

GSM/NJ/MTP

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

13 November 2019

## Accountant's Report Nations Trust Bank PLC

Dear Sirs/Mesdames

### Introduction

This report has been prepared for the purpose of prospectus issued in connection with the Issue of thirty five million (35,000,000) Basel III compliant, Tier 2, listed, rated, unsecured, subordinated redeemable debentures with a non viability conversion as directed by the Central Bank of Sri Lanka at the par value of Sri Lankan rupees one hundred (LKR 100/-) each by Nations Trust Bank PLC with an option to issue up to a further ten million (10,000,000) of said debentures in the event of an oversubscription of the initial issue to raise up to a maximum amount of Sri Lankan rupees four thousand five hundred million (LKR 4,500,000,000/-).

We have examined the Financial Statements of the Nations Trust Bank PLC (the "Bank") and the Consolidated Financial Statements of the Bank and its Subsidiaries (the "Group") for the years ended 31 December 2014 to 31 December 2018, and report as follows.

### 1. Incorporation

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 ("CSE"). The registered office of the Bank is located at No. 242, Union Place, Colombo 2.

### 2. Financial Information

#### 2.1 Five-year Summary of Audited Financial Statements

Summaries of Statements of Profit or Loss and Statements of Financial Position of the Bank and Consolidated Profit or Loss and Consolidated Financial Position of the Group for the financial years ended 31 December 2014 to 31 December 2018, based on the audited Financial Statements are set out in Annexure 01 to 04 respectively of the Accountant's Report.



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## 2.2 Audited Financial Statements for the Year Ended 31 December 2018

Our audit report on the Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its Subsidiaries for the year ended 31 December 2018 together with such Financial Statements comprising the Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows along with the accounting policies and notes thereto is available on the website of CSE, [www.cse.lk](http://www.cse.lk). Management of the Bank is responsible to ensure that such audited financial statements and the auditor's report on the website is identical to the signed financial statements and the auditor's report.

## 2.3 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 2014 to 31 December 2018. Unmodified audit opinions have been issued for the said financial years by our reports dated 26 February 2015, 26 February 2016, 27 February 2017, 27 February 2018 and 27 February 2019 respectively.

## 2.4 Accounting Policies

The Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its subsidiaries for the years ended 31 December 2014 to 31 December 2018 comply with Sri Lanka Accounting Standards.

The accounting policies of the Bank and its Subsidiaries are stated in detail in the audited Financial Statements of Nations Trust Bank PLC for the year ended 31 December 2018.

## 2.5 Dividends

Bank has paid dividends during the years ended 31 December 2014 to 31 December 2018 as follows.

Year	Dividend Paid (Rs. '000)	Dividend Per Share (Rs.)
2014	484,275	2.10
2015	484,275	2.10
2016	484,275	2.10
2017	484,275*	2.10
2018	484,275*	2.10

\* Dividends paid on ordinary shares includes Rs. 484.275 million paid as scrip dividends for 2017 and 2018 in each financial year.

*ey*

## 2.6 Key Financial ratios

The Debt to Equity Ratio and the Interest Cover of the Bank during the years ended 31 December 2014 to 31 December 2018 are as follows.

	2014	2015	2016	2017	2018
Interest Cover (times)	6.08	6.16	6.64	*6.31	3.76
Debt to Equity (Gearing) Ratio (%)	52.53%	49.81%	62.86%	*78.48%	99.75%

\* Since 2018, borrowings with an original maturity period of five years or more are considered as long-term debt. The information related to the financial year 2017 have been re-calculated and restated accordingly. Prior periods financial information has not been restated for this change.

The Debt to Equity Ratio and the Interest Cover of the Bank during the years ended 31 December 2014 to 31 December 2018 based on the audited Financial Statements are set out in Annexure 05 of the Accountants' Report.

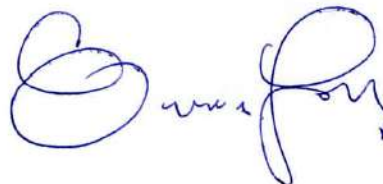
## 2.7 Events after Reporting Date

Other than those matters disclosed in note 52 to the financial statements for year ended 31 December 2018, there have been no events subsequent to such reporting period that has taken place up to the date of this report which requires adjustment of and/or disclosure in the financial statements for the year ended 31 December 2018.

