

# Notes to the Financial Statements

## 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, listed on the Colombo Stock Exchange, incorporated and domiciled in Sri Lanka. 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 31st December 2008 comprise of the Bank and its subsidiaries, Waldock Mackenzie Limited, Allied Properties Limited, Mercantile Leasing (Financial Services) 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 Financial Statements of Nations Trust Bank PLC, for the year ended 31st December 2008 were authorised for issue in accordance with the resolution of the Board of Directors on 17th February 2009.

### 1.2 Principal Activities and Nature of Operations

#### Bank

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

#### Subsidiaries

The principal activities of the Bank's subsidiaries namely Waldock Mackenzie Limited, Allied Properties Limited, Mercantile Leasing (Financial Services) Limited and Nations Insurance Brokers Limited are carrying out money market operations and fund and fee based activities, property rental, managing an operating lease portfolio and insurance broking respectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for Government Securities held for trading and certain land and

buildings that have been stated at valuation as explained in Accounting Policy No. 2.10.1 (b) and No. 2.10.6 (a) respectively to these Financial Statements. Assets and liabilities are grouped by nature and are listed in an order that reflect their relative liquidity.

No adjustments have been made for inflationary factors affecting these Financial Statements. These Financial Statements are prepared and presented in Sri Lankan Rupees.

The preparation and presentation of these Financial Statements is in compliance with the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto.

#### 2.1.1 Statement of Compliance

The Financial Statements of the Bank and the Group have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS).

#### 2.1.2 Prior year Figures and Phrases

Certain prior year figures and phrases are rearranged whenever necessary to conform to the current year's presentation.

### 2.2 Basis of Consolidation

- (a) The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries as at 31st December each year. The Financial Statements of the subsidiaries are prepared for the same reporting year as the Bank using consistent Accounting Policies.
- (b) All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets are eliminated in full.
- (c) Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

# Notes to the Financial Statements

## 2.3 Changes in Accounting Policies

The Accounting Policies adopted are consistent with those used in the previous financial year except as follows:

The Group has adopted SLAS 16 on Employee Benefits (Revised 2006). This adoption did not have a significant impact on the Financial Statements [Refer Accounting Policy No. 2.11.3 (a)].

## 2.4 Significant Accounting Estimates and Assumptions

In the process of applying the Group's Accounting Policies, management is required to make estimates and assumptions that affect the amounts recognised in the Financial Statements. Use of available information and application of judgment are inherent in the formation of estimates. The Group believes its estimates for determining the valuation of its assets and liabilities are appropriate.

The following is a brief description of the Group's critical accounting estimates and assumptions:

### Losses for Loans and Advances

It is the Group's policy to establish, through charges against profits, specific and general provisions in respect of estimated and inherent credit losses in its portfolio.

### Impairment of Non-Financial Assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in Notes 2.10.7 and 2.10.8.

## 2.5 Foreign Currency Translation

The Consolidated Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional and presentation currency. All foreign exchange transactions

are converted to Sri Lankan Rupees, at the middle rate of exchange prevailing on the date the transactions were effected. Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lankan Rupee equivalents using year-end middle foreign exchange rates. The resulting gains and losses are accounted for in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to Sri Lankan Rupees using the exchange rates as at the date of the initial transactions.

Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Unrealised gains and losses are dealt with through the Income Statement.

## 2.6 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

## 2.7 Taxation

### (a) Income Tax

The provision for income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act.

Income tax liabilities for the current period are measured at the amounts expected to be paid to the taxation authorities in accordance with the provisions of the Inland Revenue Act No. 10 of 2006. The tax rates applicable as of the Balance Sheet date are given below:

### 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 35%, while tax on profits from the off-shore operations of the Foreign Currency Banking Unit is calculated at the rate of 20%.

### Subsidiary - Waldock Mackenzie Limited

Income tax on profit from operations is calculated at the rate of 35%.

# Notes to the Financial Statements

## Subsidiary - Allied Properties Limited

The Company enjoyed a tax holiday of 7 years which expired on 31st March 2007. Effective from 1st April 2007, the Company enjoys a concessionary tax rate of 2% on its turnover for a period of 15 years. Income tax has been provided at the rate of 35% on profits arising from other sources of income.

## Subsidiary - Mercantile Leasing (Financial Services) Limited

Income tax on profit from operations is calculated at the rate of 35%. Tax losses carried forward as at 31st December 2008 amounted to Rs. 44.245 mn, which can be carried forward indefinitely and can be set off against the taxable profits subject to the limit of 35% of the taxable profit in each year of assessment.

## Subsidiary - Nations Insurance Brokers Limited

Income tax on profit from operations is calculated at the rate of 35%.

### (b) *Deferred Income Tax*

Deferred income tax is provided using the liability method on temporary differences at the Balance Sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor the taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognised 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 utilised.

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each Balance Sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or subsequently enacted as at the Balance Sheet date.

Deferred income tax assets relating to items recognised directly in equity is recognised in the Equity Statement and not in the Income Statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to setoff current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

### (c) *Value Added Tax*

#### Nations Trust Bank PLC

During the year, the Bank's total value addition was subjected to a 20% Value Added Tax on Financial Services as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

# Notes to the Financial Statements

## Subsidiary - Waldock Mackenzie Limited

During the year, the Company's total value addition was subjected to a 20% Value Added Tax on Financial Services as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

### (d) Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set off against the income tax payable for a further four years.

