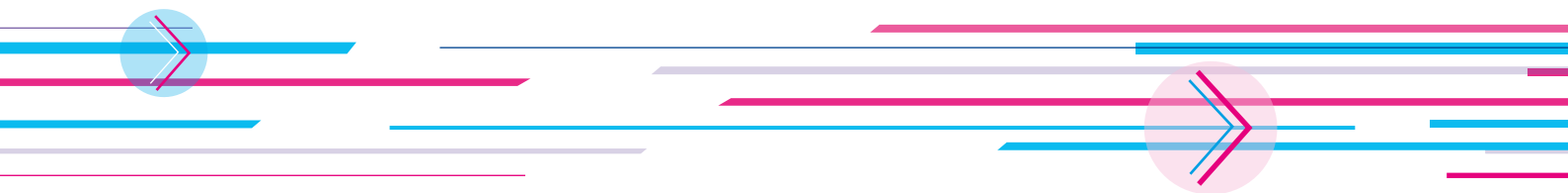




Strong. Swift. Agile.



Scan this QR Code with your smart device to view a version of this annual report online at

<http://nationstrust.com/about/investor-relations>



Strong. Swift. Agile.

At Nations Trust Bank, these are the qualities we have focused on, rapidly growing to be one of Sri Lanka's most energetic, resilient and progressive commercial and retail banks. Our vision to create long-term value is powered by a swiftly expanding network, advanced systems and processes and a reputation for governance and integrity that is second to none.

We are one of the nation's most innovative and responsive banks. Digital accessibility is a key strength and advanced banking technologies are the platform upon which we have built a name for speed, convenience and expertise.

Today we are proud to be perfectly positioned for performance excellence, in line with the swift evolution of finance industry in Sri Lanka today.

This report discusses in detail the many ways in which we create sustainable value for the diverse stakeholder groups we partner - the customers, communities, employees and associates we work with every day. The years ahead are full of promise as we leap towards our opportunities for growth; strong, swift and agile.

Contents

4-31 pg Group overview

Vision, Mission and Values	4
About Us	5
An Overview of Our 2015 Report	8
Our Integrated Report	10
Operational and Financial Highlights	12
Chairman's Message	14
Chief Executive Officer's Review	18
Creating Value for Stakeholders	23
Stakeholder Engagement	24
Determining Materiality	26
Our Strategy	28

32-111 pg Governance

Board of Directors	34
Corporate Management	40
Senior Management	42
Investor Information	46
Risk Management	50
Corporate Governance	66
Board Integrated Risk Management Committee Report	94
Board Credit Committee Report	95
Board Supervisory Committee Report	96
Board Nomination Committee Report	97
Human Resources and Remuneration Committee Report	98
Annual Report of the Board of Directors on the Affairs of the Bank	99
Directors' Interest in Contracts with the Bank	105
Directors' Statement on Internal Control Over Financial Reporting	106
Auditors' Report on Internal Control Over Financial Reporting	108
Board Audit Review Committee Report	109



112-171 pg Management Discussion and Analysis

The Operating Environment	114
Financial Capital	120
Business Line Review	128
Human Capital	148
Social and Relationship Capital	158
Investing in Communities	162
Natural Capital	164
GRI Index	167

172-284 pg Financial Information

Directors' Responsibility for Financial Reporting	174
Independent Auditors' Report	175
Statement of Financial Position	176
Statement of Profit or Loss	177
Statement of Comprehensive Income	178
Statement of Changes in Equity	179
Statement of Cash Flows	180
Notes to the Financial Statements	181
Details of Freehold Land and Building	266
Service Network	267
Glossary	271
Appendix I	278
Notice of Meeting	282
Form of Proxy	283



Vision

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

Mission

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

Values

Agile

Proactive

Excellence

Winning together

Trust

About Us

Nations Trust Bank PLC is one of Sri Lanka's fastest growing licensed commercial banks, offering a multitude of solutions across Sri Lanka's consumer, SME, corporate and institutional markets. A relatively new entrant to the country's licensed commercial banking industry, the Bank's innovative perspectives on customer convenience has enabled it to rapidly capture market share through a superior value proposition to customers. With an asset base of Rs. 176.3 Bn and a deposit portfolio of Rs. 129.1Bn as at end-December 2015. We have grown at an average of 19% over the past few years, outperforming industry expansion. Our network of 92 branches, 131 ATMs and 54 leasing centres spread across 22 districts enables us to serve over 500,000 customers and has provided us a strong platform to capture growth opportunities.

The Bank's agility and dynamism is a reflection of our people, a team of 2,695 young and vibrant professionals who live our corporate values and facilitate our customer experience. We are a technology driven Bank and the transformative ideas of our people combined with disruptive technologies has allowed the Bank to effectively deploy online and mobile platforms to enhance customer service. As a responsible corporate citizen we are fully aware of our role in creating sustainable value for the communities we operate in, whilst minimising the environmental footprint of our operations we continue to invest funds and effort in achieving our sustainability objectives.

The Nations Trust Group comprises of Nations Trust Bank PLC and three subsidiaries engaged in providing specialised services. The Bank is the most significant entity within the Group, contributing approximately 94.8% of its pre-tax profit and accounting for 99.6% of the Group's total assets.



2,695
Employees



92
Branches



131
ATM's



>500,000
Customers



GROUP OVERVIEW

The Nations Trust Group comprises of Nations Trust Bank PLC, which is the most significant entity within the Group and three subsidiaries engaged in providing specialised services. Nations Trust Bank provides a multitude of solutions across Sri Lanka's consumer, SME, corporate and institutional markets.



Knowing our Strength

Our business model defines the way we create value for stakeholders and through this Report we hope to describe how we created and shared value with our key stakeholder groups during the year.

Creating Value for Stakeholders

p23



Scan this QR Code with your smart device to view a version of this annual report online at

<http://nationstrust.com/about/investor-relations>

AN OVERVIEW OF OUR 2015 REPORT

This year we present our 2nd Integrated Report, aimed at providing our stakeholders with a concise yet comprehensive assessment of the Group's strategy, performance and governance. Performance is discussed in relation to the Group's short, medium and long-term economic, social and environmental goals wherever possible.

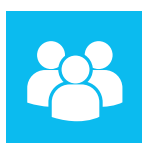
This information is set out in our Management Discussion and Analysis which is presented using a stakeholder value creation approach, risk management and corporate governance reports and financial statements.



Economic

For more
information
about Economic

p114



Social

For more
information
about Social

p148



Environmental

For more
information
about
Environmental

p164

Scope and Boundary

This Report covers the operations of Nations Trust Bank PLC and its subsidiaries, Waldock MacKenzie Limited, Allied Properties Limited and Nations Insurance Brokers. We follow an annual reporting cycle and this Report covers the period from 1st of January to 31st of December 2015. Material events after this date up to the sign off by the Board of Directors on page 26 February 2016 are included in the report to enhance value to users. Content included in the Report reflect the Group's material aspects, which were selected through a systematic process involving stakeholder engagement at all levels as described on page 24 of this Report. The Report provides financial and non-financial information on material developments to objectively represent the events that shaped our performance during the year and are likely to impact our future performance.

We have enhanced the scope and coverage of report content in comparison to last year by combining aspects prescribed by the Global Reporting Initiative (GRI) and those specific to our industry and value creation process. We have also clearly identified how our material aspects correspond to the disclosures recommended by GRI, on page 278 of this Report. Restatements of any financial and non-financial information are duly noted.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Standards and Principles

	Integrated Report	Annual Financial Statements	Corporate Governance Risk Management Report	Sustainability Information
Standards and Principles	Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)	<ul style="list-style-type: none"> ⊕ Sri Lanka Financial Reporting Standards ⊕ Banking Act and amendments thereto ⊕ Companies Act, No 7 of 2007 ⊕ Listing Requirements of the Colombo Stock Exchange 	<ul style="list-style-type: none"> ⊕ Code of Best Practice on Corporate Governance issued by the ICASL and SEC ⊕ Corporate Governance rules for Licensed Commercial Banks by CBSL, Direction No.11 of 2007 	GRI- G4 standards (Core)

Assurance

External assurance on the financial reports and the Director's Statement of Internal Controls has been provided by Messrs Ernst and Young, Chartered Accountants.

Forward looking statements

In reporting on our future plans and outlook, this Report contains many forward looking statements indicated by the use of words such as, anticipate, target, believe, plan, may, estimate, intend and others with similar meanings. These estimates are based on our current plans, estimates and projections; therefore such statements involve inherent risks and uncertainties as a number of factors cause the actual result to deviate from the targeted one. As such, the Bank does not undertake any obligation to update or revise forward looking statements herein, after the distribution of this Report.

We have enhanced the scope and coverage of report content in comparison to last year by combining aspects prescribed by the Global Reporting Initiative (GRI) and those specific to our industry and value creation process.



Feedback

We understand the integrated reporting is a journey of continuous improvement and welcome your comments and suggestions to further improve the readability and meaningfulness of our Report. Please direct your feedback to:

Kushlani Allis
Chief Manager
Management Reporting & Planning

Email: kushlani.allis@nationstrust.com

OUR INTEGRATED REPORT



This report discusses in detail the many ways in which we create sustainable value for the diverse stakeholder groups we partner; the customers, communities, employees and associates we work with every day.



OUR PERFORMANCE

- ⊕ We measure our performance against our strategy on issues that are material to us
- ⊕ The Bank recorded strong growth and increased profitability during the year.
- ⊕ Leveraging its footprint and agility to deliver shareholder value

For more information about Our Performance

p120




OUR STRATEGY

- ⊕ We leverage our competitive advantage through a unified strategy
- ⊕ We made substantial progress towards achieving our strategic objectives

For more information about Our Strategy & KPIs

p28



STAKEHOLDER ENGAGEMENT

- ⊕ Our business model defines the way we create value to our stakeholders
- ⊕ We continued to create sustainable value to all our stakeholders during the year

For more information about Our Business Model

p24



OUR PEOPLE

- ⊕ Our team makes us swift, agile and strong
- ⊕ We delivered value to our people through rewards, recognition, talent development and opportunities for career progression

For more information about Our People

p148

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

BUSINESS MODEL

GOVERNANCE

RISK AND OPPORTUNITIES

OUTLOOK

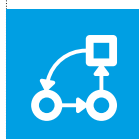


OUR BUSINESS MODEL

For more
information
about Our
Market

p23

- ⊕ New dynamics continue to reshape our competitive landscape
- ⊕ The agility of the Bank's business model allowed us to respond proactively to market change



CORPORATE GOVERNANCE

For more
information
about Corporate
Governance

p66

- ⊕ The Bank's strong governance framework provides a solid foundation for sustainable performance
- ⊕ Our leadership is open and collaborative, unified and experienced



RISK MANAGEMENT

For more
information
about Risk
Management

p50

- ⊕ Effective risk management forms the bedrock of sustainable organisational performance
- ⊕ We have nurtured a risk culture that aptly balances growth and risk considerations



OUTLOOK

For more
information
about Outlook

p22

- ⊕ We are confident that our dynamic team will respond proactively to challenges in the market
- ⊕ Managing for success in challenging times has always sharpened our focus



Scan this QR Code with your smart device to view a version of this annual report online at

<http://nationstrust.com/about/investor-relations>

OPERATIONAL AND FINANCIAL HIGHLIGHTS

Our performance during the year attests to the soundness of our strategy and resilience of our business model

Financial Highlights	Change%	2015	2014
Financial Performance (Rs. Mn)			
Gross Income	-3%	20,279	20,854
Net profit before Tax	2%	4,672	4,571
Income Tax	0%	1,291	1,290
Net profit	3%	2,614	2,537
Revenue to the Government	1%	2,058	2,035
Financial Position (Rs.Mn)			
Borrowings	-8%	23,433	25,402
Shareholders' funds	9%	15,171	13,895
Total Assets	11%	176,262	158,781
Information per ordinary Share (Rs.)			
Earnings (Basic/Diluted)	3%	10.64	10.31
Effective Dividends	0%	2.10	2.10
Net Assets	9%	60.67	55.46

NET PROFIT

Rs.2,614Mn

2015: Recorded a 3% growth, reflecting narrowing NIMs mirroring industry trends

SHAREHOLDERS' FUNDS

Rs.15Bn

Strong equity base to support future growth

TOTAL ASSETS

Rs.176.3Bn

2015: Recorded a growth of 11% underpinned by strong growth in loans and advances

EMPLOYEES

2,695

Dynamic team of talented employees

CUSTOMERS

500,000

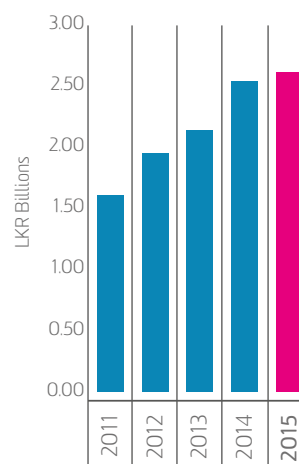
Comprising of individuals, SMEs, and corporates spread across the geographies

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

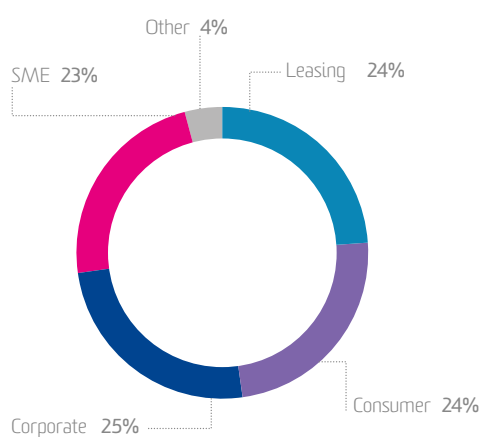
TOTAL OPERATING INCOME



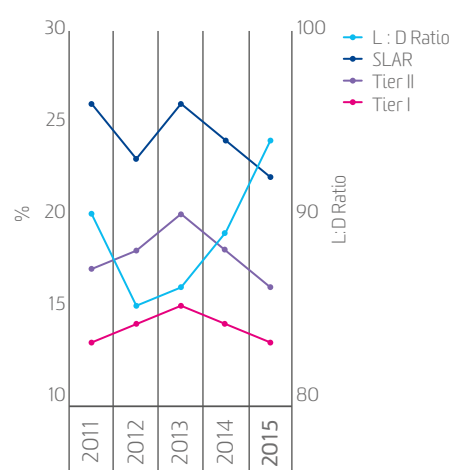
POST TAX PROFIT



ANALYSIS OF LOANS & ADVANCES



CAPITAL ADEQUACY & LIQUIDITY RATIO



CHAIRMAN'S MESSAGE

A strong focus on value creation for all our stakeholders drives our growth and performance, and also our long term sustainability.

Increased digitisation of our operations has been a key feature of our strategy facilitating increasing levels of customer convenience, scalability and reliability of our operations.



Krishan Balendra
Chairman





CHAIRMAN'S MESSAGE

A strong focus on value creation for all our stakeholders drives our growth and performance, and also our long term sustainability. Financial strength and profitability are prerequisites to fulfilling our role and ensuring that we stay relevant to the communities we operate in. Accordingly, it is my pleasure to report that Nations Trust Bank PLC has recorded a profit after tax of Rs. 2.6Bn and a total asset growth of 11% during 2015, maintaining its position as one of the most profitable banks in the country with an ROE of 18%. It is a commendable performance in a challenging operating environment with increasing interest rates, relatively high levels of exchange rate volatility, strong private sector credit growth and continued pressure on margins. A real increase in wages coupled with low inflation contributed to growth of the consumer banking business whilst the corporate and SME portfolio growth was attributable to increased private sector credit growth and the Bank's focused efforts on growing the SME portfolio through insightful customer engagement. The increased share of business from existing clients and new client acquisition reflects our results focused culture.

Driving Strategy

The Board continues to provide strategic direction to the Bank which focused on strengthening and optimising the infrastructure already in place as a result of the geographical expansion and investments undertaken in the recent past. Consequently, 2015 was a year for growing our volumes and existing relationships, driving operational excellence and strengthening risk management processes and internal controls. The growth, stability and profitability of the Bank bear testimony to the strategic direction provided by the Board and the balance maintained in managing the dynamics of risk and opportunity.

Increased digitisation of our operations has been a key feature of our strategy facilitating increasing levels of customer convenience, scalability and reliability of our operations. This has been undertaken with an understanding of the risks and opportunities involved with the strategy, addressing concerns of stakeholders in a holistic manner as we commit to embedding our digital strategy across all business lines. Additionally, increased automation of internal processes enabled the Bank to enhance the customer experience with faster response times and drive operational efficiencies along with improved employee productivity. As a

service sector organisation, people strategies are key to driving performance and the Board is assisted by the Human Resources & Remuneration Committee in this regard who exercise oversight in monitoring implementation of Board approved HR policies and making recommendations for any necessary changes. A learning and mentoring culture has been nurtured over the years to ensure that there is depth in our talent pipeline and initiatives such as the Nations Learning Academy have been vital in developing our talent. There has been increased focus on developing the next generation of leaders to ensure they are equipped with the necessary skills needed in the future.

Strengthening Governance

Governing structures and the framework of policies were reviewed during the year to enhance their effectiveness and efficiency as part of the strategic initiatives. Additionally, a Related Party Transactions Review Committee was formally constituted during the year as required by the Directive on the Code of Best Practice on Related Party Transactions. The Board Audit Review Committee and the Board Integrated Risk Management Committee strengthened the processes of the departments directly under their purview as part of planned initiatives to face the challenges in an ever changing environment. We continue to monitor and embed regulatory requirements in to the business processes in a systematic manner and receive reports on compliance thereof on a regular basis which are channelled through the relevant sub-committees to the Board. The effectiveness of measures implemented are reflected in the improved soundness indicators and the performance of the Bank.

On the regulatory front, the Central Bank of Sri Lanka commenced a phased implementation of the Basel III Liquidity Coverage Ratio from 60% in April 2015 to 100% by January 2019 in respect of Rupee Liquidity Minimum Requirement for local currency operations and All Currency Liquidity Minimum Requirement for the overall operations of banks. We have complied with the new direction and our Liquidity coverage ratio of 137% meets the regulatory requirement, the result of aligning our risk appetite and business model in anticipation of the same. Compliance with all regulations has been a priority and it is with satisfaction that we note that there have been no instances of non-compliance brought to our notice by either the external auditors or the regulators.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Nations Trust Bank is well positioned for growth in the coming year as a swift and agile player, building on the lean initiatives, strengthened processes, sound financial position and investments in technology.

A Challenging Landscape

Persistently subdued economic growth that followed in the wake of the global financial crisis in 2008 has been characterised by fundamental shifts in the Banking industry as maintaining financial system stability became a priority across many regions. The first interest rate increase of 25 basis points in December 2015 by the US Federal Reserve since 2006 signalled the end of an extraordinarily accommodative monetary policy in the US as performance across a number of indicators including GDP growth improved during the year. This poses challenges to emerging markets as capital outflows are likely to disrupt financial markets in these countries to varying degrees. The impact on emerging markets from lower commodity prices is more complex and positives on one side are likely to have negative impacts elsewhere as in the case with Sri Lanka, where a decrease in the fuel bill maybe offset by lower demand for goods and services from the Middle East, with consequent impacts on trade related income and remittances affecting the balance of payments. In Sri Lanka, we are likely to witness tightening of monetary policy at a gradual pace as a result of the deterioration in the balance of payments, exchange rate pressures and rising core inflation.

Nations Trust Bank is well positioned for growth in the coming year as a swift and agile player, building on the lean initiatives, strengthened processes, sound financial position and investments

in technology. Further volume growth will drive profitability as we optimise capacity utilisation in the coming year and embed customer life cycle management across our key business lines.

Acknowledgements

Mr. M.E.Wickremasinghe resigned from the Board during the year after a tenure of 8 years and 9 months as the Bank had recruited a close family member to its corporate management and Mr.A.R.Rasiah resigned on reaching 70 years of age in compliance with Rule 3(3)(i) of the Rules of Corporate Governance for Licensed Commercial Banks issued by CBSL, having served on the Board since March 2007. The Board joins me in thanking them for many years of valuable contribution to the Bank.

We welcome Mr.Conrad D'Souza to the Board as an Independent Non-Executive Director from January 2016. As Chief Investor Relations Officer of Housing Development Finance Corporation Ltd in India and a director serving on a number of Boards in India, he contributes relevant expertise in the financial services sector to the collective skills and experience of the Board.

I wish to thank the customers, the shareholders and other stakeholders of the Bank for the trust and confidence placed in the Bank.

I wish to extend my appreciation to the Chief Executive Officer, Ms. Renuka Fernando for her leadership in delivering on agreed strategy while balancing the long term and short term goals. I also wish to thank the corporate management and other employees of the Bank for their dedication and hard work which has facilitated the performance outlined in this report. The Board joins me in thanking officials of CBSL for their continued dialogue on regulatory matters.



Krishan Balendra
Chairman

26 February 2016

*CHIEF EXECUTIVE
OFFICER'S REVIEW*

Nations Trust Bank was recognised amongst the Top 25 Corporates in the country by Business Today

All business lines of the Bank witnessed growth in customer numbers, volumes and revenue, bringing stability to our earnings. SME delivered commendable results as we ventured in to new geographies, increased penetration in existing geographies and embedded the customer life cycle experience into our offering.



Renuka Fernando

Director/CEO





CHIEF EXECUTIVE OFFICER'S REVIEW

Consolidation was the key focus for 2015, following the rapid expansion of our branch network, significant investments in technology and increase in our human capital during 2013 and 2014.

I am pleased to report that Nations Trust Bank has delivered a strong performance, recording a profit after tax of Rs.2.6 bn and total asset growth of 11% during 2015. The Bank's ROE of 17.98% has remained consistently above industry and is one of the highest in the sector. The increase in Loans and Advances was robust at 23% with encouraging growth from the SME and Corporate books, which facilitated a better balance in the overall portfolio. Revenue growth was below expectations, due to the rapidly narrowing net interest margins, mirroring industry trends and the unfavourable movement in the Fixed Income securities portfolio.

Capital adequacy ratios moved to optimal levels as excess liquidity positions normalized but remain well above statutory requirements at 13.15% and 15.53% for Tier I and Tier II respectively. Additionally, the Liquidity Coverage ratio introduced in April 2015 by CBSL, in accordance with Basel III requirements, stands at 137%, above the minimum requirement of 60% for 2015.

All business lines of the Bank witnessed growth in customer numbers, volumes and revenue, bringing stability to our earnings. SME delivered commendable results as we ventured in to new geographies, increased penetration in existing geographies and embedded the customer life cycle experience into our offering. Volume growth in Consumer Banking was managed in a manner that brought a balance to the Loans and Advances portfolio, as vehicle imports and increased consumption boosted consumer lending across the industry. Cards is a mature business for the Bank with its franchise for American Express & Mastercard. Nations Trust, having been appointed as the exclusive franchisee for Diners Club in 2015, launched the Diners Acquiring business in Sri Lanka, which will enhance our fee generation in the cards business in the coming years, as the country positions itself as a sought after tourist destination. The Corporate Banking portfolio

saw rapidly shrinking margins impacting the revenue contribution from this sector which was counteracted to some extent by the increase in assets as the bank seized the opportunities available in the private sector for medium term lending.

I am proud to announce that, Nations Trust Bank was recognised amongst the Top 25 Corporates in the country by Business Today, a milestone in our exciting journey which reflects the progress we have made as one of the youngest banks in the country.

A year of consolidation

Consolidation was the key focus for 2015, following the rapid expansion of our branch network, significant investments in technology and increase in our human capital during 2013 and 2014. We recognize the need to deliver increased market share and sustainable returns on these investments.

The key pillars on which this growth strategy is based are to offer unparalleled customer experience through an intimate understanding of our customers, provide superior digital enablement in our delivery, distribution and customer engagement, unlock customer value and efficiencies in all our processes and create a winning team of SMART employees who are able to deliver on our vision to help people and businesses achieve today's goals and tomorrow's aspirations.

During the year we initiated a paradigm shift within our Bank to deliver on our ambitions to bring an unprecedented customer experience to the market by transforming our bank from providing benchmark customer service to becoming a primary bank that has an in-depth understanding of our customers and their evolving needs and expectations. During the year the bank invested significant resources in building our data mining and data

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

analytics capability, to better understand the life cycles journey of diverse customers, and their financial behaviour. This will help us to proactively provide financial solutions and value added services to the right customer at the right time thereby enabling us to propel our customers towards achieving their goals and aspirations.

In this regard, using our data analytics, we commenced a number of initiatives including the setting up of a process in collating and sharing customer information across our business lines which will enable us to bring a single view of the customer across the bank, development and launch of behavioural score cards in our credit card and consumer businesses and the setting up a process to identify and profile our customers based on the various stages of their life cycle. We will continue to further develop on these concepts in the coming year to bring an enhanced customer value proposition.

The significant investments we are making in rolling out our digital strategy will play an important role in delivering the superior and holistic customer experience we envisage. During 2015 we made significant progress by opening our first digital branch, launching a state of the art website, introducing Sri Lanka's first tab based customer application processing platform, further enhancing our on-line banking channel which we launched in 2014 and actively engaging with customers on social media platforms. The rapid migration of customers to our digital channels is a testimony to the customer value we have brought through digital media. We also commenced work on a number of digital initiatives which will come to fruition in 2016/17, enabling our customers to have a value creating omni channel experience, and help them to make informed decisions with regard to their financial management. We are determined to be the catalyst for change in the digital footprint of the future and will continue to put the appropriate resources to bring this to reality.

I am pleased report that significant progress was made on our journey to convert our bank to a lean culture. The benefits derived in implementing process improvements through lean principals are fast and seamless delivery of products, services and transactions to our customers, and building enhanced efficiencies to the existing infrastructure, to unlock significant capacity increases, thereby enabling us to handle the much larger volumes planned in the coming years. The cost efficiencies that will come about as we eliminate waste and build capacity will have huge positive impact to the bank's operational costs in the coming

years. In 2015, we began to see encouraging results from some of the high impact processes we re- engineered, such as the SME credit approval, Personal account opening and parts of the cards operational line where we saw much faster customer response times and large increases to our existing capacity both at the front line and in the central processing areas. It is also noteworthy that the application of these principals also contributes to the elimination of stress on our staff thereby creating a much better working environment

It was extremely satisfying to see staff at all levels showing enthusiasm to learn and contribute towards this organizational change as they participated in these lean projects. We have actively used these initiatives to train, propagate and equip staff, at all levels with the knowledge on using the lean tools and principals. We saw a number of divisions in the bank embrace these concepts by implementing smaller projects within their own work areas, while a number of larger divisions also commenced the implementation of 5S as the first step towards this process. I am excited to see this culture taking hold and I am confident that we will most certainly propel our bank towards operational and delivery excellence, to take a leadership position in the industry in the coming years.

An important component of our consolidation was to recognize the importance of strengthening our internal control framework and the need to extend the culture of risk awareness especially in relation to the much larger branch network, as a pre-requisite for driving volume growth in the new geographies and customer segments. Accordingly, we undertook a comprehensive review of our most important processes. The review focused on identifying the operational risks and the adequacy of the relevant internal controls and risk management procedures to mitigate these risks, in order to ensure that these are fit to take on higher volumes, future ready in terms of changes in the external environment and are in line with the regulator and customer expectations. We also restructured and set up a stronger second line of defense both in our businesses and centralized internal control divisions. We resourced the bank with experienced risk management professionals brought in at senior levels to drive the initiatives in this regard.

During the year the bank initiated the concept of employee life cycle management to meet the growing aspirations of our staff as they build their careers with Nations Trust. The bank laid out the development framework and completed the life cycle curriculum

Chief Executive Officer's Review

for all grades of employees during 2015. Our objective is to empower our employees to take charge of their development goals by clearly defining the competencies and technical skills required at each level of their career and making available the relevant training, so that employees could play a much bigger role in driving the pace at which they wish to develop themselves. We also focused on instilling the domain knowledge and nurturing best practices which are unique to the Nations Way of operating, by building these to the appropriate curriculums.

Way Forward

The year ahead is likely to be more challenging than 2015 as the policy makers are expected to tighten the accommodative stance on monetary and fiscal policy maintained in 2015. Resultant exchange pressures, increased interest rates and inflation are likely to impact the banking sector in terms of managing interest costs and related risks, as well as the overall credit demand. However with the growth in economic activity seen in the last quarter of 2015, it is expected that the demand for credit in the commercial sector may be less impacted than consumption sector.

Managing for success in challenging times has always sharpened our focus and been our strength. All business lines will drive towards working together to deepen customer relationships and to offer a consolidated and holistic customer proposition to build market share and drive revenue growth. The theme of the annual report is an apt description of our competitive strength, strong, swift and agile, as we leverage the benefits that we will derive from the strategic initiatives we have implemented in the last few years. A foot print of 92 branches and 131 ATM locations coupled with a plethora of digital channels that empower customers, provide a sound platform for growth in the coming years.

Acknowledgements

Nations Trust Bank's trailblazing growth has been propelled by lofty ambitions, smart strategy and a can do attitude underpinned by good governance. I take this opportunity to thank the Chairman and the Board of Directors for their strategic input and wise counsel which has been invaluable in steering the Bank to success. Officials of CBSL as the regulator have provided guidance and advice on many occasions and we are appreciative of their efforts in this regard. I also wish to thank Messrs Ernst & Young our external auditors for their invaluable input. I wish to place on record our sincere gratitude to late Mr. Arthur Fernandez, DGM Internal Audit for his invaluable contribution to the bank throughout his long standing career at Nations Trust. I wish to also record my sincere appreciation for the dedication, commitment and passion of the Corporate Management and entire Nations Team, without whom, we would not have been able to deliver the strong performance in 2015. I am deeply grateful to all our customers, investors and other stakeholders who have continuously placed their trust in us. We assure all our stakeholders our commitment to meet their expectations in the coming years.



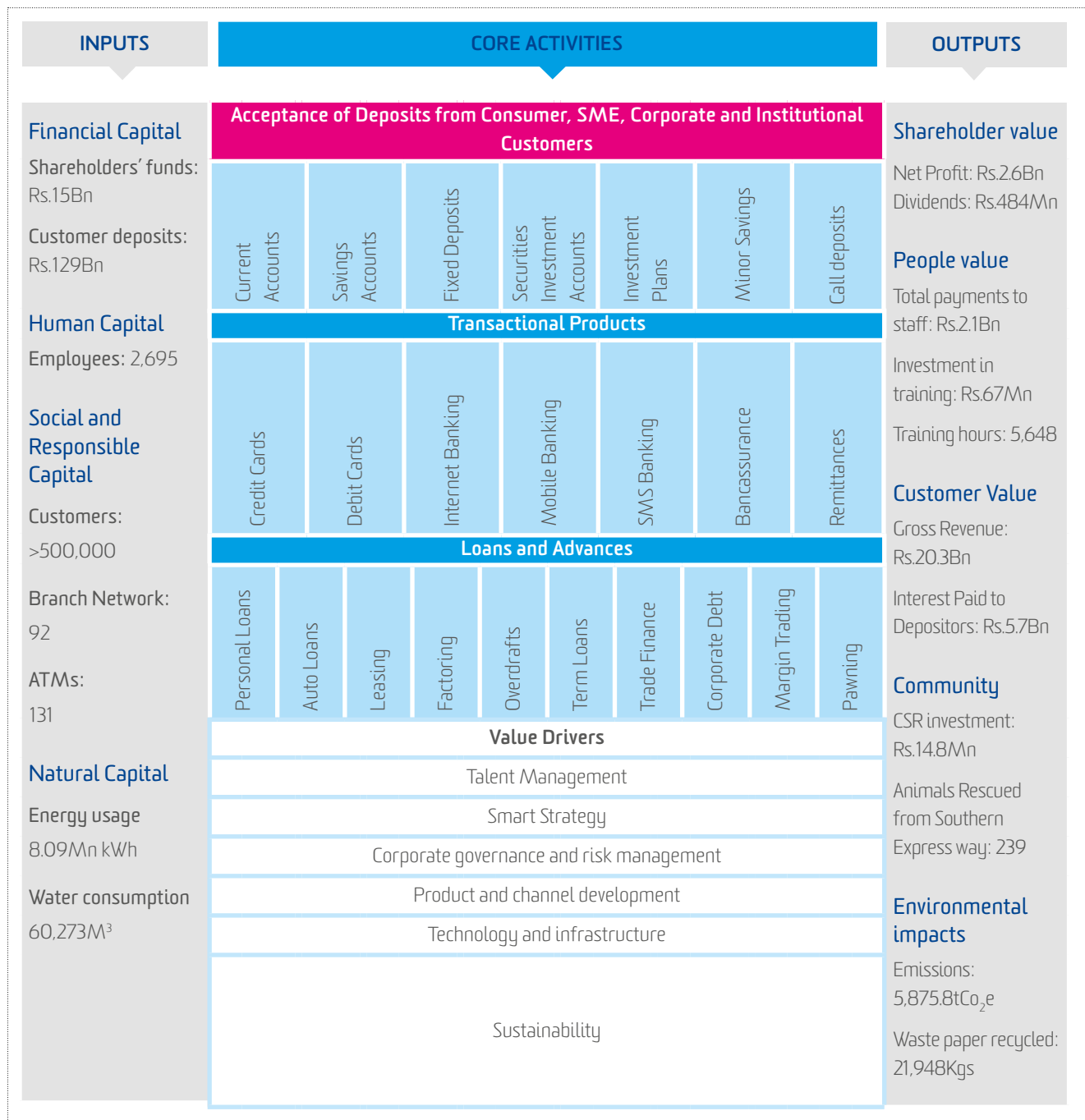
Renuka Fernando
Director/CEO

26 February 2016

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

CREATING VALUE FOR STAKEHOLDERS

Our business model draws upon the Bank's capital inputs which are altered during our value creation process to generate sustainable value to our stakeholders. The diagram below demonstrates the transformation of our capital inputs into the Bank's core activities and how they translate into products and services to meet stakeholder needs.






STAKEHOLDER ENGAGEMENT

We understand the importance of balancing the needs of our stakeholders in delivering sustainable value and engage proactively with multiple stakeholders in a holistic and structured approach. Feedback thus obtained plays a crucial role in shaping the Group's strategy, governance and conduct. Key aspects of our stakeholder engagement framework are depicted below.

Stakeholder	Primary Engagement Mechanisms	Needs Identified	Stakeholder Management Framework
 EMPLOYEES	<ul style="list-style-type: none"> ⊕ Employee Engagement Surveys ⊕ Employee suggestion schemes ⊕ Grievance Reporting Procedure ⊕ Social entertainment and sport events 	<ul style="list-style-type: none"> ⊕ Development and Career progression ⊕ Performance enabling environment ⊕ Work-life balance ⊕ Health & Safety ⊕ Equal Opportunity ⊕ Special needs of key groups such as women 	<p>We will invest in developing our employees in an environment where they are treated with respect, their health and safety is assured and diversity is valued.</p>
 CUSTOMERS	<ul style="list-style-type: none"> ⊕ Online and local engagement by branch teams and relationship managers ⊕ Customer satisfaction surveys ⊕ Market research ⊕ Production, promotion campaigns and facilitation programmes ⊕ Customer Education ⊕ Customer engagement events 	<ul style="list-style-type: none"> ⊕ Customer service ⊕ Convenience of transacting ⊕ Upholding customer charter ⊕ Improving financial inclusion, education advice & consultancy ⊕ Communication in language of choice 	<p>We uphold the rights of our customers in line with our customer charter ensuring that they understand the terms and conditions relating to services accessed by them.</p>
 INVESTORS	<ul style="list-style-type: none"> ⊕ Roadshows ⊕ One to one meetings with large investors ⊕ Relationships with intermediaries ⊕ Investor forums ⊕ Press releases 	<ul style="list-style-type: none"> ⊕ Comprehensive but concise information on operations and future outlook at regular intervals ⊕ Returns commensurate with risks assumed ⊕ Exit mechanisms 	<p>We commit to providing a balanced review of our performance and prospects in our communications with investors ensuring a competitive return to their investment</p>

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Stakeholder	Primary Engagement Mechanisms	Needs Identified	Stakeholder Management Framework
 GOVERNMENT & REGULATORS	<ul style="list-style-type: none"> Continuous dialogues with Central Bank, Ministry of Finance and Department of Inland Revenue Meetings, policy trend analysis and industry forums 	<ul style="list-style-type: none"> Stability and growth of financial sector Responsible business practices Alignment of national priorities to bank's strategy Financial inclusion Compliance with regulatory direction and contribution to on-going dialogue on financial sector reform Value adding industries and growth areas 	<p>The Bank is committed to meet its economic, social and environmental obligations, wherever possible in line with the country's strategy. The corporate plan of the Bank has considered the relevant growth and development needs of the country in line with the strategy and risk appetite of the bank.</p>
 COMMUNITY	<ul style="list-style-type: none"> Local branch engagement, media, social events and sponsorships. Higher degree of participation 	<ul style="list-style-type: none"> Responsible business practices Preserving Culture Community development Community empowerment Employment Financial strength and credibility 	<p>We engage with local communities to develop economic activity, providing opportunities and facilitating their socio economic well-being.</p>
 SUPPLIERS AND SERVICE PROVIDERS	<ul style="list-style-type: none"> Regular meetings, written communications Transparent bidding process Relationship building 	<ul style="list-style-type: none"> Business growth Responsible business practices Ease of transacting Strategic partnerships Transformation in procurement process Open communication 	<p>We recognise excellence in service by our suppliers and look to support their growth through mutually rewarding partnerships.</p>

DETERMINING MATERIALITY

Material aspects are issues that could potentially impact our value creation process and content presented in this Report has been selected based on these aspects.

Material aspects are issues that could potentially impact our value creation process and content presented in this Report has been selected based on these aspects. Responsibility for determining material aspects lies with the Bank's Corporate Management. The process we follow for determining material aspects is systematic and multi-faceted and includes engaging with stakeholders,

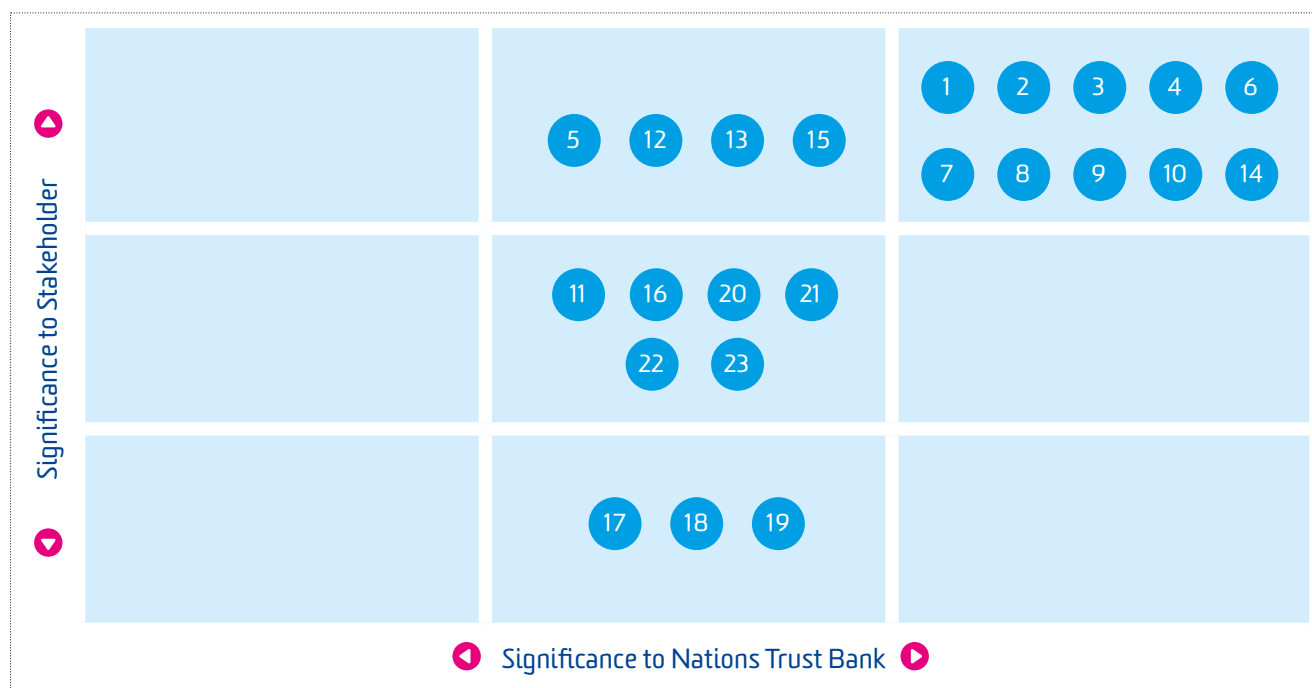
industry research which enables the identification of contextual trends and ongoing review of our value creation process and activities. The material aspects thus identified are reviewed on an ongoing basis to ensure relevance and completeness.

Process for determining material items



In responding to the information needs of our diverse stakeholder groups effectively, the aspects identified as being of high importance to the Bank and our stakeholders are discussed comprehensively in this Report. Aspects of moderate importance are discussed in summary form. On page 278 of we clearly disclose how our material aspects correspond to the disclosures recommended by GRI.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172



Shareholders

- 1 Financial performance
- 2 Growth
- 3 Corporate governance
- 4 Reputation

Customers

- 5 Access to financial services
- 6 Convenience
- 7 Customer service
- 8 Digital Channels
- 9 Customer privacy

Employees

- 10 Training and education
- 11 Diversity
- 12 Grievance mechanism
- 13 Health and Safety
- 14 Productivity

Community

- 15 Corporate Social Responsibility

Environment

- 16 Energy
- 17 Waste
- 18 Materials
- 19 Water
- 20 Emissions
- 21 Environmental Assessment

Product Responsibility

- 22 Product and service labelling
- 23 Marketing Communications

OUR STRATEGY

The Bank's strategy takes into account the matters we believe are material to our long-term sustainability and has been formulated to ensure that the Bank creates value not only for our shareholders, but for all our stakeholders.

The Bank's strategy takes into account the matters we believe are material to our long-term sustainability and has been formulated to ensure that the Bank creates value not only for our shareholders, but for all our stakeholders. Following all-encompassing changes that have been introduced over the past few years, the Bank is now positioned to execute its strategy as a more efficient and competitive organisation.

STRATEGIC GOAL

1

BECOME THE "PRIMARY" BANK TO OUR CUSTOMERS

We are geared towards establishing a Customer Lifecycle Proposition in each target customer segment that provides a lifetime customer experience, beyond market expectations.

PROGRESS IN 2015

- ⊕ New markets and products: Key achievements for the year include entering into partnership with Diners International as an exclusive issuer and acquirer, refocus on small and mid- sized corporates to stabilise the corporate portfolio and the regional expansion of factoring across the branch network
- ⊕ Expansion of existing proposition: Improving Trade and FX focus through Nations Trader, review and strengthening of the Salary Saver product and enhancing the current treasury product offering
- ⊕ Re-align business model: Placed emphasis on customer profitability models at branch level
- ⊕ Strengthening customer value offering: Expand network with digital centre, 3 new branches and 22 ATMs and provision of SME customer advisory through Nations Business Seminars

PRIORITIES FOR 2016

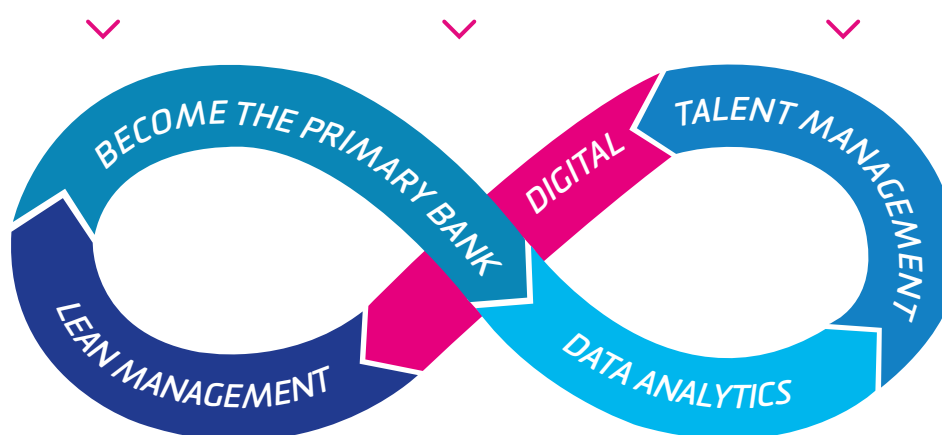
- ⊕ Establish a home loan proposition
- ⊕ Payment excellence: Introduction of corporate internet banking solutions.
- ⊕ Drive holistic product proposition for SME segment

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Establish a Customer Lifecycle Proposition in target customer segments that provides a lifetime customer experience, beyond market expectations.

Invest in strengthening our digital functionality to complement our customer value proposition.

We will continue to invest in attracting, retaining and developing the industry's top talent whilst providing opportunities for our employees to meet their aspirations.



Establish lean principles to re-engineer processes and bring unprecedented value to our customers by eliminating waste.

Use advanced data analytics to obtain deeper insights into customer behaviour.

STRATEGIC GOAL

2

ENHANCE DATA ANALYTICS

Strategic focus is being placed on using advanced data analytics to obtain deeper insights into customer behaviour and empower our employees with the right information at the right time.

PROGRESS IN 2015

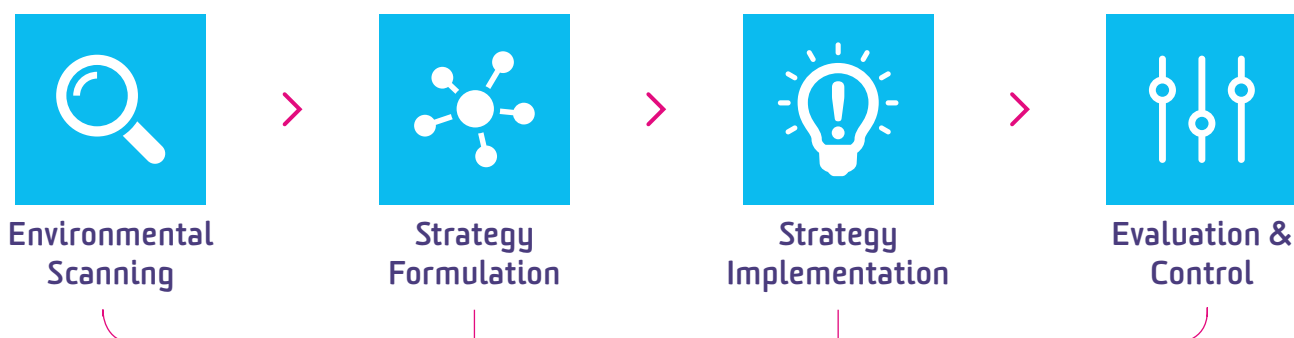
- ⊕ Set up an analytics team for the consumer banking division, enabling effective identification of potential customer behaviour
- ⊕ Improved regional analytics, allowing for targeted marketing efforts
- ⊕ Established an Industry analysis unit to support corporate customers

PRIORITIES FOR 2016

- ⊕ Commence customer analytics for the SME division
- ⊕ Strengthen risk management framework using data analytics including development of an early warning system to identify deteriorating credit quality

Our Strategy

Strategic Management Process



STRATEGIC GOAL

3

LEAN MANAGEMENT AS A CORE COMPETENCY

We will strive to establish lean principles to re-engineer processes and bring unprecedented value to our customers by eliminating waste from every aspect of our operations.

PROGRESS IN 2015

- ⊕ Improvement of the account opening process at branches and at the centralised processing centre

PRIORITIES FOR 2016

- ⊕ Leaning branches and contact centre transaction processes
- ⊕ Implementing the Lean Six Sigma Yellow Belt Certification for the staff members

COST REDUCTION BY

60% ▼

End to end account opening process from customer to document archiving reduced to 8 working hours (from 8-12 working days)

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

STRATEGIC GOAL

4

ENHANCING DIGITAL CAPABILITIES

We will continue to invest in strengthening our digital functionality to complement our customer value proposition.

PROGRESS IN 2015

- ⊕ Launch of the first of its kind digital branch at the World Trade Centre
- ⊕ Stabilise retail internet banking solution with increased functionality and value addition
- ⊕ Enable customer online on-boarding for cards, consumer loans and leasing through tab devices
- ⊕ Enhance the functionality and design of the corporate website

PRIORITIES FOR 2016

- ⊕ Module development and implementation of corporate internet banking
- ⊕ Value additions to retail internet banking experience including SMS banking process improvement and e-statement system improvement
- ⊕ Revamping the mobile banking service and further strengthening of ATM strategy by converting them to self service kiosks
- ⊕ Digital support team to function within the customer helpline operation

STRATEGIC GOAL

5

TALENT MANAGEMENT

Our dynamic and high-performing workforce is the key driving factor behind the Bank's success and we will continue to invest in attracting, retaining and developing the industry's top talent whilst providing opportunities for our employees to meet their aspirations.

PROGRESS IN 2015

- ⊕ Establish new organisational structure facilitating increased effectiveness and communication
- ⊕ Launch new vision and mission and promote employee alignment to corporate spirit and values
- ⊕ Implementation of a succession plan: Focused development of management and leadership competencies in the Bank's next generation of leaders.

PRIORITIES FOR 2016

- ⊕ Launch of Employee Life Cycle training concept
- ⊕ Review current HR strategy with focus on retaining talented staff
- ⊕ Initiate structured lean training with the development of champion lean teams at all critical areas



CORPORATE GOVERNANCE

Strong corporate governance practices is the foundation on which we build stakeholder value and as an organisation we are committed to the highest standards of transparency, accountability and ethical business conduct.



The strength of our world

Comprehensive policy frameworks and formal governance structures provide a solid foundation for performance and create an appropriate balance of power within the Bank

Board of Directors

p36



Scan this QR Code with your smart device to view a version of this annual report online at

<http://nationstrust.com/about/investor-relations>

BOARD OF DIRECTORS

Suran Wijesinghe
Non Executive Director

Krishan Balendra
Chairman/Non Executive Director

Conrad D'Souza
Independent Non Executive Director

Renuka Fernando
Executive Director/CEO

Harsha Raghavan
Non Executive Director

D. Prasanna De Silva
Non Executive Director



Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172



Board of Directors

Krishan Balendra

Chairman/Non Executive Director

Mr. Balendra was appointed as the Chairman of Nations Trust Bank PLC on 1st May, 2014. He has been a member of the Board of the Bank since December, 2009. Mr. Balendra serves as the Chairman of the Human Resources and Remuneration Committee and the Credit Committee of the Bank. He is also a member of the Nomination Committee and has served as a member of the Board Supervisory Committee of the Bank. Mr. Balendra is a President and member of the Group Executive Committee of John Keells Holdings PLC and has responsibility for the Retail sector and John Keells Stock Brokers. He is a former Chairman of the Colombo Stock Exchange. He started his professional career at UBS Warburg, Hong Kong, in investment banking, focusing primarily on equity capital markets. After a four year stint in Hong Kong, he continued his career in corporate finance at Aitken Spence & Co. PLC, Sri Lanka prior to joining JKH. Mr. Balendra holds a law degree (LLB) from the University of London and a MBA from INSEAD.

Renuka Fernando

Executive Director/CEO

Mrs. Fernando was appointed as the Director/ CEO of Nations Trust Bank PLC on 15 September, 2012. She joined the Bank in September, 2001 as AGM- Corporate Financial Solutions and thereafter held the positions of DGM-Retail Banking and DGM-Consumer Banking. In June, 2011 she was appointed as the Deputy CEO of the Bank. Prior to joining the Bank she was with ABN AMRO Bank N.V. Sri Lanka, where she held the positions of Vice President/ Head -Global Transactional Services and Head of Consumer Banking. During her banking career spanning 34 years, Mrs. Fernando has also worked at Banque Indosuez, Sri Lanka as Manager- Corporate Banking and Nederlandsche Middenstands Bank -Hong Kong. Mrs. Fernando is an Associate of Chartered Institute of Bankers, UK and possesses a H. Dip. in Business Administration (Banking).

Murtaza Jafferjee

Independent Non Executive Director /Senior Director

Mr. Jafferjee holds a Masters in Financial Economics from the University of Colombo, Sri Lanka, Chartered Financial Analyst from CFA Institute, Charlottesville, Virginia, USA, Bachelors in Computer Science and Bachelors in Engineering-Mechanical (Hons) from University of New South Wales, Australia. He was appointed to the Board of Nations Trust Bank PLC in December, 2010. He is currently a Director and the Chief Executive Officer of JB Securities (Pvt) Limited, the advocacy chair for CFA Society of Sri Lanka and also an Independent Non Executive Director of Serendib Hotel PLC. He was a Director of Colombo Stock Exchange from April, 2007 to August, 2009. He serves as the Chairman of the Nomination Committee and as a member of the Board Supervisory Committee of the Bank.

Dr. (Ms) Dushni Weerakoon

Independent Non Executive Director

Dr. (Ms.) Weerakoon holds a Ph.D. and a MA in Economics from the University of Manchester, United Kingdom and a B.Sc. in Economics from Queens University of Belfast, U. K. Currently, Dr. (Ms.) Weerakoon is carrying-out research and teaching in international economics and macro economic policy management. She was appointed to the Board of Nations Trust Bank PLC on 1 March, 2007. She is a member of the Board Audit Review Committee and the Human Resources and Remuneration Committee of the Bank. Dr. (Ms.) Weerakoon will be completing 9 years on the Board of the Bank on 29 February 2016 and hence will retire in compliance with the Rules of Corporate Governance issued by Central Bank of Sri Lanka.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Dr. Kemal de Soysa

Independent Non Executive Director

Dr. De Soysa holds a PhD in History of Science, MPhil in History and Philosophy of Science and Medicine and BA Hons. in Natural Sciences from the University of Cambridge. He was appointed to the Board of Nations Trust Bank PLC on 21st January, 2011. Dr. De Soysa is currently the Executive Director of International Distillers Limited and a Director of East India Holdings (Pvt) Ltd. Dr. De Soysa previously served as the Country Head of Amba Research Lanka (Pvt) Ltd., managing the Sri Lanka-based operation of Amba Research (now Copal Amba, a Moody's subsidiary), the leading provider of investment research and analytics support services to the global capital markets industry. He was a member of the Executive Committee of the Amba Group and has also served in various capacities in the equity research domain at Amba's offices in Costa Rica and India. Dr. De Soysa serves as a member of the Integrated Risk Management Committee, Human Resources and Remuneration Committee and Nomination Committee of the Bank.

(Ms) N. Shalini Panditaratne

Independent Non Executive Director

Mrs. Shalini Panditaratne is a Fellow of the Chartered Institute of Management Accountants, UK and an Associate Member of the Institute of Chartered Accountants of Sri Lanka. She has international experience in Corporate and Investment Banking at senior management level, primarily in Credit Risk Management and Analysis. She initially worked as an accountant in Sri Lanka and Zambia and commenced her career in corporate banking in Bahrain. After moving to Australia, she worked for seventeen years with JP Morgan Chase Bank Sydney (formerly The Chase Manhattan Bank) in various roles including as Vice President, Head of Country Credit in Singapore and later in Thailand. She also held the position of Head of Asia Credit and Capital Management, S.E Asia. Mrs. Panditaratne has provided credit training for Sydney-based financial institutions in corporate credit risk analysis and credit risk management. She was appointed to the Board of Nations Trust Bank PLC on 1 January, 2012. She serves as the Chairman of the Board Audit Review Committee and as a member of Board Credit Committee of the Bank.

D. Prasanna De Silva

Non Executive Director

Mr. De Silva who is a Director of Central Finance Company PLC, possess 25 years of experience in banking and finance of which 16 years has been in senior management. He was appointed to the Board of Nations Trust Bank PLC on 1 January, 2012. He has had extensive exposure to credit appraisals, recovery, operating systems, tax, regulatory framework and legal aspects at operational and managerial levels during his tenure at Central Finance Company PLC. Mr. De Silva is an Associate Member of Chartered Financial Analyst Institute (CFA) USA and a Fellow of Chartered Institute of Management Accountants (CIMA) UK. He is also a past Chairman of the Leasing Association of Sri Lanka. Mr. De Silva serves as the Chairman of Integrated Risk Management Committee and as a member of the Board Supervisory Committee, Nomination Committee and Board Credit Committee of the Bank.

Suran Wijesinghe

Non Executive Director

Mr. Wijesinghe is a Fellow Member of both the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK. He has over 30 years of work experience in the fields of auditing, financial management and general management which has been acquired while serving in organisations both locally and overseas. Mr. Wijesinghe is currently an Executive Vice President at John Keells Holdings PLC and is the Chief Financial Officer of the Financial Services Sector of the Group. He has been with the John Keells Group and in the Financial Services Sector since January 2004. The Financial Services Sector of the John Keells Group comprises of Nations Trust Bank PLC, Union Assurance PLC, Union Assurance General Ltd. and John Keells Stock Brokers (Pvt) Ltd. Prior to joining the John Keells Group, Mr. Wijesinghe was employed in Botswana for 12 years, initially as the Group Finance Manager and thereafter as the Group Finance Director of Securicor Botswana Ltd. (formerly known as Inco Holdings Ltd.) a Company listed on the Botswana Stock Exchange. He was appointed to the Board of Nations Trust Bank PLC on 1 November, 2012. He serves as the Chairman of the Board Supervisory Committee and as a member of the Board Audit Review Committee and Integrated Risk Management Committee of the Bank.

Board of Directors

Kumar Jayasuriya

Non Executive Director

Mr. Jayasuriya was appointed to the Board of the Bank on 1st May 2014. He is a Fellow member of the Chartered Institute of Management Accountants, UK (FCMA), a Chartered Global Management Accountant (CGMA), and a Fellow Member of the Association of Certified Accountants, UK (FCCA). He currently serves as the Non Executive Chairman of Finlays Colombo PLC and as Non Executive Director of Central Finance Company PLC, Lanka Aluminium Industries PLC and Acme Printing & Packaging PLC. He is also the Chairman of the Texlan Group of Companies, an Italian owned, BOI approved hosiery manufacturing company. He is a Trustee and Past Chairman of the Employers' Federation of Ceylon and a Director of the Employees Trust Fund Board. From 1981 to 2013, he served in diverse roles, including Management Accountant, Financial Controller, Finance Director, Deputy Chairman and Chairman and Managing Director, of Finlays Colombo PLC. Prior to joining the Finlays Group in Sri Lanka, he served in Zambia's Copper Mining Industry as Cost Accountant of Nchanga Consolidated Copper Mines Limited – Chingola Division. Mr. Jayasuriya serves as a member of the Human Resources and Remunerations Committee and Board Audit Review Committee of the Bank.

Gihan Cooray

Non Executive Director

Mr. Cooray was appointed to the Board of the Bank on 1st May, 2014. Mr. Cooray holds a MBA from the Jesse H. Jones Graduate School of Management at Rice University, in Houston, USA and is an Associate Member of the Chartered Institute of Management Accountants, UK. He is also a Certified Management Accountant of the Institute of Certified Management Accountants, Australia and holds a Postgraduate Diploma in Marketing from the Chartered Institute of Marketing, UK. He is a President and a member of the Group Executive Committee of the John Keells Group where he currently serves as the Head of Corporate Finance

and Strategy and also heads the Group Treasury function and John Keells Capital-the investment banking arm of the Group. He has been with the John Keells Group since April 2006. He serves as a member of the sub-committees on Economic, Fiscal and Policy Planning; Investments and Ease of Doing Business; and Young Leaders of the Ceylon Chamber of Commerce. Mr. Cooray serves as a member of the Board Supervisory Committee and Integrated Risk Management Committee of the Bank.

Harsha Raghavan

Non Executive Director

Mr. Raghavan was appointed to the Board of the Bank on 1st January, 2015. He holds MBA and MS in industrial Engineering Degrees, both from Stanford University and B.A. in Computer Science & Economics from U.C. Berkeley. Mr. Raghavan currently serves as the Chief Executive Officer of Fairbridge Capital of Mumbai, India and as Board Member of Fairfax India Holdings, registered in Canada. Fairbridge Capital is a fully owned investment company of Fairfax Financial Holdings Limited, a Company which has insurance, reinsurance and fund management businesses and is based in Canada. Mr. Raghavan has been with Fairbridge Capital since 2011. Prior to joining Fairbridge Capital, Mr. Raghavan has served with, Candover Partners and Goldman Sachs Principal Investment Area of Mumbai India. In these prior roles, Mr. Raghavan has executed more than two dozen transactions totaling more than \$1.5billion in investment. Mr. Raghavan serves on the Boards of Thomas Cook (India) Limited, Thomas Cook Lanka (Private) Limited, Thomas Cook (Mauritius) Holding Company Limited, Sterling Holiday Resorts Limited, National Collateral Management Services Limited, Luxe Asia (Sri Lanka), Kuoni India and Kuoni China. He also serves on the Audit and Compensation Committees of all these companies.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Conrad D'Souza

Independent Non Executive Director

(Appointed with effect from 18th January, 2016)

Mr. Conrad D'Souza currently serves as the Member of Executive Management and Chief Investor Relations Officer of Housing Development Finance Corporation Limited (HDFC), a respected housing Finance Company in India. Mr. Conrad D'Souza has been with HDFC since 1984.

In HDFC Mr. D'Souza is responsible for strategy, corporate planning and budgeting, corporate finance and investor relations, wholesale lending to corporate and other non individual entities. He had held the position of Treasurer of HDFC for nine years and responsibilities included fund management, investments, resource mobilisation both domestic and international, asset liability management and investor relations. He has been associated with HDFC's international funding from the multilateral agencies and in the international syndicate loan markets. The Floating Rate Note issue of July 2002 won the IFR Asia India Capital Markets Deal of the year for 2002. Managed HDFC's US \$500Mn Foreign Currency Convertible Bond issue which was the largest issue out of Asia in 2005.

Mr. Conrad D'Souza serves on the Boards of HDFC Investments Ltd., India, HDFC Education And Development Services Pvt. Ltd., India, HDFC Holdings Ltd., India, HDFC Sales Pvt. Ltd., India, Chalet Hotels Pvt. Ltd., India, Kooh Sports Pvt. Ltd., India, Association of Finance Professionals of India (AFPI), HDFC Sales Pvt. Ltd., India and Housing Development Finance Corporation Plc, Maldives. He has been a consultant to USAID / UNDP and IFC (Washington) and has undertaken assignments in Asia, Africa and Eastern Europe.

Mr. Conrad D'Souza has a Master's Degree in Commerce, a Master's Degree in Business Administration and is a Senior Executive Program (SEP) graduate of the London Business School.

CORPORATE MANAGEMENT



Rohitha Ganegoda
Chief Information Officer

Keshini Jayawardena
Chief Operations Officer

Saman Herath
Head of Branches

Mevan Balalle
Head of Human Resources

Priyantha Wijesekera
DGM (Leasing)

Bandara Jayathilake
Head of SME

Renuka Fernando
Director/CEO

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Indrajith Boyagoda
DGM (Treasury)

Ramanika Unamboowe
DGM (Commercial Banking)

Shan Wickremasinghe
Chief Marketing Officer

Anura Yapa
DGM (Credit & Collections)



Priyantha Talwatte
DGM (Consumer Banking)

Theja Silva
Company Secretary, DGM
(Legal & Administration)

Ajith Akmeemana
Chief Financial Officer

SENIOR MANAGEMENT



Chamath Munasinghe
Head of Banking Operations



Chamila Sumathiratne
Deputy Chief Risk Officer



Nisala Kodippili
Deputy Chief Information Officer



Kushlani Allis
Chief Manager (Management Reporting & Planning)



Nisaja Aryasinghe
Chief Manager (Consumer Collections & Recoveries)



Randil Boteju
Chief Manager (Consumer Sales)



Sheahan Daniel
Chief Manager (Leasing Sales)



Tharusha Ekanayake
Chief Manager (Fixed Income Securities & Debt Sales)



Dinesh Thomas
Chief Manager (Lean Management)



Rasanja De Silva
Chief Manager (Branches - Western Province)



Menaka Wavita
Chief Manager (Branches - Nth, Sth, Cntrl & NW Provinces)



Nilanthie De Meral
Chief Manager (Corporate Banking)



Arosha Liyanaarachchi
Chief Manager (Corporate Banking)



Nimesh Fernando
Chief Manager (Cards)



Thushara Asuramanna
Chief Manager (SME Credit Management)



Anushan Fernando
Chief Manager (Operational Risk)

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172



Gavin Perera
Chief Manager
(Consumer Credit Risk)



Jerome Ratnarajah
Chief Manager
(Market Risk Management)



Lasith Ranatunga
Chief Manager (Corporate &
Margin Trading Risk)



Renuka Senadheera
Chief Manager
(Central Operations)



Kasun Pathirage
Senior Manager (Treasury Sales)



Lakmal Randeni
Senior Manager
(FX & Money Markets)



Ruwan Rodrigo
Senior Manager (Branches)



Damitha Silva
Senior Manager (Branches)



Sampath Lokubarana
Senior Manager (Branches)



Rohan Thevathason
Senior Manager (Branches)



Roshan Gunawardena
Senior Manager (Remittances)



Chaminda Senewiratne
Senior Manager
(Digital Banking)



Jerome Pereira
Senior Manager (Merchant
Acquiring and Relationships)



Dimuth Sigera
Senior Manager (SME Banking)



Hirantha Tennakoon
Senior Manager (Factoring)



Yasa Mapalana
Senior Manager
(Cash Management)

Senior Management



Priyashantha Fernando
Senior Manager (Leasing-North
Western & Central Region)



Priyantha Samaradiwakara
Senior Manager (Leasing - Retail &
Western Region)



Ursula Wijeyasuriya
Senior Manager
(Nations Insurance Brokers)



Samantha Herath
Senior Manager
(Retail & SME Marketing)



Nilmini Gunaratne
Senior Manager
(Strategic Marketing)



Zamani Zainudeen
Senior Manager
(Cards Marketing)



Saaraa Warnakulasooriya
Senior Manager (Internal Audit -
Credit & Support Services)



Lusantha Haththallage
Senior Manager (Internal Audit-
Treasury & Corp.Support)



Amanthi Motha
Senior Manager
(Human Resources)



Elmo Francis
Senior Manager (Training)



Deepa Wickramasinghe
Senior Manager (Credit Risk -
Leasing and Factoring)



Chandima Samarasinghe
Senior Manager (Market Risk
Management)

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172



Suresh Goonewardene
Senior Manager (Loan Review
Mechanism)



Roger Rozairo
Senior Manager
(Consumer Credit Risk)



Nalin Pieris
Senior Manager (Litigation)



Yamuna Silva
Senior Manager (Legal)



Dilani Sooriyaarachchi
Senior Manager (Compliance)



Rishini Manatunga
Senior Manager
(Taxation and Payments)



Sampath Perera
Senior Manager (Analytics)



Navamali De Silva
Senior Manager (Trade Services)



Jalika Hewagama
Senior Manager (Contact Centre)



Shiyamal De Silva
Senior Manager
(Credit Operations)



Ayoma Wijedasa
Senior Manager
(NL Operations)



Heshan Samararatne
Senior Manager
(Application Administration)

INVESTOR INFORMATION

STOCK EXCHANGE LISTING

The ordinary shares of the Bank are all listed in the Colombo Stock Exchange. The audited Income Statement for the year ended 31 December 2015, and the Statement of Financial Position as at that date will be submitted to the Colombo Stock Exchange within two months of the reporting date.

DISTRIBUTION OF ORDINARY SHAREHOLDERS

As at December 31, 2015				Resident			Non - Resident			Total	
Shareholders	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%		
1 - 1,000	4,016	1,543,051	0.67	39	20,694	0.01	4,055	1,563,745	0.68		
1,001 - 10,000	2,009	6,449,966	2.80	40	150,809	0.07	2,049	6,600,775	2.87		
10,001 - 100,000	385	11,220,204	4.87	11	415,736	0.18	396	11,635,940	5.05		
100,001 - 1,000,000	50	12,717,438	5.51	7	3,439,490	1.49	57	16,156,928	7.00		
Over 1,000,000	13	149,098,979	64.65	3	45,550,916	19.75	16	194,649,895	84.41		
	6,473	181,029,638	78.50	100	49,577,645	21.50	6,573	230,607,283	100.00		

There were 6,473 Resident and 100 non-resident shareholders as at 31 December 2015.

ANALYSIS OF SHAREHOLDERS

	31.12.2015			31.12.2014		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	6,200	27,057,877	11.73	6,269	29,537,870	12.81
Institutional	373	203,549,406	88.27	361	201,069,413	87.19
	6,573	230,607,283	100.00	6,630	230,607,283	100.00

As per the Rule No. 7.6 (iv) of the Colombo Stock Exchange, percentage of public holding as at 31 December 2015 was 34.85% (34.80% as at 31st December 2014). Number of public shareholders are 6,655.

