



NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES

Company Number PQ 118

INTERIM FINANCIAL STATEMENT For the Twelve months ended December 31, 2014

Performance Review –2014

Nations Trust records resilient performance amidst challenges

The Bank closed the year with a post-tax profit of Rs.2, 536 Mn recording a growth of 19% over the corresponding year. Core revenue recorded a faster rate of growth of 22% over operating expenses growth of 11%, thereby significantly improving operating margins. However, higher impairment charges and introduction of new tax levies somewhat lowered bottom line growth. The sluggish growth witnessed in loans and advances portfolio during the 1H of the year which mirrored industry trends gradually picked up during the latter part of the year recording a growth of 19% compared to industry growth of 14%. Growth was broad based across all lending portfolios. Deposits too grew in line to support expansion in lending with the most notable growth stemming from CASA which not only improved to 30% of total deposits from the previous year's 25%, but also achieved significant volume growth of 38%.

Net interest income recorded a growth of 16% over the previous period with improved NIMs. The low interest rate environment resulted in the loan book repricing downwards during the year. However, effective management of the asset and liability maturities and repricing decisions as well as optimal allocation of resources to high yielding segments allowed the Bank to improve its NIM to 5.8% during the year.

Net fees, commission and other operating income recorded a growth of 13% which was primarily fuelled by increased volumes in the cards business. Bank endured many challenges in growing trade finance income during the early part of the year owing to slow growth in corporate assets and import volumes in the economy. Net trading income on account of foreign currency recorded losses on funding SWAPs due to the adverse movement in forward premiums. However, the losses recorded for the current period is far lower than the previous year. Trading and mark to market gains attributable to FIS portfolio also contributed towards achieving higher trading income for the current year.

Operating expenses recorded an increase of 11% driven by branch expansion and capacity building initiatives. However, cost efficiency measures pursued through lean management initiatives and increased automation resulted in a slowdown of growth in operating expenses compared to 2013. Cost income ratio reduced to 53% from 58% reported for the previous year. The Bank is firmly committed towards driving its C:I ratio below 50% in the medium term.

The impairment charge for loans and receivables increased notably from Rs.451Mn in the previous year to Rs.1, 157 Mn during 2014. The impairment estimation methodology was re-calibrated in order to get a more focused view of the portfolio, more specifically in respect of leases, which resulted in booking some additional one- off charges during the year.

Review of Operations

Retail and Channels

The Bank enhanced its presence in key geographic locations by opening 17 new branches and 7 offsite ATMs thus taking its customer touch points to 124 locations. A Sales Force Effectiveness initiative was launched across all branches focusing on inculcating a sales culture among all staff and complementing our customer service proposition. In parallel to the branch-led growth strategy, our focus on a multi-channel approach continued with increased investments in internet and mobile applications. Increasing ATM transaction volumes as well as internet and mobile banking users have confirmed customer preferences for automated and digital channels. The Bank continued to focus on expanding its overseas networks to capture remittance market share in this intensely competitive space. During 2014, the Bank entered into three new markets, Japan, Lebanon and Israel. The Bank opened the first of its kind Banking Centre at the Sri Lanka Bureau of Foreign Employment. FCY Home loan product was also launched alongside the remittance value offering primarily targeting this customer segment.

SME

SME proposition was rolled out with the branch expansion strategy with SME credit officers stationed at zonal offices to strengthen credit evaluations and monitoring. The Bank also undertook a comprehensive review of its SME credit policy to enable a more streamlined and simplified process in order to pursue accelerated growth and deliver superior customer service. Meanwhile, Nations Business Seminars were conducted by the Bank as an ongoing programme to up skill SME customers throughout the island. During the year, 12 such seminars were carried out with the participation of nearly 1800 customers and were very well received. The SME Academy which was established in 2013 in partnership with the Frankfurt School of Business and Management continued to provide structured training for all SME staff. A new product targeting the export/import sector, named Nations Trader was launched during the year. This innovative product affords customers easy access to combined trade facilities and has received encouraging customer response. This product was selected as one of the top 10 among global competitors at the SME Finance Innovation Awards.

Cards

The Unit recorded a commendable performance during the year with business drivers of number of cards and receivables increasing by 24% and 19% respectively during the year. The business model which is set up to drive growth saw accelerated scaling up of business on both issuing and acquiring in new segments and geographies. In 2014, we introduced the country's first Chip and PIN based USD Travel card, a pre-paid card which enables customers to access USD during their overseas travels. The card is accepted by over 32 million merchants and provides access to over 2 million ATMs worldwide.

Leasing

The Unit achieved a notable performance with new business volumes surpassing the Rs. 16.0Bn mark and the portfolio growing by 18% YoY. Regional presence was strengthened by establishing leasing units in 12 of the Bank's new branches, bringing the total leasing network to 52. In line with the Bank's environmental sustainability efforts, emphasis was placed on growing the hybrid vehicles leasing

portfolio. Through the Hybrid Bonanza initiative the Bank partnered with over 35 car importers to promote hybrid vehicle leasing, offering attractive rates, free vehicle registration and an allowance for fuel. During the year, the unit harnessed another cross sell opportunity by launching a new product, Lease Plus which entitles lease holders to a current account and preapproved overdraft facility.

Corporate Banking

Corporate book closed the year with a strong growth but nevertheless NIMs reduced steadily, impacting portfolio revenue. The Unit looked towards enhancing fee based income both on the trade and foreign exchange fronts. During the year, the Unit focused on strengthening its presence in the export sector, primarily in agricultural and industrial exports, through targeted marketing to new customers to expand the corporate banking portfolio. Focusing on the export sector also allowed the unit to pursue cross sell opportunities by offering foreign currency trading services and transactional banking services to export clients. Driving operational efficiencies to reduce costs and improve customer service was also a key strategic initiative undertaken by the unit during the year.

Treasury

The Treasury Division concluded a year of strong performance, with revenue and profit contributions doubling in comparison to 2013. Favourable interest rate trends together with the timely re-pricing decisions and customer focused service offering enabled this strong growth in earnings during 2014. Strengthening the customer forex trading segment was a key priority during the year. Product capabilities were also enhanced, with the launch of Dual Currency Deposits, tailored derivative products and other value additions to customers.

