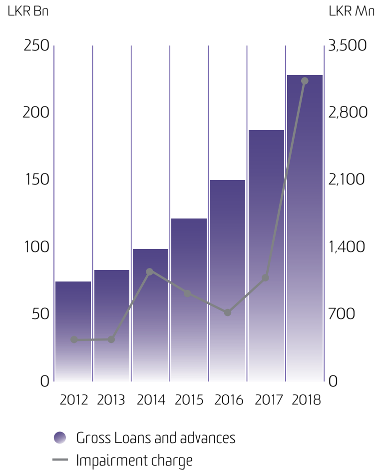
Risk Management

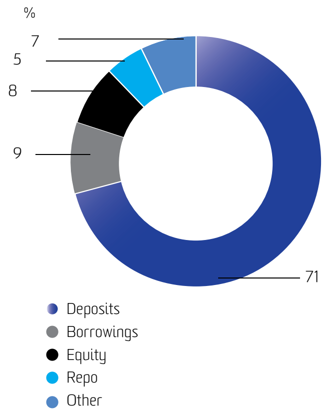
At Nations Trust Bank, the sustainable creation of stakeholder value is underpinned by robust risk management framework and practices which have evolved over the years to become deeply embedded in our culture.

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

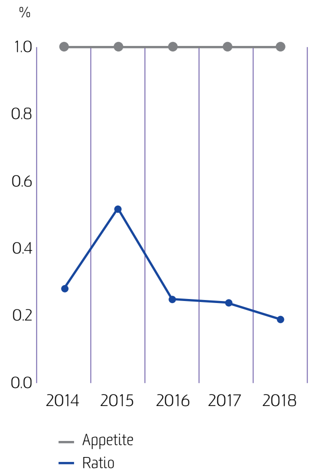
Loan Book & Impairment



Funding Composition



Operating Losses against Operating Expenses



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 construction and infrastructure as well as exogenous factors impacting the Agriculture Sector affected our lending book. Increase in USD rates and movement in global oil prices also had a cascading impact locally.
Regulatory Changes	• Measures taken to curtail imports • Parallel reporting for Liquidity Coverage Ratio and Net Stable Funding Ratios and implementation of leverage ratio • New Foreign Exchange Act • SLFRS 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. Ad-hoc policy changes and political instability had a negative impact during the year.
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.

Risk Management

(A) LINKING BUSINESS STRATEGY TO RISK MANAGEMENT

At Nations Trust Bank, 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.

Corporate Strategy

How will we create value?

Business Model

How does strategy translate into value?

Key Performance Indicators

How will we measure our performance?

Risk Management

What can go wrong?

Our Business Model and Risk Exposures

The Bank's risk profile is reflected in 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 (IT, People related risk, Legal risk)
	Compete	▶	Strategic risk
	Regulated industry	▶	Compliance risk
Risks monitored by the Bank for impact	Geopolitical risk		
	Macro-economic risk		
	Legal risk / Regulatory risk		

Assessing 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 sustainable value creation. The assessment also identifies opportunities for improving operational and compliance efficiency. This enables the Bank to identify the risks it is willing to take – often defined or characterized as the risk appetite.

(B) APPROACH TO RISK MANAGEMENT

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

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 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 maximize 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 the 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 the following fundamental aspects with respect to strategy, risk management, and operations, including:

- The strategies for the overall organisation and individual business units and the key assumptions underlying those strategies
- The significant risks and aggregate risk levels that the Bank is willing to accept in order to achieve its' objectives
- The governance structures and risk management policies to oversee and control risks
- Assess and quantify the key risks so that the 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 2018	Limit/Range for 2018	Limit/Range for 2017
Credit Risk			
Impairment Ratio	2.56%	1.5% - 2.25%	1.5% - 2.25%
Market Risk			
Sensitivity of the Trading portfolio against interest rate fluctuations	0.15%	Below 2%	Below 2%
Liquidity Risk			
Loan to Deposit Ratio (L/D Ratio)	97.40%	<100%	<100%
Operational Risk			
Operational Losses to Operating Expenses Ratio	0.19%	<1%	<1%

Risk Management

Risk Dashboard 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

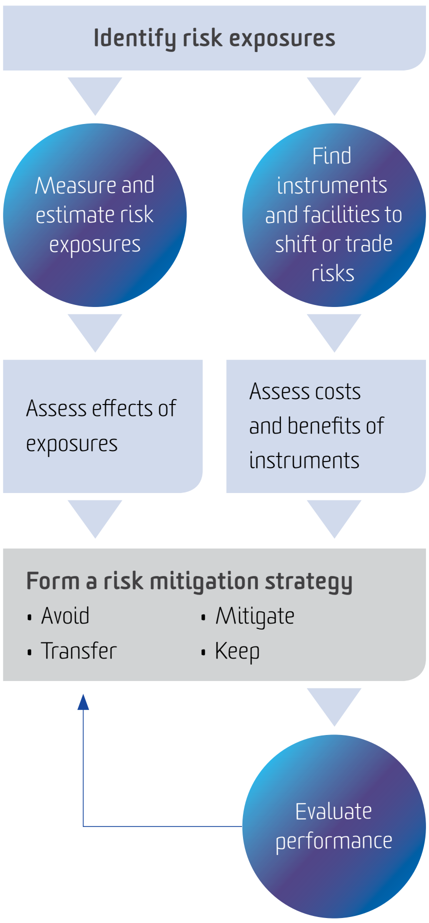
Financial: The risk to income, cash flows or valuation of equity resulting from adverse movements in market rates or prices

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

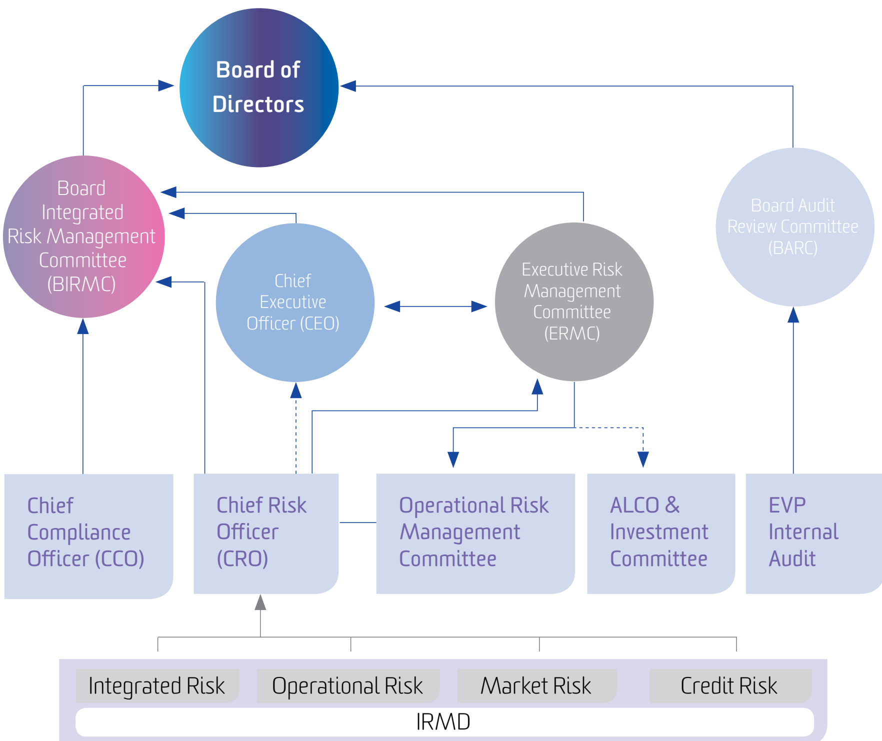
Reputational: The risk arising from negative opinion as viewed by the company's stakeholders

Risk Management process



(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 and Group including overseeing the formulation of risk management policies and supporting the Board of Directors in determining overall risk appetite. The composition, responsibilities of the BIRMC and its key areas of focus during the year is given in 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 (ERMC)

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 Risk 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 ALM policies, regularly reviews the liquidity, pricing of assets and liability products, cash flow and asset liability maturity mismatches within the Bank.

IT Steering Committee (ITSC)

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, and 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, Senior VP Banking Operations, Chief Compliance Officer 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 ERMC and subsequently to BIRMC if required.

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.