MARKET INFORMATION ON ORDINARY SHARES OF THE COMPANY

	2015	2014
Market Value		
Highest Value (LKR)	115.60	101.90
Lowest Value (LKR)	80.00	62.00
Value at end of year (LKR)	86.30	97.00

Trading Statistics

No. of Transactions	6,567	11,184
No. of Shares Traded (Mn)	38.27	63.84
Value of Shares Traded (LKR Mn)	3,890.12	5,427.12
Market Capitalisation		
Market Capitalisation (LKR Mn)	19,901.41	22,368.91

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Comparative shareholdings as at 31 December 2014 of the twenty largest shareholders as at 31 December 2015.

Name of the Shareholder	2015		2014	
	No. of Shares	%	No. of Shares	%
John Keells Holdings PLC.	46,121,536	20.00	46,121,536	20.00
HWIC Asia Fund	34,591,092	15.00	34,591,092	15.00
Mackinnons Keells Limited	22,830,159	9.90	22,830,159	9.90
Central Finance Company PLC A/C No 03	20,715,400	8.98	20,715,400	8.98
Janashakthi General Insurance Limited	18,582,682	8.06	3,856,244	1.67
CF Growth Fund LTD A/C No 01	14,813,273	6.42	14,813,273	6.42
CF Insurance Brokers (PVT) LTD.	10,592,857	4.59	10,592,857	4.59
HSBC INTL NOM LTD - SSBT - National Westminster Bank PLC as Depositary of First State Asia Pacific Fund	9,639,200	4.18	-	-
Janashakthi Insurance PLC (Policy Holders)	4,091,107	1.77	2,111,728	0.92
Hatton National Bank PLC A/C No 1	3,703,543	1.61	1,640,604	0.71
Mr. M.F. Hashim	2,600,000	1.13	2,600,000	1.13
Bank of Ceylon - A/C No 02	1,546,100	0.67	1,546,100	0.67
Mr. N.R. Somaiya	1,320,624	0.57	1,320,624	0.57
Tmex Garments (PVT) LTD	1,238,465	0.54	-	-
Deutsche Bank AG as Trustee for Namal Acuity Value Fund	1,200,000	0.52	-	-
Malship Ceylon LTD	1,063,857	0.46	-	-
Mr. D.J.M. Blackler	1,000,000	0.43	-	-
AIA Insurance Lanka PLC A/C No 07	951,170	0.41	1,579,795	0.69
HSBC INTL NOM LTD - SSBT - Parametric Tax - Managed Emerging Markets Fund	934,186	0.41	-	-
Deutsche Bank AG - National Equity Fund	842,134	0.37	-	-
	198,377,385	86.02	164,319,412	71.26
Others	32,229,898	13.98	66,287,871	28.74
Total	230,607,283	100.00	230,607,283	100.00

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	Face Value 2015/2014	Market Values			Interest Rates		Interest Rate of Comparable Government Security		Other Ratios as at date of last trade	
				Highest	Lowest	Year End	Coupon Rate	Effective Annual Yield	31.12.2015	31.12.2014	Interest Yield	Yield to Maturity
			LKR '000	LKR	LKR	LKR	%	%	%	%	%	%
Fixed Rate	NTBD0163	Semi-Annually	1,525,000		Not traded		11.50	11.83	6.84	6.42	Not traded	
Fixed Rate	NTBD0164	Semi-Annually	200,000		Not traded		11.00	11.30	6.84	6.42	Not traded	
Fixed Rate	NTBD0165	Semi-Annually	275,000		Not traded		11.50	11.83	6.84	6.42	Not traded	
Fixed Rate	NTBD0266	Semi-Annually	3,000,000	111.76	111.76	111.76	13.00	13.42	9.03	7.14	11.63	8.92%
Total Debentures			5,000,000									

Investor Information

Ten Year Summary

Group

Year Ended December 31st	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Rs. Mn										
OPERATING RESULTS										
Gross Income	5,922	9,342	13,877	14,037	12,215	11,885	17,673	20,362	20,854	20,279
Interest Income	4,991	8,011	12,094	12,049	10,090	9,795	15,113	17,911	17,452	16,628
Interest Expense	(3,280)	(5,900)	(9,185)	(8,329)	(5,525)	(5,391)	(9,358)	(10,237)	(8,513)	(7,523)
Net Interest Income	1,711	2,111	2,909	3,720	4,565	4,404	5,755	7,675	8,940	9,105
Fees & Other Income	931	1,331	1,783	1,988	2,125	2,089	2,576	2,235	3,177	3,414
Net Income	2,642	3,442	4,692	5,708	6,690	6,493	8,331	9,910	12,117	12,519
Operating Expenses (inc.Imp.Charge/Reversal & VAT)	(2,104)	(2,594)	(3,664)	(4,327)	(4,662)	(4,158)	(5,565)	(6,759)	(8,290)	(8,614)
Profit Before Taxation	538	848	1,028	1,381	2,028	2,335	2,766	3,151	3,827	3,905
Provision for Taxation	(215)	(343)	(435)	(695)	(944)	(729)	(815)	(1,015)	(1,290)	(1,291)
Profit After Taxation	323	505	593	686	1,084	1,607	1,951	2,136	2,537	2,614
Other Comprehensive Income (OCI)								(9)	104	(32)
Profit After OCI								2,127	2,641	2,582
As at December 31st,										
ASSETS										
Cash & Short-Term Funds	4,780	3,147	4,065	1,431	1,531	3,695	2,534	3,020	6,900	6,392
Statutory Deposits with Central Bank	1,315	1,964	1,717	2,044	2,416	4,284	5,089	4,032	3,992	5,284
Government Treasury Bills & Bonds	10,323	11,331	15,688	23,894	26,876	24,982	34,038	44,812	40,696	31,623
Investment Securities	1,629	2,392	3,781	4,239	4,020	3,153	2,221	2,315	3,949	7,065
Loans & Advances	26,993	34,500	38,585	35,335	44,571	61,188	73,424	82,327	98,347	121,143
Other Assets	998	1,209	1,914	1,210	1,287	2,280	2,591	2,894	1,419	1,386
Property Plant & Equipment	1,133	1,065	2,035	1,919	1,788	1,891	1,908	2,048	2,194	2,143
Intangible Assets	451	79	79	432	759	600	642	680	1,283	1,224
Total Assets	47,622	55,687	67,864	70,504	83,248	102,073	122,447	142,128	158,781	176,262
LIABILITIES										
Deposits	20,670	28,666	34,146	44,222	48,315	67,633	86,274	95,730	111,010	129,158
Due to Banks	1,077	1,394	1,039	391	500	1,277	2,712	1,401	2,923	2,276
Deferred Tax Liabilities	193	201	436	437	456	236	280	341	413	733
Borrowings	20,608	19,261	24,628	16,629	21,979	20,203	18,695	27,508	25,402	23,433
Other Liabilities	2,212	3,296	3,272	4,048	5,193	4,095	4,390	5,410	5,138	5,491
Total Liabilities	44,760	52,818	63,521	65,727	76,443	93,444	112,351	130,390	144,887	161,090

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Year Ended December 31st Rs. Mn	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
SHAREHOLDERS' FUNDS										
Share Capital/Stated Capital	2,062	2,062	3,110	3,110	4,368	5,101	5,101	5,101	5,101	5,101
Reserve Fund	29	57	80	106	156	224	314	419	538	661
Reserves	771	750	1,153	1,561	2,281	3,304	4,681	6,217	8,255	9,409
Total Shareholders' Funds	2,862	2,869	4,343	4,777	6,805	8,629	10,096	11,738	13,895	15,171
Total Liabilities & Shareholders' Funds	47,622	55,687	67,864	70,504	83,248	102,073	122,447	142,128	158,781	176,262
Commitments & Contingencies	13,276	18,138	53,617	51,591	60,547	72,792	86,239	90,267	98,799	96,792
RATIOS (Group)										
Return on Average Shareholders' Funds (%)	14.94	17.62	16.45	15.04	18.72	20.82	20.84	19.57	19.79	17.99
Net Income Growth (%)	67.11	30.28	36.32	21.65	17.20	(2.94)	28.31	18.95	22.27	3.33
Return On Average Assets (%)	0.88	0.98	0.96	0.99	1.41	1.73	1.74	1.61	1.69	1.56
Property Plant & Equipment to Shareholders' Funds (%)	39.59	37.12	46.86	40.17	26.27	21.91	18.90	17.45	15.79	14.13
Total Assets to Shareholders' Funds (Times)	16.64	19.41	15.63	14.76	12.23	11.83	12.13	12.11	11.43	11.62
Cost/Income Ratio (%)	68.55	65.37	65.43	57.67	58.79	61.87	56.39	58.31	52.52	54.81
Capital Adequacy Ratio Tier I (%)	7.86	7.20	10.31	11.79	13.43	13.42	13.82	14.78	14.16	13.15
Capital Adequacy Ratio Tier II (%)	11.86	10.44	15.70	16.11	15.74	17.44	18.18	20.00	18.28	15.53
SHARE INFORMATION (Bank)										
Market Value per Share (Rs.)	28.25	29.75	22.25	36.75	83.40	57.00	56.00	62.20	97.00	86.30
Earnings Per Share (Rs.)	1.98	4.28	2.95	2.99	4.66	6.97	8.46	9.16	10.31	10.64
Price Earning Ratio (Times)	14.27	6.95	7.54	12.29	17.90	8.18	6.62	6.79	9.41	8.11
Net Asset Value per Share (Rs.)	20.06	20.50	23.47	24.96	29.25	37.42	43.78	46.79	55.46	60.67
Earnings Yield (%)	7.01	14.39	13.26	8.14	5.59	12.23	15.11	14.73	10.63	12.32
Dividend Per Share (Rs.)	1.00	1.33	1.50	1.50	2.00	2.10	2.10	2.10	2.10	2.10
Dividend Payout Ratio (%)	50.51	31.07	50.85	50.17	42.92	30.13	24.82	22.92	20.36	19.74
% of 20 Largest Shareholders	80.08	81.07	81.32	76.38	78.58	78.22	65.78	79.64	81.53	86.02
OTHER INFORMATION (Group)										
Number of Employees	820	1,239	1,615	1,532	1,608	1,853	2,037	2,262	2,562	2,695
Number of Branches	30	31	36	38	40	48	57	72	89	92
No of ATMs	38	38	47	44	51	60	70	100	124	131

RISK MANAGEMENT

Effective risk management is essential for ensuring sustainable organisational performance and aptly balancing growth and risk considerations. At Nations Trust Bank, growth plans are duly supported by a comprehensive and integrated risk management framework which ensures that risk considerations form a critical input in business decisions. Through board approved policies, governance structures and clearly defined tools and techniques, the Bank's risk management framework sets the context for setting standards and establishing appropriate risk practices across the Bank.

Key Achievements in 2015	
Credit Risk	Market Risk
<ul style="list-style-type: none"> ⊕ Gross NPL Ratio- improved to 2.77% from 4.16% in 2014 ⊕ Provision Cover- improved to 43.4% from 24% in 2014 ⊕ Impairment Ratio maintained at 1.71% 	<ul style="list-style-type: none"> ⊕ Prudential foreign exchange risk monitoring contributed to gains during the year.
Operational Risk	Strategic and Reputational Risk
<ul style="list-style-type: none"> ⊕ Total operational losses were 0.76% against the operational expenses of the bank ⊕ Implemented an Operational Risk Management Committee (ORMC) to further strengthen the risk management process. 	<ul style="list-style-type: none"> ⊕ Comprehensive score cards developed to evaluate the risk under the Internal Capital Adequacy Assessment Process (ICAAP) ⊕ Minimal impact on capital requirement as a result of maintaining high scores on both reputational and strategic risks.

Risk Management Framework

The Bank's Integrated Risk Management (IRM) Framework sets out the risk management processes that define 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 judgement and judicious empowerment. The Board approved policy framework includes management of Assets and Liabilities, Credit risk, Liquidity risk, Interest rate risk, Operational risk, Counterparty risk, Foreign exchange risk and Investment policy. The IRM framework is approved and reviewed regularly by the Board of Directors.

The Bank's key risk management objectives are,

- ⊕ Establish a framework that supports the business activities to maximize risk adjusted returns within the Board's risk appetite and other constraints such as regulatory requirements and the Bank's internal controls.
- ⊕ Accurately identify and measure the sources of these risks.
- ⊕ Recommend appropriate levels of these risks, consistent with the Board's tolerance or appetite for such risks.
- ⊕ Control the level of these 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 requirements, Stock Exchange requirements, 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 by providing analysis and recommendations to support the achievement of the overall Bank's strategic objectives.

Risk Governance

The Board has delegated oversight of the Bank's risk management functions to the Board Integrated Risk Management Committee (BIRMC) which operates as the apex committee for identifying, monitoring and measuring the Bank's risk profile in a comprehensive and integrated manner. The Board is also supported by the Audit Committee and Board Credit Committee in specific risk management aspect.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

COMMITTEE	MANDATE	COMPOSITION
BOARD LEVEL COMMITTEES		
Board Integrated Risk Management Committee	<ul style="list-style-type: none"> ⊕ Oversee formulation of strategies and managing the overall risks associated with the Group's activities ⊕ Oversee the formal development of risk management policies within the Group ⊕ Support the Board in determining the Group's risk appetite ⊕ Monitor, assess & determine the credit risk portfolio composition of the Bank ⊕ Submit regular operational risk assessments to the Board ⊕ Approve methodology for capital allocation to risk categories and business units 	<p>A minimum of three Non-Executive Directors along with the Director/CEO</p> <p>Other Key management personnel supervising broad risk categories and senior staff of Integrated Risk Management Department (IRMD) are invited for meetings as required</p>
Board Audit Committee	<ul style="list-style-type: none"> ⊕ Provide recommendations on the appointment of the external auditor ⊕ Implementation of CBSL guidelines issued to auditors ⊕ Recommending the service period, audit fee and dismissal of the auditor ⊕ Review and monitor external auditors independence, objectivity and effectiveness of the audit processes ⊕ Discuss & finalize the nature and scope of audit 	<p>Four Non-Executive Directors with the chairman being an independent Non-Executive Director</p> <p>DGM Internal audit and a representative from the external auditors may attend meetings</p> <p>CEO and any other person from the management may attend on invitation</p>
Board Credit Committee	<ul style="list-style-type: none"> ⊕ To discuss and approve/decline credit facilities above the level of authority granted to HOCC ⊕ To approve/decline interest waivers and principal write offs in order to facilitate a settlement of a bad/restructured debt ⊕ To review the quality of the credit portfolio of the bank including top 20 exposures, watch listed customers 	<p>Minimum of three Directors and the Director/CEO</p> <p>Key management personnel or any other person may attend on invitation</p>

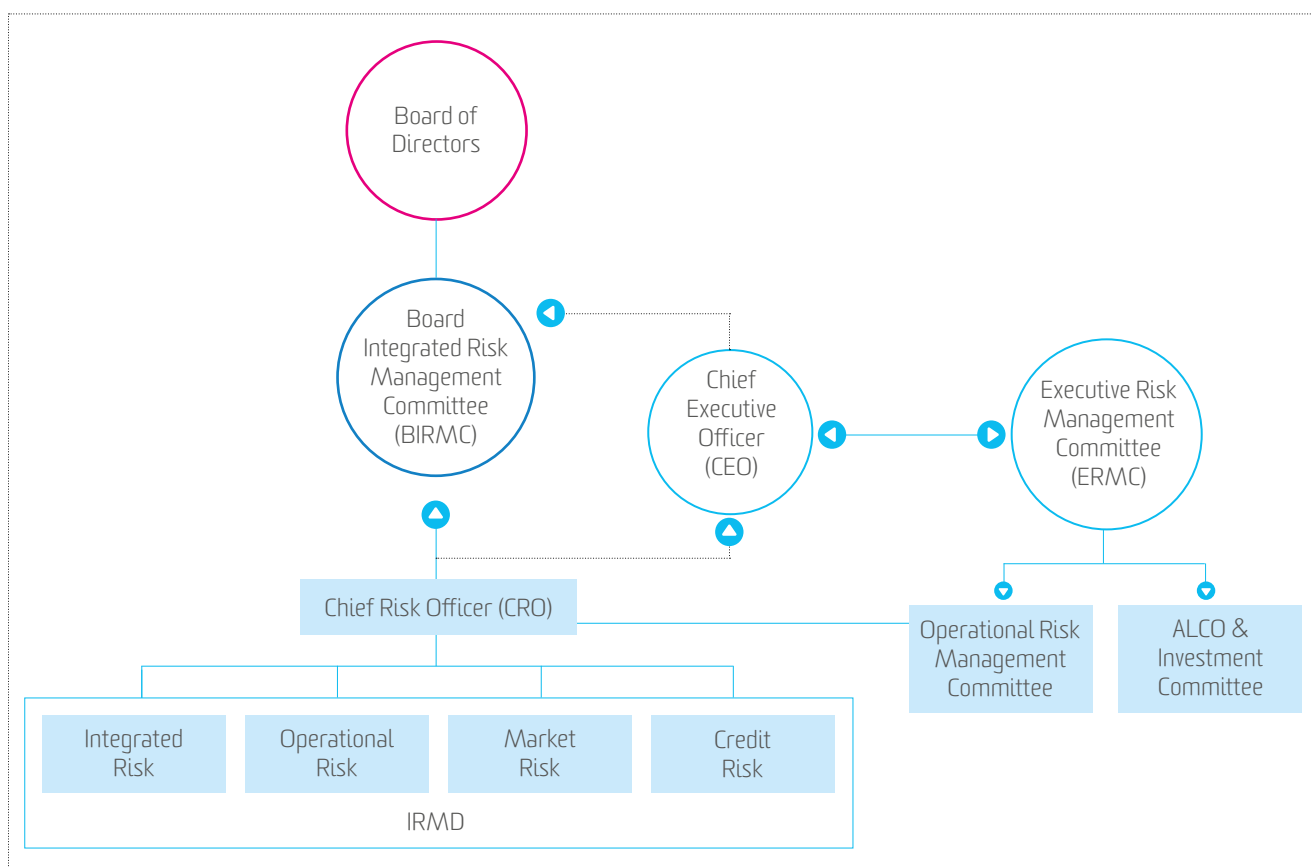
Risk Management

COMMITTEE	MANDATE	COMPOSITION
OPERATIONAL LEVEL COMMITTEES		
Asset and Liabilities Management Committee	<ul style="list-style-type: none"> ⊕ Execution of liquidity management policies, procedures and practices approved by the BOD ⊕ Review of liquidity position of the bank ⊕ Review of cash flow projections, pricing of products and changes in asset/liability profiles if warranted by stress testing results ⊕ Review and estimate additional funding capabilities 	The Committee is chaired by the CEO. All heads of business units, CFO, CRO, DGM Treasury, Chief manager FIS & debt sales, Chief manager market risk management, Chief manager management reporting & planning, Asset & Liability management manager and manager financial risk reporting are the permanent members
Executive Risk Management Committee	<ul style="list-style-type: none"> ⊕ Propose/recommend the risk management framework for the Bank consisting of the following <ul style="list-style-type: none"> ▪ Overall Risk Management Policy ▪ Risk Appetite ▪ Risk Goals ▪ Risk Management Procedure/Processes ⊕ Review the Overall Bank's Risk Grid and implement specific action plans to mitigate identified risks ⊕ Ensure suitable action plans are implemented to adhere to Board approved Risk Goals ⊕ Investigate any matter within its Terms of Reference and make any recommendations which it deems appropriate on any area within its remit where action or improvement is needed 	All members of the corporate management with the CEO being the Chairman of the committee
IT Steering Committee	<ul style="list-style-type: none"> ⊕ Consideration of proposed new IT projects ⊕ Prioritization of projects ⊕ Review ongoing projects ⊕ Status reporting on projects to Board and Management Committees ⊕ Deliberate IT related risks and developments 	<p>Chief Information Officer (Chairman), Chief Executive Officer/ Executive Director, DGM Commercial Banking,</p> <p>DGM Retail and SME Banking,</p> <p>DGM Cards and Strategic Marketing, DGM Leasing,</p> <p>Chief Financial Officer, Chief Risk Officer, DGM Internal Audit, Chief Manager Business Solutions, Chief Manager Technology and Infrastructure</p>

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

At an executive level, the Executive Risk Management Committee (ERMC) is responsible for the implementation of the Bank's IRM framework and policies whilst ensuring that limits and tolerance levels are set in line with the board approved risk appetite. The ERMC is assisted by the ALCO, Operational Risk Committee and Head Office Credit Committee. An Integrated Risk Management Department (IRMD), headed by the Bank's Chief Risk Officer (CRO) has also been set up with the primary objective of independently ensuring that all risk parameters are maintained in line with the Bank's defined risk appetite. Responsibilities of the IRMD include,

- ⊕ Monitor compliance with risk management policies and procedures
- ⊕ Development and review of risk management tools
- ⊕ Make recommendations to the Board with regard to risk policies.
- ⊕ Devise and implement Credit Portfolio Management techniques and advice management/BIRMC as appropriate.
- ⊕ Monitor the Bank's overall risk profile, including risk aggregation, reporting, trends, and change in material risk positions
- ⊕ Monitor excesses/overdue, take action and ensure loans are categorized as NPLs accurately where applicable and adequate loan loss provision is made.
- ⊕ Conduct impairment of loans and advances comprehensively
- ⊕ Compiles risk across business units and escalates risk and control issues to senior management
- ⊕ Nurtures an organisation wide risk culture through development of a common risk language and Bank wide risk training and support
- ⊕ Provides interpretation of risk related regulations/ leading practices and disseminates to business units.
- ⊕ Carry out "Loan Review Mechanism" and continuously improve and strengthen same.

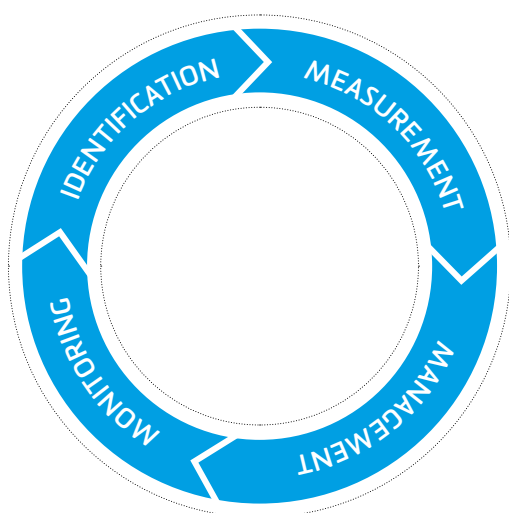


Risk Management

Risk Management Process

Risk Identification- All material risks are identified at business unit level to ensure that risks are managed as close to the source as possible. The following techniques are used for risk identification.

- ⊕ Internal Operational Risk Events and Losses – Reporting, Collection and Analysis (Transaction in Difficulty / Operational Loss Event - TID/OLE)
- ⊕ Key Operational Risk Controls (KORC)
- ⊕ Establishment of Key Risk Indicators (KRI)
- ⊕ Risk Control Self Assessments (RCSA)



Once identified, the potential impact of the risks to the Bank is quantified using the operational risk grading matrix. Risks are assigned risk grades (High, Medium and Low) based on the assessment of the likelihood and impact of the risks. These are reviewed on a periodic basis and reported by IRMD to the ERM and IRMC.

Measurement- The Bank's key risk exposures are measured based on the likelihood of occurrence and potential impact. Statistical and risk scoring models which are based on probabilities derived from historical trends and adjusted to reflect market conditions are utilised for effectively gauging likelihood of occurrence as well as expected and unexpected losses.

Management- A range of risk management tools and techniques are in place to manage each specific risk exposure and are discussed in detail from pages 55 to 63 of this report.

Monitoring- Risks are monitored consistently at multiple levels within the Organisation to ensure that performance is within the risk parameters defined by the Bank's risk appetite. Performance is monitored against a range of tolerance limits and triggers which are aligned with the Bank's overall strategy and market conditions. Comprehensive risk reports are prepared by business units/departments and reviewed by the IRMD and ERM on a regular basis, whilst aggregate reports are reviewed by the BIRMC at least on a monthly basis. In addition, all risk management processes in place within the Bank are reviewed for completeness and adequacy by the Internal Audit Division.

Risk Appetite

The Bank's risk appetite 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 by the Board regularly to ensure that it is in line with the Bank's business strategy and growth agenda.

Risk Appetite- Parameter

CREDIT RISK	Gross NPA ratio (%)
	Specific provision cover (%)
	Net NPL ratio net of IIS
	Impairment ratio
	Credit rating
	Maximum exposure to advances
	Exposure to segments
MARKET RISK	Interest rate risk
	Forex rate risk
	Fx forwards against capital (Times)
	Total contingent liabilities
OPERATIONAL RISK	Total operational losses as a % of operating expenses of the bank
	Operational losses not covered by insurance as a % of budgeted net income

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Credit Risk

Credit risk is the potential loss arising to the Bank as a result of customers and/or counterparties failing to discharge their contractual obligations. Credit risk can arise from default risk, concentration of counterparties, industry sectors and geographical regions.

How we manage Credit risk?

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 key responsibilities of the HOCC includes,

- ⊕ Formulate credit policies based on the Bank's risk appetite and business strategy
- ⊕ Determine presentation standards of credit proposals and other related documents
- ⊕ Setting prudential limits on sector and other portfolio concentration measures
- ⊕ Establishment of loan review mechanisms

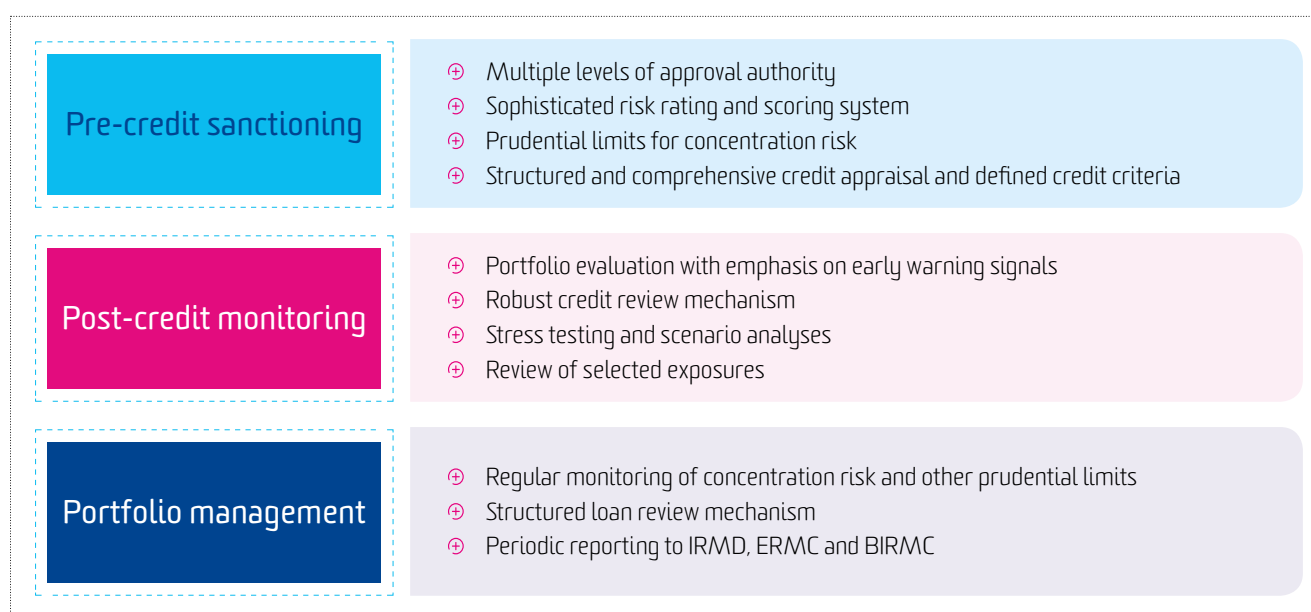
Risk Scoring

Tailor-made risk scorecards which adopt advanced statistical data analytics are utilised when underwriting consumer loans and credit cards. These scorecards are based on creditworthiness of individual customers, disposal 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. Please refer to note 44 of the audited financial statements for a customer rating analysis.

Risk Rating System

The Bank has implemented a sophisticated internal ratings based risk rating system for computation of capital charge under credit risk, in line with BASEL guidelines. 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 and SME customers. The system provides an indicative

Credit Risk Management Framework



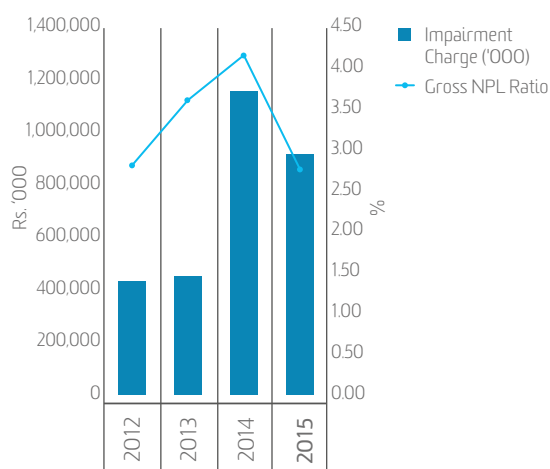
Risk Management

probability of default for the borrower as well as the loss given default for a particular facility obtained by the respective borrower. The ratings thus derived are mapped into a Bank wide single point indicator rating scale.

Credit Risk Performance - 2015

Strengthening the credit underwriting and control environment was a key priority for all business units during the year. As a result, the Bank's overall gross NPL ratio improved to 2.77% in 2015, from 4.16% the previous year. Further, the Bank's total impairment charge on loans and advances declined 22% in comparison to the previous year, a notable achievement given the relatively strong loan growth during the year.

IMPAIRMENT CHARGE & NPL RATIO



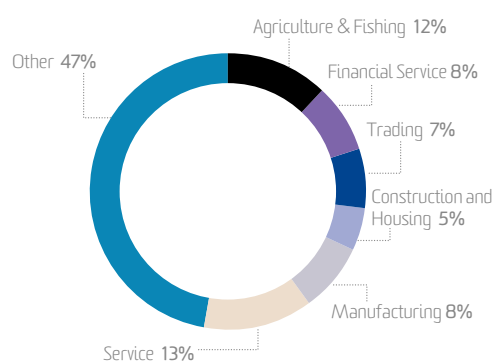
	Gross NPL ratio (%)	
	2015	2014
Consumer	3.25%	4.42%
Leasing	4.69%	8.47%
Corporate	0.52%	2.03%
SME Portfolio	4.58%	3.96%

Concentration risk is measured through the Normalized Herfindahl-Hirschman Index (HHI). Concentration related to industry sectors, individual customer segments and product maturity are consistently monitored against board approved maximum exposure limits. The Bank's advances portfolio is slightly concentrated towards consumption. However a concerted effort is being made to improve the spread in its advance book in order to mitigate the risk of excess concentrations.

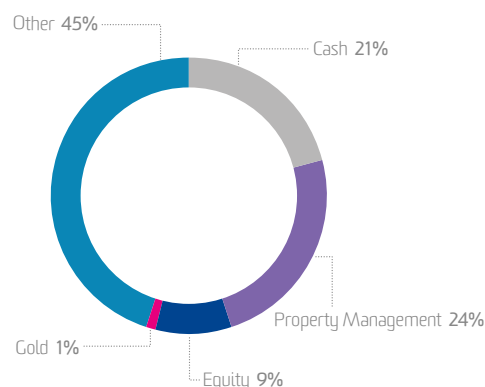
Large loan exposures

Large exposures	% of total portfolio
(Cumulative)	
Top 5	5%
Top 10	8%
Top 20	12%
Other	88%

SECTOR EXPOSURES OF LOAN PORTFOLIO



COLLATERAL BREAKDOWN



Market Risk

Market Risk is the potential loss arising from changes in the fair value or future cash flows of financial instruments due to fluctuations in market variables. The key market risks the Bank is exposed to are interest rate risk, foreign exchange risk, and liquidity risk.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

How we manage Market risk?

The Asset Liability Management Committee (ALCO) holds executive responsibility for overseeing the Bank's market risk exposures. The ALCO comprises of the CEO and relevant Corporate Management personnel and functions as the top-end operational unit for ensuring that the Bank's balance sheet is maintained within the risk parameters defined by the Board. 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 open position limits and counterparty limits on a daily basis.

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. The Bank manages its interest rate risks primarily through asset liability re-pricing gap analyses, which distributes interest rate sensitive assets, liabilities and off-balance sheet positions into several maturity buckets. Board defined limits are in place for interest rate gaps and positions are monitored at least on a monthly basis to ensure compliance to the prescribed limits. In addition to the asset liability maturity mismatches, the ALCO regularly monitors trends in market interest rates, as well as results of interest rate stress testing analyses.

Interest rate sensitivity analysis

Interest rate shock	Impact on equity			
	2015	% impact	2014	% impact
200	(973,242)	(6.41%)	(755,978)	(5.44%)
100	(499,762)	(3.29%)	(388,676)	(2.80%)
50	(253,300)	(1.67%)	(197,132)	(1.42%)
25	(127,522)	(0.84%)	(99,281)	(0.71%)
-25	129,303	0.85%	100,745	0.73%
-50	260,425	1.72%	202,988	1.46%
-100	528,283	3.48%	412,121	2.97%
-200	1,087,626	7.17%	850,083	6.12%

Fund transfer pricing

The fund transfer pricing (FTP) is the method adopted by the bank to evaluate the financial performance of its business units. The transfer price is determined based on the interest cost (cost of funds) of deposit mobilization and is centrally managed by treasury with ALCO guidance. Business units mobilizing deposits are allocated a margin above the interest cost of deposits by treasury and such funds are lent at a margin to business units driving asset products. This is a dynamic tool to derive customer/ product profitability on both asset & liability products.

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. 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.

Liquid Asset Ratio

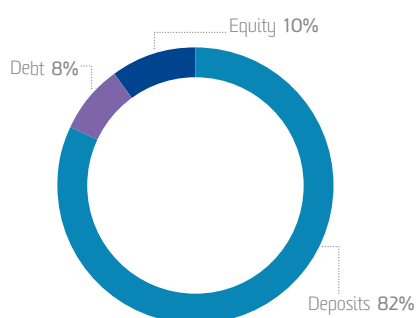
DBU : 22%

FCBU : 33%

Measuring Liquidity- Liquidity is measured through the dual approaches of stock and flow. The stock method measures liquidity based on the liquid assets held by the Treasury including cash, government securities and balances with financial institutions. Mismatches are closely monitored, particularly in the first 12 month maturity buckets. The flow approach evaluates liquidity based on the projected cash inflows and outflows over the different time buckets, based on the maturity of assets and liabilities.

Risk Management

MEASURING LIQUIDITY



The Bank's liquidity risk is also managed through its diversified funding profile, which limits exposure to a single avenue of funding. Retail deposits account for 82% of the Bank's total

funding, followed by debt (8%) and equity (10%). Depositor concentration is also relatively low, with the 20 largest depositors accounting for a mere 7.8% of the total deposit base.

Contingency liquidity plan

The Bank has put in place a multiple level contingency plan incorporating early warning signals and liquidity risk triggers for internal and external events. The action plan for each contingency level is handled by a Crisis Management Team which includes the CEO and other members of the Corporate and Senior Management Teams. Feedback obtained from regular liquidity stress analyses forms an important input in determining potential situations of liquidity stress. The relevant parameters are monitored consistently by the Treasury Middle Office and Finance Department. During the year, the Bank had two standard liquidity facility agreements amounting to Rs. 1.0 Bn (Reciprocal agreement) and Rs. 500 Mn.

Stock method - Ratios as per CBSL - IRM Direction		Mar-15	Jun-15	Sep-15	Dec-15	Limit
1	Net loans to total assets	65.9%	63.0%	66.7%	67.9%	<=70%
2	Loans to customer deposits					
	(i) Loans: Deposit Ratio(%)	93.5%	93.7%	97.6%	95.8%	
	(ii) Loans: Deposit Ratio - with Specified Borrowings (%)	85.8%	85.6%	89.6%	88.1%	<=90%
3	Liquid assets to short-term liabilities - 30 days	221%	282%	251%	220%	>=100%
	- 60 days	123%	184%	160%	150%	>=80%
4	Large liabilities (minus) temporary investments to earning assets (minus) temporary investments, where large liabilities represent wholesale deposits which are market sensitive and temporary investments which are those maturing within one year and those investments which are held in the trading book and are readily sold in the market.	4.71%	-2.83%	-1.32%	3.52%	<=5%
5	Purchased funds to total assets, where purchased funds include the entire inter-bank and other money market borrowings, including certificates of deposits and institutional deposits.	16.9%	20.1%	19.7%	19.6%	<=40%
6	Commitments to total loans, where the commitment in the nature of Letters of Credit (LCs), guarantees and acceptances	12.8%	11.9%	12.6%	10.2%	<=20%

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Behavioural Maturity Gap Analysis

Bank Consolidated (Rs. Mn)	15 days	16 days - 1 month	2 months	3 months	4 - 12 months	1-5 years	Over 5 years	Total
Liabilities								
Capital & Reserve	-	-	-	-	-	-	14,095	14,095
Medium term Borrowings	-	360	-	-	2,360	6,317	-	9,038
Short term Borrowings	3,151	1,110	586	131	104	1,008	-	6,091
Repos	5,004	3,155	538	1,393	660	-	-	10,750
Deposits	6,688	7,171	11,314	10,394	40,750	19,973	30,535	126,825
Other Payables & Provisions	2,307	-	-	-	-	-	-	2,307
Interest Payable & Others	7,040	1,208	-	239	29	-	397	8,913
Off Balance Sheet Items	7,413	7,306	7,009	7,337	5,866	-	-	34,932
Assets								
Cash & Cash equivalents	6,674	296	480	442	1,675	848	1,261	11,676
Investments	62	-	10	10	160	6,214	43	6,497
Reverse Repo	300	1	-	0	-	-	-	301
Tbill& bonds	18,512	-	-	-	1,220	8,030	3,143	30,905
Advances	10,212	8,820	5,270	8,935	17,898	39,118	28,620	118,873
Interest Receivables & Others	2,558	64	-	193	1,001	-	5,951	9,768
Off Balance Sheet Items	4,327	4,527	3,310	3,633	5,642	-	-	21,439
Total Liabilities	31,603	20,311	19,447	19,495	49,771	27,299	45,027	212,952
Total Assets	42,645	13,710	9,069	13,213	27,595	54,210	39,018	199,460
GAP	11,043	(6,601)	(10,378)	(6,283)	(22,176)	26,911	(6,009)	
Cumulative GAP	11,043	4,442	(5,936)	(12,219)	(34,395)	(7,484)	(13,493)	
Cumulative Liabilities	31,603	51,913	71,361	90,856	140,627	167,925	212,952	
Cumulative GAP as a % of Cumulative Liabilities	35%	9%	-8%	-13%	-24%	-4%	-6%	

Risk Management

Foreign Exchange Risk

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 and liabilities denominated in foreign currency. 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 monitored on a daily basis by the Treasury Middle Office, ensuring clear segregation of responsibilities.

Foreign Exchange Position as at 31 December 2015

Currency	On Balance Sheet Positions			Forward (a)			Overall Exposure in Respective Foreign Currency	Overall Exposure in Sri Lankan Rupees(b)
	Assets Rs. '000	Liabilities Rs. '000	Net Rs. '000	Assets Rs. '000	Liabilities Rs. '000	Net Rs. '000	'000	Rs. '000
US Dollar	7,414,984	17,136,544	(9,721,560)	22,650,023	12,966,018	9,684,005	(260)	(37,555)
Pound Sterling	18,417	1,786,980	(1,768,563)	2,046,920	277,257	1,769,663	5	1,100
Euro	122,979	775,136	(652,156)	757,943	104,171	653,772	10	1,616
Japanese Yen	19,235	65,785	(46,550)	609,486	562,772	46,714	137	165
Singapore Dollar	713	40,954	(40,241)	110,850	70,988	39,863	(4)	(379)
Other Currencies	35,584	1,241,217	(1,205,633)	1,812,470	597,447	1,215,024	-	9,391
Total Exposure								50,205 (c)
Total Equity								13,990,122
Total Exposure as a % of Total Equity (Should not exceed 30%)								0.36%
(a) Unsettled and Spot transactions are also included								
(b) Exposures indicated against each currency are added ignoring the signs to arrive at total exposure under (c)								

Foreign Exchange Position as at 31 December 2014

Currency	On Balance Sheet Positions			Forward (a)			Overall Exposure in Respective Foreign Currency	Overall Exposure in Sri Lankan Rupees(b)
	Assets Rs. '000	Liabilities Rs. '000	Net Rs. '000	Assets Rs. '000	Liabilities Rs. '000	Net Rs. '000	'000	Rs. '000
US Dollar	8,851,941	16,284,365	(7,432,424)	25,202,560	17,924,298	7,278,262	(1,167)	(154,162)
Pound Sterling	18,415	1,862,798	(1,844,383)	2,082,994	240,702	1,842,292	(10)	(2,091)
Euro	37,102	614,313	(577,211)	1,025,295	445,648	579,648	15	2,436
Japanese Yen	84,641	164,874	(80,233)	934,235	853,897	80,338	95	105
Singapore Dollar	3,086	13,054	(9,968)	124,355	113,360	10,996	10	1,028
Other Currencies	63,233	1,195,655	(1,132,422)	1,272,863	133,482	1,139,382	-	6,959
Total Exposure								166,782 (c)
Total Equity								12,880,042
Total Exposure as a % of Total Equity (Should not exceed 30%)								1.29%
(a) Unsettled and Spot transactions are also included								
(b) Exposures indicated against each currency are added ignoring the signs to arrive at total exposure under (c)								

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Operational Risk

Operational risk is the potential loss resulting from inadequate or failed internal processes, people and systems or from external events. These risks can arise from all spheres of the Bank's activities and all business/function units hold responsibility for managing the Bank's operational risk exposures within the defined parameters.

How we manage Operational Risk?

Oversight responsibility for operational risk management has been delegated to a dedicated Operational Risk Management Committee (ORMC). The Committee is accountable to ERM (Executive Risk Management Committee) on matters related to operational risk management and to foster a culture within the 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.

The Committee is the main interaction point between all operational functions of the bank encompassing end to end process coverage. Thus the primary purpose of this committee is to critically assess operational processes and internal controls with a view of eliminating loop holes thus minimizing possible operational losses. The committee will provide its recommendation to ERM and subsequently IRMC.

The Members of the Committee shall consist of the following designated officers. Chief Risk Officer /Deputy CRO will be the appointed chairman of the Committee.

- ⊕ Chief Risk Officer - Chairman
- ⊕ Chief Information Officer
- ⊕ Chief Operations Officer
- ⊕ Head of Internal Audit
- ⊕ Head of Banking Operations
- ⊕ Chief Manager Market Risk
- ⊕ Chief Manager Branch Operations
- ⊕ Senior Manager Compliance
- ⊕ Chief Manager Operational Risk (Secretary)

Further Bank's Operational Risk Management Unit (ORMU) comprises of a Chief Manager Operational Risk, Manager Operational Risk and an Assistant Manager Operational Risk. The Chief Manager of Operational Risk reports directly to the CRO.

The mandate of the ORMU includes,

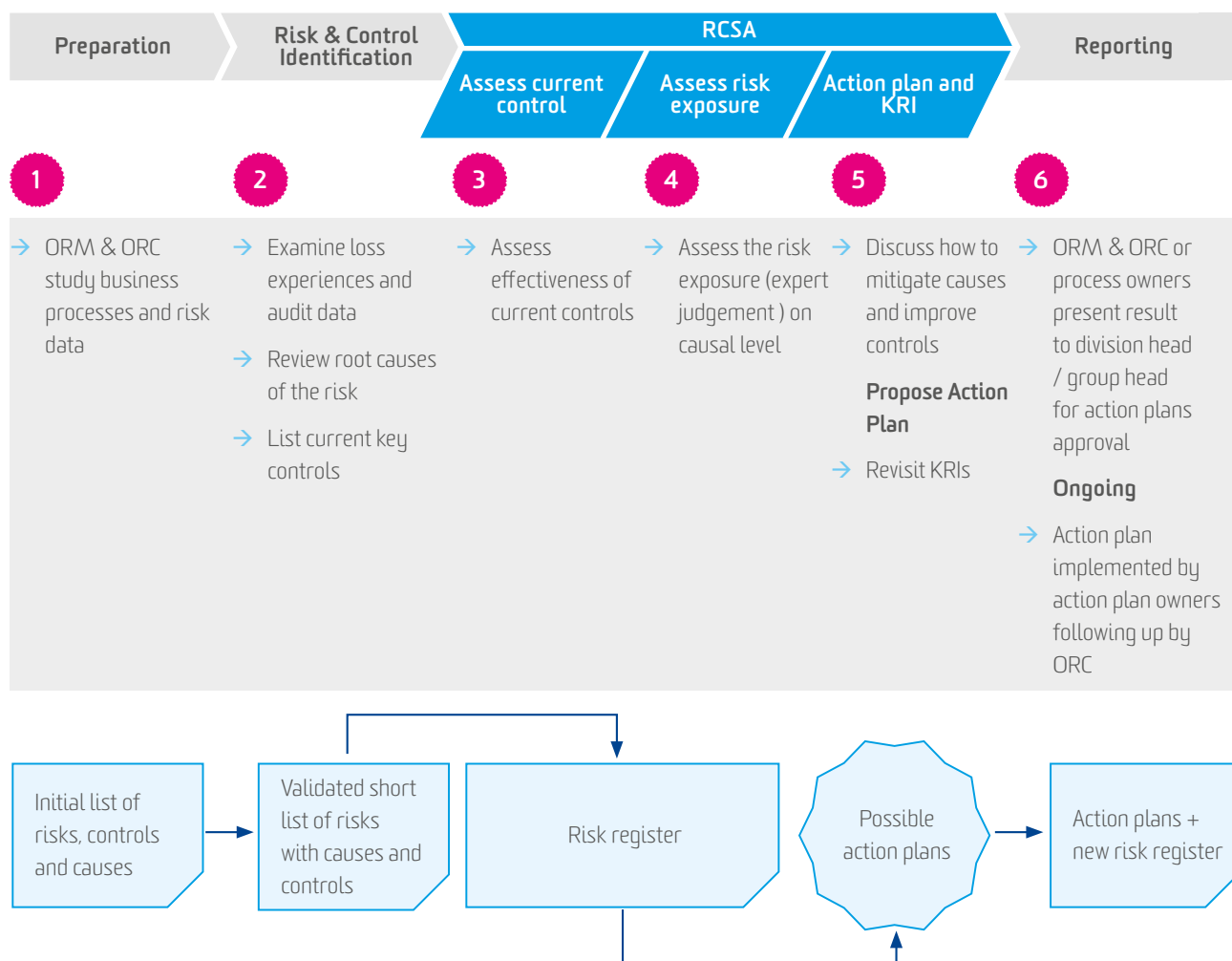
- ⊕ Ensuring the adequacy of the Bank's internal controls in mitigating operational risk
- ⊕ Implementation of the Business Continuity Plan through close co-ordination with all relevant Mission Critical Business/ Support Units
- ⊕ Management of the customer grievance handling process in line with the Customer Charter Directive of the CBSL.
- ⊕ Co-ordinate with MIS in mapping revenue lines to estimate capital charge for operational risk under the Basel Standardised Approach
- ⊕ To promote an effective risk awareness culture throughout the Bank and ensure that the bank staff are fully conversant with Operational Risk and regulatory aspects both in knowledge and its practical implementation
- ⊕ To establish a robust Operational Risk Management framework across the Bank.
- ⊕ To review Operational Risk policy as and when required.
- ⊕ Facilitate a risk based approach to management of Operational Risks for the Bank.
- ⊕ Meet regulatory requirements of Central Bank of Sri Lanka
- ⊕ Maintenance of Loss Data Base

Risk and Control Self-Assessment

Risk & control self assessment (RCSA) is defined in the Bank's Operational Risk Policy as a structured means 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 risk and measures introduced to mitigate unacceptable risk exposure is clearly defined.

In addition to the RCSA process established across all departments, the bank is in the process of developing a "Key Risk Indicator"(KRI) framework. The KRIs will ensure that early indicators of risks are given due recognition and appropriate action is taken to reduce possible losses arising from such risks. An effective KRI program is a powerful tool within the operational risk management tool kit provided processes are in place for swift action in response to identified risk indicators.

Risk Management



Operational Risk Management Framework

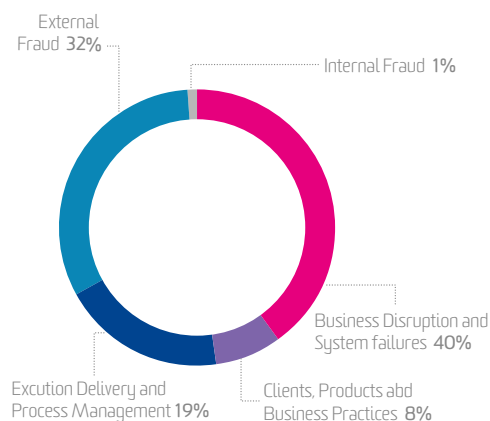
The Bank maintains a well-structured Operational Risk Loss Data Base which is aligned to the BASEL II requirements. Streamlined processes are in place to capture all operational loss events including near misses, which are then categorized as specified in a BASEL document in order to use them for future modelling activities when the Bank transitions to Advanced Management Approach (AMA) for Operational Risk. The loss events are linked to the RCSA & KRI Program to ensure that repeat errors are minimized.

The Compliance Department acts as a central point in monitoring and coordinating all regulatory activities. It ensures that the Bank complies with all laws, regulatory directives, loan covenants

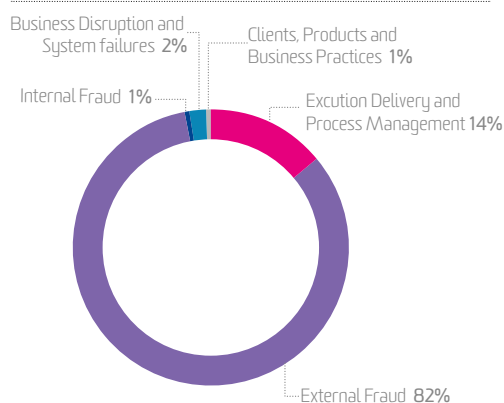
and drives the compliance culture across the bank. Regular reviews are being carried out by internal audit to analyse the control environment and test the effectiveness of implemented controls, thereby ensuring business operations are conducted in a controlled manner. The results of internal audit reviews are discussed with the management of the business unit to which they relate and submitted to the Board Audit Review Committee to ensure undertaking corrective action plans where necessary. The bank has in place a well documented and tested contingency and business continuity plan. It ensures its ability to operate as a going concern and minimize losses in the event of severe disruption to its normal business operation.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

LOSS EVENTS BY COUNT



LOSS EVENTS BY VALUE



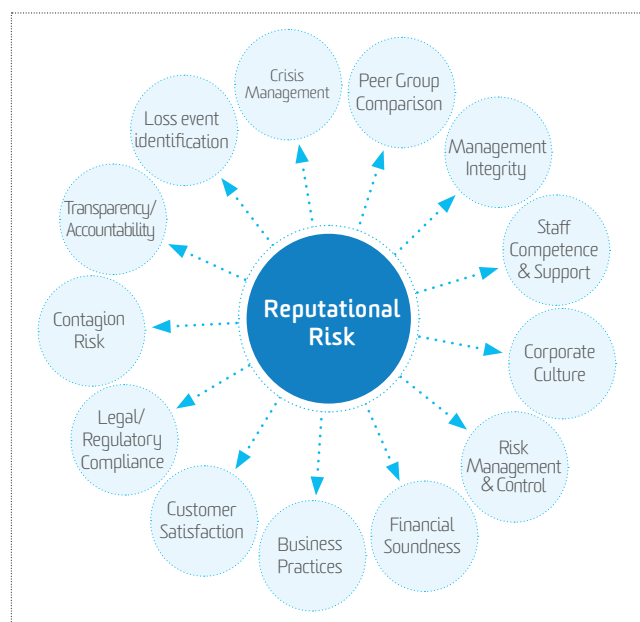
Strategic and Reputational Risk

Reputation Risk refers to the potential adverse effects, which can arise from the Bank's reputation being tarnished due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints and negative/adverse publicity.

Strategic Risk refers to the strategic decisions / plans / objectives which may go wrong due to actions or inactions by the parties to strategic decision making process, adversely affecting the shareholder wealth of the Bank e.g. incorrect decisions, inadequate information for decision making and delayed remedial action.

How we manage Strategic and Reputational Risk

The Bank has incorporated evaluation of strategic and reputational risks under its Internal Capital Adequacy Assessment Process (ICAAP). This process is carried out on a quarterly basis & reported to the board via the IRMC. The Bank has assessed the Reputational Risk based on a scorecard approach. The major factors considered for the assessment include:



Risk Management

The Bank has assessed its Strategic Risk based on a scorecard approach. The major factors considered for the assessment include the components shown in the diagram below:



Capital Management

The Bank has put in place a formalised capital management strategy which feeds into its overall strategic planning exercise. The key medium term objectives of the Bank's capital augmentation plans are,

- ⊕ To maintain adequate capital resources commensurate with the Bank's business strategy and growth plans, capital commitments and overall risk appetite
- ⊕ To maintain a sufficient capital buffer for unexpected and stressed economic conditions
- ⊕ To allocate capital to business units and products in order to optimise the risk adjusted returns and economic value additions

The Bank currently applies the BASEL II - Pillar 1 framework as adopted by the CBSL in order to calculate Risk Weighted Assets (RWA) and the required capital charge. For the measurement of RWA, the Bank currently adopts the standardised approach for credit and market risk while the Basic Indicator Approach is applied for operational risk. The minimum Tier 1 capital requirement is set at 5% of RWA while minimum Total Capital (Tier 1 + Tier 2) is set at 10% of RWA.

Extensive risk assessments under Basel II - Pillar 2 framework also has been considered in the capital planning process. The bank has done the preliminary evaluations to assess the adequacy of the additional capital buffer required under new Basel III regulations and is confident that the bank is within such requirements.

Capital Adequacy Ratio

Rs. Mn	2015	2014
Tier I Capital	15,090	13,781
Tier II Capital	2,725	4,011
Total Capital	17,816	17,792
Risk - Weighted Amount for Credit Risk	97,639	80,468
Risk - Weighted Amount for Market Risk	246	2,571
Risk - Weighted Amount for Operational Risk	16,847	14,292
Total Risk - Weighted Amount	114,732	97,331
Risk - Adjusted Capital Ratio against Tier I Capital*	13.15%	14.16%
(Tier I Capital/Total Risk Weighted Amount)		
Risk - Adjusted Capital Ratio against Total Capital**	15.53%	18.28%
(Total Capital/Total Risk Weighted Amount)		
*Statutory minimum 5%		
**Statutory minimum 10%		

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

The constituents of Group capital ratios based on above approaches as at 31.12.2015 are given below.

2015								
Sources	Rs'000	%		Utilisation		Risk Weighted Value Rs'000	Capital Charge (10%) Rs'000	%
				Balance Rs'000	Risk Weight %			
Tier - I			RWA for Credit Risk					
Stated Capital	4,297,675	3.75	Due from CBSL	5,283,866	-	-	-	-
Profit & Loss A/C	2,536,573	2.21	Govt. Securities	32,882,178	-	-	-	-
Equity Reserves	8,255,923	7.20	Cash in Hand	3,763,157	-	-	-	-
			Cash in collection	1,364,549	20	272,910	27,291	0.02
Total Tier I	15,090,171	13.15		4,663,329	20	932,666	93,267	0.08
				7,695,397	50	3,847,699	384,770	0.34
			Advances (Direct and indirect)	54,948,947	75	41,211,710	4,121,171	3.59
Tier - II				43,421,933	100	43,421,933	4,342,193	3.78
Revaluation Reserves				1,407,148	150	2,110,721	211,072	0.18
Subordinated Term Debt	2,725,365	2.38	Placements with Banks	2,961,617	20	592,323	59,232	0.05
Total Tier II	2,725,365	2.38		387,842	50	193,921	19,392	0.02
				489,579	100	489,579	48,958	0.04
			Fixed Assets	3,367,345	100	3,367,345	336,735	0.29
Sub Total (Tier I & Tier II)	17,815,536	15.53	Other Assets	1,198,286	100	1,198,286	119,829	0.10
				163,835,174		97,639,094	9,763,909	8.51
			Interest Rate	20,546				
			Foreign Exchange	4,055				
Less : Deduction for investments	-		RWA for Market Risk	24,601		246,008	24,601	0.02
			RWA for Operational Risk	1,684,739		16,847,388	1,684,739	1.47
			Required Regulatory Capital			114,732,490	11,473,249	10.00
Total Regulatory Capital	17,815,536	15.53	Additional Capital Buffer				6,342,287	5.53
							17,815,536	15.53

CORPORATE GOVERNANCE

Good governance continues to be one of the main areas of focus for the Board of Directors of the Bank. Accordingly, Board ensures a high degree of integrity through transparency and accountability at every level of operations of the Bank. The Board of Directors has established necessary policies and procedures to ensure that the day to day affairs of the Bank are governed by adequate internal control mechanisms in a manner that would enhance stakeholder confidence. The Board of Directors has also ensured that the financial reporting system of the Bank is designed to provide assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting policies. Board is assisted in this effort by six Board Sub Committees. Responsibilities, functions and activities during the financial year of these committees are presented separately.

Whilst ensuring that the business is carried on adhering to the generally accepted corporate governance practices, the Board also ensures compliance with the Corporate Governance Rules under Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka. In compliance with Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka, the Bank has obtained a certificate from the External Auditors on the effectiveness of the internal control mechanism reported by the Board of Directors.

The Board comprises of highly respected individuals who have reached the pinnacle of their chosen fields often displaying multidisciplinary competencies. Expertise on the Board represents a cross section from the Finance, Corporate, Academic and Professional spheres, who together contribute a wealth of practical insight and business acumen. Board currently comprise of a healthy balance of experience and youth. 11 Directors out of a total number of 12 are non executive directors. Board approves a strategic plan and key policies for the Bank and effectively monitors their implementation through the Board sub committees and Key Management Personnel. The Board appoints the Chief Executive Officer (CEO) and Corporate Management who together make up the Key Management Personnel of the Bank.

Names of the Directors and their status are given in the Annual Report of the Board of Directors on Page 36 to 39 Chairman of the Bank is a Non Executive Director. The Bank currently has five Independent Directors. Non Executive Independent Director Mr. Murtaza Jafferjee has been designated as the Senior Director.

Positions of the Chairman and the CEO are separated. Chairman provides leadership to the Board while the CEO manages the day to day operations of the Bank giving effect to the strategies and policies approved by the Board. Chairman and the CEO are not related to each other. Board sets goals and targets for the CEO based on the recommendation of the Human Resources and Remuneration Committee. Performance of the CEO is monitored on an ongoing basis and a formal appraisal is carried out at the end of the year by the Human Resources and Remuneration Committee based on whose recommendation, the Board determines the remuneration of the CEO.

Identifying and recommending suitable individuals to be appointed as Directors is the responsibility of the Nomination Committee. Nomination Committee ensures that the Directors are persons of repute who would be able to contribute significantly towards the benefit of the Bank to achieve its strategies, objectives and goals. Nomination Committee also assist the Board to determine whether the Directors and Key Management Personnel are fit and proper persons as required under the Banking Act and Directions issued thereunder.

Further, the Bank considers the social and environmental responsibilities as an integral part of its governance strategy and is prominently placed in the Bank's corporate priorities.

