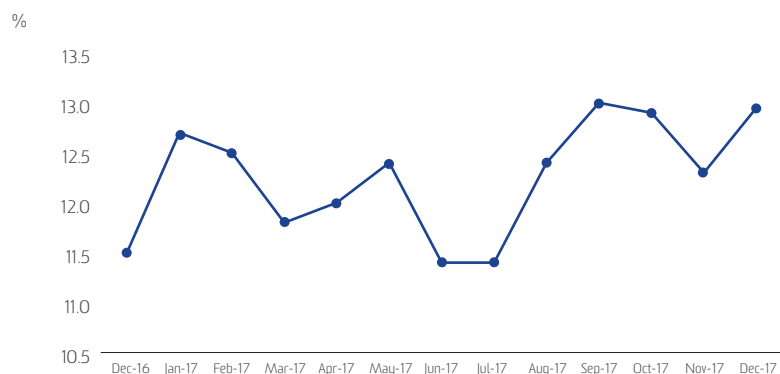
Loan to Deposit Ratio



Liquid Assets to Short Term Liability Ratio



Commitments to Total Loans



Liquidity Measuring Tools/Metrics

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.

Listed below the Liquidity Measurement Tools and Metrics:

- I. **Maturity Mismatch: Contractual vs behavioural and Static vs Dynamic**

Cash inflows and outflows from all on- and off-balance sheet items, mapped to defined time bands based on their respective maturities. In addition to static ALM analysis (Existing Liquidity Gap), we perform dynamic ALM analysis of the Balance sheet with different dimensions i.e. Volume and macro variable projections to have better idea of futuristic liquidity profile of the Bank.

Maturity gaps in major currencies (in millions of respective currency)

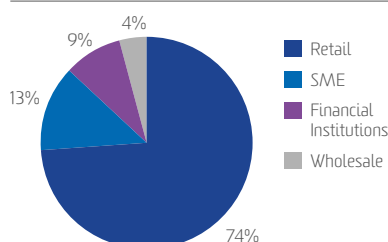
Currency	As at 31st December 2017	Up to One month	1 - 3 months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
LKR	Assets (on and off BS)	75,378	15,216	14,737	18,661	52,633	28,596	45,742	250,963
	Liabilities (on and off BS)	45,751	31,818	30,014	25,692	15,200	15,118	209,906	373,499
	Periodic gap	29,627	(16,602)	(15,277)	(7,031)	37,433	13,478	(164,164)	(122,536)
	Cumulative gap	29,627	13,025	(2,252)	(9,283)	28,150	41,628	(122,536)	
USD	Assets (on and off BS)	56	54	90	44	21	29	14	308
	Liabilities (on and off BS)	102	39	31	27	17	56	76	348
	Periodic gap	(46)	15	59	17	4	(27)	(62)	(40)
	Cumulative gap	(46)	(31)	28	45	49	22	(40)	
GBP	Assets (on and off BS)	7	2	1	-	-	-	-	10
	Liabilities (on and off BS)	1	1	2	1	1	-	5	11
	Periodic gap	6	1	(1)	(1)	(1)	-	(5)	(1)
	Cumulative gap	6	7	6	5	4	4	(1)	
EUR	Assets (on and off BS)	3	1	6	5	-	-	-	15
	Liabilities (on and off BS)	1	1	7	6	1	-	4	20
	Periodic gap	2	-	(1)	(1)	(1)	-	(4)	(5)
	Cumulative gap	2	2	1	-	(1)	(1)	(5)	
AUD	Assets (on and off BS)	9	7	1	-	-	-	-	17
	Liabilities (on and off BS)	1	2	1	2	1	1	6	14
	Periodic gap	8	5	-	(2)	(1)	(1)	(6)	3
	Cumulative gap	8	13	13	11	10	9	3	
JPY	Assets (on and off BS)	48	-	-	1	3	2	-	54
	Liabilities (on and off BS)	63	24	1	1	4	2	483	578
	Periodic gap	(15)	(24)	(1)	-	(1)	-	(483)	(524)
	Cumulative gap	(15)	(39)	(40)	(40)	(41)	(41)	(524)	

II Concentration of Funding;

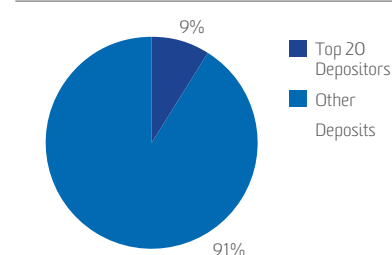
This metric is meant to identify those sources of wholesale funding that are of such significance that withdrawal of this funding could trigger liquidity problems. The metric thus encourages the diversification of funding.

We maintain an adequate stock of high quality liquid assets through diverse sources including inter-bank market, wholesale and retail repurchase agreements, assets and investments available for sale. A diversified funding strategy enables the Bank to contain its liquidity risk as exposure to a single avenue of funding is limited.

Deposit Mix

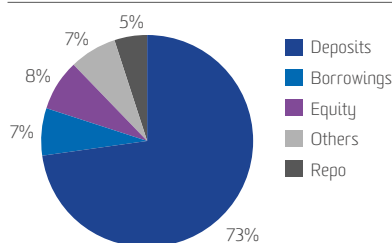


Deposit Concentration



Risk Management Review

Funding Composition



III. Liquidity Coverage Ratio (LCR)

The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock of unencumbered High Quality Liquid Assets (HQLA) that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.

IV. Net Stable Funding Ratio (NSFR)

The NSFR requires bank to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits excessive reliance on short-term wholesale funding, encourages better assessment of funding risk across all on and off-balance sheet items, and promotes funding stability.

V. Liquidity Early Warning Signals

Bank has designed a set of indicators to aid this process to identify the emergence of increased risk or vulnerabilities in its liquidity risk position or potential funding needs. Such early warning indicators

identify any negative trend and cause an assessment and potential response by management in order to mitigate the bank's exposure to the emerging risk.

VI. Intraday liquidity Management

We actively manage our intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions, thus contribute to the smooth functioning of payment and settlement systems.

VII. Contingency Funding Plan

The bank has a formal Contingency Funding Plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. Our CFP outlines policies to manage a range of stress environments, establish clear lines of responsibility and 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 standby liquidity facility agreements (Reciprocal agreement) to buffer against sudden liquidity stresses.

VIII. Liquidity Transfer Pricing

The bank has incorporated liquidity costs, benefits and risks in the internal pricing, performance measurement and new product approval process for all significant business activities (both on and off-balance sheet), thereby aligning the risk taking incentives of individual business lines with the liquidity risk exposures their activities create for the bank as a whole.

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.

IX. Liquidity Simulations : Stress Testing and Scenario Analysis

Bank's ALM system is facilitated with well-structured and user-friendly scenario setup process. Here, the user defines a set of assumptions relating to risk factors and balance sheet dynamics, to show how the balance sheet will be affected by, for example, planned new business and expected customer behaviour.

The system uses the defined assumptions to extrapolate the entire balance sheet over a future time horizon and deliver a rich set of results on projected dates, ranging from gap profiles to cash flows and liquidity ratios.

X. Other Liquidity Stock Ratios

Market Risk Performance in 2017

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 risks 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 impact of relative changes in interest rates for financial

instruments that have similar tenors but are priced using different interest rate indices.

- **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 at least

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.

Interest Rate Sensitive gap Analysis (in millions of respective currency)

Currency	As at 31st December 2017	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 years	3-5 years	Over 5 years	Total
LKR	Assets (on and off BS)	84,871	26,007	34,153	20,829	36,009	15,598	5,765	223,232
	Liabilities (on and off BS)	60,309	41,654	47,892	40,910	4,351	6,494	713	202,323
	Periodic gap	24,562	(15,647)	(13,739)	(20,081)	31,658	9,104	5,052	20,909
USD	Assets (on and off BS)	55	91	108	41	1	-	-	296
	Liabilities (on and off BS)	135	40	86	31	-	-	-	292
	Periodic gap	(80)	51	22	10	1	-	-	4
GBP	Assets (on and off BS)	7	2	1	-	-	-	-	10
	Liabilities (on and off BS)	3	1	3	2	-	-	-	9
	Periodic gap	4	1	(2)	(2)	-	-	-	1
EUR	Assets (on and off BS)	3	2	6	5	-	-	-	16
	Liabilities (on and off BS)	3	1	7	6	-	-	-	17
	Periodic gap	-	1	(1)	(1)	-	-	-	(1)
AUD	Assets (on and off BS)	8	7	1	-	-	-	-	16
	Liabilities (on and off BS)	6	4	2	4	-	-	-	16
	Periodic gap	2	3	(1)	(4)	-	-	-	0
JPY	Assets (on and off BS)	29	-	-	-	-	-	-	29
	Liabilities (on and off BS)	51	-	1	-	-	-	-	52
	Periodic gap	(22)	-	(1)	-	-	-	-	(23)

Interest Rate Risk in Banking Book

Interest Rate Risk In Banking Book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions.

When interest rates change, the present value and timing of future cash flows change. This, in

turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its Economic Value (EVE). Changes in interest rates also affect a bank's earnings by altering interest rate-sensitive income and expenses, affecting its Net Interest Income (NII). Excessive IRRBB can pose a significant threat to a bank's current capital base and/or future earnings if not managed appropriately.

Currently Interest rate risk in Trading Book is quantified under pillar 1 capital requirement. Until now, IRRBB has been included as an add-on under Pillar 2 capital requirements and integral part of the Internal Capital Adequacy Assessment Process (ICAAP) under a pillar 2 treatment.

Risk Management Review

Interest Rate Risk in Banking Book- Economic Value at Risk- in Millions (LKR equivalent)

Currency	Parallel shift	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 years	3-5 years	Over 5 years	Total
LKR	Up by 200 bp	(1.6)	80.0	126.6	263.8	(783.5)	(388.6)	(217.0)	(920.3)
	Down by 200 bp	1.6	(81.8)	(129.8)	(272.5)	834.0	427.8	262.0	1,041.3
USD	Up by 200 bp	5.9	(22.4)	67.9	36.7	(5.7)	(3.5)	(0.9)	78.0
	Down by 200 bp	(6.1)	23.0	(69.9)	(38.0)	6.1	3.9	1.1	(79.9)
GBP	Up by 200 bp	0.1	0.3	0.6	16.9	(0.3)	(0.3)	-	17.3
	Down by 200 bp	(0.1)	(0.3)	(0.6)	(17.5)	0.4	0.3	-	(17.8)
EUR	Up by 200 bp	(1.3)	0.2	2.7	6.7	(0.1)	(0.2)	-	8.0
	Down by 200 bp	1.3	(0.2)	(2.8)	(7.0)	0.1	0.2	-	(8.4)
AUD	Up by 200 bp	0.2	1.4	1.5	7.7	(0.2)	(0.3)	(0.3)	10.0
	Down by 200 bp	(0.2)	(1.5)	(1.6)	(8.0)	0.2	0.3	0.3	(10.5)
JPY	Up by 200 bp	-	-	1.17	-	-	-	-	1.17
	Down by 200 bp	-	-	(1.21)	-	-	-	-	(1.21)

Operational Risk Management

Oversight responsibility for operational risk management has been delegated to a dedicated Operational Risk Management Unit (ORMU). The Operational Risk Management Committee (ORMC) meets monthly as the main interaction point between all operational functions of the bank encompassing end to end process coverage. The Committee is accountable to Executive Risk Management Committee (ERMC) on matters related to operational risk management and to foster a culture within Nations Trust 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;

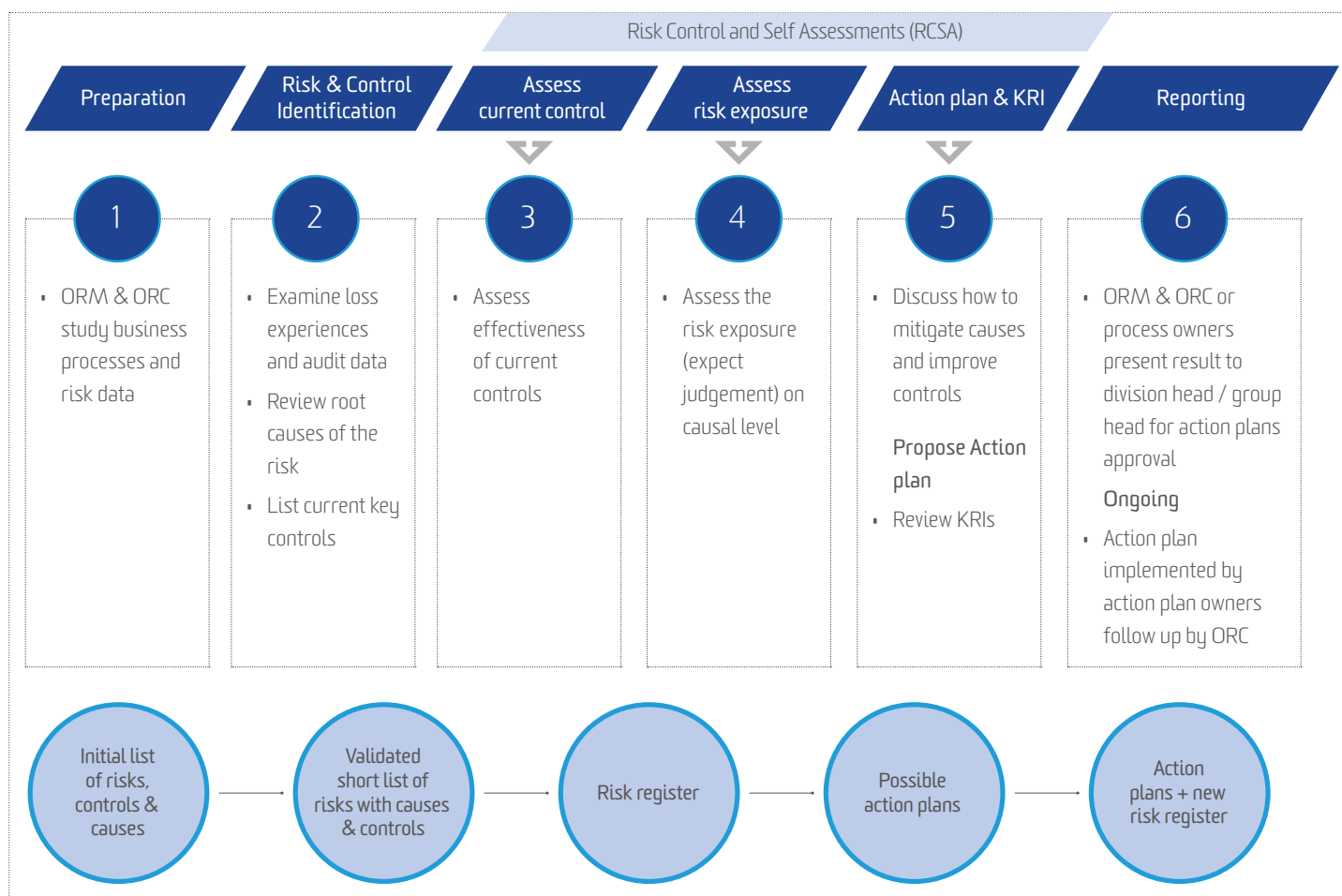
- **Identification and assessment**

The Bank uses Risk and Control Self Assessments (RCSA) which are administered to all key business and operational 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 every other month and presented to the Board Integrated Risk Management Committee as a "Risk Assessment Report" which details the prevailing or emerging risks and its management.

The Key Risk Indicators (KRIs) being implemented will ensure that early indicators of risks are given due recognition and appropriate action is taken to reduce possible losses arising from such risks.



• 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 monitored. 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 Risk Loss Data Base which is aligned to the BASEL 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 modeling activities. The loss events are linked to the RCSA & KRI Programme to ensure that repeat errors are minimised.

• Outsourced services

The Bank outsources some of its non-critical activities including cash management, labour supply, embossing of cards, document management and archiving. To mitigate the operational risks, business units submit due diligence test grid along with the relevant documents to outsourcing services unit. Outsourcing services unit participates for the Business Continuity Plan rehearsals of service providers as well as carry out periodical visits along with the business unit, Manager - Information Security and Operational Risk Control Manager. These activities provide an assurance on the ability of service provider to maintain required levels of service at all times.

Areas of focus in 2017

- **Strengthened the RCSA mechanism:** Strengthened RCSA mechanism with the introduction of several new risk assessment grids for business and support units.

Currently the Bank maintains 37 operational risk grids for several units including newly introduced 3 operational risk grids during the year, which is a qualitative analysis of the Operational Risk tool.

- **Improved performance against operational risk appetite:** Improvement in operational losses to operating expenses ratio to 0.12% in 2017 (0.15% in 2016).
- **Increased employee engagement and awareness on "Operational Risks":** An "Operational Risk Update" group on Yammer was created for all employees enabling the prompt sharing of knowledge, notifications of operational risk incidents and nurturing a risk culture across the Bank.
- **Reviewed and strengthened the DR and BCP plans:** A successful BCP and DR drill was carried by the Operational Risk Unit with the assistance of IT and identified Mission Critical Units of the Bank as per CBSL guidelines.

Risk Management Review

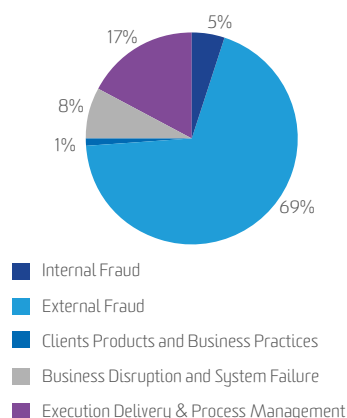
- Increased vibrancy and proactiveness of ORMU: During the year, the ORMU conducted regular meetings and identified risks were escalated to the relevant personnel for immediate action.

Operational Risk Performance in 2017

All operational risk indicators were maintained within the defined parameters while there were no material loss events during the year. The value of the total operational loss events remained well within risk appetite as at end of 2017.

	2017		2016	
	Value (000')	%	Value (000')	%
Internal Fraud	1,098	5%	-	-
External Fraud	14,654	69%	11,424	60%
Employment Practices and Workplace Safety	-	0%	-	-
Clients Products and Business Practices	147	1%	490	3%
Damage to Physical Assets	-	-	-	-
Business Disruption and System Failure	1,708	8%	3,855	20%
Execution Delivery & Process Management	3,708	17%	3,381	18%
Total Operating Losses	21,315	100%	19,150	100%

Loss Events 2017



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 organizational 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

Capital Management

The level of the Bank's capital is aligned to the Risk Appetite and risk profile to commensurate with the strategic plan of the bank. An overview of the capital planning and assessment process is explained below.

Establishment of risk exposures and capital requirement

The capital planning process is integrated with the strategic planning process where the Bank decide the risk appetite and the risk profile based on key customer segments, products it desire to serve and on the operating model, it would like to establish.

Credit risk, market risk, liquidity risk and operational risk exposure limits are established which are primarily linked to the capital based on the risk appetite envisaged at this planning level.

The Bank calculates the risk exposures and risk weighted assets for capital adequacy purposes based on following Basel III guidelines issued by the Central Bank of Sri Lanka:

Pillar 1 risk exposures

- Credit risk - Standardized Approach
- Market risk - Standardized Approach
- Operational risk - Basic Indicator Approach

Pillar 2 risk exposures – Risks such as Residual credit risk, credit concentration risk, interest rate risk of the banking book and strategic risk are assessed based on the Internal Capital Adequacy Assessment Process (ICAAP). This process also includes assessment of adequate capital buffers to ensure maintenance of

minimum capital ratios as per regulations under unexpected, stressed economic conditions.

In addition, liquidity risk is also considered during the planning stage through liquidity stock and cash flow approaches.

This process ensures the efficient allocation of capital in times of divergences and unexpected events when additional capital is required.

Minimum capital ratios as per Central Bank regulations are as follows:

Component of Capital	01.07.2017	01.01.2018	01.01.2019
Bank Assets Less than Rs.500 billion			
Common Equity Tier 1 including Capital Conservation Buffer	5.75%	6.375%	7.00%
Total Tier 1 including Capital Conservation Buffer	7.25%	7.875%	8.50%
Total Capital Ratio including Capital Convention Buffer	11.25%	11.875%	12.50%
Bank with Assets Rs.500 billion and above			
Common Equity Tier 1 including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically important bank	6.25%	7.375%	8.50%
Total Tier 1 including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically important bank	7.75%	8.875%	10.00%
Total Capital Ratio including Capital Convention Buffer and Capital Surcharge on Domestic Systemically important Banks	11.75%	12.875%	14.00%

Appropriate capital buffers are also estimated to maintain the financial covenants set by the medium term funding agencies and to secure better entity credit rating.

for the next 3-4 years. Amount of dividend distributions and mode of payment through cash and scrip dividend are decided based on this future capital requirement of the bank.

The bank also assess the capital expenditure and investment requirement to support the growth and business strategy at strategic plan level and during annual budgeting cycle.

Sources of capital

The primary source of capital is through the internally generated capital. The business plans and financial plans are prepared ensuring adequate profit generation by setting appropriate targets for return on assets and capital.

The capital augmentation plan identifies the level of tier 1 and tier 2 capital requirement

Capital allocation

Capital is allocated to business lines based on Risk Adjusted Return on Capital (RAROC) targets in order to optimize risk adjusted returns. Excess capital in subsidiary companies is also re-allocated based on this model. Capital allocation drives down further to key products and customer portfolios depending on the availability of data and management objectives.

The CRO is entrusted with identifying and assessing the risk exposures of the bank while CFO ensures the development of the capital augmentation plan to maintain the appropriate level of capital for business growth and to meet minimum regulatory standards.

The capital augmentation plan constructed at the strategic planning cycle, generally covers 3-4 year period which is updated during the annual budgeting cycle and approved by the Board of Directors.

Key highlights for the year:

1. Total capital ratio under Basel III Pillar I risks is 13.89% as at 31.12.2017 (15.82% 31.12.2016). Main reason for the decline in the ratio is due to the loan book growth of 25%. The total capital ratio including Pillar II risks is currently being assessed.
2. The board decided to raise Rs. 3.2Bn new equity capital in October 2017 and this was concluded in February 2018. The board also decided to raise Rs. 3.5Bn Basel III complaint tier 2 capital which will be concluded in March 2018. Excess capital of Rs. 1.1Bn was transferred to the Bank from Subsidiary companies by way of dividends and share buy backs.
3. Shareholder funds are increased by Rs. 0.9Bn (net of deferred tax) based on the revaluation surplus of properties. This will be considered for capital adequacy computations after CBSL approval in 2018.

Risk Management Review

Risk Regulation

BASEL III Framework

Following the introduction of BASEL III, Banks are required to enhance their capital requirements with the objective of improving the quality, quantity, consistency and transparency of the capital base. Meanwhile the Liquidity Coverage Ratio (LCR) is one of the Basel Committee's key recommendations

to strengthen global liquidity regulations to nurture a more resilient banking sector and the Bank commenced parallel reporting as per the regulator's requirements. The LCR comes into effect in January 2019.

In light of changes that took place in global economic conditions and risk landscape, CBSL has shifted the risk management in

banking industry to the next level. BASEL III continued to follow 3-pillar approach with considerable changes in minimum capital and capital buffer requirements, further improvements in supervisory review process and additional disclosure requirements under market discipline. The Bank has revised risk management disclosures to be better aligned with Pillar III market discipline.

Market Disclosures based on BASEL III is annexed below.

Area	No	Disclosure requirement	Reference
Regulatory requirements on capital and liquidity	1	Key Regulatory Ratios - Capital and Liquidity	Table 1
	2	Basel III Computation of Capital Ratios	Table 2
	3	Basel III Computation of Leverage Ratio	Disclosure requirements will commence from implementation of Leverage Ratio
	4	Basel III Computation of Liquidity Coverage Ratio	Table 3
	5	Main Features of Regulatory Capital Instruments	Table 4
Risk Weighted Assets	6	Summary discussion on adequacy/meeting current and future capital requirements	Capital Management Section of this review
	7	Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects	Table 5
	8	Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights	Table 6
	9	Market Risk under Standardised Measurement Method	Table 7
	10	Operational Risk under Basic Indicator Approach/The Standardised Approach/The Alternative Standardised Approach	Table 8
Linkages between Financial statements and regulatory exposures	11	Differences Between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only	Table 9
	12	Explanations of differences between accounting and regulatory exposure amounts	Table 9
Risk Management	13	Bank Risk Management Approach	Risk Management review is outlined in Sections (a) to (h) in this Review
	14	Risk Management related to key risk exposures	

Table 1

Key Regulatory Ratios - Capital and Liquidity

Item	Bank	Group
	31-Dec-2017	31-Dec-2017
Regulatory Capital (LKR '000)		
Common Equity Tier 1	18,070,743	18,489,947
Tier 1 Capital	18,070,743	18,489,947
Total Capital	23,305,824	23,725,029
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 5.75%)	10.58%	10.83%
Tier 1 Capital Ratio (Minimum Requirement - 7.25%)	10.58%	10.83%
Total Capital Ratio (Minimum Requirement - 11.25%)	13.64%	13.89%
Regulatory Liquidity		
Statutory Liquid Assets		
Domestic Banking Unit (LKR'000)	46,716,976	
Off-Shore Banking Unit (LKR'000)	1,949,119	
Statutory Liquid Assets Ratio, % (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	21.13%	
Off-Shore Banking Unit (%)	21.81%	
Liquidity Coverage Ratio (%)		
Rupee (Minimum Requirement - 80%)	437.86%	
All Currency (Minimum Requirement - 80%)	204.73%	

Risk Management Review

Table 2

Basel III Computation of Capital Ratios

Item	Bank	Group
	LKR '000 31-Dec-2017	LKR '000 31-Dec-2017
Common Equity Tier 1 (CET1) Capital after Adjustments	17,992,259	18,489,947
Common Equity Tier 1 (CET1) Capital	20,050,066	20,474,308
Equity Capital (Stated Capital)/Assigned Capital	5,101,369	5,101,369
Reserve Fund	1,010,732	1,010,732
Published Retained Earnings/(Accumulated Retained Losses)	13,813,405	14,237,647
Published Accumulated Other Comprehensive Income (OCI)	124,561	124,561
General and other Disclosed Reserves	-	-
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to CET1 Capital	1,979,323	1,984,361
Goodwill (net)	-	-
Intangible Assets (net)	1,148,648	1,153,557
Shortfall of the cumulative impairment to specific provisions	830,675	830,804
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (AT1) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
Tier 2 Capital after Adjustments	5,235,081	5,235,081
Tier 2 Capital	5,235,081	5,235,081
Qualifying Tier 2 Capital Instruments	4,433,333	4,433,333
Revaluation Gains	-	-
Loan Loss Provisions	801,748	801,748
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
CET1 Capital	17,992,259	18,489,947
Total Tier 1 Capital	18,070,743	18,489,947
Total Capital	23,305,824	23,725,029

Basel III Computation of Capital Ratios (Contd.)

Item	Bank LKR '000 31-Dec-2017	Group LKR '000 31-Dec-2017
Total Risk Weighted Assets (RWA)	170,838,077	170,758,045
RWAs for Credit Risk	148,307,874	148,298,015
RWAs for Market Risk	3,369,857	3,369,857
RWAs for Operational Risk	19,160,347	19,090,174
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	10.58%	10.83%
of which: Capital Conservation Buffer (%)	1.25%	1.25%
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio (%)	10.58%	10.83%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	13.64%	13.89%
of which: Capital Conservation Buffer (%)	1.25%	1.25%
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-

Table 3

Basel III Computation of Liquidity Coverage Ratio (All Currency)

Item	Total Un-weighted Value LKR '000 31-Dec-2017	Total Weighted Value LKR '000 31-Dec-2017
Total Stock of High-Quality Liquid Assets (HQLA)	5,612,196	44,346,947
Total Adjusted Level 1A Assets	5,907,694	44,653,640
Level 1 Assets	5,589,806	44,335,752
Total Adjusted Level 2A Assets	-	-
Level 2A Assets	-	-
Total Adjusted Level 2B Assets	22,390	11,195
Level 2B Assets	22,390	11,195
Total Cash Outflows	341,589,345	48,762,072
Deposits	170,687,377	17,068,738
Unsecured Wholesale Funding	25,136,013	14,213,421
Secured Funding Transactions	1,552,809	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	136,084,637	9,351,406
Additional Requirements	8,128,508	8,128,508
Total Cash Inflows	50,768,980	27,100,956
Maturing Secured Lending Transactions Backed by Collateral	10,879	-
Committed Facilities	1,000,000	-
Other Inflows by Counterparty which are Maturing within 30 Days	49,679,518	27,022,374
Operational Deposits	-	-
Other Cash Inflows	78,583	78,583
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calendar Days) * 100		205%

Risk Management Review

Table 4

Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	Ordinary Shares	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)
Issuer	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC
Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private Placement)	LK0309N00001	NTB/BC/19/12/18A13	NTB-BD-08/11/21-C2365-12.65	NTB-BD-08/11/21-C2364-12.8	NTB-BD-08/11/21-C2363
Governing Law(s) of the Instrument	Companies Act, No.7 of 2007	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949
Original Date of Issuance	3-May-99	19-Dec-13	8-Nov-16	8-Nov-16	8-Nov-16
Par Value of Instrument	22.12	100	100	100	100
Perpetual or Dated	Perpetual	Dated	Dated	Dated	Dated
Original Maturity Date, if Applicable	N/A	19-Dec-18	8-Nov-21	8-Nov-21	8-Nov-21
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	5,101,369	750,000	3,173,403	907,962	1,968
Accounting Classification (Equity/Liability)	Equity	Liability	Liability	Liability	Liability
Issuer Call subject to Prior Supervisory Approval	-	-	-	-	-
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	N/A	N/A	N/A	N/A	N/A
Subsequent Call Dates, if Applicable	N/A	N/A	N/A	N/A	N/A
Coupons/Dividends					
Fixed or Floating Dividend/Coupon	Discretionary dividend amount	Fixed	Fixed	Fixed	Floating
Coupon Rate and any Related Index	Distributable profit that has been declared as dividend	13.00%	12.65%	12.80%	11.61%
Non-Cumulative or Cumulative	Non-Cumulative	Non cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible
If Convertible, Conversion Trigger (s)	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible
If Convertible, Fully or Partially	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible
If Convertible, Mandatory or Optional	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible
If Convertible, Conversion Rate	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Non-Convertible

Table 5

Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	Bank							Group					
	LKR'000 as at -31-Dec-17							LKR'000 as at -31-Dec-17					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)			Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet	Off-Balance Sheet	On-Balance Sheet	Off-Balance Sheet	RWA	RWA Density (ii)		On-Balance Sheet	Off-Balance Sheet	On-Balance Sheet	Off-Balance Sheet	RWA	RWA Density (ii)
Claims on Central Government and CBSL	25,012,852	1,535,200	25,012,852	30,704	810,733	3%		25,083,896	1,535,200	25,083,896	30,704	810,733	3%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	0%		-	-	-	-	-	0%
Claims on Public Sector Entities	-	-	-	-	-	0%		-	-	-	-	-	0%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	0%		-	-	-	-	-	0%
Claims on Banks Exposures	2,209,944	35,763,085	2,209,944	715,262	1,478,649	51%		2,209,976	35,763,085	2,209,976	715,262	1,478,656	51%
Claims on Financial Institutions	11,083,386	3,261,851	11,083,386	1,090,246	6,009,478	49%		11,083,386	3,261,851	11,083,386	1,090,246	6,009,478	49%
Claims on Corporates	40,210,503	70,005,792	40,210,503	6,716,499	45,681,542	97%		40,419,373	68,461,963	40,419,373	6,716,499	45,890,411	97%
Retail Claims	102,643,879	65,643,745	102,643,879	2,632,706	81,079,256	77%		102,643,879	65,643,745	102,643,879	2,632,706	81,079,256	77%
Claims Secured by Residential Property	7,827,956	-	7,827,956	-	5,577,770	71%		7,827,956	-	7,827,956	-	5,577,770	71%
Claims Secured by Commercial Real Estate	833,791	174,554	833,791	34,911	868,702	100%		833,791	174,554	833,791	34,911	868,702	100%
Non-Performing Assets (NPAs)(i)	2,117,558	-	2,117,558	-	2,847,324	134%		2,117,558	-	2,117,558	-	2,847,324	134%
Higher-risk Categories	25,803	-	25,803	-	64,507	250%		-	-	-	-	-	0%
Cash Items and Other Assets	10,703,170	-	10,703,170	-	3,889,914	36%		10,548,964	-	10,548,964	-	3,735,685	35%
Total	202,668,842	176,384,227	202,668,842	11,220,328	148,307,874	69%		202,768,778	174,840,397	202,768,778	11,220,328	148,298,015	69%

Note:

(i) NPAs - As per Banking Act Directions on Classification of loans and advances, income recognition and provisioning.

(ii) RWA Density - Total RWA/Exposures post CCF and CRM.

Risk Management Review

Table 6

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

Description	Bank							Total Credit Exposures Amount
	LKR'000 as at 31- Dec-2017 (Post CCF & CRM)							
Risk Weight Asset Classes	0%	20%	50%	75%	100%	150%	>150%	
Claims on Central Government and Central Bank of Sri Lanka	20,989,891	4,053,665	-	-	-	-	-	25,043,556
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	935,660	1,396,058	-	593,488	-	-	2,925,206
Claims on Financial Institutions	-	2,331,815	8,597,405	-	1,244,412	-	-	12,173,632
Claims on Corporates	-	-	2,490,921	-	44,436,081	-	-	46,927,002
Retail Claims	142,175	117,118	-	94,489,569	10,527,723	-	-	105,276,585
Claims Secured by Residential Property	-	-	4,500,372	-	3,327,584	-	-	7,827,956
Claims Secured by Commercial Real Estate	-	-	-	-	868,702	-	-	868,702
Non-Performing Assets (NPAs)	-	-	35,775	-	586,476	1,495,307	-	2,117,558
Higher-risk Categories	-	-	-	-	-	-	25,803	25,803
Cash Items and Other Assets	5,589,806	1,529,313	-	-	3,584,052	-	-	10,703,171
Total	26,721,872	8,967,571	17,020,531	94,489,569	65,168,518	1,495,307	25,803	213,889,171

Description	Group							Total Credit Exposures Amount
	LKR'000 as at 31- Dec-2017 (Post CCF & CRM)							
Risk Weight Asset Classes	0%	20%	50%	75%	100%	150%	>150%	
Claims on Central Government and Central Bank of Sri Lanka	21,060,935	4,053,665	-	-	-	-	-	25,114,600
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	935,692	1,396,058	-	593,488	-	-	2,925,238
Claims on Financial Institutions	-	2,331,815	8,597,405	-	1,244,412	-	-	12,173,632
Claims on Corporates	-	-	2,490,921	-	44,644,951	-	-	47,135,872
Retail Claims	142,175	117,118	-	94,489,569	10,527,723	-	-	105,276,585
Claims Secured by Residential Property	-	-	4,500,372	-	3,327,584	-	-	7,827,956
Claims Secured by Commercial Real Estate	-	-	-	-	868,702	-	-	868,702
Non-Performing Assets (NPAs)	-	-	35,775	-	586,476	1,495,307	-	2,117,558
Higher-risk Categories	-	-	-	-	-	-	-	-
Cash Items and Other Assets	5,589,829	1,529,313	-	-	3,429,823	-	-	10,548,965
Total	26,792,939	8,967,603	17,020,531	94,489,569	65,223,159	1,495,307	-	213,989,108

Table 7

Market Risk under Standardised Measurement Method

Item	Bank	Group
	RWA LKR'000 31-Dec-2017	RWA LKR'000 31-Dec-2017
(a) RWA for Interest Rate Risk	357,831	357,831
General Interest Rate Risk	357,831	357,831
(i) Net Long or Short Position	357,831	357,831
(ii) Horizontal Disallowance	-	-
(iii) Vertical Disallowance	-	-
(iv) Options	-	-
Specific Interest Rate Risk	-	-
(b) RWA for Equity	-	-
(i) General Equity Risk	-	-
(ii) Specific Equity Risk	-	-
(c) RWA for Foreign Exchange & Gold	21,278	21,278
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	3,369,857	3,369,857

Table 8

Operational Risk under Basic Indicator Approach/ The Standardised Approach/ The Alternative Standardised Approach

Business Lines	Bank					Group				
	Capital Charge Factor	Fixed Factor	Gross Income LKR'000 as at 31-Dec-2017			Capital Charge Factor	Fixed Factor	Gross Income LKR'000 as at 31-Dec-2017		
			1st Year	2nd Year	3rd Year			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		12,271,650	13,217,046	17,622,084	15%		12,519,408	13,519,915	16,913,568
The Standardised Approach			-	-	-			-	-	-
Corporate Finance	18%		-	-	-	18%		-	-	-
Trading and Sales	18%		-	-	-	18%		-	-	-
Payment and Settlement	18%		-	-	-	18%		-	-	-
Agency Services	15%		-	-	-	15%		-	-	-
Asset Management	12%		-	-	-	12%		-	-	-
Retail Brokerage	12%		-	-	-	12%		-	-	-
Retail Banking	12%		-	-	-	12%		-	-	-
Commercial Banking	15%		-	-	-	15%		-	-	-
The Alternative Standardised Approach			-	-	-			-	-	-
Corporate Finance	18%		-	-	-	18%		-	-	-
Trading and Sales	18%		-	-	-	18%		-	-	-
Payment and Settlement	18%		-	-	-	18%		-	-	-
Agency Services	15%		-	-	-	15%		-	-	-
Asset Management	12%		-	-	-	12%		-	-	-
Retail Brokerage	12%		-	-	-	12%		-	-	-
Retail Banking	12%	0.035	-	-	-	12%	0.035	-	-	-
Commercial Banking	15%	0.035	-	-	-	15%	0.035	-	-	-

Risk Management Review

Table 8 (Contd.)

Business Lines	Bank						Group		
	Capital Charge Factor	Fixed Factor	Gross Income LKR'000 as at 31-Dec-2017			Capital Charge Factor	Fixed Factor	Gross Income LKR'000 as at 31-Dec-2017	
			1st Year	2nd Year	3rd Year			1st Year	2nd Year
Capital Charges for Operational Risk (LKR'000)									
The Basic Indicator Approach	2,155,539					2,147,645			
The Standardised Approach	-					-			
The Alternative Standardised Approach	-					-			
Risk Weighted Amount for Operational Risk (LKR'000)									
The Basic Indicator Approach	19,160,347					19,090,174			
The Standardised Approach	-					-			
The Alternative Standardised Approach	-					-			

Table 9

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only

Item	LKR '000 as at 31-Dec-2017				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
Assets	267,886,669	267,020,879	203,100,513	39,373,435	25,348,679
Cash and Cash Equivalents	6,867,222	6,845,330	6,845,330	-	-
Balances with Central Banks	11,193,266	11,193,266	11,193,266	-	-
Placements with Banks	10,798	20,000	20,000	-	-
Derivative Financial Instruments	230,217	-	-	-	-
Other Financial Assets Held-For- Trading	521,389	39,373,435	-	39,373,435	-
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-
Loans and Receivables to Banks	-	-	-	-	-
Loans and Receivables to Other Customers	186,536,711	186,319,799	162,921,516	-	24,200,031
Financial Investments - Available- For-Sale	38,852,046	-	-	-	-
Financial Investments - Held-To- Maturity	16,676,997	16,536,910	16,536,910	-	-
Investments in Subsidiaries	678,710	678,710	678,710	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-
Property, Plant and Equipment	2,584,302	1,647,314	1,647,314	-	-
Investment Properties	-	-	-	-	-
Goodwill and Intangible Assets	1,148,648	-	-	-	-
Deferred Tax Assets	692,887	-	-	-	-
Other Assets	1,893,476	4,406,115	3,257,467	-	1,148,648

Table 9 (Contd.)

Item	LKR '000 as at 31-Dec-2017				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
Liabilities	247,078,935	247,656,914	-	-	-
Due to Banks	10,713,864	12,952,504	-	-	-
Derivative Financial Instruments	495,517	-	-	-	-
Other Financial Liabilities Held-For- Trading	-	-	-	-	-
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-	-
Due to Other Customers	194,296,718	189,996,084	-	-	-
Other Borrowings	23,981,411	21,541,013	-	-	-
Debt Securities Issued	-	-	-	-	-
Current Tax Liabilities	803,249	-	-	-	-
Deferred Tax Liabilities	2,430,398	-	-	-	-
Other Provisions	-	-	-	-	-
Other Liabilities	6,282,426	15,167,313	-	-	-
Due to Subsidiaries	-	-	-	-	-
Subordinated Term Debts	8,075,352	8,000,000	-	-	-
Off-Balance Sheet Liabilities	173,012,919	183,569,861	181,245,306	-	2,324,555
Guarantees	273,149	273,149	273,149	-	-
Performance Bonds	13,020,279	13,020,279	11,781,257	-	1,239,022
Letters of Credit	6,753,029	6,753,029	6,208,357	-	544,672
Other Contingent Items	4,440,615	4,438,730	4,438,730	-	-
Undrawn Loan Commitments	110,327,377	107,395,573	107,395,573	-	-
Other Commitments	38,198,470	51,689,101	51,148,240	-	540,861
Shareholders' Equity	-	-	-	-	-
Equity Capital (Stated Capital)/Assigned Capital	5,101,369	5,101,369	-	-	-
of which Amount Eligible for CET1	5,101,369	5,101,369	-	-	-
of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings	13,813,401	13,466,196	-	-	-
Accumulated Other Comprehensive Income	207,600	-	-	-	83,040
Other Reserves	1,685,365	796,400	-	-	674,631
Total Shareholders' Equity	20,807,735	19,363,965	-	-	757,671

Notes:

- 1) Differences in Held for Trading, Available for Sale, Intangible Assets, Other Assets, Due to Banks, Due to Customers, Other Borrowings, Current Tax Liabilities, Deferred Tax Liabilities and Other Liabilities is due to Classification differences.
- 2) Difference in Shareholder's Equity is due to profit difference in SLAS and SLFRS accounting standards.
- 3) Differences in Other Commitments is due to Notional Value of Derivative contracts reported in Published Financial Statements (a) and Carrying Value reported in Regulatory Reporting (b).





Customer Services

The Bank has redefined what it means to be customer-centric, through continuous product innovation, personalised service and game-changing digital channels which have transformed the way we engage with our customers.

Operating Context and Delivering Value

Delivering Value

Provides an analysis of how the Bank delivered value during the year, focusing on both financial and non-financial aspects.

