



NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES

Company Number PQ 118

INTERIM FINANCIAL STATEMENT

For the Six months ended June 30, 2014

Performance Review – 2Q 2014

Nations Trust records resilient performance amidst challenges

The Bank closed the first 6 months ending 30th June 2014 with a post-tax profit of Rs.1,157Mn recording a growth of 18% over the corresponding period in 2013. Core revenue recorded a faster rate of growth over operating expenses, thereby significantly improving operating margins. However, higher impairment charges and introduction of new tax levies slowed bottom line growth over the corresponding period. Performance for the quarter was up by 27% in terms of post tax profit. The improved performance in the current quarter is mainly attributed to lower impairment charges compared to that reported for the 1st quarter 2014. The Bank also witnessed slow growth in loans and advances particularly in the corporate portfolio. The lackluster demand for credit amidst a relatively low interest rate regime prevailed across the industry during the first 6 months of the year and the Banking sector recorded a contraction in loans and advances partly attributable to the significant decline in pawning advances.

Net interest income recorded a growth of 19% over the previous period with improved NIMs. The drop in cost of deposits outweighed the drop in loan yields and contributed to the improvement in NIMs. Higher yielding asset portfolios such as cards and leasing recorded good growth to ease off pressure on declining yields in other asset classes. The Bank continued its efforts to grow low cost deposit balances thereby improving the CASA mix which also assisted in reducing the cost of deposits.

Net fees and commission recorded a growth of 14% mainly attributable to the solid performance demonstrated by credit cards. Predominately fee income generating products and services have been added to the Bank's portfolio in the recent past such as debit cards, bancassurance and remittances which have recorded good growth and contributed towards enhancing fee based earnings for the period under review. Bank endured many challenges during the first 6 months in growing trade finance income owing to slow growth in corporate assets and import volumes in the economy. Despite trade income recording a 10% drop over previous year, most recent trends are encouraging. The Bank has taken a number of initiatives to revive trade finance business through multiple channels. Net trading income on account of foreign currency recorded losses on funding SWAPs due to the adverse movement in forward premiums. However, the losses recorded for the current period is far lower than the previous year.

Impairment charge for the current period amounted to Rs. 437Mn with the higher incremental impact over previous period arising from pawning and credit card portfolios. Retail and SME have shown a significant improvement in portfolio quality whilst leasing book impairment has remained at levels reported in the previous period. Impairment on the pawning portfolio in the 1H of 2013 has been comparatively lower since the sharp decline in the market price of gold began only in April 2013. Since then, the Bank's exposure to pawning has been managed below 2.0% of the overall loan book whilst the loan to value ratio has been appropriately adjusted to manage the volatility in the market value of gold. As such, the trend in impairment on the pawning portfolio is expected to improve in the 2H of 2014. Bank has also undertaken appropriate measures to strengthen its credit card recovery process to arrest further impairment thereby stabilizing the portfolio in the 2H of 2014.

Operating expenses recorded an increase of 16% over the previous period mainly on account of premises and advertising expenses. Head count increase of 251 during the year has been mostly deployed at branches, sales and collections areas whilst the increase in support functions has been minimal. Close monitoring of efficiency and productivity indicators established for the key processes of the Bank has had a positive impact on lowering its cost income ratio to 54% from 57% reported for the previous year. The Bank is firmly committed towards driving its C: I ratio below 50% in the medium term.

The capital position was sound at Rs.14.8Bn with Capital Adequacy Ratios, despite a drop over December 2013 were maintained at comfortable levels. The drop is mainly attributable to the dividend pay-out impacting retained earnings.

Review of Operations

Retail and Channels

The Bank enhanced its presence in key geographic locations by opening 8 new branches and 4 offsite ATMs thus taking its customer touch points to 112 locations. Regional hubs were established in 4 provinces for a more cohesive approach to branch banking thereby de-centralizing credit and operational functions. Branches relentlessly pursued in cementing the processes established for the sales force effectiveness program which was rolled during the year focusing on customer acquisitions and cross selling of products across customer segments.

“Nations Savings Month” was launched in January with the objective of creating awareness of the range of savings products that are on offer. Initiatives were rolled out to expand remittance market share. In this regard, new sign ups with remittance partners across the globe (Japan, UK, Australia, Lebanon, Jordan and Kuwait) took place coupled with a successful promotion carried out in Dubai with our Brand Ambassador Kumar Sangakkara. FCY Home loan product was also launched alongside the remittance value offering primarily targeting this customer segment. Consumer lending portfolio was revamped to benefit from the low interest rate scenario prevailing in the market with variable and fixed rate product offerings recording higher disbursements during the 6 months.

SME

SME proposition was rolled out with the branch expansion strategy with SME credit officers stationed at zonal offices to strengthen credit evaluations and monitoring. New products targeting specific SME customer segments were launched thereby broadening the SME products suite. These included Nations Leasing Plus and Nations Trader. The Bank also undertook a comprehensive review of its SME credit policy to enable a more streamlined and simplified process in order to pursue accelerated growth and deliver superior customer service. Many business seminars were conducted for the SMEs for their knowledge enhancement on various topics of interest. Regular customer gatherings across the geographies were carried out for strengthening relationships and fostering fellowship. SME sales academy launched in 2013 continued to undertake training of staff. Two batches have already completed the training program successfully.

Cards

The Unit recorded a commendable performance for the first 6 months. The business model which is set up to drive growth saw accelerated scaling up of business on both issuing and acquiring in new segments and geographies. The Bank ventured into new product segments with the launch of the Master Travel card which has seen encouraging take up. The launch of the Corporate Fuel card is expected to enhance the card offer to our corporate customers.

Leasing

Leasing unit consolidated its resources in reviving its selling strategy with the roll out of feet on street campaigns, internal sales campaigns whilst actively using the Branch network as a lead generator and distribution channel. The Unit achieved a notable performance with new business volumes surpassing the Rs. 7.0Bn mark and the portfolio growing by 16% YoY. New customer segments were explored with the roll out of the two wheeler product and the tremendously successful Nations Hybrid promotion. Many activities were undertaken to enhance the “Nations Leasing” brand. Various campaigns and promotions were launched to make the brandname visible in the villages by having tie-up with New Year celebrations and conducting a series of regional based promotions.

Corporate Banking

Opportunities for growth in the Corporate lending book was limited due to low demand for credit coupled with intense price competition in the industry resulting from excess liquidity in the market. As demand for credit from existing customers diminished the unit aggressively pursued new customer acquisitions in the mid-tier corporates whilst seeking synergies from group relationships. Corporate book recorded a moderate growth but nevertheless NIMs plummeted steadily, impacting portfolio revenue. The Unit looked towards enhancing fee based income both on the trade and foreign exchange fronts. Volume based pricing mechanisms together with tailor made packages were offered to customers to capture untapped foreign exchange and trade business. Joint visit programs with treasury and trade experts were conducted frequently to provide holistic solutions.