## 3. Restriction on Use

This report is made solely for the purpose of the Board of Directors of Nations Trust Bank PLC, required in connection with the application for the purpose of Issue of thirty five million (35,000,000) Basel III compliant, Tier 2, listed, rated, unsecured, subordinated redeemable debentures with a non viability conversion as directed by the Central Bank of Sri Lanka at the par value of Sri Lankan rupees one hundred (LKR 100/-) each by Nations Trust Bank PLC with an option to issue up to a further ten million (10,000,000) of said debentures in the event of an oversubscription of the initial issue to raise up to a maximum amount of Sri Lankan rupees four thousand five hundred million (LKR 4,500,000,000/-).

Yours faithfully,



## Statement of Profit or Loss

Bank

For the year ended 31st December	2014	2015	2016	2017	2018
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Gross Income	20,546,712	20,045,087	25,300,051	36,097,195	43,220,119
Interest Income	17,267,659	16,511,774	21,269,532	29,882,480	37,034,354
Interest Expense	(8,521,173)	(7,543,595)	(11,646,713)	(18,152,375)	(21,924,562)
<b>Net Interest Income</b>	<b>8,746,486</b>	<b>8,968,179</b>	<b>9,622,819</b>	<b>11,730,105</b>	<b>15,109,792</b>
Fee and Commission Income	2,862,268	3,301,302	3,680,228	5,133,765	5,791,962
Fee and Commission Expense	(224,576)	(229,843)	(245,474)	(322,737)	(272,277)
<b>Net Fee and Commission Income</b>	<b>2,637,692</b>	<b>3,071,459</b>	<b>3,434,754</b>	<b>4,811,028</b>	<b>5,519,685</b>
Net Gain/(Loss) from Trading	123,639	(92,347)	(241,381)	571,461	2,778,248
Net Fair Value Gains/(Losses) From Financial Instruments at Fair Value Through Profit or Loss				18,326	(3,758)
Net Other Operating Income/(Loss)	293,146	324,358	591,672	491,163	(2,380,687)
<b>Total Operating Income</b>	<b>11,800,963</b>	<b>12,271,649</b>	<b>13,407,864</b>	<b>17,622,083</b>	<b>21,023,280</b>
Impairment Charges	(1,181,060)	(985,757)	(674,810)	(1,088,404)	(3,272,708)
<b>Net Operating Income</b>	<b>10,619,903</b>	<b>11,285,892</b>	<b>12,733,054</b>	<b>16,533,679</b>	<b>17,750,572</b>
Personnel Expenses	(2,665,130)	(2,856,534)	(3,301,854)	(3,825,570)	(4,143,993)
Depreciation of Property, Plant and Equipment	(295,244)	(363,065)	(347,977)	(352,319)	(367,437)
Amortization of Intangible Assets	(168,557)	(236,155)	(260,292)	(272,581)	(302,733)
Other Operating Expenses	(3,166,658)	(3,396,816)	(3,669,804)	(4,276,602)	(5,249,595)
<b>Total Operating Expenses</b>	<b>(6,295,589)</b>	<b>(6,852,570)</b>	<b>(7,579,927)</b>	<b>(8,727,072)</b>	<b>(10,063,758)</b>
<b>Operating Profit before Taxes and Levies on Financial Services</b>	<b>4,324,314</b>	<b>4,433,322</b>	<b>5,153,127</b>	<b>7,806,607</b>	<b>7,686,814</b>
Taxes and Levies on Financial Services	(726,576)	(755,030)	(1,046,211)	(1,636,093)	(1,863,948)
<b>Profit before Income Tax</b>	<b>3,597,738</b>	<b>3,678,292</b>	<b>4,106,916</b>	<b>6,170,514</b>	<b>5,822,866</b>
Income Tax Expense	(1,219,745)	(1,225,602)	(1,395,707)	(1,883,873)	(2,054,898)
<b>Profit for the Year</b>	<b>2,377,993</b>	<b>2,452,690</b>	<b>2,711,209</b>	<b>4,286,641</b>	<b>3,767,968</b>
Attributable to:					
<b>Equity Holders of the Parent</b>	<b>2,377,993</b>	<b>2,452,690</b>	<b>2,711,209</b>	<b>4,286,641</b>	<b>3,767,968</b>

\* Figures included for the year 2014 presented based on the reclassifications made in the financial statements for the year ended 31 December 2015.