Looking forward

Nations Trust has demonstrated a resilient performance which has withstood multiple industry challenges in year 2014. Private sector credit demand is expected to strengthen in 2015 against the backdrop of conducive interest rates, as well as macroeconomic policies to boost domestic and foreign investor confidence. As the country moves towards a US\$ 4,000 per capita income, our prospects for growth in all our target segments looks positive and we will seek to strengthen our position as the primary bank for Sri Lankans.

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
INCOME STATEMENT

	Bank						Group					
	Twelve months ended 31 December			Quarter ended 31 December			Twelve months ended 31 December			Quarter ended 31 December		
	2014 Rs. '000	2013 Rs. '000	Change (%)	2014 Rs. '000	2013 Rs. '000	Change (%)	2014 Rs. '000	2013 Rs. '000	Change (%)	2014 Rs. '000	2013 Rs. '000	Change (%)
Gross Income	20,546,712	20,149,487	2	5,050,166	5,237,240	(4)	20,853,812	20,361,814	2	5,115,468	5,176,330	(1)
Interest Income	17,267,659	17,662,946	(2)	4,309,604	4,528,433	(5)	17,452,461	17,911,206	(3)	4,333,340	4,595,715	(6)
Less : Interest Expense	(8,521,173)	(10,222,619)	(17)	(1,986,789)	(2,431,428)	(18)	(8,512,713)	(10,236,602)	(17)	(1,971,205)	(2,436,784)	(19)
Net Interest Income	8,746,486	7,440,327	18	2,322,815	2,097,005	11	8,939,748	7,674,604	16	2,362,135	2,158,931	9
Fees and Commission Income	2,862,268	2,576,568	11	778,421	710,799	10	3,008,084	2,719,371	11	816,262	744,932	10
Less : Fees and Commission Expense	(224,576)	(215,174)	4	(43,111)	(74,301)	(42)	(224,576)	(215,189)	4	(42,908)	(74,310)	(42)
Net Fees and Commission Income	2,637,692	2,361,394	12	735,310	636,498	16	2,783,508	2,504,182	11	773,354	670,622	15
Net Trading Income / (Expense)	123,639	(494,383)	125	(97,921)	(186,163)	47	111,370	(478,418)	123	(94,197)	(168,442)	44
Other Operating Income	293,146	404,356	(28)	60,062	184,171	(67)	281,897	209,655	34	60,063	4,126	1,356
Total Operating Income	11,800,963	9,711,694	22	3,020,266	2,731,511	11	12,116,523	9,910,023	22	3,101,355	2,665,237	16
Impairment Charge /(Reversal) for Loans and Receivables	1,156,730	449,419	157	367,214	(40,897)	(998)	1,157,409	450,610	157	368,444	(41,375)	(990)
Individual Impairment	(237,741)	(499,525)	(52)	(237,126)	(529,424)	(55)	(237,742)	(499,524)	(52)	(237,127)	(529,423)	(55)
Collective Impairment	1,394,471	948,944	47	604,340	488,527	24	1,395,151	950,134	47	605,571	488,048	24
Net Operating Income	10,644,233	9,262,275	15	2,653,052	2,772,408	(4)	10,959,114	9,459,413	16	2,732,911	2,706,612	1
Less : Expenses												
Personnel Expenses	2,665,130	2,455,508	9	652,393	734,485	(11)	2,700,398	2,494,662	8	664,360	747,254	(11)
Depreciation of Property, Plant and Equipment	295,244	246,265	20	81,900	68,559	19	323,753	257,814	26	101,686	71,459	42
Amortization of Intangible Assets	168,557	153,682	10	60,411	59,420	2	171,348	156,515	9	61,109	60,118	2
Other Operating Expenses	3,190,988	2,876,924	11	884,836	815,477	9	3,192,188	2,869,527	11	888,316	812,503	9
Total Operating Expenses	6,319,919	5,732,379	10	1,679,540	1,677,941	0	6,387,687	5,778,518	11	1,715,471	1,691,334	1
Operating Profit Before Value Added Tax (VAT) & NBT	4,324,314	3,529,896	23	973,512	1,094,467	(11)	4,571,427	3,680,895	24	1,017,440	1,015,278	0
Less : Value Added Tax (VAT) on Financial Services & NBT	726,576	508,291	43	167,309	108,394	54	744,474	529,705	41	171,427	115,621	48
Profit Before Income Tax	3,597,738	3,021,605	19	806,203	986,073	(18)	3,826,953	3,151,190	21	846,013	899,657	(6)
Less : Income Tax Expense	1,219,745	899,622	36	282,091	256,542	10	1,290,373	1,014,789	27	296,772	306,858	(3)
Profit for the Period	2,377,993	2,121,983	12	524,112	729,531	(28)	2,536,580	2,136,401	19	549,241	592,799	(7)
Earnings Per Share												
Basic / Diluted Earnings Per Share (Rs.)	10.31	9.16	13	2.27	3.16	(28)	11.00	9.22	19	2.38	2.57	(7)

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



	Bank						Group					
	Twelve months ended 31 December			Quarter ended 31 December			Twelve months ended 31 December			Quarter ended 31 December		
	2014 Rs. '000	2013 Rs. '000	Change (%)	2014 Rs. '000	2013 Rs. '000	Change (%)	2014 Rs. '000	2013 Rs. '000	Change (%)	2014 Rs. '000	2013 Rs. '000	Change (%)
Profit for the period	2,377,993	2,121,983	12	524,112	729,531	(28)	2,536,580	2,136,401	19	549,241	592,799	(7)
Other Comprehensive Income to be reclassified to profit or loss in subsequent period:												
Net gains on re-measuring Available-For-sale financial assets	155,413	-	100	155,413	-	100	155,413	-	100	155,413	-	100
	155,413	-	100	155,413	-	100	155,413	-	100	155,413	-	100
Other Comprehensive Income not to be reclassified to profit or loss in subsequent period:												
Actuarial Loss	(10,746)	(9,151)	17	(10,746)	(9,151)	17	(10,983)	(9,223)	19	(10,983)	(9,223)	19
	(10,746)	(9,151)	17	(10,746)	(9,151)	17	(10,983)	(9,223)	19	(10,983)	(9,223)	19
Total Other Comprehensive income	144,667	(9,151)	(1,681)	144,667	(9,151)	(1,681)	144,430	(9,223)	(1,666)	144,430	(9,223)	(1,666)
Net Income Tax Charge relating to components of Other Comprehensive income	(40,507)	-	100	(40,507)	-	100	(40,373)	-	100	(40,373)	-	100
Other Comprehensive Income for the Year, Net of Tax	104,160	(9,151)	(1,238)	104,160	(9,151)	(1,238)	104,057	(9,223)	(1,228)	104,057	(9,223)	(1,228)
Total Comprehensive Income for the Period, Net of Tax	2,482,153	2,112,832	17	628,272	720,380	(13)	2,640,637	2,127,178	24	653,298	583,576	12
Attributable to:												
Equity holders of the parent	2,482,153	2,112,832	17	628,272	720,380	(13)	2,640,637	2,127,178	24	653,298	583,576	12