Treasury

The Unit introduced the Dual Currency deposits and Fx Options to the market during the period. The Unit also pursued its expertise in building the corporate debt portfolio and offering investment products for high net worth customers. Treasury was also proactively engaged in re-pricing assets and liabilities and managing the banks overall liquidity and interest rate risk exposure.

Looking forward

The first half results for Nations Trust demonstrates a resilient performance which has withstood multiple industry challenges. We anticipate a possible turn around in demand for credit in the 2H of the year with the positive outlook on key macro-economic indicators. A significant amount of resources and effort across the organization have been deployed for the core banking upgrade project and much progress have been made thus far. The completion of it will give us the technological capabilities to steer Nations Trust Bank through its next phase of growth in a digitalized environment. Our medium term strategy remains unchanged and we remain optimistic about our prospects for the remainder of the year.

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
INCOME STATEMENT

	Bank						Group					
	Six months ended 30 June			Quarter ended 30 June			Six months ended 30 June			Quarter ended 30 June		
	2014 Rs. '000	2013 Rs. '000	Change (%)	2014 Rs. '000	2013 Rs. '000	Change (%)	2014 Rs. '000	2013 Rs. '000	Change (%)	2014 Rs. '000	2013 Rs. '000	Change (%)
Gross Income	9,980,717	9,854,491	1	4,956,095	5,006,376	(1)	10,137,719	10,026,681	1	5,012,474	5,096,096	(2)
Interest Income	8,548,310	8,782,970	(3)	4,243,800	4,471,901	(5)	8,656,464	8,895,616	(3)	4,285,432	4,538,381	(6)
Less : Interest Expense	(4,443,650)	(5,353,401)	(17)	(2,163,297)	(2,689,843)	(20)	(4,444,182)	(5,353,984)	(17)	(2,155,038)	(2,697,973)	(20)
Net Interest Income	4,104,660	3,429,569	20	2,080,503	1,782,058	17	4,212,282	3,541,632	19	2,130,394	1,840,408	16
Fees and Commission Income	1,345,100	1,159,878	16	672,520	605,980	11	1,412,039	1,230,185	15	706,017	644,320	10
Less : Fees and Commission Expense	(120,574)	(92,378)	31	(65,301)	(44,048)	48	(120,574)	(92,385)	31	(65,478)	(44,048)	49
Net Fees and Commission Income	1,224,526	1,067,500	15	607,219	561,932	8	1,291,465	1,137,800	14	640,539	600,272	7
Net Trading Income / (Expense)	(46,479)	(246,597)	81	(54,260)	(162,296)	67	(53,320)	(242,690)	78	(61,760)	(162,726)	62
Other Operating Income	133,786	158,240	(15)	94,035	90,791	4	122,536	143,570	(15)	82,785	76,121	9
Total Operating Income	5,416,493	4,408,712	23	2,727,497	2,272,485	20	5,572,963	4,580,312	22	2,791,958	2,354,075	19
Impairment Charge /(Reversal) for Loans and Receivables	437,145	281,735	55	130,104	195,822	(34)	437,421	282,363	55	131,238	198,038	(34)
Individual Impairment	(64,755)	9,787	(762)	39,347	(4,572)	(961)	(64,755)	9,787	(762)	39,347	(4,572)	(961)
Collective Impairment	501,900	271,948	85	90,757	200,394	(55)	502,176	272,576	84	91,891	202,610	(55)
Net Operating Income	4,979,348	4,126,977	21	2,597,393	2,076,663	25	5,135,542	4,297,949	19	2,660,720	2,156,037	23
Less : Expenses												
Personnel Expenses	1,288,729	1,140,427	13	631,810	574,665	10	1,304,750	1,158,193	13	639,406	583,683	10
Depreciation of Property, Plant and Equipment	139,497	114,530	22	69,983	59,097	18	145,322	120,282	21	72,897	61,982	18
Amortization of Intangible Assets	75,223	61,424	22	37,456	31,424	19	76,618	62,788	22	38,154	32,106	19
Other Operating Expenses	1,503,234	1,267,845	19	749,748	642,115	17	1,502,161	1,265,437	19	749,979	641,303	17
Total Operating Expenses	3,006,683	2,584,226	16	1,488,997	1,307,301	14	3,028,851	2,606,700	16	1,500,436	1,319,074	14
Operating Profit before Value Added Tax (VAT)	1,972,665	1,542,751	28	1,108,396	769,362	44	2,106,691	1,691,249	25	1,160,284	836,963	39
Less : Value Added Tax (VAT) on Financial Services	340,584	255,731	33	203,250	141,895	43	350,879	265,099	32	207,161	146,756	41
Profit before Income Tax	1,632,081	1,287,020	27	905,146	627,467	44	1,755,812	1,426,150	23	953,123	690,207	38
Less : Income Tax Expense	560,436	402,466	39	327,312	189,212	73	598,547	445,842	34	345,526	211,833	63
Profit for the Period	1,071,645	884,554	21	577,834	438,255	32	1,157,265	980,308	18	607,597	478,374	27
Earnings Per Share												
Basic Earnings Per Share (Rs.)	4.65	3.84	21	2.51	1.90	32	5.02	4.25	18	2.63	2.07	27

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
STATEMENT OF OTHER COMPREHENSIVE INCOME



	Bank						Group					
	Six months ended 30 June			Quarter ended 30 June			Six months ended 30 June			Quarter ended 30 June		
	2014 Rs. '000	2013 Rs. '000	Change (%)	2014 Rs. '000	2013 Rs. '000	Change (%)	2014 Rs. '000	2013 Rs. '000	Change (%)	2014 Rs. '000	2013 Rs. '000	Change (%)
Profit for the period	1,071,645	884,554	21	577,834	438,255	32	1,157,265	980,308	18	607,597	478,374	27
Total Comprehensive Income for the Period, Net of Tax	1,071,645	884,554	21	577,834	438,255	32	1,157,265	980,308	18	607,597	478,374	27
Attributable to:												
Equity holders of the parent	1,071,645	884,554	21	577,834	438,255	32	1,157,265	980,308	18	607,597	478,374	27

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
STATEMENT OF FINANCIAL POSITION