1

First line of defense

Functions that own and manage risk

The identification, management and reporting of risks at business unit level, ensuring that specific risks are managed at the source as effectively as possible

2

Second line of defense

Functions that oversee risk

Centralized oversight of the first line of defense by the risk management, compliance, finance and other support functions.

3

Third line of defense

Functions that provide independent assurance

Provides independent and objective assurance on the risk exposures, processes and practices in place. Comprises of Internal and External Audit Functions

Risk Management

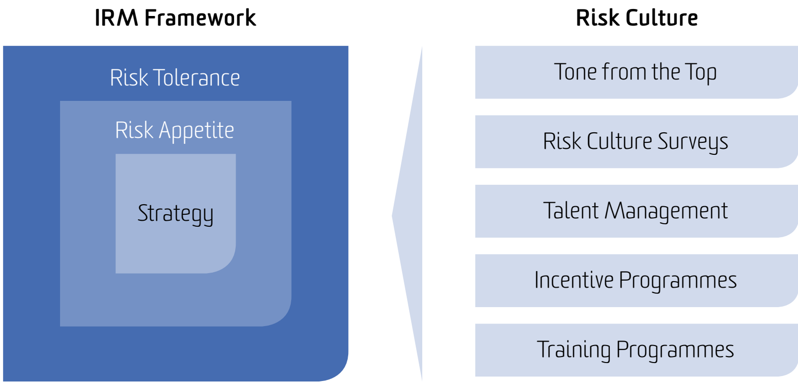
The Integrated Risk Management Department (IRMD)

Led by the Bank's Chief Risk Officer, the IRMD independently assures that the Bank's risk parameters are maintained within the 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

(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 through numerous engagement mechanisms, ongoing communication and risk-related training. Procedure manuals are in place for all critical operations, compelling employees to follow standard guidelines in day to day activities. Ongoing communication through news bulletins, 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 instill 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
Credit Risk	Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD). Trends and Sector Concentration, NPL Ratios, Early Warnings monitoring
Market Risk	Maturity/Interest Rate Risk Gap analysis, Interest Rate Risk Ratio, PVBP, VAR, Duration Analysis, Sensitivity Analysis, and Stress Testing on IRR in Trading / Banking book (EAR/EVE)
Liquidity Risk	Maturity Mismatch, Concentration of Funding, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Liquidity Early Warning Signals, Intraday liquidity Management, Contingency Funding Plan, Liquidity Transfer Pricing, Liquidity Simulations
Operational Risk	Transaction In Difficulty (TID), Risk Control Self-Assessment (RCSA), Heat map, Scenario Analysis, Key Risk Indicators
Reputational Risk	Customer feedback/complaints, Positive/Negative publicity through qualitative scorecard approach
Strategic Risk	Banks financial performance/Peer performance and strategic initiatives through Qualitative scorecard approach

(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 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,
		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
		Market Risk Dashboard	Interest rate Risk Ratio, IRRBB, Liquidity Gap Reports, Liquidity Stress testing, Liquidity Coverage, Statutory Liquidity Ratio, Loans / Deposit Ratio (L/D), Average FX NOP Sensitivity
		Quarterly Stress testing on Trading book	Stress testing based on historical market rate movements
	Management/Management Sub committees	Treasury Profitability, Performance Report	Liquidity Reserve ratio, M2M 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

(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	Potential impact on, • Earnings • Capital Adequacy • Funding Capability/Liquidity
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	

(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 credit risk management framework is composed of the following;

- **Comprehensive credit policy framework**

  This 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.

- **Risk Scoring**

  Tailor-made risk scorecards which adopt advanced statistical data analytics are utilized when underwriting consumer and SME loans. These scorecards are based on creditworthiness 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.

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

Pre-credit sanctioning	Post-credit monitoring	Portfolio management
• 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	• Portfolio evaluation with emphasis on Early warning signals • Robust credit review mechanism • Stress testing and scenario analysis • Review of selected exposures	• 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

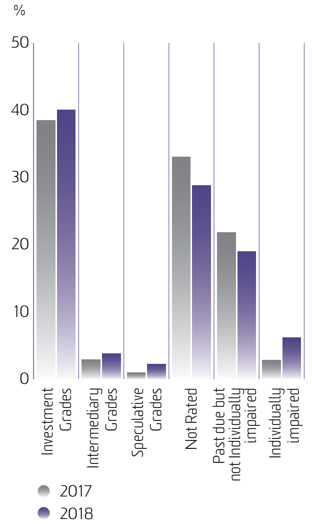
Areas of Focus in 2018

- **Strengthened pre-credit sanctioning and collections:** Proactively providing independent assessments for approvals while increasing vigilance on certain high risk sectors.
- **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. Additional monitoring responsibilities have also been added to zonal teams with a view to improve credit quality.
- **Enhanced the continuous feedback loop:** Improved coordination and communication between the pre-credit sanctioning and post credit monitoring divisions.
- **SLFRS 9 Implementation:** Introduced mechanisms to strengthen the impairment assessment methodology in line with the requirements of SLFRS 9. The migration to expected credit loss modelling from incurred loss model has contributed to a significant portion of the increase in impairment charge. The deterioration in credit quality has also contributed to the increase.
- **Training:** Employee training on credit appraisal, risk acceptance and overall awareness on credit risk.

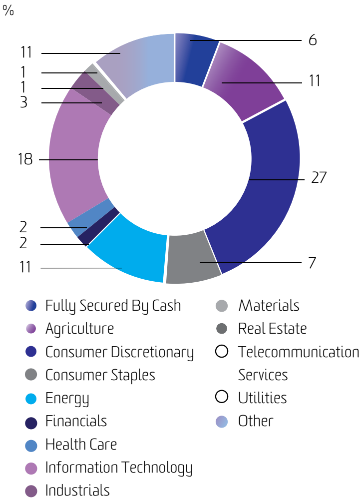
Credit Risk Performance in 2018

Operating Context: The Bank sought regional diversification through corporate offshore banking with new customers, giving rise to credit risk although this is balanced by the Bank's partnership with strong funding partners and counter parties. Meanwhile, the weaker agriculture sector, sluggish economy and global developments affected the working capital and cash cycles of the trading sector, manufacturing and construction sectors leading to an increase in NPLs from the SME segment. The Bank realigned its loan portfolio towards segments with lower sensitivity to economic slowdown in order to better manage it's credit risk.

Risk Rating Distribution



Sectoral Distribution of Loans

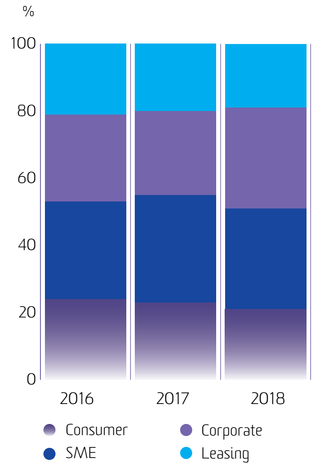


Further details on portfolio status and impairment reserves as at 31st December 2018 are available on Page 16.

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.

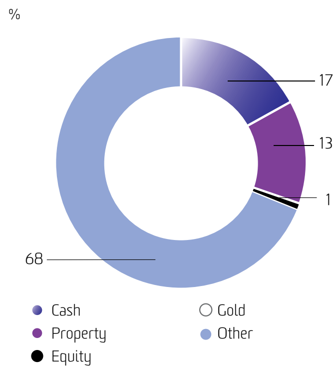
Loan Book Composition



Large exposures

Large exposures	% of total portfolio (Cumulative)
Top 5	5.03%
Top 10	8.03%
Top 20	12.45%
Other	87.55%

Collateral Breakdown



Further details of exposures subject to credit risk by major types, geographical areas, sectors and residual maturity are available in notes, 16,47 and 49 to financial statements of annual report 2018.

Risk Management

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 correlations among them and their levels of volatility. The key market risks the Bank is exposed to interest rate risk, foreign exchange risk and liquidity risk.

Market risk exposure originates mainly from:

Trading market risk: arises primarily through the market-making and trading activities in the various government securities and derivative markets.

Non-trading market risk: arises from assets and liabilities that are typically on our books for a longer period of time (deposit taking and lending).

Pls refer Page 17.

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

Areas of Focus in 2018

Revision of Policies and procedures

Detailed operational guidelines have been issued to facilitate implementation of the control environment relating to treasury activities.