## Statement of Financial Position

As at 31st December	Bank				
	2014 Rs 000	2015 Rs 000	2016 Rs 000	2017 Rs 000	2018 Rs 000
<b>Assets</b>					
Cash and Cash Equivalents	6,898,881	6,392,393	4,187,605	6,847,210	6,437,519
Balances with Central Bank of Sri Lanka	3,992,118	5,283,866	8,511,509	11,213,278	12,762,122
Reverse Repurchase Agreements	11,013,507	302,249	14,930	10,798	180,593
Derivative Financial Instruments	128,053	554,030	65,356	230,217	2,403,787
Financial Assets - Recognised through Profit or Loss	15,648,717	2,044,144	1,574,952	521,389	668,812
Financial Assets - Available for Sale	4,329,449	16,532,917	22,148,963	38,852,046	-
Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	-	57,463,831
Financial Assets - Held to Maturity	9,586,218	12,675,717	12,929,523	9,879,390	-
Other Financial Assets	3,820,746	6,511,361	6,860,950	6,797,607	-
Financial Assets at Amortised Cost - Debt Instruments	-	-	-	-	15,941,247
Financial Assets at Amortised Cost - Loans and Advances	97,068,259	120,314,568	148,924,734	186,536,712	221,500,656
Other Assets	1,350,872	1,339,553	1,776,550	1,893,474	2,626,586
Investments in Subsidiaries	678,710	678,710	678,710	678,710	678,710
<b>Property, Plant and Equipment</b>	1,717,856	1,672,448	1,536,664	2,584,301	2,867,825
<b>Intangible Assets</b>	1,271,137	1,214,095	1,180,699	1,148,646	1,301,248
<b>Total Assets</b>	<b>157,504,523</b>	<b>175,516,051</b>	<b>210,391,145</b>	<b>267,193,778</b>	<b>324,832,936</b>
<b>Liabilities</b>					
Due to Banks	2,922,784	2,275,840	11,850,888	12,314,853	18,474,545
Derivative Financial Instruments	166,370	53,327	130,017	495,517	484,373
Financial liabilities at amortised cost					
Due to Depositors	111,046,446	129,240,876	151,559,668	194,296,718	231,936,769
Repurchase Agreements	15,444,206	10,874,122	9,850,773	10,718,199	7,784,017
Due to Other Borrowers	4,617,985	7,896,722	6,076,717	11,662,223	20,248,816
Debt Securities Issued	5,067,273	5,076,108	8,068,388	8,075,351	8,745,611
Retirement benefit obligations	368,816	385,568	394,062	486,897	505,031
Current Tax Liabilities	639,359	396,396	439,215	803,249	1,547,833
Other Liabilities	4,027,677	4,593,353	5,069,908	5,795,524	7,683,056
Deferred Tax Liabilities	415,053	733,553	970,413	1,737,512	960,783
<b>Total Liabilities</b>	<b>144,715,968</b>	<b>161,525,865</b>	<b>194,410,049</b>	<b>246,386,043</b>	<b>298,370,834</b>
<b>Equity Attributable to Equity Holders of the Parent</b>					
Stated Capital	5,101,369	5,101,369	5,101,369	5,101,369	8,865,523
Statutory Reserve Fund	538,205	660,840	796,400	1,010,732	1,199,130
Retained Earnings	7,037,084	8,154,695	10,261,404	13,813,403	15,820,900
OCI Reserve	111,897	73,282	(178,077)	207,600	(98,082)
Revaluation Reserve	-	-	-	674,631	674,631
<b>Total Equity</b>	<b>12,788,555</b>	<b>13,990,186</b>	<b>15,981,096</b>	<b>20,807,735</b>	<b>26,462,102</b>
<b>Total Liabilities and Equity</b>	<b>157,504,523</b>	<b>175,516,051</b>	<b>210,391,145</b>	<b>267,193,778</b>	<b>324,832,936</b>
<b>Contingent Liabilities and Commitments</b>	<b>98,688,631</b>	<b>96,818,431</b>	<b>124,017,916</b>	<b>173,130,996</b>	<b>190,599,308</b>

\* Figures included for the year 2014 presented based on the reclassifications made in the financial statements for the year ended 31 December 2015.