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
STATEMENT OF FINANCIAL POSITION



As at	Bank			Group		
	31.12.2014 Rs. '000	31.12.2013 Rs. '000	Change %	31.12.2014 Rs. '000	31.12.2013 Rs. '000	Change %
On Balance Sheet Assets						
Cash and Cash Equivalents	6,898,881	3,019,735	128	6,899,905	3,019,774	128
Balances with Central Bank of Sri Lanka	3,992,118	4,031,763	(1)	3,992,118	4,031,763	(1)
Placements with Banks	-	-	-	-	-	-
Derivative Financial Instruments	128,053	121,491	5	128,053	121,491	5
Reverse Repurchase Agreements	11,013,507	1,459,506	655	11,013,507	552,236	1,894
Other Financial Assets Held-for-Trading	15,648,717	23,365,388	(33)	15,700,388	24,460,493	(36)
Other Financial Assets	3,820,746	2,193,122	74	3,820,747	2,193,122	74
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-	-
Loans & Receivables to Banks	-	-	-	-	-	-
Loans & Receivables to Other Customers	97,068,259	81,128,760	20	98,347,049	82,327,255	19
Financial Investments - Available-for-sale	4,329,449	5,460	79,194	4,329,449	5,460	79,194
Financial Investments - Held-to-Maturity	9,586,218	19,734,821	(51)	9,653,000	19,794,014	(51)
Investments in Subsidiaries	678,710	678,710	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-	-
Property, Plant & Equipment	1,717,856	1,545,426	11	2,194,425	2,048,442	7
Investment Properties	-	-	-	-	-	-
Intangible Assets	1,271,137	665,130	91	1,283,223	680,007	89
Deferred Tax Assets	374,796	156,376	140	376,127	157,542	139
Other Assets	2,437,804	2,813,219	(13)	2,506,350	2,893,700	(13)
Total Assets	158,966,251	140,918,907	13	160,244,341	142,285,299	13

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
STATEMENT OF FINANCIAL POSITION



As at	Bank			Group		
	31.12.2014 Rs. '000	31.12.2013 Rs. '000	Change %	31.12.2014 Rs. '000	31.12.2013 Rs. '000	Change %
On Balance Sheet Liabilities						
Due to Banks	2,922,784	1,401,473	109	2,922,784	1,401,473	109
Derivative Financial Instruments	166,370	633,625	(74)	166,370	633,625	(74)
Other Financial liabilities Held-for-Trading	-	-	-	-	-	-
Financial Liabilities Designated at Fair Value through Profit or Loss	-	-	-	-	-	-
Repurchase Agreements	15,444,206	16,318,686	(5)	15,046,562	16,284,679	(8)
Due to Other Customers	111,046,446	96,036,198	16	111,009,668	95,729,533	16
Other Borrowings	2,890,223	3,141,430	(8)	3,392,140	4,944,463	(31)
Debt Securities Issued	-	-	-	-	-	-
Current Tax Liabilities	639,359	332,732	92	666,345	383,318	74
Deferred Tax Liabilities	789,848	498,138	59	789,601	498,136	59
Other Liabilities	5,483,426	4,924,811	11	5,559,037	5,027,146	11
Due to Subsidiaries	-	-	-	-	-	-
Subordinated Term Debts	6,795,034	6,841,137	(1)	6,797,307	5,644,761	20
Total Liabilities	146,177,696	130,128,230	12	146,349,814	130,547,136	12
Equity						
Stated Capital / Assigned Capital (230,607,283 Ordinary Shares)	5,101,369	5,101,369	-	5,101,369	5,101,369	-
Statutory Reserve Fund	538,205	419,305	-	538,205	419,305	-
Retained Earnings	7,037,084	4,183,983	68	8,143,054	5,067,107	61
AFS Reserve	111,897	-	100	111,897	-	100
Other Reserves	-	1,086,020	(100)	-	1,150,382	(100)
Total Shareholders' Equity	12,788,555	10,790,677	19	13,894,525	11,738,163	18
Total Equity and Liabilities	158,966,251	140,918,907	13	160,244,341	142,285,299	13
Contingent Liabilities and Commitments	98,688,631	90,180,741	9	98,799,150	90,266,632	9
Memorandum Information						
Number of Employees	2,528	2228		2,562	2262	
Number of Branches	89	72		89	72	
Number of Off-Site ATMs	34	28		34	28	

CERTIFICATION :

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

.....
(Sgd.) Ajith Akmeemana
Chief Financial Officer

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

.....
(Sgd.) Suran Wijesinghe
Director

.....
(Sgd.) A.R. Rasiah
Director

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

'26 February 2015
Colombo

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

Item	Bank		Group	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Regulatory Capital Adequacy				
Core Capital (Tier 1 Capital), Rs. '000	12,684,394	10,790,677	13,780,962	11,728,663
Total Capital Base, Rs. '000	16,695,595	14,931,939	17,792,162	15,869,926
Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 5%)	13.25%	13.91%	14.16%	14.78%
Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 10%)	17.44%	19.25%	18.28%	20.00%
Assets Quality (Quality of Loan Portfolio)				
Gross Non-Performing Advances Ratio, % (net of interest in suspense)	4.20%	3.52%	4.14%	3.51%
Net-Non Performing Advances,%(net of interest in suspense and provision)	2.76%	2.14%	2.73%	2.13%
Profitability				
Interest Margin, %	5.81%	5.69%	-	-
Return on Assets (before Tax), %	2.39%	2.31%	2.53%	2.39%
Return on Equity, %	20.18%	21.43%	19.76%	19.58%
Regulatory Liquidity				
Statutory Liquid Assets, Rs. '000	29,476,263	33,620,716	-	-
Statutory Liquid Assets Ratio, % (Minimum Requirement, 20%)				
Domestic Banking Unit	23.17%	25.26%	-	-
Off-Shore Banking Unit	58.48%	41.92%	-	-
Net Assets Value Per Share (Rs.)	55.46	46.79	60.25	50.90
Market Price Per Share (Rs.)	31.12.2014 (Quarter ended)	31.12.2013 (Quarter ended)		
Highest	101.90	65.50		
Lowest	88.00	57.00		
Last Traded Price	97.00	60.50		