The following table summarises the best attempt of the Bank to enhance compliance with Corporate Governance Directions.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3(1)	The Responsibilities of the Board	
3 (1) (i)	The board shall strengthen the safety and soundness of the bank by ensuring the implementation of the following;	
3 (1) (i) (a)	Approve and oversee the bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank	<p>Complied</p> <p>The Strategic Plan for the period 2013-2017 has been approved by the Board. Such approved Strategic Plan includes strategic objectives and corporate values.</p> <p>Vision, mission and corporate values have been communicated to the staff via intranet and regular training.</p>
3 (1) (i) (b)	Approve the overall business strategy of the bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	<p>Complied</p> <p>Refer comments on 3 (1) (i) (a)</p> <p>Board has approved the Risk Policy which includes the Risk management procedures and mechanisms with measurable goals.</p> <p>The Bank annually revise Risk Goals contained in the Risk Policy in order to dynamically manage risk appetite of the Bank.</p> <p>A three year business plan covering the period from 2016 to 2018 was approved by the Board in December 2015 as a continuation of the five year strategic plan already approved for the period.</p>
3 (1) (i) (c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	<p>Complied</p> <p>The implementation of the Risk Policy is being monitored by the IRMC and the Board through a well structured Risk reporting mechanism. IRMC minutes are submitted to the Board regularly as stipulated in the Terms of Reference of Integrated Risk Management Committee.</p>
3 (1) (i) (d)	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers	<p>Complied</p> <p>The Board has approved and implemented a policy of communication.</p> <p>Board approved communication policy has been communicated to the staff via intranet of the Bank.</p>
3 (1) (i) (e)	Review the adequacy and the integrity of the bank's internal control systems and management information systems	<p>Complied</p> <p>Such review is being carried out routinely by the Board. Internal controls are being looked at by individual departments at predetermined intervals being either monthly or quarterly. Implementation of internal controls is also looked into by the Internal Audit Department. Board monitors these through the Integrated Risk Management Committee and the Board Audit Review Committee (BARC).</p>

Corporate Governance

RULE NUMBER	RULE	REMARKS
3 (1) (i) (f)	Identify and designate key management personnel, as defined in the International Accounting Standards, who are in a position to (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management	Complied The Board has identified Key Management Personnel (KMP), as required by the Direction.
3 (1) (i) (g)	Define the areas of authority and key responsibilities for the board directors themselves and for the Key Management Personnel	Complied Matters reserved for the Board are specifically identified and approved by the Board. Areas of authority and key responsibilities of the other KMP are included in the respective job descriptions
3 (1) (i) (h)	Ensure that there is appropriate oversight of the affairs of the bank by key management personnel, that is consistent with Board policy	Complied Oversight of affairs of the Bank is carried out through the Board Supervisory Committee (BSC) where all KMP present their performance and make themselves available for any clarifications and explanations required by the BSC members. Board monitors this through the Minutes of the BSC. KMP also communicate to the Board via the monthly management report submitted to the Board of Directors. KMP make regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas. KMP responsible for internal controls and compliance attend every IRMC meeting. Board has delegated the function of overseeing Internal Audit Department (IAD) to a board sub-committee namely, BARC. Board exercise oversight of the affairs of the Bank by KMP through the minutes of the meetings of the BSC, IRMC, BARC, Assets Liabilities Management Committee (ALCO) and Investment Committee tabled at Board meetings.
3 (1) (i) (i)	Periodically assess the effectiveness of the board of directors' own governance practices, including (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests and (iii) the determination of weaknesses and implementation of changes where necessary.	Complied The Board appraises its performance annually by using the Board of Directors self assessment questionnaire. The responses received from the Directors are collated by the Senior Director and synopsis of same is submitted to the Board and matters of concern are addressed by the Board.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3 (1) (i) (j)	Ensure that the bank has an appropriate succession plan for key management personnel.	<p>Partially Complied</p> <p>A comprehensive succession planning process is undertaken for KMP. The process involves identification of senior officers and grooming them to take over Corporate Management positions.</p> <p>Succession Plan for KMP has been approved by the Board.</p> <p>The Bank is also in the process of developing the leadership capabilities of certain corporate management members via a structured leadership development program through which the Bank may identify a possible successor to the CEO within the next two years. However the Bank also would keep the option open to identify a successor from the external market based on the requirements of the Bank. Hence the currently approved succession plan does not identify a person for succession to the position of the CEO and Compliance Officer.</p> <p>Human Resources Department is vested with the responsibility of revising and keeping the succession planning process up to date.</p> <p>Succession at Board levels is ensured through maintaining the Board composition at a level higher than the statutorily required minimum number. This permits the Board to carefully fill any sudden vacancy created without an adverse impact on the functionality.</p>
3 (1) (i) (k)	Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives	<p>Complied</p> <p>Refer comment on 3 (1) (i) (h) above.</p>
3 (1) (i) (l)	Understand the regulatory environment and ensure that the bank maintains an effective relationship with regulators.	<p>Complied</p> <p>The Company Secretary is statutorily responsible for communications with the Registrar of Companies. This is included in the JD of the Company Secretary.</p> <p>Maintaining an effective relationship with the regulators is carried out through diligent compliance with applicable rules and regulations. This is included in the JD of Compliance Officer.</p> <p>Compliance with statutory regulations is monitored regularly by the Board. The Compliance Officer of the Bank submits a monthly compliance report which includes all returns submitted to the regulators, to the Board through the CEO. A monthly report is submitted to the IRMC by the Compliance Officer capturing interactions with the Regulators and actions to be taken on new regulations.</p>

Corporate Governance

RULE NUMBER	RULE	REMARKS
3 (1) (i) (m)	Exercise due diligence in the hiring and oversight of external auditors	Complied Board has delegated this function to the BARC. TOR of the BARC contains provisions for hiring and oversight of external Auditors. The appointment of the External Auditor is made at the Annual General Meeting.
3 (1) (ii)	The Board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with direction 3 (5) of these Directions.	Complied Functions and the responsibilities of the Chairman and the CEO have been separated and approved by the Board.
3 (1)(iii)	The Board shall meet regularly and board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied Board met 13 times in the year on a monthly basis with two meetings being held in the month of December. Directors actively participate at such meetings. Any concern or comment by such directors requiring action is minuted. Approval of the Board by circular resolutions has been kept to a minimum and resorted to only where necessary. Such resolutions are also submitted to the subsequent Board meeting as an agenda item for confirmation enabling a further discussion on the matter if required.
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	Complied Approved Board procedure includes a provision to indicate that all Directors are entitled to include such matters and proposals in the agenda for Board Meetings. Also monthly meetings are scheduled and informed to the Board at the beginning of each year to facilitate this.
3(1) (v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice may be given.	Complied In terms of Clause 1.2 of the Board Procedure, the schedule of dates of meetings for the year is approved by the Board at the first Board meeting of the year and such approved schedule is notified to every Director there by giving more than 7 days notice. Clause 2.3 provides that any change of the schedule shall be notified to the Directors at least 7 days prior to the date the meeting. Clause 2.4 provides that any meeting other than that contained in the Schedule shall be given 7 days prior notice unless all the directors agree to meet at a shorter notice.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3 (1) (vi)	The Board procedures shall ensure that a director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.	<p>Complied</p> <p>Clause 6 of the approved Board procedure contains a similar provision.</p> <p>Details of the Directors attendance is set out on Page 100 of the Annual Report 2015</p> <p>No director has violated this requirement during the financial year 2015.</p>
3(1)(vii)	The Board shall appoint a company secretary who satisfies the provisions of section 43 of the Banking Act No.30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	<p>Complied</p> <p>The Company Secretary who is an Attorney-at-Law satisfies the provisions contained in Section 43 of the Banking Act.</p> <p>JD of the Company Secretary includes the responsibilities to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.</p>
3(1) (viii)	All directors shall have access to advise and services of the company secretary with a view to ensure that board procedures and all applicable rules and regulations are followed.	<p>Complied</p> <p>All Directors have access to the advice and services of the Company Secretary.</p> <p>Clause 8.3 of the Board Procedure provides for same.</p>
3 (1) (ix)	The company secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	<p>Complied</p> <p>Board minutes are maintained by the Company Secretary. Clause 9.1 of the Board Procedure also provides for same. The Directors have access to the Board papers and minutes through a secure electronic link.</p>

Corporate Governance

RULE NUMBER	RULE	REMARKS
3(1)(x)	<p>Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the board acted with due care and prudence in performing its duties.</p> <p>The minutes shall serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the board meetings. Therefore the minutes of a board meeting shall clearly contain or refer to the following;</p> <ul style="list-style-type: none"> (a) A summary of data and information used by the Board in its deliberations (b) The matters considered by the board (c) The fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence. (d) The testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations (e) The Board's knowledge and understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted (f) The decisions and board resolutions. 	<p>Complied</p> <p>Minutes of Board meetings are recorded in sufficient detail to enable a proper assessment to be made of the depth of deliberations at the meetings.</p> <p>Every paper submitted to the Board seeking approval of the Board contains recommendations from the executive management and also discloses a reasonable basis for making such recommendations.</p> <p>Minutes will refer to the paper which contains the data and opinions relied on by the Board and also contain any other matter considered by the Board outside what is contained in the paper (if any). Minutes are to be read with the relevant board paper. Reference of the paper considered is included in the minute.</p> <p>Clause 9.4 of the Board procedure also provides for the contents of the Board minutes.</p>
3 (1) (xi)	<p>There shall be a procedure agreed by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.</p> <p>The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/her/their duties to the bank.</p>	<p>Complied</p> <p>Approved Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.</p>

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3(1)(xii)	<p>Directors shall avoid conflicts of interests, or the appearance of conflicts of interests, in their activities with, and commitments to, other organizations or related parties.</p> <p>If a director has a conflict of interest in a matter to be considered by the board, which the board has determined to be material, the matter should be dealt with at a board meeting, where independent non executive directors [refer to direction 3(2)(iv) of these Directions] who have no material interest in the transaction, are present.</p> <p>Further a director shall abstain from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested, and he/she shall not be counted in the quorum for the relevant agenda item at the board meeting.</p>	<p>Complied</p> <p>Clause 10 of the Board procedure specifically addresses avoidance of conflicts of interest.</p> <p>Board has made a determination as to what should be considered as material and such matters have been dealt by the Board as required by the Rule. Directors abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest. Board minutes provide evidence of compliance.</p>
3(1)(xiii)	The board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the bank is firmly under its authority.	<p>Complied</p> <p>There is a schedule of matters reserved for Board approval which has been approved by the Board.</p>
3 (1) (xiv)	The board shall, if it considers that the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the bank prior to taking any decision or action.	<p>Complied</p> <p>Such a situation has not arisen. Board is furnished with sufficient information on a regular basis to enable the Board to act in the required manner if such a situation arises.</p> <p>Board has also approved and put in place a robust ALCO mechanism that would keep the liquidity position under control.</p> <p>IRMC discusses in detail the Key Risk Goals at each IRMC meeting and the minutes of the IRMC are submitted to the Board accordingly.</p>
3 (1) (xv)	The board shall ensure that the bank is capitalized at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	<p>Complied</p> <p>The Bank is in compliance with regulatory and prudential requirements relating to capital adequacy. Capital Adequacy Ratios are submitted to the Board quarterly. IRMC also monitors this on a monthly basis through Key Risk Goals.</p>
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	<p>Complied</p> <p>Report is published in page 66 of the Annual Report of 2015 .</p>

Corporate Governance

RULE NUMBER	RULE	REMARKS
3 (1) (xvii)	The board shall adopt a scheme of self assessment to be undertaken by each director annually and maintain records of such assessments.	<p>Complied</p> <p>The Board appraises its performance by using the Board evaluation form which is filled by each director in relation to business strategy and contributions of Board members based on their field of expertise, annually. The responses are collated by the Senior Director and a synopsis of same is submitted to the Board.</p> <p>The records of these assessments are maintained with the Company Secretary.</p>
3 (2)	The Board's composition	
3(2)(i)	The number of directors on the board shall not be less than 7 and not more than 13	<p>Complied</p> <p>Board composition was in compliance with this requirement throughout the year.</p>
3(2)(ii)(A)	The total period of service of a Director other than a director who holds the position of chief executive officer shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such director up to January 1st, 2008.	<p>Complied</p> <p>No Director served for a period exceeding nine years during the year.</p>
3(2)(iii)	An employee of a bank may be appointed, elected or nominated as a director of the bank (hereinafter referred to as an 'executive director') provided that the number of executive directors shall not exceed one-third of the number of directors of the board. In such an event, one of the executive directors shall be the chief executive officer of the bank.	<p>Complied</p> <p>The Board consists of eleven Directors with one Executive Director and ten Non Executive Directors as at 31st December, 2015. Number of Executive Directors has not exceeded the specified number at any time during the year.</p>

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3(2)(iv)	<p>The board shall have at least three independent non executive directors or one third of the total number of directors, whichever is higher. This sub direction shall be applicable from January 1 2010 onwards.</p> <p>A non executive director shall not be considered independent if he/she;</p> <ul style="list-style-type: none"> (a) has direct and indirect shareholding of more than 1% of the bank; (b) currently has or had during the period of two years immediately preceding his/ her appointment as director, any business transactions with the bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the bank; (c) has been employed by the bank during the two year period immediately preceding the appointment as director (d) has a close relation who is a director or chief executive officer or a member of key management personnel or a material shareholder of the bank or another bank. For this purpose a 'close relation' shall mean the spouse or a financially dependent child; (e) represents a specific stakeholder of the bank (f) is an employee or a director or a material shareholder in a company or business organization; <ul style="list-style-type: none"> 1. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10% of the regulatory capital of the bank, or 11. in which any of the other directors of the bank are employed or are directors or are material shareholders; or 111. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10% of regulatory capital in the bank. 	<p>Complied</p> <p>The Bank has four Independent Non Executive Directors out of a total of eleven Directors as at 31 December, 2015 which complies with the requirement.</p>

Corporate Governance

RULE NUMBER	RULE	REMARKS
3 (2) (v)	In the event an alternate director is appointed to represent an independent director, the person so appointed shall also meet the criteria that applies to the independent director.	Not Applicable No alternate director has been appointed to represent an independent Director.
3(2)(vi)	Non executive directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgement to bear on issues of strategy, performance and resources.	Complied Directors possess qualifications and experience to meet the criteria specified in the Rule. Brief profiles of the Directors are given on pages 36 to 39 of the Annual Report 2015. Directors nominate names of eminent professionals or academics from various disciplines to the Board Nomination Committee which peruse the profiles and recommends suitable candidates to the Board. Central Bank approval is also obtained for all new appointments and for continuing directors, annually.
3(2)(vii)	A meeting of the board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless more than one half of the number of directors present at such meeting are non executive directors. This sub direction shall be applicable from January 1, 2010 onwards.	Complied All meetings have been attended by a majority of Non Executive Directors.
3 (2) (viii)	The Independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the bank. The bank shall disclose the composition of the board, by category of directors, including the names of the chairman, executive directors, non executive directors and independent non executive directors in the annual corporate governance report.	Complied Composition of the Board, including the names of the Chairman, Executive Directors, Non Executive Directors and Independent Non- Executive directors are disclosed in page 36 to 39 of the Annual Report 2015.
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the board. There shall also be procedures in place for the orderly succession of appointments to the board.	Complied A Board composition and succession plan is in place. All appointments are considered and approved by the Nomination Committee and by the full Board thereafter in addition to obtaining approval from the Central Bank of Sri Lanka.
3 (2) (x)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied Notice and agenda for the AGM to be held in 2016 includes proposals to seek shareholders' approval for directors appointed to fill casual vacancies.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3(2)(xi)	<p>If a director resigns or is removed from office, the board shall :</p> <p>(a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and</p> <p>(b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p>	<p>Complied</p> <p>Two directors retired from the Board during the year. Necessary formalities as required by the Rule have been complied.</p>
3(2)(xii)	A director or an employee of a bank shall not be appointed, elected or nominated as a director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	<p>Complied</p> <p>Based on the quarterly declarations submitted by individual directors in the year 2015 , no director is a Director of another Bank.</p> <p>Letter of appointment of employees includes a clause which stipulates that an employee shall not have any dealing with any other financial institution.</p>
3(3)	<p>Criteria to assess the fitness and propriety of directors</p> <p>In addition to provisions of Section 42 of the Banking Act No.30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a director of a bank. Non-compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a director or to continue as a director.</p>	Complied
3(3) (i)	The age of a person who serves as a director shall not exceed 70 years.	<p>Complied</p> <p>There are no directors who are over 70 years of age.</p>
3(3)(ii)	A person shall not hold office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.	<p>Complied</p> <p>No director of the Bank holds Directorships in more than 20 companies.</p>
3 (4)	Management functions delegated by the Board	
3 (4) (i)	The directors shall carefully study and clearly understand the delegation arrangements in place	<p>Complied</p> <p>Clause 7 of the Board Procedure includes a provision for delegation of powers by the Board. TORs of all Board sub committees have been approved by the Board. All delegations have been done by the Board after due consideration.</p>

Corporate Governance

RULE NUMBER	RULE	REMARKS
3 (4) (ii)	The board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the board as a whole to discharge its functions.	Complied Refer comment on 3.4.(i) above.
3 (4) (iii)	The board shall review the delegation process in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	Complied As and when new requirements have arisen, the Board has reviewed and amended delegation arrangements based on the recommendations made by the management.
3 (5)	The Chairman and the Chief Executive Officer	
3 (5) (i)	The roles of the chairman and the chief executive officer shall be separate and shall not be performed by the same individual.	Complied Roles of the Chairman and the CEO are separated and held by two separate individuals. Chairman provides leadership to the Board while the CEO manages the day to day operations of the Bank giving effect to the strategies and policies approved by the Board.
3 (5) (ii)	The chairman shall be a non executive director and preferably an independent director as well. In the case where the chairman is not an independent director, the board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the bank's Annual Report.	Complied Mr. Krishan Balendra, a Non Executive Director is the Chairman. An Independent Non Executive Director Mr. A. R. Rasiah functioned as the senior Director till 27th December and upon his retirement Mr. Murtaza Jafferjee was designated as the Senior Director. TOR of the Senior Director is approved by the Board. The designation of the Senior Director has been disclosed in the Annual Report 2015.
3 (5) (iii)	The board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the identity of the chairman and the chief executive officer and the nature of the relationship [including financial, business, family or other material/relevant relationship (s), if any], between the chairman and the chief executive officer and the relationships among members of the board.	Complied The identity of the Chairman and the Chief Executive Officer and the absence of a relationship between the two persons are disclosed in the Annual Report 2015 .
3 (5) (iv)	The chairman shall; provide leadership to the board ensure that the board works effectively and discharges its responsibilities; and ensure that all key and appropriate issues are discussed by the board in a timely manner.	Complied These are considered as the three key responsibilities of the Chairman and included in the 'Functions of the Chairman and the CEO' approved by the Board. The requirement is further covered by the self evaluation process of the Board.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3 (5) (v)	The chairman shall be primarily responsible for drawing up and approving the agenda for each board meeting, taking into account where appropriate, any matters proposed by the other directors for inclusion in agenda. The chairman may delegate the drawing up of the agenda to the company secretary.	Complied According to Clause 3 of the approved Board Procedure, drawing up of the agenda has been delegated to the Company Secretary with strict adherence to the guidelines given in the said Procedure.
3 (5) (vi)	The chairman shall ensure that all the directors are properly briefed on issues arising at board meetings and also ensure that directors receive adequate information in a timely manner.	Complied This has been identified as a responsibility of the Chairman, in the paper on 'Functions of the Chairman and the CEO' which was approved by the Board. Provision contained in Clause 2.2 of the approved Board Procedure strengthens this requirement.
3 (5) (vii)	The chairman shall encourage all directors to make a full and active contribution to the board's affairs and take the lead to ensure that the board acts in the best interests of the bank.	Complied There is active participation by all directors at the Board meetings as well as at Board sub committee meetings as evidenced in the minutes. The Board appraises its performance by using the Board evaluation form which is filled by each director in relation to business strategy and contributions of Board members based on their field of expertise. The responses are collated by the Senior Director and synopsis of same was submitted to the Board.
3 (5) (viii)	The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors	Complied Refer comment under 3 (5) (vii).
3 (5) (ix)	The chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied Chairman is a Non Executive Director and does not engage in day to day supervision of management or other executive duties.
3 (5) (x)	The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Complied This has been identified as a responsibility of the Chairman, in the paper on 'Functions of the Chairman and the CEO' which was approved by the Board. A communications policy has also been approved by the Board. The communication policy includes a provision for communication with shareholders.
3 (5) (xi)	The chief executive officer shall function as the apex executive-in-charge of the day-to-day management of the bank's operations and business.	Complied The Board approved paper on 'Functions of the Chairman and CEO' evidences the requirement of the rule.

Corporate Governance

RULE NUMBER	RULE	REMARKS
3 (6)	Board appointed committees	
3 (6) (i)	Each bank shall have at least the following committees; 3(6)(ii) -Audit Committee 3(6)(iii)-Human Resources and Remuneration committee 3(6)(iv)-Nomination Committee 3(6)(v)-Integrated Risk Management Committee	Complied The Bank has established all four Board sub committees as required by the Rule.
	Each committee shall report directly to the board.	Complied All minutes of the Board sub committees are submitted to the Board and constitute a regular agenda item.
	Each committee shall appoint a secretary to arrange the meetings and maintain, minutes, records etc. under the supervision of the chairman of the committee	Complied All sub committees have formally appointed secretaries.
	The board shall present a report of the performance on each committee, on their duties and roles at the annual general meeting	Complied Reports are contained in the Annual Report of 2015.
3 (6) (ii)	Audit committee	
3 (6) (ii) (a)	The chairman of the committee shall be an independent non-executive director who possesses qualifications and experience in accountancy and / or audit.	Complied Ms. Shalini Panditaratne an Independent Non Executive Director was appointed as the Chairman of BARC with effect from 28 December, 2015 . She is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants, UK and she possesses the relevant experience required for the position. Previously, Mr. A. R. Rasiah, Independent Non Executive Director was the Chairman of BARC. He is a Fellow member of the Institute of Chartered Accountants of Sri Lanka.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3 (6) (ii) (b)	All members of the committee shall be non-executive directors	Complied The Committee consists of non executive directors.
3 (6) (ii) (c)	The committee shall make recommendations on matters in connection with; the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; the implementation of the Central Bank guidelines issued to auditors from time to time; the application of the relevant accounting standards; and the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term	Complied The reappointment of the external auditor for audit services has been recommended by BARC. BARC has discussed the implementation of CBSL guidelines issued to auditors from time to time and the application of the relevant accounting standards. The present Audit partner of the External Auditors has been engaged in the Bank's audit from the 2012 financial year. Refer the Report of the Board Audit Review Committee given on page 109.
3 (6) (ii) (d)	The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and best practices.	Complied These are reviewed and monitored as detailed above. Further, the Board obtains a declaration from External Auditors on independence and the audit is carried out in accordance with the relevant Accounting Standards.

Corporate Governance

RULE NUMBER	RULE	REMARKS
3 (6) (ii) (e)	<p>The committee shall develop and implement a policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external auditor of non – audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non audit services, the committee shall consider;</p> <p>I. whenever the skills and experience of the audit firm make it a suitable provider of the non-audit services;</p> <p>11. whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and</p> <p>111. whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the external auditor</p>	<p>Complied</p> <p>The matters referred to in the Rule are covered in the terms of reference of the BARC and are exercised with due care and diligence. Further a separate policy on the engagement of the external auditor to provide non-audit services was developed by the BARC and last reviewed and approved by the Board of Directors on 31 July 2014. This Policy which inter alia takes cognizance of the matters set out in the rule will be applied in the engagement of the external auditor to provide non audit services.</p>
3 (6) (ii) (f)	<p>The committee shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit, including;</p> <p>an assessment of the bank's compliance with the relevant directions in relation to corporate governance and the management's internal controls over financial reporting;</p> <p>the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and</p> <p>the coordination between firms where more than one audit firm is involved.</p>	<p>Complied</p> <p>The matters referred to in the Rule are discussed in detail at the BARC after satisfying itself on the scope of the work to be undertaken by the external auditors for granting of approval to proceed further. During the tenure of the audit, regular status updates were obtained and discussed at the BARC meeting.</p> <p>The letters of engagement of the External Auditors in respect of the audit of the year 2015 have been reviewed and finalized by the BARC.</p>

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3 (6) (ii) (g)	<p>The committee shall review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the bank's annual report and accounts and quarterly reports before submission to the board, the committee shall focus particularly on;</p> <ul style="list-style-type: none"> (i) major judgemental areas (ii) any changes in accounting policies and practices (iii) significant adjustments arising from the audit (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements. 	<p>Complied</p> <p>The committee reviews / comments and suggests recommendations on the Bank's financial information and reports that are submitted by the CEO/CFO and ensure the relevance of the Financial statements prepared for disclosure and published in the Bank's annual report and in the quarterly unaudited Financial statements and reports. The committee also reviews the draft unaudited interim financial statements submitted by the CEO/ CFO before they are submitted for board approval.</p> <p>Separate BARC meetings were held in 2015 to review / discuss and finalize the accounts.</p>
3 (6) (ii) (h)	The committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.	<p>Complied</p> <p>Regular discussions with the External Auditors, independent of the management is carried out, at every BARC meeting. The External Auditors are invited to draw the attention of BARC to any areas of concern or any matter they wish to raise regarding the accounts or otherwise.</p>
3 (6) (ii) (i)	The committee shall review the external auditor's management letter and the management's response thereto.	<p>Complied</p> <p>Regular discussions with the External Auditors are carried out on the management letter and the management's response thereto. The Committee has also issued appropriate recommendations and guidance where necessary to ensure that such matters are resolved satisfactorily.</p>

Corporate Governance

RULE NUMBER	RULE	REMARKS
3 (6) (ii) (j)	<p>The committee shall take the following steps with regard to the internal audit function of the bank;</p> <ul style="list-style-type: none"> (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department. (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care; 	<p>Complied</p> <p>This is handled in the following manner;</p> <ul style="list-style-type: none"> (i) The Committee reviews the adequacy of the internal audit function and ensures that it conforms with the Internal Audit Charter. The Committee periodically reviews and recommends revision to be made to the internal audit charter. The annual audit plan of the Internal audit department as well as the staff requirements are reviewed/ discussed with the DGM Internal Audit. (ii) The audit progress vis a vis the audit plan is tabled at the BARC at each meeting. The audit report contains a section for the units audited to indicate the action taken based on IAD recommendations. In the case of branches, the Branch Operations Unit, provides a monthly feedback on the items that are yet to be completed. In the case of departments, there is a robust mechanism to follow up on items that are pending every quarter. Items which in the opinion of IAD are being delayed beyond a reasonable period of time are presented to the BARC at their regular meetings. Further all High and Medium risk findings are sent to the Chief Risk Officer as and when the audit is finalized for inclusion in the Risk Grid. The issues of non compliance are sent to the Senior Manager Compliance upon the completion of each audit. (iii) The staff appraisal of the DGM Internal Audit is undertaken by the Chairman of BARC in consultation with the other members of the BARC with adequate input by the CEO. Performance appraisal of senior staff are reviewed by the DGM IA and presented to the BARC for their concurrence. (iv) All senior appointments to the audit team are approved by the BARC. One new appointments was made to the Audit team during the year 2015. (v) A process is in place to ensure that resignations of senior staff members of the internal audit department including the DGM Internal Audit are advised to the Chairman BARC at periodic BARC meetings. <p>In the case of the IT audit which are not recurring assignments are awarded to a single entity based on a BARC approved procedure and upon completion of the assignment a report is submitted to BARC.</p> <ul style="list-style-type: none"> (vi) Internal Audit department directly reports to DGM IA who directly reports to BARC for independence. The audits are performed with impartiality, proficiency and due professional care.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3 (6) (ii) (k)	The committee shall consider the major findings of internal investigations and management's responses thereto	Complied Investigation reports are tabled at the BARC meeting and the relevant issues are discussed in detail with suitable action points agreed upon.
3 (6) (ii) (l)	The chief finance officer, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other board members and the chief executive officer may also attend meetings upon the invitation of the committee. However, at least twice a year, the committee shall meet with the external auditors without the executive directors being present.	Complied Regular discussions with the External Auditors, independent of the management are held prior to every BARC meeting. The BARC met the External Auditors eight times during the year, 2015. The External Auditors and the CEO at the invitation of BARC attend all meetings of BARC. Where it is deemed necessary, other corporate heads including the CFO are called for the meeting.
3 (6) (ii) (m)	The committee shall have explicit authority to investigate into any matter within its terms of reference the resources which it needs to do so full access to information; and authority to obtain external professional advise and to invite outsiders with relevant experience to attend, if necessary	Complied This has been covered in detail in the Terms of Reference of the BARC and Internal Audit Charter.
3 (6) (ii) (n)	The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied The committee met fourteen times during the year, 2015. Adequate notices of issues to be discussed are made available to all members of BARC. Minutes of proceedings of BARC are maintained by the Secretary to the BARC.
3 (6) (ii) (o)	The board shall disclose in an informative way, details of the activities of the audit committee the number of audit committee meetings held in the year details of attendance of each individual director at such meetings	Complied Please refer the Board Audit Review Committee Report on page 109 of the Annual Report 2015.
3 (6) (ii) (p)	The secretary of the Committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	Complied Detailed minutes are maintained by the DGM Internal Audit who is the secretary to the BARC.

Corporate Governance

RULE NUMBER	RULE	REMARKS
3 (6) (ii) (q)	The Committee shall review arrangements by which employees of the bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the bank's relations with the external auditor.	<p>Complied</p> <p>The committee reviews issues relating to violation of internal controls if any and the arrangements by which the staff of the Bank may in confidence raise concerns about possible improprieties. The Committee also ensured that the procedures for the independent investigations of such matters are appropriate and are in place.</p> <p>The audit charter provides for the confidentiality of potential whistle blowers. The Whistle Blowing Policy was developed by BARC and last reviewed and approved by the Board of Directors on 29 June, 2015 .</p> <p>BARC is the key representative body for overseeing the Bank's relations with the External Auditor and meets the Auditor on a regular basis to discharge this function.</p>
3 (6) (iii)	Human Resources and Remuneration Committee (HRRC)	
3 (6) (iii) (a)	The committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank.	<p>Complied</p> <p>Board approved remuneration policy is in place.</p>
3 (6) (iii) (b)	The committee shall set goals and targets for the directors, CEO and key management personnel.	<p>Complied</p> <p>Goals and targets are set by the Committee for the CEO which gets transformed as goals for the Key Management Personnel through the Balance Score Card process.</p>
3 (6) (iii) (c)	The committee shall evaluate the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	<p>Complied</p> <p>Minutes of the meeting of the HRRC indicate that such an evaluation has been performed for the CEO and other KMP and a policy has been approved for performance based incentives.</p>
3 (6) (iii) (d)	The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.	<p>Complied</p> <p>Approved TOR includes the provisions stipulated. CEO has attended all meetings and was excused when matters relating to her were discussed.</p>
3 (6) (iv)	Nomination Committee	
3 (6) (iv) (a)	The Committee shall implement a procedure to select/appoint new directors, CEO and key management personnel	<p>Complied</p> <p>Approved TOR of the Nomination Committee includes the provisions stipulated.</p>
3 (6) (iv) (b)	The Committee shall consider and recommend (or not recommend) the re-election of current directors, taking into account the performance and contribution made by the director concerned towards the overall discharge of the board's responsibilities.	<p>Complied</p> <p>The Committee has considered and recommended re-election of directors in compliance with the Rule.</p>

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3 (6) (iv) (c)	The committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	Complied Criteria has been set and included in the JDs of KMP approved by the Nomination Committee.
3 (6) (iv) (d)	The committee shall ensure that directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Partially Complied Affidavits and Declarations of the Directors and CEO were submitted to the Committee during 2015 in order for the Committee to determine the suitability of the Directors and CEO. Having considered the Affidavits & Declarations the Committee decided that the Directors and CEO are fit and proper persons to hold office. CBSL confirmation also received for the Directors. CBSL confirmations on fitness and propriety were obtained for all the KMP appointed during the year. In view of the CBSL approval as Fit and Proper Persons prior to the appointment of KMP Nomination Committees approval prior to such appointment has not been documented.
3 (6) (iv) (e)	The committee shall consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring directors and key management personnel.	Complied The Committee has met the criteria set out in the Rule.
3 (6) (iv) (f)	The committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at the meetings by invitation.	Complied Mr. Murtaza Jafferjee, an Independent Non Executive Director and the Senior Director was appointed as the Chairman with effect from 1 December 2015 Previously, Mr. M. E. Wickremesinghe, Independent Non Executive Director was the Chairman. Out of the four members, two including the Chairman are independent. CEO was invited to attend when her presence was deemed required by the Committee.
3 (6) (v)	Integrated Risk Management Committee (IRMC)	
3 (6) (v) (a)	Committee shall consist of at least three non-executive directors, chief executive officer and key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. The committee shall work with key management personnel very closely and make decisions on behalf of the board within the framework of the authority and responsibility assigned to the committee.	Complied IRMC comprises of Four non executive directors, CEO and other relevant KMP. Committee functions as per the Board approved TOR in close co-operation with relevant KMP. KMP in charge of risk management and control functions attend IRMC meetings regularly and other KMP attend and discuss the risk grids pertaining to their areas once a year.

Corporate Governance

RULE NUMBER	RULE	REMARKS
3 (6) (v) (b)	The committee shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied Risk indicators are monitored by IRMC monthly through the Key Risk Goals paper. Key risks involved in the subsidiary companies are included in the Risk grids of the department overseeing such subsidiary and presented assessed and discussed at IRMC meetings. Each and every business/support unit of the Bank and subsidiary companies have separate risk grids populated using Risk and Control Self Assessment methodology covering all material risks.
3 (6) (v) (c)	The committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	Partially Complied Minutes of Management level Committees namely Investment Committee and ALCO are submitted to the Committee to review the adequacy and effectiveness of same. However in view of the role played by the Board Credit Committee, minutes of the Management Level Credit Committee has not been submitted to IRMC.
3 (6) (v) (d)	The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the bank's policies and regulatory and supervisory requirements.	Complied Risks are monitored through monthly submission of Key Risk Goals report. Where corrective action has been taken as reflected in the minutes.
3 (6) (v) (e)	The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied The IRMC has held meetings once in two months.
3 (6) (v) (f)	The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of Bank Supervision.	Complied Currently Committee monitors risk Management by Departments through the departmental risk grids. In the event action is required against an officer found to have failed in identifying specific risks and take prompt corrective actions as recommended by the committee, action will be taken against him/her in terms of the Bank's established Human Resources policy. The Committee is authorized to direct Chief Executive Officer to take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee and is documented in the TOR of IRMC.
3 (6) (v) (g)	The committee shall submit a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	Partially Complied Reports have been submitted to the Board as required by the Rule. In few instances a risk assessment report has not been submitted due to an oversight. However minutes of all IRMC meetings have been submitted to the Board.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3 (6) (v) (h)	The committee shall establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	Complied The Compliance officer submits a report to the Committee at every meeting. The Bank has established a separate Compliance Division to assess the Bank's compliance. The Compliance Officer carries out the compliance function and report to the committee periodically on Bank's compliance with laws, regulations and approved policies on all areas of business operations.
3 (7)	Related Party Transactions	
3 (7) (i)	<p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purpose of this Direction</p> <p>Any of the bank's subsidiary companies</p> <p>Any of the bank's associate companies</p> <p>Any of the directors of the bank</p> <p>Any of the bank's key management personnel</p> <p>A close relation of any of the bank's directors or key management personnel</p> <p>A shareholder owning a material; interest in the bank</p> <p>A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest</p>	<p>Complied</p> <p>Board procedure contains provisions on avoiding conflicts of interests. Bank's credit policy contains provisions for ensuring compliance. Necessary steps have been taken by the Board to avoid any conflicts of interests that may arise, in transacting with related parties as per the definition in the direction.</p> <p>Further, as evidenced by the minutes of Board meetings, the Board ensures that related parties are not accorded any preferential treatment over and above those accorded to similarly placed non-related parties. Policies and procedures in related party transactions are being strengthened on an ongoing basis.</p>
3 (7) (ii)	<p>The type of transactions with related parties that shall be covered by this Direction shall include the following;</p> <p>(a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation</p> <p>(b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments</p> <p>(c) The provision of any services of a financial or non financial nature provided to the bank or received from the bank</p> <p>(d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</p>	<p>Complied</p> <p>The Board approved related party policy contains provisions for same.</p>

Corporate Governance

RULE NUMBER	RULE	REMARKS
3 (7) (iii)	<p>The board shall ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the bank carrying on the same business. In this context, 'more favourable treatment' shall mean and include treatment, including the;</p> <p>(a) Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purpose of this sub- direction;</p> <ol style="list-style-type: none"> 1. 'Accommodation' shall mean accommodation as defined in the Banking Act Directions No.7 of 2007 on Maximum Amount of Accommodation. 11. The 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more. <p>(b) Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty;</p> <p>(c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with related parties;</p> <p>(d) Providing services to or receiving services from a related- party without an evaluation procedure;</p> <p>(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>	<p>Complied</p> <p>Refer comment in 3 (7) (i) above.</p> <p>Board approved Related Party Transactions policy contains provisions to ensure compliance.</p> <p>The Bank has commenced submitting a monthly report on related party lending to the Board Supervisory Committee (BSC). Minutes of BSC are submitted to the Board. Bank will further enhance the process for ensuring that no favourable treatment is accorded to related parties in respect of all types of transactions specified in the Direction.</p>

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3(7)(iv)	A bank shall not grant any accommodation to any of its directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied All accommodations to directors and/or their close relatives have been granted with the approval of the Board.
3(7) (v)	<p>(a) where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, steps shall be taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a director.</p> <p>(b) Where such security is not provided by the period as provided in direction 3(7)(v)(a) above, the bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.</p> <p>(c) Any director who fails to comply with the above sub directions shall be deemed to have vacated the office of director and the bank shall disclose such fact to the public.</p> <p>(d) This sub-direction, however, shall not apply to a director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank.</p>	Not applicable This situation has not arisen in the Bank to date. However the Company Secretary obtains declarations from all the Directors prior to their appointment and they are requested to declare the transactions.

Corporate Governance

RULE NUMBER	RULE	REMARKS
3(7)(vi)	A bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above	Complied Board approved Related Party Transactions policy contains provisions to ensure compliance.
3(7)(vii)	No accommodation granted by a bank under Direction 3(7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied No such facility has been remitted in violation of this rule.
3(8)	Disclosures	
3(8) (i)	The Board shall ensure that; (a) annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report; A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied Included in page 174 of the Annual Report of 2015.
3 (8) (ii)	(b) A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Included in pages 106 and 107 of the Annual Report of 2015.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

RULE NUMBER	RULE	REMARKS
3 (8) (ii)	<p>(c) The external Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after December 31, 2008.</p> <p>(d) Details of Directors, including names, fitness and propriety transactions with the Bank the total of fees/remuneration paid by the Bank</p> <p>(e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.</p> <p>(f) The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by Broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.</p> <p>(g) The external auditor's certification of the compliance with these Directions in the Annual Corporate Governance reports published after January 1, 2010.</p> <p>(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances</p> <p>(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.</p>	<p>Assurance Report by auditors under "Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 –Assurance Reports for Banks on Directors' Statements on Internal Control" has been obtained and included in the Annual Report of 2015 .</p> <p>Included in pages 99 to 104 of the Annual Report of 2015 .</p> <p>Disclosed under Report of Board of Directors on the Affairs of the Bank included in page 99 to 104 of the Annual Report 2015 .</p> <p>Included in page 102 and 103 of the Annual Report of 2015.</p> <p>All findings of the 'Factual Findings Reports" of auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in this report.</p> <p>Included in the Annual Report 2015</p> <p>No such matter has been specified by the Monetary Board of CBSL.</p>

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Composition

The Integrated Risk Management Committee (IRMC) comprised of the following Directors during 2015;

Mr. A. R. Rasiah (Chairman)

Dr. Kemal de Soysa

Mr. Suran Wijesinghe

Mr. D. Prasanna de Silva

Mr. Gihan Cooray

The IRMC Chairman, Mr. A. R. Rasiah ceased to be a Director of the Bank with effect from 28 December 2015 in compliance with rule No.3(3)(i) of the Rules on Corporate Governance for Licensed Commercial Banks in Sri Lanka.

The Board appointed Mr. D. Prasanna De Silva as the Chairman of IRMC with effect from 28 December 2015.

Chief Executive Officer, Ms. Renuka Fernando and the following Key Management Personnel attended meetings of the Integrated Risk Management Committee as required under Rule No. 3(6)(v)(a) on Rules of Corporate Governance for Licensed Commercial Banks in Sri Lanka.

Mr. Ajith Akmeemana	- Chief Financial Officer
Ms. Keshini Jayawardena	- Chief Operations Officer
Mr. Anura Yapa	- DGM - Credit
Mr. Damith Pallewatte	- Chief Risk Officer (until 30 November 2015)
Mr. Chamila Sumathiratne	- Deputy Chief Risk Officer
Mr. Indrajith Boyagoda	- DGM - Treasury
Mr. Theja Silva	- DGM - Legal
Ms. Dilani Sooriyaarachchi	- Senior Manager - Compliance
Mr. Arthur Fernandez	- DGM - Internal Audit (until 28 December 2015)

In addition to the above, Mr. Jerome Ratnarajah - Chief Manager - Treasury Services also attended meetings of the Integrated Risk Management Committee by invitation.

Terms of Reference

Integrated Risk Management Committee's mandate includes the following:

- Ensuring that the Bank has a comprehensive risk management framework in place relative to the Bank's activities and risk profile,
- Assessing the effectiveness of the Bank's risk management system and monitoring the impact to the Bank from risk types

such as credit, market, liquidity, operational and strategic through appropriate risk indicators and management information,

- Ensuring that a compliance function is in place to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies relating to all areas of Bank operations,
- Ensuring that the Board of Directors is kept updated of the Group's risk exposure in relation to the approved risk appetite.

The process through which the IRMC discharges its responsibilities is detailed in the Risk Management section of this annual report. During the year, the IRMC continued to place special emphasis on ensuring that a risk awareness culture is created in the Bank through the development of divisional risk grids and the monthly divisional meetings which discuss and update the risk grid of the division. These initiatives cascaded the risk awareness culture to the lower levels of staff and enabled the staff to understand and voice their opinions on risks and risk management practices of the Bank in an open and transparent manner.

Meetings

The IRMC held six (06) meetings every alternate month during the year under review. The minutes of the IRMC Meetings were regularly forwarded to the Board. IRMC also approved the Risk Assessment Report to be submitted to the Board within a week of every meeting. The IRMC reviewed risk policy frameworks, risk management strategies and key risk indicators at the meetings and was satisfied that the risk exposures of the Bank are being appropriately managed.



D. Prasanna De Silva
Chairman
Integrated Risk Management Committee

Colombo

26 February 2016

Name	Eligibility	Attendance	Excused
Mr. A. R. Rasiah	6	6	Nil
Dr. Kemal de Soysa	6	6	Nil
Mr. Gihan Cooray	6	5	1
Mr. D. Prasanna de Silva	6	6	Nil
Mr. Suran Wijesinghe	6	6	Nil
Ms. Renuka Fernando	6	6	Nil

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

BOARD CREDIT COMMITTEE REPORT

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

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

Mr. D. Prasanna De Silva
(Alternate : Mr. Kumar Jayasuriya)

Ms. Shalini Panditaratne

Ms. Renuka Fernando

The mandate of the Board Credit Committee includes the following:

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

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

Name	Eligibility	Attendance	Excused
Mr. Krishan Balendra	12	12	Nil
Mr. D. Prasanna de Silva	12	12	Nil
Ms. Shalini Panditaratne	12	12	Nil
Ms. Renuka Fernando	12	12	Nil

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

The Committee which derives its scope and authority from the Board of Directors was established to provide guidance to the Management to ensure a balance between risk and growth in the Bank's expansion strategies. Credit Applications/Requests which exceed the approval limits of the Head Office Credit Committee are considered by the Board Credit Committee.



Krishan Balendra
Chairman
Board Credit Committee

Colombo

26 February, 2016

BOARD SUPERVISORY COMMITTEE REPORT

The members of the Board Supervisory Committee (BSC) are appointed by the Board of Directors and comprise of the following Directors;

Mr. Suran Wijesinghe - Chairman (Non Executive Director)

Mr. Murtaza Jafferjee (Independent Non Executive Director)

Mr. Gihan Cooray (Non Executive Director)

Mr. D. Prasanna De Silva (Non Executive Director)

The Committee meets monthly in advance of the Board meeting and minutes are submitted to the Board of Directors for review. The Corporate Management Team along with the Director/CEO attends all meetings by invitation. The BSC is not a committee mandated under the Corporate Governance Directions issued by the Central Bank of Sri Lanka.

The Committee held fourteen meetings during the year under review and the Directors attendance at such meetings were as follows;

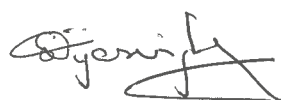
Name	Eligibility	Attendance	Excused
Mr. Suran Wijesinghe	14	14	Nil
Mr. Murtaza Jafferjee	14	13	01
Mr. D. Prasanna De Silva	14	12	02
Mr. Gihan Cooray	14	13	01

Terms of Reference

The mandate of the BSC includes the following;

1. Review the performance of the Bank and its business units to ensure that the Management and staff are focused towards achievement of plans approved and objectives set by the Board. The review also covers the support functions of the Bank and ensure that cost efficiencies and productivity is achieved across the Bank.
2. Approving expenditure within limits delegated by the Board of Directors.

3. Providing input and guidance to CEO and Corporate Management on various initiatives including IT systems, products, distribution channels etc prior to being presented to Board of Directors for approval.
4. Review, provide input and make recommendations on policy papers, business plans and other such proposals impacting the operations of the Bank prior to such papers, plans and proposals being presented to the Board of Directors for approval.
5. Ensure that adequate policies, procedures and processes are in place to carry out the operations of the Bank and that these are reviewed periodically.



Suran Wijesinghe
Chairman
Board Supervisory Committee

Colombo

26 February 2016

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

BOARD NOMINATION COMMITTEE REPORT

The members of the Nomination Committee are appointed by the Board and comprised of the following Directors at the beginning of the year;

Mr. M.E. Wickremesinghe – Chairman (Independent Non-Executive Director)

Mr. Krishan Balendra (Non-Executive Director)

Mr. Murtaza Jafferjee (Independent Non-Executive Director)

Mr. D. Prasanna De Silva (Non Executive Director)

The Composition of the Committee was changed consequent to the changes to the Board of Directors and comprised of the following Directors with effect from 1 December 2015 ;

Mr. Murtaza Jafferjee-Chairman (Independent Non-Executive Director)

Mr. Krishan Balendra (Non-Executive Director)

Mr. D. Prasanna De Silva (Non-Executive Director)

Dr. Kemal De Soysa (Independent Non Executive Director)

Attendance at the Nomination Committee meetings during the year were as follows;

Name	Eligibility	Attendance	Excused
Mr. M. E. Wickremesinghe	2	2	Nil
Mr. Krishan Balendra	2	2	Nil
Mr. Murtaza Jafferjee	2	2	Nil
Mr. D. Prasanna De Silva	2	2	Nil
Dr. Kemal De Soysa	N/A	-	-

The proceedings of the meetings were reported to the Board.

The Committee's main responsibilities include the following;

- Selecting and appointing new Directors, considering and recommending from time to time the requirements of additional/new expertise on the Board and recommending after due consideration the re-election of current Directors.
- Implementing a procedure to select and appoint the Chief Executive Officer and Key Management Personnel of the Bank and setting up criteria for their appointment or promotion.
- Ensuring that the Directors and the Key Management Personnel are fit and proper persons to hold office conforming to the criteria prescribed by the Central Bank of Sri Lanka.

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

The Committee works closely with the Board in evaluating and reviewing, the skills required for the Bank and the Board. When recommending the appointment of new Directors, the Committee considers for each appointment, the particular skills, knowledge and experience that would benefit the Board most significantly. Having carried out this evaluation, the Committee during the course of the year, recommended to the Board that Mr. Conrad D' Souza be appointed to the Board. The Committee is satisfied that the representation of skills on the Board is appropriate for the Bank's current needs at Board level.

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



Murtaza Jafferjee
Chairman
Nomination Committee

Colombo

26 February 2016

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

The Human Resources and Remuneration Committee (HRRC) comprised of the following Directors.

Mr. Krishan Balendra - Chairman (Non Executive Director)

Dr. (Ms.) Dushni Weerakoon (Independent Non Executive Director)

Dr. Kemal De Soysa (Independent Non Executive Director)

Mr. Kumar Jayasuriya (Non Executive Director)

Mr. A.R. Rasiah (Independent Non Executive Director) (Retired from the Board with effect from 28 December 2015)

During the year under review one HRRC meeting was held. The Chief Executive Officer was presented at the meeting as an invitee except on matters relating to the Chief Executive Officer.

The workings of the Committee are governed by the Remuneration Committee Charter, the objectives of which are:

1. To assist the Board of Directors in the establishment of remuneration policies and practices.
2. To review, and recommend to the Board, remuneration policies and packages for the Chief Executive officer (CEO), Executive Director and other Key Management Personnel of the Bank.
3. To set goals and targets for the CEO, Executive Director and other Key Management Personnel.
4. To evaluate the performance of the CEO, Executive Director and other Key Management Personnel against the set goals and targets.

In performing this role, the Committee ensures that:

1. Shareholder and employee interests are aligned.
2. The Bank is able to attract, motivate and retain employees, particularly at management levels.
3. The integrity of the Bank's compensation and reward programme is maintained.

In-keeping with the objectives of the Charter, the Committee has, during 2015, placed great emphasis in ensuring that the Compensation & Benefits policies of the Bank are appropriate in attracting and retaining the skills required in pursuing the short term and long term strategic objectives of the Bank.

In March 2015 at the HRRC meeting, a comprehensive review of the Bank's Compensation and Benefits with recommended amendments and its comparison to industry practice was presented to the Committee. Recommendations for changes to the compensation and benefits were approved. Further, during the year, the Bank also engaged the services of a foreign consultant to conduct a diagnosis on its total compensation & benefits structure.

In creating a performance driven culture, the Bank's variable bonus payment is based on the Bank's performance for the year compared to the annually agreed budgets and the peer performance. Individuals are rewarded based on their individual performance and responsibility levels.

During the year, the Bank participated in one remuneration survey carried out by an external consulting firm in order to ensure that the Bank's Compensation & Benefits structure is market competitive. The findings of the survey will be used as a basis for formulating the remuneration levels for the year 2016.

During 2015, the Committee also evaluated the performance of the CEO and other Key Management Personnel of the Bank against their pre-agreed objectives and targets.

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

Name	Eligibility	Attendance	Excused
Mr. Krishan Balendra	1	1	Nil
Mr. A. R. Rasiah	1	1	Nil
Dr. (Ms) Dushini Weerakoon	1	1	Nil
Mr. Kumar Jayasuriya	1	1	Nil
Dr. Kemal De Soysa	1	1	Nil



Krishan Balendra

Chairman

Human Resources and Remuneration Committee

Colombo

26 February 2016

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE BANK

The details set out herein provide the pertinent information in accordance with the statutory requirements, requirements of relevant regulatory authorities for the listed companies in the financial industry and best accounting practices.

General

The Directors have pleasure in presenting to the members their Report together with the Audited Financial Statements for the year ended 31 December 2015 of Nations Trust Bank PLC., a public limited liability company incorporated in Sri Lanka on 21 January 1999 under the Companies Act No. 17 of 1982, quoted in the Colombo Stock Exchange in May 1999 and a licensed commercial bank under the Banking Act No. 30 of 1988. The Bank was re-registered on 14 February 2008 as required under the provisions of the Companies Act No. 7 of 2007.

The Annual Report of the Board of Directors and the Audited Financial Statements were approved by the Directors on 26 February 2016.

Statement of Compliance on the Contents of the Annual Report

The Annual Report including the Audited Financial Statements have been prepared and presented with the disclosures in accordance with the Sri Lanka Accounting Standards and other applicable regulatory requirements.

Principal Activities

Nations Trust Bank PLC is a Banking Company licensed as a commercial bank. There are three fully owned subsidiaries of Nations Trust Bank PLC which together constitute the Group.

Bank

The principal activities of the Bank are commercial, personal and private banking, trade services, leasing, factoring, treasury and capital market services and fee based activities.

Subsidiaries

The principal activities of the Bank's subsidiaries viz. Waldock Mackenzie Ltd., Allied Properties Ltd., and Nations Insurance Brokers Ltd. are carrying out margin trading, money market operations and fund and fee based activities, property rental, and insurance broking, respectively.

There has been no material change to the activities of the Bank or any of the subsidiaries mentioned above during the period under review.

Financial Statements

Financial Statements of the Bank and the group are given on pages 176 to 265 of this Annual Report.

Auditors' Report

Auditors' Report on the Financial Statements is given on Page 175.

Significant Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are given on page 181. The Accounting Policies have been amended in line with the new Sri Lanka Accounting Standards

Interests Register

All Directors have made general declarations as provided for in Section 192 (2) of the Companies Act No. 7 of 2007. Arising from these, details of contracts in which they have an interest are given on page 105 of this Report.

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

1. Approval of remuneration to Executive Directors by the Board – 31 March 2015.
2. Purchase of shares by Mr. A. R. Rasiah, a Director (retired) on 3 August 2015

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

Directors' Shareholdings

Directors' shareholding as at 31 December 2015 and 2014 are given below.

Name of the Director	No. of Shares	
	2015	2014
Mr. A. R. Rasiyah	N/A	16,304
Dr. (Ms) Dushni Weerakoon	-	-
Mr. M. E. Wickremesinghe	N/A	-
Mr. Krishan Balendra	107,700	107,700
Mr. Murtaza Jafferjee	-	-
Dr. Kemal de Soysa	-	-
Mr. D. Prasanna De Silva	-	-
Ms. Shalini Panditaratne	-	-
Mr. Suran Wijesinghe	39,650	39,650
Mr. Kumar Jayasuriya	-	-
Mr. Gihan Cooray	8,400	8,400
Mr. Harsha Raghavan	-	N/A
Ms. Renuka Fernando	68,700	68,700

Directors' Remuneration

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

Corporate Donations

No donations have been made by the Bank during the year.

Directorate

The names of the Directors of the Bank during the year under review and their attendance at the Board meetings during the year were as follows;

Name and the designation	Eligibility	Attendance	Excused
Non Executive Directors			
Mr. Krishan Balendra	13	13	Nil
Mr. D. Prasanna De Silva	13	13	Nil
Mr. Suran Wijesinghe	13	12	1
Mr. Kumar Jayasuriya	13	13	Nil
Mr. Gihan Cooray	13	13	Nil
Mr. Harsha Raghavan	13	11	2

Name and the designation	Eligibility	Attendance	Excused
Independent Non Executive Directors			
Mr. A. R. Rasiyah (Retired on 28 December 2015)	13	13	Nil
Mr. M. E. Wickremesinghe (Resigned on 30 November 2015)	11	11	Nil
Dr. (Ms) Dushni Weerakoon	13	12	1
Mr. Murtaza Jafferjee - Senior Director	13	12	1
Dr. Kemal de Soysa	13	11	2
Ms. Shalini Panditaratne	13	13	Nil
Executive Director			
Ms. Renuka Fernando	13	13	Nil

Mr. M. E. Wickremesinghe, an Independent Non Executive Director resigned from the Board on 30 November 2015. Mr. A. R. Rasiyah, an Independent Non Executive Director and the Senior Director retired from the Board on 28 December 2015. Mr. Murtaza Jafferjee was designated as the Senior Director with effect from 28 December 2015. Mr. Conrad D'Souza was appointed as an Independent Non Executive Director with effect from 18 January 2016.

Mr. Krishan Balendra, Mr. Murtaza Jafferjee and Dr. Kemal de Soysa retire by rotation and being eligible for re-election are recommended by the Board for re-election as provided for in the Article No. 27 of the Articles of Association of the Bank.

Mr. Conrad D'Souza who was appointed to the Board subsequent to the last Annual General Meeting is recommended for election by the shareholders pursuant to Article No.25 of the Articles of Association of the Bank and in terms of Direction No. 3 (2) (x) of Banking Act Direction No. 11 of 2007 (Directions on Corporate Governance for Licensed Commercial Banks).

Dr. (Ms) Dushni Weerakoon, an Independent Non Executive Director of the Bank will be completing nine years service on the Board of the Bank on 29 February 2016 and hence will retire date in compliance with the Direction 3 (2) (ii) of the said Banking Act Direction no. 11 of 2007. Given that and having given due consideration to the criterion set out in the Banking Act No. 30 of 1988 and Banking Act Direction No. 11 of 2007, Board is of the view that all the other directors of the Bank including those who are recommended for re-election are fit and proper persons to hold office as Directors of the Bank.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Auditors

Bank's Auditors during the period under review were Messrs. Ernst & Young, Chartered Accountants. The following payments were made to them during the year.

	Bank (Rs. '000)	Group (Rs. '000)
Audit Fees	9,332	11,175
Fees for Other Services	3,780	3,780

Other services consisted of advisory and tax related work.

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

Results And Dividends

Consolidated Statement of Profit or Loss along with the Bank's Statement of Profit or Loss for the year is given on page 177. Statement of Financial Position of the Bank and the Group are given on page 176.

Having satisfied the solvency test requirement under the Companies Act No. 7 of 2007 the Directors recommend a first and final dividend of Rs. 2.10 per share to the holders of ordinary shares of the Bank registered on the books of the Bank as at end of 31 March 2016.

Information on Shares and Debentures

Information relating to holdings of shares and debentures is given in page 47 of this Report.

Post- Balance Sheet Events

No circumstances have arisen since the reporting date that would require adjustment or disclosure other than those disclosed in Note 48 to the Financial Statements contained on page 265.

Capital Adequacy

The Group's capital adequacy ratios as at 31 December 2015 were 12.26% for Tier I and 14.67% for Tier I & II and are above the minimum requirements of the Central Bank of Sri Lanka.

Report on Compliance with Prudential Requirements, Regulations, Laws and Internal Controls

The Bank has complied with all the regulatory and prudential requirements arising from the provisions in the statutes applicable to the Bank including the Banking Act No. 30 of 1988, directions and determinations issued by the Central Bank of Sri Lanka under the Banking Act, Monetary Law Act No. 58 of 1949, Exchange Control Act No. 24 of 1953, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Prevention of Money Laundering Act No. 5 of 2006, Financial Transactions Reporting Act No. 6 of 2006, Convention on the Suppression of Terrorist Financing Act No. 25 of 2005, Inland Revenue Act No. 10 of 2006, Value Added Tax Act No. 14 of 2002, Finance Act No. 5 of 2005, Economic Service Charge Act No. 13 of 2006, Listing Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act No. 36 of 1987, Financial Leasing Act No. 56 of 2000, Payment of Gratuity Act No. 12 of 1983, Employees' Provident Fund Act No. 15 of 1958, Employees' Trust Fund Act No. 46 of 1980 etc. and amendments to such statutes.

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

The two promoter shareholders of the Bank, namely John Keells Holdings PLC and Central Finance PLC have informed the Bank that they have sought an extension of time from the Central Bank of Sri Lanka in order to comply with the Directive on shareholding limits. Central Bank has informed the Bank that this request is under consideration.

Compliance With Transfer Pricing Regulations

All transactions entered into with associated persons during the period are on arm's length basis and are comparable with transactions carried out with non-associated persons.

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

Transactions with Related Parties

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

Category of Related Party	Subsidiary Companies *		Directors of the Bank		Key Management Personnel (KMP) of the Bank	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Items in the Statement of Financial Position						
Assets						
Accommodation						
Loans and Advances	274,958	135,435	5,732	3,332	74,848	73,938
Credit Cards	-	-	1,248	809	1,207	4,367
Reverse Repurchase Agreements	-	-	-	-	-	-
Derivative Financial Assets	-	-	-	-	-	-
Other Assets	5,922	5,922	-	-	-	-
Total Accommodation	280,880	141,357	6,980	4,141	76,055	78,305
Less: Cash Collaterals against Total Accommodations	-	-	3,754	5,093	49,826	46,767
Inv. made in the Bank's Equity and Debt instruments	-	-	-	-	-	-
Total Net Accommodation	280,880	141,357	3,226	Nil	26,229	31,538
Total Net Accommodation % of Total Regulatory Capital	1.69%	0.85%	0.02%	0.00%	0.16%	0.19%
Liabilities						
Due to Customers	-	-	44,875	74,792	141,951	100,989
Borrowings & Others	548,537	430,975	-	35,822	4,888	22,229
Other Liabilities/Financial Guarantees	-	-	-	-	-	-
Derivative Financial Liabilities	-	-	-	-	-	-
Equity						
Dividends Paid (Net)	-	-	456	712	69	56
Commitments:						
Undrawn Facilities	1,525,098	1,664,565	6	1,006	9,897	6,177
Letter of Credit / Guarantees	-	-	-	-	-	-
Forward - Foreign Exchange Contracts	-	-	-	-	-	-
Items in the Statement of Profit or Loss						
Interest Income Earned	20,781	94,812	197	195	6,645	4,572
Interest Expenses Paid	27,872	23,986	402	3,641	9,356	5,708
Other Income Earned	6,490	6,114	33	106	34	25
Dividends Received (Gross)	17,550	11,250	-	-	-	-
Expenses Paid	41,893	38,364	-	-	-	-
Compensation paid :						
Short Term Employee Benefits	-	-	30,261	47,012	135,488	137,591
Post Employment Benefits	-	-	3,794	6,489	17,948	19,035

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

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

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

Key Management Personnel (KMP) consists of Bank's Board of Directors, Corporate Management and their Close Family Members as designated by the Corporate Governance structure.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Close Relations of Directors and KMP		Shareholders owning a material interest in the Bank **		Concerns in which Directors, Close Relations of Directors or material shareholders have a substantial interest ***	
2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
16,647	14,795	423,412	-	-	871,498
488	585	-	-	817	19
-	-	-	-	-	-
-	-	-	-	22,708	2,177
-	-	-	-	5,722	37,235
17,134	15,380	423,412	-	29,247	910,929
9,627	11,813	-	-	-	-
-	-	-	-	-	-
7,507	3,567	423,412	Nil	29,247	910,929
0.05%	0.02%	2.54%	0.00%	0.18%	5.46%
19,421	13,977	2,592,369	34,140	364,491	312,894
-	-	1,543,977	2,104,446	589,315	818,826
-	-	-	-	3,512	3,430
-	-	-	-	162	3,304
617	14	283,651	227,231	-	-
2,407	2,444	189,340	693,106	150,014	579,065
-	-	230,215	56,894	26,369	213,445
-	-	-	-	678,370	488,036
966	1,417	17,699	108	3,345	28,400
611	602	29,589	104,427	7,144	100,076
11	16	2,981	2,012	3,690	43,867
-	-	-	-	-	-
-	-	40,770	34,650	58,418	56,865
-	-	-	-	-	-
-	-	-	-	-	-

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

Directors of Subsidiary Companies

Waldock Mackenzie Limited

Mr. Krishan Balendra - Chairman
Ms. Renuka Fernando
Mr. Gihan Cooray

Nations Insurance Brokers Limited

Ms. Renuka Fernando - Chairman
Dr. Kemal de Soysa

Allied Properties Limited

Mr. Krishan Balendra - Chairman
Ms. Renuka Fernando

Going Concern

Directors after making necessary inquiries have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Therefore the going concern basis has been adopted in the preparation of the Financial Statements.

Annual General Meeting

Annual General Meeting of the Bank will be held at the Auditorium of the Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 07, Sri Lanka on 31 March 2016 at 10.30 a.m.



Krishan Balendra
Chairman



Renuka Fernando
Director/Chief Executive Officer



Theja Silva
Company Secretary

Colombo

26 February 2016

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

DIRECTORS' INTEREST ***IN CONTRACTS WITH THE BANK***

The Bank carried out transactions in the ordinary course of its business as commercial rates with the following Director-related entities :

Details of the transactions carried out Director-related entities during the year 2015

Name of Related Party	Name of Director	Relationship	Details
Allied Properties Limited	Mr. Krishan Balendra	Director	A sum of LKR 16,677,480 was paid as Interest Expense
	Mr. Gihan Cooray	Director	A sum of LKR 41,893,204 was paid as Rent Expense
	Ms. Renuka Fernando	Director	A sum of LKR 3,599,999 was received as Dividends
Waldock Mackenzie Limited	Mr. Krishan Balendra	Director	A sum of LKR 20,781,470 was received as Interest Income
	Ms. Renuka Fernando	Director	A sum of LKR 6,193,151 was received as Other Income
			A sum of LKR 8,099,998 was received as Dividends
Nations Insurance Brokers	Ms. Renuka Fernando	Director	A sum of LKR 11,194,410 was paid as Interest Expense
	Dr. Kemal De Soysa	Director	A sum of LKR 6,699,768 was received as Other Income
			A sum of LKR 5,849,532 was received as Dividends
CF Insurance Brokers (Pvt) Ltd	Mr. D. Prasanna De Silva	Director	A sum of LKR 2,000 was received as Other Income
			A sum of LKR 20,076,072 was received paid as Dividends
Central Finance Company PLC	Mr. Kumar Jayasuriya	Director	A sum of LKR 17,698,722 was received as Interest Income
	Mr. D. Prasanna De Silva	Director	A sum of LKR 2,967,829 was received as Other Income
			A sum of 39,260,784 was paid as Dividends
Jaykay Marketing Services (Private) Limited	Mr. Krishan Balendra	Director	A sum of 40,769,891 was paid as Vehicle Hire Charges
			A sum of LKR 21,687 was received as Interest Income
			A sum of LKR 877,689 was paid as Interest Expense
			A sum of LKR 305,250 was received as Other Income
			A sum of 23,311,303 was paid as Business Promotion Expenses
John Keells Stock Brokers (Private) Limited	Mr. Krishan Balendra	Director	A sum of 505,125 was received as Other Income

Details of Accommodation granted and balances outstanding as at 31-December-2015

Name of the Related Party	Name of Director	Relationship	Accommodation Granted	Limit LKR	Amount outstanding as at 31.12.2015 LKR
Central Finance Company PLC	Mr. Kumar Jayasuriya	Director	Commercial Loan	475,000,000	200,851,507
	Mr. D. Prasanna De Silva	Director	Working Capital Financing	350,000,000	222,560,241

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

In line with the Banking Act Direction No. 11 of 2007, section 3 (8) (ii) (b), the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control over Financial Reporting mechanism in place at Nations Trust Bank PLC, ("the Bank"). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control over Financial Reporting systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the bank. In this light, the system of internal controls over Financial Reporting can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal control over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control over Financial Reporting issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control over financial reporting taking into account principles for the assessment of internal control over Financial Reporting system as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls over Financial Reporting to mitigate and control these risks.

Key Features of the Process Adopted in Applying in Reviewing the Design and Effectiveness of the Internal Control System Over Financial Reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Review Committee. Findings of the Internal audit Department are submitted to the Board Audit Review Committee for review at their periodic meetings.
- The Board Audit Review Committee of the Bank reviews internal control over Financial Reporting issues identified by the Internal Audit Department, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Board Audit Review Committee meetings are forwarded to the Board of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on page 109.
- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Bank. These in turn were observed and checked by the internal audit department for suitability of design and effectiveness on an ongoing basis. In adopting Sri Lanka Accounting Standards

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

comprising LKAS and SLFRS, progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure were made whilst further strengthening of processes namely review of disclosures with regard to financial risk management, fair value and management information are being done. The assessment did not include subsidiaries of the Bank.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

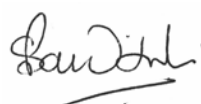
Review of the Statement by External Auditors

The external auditors have reviewed the above Directors Statement on Internal Control over financial reporting included in the annual report of the Bank for the year ended 31 December 2015 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank.

By order of the Board



Krishan Balendra
Chairman



Shalini Panditaratne
Chairman
Board Audit Review Committee



Renuka Fernando
Director / Chief Executive Officer

Colombo

26 February 2016

AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING



EY
Building a better
working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF NATIONS TRUST BANK PLC

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

We were engaged by the Board of Directors of Nations Trust Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2015.

Management's responsibility

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

Our responsibilities and compliance with SLSAE 3050

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

Summary of work performed

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

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

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

Our conclusion

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

Colombo

26 February 2016

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

BOARD AUDIT REVIEW COMMITTEE REPORT

The Board Audit Review Committee (the "BARC") is a sub-committee of the Board of Directors chaired by an independent non-executive director and comprising exclusively of non-executive directors. The DGM Internal Audit of the Bank is the secretary of the BARC. The Director / Chief Executive Officer has attended meetings on the invitation of BARC. Other members of the Corporate Management have attended such meetings as and when required by BARC. The minutes of meetings of the BARC are submitted for review to the Board of Directors. The DGM Internal Audit reports directly to the Chairman of the BARC, a practice that strengthens the independence of the position.

Composition of BARC

The BARC Chairman, Mr. A. R. Rasiah has ceased to be a Director of the Bank with effect from 28 December 2015 in compliance with Direction No.3(3)(i) of the Rules of Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

The Board appointed Ms. Shalini Panditaratne as the Chairman of BARC with effect from 28 December 2015.

Functions of BARC

The BARC advises the Board of Directors on the Bank's system of internal controls. As and when required, it requests additional information from the Management in order to satisfy itself of the adequacy of the controls in place. The functions are in accordance with the Banking Direction No. 11 of 2007 – Corporate Governance for Licensed Commercial Banks in Sri Lanka.

The functions of BARC include the following:

- To make recommendations on matters in connection with the appointment of the External Auditor of the Bank; the implementation of the Central Bank of Sri Lanka guidelines issued to auditors, the application of the relevant accounting standards; and the service period, audit fee and any resignation or dismissal of the External Auditor.
- To review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.
- To develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines.
- To act as the key representative body for overseeing the Bank's relations with the External Auditor.
- To review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein.
- To discuss issues, problems and reservations arising from the interim and final audits, and any matters the External Auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.
- To review the external auditor's management letter and the management's response thereto.
- To consider the major findings of internal investigations and the management's responses thereto;
- To review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action.
- To review the adequacy of the scope, functions and resources of the internal audit department and satisfy itself that the department has the necessary authority to carry out its work.

Board Audit Review Committee Report

- To review the internal audit programs and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department.
- To review the appraisal or assessment of the performance of the DGM Internal Audit and senior staff members of the internal audit department.
- To recommend any appointment or termination of the DGM, senior staff members and outsourced service providers to the internal audit function.
- Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.
- Discussed issues arising from the internal audit and investigation reports with representatives of the external auditor, who attend the BARC meetings regularly by invitation.
- Reviewed the management letter sent by the auditors, the management's response thereto and follow up action.
- Met with the representatives of the External Auditor in the closed sessions of the BARC meetings thereby providing them with an opportunity to express their views independent of management.
- Monitored compliance with requirements laid down by the regulatory authorities.
- Ratified the quarterly financial statements prior to approval by the Board of Directors, publication and submission to the Central Bank, the Colombo Stock Exchange and shareholders.

Activities of the BARC

During the year under review, the BARC met 14 times in the discharge of its functions and

- Reviewed 59 internal audit reports relating to branches including 09 interim audit reports finalized by the Delivery Channels Unit.
- Reviewed 48 departmental, process audits and investigations.
- Paid attention to the adequacy of procedures and effectiveness of internal controls, recommended corrective action whenever necessary;
- Reviewed the adequacy of the insurance cover of the various policies in force.
- Monitored Treasury activities and the customer asset portfolio to ensure that credit quality and the inherent risks were addressed, with specific attention to ensure that preventive action was taken to minimize possible losses.
- Paid special attention to the items highlighted in the last examination report of the Central Bank with a view to ensuring that the highlighted items were brought to a logical conclusion.
- Reviewed the process adopted by the bank in tabulating, selection criteria, threshold levels and other major assumptions in relation to the calculation of the Impairment figures of the Bank.
- Reviewed on a quarterly basis the adherence to the policy on the engagement of the external auditor to provide non-audit services and reviewed the audit and the non-audit work that is assigned to the external auditor.
- Ensured that the provision of such services do not impair the external auditors' independence. Based on these reviews the BARC has no reason to doubt the independence and effectiveness of the External Auditor.

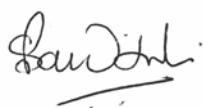
Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

- Encouraged the involvement of DGM and Senior Staff of Internal Audit to involve themselves in the initial and ongoing training carried out by the Bank for its employees to proactively instil in the employees a culture of compliance with internal controls, to prevent possible areas of non-compliance, to mitigate risk and to familiarize the employees with the policy of the Bank that enables them to raise concerns in confidence.

Attendance at the BARC meeting

Name	Eligibility	Attendance	Excused
Mr. A. R. Rasiah	14	12	02
Ms. N. Shalini Panditaratne	14	12	02
Mr. Kumar Jayasuriya	14	12	02
Dr. (Ms.) Dushni Weerakoon	14	13	01
Mr. Suran Wijesinghe	14	13	01

The BARC is of the view that adequate internal controls and procedures are in place at the Bank and its subsidiaries to provide reasonable assurance that its assets are safeguarded and financial stability is maintained. The BARC has recommended to the Board of Directors that Messrs. Ernst & Young be reappointed as External Auditors of the Bank for the financial year ending 31 December 2016 at the next Annual General Meeting.



Shalini Panditaratne

Chairman

Board Audit Review Committee

Colombo

26 February 2016



MANAGEMENT DISCUSSION AND ANALYSIS

The subsequent section provides a comprehensive and balanced overview of the Bank's financial and operating performance during the year, with parallel emphasis on financial and non-financial performance indicators.



Performing at full strength

We are well positioned with a strong consumer brand, a growing corporate banking portfolio and user-friendly technology driving high levels of customer satisfaction

Business Line Review

p128



Scan this QR Code with your smart device to view a version of this annual report online at

<http://nationstrust.com/about/investor-relations>

THE OPERATING ENVIRONMENT

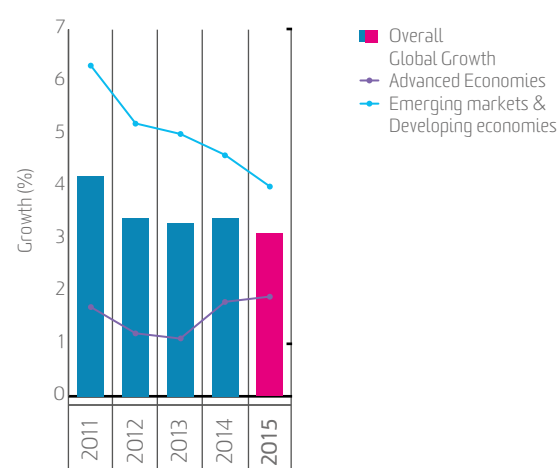
Overall global economic growth is projected to increase marginally to 3.4% in 2016 and 3.6% in 2017. Growth in advanced economies is expected to be driven by the US, supported by recovery in the housing and labour markets.

Global Economy

The global economy continued its recovery at a moderate pace in 2015, with the International Monetary Fund projecting global growth to be 3.1% during the year. Growth in emerging markets moderated for the fifth consecutive year, whilst advanced economies continued to record modest yet uneven recovery. Over the medium term, performance of the global economic landscape will be shaped by three key transitions; the gradual slowdown in China attributed to the rebalancing of economic activity, the decline in commodity and energy prices and the gradual tightening of the US monetary policy.

Overall, growth is projected to increase marginally to 3.4% in 2016 and 3.6% in 2017. Growth in advanced economies is expected to be driven by the US, supported by recovery in the housing and labour markets. The outlook for emerging markets is diverse across regions; growth in China is expected to slow to 6.3% whilst India and the rest of emerging Asia is anticipated to show resilience, against the backdrop of lower commodity prices, policy reforms and increase in investments.

GLOBAL ECONOMIC GROWTH



Source: IMF, World Economic Outlook Update (Jan 2016)

Sri Lanka

Sri Lanka's economic growth was 5.2%¹ up to September 2015, supported by the strong performance of all three sectors. The Agriculture sector rebounded led by strong growth from the paddy sector, although tea, rubber and spices recorded negative growth rates due to geopolitical tensions in key buying markets, the slowdown in global demand as well as adverse weather conditions. The Industry sector recorded a growth of 3.6% during the first three quarters of the year, supported by the recovery in manufacturing activities which offset the contraction in the

¹ The Department of Census Statistics re-based the computation of GDP, which includes a revision in the base year, an expansion of the production boundaries and adoption of the latest version of the International Standard Industrial Classification (Revision 4) among other improvements.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172



ECONOMIC GROWTH

5.2%

September 2015

Sri Lanka's economic growth of 5.2% was supported by strong performance of all three sectors

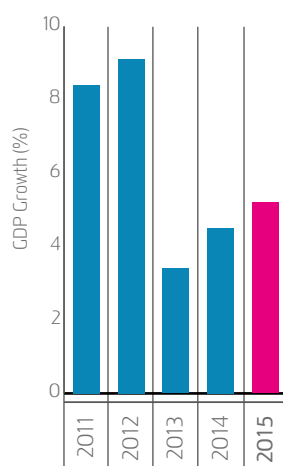
construction sub-sector. The Services sector continues to be the highest contributor to the country's GDP and grew by 5.2% up to September 2015 as wholesale and retail trade activity picked up pace together with an expansion in the financial, insurance and real estate related activities which grew by 12.2% in the first 9 months of 2015.

Increased purchasing power stemming from budget-mandated reductions in the prices of key consumables and energy prices together with the increase in government sector wages is expected to augur well for private consumption, supporting overall economic growth in 2016. Clearer policy direction and political stability post General Elections in August 2015 are also anticipated to provide an impetus for the re-engagement of construction and infrastructure projects over the short-to medium term.

The Operating Environment



SRI LANKA ECONOMIC GROWTH



Source: Department of Census and Statistics

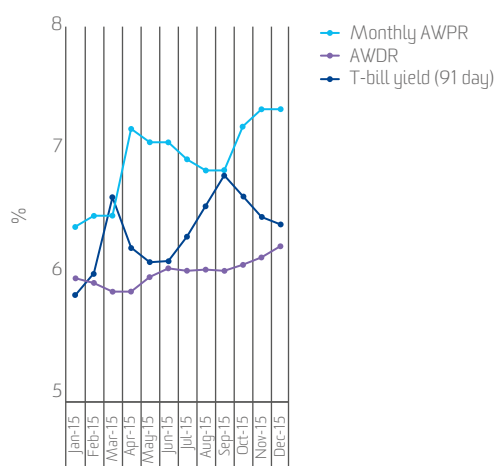
*Rebased growth figures published by the Department of Census and Statistics

Interest Rates

The Central Bank maintained its accommodative monetary policy stance for most part of the year with a view to stimulating investment and boosting credit growth. With the revival in private sector credit, the Central Bank took measures to remove the

temporary restrictions it had placed on the Standing Deposit Facility under open market operations. This led to sporadic increases in interest rates due to which in April 2015, the Standing Deposit Facility Rate and the Standing Lending Facility Rate was reduced by 50 points each. Broadly, market interest rates continue to be low, although a greater reliance on domestic credit to finance a higher than anticipated budget deficit and a gradual uptick in inflation resulted in upward pressures on interest rates towards the latter part of the year.