As at	Bank			Group		
	30.06.2014 Rs. '000	31.12.2013 Rs. '000 (Audited)	Change %	30.06.2014 Rs. '000	31.12.2013 Rs. '000 (Audited)	Change %
On Balance sheet Assets						
Cash and Cash Equivalents	4,235,046	3,019,735	40	4,235,052	3,019,774	40
Balances with Central Bank of Sri Lanka	3,891,557	4,031,763	(3)	3,891,557	4,031,763	(3)
Placements with Banks	-	-	-	-	-	-
Derivative Financial Instruments	58,742	121,491	(52)	58,742	121,491	(52)
Reverse Repurchase Agreements	1,460,509	1,459,506	0	574,308	552,236	4
Other Financial Assets Held-for-Trading	22,695,117	23,365,388	(3)	23,728,436	24,460,493	(3)
Other Financial Assets	3,140,719	2,198,582	43	3,140,719	2,198,582	43
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-	-
Loans & Receivables to Banks	-	-	-	-	-	-
Loans & Receivables to Other Customers	84,983,441	81,128,760	5	85,647,743	82,327,255	4
Financial Investments - Available-for-sale	-	-	-	-	-	-
Financial Investments - Held-to-Maturity	20,668,634	19,734,821	5	20,734,812	19,794,014	5
Investments in Subsidiaries	678,710	678,710	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-	-
Property, Plant & Equipment	1,562,065	1,545,426	1	2,059,352	2,048,442	1
Investment Properties	-	-	-	-	-	-
Intangible Assets	605,046	665,130	(9)	618,529	680,007	(9)
Deferred Tax Assets	91,776	156,376	(41)	93,186	157,541	(41)
Other Assets	3,722,754	2,813,219	32	3,782,769	2,893,700	31
Total Assets	147,794,116	140,918,907	5	148,565,205	142,285,298	4

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
STATEMENT OF FINANCIAL POSITION



As at	Bank			Group		
	30.06.2014 Rs. '000	31.12.2013 Rs. '000 (Audited)	Change %	30.06.2014 Rs. '000	31.12.2013 Rs. '000 (Audited)	Change %
On Balance sheet Liabilities						
Due to Banks	1,957,733	1,401,473	40	1,957,733	1,401,473	40
Derivative Financial Instruments	441,741	633,625	(30)	441,741	633,625	(30)
Other Financial liabilities Held-for-Trading	-	-	-	-	-	-
Financial Liabilities Designated at Fair Value through Profit or Loss	-	-	-	-	-	-
Repurchase Agreements	21,246,481	18,101,824	17	20,911,392	18,067,817	16
Due to Other Customers	98,664,882	96,036,198	3	98,623,815	95,729,533	3
Other Borrowings	977,404	1,358,291	(28)	977,404	1,961,325	(50)
Debt Securities Issued	-	-	-	-	-	-
Current Tax Liabilities	518,338	332,732	56	570,729	383,318	49
Deferred Tax Liabilities	429,086	498,138	(14)	429,086	498,138	(14)
Other Liabilities	5,417,392	4,924,812	10	5,476,192	5,027,145	9
Due to Subsidiaries	-	-	-	-	-	-
Subordinated Term Debts	6,763,012	6,841,137	(1)	6,765,960	6,844,761	(1)
Total Liabilities	136,416,069	130,128,230	5	136,154,052	130,547,135	4
Equity						
Stated Capital / Assigned Capital (230,607,283 Ordinary Shares)	5,101,369	5,101,369	-	5,101,369	5,101,369	-
Statutory Reserve Fund	419,305	419,305	-	419,305	419,305	-
Retained Earnings	4,675,017	4,183,983	12	5,637,721	5,067,107	11
Other Reserves	1,182,356	1,086,020	9	1,252,758	1,150,382	9
Total Shareholders' Equity	11,378,047	10,790,677	5	12,411,153	11,738,163	6
Total Equity and Liabilities	147,794,116	140,918,907	5	148,565,205	142,285,298	4
Contingent Liabilities and Commitments	92,128,725	90,180,741	2	92,244,772	90,266,632	2
Memorandum Information						
Number of Employees	2,498	2228		2,513	2262	
Number of Branches	80	72		80	72	
Number of Off-Site ATMs	32	28		32	28	

CERTIFICATION :

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

(Sgd.) Ajith Akmeemana
Chief Financial Officer

We, the undersigned being the Chairman ,Director and Director / Chief Executive Officer of Nations Trust Bank PLC., certify jointly that,
(a) the above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka.
(b) the information contained in these statements has been extracted from the unaudited financial statements of the Bank and its Subsidiaries unless indicated as audited.

(Sgd.) K.N.J.Balendra
Chairman

(Sgd.) A.R. Rasiah
Director

(Sgd.) R.N. K. Fernando
Director / Chief Executive Officer

August 07,2014
Colombo

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
SELECTED PERFORMANCE INDICATORS (As per Regulatory Reporting)

Item	Bank		Group	
	30.06.2014	31.12.2013 (Audited)	30.06.2014	31.12.2013 (Audited)
Regulatory Capital Adequacy				
Core Capital (Tier 1 Capital), Rs. '000	10,306,402	10,790,677	11,244,387	11,728,663
Total Capital Base, Rs. '000	13,893,932	14,931,939	14,831,917	15,869,926
Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 5%)	11.92%	13.91%	12.86%	14.78%
Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 10%)	16.08%	19.25%	16.96%	20.00%
Assets Quality (Quality of Loan Portfolio)				
Gross Non-Performing Advances Ratio, % (net of interest in suspense)	4.81%	3.52%	4.82%	3.51%
Net-Non Performing Advances,%(net of interest in suspense and provision)	3.14%	2.14%	3.15%	2.13%
Profitability				
Interest Margin, %	5.71%	5.69%	-	-
Return on Assets (before Tax), %	2.27%	2.30%	2.42%	2.38%
Return on Equity, %	19.50%	21.34%	19.31%	19.49%
Regulatory Liquidity				
Statutory Liquid Assets, Rs. '000	30,500,158	33,620,716	-	-
Statutory Liquid Assets Ratio, % (Minimum Requirement, 20%)				
Domestic Banking Unit	25.18%	25.26%	-	-
Off-Shore Banking Unit	49.49%	41.92%	-	-
Net Assets Value Per Share (Rs.)	49.34	46.79	53.82	50.90
Market Price Per Share (Rs.)	30.06.2014 (Quarter ended)	30.06.2013 (Quarter ended)		
Highest	71.50	68.90		
Lowest	63.00	57.50		
Last Traded Price	71.10	63.10		

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
STATEMENT OF CHANGES IN EQUITY