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

BANK	Stated Capital	Retained Earnings	Available for Sale Reserve	Statutory Reserve Fund	Investment Fund Account*	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 01 January 2013	5,101,369	3,153,852	-	313,663	593,236	9,162,120
Profit For the Period	-	2,121,983	-	-	-	2,121,983
Other Comprehensive Income	-	(9,151)	-	-	-	(9,151)
Total Comprehensive Income	-	2,112,832	-	-	-	2,112,832
Dividend paid for 2012	-	(484,275)	-	-	-	(484,275)
Transfers to the Investment Fund Account*	-	(492,784)	-	-	492,784	-
Transfers to the Reserve Fund	-	(105,642)	-	105,642	-	-
As at 31 December 2013	5,101,369	4,183,983	-	419,305	1,086,020	10,790,677
As at 01 January 2014	5,101,369	4,183,983	-	419,305	1,086,020	10,790,677
Profit For the Period	-	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)
Transfer from the Investment Fund Account*	-	1,086,020	-	-	(1,086,020)	-
Transfers to the Reserve Fund	-	(118,900)	-	118,900	-	-
As at 31 December 2014	5,101,369	7,037,084	111,897	538,205	-	12,788,555

GROUP	Stated Capital	Retained Earnings	Available for Sale Reserve	Statutory Reserve Fund	Investment Fund Account*	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 01 January 2013	5,101,369	4,044,303	-	313,663	635,925	10,095,260
Profit For the Period	-	2,136,401	-	-	-	2,136,401
Other Comprehensive Income	-	(9,223)	-	-	-	(9,223)
Total Comprehensive Income	-	2,127,178	-	-	-	2,127,178
Dividend paid for 2012	-	(484,275)	-	-	-	(484,275)
Transfers to the Investment Fund Account*	-	(514,457)	-	-	514,457	-
Transfers to the Reserve Fund	-	(105,642)	-	105,642	-	-
As at 31 December 2013	5,101,369	5,067,107	-	419,305	1,150,382	11,738,163
As at 01 January 2014	5,101,369	5,067,107	-	419,305	1,150,382	11,738,163
Profit For the Period	-	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)
Transfer from the Investment Fund Account*	-	1,150,382	-	-	(1,150,382)	-
Transfers to the Reserve Fund	-	(118,900)	-	118,900	-	-
As at 31 December 2014	5,101,369	8,143,054	111,897	538,205	-	13,894,525

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 was transferred to retained earnings through the Statement of Changes in Equity.

Nations Trust Bank PLC and Its Subsidiaries
Statement of Cash Flows



For the Twelve months Ended 31 December	Bank		Group	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Cash Flows from Operating Activities				
Receipts of Interest Income	13,705,157	16,723,427	14,117,853	16,960,713
Receipts of Fees and Commission Income	2,849,584	2,570,102	3,018,049	2,736,421
Payments of Interest Expense	(7,608,365)	(9,741,807)	(7,832,288)	(9,748,116)
Payments of Fees and Commission Expense	(224,576)	(215,173)	(213,008)	(209,673)
Net Trading Income	(342,800)	(631,759)	(342,800)	(631,759)
Receipts from Other Operating Income	292,478	400,935	281,961	222,200
Gratuity Payments Made	(22,075)	(26,565)	(25,321)	(27,992)
Payments for Operating Expenses	(5,826,411)	(5,586,131)	(5,889,047)	(5,642,284)
Net Cash Flow from Operating Activities before Income Tax (A)	2,822,992	3,493,029	3,115,399	3,659,510
Income Tax paid	(546,321)	(668,147)	(634,171)	(738,696)
Operating Profit before Changes in Operating Assets and Liabilities	2,276,671	2,824,882	2,481,228	2,920,814
(Increase)/Decrease in Operating Assets				
Reverse Repurchase Agreements	(9,478,187)	1,820,332	(9,987,629)	2,152,222
Derivative Financial Instruments	(6,562)	206,351	(6,562)	206,351
Financial Investments Held for Trading	8,859,817	(2,984,245)	9,882,306	(3,244,583)
Financial Investments-Held to Maturity	11,784,725	(9,493,298)	11,777,136	(9,552,491)
Financial Investments-Available for Sale	(4,168,576)	-	(4,168,576)	-
Loans and Advances to Customers	(16,458,248)	(285,833)	(16,521,155)	(319,781)
Other Financial Assets	(1,610,120)	(8,755,328)	(1,717,111)	(9,006,277)
Other Assets	393,326	(250,758)	365,386	(246,004)
(Increase)/Decrease in Operating Assets	(10,683,825)	(19,742,779)	(10,376,205)	(20,010,563)
Increase/(Decrease) in Operating Liabilities				
Repurchase Agreements	(862,471)	6,412,144	(353,029)	6,080,254
Due to Other Customers	14,938,936	9,303,949	14,952,766	9,404,235
Derivative Financial Instruments	(467,255)	105,153	(467,255)	105,153
Other Liabilities	(139,239)	980,866	(163,291)	957,104
Increase/(Decrease) in Operating Liabilities	13,469,971	16,802,112	13,969,191	16,546,746
Net Cash Flows from Operating Activities	5,062,819	(115,785)	6,074,214	(543,003)
Cash Flows from Investing Activities				
Purchase of Property, Plant and Equipment	(467,946)	(385,544)	(470,009)	(387,993)
Proceeds from Sale of Property, Plant and Equipment and Intangible Assets	941	2,173	941	2,173
Purchase of Intangible Assets	(774,565)	(204,782)	(774,566)	(205,221)
	(1,241,570)	(588,153)	(1,243,634)	(591,041)
Cash Flows from Financing Activities				
Net change in Debt issued and other Borrowed Funds	966,542	(670,705)	(41,806)	(240,599)
Proceeds from the issue of Debentures	-	3,000,000	-	3,000,000
Repayment of Subordinated Debt	(67,325)	(1,134,650)	(67,325)	(1,134,650)
Interest paid on Subordinated Debt	(704,638)	(556,461)	(704,638)	(556,461)
Dividends paid to Equity Holders of the Parent	(484,275)	(484,275)	(484,275)	(484,275)
	(289,696)	153,909	(1,298,044)	584,015
Net Increase in Cash and Cash Equivalents	3,531,551	(550,029)	3,532,536	(550,029)
Cash and Cash Equivalents at the beginning of the Period	6,960,012	7,510,041	6,960,051	7,510,080
Cash and Cash Equivalents at the end of the Period	10,491,563	6,960,012	10,492,587	6,960,051
Reconciliation of Cash and Cash Equivalents				
Cash on Hand	3,500,746	2,526,673	3,500,759	2,526,681
Statutory Deposit with the Central Bank of Sri Lanka	3,992,118	4,031,763	3,992,118	4,031,763
Balances with Banks	359,164	493,062	360,175	493,093
Money at Call and Short Notice	3,038,972	-	3,038,971	-
Deposits from Other Banks	(399,436)	(91,486)	(399,436)	(91,486)
	10,491,563	6,960,012	10,492,587	6,960,051
A. Reconciliation of Operating Profit				
Profit before Taxation	3,597,738	3,021,605	3,826,953	3,151,190
(Profit) / Loss on disposal of Property, Plant and Equipment and Intangible Assets	(667)	(1,760)	(667)	(1,760)
Impairment charge / (Reversal) for Loans and Receivables	1,156,730	449,419	1,157,409	450,610
Provision for Gratuity	82,523	70,132	83,527	71,741
(Increase) / Decrease in Interest Receivable	(2,918,025)	(457,253)	(2,915,805)	(456,426)
Increase/ (Decrease) in Interest Payable	912,808	480,812	911,419	481,014
Increase / (Decrease) in Financial Guarantee Liabilities	(12,684)	(6,464)	(12,684)	(6,464)
Other Receivables	(17,906)	8,158	(17,172)	8,158
Other Payables	623,366	59,682	623,359	59,682
Other Non cash items	(578,816)	(104,737)	(515,618)	(70,243)
Gratuity Payments Made	(22,075)	(26,565)	(25,321)	(27,992)
	2,822,992	3,493,029	3,115,399	3,659,510