Implementation of Stochastic ALM Module:

Stochastic ALM Module uses stochastically generated market rate movements to calculate a distribution of possible profits and market values. From these distributions, it is possible to make conclusions, up to a specified level of confidence (e.g. 95%), that a certain outcome will (or will not) be exceeded.

The important advantage of the stochastic approach is that it facilitates the verification of risk strategy not only in a deterministic but also in a stochastic way.

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.

Pls refer Page 18.

Liquidity Risk

Liquidity risk is the risk arising from the Bank's potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs.

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.

Despite the liquidity levels of the banking system being volatile, 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 also indicates a relatively healthy liquidity position. Page 19.

Listed below are the tools for measuring and managing Liquidity

I. Maturity Mismatch:

II. Concentration of Funding;

III. Liquidity Coverage Ratio (LCR)

IV. Net Stable Funding Ratio (NSFR)

V. Liquidity Early Warning Signals

VI. Intraday liquidity Management

VII. Contingency Funding Plan

VIII. Liquidity Transfer Pricing

IX. Liquidity Simulations, Stress Testing and Scenario Analysis

X. Other Liquidity Stock Ratios

Pls refer Page 21.

Market Risk Performance in 2018

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, Pls refer Page 20. The ALCO regularly monitors trends in market interest rates, as well as results of interest rate stress testing analyses.

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 it's 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.

Pls refer Page 20.

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) periodically met 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.

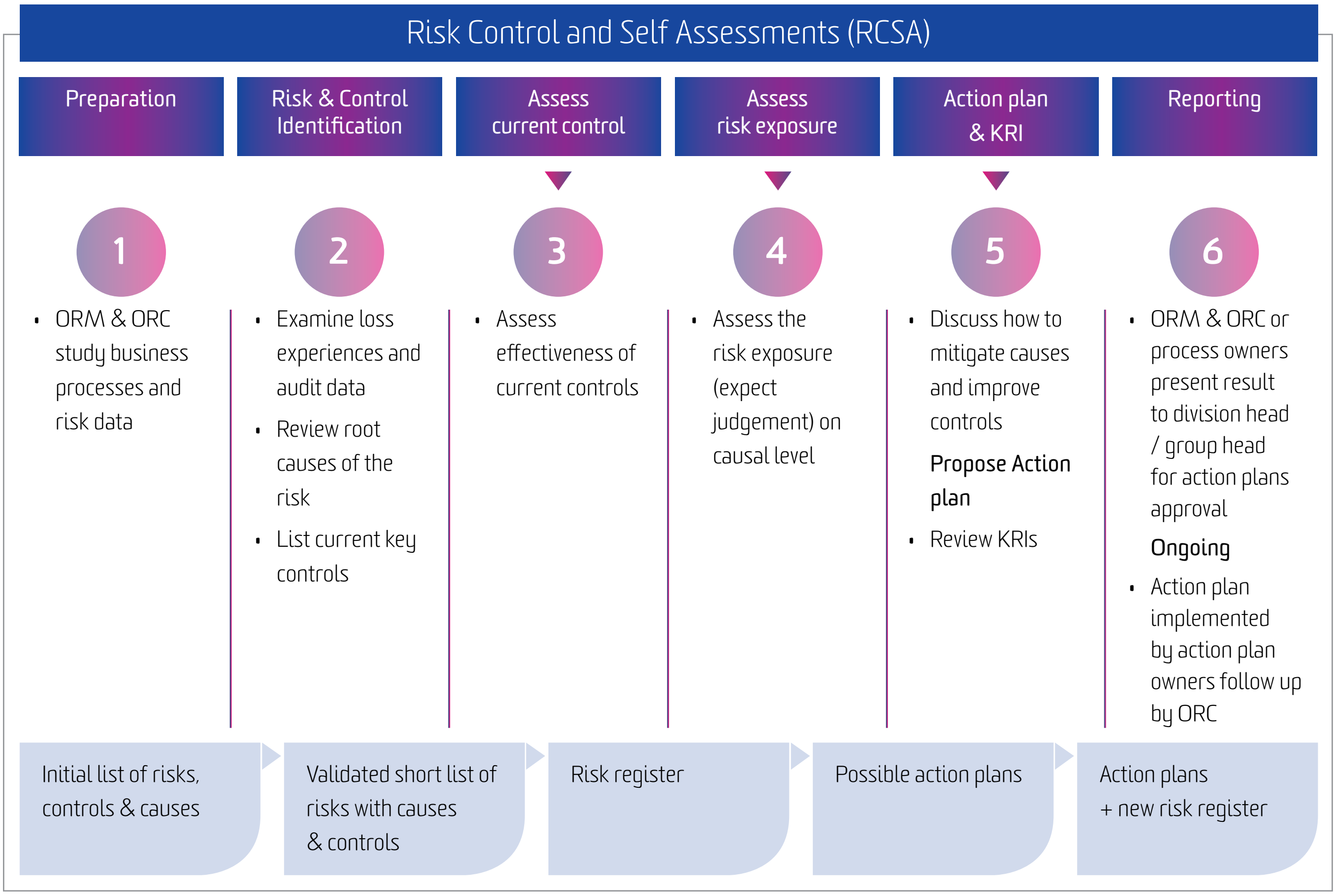
The operational risk management framework is underpinned by the following;

- **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.

Risk Management



- **Limits and tolerance levels**

  The Board of Directors have defined specific limits and tolerance levels for operational risk indicators including the number of internal and external loss events and the total value of operational losses 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 Program to ensure that repeat errors are minimized.

- **Outsourced services**

  The Bank outsources some of its non-critical activities including cash management, labor 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, AVP - Information Security and Manger Operational Risk Control. These activities provide an assurance on the ability of service provider to maintain required levels of service at all times.

Areas of Focus in 2018

- **Strengthened the RCSA mechanism & KRI:** Strengthened RCSA mechanism with the introduction of several new risk assessment grids for business and support units. Currently the Bank maintains 36 operational risk grids for several units, which is a qualitative analysis of the Operational Risk tools.

  KRI's were designed for several Business Units and has been rolled out with the assistance of the Risk Coordinators along with defined thresholds to monitor.

- **Maintained performance against operational risk appetite:** Operational losses to operating expenses ratio at 0.19% in 2018

- **Increased employee engagement and awareness on "Operational Risks":** Information related to operational risk continued to be shared through operational risk updates for all employees. This has enabled the prompt sharing of knowledge, notifications of operational risk incidents and nurturing a risk culture across the Bank. Operational risk training programs were conducted for all risk coordinators of the bank.

- **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 2018

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 2018.

BASEL II LOSS EVENT TYPE CATEGORY		Value in Mn	%
	Internal Fraud	-	-
	External Fraud	11.79	58%
	Employment Practices and Workplace Safety	-	-
	Clients Products and Business Practices	1.71	9%
	Damage to Physical Assets	-	-
	Business Disruption and System Failure	4.51	22%
	Execution Delivery & Process Management	2.27	11%
	Total Operating Losses	20.28	100%

Information Security (IS) and Governance function.

The continuous investments and efforts of digitalisation entails newer technology risks and remains one of the main risk areas. The challenges are due to increasing complexity of cyber security threats such as phishing attacks, ransomware, denial of service attacks etc. The bank is cognizant of such complexities and security initiatives such as Data Governance Framework and Data Leakage Prevention Solutions (DLP) are being implemented on top of other security infrastructure to safeguard customer and other confidential data.

The Information Security (IS) practices of the bank is supported by information security unit as the first level of defense for monitoring and responding whereas an independent IS and Governance function under the CRO has also been established during the year which proactively monitors IT operational risks and cyber risks via leading/lagging Key Risk Indicators (KRIs) and dashboards. Such indicators are frequently monitored and relevant stakeholders will be informed to take necessary measures as and when thresholds are likely to be breached. Further, project based independent technology risk assessments will be carried out by this unit.

Strategic and Reputational Risk

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

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

Strategic and reputational risks are measured using a scorecard based approach which takes into consideration a range of factors including the Bank's size, complexity and sophistication of operations, trends in the operating landscape as well as customer profiling. Effective management of the Bank's strategic and reputational risks is periodically reviewed.