BANK	Stated Capital	Retained Earnings	Statutory Reserve Fund	Investment Fund Account*	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 01 January 2013	5,101,369	3,153,852	313,663	593,236	9,162,120
Profit For the Period	-	884,554	-	-	884,554
Other Comprehensive Income	-	-	-	-	-
Total Comprehensive Income	-	884,554	-	-	884,554
Dividend paid for 2012	-	(484,275)	-	-	(484,275)
Transfers to the Investment Fund Account*	-	(182,307)	-	182,307	-
As at 30 June 2013	5,101,369	3,371,824	313,663	775,543	9,562,399
As at 01 January 2014	5,101,369	4,183,983	419,305	1,086,020	10,790,677
Profit For the Period	-	1,071,645	-	-	1,071,645
Other Comprehensive Income	-	-	-	-	-
Total Comprehensive Income	-	1,071,645	-	-	1,071,645
Dividend paid for 2013	-	(484,275)	-	-	(484,275)
Transfers to the Investment Fund Account*	-	(96,336)	-	96,336	-
As at 30 June 2014	5,101,369	4,675,017	419,305	1,182,356	11,378,047
GROUP	Stated Capital	Retained Earnings	Statutory Reserve Fund	Investment Fund Account*	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 01 January 2013	5,101,369	4,044,303	313,663	635,925	10,095,260
Profit For the Period	-	980,308	-	-	980,308
Other Comprehensive Income	-	-	-	-	-
Total Comprehensive Income	-	980,308	-	-	980,308
Dividend paid for 2012	-	(484,275)	-	-	(484,275)
Transfers to the Investment Fund Account*	-	(192,929)	-	192,929	-
As at 30 June 2013	5,101,369	4,347,407	313,663	828,854	10,591,293
As at 01 January 2014	5,101,369	5,067,107	419,305	1,150,382	11,738,163
Profit For the Period	-	1,157,265	-	-	1,157,265
Other Comprehensive Income	-	-	-	-	-
Total Comprehensive Income	-	1,157,265	-	-	1,157,265
Dividend paid for 2013	-	(484,275)	-	-	(484,275)
Transfers to the Investment Fund Account*	-	(102,376)	-	102,376	-
As at 30 June 2014	5,101,369	5,637,721	419,305	1,252,758	12,411,153

*Investment Fund Account is established and operated based on the Guidelines on the Operations of the Investment Fund Account issued by the Central Bank of Sri Lanka on April 29, 2011 with the concurrence of the Commissioner - General of Inland Revenue.

* Tax saving on the reduction of tax rates transferred to the Investment Fund as per the guidelines issued by the Department of Inland Revenue and Central Bank of Sri Lanka. Loans amounting to Rs. 986 Mn. were granted under this scheme.

For the Six months Ended 30 June	Bank		Group	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash Flows from Operating Activities				
Receipts of Interest Income	7,828,087	8,720,976	7,931,520	8,826,004
Receipts of Fees and Commission Income	1,346,974	1,162,696	1,425,471	1,222,717
Payments of Interest Expense	(4,140,988)	(5,266,475)	(4,140,801)	(5,263,094)
Payments of Fees and Commission Expense	(120,574)	(101,814)	(117,649)	(99,154)
Net Trading Income	(34,117)	(318,660)	(34,117)	(318,660)
Receipts from Other Operating Income	132,011	157,826	114,504	143,156
Gratuity Payments Made	(12,451)	(14,792)	(12,451)	(14,792)
Payments for Operating Expenses	(2,846,752)	(2,611,709)	(2,878,826)	(2,642,877)
Net Cash Flow from Operating Activities before Income Tax (A)	2,152,190	1,728,048	2,287,651	1,853,300
Income Tax paid	(207,326)	(22,109)	(233,971)	(43,758)
Operating Profit before Changes in Operating Assets and Liabilities	1,944,864	1,705,939	2,053,680	1,809,542
(Increase)/Decrease in Operating Assets				
Reverse Repurchase Agreements	(1,109)	2,136,257	(22,159)	1,760,597
Derivative Financial Instruments	62,750	(49,446)	62,750	(49,446)
Financial Investments Held for Trading	783,251	(6,370,655)	845,036	(6,370,780)
Financial Investments-Held to Maturity	(733,453)	3,559,284	(740,438)	3,507,295
Other Financial Assets	(934,997)	(305,457)	(901,015)	(303,958)
Loans & Receivables to Banks	-	-	-	-
Loans & Receivables to Other Customers	(4,176,374)	(3,692,960)	(3,628,068)	(3,853,185)
Other Assets	(912,117)	(59,428)	(920,567)	(84,072)
(Increase)/Decrease in Operating Assets	(5,912,049)	(4,782,405)	(5,304,461)	(5,393,549)
Increase/(Decrease) in Operating Liabilities				
Repurchase Agreements	3,168,068	114,251	2,854,030	54,413
Due to Other Customers	2,707,110	5,163,555	2,986,895	5,524,958
Derivative Financial Instruments	(191,885)	(140,648)	(191,885)	(140,648)
Other Liabilities	260,852	87,735	217,457	135,222
Increase/(Decrease) in Operating Liabilities	5,944,145	5,224,893	5,866,497	5,573,945
Net Cash Flows from Operating Activities	1,976,960	2,148,427	2,615,716	1,989,938
Cash Flows from Investing Activities				
Purchase of Property, Plant and Equipment	(156,830)	(154,708)	(156,925)	(155,048)
Proceeds from Sale of Property, Plant and Equipment and Intangible Assets	926	218	926	218
Purchase of Intangible Assets	(15,140)	(65,669)	(15,141)	(65,669)
	(171,044)	(220,159)	(171,140)	(220,499)
Cash Flows from Financing Activities				
Net change in Debt issued and other Borrowed Funds	(155,593)	108,710	(779,403)	267,480
Repayment of Subordinated Debt	(67,325)	(567,325)	(67,325)	(567,325)
Interest paid on Subordinated Debt	(338,499)	(148,851)	(338,499)	(148,851)
Dividends paid to Equity Holders of the Parent	(484,275)	(484,275)	(484,275)	(484,275)
	(1,045,692)	(1,091,741)	(1,669,502)	(932,971)
Net Increase in Cash and Cash Equivalents	760,224	836,527	775,074	836,468
Cash and Cash Equivalents at the beginning of the year	6,960,012	7,510,041	6,960,051	7,510,139
Cash and Cash Equivalents at the end of the year	7,720,236	8,346,568	7,735,125	8,346,607
Reconciliation of Cash and Cash Equivalents				
Cash on Hand	3,074,228	2,496,584	3,109,144	2,496,594
Statutory Deposit with the Central Bank of Sri Lanka	3,891,557	5,368,655	3,891,557	5,368,655
Balances with Banks	1,056,543	559,137	1,036,516	559,166
Money at Call and Short Notice	104,276	-	104,276	-
Deposits from Other Banks	(406,368)	(77,808)	(406,368)	(77,808)
	7,720,236	8,346,568	7,735,125	8,346,607
A. Reconciliation of Operating Profit				
Profit before Taxation	1,632,081	1,287,020	1,755,812	1,426,150
(Profit) / Loss on disposal of Property, Plant and Equipment and Intangible Assets	(710)	(414)	(710)	(414)
Impairment charge / (Reversal) for Loans and Receivables	437,145	281,735	437,421	282,363
Provision for Gratuity	53,743	42,856	54,746	44,102
(Increase) / Decrease in Interest Receivable	(423,844)	(61,994)	(421,685)	(61,857)
Increase/ (Decrease) in Interest Payable	302,663	86,928	299,561	87,929
Increase / (Decrease) in Financial Guarantee Liabilities	1,874	2,818	1,874	2,818
Other Receivables	3,059	-	3,059	-
Other Payables	188,007	-	188,007	-
Other Non cash items	(29,377)	103,891	(17,983)	87,000
Gratuity Payments Made	(12,451)	(14,792)	(12,451)	(14,792)
	2,152,190	1,728,048	2,287,651	1,853,300