### (e) Social Responsibility Levy (SRL)

As per the provisions of the Finance Act No. 5 of 2005, as amended by the Finance Act No. 11 of 2006, SRL was introduced with effect from 1st January 2005. SRL is payable at the rate of 1.5% on all taxes and levies chargeable as specified in the First Schedule of the Act.

## 2.8 Events After the Balance Sheet Date

All material events occurring after the Balance Sheet date are considered and appropriate adjustments and/or disclosures have been made in the Financial Statements, where necessary.

## 2.9 Hedging

The Bank uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge its risks, associated with interest rate and exchange rate fluctuations. The net gains or losses on such derivative instruments are recognised in the Income Statement over the period of such contracts.

## 2.10 Valuation of Assets and Their Measurement Bases

### 2.10.1 Investments

#### (a) Treasury Bills and Bonds Held to Maturity

Investments in Treasury Bills and Bonds held to maturity are recorded at cost plus or minus a proportion of the discount or premium as the case may be on a straight-line basis over the period of maturity. Provision is made for diminution in value of these investments only if they are expected to be permanent.

#### (b) Treasury Bills and Bonds Held for Trading

Investments in Treasury Bills and Bonds held for trading are marked to market and carried at that value in the Balance Sheet. Gains and losses on marked to market valuation are dealt with through the Income Statement.

#### (c) Investment in Development Bonds and Other Securities

Securities, including Sri Lanka Development Bonds (SLDB) and other discountable securities are reflected at the purchased value by adjusting for discounts arising on acquisition. All other interest-bearing securities and investments in unquoted shares are stated at cost.

#### (d) Investments in Subsidiaries

Investments in subsidiaries are stated at cost in the Bank's Financial Statements in accordance with Sri Lanka Accounting Standard No. 26 on Consolidated and Separate Financial Statements.

### 2.10.2 Loans and Advances to Customers

- (a) Loans and Advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.
- (b) Specific provisions for possible loan losses are made on the basis of a continuous review of all advances to customers, including consumer advances and credit cards.

The Bank's provisioning policy is more stringent than the guidelines issued by the Central Bank of Sri Lanka and at the minimum, not falling below the following. Accordingly, specific provisions have been made as follows:

Overdue Period	Provision Required
3-6 months	20%
6-12 months	50%
Over 12 months	100%

Specific provisions on credit cards are made on the basis of 50% when in arrears for 90 days and 100% when in arrears for 150 days.

## Notes to the Financial Statements

Specific provisions on personal loans are made on the basis of 50% when in arrears for 90 days and 100% when in arrears for 180 days.

- (c) A 1% general provision is maintained on all performing advances, in addition to the specific provisions made on non-performing advances to cover potential bad debts which are inherent in the loan portfolio but not yet identified. The provision is estimated after deducting facilities secured against cash. The Central Bank of Sri Lanka in their direction dated 21st November 2006, has made it mandatory that all banks make this provision, with time being given to build up the required provisions over 10 quarters, at the rate of 0.10% per quarter.

The Bank, however, is already fully compliant with this requirement, having provided the 1% general provision for all eligible advances.

### 2.10.3 Finance Leases

#### (a) Lease Receivables

Assets leased to customers under agreements that transfer substantially all the risks and rewards associated with ownership other than legal title are accounted for as finance leases. Lease rentals receivable in the Balance Sheet represent total lease payments due net of unearned interest income not accrued to revenue, provision for bad and doubtful recoveries and the initial rentals received.

#### (b) Provision for Lease Receivables

Specific provision has been made in relation to identified bad and doubtful leases on the following basis which is in line with the directions issued by the Central Bank of Sri Lanka:

Overdue Period	Provision Required
6-12 months	20%
12-18 months	50%
Over 18 months	100%

A general provision for possible losses on lease receivables is made at 1% of the total capital outstanding of the performing leases.

### 2.10.4 Advances to Margin Trading Customers

Advances to margin trading customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.

### 2.10.5 Reverse Repurchase Agreements

These are advances collateralised by purchase of securities by the Group from counterparties to whom the Group lent, subject to a commitment to resell them at a predetermined price. All reverse repurchase agreements involve debt instruments, such as Treasury Bills and Bonds and Corporate Papers.

In reverse repurchase agreements, the cash delivered is derecognised and a corresponding receivable, including accrued interest, is recorded recognising the right to receive it back. Interest earned on reverse repurchase agreements is recognised as interest income over the life of each agreement.

Additionally, the sale of securities received in reverse repurchase transactions triggers the recognition of a trading liability (short sale).

### 2.10.6 Property, Plant & Equipment

#### (a) Cost and Valuation

All items of Property, Plant & Equipment are initially recorded at cost. Certain land and buildings are subsequently revalued. Subsequent to the initial recognition as an asset at cost, revalued assets are carried at revalued amounts less any accumulated depreciation on buildings and accumulated impairment losses recognised after the date of revaluation. All other Property, Plant & Equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided for, on the bases specified in (c) below.

#### (b) Restoration Cost

Expenditure incurred on repairs or maintenance of Property, Plant & Equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance, is recognised as an expense when incurred.