104 | Economic and Industry Environment in 2017 106 | Key Business Lines 120 | Capital Reports

152 | Independent Assurance Report 153 | Mapping Our Material Topics to GRI and GRI Index 157 | Statutory Reports

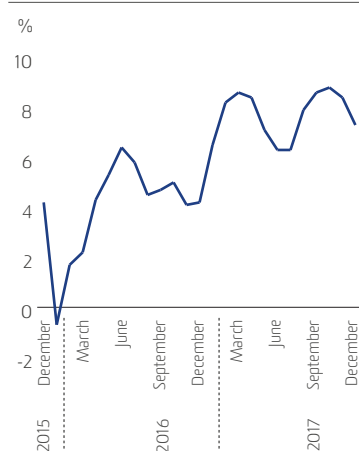
Economic and Industry Environment in 2017

Economic growth by sector

	9M2017	2016
Agriculture	-3.2%	-4.2%
Industry	4.5%	6.7%
Services	4.2%	4.2%
Overall GDP	3.7%	4.4%

Source: Dept. of Census and Statistics

Inflation (Headline NCPI)



Sri Lankan Economy

Economic growth

Sri Lanka's economic growth was moderate in 2017, with GDP expanding at 3.7% in the first 9 months of the year; the lower than anticipated growth rate reflects unfavourable weather conditions as well as a tighter and fiscal policy stance. The Agriculture sector continued to be subdued with adverse weather conditions resulting in output contracting by 3.2% in the first 9 months of the year although spill-over effects were felt across other sectors of the economy. The Industry sector grew by 4.5% led by the continued expansion in construction, mining and quarry activities. The Services sector grew by 4.2%, upheld by financial services, wholesale and retail trade activities and transportation. Progress was made on the policy front with economic reforms targeted towards fiscal consolidation, stabilising macro-economic fundamentals and increasing foreign investment inflows expected to bear fruition over the medium-to-long term.

Inflation

Inflationary pressures increased in 2017 resulting from VAT tax revisions in 2016, rising international commodity prices as

well as supply constraints of agricultural produce given the adverse weather conditions. Volatilities in food inflation were reflected in the Headline National Consumers' Price Index (NCPI) which fluctuated between 6.3% and 8.8% (y-o-y) during the year. The CBSL's plans to move towards a flexible inflation targeting regime over the medium term is anticipated to support macro-economic stability, allowing sustained low inflation underpinned by improvements in monetary and fiscal policy.

Monetary policy

A relatively tight monetary policy stance was maintained during most part of the year, with a view to addressing inflationary pressures. The policy rate was raised by 25 bps in March 2017, resulting in the Standing Deposit Facility Rate (SDFR) and the Standard Lending Facility Rate (SLFR) increasing to 7.25% and 8.75% respectively. Following this, market interest rates moved up during the first half of the year, with commercial banks' deposit and lending rates also escalating. However, rates tapered off towards the second half of the year due to liquidity improvements in the domestic money market.

Exchange rate

The regulator sought to adopt more flexibility in determining the exchange rate during the year, with minimal intervention from CBSL. Emphasis was also placed on absorbing foreign exchange from the domestic interbank market to build up forex reserves and smoothen out rate fluctuations. The Rupee depreciated slightly in the first quarter of the year, however conditions improved thereafter following foreign investments into mega infrastructure developments projects and the capital and government securities market. Sri Lanka also received the third and fourth tranches of the Extended Fund Facility from the IMF during the year, demonstrating the successful achievement of specific performance criteria. Overall the Sri Lankan Rupee depreciated by 2.29% against the US Dollar during the year.

Outlook

Government attempts to achieve fiscal consolidation, a relatively tighter monetary policy stance and implications of the recently concluded local council elections could affect headline growth over the short-term. That said, the government's policy reforms and improving international relations are expected to lay a firm foundation for long-term economic development. Broad-based reforms targeted towards fiscal consolidation, development of a cohesive export strategy and a renewed drive to attract foreign investments has positioned the country for strong growth, although political will and commitment will be crucial in implementing reforms and achieving the country's growth potential.

The Banking Sector

The Sri Lankan Banking Sector comprises 13 local and 12 international licensed commercial banks (LCB) and 7 licensed specialised banks (LSB). The sector is relatively concentrated with the top 6 banks (assets over Rs.500 billion) holding a dominant share of assets, deposits and advances. As a vital part of the country's financial system, the Banking sector plays a critical role in fostering economic growth, facilitating transactions and mobilising deposits.

Growth

The Sector's total assets increased by 15.4% YoY in the first 9 months of 2017, supported by expansion of the credit and investment portfolios. Total advances increased by 19.2% YoY reflecting increased lending towards the tourism, transport, trading and manufacturing sectors, despite relatively higher interest rates. The sector's asset composition remained relatively unchanged with credit assets accounting for around 60% of the total asset base followed by Investments 26% and other assets.

Profitability

Profit growth was strong during the year with profit after tax increasing by 13% to Rs. 98.2 billion in the first 9 months of the year. Performance was upheld by strong growth in net interest income, significant capital gains and better cost efficiencies. The Sector's Return on Assets (ROA) and Return on Equity (ROE) clocked in at 1.4% and 17.5% respectively during the reviewed period (compared to 1.4% and 17.6% in the corresponding period of 2016)

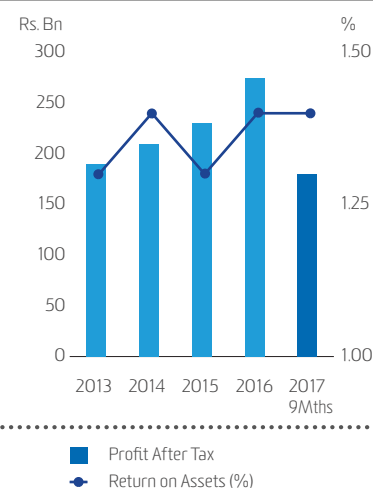
Asset quality

Portfolio quality deteriorated marginally during the year, reflecting an influx of non-performing-loans from the agricultural and tourism sectors. Resultantly, the gross NPL ratio increased marginally to 2.7% from 2.6% in 2016. Provisioning remained adequate with a total provision coverage of 67.2% by end-September 2017.

Funding position

Deposits are the sector's main funding source and accounted for 72% of total assets. The relatively high interest rates during the first half of the year resulted in an influx of deposits to the sector, with total deposits increasing by 14% in the 9 months ending September 2017. The growth stemmed primarily from term deposits while the Sector's CASA ratio declined to 33.5% from 37.1% in 2016. Meanwhile, the Sector's exposure to borrowings reduced in 2017, accounting for 16% of assets compared to 19% the year before.

Banking Sector Performance



Capitalisation

The Sector's capital cushioning remained adequate, although declining marginally in view of the strong loan expansion. The Tier 1 Risk Weighted Capital Adequacy Ratio (RWCAR) and Overall RWCAR declined to 12.3% and 15.2% respectively, compared to 12.6% and 15.6% in 2016.

Regulatory developments

The upcoming implementation of the BASEL III capital standards by 1st January 2019 will require institutions to strengthen capital buffers, contributing towards building a resilient sector which is safeguarded during periods of excessive credit growth and/or adverse economic conditions. Meanwhile, with the adoption of SLFRS 9- Financial Instruments Banks will be required to recognise credit losses under the expected loss approach instead of the existing incurred loan loss approach. This will require banks to further enhance their capital buffers, improving the sector's ability to absorb shocks and contributing to the overall stability of the sector. Meanwhile, following the enactment of the new Inland Revenue Act from 1st of April 2018, impairment will not be considered a deductible expense for tax purposes. This will give rise to an increase in the overall tax liability, thereby impacting overall profitability.

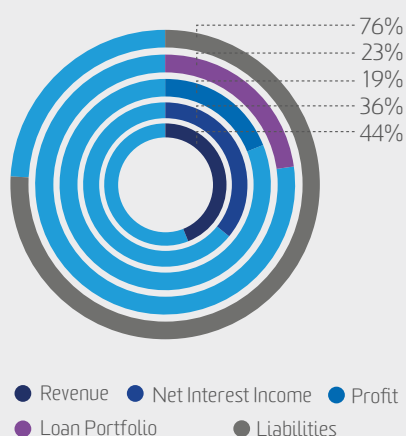
Key Business Lines



Consumer Banking

The Consumer Banking division posted a commendable performance in 2017, recording income and profit growth of 20% and 34% respectively. Performance for the year was underpinned by targeted loan growth in the mass affluent segment, an improving deposit franchise and ongoing upskilling of employees. On the other hand, moderating economic growth in general and slowing of the tourism sector inserted pressure on portfolio quality, leading to an increase in impairment.

Contribution to the Group



Divisional Performance

	2017	2016	Performance against target
Loans & Advances (Rs. Mn)	42,520	35,424	104%
Deposits (Rs. Mn)	138,174	113,772	103%
Revenue (Rs. Mn)	7,709	6,445	104%
Impairment Charges (Rs. Mn)	503	323	-
Cost to income ratio (%)	73	77	-
NPA ratio (%)	4.28	4.20	-

Loan Growth

20%

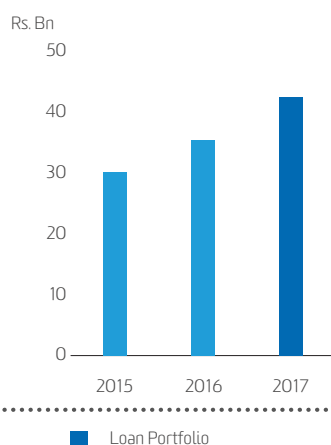
Deposit Growth

21%

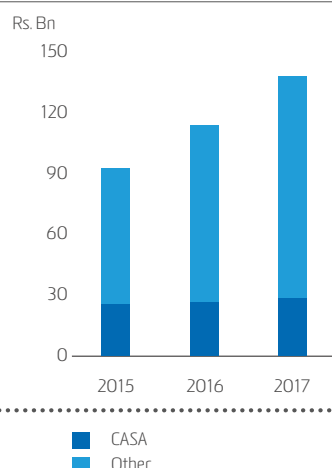
NPL Ratio

4.28%

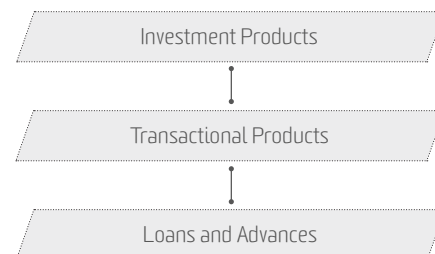
Consumer - Loan Portfolio



Consumer - Deposits



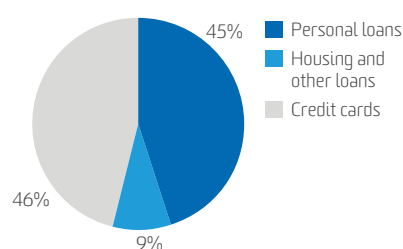
Product Map



Strategic priorities in 2017

- Enhancing employee capabilities
- Strengthening underwriting and monitoring mechanisms
- Digital capabilities and analytics

Consumer Loan Portfolio Mix 2017



Ward Place Branch Opening

rate scenario, the Bank successfully grew its CASA base supported by the launch of the 'Max Bonus' Savings product, an innovative proposition offering above average returns. Accordingly, the division's SA grew by 21% (compared to an industry growth of 7.5%), while the CA base remained at 2016 levels. The Bank maintained its average cost of fixed deposits in line with the overall industry during the year while dropping below AWFDR in some months; a testament to its improving deposit franchise and brand loyalty. Driving customer convenience through digital capabilities is a key aspect of our deposit proposition and we continued to widen the self-service channels. Nations Trust Bank was also the first bank in the country to introduce 365-day banking and extended banking hours.

The use of payment cards in the country has been on an upward trajectory and total debit and credit cards in issue increased by 11.5% and 13.5% respectively up to the 3rd quarter of 2017. Meanwhile, the value of transactions conducted by debit and credit cards also increased by 4.1% and 31.8% during the same period. In July 2017, the regulator took steps to remove the interest rate ceiling on credit cards which was introduced in 2016, providing some relief against the narrowing interest rate

Operating environment

Private sector credit growth was strong in the first half of 2017, before decelerating in response to tighter monetary policy conditions. The removal of the interest rate ceiling on credit cards was a welcome move, providing some relief against narrowing interest rate margins. Meanwhile, the moderation of the country's economic growth and tourism sectors had spill over effects across the economy, with early signs of repayment pressures being seen in some sectors.

Strategy and performance

The division's loan portfolio grew by 20% during the year, as emphasis was placed on consolidating the branch network and optimising capabilities to drive market penetration. Given indications of an industry-

wide weakening of portfolio quality, we maintained focus on the mass affluent and premium segment. Growth stemmed primarily from cards (+23%), personal loans (+14%) and housing loans (+35%).

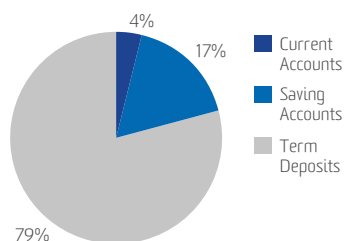
Impairment charges for the year increased by 56% to Rs. 503 million, reflecting market conditions and the need to enhance recovery capacities. The division's gross NPL ratio of 4.28% in 2017, however compares favourably against its industry counterparts. In 2017, we placed further emphasis on strengthening underwriting standards, collection capabilities and capacity.

The deposit base grew by 21% during the year, a reflection of the Bank's improving deposit franchise. Despite the prevalent high interest

Key Business Lines

Consumer Banking

Consumer Deposit Mix 2017

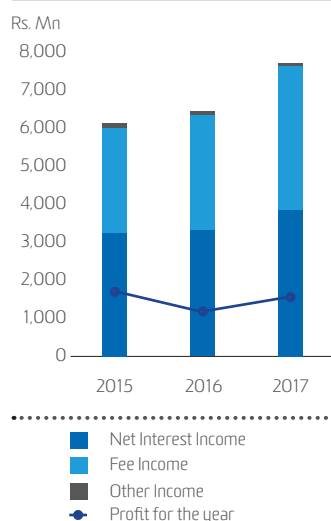


Golf Extravaganza 2017



Swim week – Exclusive partnership

Consumer - Revenue & Profitability



Amex Promotions

margins in other lending products. The Bank maintained its position as a leading player in this segment.

Digitisation is a key pillar of the Bank's strategy and during the year we relaunched the mobile banking app focusing on UIUX¹. We also launched FriMi, a revolutionary electronic payment and banking platform which allows users to perform a range of transactions including opening a bank account through an app (Refer to page 131 for further information). In 2017, the total volume of transactions performed through electronic banking increased by 64% while nearly 50% of all our transactions were conducted through electronic/digital platforms.

The country's workers' remittances declined by 7.3% up to November 2017, primarily due to adverse economic and geopolitical conditions in the Middle-Eastern market. In this backdrop, Nations Trust Bank continued to grow its remittances business with transaction volumes and value increasing by a respective 22% and 14% in 2017. The industry space of remittances is highly competitive and our

edge in this space is underpinned on customer convenience, wider accessibility and better service delivery.

In the last few years, the Bank has continued to invest in developing employee capabilities, with focus on enhancing data analytical skills, leadership and influencing capability skills. This has enabled the Bank to achieve mindset changes and nurture a performance driven culture, which has led to consistent portfolio and earnings growth.

Outlook

2018 is expected to be a year of mixed fortunes for the Banking sector; implications of the local council elections and implementation of the proposed changes to the Inland Revenue Act could hinder economic activity over the short-term. On the other hand, the tourism sector is expected to post recovery in 2018 with trickling down effects across the value chain. We will focus on consolidating our position further and strengthening underwriting and monitoring mechanisms to ensure portfolio quality is maintained.

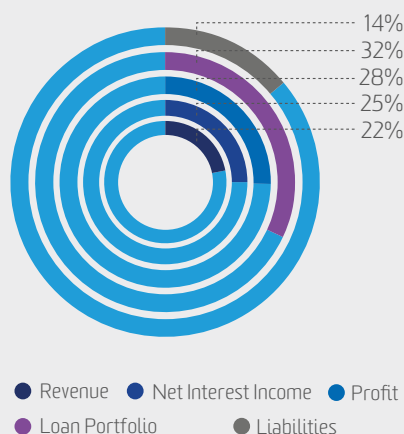
¹ User Interface User Experience



SME Banking

The SME Banking division achieved a record year of growth and profitability, with a 63% growth in revenue and a doubling of profitability. The success of the year was underpinned by an innovative employee recognition scheme and astute selection of growth sectors in the economy.

Contribution to the Group



Divisional Performance

	2017	2016	Performance against target
Loans & Advances (Rs. Mn)	60,320	42,731	117%
Deposits (Rs. Mn)	25,038	20,254	96%
Revenue (Rs. Mn)	3,806	2,333	126%
Impairment Charges (Rs. Mn)	384	210	-
Cost to income ratio (%)	30	42	-
NPA ratio (%)	4.20	3.80	-

Loan Growth

41%

Deposit Growth

24%

NPL Ratio

4.20%

Operating environment

Demand for credit remained strong for most part of the year, although interest margins saw some volatility due to fluctuations in market liquidity levels. Meanwhile, the disappointing performance of the country's agriculture sector against the backdrop of adverse weather conditions, pressured the repayment capability of SMEs involved in agricultural value chains.

Strategy and performance

The division achieved a portfolio growth of 41% in 2017, led by an innovative employee recognition scheme, which propelled the efforts of both front-line and support function employees. This initiative termed 'One Team-One Dream' and founded on the Bank's core value of 'Winning Together' sought to partner the employees of 15 support functions (such

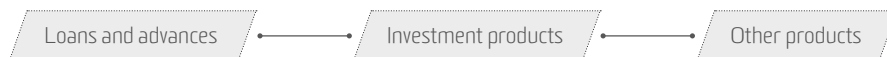
as Retail Banking Support Unit, Security Document Preparation Unit, Trade Services and Legal amongst others) in the division's growth journey. Accordingly, shared KPIs and a common dashboard was introduced to drive congruent performance of both the front-line and support functions. Best performing teams were recognised monthly through exciting rewards attuned to the wants of our relatively young workforce. This initiative proved

Key Business Lines

SME Banking

We are committed towards supporting the government's regional development agenda and during the year 29% of our disbursements were targeted to regions outside the Western Province.

Product Map



SME Education	Western Province		Central Province		Other Provinces	
	3	400	2	180	4	290
	Seminars	Participants	Seminars	Participants	Seminars	Participants

Strategic priorities in 2017

- Driving volume growth through a multi-faceted recognition scheme
- Launched a pilot micro-financing scheme
- Driving operational efficiency



Divisional commitment to SDGs



SME Internal Campaign

immensely successful, enabling the division to overshoot its already ambitious budget by over 117%.

We continued to place emphasis on improving operational efficiencies and in 2017 special focus was placed on recovery-related processes. We carried out in-depth analysis of recovery related processes and eliminated non-value adding elements to achieve a near halving of recovery time. This has also facilitated a more accurate balance reconciliation system.

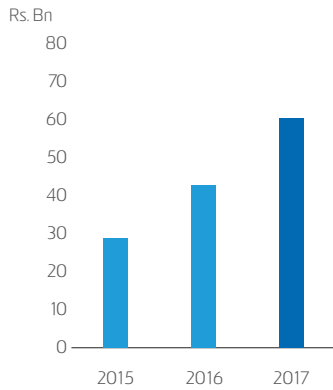
A similar exercise was carried out in 2016 which resulted in the turnaround time for loan approvals coming down by nearly 70%. As a result of these efforts, the divisional cost-to-income ratio continued on its downward trajectory reaching 30% in 2017.

The country's micro and SME sector has long since been recognised as the engine of socio economic progress and we continued to deploy resources in facilitating growth of this sector. During the year, we also successfully

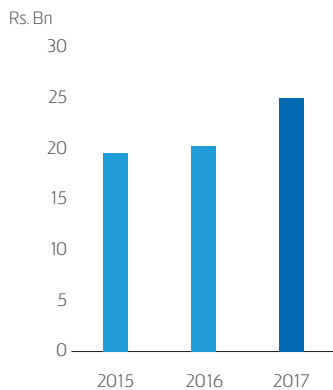
launched Nations Peramaga, a micro-financing proposition aimed at supporting business start-ups in selected growth industries. Conducted as a pilot programme in 2017, Nations Peramaga was directed towards small enterprises. The response to this product has been extremely encouraging and we hope to drive higher volumes in 2018.

We are committed towards supporting the government's regional development agenda and during the year 29% of our disbursements

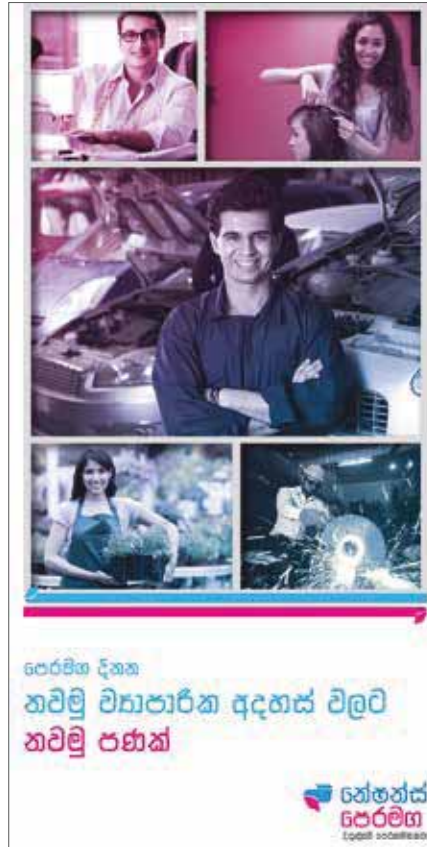
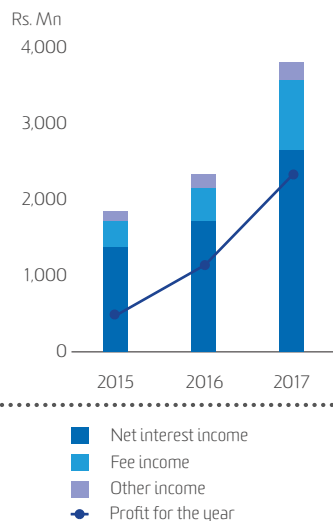
SME - Loan Portfolio



SME - Deposits



SME - Revenue & Profitability



'Nations Peramaga'

were targeted to regions outside the Western Province. We are also committed to propagating sustainable practices through our lending. Social and environmental performance criteria are assessed for manufacturing and hotel sector disbursements as well as all facilities above Rs.25.0 million.

As part of our holistic customer value proposition, we continue to support our customers through structured training/ educational campaigns and enterprise development. In 2017, we modified the format of these programmes by conducting smaller, more intimate events which allowed better engagement with our customers. We conducted 9 such events across the country, with a total beneficiary base of over 870.

The weakening of the country's agriculture sector understandably had an adverse impact on the quality of our portfolio with impairment charges increasing by 83%. The gross NPL



Business Seminar

ratio of 4.2% however, still compares among the best in the industry and reflects our stringent credit underwriting standards and monitoring mechanisms.

Overall the SME Banking division recorded an impressive performance, achieving a revenue and portfolio growth of 63% and 41% during the year. Our growth strategy is aligned to that of the national economy and we increased lending to sectors such as tourism, construction and agriculture. Net fee and commission income also increased by 113% and is now a significant contributor to overall profitability. Divisional profit for the year thus doubled to Rs. 2,293 million and accounted for 28% of the Bank's consolidated earnings in 2017.

Outlook

In 2018, we will strive towards consolidating our portfolio and driving quality improvements following strong growth over the past 2 years. We hope to continue "One Team-One Dream" with new KPIs added to drive portfolio quality. Driving process efficiencies will be another focus and support functions will be included in the workflow upgrade to enable division-wide efficiencies in 2018.

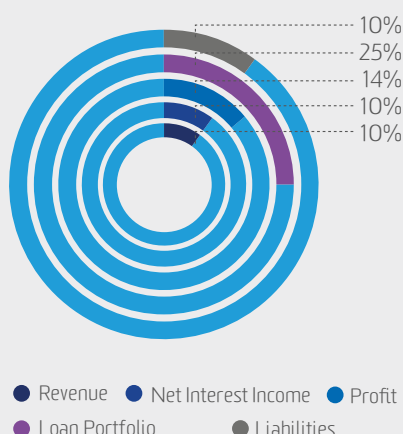
Key Business Lines



Corporate Banking

Corporate Banking recorded an year of steady growth, with continued strategic focus of offering solutions that are structured to meet the unique needs of individual corporate customers and thereby developing deep and insightful customer relationships. Trade and Transaction Banking, Working Capital Finance and Term Debt remained at the core of the Corporate Banking product offering with Structured Finance being launched during the year as a new area of focus.

Contribution to the Group



Divisional Performance

	2017	2016	Performance against target
Loans & Advances (Rs. Mn)	46,192	38,833	95%
Deposits (Rs. Mn)	18,173	13,819	98%
Revenue (Rs. Mn)	1,648	1,407	99%
Impairment Charges (Rs. Mn)	49	(55)	-
Cost to income ratio (%)	30	31	-
NPA ratio (%)	0.24	0.60	-

Loan Growth

19%

Deposit Growth

32%

NPL Ratio

0.24%

Product Map



Strategic priorities in 2017

- Structured financing and institutional banking
- Increasing contribution from non-fund based sources
- Strengthening mid-market proposition



Divisional commitment to SDGs

Operating environment

While demand for credit remained strong during most part of the year, margins saw some volatility due to fluctuations in market liquidity levels. Capital infusions and debenture issues by several large banks resulted in increased liquidity during the second half of 2017, which led to intense pressure on margins.

Strategy and performance

Nations Trust Bank's Corporate Banking value proposition is centred on nurturing long-term relationships with customers supported by excellence in service delivery and structured solutions that need the complex funding needs of corporate customers.

In 2017, the division broadened its target customer base by setting up a middle-market segment. This will enable the division to partner customers throughout their growth journey offering a range of solutions targeted towards fulfilling lifecycle requirements. In ensuring more meaningful customer relationships, we adopt a combined approach towards customer servicing with the engagement of both branch and Centre employees.

The division marked a key milestone in 2017, entering the Structured Finance and Institutional Banking segment. The division successfully concluded two transactions in Maldives, comprising a syndicate and a receivables-backed transaction both structured

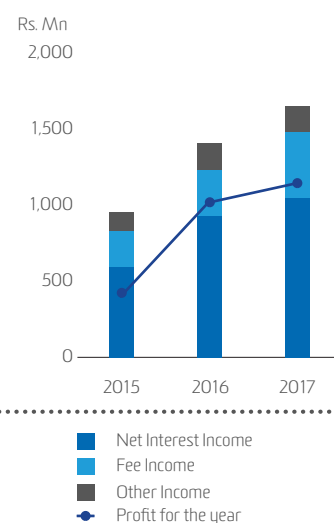
and arranged by Nations Trust Bank. These FCBU transactions have enabled corporate banking to diversify the Bank's revenue flows through lucrative USD earnings while also laying the foundation for the Bank's regional growth strategy.

In line with the Bank's overall digitisation drive, the division also strengthened its digital proposition through launching Nations Corporate Direct - an internet banking platform which features cash management solutions. In 2017, the division onboarded close to 100 corporate customers to this platform while total electronic transactions grew significantly compared to the previous year.

Corporate Banking continues to maintain an extremely healthy portfolio, demonstrating its commitment to effectively managing its risk pricing dynamics. Total advances to corporates rated above B+ (based on internal risk ratings) accounted for 80% of the total Corporate Banking portfolio as at end-December 2017. It is noteworthy that the division achieved a near zero-gross NPL ratio by end-2017.

The division's fee and commission income increased by 44% in 2017, supported by the structured financing transactions as well as targeted expansion in the export sector. Focus on specific export industries such as tea, apparels, gloves and rubber products enabled strong customer acquisitions during the year.

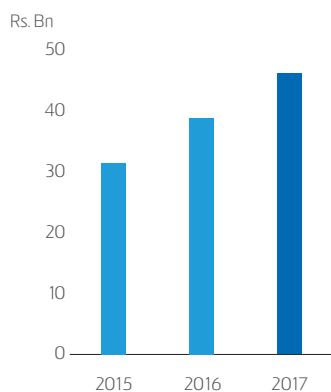
Corporate - Revenue & Profitability



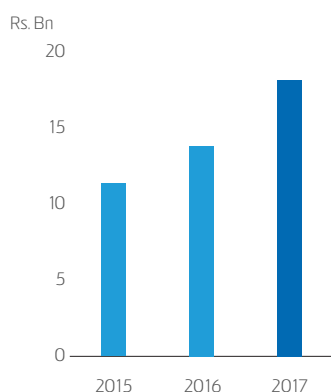
Key Business Lines

Corporate Banking

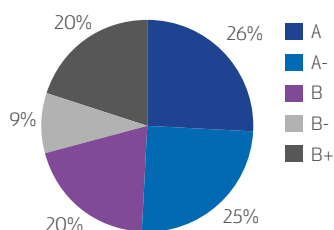
Corporate - Loan Portfolio



Corporate - Deposits



Loan Portfolio Mix by Risk Grade



Corporate Banking also achieved deposit growth of 32% during the year. Our deposit mobilisation strategy has been centred on providing end-to-end, multi-channel solutions to selected customers in growth industries such as the education sector. We also hope to pursue cross-sell opportunities through this initiative by offering bundled retail banking solutions to targeted customers.

The success of the above strategies is reflected in the division's commendable performance in 2017. Interest income increased by 45%, compared to an asset growth of 19% reflecting the division's focus on selecting the right client and transaction, rather than merely pursuing asset expansion. Growth in NII was slower at 13% primarily due to a narrowing of margins resulting from market rate volatilities. Net fees and commission income grew by 44% and was a significant contributor to divisional profitability. Overall, the divisional profit for the year increased by 8% to Rs. 1,102 million, contributing 14% to the Bank's consolidated earnings.

Outlook

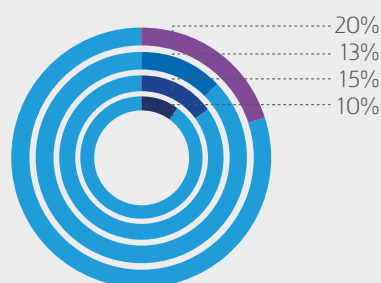
The division's entry into the middle-market segment is expected to present numerous opportunities for growth over the medium to long-term, as macro-economic stability and improved investor sentiments drive expansion of this sector. We will continue to place emphasis on increasing contribution from non-fund based sources with the objective of improving the stability of earnings and the overall risk profile. Growing our structured financing book through selective opportunities in East Asia is also a key priority for the division.



Leasing

The Bank's leasing division recorded a year of remarkable performance, led by innovative strategies to drive volume growth, penetration to new market segments, smart management of profit margins and a keen focus on maintaining portfolio quality. Division interest income and profit increased by 23% and 7% respectively during the year.

Contribution to the Group



● Revenue ● Net Interest Income ● Profit
● Loan Portfolio

Divisional Performance

	2017	2016	Performance against target
Loans & Advances (Rs. Mn)	36,858	30,998	106%
Revenue (Rs. Mn)	1,671	1,491	98%
Impairment Charges (Rs. Mn)	15	(30)	-
Cost to income ratio (%)	38	38	-
NPA ratio (%)	0.91	2.20	-

Loan Growth

19%

Revenue Growth

12%

NPL Ratio

0.91%

Operating environment

The leasing industry continued to experience numerous challenges in 2017. The revision of the LTV ratio for motor vehicles in January 2017 hampered the sector's growth opportunities while the rising interest rates pressured customer affordability, thereby impacting overall volumes. Meanwhile, multiple revisions to the duty calculation methodology resulted in

the prices of motor vehicles escalating during the year. Accordingly, the new registration of passenger vehicles declined by 14% compared to the previous year, directly impacting our growth potential.

Strategy and performance

The Leasing division commenced the year by conducting a comprehensive market study which provided insights on the significant potential for growth in selected product segments and regions. To cater to this demand and meet the division's ambitious growth targets, we adopted a unique approach to enhance employee motivation and drive volume growth.

Key Business Lines

Leasing

Product Map



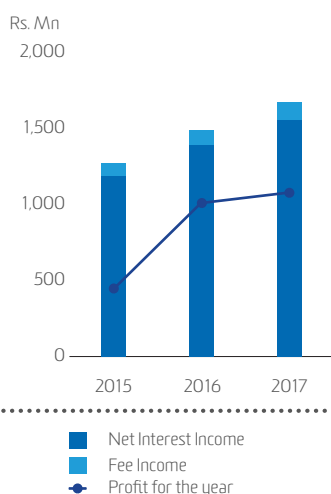
Strategic priorities in 2017

- New business acquisitions with sufficient margins
- Managing impairment & NPL
- Employee engagement & motivation



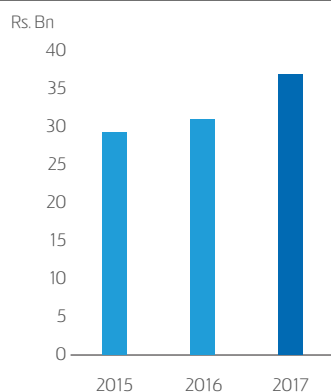
Divisional commitment to SDGs

Leasing - Revenue & Profitability



Leasing Team Malaysian Tour

Leasing - Loan Portfolio



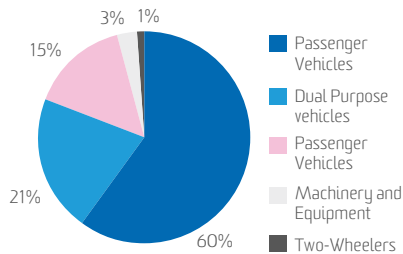
Accordingly, the division introduced a '400m race strategy' with quarterly cycles for budgetary achievements, resulting in a substantial improvement in staff morale and overall performance. Resultantly, the division's total volumes grew by 19% y-o-y allowing Nations Trust Bank to emerge as the largest leasing player in the banking industry during the year.

During the year we placed strategic emphasis on driving employee motivation. Our ability to identify and effectively respond to employee concerns through a proactive strategy was a key part of our success story in 2017. We also strengthened employee engagement

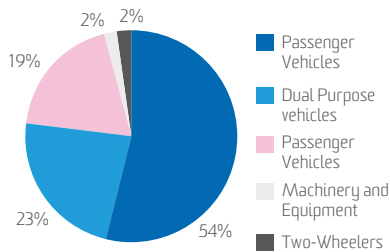
and changed our communication strategy to incorporate both Sinhalese and English thereby gaining greater participation. The division also introduced monthly competitions to reward both sales, recovery and back-office staff. In recognition of the team's excellent performance during the year, the division also arranged a 3-day tour to Malaysia.

We further strengthened our presence in the two-wheeler segment. An entry level product for aspiring individuals, this product enables us to provide formal access to finance for first-time borrowers. In 2017, we disbursed Rs.425 million in two-wheeler financing to 2350 borrowers. Our entry into new customer

Leasing Asset Mix



New Business Composition



segments such as two-wheelers have been complemented with stronger underwriting standards to ensure a better balance between risks and rewards.

Although portfolio growth was strong, the division maintained relentless focus on preserving portfolio quality. Credit evaluation standards were not compromised in pursuing growth and increased resources were deployed towards recoveries. Sales staff also partnered the recoveries team when required, in order to leverage on customer relationships. Resultantly, the division's NPA ratio declined to a historical low of 0.91% from 2.20% the year before, while net impairment was a reversal of Rs. 37 million for the year.

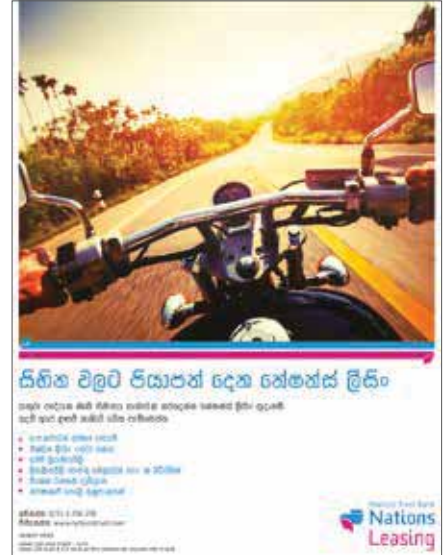


Launch of '400m race strategy'

The leasing division achieved a portfolio growth of 19% during the year, supported by strategic focus on driving employee motivation and penetration to new customer segments. Resultantly, interest income expanded by 23% during the year, while careful management of profitability margins enabled the division to maintain NII growth at 11%. Ongoing focus on maintaining portfolio quality, together with continued process efficiencies resulted in the division's profit for the year increasing by 7% to reach a record-high of Rs. 1,077 million in 2017.

Outlook

2018 is expected to present numerous opportunities for growth, as the anticipated tapering of lending rates and stabilising macro-economic fundamentals enhance customer affordability. The regulator is also expected to take further action to improve the environment for leasing, in supporting the growth of the country's SME sector. On the other hand, the removal of capital allowances is expected to exert pressure on margins across the industry. In 2018, we hope to build on the learnings of 2017 and the foundation placed to further strengthen our position in selected market segments.



Promotion campaign

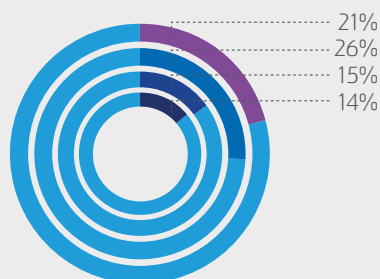
Key Business Lines



Treasury

The Treasury Unit performed commendably during the year, recording a revenue and profit growth of 17% and 24% respectively. Focus areas for the year included enhancing the customer proposition in forex trading, new product development and strengthening the ALM desk with IT and analytical capabilities.

Contribution to the Group



● Revenue ● Net Interest Income ● Profit
● Assets

Divisional Performance

	2017	2016	Performance against target
Fixed Income Securities Portfolio (Rs.Mn)	49,335	36,738	20%
Revenue (Rs.Mn)	2,498	2,113	7%
Customer foreign exchange Income (Rs. Mn)	480	449	-12%
Cost to Income Ratio (%)	15	15	

Revenue Growth

17%

FIS Portfolio Growth

34%

PBT Growth

24%

Operating environment

The Treasury division's operations are susceptible to fluctuations in market variables such as interest rates and exchange rates which reflect broader monetary/fiscal policy implications. A relatively tight monetary policy stance was maintained during the year, with a view to addressing inflationary pressures. While interest rates were on an upward

trajectory in the first half of the year, excess liquidity towards the latter half resulted in primary market rates easing off. The relatively slower adjustment of broader deposit rates however resulted in relatively higher funding costs and narrowing NIMs. There was pronounced foreign interest in the debt and equity market, with sizable inflows witnessed throughout the entire year.

Strategy and performance

Fixed income

The fixed income portfolio performed well during the year, upheld primarily by the trading portfolio which benefited from rate movement during the second half of the year. Realised capital gains on the fixed income securities portfolio amounted to Rs. 190 million during the year, compared to Rs. 34

Product Map



Strategic priorities in 2017

- Proactive approach towards driving volumes in FX customer desk
- New product development (wealth partnering)
- Strengthening IT and analytical capabilities

million the year before. On the other hand, narrowing NIMs affected the funding and gapping operation due to the relatively slower adjustment of money/deposit market rates.

Forex trading

The Bank's forex operations comprise of customer forex trading and proprietary trading. We have continued to focus on driving volume growth through maintaining a high level of engagement with the corporate, SME and branch operations. During the year, the division achieved a near 25% y-o-y growth in volumes, supported by increased resource allocation to support growth. That said, intensifying competitive pressures in this segment have led to narrower margins and the division marginally fell short of its revenue targets despite substantial growth in volumes.

The performance of the proprietary trading desk was impacted by net negative marked-to-market of Rs. 1,387 million, arising from an increase in the funding SWAP book and a parallel increase in SWAP premiums by 177 bps. However, it should be noted that funding through FX SWAPs still provide a cost effective alternative compared to high cost rupee deposits.

Asset liability management

The ALM desk plays a vital role in ensuring that the Bank has adequate funding to meet its growth agenda. The Bank takes a long-term view in managing its asset and liability mixes and adjusts the maturity of its portfolio in line with interest rate expectations, thereby

generating profits if and when the opportunity arises. During the year, we launched four modules namely, the Static Module, Income and Funds Transfer Pricing Module, Reporting Module and the Dynamic Module which are the main pillars of the sophisticated ALM System which would provide the Bank a more effective tool to manage the Balance Sheet. The benefits of this automation are expected to fully accrue in 2018, as it will strengthen planning, pricing, risk management and reporting capabilities.

WML

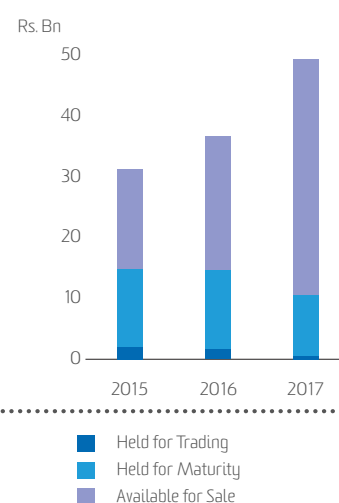
During the year the Bank sought to wind down the margin trading portfolio and exit this business line. The fee-based fund management operation was transferred to the Bank.

Overall the Treasury division's revenue grew by 17% during the year while NII growth was relatively slower at 8%, reflecting the contraction in margins. Overall profitability was however impacted by net negative Marked-to-Market arising from the FX SWAP book, and segmental profit for the year increased by 24% to Rs. 2,114 million during the year under review.

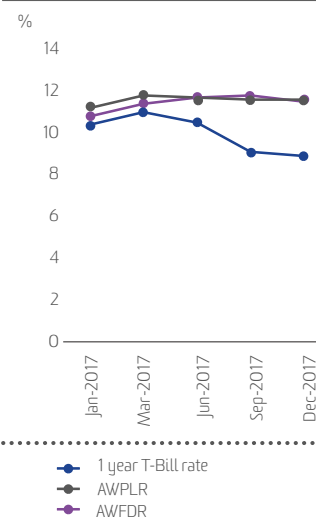
Outlook

We remain optimistic regarding the medium to long-term growth prospects resulting from the anticipated stabilisation of macro-economic fundamentals, recovery of the export sector, inflow of foreign direct investment and strengthening retail demand. The CBSL's plans to move towards a flexible inflation

FIS Portfolio Mix



Interest Rates



targeting regime over the medium term, will allow for sustained low inflation environment underpinned by improvements in government finances and effective monetary policy. The Bank is well positioned to capitalise on these opportunities and will focus on strengthening its analytical, IT and customer-servicing abilities to drive growth.

