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The Board of Directors  
Nations Trust Bank PLC  
No. 242, Union Place  
Colombo 02

07 October 2016

## **Accountants' report for inclusion in the prospectus of Nations Trust Bank PLC**

Dear Sirs/Madams

### **Introduction**

This report has been prepared for the inclusion in the prospectus issued in connection with the issuance of the issuance of 30,000,000 Unsecured, Subordinated, Redeemable Debentures with an option to issue upto a further 20, 000,000 of said debentures in the event of an oversubscription of the initial issue in order to issue up to a maximum of 50,000,000 at a par value of Rs.100/-each.

We have examined the financial statements of Nations Trust Bank PLC (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries ("Group") for the years ended 31 December 2011 to 31 December 2015, and report as follows.

### **1. Incorporation**

The Bank is a public quoted company incorporated 21 January 1999 and domiciled in Sri Lanka. It is a Licensed Commercial Bank regulated under the Banking Act No.30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No.07 of 2007 under the registration number PQ 118. The shares of the Bank have a primary listing on the Colombo Stock Exchange.

The Registered Office of the Bank is located at No. 242, Union Place, Colombo 02. The principal activities of the Bank involve providing financial services encompassing personal, commercial, investment and private banking, trade services, leasing, factoring, pawning, treasury and capital market services.

### **2. Financial Information**

#### **2.1 Five Year Summary of Audited Financial Statements**

A summary of Statements of Comprehensive Income/ Income Statements, Statements of Financial Position/ Balance Sheets and Cash Flow Statements of Nations Trust Bank PLC and its subsidiaries for the financial years ended 31 December 2011 to 31 December 2015, based on the audited financial statements are set out in Annexure A of the Prospectus.

#### **2.2 Audited Financial Statements for the year ended 31 December 2015**

Our audit report on the Financial Statements for the year ended 31 December 2015 together with such financial statements comprising Statement of Financial Position,



Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement along with the accounting policies and notes thereon is available on the website of CSE, [www.cse.lk](http://www.cse.lk), where the management is responsible for the electronic presentation of the financial report and to ensure the electronic version of the audited financial report and the auditor's report on the website is identical to the final signed hard copy version.

### 2.3 Unaudited Financial Statements for the period ended 30 June 2016

The unaudited Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the six months ended 30 June 2016 is available on the website of CSE, [www.cse.lk](http://www.cse.lk).

### 2.4 Audit Reports

We have audited the financial statements of the Bank and the consolidated financial statements of the Bank and its subsidiaries for the years ended 31 December 2011 to 31 December 2015. Unqualified audit opinions have been issued for the said financial years by our reports dated 23 February 2012, 22 February 2013 and 24 February 2014, 26 February 2015 and 26 February 2016 respectively.

### 2.5 Accounting Policies

The Separate and Consolidated Financial Statements of the Bank for the years ended 31 December 2011 to 31 December 2015, indicate that such Financial Statements comply with Sri Lanka Accounting Standards. Financial Statements for the years ended 31 December 2011 to 31 December 2013 have been audited by another auditor ("Messrs. KPMG"). The accounting policies of the Bank are stated in detail in the audited Financial Statements of Hatton National Bank PLC for the year ended 31 December 2015 and changes in the accounting policies of Bank from 31 December 2011 to 31 December 2014 are given below.

#### Changes in Accounting Policies as a Result of First-time adoption of Sri Lanka Accounting Standards ("SLFRS/LKAS")

For all periods up to and including the year ended 31 December 2011, the Bank has prepared its financial statements in accordance with previous Sri Lanka Accounting Standards (SLASs). The Financial statements, for the year ended 31 December 2012 are the first Bank has prepared in accordance with revised Sri Lanka Accounting Standards ("SLFRS/LKAS") effective for the period beginning on or after 1 January 2012. There were no material changes in the accounting policies of the bank, except for the adoption of revised Sri Lanka Accounting Standards.

#### Change in Accounting Policies as a Result of adoption of LKAS 19-Employee benefits

The Bank adopted Sri Lanka Accounting Standard LKAS 19-Employee benefits with effect from 1st January 2013. As a result of the change, the Bank determined the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the

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discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period. Previously the Bank determined interest income on plan assets based on the long term rate of expected return.

## 2.6 Dividends

The Bank has declared and paid dividends in respect of Ordinary Shares for the years ended 31 December 2013 to 31 December 2015 in the following manner.