## Notes to the Financial Statements

### (c) Depreciation

The provision for depreciation is calculated by using a straight-line method on the cost or valuation of all Property, Plant & Equipment other than freehold land in order to write-off such amounts over the following estimated useful lives in equal instalments as follows:

Buildings	over 20-40 years
Motor Vehicles	over 04 years
Vault/Safes	over 08 years
Office Equipment	
- Computer Hardware	over 04 years
- Other Equipment	over 04 years
- Electrical Equipment	over 08 years
Computer Software	over 07 years
Furniture & Fittings	over 08 years
Leasehold Improvements	Amortised over the lease period

Full depreciation was provided in the year of disposal and no depreciation was provided in the year of purchase on Property, Plant & Equipment acquired prior to 1st January 2006. Property, Plant & Equipment acquired after 1st January 2006 are depreciated from the month the assets are available for use over their estimated useful lives.

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted if appropriate at each financial year-end.

### (d) Revaluation

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the Balance Sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in the Income Statement. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

### (e) Derecognition

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. 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 included in the Income Statement in the year the asset is derecognised.

### 2.10.7 Business Combinations and Goodwill

Business combinations are accounted for using the purchase method.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination after 1st June 2005 is from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill acquired in a business combination prior to 1st June 2005 in accordance with the transitional provisions of revised SLAS 25 was amortised over a period of 10 years until 31st December 2005. Thereafter, commencing 1st January 2006 such amortisation of goodwill has been discontinued and the accumulated amortisation at that date has been eliminated against the carrying value of goodwill and the balance goodwill tested for impairment in accordance with SLAS 41.

## Notes to the Financial Statements

### *2.10.8 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 such 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 fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset 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.

Impairment losses of continuing operations are recognised in the Income Statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case, the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of goodwill:

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates.

Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised.

Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31st December.

A full provision was made in 2007 against equity for the goodwill of Rs. 372.053 mn that arose on the acquisition of the former Mercantile Leasing Limited on 1st January 2006 to comply with Section 22 of the Banking Act before the payment of dividends for the year 2006.

### **2.11 Provisions**

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### *2.11.1 Proposed Dividend*

Dividend proposed/declared by the Board of Directors, after the Balance Sheet date is not recognised as a liability and is only disclosed as a Note to the Financial Statements.

#### *2.11.2 Commitments and Contingencies*

All discernible risks are accounted for in determining the amount of liabilities of the Bank and its fully-owned subsidiaries.

# Notes to the Financial Statements

## 2.11.3 Retirement Benefit Obligations

### (a) Defined Benefit Plan - Gratuity

The Group measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan with the advice of an actuary using the Projected Unit Credit Method. Actuarial gains and losses are recognised as income or expenses over the expected average remaining working lives of the participants of the plan.

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.

Accordingly, the employee benefit liability is based on the actuarial valuation carried out by Messrs Actuarial and Management Consultants (Private) Limited, actuaries.

The key assumptions used by the actuary include the following:

Rate of interest	10%
Rate of salary increase	11%
Retirement age	55-60 years

The gratuity liability is not externally funded. This item is grouped under 'Deferred Liabilities' in the Balance Sheet.

### (b) 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 defined percentages of gross emoluments of employees to an approved private Provident Fund managed by Nations Trust Bank PLC and to the Employees' Trust Fund respectively. Nations Insurance Brokers Limited contributes to the Employees' Provident Fund and the Employees' Trust Fund respectively.

## 2.12 Repurchase Agreements

These are borrowings collateralised by sale of securities held by the Group to counterparties from whom the Group

borrowed, subject to a commitment to repurchase them at a pre-determined price. All repurchase agreements involve debt instruments, such as Treasury Bills and Bonds and Corporate Papers.

In repurchase agreements, the cash received, including accrued interest, is recognised on the Balance Sheet with a corresponding obligation to return it. Interest incurred on repurchase agreements is recognised as an interest expense over the life of each agreement.

## 2.13 Income Statement

### 2.13.1 Revenue Recognition

#### (a) Interest Income from Customer Advances

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of banks and the guidelines issued by the Central Bank of Sri Lanka, interest receivable is recognised on an accrual basis. Interest ceases to be taken into revenue when three instalments are overdue and interest accrued until such advances being classified as non-performing is also eliminated from interest income and transferred to interest in suspense. The interest income on non-performing advances is recognised on a cash basis.

#### (b) Income on Discounting of Bills of Exchange

Income from discounting of Bills of Exchange is recognised on a cash basis.

#### (c) Income from Government and Other Discounted Securities

Discounts on Treasury Bills, Treasury Bonds and Commercial Papers are recognised on a straight-line basis over the period to maturity as income. Premium on Treasury Bonds are accounted for on a similar basis. The discount and the premium are dealt within the Income Statement.

Income from all other interest-bearing investments is recognised as revenue on an accrual basis.

#### (d) Fees and Commission Income

Fees and commission income comprise mainly of fees receivable from customers for guarantees, factoring, credit cards and other services provided by the Bank together with foreign and domestic tariff. Such income is recognised as revenue as the services are provided.

## Notes to the Financial Statements

*(e) Profit or Loss on Sale of Securities*

Profit or loss arising from the sale of marketable securities is accounted for on a cash basis and is categorised under other income.