INTEREST RATES



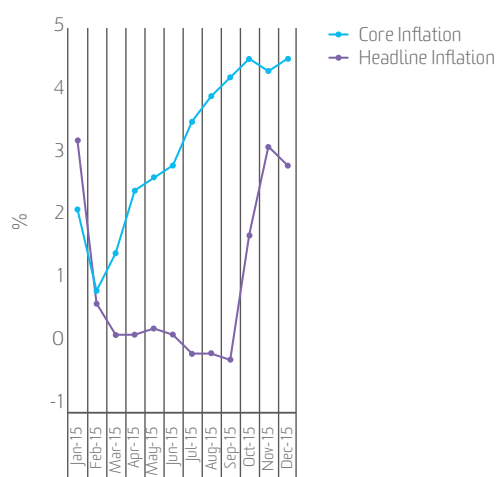
Source: Central Bank of Sri Lanka

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Inflation

Government mandated reductions in fuel and energy costs and prices of several essential food items, coupled with improved domestic supply conditions and low global commodity prices aided persistently low inflation levels during the year. Headline inflation was negative from July to September, before increasing gradually to 2.8% by end of 2015. Core inflation although remaining below 5% continued its upward trajectory, reflecting increasing domestic demand pressures and indicating the need for a tighter monetary policy.

Y-O-Y INFLATION



Source: Dept. of Census and Statistics

External Sector Performance

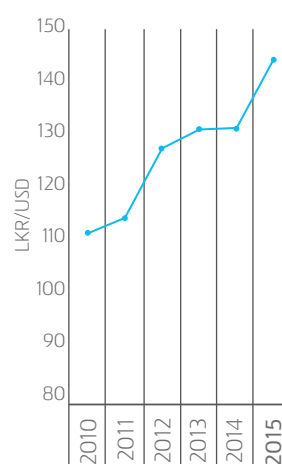
Sri Lanka's trade deficit increased marginally to USD 7566 mn up to November 2015, resultant from a marginal decline in exports together with the continued increase in vehicle and consumer goods imports which offset the favourable effects of the drop in fuel import bill. Meanwhile economic and political challenges in key export markets continued to hamper demand for exports. Tea exports were affected by elevated geopolitical tensions in the Russia and Middle East whilst restrictions on Sri Lankan sea food imports by the European Union affected demand for seafood exports. Earnings from industrial exports also declined, primarily due to a drop in textile and garment exports to the European Union. Overall, the country's export earnings declined by 4.4% to USD 9679 mn during the first eleven months of the year.

On the exchange rate front, Central Bank policy was aimed towards allowing more flexibility in the determination of the exchange rate, particularly during the last quarter of the year.

Earnings from tourism increased 18.1% up to November 2015 whilst the growth in workers remittances moderated due to the drop in income of the oil exporting Middle Eastern region. Resultantly, the overall Balance of Payments recorded a deficit of USD1,274.2Mn by end-November 2015, compared to a surplus of USD1,628.3Mn the previous year. The country's gross official reserves as at end-November 2015 amounted to USD 7.3 billion, equivalent to 4.6 months of imports.

On the exchange rate front, Central Bank policy was aimed towards allowing more flexibility in the determination of the exchange rate, particularly during the last quarter of the year. Resultantly, the Sri Lankan Rupee depreciated by 9.03% against the US Dollar in 2015 to close the year at Rs. 144.22. The depreciation is largely attributable to the outflow of foreign funds invested in rupee denominated Government Securities, interest and loan repayments of foreign debt and the sharp increase in vehicle imports during the year.

EXCHANGE RATE



The Operating Environment

Outlook for 2016

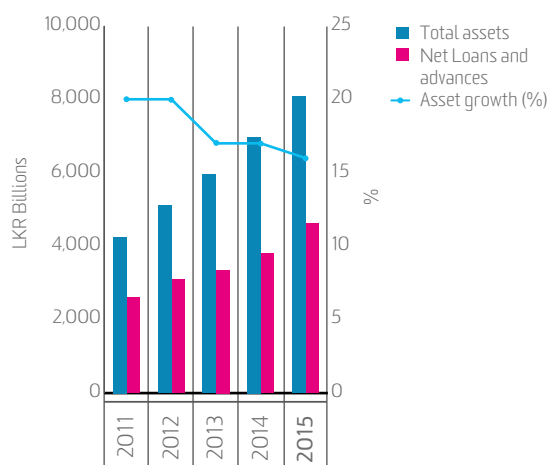
Private sector credit and consumer demand is expected to surge in 2016 supported by budgetary allocations aimed at stimulating the country's construction, export, and tourism sectors and revisions to import taxes on a range of consumer and luxury goods. However, this will give rise to little scope for further monetary policy easing, and rising pressure on the Sri Lankan Rupee and the deterioration in the country's balance of payments could lead to a tightening of monetary policy over the short to medium term. Overall, it is likely that exchange rates and interest rates will gradually move upwards in 2016.

Industry Environment

Growth

Sri Lanka's banking sector recorded healthy growth in 2015 against the backdrop of strong credit demand stemming from both the private and government sectors. Sector assets increased by 15.8 % to Rs. 8.07Bn during the year, led by 21.2% growth in loans and advances. Credit demand was broad based across all sectors of the economy, with loans to services, industry and agriculture sectors expanding by 40.6%, 24.5% and 13.2% respectively in the first 9 months of 2015 aided by the relatively low interest rate scenario. The sector's asset composition tilted more towards credit assets during the year, as excess liquidity was channelled towards credit growth. The total branch network of the sector increased by 18 outlets whilst 60 new ATMs were added during the first eight months of 2015.

BANKING SECTOR

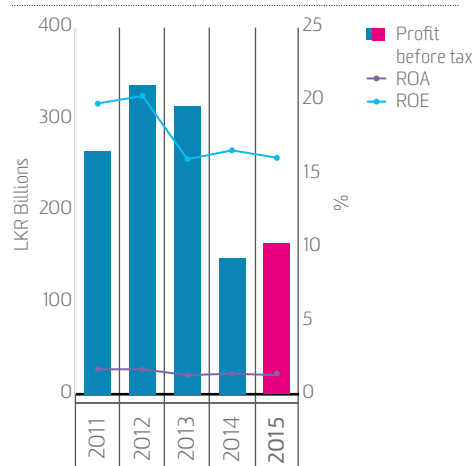


Source: Central Bank of Sri Lanka

Performance

The sector's total profits increased in line with the healthy credit growth which upheld net interest income whilst non-interest income was relatively unchanged in comparison to 2014. Net interest income growth of 19.0%, offset a sector-wide increase in operational costs and credit loss expenses. Resultantly, the sector's profit before tax increased 11% y-o-y to Rs. 164.1 billion during the year. Profitability as measured through Return on Assets and Return on Equity, however declined slightly to 1.3% and 16.1% respectively by end of 2015 compared to the corresponding period of 2014.

PROFITABILITY INDICATORS OF THE BANKING SECTOR



Source: Central Bank of Sri Lanka

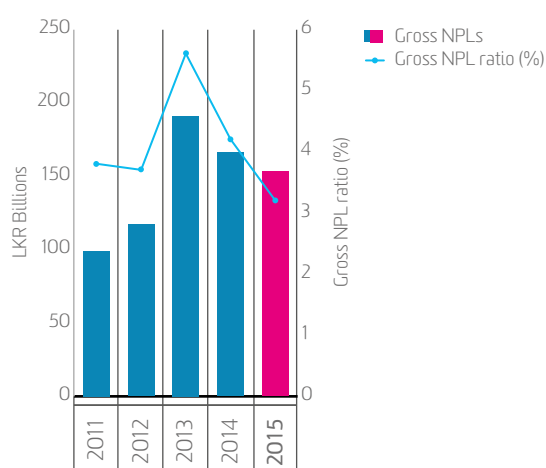
Asset Quality

The sector's asset quality deteriorated marginally during the year with total gross non-performing-loans decreasing by 7.3% to Rs.153.0Bn. However the sector's gross NPL ratio improved to 3.2% in December 2015 from 4.2% the year before, supported by strong growth in loans and advances. The sector's specific and total provision coverage clocked in at 46.9% and 62.3% respectively by end of December 2015.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

The sector's asset composition tilted more towards credit assets during the year, as excess liquidity was channelled towards credit growth. The total branch network of the sector increased by 18 outlets whilst 60 new ATMs were added during the first eight months of 2015.

ASSET QUALITY

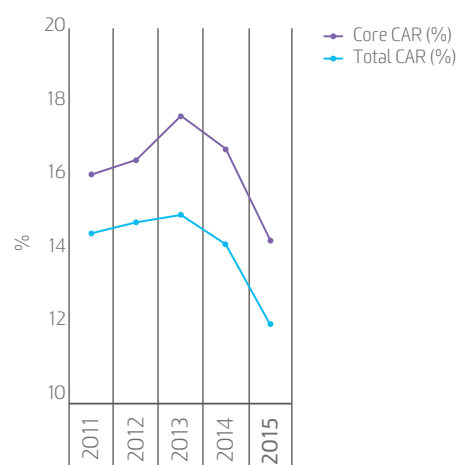


Source: Central Bank of Sri Lanka

Funding profile

Deposits continued to be the main source of funding accounting for 66.9% of sector assets by end 2015. Deposit growth was 15% during the year, with increased contributions from CASA deposits in comparison to the previous year. Borrowings increased during the year 2015 by 21% as excess liquidity in the market was channelled for credit growth and banks strengthened Tier II capital. Borrowings account for 21.8% of total Liabilities including equity of the Banking sector as at end of 2015 increasing marginally from 20.8% as at the close of 2014. The liquidity levels remained healthy, with a liquid asset to total assets ratio of 30%.

CAPITALISATION



Source: Central Bank of Sri Lanka

Capitalisation

The sector's Core Capital Adequacy Ratio (CAR) and Total CAR were comfortably above the regulatory minimum at 11.9% and 14.2% respectively by end-December 2015 although declining slightly in comparison to 2014.

FINANCIAL CAPITAL

Nations Trust Bank has recorded strong growth and increased profitability during the year, leveraging its increased footprint and agility to deliver value to its shareholders. It is well positioned with a strong retail brand, a growing corporate banking portfolio stabilising earnings and user-friendly technology driving high levels of satisfaction amongst its target market segment.

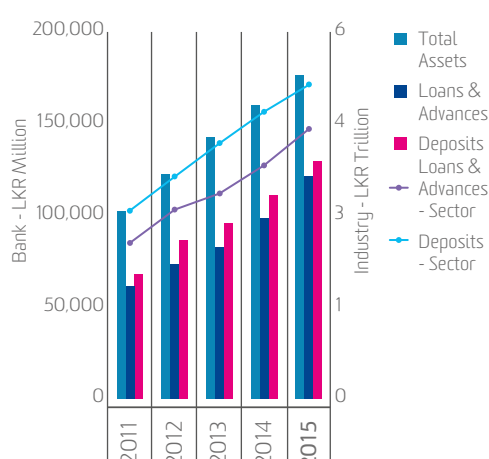
2015 PRIORITIES

Growth

Strong growth in Loans and advances of 23% and deposits of 16% was driven through new customer acquisitions and increasing the share of business through superior customer service. Consequently the loans and advances portfolio amounted to Rs.121Bn and the deposits totalled Rs.129Bn at the close of 2015. Total assets growth was a normalisation of excess liquidity positions which facilitated growth in loans and advances. Both deposit growth and loans and advances growth exceeded industry growth rates of 15% and 21.2% for Dec. 2015.

PERFORMANCE IN 2015

FINANCIAL POSITION

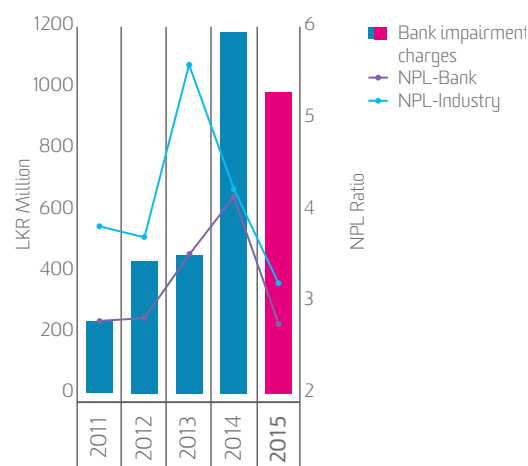


2015 PRIORITIES

Portfolio quality

Portfolio quality improved during the year as the Bank's NPA ratio strengthened from 4.1% in 2014 to 2.8% at the close of 2015. This was mainly due to targeted marketing to high growth sectors of the economy and improved credit sanctioning and monitoring processes.

PORTFOLIO QUALITY



Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

LOANS AND ADVANCES

Rs.121Bn

2015: Loans and Advances grew by 23%

Strong growth in Loans and advances of 23% and deposits of 16% was driven through new customer acquisitions and increased share of business through superior customer service.



Scan this QR Code with your smart device to view a version of this annual report online at

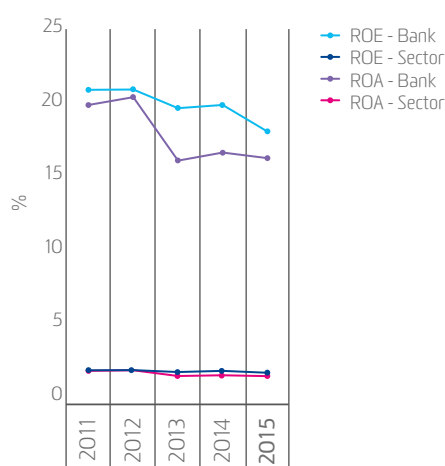
<http://nationstrust.com/about/investor-relations>

2015 PRIORITIES

Profitability

Profitability was in line with industry as the prevalent low interest rate environment resulted in declining NIMs. Earnings was unfavourably impacted by M2M losses on FIS portfolio. The Bank was able to maintain the cost income ratio at 54.8%. Nevertheless the Bank's ROE has been above the industry average throughout.

RETURN ON EQUITY & ASSETS



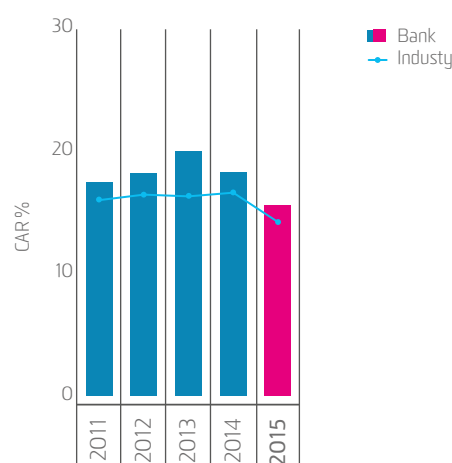
PERFORMANCE IN 2015

2015 PRIORITIES

Stability

The Bank's total capital adequacy ratio moderated from 18.3% in 2014 to 15.5% in 2015 as excess liquidity normalised due to strong credit demand from the private sector. This trend was evident across the industry as well with the industry CAR moving from 16.6% in 2014 to 14.2% in 2015. One-off super gain tax of Rs.821Mn also contributed to this decline.

CAR %



PERFORMANCE IN 2015

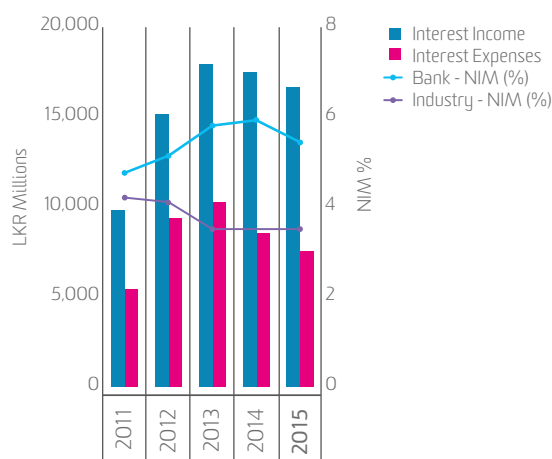
Financial Capital

Income Statement Analysis

Net Interest Income (NII)

The Group's NII growth moderated to 2% during the year, reflective of declining yields in several key business lines amidst rising funding costs and intensified competitive pressures. Credit growth was subdued during the first half of 2015, recovering only towards the latter part of the year as sentiments improved. The Bank pursued a strategy of volume growth during the second half of the year, resulting in its loans and advances portfolio expanding by 23%. NII growth however, was relatively slower as a large portion of new lending occurred during the latter part of the year, whilst the contraction in NIM and a shift in the portfolio mix towards non-consumer based lending also impacted NII. The strong portfolio growth achieved during the latter part of the year has provided a solid foundation for income growth in 2016.

FINANCIAL PERFORMANCE



Net Fee & Commission Income

Net Fee and Commission income increased 15.0% upheld by growth in credit card income and transactional fees, supported by increased customer acquisition and market capture in the credit card business. In trade services we successfully pursued a strategy of penetrating trade hubs resulting in trade related fees growing by 7% during the period. Net Fee and Commission income contributed 26% to the Group's operating income during the year.

NET FEE AND COMMISSION

15%

2015: Growth of 15% was upheld by credit card income and transactional fees

Trading and Other Operating Income

The Bank's net trading income recorded a decline in comparison to previous year due to unfavourable interest rate movements which resulted in marked to market losses on the FIS portfolio. Net trading losses for the year amounted to Rs.93.9Mn compared to gains of Rs.111.4Mn in the previous year. Other operating income consists of dividend income, non-trading foreign exchange income and recovery of written-off loans and grew by 9% during the year. The customer forex arm recorded strong growth of more than 50%, underpinned by the customer-focused strategy that was implemented in 2014 which resulted in concerted efforts by business units and the Treasury division to enhance product capabilities and customer service.

Total operating income

Total operating income growth was 3% during the period, upheld by the expansion in non-fund based income sources, which offset the slower growth in NII and trading losses.

TOTAL OPERATING INCOME

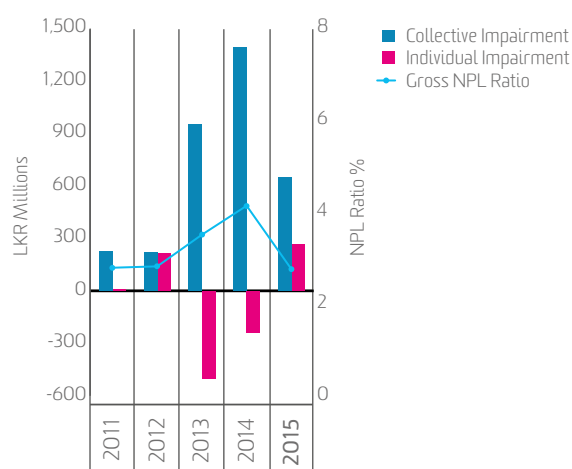


Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Impairment losses

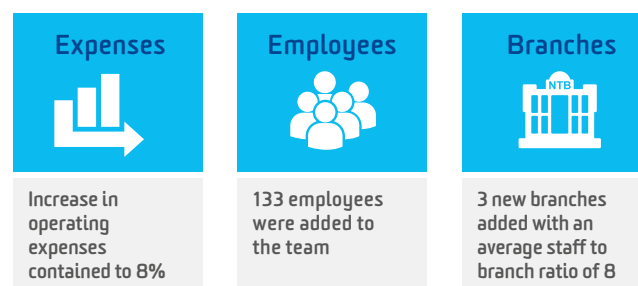
Total impairment charges for the period declined by 17% to Rs.985.5Mn, largely due to a significant reduction in collective impairment. This improvement reflects the Bank's emphasis on quality loan growth and substantial improvements in collection efforts during the year. Also the separation of the cash back portfolio from the collective impairment assessment contributed to the decline. Individual impairment increased in comparison to the previous year due to a one-off charge on a specific facility which has been fully provided for. Overall, the Bank's gross NPL ratio improved to 2.8% from 4.1% the previous year, with significant improvements in portfolio quality in several key business lines including leasing, credit cards and SME.

IMPAIRMENT CHARGES



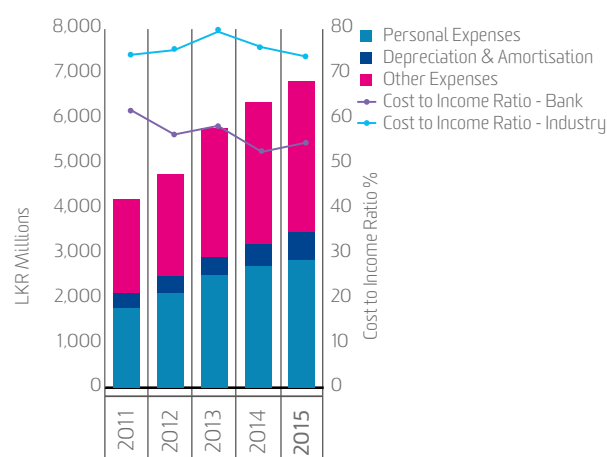
Managing expenses

The ongoing focus on lean initiatives and automated workflow methods together with increased automation and more reliance on digital channels enabled the Group to contain the increase in operating expenses to 8% during the year. Personnel expenses grew by 7% as 133 employees were added to our team during the year; personnel costs accounted for 42% of the Group's total expenses. Depreciation and amortization expenses grew by 25% largely due to increased charges on the Bank's core banking system which was launched in 2014. The growth in other operating expenses was also contained to 6% as the Bank focused on consolidating its branch reach. Only three new branches were



added in 2015 and the staff to branch ratio of around 8 is amongst the lowest in the industry. Overall, the Group's cost to income (C:I) ratio declined to 54.8% from 52.5% in the previous year. The decline in the ratio is largely due to the slower growth in revenue stemming from narrowing NIMs.

MANAGING EXPENSES



Taxation

VAT and NBT on Financial Services increased by 3% to Rs.766.7Mn, whilst income tax expenses was Rs.1.29Bn. This translated to an effective tax rate of 44% during the year, compared to 45% in the preceding year. The impact of the Super Gain Tax which was legislated in October 2015, is Rs.733.6Mn and Rs.820.5Mn for the Bank and Group respectively. The expense was charged to the retained earnings based on the direction issued by the Institute of Chartered Accountants of Sri Lanka and was fully paid in three equal instalments during the last quarter of 2015.

Financial Capital

POST-TAX PROFIT

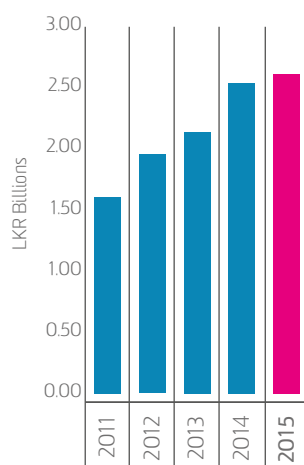
Rs.2.6Bn

2015: Recorded a PAT growth of 3%

Post-tax profit

Despite multiple challenges presented by the operating environment, profit after tax increased by 3% to Rs.2.6Bn during the year. Overall profits were unfavourably impacted by marked-to-market losses on the FIS portfolio and the one-off impairment charge. Excluding these non-recurring items, the Bank's core earnings were strong, driven by volume growth in loans and advances and an overall improvement in credit quality, which counteracted the contraction in NIMs.

POST TAX PROFIT

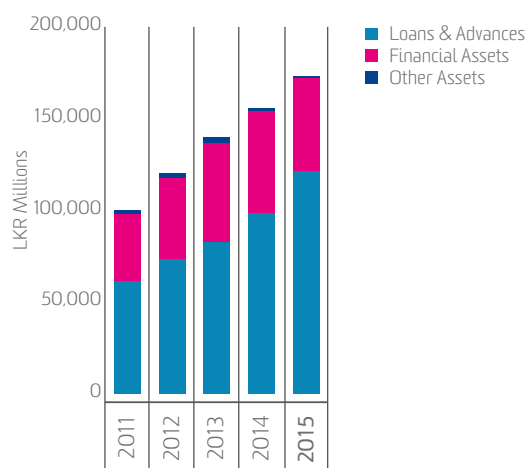


Balance Sheet Analysis

Total Assets

Total assets grew by 11% to Rs. 176.3 Bn reflecting strong growth in the Bank's loan and advances portfolio across consumer, SME and corporate business lines. The loans and advances portfolio and financial assets account for 69% and 22% of total assets respectively in 2015 in comparison to 62% and 28% respectively in the previous year due to conversion of financial assets to loans and advances.

TOTAL ASSETS COMPOSITION



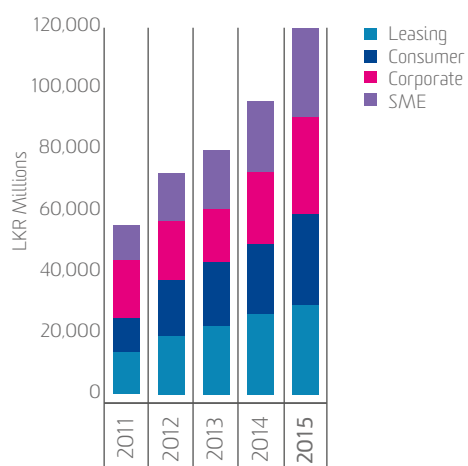
Loans & Advances

Loan portfolio growth, which was relatively low in 2013 and 2014, gathered momentum in 2015 as sustained low interest rates and inflation coupled with higher levels of disposable income increased the risk appetites of both corporates and individuals. Consumer lending growth of 31% was driven by focussing on customer convenience and a carefully structured range of products that catered to the changing needs of our customers. Investments in technology, a growing footprint and high levels of customer service provided further impetus to growth in a conducive operating environment. The Corporate Banking loan portfolio, increased by 30% as the team focused on targeted marketing to industry sectors with high potential for growth and increased the share of business from existing clients through high levels of customer engagement. The SME proposition was further strengthened through increased investment in staff training and relationship-driven marketing efforts. Meticulous implementation of strategy resulted in growth of the SME portfolio by 25% to Rs.29Bn. Record levels of vehicle imports together with proactive marketing resulted in 12% growth of the leasing portfolio which amounted to Rs.29Bn. Despite a moderation in the industry, credit cards posted a healthy growth increasing by 14% spurred by cross sell and attractive promotions with retail and leisure sector business partners.

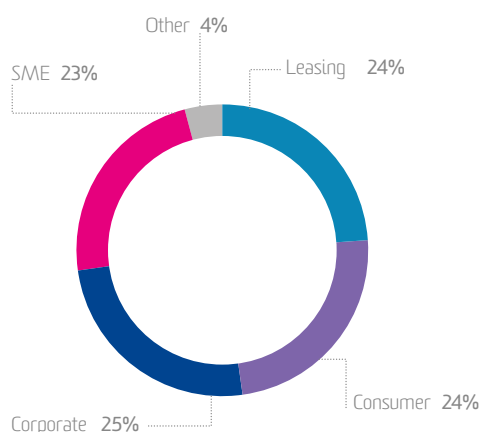
Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Deposits continue to be the main source of funding demonstrating strong growth of 16% during the year to Rs.129Bn amounting to 80% of total liabilities in comparison to 77% in 2014.

LOAN PORTFOLIO BY BUSINESS LINE



ANALYSIS OF LOANS & ADVANCES



Financial Assets

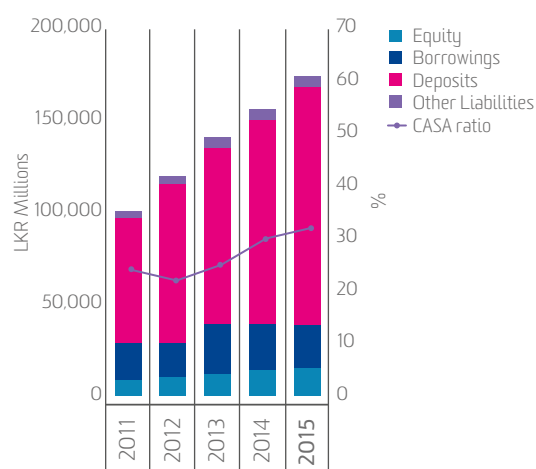
Financial assets declined during the year as excess liquidity positions were normalised through credit growth reflecting in sharp decreases in the portfolio of reverse repurchase agreements and financial assets held for trading.

Liabilities

Deposits continue to be the main source of funding demonstrating strong growth of 16% during the year to Rs.129Bn amounting to 80% of total liabilities in comparison to 77% in 2014. The current and savings accounts ratio (CASA) improved during the year from 30% in 2014 to 32% in 2015, supporting the net interest margins. Focused growth of deposits and CASA ratio was driven through an effective sales force working together with branches and our quest to be the primary bank for our customers.

Borrowings increased by 27% to Rs.13Bn accounting for 8% of total liabilities supporting the funding of the loan portfolio.

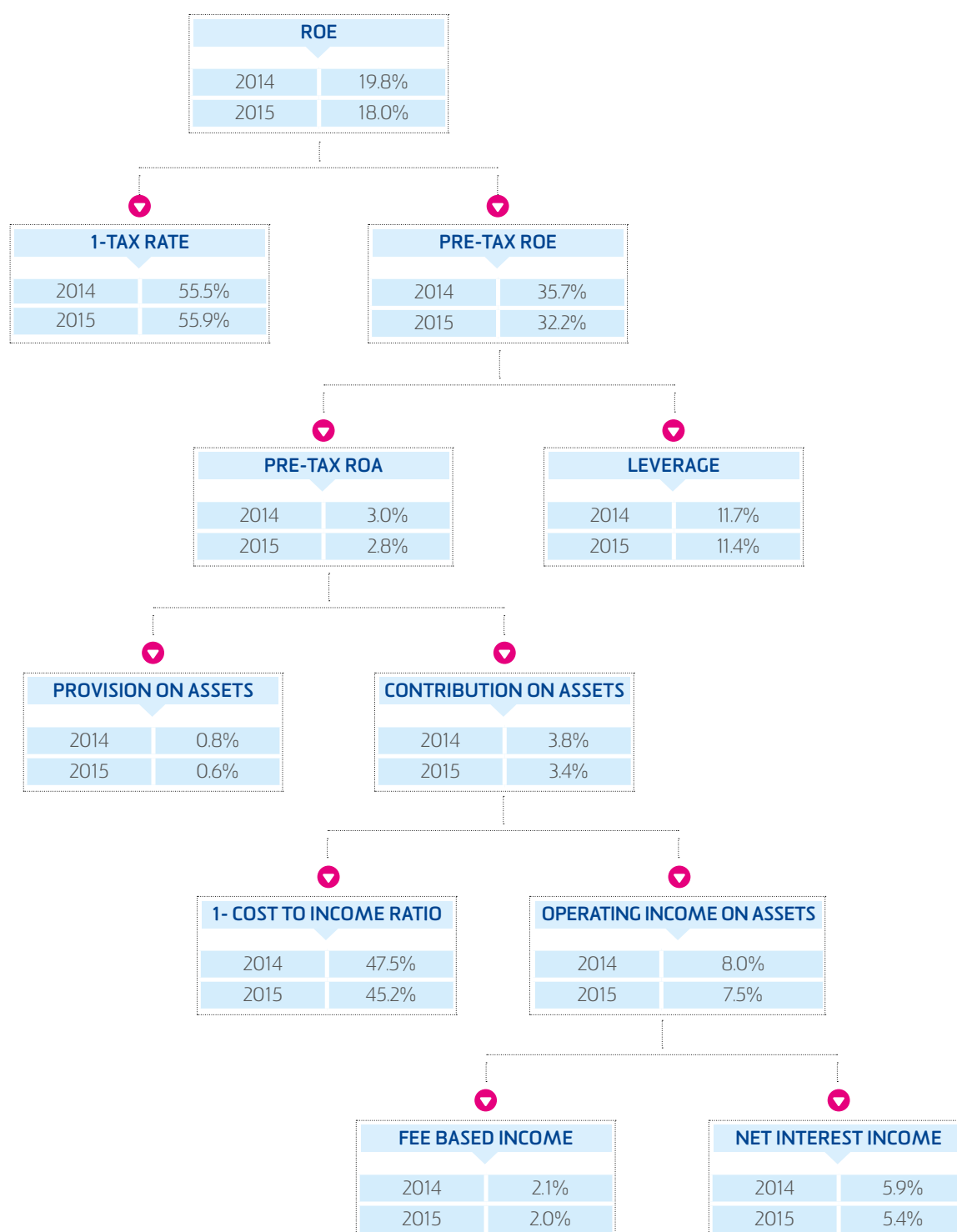
TOTAL LIABILITY COMPOSITION



Financial Capital

ROE Drivers

Margin drop reduced the overall profitability as observed in the industry.



Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

The dividends paid during the year of Rs.484Mn in respect of the 2014 financial year were also charged to accumulated reserves.

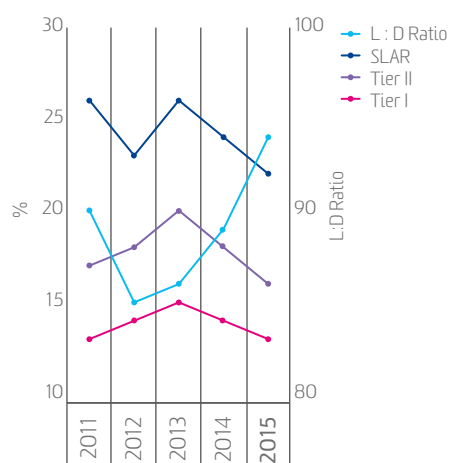
Equity

Total equity increased by 9% to Rs.15.2Bn accounting for 9% of total liabilities and supported by a strong performance during 2015 adding Rs.2.6Bn to total equity. A charge of Rs.820.5Mn was made against accumulated reserves for Super Gains Tax, a one off tax introduced in the 2015 Interim Budget as it was imposed on profits for the financial year 2013. The dividends paid during the year of Rs.484Mn in respect of the 2014 financial year were also charged to accumulated reserves.

Capital & Liquidity Ratios

Tier I and Tier II Capital adequacy ratios declined as excess liquidity positions normalised during the year due to strong credit growth, a trend observed across the banking sector. The Bank is in a position of strength, with healthy capital and liquidity ratios above regulatory requirements and well positioned to optimise returns.

CAPITAL ADEQUACY & LIQUIDITY RATIO



BUSINESS LINE REVIEW

The Bank's core business activities are executed through five key business pillars. Although operating independently, the functions of all businesses are aligned with the Bank's unified strategy and value creation process.

The Bank's core business activities are executed through five key business pillars. Although operating independently, the functions of all businesses are aligned with the Bank's unified strategy and value creation process. The subsequent section of this Report will provide a comprehensive evaluation of the strategic initiatives that guided operations during the year, trends and challenges in the operating context, performance and our future outlook for the key business pillars.

Key Business

Consumer Banking

We offer an array of customised propositions in investment, loans and advances and transactional products with focus on accessibility, customer convenience and innovation.

SME

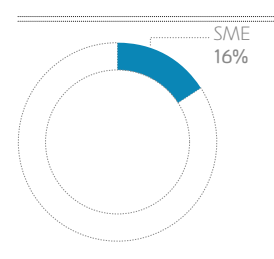
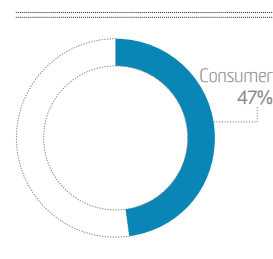
We support the country's top small and medium sized enterprises through providing access to financial and non-financial support

Highlights

Loan Growth	▶ 31%
Deposit Growth	▶ 13%
Revenue Growth	▶ 16%
NPL Ratio	▶ 3.25%

Loan Growth	▶ 25%
Deposit Growth	▶ 23%
Revenue Growth	▶ 14%
NPL Ratio	▶ 4.58%

Contribution to Group Revenue



Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Key Business Lines

Leasing

We are the most sought after leasing provider among the licensed commercial banks. We offer leasing facilities across a wide range of vehicles and increased customer access through our strong regional presence.

Corporate

Our client portfolio comprises of the country's top and emerging corporates. We offer our clients tailored and innovative solutions, flexibility to transact on chosen platforms and unparalleled customer service.

Treasury

The Unit is responsible for managing the Bank's Fixed Income Securities portfolio and Foreign Exchange trading of corporate and retail customers. It also plays a significant role in the Bank's asset and liability management.

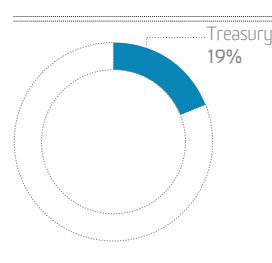
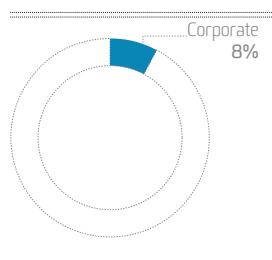
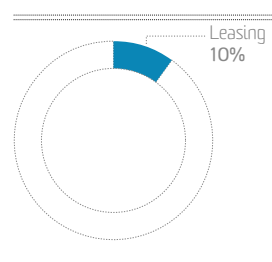
Highlights

Portfolio Growth ▶ **12%**
 Revenue Growth ▶ **7%**
 New Business Growth ▶ **3%**
 NPL Ratio ▶ **4.69%**

Loan Growth ▶ **30%**
 Deposit Growth ▶ **64%**
 Revenue Growth ▶ **2%**
 NPL Ratio ▶ **0.52%**

Revenue Growth ▶ Maintained at previous year level
 Customer FX Growth ▶ **50%**
 FIS Portfolio Growth ▶ **-22%**
 Corporate Debt Portfolio Growth ▶ **28%**

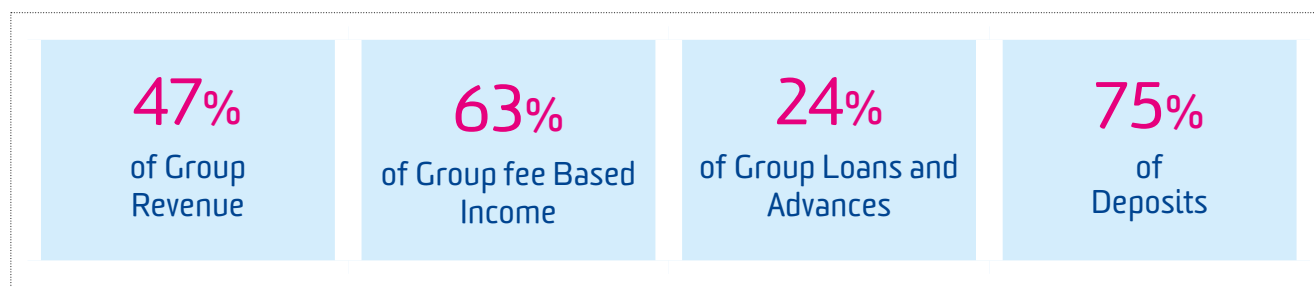
Contribution to Group Revenue



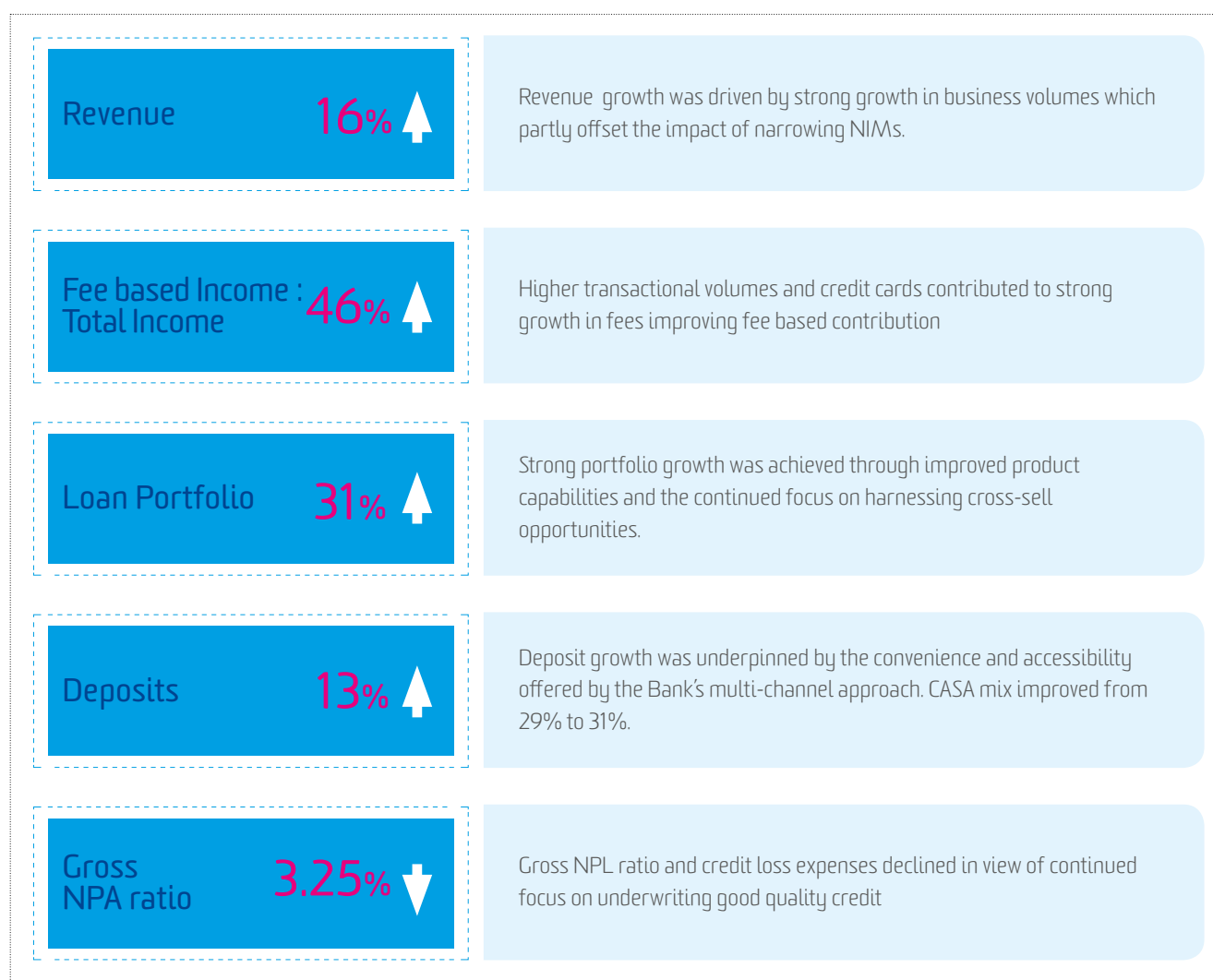
Business Line Review

Consumer Banking

Significance of the division



Performance Highlights



Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Product portfolio

INVESTMENT PRODUCTS	TRANSACTIONAL PRODUCTS	LOANS AND ADVANCES
<ul style="list-style-type: none"> ⊕ Current Accounts ⊕ Savings Accounts ⊕ Foreign currency CASA ⊕ Fixed Deposits ⊕ Securities Investment Accounts ⊕ Investment Plans ⊕ Minor Savings ⊕ Call Deposits 	<ul style="list-style-type: none"> ⊕ Credit and Debit Cards ⊕ ATM Cards ⊕ Internet Banking ⊕ Mobile Banking ⊕ SMS Banking ⊕ Bancassurance ⊕ Remittances 	<ul style="list-style-type: none"> ⊕ Personal Loans ⊕ Auto Loans ⊕ Home Loans ⊕ Pawning ⊕ Credit Cards

Operating Context

Consumer spending and investment was subdued during the first half of the year, as the retail market adopted a 'wait-and-see' approach given changing dynamics in the political landscape and uncertainties pertaining to policy direction. Sentiments improved by the second half of 2015, as several budgetary concessions, such as price reductions in fuel, kerosene and several key food items facilitated reductions in cost of living, thereby stimulating consumer spending. As credit demand gradually picked up, financial institutions pursued deposit growth and the upward trajectory of interest rates towards the latter part of the year resulted in higher funding costs, thereby rendering narrower margins.

Strategy and Performance

The Consumer Banking segment is a key business pillar contributing significantly to revenue deposits and loans portfolio. Continued investment in innovation together with ongoing efforts to strengthen the physical and digital infrastructure has underpinned customer acquisition and growth in this segment. Increased investments in the application and analysis of customer during the year provided deep insights into customer behaviour, and have enabled the Bank to consistently enhance service quality. In 2015, the division's loans and advances expanded by 31%, a result of targeted marketing, improved product capabilities and continued focus on enhancing service quality and customer

Key challenges in 2015

- ⊕ Lacklustre credit demand during 1H
- ⊕ Escalation in funding costs during 2H
- ⊕ Increased competition for deposits among financial institutions

convenience. Net interest income growth was also relatively strong at 12%, despite the industry-wide margin compression. Volume growth, supported by increased cost efficiencies ensuing from the Bank's lean initiatives resulted in a strong performance from this segment.

Key Performance Indicators	2015 Rs. Mn	2014 Rs. Mn	Growth
Advances portfolio	30,245	23,010	31%
Deposit portfolio	92,808	81,889	13%
Total Revenue	5,942	5,137	16%
Fee Based Income :			
Total Income	46%	45%	-
Cost to Income Ratio	71%	72%	-
NPA Ratio	3.25%	4.42%	-

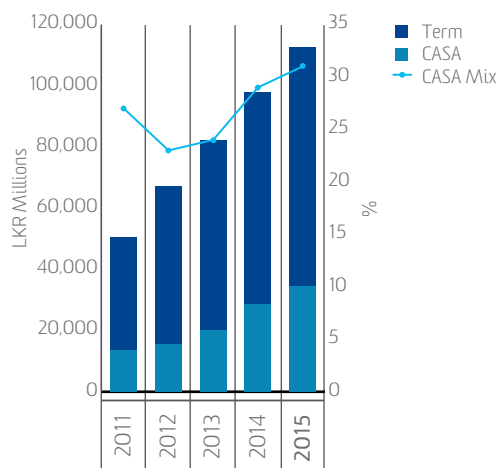
Business Line Review

Consumer Banking

Investment products

Customer deposits are the Bank's principal funding source and the consumer segment is the Bank's most significant source of deposits. In 2015 the segment's deposit base increased by 13%, contributing to 75% of Bank's total deposits. The strength of our deposit franchise is underpinned by the Bank's multi-channel approach together with convenient and accessible customer channels which provide superior customer service. Nations Trust Bank was the first Bank in the country to introduce 365-day banking across all its branches, whilst extended banking hours are now available in over 90% of the branches. In strengthening our self-service proposition, we opened the first-of-its kind digital branch at the World Trade Centre during the year; the digital infrastructure of this branch enables customers to conduct a host of banking operations through self-service channels. Meanwhile, CASA deposits have continued to grow in prominence in the deposit mix accounting for 31% of total deposits in 2015, compared to 29% the previous year.

DEPOSIT BREAKDOWN



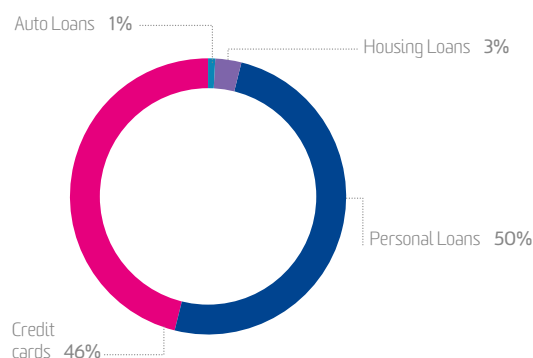
Loans and Advances

Consumer loans and advances grew by 31% during the period. The Bank also placed emphasis on improving product capabilities and pursuing cross-selling opportunities. Growth stemmed primarily from personal loans (+66%) and credit card facilities. The risk management framework was strengthened during the year, as the Bank adopted international best practices in developing underwriting and customer behaviour scorecards. Portfolio quality remained healthy with the gross NPL ratio improving to 3.25%, from 4.42% in 2014 whilst the impairment charge also declined by 24% during the year.

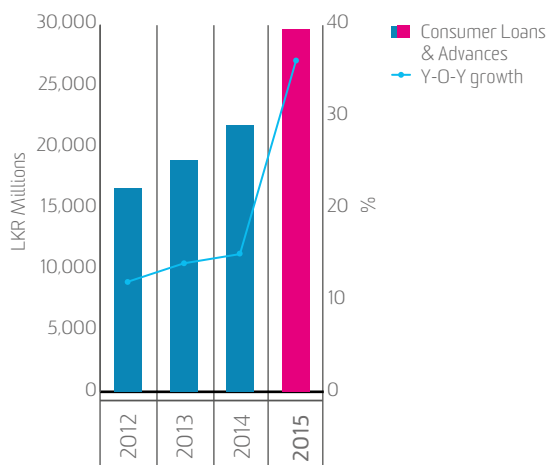


Opening of WTC Branch - Smart branch for smart solutions

CONSUMER LOANS PORTFOLIO BREAKDOWN



LOAN PORTFOLIO GROWTH



Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Transactional Products

Credit and Debit Cards

CREDIT & DEBIT CARDS		
	American Express	MasterCard
Personal	Sri Lankan Airlines Platinum American Express® Card	Travel Card
	American Express® Gold Card	MasterCard World
	American Express® Green Card	MasterCard Platinum
	American Express® Blue Card	Nations Shopping Card
	American Express Centurion Platinum Card	
	Nations Trust Bank American Express Travel Card	
American Express® Services and Benefits	Travel Insurance	
	Wallet Guard: protection against credit card theft	
	Global e-shop: enabling online purchasing	
	Card member online services	
	E-statements	
	SMS alerts	
	Online payment solutions to over 40 merchants	
	Emergency Assistance	
	Automated Bill Settlement	
	Concierge service	
	Membership Rewards	
Corporate	American Express® Corporate Gold Card	
	American Express® Corporate Green Card	

With an active user base exceeding 183,000, Nations Trust Bank is the largest local issuer of credit cards in the country and is also the largest merchant network operator. During the year we fortified our market position in this segment with the issue over 60,000 new cards, a growth of 14% for the year compared to the previous year. Our value proposition to this segment is underpinned by attractive rewards, benefit schemes, global access and the availability of an international support network.

During the year, we entered into a partnership with Diners Club International, allowing us to be the exclusive issuer and acquirer of Diners Club International cards. A globally renowned brand, the Diners Club Card is accepted in over 185 countries, at more than one million cash access points with an extensive world-wide merchant network. In 2015, we also carried out several marketing and promotional campaigns aimed at encouraging usage of our cards. By focussing on the premium segment of the market has also enabled the Bank to maintain a good quality portfolio.

Business Line Review

Consumer Banking



ANYTHING ANYWHERE IN 12 INSTALLMENTS

This August convert any transaction, anywhere in the world into a 12 month interest free installment plan with absolutely no hidden charges only with American Express®

Make purchases using your Nations Trust Bank American Express Card and enjoy:

- 12 month 0% interest installment plans for transactions and cash advances of Rs. 75,000 and above;
- 6 month 0% interest installment plans for transactions and cash advances of Rs. 50,000 and above.

Now that's the privilege of membership.

Simply call the American Express Hotline on (011) 4 4145411 to convert your transaction to the plan.
www.americanexpress.lk

Nations Trust Bank

Internet and Mobile Banking

The Bank's retail internet banking customers increased by 50% during the year whilst volume of internet banking transactions performed also grew by 70%. In 2015 key focus areas included strengthening system stability, ensuring access through multiple platforms and improving the user interface and overall functionality of the system through the introduction of several personalised features.

The Bank's mobile banking application is available on Android and iOS platforms with an active user base of over 25,000. The app enables multiple functions including fund transfer within the Bank's accounts, payment of American Express credit card bills and utility payments, balance enquiries and obtaining foreign currency exchange rates among others. The volume of transactions performed through the mobile banking app increased by 55% during the year.

Remittances

Growth in Sri Lanka's worker's remittances decelerated to 1.8% during the first nine months of 2015, attributed to geopolitical tensions and the drop in oil prices in the Middle Eastern region as well as a 14.8% decline in unskilled labour migration during the first half of the year.



Mathale Branch Opening



Avissawella Branch Opening

The Bank strengthened its infrastructure by expanding into two new markets, Germany & South Korea whilst maintaining a strong position in traditional markets such as Dubai, Qatar, Saudia Arabia and Kuwait. The Bank's value proposition in this competitive segment is based on customer convenience, increased access and service delivery, which has enabled effective differentiation. It is also noteworthy that pricing anomalies which were prevalent in the market have now been rectified, providing a platform for effective competition among industry players.

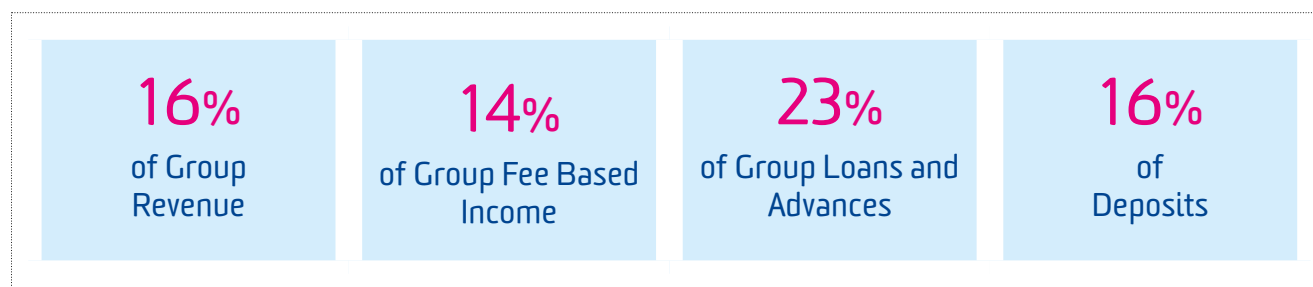
Way Forward

Investments made in strengthening the Bank's physical and digital infrastructure is anticipated to provide a strong platform for growth in the consumer segment in 2016 as we focus on consolidating our branch network and pursuing opportunities in new markets within the geographies we have already penetrated. We will also continue to pursue cross sell opportunities facilitated by stronger linkages between business units and a more targeted and holistic approach towards business acquisition. We will continue to focus on fundamentally making it easier for our customers to transact with us whilst deeper understanding of our customers gained through improved data analytics will allow us to serve our customers better.

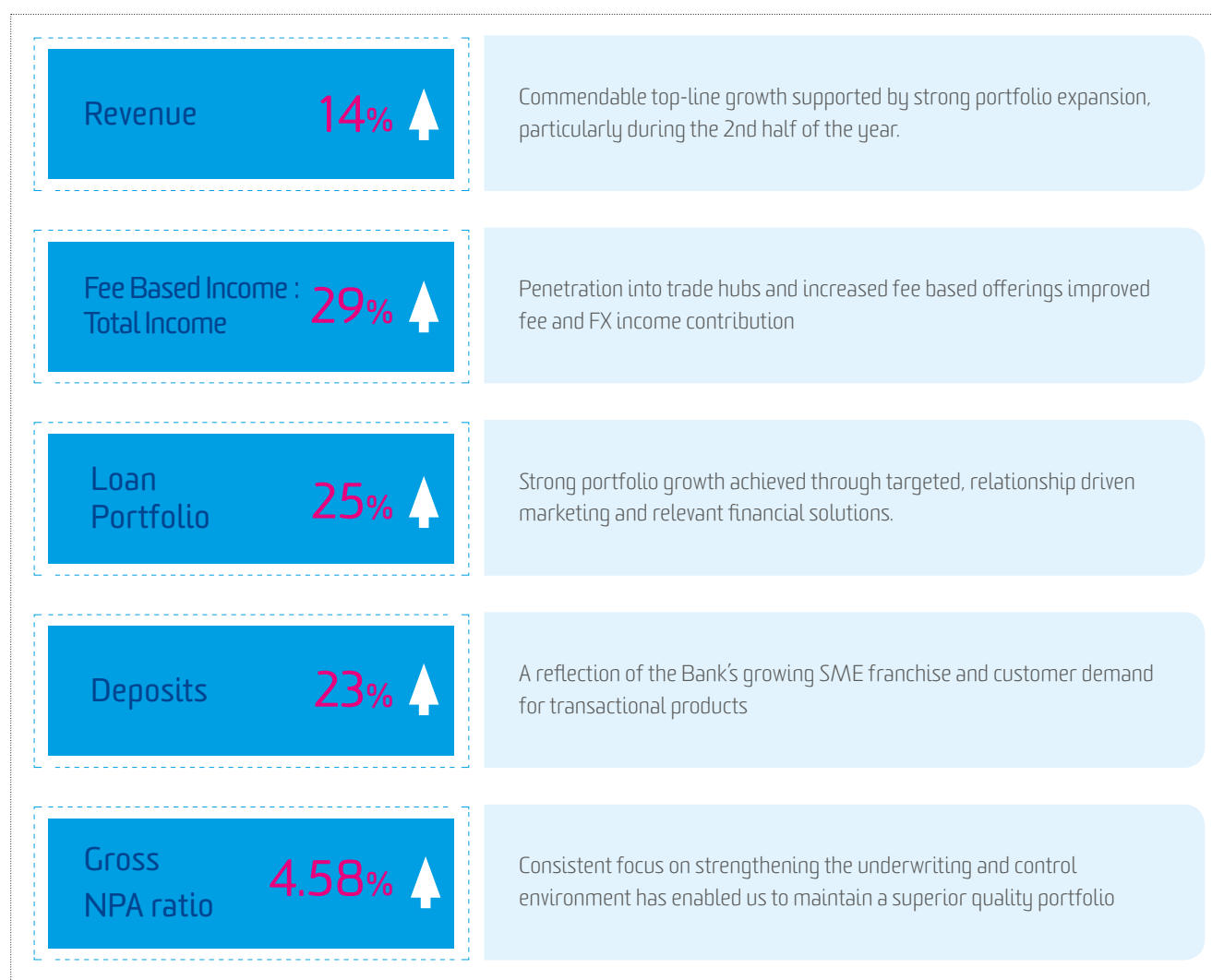
Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

SME Banking

Significance of the division



Performance Highlights



Business Line Review

SME Banking

Product portfolio

LOANS AND ADVANCES	INVESTMENT PRODUCTS	OTHER OFFERINGS
<ul style="list-style-type: none"> ⊕ Term facilities ⊕ Working capital facilities ⊕ Trade facilities ⊕ Factoring - Bill discounting and PDC discounting 	<ul style="list-style-type: none"> ⊕ Current accounts ⊕ Savings accounts and term deposits ⊕ Nations Business Investment Planner. ⊕ Sweep in/ out accounts 	<ul style="list-style-type: none"> ⊕ Business Banking segmented offering for Platinum, Gold, Silver customers ⊕ CBSL Refinance schemes ⊕ Nations trader

Key challenges in 2015

- ⊕ Weak sentiments during the first half of the year
- ⊕ Contraction in profitability margins amidst competitive pressures and rising funding costs
- ⊕ Preservation of portfolio quality

Operating Context

The slowdown in economic activity during the first half of 2015 weighed directly on business confidence and had a knock-on effect on small businesses. Despite benign interest rates, credit demand for business expansion was therefore somewhat lacklustre until mid-2015, affected by shifts in the political arena and policy uncertainty. By the third quarter of the year, however, improved sentiments and a strong turnaround in business confidence resulted in an upturn in credit demand whilst clear indications of rising interest rates encouraged businesses to lock-in funding at prevalent rates. On the other hand, high liquidity levels amongst banks and non-bank financial institutions resulted in intensified price competition, leading to further margin pressure.

Strategy and Performance

Development of small and medium enterprises is a key lever to the development of the country's economy and the Bank's approach to supporting these businesses is founded upon providing access to finance and non-financial skill development.

The Bank's SME proposition was further strengthened during the year with emphasis placed on upskilling employees, streamlining and increasing process efficiencies and targeted marketing. The Bank's SME loans and advances portfolio (including the factoring portfolio) grew by 25% during the year, whilst net interest income was relatively unchanged over the previous year in view of the declining interest rates. Continued focus on driving cost efficiencies through lean initiatives enabled the sector to record further improvements in its cost-to-income ratio during the year.

Key Performance Indicators	2015 Rs. Mn	2014 Rs. Mn	Growth
Advances portfolio	28,708	22,960	25%
Deposit portfolio	19,623	15,962	23%
Total Revenue	2,032	1,789	14%
Fee Based Income :			
Total Income	29%	20%	-
Cost to Income Ratio	48%	51%	-
NPA Ratio	4.58%	3.96%	-

The sector's growth strategy for the year was underpinned by targeted, relationship-driven marketing to selected SMEs representing all regions and industry sectors. Particular emphasis was placed on supporting key growth sectors of the country's economy, including tourism, agriculture, exports as well as retail

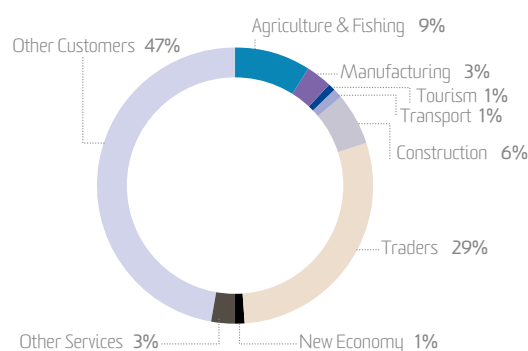
Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

The sector's loan portfolio is diversified across industry sectors, with the majority in agriculture, trading and manufacturing. The Bank's strategy of strengthening its geographical presence has augured well for the SME sector, which successfully grew its portfolio outside the Western Province.

traders, distributors and FMCG companies. We also pursued cross-sell opportunities across segments through closer collaboration within business units which allowed us to offer aligned customer value propositions.

The sector's loan portfolio is diversified across industry sectors, with the majority in agriculture, trading and manufacturing. The Bank's strategy of strengthening its geographical presence has augured well for the SME sector, which successfully grew its portfolio outside the Western Province. In 2015, around 43% of disbursements in the SME sector, originated from regions outside the Western Province.

SECTOR WISE DISBURSEMENTS



Employee education and upskilling initiatives were carried out on an ongoing basis. The SME Academy widened its operations during the year, with 80 employees successfully obtaining the internal certification. Employee training initiatives during the year focused on enhancing sales and service skills required to serve



Nations Business Seminar

customers more effectively and ensure a consistent approach in customer service.

Our SME value proposition also comprises of broadening the economic impact of our activities through consumer education and enterprise development. The Nations Business Seminars are targeted to our SME clients and comprise of multi-disciplinary self-development programmes which are conducted regionally under the patronage of external experts. During the year two programmes were carried out with the participation of 170 of our clients island-wide.

The ongoing focus on lean initiatives and process efficiencies including streamlining internal processes generated tangible results during the year with the adoption of SME workflow leading to significant improvements in turnaround times. The loan processing time improved to a quarter of what it was previously, whilst the entire period from initiation to disbursement has nearly halved. In addition to reducing cost per transaction the faster

Business Line Review

SME Banking



Cocktail organized for Galle SME customers



Cocktail organized for Colombo SME customers

turnaround times also provide an effective source of competitive advantage in customer acquisition. As a result of these initiatives, the sector's cost to income ratio improved further during the year under review.

Steps were also taken to strengthen the underwriting and control environment, including the establishment of a dedicated central SME Recoveries unit aimed towards restructuring and streamlining the sector's collections efforts. The quality of the Bank's SME portfolio continues to be healthy, with a gross NPL ratio of 4.58% by end-December 2015.

Factoring

The Bank's factoring services are offered primarily to SMEs who are engaged as suppliers by corporates. In 2015, we restructured the factoring model by decentralising the division and providing increased empowerment to branches. The portfolio remained relatively unchanged whilst income dropped marginally by 8%

during the year as primary focus was placed on the restructure. The structural business changes adopted will ensure we proactively align with regional economic growth opportunities in 2016 and are positioned for sustainable growth over the medium to long-term.

Way Forward

We see considerable scope to expand our proposition and are encouraged by Government policy directed towards strengthening the country's small and medium business sector. We will continue to focus on improving customer engagement at all levels and providing relevant solutions to support the effective running of our customers' businesses. The strong portfolio growth achieved during the latter part of 2015 will provide a solid foundation for growth in 2016 whilst asset re-pricing in a rising interest rate environment is anticipated to support the sector's profitability over the short-to medium term.

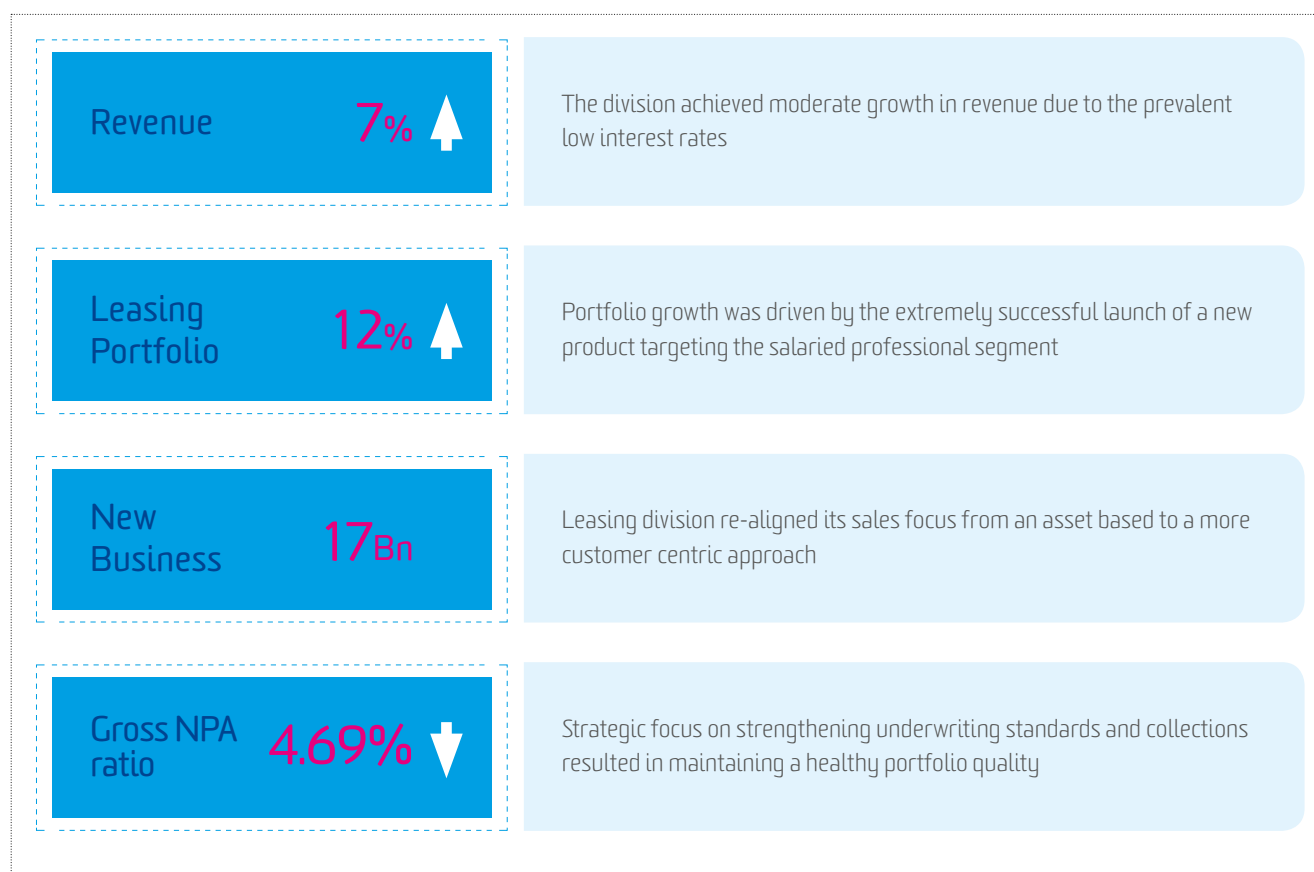
Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Leasing

Significance of the division



Performance Highlights



Business Line Review

Leasing

The leasing division placed strategic focus on improving the credit quality of its book during the first half of the year. The overall improvement in quality of the portfolio led to a significant reduction in impairment losses, enabling the division to improve bottom line contribution for the year.