## Statement of Profit or Loss

Group

For the year ended 31st December	2014	2015	2016	2017	2018
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Gross Income	20,853,812	20,278,528	25,547,459	35,332,973	43,237,247
Interest Income	17,452,461	16,628,050	21,383,877	30,005,170	37,050,409
Interest Expense	(8,512,713)	(7,522,866)	(11,598,266)	(18,096,662)	(21,886,502)
<b>Net Interest Income</b>	<b>8,939,748</b>	<b>9,105,184</b>	<b>9,785,611</b>	<b>11,908,508</b>	<b>15,163,907</b>
Fee and Commission Income	3,008,084	3,437,530	3,836,765	5,358,853	6,082,044
Fee and Commission Expense	(224,576)	(236,255)	(238,456)	(322,743)	(272,277)
<b>Net Fee and Commission Income</b>	<b>2,783,508</b>	<b>3,201,275</b>	<b>3,598,309</b>	<b>5,036,110</b>	<b>5,809,767</b>
Net Gain/(Loss) from Trading	111,370	(93,933)	(241,381)	571,461	2,778,420
Net Fair Value Gains/(Losses) From Financial Instruments at Fair Value Through Profit or Loss				18,326	(3,758)
Net Other Operating Income/(Loss)	281,897	306,881	568,198	(620,837)	(2,669,868)
<b>Total Operating Income</b>	<b>12,116,523</b>	<b>12,519,407</b>	<b>13,710,737</b>	<b>16,913,568</b>	<b>21,078,468</b>
Impairment Charges	(1,181,739)	(985,478)	(690,272)	(1,088,825)	(3,274,036)
<b>Net Operating Income</b>	<b>10,934,784</b>	<b>11,533,929</b>	<b>13,020,465</b>	<b>15,824,743</b>	<b>17,804,432</b>
Personnel Expenses	(2,700,398)	(2,883,133)	(3,330,970)	(3,856,988)	(4,173,771)
Depreciation of Property, Plant and Equipment	(323,753)	(377,043)	(362,221)	(366,855)	(395,736)
Amortization of Intangible Assets	(171,348)	(240,021)	(263,495)	(275,817)	(305,948)
Other Operating Expenses	(3,167,858)	(3,361,620)	(3,663,299)	(4,273,394)	(5,202,937)
<b>Total Operating Expenses</b>	<b>(6,363,357)</b>	<b>(6,861,817)</b>	<b>(7,619,985)</b>	<b>(8,773,054)</b>	<b>(10,078,392)</b>
<b>Operating Profit before Taxes and Levies on Financial Services</b>	<b>4,571,427</b>	<b>4,672,112</b>	<b>5,400,480</b>	<b>7,051,689</b>	<b>7,726,040</b>
Taxes and Levies on Financial Services	(744,474)	(766,712)	(1,060,284)	(1,658,207)	(1,866,739)
<b>Profit before Income Tax</b>	<b>3,826,953</b>	<b>3,905,399</b>	<b>4,340,196</b>	<b>5,393,482</b>	<b>5,859,301</b>
Income Tax Expense	(1,290,373)	(1,291,409)	(1,471,110)	(2,021,993)	(2,157,418)
<b>Profit for the Year</b>	<b>2,536,580</b>	<b>2,613,991</b>	<b>2,869,086</b>	<b>3,371,489</b>	<b>3,701,883</b>
Attributable to:					
<b>Equity Holders of the Parent</b>	<b>2,536,580</b>	<b>2,613,991</b>	<b>2,869,086</b>	<b>3,371,489</b>	<b>3,701,883</b>

\* Figures included for the year 2014 presented based on the reclassifications made in the financial statements for the year ended 31 December 2015.