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS



	HFT at Fair Value		Financial Derivatives at Fair Value		HTM at Amortised Cost		L & R at Amortised Cost		Other Financial Liabilities at Amortised Cost		Total	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013	30.06.2014	31.12.2013	30.06.2014	31.12.2013	30.06.2014	31.12.2013	30.06.2014	31.12.2013
BANK												
Rs. '000												
Assets												
Cash and Cash Equivalents	-	-	-	-	-	-	4,235,046	3,019,735	-	-	4,235,046	3,019,735
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	3,891,557	4,031,763	-	-	3,891,557	4,031,763
Derivative Financial Instruments	-	-	58,742	121,491	-	-	-	-	-	-	58,742	121,491
Reverse Repurchase Agreements	-	-	-	-	-	-	1,460,509	1,459,506	-	-	1,460,509	1,459,506
Financial Assets - Held for Trading	22,695,117	23,365,388	-	-	-	-	-	-	-	-	22,695,117	23,365,388
Other Financial Assets	-	-	-	-	-	-	3,140,719	2,198,582	-	-	3,140,719	2,198,582
Loans & Receivables to Banks	-	-	-	-	-	-	-	-	-	-	-	-
Loans & Receivables to Other Customers	-	-	-	-	-	-	84,983,441	81,128,760	-	-	84,983,441	81,128,760
Financial Assets - Held to Maturity	-	-	-	-	20,668,634	19,734,821	-	-	-	-	20,668,634	19,734,821
Total Financial Assets	22,695,117	23,365,388	58,742	121,491	20,668,634	19,734,821	97,711,272	91,838,346	-	-	141,133,765	135,060,046
Liabilities												
Due to Banks	-	-	-	-	-	-	-	-	1,957,733	1,401,473	1,957,733	1,401,473
Derivative Financial Instruments	-	-	441,741	633,625	-	-	-	-	-	-	441,741	633,625
Repurchase Agreements	-	-	-	-	-	-	-	-	21,246,481	18,101,824	21,246,481	18,101,824
Due to Other Customers	-	-	-	-	-	-	-	-	98,664,882	96,036,198	98,664,882	96,036,198
Debt Issued and Other Borrowed Funds	-	-	-	-	-	-	-	-	7,740,416	8,199,428	7,740,416	8,199,428
Total Financial Liabilities	-	-	441,741	633,625	-	-	-	-	129,609,512	123,738,923	130,051,253	124,372,548

GROUP

	HFT at Fair Value		Financial Derivatives at Fair Value		HTM at Amortised Cost		L & R at Amortised Cost		Other Financial Liabilities at Amortised Cost		Total	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013	30.06.2014	31.12.2013	30.06.2014	31.12.2013	30.06.2014	31.12.2013	30.06.2014	31.12.2013
Rs. '000												
Assets												
Cash and Cash Equivalents	-	-	-	-	-	-	4,235,052	3,019,774	-	-	4,235,052	3,019,774
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	3,891,557	4,031,763	-	-	3,891,557	4,031,763
Derivative Financial Instruments	-	-	58,742	121,491	-	-	-	-	-	-	58,742	121,491
Reverse Repurchase Agreements	-	-	-	-	-	-	574,308	552,236	-	-	574,308	552,236
Financial Assets - Held for Trading	23,728,436	24,460,493	-	-	-	-	-	-	-	-	23,728,436	24,460,493
Other Financial Assets	-	-	-	-	-	-	3,140,719	2,198,582	-	-	3,140,719	2,198,582
Loans & Receivables to Banks	-	-	-	-	-	-	-	-	-	-	-	-
Loans and Advances to Customers	-	-	-	-	-	-	85,647,743	82,327,255	-	-	85,647,743	82,327,255
Financial Assets - Held to Maturity	-	-	-	-	20,734,812	19,794,014	-	-	-	-	20,734,812	19,794,014
Total Financial Assets	23,728,436	24,460,493	58,742	121,491	20,734,812	19,794,014	97,489,379	92,129,610	-	-	142,011,369	136,505,608
Liabilities												
Due to Banks	-	-	-	-	-	-	-	-	1,957,733	1,401,473	1,957,733	1,401,473
Derivative Financial Instruments	-	-	441,741	633,625	-	-	-	-	-	-	441,741	633,625
Repurchase Agreements	-	-	-	-	-	-	-	-	20,911,392	18,067,817	20,911,392	18,067,817
Due to Other Customers	-	-	-	-	-	-	-	-	98,623,815	95,729,533	98,623,815	95,729,533
Debt Issued and Other Borrowed Funds	-	-	-	-	-	-	-	-	7,743,364	8,806,086	7,743,364	8,806,086
Total Financial Liabilities	-	-	441,741	633,625	-	-	-	-	129,236,304	124,004,909	129,678,045	124,638,534

HFT -Held for Trading
HTM - Held-to-Maturity
L&R- Loans and Receivables

**NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
ADDITIONAL QUARTERLY DISCLOSURES**

(AS PER THE CIRCULAR NO.02/17/900/0001/004 DATED ON OCTOBER 11, 2013 ISSUED BY THE CENTRAL BANK OF SRI LANKA)