Operating Context

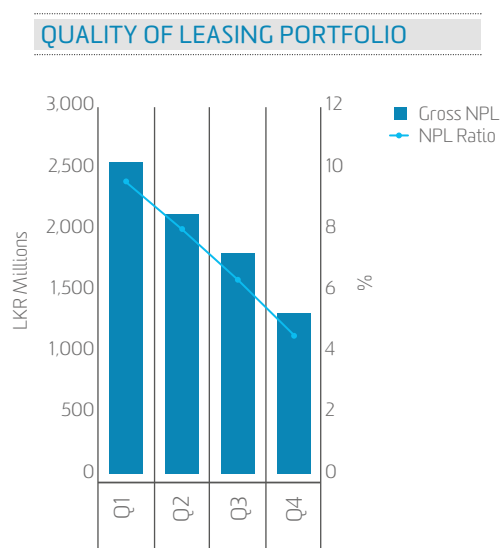
The leasing industry experienced a year of mixed fortunes, impacted by government directives on vehicle valuation methods, loan-to-value exposure limits, upward revisions on import taxes as well as the gradual depreciation of the Sri Lankan Rupee. Intense competition and increasing funding costs towards the latter part of the year resulted in an industry-wide contraction in yields.

Strategy and Performance

Nations Trust Bank's leasing portfolio accounts for approximately 24% of the Bank's loans and advances and contributes 14% of its net interest income. The leasing division placed strategic focus on improving the credit quality of its book during the first half of the year. This was facilitated through strengthening the division's credit appraisal and underwriting standards whilst emphasis was also placed on enhancing employees' underwriting skills through focused training. Consequently the quality of the portfolio underwritten in 2015 was substantially better than that of the preceding year, with a gross NPL ratio of 4.69% compared to 8.47% in 2014. Parallel focus was also placed on improving collections and the division implemented a focused collections strategy whilst streamlining collection related processes and realigning resources. As a result, the division's gross NPLs declined by 39% during the year with the portfolio's gross NPL ratio improving significantly. The division re-focused its efforts on portfolio growth during the second half of the year, whilst maintaining emphasis on the quality of credit underwritten.

The division's leasing portfolio grew by 12% in 2015, although net interest income growth was relatively moderate due to declining yields. The overall improvement in quality of the portfolio led to a significant reduction in impairment losses, enabling the division to improve bottom line contribution for the year.

Quality of leasing portfolio



Key challenges in 2015

- ⊕ Pressure on yields
- ⊕ Sharp increase in vehicle prices
- ⊕ Subdued demand in the 1H

During the year the division also re-aligned its sales focus from an asset-based to a more customer-centric approach. Portfolio growth during the year was underpinned by the extremely successful launch of a new product targeting the salaried and professional segment. Needs identified and responses obtained through structured customer engagement formed a critical input in the product development stage, enabling us to offer a refreshed proposition to match customer needs.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Nations Leasing
The Leasing Partner to the Nation

Nations Trust Bank now offers fast and convenient leasing solutions that helps you achieve greater and better things in life. Your new SUV, machinery for your business, a lorry for transport or even a second car for the family is closer than you think. Talk to us today..

Call: (011) 4 218 218

Nations Trust Bank
Leasing

Nations Leasing campaigns

Drive your dream...

Now you can drive that car you thought you could never afford. Nations Trust Bank offers flexible vehicle financing solutions that allow you to make lump sum payments when you get your bonuses or even at the end of the period, plus many more benefits, because we want you to drive the vehicle you dream of.

Vehicle finance solutions for Salaried Employees and Professionals.

LIMITED OFFER
9.5%
FOR REGISTERED & UNREGISTERED CARS, VANS AND SUVS

- Lump sum payment of up to 30% at the last rental
- Special benefits on early settlement
- No documentation fee
- No guarantors required
- Rs. 5,000/- to your account for a tank of fuel*
- Complimentary 1st year Roadside Assistance membership**
- Up to 50% saving on insurance

For salaried employees and professionals with a monthly income of Rs. 60,000/- and above. All other requests for loans may require the guarantors. **For technicians/RSAs. Subject to availability. Terms and conditions apply.

Call: 011 4 218 218
077 2 642 121

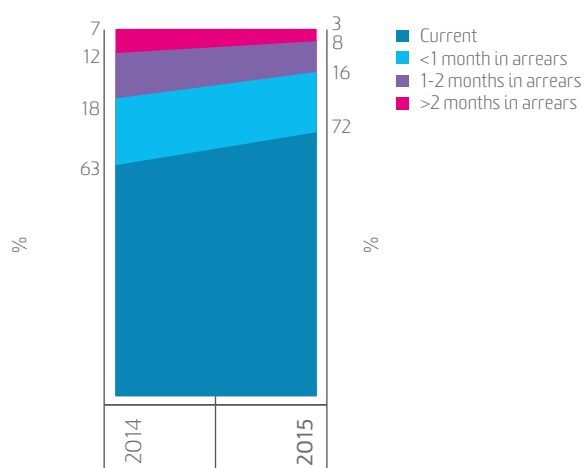
Nations Trust Bank
Leasing

Key Performance Indicators	2015 Rs. Mn	2014 Rs. Mn	Growth
Leasing portfolio	29,278	26,152	12%
Total Revenue	1,272	1,191	7%
Net Interest Income	1,185	1,112	6%
Cost to Income Ratio	50%	49%	
NPA Ratio	4.69%	8.47%	

Way Forward

The escalation in the prices of brand new vehicles is anticipated to shift growth opportunities towards the second-hand vehicle market in 2016 and the Bank is well-positioned to capitalise on this trend through targeted promotions. The success of the recently launched leasing product targeting the salaried and professional segment has provided a strong platform for growth in 2016 and we will pursue further expansion in this customer segment; this is also aligned with the Bank's overall strategy of increasing penetration to the salaried segment. We will also seek to capitalise on opportunities presented by the anticipated surge in the country's construction and infrastructure development sectors, through renewed focus on equipment and machinery leasing. This is also expected to increase the diversity and stability of our leasing portfolio. Continued focus will also be placed on maintaining the quality of our portfolio at healthy levels.

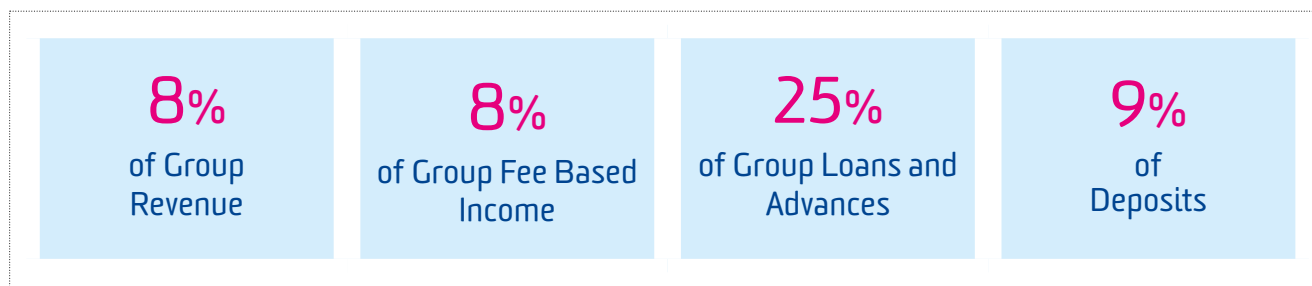
PORTFOLIO BUCKET SPLIT



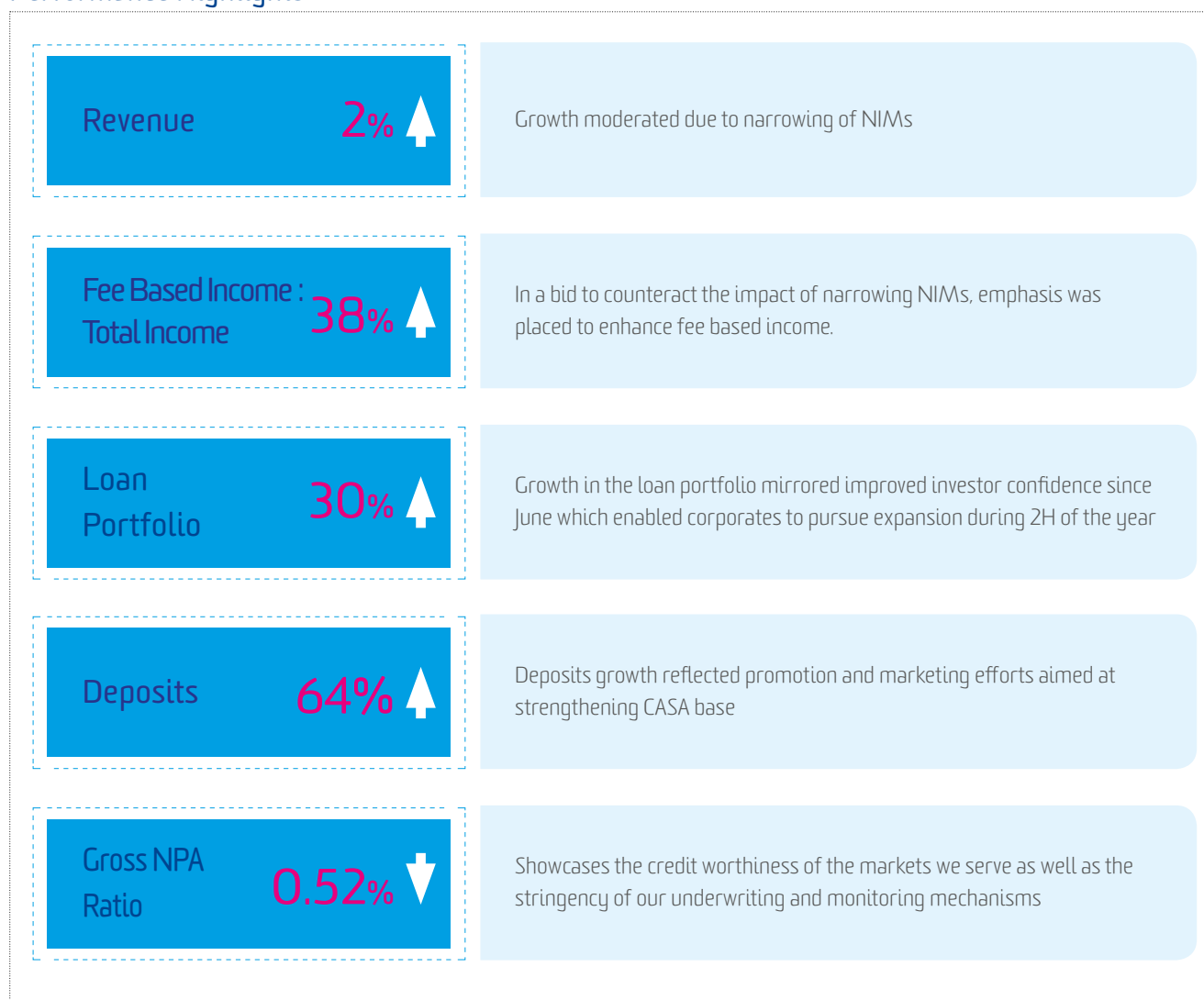
Business Line Review

Corporate Banking

Significance of the division



Performance Highlights



Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Product portfolio

TRADE FINANCE	WORKING CAPITAL FINANCING	TERM FUNDING	TRANSACTIONAL BANKING
<ul style="list-style-type: none"> ⊕ Import letters of Credit ⊕ Shipping guarantees ⊕ Inwards Bills Collection ⊕ Import loans ⊕ Bonds and Guarantees ⊕ Packing Credit Loans 	<ul style="list-style-type: none"> ⊕ Overdrafts/short-term loans ⊕ Supplier/Distributor Finance ⊕ Commercial Papers ⊕ Fixed/Floating rate loans 	<ul style="list-style-type: none"> ⊕ Asset backed Debt notes ⊕ Securitisations 	<ul style="list-style-type: none"> ⊕ Interbank transfers ⊕ Telegraphic transfers ⊕ Demand drafts ⊕ Cash and cheque collections ⊕ Liquidity Management

Operating Context

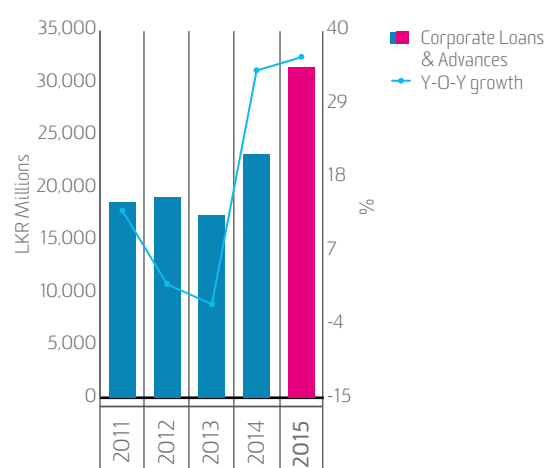
The operating environment presented several challenges during the first half of the year, as business confidence was weighed down by the protracted effects of the preceding year's credit slowdown and policy uncertainty stemming from changes in the political arena. Resultantly, the banking sector's credit growth slowed to 8% during the first half of the year. However a stabilising interest rate scenario together with improved investor confidence since June, enabled corporates to pursue expansion during the second half of the year, providing impetus for Banks to increase lending. The industry's credit growth thus improved to 26% during the second half of the year. On the other hand, the uptick of deposit interest rates towards the latter part of the year caused yields to narrow, thus impacting overall profitability.

The Corporate Banking division's growth trajectory during the year mirrored that of the industry with resurgence in credit growth during the second half of the year. The Corporate loan book expanded by 30% during the year whilst growth in revenue was at 2% a reflection of narrowing NIMs. In a bid to counter the impact of declining NIMs, we placed emphasis on strengthening fee generating businesses including trade finance and foreign currency. An enhanced service proposition, characterised by increased accessibility through extended service hours and customised solutions enabled us to accelerate customer acquisition and increase market share in the highly competitive trade finance business.

Strategy and Performance

Key Performance Indicators	2015 Rs. Mn	2014 Rs. Mn	Growth
Advances portfolio	30,981	23,743	30%
Deposit portfolio	11,373	6,954	64%
Total Revenue	957	941	2%
Fee based income :			
Total Income	38%	35%	-
Cost to Income Ratio	71%	72%	-
NPA Ratio	0.52%	2.03%	-

LOAN PORTFOLIO GROWTH



Business Line Review

Corporate Banking



Annual Golf Tournament organised by the Bank

Key challenges in 2015

- ⊕ Narrowing NIMs
- ⊕ Slow credit growth in 1H
- ⊕ Balancing the portfolio with a healthy short/long term maturity profile

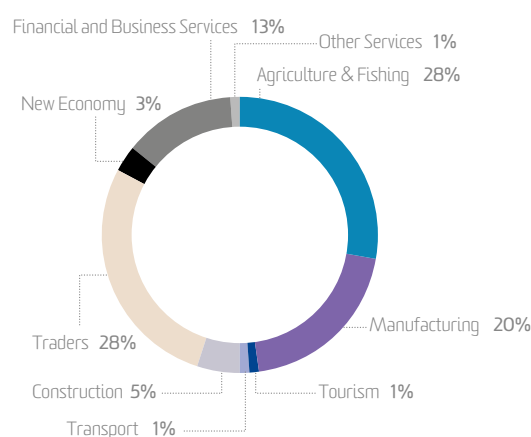
Our marketing efforts during the year were formulated to target the country's growth sectors such as tourism, agriculture, trade and apparels. The Bank's portfolio continues to be well diversified by industry sector with exposure to a single sector no greater than 28% of the book. During the year, we also laid groundwork for setting up teams dedicated to serving clientele in each industry sector, thereby facilitating industry specialisation among our Relationship Managers and enhancing the quality and efficiency of customer management activities. The Division's performance was also upheld by significant growth in foreign exchange customer flows, as we strategically pursued growth opportunities through deeper engagement and synergies with the Bank's Treasury unit.

The Division's strategy for the year was also designed to improve stability of the loan portfolio by increasing exposure to facilities with relatively longer-tenured maturities, particularly term lending. By end-2015, term loan facilities accounted for an increased 63% of the loan book, compared to 32% the previous year, enabling the Bank to limit its vulnerability to temporary volatilities.

Portfolio quality continued to be healthy, a testament to the creditworthiness of the market we serve as well as the stringency of our underwriting and monitoring mechanisms. An internal

risk rating model developed by CRISIL India is in use, with all our corporate customers being assigned a rating, reflective of their risk profile. The Corporate portfolio's gross NPL ratio was amongst the best in the industry at 0.52% whilst impairment charge for the year decreased by 113%. The division's deposit base grew by 64% during the year, a testament to the strength of our deposit franchise and excellence in customer service. Targeted promotions and marketing efforts aimed at strengthening our CASA base, resulted in CASA deposits accounting for a healthy 51% share of the division's total deposits.

SECTORWISE PORTFOLIO



Way Forward

The solid foundation established in 2015 is anticipated to support strong growth in the corporate book during 2016. Our strategy of broadening coverage from top tier to emerging corporates is expected to pay dividends in 2016 as improved investor sentiments and macro-economic stability drive business expansion. Prudent management of this portfolio will also enable the division to widen its yields. The improved fortunes of the export sector, particularly in apparels are anticipated to augur well for the Bank, and we hope to pursue growth opportunities across the entire apparel value chain. We will continue to break new ground as we embrace the digital frontier, enhancing customer service and reducing complexity of doing business. A sophisticated corporate internet banking portal inclusive of cash management solutions will be launched during the year.

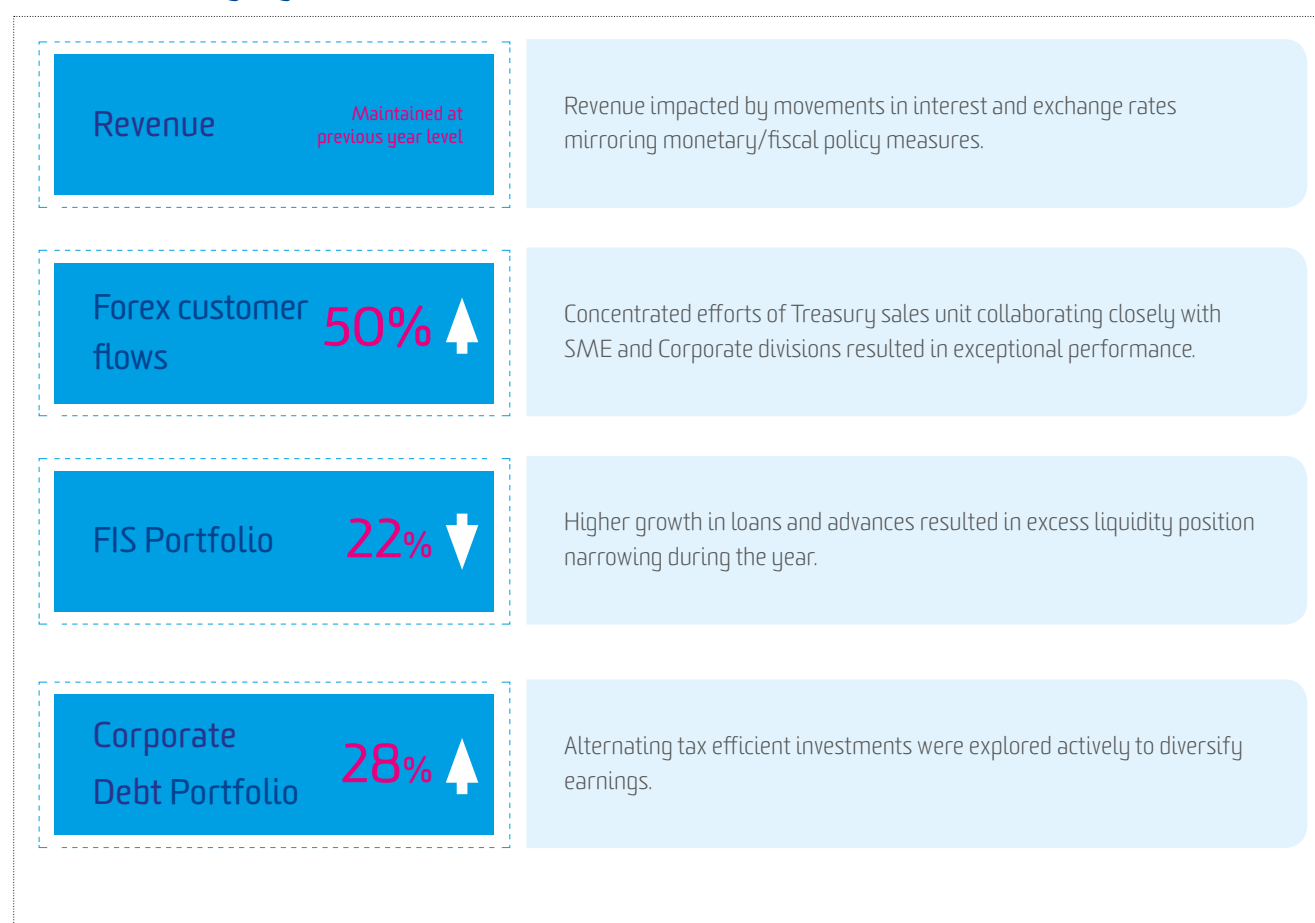
Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Treasury

Significance of the division



Performance Highlights



Business Line Review

Treasury

Product portfolio

FIXED INCOME	FOREX TRADING	ASSET LIABILITY MANAGEMENT	WML
<ul style="list-style-type: none"> ⊕ Government securities ⊕ Corporate Debt ⊕ Secondary market operations 	<ul style="list-style-type: none"> ⊕ Spot & Forward Contracts ⊕ Currency Swaps ⊕ Managing FX exposures 	<ul style="list-style-type: none"> ⊕ Managing interest rate and liquidity risks ⊕ Providing direction on funding strategy 	<ul style="list-style-type: none"> ⊕ Margin Trading ⊕ Corporate Debt ⊕ Debt Re-structuring ⊕ Investment Banking

Bank's Treasury division will continue to place strategic emphasis on strengthening contributions from its core businesses. Increasing customer flows from the foreign exchange arm has enabled the division to achieve a more stable business model and is anticipated to drive divisional growth in 2016.

Operating Context

Operations of the Treasury are impacted by the movements in market factors such as interest rates & exchange rates which in turn are impacted by monetary / fiscal policy and other economic factors. Presidential elections in January 2015 followed by General elections in August 2015 led to delays in new policy direction resulting in market players adopting a wait and see approach, and an ensuing period of subdued market activity. CBSL maintained a relaxed monetary policy stance during the year making further adjustments to boost private sector credit growth thereby stimulating economic activity. Consequently, credit growth surged in the latter half of the year reducing the excess liquidity that prevailed in the market in 2013 and 2014. Interbank rates, AWDR and AWPLR moved up during the latter part of the year as liquidity positions normalised compelling banks to revise lending and deposit rates upwards. The Sri Lankan rupee was stable during the first eight months of the year supported by a managed float which, thereafter depreciated by 9.03% against the US Dollar to close the year at Rs.144.22 as CBSL allowed greater flexibility in the determination of the exchange rate.

Strategy & Performance

Key priorities for the Treasury Division in 2015 were to grow the Forex business, manage the Bank's liquidity by funding the asset book at desired rates and manage its assets and liabilities mix with suitable funding and gapping strategies. In line with the Bank's overall strategy, the Division's operations during the year were aimed at strengthening and supporting core businesses rather than speculative trading. Strategies in the fixed income business was also aligned to generate adequate NII within acceptable risk parameters. In a challenging year, the Division's total earnings were impacted primarily due to negative marked to market impact on its government securities portfolio although performance of the forex trading arm was extremely encouraging during the same period.

Key challenges in 2015

- ⊕ Policy uncertainty during the first part of the year
- ⊕ Increasing interest rates
- ⊕ Depreciation of the Rupee

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172



Cocktail organized for treasury and corporate clients

As anticipated, fixed income operations were challenging as interest rates increased during the latter part of the year which resulted in a negative marked to market impact amounting to Rs.232 Mn in the Bank's trading portfolio of government securities. The government securities portfolio decreased 22% in value to Rs.32Bn by end-December 2015 and accounted for 18% of the Bank's total assets.

The customer forex segment was a key driver of the Division's performance during the year, and achieved a 50% y-o-y growth in revenue following its successful restructuring in 2014. Working closely with the SME and Corporate Banking businesses, the unit was able to leverage their specialised knowledge and deep customer insights to provide tailored solutions for customers. The excellent performance in this segment is also attributed to the concerted efforts of the Treasury sales and respective business units which also utilised the resources at branch level. Meanwhile, the Bank's proprietary foreign exchange trading arm also performed commendably, achieving 17% y-o-y growth in income.

The ALM desk's performance normalised in comparison to 2014, in which the receding interest rate environment had allowed for favourable re-pricing of assets and liabilities. In 2015, the Division strategised to garner deposits with relatively longer term maturities. The performance of the margin trading business was

adversely affected by the persistently weak activity levels in the Colombo Stock Exchange in 2015. During the year, a more inclusive approach towards customer acquisition allowed the unit to grow its customer base, whilst focus was also placed on strengthening risk management framework.

Key Performance Indicators	2015 Rs. Mn	2014 Rs. Mn	Growth
Revenue	3,028	3,039	
Fixed income securities portfolio	31,623	40,696	-22%
Customer FX income	375	252	50%
Cost to Income Ratio (%)	10%	9%	

Way Forward

The recent acceleration in private sector credit growth and the gradual rise in core inflation during the latter part of 2015 indicate that a possible tightening of monetary policy may be warranted over the short to medium term, particularly given the deterioration in the balance of payments and pressures on the rupee. Meanwhile, the recent increase in rates by the US Federal Reserve Bank is anticipated to lead to higher borrowing costs for developing economies including Sri Lanka.

Against this backdrop, the Bank's Treasury division will continue to place strategic emphasis on strengthening contributions from its core businesses. Increasing customer flows from the foreign exchange arm has enabled the division to achieve a more stable business model and is anticipated to drive divisional growth in 2016. The Division also intends to implement a sophisticated ALM system which will allow advanced data evaluation and analytics on real time basis enabling more informed decision making that would lead to better margin and proactive risk management processes. Initial groundwork for this implementation is to commence in February 2016 and is expected to be completed by the last quarter of the year.

HUMAN CAPITAL



Our team makes us swift, agile and strong to deliver financial services to a growing customer base and our growth is testimony to our ability to punch well above our weight. Delivering value to this key stakeholder through rewards, recognition, talent development and career progression is key to our success.

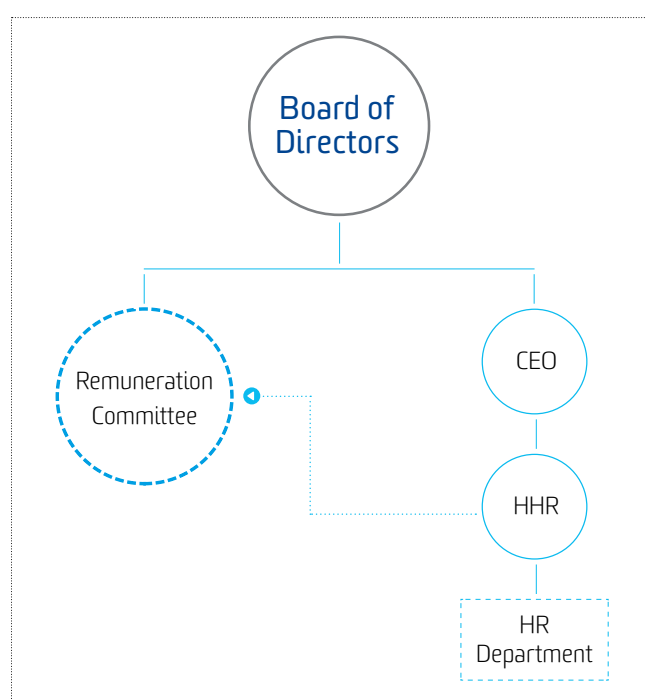
As a fast growing Bank, we need to ensure that we are able to attract the required talent, motivate and facilitate high levels of performance and retain them in order to deliver on strategy. Our people strategy is a key component of the Bank's overall strategy that underpins our performance and this report sets out how we attract, nurture and retain talent in line with our business needs.

HR Governance



Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

The Bank has a comprehensive framework of policies for managing Human Resources which has been approved by the Board, the highest decision making body of the Bank. Operationalising the framework is the responsibility of the HR Department which reports to the CEO and to the Remuneration Committee on matters assigned to them by the Board. The Remuneration Committee makes recommendations to the Board on matters relating to HR. The governance structure is as follows:

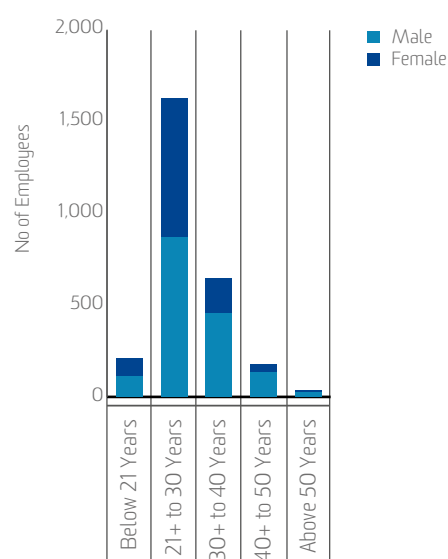


The policy framework of the Bank covers various aspects of HR management including remuneration, talent development, performance management, employee engagement, creating a conducive environment and grievance mechanisms founded on principles of equal opportunity preserving human rights and celebrating diversity. We are an equal opportunity employer and consequently, our policies are designed to employ, remunerate and evaluate employees based on their skills, experience and performance irrespective of gender, age or religion celebrating diversity. The policies have been designed to ensure compliance with regulatory requirements which include prohibition of child labour and forced or compulsory labour which are strictly observed. Indeed, we are unique as our Bank has the highest representation of women in Corporate Management in the entire sector.

Profile of Our Team

A relatively young and dynamic team with an average age of 28, our Team responds well to change and increasing digitisation in the sector. We work in a very dynamic environment where four generations of staff work as one team. It has been a challenge for the organization to manage and engage majority of our young staff who are from the Y and Z generations. Their contribution to the business is immense and we make our best effort to create a vibrant environment in order for them to perform and be engaged, being assured of a great career at Nations Trust Bank.

AGE ANALYSIS



2,695
Employees



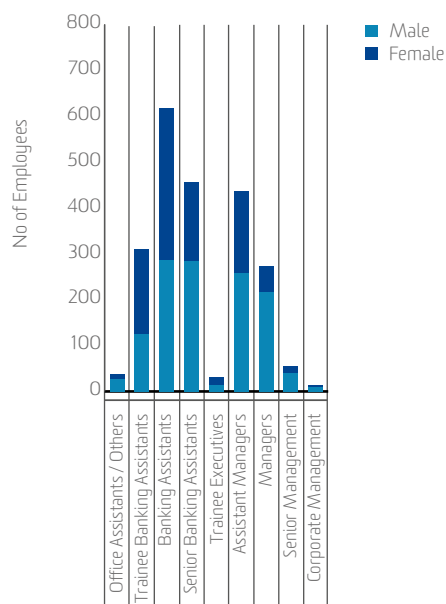
53%
Technical
Training Hours



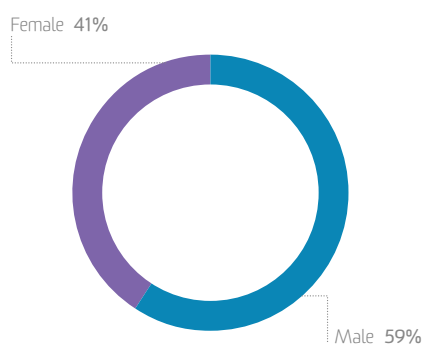
28%
Soft Skills
Training Hours

Human Capital

EMPLOYMENT CATEGORY ANALYSIS

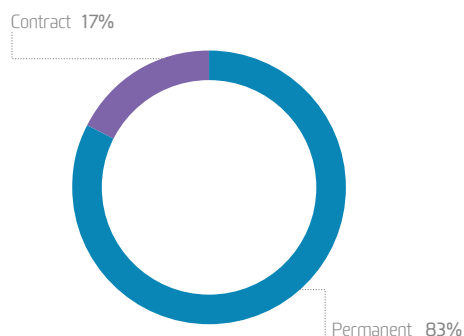


GENDER ANALYSIS



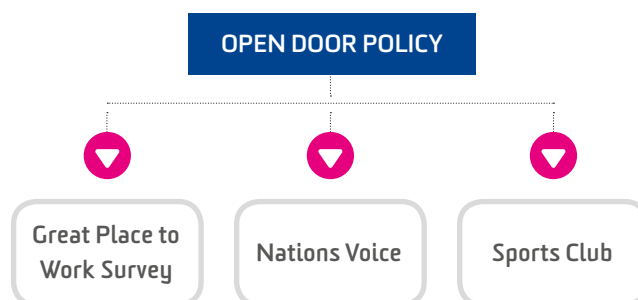
Gender Analysis by Province					
Province	Permanent		Contract		Total
	Male	Female	Male	Female	
Central	53	34	14	0	101
Eastern	35	13	5	1	54
North Central	16	5	3	0	24
North Western	60	20	9	0	89
Northern	21	12	4	1	38
Overseas	7	0	0	0	7
Sabarakgamuwa	29	13	4	0	46
Southern	95	36	13	0	144
Uva	25	6	5	0	36
Western	922	825	275	134	2,156
Total	1,263	964	332	136	2,695

EMPLOYMENT TYPE



Employee Engagement

We maintain high levels of employee engagement through open door policies and regular structured dialogue with our staff nurturing a culture of collaboration and facilitating cross pollination of ideas. Regular surveys also provide opportunities to highlight areas of concern and facilitate appropriate interventions to address the same.



Employee Productivity

As a service sector organisation, we rely on employees to create value for the company and the structures and policies in place serve to facilitate this key aspect. Employee productivity as measured by revenue/profit per employee increased during the year despite growth in head count due to a performance driven culture and a unique focus on sales. Initiatives for cross sell, lean management and increasing automation and streamlining of processes also contributed to drive this key indicator.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

Lean efficiencies across the Bank have resulted in a better working environment for our staff with less stress and better work life balance. Implementation of 5S has also had a remarkable impact in making the working environment for the bank safer, pleasanter and less stressful, thereby significantly improving working conditions of our employees.

We expect the benefits of these initiatives to have a higher impact in the next year as many were completed towards the latter part of the year.

EMPLOYEE PRODUCTIVITY

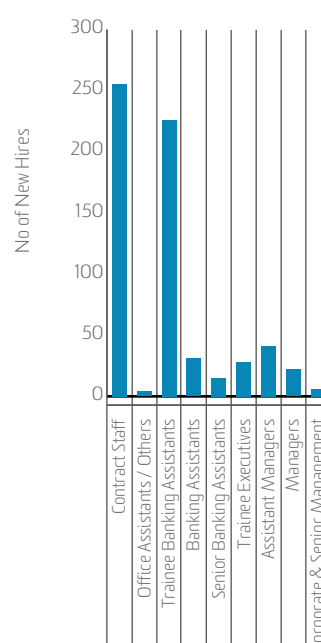


Talent Attraction

Nations Trust is able to attract talent for business needs at all levels ranging from entry level talent to senior positions requiring highly specialised skills. The majority of hires are at entry level with a significant proportion being on contract. This is mainly due to the preference given to internal candidates for vacancies facilitating their career progression and the sufficiency of a talent pipeline to fill the same.

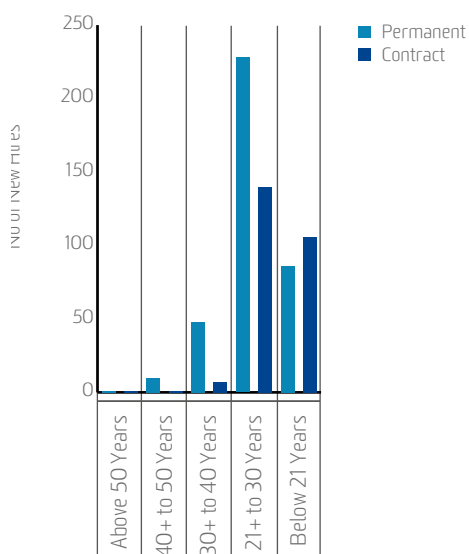
New Hires by Province					
Province	Permanent		Contract		Total
	Male	Female	Male	Female	
Central	9	3	7	0	19
Eastern	6	7	3	0	16
North Central	6	2	3	0	11
North Western	11	3	5	0	19
Northern	7	3	3	1	14
Sabaragamuwa	0	1	1	0	2
Southern	7	3	5	0	15
Uva	2	1	1	0	4
Western	145	157	145	81	528
Total	193	180	173	82	628

NEW HIRES BY EMPLOYMENT CATEGORY

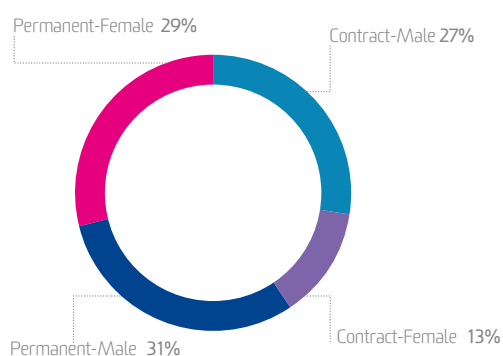


Human Capital

NEW HIRES BY AGE & TYPE OF EMPLOYMENT



NEW HIRES BY GENDER



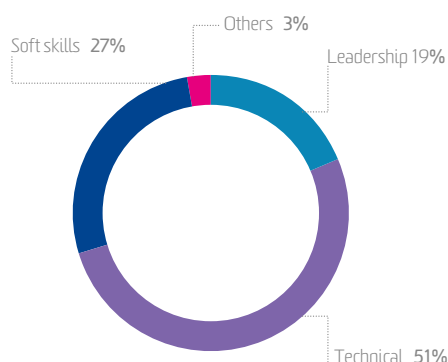
Developing Talent

At Nations Trust, we are passionate to create leaders within our staff and as a result, there are many young managers who have come up the ranks whilst commencing their career at Nations Trust Bank soon after their school career. These staff members are unique to us and they will carry our vibrant culture across the organization for many years to come. In terms of our staff development, we train them on a life-cycle where there are structured training interventions for each grade and when a staff member is finally appointed as a manager, he/she would

be equipped with all the necessary skills both in technical and leadership, in order for him/her to effectively perform the job. Further, all our staff are periodically exposed to business specific technical skill training based on the areas they work. Majority of our senior staff are exposed to overseas training in order to further enhance their knowledge. We work with many foreign faculties where expertise is brought into the Bank to train our staff. Our investment in talent development bears testimony to our commitment to developing talent.

We are aware of the quality of the talent we have within the Bank and a structured process has been put in place to administer a succession planning process, where each such talented staff member would be trained and developed to take over higher responsibility in senior positions in the structure. The Nations Learning Academy has given the opportunity for our staff to be trained and certified in critical areas such as sales, service, compliance and business English.

TRAINING HOURS ANALYSED BY TYPE OF TRAINING

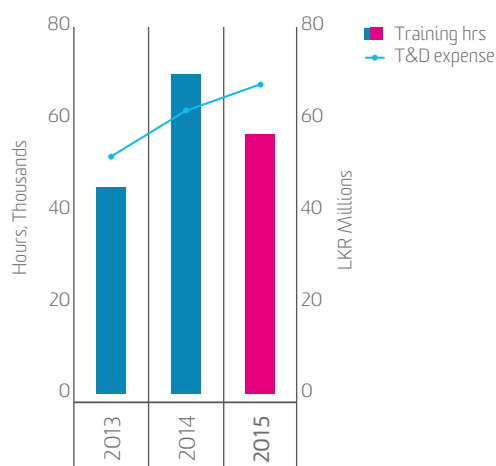


Investing in Training & Development

Our continuing commitment to this core strength is reflected in the increased investments in training and development. Delivered through a focused Sales Academy and a separate Learning Academy, a wide ranging curriculum, including technical topics and soft skills, supports the business needs of the Bank. The effectiveness of these programmes are validated by the upward trend in employee productivity and demand for their skills in the sector.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

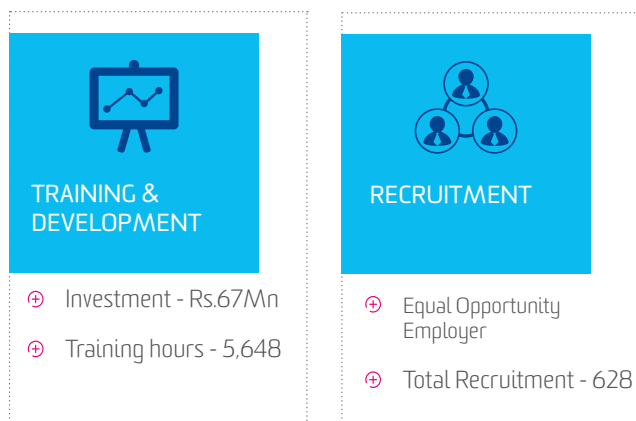
INVESTMENT IN TRAINING



Remuneration & Benefits

A professionally administered Compensation & Benefit structure ensures an appropriate balance between guaranteed pay and pay for performance taking in to account the need to attract, retain and motivate talented employees to deliver on strategic priorities while balancing the interests of other stakeholders. Our rewards and recognition, career development opportunities and training opportunities that are granted to our staff are all linked to the annual performance appraisal rating of the respective staff member. Based on the organizational goals, every year, the objectives of the Chief Executive Officer is cascaded down to the lowest level to ensure that each staff member would have very clear objectives which he/she will have to achieve during a financial year. A mentoring culture and continuous support ensures that employees clearly understand line employer expectations and are able to better align personal and organisation goals. All permanent staff members of the Bank are rated once a year on a 1:5 rating scale where one is the highest and 5 is the lowest. This process is done very objectively by our managers with ratings reviewed by two committees chaired by very senior officers of the Bank to ensure consistency in application of rating methodology across the Bank. There is no gender, racial or religious bias in the remuneration policies or scales ensuring equity and diversity within the Bank.

Annual increments and the variable bonus are linked to performance appraisal ratings and the applicable formulae are communicated to all staff making the whole process transparent.

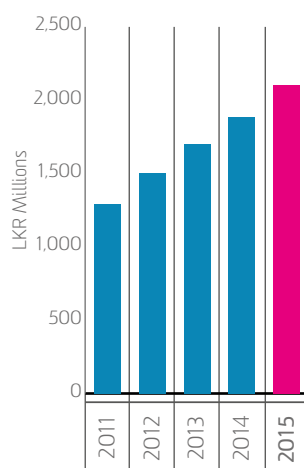


Whilst the high performers are rewarded with opportunities for career progression and training and development in addition to financial rewards. Employees who require more assistance in terms of their jobs, are mentored by our managers and our Learning & Development Team to ensure that they are possessed with the necessary skills and competencies.

Nations Trust commissions a customized salary survey or takes part in a commissioned survey annually, to benchmark the Bank's compensation and benefits to other local and multi-national banks as well as other non-financial local and foreign institutions. The results are used to revise the competitiveness of the Bank's compensation and benefits structures with the approval of our Remuneration Committee and the Board of Directors. All our jobs are graded and are systematically linked to the Bank's salary ranges that are revised annually in line with the market data. Administration of our compensation & benefits is carried out in line with the remuneration policy of the Bank.

Human Capital

TOTAL REMUNERATION



Benefits provided to staff in addition to remuneration include the following:

- ⊕ Allowances for special categories of staff whose roles indicate higher levels of risk, stress or other factors.
- ⊕ Reimbursement of Club Membership for defined categories
- ⊕ Reimbursement of Professional Subscriptions
- ⊕ Education Assistance
- ⊕ Fuel reimbursement
- ⊕ Hospitalization Scheme
- ⊕ Housing and vehicle loans at concessionary rates
- ⊕ Mobiles
- ⊕ Personal Accident Cover
- ⊕ Relocation Allowance
- ⊕ Telephone/ Internet Reimbursement
- ⊕ Travelling Allowance
- ⊕ Vehicle Allowance



REWARDS & RECOGNITION

- ⊕ Total remuneration - Rs.2.1Bn
- ⊕ Awards - Magnus Awards and Retail Banking Awards

Rewards & Recognition

In addition to the pay for performance, the Bank operates two employee award schemes to celebrate success and to inspire others to reach new heights. Employees who perform beyond the call of duty are nominated to the Star Awards. The most prestigious award is the annual Nations Magnus Awards, an annual event where selected employees are honoured for outstanding personal and team performance. Coverage of the awards is quite comprehensive with awards for business units as well as for service units and for management and non-management. Additionally, business unit heads are empowered and encouraged to conduct their own awards schemes to drive performance and productivity which have contributed to the high morale and positive attitude of our staff.



Retail Awards - Best Branch Manager - Mr. Asanka Edirisinghe

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

The most prestigious awards is the annual Nations Magnus Awards, an annual event where selected employees are honoured for outstanding personal and team performance.



Magnus Awards - Best Employee (Non-Management Category) - Ms. Fazmi Adjumain

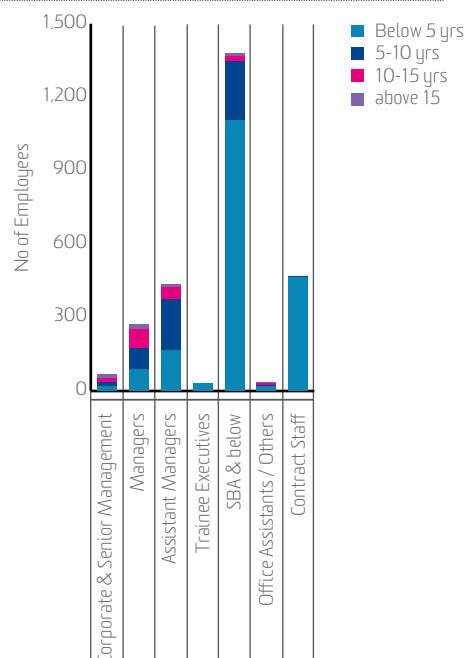


Magnus Awards - Best Employee (Management Category) - Mr. Heshan Samararatna

Employee Retention

The Bank's talent management policies are designed to facilitate employee retention which include preference given to internal candidates for vacancies. Consequently, we are able to maintain relatively high rates of retention considering the fact that the majority of our recruitment is at entry level. However, talent retention is becoming an increasing challenge as competition for talent is intensifying within the Banking sector for highly trained and skilled professionals. Relatively fast paced growth in the recent past has skewed the average years of service to lower levels but is more balanced in higher categories of employment. Talent retention is a priority and our success in this area is based on a culture of meritocracy and equal opportunity. As a growing bank, career progress of our talented employees is fast paced enabling them to realise their potential.

SERVICE ANALYSIS OF EMPLOYEES BY CATEGORY



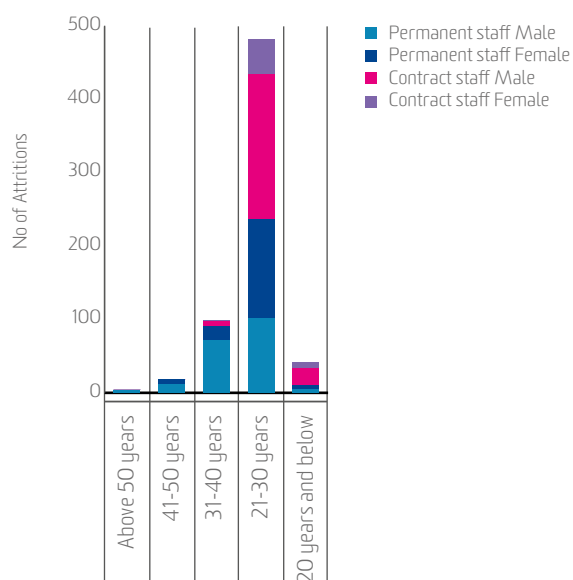
Human Capital



Kiddies party organised for the children of the Bank's staff members



ATTRITION ANALYSIS BY AGE & GENDER



Conducive Work Environment

Four generations of employees working alongside each other creates a nurturing environment with high levels of mentoring, accelerating performance levels within the Bank. Awareness of the need to build bridges between Generation X, Y and the millennials has ensured that there are structured programmes with the key strengths and capabilities of each generation identified to support

cross generation teams at optimum levels. An open door policy, a first name culture, high levels of technology have made the work place conducive to the new generation of employees entering the market who are empowered to perform within the culture that prevails at the Bank. Succession planning has facilitated career progression for high performers elevating morale while a robust talent development programme ensures that they are supported with access to skill development opportunities.

Wide ranging policies covering sexual harassment, whistleblowing, drug free workplace, disciplinary governance, fraud policies and a Code of Conduct and Code of Ethics clearly explain the Bank's stance on such matters in the work place and serve to create a culture where individual rights are respected and employer/employee obligations are explicitly stated. Grievance mechanisms established within the Bank ensure that employees have an identified procedure for airing their grievances which ensures confidentiality, a fair hearing and action where deemed necessary.

The Bank has high levels of employee engagement with structured dialogues supplemented with recreational activities which are organised by the Bank Sports Club. The Nations Voice is a joint consultation committee where once in every two months employees sit with CEO and the HR Department, providing a platform to talk about grievances and other problems. We also carried out a Great Place to work Survey during the year which had a high participation rate of 70% and the results were used to formulate an action plan for implementation in the coming year.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172



Annual Sports day and Avurudu celebration

Health & Safety

The 5S initiatives launched in 2014 have established a clutter free, hazard free safer working environment and obtained an international certification. This initiative is now being implemented across the bank. There were no workplace related injuries reported during the year. Safety measures are in place including periodic training of fire wardens from each department. Further, Dengue prevention campaigns and fire alarm checks were also periodically conducted to further ensure a safe working environment. A process is in place to obtain regular feedback from our staff through the Nations Voice Forum in relation to work place logistical and safety issues.

We recognise that our employees are at risk at the workplace due to the large volumes of cash handled at each delivery point and precautions are taken to facilitate their safety. Our premises have CCTV and are manned by trained security guards with well-established communication systems which can be used to raise alarm in the event of any untoward incident. Special allowances are also provided for certain categories of staff in recognition of the additional risks they are exposed to in specific roles.



Outlook

A positive, "can do" attitude pervades our culture, energising the workplace and embracing change to ensure that we are future ready. Well-structured policies incentivise performance balancing the stakeholder interests. These fundamentals are a solid foundation for growth in the future, ensuring that we are strong, agile and swift in delivering value to our stakeholders and competing effectively in the market place.

Our young staff are prepared to take up any challenge and are motivated as they are able to work within a performance based and a value driven environment. The organization is passionate to train our staff and to create careers for them within Nations Trust Bank. We have many such staff who have joined the Bank soon after school and today holding very senior positions in the Bank. In our environment, we encourage innovations and individual initiatives at all levels. Training is a key role in our organization, where all levels of staff are exposed to structured training and development and as a result over a period of time they would be equipped with the necessary technical and leadership capabilities in order for them to perform their duties with ease. The Bank is geared to face the challenges of the future with a young and a vibrant staff cadre who are passionate to be employed at Nations Trust Bank.

SOCIAL AND RELATIONSHIP CAPITAL

The Bank's social and relationship capital comprises primarily of its relationships with its customers and network of partner institutions and suppliers.

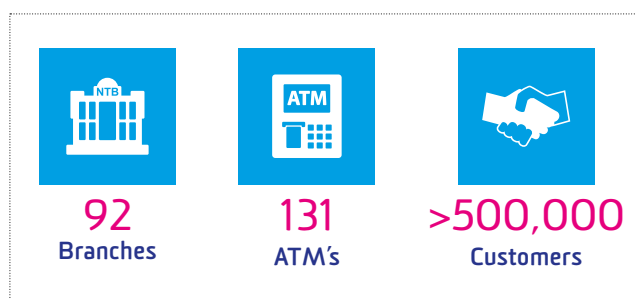
Creating Value for Customers

Our customers are at the heart of everything we do and in an environment of rapidly changing customer needs and behaviour we understand the critical importance of delivering sustainable value. The Bank's value proposition towards our customers encapsulates enhancing customer experience through offering innovative solutions and simplifying processes whilst delivering our services across secure physical, online and mobile platforms.

Customer engagement

We adopt formalised, structured mechanisms to engage continuously with our diverse customers. Feedback thus obtained is reported to the Customer Service Steering Committee and forms critical input when formulating strategy. Key engagement mechanisms include,

- ⊕ Continuous dialogue with relationship managers and marketing teams
- ⊕ Mystery shoppers are engaged at the Bank's branches through the use of an external consultant and branches are graded using multiple customer service parameters, including responsiveness, product knowledge and employee courteousness among others.
- ⊕ Trilingual call centre which is operational throughout the year on a 24-hour basis
- ⊕ Daily customer survey is conducted through the Call Centre with the evaluation of 10 randomly selected transactions. The results are collated and communicated to the Centralised Customer Service Centre on a daily basis
- ⊕ Corporate website, mobile app, e-mail and SMS alerts



Products and services

We consistently strive to deliver innovative solutions and simplified processes to our customers and in 2015 we,

- ⊕ Offered extended service hours and customised solutions for trading customers
- ⊕ Strengthened product capabilities in the forex segment
- ⊕ Launched a new leasing product targeting the Salaried and Professional segment
- ⊕ Simplified the account opening process at branches and centralised processing centre which resulted in the turnaround time for a new account opening reducing to 8 hours from an average of 8-12 working days previously.
- ⊕ Reduced the number of account and card application forms from 16 to 6 and simplified the forms to improve convenience and ease of completion to the customers.

During the year under review, there were no incidents of non-compliance with regulations and voluntary codes regarding the Bank's products and services and marketing communications with customers.

Social and Relationship Capital

We understand the obligation we have towards preserving the financial and personal information of our customers.

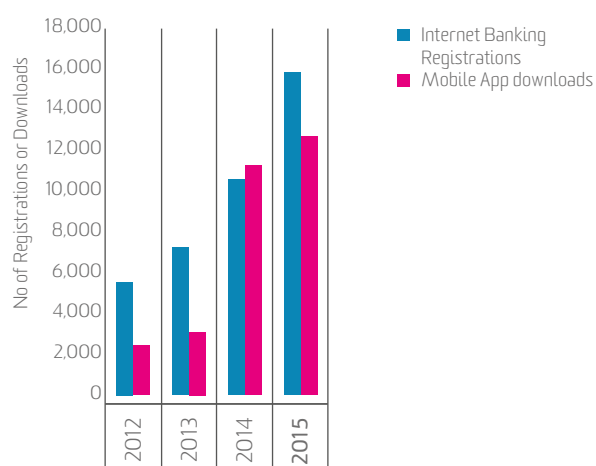
Portfolio breakdown by region

Province	Consumer deposits	SME loans	Corporate loans
Western	80%	63%	100%
Central	5%	7%	0%
Eastern	1%	3%	0%
North Central	1%	4%	0%
North Western	5%	6%	0%
Northern	2%	4%	0%
Sabaragamuwa	1%	2%	0%
Southern	4%	10%	0.3%
Uva	1%	1%	0%

Digital capabilities

We have placed strategic emphasis on improving our digital channels and using innovative solutions to enhance customer accessibility while strengthening internal efficiencies (Please refer to page 31 for a description of the key initiatives carried out in 2015 to strengthen digital capabilities). Resultantly migration to online and mobile platforms has continued to widen, increasing by 50% and 13% during the year under review.

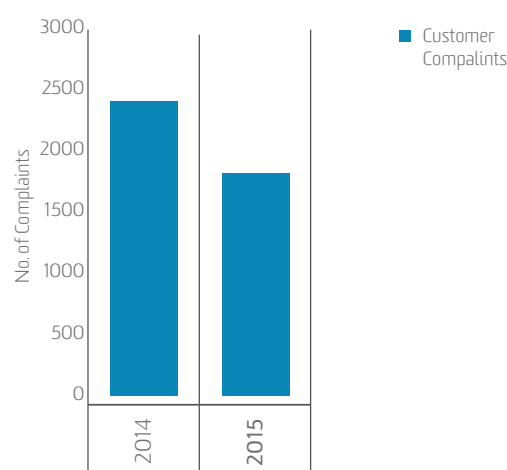
DIGITAL BANKING



Customer Satisfaction

In measuring customer satisfaction levels, a structured follow-up and feedback process has been implemented to respond to and track customer grievances. Customer complaints are routed to the Centralised Customer Service unit through the Call Centre and monthly grievance statistics are reported to the Customer Service Steering Committee. Accordingly, process/people improvements are recommended for repetitive complaints. All grievances are processed and responded to within 48 hours. Customer grievances have continued to decline, reflective of the Bank's persistent efforts to strengthen service quality.

CUSTOMER COMPLAINTS



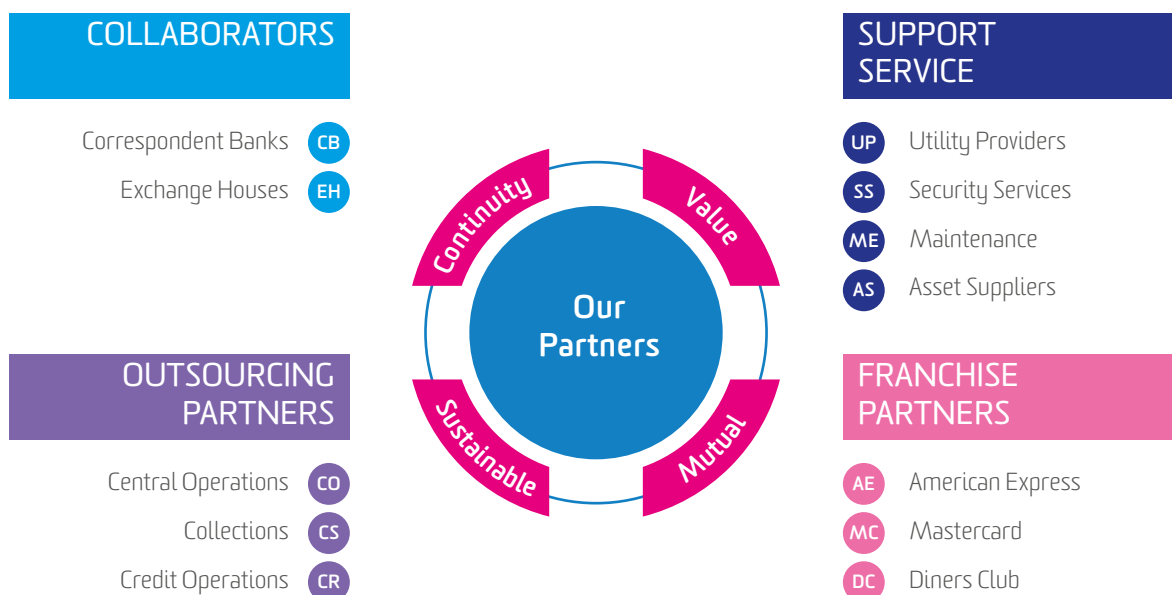
Customer Education

Nations Business Seminars were conducted on an ongoing basis throughout the country, with the objective of empowering and educating our SME clientele. The seminars continue to be extremely well received and typically cover a wide range of topics such as entrepreneurship, self-development and work life balance. During the year, the Bank also conducted a tax seminar emphasising the taxation impacts of the budget, with the participation of over 85 SME clients.

Customer privacy

We understand the obligation we have towards preserving the financial and personal information of our customers. We have made significant investments in ensuring the stability and security of the Bank's IT systems and structures are in place to persistently

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172



monitor potential breaches and/or threats to information security. During the year the Bank also further strengthened its operational risk management structures and framework through the Operational Risk Management Unit. There were no substantiated complaints pertaining to breach of customer privacy or loss of customer data during 2015.

Our Partners

We have successfully built relationships with a range of business partners who play a crucial role in our value creation process. The Bank strives to develop mutually beneficial relationships that allow us to grow together while generating sustainable value. Total payments to our business partners were Rs.8Bn during the year, an increase of 17% over the previous year.

Our network consists of 20 correspondent banks, 3 franchise partners and 27 exchange houses that are key collaborators in product innovation and facilitate the Bank's global connectivity. Our correspondent banks comprise of some of the world's largest financial institutions. Franchise partners include American Express, Master Card and Diners Club which provides our customers international connectivity through global payment platforms. Exchange houses and agents in the Middle Eastern region, Europe and Canada play a critical role in facilitating our remittance business.

Suppliers who provide support and outsourced services are essential for business continuity and the smooth functioning of the Bank's operations. Suppliers are selected using rigorous selection criteria which includes parameters pertaining to compliance with labour laws, human rights, compliance to minimum pay regulations and cost/benefit analysis.

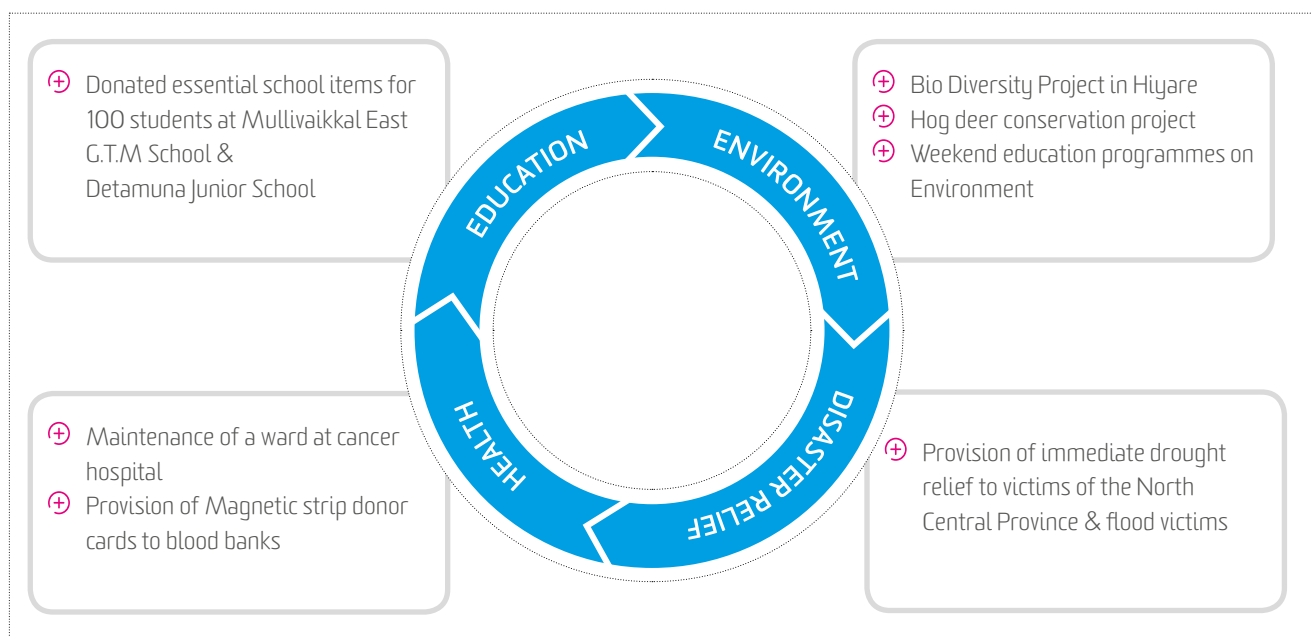
INVESTING IN COMMUNITIES



Community Engagement

As an organisation with an island-wide presence, we engage continuously with the communities we operate in, with the objective of understanding and effectively responding to their needs. We adopt a strategic and formalised approach towards CSR and the Bank's CSR Committee is responsible for ensuring the selection, effective implementation and continuous monitoring of all community engagement projects. We have identified four key thrust areas of community engagement, to which resources are allocated on a needs basis.

We have identified four key thrust areas of community engagement, to which resources are allocated on a needs basis.



Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172



Bio diversity conservation project in Hiyare

Education

Through our education- related CSR activities, we strive to uplift the infrastructure and educational resources of selected rural schools, thereby creating a more conducive learning environment for economically underprivileged children. Carried out as ongoing programmes, in 2015 we donated essential school items for 100 students at the Mullivaikal East G.T.M School and Detamuna Junior School. During the last few years, we have supported 04 such schools with the construction of class rooms, computer laboratories and donation of stationary and school items.

Environment

The Bank carried out a range of activities under its ongoing Biodiversity Conservation Project in Hiyare, in partnership with the Galle Wild Life Conservation Society. This multi-faceted initiative is structured along the theme of encouraging environmental conservation through education. Activities carried out during the year are as follows,

Initiative	Impact
Animal rescue project-Involves the recovery, treatment and rehabilitation of animals that are subsequently released to their natural habitat.	⊕ 239 animals rescued from the Southern Expressway
Hog Deer Conservation Project-conducted in partnership with the Geoffrey Bawa Trust at Lunuganga, this involves the rescue and rehabilitation of injured hog deer.	⊕ Number of hog deer rescued and rehabilitated: 14



Disaster relief campaign in Weligama

Initiative	Impact
Continuous Research	
Publication of two coffee table books	⊕ The first book on Sri Lankan primates
	⊕ Book on Sri Lankan freshwater fish

Health

Our health-related CSR initiatives consist of two ongoing projects, maintenance of a ward at the Maharagama Cancer Hospital and the provision of magnetic strip donor cards to blood banks. Over the years, we have undertaken substantial refurbishment at Ward 19 of the Cancer Hospital which includes upgrading staff and patient lavatories and doctor/nurse stations, donating a laboratory binocular microscope and construction of a dedicated area for leukaemia and isolation sections.

Disaster relief

Initiatives carried out during the year included provision of immediate drought relief to victims of the North Central Province and flood victims of Weligama.

N Fresher Programme

The Bank continued its N Fresher Programme during the year, a unique initiative aimed at enhancing the skills, work ethic and networking abilities of school leavers. Currently in its third year of operation, the programme invites school leavers who are awaiting A/L results to engage in a 3-month internship at our branches. Potential interns are attracted from the branch localities and are given the opportunity to obtain an understanding on the basics of banking, and in particular the use of the Bank's digital channels- ATMs, Internet banking and Mobile banking facilities. Upon successful completion of the programme, the interns receive a Certificate of participation.

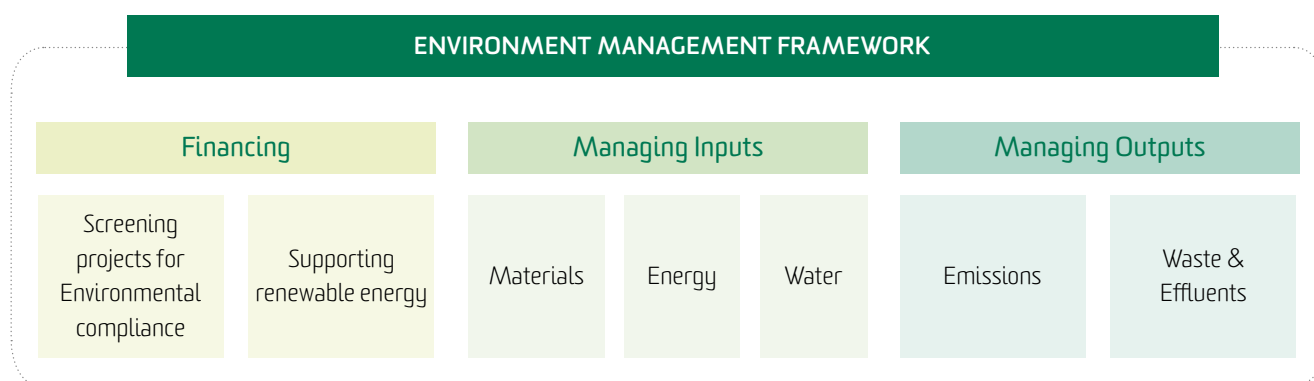
NATURAL CAPITAL

The Bank's most significant environmental impacts are through the direct consumption of energy, water and paper and indirectly through our lending and procurement practices.

The Bank's most significant environmental impacts are through the direct consumption of energy, water and paper and indirectly through our lending and procurement practices. As a responsible corporate citizen, we strive to proactively manage the environment impacts of all our operations through structured initiatives and continuous engagement with our employees, customers and business partners.



21,948Kg
of paper sent for recycling



Managing our Inputs

Energy

As the first Bank in the country to obtain the ISO 50001 certification for Energy Management, we have continued to improve the energy efficiency of our operations through concerted efforts. The Bank has in place a formalised Energy Policy and an Energy Management System manual which provides organisation-wide guidance on the efficient use of energy assets. In addition, a dedicated Energy Manager and a multi-disciplinary Energy Management Team monitor the Bank's energy consumption on a continuous basis. Key energy initiatives carried out during 2015 are,

- ⊕ CFL bulbs are increasingly being replaced with LED lighting

- ⊕ Currently in the process of replacing the existing air conditioning system with a magnetic bearing chiller, which is will generate substantial energy efficiencies.
- ⊕ Installation of inverter type air conditioners
- ⊕ Implementation of a lights-out policy in the three main buildings
- ⊕ Increased use of hybrid vehicles in head office and zonal offices

The Bank's total energy consumption for 2015 increased by 6.2% to 8.09 Mn KWh, reflecting the expansion in the branch network and increased operational activity.