Value Creation against our Capitals



Financial Capital



Our strategy for 2017 was centred on enhancing customer centricity to increase market penetration in key segments while investing in our brand.

Value Addition in 2017

- Strong profit generation with 18% growth in profit after tax
- Portfolio growth of 25% led by increased penetration to key market segments
- Efficient cost management

Our strategy for 2017 was centred on enhancing customer centricity to increase market penetration in key segments while investing in our brand. Broad-based growth was seen across the business verticals supported by entry into new segments, robust digital platforms, innovation and a strong sales culture. The upward trajectory in interest rates inserted pressure on Net Interest Margins (NIM), although this was offset by our continued focus on growing profitable segments. Deposit growth outpaced industry average, reflecting improvements in our deposit franchise. A USD 50 million facility was obtained from IFC to expand the SME portfolio, thereby strengthening the Bank's funding position. The Bank's profit for the year increased by 58% due to strong dividend upstreaming from subsidiaries, including a share buy-back from Waddock Mackenzie which resulted in an unusually high dividend. The Group's profit after tax also grew by 18% to reach a record-high of Rs. 3.37 billion during the year.

Financial Performance

Net Interest Income

The Group's Net Interest Income (NII) grew by 26% to Rs. 12.29 billion, underpinned by broad-based growth in its advances portfolio and interest income on government securities. Loans and advances grew by 25% as the Bank pursued volume growth and increased penetration in its key market segments. The SME segment recorded a loan growth of 41% during the year, resulting in the portfolio mix shifting increasingly towards SME. The Consumer segment benefited from the removal of the interest rate ceiling on credit cards. Active management of the asset-liability-maturity mismatches and a decline in cost funds in the 2nd half of the year allowed the Bank to record an annual Net Interest Margin (NIM) of 4.4% in 2017, compared to 4.5% in 2016.

Rs.194 Bn

Customer Deposits

Rs. 21 Bn

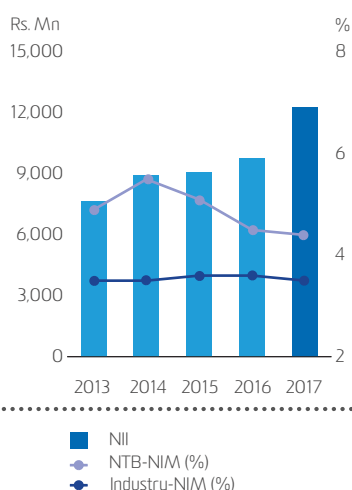
Shareholders' funds

Rs. 187 Bn

Loans and Receivables

Broad-based growth was seen across the business verticals supported by entry into new segments, robust digital platforms, innovation and a strong sales culture. The upward trajectory in interest rates inserted pressure on Net Interest Margins (NIM), although this was offset by our continued focus on growing profitable segments.

NII Trends



Non-Interest-Income

The Group's non-interest income comprises of fee and commission income, net trading income and other operating income. During the year non-interest income grew by 18% to Rs.4.63 billion supported by the following;

- Net fees and commission income increased by 29% upheld by growth in the cards segment, increased trade volumes in the SME segment as well as contributions from the Corporate Banking segment's entry into the structured financing sphere
- At bank level, other operating income nearly doubled to Rs.1.64 billion due to increased dividends from subsidiaries including a share buy back of Waddock Mackenzie in the form of an unusually high dividend. Following this share buy-back the Group was able to optimise its capital use by utilising idle capital at subsidiaries to strengthen the Bank's capital position.
- Net trading losses for the year amounted to Rs.558.45 million in 2017 (from Rs.241.38 million the year before) stemming from an increase in the funding FX SWAP book and unfavourable movements in forward premiums. That said, the Bank continues to benefit from relatively lower funding costs of the forex swaps compared to high cost rupee deposits.

Relevance to Value Creation



Increased investments in enhancing our human capital through training and development is likely to insert pressure on our financial capital in the short-term. Over the long-term however these investments are expected bear fruit, enabling us to achieve our strategic goals



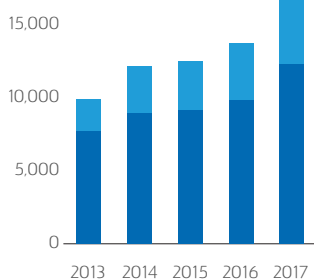
Investments in strengthening our digital infrastructure has adversely impacted financial capital in the short-term; in the long-term however, it will enhance our social and relationship capital, intellectual capital and strengthen financial capital through better earnings.

Value Creation against our Capitals

Financial Capital

Operating Income

Rs. Mn
20,000



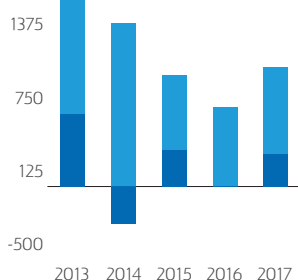
■ Nil
■ Non-interest income

Impairment

The Group's impairment charges increased by 58% to Rs.1.09 billion during the year, following strong volume growth in the Consumer and SME segments. Individual impairment increased at a relatively fast pace during the year, stemming from the SME portfolio as the weakening of the country's agriculture sector had trickling down effects on several industry sectors. Collective impairment grew by 8% reflecting broad-based portfolio growth. Credit quality as measured by non-performing-loans improved during the year, with the Group's gross NPL ratio (measured in accordance with CBSL guidelines) decreasing from 2.41% in 2016 to 2.29% in 2017. In 2018, focus will be placed on consolidating the portfolio and strengthening collections and recoveries following the strong growth in 2017

Impairment Charges

Rs. Mn
2,000

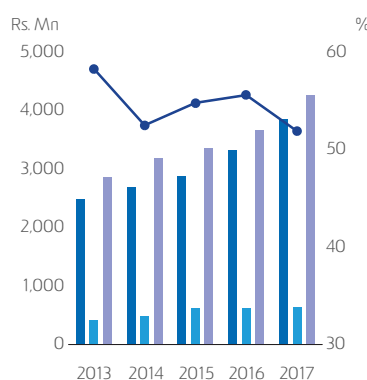


■ Individual impairment
■ Collective impairment

Cost Management

Total operating expenses increased by 15% to Rs.8.77 billion driven by the growth in personnel expenses and other operating costs. The 16% expansion in personnel costs reflect the Group's increasing focus on performance-related pay in line with its efforts to nurture a performance-driven culture. Other operating expenses increased by 17% due to business growth and increased operational activities. Ongoing focus on automating processes, lean initiatives and productivity improvements have borne fruit and the Group's cost-to-income ratio improved to 52% from 56% the year before.

Cost Management



■ Personnel expenses
■ Depreciation and amortisation
■ Other expenses

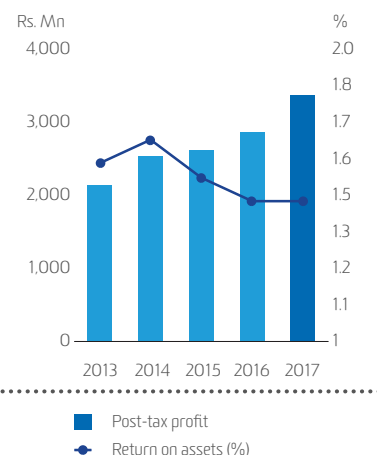
Taxation

The Group's tax contribution to the government in the form of VAT and NBT increased by 56% to Rs.1.66 billion due to the increase in VAT on financial services from 11% to 15%. Income tax contributions also increased by 37% due to an additional tax provisions on the inter-company dividend transfer, share buy-back as well as stronger profitability. In total the Group's value creation to the government in the form of taxes increased by 45% to Rs.3.68 billion. This translated to an effective tax rate of 52% compared to 47% the year before.

Earnings

Healthy portfolio growth, resultant expansion in interest income and growth in fee-based income enabled the Group to achieve a 31% increase in pre-tax profits, despite the effects of narrower NIMs and an increase in impairments. Meanwhile the Group's profit after tax increased by 18% to reach a record high of Rs. 3.37 billion during the year with the return on equity ratio closing at 17.38%. Return on assets ratio was maintained at 2016 reported levels.

Earnings



■ Post-tax profit
◆ Return on assets (%)

Other Comprehensive Income

The fair value of investment securities available for sale recorded an unrealised gain of Rs. 535.66 million, reflecting the decline in market interest rates in the second half of the year. The Bank's Available for Sale portfolio is subject to mark to market valuation and comprises of government securities which are maintained primarily for regulatory requirements on liquidity. Revaluation gain of Rs. 1,267 million on properties was also booked for the year.

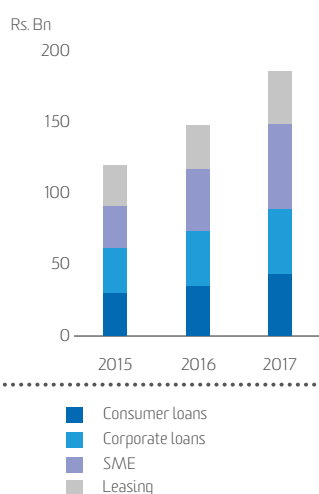
Financial Position

Assets

The Group's asset base expanded by 27% to Rs. 268.32 billion by end-2017, upheld by strong growth in loans and advances and increased investments in government securities. Over the last 5 years assets have

expanded by a CAGR of 17% as the Bank pursued ambitious growth in multiple sectors. Loans and advances growth in 2017 was 25%, supported by broad-based expansion in all key business lines. The healthy inflow of deposits and the USD50 million facility from IFC strengthened the Bank's liquidity position during the year, resulting in investments in government securities increasing by 34% to Rs. 49.3 billion. In order to reduce the Bank's exposure to market volatility we trimmed investments in our held-to-maturity and trading portfolios and channelled funding towards the available for sale book. The asset composition remained relatively unchanged, with credit assets dominating the base with a share of 70%.

Loans and Advances

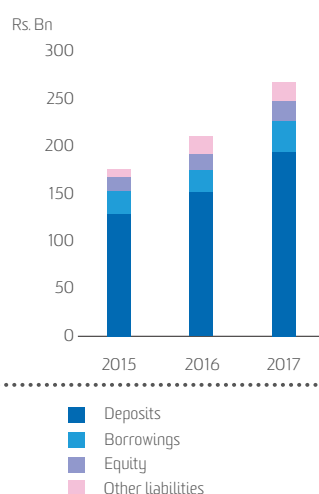


The Bank pursued volume growth and increased market penetration in all key sectors. The SME book achieved the strongest growth with the portfolio expanding by 41% as we enhanced our overall value proposition to customers through serving their trade, payments and treasury requirements in addition to lending. Corporate Banking grew its portfolio by 19% supported by its entry to the mid-market segment and structured syndications. Consumer Banking (+20%) continued to deliver strong growth with increased penetration in the cards and personal loans segments.

Liabilities

Asset growth was funded primarily by customer deposits and increased exposure to borrowings during the year, which resulted in a 27% increase in total liabilities. The Bank's deposit base widened by 28% to Rs.194.27 billion, faster than the industry growth of 18%. This is a reflection of the Bank's improving deposit franchise and customer penetration. The average cost of the Bank's fixed deposit is in line with the overall industry. Meanwhile borrowings increased by 40% resulting from the new IFC facility of USD 50 million to be disbursed to the SME sector. The funding composition remained relatively unchanged with deposits funding 72% of total assets, compared to 71% the year before.

Funding Profile



Capital Position

Shareholders' funds increased by 24% to Rs.21.47 billion during the year supported by the strong profit generation during the year. Meanwhile, the tier 1 and overall risk weighted capital adequacy ratios remained well within the regulatory limit, clocking in at 10.83% and 13.89% respectively by year-end. Rs. 3.5 billion Basel III compliant tier II capital is planned to be raised in March 2018. Meanwhile Rs. 3.2 billion capital has been raised through a rights issue of ordinary non-voting convertible shares in February 2018. Following these issuances, the Bank's capital position will strengthen significantly, affording a strong platform for potential growth.

Shareholder Value

The Bank continued to deliver on its commitment to shareholders supported by strong portfolio and profit performance. Accordingly, Bank's earnings per share closed at Rs.18.12 while net asset value per share increased by 30%. The share price declined by 3.6% to Rs. 78.00 as at end-December 2017, from Rs 80.90 the preceding year demonstrating strong correlation to the movement of the broad market coupled with price adjustment to the proposed right issue of the bank. The share traded between Rs. 73.1 (March) and Rs. 87 (October) during the year. Nations Trust Bank's market capitalisation resultantly declined by 3.6% to Rs. 18Bn by the end of the year.

	2017	2016	2015
Dividends per share- Rs. (Bank)	2.10	2.10	2.10
Return on equity (%) (Group)	17.38	17.66	17.99
Dividend payout (Bank)	11.59	18.33	20.26
P/E ratio (Bank)	4.31	7.06	8.33
Earnings Per Share (LKR) (Bank)	18.12	11.46	10.37
Net Asset Value per Share (LKR) (Bank)	87.94	67.54	59.13

Value Creation against our Capitals

Investor Information

Stock Exchange Listing

The ordinary shares of the bank are all listed in the Colombo Stock Exchange. The audited Income Statement for the year ended 31 December 2017, 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, 2017 Shareholdings	Resident			Non - Resident			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1000	3,831	1,400,233	0.61	37	19,313	0.01	3,868	1,419,546	0.62
1001 - 10,000	1,774	5,696,539	2.47	36	151,015	0.07	1,810	5,847,554	2.54
10,001 - 100,000	337	9,626,755	4.17	8	255,919	0.11	345	9,882,674	4.28
100,001 - 1,000,000	39	9,245,380	4.01	6	3,094,170	1.34	45	12,339,550	5.35
Over 1,000,000	13	149,817,354	64.96	3	51,300,605	22.25	16	201,117,959	87.21
	5,994	175,786,261	76.22	90	54,821,022	23.78	6,084	230,607,283	100.00

There were 5,994 Resident and 90 Non - resident shareholders as at 31 December 2017

Analysis of Shareholders

	31 December 2017			31 December 2016		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	5,754	24,276,376	10.53	6,016	25,420,506	11.02
Institutional	330	206,330,907	89.47	347	205,186,777	88.98
	6,084	230,607,283	100.00	6,363	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 2017 was 34.81% (34.84 % as at 31 December 2016). Number of public shareholders are 6,066.

Market Information on Ordinary Shares of the Company

	2017	2016
Market value		
Highest Value (LKR)	87.00	90.00
Lowest Value (LKR)	77.50	73.00
Value at end of year (LKR)	78.00	80.90
Trading Statistics		
No. of Transactions	2,661	3,598
No. of shares Traded (Mn)	8.28	8.09
Value of shares Traded (LKR Mn)	660.08	637.63
Market Capitalization		
Market Capitalization (LKR Mn)	17,987.37	18,656.13

Comparative shareholders as at 31 December 2017 of the twenty largest shareholders as at 31 December 2016

Name of the Shareholder	2017		2016	
	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
Central Finance Company PLC A/C No 03	23,014,400	9.98	20,715,400	8.98
Mackinnons Keells Limited.	22,830,159	9.90	22,830,159	9.90
Janashakthi General Insurance Limited	18,582,682	8.06	18,582,682	8.06
BNYMSANV RE-FIRST STATE INVESTMENTS ICVC-STEWART INVESTORS ASIA PACIFIC FUND	15,388,889	6.67	14,366,325	6.23
CF Insurance Brokers (Pvt) Ltd	11,592,857	5.03	10,592,857	4.59
CF Growth Fund Ltd A/C No.01	11,514,273	4.99	14,813,273	6.42
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. M.F. Hashim	2,600,711	1.13	2,600,000	1.13
RUBBER INVESTMENT TRUST LIMITED A/C # 01	2,263,764	0.98	Nil	Nil
Mr. N.R. 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	Nil	Nil	1,236,880	0.54
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. D.J.M. 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. Premapala Pitipana Arachchi	820,000	0.36	820,000	0.36
	204,714,729	88.78	202,664,120	87.89
Others	25,893,004	11.23	27,943,163	12.11
Total	230,607,283	100.00	230,607,283	100.00

The Director of Bank Supervision of the Central Bank of Sri Lanka (CBSL) has by letter dated 12 October 2017 informed the Bank that the Monetary Board of the CBSL has permitted the John Keells Group and Central Finance Group to retain their respective current shareholdings in the Bank till 31 December 2020 and to reduce it to 15% each with effect from that date. The Monetary Board has also required the Bank to limit the voting rights of the John Keells Group and Central Finance Group to 10% each with effect from 31 March 2018.

Value Creation against our Capitals

Investor Information

Debenture Information

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

Debenture Categories	CSE listing	Interest Payable Frequency	Face value 2017/2016	
			2017	2016
			LKR'000	LKR'000
Fixed Rate	NTB/BC/19/12/18A13	Semi -Annually	3,000,000	3,000,000
Floating	NTB-BD-08/11/21-C2363	Semi -Annually	2,410	2,410
Fixed Rate	NTB-BD-08/11/21-C2365-12.65	Semi -Annually	3,885,800	3,885,800
Fixed Rate	NTB-BD-08/11/21-C2364-12.8	Annually	1,111,790	1,111,790
			8,000,000	8,000,000

Ratios of Debt	2017	2016
* Debt / Equity Ratio %	94.86%	62.86%
Interest Cover (Times)	5.89	6.64
Quick Asset Ratio %	112%	87%

* Borrowings over one year original maturity are considered for debt.

Market Values 2017			Interest Rates 2017		Interest Rate of Comparable Government security		Other Ratios as at date of last trade	
Highest	Lowest	Year end	Coupon Rate	Effective Annual yield	31.12.2017	31.12.2016	Interest Yield	Yield to Maturity
LKR	LKR	LKR	%	%	%	%	%	%
100.50	100.20	100.20	13.00	13.42	8.90	11.42	12.97	12.77
Not traded during the current period			11.61	11.95	9.84	12.15	Not traded	
Not traded during the current period			12.65	13.05	9.84	12.15	Not traded	
100.00	100.00	100.00	12.80	12.80	9.84	12.15	12.80	12.79

Value Creation against our Capitals

Ten Year Summary

Year Ended December 31st	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
LKR Mn (Group)										
OPERATING RESULTS										
Gross Income	13,877	14,037	12,215	11,885	17,673	20,362	20,854	20,279	25,547	35,333
Interest Income	12,094	12,049	10,090	9,795	15,113	17,911	17,452	16,628	21,384	30,385
Interest Expense	(9,185)	(8,329)	(5,525)	(5,391)	(9,358)	(10,237)	(8,513)	(7,523)	(11,598)	(18,097)
Net Interest Income	2,909	3,720	4,565	4,404	5,755	7,675	8,940	9,105	9,786	12,288
Fees & Other Income	1,783	1,988	2,125	2,089	2,576	2,235	3,177	3,414	3,925	4,625
Net Income	4,692	5,708	6,690	6,493	8,331	9,910	12,117	12,519	13,711	16,914
Operating Expenses (inc.Imp.Charge/Reversal & VAT)	(3,664)	(4,327)	(4,662)	(4,158)	(5,565)	(6,759)	(8,290)	(8,614)	(9,371)	(11,520)
Profit Before Taxation	1,028	1,381	2,028	2,335	2,766	3,151	3,827	3,905	4,340	5,393
Provision for Taxation	(435)	(695)	(944)	(729)	(815)	(1,015)	(1,290)	(1,291)	(1,471)	(2,022)
Profit After Taxation	593	686	1,084	1,607	1,951	2,136	2,537	2,614	2,869	3,371
Other Comprehensive Income (OCI)						(9)	104	(32)	(236)	1,262
Profit After OCI						2,127	2,641	2,582	2,633	4,634
As at December 31st										
ASSETS										
Cash & Short-Term Funds	4,065	1,431	1,531	3,695	2,534	3,020	6,900	6,392	4,188	6,870
Statutory Deposits with Central Bank	1,717	2,044	2,416	4,284	5,089	4,032	3,992	5,284	8,512	11,193
Government Treasury Bills & Bonds	15,688	23,894	26,876	24,982	34,038	44,812	40,696	31,623	36,738	49,335
Investment Securities	3,781	4,239	4,020	3,153	2,221	2,315	3,949	7,065	6,926	7,028
Loans & Advances	38,585	35,335	44,571	61,188	73,424	82,327	98,347	121,143	149,818	186,746
Other Assets	1,914	1,210	1,287	2,280	2,591	2,894	1,419	1,386	1,814	1,941
Property Plant & Equipment	2,035	1,919	1,788	1,891	1,908	2,048	2,194	2,143	1,996	3,364
Intangible Assets	79	432	759	600	642	680	1,283	1,224	1,189	1,154
Total Assets	67,864	70,504	83,248	102,073	122,447	142,128	158,781	176,262	211,180	267,629
LIABILITIES										
Deposits	34,146	44,222	48,315	67,633	86,274	95,730	111,010	129,158	151,502	194,269
Due to Banks	1,039	391	500	1,277	2,712	1,401	2,923	2,276	11,851	10,714
Deferred Tax Liabilities	436	437	456	236	280	341	413	733	969	1,828
Borrowings	24,628	16,629	21,979	20,203	18,695	27,508	25,402	23,433	23,536	32,174
Other Liabilities	3,272	4,048	5,193	4,095	4,390	5,410	5,138	5,491	6,001	7,175
Total Liabilities	63,521	65,727	76,443	93,444	112,351	130,390	144,887	161,090	193,859	246,159
SHAREHOLDERS' FUNDS										
Share Capital/Stated Capital	3,110	3,110	4,368	5,101	5,101	5,101	5,101	5,101	5,101	5,101
Reserve Fund	80	106	156	224	314	419	538	661	796	1,011
Reserves	1,153	1,561	2,281	3,304	4,681	6,217	8,255	9,409	11,423	15,358
Total Shareholders' Funds	4,343	4,777	6,805	8,629	10,096	11,738	13,895	15,171	17,321	21,470
Total Liabilities & Shareholders' Funds	67,864	70,504	83,248	102,073	122,447	142,128	158,781	176,262	211,180	267,629
Commitments & Contingencies	53,617	51,591	60,547	72,792	86,239	90,267	98,799	96,792	123,585	171,469

Year Ended December 31st	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
LKR Mn (Group)										
RATIOS (Group)										
Return on Average										
Shareholders' Funds (%)	16.45	15.04	18.72	20.82	20.84	19.57	19.79	17.99	17.66	17.38
Net Income Growth (%)	36.32	21.65	17.20	(2.94)	28.31	18.95	22.27	3.33	9.52	23.36
Return On Average Assets (%)	0.96	0.99	1.41	1.73	1.74	1.61	1.69	1.56	1.48	1.41
Property Plant & Equipment to Shareholders' Funds (%)	46.86	40.17	26.27	21.91	18.90	17.45	15.79	14.13	11.53	15.67
Total Assets to Shareholders' Funds (Times)	15.63	14.76	12.23	11.83	12.13	12.11	11.43	11.62	12.19	12.47
Cost/Income Ratio (%)	65.43	57.67	58.79	61.87	56.39	58.31	52.52	54.81	55.58	51.87
Tier 1 Capital Adequacy Ratio (%)	10.31	11.79	13.43	13.42	13.82	14.78	14.16	13.15	11.40	10.83
Total Capital Adequacy Ratio (%)	15.70	16.11	15.74	17.44	18.18	20.00	18.28	15.53	15.82	13.89
SHARE INFORMATION (Bank)										
Market Value per Share (LKR)	22.25	36.75	83.40	57.00	56.00	62.20	97.00	86.30	80.90	78.00
Earnings Per Share (LKR)	2.74	2.89	4.65	5.79	7.56	8.97	10.05	10.37	11.46	18.12
Price Earning Ratio (Times)	8.11	12.72	17.95	9.84	7.41	6.79	9.41	8.33	7.06	4.31
Net Asset Value per Share (LKR)	22.66	24.10	28.43	32.86	38.72	45.61	54.05	59.13	67.54	87.94
Earnings Yield (%)	12.33	7.86	5.57	10.17	13.50	14.73	10.63	12.01	14.16	23.23
Cash Dividend Per Share (LKR)	1.50	1.50	2.00	2.10	2.10	2.10	2.10	2.10	2.10	-
Scrap Dividend Per Share (LKR)	-	-	-	-	-	-	-	-	-	2.10
Dividend Payout Ratio (%)	54.67	51.93	43.04	36.24	27.78	22.92	20.36	20.26	18.33	11.59
% of 20 Largest Shareholders	81.32	76.38	78.58	78.22	65.78	79.64	81.53	86.02	87.69	88.77
OTHER INFORMATION (Group)										
Number of Employees	1,615	1,532	1,608	1,853	2,037	2,262	2,562	2,695	2,770	2,943
Number of Branches	36	38	40	48	57	72	89	92	93	93
No of ATMs	47	44	51	60	70	100	124	131	136	136

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

Value Creation against our Capitals



Manufactured Capital



Advanced digital infrastructure to enhance customer proposition, drive internal efficiencies and strengthen employee engagement

Value Addition in 2017

- Launch of two digital-banking propositions, including Sri Lanka's first digital bank
- Launched the first 'F1' model branch
- Introduction of branch dashboards to monitor performance
- Consolidation and optimisation of branch network to increase penetration
- Employee skill development within branches

Physical infrastructure

The Bank's network of 93 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 Mid-Corporate product offerings are promoted to customers through the branch network facilitating both deposit mobilisation and credit growth.

In 2017, we focused on optimising our branch reach to increase penetration and drive branch profitability. The strong expansion of our network between 2012-2014 has afforded the Bank a strong platform to pursue regional growth opportunities and we adopted a three-tiered branch structure with the objective of realigning and optimising resource allocation to capture these opportunities. This strategy also enabled us to design tailor-made products and customer engagement activities suited for each locality. In 2017, we also strengthened the branch performance monitoring system by introducing a KPI dashboard and increasing performance visibility across the network. Increased focus on data analytics and business

intelligence has enabled daily monitoring of real-time information relating to branch activities.

Branches also pursued a deposit drive during the year, with the objective of growing the Bank's low-cost funding base. The CA base grew by 9% while the SA base increased by 25%, significantly stronger than industry growth. Focus was also placed on pursuing cross sell opportunities across the network, resulting in the cross-sell ratio for existing customers improving to 1.7 from 1.4 the previous year.

In 2017, we also launched the 'F1 model branch' project; this initiative aims to overhaul all operational processes to transform branches to new-age customer delivery points. The transformation covers numerous aspects including employee training, digitisation, customer experience and physical infrastructure among others. The goal of this initiative is to enable customers to conduct transactions seamlessly through digital channels while maintaining relationships through the branch.

Network of
93 Branches
136 ATMs

**Sri Lanka's first
digital bank**



The Bank's HR system is now entirely cloud-based, allowing employees to perform administrative functions such as applying/approving leave digitally.

Digital infrastructure

The Bank is cognisant of the competitive edge that can be gained through leveraging digital infrastructure and in 2017 invested close to Rs. 562 million in strengthening our digital and IT capabilities. Major initiatives include;

Enhancements to the existing mobile banking app

In 2017, we relaunched the existing mobile banking app, after having invested significant time and effort in understanding ways to enhance the user interface and experience (UI/UX). Response for the new app has been extremely encouraging, gaining rave reviews on customer experience and ease of transacting.

Launch of FriMi

During the year, the Bank reached a major milestone in its digitisation journey with the launch of FriMi, is a combination of digital bank, wallet and a payment system wrapped up in one convenient app with a seamless registration process that only takes a few minutes. FriMi is the first digital bank in Sri

Lanka, and its key differentiator is the fact that a customer can open a Savings account without visiting a bank branch. It allows users make payments at merchants, send & receive money, pay all utility bills and to enjoy the best offers via the mobile app.

Internal processes

The Bank's HR system is now entirely cloud-based, allowing employees to perform administrative functions such as applying/approving leave digitally. Digital platforms are also being used to enhance employee engagement through mechanisms such as including digital townhalls, social media and video conferencing. The Bank also piloted robotic process automation in over 50 processes; still in its nascent stages the Bank intends to widen the use of this technology to generate significant cost and process efficiencies going forward.

Relevance to Value Creation



Increased emphasis on employee skill development within the branches have led to a more revenue/profit driven culture



Investments in strengthening the digital proposition have led to increased opportunities for customer engagement and enhancing customer convenience.



Increased penetration to existing geographies through our branch reach resulted in,

- Strong growth in SME lending in 2017
- 20% expansion in branch CASA base



Around 47% of our total transactions are now carried out digitally, thereby reducing the overall paper usage and environmental footprint.

Value Creation against our Capitals



Human Capital

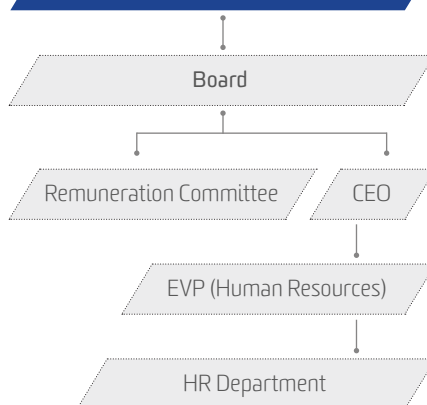


Our approach to managing our team is underpinned by a comprehensive framework of policies which has been approved by the Board.

Value Addition in 2017

- Investment in training and development amounting to Rs. 72 million
- Emphasis on strengthening employee engagement through digitisation
- Total value created to employees increased by 12% to Rs. 2.6 billion

HR Governance Structure



Management Approach and HR Governance

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 and to the Remuneration Committee on matters assigned to them by the Board. 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. The Bank does not have collective agreements.



40%

Female representation



19%

Employees now operating outside the Western Province.

Our Team

A team of 2,943 dynamic and diverse individuals are the Bank's primary value creators. With an average age of 28, our

Rs. 1.1 Mn
Profit per employee

84%
Return to work after
parental leave

100%
Employees receive
performance appraisals

Total female
representation of
40%, with 23% at
management level

69%
Employees are
below the age of
30

Employee
retention rate of
87%

During the year, more than
90% of the new recruits
were below the age of 30.

team is young and energetic, responding well to change and increasing digitisation in the sector. Following the Bank's aggressive branch expansion in recent years, regional employment has widened with nearly 19% of employees now operating outside the Western Province. Female representation is relatively high at 40% and the Bank also has the highest representation of females in management roles. The Bank typically engages employees on a full-time basis; outsourced employees are used for specific functions which are not critical.

Talent attraction

We value diversity in age, gender and other representations as it enhances the quality of our team and effectiveness of decision making. We strive to nurture a diverse workforce through providing flexible working conditions, and better work-life balance- a pertinent issue for women. Policy frameworks which foster equal opportunities in recruitment, promotion and remuneration have also enabled us to build a diverse workforce.

Workforce by Region and Gender	Male	Female
Western Province	1,340	1,048
Central Province	67	33
North Central Province	21	7
Eastern Province	35	11
Southern Province	123	44
North Western Province	51	18
Uva Province	38	8
Sabaragamuwa	38	13
Northern Province	33	11
Overseas	4	
Total	1,750	1,193

The Bank's drive towards digitisation requires employees with particular skills, attitudes and thinking; the recruitment and selection procedures have been revamped to reflect these changes with focus now being placed on digital and analytical skills. During the year, the Bank recruited 940 individuals to its team, of which more than 90% was below the age of 30. The Bank is also an equal opportunity employer and our policies are designed to employ, remunerate and evaluate

Relevance to Value Creation



Employee skill development has facilitated a better customer experience and enabled the Bank to penetrate deeper relationships with customers

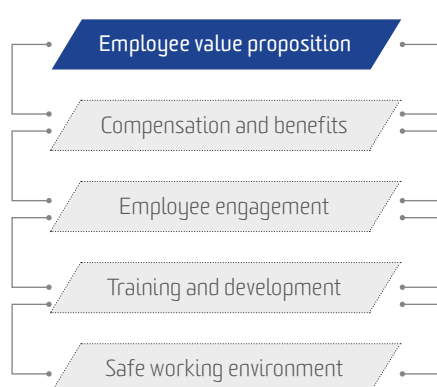


Branches performed exceptionally well in 2017, supported by continued efforts in upskilling and developing employees

Value Creation against our Capitals

Human Capital

In 2017, emphasis was placed on widening the use of digital platforms for employee engagement and communication. The Nations Connect App has proved to be extremely successful in reaching out to employees while improving process efficiencies and convenience.



New recruits by region	Male	Female
Western Province	508	301
Central Province	20	2
North Central Province	4	2
Eastern Province	15	4
Southern Province	29	7
North Western Province	11	2
Uva Province	15	2
Sabaragamuwa	12	1
Northern Province	5	
Total	619	321

employees based on their skills, experience and performance irrespective of gender, age or religion. The profile of new recruits during the year are presented graphically.

People Strategy in 2017

The Bank's human capital strategy in 2017 was centred on the two objectives of driving digitisation in HR and enhancing the learning and development proposition. 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. The initiatives and progress of the Bank's people strategy is discussed in the following sections.

Driving digitisation in HR

In 2017, emphasis was placed on widening the use of digital platforms for employee engagement and communication. The Nations Connect App has proved to be extremely successful in reaching out to employees while improving process efficiencies and convenience. Digital townhalls were also introduced during the year; conducted through a social media platform, these townhalls give employees the opportunity to directly engage with senior management and obtain responses to any suggestions, concerns or queries they may have. The Bank's HRM system is also now

entirely cloud-based, allowing for increased accessibility and convenience.

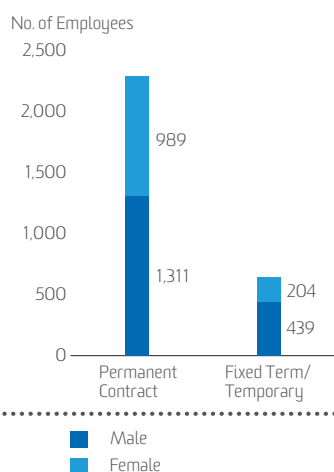
Value Proposition to Employees

The Bank offers a unique and multi-faceted value proposition to its employees which includes attractive remuneration, opportunities for skill development and career progression among others.

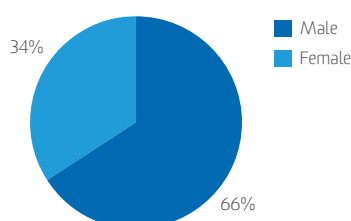
Benefits and compensation

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.

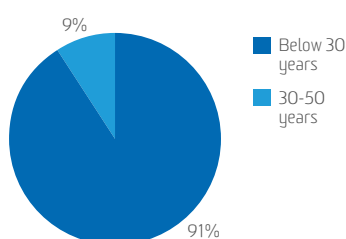
Employees by Contract and Gender



New Hires by Gender



New Hires by Age



Amazing Race

Total remuneration and benefits to employees increased by 12% to Rs. 2.6 billion during the year.

Engagement

We maintain a high level of engagement with our employees and have focused on building engagement platforms that are suited to the thinking and attitudes of Generation Y employees and millennials. In addition to the engagement platforms the following methods are used to increase communication and build camaraderie between employees;

- Great-Place-to-Work Survey
- 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
- Open access to social media
- Internal branding campaigns to raise awareness on the Bank's vision, mission and values
- Digital townhalls

Employee productivity

Employee productivity as measured through profit per employee has continued to increase supported by increased automation and digitisation, employee skill development and an overall simplification of processes.



Amazing Rally

Training and development

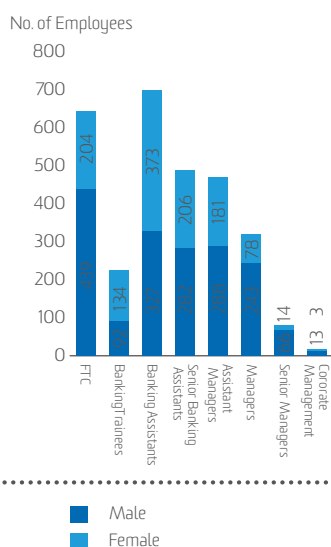
In recent years we have invested substantial funds and effort in enhancing our training proposition to ensure that employees are equipped with the skills required to drive our ambitious growth plans. We adopt a life cycle approach to training, consisting of structured training interventions for each grade ensuring that he/she obtains both the technical and leadership skills to effectively perform his/her role.

In addressing the challenges associated with developing our relatively young team to perform effectively in managerial positions, we launched 'First Time Manager' - a dedicated training programme aimed at rewarding, recognising and nurturing effective management skills. During the year, nearly 91 of our young managers underwent training through this programme. In line with the Bank's digitisation drive, we also introduced e-learning in 2017, allowing employees to access training content at their convenience. This has resulted in significant time savings, particularly in relation to branch-level employees. Meanwhile, certification programmes have been introduced to branch managers, assistant branch operations managers, inner circle ambassadors and private banking relationship officers at all branches; these programmes focus on developing customer servicing skills, personal grooming and product knowledge to facilitate the Bank's deeper penetration to the mass affluent segment.

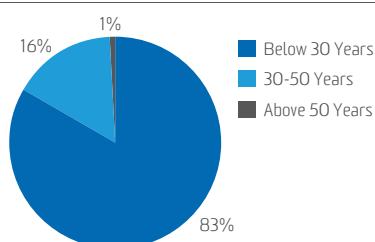
Value Creation against our Capitals

Human Capital

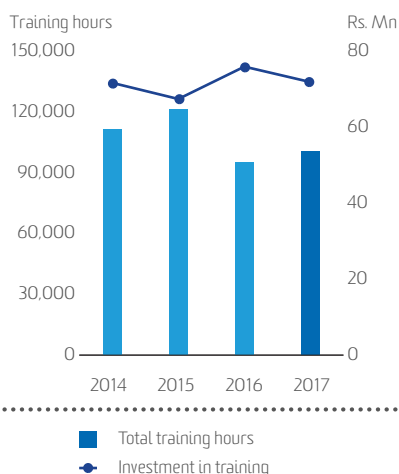
Employees by Category and Gender



Turnover by Age



Training Investment



Adventure Club at Bambarakanda



'Nations Kidz' at work

Average training hours	Male	Female
Corporate Management	38	48
Senior Managers	34	42
Managers	34	40
Assistant Managers	32	41
Senior Banking Assistants	31	28
Banking Assistants	34	26
Banking Trainees	31	23

*This shows only the permanent staff training hours

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.

In 2017, we invested Rs. 72 million in training and development which is translated into training hours recording a 6% increase in comparison to the previous year. The training coverage ratio for the year under review was 81%. A male employee received an average of 36 hours of training during the year, while a female employee received 32 hours and the average training hour per employee was 34 hours.

Employee Retention

Talent retention is a key challenge faced by the industry, with competition for talent intensifying within the Financial Services sector. Nations Trust Bank faces additional challenges in retaining employees, as millennials tend to seek new job opportunities fairly quickly rather than developing a long-term relationship with employers. In responding to this challenge, we seek to continuously enhance our value creation to employees by engaging, motivation, upskilling and empowering millennials. The Bank's overall attrition rate for 2017 was 13%.

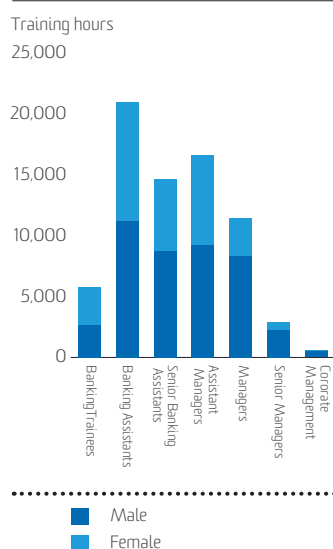
Succession Planning

We have systematic mechanisms in place to identify high-performers and effectively groom them to be the next generation of leaders within the Bank. The promotion policy has been revised to minimise 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 develop the talent pipeline.

Health and Safety

As a Bank, we recognise that the most significant safety risk to employees arise from the large volumes of cash handled at delivery points. Our premises have CCTV and are manned by trained security guards with

Training hours by gender and category



'Nations Wellness Programme



Nations Colours Night

well-established communication systems which can be used to raise alarm in the event of any untoward incident. Special allowances are also provided for certain categories of staff in recognition of the additional risks they are exposed to in specific roles.

Meanwhile, the organisation-wide implementation of the 5S initiative has created a clutter-free, hazard-free safe working environment for all employees. Safety measures are in place including periodic training of fire wardens from each department. Further, Dengue prevention campaigns and fire alarm checks were also periodically conducted to further ensure a safe working environment. A process is in place to obtain regular feedback from our staff through the Nations Voice Forum in relation to work place logistical and safety issues. During the year, there were no workplace related injuries.

Employee Code of Conduct

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.

All employees undergo mandatory training on ethics during the induction process, which is reinforced through annual training programmes. Corporate management of all key divisions are responsible for ensuring that employees conduct themselves within the defined ethical framework.

Grievance Mechanisms

An open-door policy and multiple platforms facilitating employee engagement have 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.

Way Forward

In 2018, we hope to build on the foundation put in place in 2017 to further strengthen our digitisation drive; the scope of our e-learning modules will be widened further to include all branch and customer service operations. An organisation-wide initiative will also be launched to enhance analytical capabilities to understand and effectively work with data. We also hope to further refine the recruitment process to identify individuals with digital, analytical and leadership capabilities-skills we believe are vital to the achievement of our strategic ambitions.

Rewards and Benefits

Reimbursement of professional subscriptions and education assistance

Fuel reimbursement

Hospitalisation 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

Value Creation against our Capitals



Social and Relationship Capital



Customers are at the core of our offering and our ability to nurture meaningful and long-term relationships with them is vital in ensuring the Bank's sustainability.