	Bank		Group	
	30.06.2014 Rs. '000	31.12.2013 Rs. '000	30.06.2014 Rs. '000	31.12.2013 Rs. '000
1) Loans and Receivables To Other Customers				
Gross Loans and Receivables	85,556,966	81,533,347	86,220,593	82,730,891
(Less) : Individual Impairment	(556,223)	(620,978)	(556,223)	(620,978)
Collective Impairment	(1,398,902)	(1,154,216)	(1,398,227)	(1,153,265)
Net Loans and Advances including those designated at Fair Value through Profit or Loss	83,601,841	79,758,153	84,266,143	80,956,648
(Less) : Loans and Advances designated at Fair Value through Profit or Loss	-	-	-	-
Net Loans and Advances	83,601,841	79,758,153	84,266,143	80,956,648
Staff Loans	2,246,672	2,181,943	2,246,672	2,181,943
Less : Allowance for Day 1 Difference	(865,072)	(811,336)	(865,072)	(811,336)
	1,381,600	1,370,607	1,381,600	1,370,607
	84,983,441	81,128,760	85,647,743	82,327,255

	Bank		Group	
	30.06.2014 Rs. '000	31.12.2013 Rs. '000	30.06.2014 Rs. '000	31.12.2013 Rs. '000
2) Gross Loans and Receivables to Other Customers -By Product				
By Product -Domestic Currency				
Bills of Exchange	59,076	66,229	59,076	66,229
Overdrafts	18,706,491	17,739,197	18,706,491	17,739,197
Term Loans	22,400,199	20,606,186	22,400,198	20,606,185
Staff Loans	2,246,672	2,181,943	2,246,672	2,181,943
Leases	23,194,721	21,738,216	23,194,721	21,738,216
Credit Cards	10,835,892	9,997,774	10,835,892	9,997,774
Pawning Advance	1,616,419	2,422,265	1,616,419	2,422,265
Corporate Debt Securities	1,592,138	1,578,457	1,592,138	1,578,457
Housing Loans	934,488	985,152	934,488	985,152
Other Advances	2,873,349	2,171,617	3,536,977	3,369,162
Sub Total	84,459,445	79,487,036	85,123,072	80,684,580
By Product -Foreign Currency				
Bills of Exchange	638,591	368,743	638,591	368,743
Overdrafts	169,617	70,329	169,617	70,329
Term Loans	1,114,542	2,190,703	1,114,542	2,190,703
Other Advances	1,421,443	1,598,479	1,421,443	1,598,479
Sub Total	3,344,193	4,228,254	3,344,193	4,228,254
Total	87,803,638	83,715,290	88,467,265	84,912,834

(AS PER THE CIRCULAR NO.02/17/900/0001/004 DATED ON OCTOBER 11, 2013 ISSUED BY THE CENTRAL BANK OF SRI LANKA)

3) Movements in Individual and Collective Impairment during the period for Loans and Receivables to Banks and Other Customers

	Bank		Group	
	30.06.2014 Rs. '000	31.12.2013 Rs. '000	30.06.2014 Rs. '000	31.12.2013 Rs. '000
Individual Impairment				
Opening Balance	620,978	1,120,502	620,978	1,120,502
Charge/ (Reversal) to Income Statement	(64,755)	(499,524)	(64,755)	(499,524)
Closing Balance	556,223	620,978	556,223	620,978
Collective Impairment				
Opening Balance	1,154,216	704,788	1,153,265	702,646
Charge/ (Reversal) to Income Statement	501,900	937,638	502,176	938,829
Amounts written off during the Period	(257,214)	(488,210)	(257,214)	(488,210)
Closing Balance	1,398,902	1,154,216	1,398,227	1,153,265
Total Impairment	1,955,125	1,775,194	1,954,450	1,774,243

4) Due to Other Customers -By Product

	Bank		Group	
	30.06.2014 Rs. '000	31.12.2013 Rs. '000	30.06.2014 Rs. '000	31.12.2013 Rs. '000
By Product -Domestic Currency				
Demand Deposits	9,961,960	8,715,316	9,920,894	8,664,708
Savings Deposits	13,584,931	11,687,808	13,584,931	11,687,808
Call Deposits	445,286	492,697	445,286	492,697
Fixed Deposits	60,655,609	56,437,719	60,655,609	56,181,662
Certificate of Deposits	1,252,708	2,867,362	1,252,708	2,867,362
Sub Total	85,900,494	80,200,902	85,859,428	79,894,237
By Product -Foreign Currency				
Demand Deposits	384,818	770,891	384,818	770,891
Savings Deposits	3,078,273	3,190,449	3,078,273	3,190,449
Call Deposits	17,890	239,381	17,890	239,381
Fixed Deposits	9,283,407	11,634,575	9,283,407	11,634,575
Sub Total	12,764,388	15,835,296	12,764,388	15,835,296
Total	98,664,882	96,036,198	98,623,815	95,729,533

DEBENTURE INFORMATION

The rated unsecured subordinated redeemable debentures 2011/16 and 2013/18 of the Bank are listed in the Colombo Stock Exchange.



Debenture Categories	CSE Listing	Interest Payable Frequency	Balance as at 30.06.2014 Rs. '000	Balance as at 30.06.2013 Rs. '000	Market Values			Interest Rates		Interest rate of Comparable Government Security		Other Ratios as at date of last trade	
					Highest Rs.	Lowest Rs.	Year End Rs.	Coupon Rate %	Effective Annual Yield %	30.06.2014 %	30.06.2013 %	Interest Yield %	Yield to Maturity %
Fixed Rate													
Fixed Rate	NTBD0131	Annually	-	1,000,000	Not traded			21.00	21.00	-	9.61	Not traded	
Fixed Rate	NTBD0163	Semi -Annually	1,525,000	1,525,000	1,026.11	1,010.72	1,026.11	11.50	11.83	7.27	16.68	11.21	10.30
Fixed Rate	NTBD0164	Semi -Annually	200,000	200,000	Not traded			11.00	11.30	7.27	11.12	Not traded	
Fixed Rate	NTBD0165	Semi -Annually	275,000	275,000	Not traded			11.50	11.83	7.27	11.12	Not traded	
Fixed Rate	NTBD0266	Semi -Annually	3,000,000	-	Not traded			13.00	13.42	8.41	-	Not traded	
Total Debentures			5,000,000	3,000,000									

Ratios of Debt	30.06.2014	30.06.2013
* Debt / Equity Ratio %	58.84%	50.52%
Interest Cover (Times)	5.64	5.16

* All Subordinated debt and listed Senior debt are considered as Debt (numerator)