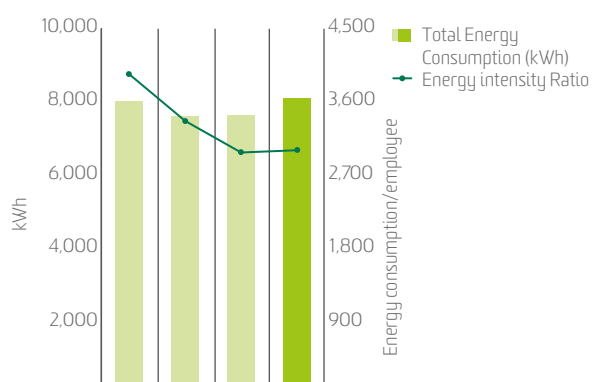
Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172



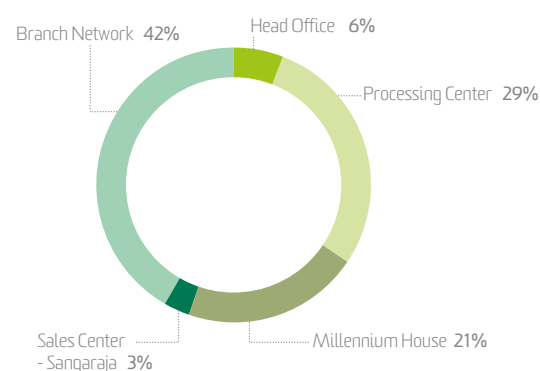
Beach cleaning in Negombo by our staff members



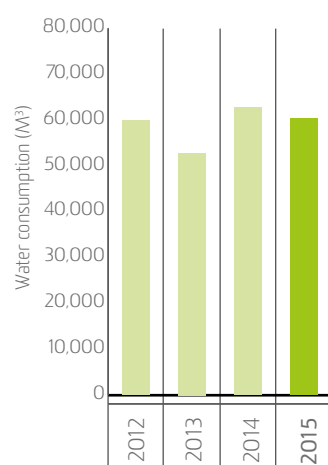
ENERGY CONSUMPTION



ENERGY CONSUMPTION



WATER CONSUMPTION UNITS



Water

Water purification systems have been installed in the Bank's key water consuming locations in order to minimise the use of plastic water bottles and chillers. Posters and periodic notices are displayed regularly to raise staff awareness on conserving water. As a result of these efforts, the Bank's total water consumption reduced by 3.8% during the year.

Paper

During the year we launched an innovative process improvement in depositing cash, which involves customers directly handing over cash to the teller without the requirement of completing a deposit slip. The receipt provided to the customer is also relatively smaller in comparison to the commonly used receipt. This initiative is expected to generate paper savings of approximately 240,000 A4 size sheets, which is estimated to save a minimum of 15 trees annually.

Natural Capital



Environmental day activities - Donation of plants and awareness boards



Managing our Outputs

Waste

Paper waste generated from the Bank's operations is delivered to a third-party recycler approved by the Central Environmental Authority. During the year 21,948 kg of paper was sent for recycling. E-waste is also disposed through an approved third-party recycler.

Emissions

Implementation of the ISO 50001 Energy Management System and subsequent initiatives to improve the Bank's energy efficiency has generated substantial reductions in our carbon footprint. During the year, total emissions on electricity including generators amounted to 5,875.8tCO₂e¹

During the year, there were no fines or penalties imposed upon the Bank for the contravention of any environment related law, regulation or other guideline



8.09 Mn Kwh

Energy consumption for the year

Lending and Procurement practices

The entirety of our corporate and SME loans (which accounts for 51% of the Bank's total loans and advances) are screened for regulatory environmental compliance and impacts at the underwriting stage. The Bank applies the Precautionary approach when disbursing loans and developing new products. Accordingly, funding is only provided for socially and environmentally responsible investments. The Bank has not assessed the impacts of climate change on its operations.

¹ Emission calculation is based on the indirect emissions from grid electricity and is based on the methodology of the fourth assessment report published by IPCC. Carbon emission factors are sourced from the IPCC Guidelines for National Greenhouse Gas Inventories.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

GRI INDEX

GENERAL STANDARD DISCLOSURES-G4			
Number	Description	Reference/Comments	Page
Strategy and Analysis			
G4-1	Statement from the most senior decision maker of the Organisation about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	Chairman's Message	14
G4-2	Description of key impacts, risks and opportunities	Risk Management	50-65
Organisational Profile			
G4-3	Name of the organization	Corporate Information	Inner Back Cover
G4-4	Primary brands, products, and services	About Us	5
G4-5	The location of the organization's headquarters	Corporate Information	Inner Back Cover
G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	The Company operates only within Sri Lanka	267
G4-7	The nature of ownership and legal form	Corporate Information	Inner Back Cover
G4-8	The markets served (geographic breakdown, sectors served, and types of customers/beneficiaries)	Business line Review	128-147
G4-9	The scale of the organization, including:	About Us	5
	Total number of employees	Human Capital	149
	Total number of operations	About Us	5
	Net sales (for private sector organizations) or net revenues (for public sector organizations)	Financial Capital	122
	Total capitalization broken down in terms of debt and equity (for private sector organizations)	Statement of Financial Position	176
	Quantity of products or services provided	Value Creation Model	23
G4-10	The total number of employees by employment contract and gender.	Human Capital	150
	The total number of permanent employees by employment type and gender.	Human Capital	150
	The total workforce by employees and supervised workers and by gender.	Human Capital	150
	The total workforce by region and gender.	Human Capital	150
	Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors.	N/A	N/A
	Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).	N/A	N/A

GRI Index

GENERAL STANDARD DISCLOSURES-G4			
Number	Description	Reference/Comments	Page
G4-11	The percentage of total employees covered by collective bargaining agreements.	N/A	N/A
G4-12	Describe the organization's supply chain.	Value Creation Model Accessibility	23 159
G4-13	Any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain, including:	N/A	N/A
	Changes in the location of, or changes in, operations, including facility openings, closings, and expansions	N/A	N/A
	Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations)	N/A	N/A
	Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination	N/A	N/A
G4-14	Whether and how the precautionary approach or principle is addressed by the organization.	Risk Management	50-65
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	N/A	N/A
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization is a member.	N/A	N/A
Identified Material Aspects and Boundaries			
G4-17	a. List all entities included in the organization's consolidated financial statements or equivalent documents.	An Overview of Our 2015 Report	8
	b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.	N/A	N/A
G4-18	a. Explain the process for defining the report content and the Aspect Boundaries.	Determining Material Issues	26
	b. Explain how the organization has implemented the Reporting Principles for Defining Report Content.	Determining Material Issues	26
G4-19	List all the material Aspects identified in the process for defining report content.	Determining Material Issues	27
G4-20	For each material Aspect, the Aspect Boundary within the organization	Appendix-1	278
G4-21	For each material Aspect, report the Aspect Boundary outside the organization	Appendix-1	278
G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Notes to the Financial Statements	181

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

GENERAL STANDARD DISCLOSURES-G4			
Number	Description	Reference/Comments	Page
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	No significant changes from the previous year	N/A
Stakeholder Engagement			
G4-24	List of stakeholder groups engaged by the organization.	Stakeholder Engagement	24-25
G4-25	The basis for identification and selection of stakeholders with whom to engage.	Stakeholder Engagement	24-25
G4-26	The organization's approach to stakeholder engagement	Stakeholder Engagement	24-25
G4-27	Key topics and concerns that have been raised through stakeholder engagement	Stakeholder Engagement	24-25
Report Profile			
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	Financial year ended 31st December 2015	176
G4-29	Date of most recent previous report (if any).	Financial year ended 31st December 2014	176
G4-30	Reporting cycle (such as annual, biennial)	Annual	176
G4-31	The contact point for questions regarding the report or its contents.	An Overview of Our 2015 Report	8
G4-32	a. Report the 'in accordance' option the organization has chosen. b. Report the GRI Content Index for the chosen option c. Report the reference to the External Assurance Report, if the report has been externally assured.	Core An Overview of Our 2015 Report N/A	- 8 N/A
G4-33	a. Report the organization's policy and current practice with regard to seeking external assurance for the report. b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided. c. Report the relationship between the organization and the assurance providers. d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report.	External Assurance has not been obtained for this Sustainability Report	N/A
Governance			
G4-34	The governance structure of the organization, including committees of the highest governing body.	Corporate Governance	66
Ethics and Integrity			
G4-56	The organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	Human Capital	148-157

GRI Index

SPECIFIC STANDARD DISCLOSURES			
Material Aspect	DMA/Indicators	Reference/comments/ Reasons for omission	Page
Economic Performance			
G4-EC1	Direct economic value generated	Financial Statements	176-265
G4-EC2	Financial implications and other risks and opportunities for the Organisation's activities due to climate change	Natural Capital	164-166
G4-EC3	Coverage of defined benefit plan obligations	Human Capital	153
Environmental			
Materials			
G4-EN1	Materials used by weight or volume	Natural Capital	166
Energy			
G4-EN3	Energy consumption within the organization	Natural Capital	164
G4-EN6	Reduction of energy consumption	Natural Capital	164
Water			
G4-EN8	Total water withdrawal by source	Natural Capital	165
Compliance			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	None	N/A
Emissions			
G4-EN15	Direct greenhouse gas (GHG) emissions	Natural Capital	166
SOCIAL			
Employment: Labour practices and Decent Work			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region	Human Capital	151,152,156
Employment: Training and Education			
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Human Capital	152
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Human Capital	152
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Human Capital	152

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

SPECIFIC STANDARD DISCLOSURES			
Material Aspect	DMA/Indicators	Reference/comments/ Reasons for omission	Page
Society: Local Communities			
G4-SO2	Operations with significant actual or potential negative impacts on local communities	Community Engagement	162-163
Product Responsibility: Marketing communications			
G4-PR6	Sale of banned or disputed products	None	N/A
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	None	N/A
Product Responsibility: Compliance			
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	None	N/A
Product Responsibility: Product Portfolio			
G4-FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector	Social and Relationship Capital	160



FINANCIAL INFORMATION

The Group's financial statements have been prepared in accordance with the Sri Lanka Financial Reporting Standards and comply with the Banking Act No.30 of 1988 and amendments thereto, the Companies Act No 7 of 2007, and the Listing Rules of the Colombo Stock Exchange.



A position of strength

Smart strategy, effective implementation and continued emphasis placed on leveraging our strengths, has allowed us to deliver sustainable value to our shareholders.

Strategic Priorities

p28



Scan this QR Code with your smart device to view a version of this annual report online at

<http://nationstrust.com/about/investor-relations>

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Report of the Auditors on page 175 of the Report.

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

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

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

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

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

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

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

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

By Order of the Board



Theja Silva
Company Secretary

Colombo

26 February, 2016

INDEPENDENT AUDITORS' REPORT

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONS TRUST BANK PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Nations Trust Bank PLC, (the "Bank"), and the consolidated financial statements of the Bank and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 December 2015, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board of Directors (the "Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on

the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

- The basis of opinion and scope and limitations of the audit are as stated above.
- In our opinion :
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank,
 - The financial statements of the Bank give a true and fair view of the financial position as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
 - The financial statements of the Bank and the Group, comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

Colombo

26 February 2016

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

A member firm of Ernst & Young Global Limited.

STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	Bank		Group	
		2015	2014	2015	2014
		LKR '000	LKR '000	LKR '000	LKR '000
Assets					
Cash and Cash Equivalents	6	6,392,393	6,898,881	6,392,437	6,899,905
Balances with Central Bank of Sri Lanka	7	5,283,866	3,992,118	5,283,866	3,992,118
Reverse Repurchase Agreements	8.1	302,249	11,013,507	302,249	11,013,507
Derivative Financial Instruments	9.1	554,030	128,053	554,030	128,053
Financial Assets - Held for Trading	10	2,044,144	15,648,717	2,044,144	15,700,388
Financial Assets-Available for Sale	11	16,532,917	4,329,449	16,532,917	4,329,449
Financial Assets - Held to Maturity	12	12,675,717	9,586,218	12,743,763	9,653,000
Other Financial Assets	13	6,511,361	3,820,746	6,511,361	3,820,746
Loans and Advances to Customers	14	120,314,568	97,068,259	121,143,065	98,347,049
Other Assets	15	1,339,553	1,350,872	1,386,357	1,419,418
Investments in Subsidiaries	16	678,710	678,710	-	-
Property, Plant and Equipment	17	1,672,448	1,717,856	2,143,187	2,194,425
Intangible Assets	18	1,214,095	1,271,137	1,224,159	1,283,223
Total Assets		175,516,051	157,504,523	176,261,535	158,781,281
Liabilities					
Due to Banks	19	2,275,840	2,922,784	2,275,840	2,922,784
Repurchase Agreements	8.2	10,874,122	15,444,206	10,405,880	15,046,562
Derivative Financial Instruments	9.2	53,327	166,370	53,327	166,370
Due to Customers	20	129,240,876	111,046,446	129,158,190	111,009,668
Debt Issued and Other Borrowed Funds	21	12,972,830	9,685,257	12,973,754	10,189,448
Current Tax Liabilities		396,396	639,359	426,466	666,345
Other Liabilities	22	4,978,921	4,396,493	5,064,059	4,472,104
Deferred Tax Liabilities	23.2	733,553	415,053	732,579	413,475
Total Liabilities		161,525,865	144,715,968	161,090,095	144,886,756
Equity Attributable to Equity Holders of the Parent					
Stated Capital	24	5,101,369	5,101,369	5,101,369	5,101,369
Statutory Reserve Fund	25	660,840	538,205	660,840	538,205
Retained Earnings	26	8,154,695	7,037,084	9,335,949	8,143,054
Available for Sale Reserve	27.1	73,282	111,897	73,282	111,897
Total Equity		13,990,186	12,788,555	15,171,440	13,894,525
Total Liabilities and Equity		175,516,051	157,504,523	176,261,535	158,781,281
Contingent Liabilities and Commitments	44.2	96,818,431	98,688,631	96,791,786	98,799,150
Net Assets Value per Ordinary Share (Rs.)		60.67	55.46	65.79	60.25

Certification

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

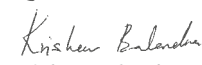


Ajith Akmeemana
Chief Financial Officer


The Notes to the Financial Statements from pages 181 to 265 form an integral part of these Financial Statements.

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.


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



Krishan Balendra
Chairman



N. Shalini Panditaratne
Director



Renuka Fernando
Director / CEO



Theja Silva
Company Secretary

Colombo
26 February 2016

Group overview	7
Operating and financial review	23
Management discussion and Analysis	46
Financial Information	67

STATEMENT OF PROFIT OR LOSS

For the Year Ended 31 December

	Notes	Bank		Group	
		2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Interest Income	29.1	16,511,774	17,267,659	16,628,050	17,452,461
Interest Expense	29.2	(7,543,595)	(8,521,173)	(7,522,866)	(8,512,713)
Net Interest Income		8,968,179	8,746,486	9,105,184	8,939,748
Fees and Commission Income	30.1	3,301,302	2,862,268	3,437,530	3,008,084
Fees and Commission Expense	30.2	(229,843)	(224,576)	(236,255)	(224,576)
Net Fees and Commission Income		3,071,459	2,637,692	3,201,275	2,783,508
Net Trading Income / (Loss)	31	(92,347)	123,639	(93,933)	111,370
Other Operating Income	32	324,358	293,146	306,881	281,897
Total Operating Income		12,271,649	11,800,963	12,519,407	12,116,523
Impairment Charge for Loans and Advances and Available for Sale on Financial Assets	33	985,757	1,181,060	985,478	1,181,739
Individual Impairment - Loans & Advances		278,926	(237,742)	278,926	(237,742)
Collective Impairment - Loans & Advances		636,546	1,394,472	636,267	1,395,151
Others - Available For Sale and Charges Receivable		70,285	24,330	70,285	24,330
Net Operating Income		11,285,892	10,619,903	11,533,929	10,934,784
Personnel Expenses	34	2,856,534	2,665,130	2,883,133	2,700,398
Depreciation of Property, Plant and Equipment		363,065	295,244	377,043	323,753
Amortization of Intangible Assets		236,155	168,557	240,021	171,348
Other Operating Expenses	35	3,396,816	3,166,658	3,361,620	3,167,858
Total Operating Expenses		6,852,570	6,295,589	6,861,817	6,363,357
Operating Profit Before Value Added Tax (VAT) and Nations Building Tax NBT on Financial Services		4,433,322	4,324,314	4,672,112	4,571,427
Value Added Tax (VAT) and Nations Building Tax (NBT) on Financial Services	36	755,030	726,576	766,712	744,474
Profit Before Income Tax		3,678,292	3,597,738	3,905,400	3,826,953
Income Tax Expense	37	1,225,602	1,219,745	1,291,409	1,290,373
Profit for the Year		2,452,690	2,377,993	2,613,991	2,536,580
Earnings Per Share					
Basic / Diluted Earnings Per Share - LKR	38	10.64	10.31	11.34	11.00
Dividend Per Share - LKR	39	2.10	2.10	2.10	2.10

The Notes to the Financial Statements from pages 181 to 265 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Profit for the Year	2,452,690	2,377,993	2,613,991	2,536,580
Other Comprehensive Income / (Expense) to be reclassified to profit or loss in subsequent periods:				
Net gains / (loss) on re-measuring of available-for-sale financial assets	(53,632)	155,413	(53,632)	155,413
Net income tax charge / (reversal) relating to components of re-measuring of available-for-sale financial assets	15,017	(43,516)	15,017	(43,516)
	(38,615)	111,897	(38,615)	111,897
Other Comprehensive Income / (Expense) not to be reclassified to profit or loss in subsequent periods:				
Actuarial gain / (loss) on defined benefit plan	7,504	(10,746)	8,755	(10,983)
Net income tax charge / (reversal) relating to components of defined benefit plan	(2,101)	3,009	(2,429)	3,143
	5,403	(7,737)	6,326	(7,840)
Total Other Comprehensive Income / (Expense)	(33,212)	104,160	(32,289)	104,057
Total Comprehensive Income for the Year, Net of Tax	2,419,478	2,482,153	2,581,702	2,640,637
Attributable to:				
Equity Holders of the Parent	2,419,478	2,482,153	2,581,702	2,640,637

The Notes to the Financial Statements from pages 181 to 265 form an integral part of these Financial Statements.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

STATEMENT OF CHANGES IN EQUITY

BANK	Stated Capital LKR '000	Retained Earnings LKR '000	Available for Sale Reserve LKR '000	Statutory Reserve Fund LKR '000	Investment Fund Account LKR '000	Total LKR '000
As at 01 January 2014	5,101,369	4,183,983	-	419,305	1,086,020	10,790,677
Profit for the year	-	2,377,993	-	-	-	2,377,993
Other Comprehensive Income	-	(7,737)	111,897	-	-	104,160
Total Comprehensive Income	-	2,370,256	111,897	-	-	2,482,153
Dividend paid for 2013	-	(484,275)	-	-	-	(484,275)
Transfers from the Investment Fund Account	-	1,086,020	-	-	(1,086,020)	-
Transfers to the Statutory Reserve Fund	-	(118,900)	-	118,900	-	-
As at 31 December 2014	5,101,369	7,037,084	111,897	538,205	-	12,788,555
Charge relating to Super Gain Tax	-	(733,572)	-	-	-	(733,572)
Profit for the year	-	2,452,690	-	-	-	2,452,690
Other Comprehensive Income	-	5,403	(38,615)	-	-	(33,212)
Total Comprehensive Income	-	2,458,093	(38,615)	-	-	2,419,478
Dividend paid for 2014	-	(484,275)	-	-	-	(484,275)
Transfers to the Statutory Reserve Fund	-	(122,635)	-	122,635	-	-
As at 31 December 2015	5,101,369	8,154,695	73,282	660,840	-	13,990,186

GROUP	Stated Capital LKR '000	Retained Earnings LKR '000	Available for Sale Reserve LKR '000	Statutory Reserve Fund LKR '000	Investment Fund Account LKR '000	Total LKR '000
As at 01 January 2014	5,101,369	5,067,107	-	419,305	1,150,382	11,738,163
Profit for the year	-	2,536,580	-	-	-	2,536,580
Other Comprehensive Income	-	(7,840)	111,897	-	-	104,057
Total Comprehensive Income	-	2,528,740	111,897	-	-	2,640,637
Dividend paid for 2013	-	(484,275)	-	-	-	(484,275)
Transfers from the Investment Fund Account	-	1,150,382	-	-	(1,150,382)	-
Transfers to the Statutory Reserve Fund	-	(118,900)	-	118,900	-	-
As at 31 December 2014	5,101,369	8,143,054	111,897	538,205	-	13,894,525
Charge relating to Super Gain Tax	-	(820,512)	-	-	-	(820,512)
Profit for the year	-	2,613,991	-	-	-	2,613,991
Other Comprehensive Income	-	6,326	(38,615)	-	-	(32,289)
Total Comprehensive Income	-	2,620,317	(38,615)	-	-	2,581,702
Dividend paid for 2014	-	(484,275)	-	-	-	(484,275)
Transfers to the Statutory Reserve Fund	-	(122,635)	-	122,635	-	-
As at 31 December 2015	5,101,369	9,335,949	73,282	660,840	-	15,171,440

The Notes to the Financial Statements from pages 181 to 265 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the Year Ended 31 December

		Bank		Group	
	Notes	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Cash Flows from Operating Activities					
Receipts of Interest Income		15,341,128	13,705,157	15,553,713	14,117,853
Receipts of Fees and Commission Income		3,289,984	2,849,584	3,425,246	3,018,049
Payments of Interest Expense		(6,273,715)	(7,608,365)	(6,353,699)	(7,832,288)
Payments of Fees and Commission Expense		(229,843)	(224,576)	(223,583)	(213,008)
Net Trading Income / (Loss)		138,192	(342,800)	138,192	(342,800)
Receipts from Other Operating Income		330,756	292,478	313,635	281,961
Gratuity Payments Made	22.2.2	(50,284)	(22,075)	(50,743)	(25,323)
Payments for Operating Expenses		(6,876,405)	(5,826,411)	(6,896,267)	(5,889,045)
Net Cash Flow from Operating Activities					
Before Income Tax (A)		5,669,813	2,822,992	5,906,494	3,115,399
Income Tax Paid		(911,088)	(546,321)	(1,056,538)	(634,171)
Super Gain Tax Paid		(733,574)	-	(820,511)	-
Operating Profit Before Changes in Operating Assets and Liabilities					
Assets and Liabilities		4,025,151	2,276,671	4,029,445	2,481,228
(Increase)/Decrease in Operating Assets	40.1	(17,691,144)	(10,683,825)	(17,979,157)	(10,376,205)
Increase/(Decrease) in Operating Liabilities	40.2	13,544,008	13,469,971	13,983,159	13,969,191
Net Cash Flows from / (used in) Operating Activities		(121,985)	5,062,817	33,447	6,074,214
Cash Flows from Investing Activities					
Purchase of Property, Plant and Equipment	17.1.1	(283,030)	(467,946)	(291,177)	(470,009)
Proceeds from Sale of Property, Plant and Equipment and Intangible Assets		3,456	941	3,456	941
Purchase of Intangible Assets	18	(223,592)	(774,565)	(225,434)	(774,566)
New Cash Flows used in Investing Activities		(503,166)	(1,241,570)	(513,155)	(1,243,634)
Cash Flows from Financing Activities					
Net Change in Debt Issued and Other Borrowed Funds		2,884,412	966,542	2,663,658	(41,806)
Repayment of Subordinated Debt		-	(67,325)	-	(67,325)
Interest Paid on Subordinated Debt		(697,068)	(704,638)	(697,068)	(704,638)
Dividends Paid to Equity Holders of the Parent		(484,275)	(484,275)	(484,275)	(484,275)
Net Cash Flows from/(used in) Financing Activities		1,703,069	(289,696)	1,482,315	(1,298,044)
Net Increase in Cash and Cash Equivalents		1,077,916	3,531,551	1,002,607	3,532,536
Cash and Cash Equivalents at the Beginning of the year		10,491,563	6,960,012	10,479,982	6,960,051
Cash and Cash Equivalents at the End of the Year		11,569,479	10,491,563	11,482,589	10,492,587
Reconciliation of Cash and Cash Equivalents					
Cash on Hand	6	3,763,144	3,500,746	3,676,222	3,500,759
Statutory Deposit with the Central Bank of Sri Lanka	7	5,283,866	3,992,118	5,283,866	3,992,118
Balances with Banks	6	1,129,002	359,164	1,129,034	360,175
Money at Call and Short Notice	6	1,500,247	3,038,971	1,500,247	3,038,971
Deposits from Other Banks		(106,780)	(399,436)	(106,780)	(399,436)
		11,569,479	10,491,563	11,482,589	10,492,587
A. Reconciliation of Operating Profit					
Profit Before Income Tax		3,678,292	3,597,738	3,905,400	3,826,953
(Profit) on Disposal of Property, Plant and Equipment and Intangible Assets					
Impairment Charge for Loans and Advances		985,757	1,156,730	985,478	1,157,409
Charge / (Reversal) of gratuity		80,160	82,523	81,186	83,527
(Increase) / Decrease in Interest Receivable		(902,432)	(2,918,025)	(899,431)	(2,915,805)
Increase/ (Decrease) in Interest Payable		1,269,879	912,808	1,267,991	911,419
Increase / (Decrease) in Financial Guarantee Liabilities		(11,318)	(12,684)	(11,318)	(12,684)
Other Receivables		(6,121)	(17,906)	(5,697)	(17,172)
Other Payables		12,772	623,366	12,772	623,364
Other Non Cash items	40.3	606,710	(578,816)	614,458	(515,622)
Gratuity Payments Made		(50,284)	(22,075)	(50,743)	(25,323)
		5,669,813	2,822,992	5,906,494	3,115,399

NOTES TO THE FINANCIAL STATEMENTS

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

1. CORPORATE INFORMATION

1.1 General

Nations Trust Bank PLC (the 'Bank') is a licensed commercial bank established under the Banking Act No. 30 of 1988. It is a public limited liability company, incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The registered office of the Bank is located at No. 242, Union Place, Colombo 2.

The Consolidated Financial Statements of Nations Trust Bank PLC for the year ended 31 December 2015 comprises the Bank and its subsidiaries: Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited (together referred to as the 'Group').

Nations Trust Bank PLC does not have an identifiable parent of its own.

The Consolidated Financial Statements of Nations Trust Bank PLC, for the year ended 31 December 2015 was authorized for issue in accordance with the resolution of the Board of Directors on 26 February 2016.

1.2 Principal Activities and Nature of Operations

Bank

The Bank provides a comprehensive range of financial services encompassing personal, commercial, investment, private banking, trade services, leasing, factoring, pawning, treasury and capital market services.

Subsidiaries

The principal activities of the Bank's subsidiaries namely Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited are carrying out money market, fund and fee based activities, property rental and insurance broking respectively.

1.3 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 178 for the Statement of the Directors' Responsibility for Financial Reporting.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Preparation of Financial Statements

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for available for sale investments, derivative financial instruments and other financial assets and liabilities held for trading, all of which have been measured at fair value.

The Consolidated Financial Statements are presented in Sri Lanka Rupees (LKR) which is the Group's functional and presentation currency. All values are rounded to the nearest Thousand Rupees ('000), except when otherwise indicated.

2.2 Statement of compliance

The Financial Statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting Standards (commonly referred by the term "SLFRS") as issued by the Institute of Chartered Accountants of Sri Lanka.

The preparation and presentation of these Consolidated Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007. The presentation of this Financial Statement is also in compliance with the requirements of the Banking Act No: 30 of 1998.

2.3 Prior year figures and phrases

Certain prior year figures and phrases have been rearranged whenever necessary for better presentation and to conform to the current year's presentation.

2.4 Presentation of Financial Statements

The Bank and the Group present its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 42.

Each material class of similar items is presented separately in the Consolidated Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Consolidated Statement of Profit or Loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

2.5 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year.

2.6 Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee

NOTES TO THE FINANCIAL STATEMENTS

and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group. When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

2.7 Foreign Currency Translation

Transactions and balances

Transactions in foreign currencies are initially recorded at the spot middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot middle rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other Operating Income' in the Profit or Loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

3. GENERAL ACCOUNTING POLICIES

3.1 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Bank's Consolidated Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the Consolidated Financial Statements:

Taxation

The Group is subject to Income Taxes and other taxes including VAT on Financial Services. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements. Accordingly, the Group has exercised judgment in determining the tax effect due to the change in the accounting base and the tax base due to first time adoption of Sri Lanka Accounting Standards. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax amounts in the period in which the determination is made.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the Consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Going Concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and inputs such as discount rates. The valuation of financial instruments is described in more detail in Note 43.

Impairment Losses on Loans and Advances

The Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in Profit or Loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan-to-collateral ratios, etc.) and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation, GDP growth rate and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in Note 14 and Note 33.

Impairment of Available-for-Sale Investments

The Group reviews its debt and equity securities classified as Available-for-Sale Investments at each reporting date to assess

whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. Note 11

Deferred Tax Assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. Note 23

Employee Benefit Liability – Gratuity

The cost of the defined benefit plan – gratuity is determined using an actuarial valuation. Actuarial valuation involves making assumptions about inter-alia discount rates, future salary increases, remaining working life of employees and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty. Description of employee benefits is given in Note 22.2

3.2 Financial Instruments – Initial Recognition and Subsequent Measurement

(i) Date of Recognition

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(iii) Derivatives Recorded at Fair Value through Profit or Loss

The Bank uses derivatives such as cross-currency swaps, forward foreign exchange contracts and options on foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net Trading Income.'

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fairvalue if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held

NOTES TO THE FINANCIAL STATEMENTS

for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognized in the Profit or Loss.

(iv) Financial Assets Held for Trading

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in 'Net Trading Income'. Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

(v) Held to Maturity Financial Assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial assets are subsequently measured at amortized cost using the Effective Interest Rate (EIR) less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest Income' in the Statement of Profit or Loss. The losses arising from impairment of such investments are recognized in the Statement of Profit or Loss line 'impairment charge'.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity assets before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

(vi) Available for Sale Financial Investments

Available for sale investments include debt and equity securities. Securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Group has not designated any loans or receivables as available for sale.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealized gains and losses are recognized directly in equity through other comprehensive income in the 'Available for Sale Reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the Profit or Loss in 'Other Operating Income'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest

earned whilst holding available for sale financial investments is reported as interest income using the EIR. The losses arising from impairment of such investments are recognized in the Profit or Loss in 'Impairment losses on financial investments' and removed from the 'Available for Sale Reserve'.

(vii) Due from Banks and Loans and advances to customers

'Due from Banks' and 'Loans and Advances to Customers' includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, 'Loans and Advances to Customers' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the Statement of Profit or Loss. The losses arising from impairment are recognized in the Statement of Profit or Loss in 'Impairment Charge'.

(viii) Debt issued and Other Borrowed Funds

Financial instruments issued by the Group are classified as liabilities under 'Debt issued and Other Borrowed Funds', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the EIR. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

An analysis of the Group's issued debt is disclosed in Note 21.

(ix) 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net Trading Income' except for loans granted to staff of the Bank at concessionary rates of interest.

3.3 De-recognition of Financial Assets and Financial Liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

- The rights to receive cash flows from the asset have expired or;
- The Group has transferred substantially all the risks and rewards of the asset

(ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the Statement of Profit or Loss.

(iii) Impairment of Financial Assets

The Group assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial re-organization; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(iv) Financial Assets carried at Amortized Cost

For financial assets carried at amortized cost (such as, loans and advances to customers as well as held to maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'.

Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in the 'Other Operating Income'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the interest rate prevailed at the last reprising date.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry and past-due status and other relevant factors. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as property prices, payment status or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used

NOTES TO THE FINANCIAL STATEMENTS

for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(v) Available-for-Sale Financial Investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the Profit or Loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the Profit or Loss.

(vi) Rescheduled Loans

Where possible, the Group seeks to reschedule loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

(vii) Collateral Valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, receivables, inventories and other non-financial assets such as immovable and moveable properties. The fair value of collateral is generally assessed, at a minimum, at inception and subsequently as and when required.

To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as immovable property, is valued based on data provided by third parties such as qualified valuers and other independent sources.

(iv) Collateral Repossessed The Group's policy is to sell the repossessed assets at the earliest possible opportunity.

Such collateral repossessed are held on a memorandum basis without derecognizing the underlying receivable.

3.4 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.5 Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU's) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, and other available fair value indicators.

3.6 Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the Financial Statements (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the Profit or Loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the Statement of Profit or Loss in 'Impairment Charge'. The premium received is recognized in the Statement of Profit or Loss in 'Net Fees and Commission Income' on a straight line basis over the life of the guarantee.

3.7 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

3.8 Fiduciary Assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the Financial Statements, as they are not the assets of the Group.

3.9 Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the 'Direct Method' in accordance with LKAS 7 on Statement of Cash Flows, whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognized. Cash and cash equivalents as referred to in the Cash Flow Statement comprises of cash on hand, balances with the Central Bank of Sri Lanka, amounts due from banks on demand or with original maturity of three months or less net of amount due to banks.

3.10 Standards issued but not yet effective

Certain new accounting standards and amendments / improvements to existing standards have been published, that are not mandatory for 31 December 2015 reporting period. None of those have been early adopted by the Group/Bank.

SLFRS 9 Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39. SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

SLFRS 14 Regulatory Deferral Accounts

SLFRS 14 is an interim standard which provides relief for first time -adopters of SLFRS in relation to the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). The standard permits these entities to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral accounts. SLFRS 14 is effective for annual periods beginning on or after 1 January 2016.

SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Management believes that the SLFRS 14 would not be applicable for the Group, as it is an existing SLFRS preparer/ does not involve in rate regulatory activities. Pending the completion of the detailed impact analysis, possible impact from SLFRS 9 and SLFRS 15 is not reasonably estimable as of the reporting date.

The following amendments and improvements are not expected to have a significant impact on the Bank's/ Group's consolidated financial statements.

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LKAS 16 and LKAS 38).
- Equity Method in Separate Financial Statements (Amendments to LKAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28).
- Annual Improvements to SLFRSs 2012–2014 Cycle – various standards.
- Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28)
- Disclosure Initiative (Amendments to LKAS 1)

NOTES TO THE FINANCIAL STATEMENTS

4. SEGMENT INFORMATION

The Group's segmental reporting is based on the following operating segments: SME and Consumer Banking, Corporate Banking, Leasing, Treasury functions, Investment Banking, Insurance Broking and Property Management.

For management purposes, the Group is organised into operating segments based on products and services, as follows:

Corporate Banking: Primary focus of business is providing loans and other credit facilities and mobilizing deposit and current accounts from top to mid tier corporate and institutional customers.

SME and Consumer Banking : Primary focus of business is deposit mobilization from individual and SME customer segments and providing facilities such as loans, overdraft and credit card facilities to this segment.

Leasing : Primary focus of business is providing finance leases and hire purchase facilities.

Treasury Function: Primary focus of business operations includes foreign exchange trading, fixed income security trading, assets & liabilities gapping management.

Investment Banking: Primary focus on margin trading, money market operations and fund and fee based activities.

Insurance Broking: Primary focus on insurance broking.

Property Management: Primary focus on renting out premises.

Management monitors the operating results of its business units separately for the purpose of making decisions on resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, are measured differently from operating profits or losses in the consolidated financial statements. A fund transfer pricing mechanism is adopted for sourcing and utilizing of funds.

The following table presents income and expenses and certain asset and liability information regarding the Group's operating segments.

4. SEGMENT INFORMATION (CONTD.)

4.1 Operating Segments

31 December 2015	Corporate Banking LKR '000	Consumer Banking LKR '000	Leasing LKR '000	Treasury Functions LKR '000	Investment Banking LKR '000	Insurance Brokering LKR '000	Property Management LKR '000	Unallocated/ Eliminations LKR '000	Total Group LKR '000
Operating Income	908,792	7,918,037	1,264,210	2,241,521	105,951	135,386	92,765	(147,255)	12,519,407
Impairment Charge for Loans and Advances and Available For Sale on Financial Assets	40,345	685,990	222,336	37,086	-	-	-	(279)	985,478
Net Operating Income	868,446	7,232,047	1,041,875	2,204,435	105,951	135,386	92,765	(146,977)	11,533,929
Extracts of Results									
Interest Income	1,798,576	6,949,890	4,090,517	3,742,173	137,056	11,194	16,677	(118,034)	16,628,050
Inter Segment	(1,021,982)	3,175,238	(2,926,072)	772,815	-	-	-	-	-
Interest Expense	(244,040)	(5,508,998)	-	(1,795,397)	(28,097)	-	(1,178)	54,846	(7,522,866)
Net Interest Income	532,554	4,616,130	1,164,445	2,719,591	108,959	11,194	15,499	(63,188)	9,105,184
Fees and Commission Income	247,593	3,096,060	-	-	4,779	130,892	77,266	(119,060)	3,437,530
Fees and Commission Expense	-	(194,563)	(6,644)	(9,838)	(6,202)	(6,700)	-	(12,308)	(236,255)
Net Fees and Commission Income	247,593	2,901,497	(6,644)	(9,838)	(1,423)	124,192	77,266	(131,368)	3,201,275
Net Trading Income/(Loss)	128,645	246,575	-	(476,543)	(1,586)	-	-	8,977	(93,933)
Other Operating Income	-	153,835	106,409	8,311	-	-	-	38,325	306,881
Depreciation of Property, Plant and Equipment	2,145	180,778	5,823	1,188	-	657	13,320	173,131	377,043
Amortization of Intangible Assets	110	122,565	1,377	12,111	-	3,866	-	99,992	240,021
Segment Profit Before Tax	189,498	1,643,838	280,004	1,627,652	82,544	96,509	49,887	(64,532)	3,905,400
Income Tax Expense				(28,087)	(28,087)	(29,554)	(6,215)	(1,227,552)	(1,291,409)
Profit for the Year	189,498	1,643,838	280,004	1,627,652	54,457	66,955	43,672	(1,292,084)	2,613,991
Capital Expenditures									
Property, Plant and Equipment	1,693	122,006	3,472	3,887	-	-	-	118,385	249,443
Intangible Assets	473	78,229	30	-	-	-	-	158,410	237,141
Total Assets	31,162,094	61,613,890	29,521,137	49,688,786	1,250,668	253,440	752,858	2,018,661	176,261,535
Total Liabilities	13,123,696	117,617,190	1,107,215	30,486,329	362,762	27,014	24,702	(1,658,811)	161,090,095

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

NOTES TO THE FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (CONTD.)

4.2 Operating Segments

31 December 2014

	Corporate Banking LKR '000	Consumer Banking LKR '000	Leasing LKR '000	Treasury Functions LKR '000	Investment Banking LKR '000	Insurance Brokering LKR '000	Property Management LKR '000	Unallocated/ Eliminations LKR '000	Total Group LKR '000
Operating Income	1,182,227	6,923,600	1,152,571	2,548,878	149,855	130,801	87,032	(58,442)	12,116,523
Impairment Charge for Loans and Advances and Available For Sale on Financial Assets	172,894	541,748	466,417	-	-	-	-	680	1,181,739
Net Operating Income	1,009,332	6,381,853	686,154	2,548,878	149,855	130,801	87,032	(59,122)	10,934,784
Extracts of Results									
Interest Income	2,067,645	6,677,462	4,230,078	4,447,975	279,614	8,628	15,358	(274,300)	17,452,461
Inter Segment	(936,853)	3,580,921	(3,124,299)	480,231	-	-	-	-	-
Interest Expense	(352,757)	(5,953,590)	-	(2,237,325)	(109,003)	-	(1,337)	141,299	(8,512,713)
Net Interest Income	778,035	4,304,794	1,105,779	2,690,881	170,612	8,628	14,021	(133,001)	8,939,748
Fees and Commission Income	277,625	2,462,365	-	-	3,229	116,571	73,010	75,284	3,008,084
Fees and Commission Expense	-	(166,368)	(38,868)	(16,267)	(5,851)	(263)	-	3,042	(224,576)
Net Fees and Commission Income	277,625	2,295,997	(38,868)	(16,267)	(2,622)	116,308	73,010	78,325	2,783,508
Net Trading Income/(Loss)	99,799	153,150	-	(130,963)	(18,135)	5,866	-	1,653	111,370
Other Operating Income	26,768	169,660	85,661	5,228	-	-	-	(5,419)	281,897
Depreciation of Property, Plant and Equipment	1,986	167,662	5,635	972	-	541	12,979	133,978	323,753
Amortization of Intangible Assets	88	54,947	1,365	12,280	-	2,791	-	99,877	171,348
Segment Profit Before Tax Income Tax Expense	256,669	1,383,160	49,217	1,922,367	122,487 (39,255)	76,356 (24,363)	41,414 (5,761)	(24,718) (1,220,995)	3,826,953 (1,290,373)
Profit for the Year	256,669	1,383,160	49,217	1,922,367	83,232	51,993	35,654	(1,245,714)	2,536,580
Capital Expenditures									
Property, Plant and Equipment	2,904	327,683	5,823	361	-	-	-	134,110	470,882
Intangible Assets	89	752,182	177	-	-	-	-	22,116	774,564
Total Assets									
	25,525,070	47,624,615	26,915,334	56,940,682	1,594,029	209,318	726,194	(753,961)	158,781,281
Total Liabilities									
	7,983,800	104,918,704	804,880	31,059,688	708,266	27,184	24,800	(640,567)	144,886,756

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

5. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

5.1 Bank

31 December 2015	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortised Cost	Available for Sale	L & R at Amortised Cost	Other Financial Liabilities at Amortised Cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and Cash Equivalents	-	-	-	-	6,392,393	-	6,392,393
Balances with Central Bank of Sri Lanka	-	-	-	-	5,283,866	-	5,283,866
Reverse Repurchase Agreements	-	-	-	-	302,249	-	302,249
Derivative Financial Instruments	-	554,030	-	-	-	-	554,030
Financial Assets - Held for Trading	2,044,144	-	-	-	-	-	2,044,144
Financial Assets-Available for Sale	-	-	-	16,532,917	-	-	16,532,917
Financial Assets - Held to Maturity	-	-	12,675,717	-	-	-	12,675,717
Other Financial Assets	-	-	-	-	6,511,361	-	6,511,361
Loans and Advances to Customers	-	-	-	-	120,314,568	-	120,314,568
Total Financial Assets	2,044,144	554,030	12,675,717	16,532,917	138,804,437	-	170,611,245
Liabilities							
Due to Banks	-	-	-	-	-	2,275,840	2,275,840
Repurchase Agreements	-	-	-	-	-	10,874,122	10,874,122
Derivative Financial Instruments	-	53,327	-	-	-	-	53,327
Due to Customers	-	-	-	-	-	129,240,876	129,240,876
Debt Issued and Other Borrowed Funds	-	-	-	-	-	12,972,830	12,972,830
Total Financial Liabilities	-	53,327	-	-	-	155,363,668	155,416,995

5.2 Group

31 December 2015	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortised Cost	Available for Sale	L & R at Amortised Cost	Other Financial Liabilities at Amortised Cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and Cash Equivalents	-	-	-	-	6,392,437	-	6,392,437
Balances with Central Bank of Sri Lanka	-	-	-	-	5,283,866	-	5,283,866
Reverse Repurchase Agreements	-	-	-	-	302,249	-	302,249
Derivative Financial Instruments	-	554,030	-	-	-	-	554,030
Financial Assets - Held for Trading	2,044,144	-	-	-	-	-	2,044,144
Financial Assets-Available for Sale	-	-	-	16,532,917	-	-	16,532,917
Financial Assets - Held to Maturity	-	-	12,743,763	-	-	-	12,743,763
Other Financial Assets	-	-	-	-	6,511,361	-	6,511,361
Loans and Advances to Customers	-	-	-	-	121,143,065	-	121,143,065
Total Financial Assets	2,044,144	554,030	12,743,763	16,532,917	139,632,978	-	171,507,832
Liabilities							
Due to Banks	-	-	-	-	-	2,275,840	2,275,840
Repurchase Agreements	-	-	-	-	-	10,405,880	10,405,880
Derivative Financial Instruments	-	53,327	-	-	-	-	53,327
Due to Customers	-	-	-	-	-	129,158,190	129,158,190
Debt Issued and Other Borrowed Funds	-	-	-	-	-	12,973,754	12,973,754
Total Financial Liabilities	-	53,327	-	-	-	154,813,664	154,866,991

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

NOTES TO THE FINANCIAL STATEMENTS

5. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

5.3 Bank

31 December 2014	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortised Cost	Available for Sale	L & R at Amortised Cost	Other Financial Liabilities at Amortised Cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and Cash Equivalents	-	-	-	-	6,898,881	-	6,898,881
Balances with Central Bank of Sri Lanka	-	-	-	-	3,992,118	-	3,992,118
Reverse Repurchase Agreements	-	-	-	-	11,013,507	-	11,013,507
Derivative Financial Instruments	-	128,053	-	-	-	-	128,053
Financial Assets - Held for Trading	15,648,717	-	-	-	-	-	15,648,717
Financial Assets-Available for Sale	-	-	-	4,329,449	-	-	4,329,449
Financial Assets - Held to Maturity	-	-	9,586,218	-	-	-	9,586,218
Other Financial Assets	-	-	-	-	3,820,746	-	3,820,746
Loans and Advances to Customers	-	-	-	-	97,068,259	-	97,068,259
Total Financial Assets	15,648,717	128,053	9,586,218	4,329,449	122,793,511	-	152,485,948
Liabilities							
Due to Banks	-	-	-	-	-	2,922,784	2,922,784
Repurchase Agreements	-	-	-	-	-	15,444,206	15,444,206
Derivative Financial Instruments	-	166,370	-	-	-	-	166,370
Due to Customers	-	-	-	-	-	111,046,446	111,046,446
Debt Issued and Other Borrowed Funds	-	-	-	-	-	9,685,257	9,685,257
Total Financial Liabilities	-	166,370	-	-	-	139,098,693	139,265,063

5.4 Group

31 December 2014	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortised Cost	Available for Sale	L & R at Amortised Cost	Other Financial Liabilities at Amortised Cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and Cash Equivalents	-	-	-	-	6,899,905	-	6,899,905
Balances with Central Bank of Sri Lanka	-	-	-	-	3,992,118	-	3,992,118
Reverse Repurchase Agreements	-	-	-	-	11,013,507	-	11,013,507
Derivative Financial Instruments	-	128,053	-	-	-	-	128,053
Financial Assets - Held for Trading	15,700,388	-	-	-	-	-	15,700,388
Financial Assets-Available for Sale	-	-	-	4,329,449	-	-	4,329,449
Financial Assets - Held to Maturity	-	-	9,653,000	-	-	-	9,653,000
Other Financial Assets	-	-	-	-	3,820,746	-	3,820,746
Loans and Advances to Customers	-	-	-	-	98,347,049	-	98,347,049
Total Financial Assets	15,700,388	128,053	9,653,000	4,329,449	124,073,325	-	153,884,215
Liabilities							
Due to Banks	-	-	-	-	-	2,922,784	2,922,784
Repurchase Agreements	-	-	-	-	-	15,046,562	15,046,562
Derivative Financial Instruments	-	166,370	-	-	-	-	166,370
Due to Customers	-	-	-	-	-	111,009,668	111,009,668
Debt Issued and Other Borrowed Funds	-	-	-	-	-	10,189,448	10,189,448
Total Financial Liabilities	-	166,370	-	-	-	139,168,462	139,334,832

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

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

6. CASH AND CASH EQUIVALENTS

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Cash in Hand	3,763,144	3,500,746	3,763,157	3,500,759
Balances with Banks	1,129,002	359,164	1,129,033	360,175
Money at Call and Short Notice	1,500,247	3,038,971	1,500,247	3,038,971
	6,392,393	6,898,881	6,392,437	6,899,905

7. BALANCES WITH CENTRAL BANK OF SRI LANKA

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Statutory Deposit with the Central Bank of Sri Lanka	5,283,866	3,992,118	5,283,866	3,992,118

As required by the provisions of section 93 of the Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka.

As at 31 December 2015, the minimum cash reserve requirement was 6% (2014: 6%) of the rupee deposit liabilities of Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities in Domestic Banking Unit and the deposit liabilities in Foreign Currency Banking Unit.

8. TRANSFERRED FINANCIAL ASSETS

Reverse Repurchase /Repurchase Agreements

Accounting Policy

Securities sold under agreements to repurchase at a specified future date are not derecognized from the Statement of Financial Position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the Consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Repurchase Agreements', reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Group reclassifies those securities in its Statement of Financial Position to 'Financial Assets Held for Trading Pledged as Collateral' or to 'Financial Investments Held to Maturity Pledged as Collateral', as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in Interest Income' and is accrued over the life of the agreement using the EIR.

NOTES TO THE FINANCIAL STATEMENTS

8. TRANSFERRED FINANCIAL ASSETS (CONTD.)

8.1 Reverse repurchase agreements

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Due from Banks	300,835	11,003,449	300,835	11,003,449
Due from Other Counterparties	1,414	10,058	1,414	10,058
	302,249	11,013,507	302,249	11,013,507

8.2 Repurchase agreements

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Due to Banks	-	2,014,498	-	2,014,498
Due to Other Financial Institutions	6,474,034	5,849,490	6,474,034	5,849,490
Due to Other Counterparties	4,400,088	7,580,218	3,931,846	7,182,574
	10,874,122	15,444,206	10,405,880	15,046,562

The Group has a programme to sell securities under agreements to repurchase ('repos') and to purchase securities under agreements to resell ('reverse repos').

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. The counterparty is allowed to sell or repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. These transactions are conducted under the terms based on the applicable International Swaps and Derivative Association (ISDA) Collateral Guidelines.

The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received.

Similarly, the Group may sell or re-pledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Group, which instead records a separate asset for the collateral provided.

As the counterparty of securities lending and repurchase agreement is allowed to sell or repledge the securities in the absence of default by the Bank, those securities, for a total face value of LKR 12.09 Bn (market value LKR 12.2 Bn) [2014 - face value LKR 17.1 Bn (market value - LKR 17.2 Bn)] are presented in the Statement of Financial Position under the caption of financial assets held for trading, held to maturity and available for sale.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

9. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their notional (contract) amounts.

Settlement of these contracts against customer is on delivery against payment basis which eliminates credit risks. Settlements against Bank is on a gross basis subject to approved credit limits.

The notional amounts indicate the volume of transactions outstanding at the year end are indicative of neither the market risk not the credit risk.

This transaction type is exposed to market risks due to fluctuation of market rates.

The Bank may take positions with the expectation of profiting from favorable movements in rates. Derivatives entered into for risk management purposes that do not meet the hedge accounting criteria are also included under this classification.

9.1 Derivative Assets- Held for Trading

At a Gain Position

	Bank / Group		Bank / Group	
	Fair Value of	Contract	Fair Value of	Contract
	Assets	amount	Assets	amount
	2015		2014	
	LKR '000	LKR '000	LKR '000	LKR '000
Forward Foreign Exchange Contracts and Currency Swaps	554,030	16,897,676	128,053	16,801,235
	554,030	16,897,676	128,053	16,801,235

9.2 Derivative Liabilities - Held for Trading

At a Loss Position

	Bank / Group		Bank / Group	
	Fair Value of	Contract	Fair Value of	Contract
	Liabilities	amount	Liabilities	amount
	2015		2014	
	LKR '000	LKR '000	LKR '000	LKR '000
Forward Foreign Exchange Contracts and Currency Swaps	53,327	3,711,545	166,370	12,503,904
	53,327	3,711,545	166,370	12,503,904

NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL ASSETS - HELD FOR TRADING

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Government Treasury Bills	1,549,414	6,618,490	1,549,414	6,618,490
Government Treasury Bonds	494,730	9,030,227	494,730	9,081,898
	2,044,144	15,648,717	2,044,144	15,700,388

11. FINANCIAL ASSETS AT AVAILABLE FOR SALE

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Government Treasury Bills	6,362,143	2,861,780	6,362,143	2,861,780
Government Treasury Bonds	10,011,297	1,308,791	10,011,297	1,308,791
Unquoted Equity Shares (Note 11.1)	196,563	158,878	196,563	158,878
	16,570,003	4,329,449	16,570,003	4,329,449
Impairment Allowance for Losses	(37,086)	-	(37,086)	-
	16,532,917	4,329,449	16,532,917	4,329,449

11.1 Unquoted Equity Shares

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
MasterCard Incorporated 13,590 Class B Common Stock	190,821	153,390	190,821	153,390
Lanka Clear (Private) Limited 150,000 Ordinary Shares of LKR 10/- each	1,500	1,500	1,500	1,500
Credit Information Bureau (CRIB) 9,000 Ordinary Shares of LKR 10/- each	90	90	90	90
Lanka Financial Services Bureau 112,500 Ordinary Shares of LKR 10/- each	1,125	1,125	1,125	1,125
Society of Worldwide Interbank Financial Telecommunication (SWIFT) 5 Ordinary Shares	3,027	2,773	3,027	2,773
	196,563	158,878	196,563	158,878

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

12. FINANCIAL ASSETS - HELD TO MATURITY

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Government Treasury Bonds	12,675,717	9,586,218	12,743,763	9,653,000
	12,675,717	9,586,218	12,743,763	9,653,000

13. OTHER FINANCIAL ASSETS

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Development Bonds (Note 13.1)	3,784,984	2,669,818	3,784,984	2,669,818
Quoted Debentures (Note 13.2)	2,672,254	951,039	2,672,254	951,039
Unquoted Debentures (Note 13.3)	54,123	199,889	54,123	199,889
	6,511,361	3,820,746	6,511,361	3,820,746

13.1 The Investment in Sri Lanka Development Bonds amounts to USD 26 Mn (2014: USD 20 Mn) and matures in years 2017, 2018, 2019.

13.2 Quoted Debentures

Company	Type	Par Value LKR	No of Debentures		LKR '000	
			2015	2014	2015	2014
Housing and Development Finance Corporation	Secured, Redeemable Debentures	100/-	779,400	779,400	80,789	80,789
ABANS PLC	Unsecured, Redeemable Debentures	100/-	720,700	720,700	77,156	77,156
Hemas Holdings PLC	Unsecured, Redeemable Debentures	100/-	223,900	223,900	23,011	23,011
Peoples' Leasing and Finance Company PLC	Unsecured, Redeemable Debentures	100/-	1,595,400	1,595,400	173,500	163,326
Lion Brewery(Ceylon) PLC	Unsecured, Redeemable Debentures	100/-	1,686,000	1,686,000	171,926	169,470
Seylan Bank PLC -Colombo	Unsecured, Redeemable Debentures	100/-	3,000,000	3,000,000	300,636	300,636
Alliance Finance Company PLC	Unsecured, Redeemable Debentures	100/-	1,365,498	1,365,498	136,651	136,651
Singer (Sri Lanka) PLC	Unsecured, Redeemable Debentures	100/-	2,000,000	-	208,670	-
DFCC Vardhana Bank	Unsecured, Redeemable Debentures	100/-	1,988,600	-	209,023	-
MTD Walkers PLC	Unsecured, Redeemable Debentures	100/-	2,000,000	-	204,967	-
Housing and Development Finance Corporation	Unsecured, Redeemable Debentures	100/-	2,500,000	-	253,021	-
Access Engineering PLC	Unsecured, Redeemable Debentures	100/-	3,500,000	-	354,324	-
Sanasa Development Bank PLC	Guaranteed, Redeemable Debentures	100/-	3,784,500	-	378,552	-
Sanasa Development Bank PLC	Guaranteed, Redeemable Debentures	100/-	1,000,000	-	100,028	-
					2,672,254	951,039

NOTES TO THE FINANCIAL STATEMENTS

13. OTHER FINANCIAL ASSETS (CONTD.)

13.3 Unquoted Debentures

Company	Type	Par Value LKR	No of Debentures		LKR '000	
			2015	2014	2015	2014
Peoples' Leasing and Finance Company PLC	Unsecured, Redeemable Debentures	1,000/-	-	37,500	-	37,521
Senkadagala Finance PLC	Secured, Redeemable Debentures	1,000/-	50,000	150,000	54,123	162,368
					54,123	199,889

14. LOANS AND ADVANCES TO CUSTOMERS

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Corporate Loans	30,571,614	24,035,973	31,399,562	25,314,493
Retail, SME and Consumer Lending	59,464,335	46,157,688	59,464,334	46,157,687
Housing Loans	1,376,117	1,310,648	1,376,117	1,310,648
Leases	28,936,324	25,695,994	28,936,324	25,695,994
	120,348,390	97,200,303	121,176,337	98,478,822
Less : Allowance for Impairment Losses	(2,060,334)	(1,936,597)	(2,059,784)	(1,936,326)
	118,288,056	95,263,706	119,116,553	96,542,496
Staff Loans	2,596,464	2,491,861	2,596,464	2,491,861
Less : Allowance for Day 1 Difference	(569,952)	(687,308)	(569,952)	(687,308)
	2,026,512	1,804,553	2,026,512	1,804,553
	120,314,568	97,068,259	121,143,065	98,347,049

14.1 Gross Loans and Advances by Currency

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
By Currency				
Sri Lanka Rupee	118,939,511	94,658,368	119,767,458	95,936,888
United States Dollar	3,891,630	4,924,891	3,891,630	4,924,891
Others	113,713	108,905	113,713	108,904
	122,944,854	99,692,164	123,772,801	100,970,683

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

14. LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

14.2 Gross Loans and Advances by Product

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
By Product				
Bills of Exchange	39,050	46,132	39,050	46,132
Overdrafts	24,213,353	19,230,866	24,213,353	19,230,866
Term Loans	42,952,414	30,801,884	43,780,362	32,080,405
Staff Loans	2,596,464	2,491,861	2,596,464	2,491,861
Import Loans	6,105,279	4,117,463	6,105,279	4,117,463
Packing Loans	1,782,633	2,313,360	1,782,633	2,313,360
Leases	28,936,324	25,695,994	28,936,324	25,695,994
Credit Cards	13,960,650	12,066,137	13,960,650	12,066,137
Pawning	655,734	1,261,819	655,734	1,261,819
Corporate Debt Securities	1,427,994	1,531,212	1,427,994	1,531,212
Other Advances	274,959	135,436	274,958	135,434
	122,944,854	99,692,164	123,772,801	100,970,683

14.3 Impairment Allowance for Loans and Advances to Customers

14.3.1 Bank

	Corporate Loans LKR '000	Retail, SME and Consumer Lending LKR '000	Housing Loans LKR '000	Leases LKR '000	Total LKR '000
As at 01 January 2014	563,190	903,856	89,286	218,862	1,775,194
Charge/ (Reversal) for the period	151,596	548,391	14,654	442,089	1,156,730
Amounts written off	(342,649)	(545,372)	(8,862)	(98,444)	(995,327)
As at 31 December 2014	372,137	906,875	95,078	562,507	1,936,597
Charge/ (Reversal) for the period	33,753	701,754	(9,171)	189,136	915,472
Amounts written off	(212,120)	(350,035)	-	(229,580)	(791,735)
As at 31 December 2015	193,770	1,258,594	85,907	522,063	2,060,334
Impairment - As at 31 December 2014					
Individual impairment	249,296	79,466	21,274	33,201	383,237
Collective impairment	122,841	827,409	73,804	529,306	1,553,360
	372,137	906,875	95,078	562,507	1,936,597
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 st December 2014	881,548	1,744,776	100,423	532,513	3,259,260
Impairment - As at 31 December 2015					
Individual impairment	126,730	511,693	21,153	2,586	662,162
Collective impairment	67,040	746,901	64,754	519,477	1,398,172
	193,770	1,258,594	85,907	522,063	2,060,334
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 st December 2015	1,888,153	1,578,775	21,153	93,050	3,581,131

NOTES TO THE FINANCIAL STATEMENTS

14. LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

14.3 Impairment Allowance for Loans and Advances to Customers (Contd.)

14.3.2 Group

	Corporate Loans	Retail, SME and Consumer Lending	Housing Loans	Leases	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January 2014	562,239	903,856	89,286	218,862	1,774,243
Charge/ (Reversal) for the year	152,276	548,390	14,655	442,088	1,157,409
Amounts written off	(342,649)	(545,372)	(8,862)	(98,443)	(995,326)
As at 31 December 2014	371,866	906,874	95,079	562,507	1,936,326
Charge/ (Reversal) for the year	33,474	701,754	(9,171)	189,136	915,193
Amounts written off	(212,120)	(350,035)	-	(229,580)	(791,735)
As at 31 December 2015	193,220	1,258,593	85,908	522,063	2,059,784
Impairment - As at 01 January 2014					
Individual impairment	249,296	79,466	21,275	33,200	383,237
Collective impairment	122,570	827,408	73,804	529,307	1,553,089
	371,866	906,874	95,079	562,507	1,936,326
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 December 2014	881,548	1,744,776	100,423	532,513	3,259,260
Impairment - As at 31 December 2015					
Individual impairment	126,730	511,693	21,153	2,586	662,162
Collective impairment	66,490	746,900	64,755	519,477	1,397,622
	193,220	1,258,593	85,908	522,063	2,059,784
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 December 2015	1,888,153	1,578,775	21,153	93,050	3,581,131

14.3.3 Movement in Individual impairment during the year

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	383,237	620,978	383,237	620,978
Charge/(Reversal) for the year, net of write-off	278,925	(237,741)	278,925	(237,741)
As at 31 December	662,162	383,237	662,162	383,237

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

14. LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

14.4 Rental Receivable on Leases

As at 31 December

	2015				2014			
	Bank / Group				Bank / Group			
	Within 1 year	1 - 5 years	Over 5 years	Total	Within 1 year	1 - 5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Gross Rentals Receivables	9,798,239	25,835,691	14,570	35,648,500	9,073,355	23,598,388	11,221	32,682,964
Less : Unearned Income	276,990	6,435,020	166	6,712,176	284,481	6,702,198	291	6,986,970
Net Rentals Receivables	9,521,248	19,400,671	14,404	28,936,324	8,788,874	16,896,190	10,930	25,695,994
Less : Allowance for Impairment Losses	-	-	-	522,063	-	-	-	562,507
Total Net Rentals Receivables	9,521,248	19,400,671	14,404	28,414,260	8,788,874	16,896,190	10,930	25,133,487

15. OTHER ASSETS

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Deposits and Prepayments	427,391	382,926	426,572	375,596
Unamortised Staff Cost	569,952	687,308	569,952	687,308
Other Receivables	342,210	280,638	389,833	356,514
	1,339,553	1,350,872	1,386,357	1,419,418

In the Last year, Items in transit balance represented the unrealized cheques where as the corresponding balance were classified under Other Liabilities. However, in the current year these have been netted off for better presentation, The comparative figures were adjusted accordingly.

16. INVESTMENTS IN SUBSIDIARIES

Unquoted

Name of Company	Country of Incorporation	Bank			
		2015 Holding	2014 Holding	2015 Cost	2014 Cost
		%	%	LKR '000	LKR '000
Waldock Mackenzie Limited	Sri Lanka	99.99	99.99	-	-
Allied Properties Limited	Sri Lanka	99.99	99.99	652,907	652,907
Nations Insurance Brokers Limited	Sri Lanka	99.99	99.99	25,803	25,803
Net Carrying Amount				678,710	678,710

NOTES TO THE FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT

Accounting Policy

Property, plant and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The Group reviews its assets' residual values, useful lives and method of depreciation at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives. Lands are not depreciated. The estimated useful lives are as follows:

Buildings	40 years
Motor Vehicles	04 years
Other Equipment	04 -08 years
Computer Hardware	04 years
Furniture and Fittings	08 years
Leasehold Improvements	Over the lease period

Property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other Operating Income' or 'Other Operating Expenses' as appropriate in the Statement of Profit or Loss in the year the asset is derecognised.

17. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

17.1 Bank

	Land - Freehold	Land - Leasehold	Buildings	Motor Vehicles	Other Equipments	Computer hardware	Furniture, Fixtures and Fittings	Leasehold improvements	Capital Work-In Progress	Total
	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000
Gross Carrying Amounts at Cost:										
At 01 January 2014	559,440	-	107,316	25,963	452,325	1,260,548	572,350	214,252	-	3,192,194
Additions	-	-	5,161	199	127,231	203,543	102,358	30,326	-	468,818
Disposals	-	-	-	(2,225)	-	(2,627)	(733)	-	-	(5,585)
Reclassification *	-	-	-	-	-	277	126	(126)	-	277
At 31 December 2014	559,440	-	112,477	23,937	579,556	1,461,741	674,101	244,452	-	3,655,704
Additions	-	-	2,902	-	50,029	119,598	40,328	28,180	-	241,037
Disposals	-	-	-	(3,038)	(477)	(24,264)	(1,895)	-	-	(29,674)
Reclassification *	-	-	-	-	-	44,576	-	-	-	44,576
Transfer	-	-	-	-	(17)	170	-	-	-	153
Capital WIP Additions	-	-	-	-	-	-	-	-	32,057	32,057
At 31 December 2015	559,440	-	115,379	20,899	629,091	1,601,821	712,534	272,632	32,057	3,943,853
Depreciation										
At 01 January 2014	-	-	30,212	18,956	233,271	951,467	275,243	137,619	-	1,646,768
Charge for the year	-	-	2,430	4,058	62,766	134,175	67,044	24,771	-	295,244
Disposals	-	-	-	(2,225)	-	(2,570)	(518)	-	-	(5,313)
Reclassification *	-	-	2	-	-	1,149	-	(2)	-	1,149
At 31 December 2014	-	-	32,644	20,789	296,037	1,084,221	341,769	162,388	-	1,937,848
Charge for the year	-	-	2,592	2,733	75,351	179,450	74,899	26,449	-	361,474
Disposals	-	-	-	(3,038)	(474)	(24,261)	(1,815)	-	-	(29,588)
Reclassification *	-	-	-	-	-	1,591	-	-	-	1,591
Transfer	-	-	-	-	-	80	-	-	-	80
At 31 December 2015	-	-	35,236	20,484	370,914	1,241,081	414,853	188,837	-	2,271,405
Net book value:										
At 01 January 2014	559,440	-	77,104	7,007	219,054	309,081	297,107	76,633	-	1,545,426
At 31 December 2014	559,440	-	79,833	3,148	283,519	377,520	332,332	82,064	-	1,717,856
At 31 December 2015	559,440	-	80,143	415	258,177	360,740	297,681	83,795	32,057	1,672,448

During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of LKR 241 Mn (2014 - LKR 468.8 Mn). Cash payments amounting to LKR 291 Mn (2014 - LKR 479.6 Mn) were made during the year for purchase of Property, Plant and Equipment.

Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of LKR 1,340.4 Mn (2014 - LKR 1,116.89 Mn).

* During the year items were reclassified under Computer Hardware from Computer Software

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

NOTES TO THE FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

17.2 Group	Land - Freehold	Land - Leasehold	Buildings	Motor Vehicles	Other Equipments	Computer hardware	Furniture, Fixtures and Fittings	Leasehold improvements	Capital Work-In Progress	Total
	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000
Gross Carrying Amounts at Cost:										
At 01 January 2014	707,440	-	548,373	26,133	453,828	1,268,529	573,818	214,251	-	3,792,372
Additions	-	-	6,369	199	127,327	204,293	102,368	30,326	-	470,882
Disposals	-	-	-	(2,225)	-	(2,627)	(735)	-	-	(5,587)
Reclassification *	(148,000)	148,000	-	-	-	277	126	(126)	-	277
At 31 December 2014	559,440	148,000	554,742	24,107	581,155	1,470,472	675,577	244,451	-	4,257,944
Additions	-	-	7,146	-	51,988	120,402	41,693	28,180	-	249,409
Disposals	-	-	-	(3,038)	(1,265)	(24,294)	(1,920)	-	-	(30,517)
Reclassification *	-	-	(668)	-	2,447	42,195	602	-	-	44,576
Transfer	-	-	-	-	17	(170)	-	-	-	(153)
Capital WIP Additions	-	-	-	-	-	-	-	-	32,057	32,057
At 31 December 2015	559,440	148,000	561,220	21,069	634,342	1,608,605	715,952	272,631	32,057	4,553,316
Depreciation										
At 01 January 2014	-	-	118,093	19,124	234,512	958,731	275,852	137,617	-	1,743,929
Charge for the year	-	16,883	13,477	4,058	62,805	134,560	67,199	24,771	-	323,753
Disposals	-	-	-	(2,225)	-	(2,570)	(518)	-	-	(5,313)
Reclassification *	-	-	2	-	-	1,149	-	(2)	-	1,149
At 31 December 2014	-	16,883	131,572	20,957	297,317	1,091,870	342,533	162,386	-	2,063,518
Charge for the year	-	1,893	13,731	2,733	75,605	179,802	75,238	26,449	-	375,451
Disposals	-	-	-	(3,038)	(1,262)	(24,371)	(1,840)	-	-	(30,511)
Reclassification *	-	-	-	-	2,317	(726)	-	-	-	1,591
Transfer	-	-	-	-	-	80	-	-	-	80
At 31 December 2015	-	18,776	145,303	20,652	373,977	1,246,655	415,931	188,835	-	2,410,129
Net book value:										
At 01 January 2014	707,440	-	430,280	7,009	219,316	309,797	297,966	76,634	-	2,048,442
At 31 December 2014	559,440	131,117	423,170	3,150	283,838	378,602	333,044	82,065	-	2,194,425
At 31 December 2015	559,440	129,224	415,917	417	260,365	361,950	300,021	83,796	32,057	2,143,187

During the financial year, the Group acquired Property, Plant and Equipment to the aggregate value of LKR 249.4 Mn (2014- LKR 470.9 Mn). Cash payments amounting to LKR 307 Mn (2014- LKR 474.8 Mn) were made during the year for purchase of Property, Plant and Equipment. Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of LKR 1,348.7 Mn (2014- LKR 1,125.17 Mn).