Value Addition in 2017

- Conducted 9 SME seminars across the island with a total reach of over 850 individuals
- Aligned our CSR policy with the Sustainable Development Goals to achieve better focus and impact
- Substantial investments in raising environmental awareness and education

Customer Capital

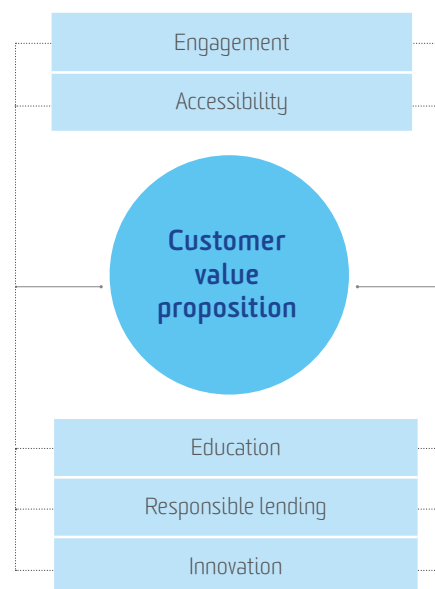
Customers are at the core of our offering and our ability to nurture meaningful and long-term relationships with them is vital in ensuring the Bank's sustainability. Enhancing our customer value proposition continues to be an important strategic pillar and we have placed continued emphasis on developing innovative solutions which are relevant to emerging customer needs while driving customer centricity through ease of transaction and service consistency. We offer a multi-faceted value proposition to our customers as given below;

Customer profile

Our customers comprise of individuals, corporates and SME clients and during the year we widened our outreach by launching a pilot programme to micro-financing borrowers. Individuals comprise the largest customer segment, accounting for nearly 95.6% of our total customer base. In line with our regional growth strategy, customers from outstation regions have grown in proportion although the Western Province continues to dominate in customer regional representation.

Customer Engagement

We engage with our customers through an array of formal and informal platforms including continuous dialogue through relationship managers, customer satisfaction surveys and year-round events organised for specific customer segments. In recent years, the Bank has focused on enhancing its digital engagement with customers, through



Relationships with an island-wide customer base

Ongoing customer education through SME seminars

Active contributor to industry forums

626

Strong merchant base
through FriMi

Investment in community
engagement of

Rs. 20.4 Mn

Our organisational values are essentially the operating philosophies and principles that guide our internal conduct as well as define our relationships with stakeholders.

increased accessibility through mobile and online platforms.

Customer Satisfaction

Formal mechanisms are in place for measuring customer satisfaction based on 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 increased by 30%, which is in line with the business growth while the customer satisfaction score of 80% was the highest ever achieved by the Bank.

Accessibility

The Bank continues to drive accessibility through investments in its multi-channel programme. Having pursued aggressive expansion of its branch reach several years ago, in recent years focus has been on strengthening the digital platforms, effectively responding to customers' growing need for convenience. The launch of FriMi in 2017 has revolutionised our customer proposition and enhanced accessibility to an entirely different level; for the first time in the country, customers are now able to open an account completely digitally, eliminating the need to visit the branch. During the year, nearly 47% of all local banking transactions (cash related) were conducted on digital platforms.

Customer Education

Facilitating customer education through providing access to consultants and expert training is a key aspect of our SME value proposition. In 2017, we modified the format of these programmes by conducting smaller, more intimate events which allowed better

Relevance to Value Creation



Deeper insights into customer behaviour has enabled the strengthening of our human capital through enhancing skills and industry experience.



Our community engagement initiatives have focused on increasing environmental awareness in the communities we operate in.

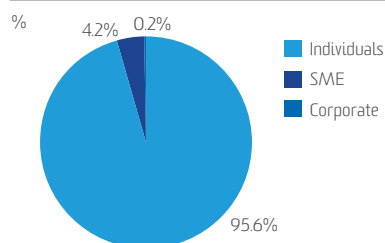


Investments in manufactured capital has enhanced customer accessibility leading to stronger social and relationship capital.

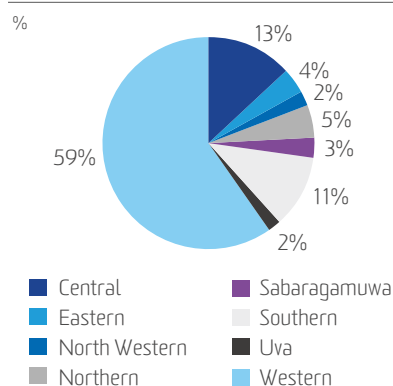
Value Creation against our Capitals

Social and Relationship Capital

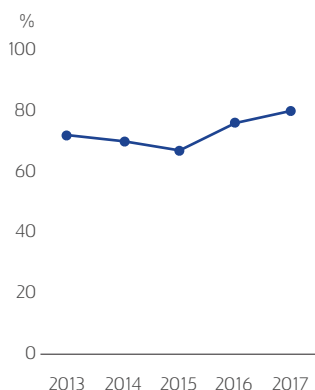
Customer Profile by Segment



Regional Breakdown of Customers



Customer Satisfaction Score



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.

engagement with our customers. We conducted 9 such events across the country, with a total beneficiary base of over 850. 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	4	400
Central	1	80
Eastern	1	85
North Western	2	210
Sabaragamuwa	1	95

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. We also adopt the precautionary principle in lending decisions. During the year under review, there were no instances of non-compliance to any relevant product and service 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.

Customer Privacy

We understand the obligation we have towards preserving the financial and personal information of our customers. We strengthened our operational risk management framework and ensured the stability and security of the Bank's IT infrastructure to persistently monitor potential breaches and/or threats to information security. We understand that our increased thrust towards digital platforms could present higher risks for data breaches and have invested substantial resources in ensuring that these platforms are secure. There were no substantiated complaints pertaining to the breach of customer privacy or loss of customer data during 2017.

Business Partners

Our value creation is facilitated by an extensive network of business partners who are a key element of our process. We strive to develop mutually beneficial relationships with our business partners through maintaining a high level of engagement, ensuring ease of transactions, transparent procedures and protocols and timely payment.

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 Club allowing our customers international connectivity through global payment 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. Suppliers are selected using rigorous selection criteria which includes parameters pertaining to compliance with labour laws, human rights, and compliance to minimum pay regulations. Currently the Bank sources from 1,617 local suppliers and 22 foreign suppliers.

The launch of FriMi has allowed us to further widen our networks, through partnering with over 600 merchants who are a vital part of the FriMi eco-system. Through these partnerships we offer exciting promotions and special offers to FriMi customers, thereby increasing the footfall to our partner merchants while boosting the use of FriMi for transactions.

Industry Networks

Although a relatively smaller and newer Bank, Nations Trust Bank maintains an active presence in industry forums, contributing ideas and perceptions to the overall development of the country's financial sector. Through these networks we also maintain continuous engagement with our industry peers. The Bank and/or its employee holds membership in the following associations;

Sri Lanka Banks' Association
Institute of Bankers Sri Lanka
Ceylon Chamber of Commerce
Sustainable Banking Initiative (SBI)

The Bank's accessibility



Network of
93
branches



136
ATMs



Online banking
platforms



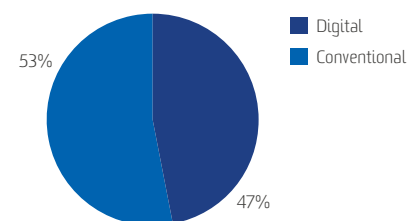
Mobile banking
platforms



FriMi-
digital bank



% of Transactions on Digital Channels



Value Creation against our Capitals

Social and Relationship Capital

An engagement study was conducted involving management, employee and customer focus groups to align the Bank's CSR strategy with the Sustainable Development Goals.



Students from Kebithigollewa Wahalkada D-5 Viduhala visiting Colombo for the first time



Students from Nithalawa school during the e-learning and programming logic education sessions

Case Study: Results from our Investments at Nithalawa School

We are extremely happy to note that our investments have provided considerable tangible benefits to the institutions that we support. At Nithalawa school, the total number of students have increased from 171 in 2009 to 252 by 2017, while the pass rate at GCE ordinary level has widened from 28% in 2009 to 80% in 2016. The students are also frequent recipients and winners at educational and extracurricular competitions such as athletics, language day, arts competitions, science Olympiads and quiz competitions amongst others.

Community Engagement and Development

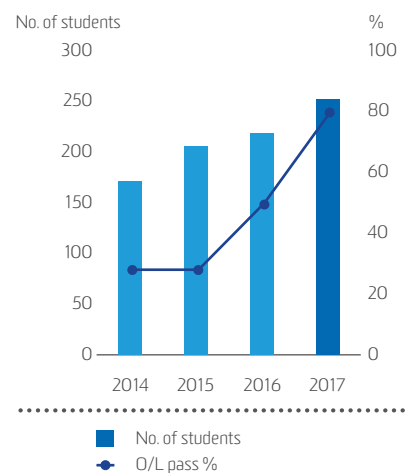
The ethos of the Board of Directors and Corporate Management has been that the priority in our community investment should be the development impact, whereas benefit to the bank is a secondary consideration. The Board has allocated 1% of Profit After Tax (PAT) for Community Investment and the broader theme for bank's CSR efforts has been "Empowering Our Next Generation".

Further to a review done in 2016, consultancy services had been sought from Sustainable Future Group to advise on the bank's CSR strategy, wherein an engagement study was conducted involving management, employee and customer focus groups to align this strategy with the Sustainable Development Goals. As a result of this exercise, a policy level decision was taken to focus community investment funds to quality education (SDG 4) and environment (relating to SDG 15 on life on land and SDG 13 on climate action).

Within these two broader focuses, programs have been further refined to achieve outcomes in enhancing capacity of younger generation on Science, Technology, Engineering and Math (STEM) subjects with a special emphasis on digital literacy and digital intelligence; developing socio-emotional skills and personal resilience; developing future orientation through education on sustainable development and promoting biodiversity awareness with a view to promote environmental conservation. Bank continued its ongoing program to strengthen infrastructure and provide for education consumables (stationery and school supplies) for 4 selected rural schools: Galgamuwa Nithalawa Kanishta Vidyalaya, Ratnapura Amunuthenna Kanishta Vidyalaya, Mulaitivu Mullivaikkal East GTM School and Kebithigollewa Wahalkada D-5 Viduhala.

Given our reach and capacity to rapidly mobilize, we are also cognizant of the impact we can make in disaster relief and have partnered with national coordination efforts including with DMC and A-PAD during the year.

Development at Nithalawa School





Personal effectiveness workshops and mentoring programme for undergraduates of University of Colombo

Schools Infrastructure, STEM Education and Digital Literacy

During 2017, the bank handed over two school buildings with an investment over Rs.5 million along with school supplies for 3 schools amounting to Rs.1.8 million. The first to be handed over in January 2017 was the fully-fledged science laboratory at Nithalawa School, followed by the donation of a school hall to Wahalkada D-5 School in March 2017. Later in the year, the bank also invested in a water supply system at the Nithalawa School due to low water quality and dearth of water as a result of prevailing drought conditions. The bank also hosted students from Kebithigollewa Wahalkada D-5 School for a two day education trip to Colombo, which was the first time that these children had visited the city.

During the year, Bank decided to pursue promotion of online learning and entrepreneurship as a key driver within its education focus. Engagements were made with UNDP and ICTA to explore partnership opportunities. Having found common purpose, bank had sought the support of Shilpa Sayura Foundation to pilot implementation of local language e-learning at Nithalawa School by setting up locally hosted platform in the school's IT lab. The Bank hopes to scale this digital literacy program during 2018.

Developing Socio-emotional Skills and Personal Resilience

Nations Trust Bank together with University of Colombo Alumni Association commenced a three-year long engagement to conduct Personal Effectiveness Workshops for undergraduates of University of Colombo with support and expertise of Bridge Partnership, an international leadership development consultancy.

Two workshops were conducted in 2017 as a part of this university engagement, benefiting 58 undergraduates with the volunteer support of 13 senior management members. Participants were introduced to several techniques that they could use to maintain a positive mindset when faced with challenging circumstances and role plays were conducted for the students to internalize these techniques. Aimed at students who would be graduating in a year's time, the programme hopes to ensure a smooth transition for final year students from university life to their career.

The Bank also conducted personal development programs for pre-Advanced Level students through workshops held at 9 schools in Monaragala, Badulla, Embilipitiya, Tissamaharama, Ratnapura, Weligama, Elpitiya, Aluthgama, and Vavuniya. Further a district level program was held at Wayamba University covering over 3,500 students, 300 parents and teachers from schools, where the focus was on improving socio-emotional skills of the teenagers and improve interaction with parents and teachers.

Educational Programmes on Sustainable Development, Environmental and Biodiversity Conservation

The Bank partnered to promote the discourse of sustainable development among youth and decision makers during the year.

One such programme is the "Green Gen" Conference and the awards for environmental competitions organized by the Base for Enthusiasts of Environmental Science and Zoology (BEEZ) of the University of Colombo. The event was attended by 200 participants including school students, undergraduates, and youth from the private sector with varied topics being addressed. The Bank also supported BEEZ with a tree planting campaign within University of Colombo. Another intervention is the sponsorship of '#TheBigShift' conference organized by Australia Alumni Awards, which brought together broad spectrum of stakeholders to problem solve on issues relating to urban sustainability.

The bank plans to invest in research, educational programs and skills projects involving children and youth on sustainable development during 2018 and beyond.

Disaster Relief

The bank's volunteers and resources were mobilized during the year in providing relief to victims of the Meethotamulla Landfill Site disaster in April 2017 and for relief efforts on the floods of May 2017. With respect to the Meethotamulla relief efforts 28 volunteers contributed over 180 volunteer hours at Terrance N. De Silva School in Kolonnawa in helping to sort the relief aid. In terms of the relief for floods, employees from hub operations and from branches in Akuressa, Avissawella, Deniyaya, Horana, Matara, Matugama, and Ratnapura sprung in to action mobilizing over Rs. 2.2 million in relief aid with over 100 volunteers.



Bank's key CSR focus is education

Value Creation against our Capitals



Intellectual Capital



The Bank is at the forefront of the industry's digital revolution and has placed strategic emphasis on deploying technology to optimise operating models and drive customer convenience and satisfaction.

Value Addition in 2017

- Launch of the financial service industry's first Innovation Hub and the country's first fintech hackathon
- Listed among the country's top 25 corporates by Business Today in addition to several other band rankings

Tacit knowledge

The structures, systems, processes in place within the Bank underpin our stakeholder value creation. Our unique organisational culture coupled with innovative mechanisms to keep our young team engaged ensures that this knowledge is shared among employees and passed on through the years. An intense and ongoing training proposition provides an opportunity to reinforce the lessons learned and nurture a culture of continuous learning. The Bank's governance practices are also vital in building intellectual capital as they safeguard the Bank's reputation and provide guidance on business and employee conduct.

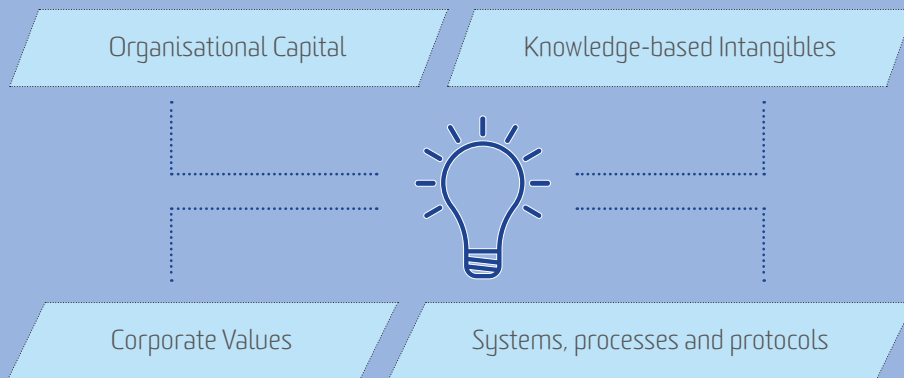
Values

Our organisational values are essentially the operating philosophies and principles that guide our internal conduct as well as define our relationships with stakeholders. Our values shape the organisational culture and defines our identity.

Agile
Proactive
Excellence
Winning together
Trust

Capacity for innovation

The Bank is at the forefront of the industry's digital revolution and has placed strategic emphasis on deploying technology to optimise operating models and drive customer convenience and satisfaction. In 2017, the Bank once again broke new ground with the launch of the financial sector's first innovation lab, 'the Kaffeine Lab' aimed at bringing futuristic solutions and customer service to the sector. The Kaffeine Lab acts as a platform to foster innovation in the country's Fintech space and actively engage and collaborate with other ecosystems such as non-financial sector industries, academics, start-ups and the customers themselves. The major goal is



Our organisational values are essentially the operating philosophies and principles that guide our internal conduct as well as define our relationships with stakeholders.



Kaffaine Lab

to open the bank's systems up to developers and enthusiasts so that they may use Nations Trust Bank's existing infrastructure to build new fintech products and services which can be delivered via the bank's own platforms or via 3rd party platforms.

The first initiative launched by the Nations Trust Innovation Lab was Sri Lanka's first fintech hackathon, which was organized in collaboration with the University of Moratuwa – Faculty of IT and the Sri Lanka Association for Artificial Intelligence (SLAAI), while partnering with other institutions such as the universities of Peradeniya, Sabaragamuwa and Jaffna,

and other private educational institutions. The hackathon sought to attract geeks and tech professionals to conceptualise real life problems in the financial services sector and present solutions. The Bank received over 150 applications of which 16 were shortlisted and the winning team walked away with a cash prize of Rs.250,000 and a business loan of Rs.1.0 million at a concessionary rate of interest.

Brand

Despite being a relatively new entrant to the Banking industry, Nations Trust Bank has nurtured a strong branch reputation through widening its regional footprint, offering a unique customer value proposition and venturing into new markets. The Bank is frequently ranked among the country's leading brands;

- **Business Today** - Recognised Nations Trust Bank as one of the leading top 25 corporate entities in the country

- **LMD** - Most respected brands of 2017: Nations Trust Bank was ranked among the country's top 100 most respected brands
- **LMD Brands Annual** - 30th most valuable brand in the country

Relevance to Value Creation



Tacit knowledge and organisational capital is vested primarily among our human resources, thereby enhancing the value of our team



The organisational culture and values underpin our interaction with stakeholders.



Strong intellectual capital defines the organisations conduct and can support long-term financial capital growth through differentiation and customer retention.

Value Creation against our Capitals



Natural Capital



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.

Value Addition in 2017

- Installation of a solar-net metering system during the year
- Launch of FriMi- which can completely eliminate the use of paper consumption
- 34% of total paper used by the Bank has been recycled
- Comprehensive programme for e-waste recycling

Our Approach to Environmental Management

Nations Trust has adopted a multi-prong approach in our environmental management involving innovating on business models, products and processes to seize opportunities arising from the transition to a green economy; reducing exposure to investments with high environmental risks; measuring and managing environmental footprint of our operations; and engaging our stakeholders on environmental stewardship through our CSR programmes.

Business Model, Product and Process Innovation

With the onset of fourth industrial revolution and the emerging potential for new economic models such as the circular, sharing and gig economies, the bank has understood that it can make significant positive changes to its environmental impact in innovating in this sphere.

FriMi, the digital bank, launched this year along with the trilingual mobile banking application of the bank will help the bank to increase its reach while decoupling this expansion from intense environmental impacts associated with the physical infrastructure such as the increased carbon footprint from air conditioning and lighting loads from new branch openings. These digital delivery channels completely eliminate paper use and also reduces the need for customer commute. Customers on digital channels as a percentage of total customer base increased from 18.94% in 2016 to 27.65% in 2017 whilst the transacted value via digital mediums (excluding ATMs) as a percentage of total transaction value also rose from 16% to 21%. In addition to the emphasis on growth of digital channels, bank's strategy in process innovation through lean transformation programme also has significant positive impacts.

Total energy consumption
7,466,391 Kwh

The eco-system in
which we operate

Paper consumption of
37.44 MT papers of which
34.4%
is recycled

Digitisation drive
facilitating reduced use
of natural resources

The Bank's drive towards digitisation has helped further its environmental objectives through fostering responsible behaviour among its customers.



Capacity Building Programmes for Business Units on Sustainable Finance

Recognizing the importance of sustainable finance and digitalization in unlocking value, with respect to its environmental impact, the bank conducted strategic discussions with the aid of external expertise to spur business model and product innovations. Bank's business units are currently exploring value propositions in renewable energy, climate smart agriculture and smart mobility that could be brought to market in the foreseeable future, which will help our customers to benefit from productivity gains and be more resilient amidst changes in climate.

Managing Risks Including Implications 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.

The bank's exposure to the plastic and polythene industry that came under increased regulation during the year remained quite minimal at 0.3% of total portfolio. Bank has understood the importance of environmental stress testing including on climate change risks but is yet to undertake such study.

Relevance to Value Creation



While investments in renewable energy will result in a short-term cash outflow, over the long-term energy efficiencies are expected to result in significant cost savings



We engage customers in our conservation efforts through encouraging transacting through digital platforms and opting for services such as e-statements



Innovations in our business model, such as the launch of FriMi has the potential to drive our sustainability objectives among our customers, thus having a larger impact



Employees play a vital role in driving our conservation efforts and we strive to create an organisational culture which understands the importance of sustainable use of resources

Value Creation against our Capitals

Natural Capital



Capacity Building Programs for Business Units on Sustainable Finance

Our recycling efforts saved



220
Fully grown trees



22,661
Litres of oil



51,648 kwh
of electricity



410,343
liters of water



39m³
of landfill

The Bank's approach to reducing its paper consumption is centered on digitalization, lean initiatives and simplifying and automating processes and investments in technology.

Energy, Waste and Emissions

Bank had commenced the calculation of its carbon footprint within its hub operations three years ago with the support of Carbon Consultancy Company and had made significant efforts in energy management (its head office being the first bank complex to be ISO 50,001 certified in Sri Lanka in 2014). During 2017, the bank continued with improvements in energy, waste

and transport management, which has allowed it to reduce emissions whilst the operations have continued to expand and grow.

Table below is a summary of the verified emissions data for the bank's hub operations at its Head Office in Union Place, Millennium House complex at Nawam Mawatha, Colombo 02 and Hive Complex in Kotahena.

	2017	2016	2015
Scope 1	141.7	313.5	100.3
Scope 2	1,856.3	1,930.8	1,856.0
Scope 3	1,361.0	1,472.9	1,327.2
Total	3,359.0	3,717.3	3,283.5
% change previous year	-9.6%	13.2%	
% change base year	23		
Number of Employees	1,398	1,351	1,303
% change previous year	3.5%	3.7%	
% change base year	73%		
Tonnes of CO ₂ e per employee	2.40	2.75	2.52
% change previous year	-12.7%	9.2%	
% change base year	-4.7%		

Explanation and Notes

Emissions from Nations Trust Bank's main offices (Union Place, Nawam & Kotahena) decreased by approximately 9% between 2016 to 2017. This mainly comes from a reduction in Scope 1 emissions due to the installation of a more efficient A/C system in Kotahena; as well reduction in Scope 2 electricity emissions at Kotahena (due in part to a program to switch off A/C units in the evening) and Nawam (from the installation of solar panels - see case study below). Emissions from Scope 3 sources (such as hired vehicles) has also slightly decreased. An intensity metric of emissions per Full Time Employee (FTE) were also calculated to compare to previous years. Emissions per FTE have also decreased by approximately 12% compared to the previous year, even though there was an increase in the number of employees by over 3%.

We have reported on all of the Scope 1 & 2 emission sources for which we have operational control for our offices at Union Place, Nawam and Kotahena. We have also reported selected Scope 3 emissions including employee commuting, hired vehicles, waste and air travel. Emission from other locations/branches and activities to which we do not have operational control are not considered. Data provided is for the period 1st January 2017 to 31st December 2017. Base year emissions set as 2015 - which is the first year of reporting.



40KW solar net metering system at Millennium House complex at Navam Mawatha, Colombo 02



One of the key energy management initiatives during the year was the installation of a 40KW solar net metering system at the Millennium House facility which generated 36,850 kWh of renewable electricity since its installation in May 2017 avoiding around 18 tonnes of carbon dioxide equivalent emissions.

The bank aims to support Sri Lanka's energy generation plan of sourcing 100% of electricity from renewable sources by 2050 through lending and investing in renewable energy installations within its own branch network. The bank is constrained in this endeavour as a result of much of its branches operating in lease-hold property. Bank is planning to incentivise lessors to consider solar installations in making low interest loans available to them from 2018 onwards. Bank is currently conducting a feasibility study to install another solar PV system at the Hive Complex in Kotahena

We have followed the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the Carbon Consulting Companies' Carbon Conscious standard to calculate emission.

Other ongoing initiatives for energy management include,

- Implementation of a LED retrofit for the Millennium House building which is expected to result in a 7% reduction in the lighting energy load.

- Use of a chemical descaling agent for chilled water to improve the energy efficiency of the air conditioning system.
- Increased use of hybrid vehicles in the fleet
- Employee awareness through e-flyers and enterprise social media posts

As a result of the above measures, the bank has been able to reduce the electricity consumption, by 5.6% from last year to 7,466,391 Kwh (Approximate). In terms of energy intensity (kWh/FTE), bank has been able to reduce consumption from 2,824.77kWh/FTE in 2016 to 2,537.00kWh/FTE this year.

	2013	2014	2015	2016	2017
Electricity (kWh) (Approximate)	7,602,089	7,622,955	8,090,000	7,824,612	7,466,391
Electricity Intensity (Kwh/FTE)	3,361.00	2,975.00	3,001.86	2,824.77	2,537.00

Waste

The key types of waste generated from the Bank's operations are paper, food waste and e-waste. Bank's approach in managing the

waste has been to eliminate or reduce wastage through application of lean and 3R principles and where waste is generated to segregate and dispose responsibly. With respect to its

hub operations the bank has been able to channel its waste to a larger extent to recyclers, however, with respect to the branch network the bank is still reliant on the municipal solid waste collection system. Bank is planning to engage with branch managers during 2018 to increase recycling rates within its branch network in sourcing responsible waste recyclers.

Paper

The Bank's approach to reducing its paper consumption is centered on digitalization, lean initiatives and simplifying and automating processes and investments in technology. Due to elimination of or changes to inefficient processes made possible through lean initiatives, bank saved 907,889 sheets of A4 paper during the year.

Employees are encouraged to re-use and recycle paper (paper from hub operations are collected by Neptune Recyclers) and they are encouraged to adopt paperless platforms for communication.

We have also strengthened efforts to encourage customers to switch to e-statements. While enhancing customer convenience, this has also resulted in significant paper savings. During the year, 20% of the statements sent out to customers were e-statements.

In 2017, 12,912 kg of paper was sent for recycling which is approximately 34% of the Bank's total paper usage.

Number of A4 bundles issued	15,010
A4 sheets	7,505,000
A4s in terms of weight	37.44 MT
Recycled %	34.4%

Value Creation against our Capitals

Natural Capital

A Nature Walk was conducted at Thalawathugoda Biodiversity Study Park with attendance of kids of both customers and employees of the Bank together with their parents, where they were able to learn about wetland ecosystems, fishing cats and share experiences together, creating a stronger bond between the child, parent and the environment.



Nature Walk for Kids Account Holders, Customers' and Employees' Children at Biodiversity Study Park in Thalawathugoda

E-waste

The Bank's most significant waste comprises of waste electrical and electronic equipment. Due to a major upgrade to the IT infrastructure during the year, consignment of computer items (parts from 1,198 computers along with printers) older than 5 years were to be disposed and the bank conducted a thorough due diligence process where 3 CEA - approved e-waste management service providers were shortlisted and field inspections were conducted to review their environmental and social standards before handing these items.

Water

Subsequent to conducting a water audit at the Millennium House complex in 2016, the Bank identified several measures to improve its water consumption. Retrofitting of the toilets with water efficient urinals and faucets were undertaken at Millennium House during the year and is currently ongoing. The entirety of our water is sourced from municipal lines.

Water purification systems have been installed in the Bank's key water consuming locations to minimize the use of plastic water bottles and chillers.

		2013	2014	2015	2016	2017
Water	M ³ (Approximate)	52,721	62,641	60,273	60,309	78,069
Water Intensity	(M ³ /FTE)	23.00	24.00	22.36	21.77	22.36



WNPS lectures on biodiversity sponsored by the Bank



CSR investments related to environment

Engaging Stakeholders on Environmental Stewardship

Recognising that the bank's greatest contribution in conserving the environment is in working together with stakeholders including its customers, employees, other partners, and the public, the bank had invested in programs on environmental research and education and also partnered with active wildlife societies in direct conservation efforts such as animal rescue, rehabilitation and breeding programmes.

During the year, bank organized a nature walk for kids account holders, kids of private banking customers and employees' kids at Thalawathugoda Biodiversity Study Park with attendance of 31 kids and their parents, where they were able to learn about wetland ecosystems, fishing cats and share experiences together, creating a stronger bond between the child, parent and the environment. The Bank has long standing engagements with active environmental interest groups and reputed organisations such as the Wildlife Conservation Society of Galle, Wildlife and Nature Protection Society, British Council and Biodiversity Sri Lanka platform of the Ceylon Chamber of Commerce.

The engagements with the Wildlife Conservation Society of Galle include the upkeep of its facilities in Hiyare Sanctuary for environmental education programs; funding the animal rescue and breeding programs and also funding research initiatives. During the year, a total of 1,163 visitors have been educated on biodiversity and on the local ecosystem at Hiyare education center and 218 animals were rescued through the animal rescue program, treated at the animal hospital and 111 of them released in to the wild during this period. The bank funds 2 Veterinary surgeons to make 4 visits a month at the animal hospital alongside the funding for full time employees.

The Bank also funds the Wildlife Conservation Society of Galle on the Hog Deer Breeding Program in Honduwa, in Lunuganga in partnership with Geoffrey Bawa Trust. The Bank is also funding the Wildlife Conservation Society of Galle on the study of leopards inhabiting the wet zone where their feeding and range patterns are analysed in Deniyaya and a Rusty Spotted Cat released to the wild during 2017 was featured on BBC documentary creating greater interest in study and conservation of wild cats.

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 - 2017

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 criteria presented in the annual report - 2017 ("the Report").

- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: '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 Standards '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, GRI Standards: 'In accordance' - Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 17 January 2018. 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 2017.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: '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 Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.

Chartered Accountants

27th February 2018
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 FCMA 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 Menalunga FCA Ms. P Y K N Sajewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCA FCCA

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Mapping Our Material Topics to GRI and GRI Index

Material topics	Corresponding GRI topic	Indicator
Growth and profitability	Economic performance	201 - 2, 201 - 3
Customer accessibility and convenience		
Digital channels		
Responsible lending	Customer privacy, Marketing and labelling	418 - 1, 417 - 1, 417 - 2, 417 - 3
Employee attraction	Employment, Diversity and equal opportunity, Occupational health and safety	401 - 1, 405 - 1
Training and development	Training and education	404 - 1, 404 - 2, 404 - 3
Employee satisfaction		
Operational efficiency		
Preserving the environment	Raw materials, Energy, Water, Emissions	301 - 1, 301 - 2, 306 - 2, 305 - 1
Corporate social responsibility	Local communities	413 - 1
Corporate governance		

GRI Standard	Disclosure	Reference	Page number	Omission
GRI 101: Foundation 2016 (does not include any disclosures)				
General Disclosures				
GRI 102: General Disclosures 2016	102-1 Name of Organisation	About this Report	6	
	102-2 Activities, brands, products and services	Key Business Lines	11	
	102-3 Location of headquarters	Corporate Information	IBC	
	102-4 Location of operations	Overview of Nations Trust Bank	10	
	102-5 Ownership and legal form	Corporate Information	IBC	
	102-6 Markets served	Key Business Lines, Service Network	11, 305	
	102-7 Scale of the organisation	Overview of Nations Trust Bank, Financial Capital, Statement of Profit or Loss	10, 11, 123, 173	
	102-8 Information on employees and other workers	Human Capital	133, 135	
	102-9 Supply chain	Social and Relationship Capital	141	
	102-10 Significant changes to the organisation and supply chain	About this Report	6	
	102-11 Precautionary principle	Social and Relationship Capital	140	
	102-12 External initiatives	About this Report	6	
	102-13 Membership of associations	Social and Relationship Capital	141	
	102-14 Statement from senior decision maker	CEO's Review	24 - 27	
	102-16 Values, principles, norms and standards of behaviour	Human Capital	137	
	102-18 Governance Structure	Material Matters, Annual Report of Board of Directors on the Affairs of the Bank	36, 43	
	102-40 List of stakeholder groups	Stakeholders to Strategy	34 - 35	
	102-41 Collective bargaining agreements			The Bank does not have collective bargaining agreements in place
	102-42 Identifying and selecting stakeholders	Stakeholders to Strategy	34 - 35	

Mapping Our Material Topics to GRI and GRI Index

GRI Standard	Disclosure	Reference	Page number	Omission
	102-43 Approach to stakeholder engagement	Stakeholders to Strategy	34 - 35	
	102-44 Key topics and concerns raised	Stakeholders to Strategy	34 - 35	
	102-45 Entities included in the consolidated financial statements	About this Report	6	
	102-46 Defining report content and topic boundary	Material Matters	36 - 37	
	102-47 Material topics	Material Matters, Mapping Our Material Topics to GRI and GRI Index	37, 153	
	102-48 Restatement of information	About this Report	6	
	102-49 Changes in reporting	Material Matters	36	
	102-50 Reporting period	About this Report	6	
	102-51 Date of most recent report	About this Report	6	
	102-52 Reporting cycle	About this Report	6	
	102-53 Contact point for questions regarding Report	About this Report	7	
	102-54 Claims of reporting in accordance with GRI Standards	About this Report	6	
	102-55 GRI context index	Mapping Our Material Topics to GRI and GRI Index	153 - 156	
	102-56 External assurance	Independent Assurance Report, About this Report	152, 7	
Material topics				
Economic Performance				
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Natural Capital	146	
	103-2 The Management Approach and its components	Natural Capital	146	
	103-2 Evaluation of the Management Approach	Natural Capital	146	
GRI 201: Economic Performance 2016	201-2 Financial implications and other risks and opportunities due climate change	Natural Capital	147	
	201-3 Defined benefit plan obligations and other retirement plans	Notes to Financial Statements	212 - 214	
Materials				
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Natural Capital	149	
	103-2 The Management Approach and its components	Natural Capital	149	
	103-2 Evaluation of the Management Approach	Natural Capital	149	
GRI 301: Materials 2016	301-1 Materials used by weight or volume	Natural Capital	149	
Energy				
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Natural Capital	149	
	103-2 The Management Approach and its components	Natural Capital	149	
	103-2 Evaluation of the Management Approach	Natural Capital	149	
GRI 302: Energy 2016	302-1 Energy consumption within the organization	Natural Capital	149	
	302-4 Energy intensity	Natural Capital	149	
Water				
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Natural Capital	150	
	103-2 The Management Approach and its components	Natural Capital	150	
	103-2 Evaluation of the Management Approach	Natural Capital	150	
GRI 303: Water 2016	Total water withdrawal by source	Natural Capital	150	

GRI Standard	Disclosure	Reference	Page number	Omission
Emissions				
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Natural Capital	148	
	103-2 The Management Approach and its components	Natural Capital	148	
	103-2 Evaluation of the Management Approach	Natural Capital	148	
GRI 305 Emissions: 2016	305-1 Direct greenhouse gas (GHG) emissions	Natural Capital	148	
	305-2 Energy indirect greenhouse gas (GHG) emissions (Scope 2)	Natural Capital	148	
	305-3 Other indirect greenhouse gas (GHG) emissions (Scope 3)	Natural Capital	148	
	305-4 GHG emission intensity	Natural Capital	148	
Effluents and waste				
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Natural Capital	149	
	103-2 The Management Approach and its components	Natural Capital	149	
	103-2 Evaluation of the Management Approach	Natural Capital	149	
GRI 306 Effluents and Waste 2016	306-2 Waste by type and disposal method	Natural Capital	149	
Employment				
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Human Capital	132	
	103-2 The Management Approach and its components	Human Capital	132	
	103-2 Evaluation of the Management Approach	Human Capital	132	
GRI 401: Employment 2016	401-1 Employee hires and turnover	Human Capital	133 - 136	
Occupational health and safety				
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Human Capital	137	
	103-2 The Management Approach and its components	Human Capital	137	
	103-2 Evaluation of the Management Approach	Human Capital	137	
GRI 403: Occupational health and safety	403-2 Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Human Capital	137	
Training and education				
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Human Capital	135	
	103-2 The Management Approach and its components	Human Capital	135	
	103-2 Evaluation of the Management Approach	Human Capital	135	
GRI 404: Training and education	404-1 Average hours of training per year per employee	Human Capital	136 - 137	

Mapping Our Material Topics to GRI and GRI Index

GRI Standard	Disclosure	Reference	Page number	Omission
	404-2 Programs for upgrading skills and transition assistance programmes	Human Capital	135	
	404-3 Percentage of employees receiving regular performance and career development reviews	Human Capital	134	
Diversity and equal opportunity				
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Human Capital	133 - 134	
	103-2 The Management Approach and its components	Human Capital	133 - 134	
	103-2 Evaluation of the Management Approach	Human Capital	133 - 134	
GRI 405: Diversity and equal opportunity 2016	405-1 Diversity of government bodies and employees	Board of Directors, Human Capital	14, 135, 136	
Local Communities				
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Social and Relationship Capital	142	
	103-2 The Management Approach and its components	Social and Relationship Capital	142	
	103-2 Evaluation of the Management Approach	Social and Relationship Capital	142	
GRI 413-1	Operations with local community engagement, impact assessments and development programs	Social and Relationship Capital	142	
Marketing and labelling				
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Social and Relationship Capital	140	
	103-2 The Management Approach and its components	Social and Relationship Capital	140	
	103-2 Evaluation of the Management Approach	Social and Relationship Capital	140	
GRI 417: Marketing and labelling	417-1 Requirements for product and service labelling	Social and Relationship Capital	140	
	417-2 Incidents of non-compliance concerning product and service information and labelling	Social and Relationship Capital	140	
	417-3 Incidents of non-compliance concerning marketing communications	Social and Relationship Capital	140	
Customer Privacy				
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Social and Relationship Capital	140	
	103-2 The Management Approach and its components	Social and Relationship Capital	140	
	103-2 Evaluation of the Management Approach	Social and Relationship Capital	140	
GRI 418: Customer Privacy 2016	418-1 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Social and Relationship Capital	140	

Board Integrated Risk Management Committee Report

Composition

The Integrated Risk Management Committee (IRMC) comprised of the following Directors during 2017;

Mr. Gihan Cooray (Chairman)

Mr. Prasanna de Silva

Dr. Kemal de Soysa

Mr. Suran Wijesinghe

Mr. Prasanna de Silva stepped down as a member of the IRMC with effect from 27th September 2017.

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. Thilak Piyadigama
- Chief Operating Officer

Mr. Chamila Sumathiratne
- Acting Chief Risk Officer

Mr. Indrajith Boyagoda
- EVP (Treasury & Investment Banking)

Mr. Theja Silva
- Group Company Secretary/General Counsel

Mr. Nanda Bandara
- EVP (Internal Audit)

Mr. Gayan Ranaweera
- Chief Credit Officer

Mr. Nisala Kodippili
- Chief Information Officer

Mr. Mevan Balalle
- Chief Compliance Officer

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.
- Periodically reviewing the Internal Capital Adequacy Assessment Process (ICAAP) and the resultant report
- Approving annual compliance plan and reviewing periodic compliance reports

The process through which the IRMC discharges its responsibilities is further 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, management meetings which discuss and assess risks, 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.

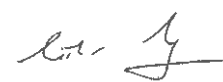
Role and Responsibilities

In order to ensure that timely risk mitigation measures are initiated based on the robust risk management structure in place, the IRMC reviewed and monitored the following during the year:

- Setting up of risk appetite limits and periodic monitoring of risk reports
- Reviewing the overall stress testing framework and monitoring the results of such tests
- Reviewing the Bank risk grid taking into consideration material changes in the Bank's risk profile or the external environment and providing necessary guidance and recommendations
- Reviewing risk management policies and terms of reference of committees dealing with risk management such as Executive Risk Management Committee, Operational Risk Management Committee and ALCO
- Monitoring the effectiveness of Management committees overseeing broad areas of risk management

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.



Gihan Cooray
Chairman
Integrated Risk Management Committee

27th February 2018
Colombo

Name of Director	Eligibility	Attendance	Excused
Mr. Gihan Cooray	7	7	Nil
Dr. Kemal de Soysa	7	7	Nil
Mr. Prasanna de Silva	5	5	Nil
Mr. Suran Wijesinghe	7	7	Nil
Ms. Renuka Fernando	7	5	2

Board Credit Committee Report

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

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

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

Mr. Russell De Mel

The mandate of the Board Credit Committee includes the following:

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

The Committee held 12 meetings during the year. The Committee also approves credit proposals by circulation.

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

The Committee which derives its scope and authority from the Board of Directors was established 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
27th February 2018

Name of the Director	Designation	Eligibility	Attendance	Excused
Mr. Krishan Balendra	Chairman	12	12	Nil
Mr. Prasanna De Silva	Director	12	12	Nil
Mr. Russell De Mel	Director	12	11	1

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. 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;

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
27th February 2018

Name of Director	Eligibility	Attendance	Excused
Mr. Suran Wijesinghe	13	13	Nil
Mr. Murtaza Jafferjee	13	11	02
Mr. Prasanna De Silva	13	13	Nil
Mr. Gihan Cooray	13	12	01

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. 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;

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

The Committee works closely with the Board in evaluating and reviewing the skills required for the Bank and the Board. When recommending the appointment of new Directors, the Committee considers for each appointment, the particular skills, knowledge and experience that would benefit the Board most significantly. The

Name of Director	Eligibility	Attendance	Excused
Mr. Murtaza Jafferjee	1	1	Nil
Mr. Krishan Balendra	1	1	Nil
Mr. 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.

Committee is satisfied that the representation of skills on the Board is appropriate for the Bank's current needs at Board level.

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



Murtaza Jafferjee
Chairman
Nomination Committee

Colombo
27th February, 2018

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. Kemal de Soysa
(Independent Non Executive Director)

Mr. Kumar Jayasuriya
(Non Executive Director)

Mr. Suran Wijesinghe
(Non Executive Director)

During the year under review two HRRC meetings were held. The Chief Executive Officer was present at the meetings 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 level.
3. The integrity of the Bank's compensation and reward programme is maintained.

In keeping with the objectives of the Charter, the Committee during 2017, 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 2017 at the HRRC meeting, a review of the Bank's Compensation and Benefits structure was presented to the Committee along with a comparison to the industry and the recommended changes were approved by the Committee.

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, with a view to ensuring that the Bank's compensation & benefits structure is market competitive. The findings of the survey were used as a basis for formulating the remuneration levels for the year 2017.

During 2017, the Committee also evaluated the 2016 performance of the CEO and other Key Management Personnel of the Bank against their pre-agreed objectives and targets.