Year	Dividend Paid (Rs.)	Dividend per Share (Rs.)
2013	484,275	2.10
2014	484,275	2.10
2015	484,275	2.10

## 2.7 Events after Reporting Date

No material events have taken place since 31 December 2015 that require disclosure or/and adjustments in these financial statements for the year ended 31 December 2015.

## 2.8 Restriction on Use

This report is made solely for the purpose of the Board of Directors of Nations Trust Bank PLC in usage in the application for the purpose of issuance of the issuance of 30,000,000 Unsecured, Subordinated, Redeemable Debentures with an option to issue upto a further 20, 000,000 of said debentures in the event of an oversubscription at the discretion of Bank and in such event, the maximum issue of said debentures totaling to 50,000,000 at a par value of Rs.100/-. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the addressee, for our audit work, for the report, or for the opinion we have formed. This report should not be used, circulated, quoted or otherwise referred to any other purpose.

Yours faithfully

*Ramkrishna Kumar*



## Annexure "A"

**Nations Trust Bank PLC**  
**Five Year Summary**  
**Year Ended December 31st**  
**Rs.Mn**

**OPERATING RESULTS**

	Bank					Group				
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
Gross Income	11,686	17,570	20,149	20,547	20,045	12,029	17,849	20,362	20,854	20,279
Interest Income	9,514	14,917	17,663	17,268	16,512	9,795	15,113	17,911	17,452	16,628
Interest Expense	-5,382	-9,382	-10,223	-8,521	-7,544	-5,391	-9,358	-10,237	-8,513	-7,523
Net Interest Income	4,132	5,536	7,440	8,746	8,968	4,404	5,755	7,675	8,940	9,105
Fees & Other Income	2,027	2,477	2,271	3,054	3,301	2,089	2,560	2,235	3,177	3,414
Net Income	6,401	7,582	9,712	11,801	3,303	6,728	7,883	9,459	10,935	11,534
Operating Expenses (inc. Imp. Charge/Reversal & VAT)	4,073	5,494	6,690	8,203	8,593	4,158	5,565	6,759	8,290	8,614
Profit Before Taxation	2,086	2,519	3,022	3,598	3,678	2,336	2,750	3,151	3,827	3,905
Provision for Taxation	-646	-745	-900	-1,220	-1,226	-729	-815	-1,015	-1,290	-1,291
<b>Profit After Taxation</b>	<b>1,440</b>	<b>1,774</b>	<b>2,122</b>	<b>2,378</b>	<b>2,453</b>	<b>1,607</b>	<b>1,935</b>	<b>2,136</b>	<b>2,537</b>	<b>2,614</b>

**As at December 31st,****ASSETS**

Cash & Short-Term Funds	3,694	2,534	3,020	6,899	6,392	3,694	2,534	3,020	6,900	6,392
Statutory Deposits with Central Bank	4,284	5,089	4,032	3,992	5,284	4,284	5,089	4,032	3,992	5,284
Government Treasury Bills & Bonds	24,731	33,778	44,565	40,578	31,555	24,982	34,038	44,812	40,696	31,623
Other Investments	3,832	2,899	2,993	4,628	7,744	3,153	2,221	2,315	3,949	7,065
Loans & Advances	60,238	72,458	81,129	97,068	120,315	61,188	73,424	82,327	98,347	121,143
Other Assets	2,224	2,571	2,813	1,351	1,340	2,280	2,591	2,894	1,419	1,386
Property Plant & Equipment	1,368	1,396	1,545	1,718	1,672	1,891	1,908	2,048	2,194	2,143
Intangible Assets	600	625	665	1,271	1,214	600	642	680	1,283	1,224
<b>Total Assets</b>	<b>100,971</b>	<b>121,351</b>	<b>140,763</b>	<b>157,505</b>	<b>175,516</b>	<b>102,073</b>	<b>122,447</b>	<b>142,128</b>	<b>158,781</b>	<b>176,262</b>

**LIABILITIES**

Deposits	67,692	86,682	96,036	111,046	129,241	67,633	86,274	95,730	111,010	129,158
Due to Banks	1,277	2,712	1,401	2,923	2,276	1,277	2,712	1,401	2,923	2,276
Deferred Tax Liabilities	236	281	342	415	734	236	280	341	413	733
Other Borrowings	23,908	22,514	32,192	30,332	29,276	24,298	23,085	32,918	30,541	28,923
<b>Total Liabilities</b>	<b>93,113</b>	<b>112,189</b>	<b>129,972</b>	<b>144,716</b>	<b>161,526</b>	<b>93,444</b>	<b>112,352</b>	<b>130,390</b>	<b>144,887</b>	<b>161,090</b>