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

18. INTANGIBLE ASSETS

Accounting Policy

The Group's intangible assets include the cost of computer software and Licenses.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the Profit or Loss.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives of 7-10 years, for computer software and license fees.

18.1 Bank

	Computer Software LKR '000	Other License Fees LKR '000	Total LKR '000
Cost			
At 01 January 2014	984,549	486,793	1,471,342
Additions	774,563	-	774,563
Disposals	(180,976)	(155,505)	(336,481)
Reclassifications	(277)	-	(277)
At 31 December 2014	1,577,859	331,288	1,909,147
Additions	235,300	-	235,300
Disposals	(49,697)	-	(49,697)
Reclassifications*	(44,576)	-	(44,576)
At 31 December 2015	1,718,886	331,288	2,050,174
Amortisation			
At 01 January 2014	540,279	265,933	806,212
Disposals	135,428	33,129	168,557
Charge for the year	(180,976)	(155,505)	(336,481)
Reclassifications	(277)	-	(277)
At 31 December 2014	494,454	143,557	638,011
Charge for the year	204,617	33,129	237,746
Disposals	(38,087)	-	(38,087)
Reclassifications	(1,591)	-	(1,591)
At 31 December 2015	659,393	176,686	836,079
Net Book Value			
At 01 January 2014	444,270	220,860	665,130
At 31 December 2014	1,083,405	187,731	1,271,137
At 31 December 2015	1,059,493	154,602	1,214,095

During the financial year, the Bank acquired Intangible Assets to the aggregate value of LKR 235.3 Mn (2014- LKR 774.6 Mn). Cash payments amounting to LKR 322 Mn (2014- LKR 858.9 Mn) were made during the year for purchase of Intangible Assets.

NOTES TO THE FINANCIAL STATEMENTS

18. INTANGIBLE ASSETS (CONTD.)

18.2 Group	Computer Software	Other License Fees	Total
	LKR '000	LKR '000	LKR '000
Cost			
At 01 January 2014	1,004,079	486,793	1,490,872
Additions	774,565	-	774,565
Disposals	(180,976)	(155,505)	(336,481)
Reclassifications	(277)	-	(277)
At 31 December 2014	1,597,391	331,288	1,928,679
Additions	237,143	-	237,143
Disposals	(49,697)	-	(49,697)
Reclassifications*	(44,576)	-	(44,576)
At 31 December 2015	1,740,261	331,288	2,071,549
Amortisation			
At 01 January 2014	544,934	265,933	810,867
Disposals	138,219	33,129	171,348
Charge for the year	(180,976)	(155,505)	(336,481)
Reclassifications	(277)	-	(277)
At 31 December 2014	501,900	143,557	645,457
Charge for the year	208,482	33,129	241,611
Disposals	(38,087)	-	(38,087)
Reclassifications	(1,591)	-	(1,591)
At 31 December 2015	670,704	176,686	847,390
Net Book Value			
At 01 January 2014	459,145	220,860	680,005
At 31 December 2014	1,095,491	187,731	1,283,223
At 31 December 2015	1,069,557	154,602	1,224,159

During the financial year, the Group acquired Intangible Assets to the aggregate value of LKR 237.1 Mn (2014- LKR 774.6 Mn). Cash payments amounting to LKR 325 Mn (2014- LKR 858.9 Mn) were made during the year for purchase of Intangible Assets.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

19. DUE TO BANKS

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Money Market Borrowing	2,169,060	2,523,348	2,169,060	2,523,348
Deposits from Other Banks	106,780	399,436	106,780	399,436
	2,275,840	2,922,784	2,275,840	2,922,784

20. DUE TO CUSTOMERS

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
20.1 Due to Customers - By Products				
Demand Deposits	15,014,444	16,018,845	14,931,758	15,982,067
Savings Deposits	26,758,717	21,056,451	26,758,717	21,056,451
Call Deposits	275,130	365,849	275,130	365,849
Fixed Deposits	84,800,820	71,846,374	84,800,820	71,846,374
Certificate of Deposits	2,391,765	1,758,927	2,391,765	1,758,927
	129,240,876	111,046,446	129,158,190	111,009,668
20.2 Due to Customers - By Currency				
Sri Lanka Rupee	113,124,574	93,784,974	113,041,888	93,748,195
United States Dollar	12,171,177	13,496,457	12,171,177	13,496,457
Sterling Pound	1,824,662	1,887,759	1,824,662	1,887,759
Others	2,120,463	1,877,256	2,120,463	1,877,257
	129,240,876	111,046,446	129,158,190	111,009,668

21. DEBT ISSUED AND OTHER BORROWED FUNDS

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
21.1 Senior Debt				
US Dollar 15 Mn (US Dollar 7.5 Mn - 2014) Loan (Note 21.4)	2,183,069	992,618	2,183,069	992,618
	2,183,069	992,618	2,183,069	992,618
21.2 Subordinated Debt				
US Dollar 13 Mn - Loan 2 (Note 21.4)	1,892,023	1,727,760	1,892,023	1,727,760
Rated, Unsecured, Redeemable Debentures (Note 21.5)	5,076,108	5,067,273	5,077,032	5,069,548
	6,968,131	6,795,033	6,969,055	6,797,308
21.3 Other Borrowings				
Refinance Borrowings	10,570	760	10,570	760
Other Short Term Borrowings	3,811,060	1,896,846	3,811,060	2,398,762
	3,821,630	1,897,606	3,821,630	2,399,522
	12,972,830	9,685,257	12,973,754	10,189,448

NOTES TO THE FINANCIAL STATEMENTS

21. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

21.4 Senior / Subordinated Debt

These borrowings are from Foreign Development Finance Institutions with an original maturity of 5 years. Interest is payable on a variable base with a fixed spread.

21.5 Details of Subordinated Debentures Issued by the Bank

Issued Date	Face Value 2015 / 2014 LKR '000	Coupon Rate	Interest Terms	Maturity Date	Amortised Cost Bank		Amortised Cost Group		Interest rate of Comparable Government Security	
					2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000	2015 %	2014 %
29-Aug-11	1,525,000	11.50%	Semi - Annually	29-Aug-16	1,593,927	1,588,884	1,594,851	1,591,159	6.84	6.42
29-Aug-11	200,000	11.00%	Semi - Annually	29-Aug-16	209,041	209,452	209,041	209,452	6.84	6.42
29-Aug-11	275,000	11.50%	Semi - Annually	29-Aug-16	285,830	285,830	285,830	285,830	6.84	6.42
19-Dec-13	3,000,000	13.00%	Semi - Annually	19-Dec-18	2,987,310	2,983,107	2,987,310	2,983,107	9.03	7.14
	5,000,000				5,076,108	5,067,273	5,077,032	5,069,548		

Ratios of Debt - Bank

	2015	2014
* Debt / Equity Ratio %	49.81%	52.53%
Interest Cover (Times)	6.16	6.08

*Debt includes only the subordinated debt as at 31 December 2015.

21.6 All the liabilities were issued by Nations Trust Bank PLC, except when otherwise indicated. The Bank has not had any defaults of principal, interest or other breaches with regard to any liabilities as of 31 December 2015.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

22. OTHER LIABILITIES

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Accounts Payable and Sundry Creditors	1,131,081	1,174,862	1,141,564	1,189,113
Obligations under Financial Guarantees (Note 22.1)	33,748	43,612	33,748	43,612
Margin Balances	287,380	391,548	287,380	391,548
Pay Orders	1,452,627	1,036,849	1,452,627	1,439,878
Employee Benefit Liability (Note 22.2)	385,568	368,816	390,244	374,175
Others	1,688,517	1,380,806	1,758,496	1,033,778
	4,978,921	4,396,493	5,064,059	4,472,104

In the Last year, Items in transit balance represented the unrealized cheques where as the corresponding balance were classified under Other Liabilities. However in the current year these have been netted off for better presentation, The comparative figures were adjusted accordingly.

22.1 The movement in 'Obligations under Financial Guarantees' during the year is as follows;

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	43,612	29,247	43,612	29,247
Arising during the Year	(189,088)	(162,038)	(189,088)	(162,038)
Utilized	179,224	176,403	179,224	176,403
As at 31 December	33,748	43,612	33,748	43,612

22.2 Employee Benefit Liability

Accounting Policy

(i) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with respective statutes and regulations.

The Bank and its subsidiaries except for Nations Insurance Brokers Limited contribute 12% of gross emoluments of employees to an approved private Provident Fund managed by Nations Trust Bank PLC and 3% gross emoluments of employees to the Employees' Trust Fund respectively.

Nations Insurance Brokers Limited contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and the Employees' Trust Fund respectively.

(ii) Defined Benefit Plan - Gratuity

The Group measures the present value of the retirement benefits of gratuity which is a defined benefit plan using the projected unit credit method as recommended by revised LKAS 19 "Employee benefits" and resulting actuarial gain/loss is recognized in full in the Other Comprehensive Income (OCI).

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS

22. OTHER LIABILITIES (CONTD.)

22.2 Employee Benefit Liability (Contd.)

Accordingly, the employee benefit liability is based on the actuarial valuation as of 31 December 2015, carried out by Messrs Actuarial and Management Consultants (Private) Limited, actuaries.

The gratuity liability is not externally funded.

The key assumptions used by the actuary include the following:

	2015	2014
Rate of Interest	10.0%	8.5%
Rate of Salary Increase	8.0%	8.0%
Retirement Age	55-60 years	55-60 years

22.2.1 Net benefit expense categorized under personnel expenses:

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Interest Cost	31,349	33,431	31,805	34,191
Current Service Cost	48,811	49,092	49,382	49,798
	80,160	82,523	81,187	83,989

22.2.2 Changes in the present value of the Retirement Benefit Plan are as follows:

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	368,816	303,921	374,175	310,825
Interest Cost	31,349	33,431	31,805	34,191
Current Service Cost	48,811	49,092	49,382	49,798
Gratuity Payable	(5,620)	(6,299)	(5,620)	(6,299)
Benefits Paid	(50,284)	(22,075)	(50,743)	(25,323)
Actuarial Loss/(Gains)	(7,504)	10,746	(8,755)	10,983
As at 31 December	385,568	368,816	390,244	374,175

22.2.3 In order to illustrate the significance of the salary escalation rates and discount rates assumed in this valuation a sensitivity analysis for all employees assuming the above is as follows:

Group 2015				Group 2014			
Salary Escalation Rate	Discount Rate	PVDBO	Effect on Other Comprehensive Income	Salary Escalation Rate	Discount Rate	PVDBO	Effect on Other Comprehensive Income
		LKR '000	LKR '000			LKR '000	LKR '000
8.0%	11.0%	370,762	19,482	8.0%	9.5%	352,791	21,384
8.0%	9.0%	411,866	(21,622)	8.0%	7.5%	398,182	(24,007)
9.0%	10.0%	413,787	(23,543)	9.0%	8.5%	399,781	(25,605)
7.0%	10.0%	368,717	21,527	7.0%	8.5%	350,996	23,179

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

22. OTHER LIABILITIES (CONTD.)

22.2 Employee Benefit Liability (Contd.)

22.2.4 Average Future working Life Time as per the assumptions made in year 2015: 5.58 years (Year 2014: 7.11 years).

22.2.5 Group Maturity Profile of the Defined Benefit Obligation as at 31 December 2015

Future Working Life Time	Defined Benefit Obligation LKR '000
Within the next 12 months	60,860
Between 1 - 2 years	89,999
Between 2 - 5 years	89,498
Between 5 - 10 years	91,450
Beyond 10 years	58,437
	390,244

Weighted Average duration of Defined Benefit Obligation is 3.36 years.

23. TAXES

Accounting Policy

23.1 Current Tax

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Nations Trust Bank PLC

Income tax on profit from the Domestic Banking Unit and on-shore operations of the Foreign Currency Banking Unit is calculated at the rate of 28%.

Subsidiary - Waldock Mackenzie Limited

Income tax on profit from operations is calculated at the rate of 28%.

Subsidiary - Allied Properties Limited

In terms of a BOI Agreement, the Company enjoys a concessionary tax rate of 2% on its turnover for a period of 15 years commencing from 01 April 2007. Income tax on profit from other sources of income is calculated at 28%.

Subsidiary - Nations Insurance Brokers Limited

Income tax on profit from operations is calculated at the rate of 28%.

23.2 Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

23. TAXES (CONTD.)

23.2 Deferred tax (Contd.)

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets (DTA) and deferred tax liabilities (DTL) are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Bank	2015				2014			
	01/01/15 DTL/(DTA) LKR. '000	Recognised in P&L LKR. '000	Recognised in OCI LKR. '000	31/12/2015 DTL/(DTA) LKR. '000	01/01/14 DTL/(DTA) LKR. '000	Recognised in P&L LKR. '000	Recognised in OCI LKR. '000	31/12/2014 DTL/(DTA) LKR. '000
Accelerated depreciation allowances for tax purposes-property plant and equipment and Intangible assets	214,868	42,931	-	257,799	135,981	78,887	-	214,868
Accelerated depreciation allowances for tax purposes- lease rentals receivable	531,464	344,107	-	875,571	362,158	169,306	-	531,464
Net gains on re-measuring of available -for-sale financial assets	43,516	-	(15,017)	28,499	-	-	43,516	43,516
Carry forward Tax losses on Lease Business	(83,417)	(164,089)	-	(247,506)	-	(83,417)	-	(83,417)
Adjustment due to change in Accounting base and tax base on adopting SLFRS	(71,278)	-	-	(71,278)	(71,278)	-	-	(71,278)
Retirement Benefit Plan -Gratuity	(105,032)	(6,601)	2,101	(109,532)	(85,098)	(16,925)	(3,009)	(105,032)
Specific provision for loans & advances & lease rentals receivables	(115,068)	115,068	-	-	-	(115,068)	-	(115,068)
Total Timing Difference	415,053	331,416	(12,916)	733,553	341,763	32,783	40,507	415,053

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

23. TAXES (CONTD.)

23.2 Deferred tax (Contd.)

Group	2015				2014			
	01/01/15	Recognised	Recognised	31/12/2015	01/01/14	Recognised	Recognised	31/12/2014
	DTL/(DTA)	in P&L	in OCI	DTL/(DTA)	DTL/(DTA)	in P&L	in OCI	DTL/(DTA)
	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000
Accelerated depreciation allowances for tax purposes-property plant and equipment and Intangible assets	214,623	42,960	-	257,583	135,912	78,711	-	214,623
Accelerated depreciation allowances for tax purposes- lease rentals receivable	531,464	344,107	-	875,571	362,157	169,307	-	531,464
Net gains on re-measuring of available -for-sale financial assets	43,515	-	(15,017)	28,498	-	-	43,515	43,515
Carry forward Tax losses on Lease Business	(83,417)	(164,088)	-	(247,505)	-	(83,417)	-	(83,417)
Adjustment due to change in Accounting base and tax base on adopting SLFRS	(71,278)	-	-	(71,278)	(71,278)	-	-	(71,278)
Retirement Benefit Plan -Gratuity	(106,364)	(6,355)	2,429	(110,290)	(86,195)	(17,027)	(3,142)	(106,364)
Specific provision for loans & advances & lease rentals receivables	(115,068)	115,068	-	-	-	(115,068)	-	(115,068)
Total Timing Difference	413,475	331,692	(12,588)	732,579	340,596	32,506	40,373	413,475

23.3 Deferred tax has been determined based on the effective tax rate of 28% .

24. STATED CAPITAL

Ordinary Shares	Bank /Group		Bank /Group	
	2015		2014	
	Number	LKR '000	Number	LKR '000
Issued and fully paid				
As at 01 January	230,607,283	5,101,369	230,607,283	5,101,369
As at 31 December	230,607,283	5,101,369	230,607,283	5,101,369

25. STATUTORY RESERVE FUND

25.1 Statutory reserve fund is maintained as per the requirement in terms of Section 20 of the Banking Act No 30 of 1988.

Accordingly, a sum equivalent to 5% of profit after tax is transferred to the reserve fund until reserve fund is equal to 50% of the Bank's Stated Capital. Thereafter a further 2% of profits will be transferred until the said reserve fund is equal to the Bank's stated Capital.

25.2 Movement in Statutory Reserve Fund

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	538,205	419,305	538,205	419,305
Transfers during the year (Note 26)	122,635	118,900	122,635	118,900
As at 31 December	660,840	538,205	660,840	538,205

NOTES TO THE FINANCIAL STATEMENTS

26. RETAINED EARNINGS

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 01 January	7,037,084	4,183,983	8,143,054	5,067,107
Charge relating to Super Gain Tax (Note 47)	(733,572)	-	(820,512)	-
Total Comprehensive Income	2,458,093	2,370,256	2,620,317	2,528,740
Dividend Paid	(484,275)	(484,275)	(484,275)	(484,275)
Transfers from Investment Fund Account (Note 27.2.2)	-	1,086,020	-	1,150,382
Transfers to Reserve Fund (Note 25.2)	(122,635)	(118,900)	(122,635)	(118,900)
As at 31 December	8,154,695	7,037,084	9,335,949	8,143,054

27. OTHER RESERVES

27.1 Available for Sale Reserve

	Bank		Group	
	2015 LKR ' 000	2014 LKR ' 000	2015 LKR ' 000	2014 LKR ' 000
As at 01 January	111,897	-	111,897	-
Net unrealized gain / (loss) on available-for-sale financial instruments	(38,615)	111,897	(38,615)	111,897
As at 31 December	73,282	111,897	73,282	111,897

27.2 Investment Fund Account (IFA Reserve)

27.2.1 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 29 April 2011 with the concurrence of the Commissioner - General of Inland Revenue. However, the operations of Investment Fund Account (IFA) was ceased from 01 October 2014. Accordingly, as per Central Bank guidelines dated 31 July 2014 the remaining balance in IFA account was transferred to retained earnings through the Statement of Changes in Equity.

27.2.2 Tax saving on the reduction of tax rates are transferred to the Investment Fund as per the guidelines issued by Central Bank of Sri Lanka. Loans amounting to LKR 660 Mn (2014 : 988 Mn) were outstanding under this scheme.

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 01 January	-	1,086,020	-	1,150,382
Transfers during the year	-	(1,086,020)	-	(1,150,382)
As at 31 December	-	-	-	-

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

28. REVENUE RECOGNITION

Accounting Policy

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(i) Interest Income and Expense

For all financial instruments interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest Income' for financial assets and 'Interest Expense' for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and Commission Income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Credit related fees are deferred and recognized as an adjustment to the EIR of the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Dividend Income

Dividend income is recognized when the Group's right to receive the payment is established which is generally when the shareholders approve the dividend.

(iv) Net Trading Income

Results arising from trading activities include all gains and losses from changes in fair value.

(v) Rental Income

Rental income is recognized on an accrual basis.

(vi) Other Income

Other income is recognized on an accrual basis.

(vii) Other Expenses

All other expenses have been recognized in the Financial Statements as they are incurred in the period to which they relate. All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the Group's profit for the year.

NOTES TO THE FINANCIAL STATEMENTS

29. INTEREST INCOME AND INTEREST EXPENSE

29.1 Interest Income

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Reverse Repurchase Agreements	214,343	216,360	214,343	216,360
Due from Banks	42,561	4,282	42,561	4,282
Loans and Advances to Customers	13,029,182	12,462,564	13,133,826	12,599,168
Financial Assets - Held for Trading	718,786	1,883,705	722,302	1,924,170
Financial Assets - Available for Sale	951,885	33,988	951,885	33,988
Financial Assets - Held to Maturity	1,151,099	2,074,059	1,159,214	2,081,792
Other Financial Assets	274,864	180,742	274,864	180,742
Interest Income accrued on Impaired Financial Assets	129,054	411,959	129,055	411,959
	16,511,774	17,267,659	16,628,050	17,452,461

Interest Income from government securities earned during the year 2015 amounts to LKR 2,964 Mn (2014: LKR 4,092 Mn) and the Group LKR 2,975 Mn (2014: LKR 4,193 Mn). These Government Securities include; Treasury Bills, Treasury Bonds and Sri Lanka Development Bonds.

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
29.2 Interest Expense				
Due to Banks	64,725	24,764	64,725	24,764
Repurchase Agreements	807,773	1,182,890	779,901	1,217,196
Due to Customers	5,719,352	6,405,093	5,719,352	6,399,475
Debt Issued and Other Borrowed Funds	951,744	907,405	957,710	868,920
Others	1	1,021	1,178	2,358
	7,543,595	8,521,173	7,522,866	8,512,713

30. NET FEES AND COMMISSION INCOME

30.1 Fees and Commission Income

Portfolio and Other Management Fees	-	23,759	4,779	26,988
Credit Card Related Fees and Commissions	2,229,160	1,876,051	2,228,864	1,875,788
Commission on Trade Finance Facilities & Remittances	388,713	363,407	388,713	363,407
Commission on Services-Loans	337,335	313,642	337,335	313,642
Commission on Services-Deposits	259,473	240,284	259,473	240,284
Other Fees	86,621	45,125	218,366	187,975
	3,301,302	2,862,268	3,437,530	3,008,084

30.2 Fees and Commission Expenses

Brokerage Fees	(16,482)	(40,002)	(16,482)	(40,002)
Credit Related Fees	(213,361)	(184,574)	(219,773)	(184,574)
	(229,843)	(224,576)	(236,255)	(224,576)
	3,071,459	2,637,692	3,201,275	2,783,508

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

31. NET TRADING INCOME / (LOSS)

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Unrealized -Gains on Foreign exchange forward contracts	538,925	473,797	538,925	473,797
Realised Gains on Foreign exchange forward contracts	(212,587)	(578,685)	(212,587)	(578,685)
Net Gain/(Loss) on retranslation of account balances	(187,080)	133,957	(187,080)	133,957
Net Foreign Exchange Gains	139,258	29,069	139,258	29,069
Profit /(Losses) on Sale of Securities	(1,066)	101,927	(1,066)	101,927
Other Trading	(230,539)	(7,357)	(232,125)	(19,626)
	(92,347)	123,639	(93,933)	111,370

Other Trading includes the impact of fair value changes due to movement in the financial assets recorded as held for trading.

32. OTHER OPERATING INCOME

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Dividend Income	19,377	12,521	1,827	1,271
Non-Trading Foreign Exchange Income	7,183	33,318	7,183	33,318
Recovery of Loans Written -Off	139,358	146,721	139,358	146,721
Others	158,440	100,586	158,513	100,587
	324,358	293,146	306,881	281,897

33. IMPAIRMENT CHARGE FOR LOANS AND ADVANCES AND AVAILABLE FOR SALE ON FINANCIAL ASSETS

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Loans and Advances to Customers				
Corporate Loans	33,753	151,595	33,474	152,274
Retail SME and Consumer Lending	701,754	548,390	701,754	548,390
Housing Loans	(9,171)	14,656	(9,171)	14,656
Leases	189,136	442,089	189,136	442,089
	915,472	1,156,730	915,193	1,157,409
Direct Write off on others				
- Available for Sale and charges receivable	70,285	24,330	70,285	24,330
	985,757	1,181,060	985,478	1,181,739

NOTES TO THE FINANCIAL STATEMENTS

34. PERSONNEL EXPENSES

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Salaries	1,628,307	1,443,599	1,647,962	1,466,031
Employee Benefits - Defined Contribution Plan	241,867	215,488	244,698	218,686
Employee Benefits - Defined Benefit Plan	80,160	82,523	81,187	83,989
Amortisation of Staff Loan Day 1 Difference	49,882	66,823	49,882	66,823
Other Allowances	856,318	856,697	859,404	864,869
	2,856,534	2,665,130	2,883,133	2,700,398

35. OTHER OPERATING EXPENSES

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Operating Lease Expenses	316,223	262,110	245,510	221,160
Professional Fees	25,877	19,359	26,294	19,792
Auditors Fees and Expenses	9,332	8,433	11,175	10,234
Non Audit fees and Expenses to Auditors	3,780	1,118	3,780	1,118
Legal Fees	12,287	10,257	12,287	10,257
Transport	151,463	152,710	152,539	154,170
Office Administration & Establishment	2,877,854	2,712,671	2,910,035	2,751,127
	3,396,816	3,166,658	3,361,620	3,167,858

36. VALUE ADDED TAX (VAT) AND NATIONS BUILDING TAX (NBT) ON FINANCIAL SERVICES

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Value Added Tax (VAT)	636,257	619,071	646,061	634,357
Nations Building Tax (NBT)	118,773	107,505	120,651	110,117
	755,030	726,576	766,712	744,474

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

37. INCOME TAX EXPENSE

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
37.1 Amounts recognised in profit or loss				
The component of Income Tax expense for years ended 31 December 2015 & 2014 are ;				
Current Tax				
Current Income Tax on Profit for the Year (Note 37.2)	1,009,254	1,186,962	1,072,835	1,256,617
10% Withholding Tax on Subsidiary Dividend	-	-	1,950	1,250
Over Provision in Respect of Prior Years	(115,068)	-	(115,068)	-
Deferred Tax				
Charge for Deferred Tax	331,416	32,783	331,692	32,506
	1,225,602	1,219,745	1,291,409	1,290,373
Effective Income Tax Rate	33.32%	33.90%	33.07%	33.72%

37.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by Government of Sri Lanka's tax rate for the years ended 31 December 2015 and 2014 is as follows.

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Accounting Profit (Profit before Taxation)	3,678,292	3,597,738	3,905,400	3,826,953
Add: Disallowable Expenses	12,625,590	10,195,838	12,642,641	10,218,315
	16,303,882	13,793,576	16,548,041	14,045,268
Less: Allowable Expenses	(12,369,642)	(9,348,508)	(12,404,276)	(9,362,682)
Less: Exempt Income	(329,760)	(205,918)	(312,211)	(194,668)
Statutory Income	3,604,480	4,239,150	3,831,554	4,487,918
Taxable Income	3,604,480	4,239,150	3,831,554	4,487,918
Current Income Tax Expense for the year	1,009,254	1,186,962	1,072,835	1,256,617

The Group Tax expense is based on the taxable profit of each Company, since at present the tax laws do not provide for Group Taxation.

NOTES TO THE FINANCIAL STATEMENTS

38. BASIC / DILUTED EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to Ordinary Shareholders of the Bank by the weighted average number of Ordinary Shares in issue during the year.

The following table shows the income and share data used in the basic earnings per share calculation.

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Amount Used as the Numerator:				
Net Profit Attributable to Ordinary Shareholders (LKR '000)	2,452,690	2,377,993	2,613,991	2,536,580
Number of Ordinary Shares Used as the Denominator:				
Ordinary Shares at the beginning of the year	230,607,283	230,607,283	230,607,283	230,607,283
Weighted Average Number of Ordinary Shares in Issue at the End of the Year	230,607,283	230,607,283	230,607,283	230,607,283
Basic / Diluted Earnings per Ordinary Share - Basic (LKR)	10.64	10.31	11.34	11.00

39. DIVIDENDS PAID AND PROPOSED

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
39.1 Declared and Paid During the Year				
Dividends on ordinary shares:				
First and Final dividend for 2014 : LKR 2.10 Per Share (2013 : LKR 2.10 per Share)	484,275	484,275	484,275	484,275
	484,275	484,275	484,275	484,275
39.2 Proposed for approval at Annual General Meeting (not recognized as a liability as at 31 December)				
Dividends on ordinary shares:				
First and Final dividend for 2015: LKR 2.10 per Share (2014: LKR 2.10 per share)	484,275	484,275	484,275	484,275

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

40. CASH FLOW INFORMATION

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
40.1 (Increase)/Decrease in Operating Assets				
Reverse Repurchase Agreements	10,635,826	(9,478,187)	10,196,982	(9,987,629)
Derivative Financial Instruments	(425,977)	(6,562)	(425,977)	(6,562)
Financial Assets-Held for Trading	13,207,746	8,859,817	13,256,330	9,882,306
Financial Assets-Held to Maturity	(2,606,006)	11,784,725	(2,607,273)	11,777,136
Financial Assets-Available for Sale	(12,010,429)	(4,168,576)	(12,010,430)	(4,168,576)
Other Financial Assets	(2,647,131)	(1,610,120)	(2,719,131)	(1,717,111)
Loans and Advances to Customers	(23,961,736)	(16,458,248)	(23,789,092)	(16,521,155)
Other Assets	116,563	393,326	119,434	365,386
	(17,691,144)	(10,683,825)	(17,979,157)	(10,376,205)
40.2 Increase/(Decrease) in Operating Liabilities				
Repurchase Agreements	(4,585,845)	(862,471)	(4,147,000)	(353,029)
Due to Customers	17,684,209	14,938,936	17,652,131	14,952,766
Derivative Financial Instruments	(113,043)	(467,255)	(113,043)	(467,255)
Other Liabilities	558,687	(139,239)	591,071	(163,291)
	13,544,008	13,469,971	13,983,159	13,969,191
40.3 Other Non cash items included in Profit before Tax				
Depreciation of Property, Plant and Equipment	363,065	295,241	358,815	323,160
Amortisation of Intangible Assets	236,155	168,555	236,155	171,348
Provision for Fair Valuation of Trading Portfolio	230,539	(466,439)	232,124	(466,440)
Amortisation of Income generated from Government Securities	(93,994)	(164,213)	(93,994)	(153,686)
Interest Income Accrued on Impaired Financial Assets	(129,055)	(411,960)	(129,055)	(411,960)
Others	-	-	10,413	21,956
	606,710	(578,816)	614,458	(515,622)

41. RELATED PARTY DISCLOSURES

The Bank has carried out transactions with related parties as defined in LKAS 24 - Related Party Disclosures. The pricing applicable to such transactions were based on the assessment of risk and pricing model of the Bank and was comparable with what was applied to transactions between the Bank and such related parties.

41.1 Transactions with Key Management Personnel

Key Management Personnel (KMP) include the Board of Directors of the Bank, Chief Executive Officer of the Bank.

(a) Compensation to Key Management Personnel

	2015 LKR '000	2014 LKR '000
Directors' remuneration and other financial benefits	50,421	65,787
Post Employment Benefits	3,794	6,489
	54,215	72,276

In addition to the salaries the Group also has arranged non cash benefits such as vehicle & insurance to Key Management Personnel in line with approved benefits plan of the Group.

NOTES TO THE FINANCIAL STATEMENTS

41 RELATED PARTY DISCLOSURES (CONTD.)

41.1 Transactions with Key Management Personnel (Contd.)

(b) Transactions, Arrangements and Agreements Involving Key Management Personnel

	Key Management Personnel & their Close Family Members (CFM)				Entities in which KMPs and CFMs have control or joint control			
	Maximum Balances				Maximum Balances			
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Items in the Statement of Financial Position								
Assets								
Loans & Advances	14,141	14,704	16,591	18,218	-	-	-	-
Credit Cards	1,715	1,394	2,483	1,967	-	-	-	-
Liabilities								
Due to Customers	57,504	88,769	57,504	128,943	-	-	-	2,411
Repurchase Agreements	-	35,822	-	35,822	-	-	-	-
Equity								
Dividends paid (Net)	1,073	722	-	-	-	-	-	-
Commitments								
Undrawn Facilities	19,319	3,450	-	-	-	-	-	-
Items in Statement of Profit or Loss								
Interest Income Earned	1,164	1,611	-	-	-	-	-	-
Interest Expenses Paid	625	4,243	-	-	-	60	-	-
Other Income Earned	43	122	-	-	-	-	-	-

41.2 Post-Employment Benefits Plan

The Employees' Private Provident Fund of the Bank is managed by a Committee of Trustees appointed by the members.

The Bank and its subsidiaries have contributed a sum of LKR 195.46 Mn (2014 - LKR 178.07 Mn) to the Fund during the year.

As at 31 December 2015, the Fund has invested a sum of LKR 553.40 Mn (2014 - LKR 409.62 Mn) with the Bank.

During the year, the Bank has incurred a sum of LKR 46.18 Mn (2014 - LKR 29.63 Mn) as interest expense to the Fund out of which a sum of LKR 6.7 Mn (2014 - LKR 6.1 Mn) is payable as of 31 December 2015.

41. RELATED PARTY DISCLOSURES (CONTD.)

41.3 Transactions with Related Entities

Items in the Statement of Financial Position	Subsidiaries *					Significant Investors **					Significant Investor Related Entities ***				
	Maximum Balances					Maximum Balances					Maximum Balances				
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets															
Loans & Advances	274,958	135,435	742,639	787,942	423,412	-	423,412	-	423,412	47	-	35,007	85,700	42,487	
Corporate Credit Cards	-	-	-	-	-	-	-	-	-	-	817	19	817	19	
Reverse Repurchase Agreements	-	-	-	943,862	-	-	-	-	-	-	-	-	-	-	
Derivative Financial Assets	-	-	-	-	-	-	-	-	-	-	22,708	2,177	-	-	
Other Assets	5,922	5,922	-	-	-	-	-	-	-	-	5,722	37,235	-	-	
Liabilities															
Due to Customers	-	-	-	-	2,592,369	34,140	3,226,830	320,994	320,994	364,491	286,834	513,308	2,577,867		
Borrowing & Others	548,537	430,975	579,694	710,292	1,543,977	2,104,446	2,918,150	3,882,234	3,882,234	589,315	803,624	681,333	1,132,659		
Other Liabilities/Financial Guarantees	-	-	-	-	-	-	-	-	-	3,512	3,430	-	-	-	
Derivative Financial Liabilities	-	-	-	-	-	-	-	-	-	162	3,304	-	-	-	
Equity															
Dividends paid (Net)	-	-	-	-	283,651	227,231	-	-	-	-	-	-	-	-	
Commitments															
Undrawn Facilities	1,525,098	1,664,565	-	-	189,340	693,106	-	-	-	150,014	100,347	-	-	-	
Letter of Credit / Guarantees	-	-	-	-	230,215	56,894	-	-	-	26,369	39,147	-	-	-	
Forward - Foreign Exchange Contracts	-	-	-	-	-	-	-	-	-	678,370	488,036	-	-	-	
Items in Statement of Profit or Loss															
Interest Income Earned	20,781	94,812	-	-	17,699	108	-	-	-	3,345	3,219	-	-	-	
Interest Expenses Paid	27,872	23,986	-	-	29,589	104,427	-	-	-	7,144	90,030	-	-	-	
Other Income Earned	6,490	6,114	-	-	2,981	2,012	-	-	-	3,690	37,999	-	-	-	
Dividend Received (Gross)	17,550	11,250	-	-	-	-	-	-	-	-	-	-	-	-	
Expenses Paid	41,893	38,364	-	-	40,770	34,650	-	-	-	58,418	56,865	-	-	-	

* Subsidiaries of the Group includes Waldo Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited.

** Significant Investors include John Keells Holdings PLC, Mackinnon Keells Limited, HWIC Asia Fund, Central Finance Company PLC, CF Growth Fund Limited and CF Insurance Brokers (Pvt) Ltd.

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

In addition to the above, the bank has carried out various promotional activities with related entities during the year.

Furthermore, a sum of LKR 5.2 Mn (2014 - LKR 5.5 Mn) and LKR 237 Mn (2014 - 24.8 Mn) is accounted in Nations Insurance Brokers Limited as a receivable and commission income respectively from a subsidiary of a significant investor. This is the only related party transaction at the group level.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

NOTES TO THE FINANCIAL STATEMENTS

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

42.1 As at 31 December 2015

	Bank			Group		
	Within 12 Months LKR'000	After 12 Months LKR'000	Total LKR'000	Within 12 Months LKR'000	After 12 Months LKR'000	Total LKR'000
Assets						
Cash and Cash Equivalents	6,392,393	-	6,392,393	6,392,437	-	6,392,437
Balances with Central Bank of Sri Lanka	5,283,866	-	5,283,866	5,283,866	-	5,283,866
Reverse Repurchase Agreements	302,249	-	302,249	302,249	-	302,249
Derivative Financial Instruments	554,030	-	554,030	554,030	-	554,030
Financial Assets - Held for Trading	2,044,144	-	2,044,144	2,044,144	-	2,044,144
Financial Assets-Available for Sale	16,336,355	196,563	16,532,917	16,336,355	196,563	16,532,917
Financial Assets - Held to Maturity	1,489,160	11,186,556	12,675,717	1,488,273	11,255,490	12,743,763
Other Financial Assets	297,251	6,214,110	6,511,361	297,251	6,214,110	6,511,361
Loans and Advances to Customers	74,685,197	45,629,371	120,314,568	75,513,694	45,629,371	121,143,065
Other Assets	714,197	625,355	1,339,553	761,002	625,355	1,386,357
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Property, Plant and Equipment	-	1,672,448	1,672,448	-	2,143,187	2,143,187
Intangible Assets	-	1,214,095	1,214,095	-	1,224,159	1,224,159
Total Assets	108,098,843	67,417,208	175,516,051	108,973,301	67,288,234	176,261,535
Liabilities						
Due to Banks	2,275,840	-	2,275,840	2,275,840	-	2,275,840
Repurchase Agreements	10,874,122	-	10,874,122	10,405,880	-	10,405,880
Derivative Financial Instruments	53,327	-	53,327	53,327	-	53,327
Due to Customers	119,619,693	9,621,183	129,240,876	119,537,007	9,621,183	129,158,190
Debt Issued and Other Borrowed Funds	5,668,914	7,303,916	12,972,830	5,669,838	7,303,916	12,973,754
Current Tax Liabilities	396,396	-	396,396	426,466	-	426,466
Other Liabilities	4,291,118	687,803	4,978,921	4,361,096	702,963	5,064,059
Deferred Tax Liabilities	-	733,553	733,553	-	732,579	732,579
Total Liabilities	143,179,410	18,346,455	161,525,865	142,729,454	18,360,641	161,090,095
Net	(35,080,569)	49,070,753	13,990,186	(33,756,153)	48,927,593	15,171,440

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTD.)

42.2 As at 31 December 2014

	Bank			Group		
	Within 12 Months LKR'000	After 12 Months LKR'000	Total LKR'000	Within 12 Months LKR'000	After 12 Months LKR'000	Total LKR'000
Assets						
Cash and Cash Equivalents	6,898,881	-	6,898,881	6,899,905	-	6,899,905
Balances with Central Bank of Sri Lanka	3,992,118	-	3,992,118	3,992,118	-	3,992,118
Reverse Repurchase Agreements	11,013,507	-	11,013,507	11,013,507	-	11,013,507
Derivative Financial Instruments	128,053	-	128,053	128,053	-	128,053
Financial Assets - Held for Trading	15,648,717	-	15,648,717	15,700,388	-	15,700,388
Financial Assets-Available for Sale	4,323,960	5,488	4,329,449	4,323,960	5,488	4,329,449
Financial Assets - Held to Maturity	1,310,024	8,276,194	9,586,218	1,310,879	8,342,120	9,653,000
Other Financial Assets	883,976	2,936,770	3,820,746	883,977	2,936,770	3,820,747
Loans and Advances to Customers	62,631,504	34,436,756	97,068,259	63,910,022	34,437,027	98,347,049
Other Assets	-	678,710	678,710	-	-	-
Investments in Subsidiaries	1,597,212	840,593	2,437,804	1,665,758	840,593	2,506,350
Property, Plant and Equipment	-	1,717,856	1,717,856	-	2,194,425	2,194,425
Intangible Assets	-	1,271,137	1,271,137	-	1,283,223	1,283,223
Total Assets	108,427,951	50,163,505	158,591,455	109,828,567	50,039,646	159,868,214
Liabilities						
Due to Banks	2,922,784	-	2,922,784	2,922,784	-	2,922,784
Repurchase Agreements	14,441,926	1,002,280	15,444,206	14,044,282	1,002,280	15,046,562
Derivative Financial Instruments	166,370	-	166,370	166,370	-	166,370
Due to Customers	102,615,522	8,430,924	111,046,446	102,578,744	8,430,924	111,009,668
Debt Issued and Other Borrowed Funds	2,180,155	7,505,101	9,685,257	2,684,346	7,505,101	10,189,448
Current Tax Liabilities	639,359	-	639,359	666,345	-	666,345
Other Liabilities	4,884,128	599,297	5,483,425	4,954,381	604,656	5,559,037
Deferred Tax Liabilities	-	415,053	415,053	-	413,475	413,475
Total Liabilities	127,850,244	17,952,655	145,802,900	128,017,252	17,956,437	145,973,689
Net	(19,422,293)	32,210,850	12,788,555	(18,188,685)	32,083,209	13,894,525

NOTES TO THE FINANCIAL STATEMENTS

43. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarized below:

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The principal or the most advantageous market must be accessible by the Group.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorized within the fair value hierarchy described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The management determines the policies and procedures for both recurring fair value measurement, such as unquoted AFS financial assets, and for non-recurring measurement.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

43.1 Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their average quoted market price or average dealer price quotations without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist and other relevant valuation models.

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.2 Assets and Liabilities measured at fair value - Fair Value Hierarchy

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy in to which the fair value measurement is categorized. The amounts are based on the value recognized in the Statement of Financial Position in the Financial Statements.

Bank	As At 31 December	2015					2014				
		Fair Value Measurement Using					Fair Value Measurement Using				
		Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
			LKR '000	LKR '000	LKR '000	LKR '000		LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets											
Derivative Financial Instruments											
Forward Foreign Exchange Contracts and Currency Swaps											
		31-Dec-15	-	554,030	-	554,030	31-Dec-14	-	128,053	-	128,053
Financial Assets Held for Trading											
Government Treasury Bills											
		31-Dec-15	1,549,415	-	-	1,549,415	31-Dec-14	6,618,490	-	-	6,618,490
Government Treasury Bonds											
		31-Dec-15	230,563	264,167	-	494,730	31-Dec-14	8,167,437	862,791	-	9,030,228
Financial Assets Available for Sale											
Government Treasury Bills											
		31-Dec-15	6,362,143	-	-	6,362,143	31-Dec-14	2,861,780	-	-	2,861,780
Government Treasury Bonds											
		31-Dec-15	9,774,375	199,836	-	9,974,211	31-Dec-14	1,308,791	-	-	1,308,791
Unquoted Equity Shares											
		31-Dec-15	-	190,821	5,742	196,563	31-Dec-14	-	153,390	5,488	158,878
Total Financial Assets			17,916,496	1,208,854	5,742	19,131,092		18,956,498	1,144,234	5,488	20,106,220
Financial Liabilities											
Derivative Financial Instruments											
Forward Foreign Exchange Contracts and Currency Swaps											
		31-Dec-15	-	53,327	-	53,327	31-Dec-14	-	166,370	-	166,370
Total Financial Liabilities			-	53,327	-	53,327		-	166,370	-	166,370

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

NOTES TO THE FINANCIAL STATEMENTS

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.) 43.2 Assets and Liabilities measured at fair value - Fair Value Hierarchy (Contd.)

Group	As At 31 December	2015					2014				
		Fair Value Measurement Using					Fair Value Measurement Using				
		Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
			LKR '000	LKR '000	LKR '000	LKR '000		LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets											
Derivative Financial Instruments											
	Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-15	-	554,030	-	554,030	31-Dec-14	-	128,053	-	128,053
Financial Assets Held for Trading											
	Government Treasury Bills	31-Dec-15	1,549,415	-	-	1,549,415	31-Dec-14	6,618,490	-	-	6,618,490
	Government Treasury Bonds	31-Dec-15	230,563	264,167	-	494,730	31-Dec-14	8,219,108	862,791	-	9,081,899
Financial Assets Available for Sale											
	Government Treasury Bills	31-Dec-15	6,362,143	-	-	6,362,143	31-Dec-14	2,861,780	-	-	2,861,780
	Government Treasury Bonds	31-Dec-15	9,774,375	199,836	-	9,974,211	31-Dec-14	1,308,791	-	-	1,308,791
	Unquoted Equity Shares	31-Dec-15	-	190,821	5,742	196,563	31-Dec-14	-	153,390	5,488	158,878
	Total Financial Assets		17,916,496	1,208,854	5,742	19,131,092		19,008,169	1,144,234	5,488	20,157,891
Financial Liabilities											
Derivative Financial Instruments											
	Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-15	-	53,327	-	53,327	31-Dec-14	-	166,370	-	166,370
	Total Financial Liabilities		-	53,327	-	53,327		-	166,370	-	166,370

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.2 Assets and Liabilities measured at fair value - Fair Value Hierarchy (Contd.)

Reconciliation of the financial assets Available-for-Sale ,classified as "Level 3 " in the fair value hierarchy.

	Bank / Group 2015 LKR '000	Bank / Group 2014 LKR '000
Balance as at 01st January	5,488	5,460
Change in value due to exchange rate fluctuation	254	28
Balance as at 31st December	5,742	5,488

Financial Assets Available for sale , classified as "Level 3" in the fair value hierarchy comprises of Unquoted Equity Shares.
Further details are given in Note 11.1

NOTES TO THE FINANCIAL STATEMENTS

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.3 Financial Assets and Financial Liabilities not carried at Fair Value

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's /Group's financial instruments that are not measured at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

Bank	As at 31 December	2015					2014				
		Fair Value Measurement Using					Fair Value Measurement Using				
		Quoted Prices in Active Markets (Level 1) LKR '000	Significant Observable Inputs (Level 2) LKR '000	Significant Unobservable Inputs (Level 3) LKR '000	Total LKR '000	Carrying amount LKR '000	Quoted Prices in Active Markets (Level 1) LKR '000	Significant Observable Inputs (Level 2) LKR '000	Significant Unobservable Inputs (Level 3) LKR '000	Total LKR '000	
Financial Assets											
	Financial Assets - Held to Maturity	12,675,715	8,636,414	3,784,174	-	12,420,588	9,586,218	8,599,060	1,522,989	-	10,122,049
		12,675,715	8,636,414	3,784,174	-	12,420,588	9,586,218	8,599,060	1,522,989	-	10,122,049
Loans and Advances to Customers											
	Corporate Loans	30,571,614	-	30,121,006	-	30,121,006	23,664,107	-	23,654,599	-	23,654,599
	Retail, SME and Consumer Lending	59,464,335	-	57,744,443	-	57,744,443	45,250,813	-	44,985,706	-	44,985,706
	Housing Loans	1,376,117	-	1,319,855	-	1,319,855	1,215,296	-	1,221,145	-	1,221,145
	Leases	28,936,324	-	28,662,985	-	28,662,985	25,133,488	-	24,536,984	-	24,536,984
	Staff Loans	2,026,512	-	2,596,464	-	2,596,464	1,804,552	-	2,456,165	-	2,456,165
		122,374,902	-	120,444,753	-	120,444,753	97,068,256	-	96,854,599	-	96,854,599
Total Financial Assets											
		135,050,617	8,636,414	124,228,927	-	145,541,056	106,654,474	8,599,060	98,377,588	-	106,976,648
Financial Liabilities											
	Repurchase Agreements	10,874,122	-	10,874,138	-	10,874,138	15,444,206	-	15,383,749	-	15,383,749
	Due to Customers	129,240,876	-	128,829,852	-	128,829,852	111,046,446	-	109,778,337	-	109,778,337
	Debt Issued and Other Borrowed Funds	12,972,830	-	13,086,800	-	13,086,800	9,685,257	-	9,503,984	-	9,503,984
	Total Financial Liabilities	153,087,828	-	152,790,790	-	152,790,790	136,175,909	-	134,666,070	-	134,666,070

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.3 Financial Assets and Financial Liabilities not carried at Fair Value (Contd.)

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's /Group's financial instruments that are not measured at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

Group	As at 31 December	2015					2014				
		Fair Value Measurement Using					Fair Value Measurement Using				
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Carrying amount LKR '000	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Carrying amount LKR '000
Financial Assets											
	Financial Assets - Held to Maturity	12,743,763	8,636,414	3,856,220	-	12,492,634	9,586,218	8,599,060	1,522,989	-	10,122,049
		12,743,763	8,636,414	3,856,220	-	12,492,634	9,586,218	8,599,060	1,522,989	-	10,122,049
Loans and Advances to Customers											
	Corporate Loans	31,399,562	-	30,121,006	-	30,121,006	23,664,107	-	23,654,599	-	23,654,599
	Retail, SME and Consumer Lending	59,464,334	-	57,744,443	-	57,744,443	45,250,813	-	44,985,706	-	44,985,706
	Housing Loans	1,376,117	-	1,319,855	-	1,319,855	1,215,296	-	1,221,145	-	1,221,145
	Leases	28,936,324	-	28,662,985	-	28,662,985	25,133,488	-	24,536,984	-	24,536,984
	Staff Loans	2,026,512	-	1,456,560	-	1,456,560	1,804,552	-	2,456,165	-	2,456,165
		123,202,849	-	119,304,849	-	119,304,849	97,068,256	-	96,854,599	-	96,854,599
Total Financial Assets											
		135,946,612	8,636,414	123,161,069	-	131,797,483	106,654,474	8,599,060	98,377,588	-	106,976,648
Financial Liabilities											
	Repurchase Agreements	10,405,880	-	10,874,138	-	10,874,138	15,444,206	-	15,383,749	-	15,383,749
	Due to Customers	129,158,190	-	128,829,852	-	128,829,852	111,046,446	-	109,778,337	-	109,778,337
	Debt Issued and Other Borrowed Funds	12,973,754	-	13,086,800	-	13,086,800	9,685,257	-	9,503,984	-	9,503,984
		152,537,824	-	152,790,791	-	152,790,791	136,175,909	-	134,666,070	-	134,666,070
Total Financial Liabilities											

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

NOTES TO THE FINANCIAL STATEMENTS

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.3 Financial Assets and Financial Liabilities not carried at Fair Value (Contd.)

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values.

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature to reprice to current market rates frequently;

Assets

Cash and Cash Equivalents

Balances with Central Bank of Sri Lanka

Reverse Repurchase Agreements

Other Financial Assets

Liabilities

Due to banks

This assumption is also applied to demand deposits, call deposits and savings deposits without a specific maturity. It is also assumed that the amortised cost of floating rate financial instrument approximate the fair value as the amortised cost represent most recent fair value.

Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. There is a significant difference between carrying value and fair value of Reverse Repurchase Agreements and Repurchase Agreements with original tenors above one year. In fair valuing held to maturity securities, rates published by the CBSL for similar trading securities were used. Loans and Advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. Interest rates based on Treasury Bond rates with similar tenors with an adjustment for premium have been used to arrive at the fair value of Debentures Issued.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT

44.1 Introduction

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

The objective of the Risk Management Framework at the Bank is to establish a process to effectively identify, measure, manage, control and monitor risks faced by the Bank. The goal is to manage these risks to enhance the risk-return profile of the Bank

The Board of Directors is responsible for establishing the overall Risk Management Framework within the Bank. This consists of approval of a risk governance structure and approval of detailed risk management policies and procedures with risk appetite and tolerance limits.

The Board delegates specific oversight of all risk management activities in the Bank to the Board Integrated Risk Management Committee (BIRMC). It reviews risk goals, department risk grids and material risk issues highlighted by different executive risk committees. It also monitors compliance with Bank policies and regulations.

The Board has appointed the Executive Risk Management Committee (ERMC) which has the overall responsibility for overseeing the establishment and implementation of frameworks, policies and limits for various risk exposures. The ERMC is assisted by the Assets and Liability Management Committee (ALCO) which specifically focus on market risk management and liquidity risk management whilst Head Office Credit Committee focuses on the credit risk management.

The Integrated Risk Management Department (IRMD), headed by the Chief Risk Officer (CRO), is responsible for developing and implementing the Bank's Risk Management Framework. It acts as the second line of defense in managing risks. Responsibilities of the IRMD include the following:

Monitor

- Formulation of Risk policies & procedures
- Compliance with Risk policies & procedures
- Bank's overall risk profile & changes in overall risk positions
- Risk across business units and escalate risk and control issues to management

Develop and Report

- Risk management standards and measurement tools
- Aggregate risk profile of the Bank in relation to capital

Support

- Banks' risk culture through development of a common risk language and Bank wide training
- Interpretation of risk related regulations / leading practices to business units

Risk Measurement and Reporting Systems

The Bank uses appropriate risk measurement techniques and industry best practices to evaluate its various risk exposures. Such risks identified are managed through establishment of limits. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.1 Introduction (Contd.)

The Bank also carries out a detail stress testing exercise, which is a key component of the internal capital adequacy assessment process (ICAAP) as well as the risk management framework. This exercise measures the extent of risks the Bank is exposed to when variables associated with its risks are simulated considering plausible changes in the external/internal environment.

The risk so measured is presented to relevant board committees & heads of each business division at regular intervals.

Risk Mitigation

As part of its overall risk management, the Bank uses derivatives to manage exposures resulting from changes in foreign currencies. The Bank also accepts various types of collateral as a credit risk mitigant whilst insurance is used to transfer operational types of risks.

Excessive Risk Concentration

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

44.2 Credit Risk

Credit risk is the risk that the Bank will incur a loss resulting from its customers or counterparties failing to or delaying meeting their contractual obligations. This arises from loans and receivables and investments in debt instruments forming direct funding exposures (on Balance Sheet exposure) or indirect liabilities such as Letters of Credit and guarantees (off Balance Sheet exposure).

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations and by monitoring exposures in relation to such limits and by taking appropriate collateral.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. A scientifically developed internal risk rating mechanism has been implemented via a work-flow based software covering various types of customer segments of the Bank excluding consumer products. Such risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action. During the year the Bank implemented a score card model to evaluate credit risk of consumer products as these were not evaluated through the established internal risk rating system.

Impairment Assessment

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

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer faces bankruptcy or other financial reorganization
- Observable data that suggests that there is a decrease in the estimated future cash flows

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

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 are having OEIL, those customers are individually impaired taking into 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 to be not requiring an impairment provision.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether allowance should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio such as historical losses on the portfolio, levels of arrears and expected receipts and recoveries once impaired.

The Bank generally bases its analysis on historical experience. However, when there are significant market developments, the Bank also include macro- economic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, levels of bad debts and delinquency trends, Inflation, movements in Gross Domestic Product (GDP), macro environment stability in financial industry, revisions in the Interest rates, changes in regulatory environment and other available consumer data. The Bank uses aforementioned factors as appropriate to adjust the impairment allowances.

Description of approaches and statistical methods followed for Collective impairment is given below.

Business Segment	Further Segmentation	Default Point	PD Represents	Statistical Method	Classification for Financial Reporting Purposes
Corporate Banking	Based on Internal Risk Rating	"Loss Category"	Probability of Loan moving into "Loss" category	A combination of Rating Migration Matrix and Net Flow Rate method	Corporate Loans
SME & Retail Banking	Based on Internal Risk Rating	"Loss Category"	Probability of Loan moving into "Loss" category	A combination of Rating Migration Matrix and Net Flow Rate method	Retail SME and Consumer
Factoring	Based on Internal Risk Rating	"Loss Category"	Probability of Loan moving into "Loss" category	Rating Migration Matrix	Classified as "Corporate Loans" or "Retail, SME and Consumer" as per customer type
Leasing	Based on Time Buckets indicating Days Past Due (DPD) and Portfolio is stratified into 5 segments	Number Down 6.0	Probability of Lease moving into No. Down "6.01 - 7.00"	Net Flow Rate Method	Leases

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Business Segment	Further Segmentation	Default Point	PD Represents	Statistical Method	Classification for Financial Reporting Purposes
Housing Loans	Based on Time Buckets indicating Days Past Due (DPD)	360 DPD	Probability of Loan moving into "361 - 391DPD" Bucket	Net Flow Rate Method	Housing Loans
Personal Loans	Based on Time Buckets indicating Days Past Due (DPD)	240 DPD	Probability of Loan moving into "240 - 269DPD" Bucket	Net Flow Rate Method	Retail SME and Consumer
Vehicle Loans	Based on Time Buckets indicating Days Past Due (DPD)	240 DPD	Probability of Loan moving into "240 - 269DPD" Bucket	Net Flow Rate Method	Retail SME and Consumer
Credit Cards	Based on Time Buckets indicating Days Past Due (DPD) and Portfolio is stratified into 4 segments	240 DPD	Probability of Loan moving into "240 - 269DPD" Bucket	Net Flow Rate Method	Retail SME and Consumer
Pawning	Based on Time Buckets indicating Days Past Due (DPD)	03 Months Overdue	Probability of advance moving into more than 03 months overdue	Net Flow Rate Method	Classified as "Retail, SME and Consumer" or "Housing Loans" as per purpose of the borrower

In order to assess impairment provision at appropriate granular level, the Bank has stratified certain collective portfolios further reflecting grouping of similar risk customer profiles. Such stratification of the portfolios has helped the Bank to make an accurate assessment of required impairment provisions as it focuses on avoiding generalization of possible potential loss indicative parameters.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Credit Quality by Class of Financial Assets

The Bank manages the credit quality of Corporate, Retail and SME, Leasing and Factoring customers through a credit rating mechanism. Customers in Consumer lending portfolio have not been rated.

Quality of Financial Assets are categorized in to five categories as described below.

Credit Quality Category	Definition	Description
High Grade	Very High Safety	The exposure to the government, Banks and Reverse Repurchase transactions backed by Government Securities are identified as 'High Grade'. The external rating of the Banks have not been considered in this regard as these exposures are highly liquid and are of self liquidating nature. Chances of default are negligible and highly unlikely. The obligor/counterparty is likely to honour its commitments even under adverse business/market conditions.
Investment Grade (A+ & B-)	High Safety	The ability to honour the terms of trade is high or fully secured by cash. The obligor/counterparty is likely to honour its commitments even under adverse business conditions. There would be insignificant likelihood of default associated with adverse economic events of significant scale.
Intermediary Grade (C+ and C)	Moderate Safety	The ability to honour the terms of trade is strong, but not as strong as in Investment Grade. The obligor/counterparty may take longer than anticipated/planned to honour its commitments under adverse business conditions. There is a moderate likelihood of default.
Speculative Grade (C- and D)	Low Safety	The ability to honour the terms of trade is low. Any adverse changes in the business/economic conditions may impair the obligor's/counterparty's ability to honour its commitments.
Customers whose credit quality is not yet finalized	Safe	The ability to honour the terms of trade is assumed acceptable but yet to be confirmed by way of a finalized rating.

Credit Risk exposure for each internal credit risk rating

Bank's Internal Credit Rating	Historical Default Rates		Amortized Cost	
	2015 %	2014 %	2015 LKR'000	2014 LKR'000
Investment Grade				
A	Less than 1%	Less than 1%	18,690,001	13,270,292
B	Less than 1.5%	Less than 4.5%	24,831,099	15,600,562
Intermediary Grade				
C + and C	Less than 2.5%	Less than 6.5%	7,505,972	1,193,679
Speculative Grade				
C-	Less than 5.5%	Less than 7.5%	2,304,350	5,755,413
D	Minimum of 13%	Minimum of 23%	552,721	110,572
Past Due - Rated Customers			8,576,018	5,134,990
Past Due - Fully Secured by Cash			2,729,399	
Individually Impaired - Rated Customers			3,082,929	2,025,529
Sum of Amortized Cost of Rated Customers			68,272,487	43,091,037

Past Due loans include any loan that is in arrears for more than one day. Segregation of fully cash backed portfolio was done in 2015 for the first time.

Further, in 2015, historical default rates were calibrated combining Risk Migration and the Net Flow Rate methods. New default rates are more reflective of the Bank's existing loan portfolio.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Bank - As at 31 December 2015	Neither past due nor impaired					Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose credit rating is not yet finalized			
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	6,392,393	-	-	-	-	-	-	6,392,393
Balances with Central Bank of Sri Lanka	5,283,866	-	-	-	-	-	-	5,283,866
Reverse Repurchase Agreements	-	300,834	-	-	1,414	-	-	302,249
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	526,912	3,969	-	-	23,149	-	-	554,030
Financial Assets - Held for Trading								-
Government Treasury Bills and Bonds	2,044,144	-	-	-	-	-	-	2,044,144
Financial Assets-Available for Sale								
Government Treasury Bills and Bonds	16,336,355	-	-	-	-	-	-	16,336,355
Unquoted Equity Shares	-	190,821	-	5,742	-	-	-	196,563
Financial Assets - Held to Maturity								-
Government Treasury Bills and Bonds	12,675,717	-	-	-	-	-	-	12,675,717
Other Financial Assets								
Sri Lanka Development Bonds	3,784,984	-	-	-	-	-	-	3,784,984
Quoted Debentures	509,658	2,162,596	-	-	-	-	-	2,672,254
Unquoted Debentures	-	54,123	-	-	-	-	-	54,123
	4,294,642	2,216,719	-	-	-	-	-	6,511,361
Loans and Advances to Customers (Gross)								
Corporate Loans	-	26,116,979	115,645	1,007,006	-	1,443,981	1,888,153	30,571,763
Retail, SME and Consumer	-	15,123,824	2,311,307	1,834,826	26,272,117	12,343,241	1,578,875	59,464,190
Housing Loans	-	-	-	-	960,976	393,988	21,153	1,376,117
Leases	-	2,270,533	5,079,019	15,239	12,763,083	8,715,398	93,050	28,936,324
Staff Loans	-	-	-	-	2,576,773	19,690	-	2,596,464
	-	43,511,337	7,505,972	2,857,070	42,572,949	22,916,298	3,581,231	122,944,857
Total	47,554,029	46,223,679	7,505,972	2,862,812	42,597,513	22,916,298	3,581,231	173,241,535

Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 22.9 Bn categorized under "past due but not impaired" category Rs. 9.2 Bn (40%) is in arrears for less than 30 days, Rs. 11.3 Bn (49%) is in arrears for more than 30 days but less than 90 days & Rs. 2.4 Bn (11%) is in arrears for more than 90 Days.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Bank - As at 31 December 2014	Neither past due nor impaired					Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose credit rating is not yet finalized			
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	6,898,887	-	-	-	-	-	-	6,898,887
Balances with Central Bank of Sri Lanka	3,992,118	-	-	-	-	-	-	3,992,118
Reverse Repurchase Agreements	11,003,449	-	-	-	10,058	-	-	11,013,507
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	65,603	30,537	-	-	31,914	-	-	128,053
Financial Assets - Held for Trading								-
Government Treasury Bills and Bonds	15,648,717	-	-	-	-	-	-	15,648,717
Financial Assets-Available for Sale								
Government Treasury Bills and Bonds	4,170,571	-	-	-	-	-	-	4,170,571
Unquoted Equity Shares	-	-	-	158,878	-	-	-	158,878
Financial Assets - Held to Maturity								-
Government Treasury Bills and Bonds	9,586,218	-	-	-	-	-	-	9,586,218
Other Financial Assets								
Sri Lanka Development Bonds	2,669,818	-	-	-	-	-	-	2,669,818
Quoted Debentures	300,636	650,403	-	-	-	-	-	951,039
Unquoted Debentures	-	199,889	-	-	-	-	-	199,889
	2,970,454	850,293	-	-	-	-	-	3,820,747
Loans and Advances to Customers (Gross)								
Corporate Loans	-	21,953,136	92,992	358,011	-	772,157	866,771	24,043,068
Retail, SME and Consumer	-	6,917,718	1,100,687	5,507,974	19,543,195	11,328,562	1,759,553	46,157,688
Housing Loans	-	-	-	-	731,002	479,224	100,423	1,310,648
Leases	-	-	-	-	15,526,537	9,636,944	532,513	25,695,994
Staff Loans	-	-	-	-	2,418,053	73,808	-	2,491,861
	-	28,870,854	1,193,679	5,865,985	38,218,787	22,290,695	3,259,260	99,699,259
Total	54,336,006	29,751,683	1,193,679	6,024,863	38,260,759	22,290,695	3,259,260	155,116,944

Past Due loans include any loan that is in arrears for more than one day. Out of LKR 22.3 Bn categorized under "past due but not impaired" category LKR 8.5 Bn (38%) is in arrears for less than 30 days, LKR 10.9 Bn (49%) is in arrears for more than 30 days but less than 90 days & LKR 2.9 Bn (13%) is in arrears for more than 90 Days.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Group - As at 31 December 2015	Neither past due nor impaired					Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose credit rating is not yet finalized			
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	6,392,437	-	-	-	-	-	-	6,392,437
Balances with Central Bank of Sri Lanka	5,283,866	-	-	-	-	-	-	5,283,866
Reverse Repurchase Agreements	-	300,834	-	-	1,414	-	-	302,249
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	526,912	3,969	-	-	23,149	-	-	554,030
Financial Assets - Held for Trading								-
Government Treasury Bills and Bonds	2,044,144	-	-	-	-	-	-	2,044,144
Financial Assets-Available for Sale								
Government Treasury Bills and Bonds	16,336,355	-	-	-	-	-	-	16,336,355
Unquoted Equity Shares	-	190,821	-	5,742	-	-	-	196,563
Financial Assets - Held to Maturity								-
Government Treasury Bills and Bonds	12,743,763	-	-	-	-	-	-	12,743,763
Other Financial Assets								
Sri Lanka Development Bonds	3,784,984	-	-	-	-	-	-	3,784,984
Quoted Debentures	509,658	2,162,596	-	-	-	-	-	2,672,254
Unquoted Debentures	-	54,123	-	-	-	-	-	54,123
	4,294,642	2,216,719	-	-	-	-	-	6,511,361
Loans and Advances to Customers (Gross)								
Corporate Loans	-	25,842,020	115,645	1,710,978	-	1,443,981	1,888,153	31,000,778
Retail, SME and Consumer	-	15,123,824	2,311,307	2,233,759	26,272,117	12,343,241	1,578,875	59,863,123
Housing Loans	-	-	-	-	960,976	393,988	21,153	1,376,117
Leases	-	2,270,533	5,079,019	15,239	12,763,083	8,715,398	93,050	28,936,324
Staff Loans	-	-	-	-	2,576,773	19,690	-	2,596,464
	-	43,236,378	7,505,972	3,959,977	42,572,949	22,916,298	3,581,231	123,772,805
Total	47,622,120	45,948,721	7,505,972	3,965,719	42,597,513	22,916,298	3,581,231	174,137,573

Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 22.9 Bn categorized under "past due but not impaired" category Rs. 9.2 Bn (40%) is in arrears for less than 30 days, Rs. 11.3 Bn (49%) is in arrears for more than 30 days but less than 90 days & Rs. 2.4 Bn (11%) is in arrears for more than 90 Days.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Group - As at 31 December 2014	Neither past due nor impaired					Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose credit rating is not yet finalized			
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	6,899,901	-	-	-	-	-	-	6,899,901
Balances with Central Bank of Sri Lanka	3,992,118	-	-	-	-	-	-	3,992,118
Reverse Repurchase Agreements	11,003,449	-	-	-	10,058	-	-	11,013,507
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	65,603	30,537	-	-	31,914	-	-	128,053
Financial Assets - Held for Trading								
Government Treasury Bills and Bonds	15,700,388	-	-	-	-	-	-	15,700,388
Financial Assets-Available for Sale								
Government Treasury Bills and Bonds	4,170,571	-	-	-	-	-	-	4,170,571
Unquoted Equity Shares	-	-	-	158,878	-	-	-	158,878
Financial Assets - Held to Maturity								
Government Treasury Bills and Bonds	9,653,000	-	-	-	-	-	-	9,653,000
Other Financial Assets								
Sri Lanka Development Bonds	2,669,818	-	-	-	-	-	-	2,669,818
Quoted Debentures	300,636	650,403	-	-	-	-	-	951,039
Unquoted Debentures	-	199,889	-	-	-	-	-	199,889
	2,970,454	850,293	-	-	-	-	-	3,820,747
Loans and Advances to Customers (Gross)								
Corporate Loans	-	21,817,701	92,992	919,708	-	772,157	866,771	24,469,329
Retail, SME and Consumer	-	6,917,718	1,100,687	6,360,233	19,543,195	11,328,562	1,759,553	47,009,947
Housing Loans	-	-	-	-	731,002	479,224	100,423	1,310,648
Leases	-	-	-	-	15,526,537	9,636,944	532,513	25,695,994
Staff Loans	-	-	-	-	2,418,053	73,808	-	2,491,861
	-	28,735,418	1,193,679	7,279,941	38,218,787	22,290,695	3,259,260	100,977,779
Total	54,455,483	29,616,248	1,193,679	7,438,819	38,260,759	22,290,695	3,259,260	156,514,942

Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 22.8 Bn categorized under "past due but not impaired" category Rs. 8.3 Bn (38%) is in arrears for less than 30 days, Rs. 10.9 Bn (50%) is in arrears for more than 30 days but less than 90 days & Rs. 2.3 Bn (13%) is in arrears for more than 90 Days.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

Management monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

Bank - As at 31 December 2015

	Maximum Exposure to Credit Risk LKR'000	Net collateral LKR'000	Net exposure LKR'000
Cash and Cash Equivalents	6,392,393	-	6,392,393
Balances with Central Bank of Sri Lanka	5,283,866	-	5,283,866
Reverse Repurchase Agreements	302,249	302,249	-
Derivative Financial Instruments	554,030	-	554,030
Financial Assets - Held for Trading	2,044,144	-	2,044,144
Financial Assets-Available for Sale	16,532,917	-	16,532,917
Financial Assets - Held to Maturity	12,675,717	-	12,675,717
Other Financial Assets	6,511,361	216,781	6,294,581
Loans and Advances to Customers (Gross)	122,944,857	61,429,775	61,526,552
Financial Guarantees	406,918	46,424	360,494
Letters of Credit	3,801,772	242,341	3,559,431
Other Commitments	92,609,742	7,391,144	85,218,597
	270,059,966	69,628,713	200,442,722

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Bank - As at 31 December 2014

	Maximum Exposure to Credit Risk LKR'000	Net collateral LKR'000	Net exposure LKR'000
Cash and Cash Equivalents	6,898,881	-	6,898,881
Balances with Central Bank of Sri Lanka	3,992,118	-	3,992,118
Reverse Repurchase Agreements	11,013,507	11,013,507	-
Derivative Financial Instruments	128,053	-	128,053
Financial Assets - Held for Trading	15,648,717	-	15,648,717
Financial Assets-Available for Sale	4,329,449	-	4,329,449
Financial Assets - Held to Maturity	9,586,218	-	9,586,218
Other Financial Assets	3,820,747	243,157	3,577,590
Loans and Advances to Customers (Gross)	99,692,164	53,587,897	44,640,356
Financial Guarantees	105,716	11,180	94,536
Letters of Credit	4,043,903	299,775	3,744,129
Other Commitments	94,539,012	13,246,478	81,292,534
	253,798,484	78,401,993	173,932,579

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Group - As at 31 December 2015

	Maximum Exposure to Credit Risk LKR'000	Net collateral LKR'000	Net exposure LKR'000
Cash and Cash Equivalents	6,392,437	-	6,392,437
Balances with Central Bank of Sri Lanka	5,283,866	-	5,283,866
Reverse Repurchase Agreements	302,249	302,249	-
Derivative Financial Instruments	554,030	-	554,030
Financial Assets - Held for Trading	2,044,144	-	2,044,144
Financial Assets-Available for Sale	16,532,917	-	16,532,917
Financial Assets - Held to Maturity	12,743,763	-	12,743,763
Other Financial Assets	6,511,361	742,997	5,768,364
Loans and Advances to Customers (Gross)	123,772,805	62,532,681	61,251,593
Financial Guarantees	406,918	46,424	360,494
Letters of Credit	3,801,772	242,341	3,559,431
Other Commitments	92,583,096	7,391,144	85,191,952
	270,929,358	71,257,836	199,682,992

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Group - As at 31 December 2014

	Maximum Exposure to Credit Risk LKR'000	Net collateral LKR'000	Net exposure LKR'000
Cash and Cash Equivalents	6,899,905	-	6,899,905
Balances with Central Bank of Sri Lanka	3,992,118	-	3,992,118
Reverse Repurchase Agreements	11,013,507	11,013,507	-
Derivative Financial Instruments	128,053	-	128,053
Financial Assets - Held for Trading	15,700,388	-	15,700,388
Financial Assets-Available for Sale	4,329,449	-	4,329,449
Financial Assets - Held to Maturity	9,653,000	-	9,653,000
Other Financial Assets	3,820,747	243,157	3,577,590
Loans and Advances to Customers (Gross)	100,970,684	55,001,852	44,504,920
Financial Guarantees	105,716	11,180	94,536
Letters of Credit	4,043,903	299,775	3,744,129
Other Commitments	94,649,530	13,246,478	81,403,053
	255,307,000	79,815,949	174,027,139

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Analysis of Risk Concentration

The Bank's concentrations of risk are managed by industry sector. The following table shows the risk concentration by industry for the components of the Statement of Financial Position. Assets concentrated as "Other" include Consumer Loans, Credit Cards and Leases. A major portion of the leases consist of leases granted to individuals for the purpose of facilitating their small/micro level business activities which cannot be directly attributable to a single identified sector, hence classified under "Other".