During the year, the Bank retained a reputed HR consultancy firm to review its job grading structure with a view to enable more career progression opportunities to its staff. Following an independent process and communication to staff, the new job grading structure was implemented effective January 2018.

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

Name of Director	Eligibility	Attendance	Excused
Mr. Krishan Balendra	02	02	Nil
Dr. Kemal de Soysa	02	02	Nil
Mr. Kumar Jayasuriya	02	02	Nil
Mr. Suran Wijesinghe	02	02	Nil



Krishan Balendra
Chairman
Human Resources and Remuneration
Committee

Colombo
27th February 2018

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;

Name of Director	Eligibility	Attendance	Excused
Dr. Kemal de Soysa	04	04	Nil
Mr. Murtaza Jafferjee	04	04	Nil
Ms. Renuka Fernando	04	04	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.

- (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 framework for managing related party transactions was further reviewed under the guidance of the Committee.



Dr. Kemal de Soysa
Chairman
Related Party Transactions Review Committee

Colombo
27th February 2018

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:

- Board and Management sub 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, external audit, 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 166.
- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. These in turn were observed and checked by the internal audit department for suitability of design and effectiveness on an ongoing basis. In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS, progressive improvements on processes to comply with 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.
- Board has given due consideration for the adoption of SLFRS 9 "Financial Instruments" which will be applicable for financial reporting periods beginning on or after 1 January 2018. Bank is in the process of finalizing the assessment of the Day 1 impact of the application of the standard. SLFRS 9 poses a significant impact on impairment assessment as it shifts the accounting for provisioning for credit risk on the basis of expected loss from an incurred credit loss model based on LKAS 39.

Directors' Statement on Internal Control Over Financial Reporting

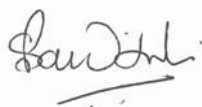
Confirmation

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.

By order of the Board



Krishan Balendra
Chairman



Shalini Panditaratne
Chairman
Board Audit Review Committee

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 2017 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.



R. N. K Fernando
Director / Chief Executive Officer

Colombo
27th February 2018

Auditors' Report on Internal Control Over Financial Reporting



Ernst & Young
Chartered Accountants
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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF NATIONS TRUST BANK PLC

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

We were engaged by the Board of Directors of Nations Trust Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2017.

Management's responsibility

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

Our responsibilities and compliance with SLSAE 3050

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

Summary of work performed

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

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

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

Our conclusion

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

Colombo
27th February 2018

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 Manalunga FCA Ms. P V K N Sajewani 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 (BARC)

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 Chairperson is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and 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 2017:

- Ms. N. Shalini Panditaratne - Chairperson
- Mr. C. L. K. P. Jayasuriya
- Mr. Suran Wijesinghe
- Ms. Rachini Rajapaksa

Brief profiles of the members are given on pages 12 - 17 of the Annual Report.

The Executive Vice President Internal Audit functions as the secretary to the BARC and he reports directly to the Chairperson of the BARC, a practice that strengthens the independence of the position.

Meetings

The BARC met on 13 occasions during the year and the minutes of BARC meetings have been regularly tabled at Board meetings enabling all Board members to have access to them.

Attendance of the BARC members for each of these meetings is given below.

Name of Director	Eligibility	Attendance	Excused
Ms. N. Shalini Panditaratne	13	12	01
Mr. C. L. K. P. Jayasuriya	13	12	01
Mr. Suran Wijesinghe	13	12	01
Ms. Rachini Rajapaksa	13	12	01

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 roles and functions of the BARC are regulated by the Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" and its subsequent amendments, "Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange" and "Code of Best Practice on Corporate Governance" issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. The BARC is responsible to the Board of Directors and reports on its activities regularly. The functions of the Audit Committee are geared to assist the Board of Directors in its general oversight on financial reporting, internal controls and functions relating to internal and external audit.

Role and Responsibilities

The Committee is mainly responsible for;

- i. Reviewing financial information of the Bank in order to monitor the integrity of the Bank's financial statements prepared for disclosure, prior to submission to the Board of Directors.
- ii. Overseeing the appointment, resignation and dismissal of the External Auditor including review of the external audit function, its cost and effectiveness and monitoring of the External Auditor's independence.

- iii. Reviewing the effectiveness of the Bank's system of internal controls and information security
- iv. Assessing the independence and monitoring the performance and functions of Internal Audit.
- v. Reviewing internal audit reports and liaising with Corporate Management of the Bank in taking precautionary measures to minimize and control weaknesses, procedure violations, frauds and errors
- vi. Reviewing Audit Completion Letter (External Audit Management Letter) and Statutory Inspection Reports in relation to matters under BARC purview and follow up on their findings and recommendations.

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) The underlying assumptions for estimates and judgments
- b) Any changes in accounting policies and practices
- c) Significant adjustments arising from the audit
- d) Disclosures made under financial reporting
- e) Compliance with Sri Lanka accounting standards (SLFRS / LKAS) and other regulatory provisions
- 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

To facilitate the review, the BARC considered reports from Chief Financial Officer, Acting Chief Risk Officer, Internal audit and Audit Completion

Letter issued by the External Auditor in making an overall assessment on the integrity of the Financial Reporting system.

The Institute of Chartered Accountants of Sri Lanka has issued the Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments) which would be effective from 01 January 2018. The Bank commenced working towards this goal during the year with the help of an external consultant.

Internal Audit

The audit plan for 2017 was approved by the BARC covering all significant operational areas and the committee periodically reviewed the progress of the Internal Audit plan.

The BARC also provides a forum for the review of Internal Audit Reports including the evaluations of the Bank's Internal Control Systems 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.

The BARC also reviewed the independence, objectivity and performance of the Internal Audit function and the adequacy of its resources. The performance of the Executive Vice President – Internal Audit and the senior officers of the Internal Audit was also reviewed by the BARC.

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.

Regulatory compliance

The Internal Audit performed verifications covering applicable regulatory requirements during their process audits ensuring that systems and procedures are in place to ensure compliance with such requirements.

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 nine 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 their audit approach and procedures including matters relating to the scope of the audit and Auditor's independence.
- (2) reviewed the audited financial statements with the External Auditor who is responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.
- (3) reviewed the Audit Completion Letter issued by the External Auditor together with management responses thereto.

- (4) discussed the further strengthening of the internal controls where applicable and adequacy of impairment provisions.
- (5) discussed and sought clarification on the new format for the audit report to be in force from 2018 financials onwards
- (6) discussed the new developments in regulatory requirements, changes in Accounting standards relating to the Banking industry.

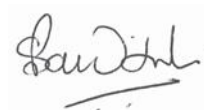
Whistle Blowing Policy

The whistle blowing policy was reviewed by the BARC and was approved by the Board of Directors on 27 September 2017 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. Concerns raised are investigated and the identity of the person raising the concern is kept confidential. A process has been established to track such whistle blowing and take necessary action as required.

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 2018 subject to the approval of the shareholders at the next Annual General Meeting.



Shalini Panditaratne
Chairperson
Board Audit Review Committee

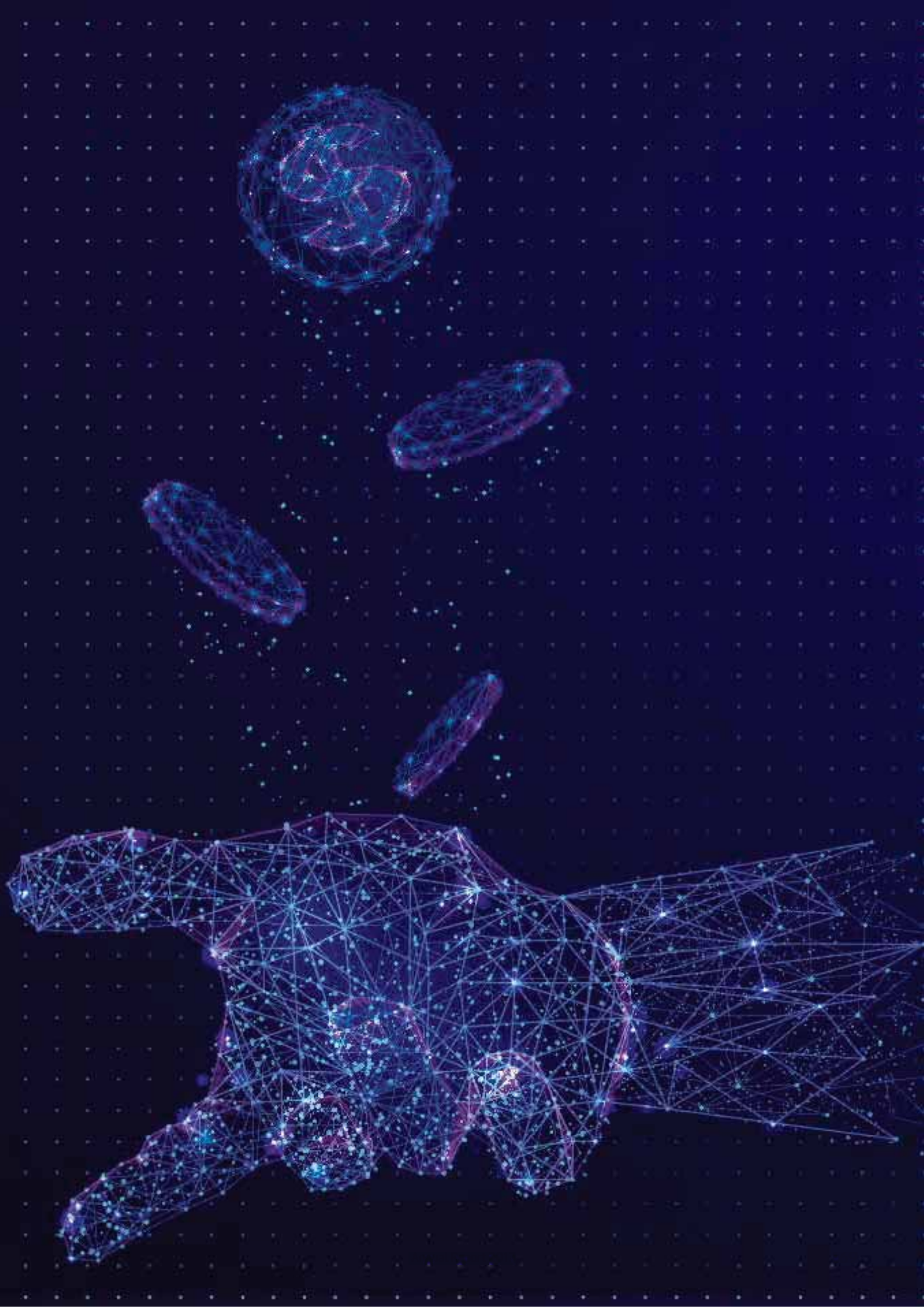
Colombo
27th February 2018

Data Analytics

New disciplines can radically reshape the old patterns of work and for us, data analytics is one such discipline. Strong analytics have enabled us to obtain deep insights into customer behaviour, strengthen our risk management frameworks and adopt targeted marketing campaigns.

Financial Statements

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Directors' Responsibility for Financial Reporting

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Report of the Auditors on page 171 of the Report.

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

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

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

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

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

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

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

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

By Order of the Board



Theja Silva
Company Secretary
Colombo

27th February, 2018

Independent Auditors' Report



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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Nations Trust Bank PLC, ("the Bank"), and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and statement of comprehensive income, statement of changes in equity and, cash flow statement 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 ("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 auditor's 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 auditor considers 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 2017, 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 REQUIREMENT

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion, 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 its financial position as at 31 December 2017, 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.

27th February 2018
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
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Principal T P M Ruberu FCMA FCCA

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Statement of Financial Position

As at 31 December	Notes	Bank		Group	
		2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Assets					
Cash and Cash Equivalents	6	6,867,222	4,187,605	6,869,695	4,187,649
Balances with Central Bank of Sri Lanka	7	11,193,266	8,511,509	11,193,266	8,511,509
Reverse Repurchase Agreements	8.1	10,798	14,930	10,798	14,930
Derivative Financial Instruments	9.1	230,217	65,356	230,217	65,356
Financial Assets - Held for Trading	10	521,389	1,574,952	521,389	1,574,952
Financial Assets-Available for Sale	11	38,852,046	22,148,963	38,852,046	22,148,963
Financial Assets - Held to Maturity	12	9,879,390	12,929,523	9,950,433	12,998,988
Other Financial Assets	13	6,797,607	6,860,950	6,797,607	6,860,950
Loans and Advances to Customers	14	186,536,712	148,924,734	186,745,711	149,817,941
Other Assets	15	1,893,474	1,776,550	1,940,988	1,813,688
Investments in Subsidiaries	16	678,710	678,710	-	-
Property, Plant and Equipment	17	2,584,301	1,536,664	3,363,792	1,996,208
Intangible Assets	18	1,148,646	1,180,699	1,153,552	1,188,841
Total Assets		267,193,778	210,391,145	267,629,494	211,179,975
Liabilities					
Due to Banks	19	10,713,864	11,850,888	10,713,864	11,850,888
Repurchase Agreements	8.2	12,319,188	9,850,773	11,940,783	9,261,110
Derivative Financial Instruments	9.2	495,517	130,017	495,517	130,017
Due to Customers	20	194,296,718	151,559,668	194,268,995	151,502,236
Debt Issued and Other Borrowed Funds	21	19,737,574	14,145,105	19,737,574	14,145,105
Current Tax Liabilities		803,249	439,215	847,501	478,011
Other Liabilities	22	6,282,421	5,463,970	6,327,290	5,522,850
Deferred Tax Liabilities	23	1,737,512	970,413	1,827,929	969,154
Total Liabilities		246,386,043	194,410,050	246,159,453	193,859,371
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	1,010,732	796,400	1,010,732	796,400
Retained Earnings	26	13,813,403	10,261,404	14,237,649	11,600,912
Available for Sale Reserve	27.1	207,600	(178,077)	207,600	(178,077)
Revaluation Reserve	27.2	674,631	-	912,691	-
Total Equity		20,807,735	15,981,096	21,470,041	17,320,604
Total Liabilities and Equity		267,193,778	210,391,145	267,629,494	211,179,975
Contingent Liabilities and Commitments	44.2	173,130,996	124,017,916	171,587,167	123,584,888
Net Assets Value per Ordinary Share (LKR.)		87.94	67.54	90.74	73.21

Certification

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



Ajith Akmeemana
Chief Financial Officer

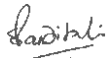
The Notes to the Financial Statements from pages 177 to 276 form an integral part of these Financial Statements.

The Board of Directors is responsible for these Financial Statements.

Signed for and on behalf of the Board of Directors by ;



K.N.J. Balendra
Chairman



N Shalini Panditaratne
Director



Renuka Fernando
Director / CEO



Theja Silva
Company Secretary

Colombo
27th February 2018

Statement of Profit or Loss

For the Year Ended 31 December	Notes	Bank		Group	
		2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Gross Income		36,097,195	25,300,051	35,332,973	25,547,459
Interest Income	28	30,262,250	21,269,532	30,384,940	21,383,877
Interest Expense	29	(18,152,375)	(11,646,713)	(18,096,662)	(11,598,266)
Net Interest Income		12,109,875	9,622,819	12,288,278	9,785,611
Fees and Commission Income	30.1	4,753,996	3,680,228	4,979,084	3,836,765
Fees and Commission Expense	30.2	(322,737)	(245,474)	(322,743)	(238,456)
Net Fees and Commission Income		4,431,259	3,434,754	4,656,341	3,598,309
Net Trading Income / (Loss)	31	(558,453)	(241,381)	(558,453)	(241,381)
Other Operating Income	32	1,639,402	591,672	527,402	568,198
Total Operating Income		17,622,083	13,407,864	16,913,568	13,710,737
Impairment Charge for Loans and Advances and Available for Sale	33	(1,088,404)	(674,810)	(1,088,825)	(690,272)
Individual Impairment		(354,314)	(3,402)	(354,314)	(3,402)
Collective Impairment		(729,554)	(661,066)	(729,975)	(676,528)
Others - Charges Receivable Impairment		(4,536)	(10,342)	(4,536)	(10,342)
Net Operating Income		16,533,679	12,733,054	15,824,743	13,020,465
Personnel Expenses	34	(3,825,570)	(3,301,854)	(3,856,988)	(3,330,970)
Depreciation of Property, Plant and Equipment	17.1	(352,319)	(347,977)	(366,855)	(362,221)
Amortization of Intangible Assets	18.1	(272,581)	(260,292)	(275,817)	(263,495)
Other Operating Expenses	35	(4,276,602)	(3,669,804)	(4,273,394)	(3,663,299)
Total Operating Expenses		(8,727,072)	(7,579,927)	(8,773,054)	(7,619,985)
Operating Profit before Value Added Tax (VAT) and Nations Building Tax (NBT) on Financial Services		7,806,607	5,153,127	7,051,689	5,400,480
Value Added Tax (VAT) and Nations Building Tax (NBT) on Financial Services	36	(1,636,093)	(1,046,211)	(1,658,207)	(1,060,284)
Profit before Income Tax		6,170,514	4,106,916	5,393,482	4,340,196
Income Tax Expense	37	(1,883,873)	(1,395,707)	(2,021,993)	(1,471,110)
Profit for the Year		4,286,641	2,711,209	3,371,489	2,869,086
Earnings Per Share					
Basic / Diluted Earnings Per Share - LKR	38	18.12	11.46	14.25	12.13
Dividend Per Share - LKR	39	2.10	2.10	2.10	2.10

The Notes to the Financial Statements from pages 177 to 276 form an integral part of these Financial Statements.

Statement of Comprehensive Income

For the Period Ended 31 December	Notes	Bank		Group	
		2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Profit for the Year		4,286,641	2,711,209	3,371,489	2,869,086
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	27.1	535,663	(138,564)	535,663	(138,564)
Less: Reclassification adjustment to the profit or loss		-	(210,546)	-	(210,546)
Net income tax (charge) / reversal relating to components of re-measuring available-for-sale financial assets	23.2	(149,986)	97,751	(149,986)	97,751
		385,677	(251,359)	385,677	(251,359)
Other Comprehensive Income / (Expense) not to be reclassified to profit or loss in subsequent periods:					
Actuarial gain / (loss) on defined benefit plan	22.2.2	(50,049)	21,299	(50,201)	21,823
Net income tax (charge) / reversal relating to components of defined benefit plan	23.2	14,014	(5,964)	14,056	(6,111)
Gain on Revaluation of Land & Building	27.2	936,988	-	1,267,627	-
Net income tax (charge) / reversal relating to revaluation gain	23.2	(262,357)	-	(354,936)	-
		638,596	15,335	876,546	15,712
Total Other Comprehensive Income / (Expense)		1,024,273	(236,024)	1,262,223	(235,647)
Total Comprehensive Income for the Year, Net of Tax		5,310,914	2,475,185	4,633,712	2,633,439
Attributable to:					
Equity Holders of the Parent		5,310,914	2,475,185	4,633,712	2,633,439

The Notes to the Financial Statements from pages 177 to 276 form an integral part of these Financial Statements.

Statement of Changes in Equity

Bank	Notes	Stated Capital LKR '000	Retained Earnings LKR '000	Revaluation Reserve LKR '000	Available for Sale Reserve LKR '000	Statutory Reserve Fund LKR '000	Total LKR '000
As at 01 January 2016		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	27	-	15,335	-	(251,359)	-	(236,024)
Total Comprehensive Income	26	-	2,726,544	-	(251,359)	-	2,475,185
Dividend paid for 2015	26	-	(484,275)	-	-	-	(484,275)
Transfers to the Statutory Reserve Fund	25.2	-	(135,560)	-	-	135,560	-
As at 31 December 2016		5,101,369	10,261,404	-	(178,077)	796,400	15,981,096
Profit for the year		-	4,286,641	-	-	-	4,286,641
Other Comprehensive Income	27	-	(36,035)	674,631	385,677	-	1,024,273
Total Comprehensive Income	26	-	4,250,606	674,631	385,677	-	5,310,914
Dividend paid for 2016	26	-	(484,275)	-	-	-	(484,275)
Transfers to the Statutory Reserve Fund	25.2	-	(214,332)	-	-	(214,332)	-
As at 31 December 2017		5,101,369	13,813,403	674,631	207,600	1,010,732	20,807,735

Group	Notes	Stated Capital LKR '000	Retained Earnings LKR '000	Revaluation Reserve LKR '000	Available for Sale Reserve LKR '000	Statutory Reserve Fund LKR '000	Total LKR '000
As at 01 January 2016		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	27	-	15,712	-	(251,359)	-	(235,647)
Total Comprehensive Income	26	-	2,884,798	-	(251,359)	-	2,633,439
Dividend paid for 2015	26	-	(484,275)	-	-	-	(484,275)
Transfers to the Statutory Reserve Fund	25.2	-	(135,560)	-	-	135,560	-
As at 31 December 2016		5,101,369	11,600,912	-	(178,077)	796,400	17,320,604
Profit for the year		-	3,371,489	-	-	-	3,371,489
Other Comprehensive Income	27	-	(36,145)	912,691	385,677	-	1,262,223
Total Comprehensive Income	26	-	3,335,344	912,691	385,677	-	4,633,712
Dividend paid for 2016	26	-	(484,275)	-	-	-	(484,275)
Transfers to the Statutory Reserve Fund	25.2	-	(214,332)	-	-	214,332	-
As at 31 December 2017		5,101,369	14,237,649	912,691	207,600	1,010,732	21,470,041

The Notes to the Financial Statements from pages 177 to 276 form an integral part of these Financial Statements.

Statement of Cash Flows

For the Period Ended 31 December	Notes	Bank		Group	
		2017	2016	2017	2016
		LKR '000	LKR '000	LKR '000	LKR '000
Cash Flows from Operating Activities					
Receipts of Interest Income		29,783,292	20,395,332	29,905,982	20,635,355
Receipts of Fees and Commission Income		4,752,679	3,676,301	4,977,767	3,855,703
Payments of Interest Expense		(15,894,217)	(10,030,686)	(15,835,132)	(10,108,746)
Payments of Fees and Commission Expense		(322,737)	(245,474)	(322,743)	(232,882)
Net Trading Income		(576,780)	(232,852)	(576,779)	(232,852)
Receipts from Other Operating Income		1,638,709	584,536	526,708	578,783
Gratuity Payments Made	22.2.2	(64,828)	(57,073)	(64,828)	(57,504)
Payments for Operating Expenses		(9,512,903)	(7,753,475)	(9,556,046)	(7,798,626)
Net Cash Flow from Operating Activities before Income Tax (A)					
Income Tax paid		(765,268)	(760,145)	(898,794)	(819,584)
Operating Profit before Changes in Operating Assets and Liabilities					
		9,037,949	5,576,464	8,156,137	5,819,647
(Increase)/Decrease in Operating Assets	40.1	(51,278,577)	(34,524,687)	(50,606,800)	(35,159,359)
Increase/(Decrease) in Operating Liabilities	40.2	45,177,507	18,170,559	45,393,753	18,427,127
Net Cash Flows from Operating Activities					
		2,936,878	(10,777,664)	2,943,090	(10,912,585)
Cash Flows from Investing Activities					
Purchase of Property, Plant and Equipment	17.1.1	(373,311)	(244,731)	(377,094)	(247,779)
Proceeds from Sale of Property, Plant and Equipment and Intangible Assets		694	7,618	694	7,618
Purchase of Intangible Assets	18	(135,853)	(226,898)	(135,853)	(228,182)
		(508,470)	(464,011)	(512,253)	(468,343)
Cash Flows from Financing Activities					
Net change in other Borrowings		6,469,372	10,530,327	6,469,372	10,669,581
Proceeds from the issue of Debentures		-	5,076,876	-	5,076,876
Repayment of Subordinated Debt		(1,950,297)	(2,084,596)	(1,950,297)	(2,084,596)
Interest paid on Subordinated Debt		(1,153,275)	(761,621)	(1,153,275)	(761,621)
Dividends paid to Equity Holders of the Parent		(484,275)	(484,275)	(484,275)	(484,275)
		2,881,525	12,276,711	2,881,525	12,415,965
Net Increase in Cash and Cash Equivalents		5,309,934	1,035,036	5,312,363	1,035,034
Cash and Cash Equivalents at the beginning of the year		12,604,515	11,569,479	12,604,559	11,569,525
Cash and Cash Equivalents at the end of the year		17,914,449	12,604,515	17,916,922	12,604,559
Reconciliation of Cash and Cash Equivalents					
Cash on Hand	6	5,589,806	3,745,304	5,589,829	3,745,317
Statutory Deposit with the Central Bank of Sri Lanka	7	11,193,266	8,511,509	11,193,266	8,511,509
Balances with Banks		1,277,416	442,301	1,279,866	442,332
Deposits from Other Banks		(146,039)	(94,599)	(146,039)	(94,599)
		17,914,449	12,604,515	17,916,922	12,604,559
A. Reconciliation of Operating Profit					
Profit before Income Tax		6,170,514	4,106,916	5,393,482	4,340,196
(Profit) / Loss on disposal of Property, Plant and Equipment and Intangible Assets		(694)	(7,136)	(694)	(7,136)
Impairment charge / (Reversal) for Loans and Advances		1,088,404	674,812	1,088,825	690,273
Provision for Gratuity		109,772	88,421	111,031	89,435
(Increase) / Decrease in Interest Receivable		133,102	(681,288)	133,102	(681,049)
Increase/ (Decrease) in Interest Payable		2,126,988	1,616,026	2,130,360	1,616,103
Increase / (Decrease) in Financial Guarantee Liabilities		(1,317)	(3,928)	(1,317)	(3,928)
Other Receivables		(8,951)	14,618	(8,951)	8,857
Other Payables		29,452	84,612	35,377	84,612
Other Non cash items	40.3	220,774	500,629	238,544	559,372
Gratuity Payments Made		(64,828)	(57,073)	(64,828)	(57,504)
		9,803,216	6,336,609	9,054,931	6,639,231

Notes to the Financial Statements

1. REPORTING ENTITY

1.1 Corporate information

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.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of Nations Trust Bank PLC for the year ended 31 December 2017 comprises the Bank and its subsidiaries: Waddock 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.

1.3 Principal Activities and Nature of Operations

Bank

The Bank provides a comprehensive range of financial services encompassing accepting deposits, corporate and retail banking, private banking, project financing, trade finance, leasing, factoring, hire purchase, pawning, treasury, dealing in government securities and investment services, resident and non-resident foreign currency operation, money remittance facilities, travel related services, issuing/acquiring of credit cards and debit cards, electronic banking services such as: telephone banking, internet banking, mobile banking etc.

Subsidiaries

The principal activities of the subsidiary companies are as follows:

Company	Principal activity
Waddock Mackenzie Limited	Carrying out the business of an investment manager including margin trading, fixed income securities and fund & fee based activities
Allied Properties Limited	Renting out premises
Nations Insurance Brokers Limited	Insurance broking

During the year under review, the management decided to cease the margin trading business under Waddock Mackenzie Limited (WML) as a part of the group's decision to focus on its core products and services.

However, the WML's sole shareholder, Nations Trust Bank PLC, will continue to support its operations and funding arrangement, whenever business revival and expansion is required in the future.

2. BASIS OF PREPARATION

2.1 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.

2.2 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of for these Financial Statements. Please refer page 170 for the Statement of the Directors' Responsibility for Financial Reporting.

The Consolidated Financial Statements of Nations Trust Bank PLC, for the year ended 31 December 2017 was authorized for issue in accordance with the resolution of the Board of Directors on 27 February 2018.

2.3 Comparative information

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 Basis of measurement

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position which have been measured at fair value:

Notes to the Financial Statements

- Available for sale investments
- Derivative financial instruments
- Other financial assets held for trading
- Land and buildings which are measured at cost at the time of acquisition subsequently measured at fair values at the date of revaluation (Note 17) (2016 – cost model)
- Liabilities for defined benefit obligations are recognised at the present value of defined benefit obligation

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.

2.5 Functional and Presentation Currency

The Financial Statements of the Group are presented in Sri Lankan Rupees (Rs), which is the currency of the primary economic environment in which the Group operates (Group's functional currency). Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise. There was no change in the Group's presentation and functional currency during the year under review.

2.6 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.

2.7 Materiality and aggregation

In compliance with Sri Lanka Accounting Standard - LKAS 01 (Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately unless they are immaterial. Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of Profit or Loss unless required or permitted by an Accounting Standard or Interpretation, and as specifically disclosed in the accounting policies of the Group.

2.8 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except, the Bank and the Group adopted the revaluation model for measurement of land and buildings. (Note 17)

This has not been retrospectively adjusted as per paragraph 17 of LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which indicates that the initial application of a policy to revalue assets in accordance with LKAS 16 Property Plant and Equipment is a change in accounting policy to be dealt with as a revaluation in accordance with LKAS 16, rather than LKAS 8.

2.9 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Bank's consolidated financial statements requires management to make judgements, 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, 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 judgement in determining the tax effect due to the change in the accounting base and the tax base due to first time adoption of Sri Lanka Accounting Standards. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax amounts in the period in which the determination is made.

Estimates and Assumptions

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

Going Concern

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

Fair Value of Financial Instruments

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

rates. The valuation of financial instruments is described in more detail in Note 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. This requires similar judgment as applied to the individual assessment of loans and advances (Note 11).

Fair Value of Land and Buildings

The Group measures freehold land and buildings at fair value with changes in fair value being recognized in other comprehensive income. The Group engages independent valuation specialists to determine fair value of freehold lands and buildings in terms of the Sri Lanka Accounting Standard –SLFRS 13, (Fair Value Measurement). Lands were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property, while buildings were valued based on depreciated replacement cost. Fair value related disclosures for land and buildings measured at fair value are summarized in the Note 17 to the financial statements

The freehold land and buildings of the Group are reflected at fair value at the date of revaluation less any accumulated depreciation and impairment losses. The details of freehold land and buildings including methods of valuation are given in Note 17 to the Financial Statements.

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

Notes to the Financial Statements

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). Transitional provisions under the Inland Revenue Act No 24 of 2017 is yet to be issued on the claimability of tax losses, capital allowances on leasing and future taxing of lease capital. Bank continued to recognize related deferred tax assets and liabilities for the current reporting period.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries in terms of the Sri Lanka Accounting Standard - SLFRS 10 (Consolidated Financial Statements). The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit and the Off-shore Banking Unit.

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.

- 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.

3.2 Foreign Currency 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.

3.3 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 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 that are directly attributable to acquisition or issue of such financial instruments, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt within the Statement of 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'. Assets included in this classification are government 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

Notes to the Financial Statements

'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'.

(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 the Statement of Profit or Loss over the tenor of the financial instrument using the effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the statement of Profit or Loss when the inputs become observable, or when the instrument is derecognized.

(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 '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'
- 28 & 29 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

(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:

- Specific impairment losses for individually significant or specifically identified exposures
- Collective impairment of:
 - Individually not significant exposures
 - Incurred but not yet identified losses (IBNI)
- 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.

Notes to the Financial Statements

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. However, 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.

(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.

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. None of those have been early adopted by the Group/Bank.

3.12.1 SLFRS 09 – Financial instruments

SLFRS 9 Financial Instruments will replace LKAS 39 for annual periods on or after 1 January 2018 with early adoption permitted. In 2016 the Bank set up a multidisciplinary implementation team ('the Team') with members from its Risk, Finance and Operations teams to prepare for SLFRS 9 implementation ('the Project').The Project is sponsored by the Chief Risk and Finance Division.

Bank performed the Diagnostic Phase (Preliminary Impact Assessment exercise) and is currently in the implementation phase on SLFRS 9 Financial Instruments.

Classification & Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business Model Assessment

Bank determines its business model as the test that best reflects how it

Notes to the Financial Statements

manages the financial assets to achieve its objectives. The bank's business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors.

The business model assessment is based on reasonably expected scenarios without taking 'Worst case' or 'Stress Case' scenarios in to account. If cash flows after initial recognition are realized in a way that is different from the bank's original expectation, the bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

Contractual Cash flow Characteristics Test

As the second test of the classification process the bank assesses the contractual terms of the financial asset to identify whether they meet solely the Payment of Principle & Interest (SPPI)

Principle' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principle or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the bank applies judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

Impairment of Financial Assets

Overview of Expected Credit Loss Principle (ECL)

SLFRS 9 will principally change the bank's loan loss provision method by replacing LKAS 39 Financial Instrument Recognition & Measurement's incurred loss approach with a forward looking ECL Approach.

ECL allowance will be based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12month expected credit loss (12mECL)

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12months after the reporting date

The bank is in the process of finalizing the policy to perform an assessment, at the end of each reporting period to see whether a financial instrument's credit risk has increased significantly since initial recognition. Based on such process bank groups loans in to stage 1, stage 2, stage 3 as described below:

- Stage 1 : When loans are first recognized, the bank recognizes an allowance based on 12mECL. Stage 1 loans also include the facilities where the credit risk has improved and the loans has been re-classified from Stage 2. Assessment of Stage 1 will be performed collectively.
- Stage 2 : When a loan has shown a significant increase in credit risk since origination, the bank records an allowance for the LTECL. Stage 2 loans also include facilities, where

the credit risk has improved and the loan has been reclassified from stage 3. Assessment of stage 2 will be performed collectively

- Stage 3 : Loan considered to be credit Impaired/contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed Individual/Collectively

Significant Increase in Credit Risk

In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the bank shall assess whether there has been a significant increase in credit risk since initial recognition. The bank considers an exposure to have significantly increased in credit risk when the either of the following criteria are met:

- Facilities exceeding 30days past due
- Counterparties/facilities reflected coded any elevated risk industries as per the assessment performed by the Credit Risk Management Team
- Re-structured facilities
- Secondary qualitative indicators triggering a significant increase in credit risk for an asset, such as moving a customer/facility to watch list

Individually Significant Assessment and Not Impaired Individually

Bank will individually assess all customer exposures based on an estimated threshold. Individual assessment will be performed for all the customers with Objective evidence of incurred losses. Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether

there have been significant credit deterioration since origination.

Grouping financial assets measured on a collective basis

As explained above, bank calculates ECL either on collective or individual basis. Asset classes where bank calculates ECL on an Individual basis includes all individually significant Assets which are belong to stage 3. All assets which belong stage 1 & 2 will be assessed collectively for Impairment.

Bank groups these exposures for smaller homogeneous exposures, based on a combination of internal and external characteristics of the loan as described below:

- Product Type
- Type of Collateral
- Days Past Due

The Calculation of ECL

The bank calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows:

- PD : The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio

- EAD : Exposure At Default is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities.
- LGD : Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realization of any collateral. It is usually expressed as a % of the EAD.

When estimating the ECL, Bank considers 3 scenarios (Base Case, Best Case & Worst Case). Each of these scenarios associated with different loss rates. For all products banks considers the maximum period of which the credit losses are determined as the contractual life of a financial instrument.

Forward Looking Information

In its ECL model bank relies on broad range qualitative/quantitative forward looking information as economic input such as:

Quantitative

- GDP Growth
- Inflation
- Unemployment
- Interest Rates
- Exchange Rates

Qualitative

- Government Policies
- Status of the Industry Business
- Regulatory Impact

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.

3.12.3 SLFRS 16–Leases

SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 sets out the principles for the recognition, measurement, presentation

Notes to the Financial Statements

and disclosures of leases and requires lessees to account for all leases under a single on – balance sheet model similar to the accounting for finance leases under LKAS 17. The standard includes two recognition exemptions for lessees – leases of “low- value” assets and short-term leases (leases with a lease term of 12 months or less). At the commencement date of the lease, a lessee will recognize a liability to make lease payments (i.e., lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessee will be required to separately recognize the interest expense on the lease liability and depreciation expense on the right-of-use asset. SLFRS 16 will become effective on 01st January 2019. The impact on the implementation of the above standard will be quantified in the year ahead.

Amendment to Sri Lanka Accounting Standards (SLFRS 2) – Classification and Measurement of Share-based payment Transactions

The institute of Chartered Accountants of Sri Lanka issued amendments to SLFRS 2 “Share Based Payment” that address three main areas: the effects of vesting conditions on the measurement of cash-settled share based payment transaction; the classification of a share based transaction with net settlement features for withholding tax obligations; and accounting where modification to the terms and conditions of a share – based payment transaction changes its classification from cash settled to equity settled.

On adoption Bank is required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group is assessing the potential effect of the amendments on its consolidated 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 net-worth, 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.

The following table presents income and expenses and certain asset and liability information regarding the Group's operating segments.

Notes to the Financial Statements

4 SEGMENT INFORMATION (CONTD.)

4.1 Operating Segments

	Corporate Banking 31.12.2017 Rs. '000	Consumer Banking 31.12.2017 Rs. '000	SME Banking 31.12.2017 Rs. '000	Leasing 31.12.2017 Rs. '000	Treasury Functions 31.12.2017 Rs. '000	Investment Banking 31.12.2017 Rs. '000	Insurance Brokering 31.12.2017 Rs. '000	Property Management 31.12.2017 Rs. '000	Unallocated/ Eliminations 31.12.2017 Rs. '000	Total Group 31.12.2017 Rs. '000
Operating Income	1,631,089	7,737,200	3,758,598	1,723,403	2,357,604	123,389	205,411	118,324	(741,450)	16,913,568
Impairment Charge for Loans and Advances	(48,519)	(639,117)	(384,267)	(14,685)	-	-	-	-	(2,237)	(1,088,825)
Net Operating Income	1,582,569	7,098,083	3,374,331	1,708,718	2,357,604	123,389	205,411	118,324	(743,686)	15,824,743
Extracts of Results										
Interest Income	4,491,780	6,715,234	7,958,571	5,163,789	6,029,903	135,373	19,989	30,098	(159,797)	30,384,940
Inter Segment	(2,651,046)	8,978,123	(3,920,072)	(3,609,490)	1,202,484	-	-	-	-	(0)
Interest Expense	(791,789)	(11,741,491)	(1,384,248)	-	(4,292,940)	(7,145)	-	(839)	121,790	(18,096,662)
Net Interest Income	1,048,945	3,951,866	2,654,252	1,554,299	2,939,447	128,228	19,989	29,260	(38,007)	12,288,278
Fees and Commission Income	430,893	3,607,877	916,323	-	-	2,278	192,962	89,064	(260,313)	4,979,084
Fees and Commission Expense	(17,319)	(198,529)	(46,659)	-	(19,085)	(7,117)	(7,540)	-	(26,494)	(322,743)
Net Fees and Commission Income	413,573	3,409,348	869,664	-	(19,085)	(4,839)	185,422	89,064	(286,807)	4,656,341
Net Trading Income/(Loss)	168,571	76,259	234,682	-	(562,759)	-	-	-	(475,206)	(558,453)
Other Operating Income	-	299,727	-	169,104	-	-	-	-	58,571	527,402
Depreciation of Property, Plant and Equipment	1,946	220,217	1,923	5,772	2,768	-	828	13,708	119,693	366,855
Amortization of Intangible Assets	80	29,560	727	364	13,919	-	3,236	-	227,930	275,817
Segment Profit Before Tax	836,821	1,004,999	1,801,133	738,063	1,541,679	93,844	166,676	72,599	(862,331)	5,393,482
Income Tax Expense	-	-	-	-	(32,666)	(32,666)	(46,669)	(10,209)	(1,932,449)	(2,021,993)
Profit for the Year	836,821	1,004,999	1,801,133	738,063	1,541,679	61,178	120,007	62,390	(2,794,780)	3,371,489
Capital Expenditures										
Property, Plant and Equipment	5,917	155,864	4,373	8,736	29,184	-	1,300	2,542	259,054	466,970
Intangible Assets	-	11,509	9,851	-	76,099	-	-	-	143,069	240,528
Total Assets	45,118,446	43,735,313	60,567,491	37,432,910	73,655,325	353,825	126,406	709,099	5,930,679	267,629,494
Total Liabilities	16,474,838	145,848,162	25,220,584	940,358	50,827,829	23,386	40,195	24,223	6,759,878	246,159,453

4 SEGMENT INFORMATION (CONTD.)

4.2 Operating Segments

	Corporate Banking 31.12.2016 Rs. '000	Consumer Banking 31.12.2016 Rs. '000	SME Banking 31.12.2016 Rs. '000	Leasing 31.12.2016 Rs. '000	Treasury Functions 31.12.2016 Rs. '000	Investment Banking 31.12.2016 Rs. '000	Insurance Brokering 31.12.2016 Rs. '000	Property Management 31.12.2016 Rs. '000	Unallocated/ Eliminations 31.12.2016 Rs. '000	Total Group 31.12.2016 Rs. '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	(11,976)				(15,255)	(690,272)
Net Operating Income	1,475,024	6,247,913	2,077,365	1,552,212	1,862,770	120,422	141,039	108,539	(564,819)	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	-	-	-	-	(0)
Interest Expense	(713,682)	(7,501,407)	(999,048)	-	(2,501,515)	(15,242)	-	(370)	132,999	(11,598,266)
Net Interest Income	929,688	3,353,127	1,717,649	1,390,217	2,228,372	114,345	20,919	26,602	4,693	9,785,611
Fees and Commission Income	303,436	3,017,162	430,393	-	1,686	11,966	127,527	81,931	(137,335)	3,836,765
Fees and Commission Expense	(16,523)	(163,559)	(30,637)	-	(14,693)	(5,897)	(7,407)	-	259	(238,456)
Net Fees and Commission Income	286,913	2,853,603	399,756	-	(13,007)	6,069	120,120	81,931	(137,075)	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	106,344	362,221
Amortization of Intangible Assets	80	38,486	20	1,454	12,009	-	3,202	-	208,243	263,495
Segment Profit Before Tax	803,496	884,193	886,606	707,731	1,195,283	100,686	105,024	65,595	(408,419)	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	75,613	56,404	(1,808,768)	2,869,086
Capital Expenditures										
Property, Plant and Equipment	3,083	155,587	1,492	4,252	808	-	-	3,047	79,451	247,720
Intangible Assets	-	39,032	33	588	820	-	1,284	-	186,420	228,177
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

5 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

5.1 Bank

As at 31 December	2017						
	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortized Cost	Available for Sale at fair value	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	-	-	-	-	6,867,222	-	6,867,222
Balances with Central Bank of Sri Lanka	-	-	-	-	11,193,266	-	11,193,266
Reverse Repurchase Agreements	-	-	-	-	10,798	-	10,798
Derivative Financial Instruments	-	230,217	-	-	-	-	230,217
Financial Assets - Held for Trading	521,389	-	-	-	-	-	521,389
Financial Assets-Available for Sale	-	-	-	38,852,046	-	-	38,852,046
Financial Assets - Held to Maturity	-	-	9,879,390	-	-	-	9,879,390
Other Financial Assets	-	-	-	-	6,797,607	-	6,797,607
Loans and Advances to Customers	-	-	-	-	186,536,712	-	186,536,712
Total Financial Assets	521,389	230,217	9,879,390	38,852,046	211,405,605	-	260,888,647
Liabilities							
Due to Banks	-	-	-	-	-	10,713,864	10,713,864
Repurchase Agreements	-	-	-	-	-	12,319,188	12,319,188
Derivative Financial Instruments	-	495,517	-	-	-	-	495,517
Due to Customers	-	-	-	-	-	194,296,718	194,296,718
Debt Issued and Other Borrowed Funds	-	-	-	-	-	19,737,574	19,737,574
Total Financial Liabilities	-	495,517	-	-	-	237,067,344	237,562,861

5.2 Group

As at 31 December	2017						
	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortized Cost	Available for Sale at fair value	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	-	-	-	-	6,869,695	-	6,869,695
Balances with Central Bank of Sri Lanka	-	-	-	-	11,193,266	-	11,193,266
Reverse Repurchase Agreements	-	-	-	-	10,798	-	10,798
Derivative Financial Instruments	-	230,217	-	-	-	-	230,217
Financial Assets - Held for Trading	521,389	-	-	-	-	-	521,389
Financial Assets-Available for Sale	-	-	-	38,852,046	-	-	38,852,046
Financial Assets - Held to Maturity	-	-	9,950,433	-	-	-	9,950,433
Other Financial Assets	-	-	-	-	6,797,607	-	6,797,607
Loans and Advances to Customers	-	-	-	-	186,745,711	-	186,745,711
Total Financial Assets	521,389	230,217	9,950,433	38,852,046	211,617,077	-	261,171,162
Liabilities							
Due to Banks	-	-	-	-	-	10,713,864	10,713,864
Repurchase Agreements	-	-	-	-	-	11,940,783	11,940,783
Derivative Financial Instruments	-	495,517	-	-	-	-	495,517
Due to Customers	-	-	-	-	-	194,268,995	194,268,995
Debt Issued and Other Borrowed Funds	-	-	-	-	-	19,737,574	19,737,574
Total Financial Liabilities	-	495,517	-	-	-	236,661,216	237,156,733

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 (CONTD.)