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
SEGMENT INFORMATION



Operating Segments Rs. '000	Bank		Treasury Functions		Others		Unallocated/ Eliminations		Total Group	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013	30.06.2014	30.06.2013	30.06.2014	30.06.2013	30.06.2014	30.06.2013
Operating income	4,298,122	3,919,024	1,125,186	453,778	187,893	206,710	(38,238)	799	5,572,963	4,580,312
Impairment Charge/(Reversal) for Loans and Receivables	437,145	282,363	-	-	-	-	276	-	437,421	282,363
Net Operating income	3,860,977	3,636,661	1,125,186	453,778	187,893	206,710	(38,514)	799	5,135,542	4,297,949
Extracts of results										
Interest Income	6,361,686	6,505,162	2,117,020	2,191,871	180,212	232,906	(2,454)	(34,323)	8,656,464	8,895,616
Inter Segment	(8,678)	172,283	8,678	(172,283)	-	-	-	-	-	-
Interest Expense	(3,432,201)	(3,953,993)	(939,675)	(1,308,698)	(72,590)	(120,608)	284	29,315	(4,444,182)	(5,353,984)
Net Interest Income	2,920,806	2,723,452	1,186,023	710,890	107,622	112,299	(2,170)	(5,008)	4,212,282	3,541,632
Fees and Commission Income	1,354,253	1,134,571	-	-	90,337	90,762	(32,551)	4,852	1,412,039	1,230,185
Fees and Commission Expense	(106,573)	(78,190)	(17,995)	(11,318)	(3,075)	(2,757)	7,069	(119)	(120,574)	(92,385)
Net fee and commission income	1,247,680	1,056,381	(17,995)	(11,318)	87,262	88,005	(25,481)	4,733	1,291,465	1,137,800
Net Trading Income	-	-	(46,479)	(249,180)	(6,990)	6,407	148	83	(53,320)	(242,690)
Other Operating Income	129,636	139,192	3,636	3,387	-	-	(10,737)	991	122,536	143,570
Depreciation of Property, Plant and Equipment	80,876	65,354	482	55,723	5,825	5,752	58,139	(6,547)	145,322	120,282
Amortization of Intangible Assets	15,048	29,908	6,140	24,969	1,395	1,364	54,035	6,547	76,618	62,788
Segment Profit / (Loss) before Value Added Tax	1,100,646	1,532,100	929,632	261,662	143,535	153,741	(67,122)	(256,254)	2,106,691	1,691,249
Value Added Tax & Income Tax Expense					(47,196)	(43,376)	(902,230)	(667,565)	(949,426)	(710,940)
Profit for the year	1,100,646	1,532,100	929,632	261,662	96,338	110,365	(969,352)	(923,820)	1,157,265	980,308
Capital Expenditures										
Property and Equipment	122,993	108,818	145	49,317	-	-	33,787	-	156,925	158,134
Other Intangible Assets	807	43,295	-	22,371	-	-	14,334	-	15,141	65,666
Total Assets	85,843,275	77,158,217	57,079,831	47,435,041	3,004,051	3,599,496	2,638,048	(193,478)	148,565,205	127,999,276
Total Liabilities	101,301,745	94,117,289	33,541,023	23,510,496	1,308,661	1,910,101	2,623	(2,129,902)	136,154,052	117,407,983

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES



Explanatory Notes:

- (1) The Group figures include those of the Subsidiaries, Waldock Mackenzie Limited, Allied Properties Limited, Nations Insurance Brokers Limited (formerly MLL Insurance Brokers Limited). Further a Liquidator has been appointed on 03 June 2013 to wind up Mercantile Leasing (Financial Services) Limited, Subsidiary of the Bank.
- (2) These Financial Statements are prepared in accordance with Sri Lanka Accounting Standards (SLFRS / LKASs) and provide the information as required in terms of Rule 7.4 of the Colombo Stock Exchange and the Directions issued by the Central Bank of Sri Lanka. Comparative figures have been remeasured / reclassified where necessary to comply with the Central Bank guidelines and SLFRS / LKASs.
- (3) These Interim financial statements are presented in accordance with LKAS 34 - Interim Financial Reporting and there are no changes to the accounting policies and methods of computation as against those disclosed in the Annual Report for the year ended 31st December 2013.
- (4) There are no material changes to contingent assets and liabilities since 30.06.2014 and the balances reflected are due to transactions carried out in the normal course of Banking Business.
- (5) No material events have taken place since 30.06.2014 that require disclosure or/and adjustments in these accounts and all known expenditure have been provided in these financial statements.

The above figures are provisional and subject to audit.

NATIONS TRUST BANK PLC
FOR THE PERIOD ENDED 30 JUNE 2014



Twenty largest Shareholders

Name of the Shareholder	No. of Shares	%
John Keells Holdings PLC.	46,121,536	20.00
DFCC Bank A/C No 01	22,865,356	9.92
Mackinnons Keells Limited	22,830,159	9.90
HWIC Asia Fund	21,849,298	9.47
Central Finance Company PLC A/C No 03	20,715,400	8.98
CF Growth Fund Limited A/C No 01	14,813,273	6.42
CF Insurance Brokers (Pvt) Limited.	10,592,857	4.59
The Ceylon Guardian Investment Trust PLC A/C #02	3,125,771	1.36
The Ceylon Investment PLC A/C #02	2,888,580	1.25
Mr.M.F. Hashim	2,600,000	1.13
Employees Trust Fund Board	2,324,274	1.01
Trading Partners (Pvt) Limited	2,139,417	0.93
Renuka City Hotels PLC	1,858,775	0.81
Bank of Ceylon - A/C No 02	1,546,100	0.67
Janashakthi Insurance PLC	1,410,081	0.61
Mr. N.R. Somaiya	1,320,624	0.57
Timex (Garments) Limited	1,238,465	0.54
Deutsche Bank AG as Trustee for Namal Acuity Value Fund	1,200,000	0.52
HSBC International Nominees Limited - SSBT - Deutsche Bank AG Singapore A/C No 01	1,089,000	0.47
Malship Ceylon Limited	1,063,857	0.46
	183,592,823	79.61
Others	47,014,460	20.39
Total	230,607,283	100.00

Percentage of public shareholding as at 30 June 2014 was 49.80% . The drop from 79.85% public shareholding as at 31 Dec 2013 is due to the revision in direction issued by the Securities and Exchange Commission of Sri Lanka on classifications of Public shareholding.

Directors' holding in shares as at 30 June 2014

Name of Director	No of Shares
Mr. K.N.J.Balendra	107,700
Mr. A.R. Rasiah	16,304
Mr. C.H.S.K. Piyaratna	100,400
Mrs. R.N. K. Fernando (Director / CEO)	68,700
Mr.K.O.V.S.M.S. Wijesinghe	39,650
Mr. J.G.A. Cooray	8,400
Dr. (Ms.) D. Weerakoon	-
Mr. M.E. Wickremesinghe	-
Mr. M Jafferjee	-
Dr. (Mr.) Kemal De. Soysa	-
Mr. D.P. De Silva	-
Ms. N. S. Panditaratne	-
Mr. C.L.K.P. Jayasuriya	-

1 FINANCIAL RISK MANAGEMENT

1.1 Introduction

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement, and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability. The Bank is primarily exposed to credit risk, liquidity risk, market risk and operational risks.