*(f) Lease Income*

The Bank follows the finance method of accounting for lease income.

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of a lease. The unearned lease income is taken into income over the term of the lease, commencing with the month in which the lease is executed in proportion to the declining receivable balance, ensuring a constant rate of return, in terms of the provisions of SLAS 19 on Leases.

Gross earnings under finance leases in respect of lease rentals due cease to be taken to revenue when they are in arrears for three months. Thereafter, such income is recognised on a cash basis. Interest accrued until such leases are being classified as non-performing is also eliminated from interest income and transferred to interest in suspense.

*(g) Interest and Fees Receivable on Credit Cards*

Interest and fees receivable on credit cards are recognised on an accrual basis. Interest and fees cease to be taken to revenue when the recovery of interest or fees is identified as non-performing. Thereafter, interest and fees are accounted for on a cash basis.

*(h) Dividend Income*

Dividend income from shares is recognised in the period in which they are declared and approved.

*(i) Rental Income*

Rental income is recognised on an accrual basis.

*(j) Other Income*

Other income is recognised on an accrual basis.

### 2.14 Expenses

Interest payable is recognised on an accrual basis. All other expenses have been recognised in the Financial Statements as they are incurred in the period to which they relate.

### 2.15 Cash Flow Statement

The Cash Flow Statement has been prepared by using the 'Direct Method' in accordance with SLAS 9 on Cash Flow Statements, whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognised. Cash and cash equivalents comprise mainly of cash balances, call placements and balances with the Central Bank of Sri Lanka.

### 2.16 Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing services (Business Segments) which is subject to risks and rewards that are different from those of other segments.

In accordance with SLAS 28 on Segment Reporting, segment information is presented in respect of the Group. The segments comprise of Banking, Investment Banking and Others.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Accounting Policies adopted for segment reporting are those Accounting Policies adopted for preparing the Financial Statements of the Group.

Inter-segment transfers are accounted for at competitive fair market prices charged to inter-bank counterparts for similar services. Such transfers are eliminated on consolidation.

### 2.17 Off-Balance Sheet Transactions

The Bank enters into Off-Balance Sheet transactions such as forward contracts and currency swaps. At the year end, profits and losses on such transactions are dealt with through the Income Statement.

### 2.18 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 74 for the Statement of the Directors' Responsibility for Financial Reporting.

## Notes to the Financial Statements

### 3. CASH AND SHORT-TERM FUNDS

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Cash in Hand	613,391	346,128	613,424	346,161
Money at Call and Short Notice	2,276,869	1,095,398	2,276,869	1,095,398
Balances with Banks	1,174,132	1,704,121	1,174,256	1,704,954
	<b>4,064,392</b>	<b>3,145,647</b>	<b>4,064,549</b>	<b>3,146,513</b>

### 4. STATUTORY DEPOSIT WITH THE CENTRAL BANK OF SRI LANKA

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 31st December 2008 the minimum cash reserve requirement was 7.75% of the unpaid local currency deposit liabilities of the Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

### 5. GOVERNMENT TREASURY BILLS AND BONDS

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Govt. Treasury Bills and Bonds held for Trading	1,160,103	2,449,724	8,054,497	8,332,383
Govt. Treasury Bills and Bonds held to Maturity (5.1)	2,754,862	303,477	3,828,152	1,603,197
Treasury Bills under Reverse Repurchase Agreements	7,364,449	4,615,292	2,456,183	1,395,103
	<b>11,279,414</b>	<b>7,368,493</b>	<b>14,338,832</b>	<b>11,330,683</b>

5.1 The market value of these Treasury Bonds held to maturity as at 31st December 2008 amounts to Rs. 2,648 mn (2007 - Rs. 287 mn) and in the Group - Rs. 3,510 mn (2007 - Rs. 1,369 mn).

### 6. INVESTMENTS

#### 6.1 Money Market Investments and Sri Lanka Development Bonds

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Money Market Investments (US\$ 20 mn) (6.1.1)	2,271,795	-	2,271,795	-
Sri Lanka Development Bonds US\$ (unquoted) (6.1.2)	1,083,447	1,917,844	1,083,447	1,917,844
	<b>3,355,242</b>	<b>1,917,844</b>	<b>3,355,242</b>	<b>1,917,844</b>

#### 6.2 Investment Securities

##### Unquoted - Shares

Lanka Clear (Pvt) Limited				
150,000 Ordinary Shares of Rs. 10/- each	1,500	1,500	1,500	1,500
Credit Information Bureau of Sri Lanka				
9,000 Ordinary Shares of Rs. 10/- each	90	90	90	90
Lanka Financial Services Bureau Limited				
112,500 Ordinary Shares of Rs. 10/- each allotted on 31st December 2008 after refunding Rs. 1.875 mn (As at 31st December 2007 - shares were to be allotted)	1,125	3,000	1,125	3,000

##### Unquoted Preference Shares (Rated)

Dialog Telekom PLC				
423 mn Cumulative Redeemable Preference Shares of Rs. 1/- each (470 mn Cumulative Redeemable Preference Shares of Rs. 1/- each in 2007)	423,000	470,000	423,000	470,000
	<b>425,715</b>	<b>474,590</b>	<b>425,715</b>	<b>474,590</b>
	<b>3,780,957</b>	<b>2,392,434</b>	<b>3,780,957</b>	<b>2,392,434</b>

## Notes to the Financial Statements

6.1.1 The money market placement made, has been backed by Sri Lanka Sovereign Bonds.

6.1.2 The investment in Sri Lanka Development Bonds amounts to US\$ 9.5 mn (2007 - US\$ 17.5 mn) and matures in years 2009 and 2010.