Bank - As at 31 December 2015	Agriculture & Fishing LKR'000	Financial Services LKR'000	Government LKR'000	Trading LKR'000	Construction & Housing LKR'000	Manufacturing LKR'000	Services LKR'000	Other LKR'000	Total LKR'000
Cash and Cash Equivalents	-	6,392,393	-	-	-	-	-	-	6,392,393
Balances with Central Bank of Sri Lanka	-	-	5,283,866	-	-	-	-	-	5,283,866
Reverse Repurchase Agreements	-	301,891	-	-	-	-	-	358	302,249
Derivative Financial Instruments									
Forward Foreign Exchange Contracts and Currency Swaps	-	530,715	-	-	-	-	22,680	634	554,030
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	-	-	2,044,144	-	-	-	-	-	2,044,144
Financial Assets-Available for Sale									
Government Treasury Bills and Bonds	-	-	16,336,355	-	-	-	-	-	16,336,355
Unquoted Equity Shares	-	-	-	-	-	-	5,742	190,821	196,563
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	-	-	12,675,717	-	-	-	-	-	12,675,717
Other Financial Assets									
Sri Lanka Development Bonds	-	-	3,784,984	-	-	-	-	-	3,784,984
Quoted Debentures	-	1,632,198	-	285,827	559,293	171,927	-	23,009	2,672,254
Unquoted Debentures	-	54,123	-	-	-	-	-	-	54,123
	-	1,686,321	3,784,984	285,827	559,293	171,927	-	23,009	6,511,361
Loans and Advances to Customers									
Corporate Loans	9,896,054	5,135,056	-	5,500,047	626,058	5,801,796	2,605,226	1,007,527	30,571,763
Retail, SME and Consumer Housing Loans	2,756,265	768,322	-	2,497,247	2,768,444	1,622,241	2,757,426	46,294,245	59,464,190
Leases	-	-	-	-	1,376,117	-	-	-	1,376,117
Staff loans	1,664,902	858,113	-	655,950	1,340,936	2,644,999	10,749,777	11,021,643	28,936,320
	-	2,026,512	-	-	-	-	-	-	2,026,512
	14,317,221	8,788,002	-	8,653,244	6,111,555	10,069,036	16,112,428	58,323,415	122,374,902
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	(2,060,334)
Net Loans and Advances	-	-	-	-	-	-	-	-	120,314,568
	14,317,221	17,699,322	40,125,066	8,939,071	6,670,848	10,240,963	16,140,851	58,538,238	170,611,245

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Bank - As at 31 December 2014	Agriculture & Fishing LKR'000	Financial Services LKR'000	Government LKR'000	Trading LKR'000	Construction & Housing LKR'000	Manufacturing LKR'000	Services LKR'000	Other LKR'000	Total LKR'000
Cash and Cash Equivalents	-	6,898,877	-	-	-	-	-	-	6,898,877
Balances with Central Bank of Sri Lanka	-	-	3,992,118	-	-	-	-	-	3,992,118
Reverse Repurchase Agreements	-	-	11,003,449	-	-	-	-	10,058	11,013,507
Derivative Financial Instruments									
Forward Foreign Exchange Contracts and Currency Swaps	208,583.33	122,937	-	-	-	1,846	2,179	882	128,053
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	-	-	15,648,717	-	-	-	-	-	15,648,717
Financial Assets-Available for Sale									
Government Treasury Bills and Bonds	-	-	4,170,571	-	-	-	-	-	4,170,571
Unquoted Equity Shares	-	-	-	-	-	-	5,488	153,390	158,878
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	-	-	9,586,218	-	-	-	-	-	9,586,218
Other Financial Assets									
Sri Lanka Development Bonds	-	-	2,669,818	-	-	-	-	-	2,669,818
Quoted Debentures	-	681,402	-	269,637	-	-	-	-	951,039
Unquoted Debentures	-	199,889	-	-	-	-	-	-	199,889
	-	881,291	2,669,818	269,637	-	-	-	-	3,820,747
Loans and Advances to Customers									
Corporate Loans	8,066,391	4,035,947	-	3,803,574	339,267	6,373,617	1,366,064	51,113	24,035,973
Retail, SME and Consumer Housing Loans	2,043,511	362,557	-	4,734,550	1,042,461	1,753,826	2,106,597	34,114,186	46,157,688
Leases	-	-	-	-	1,310,648	-	-	-	1,310,648
Staff loans	1,444,795	93,597	-	970,871	1,092,022	690,771	3,448,932	17,955,007	25,695,994
	-	1,804,552	-	-	-	-	-	-	1,804,552
	11,554,696	6,296,654	-	9,508,994	3,784,399	8,818,213	6,921,594	52,120,306	99,004,856
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	(1,936,597)
Net Loans and Advances	-	-	-	-	-	-	-	-	97,068,259
	11,554,905	14,199,763	47,070,890	9,778,632	3,784,399	8,820,059	6,929,261	52,284,636	152,485,948

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Group - As at 31 December 2015	Agriculture & Fishing LKR'000	Financial Services LKR'000	Government LKR'000	Trading LKR'000	Construction & Housing LKR'000	Manufacturing LKR'000	Services LKR'000	Other LKR'000	Total LKR'000
Cash and Cash Equivalents	-	6,392,437	-	-	-	-	-	-	6,392,437
Balances with Central Bank of Sri Lanka	-	-	5,283,866	-	-	-	-	-	5,283,866
Reverse Repurchase Agreements	-	301,891	-	-	-	-	-	358	302,249
Derivative Financial Instruments									
Forward Foreign Exchange Contracts and Currency Swaps	-	530,715	-	-	-	-	22,680	634	554,030
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	-	-	2,044,144	-	-	-	-	-	2,044,144
Financial Assets-Available for Sale									
Government Treasury Bills and Bonds	-	-	16,336,355	-	-	-	-	-	16,336,355
Unquoted Equity Shares	-	-	-	-	-	-	5,742	190,821	196,563
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	-	-	12,743,763	-	-	-	-	-	12,743,763
Other Financial Assets									
Sri Lanka Development Bonds	-	-	3,784,984	-	-	-	-	-	3,784,984
Quoted Debentures	-	1,632,198	-	285,827	559,293	171,927	-	23,009	2,672,254
Unquoted Debentures	-	54,123	-	-	-	-	-	-	54,123
	-	1,686,321	3,784,984	285,827	559,293	171,927	-	23,009	6,511,361
Loans and Advances to Customers									
Corporate Loans	9,896,054	5,116,733	-	5,897,573	626,058	5,801,796	2,655,037	1,007,527	31,000,778
Retail, SME and Consumer Housing Loans	2,756,265	774,138	-	2,534,109	2,768,444	1,622,241	2,758,730	46,649,197	59,863,123
Leases	-	-	-	-	1,376,117	-	-	-	1,376,117
Staff loans	1,664,902	858,113	-	655,950	1,340,936	2,644,999	10,749,777	11,021,643	28,936,320
	-	2,026,512	-	-	-	-	-	-	2,026,512
	14,317,221	8,775,496	-	9,087,631	6,111,555	10,069,036	16,163,544	58,678,367	123,202,849
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	(2,059,784)
Net Loans and Advances	-	-	-	-	-	-	-	-	121,143,065
	14,317,221	17,686,860	40,193,112	9,373,458	6,670,848	10,240,963	16,191,966	58,893,189	171,507,833

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Group - As at 31 December 2014	Agriculture & Fishing LKR'000	Financial Services LKR'000	Government LKR'000	Trading LKR'000	Construction & Housing LKR'000	Manufacturing LKR'000	Services LKR'000	Other LKR'000	Total LKR'000
Cash and Cash Equivalents	-	6,899,901	-	-	-	-	-	-	6,899,901
Balances with Central Bank of Sri Lanka	-	-	3,992,118	-	-	-	-	-	3,992,118
Reverse Repurchase Agreements	-	-	11,003,449	-	-	-	-	10,058	11,013,507
Derivative Financial Instruments									
Forward Foreign Exchange Contracts and Currency Swaps	209	122,937	-	-	-	1,846	2,179	882	128,053
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	-	-	15,700,388	-	-	-	-	-	15,700,388
Financial Assets-Available for Sale									
Government Treasury Bills and Bonds	-	-	4,170,571	-	-	-	-	-	4,170,571
Unquoted Equity Shares	-	-	-	-	-	-	5,488	153,390	158,878
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	-	-	9,653,000	-	-	-	-	-	9,653,000
Other Financial Assets									
Sri Lanka Development Bonds	-	-	2,669,818	-	-	-	-	-	2,669,818
Quoted Debentures	-	681,402	-	269,637	-	-	-	-	951,039
Unquoted Debentures	-	199,889	-	-	-	-	-	-	199,889
	-	881,291	2,669,818	269,637	-	-	-	-	3,820,747
Loans and Advances to Customers									
Corporate Loans	8,066,391	3,915,012	-	4,287,793	339,267	6,373,617	1,429,041	51,113	24,462,234
Retail, SME and Consumer	2,043,511	850,309	-	4,782,091	1,042,461	1,753,826	2,107,505	34,430,245	47,009,947
Housing Loans	-	-	-	-	1,310,648	-	-	-	1,310,648
Leases	1,444,795	93,597	-	970,871	1,092,022	690,771	3,448,932	17,955,007	25,695,994
Staff loans	-	1,804,552	-	-	-	-	-	-	1,804,552
	11,554,696	6,663,471	-	10,040,754	3,784,399	8,818,213	6,985,478	52,436,365	100,283,376
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	(1,936,326)
Net Loans and Advances	-	-	-	-	-	-	-	-	98,347,051
	11,554,905	14,567,604	47,189,343	10,310,392	3,784,399	8,820,059	6,993,145	52,600,695	153,884,216

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Commitments and Guarantees

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The table below shows the Group/Bank's maximum credit risk exposure for commitments and guarantees

	2015		2014	
	Bank LKR'000	Group LKR'000	Bank LKR'000	Group LKR'000
Bonds	5,924,297	5,924,297	5,756,180	5,756,180
Acceptance	2,051,537	2,051,537	2,176,265	2,176,265
Guarantees	406,918	406,918	105,716	105,716
Letters of Credit	3,801,772	3,801,772	4,043,903	4,043,903
Foreign Exchange Contracts **	20,653,370	20,653,370	29,330,449	29,330,449
Undrawn Commitments				
Credit Cards	25,323,210	25,323,210	22,192,040	22,192,040
Other	38,657,327	38,630,681	35,084,078	35,194,597
	63,980,537	63,953,891	57,276,118	57,386,637
Total Commitments and Guarantees	96,818,431	96,791,786	98,688,631	98,799,150

** Forward Exchange Contracts amounts shown above are the total of gross purchase and sales contracts with the counter parties. However, the net exposure on these contracts are estimated at LKR 348Mn as at end of 2015 and LKR 262Mn as at end of 2014 based on a 2.5% price premium on 6 month forward exchange rate as at end of each year.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank would have to pay if the guarantee is called upon. Undrawn commitments mainly consist of unutilized credit card limits and facilities granted to corporate customers where the Bank reserves the right to unconditionally cancel or recall the facility at its discretion.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management

Liquidity risk is the inability to meet the financial obligations of the Bank in a timely and cost effective manner. Liquidity risk arises from various factors including those outside the Bank's control. The Bank manages liquidity risk according to the liquidity risk management policy. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. Maturity gap analysis is one of the techniques used by the management to monitor liquidity risk.

The Bank performs liquidity stress testing on a regular basis, to evaluate the effect of both industry-wide and Bank-specific stress events on the Bank's liquidity position.

The Bank maintains a liquidity contingency plan that specifies an approach for analyzing and responding to potential liquidity crisis events. In order to manage the same the Bank is having two standard liquidity facility agreements amounting to LKR 1Bn (Reciprocal agreement) and LKR 500Mn. The plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication and identifies potential counter measures to be considered at various stages of an event.

The Bank actively manages the diversification of its deposit liabilities by source and type of deposit

The Bank maintains a pool of highly liquid, unencumbered assets that can be readily sold or pledged to secure borrowings under stressed market conditions or due to Bank-specific events.

	2015		2014	
	DBU	FCBU	DBU	FCBU
Liquid Asset Ratio	21.8%	33.2%	23.2%	58.5%

Liquid assets mainly consist of cash, short-term Bank deposits, standing deposit facilities and government securities. In addition, the Bank maintains a statutory deposit with the Central Bank of Sri Lanka equal to 6% of Sri Lanka Rupee customer deposits.(Changed to 7.5% from 15 January 2016).

While the general market risk is monitored according to the board approved risk parameters on daily basis (some of the parameters are monitored online), the market risk management unit perform stress testing on the trading book periodically. Probable adverse macro-economic scenarios are considered while designing the stress testing framework and the results of the stress testing are presented to Integrated Risk Management Committee of the Bank.

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2015 under the flow approach.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management (Contd.)

Bank - As at 31 December 2015	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
Financial Assets						
Cash and Cash Equivalents	6,392,393	-	-	-	-	6,392,393
Balances with Central Bank of Sri Lanka	5,283,866	-	-	-	-	5,283,866
Reverse Repurchase Agreements	301,460	1,214	-	-	-	302,674
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	12,075	1,121,827	658,502	351,725	-	2,144,129
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	241,097	2,823,713	6,077,162	8,903,737	-	18,045,708
Unquoted Equity Shares	-	-	-	-	196,563	196,563
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	115,840	98,775	2,048,282	9,972,511	4,249,042	16,484,449
Other Financial Assets	54,275	53,948	512,891	7,036,884	-	7,657,998
Loans & Advances to Customers	45,646,243	18,608,264	20,385,472	48,320,074	5,336,463	138,296,515
Total Undiscounted Financial Assets	58,047,249	22,707,741	29,682,308	74,584,930	9,782,067	194,804,295
Financial Liabilities						
Due to Banks	1,987,964	289,635	-	-	-	2,277,599
Repurchase Agreements	5,015,945	5,224,168	689,632	-	-	10,929,744
Due to Customers	47,743,715	29,910,215	44,194,581	12,215,025	-	134,063,535
Debt Issued and Other Borrowed Funds	1,170,195	2,079,136	3,197,647	8,549,108	-	14,996,085
Total Undiscounted Financial Liabilities	55,917,819	37,503,153	48,081,859	20,764,133	-	162,266,964
Net Undiscounted Financial Assets/ (Liabilities)	2,129,430	(14,795,412)	(18,399,551)	53,820,798	9,782,067	32,537,331
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	2,300,580	9,265,559	5,331,536	-	-	16,897,676
Contractual Amounts Payable	(2,300,580)	(9,265,559)	(5,331,536)	-	-	(16,897,676)
	-	-	-	-	-	-
Financial Liabilities						
Contractual Amounts Receivable	1,442,223	2,024,211	245,112	-	-	3,711,545
Contractual Amounts Payable	(1,442,223)	(2,024,211)	(245,112)	-	-	(3,711,545)
	-	-	-	-	-	-
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	2,129,430	(14,795,412)	(18,399,551)	53,820,798	9,782,067	32,537,331

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management (Contd.)

Bank - As at 31 December 2014	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
Financial Assets						
Cash and Cash Equivalents	6,899,170	-	-	-	-	6,899,170
Balances with Central Bank of Sri Lanka	3,992,118	-	-	-	-	3,992,118
Reverse Repurchase Agreements	2,019,587	9,040,084	171	-	-	11,059,842
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	1,163,450	6,078,275	3,788,425	5,599,075	133,600	16,762,825
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	-	-	3,253,750	1,240,250	-	4,494,000
Unquoted Equity Shares	-	-	-	-	158,878	158,878
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	121,240	22,500	1,848,932	9,031,336	914,363	11,938,371
Other Financial Assets	12,825	336,808	694,700	3,318,038	-	4,362,372
Loans & Advances to Customers	40,164,095	14,732,777	17,694,193	36,943,208	3,620,385	113,154,658
Total Undiscounted Financial Assets	54,372,484	30,210,444	27,280,171	56,131,908	4,827,226	172,822,233
Financial Liabilities						
Due to Banks	1,272,146	1,652,567	-	-	-	2,924,713
Repurchase Agreements	8,832,630	4,778,498	874,336	1,098,340	-	15,583,803
Due to Customers	45,461,453	25,642,921	34,770,658	11,320,209	-	117,195,241
Debt Issued and Other Borrowed Funds	295,625	1,539,092	827,214	9,354,319	-	12,016,249
Total Undiscounted Financial Liabilities	55,861,854	33,613,077	36,472,208	21,772,868	-	147,720,006
Net Undiscounted Financial Assets/ (Liabilities)	(1,489,369)	(3,402,633)	(9,192,037)	34,359,040	4,827,226	25,102,227
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	4,392,944	3,984,302	8,423,989	-	-	16,801,235
Contractual Amounts Payable	(4,392,944)	(3,984,302)	(8,423,989)	-	-	(16,801,235)
	-	-	-	-	-	-
Financial Liabilities						
Contractual Amounts Receivable	5,840,204	4,448,849	2,214,851	-	-	12,503,904
Contractual Amounts Payable	(5,840,204)	(4,448,849)	(2,214,851)	-	-	(12,503,904)
	-	-	-	-	-	-
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	(1,489,369)	(3,402,633)	(9,192,037)	34,359,040	4,827,226	25,102,227

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management (Contd.)

Group - As at 31 December 2015	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
Financial Assets						
Cash and Cash Equivalents	6,392,437	-	-	-	-	6,392,437
Balances with Central Bank of Sri Lanka	5,283,866	-	-	-	-	5,283,866
Reverse Repurchase Agreements	301,460	1,214	-	-	-	302,674
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	12,075	1,121,827	658,502	351,725	-	2,144,129
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	241,097	2,823,713	6,077,162	8,903,737	-	18,045,708
Unquoted Equity Shares	-	-	-	-	196,563	196,563
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	115,936	98,992	2,054,008	10,051,667	4,268,137	16,588,740
Other Financial Assets	54,275	53,948	512,891	7,036,884	-	7,657,998
Loans & Advances to Customers	46,474,191	18,608,264	20,385,472	48,320,074	5,336,463	139,124,463
Total Undiscounted Financial Assets	58,875,337	22,707,958	29,688,034	74,664,087	9,801,163	195,736,578
Financial Liabilities						
Due to Banks	1,987,964	289,635	-	-	-	2,277,599
Repurchase Agreements	4,545,602	5,224,168	689,632	-	-	10,459,402
Due to Customers	47,661,028	29,910,215	44,194,581	12,215,025	-	133,980,849
Debt Issued and Other Borrowed Funds	1,170,195	2,079,136	3,197,647	8,549,108	-	14,996,085
Total Undiscounted Financial Liabilities	55,364,790	37,503,153	48,081,859	20,764,133	-	161,713,935
Net Undiscounted Financial Assets/ (Liabilities)	3,510,547	(14,795,195)	(18,393,825)	53,899,954	9,801,163	34,022,643
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	2,300,580	9,265,559	5,331,536	-	-	16,897,676
Contractual Amounts Payable	(2,300,580)	(9,265,559)	(5,331,536)	-	-	(16,897,676)
	-	-	-	-	-	-
Financial Liabilities						
Contractual Amounts Receivable	1,442,223	2,024,211	245,112	-	-	3,711,545
Contractual Amounts Payable	(1,442,223)	(2,024,211)	(245,112)	-	-	(3,711,545)
	-	-	-	-	-	-
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	3,510,547	(14,795,195)	(18,393,825)	53,899,954	9,801,163	34,022,643

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management (Contd.)

Group - As at 31 December 2014	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
Financial Assets						
Cash and Cash Equivalents	6,900,194	-	-	-	-	6,900,194
Balances with Central Bank of Sri Lanka	3,992,118	-	-	-	-	3,992,118
Reverse Repurchase Agreements	2,019,587	9,040,084	171	-	-	11,059,842
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	1,165,075	6,078,275	3,840,050	5,599,075	133,600	16,816,075
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	-	-	3,253,750	1,240,250	-	4,494,000
Unquoted Equity Shares	-	-	-	-	158,878	158,878
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	121,336	22,717	1,854,658	9,055,492	994,498	12,048,701
Other Financial Assets	12,825	336,808	694,700	3,318,038	-	4,362,372
Loans & Advances to Customers	41,442,616	14,732,777	17,694,193	36,943,208	3,620,385	114,433,179
Total Undiscounted Financial Assets	55,653,750	30,210,661	27,337,522	56,156,064	4,907,361	174,265,358
Financial Liabilities						
Due to Banks	1,272,146	1,652,567	-	-	-	2,924,713
Repurchase Agreements	8,832,630	4,377,734	874,336	1,098,340	-	15,183,039
Due to Customers	45,424,674	25,642,921	34,770,658	11,320,209	-	117,158,462
Debt Issued and Other Borrowed Funds	798,674	1,539,092	827,214	9,354,319	-	12,519,299
Total Undiscounted Financial Liabilities	56,328,124	33,212,313	36,472,208	21,772,868	-	147,785,513
Net Undiscounted Financial Assets/ (Liabilities)	(674,374)	(3,001,652)	(9,134,686)	34,383,196	4,907,361	26,479,845
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	4,392,944	3,984,302	8,423,989	-	-	16,801,235
Contractual Amounts Payable	(4,392,944)	(3,984,302)	(8,423,989)	-	-	(16,801,235)
	-	-	-	-	-	-
Financial Liabilities						
Contractual Amounts Receivable	5,840,204	4,448,849	2,214,851	-	-	12,503,904
Contractual Amounts Payable	(5,840,204)	(4,448,849)	(2,214,851)	-	-	(12,503,904)
	-	-	-	-	-	-
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	(674,374)	(3,001,652)	(9,134,686)	34,383,196	4,907,361	26,479,845

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management (Contd.)

Whilst the management understands above contractual maturity gaps, more emphasis is given for the behavioral nature of these cash flows when managing the overall liquidity profile. Management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing asset growth with liquidity in mind whilst monitoring future cash flows and liquidity.

In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

Bank	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2015	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Bonds	597,606	1,411,857	3,342,802	572,032	-	5,924,297
Acceptance	412,105	1,343,973	295,459	-	-	2,051,537
Guarantees	406,918	-	-	-	-	406,918
Letters of Credit	595,103	2,841,265	365,404	-	-	3,801,772
Foreign Exchange Contracts	3,768,981	11,307,741	5,576,648	-	-	20,653,370
Undrawn Commitments	63,980,537	-	-	-	-	63,980,537
Total Commitments and Guarantees	69,761,251	16,904,835	9,580,313	572,032	-	96,818,431

Bank	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2014	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Bonds	464,275	1,098,943	3,180,154	1,012,807	-	5,756,180
Acceptance	385,708	1,474,314	316,243	-	-	2,176,265
Guarantees	105,716	-	-	-	-	105,716
Letters of Credit	396,605	3,316,991	328,554	1,754	-	4,043,903
Foreign Exchange Contracts	10,258,459	8,433,151	10,638,839	-	-	29,330,449
Undrawn Commitments	57,276,118	-	-	-	-	57,276,118
Total Commitments and Guarantees	68,886,881	14,323,399	14,463,790	1,014,561	-	98,688,631

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management (Contd.)

Group	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2015	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Bonds	597,606	1,411,857	3,342,802	572,032	-	5,924,297
Acceptance	412,105	1,343,973	295,459	-	-	2,051,537
Guarantees	406,918	-	-	-	-	406,918
Letters of Credit	595,103	2,841,265	365,404	-	-	3,801,772
Foreign Exchange Contracts	3,768,981	11,307,741	5,576,648	-	-	20,653,370
Undrawn Commitments	63,953,891	-	-	-	-	63,953,891
Total Commitments and Guarantees	69,734,605	16,904,835	9,580,313	572,032	-	96,791,786

Group	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2014	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Bonds	464,275	1,098,943	3,180,154	1,012,807	-	5,756,180
Acceptance	385,708	1,474,314	316,243	-	-	2,176,265
Guarantees	105,716	-	-	-	-	105,716
Letters of Credit	396,605	3,316,991	328,554	1,754	-	4,043,903
Foreign Exchange Contracts	10,258,459	8,433,151	10,638,839	-	-	29,330,449
Undrawn Commitments	57,386,637	-	-	-	-	57,386,637
Total Commitments and Guarantees	68,997,399	14,323,399	14,463,790	1,014,561	-	98,799,150

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.4 Market Risk

Market Risk denotes the risk of losses in the banking book as a result of unfavorable movements in market indices such as interest rates, foreign exchange rates, credit spreads, equity prices and commodity prices. The values of these indices are set in public market and the risk cannot be eliminated through diversification.

The Bank manages the market risk on both trading and non-trading portfolios through a comprehensive market risk management framework. The objective of such framework is to reduce the exposure to the aforementioned unfavorable movements and mitigate the impact on the economic income and cash flows.

The Bank sets market risk limits for both trading and non-trading portfolios which carries the concurrence of the board of directors. These limits are reviewed periodically and all revisions and amendments are subject to Board approval. A daily report summarizes the Bank's market risk exposure against approved limits and same being scrutinized by the relevant members in the management team which includes the Chief Executive Officer as well.

Types of Market Risk

Both trading and non-trading activities of the Bank are exposed to unfavorable movements in the market indices which reflect in the profit and losses. Bank identifies two types of market risks which directly influence the banking book.

- Interest Rate Risk
- Currency Risk

Interest Rate Risk

Interest rate risk (IRR) arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Any mismatches in the cash flows (fixed rate assets or liabilities) or re-pricing dates (floating rate assets or liabilities) expose the Banks' Net Interest Income to variations. The Board has established limits on the interest rate gaps. The Bank's policy is to monitor positions on a monthly basis and to ensure positions are maintained within the established limits.

IRR exposure is primarily managed with Reprising Gap analysis that distributes interest rate sensitive assets, liabilities and off-balance sheet positions at carrying amount into a number of pre-defined time-bands according to their residual term to maturity (fixed rate) or residual term for their next re-pricing (floating rate).

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.4 Market Risk (Contd.)

Bank - As at 31 December 2015	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Assets							
Cash and balances with Central Bank of Sri Lanka	9,047,010	-	-	-	-	-	9,047,010
Loans and Advances	120,510,409	45,539,083	23,786,538	19,924,554	27,511,802	2,045,565	1,702,866
Investments	37,857,166	589,200	5,692,477	9,331,770	18,588,390	3,106,950	548,379
Other	32,198,495	5,827,137	11,469,762	5,642,168	-	-	9,259,429
Total Assets	199,613,080	51,955,420	40,948,777	34,898,492	46,100,192	5,152,515	20,557,683
Liabilities							
Deposits	126,825,303	32,548,149	28,893,711	41,196,382	9,014,697	-	15,172,364
Borrowings	25,879,843	8,035,657	9,077,289	5,639,456	3,008,380	-	119,060
Other	50,824,464	4,285,949	11,192,770	5,501,083	-	-	29,844,662
Total Shareholder Funds and Liabilities	203,529,610	44,869,755	49,163,771	52,336,921	12,023,077	-	45,136,086
Total Interest Sensitivity Gap		7,085,665	(8,214,994)	(17,438,429)	34,077,116	5,152,515	(24,578,402)

** The Classifications are based on the way that ALCO monitors repricing gaps.

Bank - As at 31 December 2014	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Assets							
Cash and balances with Central Bank of Sri Lanka	7,492,864	-	-	-	-	-	7,492,864
Loans and Advances	96,667,470	35,586,041	20,293,472	13,267,546	21,454,363	3,901,996	2,164,053
Investments	44,430,444	3,096,176	16,678,706	8,889,240	14,593,990	806,950	365,382
Other	40,912,983	13,876,430	7,962,526	10,446,358	-	-	8,627,669
Total Assets	189,503,761	52,558,647	44,934,704	32,603,144	36,048,352	4,708,946	18,649,967
Liabilities							
Deposits	109,199,600	27,064,930	24,695,951	32,866,217	8,172,085	-	16,400,416
Borrowings	27,457,817	10,963,002	7,727,536	2,753,934	6,003,040	-	10,306
Other	57,637,681	10,745,002	8,007,834	10,481,873	-	-	28,402,971
Total Shareholder Funds and Liabilities	194,295,097	48,772,934	40,431,321	46,102,025	14,175,125	-	44,813,693
Total Interest Sensitivity Gap		3,785,713	4,503,383	(13,498,880)	21,873,228	4,708,946	(26,163,726)

** The Classifications are based on the way that ALCO monitors repricing gaps.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.4 Market Risk (Contd.)

Group - As at 31 December 2015	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Assets							
Cash and balances with Central Bank of Sri Lanka	9,047,071	-	-	-	-	-	9,047,071
Loans and Advances	121,338,357	46,367,031	23,786,538	19,924,554	27,511,802	2,045,565	1,702,866
Investments	37,925,212	589,200	5,692,477	9,331,770	18,645,390	3,125,051	541,324
Other	32,203,399	5,827,137	11,469,762	5,642,168	-	-	9,264,332
Total Assets	200,514,039	52,783,368	40,948,777	34,898,492	46,157,192	5,170,616	20,555,593
Liabilities							
Deposits	126,825,303	32,548,149	28,893,711	41,196,382	9,014,697	-	15,172,364
Borrowings	25,879,843	8,035,657	9,077,289	5,639,456	3,008,380	-	119,060
Other	51,725,423	4,285,949	11,192,770	5,501,083	-	-	30,745,620
Total Shareholder Funds and Liabilities	204,430,569	44,869,755	49,163,771	52,336,921	12,023,077	-	46,037,044
Total Interest Sensitivity Gap		7,913,613	(8,214,994)	(17,438,429)	34,134,116	5,170,616	(25,481,451)

** The Classifications are based on the way that ALCO monitors repricing gaps.

Group - As at 31 December 2014	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Assets							
Cash and balances with Central Bank of Sri Lanka	7,492,864	-	-	-	-	-	7,492,864
Loans and Advances	97,945,991	36,864,562	20,293,472	13,267,546	21,454,363	3,901,996	2,164,053
Investments	44,548,897	3,096,176	16,678,706	8,939,240	14,593,990	882,051	358,733
Other	40,919,205	13,876,430	7,962,526	10,446,358	-	-	8,633,891
Total Assets	190,906,956	53,837,168	44,934,704	32,653,144	36,048,352	4,784,047	18,649,541
Liabilities							
Deposits	109,199,600	27,064,930	24,695,951	32,866,217	8,172,085	-	16,400,416
Borrowings	27,959,710	11,464,895	7,727,536	2,753,934	6,003,040	-	10,306
Other	58,539,039	10,745,002	8,007,834	10,481,873	-	-	29,304,330
Total Shareholder Funds and Liabilities	195,698,349	49,274,827	40,431,321	46,102,025	14,175,125	-	45,715,051
Total Interest Sensitivity Gap		4,562,341	4,503,383	(13,448,880)	21,873,228	4,784,047	(27,065,510)

** The Classifications are based on the way that ALCO monitors repricing gaps.

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.4 Market Risk (Contd.)

The ALCO monitors the above gaps and the sensitivity on the Profit or Loss and equity for Sri Lanka Rupee and US Dollar denominated assets and liabilities on a Bank and Group basis against the set limits. The sensitivity of the Profit or Loss and equity is measured by calculating the change in the present value of above interest rate sensitive gaps, based on assumed changes in interest rates along the yield curve.

The following table demonstrates the sensitivity of the Bank's Profit or Loss to a reasonably possible parallel shift in the interest rate yield curve, with all other variables held constant.

Bank Asset/Liabilities	Increase /(Decrease) in basis points 2015	Sensitivity to Profit after Tax 2015 LKR'000	Sensitivity to Equity after Tax 2015 LKR'000
LKR	+100/-100	+93,765/-95,210	-482,748/+510,468
USD	+50/-50	-2,935/+2,947	-7,032/+7,202
Bank Asset/Liabilities	Increase /(Decrease) in basis points 2014	Sensitivity to Profit after Tax 2014 LKR'000	Sensitivity to Equity after Tax 2014 LKR'000
LKR	+100/-100	+54,342/-55,183	-350,603/+372,167
USD	+50/-50	-8,815/+8,894	-18,220/+18,658
Group Asset/Liabilities	Increase /(Decrease) in basis points 2015	Sensitivity to Profit after Tax 2015 LKR'000	Sensitivity to Equity after Tax 2015 LKR'000
LKR	+100/-100	+93,538/-94,981	-484,478/+512,291
USD	+50/-50	-2,935/+2,947	-7,032/+7,202
Group Asset/Liabilities	Increase /(Decrease) in basis points 2014	Sensitivity to Profit after Tax 2014 LKR'000	Sensitivity to Equity after Tax 2014 LKR'000
LKR	+100/-100	+53,888/-54,722	-352,659/+374,350
USD	+50/-50	-8,815/+8,894	-18,220/+18,658

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.4 Market Risk (Contd.)

Exposure to market risk in the trading book is separately monitored and measured by setting limits on products, maturity profile of the portfolio, cut-loss limits and by setting sub-limits within above interest rate sensitive gap analysis.

Currency Risk

Currency risk is the potential risk of loss due to unfavorable movements in foreign exchange rates when the bank has foreign currency denominated assets, liabilities or trading positions. Exposure to each currency is arrived at by calculating the Net Asset or Liability position including the spot and forward contracts of the relevant currency.

The Board has set following limits to mitigate against currency risk exposures;

- Exposure on currencies on individual and an aggregate basis
- Exposure for each currency by maturity for forward currency contracts
- Dealer and counter-party Limits
- Overnight and Intra-day Limits
- Stop-loss limits

Treasury /Middle Office (TMO) monitors the above positions on a daily basis to ensure positions are maintained within established limits.

The table below indicates the currencies to which the Bank had material exposures at 31 December 2015. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Sri Lankan Rupee, with all other variables held constant, on the Profit or Loss. A negative amount in the table reflects a potential net reduction in Profit or Loss, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Sri Lankan Rupee would have resulted in an equivalent but opposite impact. The sensitivity related to trading position in the Domestic Banking Unit is given below.

Currency	Change in Currency Rate in % 2015	Change in Currency Rate in % 2014	Effect on Profit after tax 2015 LKR'000	Effect on Profit after tax 2014 LKR'000
USD	+5	+5	(1,352.0)	(5,549.8)
GBP	+5	+5	101.1	(63.2)
EUR	+5	+5	88.6	84.0
AUD	+5	+5	(95.7)	(29.8)
JPY	+5	+5	5.6	6.5
Other	+5	+5	425.6	332.3

In addition to above trading exposures, the Bank carries a structural position arising from the negative US dollar reserves accumulated in Foreign Currency Banking Unit books. The sensitivity to Profit or Loss from this exposure is as follows;

Currency	Change in Currency Rate in % 2015	Change in Currency Rate in % 2014	Effect on Profit after tax 2015 LKR'000	Effect on Profit after tax 2014 LKR'000
USD	+5	+5	(15,243.4)	(12,281.5)

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

45. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank. (Note 44)

Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

45.1 Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

45.2 Capital Commitments

The commitment for acquisition of Property, Plant and Equipment and Intangible Assets incidental to the ordinary course of business as at 31 December are as follows;

	Bank/Group	
	2015 LKR '000	2014 LKR '000
Capital Commitments for Property, Plant and Equipment		
Approved and Contracted for	233,786	82,067
Approved but not Contracted for	58,380	20,054
	292,166	102,121
Capital Commitments for Intangible Assets		
Approved and Contracted for	359,645	99,114
Approved but not Contracted for	8,468	5,800
	368,113	104,914
	660,279	207,035

45.3 Lease Arrangements

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessor

Leases where the Group does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

NOTES TO THE FINANCIAL STATEMENTS

45. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (CONTD.)

45.3 Lease Arrangements (Contd.)

Group as a lessee

Leases that do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the Profit or Loss on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they are incurred.

45.3.1 Operating Lease Commitments – Bank as Lessee

The Bank has entered into commercial leases for premises. These leases have an average life of ten years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are, as follows:

	Bank	
	2015 LKR '000	2014 LKR '000
Within one year	212,687	182,771
After one year but not more than five years	395,279	362,070
More than five years	75,600	8,304
	683,566	553,145

45.3.2 Operating Lease Receivable – Group as Lessor

The table below provides an analysis of finance lease receivables for leases of certain property in which the Group is the lessor.

	Group	
	2015 LKR '000	2014 LKR '000
Within one year	26,902	18,414
After one year but not more than five years	43,217	5,959
	70,119	24,373

Group overview	4
Governance	32
Management Discussion and Analysis	112
Financial Information	172

46. CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the Central Bank of Sri Lanka. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS) and adopted by the Central Bank of Sri Lanka in supervising the Bank.

46.1 Capital Management

The primary objectives of the Bank's capital management policy are to ensure that the bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

Regulatory capital consists of Tier 1 Capital, which comprises share capital, share premium, retained earnings including current year profit. The other component of regulatory capital is Tier II Capital, which includes subordinated long term debt.

46.2 Net Assets Value per Ordinary Share

Net Assets Value per Ordinary Share is calculated by dividing the Equity Attributable to Equity Holders of the Parent by the weighted average number of Ordinary Shares as at the reporting date.

	Bank		Group	
	2015	2014	2015	2014
Amount Used as the Numerator:				
On Attributable to Equity Holders of the Parent (LKR '000)	13,990,186	12,788,555	15,171,440	13,894,525
Number of Ordinary Shares Used as the Denominator:				
Ordinary Shares at the beginning of the year	230,607,283	230,607,283	230,607,283	230,607,283
Number of Ordinary Shares in Issue at the End of the Year	230,607,283	230,607,283	230,607,283	230,607,283
Net Assets Value per Ordinary Share (LKR)	60.67	55.46	65.79	60.25

47. SUPER GAIN TAX

As per the provisions of Part III of the Finance Act, No. 10 of 2015 which was certified on 30 October 2015, the Bank paid Super Gain Tax of Rs. 733 Mn (Group - Rs. 820 Mn). According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 1 April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards, hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka, dated 24 November 2015.

48. EVENTS AFTER THE REPORTING DATE

No material events have taken place since 31 December 2015 that require disclosure or/and adjustments in these accounts, except for the following;

a) Proposed dividends

Subject to approval of the shareholders at the forthcoming Annual General Meeting, the Directors recommended a payment of a first and final dividend of LKR 2.10 per share for the year ended 31 December 2015.

DETAILS OF FREEHOLD LAND & BUILDINGS

No.	Building	Extent (perches)	Cost of Land	Land - Value	Cost of Building	Building - Value	Total Cost	Total Accumulated Value Depreciation	Net Book Value - 2015	Net Book Value - 2014
			LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
01	Head Office									
	242, Union Place, Colombo 02	77.20	543,985	567,750	142,805	226,050	686,790	793,800	51,884	634,906
										640,098
02	City Office									
	76, York Street, Colombo 01	10.82	15,455	81,150	31,323	24,615	46,778	105,765	16,939	29,840
										24,603

The freehold land and buildings of the bank was revalued during 2014, by a professionally qualified independent valuer. The revaluation was carried out by taking into account the prices in property markets or recent market transactions on arm's length basis. The revaluation gains have not been booked.

SERVICE NETWORK

Nations Trust Bank PLC, No: 242, Union Place, Colombo 2, Sri Lanka

Telephone : 011 4711411

Fax : 011 2307854

E- Mail : customerservice@nationstrust.com

Website : www.nationstrust.com

No	Location	Address
1	Akkaraipattu	No. 210, Main Street, Akkaraipattu
2	Akuressa	No. 73, Matara Road, Akuressa
3	Aluthgama	No. 156, Galle Road, Aluthgama
4	Ambalangoda	No. 20, 5th Cross Street, Ambalangoda
5	Ambalantota	No. 61, Main Street, Ambalantota
6	Anuradhapura	No. 249A, Maithripala Senanayake Mawatha, Anuradhapura
7	Avissawella	No. 107, New Rathnapura Road, Avissawella
8	Badulla	No. 10, Bank Road, Badulla
9	Balangoda	No. 86/A, Bans Ratwatte Mawatha, Balangoda
10	Bandaragama	No. 18/2, Kalutara Road, Bandaragama
11	Bandarawela	No. 326, Badulla Road, Bandarawela
12	Battaramulla	No. 103A, Pannipitiya Road, Battaramulla
13	Batticaloa	No. 29, Bar Road, Batticaloa
14	Boralesgamuwa	No. 36, Lake Road, Boralesgamuwa
15	Borella	No. 67, D S Senanayake Mawatha, Borella, Colombo 8
16	Chilaw	No. 43, Kurunegala Road, Chilaw
17	Cinnamon Gardens	No. 4 A, Independence Avenue, Colombo 07
18	City	No. 76, York Street, Colombo 01
19	Corporate	No. 242 Union Place, Colombo 02
20	Crescat	B 14, Basement, Crescat Boulevard, Galle Road, Colombo 03
21	Dehiwala	No. 163, Galle Road, Dehiwala
22	Deniyaya	No. 11, Main Street, Deniyaya
23	Digana	No. 964/6, Nilagama, Digana, Rajawella
24	Elpitiya	No. 42, Ambalangoda Road, Elpitiya
25	Embilipitiya	No. 70, New Town Road, Embilipitiya
26	Galle	No. 16, Matara Road, Galle
27	Gampaha	No. 112, Baudhaloka Mawatha, Gampaha
28	Gampola	No. 13, Nawalapitiya Road, Gampola
29	Giriulla	No. 145/A, Kurunegala Road, Giriulla
30	Gothatuwa	No. 35, New Town, Gothatuwa, IDH
31	Hambantota	No. 39, Main Road, Hambantota
32	Havelock Town	No. 100, Havelock Road, Colombo 05
33	Hikkaduwa	No. 08, Galle Road, Hikkaduwa
34	Homagama	No. 113/A, High Level Road, Homagama

SERVICE NETWORK

No	Location	Address
35	Horana	No. 192 B, Ratnapura Road, Horana
36	Ja-Ela	No. 176, Colombo Road, Ja-ela
37	Jaffna	No. 35, Stanley Road, Jaffna
38	Kadawatha	No. 144/1A, Sumito Building, Kandy Road, Kadawatha
39	Kaduruwela	No. 292, Sawmill Junction, Kaduruwela, Polonnaruwa
40	Kaduwela	No. 510, Colombo Road, Kaduwela
41	Kalmunai	No. 174, Batticaloa Road, Kalmunai
42	Kandy	No. 147, Kotugodella Street, Kandy
43	Karapitiya	No. 241, Hirimbura Road, Karapitiya
44	Katugastota	No. 146, Kurunegala Road, Katugastota
45	Kegalle	No. 176, Walawwa Watta, Kegalle
46	Kiribathgoda	No. 69, Makola Road, Kiribathgoda
47	Kohuwala	No. 135 A, Dutugemunu Street, Kohuwala
48	Kollupitiya	No. 314, R.A.De Mel Mawatha, Colombo 03
49	Kotahena	No. 258, George R De Silva Mw, Colombo 13
50	Kottawa	No. 269/1, Mahawarawa Junction, Kottawa
51	Kuliyapitiya	No. 72A, Hettipola Road, Kuliyapitiya
52	Kurunegala	No. 37, Puttalam Road, Kurunegala
53	Mahabage	No. 590, Negombo Road, Mahabage
54	Maharagama	No. 129, High Level Road, Maharagama
55	Malabe	No. 410/4, Athurugiriya Road, Malabe
56	Matale	No. 237/241, Main Street, Matale
57	Matara	No. 56, Esplanade Road, Matara
58	Matugama	No. 123/1, Agalawatta Road, Matugama
59	Mawathagama	No. 56, Kurunegala Road, Mawathagama
60	Millennium	No. 46/58, Nawam Mawatha, Colombo 02
61	Minuwangoda	No. 59, Negombo Road, Minuwangoda
62	Monaragala	No. 190, Wellawaya Road, Monaragala
63	Moratuwa	No. 89, New Galle Road, Moratuwa
64	Mt Lavinia	No. 269, Galle Road, Mount Lavinia
65	Narahenpita	No. 255/2, Kirula Road, Colombo 05
66	Nawala	No. 267/A, Nawala Road, Nawala
67	Negombo	No. 72/A, Old Chilaw Road, Negombo
68	Nelliady	No. 171/1, Jaffna - Point Pedro Road, Nelliady
69	Nittambuwa	No. 39, Kandy Road, Nittambuwa
70	Nugegoda	No. 128, High Level Road, Nugegoda
71	Nuwara Eliya	No. 86, Kandy Road, Nuwara Eliya
72	Old Moor Street	No. 360, Old Moor Street, Colombo 12
73	Panadura	No. 229, Galle Road, Panadura
74	Peradeniya	No. 903/1B, Royal Mall Complex, William Gopallawa Mawatha, Kandy

No	Location	Address
75	Pettah	No. 244, Main Street, Pettah
76	Pettah 2	No. 54A, Bankshall Street, Colombo 11
77	Piliyandala	No. 30, Moratuwa Road, Piliyandala
78	Rajagiriya	No. 196, Sri Jayawardenapura Mawatha, Welikada, Rajagiriya
79	Ratnapura	No. 189, Main Street, Ratnapura
80	Sri Sangaraja Mawatha	No. 545 A, Sri Sangaraja Mawatha, Colombo 10
81	Tangalle	No. 110, Tissa Road, Tangalle
82	Thalawatugoda	No. 245/2, Pannipitiya Road, Thalawatugoda
83	Tissamaharama	No. 43/2, Kachcheriyagama, Hambanthota Road, Tissamaharama
84	Trincomalee	No. 96, Main Street, Trincomalee
85	Vavuniya	No. 222, Kandy Road, Vavuniya
86	Ward Place (ODEL)	ODEL, No 10, Ward Place, Colombo 07
87	Wariyapola	No. 84, Puttalam Road, Wariyapola
88	Wattala	No. 492, Negombo Road, Wattala
89	Weligama	No. 354/29, Samaraweera Place, Sirimavo Bandaranayake Mw, Weligama
90	Wellawatte	No. 292, Galle Road, Wellawatte
91	Wennappuwa	No. 289, Chilaw Road, Wennappuwa
92	World Trade Centre	Unit L03/EB/01, Level 03, East Tower, Echelon Square, Colombo 01

SERVICE NETWORK

Off Site ATMs

No	Location	Address
1	Hyde Park Corner	Arpico Super Centre, No. 69, Hyde Park Corner, Colombo 02
2	Navinna	Arpico Super Centre, No. 310, High Level Road, Navinna, Maharagama
3	Asiri Surgical Hospital	No. 21, Kirimandala Mawatha, Narahenpita
4	Asiri Hospital Ltd	No. 181, Kirula Road, Narahenpita
5	Athurugiriya	No. 25, Malabe Road, Athurugiriya
6	Attidiya	L & S Engineering (Pvt) Ltd, No.208, Main Road, Attidiya
7	Borella	Keells Super - Borella, No.85, Dr N.M. Perera Mawatha, Colombo 08
8	Cinnamon Lakeside	No. 115, Sir Chittampalam A Gardiner Mawatha, Colombo 02
9	Dankotuwa	Dankotuwa Industrial Park, Bujjampola Road, Dankotuwa
10	Ganemulla	Sri Lanka Railway Station, Ganemulla
11	Kaduwela	The Main Bus Stand, Awissawella Road, Kaduwela
12	Kandana	Arpico Daily, No.88, Negambo road, Kandana.
13	Kolonnawa	Laugfs Super Market, No.228, Kolonnawa Road, Kolonnawa
14	Ragama	Leesons Hospital, No.32, Thewatta Road, Ragama
15	Kandy	Sri Lanka Railway Station, Kandy
16	Kohuwala	Laugfs Sun-up Super Market, No.17, Sunethradevi Mawatha, Kohuwala
17	Liberty Arcade	Liberty Arcade, Ground Floor, R.A. De Mel Mawatha, Colombo 03
18	Matara	SK Cinema (Pvt) Limited, No.07, Beach Road, Matara
19	Mawaramandiya	Biyagama Multi Corporative Society Limited, "Samupakara Mandiraya", Mawaramandiya, Siyambalape
20	Miriswatta	Lanka Filling Station, No.144, Kandy Road, Miriswatte, Mudungoda
21	Royal Park Rajagiriya	Royal Park management Corporation, No.115, Lake Drive, Rajagiriya
22	Mount Lavinia	Keells Super Mt. Lavinia, No.388, Galle Road, Mt. Lavinia
23	Nadimala	Laugfs Sun-up Super Market, No.288, Hill Sreet, Dehiwala
24	National Hospital of Sri Lanka	National Hospital of Sri Lanka, Doctors Quarters, Regions Street, Colombo 10
25	Negombo	Keells Super Negombo, No.41, Archbishop Nicholas Marcus Fernando Mawatha, Negombo
26	Orion City	Orion Management Consortium Ltd, No.752/1, Base Line Road, Colombo 09
27	Pitakotte	No. 338, Kotte Road, Pitakotte
28	Processing Centre	No. 256, Sri Ramanathan Mawatha, Kotahena, Colombo 15
29	Rajagiriya	Keells Super Rajagiriya, No.475, Sri Jayawardenapura Road, Rajagiriya
30	Rathmalana	Lanka Sathosa Limited, Rathmalana Mega, Police Trans Camp, No.650/A, Galle Road, Rathmalana
31	Seeduwa	Laugfs Sun-up Super Market, No.10, Kotugoda Road, Seeduwa
32	Southern Express Way A	Canowin Arcade A, Southern Highway, Welipenna
33	Southern Express Way B	Canowin Arcade B, Southern Highway, Welipenna
34	Wattala	Keells Super - Wattala, No.385, Negombo Road, Wattala
35	Keels Kalubowila	No. 53, Hospital Road, Kalubowila, Dehiwala
36	Gampaha	Railway station, Gampaha
37	Panadura	Arpico super center, No.542, Galle road, Panadura
38	Avissawella	Union Apparel (Pvt) Ltd, Block C1, C.V.Gunaratne Industrial Park, Seethawakapura, Avissawella
39	Nawam Mw	No. 46/58 Nawam Mawatha, Colombo 02.
40	Peradeniya	Royal Mall Complex, William Gopallawa Mawatha, Kandy

GLOSSARY

A

ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

ACCEPTANCES

The signature on a Bill of Exchange indicates that the person on whom it is drawn accepts the conditions of the bill. In other words a bill of exchange that has been accepted.

ACCRUAL BASIS

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

AMORTISATION

The deduction of capital expenses over a specific period of time (usually over the asset's life).

AMORTISED COST

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

AVAILABLE –FOR –SALE FINANCIAL ASSETS

Non derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

B

BILLS FOR COLLECTION

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

C

Compounded Annual growth rate (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

CAPITAL ADEQUACY RATIO

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

CAPITAL GAIN (CAPITAL PROFIT)

The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

CAPITAL RESERVES

Capital Reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act, No 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

CARRYING VALUE

Value of an asset or a liability as per books of the organisation before adjusting for fair value.

CASH EQUIVALENTS

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

COLLECTIVELY ASSESSED LOAN IMPAIRMENT PROVISIONS

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the Consumer Banking business (Housing, personal, vehicle loans etc) are assessed on a portfolio basis.

COMMITMENTS

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

CONTINGENCIES

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or nonoccurrence of one or more future events.

GLOSSARY

CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and the direction of entity, the supervision of executive actions and accountability to owners and others.

COST TO INCOME RATIO

Operating expenses (excluding provision for bad and doubtful debts) expressed as a percentage of net Income.

CONTRACTUAL MATURITY

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

CORRESPONDENT BANK

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment in debt/ equity securities.

COST METHOD

A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee.

CURRENCY RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

CREDIT RISK MITIGATION

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

CREDIT RATINGS

An evaluation of a corporate ability to repay its obligations or likelihood of not defaulting carried out by an independent rating agency.

COLLECTIVELY ASSESSED IMPAIRMENT

Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

COMMERCIAL PAPER ('CP')

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

CUSTOMER DEPOSITS

Money deposited by account holders. Such funds are recorded as liabilities.

D

DEBT RESTRUCTURING / RESCHEDULING

This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge reduction.

DELINQUENCY

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

DERECOGNITION

Removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

DEPRECIATION

The systematic allocation of the depreciable amount of an asset over its useful life.

DIVIDEND COVER

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current year's distributable profits.

DIVIDEND YIELD

Dividend earned per share as a percentage of its market value.

DEFERRED TAX

Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

DERIVATIVE

Contracts whose value is derived from the performance of underlying market factors.

DOCUMENTARY CREDITS

Commercial Letters of Credit provided for payment by a bank to the named beneficiary, usually the seller of merchandise, against delivery of documents specified in the credit.

E

EARNINGS PER ORDINARY SHARE

Profit after taxation and after dividend on Preference Shares divided by the number of ordinary shares in issue.

EFFECTIVE INCOME TAX RATE

Provision for taxation divided by the profit before taxation.

EMPLOYEE ENGAGEMENT INDEX

A measure of the extent employees are engaged with the organisation. An increase in the index reflects a situation where employees feeling engaged and finding personal meaning and motivation in work, receiving positive interpersonal support and operating in an efficient work environment.

EFFECTIVE INTEREST RATE

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

EQUITY METHOD

The equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

ECONOMIC VALUE ADDED (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

EQUITY RISK

The risk arising from positions, either long or short, in equities or equity based instruments, which create exposure to a change in the market price of the equities or equity instruments.

EXPECTED LOSS ('EL')

A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

EXPOSURE

A claim, contingent claim or position which carries a risk of financial loss.

F

FAIR VALUE

Rational and unbiased estimate of the potential market price of a good, a service or an asset.

FINANCE LEASE

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

FINANCIAL ASSET

Is any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

FINANCIAL LIABILITY

Is a contractual obligation to deliver cash or another financial asset to another entity.

GLOSSARY

FINANCIAL GUARANTEE CONTRACT

Is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

FINANCIAL ASSET OR FINANCIAL LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

FINANCIAL INSTRUMENT

Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FOREIGN EXCHANGE CONTRACT

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

FOREIGN EXCHANGE PROFIT

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Balance Sheet date and the settlement/ Balance Sheet date. Also arises from trading in foreign currencies.

G

GUARANTEES

Three party agreement involving a promise by one party (the guarantor) to fulfill the obligations of a person owning a debt if that person fails to perform.

GROSS DIVIDENDS

The portion of profits distributed to the shareholders including tax withheld.

GROUP

A group is a parent and all its subsidiaries.

H

HELD TO MATURITY INVESTMENTS

Non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

I

IMPAIRMENT ALLOWANCE

A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for incurred losses inherent in the lending book. An impairment allowance may either be identified or unidentified and individual or collective.

IMPAIRMENT CHARGE / (REVERSAL)

The difference between the carrying value of an asset and the sum of discounted future cash flows generating from the same asset.

INTANGIBLE ASSET

An asset that is not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill and brand recognition are all common intangible assets in today's marketplace.

INTEREST MARGIN

Net interest income expressed as a percentage of interest earning assets.

IMPAIRED LOANS

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

INDIVIDUALLY ASSESSED IMPAIRMENT

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

INTEREST RATE RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

INTEREST COVER

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

INTEREST IN SUSPENSE

Interest suspended on non-performing loans and advances.

INVESTMENT PROPERTIES

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

INVESTMENT SECURITIES

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

INCREMENTAL COST

Costs that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

INDIVIDUALLY SIGNIFICANT LOAN IMPAIRMENT PROVISIONS

Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Corporate Banking business of the Group are assessed individually.

INTEREST SPREAD

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

INTEREST RATE SWAP

An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount.

K

KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

LIQUID ASSETS RATIO

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities.

LOANS TO DEPOSITS RATIO

Total loans and advances expressed as a percentage of the total deposit portfolio.

LOAN LOSSES AND PROVISIONS

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

LOSS GIVEN DEFAULT ('LGD')

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

M

MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of a share as at the year-end.

MATERIALITY

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

MARKET RISK

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

GLOSSARY

N

NET ASSETS VALUE PER ORDINARY SHARE

Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

NET DIVIDENDS

Dividends net of withholding tax.

NET INTEREST INCOME

Difference between what banks earn on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

NPL RATIO

Non Performing Loans expressed as a percentage of the total loans and advances.

NON-PERFORMING ADVANCES (NPA)

All loans are classified as nonperforming when a payment is 90 days in arrears.

NON-PERFORMING ADVANCES COVER (NPA COVER)

Cumulative loan loss provision as a percentage of total Non-Performing Advances (net of Interest in Suspense).

NPA RATIO

Total non-performing advances (net of Interest in Suspense) divided by total advances portfolio (net of Interest in Suspense).

O

OFF-BALANCE SHEET TRANSACTIONS

Transactions that are not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

OPERATIONAL RISK

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P

PRUDENCE

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

PAST DUE

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

PROBABILITY OF DEFAULT ('PD')

The probability that an obligor will default within a one-year time horizon.

R

RETURN ON ASSETS

Profit after tax divided by assets.

RETURN ON EQUITY

Profit after Tax divided by the average shareholders' funds.

RELATED PARTIES

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

RETURN ON AVERAGE ASSETS

Profit after Tax divided by the average assets.

RISK WEIGHTED ASSETS

On Balance Sheet assets and the credit equivalent of off Balance Sheet assets multiplied by the relevant risk weighting factors.

REPURCHASE AGREEMENT

Contract to sell and subsequently repurchase securities at specified date and price.

REVERSE REPURCHASE AGREEMENT

Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.

REVENUE RESERVE

Reserves set aside for future distribution and investment.

REPURCHASE AGREEMENT

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

RIGHTS ISSUE

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

S

SEGMENTAL ANALYSIS

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

SHAREHOLDERS' FUNDS

Total of stated capital and revenue reserves.

STATUTORY RESERVE FUND

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

SUBSIDIARY COMPANY

An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as a parent).

SUBSTANCE OVER FORM

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

SWAPS (CURRENCY)

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively a simultaneous spot sale and forward purchase of a currency.

SHARE PREMIUM

Amount paid by a shareholder, over and above the par value of a share.

T

TIER I CAPITAL

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

TIER II CAPITAL

Supplementary capital representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debt.

TOTAL CAPITAL

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

U

UNIT TRUST

An undertaking formed to invest in securities under the terms of a trust deed.

V

VALUE ADDED

Value of wealth created by providing banking and other related services, less the cost of providing such services.

Y

YIELD TO MATURITY

Discount rate at which the present value of future payments would equal the security's current price.

APPENDIX I

Nation Trust bank's Material Issues		Corresponding GRI-G4 material aspect	Aspect boundary
Shareholders	Financial Performance	Economic Performance	Internal
	Growth	N/A	Internal
	Reputation	N/A	External
	Corporate Governance	Governance	Internal
Customers	Access to financial services	N/A	External
	Convenience	N/A	Internal/External
	Customer Service	N/A	Internal/External
	Digital Channels	N/A	Internal/External
	Customer Privacy	Customer Privacy	Internal
Employees	Training and Education	Training and Education	Internal
	Diversity	Diversity	Internal
	Grievance mechanism	Labour practices grievance mechanism	Internal
	Health and Safety	Health and Safety	Internal
	Productivity	Health and Safety	Internal
Environment	Energy	Energy	Internal
	Waste	Waste	Internal
	Materials	Materials	Internal
	Water	Water	Internal
	Emissions	Emissions	Internal
	Environmental Assessment	Environmental Assessment	Internal
Product Responsibility	Product and Service Labelling	Product and Service Labelling	Internal/External
	Marketing Communications	Marketing Communications	External

NOTES

NOTES

NOTES

NOTICE OF MEETING

Notice is hereby given that the Seventeenth Annual General Meeting of Nations Trust Bank PLC will be held on 31 March 2016 at 10.30 a.m. at the Auditorium of the Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 07, Sri Lanka.

The business to be brought before the meeting will be:

1. To read the notice convening the Meeting.
2. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31 December 2015 with the Report of the Auditors thereon.
3. To declare a first and final dividend of Rs. 2.10 per share on the ordinary shares of the Company.
4. To re-elect Mr. Krishan Balendra who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.
5. To re-elect Mr. Murtaza Jafferjee who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.
6. To re-elect Dr. Kemal De Soysa who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.
7. To elect Mr. Conrad D'Souza as a Director in terms of Article 25 of the Articles of Association of the Company.
8. To reappoint Auditors and to authorise the Directors to determine their remuneration.
9. To authorise the Directors to determine and make donations.
10. To consider any other business of which due notice has been given.

Notes:

- i. A member unable to attend is entitled to appoint a proxy to attend and vote in his/her place.
- ii. A proxy need not be a member of the Company.
- iii. A member wishing to vote by proxy at the meeting may use the Proxy Form enclosed.
- iv. To be valid, the completed Proxy Form must be lodged at the Registered Office of the Company not less than 48 hours before the meeting.

By Order of the Board



Theja Silva
Company Secretary

Colombo
26 February 2016

FORM OF PROXY

I/We..... of

..... being a member/members of Nations Trust Bank PLC., hereby appoint

..... of or failing him/her

Mr. Krishan Balendra	or failing him
Mr. Murtaza Jafferjee	or failing him
Dr. Kemal De Soysa	or failing him
Mr. D. Prasanna De Silva	or failing him
Ms. N. Shalini Panditaratne	or failing her
Mr. Suran Wijesinghe	or failing him
Mr. Kumar Jayasuriya	or failing him
Mr. Gihan Cooray	or failing him
Mr. Harsha Raghavan	or failing him
Mr. Conrad D'Souza	or failing him
Ms. Renuka Fernando	or failing her

as my/our Proxy to represent me/us and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 31 March 2016 at 10.30 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

The Proxy may vote as he/she thinks fit on any other resolution brought before the meeting and may also speak on my/our behalf at the meeting.

In witness I/we placed my/our hand/s hereto on this (....) day of March 2016 .

.....
Signature/s

Please indicate with a (✓) in the space below how you wish your votes to be cast:

	For	Against
1. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31 December 2015 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final dividend of Rs. 2.10 per share on the ordinary shares of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. Krishan Balendra, who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. Murtaza Jafferjee, who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Dr. Kemal De Soysa, who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. To elect Mr. Conrad D'Souza as a Director in terms of Article 25 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
7. To reappoint Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>

Instructions as to Completion

1. Please perfect the Form of Proxy by filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 242, Union Place, Colombo 2, not less than 48 hours before the time appointed for the holding of the Meeting.
3. If the Form of Proxy is signed by an Attorney, the Power of Attorney should accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the appointer is a Company or Corporation, this Form must be executed under the Common Seal or the hand of a duly Authorised Officer.
5. If this Form is returned without any indication as to how the person appointed as Proxy shall vote, the Proxy shall exercise his/her discretion as to how he/she votes, or whether he/she abstains from voting.

Please fill in the following details:

NIC No :	
Share Folio No :	
Name :	
Address :	
Jointly with :	

CORPORATE INFORMATION

Registered Name

Nations Trust Bank PLC

Legal Form

A Licensed Commercial Bank established under the Banking Act No. 30 of 1988. A public limited Liability Company incorporated in Sri Lanka.

Company Registration Number

PQ 118

Date of Incorporation

21 January 1999

Registered Office

No. 242, Union Place, Colombo 2.
Telephone : 4313131
Facsimile : 2307854
E-mail : info@nationstrust.com
Web page : www.nationstrust.com

Company Secretary

Theja Silva

Auditors

Messrs. Ernst & Young
Chartered Accountants,
No. 201, De Saram Place,
Colombo 10.

Credit Rating

A (Ika) from Fitch Ratings Lanka Ltd.

Directors

Krishan Balendra -Chairman
Murtaza Jafferjee –Senior Director
Dr. (Ms.) Dushni Weerakoon
Dr. Kemal De Soysa
D. Prasanna De Silva
Ms. N. Shalini Panditaratne
Suran Wijesinghe
Kumar Jayasuriya
Gihan Cooray
Harsha Raghavan
Conrad D'Souza (Appointed with effect from 18 January 2016)
Ms. Renuka Fernando

Board Supervisory Committee

Suran Wijesinghe-Chairman
Gihan Cooray
Murtaza Jafferjee
D. Prasanna De Silva

Board Audit Review Committee

Ms. N. Shalini Panditaratne-Chairman
Dr. (Ms.) Dushni Weerakoon
Suran Wijesinghe
Kumar Jayasuriya

Human Resources and Remuneration Committee

Krishan Balendra -Chairman
Kumar Jayasuriya
Dr. (Ms.) Dushni Weerakoon
Dr. Kemal de Soysa

Nomination Committee

Murtaza Jafferjee-Chairman
Krishan Balendra
D. Prasanna De Silva
Dr. Kemal de Soysa

Credit Committee

Krishan Balendra - Chairman
(Alternate - Suran Wijesinghe)
D. Prasanna De Silva
(Alternate Kumar Jayasuriya)
Ms. N. Shalini Panditaratne

Integrated Risk Management Committee

D. Prasanna De Silva -Chairman
Dr. Kemal De Soysa
Suran Wijesinghe
Gihan Cooray

Related Party Transactions Review Committee

Dr. Kemal De Soysa
Murtaza Jafferjee
Ms. Renuka Fernando

Designed & produced by

emagewise

Digital Plates & Printing by
Softwave Printing and Publishing (Pvt) Ltd
Photography by Dimitri Crusz