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



	HFT at Fair Value		Financial Derivatives at Fair Value		HTM at Amortised Cost		L & R at Amortised Cost		AFS		Other Financial Liabilities at Amortised Cost		Total	
BANK														
Rs. '000	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Assets														
Cash and Cash Equivalents	-	-	-	-	-	-	6,898,881	3,019,735	-	-	-	-	6,898,881	3,019,735
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	3,992,118	4,031,763	-	-	-	-	3,992,118	4,031,763
Derivative Financial Instruments	-	-	128,053	121,491	-	-	-	-	-	-	-	-	128,053	121,491
Reverse Repurchase Agreements	-	-	-	-	-	-	11,013,507	1,459,506	-	-	-	-	11,013,507	1,459,506
Financial Assets - Held for Trading	15,648,717	23,365,388	-	-	-	-	-	-	-	-	-	-	15,648,717	23,365,388
Other Financial Assets	-	-	-	-	-	-	3,820,746	2,193,122	-	-	-	-	3,820,746	2,193,122
Loans & Receivables to Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans & Receivables to Other Customers	-	-	-	-	-	-	97,068,259	81,128,760	-	-	-	-	97,068,259	81,128,760
Financial Investments - Available-for-Sale	-	-	-	-	9,586,218	19,734,821	-	-	4,329,449	5,460	-	-	4,329,449	5,460
Financial Assets - Held to Maturity	-	-	-	-	-	-	-	-	-	-	-	-	9,586,218	19,734,821
Total Financial Assets	15,648,717	23,365,388	128,053	121,491	9,586,218	19,734,821	122,793,510	91,832,886	4,329,449	5,460	-	-	152,485,947	135,060,046
Liabilities														
Due to Banks	-	-	-	-	-	-	-	-	-	-	2,922,784	1,401,473	2,922,784	1,401,473
Derivative Financial Instruments	-	-	166,370	633,625	-	-	-	-	-	-	-	-	166,370	633,625
Repurchase Agreements	-	-	-	-	-	-	-	-	-	-	15,444,206	16,318,686	15,444,206	16,318,686
Due to Other Customers	-	-	-	-	-	-	-	-	-	-	111,046,446	96,036,198	111,046,446	96,036,198
Debt Issued and Other Borrowed Funds	-	-	-	-	-	-	-	-	-	-	9,685,257	9,982,566	9,685,257	9,982,566
Total Financial Liabilities	-	-	166,370	633,625	-	-	-	-	-	-	139,098,692	123,738,924	139,265,062	124,372,549

GROUP

	HFT at Fair Value		Financial Derivatives at Fair Value		HTM at Amortised Cost		L & R at Amortised Cost		AFS		Other Financial Liabilities at Amortised Cost		Total	
Rs. '000	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Assets														
Cash and Cash Equivalents	-	-	-	-	-	-	6,899,905	3,019,774	-	-	-	-	6,899,905	3,019,774
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	3,992,118	4,031,763	-	-	-	-	3,992,118	4,031,763
Derivative Financial Instruments	-	-	128,053	121,491	-	-	-	-	-	-	-	-	128,053	121,491
Reverse Repurchase Agreements	-	-	-	-	-	-	11,013,507	552,236	-	-	-	-	11,013,507	552,236
Financial Assets - Held for Trading	15,700,388	24,460,493	-	-	-	-	-	-	-	-	-	-	15,700,388	24,460,493
Other Financial Assets	-	-	-	-	-	-	3,820,747	2,193,122	-	-	-	-	3,820,747	2,193,122
Loans & Receivables to Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and Advances to Customers	-	-	-	-	-	-	98,347,049	82,327,255	-	-	-	-	98,347,049	82,327,255
Financial Investments - Available-for-Sale	-	-	-	-	9,653,000	19,794,014	-	-	4,329,449	5,460	-	-	4,329,449	5,460
Financial Assets - Held to Maturity	-	-	-	-	-	-	-	-	-	-	-	-	9,653,000	19,794,014
Total Financial Assets	15,700,388	24,460,493	128,053	121,491	9,653,000	19,794,014	124,073,326	92,124,150	4,329,449	5,460	-	-	153,884,215	136,505,608
Liabilities														
Due to Banks	-	-	-	-	-	-	-	-	-	-	2,922,784	1,401,473	2,922,784	1,401,473
Derivative Financial Instruments	-	-	166,370	633,625	-	-	-	-	-	-	-	-	166,370	633,625
Repurchase Agreements	-	-	-	-	-	-	-	-	-	-	15,046,562	16,284,679	15,046,562	16,284,679
Due to Other Customers	-	-	-	-	-	-	-	-	-	-	111,009,668	95,729,533	111,009,668	95,729,533
Debt Issued and Other Borrowed Funds	-	-	-	-	-	-	-	-	-	-	10,189,448	10,589,224	10,189,448	10,589,224
Total Financial Liabilities	-	-	166,370	633,625	-	-	-	-	-	-	139,168,461	124,004,910	139,334,831	124,638,535