6.2.1 The Directors' valuation of unquoted investment securities and Sri Lanka Development Bonds of the Bank and the Group amounts to Rs. 1,509.162 mn (2007 - Rs. 2,392.434 mn).

### 7. LOANS AND ADVANCES

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>7.1 Bills of Exchange</b>				
Inland Bills	36,738	27,608	36,738	27,608
Export Bills	376,106	530,551	376,106	530,551
Import Bills	10,142	3,450	10,142	3,450
	<b>422,986</b>	<b>561,609</b>	<b>422,986</b>	<b>561,609</b>
<b>7.2 Loans and Advances</b>				
Overdrafts	6,215,343	5,206,039	6,215,343	5,206,037
Term Loans	12,578,417	10,394,741	12,578,417	10,394,741
Staff Loans	881,023	556,073	881,023	556,074
Import Loans	2,007,704	1,719,679	2,007,704	1,719,679
Packing Credit Loans	346,832	333,557	346,832	333,557
Other Advances	5,230,527	4,170,694	5,773,990	5,229,093
	<b>27,259,846</b>	<b>22,380,783</b>	<b>27,803,309</b>	<b>23,439,181</b>
Less:				
Loan Loss Provision	(992,288)	(680,531)	(992,288)	(680,531)
Interest-in-Suspense	(432,932)	(340,239)	(432,932)	(340,239)
	<b>25,834,626</b>	<b>21,360,013</b>	<b>26,378,089</b>	<b>22,418,411</b>
<b>7.3 Lease Rentals Receivable</b>				
Cost of Leased Assets	25,959,567	21,025,152	25,959,831	21,027,975
Unearned Lease Income	12,090,334	9,364,461	12,090,334	9,364,460
Total Rentals Receivable	38,049,901	30,389,613	38,050,165	30,392,435
Lease Rentals Received	(25,682,010)	(20,630,269)	(25,682,010)	(20,630,269)
Lease Rentals Receivable (7.3.1)	<b>12,367,891</b>	<b>9,759,344</b>	<b>12,368,155</b>	<b>9,762,166</b>
<b>7.3.1 Lease Rentals Receivable within one year</b>				
Total Lease Rentals Receivable	12,367,891	9,759,344	12,368,155	9,762,166
Lease Rentals Receivable after one year				
from Balance Sheet Date (7.3.2)	(7,612,637)	(6,279,514)	(7,612,637)	(6,279,514)
Lease Rentals Receivable within				
one year from Balance Sheet Date	4,755,254	3,479,830	4,755,518	3,482,652
Unearned Lease Income	(1,730,220)	(1,253,118)	(1,730,220)	(1,253,118)
Overdue Lease Rentals	435,590	244,835	435,590	244,835
Terminated Leases	50,497	38,405	50,497	38,405
Accrued Income on				
Non-Performing Leases	(56,624)	(26,633)	(56,624)	(26,633)
Provision for Bad and Doubtful Leases	(80,278)	(48,388)	(80,278)	(48,388)
	<b>3,374,219</b>	<b>2,434,931</b>	<b>3,374,483</b>	<b>2,437,753</b>

## Notes to the Financial Statements

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>7.3.2 Lease Rentals Receivable after one year</b>				
Lease Rentals Receivable after one year from Balance Sheet Date	7,612,637	6,279,514	7,612,637	6,279,514
Unearned Lease Income	(1,722,516)	(1,373,037)	(1,722,516)	(1,373,037)
Provision for Bad and Doubtful Leases	(121,660)	(90,093)	(121,660)	(90,093)
	<b>5,768,461</b>	<b>4,816,384</b>	<b>5,768,461</b>	<b>4,816,384</b>

### 7.4 Corporate Debt Securities

Commercial Papers/Debentures	2,264,482	1,364,328	1,666,592	1,553,904
Fixed/Floating Rate Notes	1,513,156	1,586,730	1,523,437	1,759,837
Trust Certificates	149,935	337,574	806,337	952,000
	<b>3,927,573</b>	<b>3,288,632</b>	<b>3,996,366</b>	<b>4,265,741</b>

### 7.5 Non-Performing Loans and Advances

Overdrafts	263,315	255,243	263,315	255,243
Term Loans	1,025,901	434,844	1,025,901	434,844
Import Loans	53,668	50,787	53,668	50,787
Packing Credit Loans	57,240	73,012	57,240	73,012
Other Advances	377,487	215,363	377,487	215,363
Lease Rentals Receivable	660,794	437,255	660,794	437,255
	<b>2,438,405</b>	<b>1,466,504</b>	<b>2,438,405</b>	<b>1,466,504</b>