5.3 Bank

As at 31 December	2016						
	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortized Cost	Available for Sale at fair value	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	-	-	-	-	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

5.4 Group

As at 31 December	2016						
	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortized Cost	Available for Sale at fair value	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	-	-	-	-	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

Notes to the Financial Statements

6 CASH AND CASH EQUIVALENTS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Cash in Hand	5,589,806	3,745,304	5,589,829	3,745,317
Balances with Banks	1,257,404	442,301	1,259,854	442,332
Money at Call and Short Notice	20,012	-	20,012	-
	6,867,222	4,187,605	6,869,695	4,187,649

7 BALANCES WITH CENTRAL BANK OF SRI LANKA

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Statutory Deposit with Central Bank of Sri Lanka	11,193,266	8,511,509	11,193,266	8,511,509

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 2017, the minimum cash reserve requirement was 7.5% (2016: 7.5%) 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 Consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Repurchase Agreements', reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or 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 'Financial Investment available for sale 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

As at 31 December Due from;	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
- Other Counterparties	10,798	14,930	10,798	14,930
	10,798	14,930	10,798	14,930

8.2 Repurchase agreements

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
On Government Securities				
Due to;				
- Banks	1,600,989	760,354	1,600,989	760,354
- Other Financial Institutions	6,512,716	4,040,443	6,449,602	4,040,443
- Other Counterparties	2,463,909	1,701,705	2,463,909	1,701,705
	10,577,614	6,502,502	10,514,500	6,502,502
On Other Securities				
Due to;				
- Other Financial Institutions	697,476	269,635	697,476	-
- Other Counterparties	1,044,098	3,078,636	728,807	2,758,608
	1,741,574	3,348,271	1,426,283	2,758,608
Total Repurchase Agreements	12,319,188	9,850,773	11,940,782	9,261,110

The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. In addition, it recognizes a financial liability for cash received.

Similarly, the Group may sell or re-pledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Group, which instead records a separate asset for the collateral provided. As the counterparty of securities lending and repurchase agreement is allowed to sell or repledge the securities in the absence of default by the Bank, those securities, for a total face value of LKR 10.78 Bn (market value LKR 10.94 Bn) [2016 - face value LKR 10.4Bn (market value - LKR 10.2 Bn)] are presented in the Statement of Financial Position under the caption of financial assets held for trading, held to maturity and available for sale.

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 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

As at 31 December	Bank / Group		Bank / Group	
	Fair Value of Assets	Contract amount	Fair Value of Assets	Contract amount
	2017 LKR '000	2017 LKR '000	2016 LKR '000	2016 LKR '000
Forward Foreign Exchange Contracts and Currency Swaps	230,217	11,805,671	65,356	14,932,760
	230,217	11,805,671	65,356	14,932,760

9.2 Derivative Liabilities - Held for Trading

At a Loss Position

As at 31 December	Bank / Group		Bank / Group	
	Fair Value of Liabilities	Contract amount	Fair Value of Liabilities	Contract amount
	2017 LKR '000	2017 LKR '000	2016 LKR '000	2016 LKR '000
Forward Foreign Exchange Contracts and Currency Swaps	495,517	26,392,799	130,017	13,349,855
	495,517	26,392,799	130,017	13,349,855

10 FINANCIAL ASSETS - HELD FOR TRADING

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Government Treasury Bills	-	531,522	-	531,522
Government Treasury Bonds	521,389	1,043,430	521,389	1,043,430
	521,389	1,574,952	521,389	1,574,952

11 FINANCIAL ASSETS - AVAILABLE FOR SALE

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Government Treasury Bills	24,351,263	5,196,174	24,351,263	5,196,174
Government Treasury Bonds	14,494,846	16,946,924	14,494,846	16,946,924
Unquoted Equity Shares * (Note 11.1)	5,937	5,865	5,937	5,865
	38,852,046	22,148,963	38,852,046	22,148,963

This includes treasury bills and bonds with a carrying value of LKR 4,596 Mn (2016 : LKR 1,239Mn) which have been given as collateral against repurchase contracts and the counter party has the right to sell or re-pledge the securities.

11.1 Unquoted Equity Shares

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Lanka Clear (Private) Limited 150,000 Ordinary Shares of LKR 10/- each	1,500	1,500	1,500	1,500
Credit Information Bureau (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	3,222	3,150	3,222	3,150
	5,937	5,865	5,937	5,865

Notes to the Financial Statements

12 FINANCIAL ASSETS HELD TO MATURITY

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Government Treasury Bonds	9,879,390	12,929,523	9,950,433	12,998,988
	9,879,390	12,929,523	9,950,433	12,998,988

This includes treasury bonds with a carrying value of LKR 6,184 Mn (2016 : LKR 5,689Mn) which have been given as collateral against repurchase contracts and the counter party has the right to sell or re-pledge the securities.

13 OTHER FINANCIAL ASSETS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Sri Lanka Development Bonds (Note 13.1)	4,053,665	3,943,597	4,053,665	3,943,597
Quoted Debentures (Note 13.2)	2,743,942	2,917,353	2,743,942	2,917,353
	6,797,607	6,860,950	6,797,607	6,860,950

13.1 The Investment in Sri Lanka Development Bonds amounts to USD 26 Mn (2016: USD 26 Mn) and mature in years 2018 - 2022.

13.2 Quoted Debentures

Company	Type	No of Debentures		LKR '000	
		2017	2016	2017	2016
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	-	173,500
Lion Brewery (Ceylon) PLC	Unsecured, Redeemable Debentures	1,686,000	1,686,000	171,936	171,936
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	148,940
Singer (Sri Lanka) PLC	Unsecured, Redeemable Debentures	2,000,000	2,000,000	208,671	208,647
DFCC Vardhana Bank	Unsecured, Redeemable Debentures	1,988,600	1,988,600	209,024	209,024
MTD Walkers PLC	Unsecured, Redeemable Debentures	2,000,000	2,000,000	204,968	204,968
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	354,226
Sanasa Development Bank PLC	Guaranteed, Redeemable Debentures	3,784,500	3,784,500	397,337	397,286
Sanasa Development Bank PLC	Guaranteed, Redeemable Debentures	1,000,000	1,000,000	105,192	105,178
Senkadagala Finance PLC	Unsecured, Redeemable Debentures	611,500	611,500	62,348	62,348
Peoples Leasing & Finance PLC	Unsecured, Redeemable Debentures	3,000,000	3,000,000	304,632	304,632
				2,743,942	2,917,353

13.2.1 This includes quoted debentures with a carrying value of LKR 1,605 Mn (2016 LKR 2,781Mn) which have been given as collateral against repurchase contracts and the counter party has the right to sell or re-pledge the securities.

Notes to the Financial Statements

14 LOANS AND ADVANCES TO CUSTOMERS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Corporate Loans	45,767,388	37,882,588	45,808,101	38,775,375
Retail, SME and Consumer Lending	100,575,835	77,173,248	100,743,992	77,173,247
Housing Loans	3,202,405	2,497,417	3,202,405	2,497,417
Leases	37,253,690	31,422,446	37,253,690	31,422,446
	186,799,318	148,975,699	187,008,187	149,868,485
Less : Allowance for Impairment Losses	(2,608,915)	(2,278,077)	(2,608,785)	(2,277,656)
	184,190,403	146,697,622	184,399,402	147,590,829
Staff Loans	2,985,412	2,807,963	2,985,412	2,807,963
Less : Allowance for Day 1 Difference	(639,103)	(580,851)	(639,103)	(580,851)
	2,346,309	2,227,112	2,346,309	2,227,112
	186,536,712	148,924,734	186,745,711	149,817,941

14.1 Gross Loans and Advances by Currency

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
By Currency				
Sri Lanka Rupee	174,447,291	145,554,006	174,656,160	146,446,792
United States Dollar	15,137,780	6,128,774	15,137,780	6,128,774
Others	199,659	100,882	199,659	100,882
	189,784,730	151,783,662	189,993,599	152,676,448

14.2 Gross Loans and Advances by Product

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
By Product				
Bills of Exchange	37,337	86,716	37,337	86,716
Overdrafts	36,190,637	30,583,231	36,190,637	30,583,231
Term Loans	77,712,312	60,141,853	77,712,312	60,141,853
Staff Loans	2,985,543	2,807,963	2,985,543	2,807,963
Import Loans	11,076,507	6,654,468	11,076,507	6,654,468
Packing Loans	3,558,705	2,028,229	3,558,705	2,028,229
Leases	37,253,690	31,422,446	37,253,690	31,422,446
Credit Cards	20,185,840	16,282,718	20,185,840	16,282,718
Pawning	279,281	455,544	279,281	455,544
Corporate Debt Securities	325,243	948,429	325,243	948,429
Other Advances	179,635	372,065	388,504	1,264,851
	189,784,730	151,783,662	189,993,599	152,676,448

14 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

14.3 Impairment Allowance for Loans and Advances to Customers

14.3.1 Bank

As at 31 December	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	193,770	1,258,594	85,907	522,063	2,060,334
AFS impairment transferred during 2016	37,086	-	-	-	37,086
Charge/ (Reversal) for the period	30,275	662,074	(6,112)	(21,769)	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
Charge/ (Reversal) for the period	48,827	1,036,293	(13,896)	12,644	1,083,868
Amounts written off	-	(553,291)	-	(199,739)	(753,030)
As at 31 December 2017	309,957	2,101,316	65,899	131,743	2,608,915
Impairment - As at 31 December 2016					
Individual impairment	220,537	471,666	323	10,124	702,650
Collective impairment	40,594	1,146,648	79,472	308,713	1,575,427
	261,131	1,618,314	79,795	318,837	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
Impairment - As at 31 December 2017					
Individual impairment	246,817	803,954	-	6,193	1,056,964
Collective impairment	63,140	1,297,362	65,899	125,550	1,551,951
	309,957	2,101,316	65,899	131,743	2,608,915
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 December 2017	1,466,105	3,690,898	-	168,933	5,325,936

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

As at 31 December	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	193,220	1,258,594	85,907	522,063	2,059,784
AFS impairment transferred during 2016	37,086	-	-	-	37,086
Charge/ (Reversal) for the year	45,837	662,074	(6,112)	(21,869)	679,930
Amounts written off	(15,230)	(302,354)	-	(181,457)	(499,041)
As at 31 December 2016	260,913	1,618,314	79,795	318,737	2,277,656
Charge/ (Reversal) for the year	48,940	1,036,500	(13,896)	12,745	1,084,289
Amounts written off	-	(553,421)	-	(199,739)	(753,160)
As at 31 December 2017	309,853	2,101,393	65,899	131,743	2,608,785
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
Impairment - As at 31 December 2017					
Individual impairment	246,817	803,954	-	6,193	1,056,964
Collective impairment	62,933	1,297,439	65,899	125,550	1,551,821
	309,750	2,101,393	65,899	131,743	2,608,785
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 December 2017	1,466,105	3,690,898	-	168,933	5,325,936

14.3.3 Movement in Individual Impairment during the year

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	702,650	662,162	702,650	662,162
AFS impairment transferred during 2016	-	37,086	-	37,086
Reversal for the year, net of write-off	354,314	3,402	354,314	3,402
As at 31 December	1,056,964	702,650	1,056,964	702,650

14.4 Rental Receivable on Leases

As at 31 December	2017				2016			
	Bank/ Group				Bank/ Group			
	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	17,911,019	29,065,930	557,990	47,534,938	10,679,215	28,488,310	33,544	39,201,069
Less : Unearned Income	4,674,946	5,353,039	248,264	10,281,249	304,440	7,473,740	443	7,778,623
Net Rentals								
Receivables	13,231,073	23,712,891	309,726	37,253,690	10,374,775	21,014,570	33,101	31,422,446
Less : Allowance for Impairment Losses	-	-	-	131,742	-	-	-	318,737
Total Net Rentals								
Receivables	13,231,073	23,712,891	309,726	37,121,948	10,374,775	21,014,570	33,101	31,103,709

15 OTHER ASSETS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Deposits and Prepayments	600,652	630,004	619,719	641,419
Unamortized Staff Cost	639,103	580,851	639,103	580,851
Other Receivables	653,719	565,695	682,166	591,418
	1,893,474	1,776,550	1,940,988	1,813,688

16 INVESTMENTS IN SUBSIDIARIES

Unquoted	Country of Incorporation	Bank			
		2017 Holding	2016 Holding	2017 Cost	2016 Cost
		%	%	LKR '000	LKR '000
Name of Company					
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 amortisation period or method, as appropriate, and treated as changes in accounting estimates. The Group reviews its assets' residual values, useful lives and method of depreciation at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

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 required. .

Revaluation model

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Group are revalued every three years to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. The Group has revalued its freehold land & building during the year 2017 and details of the revaluation are given in Note 17.4.

On revaluation of an asset, any increase in the carrying amount is recognised in 'Other comprehensive income' and accumulated in equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Profit or Loss. In this circumstance, the increase is recognized as income to the extent of the previous write down. Any decrease in the carrying amount is recognized as an expense in the Statement of Profit or Loss or debited to the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset.

The decrease recognised in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

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 derecognized.

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 derecognised.

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 - Freehold	Land - Leasehold	Buildings	Motor Vehicles	Office 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 2016	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	-	244,673
Disposals	-	-	(20)	(16,100)	(4,499)	(266)	(3,604)	-	-	(24,489)
Capital WIP Additions	-	-	-	-	-	-	-	-	59	59
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(32,057)	(32,057)
At 31 December 2016	559,440	-	116,596	25,999	657,138	1,701,206	733,709	317,892	59	4,132,039
Additions	-	-	2,528	-	53,470	319,700	42,736	44,684	-	463,128
Disposals	-	-	-	-	(11,740)	(1,906)	(8,665)	-	-	(22,331)
Revaluation Surplus	842,060	-	94,928	-	-	-	-	-	-	936,988
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(59)	(59)
At 31 December 2017	1,401,500	-	214,052	25,999	698,868	2,019,010	787,760	362,576	-	5,509,765
Depreciation / Amortization										
At 01 January 2016	-	-	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	537	439,862	1,403,952	486,538	221,836	-	2,595,375
Charge for the year	-	-	2,682	5,350	64,656	176,655	65,938	37,039	-	352,320
Disposals	-	-	-	-	(11,711)	(1,906)	(8,614)	-	-	(22,231)
At 31 December 2017	-	-	40,552	10,667	492,807	1,578,701	543,862	258,875	-	2,925,464
Net Book Value										
At 01 January 2016	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
At 31 December 2017	1,401,500	-	173,500	15,332	206,061	440,309	243,898	103,701	-	2,584,301

During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of LKR 463 Mn. (2016 - LKR 244.6 Mn.). Cash payments amounting to LKR 373.3 Mn. (2016 - LKR 210.2 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 1,973 Mn. (2016 - LKR 1,585.5 Mn.).

17.1.1 The carrying amount of Bank's freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows;

As at 31st December	2017			2016		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Freehold Land	559,440	-	559,440	559,440	-	559,440
Building	119,125	40,553	78,572	116,596	37,871	78,725
Total	678,565	40,553	638,012	676,036	37,871	638,165

Notes to the Financial Statements

17.2 Group

Gross Carrying Amounts - at Cost	Land - Freehold	Land - Leasehold	Buildings	Motor Vehicles	Office 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 2016	559,440	148,000	561,220	21,069	634,342	1,608,605	715,952	272,631	32,057	4,553,316
Additions	-	-	4,284	21,200	32,546	99,651	44,779	45,260	-	247,720
Disposals	-	-	(20)	(16,100)	(4,951)	(3,836)	(3,798)	-	-	(28,705)
Capital WIP - Additions	-	-	-	-	-	-	-	-	59	59
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(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	4,740,333
Additions	-	-	3,799	-	54,494	321,010	42,983	44,684	-	466,970
Disposals	-	-	-	-	(11,740)	(1,906)	(8,685)	-	-	(22,331)
Revaluation Surplus	842,060	-	425,567	-	-	-	-	-	-	1,267,627
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(59)	(59)
At 31 December 2017	1,401,500	148,000	994,850	26,169	704,690	2,023,524	791,231	362,575	-	6,452,540

Depreciation / Amortization

At 01 January 2016	-	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
Charge for the year	-	1,893	14,000	5,350	65,032	177,183	66,357	37,039	-	366,854
Disposals	-	-	-	-	(11,711)	(1,906)	(8,614)	-	-	(22,231)
At 31 December 2017	-	22,562	173,152	10,835	496,134	1,581,626	545,566	258,873	-	3,088,748

Net Book Value

At 01 January 2016	559,440	129,224	415,917	417	260,365	361,950	300,021	83,796	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	1,996,208
At 31 December 2017	1,401,500	125,438	821,698	15,334	208,557	441,898	245,665	103,702	-	3,363,792

During the financial year, the Group acquired Property, Plant and Equipment to the aggregate value of LKR 466.9 Mn. (2016 - LKR 247.7 Mn.). Cash payments amounting to LKR 377.2 Mn. (2016- LKR 213.3 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 1,978 Mn. (2016- LKR 1,589.6 Mn.).

17.2.1 The carrying amount of Group's freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows;

As at 31st December	2017			2016		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Freehold Land	559,440	-	559,440	559,440	-	559,440
Buildings	569,283	173,152	396,131	565,484	159,152	406,332
Total	1,128,723	173,152	955,571	1,124,924	159,152	965,772

17.3 Details of Banks / Group's Land and Building Stated at Valuation

Bank

Location	Date of Valuation	Method of valuation	Net Book Value Before Revaluation			Revaluation amount			Revaluation Gain recognized in OCI		
			Land Rs Mn	Building Rs Mn	Total Rs Mn	Land Rs Mn	Building Rs Mn	Total Rs Mn	Land Rs Mn	Building Rs Mn	Total Rs Mn
Valuer-P B Kalugalagedara											
No.242 Union Place, Colombo 02	30-09-2017	Direct Capital Comparison Method/ Depreciated replacement cost	543.99	68.62		1,224.00	145.00		680.02	76.38	756.39
No.76 York Street Fort, Colombo 01	30-09-2017	Direct Capital Comparison Method/ Depreciated replacement cost	15.46	9.96		177.50	28.50		162.04	18.54	180.58
Total			559.45	78.58		1,401.50	173.50		842.05	94.92	936.97

Other than properties included in Bank, Group Land and Buildings consist of Allied Properties Limited's properties.

Group

Location	Date of Valuation	Method of valuation	Net Book Value Before Revaluation			Revaluation amount			Revaluation Gain / Loss			
			Land		Building	Land		Building	Land		Building	Total
			Rs Mn		Rs Mn	Rs Mn		Rs Mn	Rs Mn	Rs Mn		Rs Mn
Valuer-P B Kalungalagedara												
No.46/58 Navam Mawatha,	30-09-2017	Investment method			317.57		-	648.20		-	330.65	330.63
Colombo 02			559.45		396.15		140150	821.70		84205	42555	1,26760
Total												

Notes to the Financial Statements

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. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are carried at cost less any accumulated 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

As at 31 December	Computer Software LKR '000	Other License Fees LKR '000	Total LKR '000
Cost			
At 01 January 2016	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
Additions	240,528	-	240,528
At 31 December 2017	2,186,310	331,288	2,517,598
Amortization			
At 01 January 2016	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
Charge for the year	239,452	33,129	272,581
At 31 December 2017	1,126,008	242,944	1,368,952
Net Book Value			
At 01 January 2016	1,059,493	154,602	1,214,095
At 31 December 2016	1,059,226	121,473	1,180,699
At 31 December 2017	1,060,302	88,344	1,148,646

During the financial year, the Bank acquired Intangible Assets to the aggregate value of LKR.240.5 Mn. (2016- LKR. 226.8 Mn.). Cash payments amounting to LKR.135.9 Mn (2016- LKR. 78.3 Mn.) were made during the year for purchase of Intangible Assets

18.2 Group

As at 31 December	Computer Software LKR '000	Other License Fees LKR '000	Total LKR '000
Cost			
At 01 January 2016	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
Additions	240,528	-	240,528
At 31 December 2017	2,208,966	331,288	2,540,254
Amortization			
At 01 January 2016	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
Charge for the year	242,688	33,129	275,817
At 31 December 2017	1,143,758	242,944	1,386,702
Net Book Value;			
At 01 January 2016	1,069,557	154,602	1,224,159
At 31 December 2016	1,067,368	121,473	1,188,841
At 31 December 2017	1,065,208	88,344	1,153,552

During the financial year, the Group acquired Intangible Assets to the aggregate value of LKR. 240.5 Mn. (2016- LKR. 228.1 Mn.). Cash payments amounting to LKR.135.9 Mn (2016- LKR. 79.6 Mn.) were made during the year for purchase of Intangible Assets

Notes to the Financial Statements

19 DUE TO BANKS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Money Market Borrowings	10,567,825	11,756,289	10,567,825	11,756,289
Deposits from Other Banks	146,039	94,599	146,039	94,599
	10,713,864	11,850,888	10,713,864	11,850,888

20 DUE TO CUSTOMERS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

20.1 Due to Customers - By Product

Demand Deposits	18,026,048	14,067,435	17,998,325	14,010,003
Savings Deposits	36,102,924	28,365,967	36,102,924	28,365,967
Call Deposits	58,575	131,417	58,575	131,417
Fixed Deposits	138,258,169	106,553,799	138,258,169	106,553,799
Certificate of Deposits	1,851,002	2,441,050	1,851,002	2,441,050
	194,296,718	151,559,668	194,268,995	151,502,236

20.2 Due to Customers - By Currency

Sri Lanka Rupee	170,791,494	133,529,178	170,763,771	133,471,746
United States Dollar	18,000,478	13,785,142	18,000,478	13,785,142
Sterling Pound	1,743,184	1,615,662	1,743,184	1,615,662
Others	3,761,562	2,629,686	3,761,562	2,629,686
	194,296,718	151,559,668	194,268,995	151,502,236

21 DEBT ISSUED AND OTHER BORROWED FUNDS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

21.1 Senior Debt

US Dollar 15 Mn Loan (Note 21.4)	783,677	1,527,406	783,677	1,527,406
US Dollar 50 Mn Loan (Note 21.4)	7,611,621	-	7,611,621	-
	8,395,298	1,527,406	8,395,298	1,527,406

21.2 Subordinated Debt

US Dollar 13 Mn - Loan 2 (Note 21.4)	-	1,978,310	-	1,978,310
Rated, Unsecured, Redeemable Debentures (Note 21.5)	8,075,351	8,068,388	8,075,351	8,068,388
	8,075,351	10,046,698	8,075,351	10,046,698

21.3 Other Borrowings

21.3.1 Refinance Borrowings

- CBSL Saubagya	58,190	8,380	58,190	8,380
- SME line of credit by ADB via GOSL	643,942	-	643,942	-

21.3.2 Other Borrowings

	2,564,793	2,562,621	2,564,793	2,562,621
	3,266,925	2,571,001	3,266,925	2,571,001
	19,737,574	14,145,105	19,737,574	14,145,105

21 DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

21.4 Senior 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	
	2017 LKR '000	2016 LKR '000				2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 %	2016 %
19-Dec-13	3,000,000	3,000,000	13.00%	Semi-Annually	19-Dec-18	2,995,714	2,991,512	2,995,714	2,991,512	8.90	11.42
8-Nov-16	2,410	2,410	11.61%	Semi-Annually	8-Nov-21	2,445	2,445	2,445	2,445	9.84	12.15
8-Nov-16	3,885,800	3,885,800	12.65%	Semi-Annually	8-Nov-21	3,947,502	3,945,355	3,947,502	3,945,355	9.84	12.15
8-Nov-16	1,111,790	1,111,790	12.80%	Annually	8-Nov-21	1,129,691	1,129,076	1,129,691	1,129,076	9.84	12.15
	8,000,000	8,000,000				8,075,351	8,068,388	8,075,351	8,068,388		

Ratios of Debt		2017	2016
* Debt / Equity Ratio %	94.86%	62.87%	
Interest Cover (Times)	5.89	6.60	
Quick Asset Ratio %	112%	87%	

* Borrowings over one year original maturity are considered for debt

21.6 All the securities were issued by Nations Trust Bank PLC. The Bank has not had any defaults of principal, interest or other breaches with regard to any liabilities as of 31 December 2017.

Notes to the Financial Statements

22 OTHER LIABILITIES

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Accounts Payable and Sundry Creditors	1,606,292	1,236,806	1,622,830	1,254,616
Obligations under Financial Guarantees (Note 22.1)	101,708	78,460	101,708	78,460
Margin Balances	235,700	179,902	235,700	179,902
Pay Orders	1,040,136	1,073,580	1,040,136	1,073,580
Employee Benefit Liability (Note 22.2)	486,897	394,062	493,044	398,797
Employee Share Appreciation Rights (Note 22.3)	18,078	-	18,078	-
Others	2,793,610	2,501,160	2,815,794	2,537,495
	6,282,421	5,463,970	6,327,290	5,522,850

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

	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	78,460	33,748	78,460	33,748
Utilized	(23,249)	(190,542)	(23,249)	(190,542)
Arising during the Year	46,497	235,254	46,497	235,254
As at 31 December	101,708	78,460	101,708	78,460

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 2017, carried out by Messrs' Actuarial and Management Consultants (Private) Limited, actuaries.

The gratuity liability is not externally funded.

The key assumptions used by the actuary include the following:

As at 31 December	2017 LKR '000	2016 LKR '000
Rate of Discount	10.1%	12.4%
Rate of Salary Increase	8.0%	8.0%
Retirement Age	55-60 years	55-60 years

22.2.1 Net benefit expense categorized under personnel expenses:

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Interest Cost	48,864	38,557	49,451	39,024
Current Service Cost	60,908	49,864	61,580	50,411
	109,772	88,421	111,031	89,435

22.2.2 Changes in the present value of the Retirement Benefit Plan are as follows:

	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	394,062	385,568	398,797	390,244
Interest Cost	48,864	38,557	49,451	39,024
Current Service Cost	60,909	49,864	61,580	50,411
Gratuity Payable	(2,692)	(1,555)	(2,692)	(1,555)
Benefits Paid	(64,295)	(57,073)	(64,293)	(57,503)
Actuarial (Gain)/ Loss	50,049	(21,299)	50,201	(21,823)
As at 31 December	486,897	394,062	493,044	398,797

22.2.3 In order to illustrate the significance of the salary escalation rates and discount rates assumed in this valuation a sensitivity analysis for all employees assuming the above is as follows:

Group 2017				Group 2016			
Salary Escalation Rate	Discount Rate	PVDBO LKR '00	Effect on Other Comprehensive Income LKR '000	Salary Escalation Rate	Discount Rate	PVDBO LKR '000	Effect on Other Comprehensive Income LKR '000
8.0%	11.1%	468,966	23,544	8.0%	13.4%	381,226	17,572
8.0%	9.1%	518,461	(25,951)	8.0%	11.4%	418,086	(19,289)
9.0%	10.1%	520,948	(28,438)	9.0%	12.4%	420,516	(21,719)
7.0%	10.1%	466,308	26,202	7.0%	12.4%	378,736	20,061

22.2.4 Average Future working Life Time as per the assumptions made in year 2017: 6.39 years (Year 2016: 6.87 years).

Notes to the Financial Statements

22.2.5 Group Maturity Profile of the Defined Benefit Obligation as at 31 December

Future Working Life Time	Defined Benefit Obligation	
	2017 LKR '000	2016 LKR '000
Within the next 12 months	70,887	73,184
Between 1 - 2 years	115,608	90,299
Between 2 - 5 years	132,292	106,427
Between 5 - 10 years	115,326	84,769
Beyond 10 years	58,931	44,118
	493,044	398,797

Weighted Average duration of Defined Benefit Obligation is 5.50 years (2016 - 5.16 years)

22.3 Employee Share Appreciation Rights (ESAR)

Share Based Payments

Employees (senior executives) of the Group/Bank receive benefit in the form of share- based payments, whereby employees render services are granted share appreciation rights which are settled in cash (Cash-settled transaction). A liability is recognized for the fair value of cash settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using binomial model.

Movements in the year	Bank/Group 2017	
	Number of SARs	Value LKR '000
Outstanding at the beginning of the year	-	-
Granted during the year	962,000	18,078
Outstanding at the end of the year	962,000	18,078

The following table lists the inputs to the model used for valuation of the liability under SARs as at 31 December 2017

	2017
Dividend Yield	3.0%
Expected Volatility	19.3%
Risk free Interest rate	10.7%
Expected Life of the Option	4.5 Years
Weighted Average Share Price on grant date	79.29

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are 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.

Notes to the Financial Statements

23.2 DEFERRED TAXATION

Bank	2017					2016				
	01/01/17 DTL/(DTA)	Recognised in P&L	Recognised in OCI	Setoff Against IT Payable	31/12/2017 DTL/(DTA)	01/01/16 DTL/(DTA)	Recognised in P&L	Recognised in OCI	Set off Against IT Payable	31/12/16 DTL/(DTA)
	LKR '000	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	301,570	35,097	-	-	336,667	257,799	43,771	-	-	301,570
Accelerated depreciation allowances for tax purposes- lease rentals receivable	1,255,584	498,874	-	-	1,754,458	875,571	380,013	-	-	1,255,584
Net gains on re-measuring of available-for-sale financial assets	(69,252)	-	149,986	-	80,734	28,499	-	(97,751)	-	(69,252)
Revaluation gain on Land & Building	-	-	262,357	-	262,357	-	-	-	-	-
Carry forward Tax losses on Lease Business	(406,547)	(153,072)	-	-	(559,619)	(247,506)	(159,041)	-	-	(406,547)
Adjustment due to change in Accounting base and tax base on adopting SLFRS	-	-	-	-	-	(71,278)	-	-	71,278	-
Retirement Benefit Plan-Gratuity	(110,942)	(12,129)	(14,014)	-	(137,085)	(109,532)	(7,374)	5,964	-	(110,942)
Total Timing Difference	970,413	368,770	398,329	-	1,737,512	733,553	257,369	(91,787)	71,278	970,413

Group	2017					2016				
	01/01/17 DTL/(DTA)	Recognised in P&L	Recognised in OCI	Setoff Against IT Payable	31/12/2017 DTL/(DTA)	01/01/16 DTL/(DTA)	Recognised in P&L	Recognised in OCI	Set off Against IT Payable	31/12/16 DTL/(DTA)
	LKR '000	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	301,025	34,794	-	-	335,819	257,583	43,442	-	-	301,025
Accelerated depreciation allowances for tax purposes- lease rentals receivable	1,255,584	498,874	-	-	1,754,458	875,571	380,013	-	-	1,255,584
Net gains on re-measuring of available-for-sale financial assets	(69,253)	-	149,986	-	80,733	28,498	-	(97,751)	-	(69,253)
Revaluation gain on Land & Building	-	-	354,936	-	354,936	-	-	-	-	-
Carry forward Tax losses on Lease Business	(406,546)	(153,072)	-	-	(559,618)	(247,505)	(159,041)	-	-	(406,546)
Adjustment due to change in Accounting base and tax base on adopting SLFRS	-	-	-	-	-	(71,278)	-	-	71,278	-
Retirement Benefit Plan-Gratuity	(111,656)	(12,687)	(14,056)	-	(138,399)	(110,290)	(7,456)	6,090	-	(111,656)
Total Timing Difference	969,154	367,909	490,866	-	1,827,929	732,579	256,958	(91,661)	71,278	969,154

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

24 STATED CAPITAL

Ordinary Shares	Bank/ Group		Bank/ Group	
	2017 Number	2017 LKR '000	2016 Number	2016 LKR '000
Issued and fully paid				
As at 01 January	230,607,283	5,101,369	230,607,283	5,101,369
As at 31 December	230,607,283	5,101,369	230,607,283	5,101,369

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	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	796,400	660,840	796,400	660,840
Transfers during the year (Note 26)	214,332	135,560	214,332	135,560
As at 31 December	1,010,732	796,400	1,010,732	796,400

26 RETAINED EARNINGS

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	10,261,404	8,154,695	11,600,912	9,335,949
Total Comprehensive Income	4,250,606	2,726,544	3,335,344	2,884,798
Dividend Paid	(484,275)	(484,275)	(484,275)	(484,275)
Transfers to Reserve Fund (Note 25.2)	(214,332)	(135,560)	(214,332)	(135,560)
As at 31 December	13,813,403	10,261,404	14,237,649	11,600,912

Notes to the Financial Statements

27 OTHER RESERVES

27.1 Available for Sale Reserve

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	(178,077)	73,282	(178,077)	73,282
Net gains / (loss) on re-measuring available-for-sale financial assets	535,663	(138,564)	535,663	(138,564)
Less: Reclassification adjustment to the profit or Loss	-	(210,546)	-	(210,546)
Net income tax (charge) / reversal relating to components of re-measuring available-for-sale financial assets	(149,986)	97,751	(149,986)	97,751
As at 31 December	207,600	(178,077)	207,600	(178,077)

27.2 Revaluation Reserve

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	-	-	-	-
During the year revaluation of land and buildings	936,988	-	1,267,627	-
Deferred Tax charge / (reversal) relating to revaluation	(262,357)	-	(354,936)	-
As at 31 December	674,631	-	912,691	-

The Group adapted revaluation model for Land and Buildings from 2017 and the details of fair valuation is included in Note 17.2 and 43.2 to the Financial Statements.

Accounting Policy

Recognition of Income and Expenses

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 financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. 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.

(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

Notes to the Financial Statements

28 INTEREST INCOME

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Reverse Repurchase Agreements	170,689	65,625	170,689	65,625
Due from Banks	38,922	90,317	38,922	90,317
Loans and Advances to Customers	24,368,132	16,904,406	24,482,357	17,010,465
Financial Assets - Held for Trading	124,353	226,219	124,353	226,219
Financial Assets - Available for Sale	3,578,771	2,102,562	3,578,771	2,102,562
Financial Assets - Held to Maturity	1,239,069	1,304,375	1,247,534	1,312,661
Other Financial Assets	465,957	436,306	465,957	436,306
Interest Income accrued on Impaired Financial Assets	276,357	139,722	276,357	139,722
	30,262,250	21,269,532	30,384,940	21,383,877

Interest Income from government securities earned during the year 2017 amounts to LKR 5,131 Mn (2016: LKR 3,814 Mn) and the Group LKR 5,139 (2016: LKR 3,821 Mn). The Government Securities represents; Treasury Bills, Treasury Bonds and Sri Lanka Development Bonds.

29 INTEREST EXPENSE

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Due to Banks	862,506	531,909	861,407	531,909
Repurchase Agreements	1,311,965	1,202,917	1,256,040	1,169,624
Due to Customers	14,787,785	9,062,070	14,787,785	9,047,472
Debt Issued and Other Borrowed Funds	1,190,119	848,823	1,190,592	847,898
Others	-	994	838	1,363
	18,152,375	11,646,713	18,096,662	11,598,266

30 NET FEES AND COMMISSION INCOME

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

30.1 Fees and Commission Income

Portfolio and Other Management Fees	-	-	2,278	4,651
Credit Card Related Fees and Commissions	2,940,098	2,468,074	2,939,543	2,467,653
Commission on Trade Finance Facilities & Remittances	564,813	403,735	564,813	403,735
Commission on Services-Loans	638,052	263,784	638,052	263,784
Commission on Services-Deposits	434,684	426,442	434,684	426,442
Other Fees	176,349	118,193	399,714	270,500
	4,753,996	3,680,228	4,979,084	3,836,765

30 NET FEES AND COMMISSION INCOME (CONTD.)

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

30.2 Fees and Commission Expenses

Brokerage Fees	(37,580)	(22,008)	(37,580)	(14,693)
Credit Card Related Fees	(285,157)	(223,466)	(285,163)	(223,763)
	(322,737)	(245,474)	(322,743)	(238,456)
Net fees and commission income	4,431,259	3,434,754	4,656,341	3,598,309

31 NET TRADING INCOME/(LOSS)

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Unrealized Gains / (Losses) on foreign exchange forward contracts	(200,613)	565,444	(200,613)	565,444
Realised Gains / (Losses) on foreign exchange forward contracts	(455,417)	158,430	(455,417)	158,430
Net Gain / (Loss) on retranslation of account balances	(110,823)	(990,765)	(110,823)	(990,765)
Net Foreign Exchange Gains / (Losses)	(766,853)	(266,891)	(766,853)	(266,891)
Profit on Sale of Securities	190,074	34,039	190,074	34,039
Other Trading Gain / (Loss)	18,326	(8,529)	18,326	(8,529)
	(558,453)	(241,381)	(558,453)	(241,381)

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 of LKR 1,268 Mn (2016 - 737 Mn) from interbanks and a gain of LKR 501 Mn (2016 - 470 Mn) from Customers

32 OTHER OPERATING INCOME

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Dividend Income	443,548	26,754	3,472	3,265
Profit on subsidiary share buy back Note (32.1)	671,925	-	-	-
Non-Trading Foreign Exchange	160,691	63,192	160,691	63,192
Recovery of Loans Written -Off	188,984	161,544	188,984	161,544
Others	174,254	340,182	174,255	340,197
	1,639,402	591,672	527,402	568,198

- 32.1** During the year the Subsidiary Company (Waldock Mackenzie Limited) repurchased 6,886,598 of its shares from Nations Trust Bank for a total value of LKR 671Mn.

Notes to the Financial Statements

33 IMPAIRMENT CHARGE / (REVERSAL) FOR LOANS AND ADVANCES

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Loans and Advances to Customers				
Corporate Loans	48,519	30,375	48,940	45,837
Retail SME and Consumer Lending	1,036,500	662,074	1,036,500	662,074
Housing Loans	(13,896)	(6,112)	(13,896)	(6,112)
Leases	12,745	(21,869)	12,745	(21,869)
	1,083,868	664,468	1,084,289	679,930
Add: Direct Write off on other charges	4,536	10,342	4,536	10,342
	1,088,404	674,810	1,088,825	690,272

34 PERSONNEL EXPENSES

Salaries	2,079,256	1,871,542	2,099,211	1,890,340
Employee Benefits - Defined Contribution Plan	309,917	279,468	312,820	282,238
Employee Benefits - Defined Benefit Plan (Note 22.2.1)	109,772	88,421	111,031	89,435
Amortization of Staff Loan Day 1 Difference	91,502	46,193	91,502	46,193
Other Allowances	1,235,123	1,016,230	1,242,424	1,022,764
	3,825,570	3,301,854	3,856,988	3,330,970

35 OTHER OPERATING EXPENSES

Operating Lease Expenses	380,475	369,522	335,910	324,957
Professional Fees	20,971	52,952	21,441	53,318
Auditors Fees and Expenses	10,178	9,416	11,893	10,886
Non Audit fees and Expenses to Auditors	3,227	3,754	3,357	3,754
Legal Fees	20,845	14,292	20,845	14,292
Transport	208,857	180,698	209,344	181,304
Office Administration & Establishment	3,632,049	3,039,170	3,670,604	3,074,788
	4,276,602	3,669,804	4,273,394	3,663,299

36 VALUE ADDED TAX (VAT) ON FINANCIAL SERVICES / NATION BUILDING TAX (NBT)

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Value Added Tax (VAT)	1,438,521	903,736	1,458,558	915,671
Nations Building Tax (NBT)	197,572	142,475	199,649	144,613
	1,636,093	1,046,211	1,658,207	1,060,284

37 INCOME TAX EXPENSE

37.1 Amount recognized in profit or loss

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
The component of Income Tax expense for years ended 31 December 2017 & 2016 are ;				
Current Tax				
- Current Income Tax on Profit for the Year (Note 37.2)	1,540,332	1,149,976	1,630,431	1,221,149
- 10% Withholding Tax on Subsidiary Dividend	-	-	48,900	2,610
- Over Provision in respect of Prior Years	(25,229)	(11,638)	(25,247)	(9,607)
Deferred Tax				
- Charge for Deferred Tax	368,770	257,369	367,909	256,958
	1,883,873	1,395,707	2,021,993	1,471,110
Effective Income Tax Rate	30.53%	33.98%	37.49%	33.90%

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 2017 and 2016 is as follows;

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Accounting Profit (Profit before Taxation)	6,170,514	4,106,916	5,393,482	4,340,196
Add: Disallowable Expenses	22,831,509	16,922,361	22,821,303	16,922,931
	29,002,023	21,029,277	28,214,785	21,263,127
Less: Allowable Expenses	(21,905,961)	(16,235,644)	(21,908,943)	(16,238,795)
Exempt Income	(1,594,875)	(686,573)	(482,873)	(663,084)
Statutory Income	5,501,187	4,107,060	5,822,969	4,361,248
Taxable Income	5,501,187	4,107,060	5,822,969	4,361,248
Current Income Tax Expense	1,540,332	1,149,976	1,630,431	1,221,149

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.