CAPITAL MANAGEMENT

The level of the capital that the Bank is required to maintain is aligned to the Risk Appetite and risk profile to commensurate with the Bank's strategic plan. 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 determines the risk appetite and the risk profile based on key customer segments, products it desire to serve and it's business model.

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.

Risk Management

Component of Capital	01.01.2018	01.01.2019
Bank Assets Less than LKR 500 billion		
Common Equity Tier 1 including Capital Conservation Buffer	6.38%	7.00%
Total Tier 1 including Capital Conservation Buffer	7.88%	8.50%
Total Capital Ratio including Capital Conservation Buffer	11.88%	12.50%
Bank with Assets LKR 500 billion and above		
Common Equity Tier 1 including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically important bank	7.37%	8.50%
Total Tier 1 including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically important bank	8.88%	10.00%
Total Capital Ratio including Capital Conservation Buffer and Capital Surcharge on Domestic Systemically important bank	12.87%	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.

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 in addition, liquidity risk is also considered during the planning stage through liquidity stock and cash flow approaches for the next 3-4 years. The amount of dividend distributions and mode of payment through cash and scrip dividend are decided based on this future capital requirement of the bank.

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.

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

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:

Total Group capital ratio under Basel III Pillar I risks is 15.59% as at 31.12.2018 (13.89% 31.12.2017). The total capital ratio including Pillar II risks is currently being assessed.

The Bank raised LKR 3.2 billion new equity capital in February 2018. The Bank also raised LKR 3.5 billion Basel III complaint tier 2 capital in April 2018.

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.

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.

Market Disclosures based on BASEL III is annexed below.

Area	No	Disclosure requirement		Page No
Regulatory requirements on capital and liquidity	1	Key Regulatory Ratios - Capital and Liquidity	Table 1	22
	2	Basel III Computation of Capital Ratios	Table 2	23
	3	Basel III Computation of Leverage Ratio	Disclosure requirements will commence from 2019 onwards	-
	4	Basel III Computation of Liquidity Coverage Ratio	Table 3	24
	5	Main Features of Regulatory Capital Instruments	Table 4	25
Risk Weighted Assets	6	Summary discussion on adequacy/meeting current and future capital requirements	Capital Management Section of this review	13 - 14
	7	Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects	Table 5	26
	8	Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights	Table 6	28
	9	Market Risk under Standardised Measurement Method	Table 7	30
	10	Operational Risk under Basic Indicator Approach/The Standardised Approach/The Alternative Standardised Approach	Table 8	30
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	32
	12	Explanations of differences between accounting and regulatory exposure amounts	Table 9	32
Risk Management	13	Bank Risk Management Approach	Risk Management review is outlined in Sections (a) to (h) in this Review	1 - 15
	14	Risk Management related to key risk exposures		

Risk Management Annexure

CREDIT RISK TABLES

Table 1

Gross Loans and Advances - Individual Impairment (as per financial reporting)

2018	Exposure On Balance sheet	Exposure Off Balance Sheet	Impairment Provision	Impairment Net Present Value of Future Cash Flows*	Write Offs During the period	Age Analysis 0 - 30 Days	Age Analysis 31 -90 Days	Age Analysis Above 90 Days
Corporate Loans	3,491,761	-	389,886	3,206,964	-	2,674,918	498,494	422,366
Retail, SME & Consumer	9,855,393	-	1,414,125	1,138,226	51,997	5,071,775	2,264,256	2,519,360
Housing Loans	45,405	-	2,111	43,294	-	45,405	-	-
Leasing	695,513	-	56,420	7,955,395	-	199,734	172,478	323,301
	14,088,072	-	1,862,542	12,343,879	51,997	7,991,832	2,935,228	3,265,027

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

Table 2

Gross Loans and Advances - Collective Impairment (as per financial reporting)

2018	Exposure On Balance sheet	Exposure Off Balance Sheet	Impairment Provision	Impairment Write Offs During the period	Age Analysis 0 - 30 Days	Age Analysis 31 -90 Days	Age Analysis Above 90 Days
Corporate Loans	60,894,086	-	51,278	-	60,276,671	391,018	122,380
Retail, SME & Consumer	101,284,950	-	3,334,123	870,773	88,090,311	6,336,113	6,858,528
Housing Loans	4,177,706	-	160,114	13,947	3,872,756	35,941	269,009
Leasing	44,169,314	-	350,000	40,679	35,014,935	8,001,514	1,152,864
	210,526,056	-	3,895,515	925,399	187,254,673	14,764,586	8,402,781

* Staff Loans are not assessed for impairment.

Table 3

Performing & Non Performing Loans(as per regulatory reporting)

2018	Performing Loans Exposure On Balance sheet	Performing Loans Exposure Off Balance Sheet	Non Performing Loans Exposure On Balance sheet	Non Performing Loans Exposure Off Balance Sheet	Provision Specific Provision	Provision Collateral Information	Write Offs During the period	Age Analysis Special Mention	Age Analysis Substandard	Age Analysis Doubtful	Age Analysis Loss
Corporate Loans	63,841,101	-	575,319	-	303,009	372,000	-	171,301	84,957	125,460	193,601
Retail, SME & Consumer	102,112,623	-	8,997,148	-	4,117,609	3,816,879	922,770	4,475,544	1,706,286	833,102	1,982,216
Housing Loans	3,954,102	-	269,009	-	82,963	204,004	13,947	119,108	32,822	31,735	85,343
Leasing	43,390,651	-	1,474,175	-	106,691	-	40,679	1,154,743	210,434	51,567	57,432
	213,298,477	-	11,315,651	-	4,610,272	4,392,883	977,396	5,920,696	2,034,499	1,041,864	2,318,592

Note: Rs 7,333Mn worth of NPL contracts were not impaired individually as they were below individually significant threshold

MARKET RISK TABLES

Table: 1

Composition of Trading and Non-Trading Book

Items	2018 Trading book (LKR million)	Non-trading book (LKR million)	Total (LKR million)
Assets			
Cash and Cash Equivalents	-	6,438	6,438
Balances with Central Bank of Sri Lanka	-	12,762	12,762
Reverse Repurchase Agreements	-	181	181
Derivative Financial Instruments	2,404	-	2,404
Financial Assets	669	57,464	58,133
Other Financial Assets	-	-	-
Financial Assets at Amortised Cost - Debt Instruments	-	15,941	15,941
Financial Assets at Amortised Cost – Loans and Advances	-	221,501	221,501
Other Assets	-	2,627	2,627
Investments in Subsidiaries	-	679	679
Fixed Assets (PPE & Intangibles)	-	4,167	4,167
Total Assets	3,073	321,760	324,833
Liabilities			
Due to Banks	-	18,475	18,475
Derivative Financial Instruments	484	-	484
Due to Depositers	-	231,937	231,937
Repurchase Agreements	-	7,784	7,784
Due to other Borrowers	-	20,249	20,249
Debt Securities Issued	-	8,746	8,746
Retirement benefit obligations	-	505	505
Tax Liabilities (Current &Deffered)	-	2,508	2,508
Other Liabilities	-	7,683	7,683
Equity & Other Reserves	-	26,462	26,462
Total Liabilities	484	324,349	324,833
Contingent Liabilities & Commitments	45,047	145,552	190,599
Commitment & Guarantees	-	145,552	145,552
Forward on Government Securities	-	-	-
Derivative Assets- Held for Trading (Net)	45,047	-	45,047

Risk Management Annexure

Table: 2

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

CCY	As at 31st December 2018	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)	81.195	70.934	28.637	53.938	8.150	2.944	5.242	
	Liabilities (on and off BS)	79.029	33.248	25.293	23.516	35.047	9.911	44.795	0.202
	Periodic gap	2.166	37.687	3.343	30.423	(26.897)	(6.967)	(39.553)	
GBP	Assets (on and off BS)	3.935	6.912	0.011	0.036	0.096	0.028	0.040	
	Liabilities (on and off BS)	0.864	2.368	0.655	1.010	1.011	0.380	4.794	(0.023)
	Periodic gap	3.071	4.544	(0.644)	(0.974)	(0.915)	(0.352)	(4.754)	
EUR	Assets (on and off BS)	6.268	4.257	0.034	0.842	0.115	0.036	0.113	
	Liabilities (on and off BS)	1.425	1.272	0.540	1.675	2.121	0.796	3.822	0.013
	Periodic gap	4.843	2.985	(0.506)	(0.833)	(2.006)	(0.760)	(3.709)	
AUD	Assets (on and off BS)	6.307	8.554	0.006	0.311	0.037	0.032	0.011	
	Liabilities (on and off BS)	0.988	0.921	1.354	2.298	0.540	0.204	8.986	(0.035)
	Periodic gap	5.318	7.633	(1.349)	(1.988)	(0.503)	(0.172)	(8.975)	
JPY	Assets (on and off BS)	51.609	0.212	0.319	0.995	2.800	0.129	1.028	
	Liabilities (on and off BS)	37.279	0.863	1.048	0.634	5.261	1.987	7.931	2.089
	Periodic gap	14.331	(0.651)	(0.729)	0.361	(2.461)	(1.858)	(6.904)	