## Statement of Financial Position

As at 31st December	2014	2015	2016	2017	Group 2018
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
<b>Assets</b>					
Cash and Cash Equivalents	6,899,905	6,392,437	4,187,649	6,849,683	6,437,573
Balances with Central Bank of Sri Lanka	3,992,118	5,283,866	8,511,509	11,213,278	12,762,122
Reverse Repurchase Agreements	11,013,507	302,249	14,930	10,798	180,593
Derivative Financial Instruments	128,053	554,030	65,356	230,217	2,403,787
Financial Assets - Recognised through Profit or Loss	15,700,388	2,044,144	1,574,952	521,389	668,812
Financial Assets - Available for Sale	4,329,449	16,532,917	22,148,963	38,852,046	-
Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	-	57,463,831
Financial Assets - Held to Maturity	9,653,000	12,743,763	12,998,988	9,950,433	-
Other Financial Assets	3,820,746	6,511,361	6,860,950	6,797,607	-
Financial Assets at Amortised Cost - Debt Instruments	-	-	-	-	15,941,247
Financial Assets at Amortised Cost - Loans and Advances	98,347,049	121,143,065	149,817,941	186,745,711	221,505,692
Other Assets	1,419,418	1,386,357	1,813,688	1,940,988	2,680,894
Investments in Subsidiaries	-	-	-	-	-
Property, Plant and Equipment	2,194,425	2,143,187	1,996,208	3,363,792	3,668,502
Intangible Assets	1,283,223	1,224,159	1,188,841	1,153,552	1,302,940
<b>Total Assets</b>	<b>158,781,281</b>	<b>176,261,535</b>	<b>211,179,975</b>	<b>267,629,494</b>	<b>325,015,993</b>
<b>Liabilities</b>					
Due to Banks	2,922,784	2,275,840	11,850,888	12,314,853	18,474,545
Derivative Financial Instruments	166,370	53,327	130,017	495,517	484,373
Financial liabilities at amortised cost					
Due to Depositors	111,009,668	129,158,190	151,502,236	194,268,995	231,462,599
Repurchase Agreements	15,046,562	10,405,880	9,261,110	10,339,794	7,681,669
Due to Other Borrowers	5,119,900	7,896,721	6,076,717	11,662,223	20,248,816
Debt Securities Issued	5,069,548	5,077,032	8,068,388	8,075,351	8,745,611
Retirement benefit obligations	374,175	390,244	398,797	493,044	511,602
Current Tax Liabilities	666,345	426,466	478,011	847,501	1,574,972
Other Liabilities	4,097,929	4,673,815	5,124,053	5,834,246	7,722,738
Deferred Tax Liabilities	413,475	732,579	969,154	1,827,929	1,050,358
<b>Total Liabilities</b>	<b>144,886,756</b>	<b>161,090,095</b>	<b>193,859,371</b>	<b>246,159,453</b>	<b>297,957,283</b>
<b>Equity Attributable to Equity Holders of the Parent</b>					
Stated Capital	5,101,369	5,101,369	5,101,369	5,101,369	8,865,523
Statutory Reserve Fund	538,205	660,840	796,400	1,010,732	1,199,130
Retained Earnings	8,143,054	9,335,949	11,600,912	14,237,649	16,179,448
OCI Reserve	111,897	73,282	(178,077)	207,600	(98,082)
Revaluation Reserve	-	-	-	912,691	912,691
<b>Total Equity</b>	<b>13,894,525</b>	<b>15,171,440</b>	<b>17,320,604</b>	<b>21,470,041</b>	<b>27,058,710</b>
<b>Total Liabilities and Equity</b>	<b>158,781,281</b>	<b>176,261,535</b>	<b>211,179,975</b>	<b>267,629,494</b>	<b>325,015,993</b>
<b>Contingent Liabilities and Commitments</b>	<b>98,799,150</b>	<b>96,791,786</b>	<b>123,584,888</b>	<b>171,587,167</b>	<b>190,602,464</b>

\* Figures included for the year 2014 presented based on the reclassifications made in the financial statements for the year ended 31 December 2015.