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

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
ADDITIONAL QUARTERLY DISCLOSURES

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

	Bank		Group	
	31.12.2014 Rs. '000	31.12.2013 Rs. '000	31.12.2014 Rs. '000	31.12.2013 Rs. '000
1) Loans and Receivables To Other Customers				
Gross Loans and Receivables	97,200,304	81,533,347	98,478,823	82,730,891
(Less) : Individual Impairment	(383,239)	(620,978)	(383,238)	(620,978)
Collective Impairment	(1,553,360)	(1,154,216)	(1,553,089)	(1,153,265)
Net Loans and Advances including those designated at Fair Value through Profit or Loss	95,263,707	79,758,153	96,542,497	80,956,648
(Less) : Loans and Advances designated at Fair Value through Profit or Loss	-	-	-	-
Net Loans and Advances	95,263,707	79,758,153	96,542,497	80,956,648
Staff Loans	2,491,861	2,181,943	2,491,861	2,181,943
Less : Allowance for Day 1 Difference	(687,308)	(811,336)	(687,308)	(811,336)
	1,804,549	1,370,607	1,804,553	1,370,607
	97,068,256	81,128,760	98,347,046	82,327,255

	Bank		Group	
	31.12.2014 Rs. '000	31.12.2013 Rs. '000	31.12.2014 Rs. '000	31.12.2013 Rs. '000
2) Gross Loans and Receivables to Other Customers -By Product				
By Product -Domestic Currency				
Bills of Exchange	46,132	66,229	46,132	66,229
Overdrafts	19,041,870	17,739,197	19,041,870	17,739,197
Term Loans	27,637,790	20,606,186	27,637,790	20,606,185
Staff Loans	2,491,861	2,181,943	2,491,861	2,181,943
Leases	25,695,994	21,738,216	25,695,994	21,738,216
Credit Cards	12,066,137	9,997,774	12,066,137	9,997,774
Pawning Advance	1,261,819	2,422,265	1,261,819	2,422,265
Corporate Debt Securities	1,531,212	1,578,457	1,531,212	1,578,457
Housing Loans	1,310,648	985,152	1,310,648	985,152
Other Advances	3,574,905	2,171,617	4,853,427	3,369,162
Sub Total	94,658,368	79,487,036	95,936,890	80,684,580
By Product -Foreign Currency				
Bills of Exchange	-	368,743	-	368,743
Overdrafts	188,996	70,329	188,993	70,329
Term Loans	1,718,025	2,190,703	1,718,025	2,190,703
Other Advances	3,126,774	1,598,479	3,126,774	1,598,479
Sub Total	5,033,796	4,228,254	5,033,793	4,228,254
Total	99,692,164	83,715,290	100,970,683	84,912,834

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

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

	Bank		Group	
	31.12.2014 Rs. '000	31.12.2013 Rs. '000	31.12.2014 Rs. '000	31.12.2013 Rs. '000
Individual Impairment				
Opening Balance	620,978	1,120,502	620,978	1,120,502
Charge/ (Reversal) to Income Statement	(237,742)	(499,524)	(237,742)	(499,524)
Closing Balance	383,236	620,978	383,236	620,978
Collective Impairment				
Opening Balance	1,154,216	704,788	1,153,265	702,646
Charge/ (Reversal) to Income Statement	1,394,471	937,638	1,395,153	938,829
Amounts written off during the Period	(995,327)	(488,210)	(995,327)	(488,210)
Closing Balance	1,553,360	1,154,216	1,553,090	1,153,265
Total Impairment	1,936,597	1,775,194	1,936,326	1,774,243

4) Due to Other Customers -By Product

	Bank		Group	
	31.12.2014 Rs. '000	31.12.2013 Rs. '000	31.12.2014 Rs. '000	31.12.2013 Rs. '000
By Product -Domestic Currency				
Demand Deposits	11,889,764	8,715,316	11,852,984	8,664,708
Savings Deposits	17,784,373	11,687,808	17,784,373	11,687,808
Call Deposits	364,217	492,697	364,217	492,697
Fixed Deposits	61,987,694	56,437,719	61,987,694	56,181,662
Certificate of Deposits	1,758,927	2,867,362	1,758,927	2,867,362
Sub Total	93,784,974	80,200,902	93,748,195	79,894,237
By Product -Foreign Currency				
Demand Deposits	4,129,081	770,891	4,129,081	770,891
Savings Deposits	3,272,078	3,190,449	3,272,078	3,190,449
Call Deposits	1,632	239,381	1,632	239,381
Fixed Deposits	9,858,680	11,634,575	9,858,680	11,634,575
Sub Total	17,261,472	15,835,296	17,261,472	15,835,296
Total	111,046,446	96,036,198	111,009,667	95,729,533

DEBENTURE INFORMATION



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

Debenture Categories	CSE Listing	Interest Payable Frequency	Balance as at 31.12.2014 Rs. '000	Balance as at 31.12.2013 Rs. '000	Market Values			Interest Rates		Interest rate of Comparable Government Security		Other Ratios as at date of last trade	
					Highest Rs.	Lowest Rs.	Year End Rs.	Coupon Rate %	Effective Annual Yield %	31.12.2014 %	31.12.2013 %	Interest Yield %	Yield to Maturity %
Fixed Rate	NTBD0163	Semi -Annually	1,525,000	1,525,000	1,012.62	1,012.62	1,012.62	11.50	11.83	6.42	11.19	11.36	10.60
Fixed Rate	NTBD0164	Semi -Annually	200,000	200,000	Not traded			11.00	11.30	6.42	11.19	Not traded	
Fixed Rate	NTBD0165	Semi -Annually	275,000	275,000	Not traded			11.50	11.83	6.42	11.19	Not traded	
Fixed Rate	NTBD0266	Semi -Annually	3,000,000	3,000,000	Not traded			13.00	13.42	7.14	-	Not traded	
Total Debentures			5,000,000	5,000,000									
Ratios of Debt	31.12.2014	31.12.2013											
* Debt / Equity Ratio %	52.53%	62.72%											
Interest Cover (Times)	6.08	6.79											