Liquidity Risk

Table:3

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

CCY	As at 31st December 2018	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)	102,103	19,519	16,105	22,452	62,424	29,614	50,774	302,990
LKR	Liabilities (on and off BS)	69,199	35,689	24,907	30,205	19,782	13,275	238,584	431,641
LKR	Periodic gap	32,904	(16,170)	(8,803)	(7,753)	42,642	16,339	(187,810)	(128,651)
LKR	Cumulative gap	32,904	16,734	7,931	178	42,820	59,159	(128,651)	-
USD	Assets (on and off BS)	83	80	34	60	33	40	19	350
USD	Liabilities (on and off BS)	97	65	26	24	71	27	56	365
USD	Periodic gap	(14)	15	8	36	(37)	13	(37)	(15)
USD	Cumulative gap	(14)	2	10	46	9	22	(15)	-
GBP	Assets (on and off BS)	4	7	0	0	0	0	0	11
GBP	Liabilities (on and off BS)	1	2	1	1	1	0	7	13
GBP	Periodic gap	3	5	(1)	(1)	(1)	(0)	(7)	(2)
GBP	Cumulative gap	3	8	7	6	5	5	(2)	-
EUR	Assets (on and off BS)	6	4	0	1	0	0	0	12
EUR	Liabilities (on and off BS)	1	1	1	2	2	1	6	14
EUR	Periodic gap	5	3	(1)	(1)	(2)	(1)	(6)	(2)
EUR	Cumulative gap	5	8	7	6	4	4	(2)	-
AUD	Assets (on and off BS)	6	9	0	0	0	0	0	15
AUD	Liabilities (on and off BS)	1	1	1	2	1	0	8	15
AUD	Periodic gap	5	8	(1)	(2)	(0)	(0)	(8)	1
AUD	Cumulative gap	5	13	12	10	9	9	1	-
JPY	Assets (on and off BS)	52	0	0	1	3	0	1	57
JPY	Liabilities (on and off BS)	48	12	1	1	5	2	189	258
JPY	Periodic gap	4	(12)	(1)		(2)	(2)	(188)	(200)
JPY	Cumulative gap	4	(8)	(9)	(8)	(11)	(13)	(200)	-

Risk Management Annexure

Table:4

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

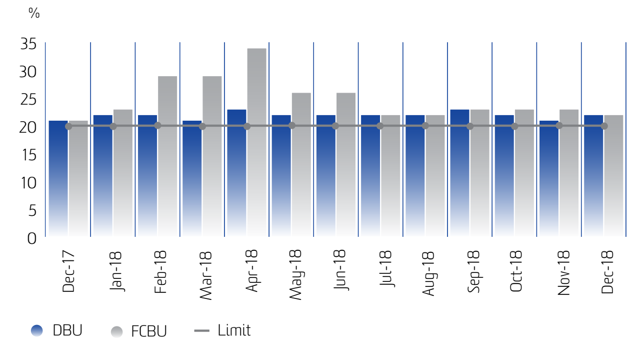
CCY	As at 31st December 2018	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 years	3-5 years	Over 5 years	Total
LKR	Assets (on and off BS)	99,543	24,844	32,645	41,633	42,356	17,466	7,307	265,794
	Liabilities (on and off BS)	82,510	47,092	45,683	50,183	9,307	4,807	1,285	240,868
	Periodic gap	17,033	(22,248)	(13,039)	(8,550)	33,049	12,659	6,022	24,926
USD	Assets (on and off BS)	95	121	69	52	1	-	-	339
	Liabilities (on and off BS)	123	119	66	26	-	-	-	335
	Periodic gap	(28)	2	3	26	1	-	-	5
GBP	Assets (on and off BS)	4	7	-	-	-	-	-	11
	Liabilities (on and off BS)	4	3	1	2	-	-	-	11
	Periodic gap	(0)	4	(1)	(2)	-	-	-	0
EUR	Assets (on and off BS)	6	4	-	1	-	-	-	11
	Liabilities (on and off BS)	8	1	1	2	-	-	-	11
	Periodic gap	(2)	3	(0)	(1)	-	-	-	0
AUD	Assets (on and off BS)	6	9	-	-	-	-	-	15
	Liabilities (on and off BS)	3	2	4	6	-	-	-	15
	Periodic gap	3	6	(3)	(6)	-	-	-	0
JPY	Assets (on and off BS)	25	-	-	4	-	-	-	30
	Liabilities (on and off BS)	53	1	1	-	-	-	-	55
	Periodic gap	(27)	(1)	(1)	4	0	0	0	(25)

Table:5

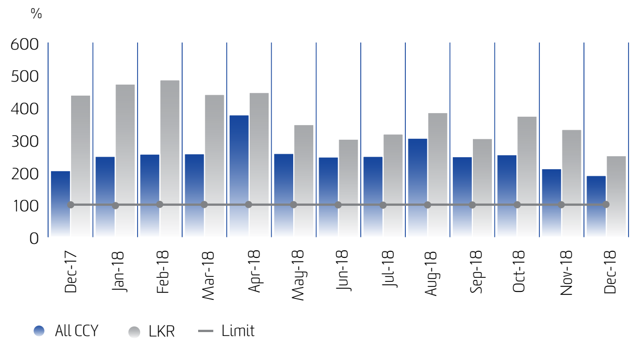
Interest Rate Risk in Banking Book- Economic Value at Risk- in Millions (LKR equivalent)

CCY	As at 31st December 2018	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 200bp	7.98	84.44	175.78	302.93	(866.10)	(445.23)	(225.59)	(965.79)
	Down by 200bp	(8.15)	(86.31)	(180.27)	(312.65)	921.34	487.49	271.18	1,092.63
USD	Up by 200bp	3.16	8.95	34.58	49.48	(7.09)	(4.12)	(1.41)	83.55
	Down by 200bp	(3.22)	(9.12)	(35.67)	(51.24)	7.58	4.57	1.65	(85.45)
GBP	Up by 200bp	0.20	1.33	2.58	7.71	(0.49)	(0.21)	-	11.12
	Down by 200bp	(0.20)	(1.36)	(2.65)	(7.99)	0.53	0.23	-	(11.45)
EUR	Up by 200bp	0.17	0.40	0.86	2.81	(0.48)	(0.29)	-	3.46
	Down by 200bp	(0.17)	(0.41)	(0.88)	(2.91)	0.52	0.33	-	(3.53)
AUD	Up by 200bp	0.21	1.21	3.51	10.45	(0.20)	(0.28)	(0.14)	14.75
	Down by 200bp	(0.22)	(1.24)	(3.61)	(10.81)	0.22	0.32	0.17	(15.17)