### 7.6 Movements in the Provision for Bad and Doubtful Debts and Suspended Interest

#### 7.6.1 Bank

	Provision Against Loans and Advances			Suspended Interest Rs. '000
	Specific Rs. '000	General Rs. '000	Total Rs. '000	
As at the beginning of the year	540,009	279,003	819,012	366,872
Provision made during the year (Net of Interest Suspended, Suspended Interest Recovered and Provision Written Off)	339,804	34,584	374,388	122,685
Translation Difference in Foreign Currency Conversion	6	821	827	-
As at the end of the year	<b>879,819</b>	<b>314,408</b>	<b>1,194,227</b>	<b>489,557</b>

#### 7.6.2 Group

As at the beginning of the year	540,009	279,003	819,012	366,872
Provision made during the year (Net of Interest Suspended, Suspended Interest Recovered and Provision Written Off)	339,804	34,584	374,388	122,685
Translation Difference in Foreign Currency Conversion	6	821	827	-
As at the end of the year	<b>879,819</b>	<b>314,408</b>	<b>1,194,227</b>	<b>489,557</b>

## Notes to the Financial Statements

### 7.7 Concentration of Credit Risk

Analysis of the Bank's Loans and Advances portfolio reflecting the exposure to credit risk in various sectors of the economy is detailed below:

Sector	2008		2007	
	Rs. '000	%	Rs. '000	%
Food, Beverages and Tobacco	816,830	2	561,750	2
Textile and Wearing Apparel	910,098	2	723,410	2
Rubber and Leather Products	1,366,595	3	522,978	2
Metals, Chemicals and Engineering	400,417	1	829,767	2
Services	4,668,366	11	2,601,373	7
Tourism	591,144	1	609,805	2
Agro-Business and Fisheries	993,433	2	890,299	2
Industrial	2,172,440	5	2,979,310	8
Housing	3,291,625	8	2,420,274	7
Commercial Trading	8,737,544	20	9,943,378	28
Consumption - Leasing	4,578,837	10	1,948,836	5
- Others	15,450,967	35	11,959,188	33
	43,978,296	100	35,990,368	100

### 8. OTHER ASSETS

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Deposits and Prepayments	475,687	249,410	475,742	249,585
Amounts due from Related Parties	597,357	252,178	-	-
Other Receivables	1,245,557	799,755	1,301,893	959,745
	2,318,601	1,301,343	1,777,635	1,209,330

### 9. INVESTMENTS IN SUBSIDIARIES

#### Unquoted

Name of Company	Country of Incorporation	Holding %	2008		Holding %	2007	
			Cost Rs. '000	Directors' Valuation Rs. '000		Cost Rs. '000	Directors' Valuation Rs. '000
Waldock Mackenzie Limited	Sri Lanka	100	-	288,384	100	-	206,629
<b>Acquired on Merger of Operations</b>							
Allied Properties Limited	Sri Lanka	100	652,907	652,907	100	652,907	652,907
Nations Insurance Brokers Limited (formerly MLL Insurance Brokers Limited)	Sri Lanka	100	25,803	25,803	100	25,803	25,803
Mercantile Leasing (Financial Services) Limited	Sri Lanka	100	3,496	-	100	3,496	-
Provision for Diminution in Value			(3,496)			(3,496)	
Net Carrying Amount			678,710	967,094		678,710	885,339

## Notes to the Financial Statements

### 10. PROPERTY, PLANT & EQUIPMENT

#### 10.1 Bank

	Balance as at 01.01.2008 Rs. '000	Transfers during the year Rs. '000	Additions during the year Rs. '000	Disposals during the year Rs. '000	Balance as at 31.12.2008 Rs. '000
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#### 10.1.1 Gross Carrying Amounts

##### At Cost

Land and Buildings	37,464	–	616,940	–	654,404
Motor Vehicles	86,381	–	–	(22,385)	63,996
Office and Electrical Equipment	178,767	(656)	74,156	(763)	251,504
Computer Software and Equipment	720,040	–	389,610	(2,648)	1,107,002
Furniture and Fittings	132,285	2,119	70,493	(3,216)	201,681
Leasehold Improvements	90,430	(1,463)	42,673	(10,561)	121,079
<b>Total Gross Carrying Amount</b>	<b>1,245,367</b>	<b>–</b>	<b>1,193,872</b>	<b>(39,573)</b>	<b>2,399,666</b>

	Balance as at 01.01.2008 Rs. '000	Transfers during the year Rs. '000	Charge for the year Rs. '000	Disposals during the year Rs. '000	Balance as at 31.12.2008 Rs. '000
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#### 10.1.2 Depreciation

##### At Cost

Land and Buildings	8,659	–	4,268	–	12,927
Motor Vehicles	37,826	–	15,775	(15,124)	38,477
Office and Electrical Equipment	116,485	(560)	24,319	(577)	139,667
Computer Software and Equipment	461,974	–	122,485	(2,604)	581,855
Furniture and Fittings	66,095	1,723	16,021	(2,013)	81,826
Leasehold Improvements	71,651	(1,163)	9,015	(9,988)	69,515
<b>Total Depreciation</b>	<b>762,690</b>	<b>–</b>	<b>191,883</b>	<b>(30,306)</b>	<b>924,267</b>

#### 10.1.3 Net Book Value

Land and Buildings	28,805				641,477
Motor Vehicles	48,555				25,519
Office and Electrical Equipment	62,282				111,837
Computer Software and Equipment	258,066				525,147
Furniture and Fittings	66,190				119,855
Leasehold Improvements	18,779				51,564
<b>Total Net Book Value</b>	<b>482,677</b>				<b>1,475,399</b>

10.1.4 During the financial year, the Bank acquired Property, Plant & Equipment to the aggregate value of Rs. 1,193.9 mn (2007 - Rs. 156.3 mn). Cash payments amounting to Rs. 1,193.8 mn (2007 - Rs. 156.3 mn) were made during the year for purchase of Property, Plant & Equipment.