*Debt includes only the subordinated debt as at 31 December

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES
SEGMENT INFORMATION



Operating Segments Rs. '000	Bank		Treasury Functions		Others		Unallocated/ Eliminations		Total Group	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Operating income	9,005,449	8,530,706	2,801,827	944,947	367,688	435,164	(58,443)	(794)	12,116,523	9,910,023
Impairment Charge/(Reversal) for Loans and Receivables	1,156,730	449,411	-	-	-	-	680	1,199	1,157,409	450,610
Net Operating income	7,848,720	8,081,295	2,801,827	944,947	367,688	435,164	(59,123)	(1,993)	10,959,110	9,459,413
Extracts of results										
Interest Income	12,975,185	13,301,717	4,447,975	4,372,676	303,601	455,024	(274,300)	(218,211)	17,452,461	17,911,206
Inter Segment	(480,231)	453,951	480,231	(453,951)	-	-	-	-	-	-
Interest Expense	(6,306,347)	(8,001,612)	(2,237,325)	(2,232,091)	(110,340)	(219,038)	141,298	216,140	(8,512,713)	(10,236,602)
Net Interest Income	6,188,607	5,754,056	2,690,881	1,686,635	193,261	235,985	(133,002)	(2,072)	8,939,747	7,674,604
Fees and Commission Income	2,739,990	2,635,020	-	-	192,810	189,044	75,284	(104,693)	3,008,084	2,719,371
Fees and Commission Expense	(205,236)	(248,681)	(16,267)	(43,191)	(6,115)	(5,830)	3,042	82,512	(224,576)	(215,189)
Net fee and commission income	2,534,754	2,386,339	(16,267)	(43,191)	186,696	183,214	78,325	(22,180)	2,783,508	2,504,182
Net Trading Income	-	231,063	121,986	(705,840)	(12,269)	15,965	1,653	(19,606)	111,370	(478,418)
Other Operating Income	282,090	159,248	5,228	7,343	-	-	(5,421)	43,064	281,897	209,655
Depreciation of Property, Plant and Equipment	175,283	141,502	972	815	13,520	11,549	133,978	103,948	323,753	257,814
Amortization of Intangible Assets	56,400	61,471	12,280	11,867	2,791	2,833	99,877	80,345	171,348	156,515
Segment Profit / (Loss) before Value Added Tax	2,373,932	1,044,835	2,322,335	715,028	272,607	231,223	(397,449)	1,678,135	4,571,427	3,669,221
Value Added Tax & Income Tax Expense	-	-	-	-	(87,276)	(64,851)	(1,947,571)	(1,471,763)	(2,034,847)	(1,536,614)
Profit for the year	2,373,932	1,044,835	2,322,335	715,028	185,332	166,372	(2,345,020)	206,372	2,536,579	2,132,607
Capital Expenditures		251,985		1,595		2,447		131,966		387,993
Property and Equipment	336,411	45,501	361	3,506	-	440	134,112	155,774	470,884	205,221
Other Intangible Assets	752,448	-	-	-	-	-	22,116	-	774,564	-
Total Assets	100,065,019	82,002,263	58,534,711	56,291,035	-	3,707,142	1,644,611	127,316	160,244,341	142,127,757
Total Liabilities	113,707,384	99,035,522	31,767,955	30,525,352	-	2,095,591	874,475	(1,266,871)	146,349,814	130,389,593

NATIONS TRUST BANK PLC AND ITS SUBSIDIARIES



Explanatory Notes:

(1) The Group figures include those of the Subsidiaries, Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited

(2) These Financial Statements are prepared in accordance with Sri Lanka Accounting Standards (SLFRS / LKASs) and provide the information as required in terms of Rule 7.4 of the Colombo Stock Exchange and the Directions issued by the Central Bank of Sri Lanka. Comparative figures have been remeasured / reclassified where necessary to comply with the Central Bank guidelines and SLFRS / LKASs.

(3) These Interim financial statements are presented in accordance with LKAS 34 - Interim Financial Reporting and there are no changes to the accounting policies and methods of computation as against those disclosed in the Annual Report for the year ended 31st December 2014.

(4) There are no material changes to contingent assets and liabilities since 31.12.2014 and the balances reflected are due to transactions carried out in the normal course of Banking Business.

(5) No material events have taken place except mentioned in note (6) below since 31.12.2014 that require disclosure or/and adjustments in these accounts and all known expenditure have been provided in these financial statements .

(6) The Minister of Finance announced at the interim budget proposals on 29 January 2015 (which was passed in parliament on 07 February 2015) that an additional one off tax of 25% is to be charged on profits of entities which earned in excess of LKR 2,000 mn for the year of assessment 2013/2014. The Bank made a profit in excess of such amount for the said year of assessment, and accordingly may be liable to pay such additional tax in the future.

(7) Subject to approval of the Shareholders at the forthcoming Annual General Meeting, the Directors recommended the payment of a first and final dividend of Rs 2.10 per share for the year ended 31 December 2014.