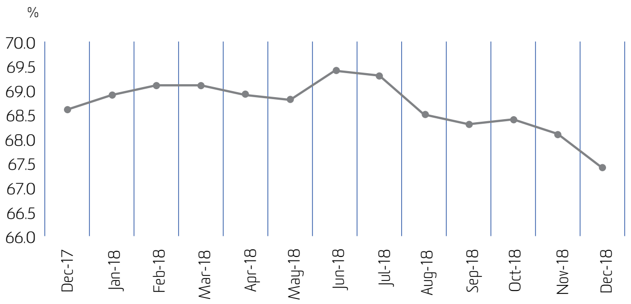
Statutory Liquidity Ratio



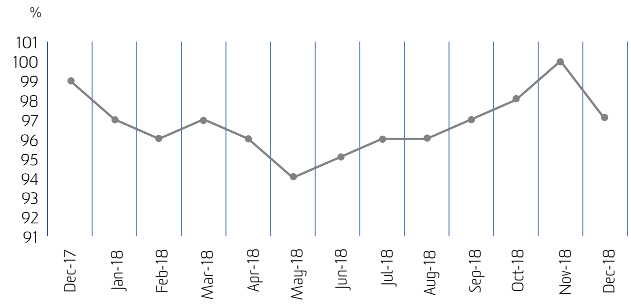
Liquidity Coverage Ratio



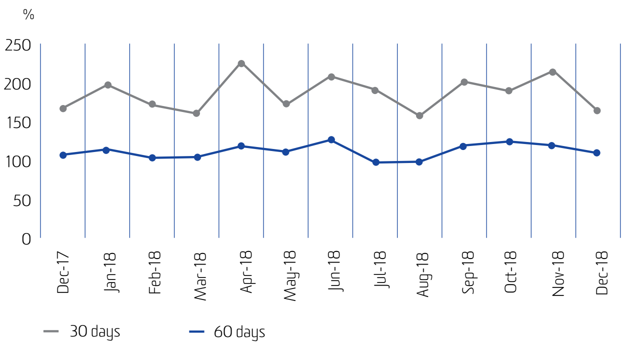
Net loans to Total Assets Ratio



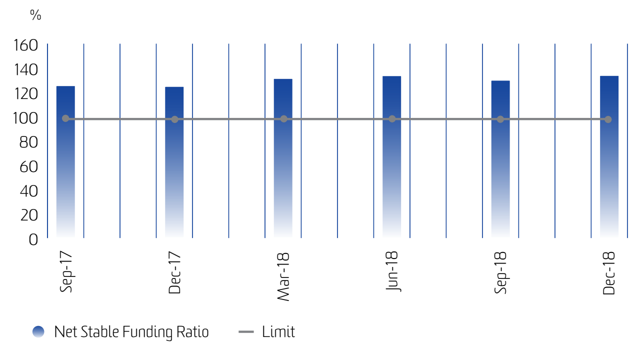
Loan to Deposit Ratio



Liquid Assets to Short Term Liability Ratio



Net Stable Funding Ratio



Risk Management Annexure

BASEL III - Market Discipline - Minimum Discloure Requirement Under Pillar 3 as per the Banking Act Direction No. 01 of 2016

Table 1

Key Regulatory Ratios - Capital and Liquidity

Item	Bank		Group	
	31-Dec-2018	31-Dec-2017	31-Dec-2018	31-Dec-2017
Regulatory Capital (LKR '000)				
Common Equity Tier 1	24,935,511	18,070,743	25,292,362	18,489,947
Tier 1 Capital	24,935,511	18,070,743	25,292,362	18,489,947
Total Capital	32,106,836	23,305,824	32,463,687	23,725,029
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 6.375%)	11.96%	10.58%	12.15%	10.83%
Tier 1 Capital Ratio (Minimum Requirement - 7.875%)	11.96%	10.58%	12.15%	10.83%
Total Capital Ratio (Minimum Requirement - 11.875%)	15.40%	13.64%	15.59%	13.89%
Regulatory Liquidity				
Statutory Liquid Assets				
Domestic Banking Unit (LKR'000)	60,396,397	46,716,976		
Off-Shore Banking Unit (LKR'000)	4,568,492	1,949,119		
Statutory Liquid Assets Ratio, % (Minimum Requirement - 20%)				
Domestic Banking Unit (%)	22.32%	21.13%		
Off-Shore Banking Unit (%)	22.29%	21.81%		
Liquidity Coverage Ratio (%)				
Rupee (Minimum Requirement - 90%)	250.57%	437.86%		
All Currency (Minimum Requirement - 90%)	189.66%	204.73%		

Table 2

Basel III Computation of Capital Ratios

Item	Bank LKR '000		Group LKR '000	
	31-Dec-2018	31-Dec-2017	31-Dec-2018	31-Dec-2017
Common Equity Tier 1 (CET1) Capital after Adjustments	24,935,511	18,070,743	25,292,362	18,489,947
Common Equity Tier 1 (CET1) Capital	26,553,409	20,050,066	26,911,955	20,474,308
Equity Capital (Stated Capital)/Assigned Capital	8,865,523	5,101,369	8,865,523	5,101,369
Reserve Fund	1,199,130	1,010,732	1,199,130	1,010,732
Published Retained Earnings/(Accumulated Retained Losses)	16,586,839	13,813,405	16,945,384	14,237,647
Published Accumulated Other Comprehensive Income (OCI)	(98,083)	124,561	(98,083)	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	1,617,899	1,979,323	1,619,593	1,984,361
Goodwill (net)	-	-	-	-
Intangible Assets (net)	1,301,248	1,148,648	1,302,942	1,153,557
Shortfall of the cumulative impairment to specific provisions	316,650	830,675	316,650	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	7,171,325	5,235,081	7,171,325	5,235,081
Tier 2 Capital	7,171,325	5,235,081	7,171,325	5,235,081
Qualifying Tier 2 Capital Instruments	5,866,667	4,433,333	5,866,667	4,433,333
Revaluation Gains	337,316	-	337,316	-
Loan Loss Provisions	967,343	801,748	967,343	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	24,935,511	18,070,743	25,292,362	18,489,947
Total Tier 1 Capital	24,935,511	18,070,743	25,292,362	18,489,947
Total Capital	32,106,836	23,305,824	32,463,687	23,725,029

Notes:

As per the Directive No. 4 of 2018 issued by Central Bank of Sri Lanka on "Adoption of Sri Lanka Accounting Standard - SLFRS 9: Financial Instruments", for the purpose of calculating capital adequacy ratio, Banks shall stagger additional credit loss provision arising from SLFRS 9 at the transition date, 01 January 2018. The Bank has charged only 25% of the first day impact (Rs. 255.3 Mn) against the retained earnings of the Bank for the purpose of calculating Capital Adequacy Ratio as at 31 December 2018. If 100% of the first day impact is considered, the total tier 1 capital ratio and total capital ratio would be decreased by 0.37%.

Risk Management Annexure

Table 2 (Contd.)

Basel III Computation of Capital Ratios

Item	Bank		Group	
	LKR '000	LKR '000	LKR '000	LKR '000
	31-Dec-2018	31-Dec-2017	31-Dec-2018	31-Dec-2017
Total Risk Weighted Assets (RWA)	208,535,184	170,838,077	208,201,892	170,758,045
RWAs for Credit Risk	180,709,189	148,307,874	180,523,460	148,298,015
RWAs for Market Risk	5,989,190	3,369,857	5,989,190	3,369,857
RWAs for Operational Risk	21,836,805	19,160,347	21,689,242	19,090,174
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	11.96%	10.58%	12.15%	10.83%
of which: Capital Conservation Buffer (%)	1.875%	1.25%	1.875%	1.25%
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-
Total Tier 1 Capital Ratio (%)	11.96%	10.58%	12.15%	10.83%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	15.40%	13.64%	15.59%	13.89%
of which: Capital Conservation Buffer (%)	1.875%	1.25%	1.875%	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	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
	LKR '000 31-Dec-2018		LKR '000 31-Dec-2017	
Total Stock of High-Quality Liquid Assets (HQLA)	56,920,136	56,908,941	44,358,142	44,346,947
Total Adjusted Level 1A Assets	57,429,989	57,429,989	44,653,640	44,653,640
Level 1 Assets	56,897,746	56,897,746	44,335,752	44,335,752
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	22,390	11,195	22,390	11,195
Level 2B Assets	22,390	11,195	22,390	11,195
Total Cash Outflows	399,813,425	60,292,082	341,589,345	48,762,072
Deposits	194,296,248	19,429,625	170,687,377	17,068,738
Unsecured Wholesale Funding	46,734,129	22,429,177	25,136,013	14,213,421
Secured Funding Transactions	1,102,676	-	1,552,809	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	148,621,941	9,374,848	136,084,637	9,351,406
Additional Requirements	9,058,432	9,058,432	8,128,508	8,128,508
Total Cash Inflows	52,302,283	30,286,978	50,768,980	27,100,956
Maturing Secured Lending Transactions Backed by Collateral	172,043	-	10,879	-
Committed Facilities	1,000,000	-	1,000,000	-
Other Inflows by Counterparty which are Maturing within 30 Days	50,607,354	29,828,105	49,679,518	27,022,374
Operational Deposits	-	-	-	-
Other Cash Inflows	522,887	458,873	78,583	78,583
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calendar Days) * 100		190%		205%