10.1.5 Property, Plant & Equipment include fully depreciated assets having a gross carrying amount of Rs. 582.7 mn (2007 - Rs. 427.8 mn).

## Notes to the Financial Statements

### 10.2 Group

	Balance as at 01.01.2008 Rs. '000	Transfers during the year Rs. '000	Additions during the year Rs. '000	Disposals during the year Rs. '000	Balance as at 31.12.2008 Rs. '000
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#### 10.2.1 Gross Carrying Amounts

##### At Cost/Valuation

Land and Buildings	624,709	–	617,025	–	1,241,734
Motor Vehicles	142,512	(1,442)	–	(59,711)	81,359
Office and Electrical Equipment	182,933	786	75,560	(763)	258,516
Computer Software and Equipment	723,610	–	389,610	(2,648)	1,110,572
Furniture and Fittings	132,516	2,119	70,493	(3,216)	201,912
Leasehold Improvements	90,430	(1,463)	42,673	(10,561)	121,079
<b>Total Gross Carrying Amount</b>	<b>1,896,710</b>	<b>–</b>	<b>1,195,361</b>	<b>(76,899)</b>	<b>3,015,172</b>

	Balance as at 01.01.2008 Rs. '000	Transfers during the year Rs. '000	Charge for the year Rs. '000	Disposals during the year Rs. '000	Balance as at 31.12.2008 Rs. '000
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#### 10.2.2 Depreciation

##### At Cost/Valuation

Land and Buildings	30,609	–	15,250	–	45,859
Motor Vehicles	77,949	(1,417)	23,041	(46,180)	53,393
Office and Electrical Equipment	119,208	857	24,819	(577)	144,307
Computer Software and Equipment	465,540	–	122,485	(2,604)	585,421
Furniture and Fittings	66,327	1,723	16,021	(2,015)	82,056
Leasehold Improvements	71,651	(1,163)	9,015	(9,988)	69,515
<b>Total Depreciation</b>	<b>831,284</b>	<b>–</b>	<b>210,631</b>	<b>(61,364)</b>	<b>980,551</b>

#### 10.2.3 Net Book Value

Land and Buildings	594,100				1,195,875
Motor Vehicles	64,563				27,966
Office and Electrical Equipment	63,725				114,209
Computer Software and Equipment	258,070				525,151
Furniture and Fittings	66,189				119,856
Leasehold Improvements	18,779				51,564
<b>Total Net Book Value</b>	<b>1,065,426</b>				<b>2,034,621</b>

10.2.4 During the financial year, the Group acquired Property, Plant & Equipment to the aggregate value of Rs. 1,195.3 mn (2007 - Rs. 158 mn). Cash payments amounting to Rs. 1,195.3 mn (2007 - Rs. 158.1 mn) were made during the year for purchase of Property, Plant & Equipment.

10.2.5 Property, Plant & Equipment include fully depreciated assets having a gross carrying amount of Rs. 607.9 mn (2007 - Rs. 455.9 mn).

10.2.6 The land and building of Allied Properties Limited were revalued in October 2005 by Mr. P.B. Kalugalagedara, an independent chartered valuer. The results of such revaluation was incorporated in the Financial Statements from its effective date, which is 1st January 2006. The surplus arising from the revaluation was transferred to a Revaluation Reserve. Depreciation based on the last valuation was made commencing from 1st January 2006.

## Notes to the Financial Statements

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation is as follows:

Class of Asset	Cost Rs. '000	Cumulative Depreciation if assets were carried at Cost Rs. '000	Net carrying amount 2008 Rs. '000	Net carrying amount 2007 Rs. '000
Buildings	270,789	65,960	204,829	211,598

### 11. GOODWILL

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Balance as at the beginning of the year	372,053	372,053	451,314	451,314
Provision made to be compliant with the Banking Act (11.2)	(372,053)	(372,053)	(372,053)	(372,053)
Balance as at the end of the year	-	-	79,261	79,261

11.1 Goodwill acquired through business combinations have been allocated to three individual cash-generating units, for impairment testing as follows:

Bank : Leasing and Factoring

Group : Investment Banking

Insurance Broking

The recoverable amounts of the above units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management, covering a five year period. Cash flows beyond the five-year period are extrapolated using a zero growth rate.

11.2 A full provision was made in the books of the Bank in April 2007 against equity for the goodwill of Rs. 372.053 mn that arose from the merger of former Mercantile Leasing Limited with the Bank in order to be compliant with the provisions contained in Section 22 of the Banking Act, before the payment of the dividend for the year ended 31st December 2006.