38 BASIC / DILUTED EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

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

Notes to the Financial Statements

38.1 Earning per share Basic/Diluted

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Amount used as the numerator				
Net profit after tax for the year attributable to equity holders	4,286,641	2,711,209	3,371,489	2,869,086
No of ordinary shares used as the denominator				
Weighted average number of ordinary shares (Note 38.2)	236,602,619	236,602,619	236,602,619	236,602,619
Basic/Diluted Earnings Per Share (Rs.)	18.12	11.46	14.25	12.13

38.2 Weighted average number of ordinary shares

	Weighted Average Number of Ordinary Shares 2017	Weighted Average Number of Ordinary Shares 2016
Number of shares held as at 01 January	230,607,283	230,607,283
Add: Number of shares issued due to scrip dividend 2017	5,995,336	5,995,336
Number of shares held as at 31 December	236,602,619	236,602,619

Except for the scrip dividend 2017 (Note 47 Events after the reporting date), there have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements that require adjustment of the weighted average number of ordinary shares.

39 DIVIDENDS PAID AND DECLARED

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Board of Directors of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

39.1 Declared and Paid During the Year

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
	484,275	484,275	484,275	484,275

39.2 Declared by the Board of Directors (not recognized as a liability as at 31 December)

Dividends on ordinary shares:				
First and Final dividend for 2017: LKR 2.10 per Share*				
(2016: LKR 2.10 per share)	568,497	484,275	568,497	484,275

*A dividend of Rs. 2.10 per share in respect of year 2017 is declared by the Board of Directors to be paid in the form of a Scrip dividend in the proportion of 01 share for every 38.4644498 shares for both Ordinary Voting Shares and Convertible Non-Voting Shares (Convertible to Ordinary Voting Shares). Fractions in shares will be paid in cash. (Note 47)

40 CASH FLOW INFORMATION

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

40.1 (Increase)/Decrease in Operating Assets

Reverse Repurchase Agreements	3,900	287,631	3,900	(29,793)
Derivative Financial Instruments	(139,750)	488,674	(139,750)	488,674
Financial Assets Held for Trading	1,073,716	461,654	1,073,716	461,654
Financial Assets-Held to Maturity	3,145,812	(341,496)	3,144,234	(342,911)
Financial Assets-Available for Sale	(16,645,792)	(5,814,595)	(16,645,792)	(5,814,595)
Other Financial Assets	58,488	(312,981)	58,488	(434,643)
Loans and Advances to Customers	(38,714,252)	(28,938,440)	(38,030,465)	(29,141,685)
Other Assets	(60,699)	(355,134)	(71,131)	(346,060)
	(51,278,577)	(34,524,687)	(50,606,800)	(35,159,359)

40.2 Increase/(Decrease) in Operating Liabilities

Repurchase Agreements	2,455,070	(3,808,901)	2,662,956	(3,491,478)
Due to Customers	41,661,611	21,508,453	41,691,320	21,533,707
Derivative Financial Instruments	365,499	76,690	365,499	76,690
Other Liabilities	695,327	394,317	673,977	308,208
	45,177,507	18,170,559	45,393,753	18,427,127

40.3 Other Non cash items included in Profit before Tax

Depreciation of Property, Plant and Equipment	352,319	380,034	366,855	418,529
Amortization of Intangible Assets	272,581	260,292	275,817	263,495
Provision for Fair Valuation of Trading Portfolio	(18,326)	8,529	(18,326)	8,232
Interest Income on government securities & Loans	(385,801)	(148,226)	(385,801)	(148,226)
Others	-	-	-	17,342
	220,774	500,629	238,544	559,372

Changes in liabilities arising from financing activities

Bank/Group	1 January 2017 LKR '000	Cashflows LKR '000	Non cash flows LKR '000	31 December 2017 LKR '000
US Dollar 13Mn Loan 2	1,978,310	(1,950,297)	(28,012)	-
US Dollar 15Mn Loan	1,527,406	(732,332)	(11,398)	783,677
US Dollar 50Mn Loan	-	7,675,929	(64,308)	7,611,621
Rated, Unsecured, Redeemable Debentures	8,068,388	-	6,963	8,075,351
SME Line of Credit by ADB via GOSL	-	639,625	4,317	643,942
CBSL Saubhagya	8,380	49,810	-	58,190
Other Borrowings	2,562,621	-	2,172	2,564,793
Total Debt Issued and Other Borrowed Funds	14,145,105	5,682,735	(90,266)	19,737,574
Money Market Borrowings	11,756,289	(1,188,464)	-	10,567,825
Total	25,901,394	4,494,271	(90,266)	30,305,399

Notes to the Financial Statements

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.

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 and Directors in subsidiary companies.

(a) Compensation to Key Management Personnel

Year Ended 31 December	2017 LKR '000	2016 LKR '000
Key Management Personnel Benefits	53,539	44,042
Post Employment Benefits	14,872	4,200
	68,411	48,242

In addition to the salaries the Group also has arranged non cash benefits such as vehicle & insurance to Executive Director in line with approved benefits plan of the Group. Executive Director is also entitled to 48,387 share appreciation rights.

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

Year Ended 31 December	Key Management Personnel & their Close Family Members (CFM)				Entities in which KMPs and CFMs have control or joint control			
			Maximum Balances				Maximum Balances	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Items in the Statement of Financial Position								
Assets								
Loans & Advances	15,945	20,079	24,341	20,079	-	-	-	-
Credit Cards	2,756	2,965	3,696	2,965	267	36	276	128
Liabilities								
Due to Customers	125,876	68,122	125,876	84,436	-	-	-	-
Equity								
Dividends paid (Net)	433	433	-	-	-	-	-	-
Commitments								
Undrawn Facilities	18,421	12,967	-	-	733	964	-	-
Items in Statement of Profit or Loss								
Interest Income Earned	1,426	1,657	-	-	-	-	-	-
Interest Expenses Paid	6,589	1,377	-	-	-	-	-	-
Other Income Earned	875	137	-	-	-	-	-	-
Expenses Paid	1,607	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 249.50 Mn (2016 - LKR 224.96 Mn) to the Fund during the year.

As at 31 December 2017, the Fund has invested a sum of LKR 1207.38 Mn (2016 - LKR 441.42 Mn.) with the Bank.

During the year, the Bank has incurred a sum of LKR 92.27 Mn (2016 - LKR 42.07 Mn) as interest expense to the Fund out of which a sum of LKR 35.95 Mn (2016 - LKR 17.8 Mn) is payable as of 31 December 2017

41.3 Transactions with Related Entities.

Year Ended 31 December	Subsidiaries *			Significant Investors **			Significant Investor Related Entities ***		
	Maximum Balances			Maximum Balances			Maximum Balances		
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 LKR '000
Items in the Statement of Financial Position									
Assets									
Loans & Advances	-	210,297	397,685	210,297	169,261	378,921	436,619	488,036	57,127
Corporate Credit Cards	-	-	-	-	-	-	-	-	580
Derivative Financial Assets	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-
Liabilities									
Due to Customers	26,114	54,451	108,238	101,649	1,595,022	636,650	330,198	2,645,595	1,703,916
Borrowing & Others	378,405	589,663	764,898	1,701,427	2,942,630	1,766,238	2,946,274	2,207,531	218,122
Other Liabilities	-	-	-	-	-	-	-	-	-
Derivative Financial Liabilities	-	-	-	-	-	-	-	-	-
Equity									
Dividends Paid (Net)	-	-	-	284,474	284,080	-	-	-	-
Commitments									
Undrawn Facilities	1,800,000	1,589,836	-	-	639,880	115,240	-	629,725	286,701
Letter of Credit / Guarantees	-	-	-	-	225,874	265,854	-	484,320	954,134
Forward - Foreign Exchange Contracts	-	-	-	-	-	-	-	708,931	594,688
Items in Income Statement									
Interest Income Earned	5,747	15,242	-	-	22,682	29,448	-	4,977	2,133
Interest Expenses Paid	57,024	47,891	-	-	528,294	321,406	-	153,864	59,282
Other Income Earned	14,656	13,304	-	-	3,615	3,643	-	14,280	15,582
Dividend Received (Gross)	440,100	23,489	-	-	-	-	-	-	-
Proceeds from sales of shares	671,925	-	-	-	-	-	-	-	-
Expenses Paid	41,686	41,686	-	-	46,657	48,406	-	77,770	53,587

* 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.

In addition to the above, the bank has carried out various promotional activities with related entities during the year.

Furthermore, a sum of LKR 3.9 Mn (2016 - LKR 2.5 Mn) and LKR 26.1 Mn (2016 - 18.09 Mn) is accounted in Nations Insurance Brokers Ltd as a receivable and commission income respectively from a subsidiary of a significant investor. This is the only related party transaction at the group level.

Notes to the Financial Statements

42 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 December 2017	Bank			Group		
	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	6,867,222	-	6,867,222	6,869,695	-	6,869,695
Balances with Central Bank of Sri Lanka	10,819,576	373,691	11,193,266	10,819,522	373,744	11,193,266
Reverse Repurchase Agreements	10,798	-	10,798	10,798	-	10,798
Derivative Financial Instruments	230,217	-	230,217	230,217	-	230,217
Financial Assets - Held for Trading	521,389	-	521,389	521,389	-	521,389
Financial Assets-Available for Sale	38,846,109	5,937	38,852,046	38,846,109	5,937	38,852,046
Financial Assets - Held to Maturity	2,284,037	7,595,353	9,879,390	2,282,969	7,667,464	9,950,433
Other Financial Assets	2,129,727	4,667,880	6,797,607	2,129,727	4,667,880	6,797,607
Loans and Advances to Customers	115,802,516	70,734,196	186,536,712	116,011,515	70,734,196	186,745,711
Other Assets	938,339	955,135	1,893,474	985,663	955,325	1,940,988
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Property, Plant and Equipment	-	2,584,301	2,584,301	-	3,363,792	3,363,792
Intangible Assets	-	1,148,646	1,148,646	-	1,153,552	1,153,552
Total Assets	178,449,930	88,743,848	267,193,778	178,707,604	88,921,890	267,629,494
Liabilities						
Due to Banks	10,713,864	-	10,713,864	10,713,864	-	10,713,864
Repurchase Agreements	12,319,188	-	12,319,188	11,940,782	-	11,940,782
Derivative Financial Instruments	495,517	-	495,517	495,517	-	495,517
Due to Customers	187,810,062	6,486,657	194,296,718	187,782,338	6,486,657	194,268,995
Debt Issued and Other Borrowed Funds	5,654,389	14,083,185	19,737,574	5,654,389	14,083,185	19,737,574
Current Tax Liabilities	803,249	-	803,249	847,501	-	847,501
Other Liabilities	5,412,473	869,948	6,282,421	5,446,629	880,661	6,327,290
Deferred Tax Liabilities	-	1,737,512	1,737,512	-	1,827,929	1,827,929
Total Liabilities	223,208,742	23,177,301	246,386,043	222,881,020	23,278,432	246,159,453
Net	(44,758,812)	65,566,547	20,807,735	(44,173,416)	65,643,457	21,470,041

42 MATURITY ANALYSIS OF ASSETS AND LIABILITIES CONTD.

As at 31 December 2016	Bank			Group		
	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	8,099,706	411,803	8,511,509	8,099,550	411,959	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	139,107,275	71,283,869	210,391,144	140,036,367	71,143,608	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	(35,057,107)	51,038,202	15,981,095	(33,570,144)	50,890,750	17,320,606

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. FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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.

Bank

As at 31 December 2017	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
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets					
Derivative Financial Instruments					
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-17	-	230,217	-	230,217
Financial Assets Held for Trading					
Government Treasury Bills	31-Dec-17	-	-	-	-
Government Treasury Bonds	31-Dec-17	104,664	416,725	-	521,389
Financial Assets Available for Sale					
Government Treasury Bills	31-Dec-17	24,351,263	-	-	24,351,263
Government Treasury Bonds	31-Dec-17	12,230,879	2,263,967	-	14,494,846
Unquoted Equity Shares	31-Dec-17	-	-	5,937	5,937
Total Financial Assets		36,686,806	2,910,909	5,937	39,603,652
Non financial assets measured at fair value					
Freehold Land	30-Sep-17	-	-	1,401,500	1,401,500
Freehold Building	30-Sep-17	-	-	173,500	173,500
Total non financial assets measured at fair value		-	-	1,575,000	1,575,000
Financial Liabilities					
Derivative Financial Instruments					
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-17	-	495,517	-	495,517
Total Financial Liabilities		-	495,517	-	495,517

Notes to the Financial Statements

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

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.

Bank

As At 31 December 2016	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
	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

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.2 Assets and Liabilities measured at fair value - Fair Value hierarchy Contd.

Group

As At 31 December 2017	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
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets					
Derivative Financial Instruments					
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-17	-	230,217	-	230,217
Financial Assets Held for Trading					
Government Treasury Bills	31-Dec-17	-	-	-	-
Government Treasury Bonds	31-Dec-17	104,664	416,725	-	521,389
Financial Assets Available for Sale					
Government Treasury Bills	31-Dec-17	24,351,263	-	-	24,351,263
Government Treasury Bonds	31-Dec-17	12,230,879	2,263,967	-	14,494,846
Unquoted Equity Shares	31-Dec-17	-	-	5,937	5,937
Total Financial Assets		36,686,806	2,910,909	5,937	39,603,652
Non financial assets measured at fair value					
Freehold Land	30-Sep-17	-	-	1,401,500	1,401,500
Freehold Building	30-Sep-17	-	-	821,698	821,698
Total non financial assets measured at fair value		-	-	2,223,198	2,223,198
Financial Liabilities					
Derivative Financial Instruments					
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-17	-	495,517	-	495,517
Total Financial Liabilities		-	495,517	-	495,517

Notes to the Financial Statements

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.2 Assets and Liabilities measured at fair value - Fair Value hierarchy Contd.

Group

As At 31 December 2016	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
	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

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.2 Assets and Liabilities measured at fair value - Fair Value hierarchy Contd.

Reconciliation of the financial assets Available-for-sale ,classified as "Level 3" in the fair value hierarchy.

	Bank/Group	
	Assets measured at Level 3	
	Unquoted equity securities	
	2017 LKR '000	2016 LKR '000
Balance as at 01 January	5,865	5,742
Change in value due to exchange rate fluctuation	72	123
Balance as at 31 December	5,937	5,865

Financial Assets "Available for Sale" , classified as "Level 3" in the fair value hierarchy comprises of unquoted equity securities. (Note 11.1)

Reconciliation of the non - financial assets " Freehold Land and Buildings" classified as level 3 in the fair value hierarchy;

	Bank		Group	
	Non-Financial Assets measured at Level 3			
	Freehold Land	Freehold Buildings	Freehold Land	Freehold Buildings
	2017	2017	2017	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 01 January	559,440	78,726	559,440	406,332
Additions during the year	-	2,528	-	3,799
Depreciation charge for the year	-	(2,682)	-	(14,000)
Fair value gain due to revaluation of land and buildings	842,060	94,928	842,060	425,567
Balance as at 31 December	1,401,500	173,500	1,401,500	821,698

Group adopted fair value model to freehold land and buildings in 2017. (Note 17)

Notes to the Financial Statements

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.2 Assets and Liabilities measured at fair value - Fair Value hierarchy Contd

Unobservable inputs used in Measuring Fair Value

The table below sets out information about significant unobservable inputs used in measuring fair value of the assets categorised under Level 3 of the fair value hierarchy.

Location	Type of Asset	Extent	Bank Fair Value as at 31.12.2017 LKR'000	Group Fair Value as at 31.12.2017 LKR'000	Valuation Technique	Significant Unobservable Inputs	Weighted Average Range of estimates for unobservable inputs (Level 3)	Fair Value measurement sensitivity to unobservable inputs
No 76, York Street, Fort, Colombo	Land	10.82 P	177,500	177,500	Direct Capital Comparison Method	Price per perch	Rs.17.5 Mn per perch and Rs. 11 Mn per perch (arcade)	positively correlated
	Buildings	8,660 Square feet	28,500	28,500	Depreciated Replacement Cost	Rate per square feet	Rs. 3000- Rs. 5000 per square feet	positively correlated
No 242, Union Place, Colombo 2	Land	77.2 P	1,224,000	1,224,000	Direct Capital Comparison Method	Price per perch	Rs.16 Mn per perch	positively correlated
	Buildings	27,772 square feet	145,000	145,000	Depreciated Replacement Cost	Rate per square feet	Rs. 1,000 per square feet	positively correlated
46/58, Nawam Mawatha, Colombo 2	Buildings	61,300 square feet	648,200	648,200	Investment method	Rate per square feet	Rs. 115/- - Rs. 250/- monthly rental per square feet	positively correlated
			1,575,000	2,223,200				

* Significant increases/(decreases) in any of these inputs in isolation would result in a higher/(lower) fair value

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 2017					As at 31 December 2016				
	Fair Value Measurement Using					Fair Value Measurement Using				
	Carrying amount LKR '000	Quoted Prices in Active Markets (Level 1) LKR '000	Significant Observable Inputs (Level 2) LKR '000	Significant Unobservable Inputs (Level 3) LKR '000	Total LKR '000	Carrying amount LKR '000	Quoted Prices in Active Markets (Level 1) LKR '000	Significant Observable Inputs (Level 2) LKR '000	Significant Unobservable Inputs (Level 3) LKR '000	Total LKR '000
Financial Assets										
Financial Assets - Held to Maturity	9,879,390	3,710,799	6,444,980	-	10,155,779	12,929,523	7,266,943	5,196,076	-	12,463,019
Other Financial Assets- Debentures	6,797,607	-	6,739,085	-	6,739,085	6,860,950	-	6,632,591	-	6,632,591
	16,676,997	3,710,799	13,184,065	-	16,894,864	19,790,473	7,266,943	11,828,667	-	19,095,610
Loans and Advances to Customers										
Corporate Loans	45,767,388	-	45,497,375	-	45,497,375	37,882,588	-	37,502,844	-	37,502,844
Retail, SME and Consumer Lending	100,575,835	-	98,206,867	-	98,206,867	77,173,248	-	72,581,999	-	72,581,999
Housing Loans	3,202,405	-	2,828,984	-	2,828,984	2,497,417	-	2,218,949	-	2,218,949
Leases	37,253,690	-	36,365,968	-	36,365,968	31,422,446	-	29,634,784	-	29,634,784
Staff Loans	2,985,412	-	2,332,691	-	2,332,691	2,227,112	-	1,751,261	-	1,751,261
	189,784,730	-	185,231,885	-	185,231,885	151,202,811	-	143,689,837	-	143,689,837
Total Financial Assets	206,461,727	3,710,799	198,415,950	-	202,126,749	170,993,284	7,266,943	155,518,504	-	162,785,447
Financial Liabilities										
Repurchase Agreements	12,319,188	-	12,319,188	-	12,319,188	9,850,773	-	9,850,773	-	9,850,773
Due to Customers	194,296,718	-	194,470,869	-	194,470,869	151,559,668	-	151,296,122	-	151,296,122
Debt Issued and Other Borrowed Funds	19,737,574	-	20,130,177	-	20,130,177	14,145,105	-	14,092,531	-	14,092,531
Total Financial Liabilities	226,353,480	-	226,920,234	-	226,920,234	175,555,546	-	175,239,426	-	175,239,426

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.)

Group	As at 31 December 2017					As at 31 December 2016				
	Fair Value Measurement Using					Fair Value Measurement Using				
	Carrying amount LKR '000	Quoted Prices in Active Markets (Level 1) LKR '000	Significant Observable Inputs (Level 2) LKR '000	Significant Unobservable Inputs (Level 3) LKR '000	Total LKR '000	Carrying amount LKR '000	Quoted Prices in Active Markets (Level 1) LKR '000	Significant Observable Inputs (Level 2) LKR '000	Significant Unobservable Inputs (Level 3) LKR '000	Total LKR '000
Financial Assets										
Financial Assets - Held to Maturity	9,950,433	3,710,799	6,518,193	-	10,228,992	12,998,988	7,266,943	5,196,076	-	12,463,019
Other Financial Assets-Debt Securities	6,797,607	-	6,739,085	-	6,739,085	6,860,949	-	6,632,591	-	6,632,591
	16,748,040	3,710,799	13,257,278	-	16,968,077	19,859,937	7,266,943	11,828,667	-	19,095,610
Loans and Advances to Customers										
Corporate Loans	45,808,101	-	45,538,192	-	45,538,192	38,775,375	-	37,502,844	-	37,502,844
Retail, SME and Consumer Lending	100,743,992	-	98,374,947	-	98,374,947	77,173,248	-	72,581,999	-	72,581,999
Housing Loans	3,202,405	-	2,828,984	-	2,828,984	2,497,417	-	2,218,949	-	2,218,949
Leases	37,253,690	-	36,365,968	-	36,365,968	31,422,446	-	29,634,784	-	29,634,784
Staff Loans	2,985,412	-	2,332,691	-	2,332,691	2,227,122	-	1,751,261	-	1,751,261
	189,993,600	-	185,440,782	-	185,440,782	152,095,598	-	143,689,837	-	143,689,837
Total Financial Assets	206,741,640	3,710,799	198,698,060	-	202,408,859	165,094,582	7,266,943	155,518,504	-	162,785,447
Financial Liabilities										
Repurchase Agreements	11,940,782	-	11,940,782	-	11,940,782	9,261,110	-	9,261,110	-	9,261,110
Due to Customers	194,268,995	-	194,415,422	-	194,415,422	151,502,236	-	151,296,122	-	151,296,122
Debt Issued and Other Borrowed Funds	19,737,574	-	20,130,177	-	20,130,177	14,145,105	-	14,092,531	-	14,092,531
	225,947,351	-	226,486,381	-	226,486,381	174,908,450	-	175,239,426	-	175,356,740
Total Financial Liabilities	225,947,351	-	226,486,381	-	226,486,381	174,908,450	-	175,239,426	-	175,356,740

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;

Financial Assets	Financial Liabilities
Cash and Cash Equivalents Due to banks	Due to Banks
Balances with Central Bank of Sri Lanka	Repurchase agreements
Reverse Repurchase Agreements	Other borrowed funds
Other Financial Assets-Sri Lanka Development Bonds	

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 treasury bills and bonds – HTM portfolio 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 and Invested

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

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.

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 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.

Notes to the Financial Statements

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.

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 into 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

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.

Credit Risk exposure for each internal credit risk rating

Bank's Internal Credit Rating	Historical Default Rates	Amortized Cost	
	%	2017 LKR '000	2016 LKR '000
Investment Grade			
A	Less than 1%	23,176,941	23,112,718
B	1% - 1.5%	49,648,951	39,310,000
Intermediary Grade			
C + and C	1.5% - 2.5%	5,552,830	7,780,434
Speculative Grade			
C-	2.5% - 5.5%	1,842,125	1,888,702
D	Minimum of 13%	22,380	374,722
Past Due - Rated Customers			
	Less than 30 Days	14,359,115	7,668,741
	30 - 90 Days	4,834,989	5,517,280
	More than 90 Days	832,107	657,913
Past Due - Fully Secured by Cash			
		2,147,903	1,854,078
Individually Impaired - Rated Customers			
		4,629,555	3,399,860
Sum of Amortized Cost of Rated Customers			
		107,046,898	91,564,449

It is the Bank policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of Obligor Risk. All internal risk ratings are tailored to measure specific default characteristics and risks inherent in various business segments. Shown above is internal credit rating classification of the Corporate, Retail & SME portfolios of the Bank. The attributable risk ratings are assessed and updated regularly.

The exposures of which credit quality is not yet aligned to a bank wide single point indicator rating scale mainly consists of security backed lending and customers evaluated using risk scoring system. Leasing and cash secured lending are the significant security backed portfolios while consumer lending customers are assessed through a credit score system. The bank is in the process of aligning such portfolios under the coverage of the bank wide single point indicator rating scale.

Notes to the Financial Statements

Bank - 31 December 2017	Neither past due nor impaired					Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose credit rating is not yet finalized			
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and Cash Equivalents	6,867,222	-	-	-	-	-	-	6,867,222
Balances with Central Bank of Sri Lanka	11,193,266	-	-	-	-	-	-	11,193,266
Reverse Repurchase Agreements	-	-	-	-	10,798	-	-	10,798
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	177,688	50,328	-	-	2,201	-	-	230,217
Financial Assets - Held for Trading								-
Government Treasury Bills and Bonds	521,389	-	-	-	-	-	-	521,389
Financial Assets-Available for Sale								
Government Treasury Bills and Bonds	38,846,109	-	-	-	-	-	-	38,846,109
Unquoted Equity Shares	-	-	-	-	5,937	-	-	5,937
Financial Assets - Held to Maturity								-
Government Treasury Bills and Bonds	9,879,390	-	-	-	-	-	-	9,879,390
Other Financial Assets								
Sri Lanka Development Bonds	4,053,665	-	-	-	-	-	-	4,053,665
Quoted Debentures	509,660	2,234,282	-	-	-	-	-	2,743,942
	4,563,325	2,234,282	-	-	-	-	-	6,797,607
Loans and Advances to Customers (Gross)								
Corporate Loans	-	39,215,198	58,691	134,469	-	4,862,352	1,496,678	45,767,388
Retail, SME and Consumer	-	32,006,746	3,721,192	1,729,163	34,592,862	24,834,973	3,690,899	100,575,835
Housing Loans	-	-	-	-	2,668,317	534,088	-	3,202,405
Leases	-	1,603,948	1,772,948	873	22,466,846	11,240,140	168,934	37,253,690
Staff Loans	-	-	-	-	2,985,412	-	-	2,985,412
	-	72,825,892	5,552,831	1,864,505	62,713,438	41,471,553	5,356,511	189,784,730
Total	72,048,389	75,110,502	5,552,831	1,864,505	62,732,374	41,471,553	5,356,511	264,136,665

Note : Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 41.5 Bn categorized under "past due but not impaired" category Rs. 24.4Bn (59%) is in arrears for less than 30 days, Rs. 14.7Bn (35%) is in arrears for more than 30 days but less than 90 days & Rs. 2.4 Bn (6%) is in arrears for more than 90 Days.

Bank - 31 December 2016	Neither past due nor impaired					Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose credit rating is not yet finalized			
	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	1,574,953	-	-	-	-	-	-	1,574,953
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
	4,453,256	2,407,692	-	-	-	-	-	6,860,949
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 Rs. 27.9Bn categorized under "past due but not impaired" category Rs. 14.7Bn (53%) is in arrears for less than 30 days, Rs. 11.0Bn (39%) is in arrears for more than 30 days but less than 90 days & Rs. 2.2Bn (8%) is in arrears for more than 90 Days.

Notes to the Financial Statements

Group - 31 December 2017	Neither past due nor impaired					Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose credit rating is not yet finalized			
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and Cash Equivalents	6,869,695	-	-	-	-	-	-	6,869,695
Balances with Central Bank of Sri Lanka	11,193,266	-	-	-	-	-	-	11,193,266
Reverse Repurchase Agreements	-	-	-	-	10,798	-	-	10,798
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	177,688	50,328	-	-	2,201	-	-	230,217
Financial Assets - Held for Trading								-
Government Treasury Bills and Bonds	521,389	-	-	-	-	-	-	521,389
Financial Assets-Available for Sale								
Government Treasury Bills and Bonds	38,846,109	-	-	-	-	-	-	38,846,109
Unquoted Equity Shares	-	-	-	-	5,937	-	-	5,937
Financial Assets - Held to Maturity								-
Government Treasury Bills and Bonds	9,950,433	-	-	-	-	-	-	9,950,433
Other Financial Assets								
Sri Lanka Development Bonds	4,053,665	-	-	-	-	-	-	4,053,665
Quoted Debentures	509,660	2,234,282	-	-	-	-	-	2,743,942
	4,563,325	2,234,282	-	-	-	-	-	6,797,607
Loans and Advances to Customers (Gross)								
Corporate Loans	-	39,255,911	58,691	134,469	-	4,862,352	1,496,679	45,808,101
Retail, SME and Consumer	-	32,174,903	3,721,192	1,729,163	34,592,862	24,834,973	3,690,898	100,743,992
Housing Loans	-	-	-	-	2,668,317	534,088	-	3,202,405
Leases	-	1,603,948	1,772,948	873	22,466,847	11,240,140	168,933	37,253,690
Staff Loans	-	-	-	-	2,985,412	-	-	2,985,412
	-	73,034,762	5,552,830	1,864,505	62,713,439	41,471,553	5,356,511	189,993,599
Total	72,121,905	75,319,372	5,552,830	1,864,505	62,732,374	41,471,553	5,356,511	264,419,051

Note : Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 41.5 Bn categorized under "past due but not impaired" category Rs. 24.4Bn (59%) is in arrears for less than 30 days, Rs. 14.7Bn (35%) is in arrears for more than 30 days but less than 90 days & Rs. 2.4 Bn (6%) is in arrears for more than 90 Days.

Group - 31 December 2016	Neither past due nor impaired					Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose credit rating is not yet finalized			
	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	1,574,953	-	-	-	-	-	-	1,574,953
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
	4,453,256	2,407,692	-	-	-	-	-	6,860,949
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 Rs. 27.9Bn categorized under "past due but not impaired" category Rs. 14.7Bn (53%) is in arrears for less than 30 days, Rs. 11.0Bn (39%) is in arrears for more than 30 days but less than 90 days & Rs. 2.2Bn (8%) is in arrears for more than 90 Days.

Notes to the Financial Statements

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 2017	Maximum Exposure to Credit Risk LKR '000	Net collateral LKR '000	Net exposure LKR '000
Cash and Cash Equivalents	6,867,222	-	6,867,222
Balances with Central Bank of Sri Lanka	11,193,266	-	11,193,266
Reverse Repurchase Agreements	10,798	10,798	-
Derivative Financial Instruments	230,217	-	230,217
Financial Assets - Held for Trading	521,389	-	521,389
Financial Assets-Available for Sale	38,852,046	-	38,852,046
Financial Assets - Held to Maturity	9,879,390	-	9,879,390
Other Financial Assets	6,797,607	526,114	6,271,493
Loans and Advances to Customers (Gross)	189,784,730	82,970,510	106,814,219
Financial Guarantees	273,149	51,798	221,351
Letters of Credit	6,753,029	59,010	6,694,019
Other Commitments	166,104,818	7,337,958	158,766,860
	437,267,661	90,956,188	346,311,472

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	1,574,953	-	1,574,953
Financial Assets-Available for Sale	22,148,962	-	22,148,962
Financial Assets - Held to Maturity	12,929,523	-	12,929,523
Other Financial Assets	6,860,949	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

Notes to the Financial Statements

Group - 31 December 2017		Maximum Exposure to Credit Risk LKR '000	Net collateral LKR '000	Net exposure LKR '000
Cash and Cash Equivalents		6,869,695	-	6,869,695
Balances with Central Bank of Sri Lanka		11,193,266	-	11,193,266
Reverse Repurchase Agreements		10,798	10,798	-
Derivative Financial Instruments		230,217	-	230,217
Financial Assets - Held for Trading		521,389	-	521,389
Financial Assets-Available for Sale		38,852,046	-	38,852,046
Financial Assets - Held to Maturity		9,950,433	-	9,950,433
Other Financial Assets		6,797,607	526,114	6,271,493
Loans and Advances to Customers (Gross)		189,993,599	83,179,380	106,814,219
Financial Guarantees		273,149	51,798	221,351
Letters of Credit		6,753,029	59,010	6,694,019
Other Commitments		164,560,989	7,437,749	157,123,240
		436,006,218	91,264,849	344,741,369

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	1,574,953	-	1,574,953
Financial Assets-Available for Sale	22,148,962	-	22,148,962
Financial Assets - Held to Maturity	12,998,988	-	12,998,988
Other Financial Assets	6,860,949	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

Notes to the Financial Statements

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 2017	Agriculture LKR'000	Consumer Discretionary LKR'000	Consumer Staples LKR'000	Energy LKR'000	Financials LKR'000	Health Care LKR'000	Information Technology LKR'000
Cash and Cash Equivalents	-	-	-	-	6,867,222	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-
Reverse Repurchase Agreements	-	-	-	-	-	-	-
Derivative Financial Instruments							
Forward Foreign Exchange Contracts and Currency Swaps	-	-	-	-	228,016	-	-
Financial Assets - Held for Trading							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Financial Assets-Available for Sale							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Unquoted Equity Shares	-	-	-	-	-	-	-
Financial Assets - Held to Maturity							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Other Financial Assets							
Sri Lanka Development Bonds	-	-	-	-	-	-	-
Quoted Debentures	-	231,681	171,936	-	1,781,130	-	-
	-	231,681	171,936	-	1,781,130	-	-
Loans and Advances to Customers							
Corporate Loans	6,823,793	17,135,200	2,855,024	508,935	11,414,398	793,210	445,953
Retail, SME and Consumer	7,983,097	25,494,012	6,419,568	131,035	3,732,670	1,286,998	1,427,831
Housing Loans	5,302	36,080	14,901	-	35,011	2,018	6,847
Leases	4,262,226	8,024,863	4,992,409	204,848	1,442,386	1,541,461	818,151
Staff loans	-	-	-	-	2,346,309	-	-
	19,074,418	50,690,155	14,281,903	844,818	18,970,773	3,623,687	2,698,781
Impairment for Loans and Advances	-	-	-	-	-	-	-
Net Loans and Advances	-	-	-	-	-	-	-
	19,074,418	50,921,837	14,453,839	844,818	27,847,140	3,623,687	2,698,781

Industrials	Materials	Real Estate	Telecommunication Services	Utilities	Other	Zero Risk	Total
LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
-	-	-	-	-	-	-	6,867,222
-	-	-	-	-	-	11,193,266	11,193,266
-	-	-	-	-	10,798	-	10,798
-	-	-	-	-	2,201	-	230,217
-	-	-	-	-	-	521,389	521,389
-	-	-	-	-	-	38,846,109	38,846,109
-	-	-	-	-	5,937	-	5,937
-	-	-	-	-	-	9,879,390	9,879,390
-	-	-	-	-	-	4,053,665	4,053,665
559,195	-	-	-	-	-	-	2,743,942
559,195	-	-	-	-	-	4,053,665	6,797,607
2,788,815	1,219,461	1,153,788	415,100	-	2,153	211,559	45,767,388
16,748,099	2,641,022	2,602,630	776,115	123,304	20,787,292	10,422,162	100,575,835
3,095,448	3,807	-	2,991	-	-	-	3,202,405
13,512,088	1,525,060	330,941	475,228	124,030	-	-	37,253,690
-	-	-	-	-	-	-	2,346,309
36,144,449	5,389,350	4,087,359	1,669,433	247,334	20,789,445	10,633,721	189,145,627
-	-	-	-	-	-	-	(2,608,915)
-	-	-	-	-	-	-	186,536,712
36,703,643	5,389,350	4,087,359	1,669,433	247,334	20,808,381	75,127,541	260,888,646

Notes to the Financial Statements

Bank - 31 December 2016	Agriculture LKR'000	Consumer Discretionary LKR'000	Consumer Staples LKR'000	Energy LKR'000	Financials LKR'000	Health Care LKR'000	Information Technology LKR'000
Cash and Cash Equivalents	-	-	-	-	4,187,605	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-
Reverse Repurchase Agreements	-	-	-	-	-	-	-
Derivative Financial Instruments							
Forward Foreign Exchange Contracts and Currency Swaps	-	106	-	-	62,275	-	-
Financial Assets - Held for Trading							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Financial Assets-Available for Sale							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Unquoted Equity Shares	-	-	-	-	-	-	-
Financial Assets - Held to Maturity							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Other Financial Assets							
Sri Lanka Development Bonds	-	-	-	-	-	-	-
Quoted Debentures	-	208,647	171,936	-	1,954,564	-	-
	-	208,647	171,936	-	1,954,564	-	-
Loans and Advances to Customers							
Corporate Loans	5,840,624	13,857,512	2,630,088	1,006,218	9,436,260	784,329	325,344
Retail, SME and Consumer	4,933,533	19,511,220	3,094,346	57,819	3,481,306	958,048	1,027,870
Housing Loans	12,316	41,962	13,646	-	49,626	4,103	3,902
Leases	3,286,460	7,670,105	4,002,060	147,197	1,247,380	1,370,387	638,264
Staff loans	-	-	-	-	2,227,112	-	-
	14,072,932	41,080,799	9,740,140	1,211,235	16,441,685	3,116,867	1,995,379
Impairment for Loans and Advances	-	-	-	-	-	-	-
Net Loans and Advances	-	-	-	-	-	-	-
	14,072,932	41,289,553	9,912,076	1,211,235	22,646,128	3,116,867	1,995,379

Industrials	Materials	Real Estate	Telecommunication Services	Utilities	Other	Zero Risk	Total
LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
-	-	-	-	-	-	-	4,187,605
-	-	-	-	-	-	8,511,509	8,511,509
-	-	-	-	-	14,930	-	14,930
-	-	-	-	-	-	-	-
-	-	-	-	-	2,974	-	65,356
-	-	-	-	-	-	1,574,953	1,574,953
-	-	-	-	-	-	-	-
-	-	-	-	-	-	22,143,098	22,143,098
-	-	-	-	-	5,865	-	5,865
-	-	-	-	-	-	-	-
-	-	-	-	-	-	12,929,523	12,929,523
-	-	-	-	-	-	-	-
-	-	-	-	-	-	3,943,597	3,943,597
354,226	-	-	-	-	227,979	-	2,917,352
354,226	-	-	-	-	227,979	3,943,597	6,860,949
-	-	-	-	-	-	-	-
2,855,086	542,290	30,288	419,377	-	67,244	87,928	37,882,588
10,193,173	1,847,506	1,067,924	553,775	70,460	19,646,431	10,729,835	77,173,248
2,361,475	8,683	-	1,703	-	-	-	2,497,417
11,124,818	1,197,092	245,582	410,918	82,183	-	-	31,422,446
-	-	-	-	-	-	-	2,227,112
26,534,552	3,595,571	1,343,794	1,385,773	152,644	19,713,675	10,817,763	151,202,811
-	-	-	-	-	-	-	(2,278,077)
-	-	-	-	-	-	-	148,924,734
26,888,778	3,595,571	1,343,794	1,385,773	152,644	19,965,423	59,920,442	205,218,520

Notes to the Financial Statements

Group - 31 December 2017	Agriculture LKR'000	Consumer Discretionary LKR'000	Consumer Staples LKR'000	Energy LKR'000	Financials LKR'000	Health Care LKR'000	Information Technology LKR'000
Cash and Cash Equivalents	-	-	-	-	6,869,695	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-
Reverse Repurchase Agreements	-	-	-	-	-	-	-
Derivative Financial Instruments							
Forward Foreign Exchange Contracts and Currency Swaps	-	-	-	-	228,016	-	-
Financial Assets - Held for Trading							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Financial Assets-Available for Sale							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Unquoted Equity Shares	-	-	-	-	-	-	-
Financial Assets - Held to Maturity							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Other Financial Assets							
Sri Lanka Development Bonds	-	-	-	-	-	-	-
Quoted Debentures	-	231,681	171,936	-	1,781,130	-	-
	-	231,681	171,936	-	1,781,130	-	-
Loans and Advances to Customers							
Corporate Loans	6,823,793	17,175,912	2,855,024	508,935	11,414,398	793,210	445,953
Retail, SME and Consumer	7,983,097	25,494,012	6,419,568	131,035	3,733,617	1,286,998	1,427,831
Housing Loans	5,302	36,080	14,901	-	35,011	2,018	6,847
Leases	4,262,226	8,024,863	4,992,409	204,848	1,442,386	1,541,461	818,151
Staff loans	-	-	-	-	2,346,309	-	-
	19,074,418	50,730,868	14,281,903	844,818	18,971,720	3,623,687	2,698,781
Impairment for Loans and Advances	-	-	-	-	-	-	-
Net Loans and Advances	-	-	-	-	-	-	-
	19,074,418	50,962,549	14,453,839	844,818	27,850,560	3,623,687	2,698,781

Industrials	Materials	Real Estate	Telecommunication Services	Utilities	Other	Zero Risk	Total
LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
-	-	-	-	-	-	-	6,869,695
-	-	-	-	-	-	11,193,266	11,193,266
-	-	-	-	-	10,798	-	10,798
-	-	-	-	-	-	-	-
-	-	-	-	-	2,201	-	230,217
-	-	-	-	-	-	521,389	521,389
-	-	-	-	-	-	-	-
-	-	-	-	-	-	38,846,109	38,846,109
-	-	-	-	-	5,937	-	5,937
-	-	-	-	-	-	-	-
-	-	-	-	-	-	9,950,433	9,950,433
-	-	-	-	-	-	-	-
-	-	-	-	-	-	4,053,665	4,053,665
559,195	-	-	-	-	-	-	2,743,942
559,195	-	-	-	-	-	4,053,665	6,797,607
2,788,815	1,219,461	1,153,788	415,100	-	2,153	211,559	45,808,101
16,748,099	2,641,022	2,602,630	776,115	123,304	20,954,503	10,422,162	100,743,992
3,095,448	3,807	-	2,991	-	-	-	3,202,405
13,512,088	1,525,060	330,941	475,228	124,030	-	-	37,253,690
-	-	-	-	-	-	-	2,346,309
36,144,449	5,389,350	4,087,359	1,669,433	247,334	20,956,655	10,633,721	189,354,497
-	-	-	-	-	-	-	(2,608,786)
-	-	-	-	-	-	-	186,745,711
36,703,643	5,389,350	4,087,359	1,669,433	247,334	20,975,591	75,198,584	261,171,161

Notes to the Financial Statements

Group - 31 December 2016	Agriculture LKR'000	Consumer Discretionary LKR'000	Consumer Staples LKR'000	Energy LKR'000	Financials LKR'000	Health Care LKR'000	Information Technology LKR'000
Cash and Cash Equivalents	-	-	-	-	4,187,649	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-
Reverse Repurchase Agreements	-	-	-	-	-	-	-
Derivative Financial Instruments							
Forward Foreign Exchange Contracts and Currency Swaps	-	106	-	-	62,275	-	-
Financial Assets - Held for Trading							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Financial Assets-Available for Sale							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Unquoted Equity Shares	-	-	-	-	-	-	-
Financial Assets - Held to Maturity							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Other Financial Assets							
Sri Lanka Development Bonds	-	-	-	-	-	-	-
Quoted Debentures	-	208,647	171,936	-	1,954,564	-	-
	-	208,647	171,936	-	1,954,564	-	-
Loans and Advances to Customers							
Corporate Loans	5,840,624	14,315,599	2,630,088	1,006,218	9,508,447	784,329	325,344
Retail, SME and Consumer	4,933,533	19,545,298	3,094,346	57,819	3,486,685	958,048	1,027,870
Housing Loans	12,316	41,962	13,646	-	49,626	4,103	3,902
Leases	3,286,460	7,670,105	4,002,060	147,197	1,247,380	1,370,387	638,264
Staff loans	-	-	-	-	2,227,112	-	-
	14,072,932	41,572,964	9,740,140	1,211,235	16,519,250	3,116,867	1,995,379
Impairment for Loans and Advances	-	-	-	-	-	-	-
Net Loans and Advances	-	-	-	-	-	-	-
	14,072,932	41,781,718	9,912,076	1,211,235	22,723,737	3,116,867	1,995,379

Industrials	Materials	Real Estate	Telecommunication Services	Utilities	Other	Zero Risk	Total
LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
-	-	-	-	-	-	-	4,187,649
-	-	-	-	-	-	8,511,509	8,511,509
-	-	-	-	-	14,930	-	14,930
-	-	-	-	-	-	-	-
-	-	-	-	-	2,974	-	65,356
-	-	-	-	-	-	1,574,953	1,574,953
-	-	-	-	-	-	-	-
-	-	-	-	-	-	22,143,098	22,143,098
-	-	-	-	-	5,865	-	5,865
-	-	-	-	-	-	-	-
-	-	-	-	-	-	12,998,988	12,998,988
-	-	-	-	-	-	-	-
-	-	-	-	-	-	3,943,597	3,943,597
354,226	-	-	-	-	227,979	-	2,917,352
354,226	-	-	-	-	227,979	3,943,597	6,860,949
2,855,086	542,290	30,288	419,377	-	67,244	87,928	38,412,862
10,193,173	1,847,506	1,067,924	553,775	70,460	19,969,488	10,729,835	77,535,761
2,361,475	8,683	-	1,703	-	-	-	2,497,417
11,124,818	1,197,092	245,582	410,918	82,183	-	-	31,422,446
-	-	-	-	-	-	-	2,227,112
26,534,552	3,595,571	1,343,794	1,385,773	152,644	20,036,732	10,817,763	152,095,597
-	-	-	-	-	-	-	(2,277,656)
-	-	-	-	-	-	-	149,817,941
26,888,778	3,595,571	1,343,794	1,385,773	152,644	20,288,479	59,989,907	206,181,235

Notes to the Financial Statements

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.