Table 4

Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	Ordinary Shares (Voting)	Ordinary Shares (Non Voting)	Subordinated Debt (Debentures)	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	Nations Trust Bank PLC	Nations Trust Bank PLC
Unique Identifier (eg., ISIN or Bloomberg Identifier for Private Placement)	LK0309N00001	LK0309N00001	NTB-BD-08/11/21-C2365-12.65	NTB-BD-08/11/21-C2364-12.8	NTB-BD-08/11/21-C2363	NTB-BD-20/04/23-C2402-12.65	NTB-BD-20/04/23-C2401-13
Governing Law(s) of the Instrument	Companies Act, No.7 of 2007	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	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949
Original Date of Issuance	3-May-99	20-Feb-18	8-Nov-16	8-Nov-16	8-Nov-16	20-Apr-18	20-Apr-18
Par Value of Instrument	22.12	80	100	100	100	100	100
Perpetual or Dated	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated
Original Maturity Date, if Applicable	N/A	N/A	8-Nov-21	8-Nov-21	8-Nov-21	20-Apr-23	20-Apr-23
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	5,739,916	3,125,607	2,201,953	630,014	1,486	1,917,933	115,400
Accounting Classification (Equity/Liability)	Equity	Equity	Liability	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	N/A	N/A
Subsequent Call Dates, if Applicable	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Coupons/Dividends							
Fixed or Floating Dividend/Coupon	Discretionary dividend amount	Discretionary dividend amount	Fixed	Fixed	Floating	Fixed	Fixed
Coupon Rate and any Related Index	Distributable profit that has been declared as dividend	Distributable profit that has been declared as dividend	12.65%	12.80%	11.25%	12.65%	13.00%
Non-Cumulative or Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible	Non-Convertible	Convertible	Non-Convertible	Non-Convertible	Non-Convertible	Convertible	Convertible
If Convertible, Conversion Trigger (s)	Non-Convertible	Starting from last market date of quarter ending 30th June and forward	Non-Convertible	Non-Convertible	Non-Convertible	As per Banking Act Direction No. 1 of 2016	As per Banking Act Direction No. 1 of 2016
If Convertible, Fully or Partially	Non-Convertible	Fully or Partially	Non-Convertible	Non-Convertible	Non-Convertible	Fully or Partially	Fully or Partially
If Convertible, Mandatory or Optional	Non-Convertible	Optional	Non-Convertible	Non-Convertible	Non-Convertible	Mandatory	Mandatory
If Convertible, Conversion Rate	Non-Convertible	1:1	Non-Convertible	Non-Convertible	Non-Convertible	Simple Average of Volume WA Price of ordinary voting shares published by the CSE, during the 3 months period, immediately preceding the date of the Trigger Event.	Simple Average of Volume WA Price of ordinary voting shares published by the CSE, during the 3 months period, immediately preceding the date of the Trigger Event.

Table 5

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

Asset Class	Bank											
	LKR'000 as at -31-Dec-2018						LKR'000 as at -31-Dec-2017					
	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 Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
Claims on Central Government and CBSL	25,296,968	-	25,296,968	-	782,888	3%	25,012,852	1,535,200	25,012,852	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	1,928,632	37,790,696	1,928,632	776,434	1,003,952	37%	2,209,944	35,763,085	2,209,944	715,262	1,478,649	51%
Claims on Financial Institutions	13,229,173	3,845,670	13,229,173	1,172,885	7,529,533	52%	11,083,386	3,261,851	11,083,386	1,090,246	6,009,478	49%
Claims on Corporates	56,394,370	77,969,149	56,394,370	7,516,188	61,178,409	96%	40,210,503	70,005,792	40,210,503	6,716,499	45,681,542	97%
Retail Claims	111,221,643	70,572,055	111,221,643	2,635,431	87,169,949	77%	102,643,879	65,643,745	102,643,879	2,632,706	81,079,256	77%
Claims Secured by Residential Property	8,793,378	-	8,793,378	-	6,279,153	71%	7,827,956	-	7,827,956	-	5,577,770	71%
Claims Secured by Commercial Real Estate	894,721	56,198	894,721	25,898	920,619	100%	833,791	174,554	833,791	34,911	868,702	100%
Non-Performing Assets (NPAs)(i)	5,640,268	-	5,640,268	-	7,526,209	133%	2,117,558	-	2,117,558	-	2,847,324	134%
Higher-risk Categories	25,803	-	25,803	-	64,507	250%	25,803	-	25,803	-	64,507	250%
Cash Items and Other Assets	15,807,771	-	15,807,771	-	8,253,970	52%	10,703,170	-	10,703,170	-	3,889,914	36%
Total	239,232,727	190,233,768	239,232,727	12,126,835	180,709,189	72%	202,668,842	176,384,227	202,668,842	11,220,328	148,307,874	69%

Table 5 (Contd.)

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

Asset Class	Group											
	LKR'000 as at -31-Dec-2018						LKR'000 as at -31-Dec-2017					
	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 Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
Claims on Central Government and CBSL	25,296,968	-	25,296,968	-	782,888	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	1,928,663	37,790,696	1,928,663	776,434	1,003,958	37%	2,209,976	35,763,085	2,209,976	715,262	1,478,656	51%
Claims on Financial Institutions	13,229,173	3,845,670	13,229,173	1,172,885	7,529,533	52%	11,083,386	3,261,851	11,083,386	1,090,246	6,009,478	49%
Claims on Corporates	56,399,275	77,972,305	56,399,275	7,516,188	61,183,314	96%	40,419,373	68,461,963	40,419,373	6,716,499	45,890,411	97%
Retail Claims	111,221,643	70,572,055	111,221,643	2,635,431	87,169,949	77%	102,643,879	65,643,745	102,643,879	2,632,706	81,079,256	77%
Claims Secured by Residential Property	8,793,378	-	8,793,378	-	6,279,153	71%	7,827,956	-	7,827,956	-	5,577,770	71%
Claims Secured by Commercial Real Estate	894,721	56,198	894,721	25,898	920,619	100%	833,791	174,554	833,791	34,911	868,702	100%
Non-Performing Assets (NPAs)(i)	5,640,268	-	5,640,268	-	7,526,209	133%	2,117,558	-	2,117,558	-	2,847,324	134%
Higher-risk Categories	-	-	-	-	-	0%	-	-	-	-	-	0%
Cash Items and Other Assets	15,681,660	-	15,681,660	-	8,127,836	52%	10,548,964	-	10,548,964	-	3,735,685	35%
Total	239,085,750	190,236,924	239,085,750	12,126,835	180,523,460	72%	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.

Table 6

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

Description	Bank LKR'000 as at 31-Dec-2018 (Post CCF & CRM)								
Risk Weight / Asset Classes	0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	21,382,529	3,914,439	-	-	-	-	-	-	25,296,968
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	-	1,276,193	1,360,318	-	-	68,554	-	-	2,705,065
Claims on Financial Institutions	-	3,697,242	7,829,462	-	-	2,875,354	-	-	14,402,059
Claims on Corporates	-	-	5,464,297	-	-	58,446,261	-	-	63,910,558
Retail Claims	98,384	228,591	-	2,789,194	101,160,762	9,580,143	-	-	113,857,074
Claims Secured by Residential Property	-	-	5,028,450	-	-	3,764,928	-	-	8,793,378
Claims Secured by Commercial Real Estate	-	-	-	-	-	920,619	-	-	920,619
Non-Performing Assets (NPAs)	-	-	49,507	-	-	1,769,373	3,821,388	-	5,640,268
Higher-risk Categories	-	-	-	-	-	-	-	25,803	25,803
Cash Items and Other Assets	5,419,519	2,667,853	-	-	-	7,720,400	-	-	15,807,771
Total	26,900,432	11,784,318	19,732,035	2,789,194	101,160,762	85,145,632	3,821,388	25,803	251,359,562