**SHAREHOLDERS' FUNDS**

Share Capital/Stated Capital	5,101	5,101	5,101	5,101	5,101	5,101	5,101	5,101	5,101	5,101
Reserve Fund	224	314	419	538	661	224	314	419	538	661
Reserves	2,532	3,747	5,270	7,149	8,228	3,303	4,680	6,217	8,255	9,409
<b>Total Shareholders' Funds</b>	<b>7,858</b>	<b>9,162</b>	<b>10,791</b>	<b>12,789</b>	<b>13,990</b>	<b>8,628</b>	<b>10,095</b>	<b>11,738</b>	<b>13,895</b>	<b>15,171</b>
<b>Total Liabilities &amp; Shareholders' Funds</b>	<b>100,971</b>	<b>121,351</b>	<b>140,763</b>	<b>157,505</b>	<b>175,516</b>	<b>102,073</b>	<b>122,447</b>	<b>142,128</b>	<b>158,781</b>	<b>176,262</b>

Commitments & Contingencies	75,740	84,915	90,181	98,689	96,818	72,792	86,239	90,267	98,799	96,792
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**Nations Trust Bank PLC - Group**  
**Statement of Cash Flows**  
**Year Ended December 31st**

	<u>2011</u>	<u>2012</u>	<u>2013</u> (Based on SLFRS)	<u>2014</u>	<u>2015</u>
<b>Rs. '000</b>					
<b>Cash Flows from Operating Activities</b>					
Receipts of Interest Income	9,718,158	15,430,937	16,960,713	14,117,853	15,553,713
Receipts of Fees and Commission Income	1,852,900	2,195,074	2,736,421	3,018,049	3,425,246
Payments of Interest Expense	(4,808,749)	(7,957,757)	(9,748,116)	(7,832,288)	(6,353,699)
Payments of Fees and Commission Expense	(143,966)	(173,553)	(209,673)	(213,008)	(223,583)
Net Trading Income	(122,997)	187,421	(631,759)	(342,800)	138,192
Receipts from Other Operating Income	360,855	229,161	222,200	281,961	313,635
Gratuity Payments Made	(8,340)	(16,780)	(27,992)	(25,323)	(50,743)
Payments for Operating Expenses	(4,015,277)	(4,695,761)	(5,642,284)	(5,889,045)	(6,896,267)
<b>Net Cash Flow from Operating Activities before Income Tax (A)</b>	<b>2,832,584</b>	<b>5,198,742</b>	<b>3,659,510</b>	<b>3,115,399</b>	<b>5,906,494</b>
Income Tax paid	(600,087)	(247,364)	(738,696)	(634,171)	(1,056,538)
Super Gain Tax Paid					(820,511)
<b>Operating Profit before Changes in Operating Assets and Liabilities</b>	<b>2,232,497</b>	<b>4,951,378</b>	<b>2,920,814</b>	<b>2,481,228</b>	<b>4,029,445</b>
<b>(Increase)/Decrease in Operating Assets</b>					
Reverse Repurchase Agreements	(2,866,097)	4,158,536	2,152,222	(9,987,629)	10,196,982
Derivative Financial Instruments	(192,623)	(73,148)	206,351	(6,562)	(425,977)
Financial Investments Held for Trading	9,234,703	(14,610,988)	(3,244,583)	9,882,306	13,256,330
Financial Investments-Available for Sale				(4,168,576)	(12,010,430)
Financial Investments-Held to Maturity	(3,524,855)	1,136,229	(9,552,491)	11,777,136	(2,607,273)
Other Financial Investments	209,839	1,005,081	(319,781)	(1,717,111)	(2,719,131)
Loans and Advances to Customers	(17,133,896)	(12,699,644)	(9,006,277)	(16,521,155)	(23,789,092)
Other Assets	(231,791)	(345,789)	(246,004)	365,386	119,434
<b>(Increase)/Decrease in Operating Assets</b>	<b>(14,504,720)</b>	<b>(21,429,723)</b>	<b>(20,010,563)</b>	<b>(10,376,205)</b>	<b>(17,979,157)</b>
<b>Increase/(Decrease) in Operating Liabilities</b>					
Repurchase Agreements	(1,600,903)	(2,660,127)	6,080,254	(353,029)	(4,147,000)
Deposits	18,170,971	17,711,228	9,404,235	14,952,766	17,652,131
Derivative Financial Instruments	(44,136)	212,752	105,153	(467,255)	(113,043)
Other Liabilities	(279,265)	(6,138)	957,104	(163,291)	591,071