The Board of Directors is responsible for establishing the overall risk management framework within the Bank. This consists of approval of a risk governance structure and approval of detailed risk management policies and procedures with risk appetite and tolerance limits. The Board delegates specific oversight of all risk management activities in the Bank to the Board Integrated Risk Management Committee (BIRMC). It reviews risk goals, department risk grids and material risk issues highlighted by different executive risk committees. It also monitors compliance with Bank policies and regulations. The Board has appointed the Executive Risk Management Committee (ERMC) which has the overall responsibility for overseeing the establishment and implementation of frameworks, policies and limits for various risk exposures. The ERMC is assisted by the Assets and Liability Management Committee (ALCO) which specifically focus on market risk management and liquidity risk management whilst Head Office Credit Committee focuses on the credit risk management.

The Integrated Risk Management Department (IRMD), headed by the Chief Risk Officer (CRO), is responsible for developing and implementing the Bank's risk management framework.

Risk Measurement and Reporting Systems

The Bank's risks are measured using methods that reflect incurred loss model for financial reporting and the expected loss likely to arise in normal circumstances which are supported by statistical models for financial reporting and regulatory purposes. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. Managing of risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept with additional emphasis on selected industries. Information compiled from all the relevant departments is examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the members of Board Supervisory Committee, BIRMC and the heads of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. The BIRMC receives a risk assessment report once a quarter, which is designed to provide a wide range of information to assess and conclude on the risks of the Bank.

The Head of Treasury Middle Office provides the details on the utilization of market limits, liquidity and any other market risk developments to the Chief Executive Officer and other relevant members of the Bank on a daily basis.

1.2 Credit Risk

Credit risk is the risk that the Bank would incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits and by taking appropriate collateral.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. An appropriate risk rating mechanism covering various types of customer segments of the bank excluding consumer products is being implemented. Such risk ratings are subject to regular revision.

The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Impairment Assessment

For financial reporting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed.

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis above a predetermined threshold limit. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout if bankruptcy happens, the availability of other financial support, the realizable value and timing of collateral and expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. The Bank has currently set Individually Significant Threshold at Rupees Twenty Million and every customer having an aggregate exposure above that limit is individually assessed for objective evidence of incurred loss (OEIL). If the Bank finds such customers having OEIL, those customers are individually impaired taking in to account the estimated value of future cash flows.

Collectively Assessed Allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether allowance should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio such as historical losses on the portfolio, levels of arrears, and expected receipts and recoveries once impaired. The Bank generally bases its analyzes on historical experience. However, when there are significant market developments, the Bank also include macro- economic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, levels of bad debts and delinquency trends, Inflation, movements in Gross Domestic Product (GDP), macro environment stability in financial industry, revisions in the interest rates, changes in regulatory environment and other available consumer data. The Bank uses the aforementioned factors as appropriate to adjust the impairment allowances.

Commitments and Guarantees

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank. The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank would have to pay if the guarantee is called upon. Undrawn commitments mainly consist of unutilized credit card limits and facilities granted to corporate customers where the Bank reserves the right to unconditionally cancel or recall the facility at its discretion.

Forward / Swap Foreign exchange contracts are recorded on a gross basis even though the net exposure, which is the settlement risk, is very much lower than the recorded gross amounts.

1.3 Liquidity Risk

Liquidity risk is defined as the risk that the Bank will encounter a difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk is measured through the stock and flow approaches.

Bank maintains a minimum 20% ratio of liquid assets to total liabilities under stock approach based on the regulations of the Central Bank of Sri Lanka. Liquid assets mainly consist of cash, short-term Bank deposits and government securities. In addition, the Bank maintains a statutory deposit with the Central Bank of Sri Lanka equal to 6% of Sri Lankan Rupee customer deposits. The bank also manages the liquidity risk through managing the gaps between assets and liabilities in various maturity buckets. Management considers both contractual cash flows as well as behavioral aspects of these assets and liabilities when analyzing the gaps. Due consideration is given to stress factors relating to both the market in general and specifically to the Bank. Additionally, the Bank has developed a contingency plan to address these stress situations.

1.4 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Interest Rate Risk (IRR) arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Any mismatches in the cash flows (fixed rate assets or liabilities) or re-pricing dates (floating rate assets or liabilities) expose Banks' Net Interest Income to variations. IRR exposure is primarily managed with Maturity Gap analysis that distributes interest rate sensitive assets, liabilities and off-balance sheet positions at carrying amount into a number of pre-defined time-bands according to their residual term to maturity (fixed rate) or residual term to their next re-pricing (floating rate). The sensitivity of the Income Statement is measured by calculating the change in the present value of above interest rate sensitive gaps, based on assumed changes in interest rates along the yield curve.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Exposure to each currency is arrived at by calculating the Net Asset or Liability position including the spot and forward contracts of the relevant currency. Treasury Middle Office (TMO) monitors the above positions on a daily basis to ensure positions are maintained within established limits.

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

1.5 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Over the period Operational Risk Management tools have evolved within the Bank and now the usage of techniques such as Risk and control self assessment (RCSA) and key risk indicators (KRI) have become part and parcel of normal course of business. The Bank has a robust process to capture operational loss events which are centrally fed in to an operational loss data base to be used for modeling when the Bank moves towards the Advanced Approach under BASEL Guidelines. In addition to above Operational Risk Management Unit oversee the appropriateness and implementation of Business Continuity Plan (BCP) across the Bank.

Operational Risk Management Unit oversees the internal control systems of the Bank which include assessment of operating procedures to mitigate Operational Risks. The Operational Risk Management

Unit works closely with other business/support units in confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with relevant accounting principles and Regulatory requirements.

The Bank uses Insurance as a risk mitigating technique to contain the severity of Operational Risk.

2.CAPITAL MANAGEMENT

The Bank has established a capital maintenance strategy which forms an integral part of its strategic planning exercise with following key objectives in mind.

- To maintain the capital resources commensurate with the business strategy, capital commitments and overall risk appetite
- To maintain an adequate capital buffer for unexpected and stressed economic conditions
- To allocate capital to businesses and products in order to optimize risk adjusted returns and economic value additions
- To comply with regulatory requirements and international best practice relating to capital maintenance

In regulatory capital perspective, the bank applies the Basel 2 framework, as adopted by CBSL in order to calculate the Risk Weighted Assets (RWA) and the capital requirement. For the measurement of RWA, the bank currently adopts the standardized approach for credit risk and market risk while the Basic Indicator Approach is applied for Operational Risk. The minimum Tier 1 capital is set at 5% of RWA while minimum Total Capital (Tier 1 plus Tier 2) is set at 10% RWA.