Description	Group LKR'000 as at 31-Dec-2018 (Post CCF & CRM)								
Risk Weight / Asset Classes	0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	21,382,529	3,914,439	-	-	-	-	-	-	25,296,968
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	-	1,276,224	1,360,318	-	-	68,554	-	-	2,705,097
Claims on Financial Institutions	-	3,697,242	7,829,462	-	-	2,875,354	-	-	14,402,059
Claims on Corporates	-	-	5,464,297	-	-	58,451,166	-	-	63,915,463
Retail Claims	98,384	228,591	-	2,789,194	101,160,762	9,580,143	-	-	113,857,074
Claims Secured by Residential Property	-	-	5,028,450	-	-	3,764,928	-	-	8,793,378
Claims Secured by Commercial Real Estate	-	-	-	-	-	920,619	-	-	920,619
Non-Performing Assets (NPAs)	-	-	49,507	-	-	1,769,373	3,821,388	-	5,640,268
Higher-risk Categories	-	-	-	-	-	-	-	-	-
Cash Items and Other Assets	5,419,542	2,667,853	-	-	-	7,594,266	-	-	15,681,660
Total	26,900,455	11,784,350	19,732,035	2,789,194	101,160,762	85,024,403	3,821,388	-	251,212,585

Bank								
LKR'000 as at 31-Dec-2017 (Post CCF & CRM)								
0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
20,989,891	4,053,665	-	-	-	-	-	-	25,043,556
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	935,660	1,396,058	-	-	593,488	-	-	2,925,206
-	2,331,815	8,597,405	-	-	1,244,412	-	-	12,173,632
-	-	2,490,921	-	-	44,436,081	-	-	46,927,002
142,175	117,118	-	2,260,447	92,229,122	10,527,723	-	-	105,276,585
-	-	4,500,372	-	-	3,327,584	-	-	7,827,956
-	-	-	-	-	868,702	-	-	868,702
-	-	35,775	-	-	586,476	1,495,307	-	2,117,558
-	-	-	-	-	-	-	25,803	25,803
5,589,806	1,529,313	-	-	-	3,584,052	-	-	10,703,170
26,721,873	8,967,571	17,020,530	2,260,447	92,229,122	65,168,518	1,495,307	25,803	213,889,170

Group								
LKR'000 as at 31-Dec-2017 (Post CCF & CRM)								
0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
21,060,935	4,053,665	-	-	-	-	-	-	25,114,600
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	935,692	1,396,058	-	-	593,488	-	-	2,925,238
-	2,331,815	8,597,405	-	-	1,244,412	-	-	12,173,632
-	-	2,490,921	-	-	44,644,951	-	-	47,135,872
142,175	117,118	-	2,260,447	92,229,122	10,527,723	-	-	105,276,585
-	-	4,500,372	-	-	3,327,584	-	-	7,827,956
-	-	-	-	-	868,702	-	-	868,702
-	-	35,775	-	-	586,476	1,495,307	-	2,117,558
-	-	-	-	-	-	-	-	-
5,589,829	1,529,313	-	-	-	3,429,823	-	-	10,548,964
26,792,939	8,967,602	17,020,530	2,260,447	92,229,122	65,223,159	1,495,307	-	213,989,106

Table 7

Market Risk under Standardised Measurement Method

Item	Bank RWA (LKR'000)		Group RWA (LKR'000)	
	31-Dec-2018	31-Dec-2017	31-Dec-2018	31-Dec-2017
(a) RWA for Interest Rate Risk	703,460	357,831	703,460	357,831
General Interest Rate Risk	703,460	357,831	703,460	357,831
(i) Net Long or Short Position	703,460	357,831	703,460	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	7,756	21,278	7,756	21,278
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	5,989,190	3,369,857	5,989,190	3,369,857

Table 8

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

Business Lines	Bank									
	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2018			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%		13,217,045	17,622,084	21,023,282	15%		12,271,650	13,217,046	17,622,084
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	-	-	-
Capital Charges for Operational Risk (LKR'000)										
The Basic Indicator Approach	2,593,121					2,155,539				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				
Risk Weighted Amount for Operational Risk (LKR'000)										
The Basic Indicator Approach	21,836,805					19,160,347				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				

Table 8 (Contd.)

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

Business Lines	Group									
	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2018			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%		13,519,915	16,913,568	21,078,467	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	-	-	-
Capital Charges for Operational Risk (LKR'000)										
The Basic Indicator Approach	2,575,598					2,147,645				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				
Risk Weighted Amount for Operational Risk (LKR'000)										
The Basic Indicator Approach	21,689,242					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

	LKR '000 as at 31-Dec-2018				
Bank	a Carrying Values as Reported in Published Financial Statements	b Carrying Values under Scope of Regulatory Reporting	c Subject to Credit Risk Framework	d Subject to Market Risk Framework	e Not subject to Capital Requirements or Subject to Deduction from Capital
Assets	324,832,936	326,961,835	241,686,147	57,586,205	28,656,825
Cash and Cash Equivalents	6,437,519	6,437,790	6,437,790	-	-
Balances with Central Banks	12,762,122	12,634,094	12,634,094	-	-
Placements with Banks	180,593	300,000	128,000	-	172,000
Derivative Financial Instruments	2,403,787	-	-	-	-
Financial Assets - Recognised through Profit or Loss	668,812	57,586,205	-	57,586,205	-
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-
Loans and Receivables to Banks	-	-	-	-	-
Financial Assets at Amortised Cost – Loans and Advances	221,500,656	221,442,175	195,225,983	-	27,183,535
Financial Assets at Fair Value through Other Comprehensive Income	57,463,831	-	-	-	-
Financial Assets at Amortised Cost - Debt Instruments	15,941,247	15,542,590	15,542,590	-	-
Investments in Subsidiaries	678,710	678,710	678,710	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-
Property, Plant and Equipment	2,867,825	2,867,827	2,867,827	-	-
Investment Properties	-	-	-	-	-
Goodwill and Intangible Assets	1,301,248	-	-	-	-
Other Assets	2,626,586	9,472,443	8,171,153	-	1,301,291
Liabilities	298,370,833	300,759,497	-	-	-
Due to Banks	18,474,545	11,189,594	-	-	-
Derivative Financial Instruments	484,373	-	-	-	-
Other Financial Liabilities Held-For- Trading	-	-	-	-	-
Financial Liabilities Designated at Fair Value through Profit or Loss	-	-	-	-	-
Due to Depositors	231,936,769	227,443,051	-	-	-
Due to Other Borrowers	28,032,833	35,109,197	-	-	-
Debt Securities Issued	-	-	-	-	-
Current Tax Liabilities	1,547,833	-	-	-	-
Deferred Tax Liabilities	960,783	-	-	-	-
Other Provisions	-	-	-	-	-
Other Liabilities	8,188,087	18,517,655	-	-	-
Due to Subsidiaries	-	-	-	-	-
Subordinated Term Debts	8,745,611	8,500,000	-	-	-
Off-Balance Sheet Liabilities	190,599,308	203,879,066	201,154,261	-	2,724,804
Guarantees	908,258	908,258	908,258	-	-
Performance Bonds	14,771,258	14,771,258	13,157,621	-	1,613,636
Letters of Credit	5,920,213	5,920,213	5,208,160	-	712,053
Other Contingent Items	3,876,005	3,876,005	3,876,005	-	-
Undrawn Loan Commitments	120,076,350	120,076,350	120,076,350	-	-
Other Commitments	45,047,225	58,326,983	57,927,867	-	399,115
Shareholders' Equity					
Equity Capital (Stated Capital)/Assigned Capital	8,865,523	8,865,523	-	-	-
of which Amount Eligible for CET1	8,865,523	8,865,523	-	-	-
of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings	15,820,900	16,326,084	-	-	(765,940)
Accumulated Other Comprehensive Income	(98,082)	-	-	-	-
Other Reserves	1,873,761	1,010,732	-	-	337,316
Total Shareholders' Equity	26,462,102	26,202,339	-	-	(428,624)

Notes:

1) Differences in Financial Assets - Recongnised through Profit or Loss, Financial Assets at Fair Value through Other Comprehensive Income, Intangible Assets, Other Assets, Due to Banks, Due to Depositors, Due to Other Borrowers, Current Tax Liabilities, Deferred Tax Liabilities and Other Liabilities is due to Classification differences.
2) Difference in Retained Earnings is due to profit difference in SLAS and SLFRS accounting standards and Revaluation Reserve classification differences.
3) Accumulated Other Comprehensive Income is not considered in (b) as it is based on SLAS accounting standards.
4) 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).