<b>Increase/(Decrease) in Operating Liabilities</b>	<b>16,246,667</b>	<b>15,257,715</b>	<b>16,546,746</b>	<b>13,969,191</b>	<b>13,983,159</b>
<b>Net Cash Flows from Operating Activities</b>	<b>3,974,443</b>	<b>(1,220,630)</b>	<b>(543,003)</b>	<b>6,074,214</b>	<b>33,447</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of Property, Plant and Equipment	(321,239)	(283,596)	(387,993)	(470,009)	(291,177)
Proceeds from Sale of Property, Plant and Equipment and Intangible Assets	8,528	914	2,173	941	3,456
Purchase of Intangible Assets	(54,706)	(157,630)	(205,221)	(774,566)	(225,434)
	<b>(367,417)</b>	<b>(440,312)</b>	<b>(591,041)</b>	<b>(1,243,634)</b>	<b>(513,155)</b>
<b>Cash Flows from Financing Activities</b>					
Proceeds from Exercise of Share warrants	733,738	-	-	-	-
Net change in Debt issued and other Borrowed Funds	(1,369,353)	2,896,308	(240,599)	(41,806)	2,663,658
Proceeds from the issue of Debentures	2,000,000	-	3,000,000		
Repayment of Subordinated Debt	(299,650)	(304,650)	(1,134,650)	(67,325)	
Interest paid on Subordinated Debt	(83,712)	(549,342)	(556,461)	(704,638)	(697,068)
Dividends paid to Equity Holders of the Parent	(461,215)	(484,275)	(484,275)	(484,275)	(484,275)
	<b>519,808</b>	<b>1,558,041</b>	<b>584,015</b>	<b>(1,298,044)</b>	<b>1,482,315</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>4,126,834</b>	<b>(102,901)</b>	<b>(550,029)</b>	<b>3,532,536</b>	<b>1,002,607</b>
<b>Cash and Cash Equivalents at the beginning of the year</b>	<b>3,486,207</b>	<b>7,613,041</b>	<b>7,510,080</b>	<b>6,960,051</b>	<b>10,479,982</b>
<b>Cash and Cash Equivalents at the end of the year</b>	<b>7,613,041</b>	<b>7,510,140</b>	<b>6,960,051</b>	<b>10,492,587</b>	<b>11,482,589</b>
<b>Reconciliation of Cash and Cash Equivalents</b>					
Cash on Hand	1,370,885	1,836,576	2,526,681	3,500,759	3,676,222
Statutory Deposit with the Central Bank of Sri Lanka	4,284,336	5,089,342	4,031,763	3,992,118	5,283,866
Balances with Banks	674,877	395,237	493,093	360,175	1,129,034
Money at Call and Short Notice	1,648,661	302,342	-	3,038,971	1,500,247
Deposits from Other Banks	(365,718)	(113,357)	(91,486)	(399,436)	(106,780)
	<b>7,613,041</b>	<b>7,510,140</b>	<b>6,960,051</b>	<b>10,492,587</b>	<b>11,482,589</b>
<b>A. Reconciliation of Operating Profit</b>					
<b>Profit before Income Tax</b>	<b>2,335,930</b>	<b>2,750,113</b>	<b>3,151,190</b>	<b>3,826,953</b>	<b>3,905,400</b>
(Profit) / Loss on disposal of Property, Plant and Equipment and Intangible Assets	(5,876)	1,378	(1,760)	(667)	6,398
Impairment charge / (Reversal) for Loans and Advances	(234,765)	431,834	450,610	1,157,409	985,478
Provision for Gratuity	56,905	61,239	71,741	83,527	81,186
(Increase) / Decrease in Interest Receivable	(59,013)	317,626	(456,426)	(2,915,805)	(899,431)
Increase/ (Decrease) in Interest Payable	584,199	1,399,455	481,014	911,419	1,267,992
Increase / (Decrease) in Financial Guarantee Liabilities	22,105	(16,951)	(6,464)	(12,684)	(11,318)
Other Receivables	-	-	8,158	(17,172)	(5,697)
Other Payables	-	-	59,682	623,362	12,771
Other Non cash items	141,439	270,828	(70,243)	(515,622)	614,458
Gratuity Payments Made	(8,340)	(16,780)	(27,992)	(25,323)	(50,743)
	<b>2,832,584</b>	<b>5,198,742</b>	<b>3,659,510</b>	<b>3,115,399</b>	<b>5,906,494</b>