NATIONS TRUST BANK PLC
FOR THE PERIOD ENDED 31 DECEMBER 2014



Twenty largest Shareholders

Name of the Shareholder	No. of Shares	%
John Keells Holdings PLC.	46,121,536	20.00
HWIC Asia Fund	34,591,092	15.00
Mackinnons Keells Limited	22,830,159	9.90
Central Finance Company PLC A/C No 03	20,715,400	8.98
CF Growth Fund LTD A/C No 01	14,813,273	6.42
CF Insurance Brokers (PVT) LTD.	10,592,857	4.59
Seylan Bank PLC./ Janashakthi Limited	6,341,450	2.75
Janashakthi Insurance PLC-Equity Fund	4,000,000	1.73
Janashakthi General Insurance Limited	3,856,244	1.67
The Ceylon Guardian Investment Trust PLC A/C #02	3,492,685	1.51
The Ceylon Investment PLC A/C #02	3,173,595	1.38
Commercial Bank of Ceylon PLC/Janashakthi Limited	3,000,000	1.30
Mr.M F Hashim	2,600,000	1.13
Janashakthi Insurance PLC (Policy Holders)	2,111,728	0.92
Trading Partners (PVT) LTD	1,967,731	0.85
Capital Development and Investment Company PLC A/C No 02	1,718,611	0.75
Hatton National Bank PLC A/C No 1	1,640,604	0.71
AIA Insurance Lanka PLC A/C No 07	1,579,795	0.69
Bank of Ceylon - A/C No 02	1,546,100	0.67
Mr. N R Somaiya	1,320,624	0.57
	188,013,484	81.53
Others	42,593,799	18.47
Total	230,607,283	100.00

	31.12.2014	
Number of shareholders representing the public holding	6,612	34.80%

Directors' holding in shares as at 31 December 2014

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

1. Financial Risk Management

1.1 Introduction

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

The Board of Directors is responsible for establishing the overall Risk Management Framework within the Bank. This consists of approval of a risk governance structure and approval of detailed risk management policies and procedures with risk appetite and tolerance limits.

The Board delegates specific oversight of all risk management activities in the Bank to the Board Integrated Risk Management Committee (BIRMC). It reviews risk goals, department risk grids and material risk issues highlighted by different executive risk committees. It also monitors compliance with Bank policies and regulations.

The Board has appointed the Executive Risk Management Committee (ERMC) which has the overall responsibility for overseeing the establishment and implementation of frameworks, policies and limits for various risk exposures. The ERMC is assisted by the Assets and Liability Management Committee (ALCO) which specifically focus on market risk management and liquidity risk management whilst Head Office Credit Committee focuses on the credit risk management.

Risk Measurement and Reporting Systems

The Bank's risks are measured using methods that reflect incurred loss model for financial reporting and the expected loss likely to arise in normal circumstances which are supported by statistical models for financial reporting and regulatory purposes. The models make use of probabilities derived from historical experience and adjusted to reflect the current economic environment.

Managing of risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept with additional emphasis on selected industries.

Information compiled from all the relevant departments are examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the members of Board Supervisory Committee, BIRMC and the heads of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. The BIRMC receives a risk assessment report bi-monthly, which is designed to provide a wide range of information to assess and conclude on the overall risks of the Bank.

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

1.2 Credit Risk

Credit risk is the risk of the Bank incurring a loss due to its customers or counterparties failing to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, industry concentrations, 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.

Impairment Assessment

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

Individually Assessed Allowances

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

Collectively Assessed Allowances

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

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.

Commitments and Guarantees

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. Undrawn commitments mainly consist of unutilized credit card limits and facilities granted to corporate customers where the Bank reserves the right to unconditionally cancel or recall the facility at its discretion.

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

1.3 Liquidity Risk

Liquidity risk is 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 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. A contingency plan is maintained both at the parent level as well as for major subsidiaries.

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.

Bank maintains a minimum 20% ratio of liquid assets to total liabilities under stock approach based on the regulations of the Central Bank of Sri Lanka. Liquid assets mainly consist of cash, short-term Bank deposits, 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.

1.4 Market Risk

Market risk is the risk of loss from changes in market prices including interest rates, credit spreads, equity prices and foreign exchange rates. The Bank manages market risk both on trading and non trading portfolios through comprehensive market risk management framework.

The Bank uses market risk limits to monitor and control the above mentioned risks. The objective of the Bank's market risk management strategy is to reduce exposure to these risks and minimize volatility in economic income and cash flows.

The Board of Directors approves market risk limits for trading and non trading portfolios. A daily report summarizes the Bank's market risk exposure against approved limits. The daily report is scrutinized by the relevant management team including the CEO.

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 Repricing 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).

The ALCO monitors the above gaps and the sensitivity on the Income Statement 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 Income Statement 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.

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 risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Exposure to each currency is arrived at by calculating the Net Asset or Liability position including the spot and forward contracts of the relevant currency.

Treasury Middle Office (TMO) monitors the above positions on a daily basis to ensure positions are maintained within established limits.

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

1.5 Operational Risk Management

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank has recognized Operational Risk as a distinct and a controllable risk and taken steps to manage it in a structured manner. A separate Operational Risk Management Unit was established and techniques and methodologies associated in managing Operational Risk were brought in via a project assisted by IFC thus improving knowledge levels. Resulting from that a comprehensive Operational Risk Management Policy has been formulated and a robust Operational Risk Management framework has since been established.

Structure

The Operational Risk Management Unit directly reports to Chief Risk Officer and is mandated to develop, maintain and improve Operational Risk Management methodologies and tools from time to time. It is also entrusted to develop policies and procedures relevant to Operational Risk.

Management of operational risks

Over the period Operational Risk Management tools have evolved within the Bank and now the usage of techniques such as Risk and Control Self Assessment (RCSA) and Key Risk Indicators (KRI) have become part and parcel of normal course of business. The Bank has a robust process to capture operational loss events which are centrally fed in to an operational loss data base to be used for modeling when the Bank moves towards the Advanced Approach under BASEL Guidelines. In addition to above Operational Risk Management Unit oversee the appropriateness and implementation of Business Continuity Plan (BCP) across the Bank. It closely co-ordinate with all relevant units with special emphasis on Mission Critical Business/Support Units (MCUs) in order to carry out a Business Impact Analysis (BIA) with Recovery Time Objectives (RTO) and assessing their disaster recovery plans.

The unit also co-ordinates with MIS in mapping revenue lines to estimate capital requirements under the Standardized Approach (TSA). Operational Risk Management Unit oversees the internal control systems of the Bank which include assessment of operating procedures to mitigate Operational Risks. The Operational Risk Management Unit works closely with other business/support units in confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with relevant accounting principles and regulatory requirements. Further in line with the CBSL Customer Charter directive, Operational Risk unit has established a management information system regarding customer complaints and

process of resolution as part of its functions in line with Customer Charter Direction issued by CBSL.

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

Operational Risk management tools implemented so far has helped the bank to manage its operational losses in relation to its operational Income/ Expenses well within internationally accepted norms.

2. Capital Management

Nations Trust Bank has established a capital maintenance strategy which forms an integral part of its strategic planning exercise. The capital augmentation plan of the Bank for the medium term is formulated with following key objectives in mind:

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

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