Bank's Internal Credit Rating	2017		2016	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Bonds	13,020,279	13,020,279	9,087,235	9,087,235
Acceptance	4,440,615	4,440,615	2,465,570	2,465,570
Guarantees	273,149	273,149	261,894	261,894
Letters of Credit	6,753,029	6,753,029	5,407,169	5,407,169
Foreign Exchange Contracts **	38,198,470	38,198,470	28,282,615	28,282,615
Forward Contracts to Buy/Sell Government Securities			398,431	398,431
Undrawn Commitments				
Credit Cards	37,084,877	37,084,877	29,780,493	29,780,493
Other	73,360,578	71,816,749	48,334,509	47,901,481
	110,445,455	108,901,626	78,115,003	77,681,975
Total Commitments and Guarantees	173,130,996	171,587,167	124,017,916	123,584,888

** 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 540Mn as at end of 2017 and LKR 431Mn as at end of 2016 based on a 2.5% price premium movement 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.

44.3 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	2017		2016	
	DBU	FCBU	DBU	FCBU
Liquid Asset Ratio	21.1%	21.8%	21.7%	33.4%

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% (2016 – 7.5%) 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.

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 2017 under the flow approach.

Notes to the Financial Statements

Bank - As at 31 December 2017	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	6,867,226	-	-	-	-	6,867,226
Balances with Central Bank of Sri Lanka	3,532,895	2,740,464	4,474,723	437,951	7,234	11,193,266
Reverse Repurchase Agreements	-	10,879	-	-	-	10,879
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	14,688	3,956	426,269	106,713	-	551,625
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	1,091,219	10,408,544	22,351,368	6,730,201	-	40,581,332
Unquoted Equity Shares	-	-	-	-	5,937	5,937
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	119,990	197,400	2,610,557	7,758,272	3,443,000	14,129,218
Other Financial Assets	-	413,565	2,020,481	5,480,386	-	7,914,431
Loans & Advances to Customers	69,543,814	27,988,830	34,027,230	78,354,823	13,603,563	223,518,260
Total Undiscounted Financial Assets	81,169,830	41,763,638	65,910,627	98,868,345	17,059,734	304,772,175
Financial Liabilities						
Due to Banks	3,905,653	6,833,590	-	-	-	10,739,244
Repurchase Agreements	7,620,191	3,094,924	1,685,133	-	-	12,400,248
Due to Customers	63,507,876	49,263,017	80,438,330	7,872,668	130,039	201,211,930
Debt Issued and Other Borrowed Funds	-	503,197	6,754,437	16,724,534	872,768	24,854,936
Total Undiscounted Financial Liabilities	75,033,721	59,694,729	88,877,900	24,597,202	1,002,807	249,206,358
Net Undiscounted Financial Assets/ (Liabilities)	6,136,110	(17,931,091)	(22,967,272)	74,271,143	16,056,927	55,565,817
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	1,095,406	4,004,638	6,705,626	-	-	11,805,671
Contractual Amounts Payable	(1,095,406)	(4,004,638)	(6,705,626)	-	-	(11,805,671)
	-	-	-	-	-	-
Financial Liabilities						
Contractual Amounts Receivable	2,180,031	7,297,166	16,915,602	-	-	26,392,799
Contractual Amounts Payable	(2,180,031)	(7,297,166)	(16,915,602)	-	-	(26,392,799)
	-	-	-	-	-	-
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	6,136,110	(17,931,091)	(22,967,272)	74,271,143	16,056,927	55,565,817

Bank - 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	4,187,605	-	-	-	-	4,187,605
Balances with Central Bank of Sri Lanka	2,737,304	2,403,139	2,870,856	500,042	168	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	68,126,987	26,835,407	46,410,385	82,399,846	14,206,388	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)	1,658,193	(22,875,287)	(11,226,312)	58,290,330	14,203,288	40,050,213
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)	1,658,193	(22,875,287)	(11,226,312)	58,290,330	14,203,288	40,050,213

Notes to the Financial Statements

Group - As at 31 December 2017	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	6,869,699	-	-	-	-	6,869,699
Balances with Central Bank of Sri Lanka	3,531,839	2,740,842	4,475,340	438,011	7,235	11,193,266
Reverse Repurchase Agreements	-	10,879	-	-	-	10,879
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	14,688	3,956	426,269	106,713	-	551,625
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	1,091,219	10,408,544	22,351,368	6,730,201	-	40,581,332
Unquoted Equity Shares	-	-	-	-	5,937	5,937
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	120,086	197,617	2,616,283	7,844,445	3,443,000	14,221,431
Other Financial Assets	-	413,565	2,020,481	5,480,386	-	7,914,431
Loans & Advances to Customers	69,752,770	27,988,830	34,027,230	78,354,823	13,603,563	223,727,216
Total Undiscounted Financial Assets	81,380,300	41,764,233	65,916,970	98,954,579	17,059,735	305,075,817
Financial Liabilities						
Due to Banks	3,905,653	6,833,590	-	-	-	10,739,244
Repurchase Agreements	7,557,025	2,777,672	1,685,133	-	-	12,019,830
Due to Customers	63,480,153	49,263,017	80,438,330	7,872,668	130,039	201,184,206
Debt Issued and Other Borrowed Funds	-	503,197	6,754,437	16,724,534	872,768	24,854,936
Total Undiscounted Financial Liabilities	74,942,831	59,377,476	88,877,900	24,597,202	1,002,807	248,798,216
Net Undiscounted Financial Assets/ (Liabilities)	6,437,469	(17,613,244)	(22,960,929)	74,357,377	16,056,928	56,277,601
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	1,095,406	4,004,638	6,705,626	-	-	11,805,671
Contractual Amounts Payable	(1,095,406)	(4,004,638)	(6,705,626)	-	-	(11,805,671)
	-	-	-	-	-	-
Financial Liabilities						
Contractual Amounts Receivable	2,180,031	7,297,166	16,915,602	-	-	26,392,799
Contractual Amounts Payable	(2,180,031)	(7,297,166)	(16,915,602)	-	-	(26,392,799)
	-	-	-	-	-	-
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	6,437,469	(17,613,244)	(22,960,929)	74,357,377	16,056,928	56,277,601

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	2,735,191	2,404,019	2,871,906	500,225	168	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	69,112,222	27,052,078	47,226,110	83,737,785	14,214,749	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)	9,042,713	(28,013,298)	(10,797,733)	59,628,269	14,211,649	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)	9,042,713	(28,013,298)	(10,797,733)	59,628,269	14,211,649	44,071,600

Notes to the Financial Statements

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.

Bank	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2017	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Bonds	855,624	2,947,080	7,274,789	1,933,198	9,588	13,020,279
Acceptance	867,291	2,573,867	999,457	-	-	4,440,615
Guarantees	273,149	-	-	-	-	273,149
Letters of Credit	609,792	5,439,918	703,319	-	-	6,753,029
Foreign Exchange Contracts	3,275,437	11,301,804	23,621,228	-	-	38,198,470
Forward Contracts to Buy/Sell Government Securities	-	-	-	-	-	-
Undrawn Commitments	110,445,455	-	-	-	-	110,445,455
Total Commitments and Guarantees	116,326,747	22,262,669	32,598,794	1,933,198	9,588	173,130,996

Bank	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2016	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

Group	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2017	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Bonds	855,624	2,947,080	7,274,789	1,933,198	9,588	13,020,279
Acceptance	867,291	2,573,867	999,457	-	-	4,440,615
Guarantees	273,149	-	-	-	-	273,149
Letters of Credit	609,792	5,439,918	703,319	-	-	6,753,029
Foreign Exchange Contracts	3,275,437	11,301,804	23,621,228	-	-	38,198,470
Forward Contracts to Buy/Sell Government Securities	-	-	-	-	-	-
Undrawn Commitments	108,901,626	-	-	-	-	108,901,626
Total Commitments and Guarantees	114,782,918	22,262,669	32,598,794	1,933,198	9,588	171,587,167

Group	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2016	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

44.4 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

Notes to the Financial Statements

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).

Bank - As at 31 December 2017	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	18,040,058	-	-	-	-	-	18,040,058
Loans and Advances	186,151,375	71,332,504	35,751,156	31,842,642	38,694,327	3,303,634	5,227,113
Investments	56,599,755	900,000	13,508,370	25,688,829	13,178,950	2,500,000	823,607
Other	46,462,524	5,142,123	11,251,178	22,808,006	-	-	7,261,217
Total Assets	307,253,712	77,374,627	60,510,703	80,339,476	51,873,277	5,803,634	31,351,995
Liabilities							
Deposits	189,846,729	45,016,900	46,668,592	74,250,699	5,805,864	73,716	18,030,959
Borrowings	42,347,478	11,353,365	12,017,580	13,294,319	5,042,590	639,625	-
Other	75,927,815	5,288,757	11,357,663	23,548,805	-	-	35,732,590
Total Shareholder Funds and Liabilities	308,122,022	61,659,021	70,043,835	111,093,823	10,848,454	713,341	53,763,549
Total Interest Sensitivity Gap		15,715,606	(9,533,131)	(30,754,347)	41,024,824	5,090,293	(22,411,554)

** The Classifications are based on the way that ALCO monitors repricing gaps.

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.

Group - As at 31 December 2017	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	18,052,834	-	-	-	-	-	18,052,834
Loans and Advances	186,360,245	71,541,374	35,751,156	31,842,642	38,694,327	3,303,634	5,227,113
Investments	55,992,088	900,000	13,508,370	25,688,829	13,254,051	2,500,000	140,838
Other	46,496,714	5,142,123	11,251,178	22,808,006	-	-	7,295,407
Total Assets	306,901,881	77,583,497	60,510,703	80,339,476	51,948,378	5,803,634	30,716,193
Liabilities							
Deposits	189,846,729	45,016,900	46,668,592	74,250,699	5,805,864	73,716	18,030,959
Borrowings	42,206,287	11,290,251	11,939,503	13,294,319	5,042,590	639,625	-
Other	75,717,180	5,288,757	11,357,663	23,548,805	-	-	35,521,955
Total Shareholder Funds and Liabilities	307,770,195	61,595,907	69,965,758	111,093,823	10,848,454	713,341	53,552,914
Total Interest Sensitivity Gap		15,987,590	(9,455,054)	(30,754,347)	41,099,925	5,090,293	(22,836,721)

** The Classifications are based on the way that ALCO monitors repricing gaps.

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.

Notes to the Financial Statements

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	Increase / (Decrease) in basis points	Sensitivity to Profit (after Tax)	Sensitivity to Equity (after Tax)
Asset/Liabilities	2017 LKR '000	2017 LKR '000	2017 LKR '000
LKR	+100/-100	+148,572/-150,779	-427,837/+451,684
USD	+50/-50	-8,358/+8,408	-10,545/+10,645

Bank	Increase / (Decrease) in basis points	Sensitivity to Profit (after Tax)	Sensitivity to Equity (after Tax)
Asset/Liabilities	2016 LKR '000	2016 LKR '000	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

Group	Increase / (Decrease) in basis points	Sensitivity to Profit (after Tax)	Sensitivity to Equity (after Tax)
Asset/Liabilities	2017 LKR '000	2017 LKR '000	2017 LKR '000
LKR	+100/-100	+148,559/-150,765	-428,869/+452,756
USD	+50/-50	-8,358/+8,408	-10,545/+10,645

Group	Increase / (Decrease) in basis points	Sensitivity to Profit (after Tax)	Sensitivity to Equity (after Tax)
Asset/Liabilities	2016 LKR '000	2016 LKR '000	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

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 % 2017 LKR '000	Change in Currency Rate in % 2016 LKR '000	Effect on Profit after tax 2017 LKR '000	Effect on Profit after tax 2016 LKR '000
USD	+5	+5	(5,820.3)	219.5
GBP	+5	+5	(136.2)	26.4
EUR	+5	+5	50.7	5.0
AUD	+5	+5	(161.0)	(115.6)
JPY	+5	+5	17.0	17.4
Other	+5	+5	397.4	296.5

In addition to above trading exposures, the Bank carries a structural position arising from the negative US dollar reserves accumulated in Foreign Currency Banking Unit books. The sensitivity to Profit or Loss from this exposure is as follows;

Currency	Change in Currency Rate in % 2017 LKR '000	Change in Currency Rate in % 2016 LKR '000	Effect on Profit after tax 2017 LKR '000	Effect on Profit after tax 2016 LKR '000
USD	+5	+5	(33,638.0)	(16,439.9)

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 the import or export of goods. Guarantees and standby letters of credit carry a credit risk to similar 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	
	2017 LKR '000	2016 LKR '000
Capital Commitments for Property, Plant and Equipment		
Approved and Contracted for	135,748	95,502
Approved but not Contracted for	5,319	43,087
	141,067	138,589
Capital Commitments for Intangible Assets		
Approved and Contracted for	252,787	314,473
Approved but not Contracted for	5,261	87,800
	258,048	402,273
	399,115	540,862

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 lessor

Leases where the Group does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and 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 ten years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are, as follows:

	Bank	
	2017 LKR '000	2016 LKR '000
Within one year	280,543	269,199
After one year but not more than five years	569,480	381,145
More than five years	63,489	79,733
	913,512	730,077

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.

	Group	
	2017 LKR '000	2016 LKR '000
Within one year	26,270	36,459
After one year but not more than five years	30,381	23,022
	56,951	59,480

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, retained earnings including current year profit. The other component of regulatory capital is Tier II Capital, which includes subordinated long term debt.

Notes to the Financial Statements

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.

For the Year Ended 31 December	Bank	Bank	Group	Group
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Amount Used as the Numerator:				
Net Assets Attributable to Equity Holders of the Parent	20,807,735	15,981,096	21,470,041	17,320,604
Number of Ordinary Shares Used as the Denominator:				
Weighted Average Number of Ordinary Shares in Issue at the End of the Year	236,602,619	236,602,619	236,602,619	236,602,619
Net Assets Value per Ordinary Share (LKR)	87.94	67.54	90.74	73.21

47 EVENTS AFTER THE REPORTING DATE

No material events have taken place since 31 December 2017 that require disclosure or/and adjustments in these accounts, except for the following:

a) Dividends Declared

A dividend of Rs. 2.10 per share in respect of year 2017 is declared by the Board of Directors to be paid in the form of a Scrip dividend in the proportion of 01 share for every 38.4644498 shares for both Ordinary Voting Shares and Convertible Non-Voting Shares (Convertible to Ordinary Voting Shares). Fractions in shares will be paid in cash.

b) Rights issue

The Board of Directors of the Bank at their meeting held on 31 October 2017 resolved to issue up to 40,105,614 Convertible Non-Voting Shares (Convertible to Ordinary Voting Shares) at a price of Rs. 80 per share in order to raise a sum of up to Rs. 3,208,449,120.

The Shares were issued on 14th February 2018 in the proportion of 4 Convertible Non-Voting Shares for every 23 Ordinary Voting Shares held by the Shareholders in the Register of Shareholders, as at 12th January 2018.

Such issued Convertible Non-Voting Shares shall have the option of convertibility into Ordinary Voting Shares at every calendar quarter at a conversion ratio of 1 Ordinary Voting Share for every 1 Convertible Non-Voting Share.

c) Debenture issue

The Bank intends to raise LKR 3.5 billion BASEL III Compliant, Tier 2, Listed Rated Unsecured Subordinated Redeemable Debentures with non-viability conversion to ordinary shares. The bank has obtained shareholder approval for the proposed Debenture issue which has been rated A- (Ika) (EXP) by Fitch Ratings Lanka Limited. The Debentures are expected to be listed on the Colombo Stock Exchange by way of an Offer for Subscription.

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>3-year strategic plan was approved by the Board in December 2016. Plan for 2018-2022 was approved in December 2017 in continuation of the 3-year strategic plan approved in December 2016.</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>
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 <ul style="list-style-type: none"> (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 and Assets Liabilities Management Committee (ALCO) tabled at Board meetings.
3 (1) (i) (i)	Periodically assess the effectiveness of the board of directors' own governance practices, including <ul style="list-style-type: none"> (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 reviewed by the Senior Director and discussed at the Board meeting.

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. 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. Nomination Committee has already commenced the process of making a decision on the CEO's position including succession.</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 three meetings being held in the month of September. 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 44 of the Annual Report, 2017.</p> <p>No director has violated this requirement during the financial year 2017.</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 42 of the Annual Report of 2017.</p>

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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 and reviewed by the Senior Director and discussed at the Board meeting.</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, 2017. 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> <ol style="list-style-type: none"> has direct and indirect shareholding of more than 1% of the bank; 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; has been employed by the bank during the two year period immediately preceding the appointment as director 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; represents a specific stakeholder of the bank is an employee or a director or a material shareholder in a company or business organization; <ol style="list-style-type: none"> 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 in which any of the other directors of the bank are employed or are directors or are material shareholders; or 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 31st December, 2017 which complies with the requirement.</p>
3 (2) (v)	<p>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.</p>	<p>Not Applicable</p> <p>No alternate director has been appointed to represent an independent Director.</p>

Corporate Governance

Rule Number	Rule	Remarks
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.	<p>Complied</p> <p>Directors possess qualifications and experience to meet the criteria specified in the Rule. Brief profiles of the Directors are given on pages 14 to 17 of the Annual Report, 2017.</p> <p>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.</p> <p>Central Bank approval is also obtained for all new appointments and for continuing directors, annually.</p>
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.	<p>Complied</p> <p>All meetings have been attended by a majority of Non Executive Directors.</p>
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.	<p>Complied</p> <p>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 of the Annual Report, 2017.</p>
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.	<p>Complied</p> <p>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.</p>
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.	<p>Complied</p> <p>No new appointments were made to fill casual vacancies during the year.</p>

Rule Number	Rule	Remarks
3(2)(xi)	<p>If a director resigns or is removed from office, the board shall :</p> <p>(a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and</p> <p>(b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders</p>	<p>Complied</p> <p>No resignation/ removal of a director took place during the year.</p>
3(2)(xii)	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>Complied</p> <p>Based on the quarterly declarations submitted by individual directors in the year 2017, 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)	The age of a person who serves as a director shall not exceed 70 years.	There are no directors who are over 70 years of age.
3(3)(ii)	A person shall not hold office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.	<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)	The directors shall carefully study and clearly understand the delegation arrangements in place	<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>
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.	<p>Complied</p> <p>Refer comment on 3.4.(i) above.</p>

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Rule Number	Rule	Remarks
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, 2017.</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 2017.
3 (5) (iv)	<p>The chairman shall;</p> <p>(a) provide leadership to the board</p> <p>(b) ensure that the board works effectively and discharges its responsibilities; and</p> <p>(c) ensure that all key and appropriate issues are discussed by the board in a timely manner.</p>	<p>Complied</p> <p>These are considered as the three key responsibilities of the Chairman and included in the 'Functions of the Chairman and the CEO' approved by the Board.</p> <p>The requirement is further covered by the self evaluation process of the Board.</p>
3 (5) (v)	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.	Complied According to Clause 3 of the approved Board Procedure, drawing up of the agenda has been delegated to the Company Secretary with strict adherence to the guidelines given in the said Procedure

Rule Number	Rule	Remarks
3 (5) (vi)	The chairman shall ensure that all the directors are properly briefed on issues arising at board meetings and also ensure that directors receive adequate information in a timely manner.	<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.</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>
3 (6)	Board appointed committees	
3 (6) (i)	Each bank shall have at least the following committees;	<p>Complied</p> <p>The Bank has established all four Board sub committees as required by the Rule.</p>
	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	

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Rule Number	Rule	Remarks
	<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 2017.
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 Chairperson of the Board Audit Review Committee (BARC) is an independent Non Executive Director. She is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and 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 BARC are non executive directors.
3 (6) (ii) (c)	The committee shall make recommendations on matters in connection with; <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 re-engaged for the audit before the expiry of three years from the date of the completion of the previous term 	Complied <ul style="list-style-type: none"> The reappointment of the external auditor for audit services has been recommended to the Board by the BARC. The BARC has discussed the implementation of CBSL guidelines issued to auditors from time to time and the application of the relevant accounting standards. The BARC 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. The External Audit Partner was rotated during 2017 to comply with the requirements of this Direction. The BARC evaluates and makes recommendations to the Board with regard to the audit fee.
3 (6) (ii) (d)	The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and best practices.	Complied The BARC obtains representations from the External Auditor on their independence and that the audit is carried out in accordance with the Sri Lanka Auditing Standards.

Rule Number	Rule	Remarks
3 (6) (ii) (e)	<p>The committee shall develop and implement a policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external auditor of non – audit services does not impair the external auditor’s independence or objectivity. When assessing the external auditor’s independence or objectivity in relation to the provision of non audit services, the committee shall consider;</p> <p>I. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;</p> <p>11. whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and</p> <p>111. whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the external auditor</p>	<p>Complied</p> <p>The matters referred to in the Rule are covered in the terms of reference of the BARC and are exercised with due care and diligence.</p> <p>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 to covers all aspects stated in this Direction. This Policy was reviewed by the BARC and was approved by the Board of Directors in April 2017.</p>
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> <p>(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;</p> <p>(ii) the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and</p> <p>(iii) the coordination between firms where more than one audit firm is involved.</p>	<p>Complied</p> <p>The BARC Terms of Reference requires the BARC to discuss and finalise with the External Auditor the nature and scope of the audit. In order to comply, the External Auditors make a presentation at the BARC meeting detailing the proposed audit plan and scope. The Committee discussed and finalized the audit plan and scope with the External Auditor.</p> <p>During the tenure of the audit, regular status updates were obtained and discussed at the BARC meetings.</p> <p>As all audits within the group are carried out by the same External Auditor, there was no requirement to discuss arrangements for coordinating activities with other auditors.</p>

Corporate Governance

Rule Number	Rule	Remarks
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 judgmental areas (ii) any changes in accounting policies and practices (iii) significant adjustments arising from the audit (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements. 	<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 2017 to review / discuss and make recommendations to the Board on Financial Statements.</p>
3 (6) (ii) (h)	The committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.	<p>Complied</p> <p>The BARC met the External Auditors in the absence of the management of the bank on two occasions in 2017. 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)	The committee shall review the external auditor's management letter and the management's response thereto.	<p>Complied</p> <p>Regular discussions with the External Auditors were carried out on the Audit Completion Letter (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> <p>(i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</p> <p>(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</p> <p>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department.</p> <p>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>(v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning</p> <p>(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;</p>	<p>Complied</p> <p>The BARC carries out the following with regard to the Internal Audit function:</p> <p>(i) 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 as well as the staff requirements were reviewed/ discussed at the time of approving the Audit Plan.</p> <p>(ii) The Audit plan for the year was approved by the BARC and the progress was reviewed on a regular basis. The committee reviewed the internal audit reports and considered the findings, recommendations and corrective action.</p> <p>(iii) The performance appraisal of the EVP- 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 EVP- Internal Audit and presented to the BARC for their concurrence.</p> <p>(iv) All senior appointments to the audit team were recommended by the BARC. One new appointment, was made to the Audit team during the year 2017.</p> <p>(v) A process is in place to ensure that resignations of senior staff members of the internal audit department including the EVP- Internal Audit are advised to the Chairman BARC at periodic BARC meetings. (There have been no resignations of senior level staff during the year 2017).</p> <p>(vi) The internal audit staff directly reports to EVP- Internal Audit who in turn directly reports to BARC for independence. The audits are performed with impartiality, proficiency and due professional care.</p>
3 (6) (ii) (k)	The committee shall consider the major findings of internal investigations and management's responses thereto	<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>
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>CEO attends all BARC meetings upon invitation. Where it is deemed necessary, other corporate heads including the CFO are called for the meetings.</p> <p>During the period under review, BARC met with the External Auditor on nine occasions including two occasions without the presence of the management.</p>

Corporate Governance

Rule Number	Rule	Remarks
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)	<p>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>	<p>Complied</p> <p>The committee met thirteen times during the year, 2017. Adequate notices of issues to be discussed are made available to all members of BARC. Minutes of proceedings of BARC are maintained by EVP- Internal Audit who functions as the secretary to 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 166 of the Annual Report, 2017.</p>
3 (6) (ii) (p)	<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>	<p>Complied</p> <p>Detailed minutes are maintained by the EVP- Internal Audit who is the secretary to the BARC.</p>
3 (6) (ii) (q)	<p>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>	<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 Whistle Blowing Policy 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 in September 2017.</p> <p>The BARC is the key representative body for overseeing the Banks' relations with the External Auditor and meets the Auditor on a regular basis to discharge this function.</p>
3 (6) (iii)	<p>Human Resources and Remuneration Committee (HRRC)</p>	

Rule Number	Rule	Remarks
3 (6) (iii) (a)	The committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank.	Complied Board approved remuneration policy is in place
3 (6) (iii)(b)	The committee shall set goals and targets for the directors, CEO and key management personnel.	Complied Goals and targets are set by the Committee for the CEO which gets transformed as goals for the Key Management Personnel through the Balanced Scorecard process.
3 (6) (iii) (c)	The committee shall evaluate the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied Minutes of the meeting of the HRRC indicate that such evaluations and the proposal put forward by HR/CEO for the remuneration in 2017 has been approved.
3 (6) (iii) (d)	The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.	Complied Approved TOR includes the provisions stipulated. CEO has attended all meetings and was excused when matters relating to her were discussed
3 (6) (iv)	Nomination Committee	
3 (6) (iv) (a)	The Committee shall implement a procedure to select/appoint new directors, CEO and key management personnel	Complied Approved TOR of the Nomination Committee includes the provisions stipulated.
3 (6) (iv) (b)	The Committee shall consider and recommend (or not recommend) the re-election of current directors, taking into account the performance and contribution made by the director concerned towards the overall discharge of the board's responsibilities.	Complied The Committee has considered and recommended re-election of directors in compliance with the Rule.
3 (6) (iv) (c)	The committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	Complied Criteria has been set and included in the JDs of KMP approved by the Nomination Committee.
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.	Complied Affidavits and Declarations of the Directors and CEO were submitted to the Committee during 2017 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..
3 (6) (iv) (e)	The committee shall consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring directors and key management personnel.	Complied The Committee has met the criteria set out in the Rule.

Corporate Governance

Rule Number	Rule	Remarks
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 three 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>
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 as well as bank risk grid submitted to live IRMC meetings where corrective action has been taken as reflected in the minutes.</p>

Rule Number	Rule	Remarks
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>

Corporate Governance

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 including the Board minute in September 2017 that evidences a re-evaluation of the existing facilities, the Board ensures that related parties are not accorded any preferential treatment over and above those accorded to similarly placed non-related parties. Board has also approved a framework for managing Related Party Transactions and monitors its implementation through Related Party Transactions Review Committee.</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> <p>a) Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purpose of this sub- direction;</p> <p>1. 'Accommodation' shall mean accommodation as defined in the Banking Act Directions No.7 of 2007 on Maximum Amount of Accommodation.</p> <p>11. the 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more.</p> <p>b) Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty;</p> <p>c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with related parties;</p> <p>d) Providing services to or receiving services from a related- party without an evaluation procedure;</p> <p>e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>	<p>Complied</p> <p>Refer comment in 3 (7) (i) above</p> <p>Board approved Related Party Transactions policy contains provisions to ensure compliance.</p> <p>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 2017.</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.	Complied All accommodations to directors and/or their close relatives have been granted with the approval of the Board.
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>	Not applicable 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.

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

Corporate Governance

Rule Number	Rule	Remarks
3 (8) (ii)	<p>The Board shall ensure that the following minimum disclosures are made in the Annual Report;</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(d) - Details of Directors, including names, fitness and propriety</p> <p>- transactions with the Bank</p> <p>- the total of fees/remuneration paid by the Bank</p> <p>(e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties.</p> <p>The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.</p>	<p>Complied</p> <p>Included in page 45 of the Annual Report of 2017.</p> <p>Included in page 163 and 164 of the Annual Report of 2017.</p> <p>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 2017.</p> <p>Included in pages 14 to 17 and 45 of the Annual Report of 2017.</p> <p>65-66</p> <p>Disclosed under report of board of directors on the affairs of the bank included in page 46 and 47 of the Annual Report 2017.</p>

Rule Number	Rule	Remarks
	(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 46 and 47 of the Annual Report of 2017.
	(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, 2017
	(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	No such matter has been specified by the Monetary Board of CBSL.

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 - 2017	LKR '000 Net Book Value - 2016
Head Office										
242, Union Place, Colombo 02	77.20	543,985	1,224,000	94,587	145,000	638,572	1,369,000	0	1,369,000	611,019
City Office										
76, York Street, Colombo 01	10.82	15,455	177,500	24,537	28,500	39,992	206,000	0	206,000	25,197

The freehold land and buildings of the bank was revalued during 2017 by a professionally qualified independent valuer and booked as at 31.12.2017. The revaluation was carried out by taking into account the prices in property markets or recent market transactions on arm's length basis.

Service Network

Branches

No	Branch	Address
1	Akkaraipattu	No 210, Main Street, Akkaraipattu
2	Akuressa	No 73, Matara Road, Akuressa
3	Aluthgama	No 411, 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

Service Network

No	Branch	Address
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
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, Kohuwala
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, Mahalwarawa 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 Chilaw 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

No	Branch	Address
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	Thalawatugoda	No 245/2, Pannipitiya Road, Thalawathugoda
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

Service Network

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	Awissawella	Union Apparel (Pvt) Ltd, Block C1, C.V.Gunaratne Industrial Park, Seethawakapura, Awissawella
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	CINEC	CINEC Maritime Campus, Millennium Drive, IT Park, Malabe
9	Dankotuwa	Dankotuwa Industrial Park, Bujjampola Road, Dankotuwa
10	Galle Sahana	"Sahana", No 438, Matara Road, Megalle, Galle
11	Gampaha	Railway station, Gampaha
12	Ganemulla	Railway Station, Ganemulla
13	Home Loan Center	No 400, Galle Road, Colombo 03
14	Hyde Park Corner	Arpico Super Centre, No 69, Hyde Park Corner, Colombo 02
15	Kaduruwela	Texwin Clothing (PVT) LTD, BOP 398, Abayapura, Pulasthigama, Kaduruwela
16	Kaduwela	Main Bus Stand, Awissawella Road, Kaduwela
17	Kandana	Arpico Daily, No 88, Negombo road, Kandana
18	Kandy	Railway Station, Kandy
19	Keells Kalubowilla	No 53, Hospital Road, Kalubowilla, Dehiwala
20	Kohuwala	Laughs Sun-up Super Market, No 17, Sunethradevi Mawatha, Kohuwala
21	Kolonnawa	Laughs Supermarket, No 228, Kolonnawa Road, Kolonnawa
22	Kottawa	Keells Super, No 119, Horana Road, Kottawa
23	Matara	SK Cinema (Pvt) Limited, No 07, Beach Road, Matara
24	Mawaramandiya	Biyagama Multi Corporative Society Limited, "Samupakara Mandiraya", Mawaramandiya, Siyambalape
25	Miriswatta	Lanka Filling Station, No 144, Kandy Road, Miriswatte, Mudungoda
26	Mount Lavinia	Keells Super, No 388, Galle Road, Mt. Lavinia
27	Nadimala	Laughs Sun-up Super Market, No 288, Hill Sreet, Dehiwala
28	National Hospital of Sri Lanka	National Hospital of Sri Lanka, Doctors Quarters, Regions Street, Colombo 10
29	Navinna	Arpico Super Centre, No 310, High Level Road, Navinna, Maharagama
30	Negombo	Keells Super, No 41, Archbishop Nicholas Marcus Fernando Mawatha, Negombo
31	Orion City	Orion Management Consortium Ltd, No 752/1, Base Line Road, Colombo 09
32	Panadura	Arpico Super Center, No 542, Galle Road, Panadura
33	Pitakotte	No 338, Kotte Road, Pitakotte
34	HIVE	No 256, Sri Ramanathan Mawatha, Kotahena, Colombo 15
35	HIVE 2	No 256, Sri Ramanathan Mawatha, Kotahena, Colombo 15
36	Ragama	Leesons Hospital, No 32, Thewatta Road, Ragama
37	Rajagiriya	Keells Super, No 475, Sri Jayawardenapura Road, Rajagiriya
38	Rathmalana	Lanka Sathosa Limited, Rathmalana Mega, Police Trans Camp, No 650/A, Galle Road, Rathmalana
39	Royal Park Rajagiriya	Royal Park Management Corporation, No 115, Lake Drive, Rajagiriya
40	Seeduwa	Laughs Sun-up Super Market, No 10, Kotugoda Road, Seeduwa
41	SLIIT	SLIIT, New Kandy Road, Malabe
42	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

BASEL II

The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

BASEL III

The BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

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

CAGR

Compounded annual growth rate. 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

Glossary

instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

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 direction of entity, the supervision of executive actions and accountability to owners and others.

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.

CREDIT RATINGS

An evaluation of a corporate ability to repay its obligations or likelihood of not defaulting, carried out by an independent rating agency.

D

DEBT RESTRUCTURING / RESCHEDULING

This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge reduction.

DELINQUENCY

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

DERECOGNITION

Removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

DEPRECIATION

The systematic allocation of the depreciable amount of an asset over its useful life.

DIVIDEND COVER

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

DIVIDEND YIELD

Dividend earned per share as a percentage of its market value.

DEFERRED TAX

Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

DERIVATIVE

Contracts whose value is derived from the performance of underlying market factors.

DOCUMENTARY CREDITS

Commercial Letters of Credit provided for payment by a bank to the named beneficiary, usually the seller of merchandise, against delivery of documents specified in the credit.

E

EARNINGS PER ORDINARY SHARE

Profit after taxation and after dividend on Preference Shares divided by the number of ordinary shares in issue.

EFFECTIVE INCOME TAX RATE

Provision for taxation divided by the profit before taxation.

EMPLOYEE ENGAGEMENT INDEX

A measure of the extent employees are engaged with the organisation. An increase in the index reflects a situation where employees feeling engaged and finding personal meaning and motivation in work, receiving positive interpersonal support and operating in an efficient work environment.

EFFECTIVE INTEREST RATE

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

EQUITY METHOD

The equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

ECONOMIC VALUE ADDED (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

EQUITY RISK

The risk arising from positions, either long or short, in equities or equity based instruments, which create exposure to a change in the market price of the equities or equity instruments.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

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.

Glossary

I

IMPAIRMENT ALLOWANCE

A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for incurred losses inherent in the lending book. An impairment allowance may either be identified or unidentified and individual or collective.

IMPAIRMENT CHARGE / (REVERSAL)

The difference between the carrying value of an Asset and the sum of discounted future cash flows generating from the same asset.

INTANGIBLE ASSET

An asset that is not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill and brand recognition are all common intangible assets in today's marketplace.

INTEREST MARGIN

Net interest income expressed as a percentage of interest earning assets.

IMPAIRED LOANS

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

INDIVIDUALLY ASSESSED IMPAIRMENT

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

INTEREST RATE RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

INTEREST COVER

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

INTEREST IN SUSPENSE

Interest suspended on non-performing loans and advances.

INVESTMENT PROPERTIES

Investment property is property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

INVESTMENT SECURITIES

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

INCREMENTAL COST

Costs that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

INDIVIDUALLY SIGNIFICANT LOAN IMPAIRMENT PROVISIONS

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Corporate Banking business of the Group are assessed individually.

INTEREST SPREAD

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

INTEREST RATE SWAP

An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount.

K

KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

LIQUID ASSETS RATIO

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities.

LOANS TO DEPOSITS RATIO

Total loans and advances expressed as a percentage of the total deposit portfolio.

LOAN LOSSES AND PROVISIONS

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

LOSS GIVEN DEFAULT ('LGD')

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

M

MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of a share as at the year-end.

MATERIALITY

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

MARKET RISK

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

N

NET ASSETS VALUE PER ORDINARY SHARE

Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

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).

NET-INTEREST INCOME

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and interbank borrowings.

O

OFF-BALANCE SHEET TRANSACTIONS

Transactions that are not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

OPERATIONAL RISK

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P

PRUDENCE

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

PAST DUE

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

PROBABILITY OF DEFAULT ('PD')

The probability that an obligor will default within a one-year time horizon.

R

RETURN ON ASSETS

Profit after tax divided by average assets.

RETURN ON EQUITY

Profit after Tax divided by the average shareholders' funds.

RELATED PARTIES

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

RETURN ON AVERAGE ASSETS

Profit after Tax divided by the average assets.

RISK WEIGHTED ASSETS

On Balance Sheet assets and the credit equivalent of off Balance Sheet assets multiplied by the relevant risk weighting factors.

REPURCHASE AGREEMENT

Contract to sell and subsequently repurchase securities at specified date and price.

REVERSE REPURCHASE AGREEMENT

Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.

REVENUE RESERVE

Reserves set aside for future distribution and investment.

REPURCHASE AGREEMENT

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

RIGHTS ISSUE

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

S

SEGMENTAL ANALYSIS

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

SHAREHOLDERS' FUNDS

Total of stated capital and capital and revenue reserves.

STATUTORY RESERVE FUND

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Glossary

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 Nineteenth Annual General Meeting of Nations Trust Bank PLC will be held on 29th March, 2018 at 10.00 a.m. at the Auditorium of the Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 07, Sri Lanka.

The business to be brought before the meeting will be:

1. To read the notice convening the Meeting.
2. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December, 2017 with the Report of the Auditors thereon.
3. To re-elect Mr. K. N. J. Balendra 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. C. L. K. P. Jayasuriya 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 Mr. J. G. A. Cooray who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.
6. To re-elect Mr. Harsha Raghavan who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.
7. To reappoint Auditors and to authorise the Directors to determine their remuneration.
8. To authorise the Directors to determine and make donations.
9. To consider any other business of which due notice has been given.

Notes:

- i. A member unable to attend is entitled to appoint a proxy to attend and vote in his/her place.
- ii. A proxy need not be a member of the Company.
- iii. A member wishing to vote by proxy at the meeting may use the Proxy Form enclosed.
- iv. To be valid, the completed Proxy Form must be lodged at the Registered Office of the Company not less than 48 hours before the meeting.

By Order of the Board



Theja Silva
Company Secretary
Colombo

27th February 2018

Form of Proxy (Voting Shareholders)

I/We of being 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. 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 29th March, 2018 at 10.00 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, 2018.

.....
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 2017 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. K. N. J. Balendra 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. C. L. K. P. Jayasuriya 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 Mr. J. G. A. Cooray who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr. Harsha Raghavan who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. To reappoint Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>
8. To consider any other business of which due notice has been given.	<input type="checkbox"/>	<input type="checkbox"/>

Form of Proxy (Voting Shareholders)

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:	

Form of Proxy (Non-Voting Shareholders)

I/We of being 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. 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 at the Annual General Meeting of the Company to be held on 29th March, 2018 at 10.00 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

In witness I/we placed my/our hand/s hereto on this (....) day of March, 2018.

.....
Signature/s

Form of Proxy (Non-Voting Shareholders)

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.
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- 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.

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 (Ika) from Fitch Ratings Lanka Ltd.

Directors

Krishan Balendra - Chairman
Murtaza Jafferjee - Senior Director
Dr. Kemal de Soysa
Prasanna De Silva
Ms. N. Shalini Panditaratne
Suran Wijesinghe
Kumar Jayasuriya
Gihan Cooray
Harsha Raghavan
Conrad D'Souza
Ms. Rachini Rajapaksa
Russell De Mel
Ms. Renuka Fernando

Board Supervisory Committee

Suran Wijesinghe - Chairman
Gihan Cooray
Murtaza Jafferjee
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
Prasanna De Silva
Dr. Kemal de Soysa

Credit Committee

Krishan Balendra - Chairman
(Alternate - Suran Wijesinghe)
Prasanna De Silva
(Alternate - Kumar Jayasuriya)
Russell De Mel

Integrated Risk Management Committee

Gihan Cooray - Chairman
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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