### 12. DEPOSITS

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>12.1 Analysis of Deposits</b>				
Demand Deposits	3,844,770	3,356,315	3,844,744	3,356,315
Savings Deposits	5,838,663	3,902,707	5,838,663	3,902,707
Call Deposits	1,400,036	2,555,939	1,400,036	2,555,939
Fixed Deposits	21,671,833	18,130,177	21,671,833	18,130,177
Certificates of Deposit	1,391,198	720,619	1,391,198	720,619
	<b>34,146,500</b>	<b>28,665,757</b>	<b>34,146,474</b>	<b>28,665,757</b>

#### 12.2 Sources of Deposits

Deposits from Banks	92	41,041	92	41,041
Deposits from Other Financial Institutions	739,749	608,926	739,749	608,926
Deposits from Other Customers	33,406,659	28,015,790	33,406,633	28,015,790
	<b>34,146,500</b>	<b>28,665,757</b>	<b>34,146,474</b>	<b>28,665,757</b>

## Notes to the Financial Statements

### 13. BORROWINGS

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
<b>13.1 Borrowings</b>				
Money Market Borrowings	5,048,857	2,727,952	5,048,857	2,727,952
Borrowings under Repurchase Agreements - Treasury Bills, Treasury Bonds and Corporate Paper	10,316,405	6,603,900	13,155,004	11,337,173
Commercial Paper	-	-	5,731	819,062
Trust Certificates	1,766,331	1,847,609	1,766,331	1,847,609
Refinance Borrowings	578,588	561,693	578,588	561,693
Other Borrowings	1,899,975	726,900	1,899,975	783,524
	<b>19,610,156</b>	<b>12,468,054</b>	<b>22,454,486</b>	<b>18,077,013</b>
<b>13.2 Borrowings - Maturity Analysis</b>				
Repayments due within one year	16,834,140	11,465,329	19,175,830	16,369,766
Repayments due between 1 to 5 years	2,776,016	1,002,725	3,278,656	1,707,247
	<b>19,610,156</b>	<b>12,468,054</b>	<b>22,454,486</b>	<b>18,077,013</b>

### 14. OTHER LIABILITIES

Accrued Expenditure	1,829,542	1,406,395	1,809,937	1,429,066
Margin Balances	163,287	198,203	163,287	198,203
Pay Orders	256,714	251,389	256,714	251,389
Tax Payable	79,787	103,425	102,838	147,815
Others	1,106,891	1,360,129	939,430	1,280,545
	<b>3,436,221</b>	<b>3,319,541</b>	<b>3,272,206</b>	<b>3,307,018</b>

### 15. DEFERRED LIABILITIES

Retirement Benefits Obligation - Gratuity	112,771	81,587	117,030	85,026
Deferred Taxation (15.1)	188,329	114,148	188,329	116,648
	<b>301,100</b>	<b>195,735</b>	<b>305,359</b>	<b>201,674</b>

#### 15.1 Deferred Taxation

Balance as at the beginning of the year	114,148	120,224	116,648	138,581
Charge/(Reversal) during the year	74,181	(6,076)	71,681	(21,933)
Balance as at the end of the year	<b>188,329</b>	<b>114,148</b>	<b>188,329</b>	<b>116,648</b>

#### 15.2 Net Deferred Tax Liability

	2008 Rs. '000	2007 Rs. '000
<b>Deferred Tax Liability</b>		
Accelerated Depreciation Allowances for Tax Purposes (Lease Rentals Receivable)	(240,552)	(165,127)
Accelerated Depreciation Allowances for Tax Purposes (Property, Plant & Equipment)	(78,698)	(69,028)
	<b>(319,250)</b>	<b>(234,155)</b>

## Notes to the Financial Statements

	2008 Rs. '000	2007 Rs. '000
<b>Deferred Tax Asset</b>		
General Provision for Loans, Advances and Lease Receivables	91,451	91,451
Defined Benefit Plan Liability	39,470	28,556
	<b>130,921</b>	<b>120,007</b>
<b>Bank</b>		
Net Deferred Tax Liability	<b>(188,329)</b>	<b>(114,148)</b>
Undistributed Profits of a Subsidiary Company	–	(2,500)
<b>Group</b>		
Net Deferred Tax Liability	<b>(188,329)</b>	<b>(116,648)</b>

15.3 The Group has a Tax Loss which arose in Mercantile Leasing (Financial Services) Limited that is available indefinitely for offset against future taxable profit of the Company subject to the limit of 35% of taxable profit in one year of assessment. A deferred tax asset has not been recognised in respect of this tax loss as it is anticipated that the deferred tax asset will not realise in the foreseeable future.

### 16. DEBENTURES

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
Balance as at the beginning of the year	500,000	560,000	500,000	560,000
Issued during the year	1,000,000	–	1,000,000	–
Redemptions during the year	–	(60,000)	–	(60,000)
Balance as at the end of the year	<b>1,500,000</b>	<b>500,000</b>	<b>1,500,000</b>	<b>500,000</b>

In 2006, the Bank issued unsecured redeemable debentures that were fully subscribed by DFCC Bank PLC, that also arranged the issue. The tenor of the debentures ranges from 1 to 6 years with redemptions in the years of 2007, 2010, 2011 and 2012. The debentures are secured by a negative pledge over specified lease agreements of motor vehicles.

In 2008, the Bank issued a further Rs. 1.000 bn worth unsecured subordinated redeemable debentures that will mature in 2013.

### 17. SUBORDINATED LOAN

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
Balance as at the beginning of the year	673,250	673,250	673,250	673,250
Balance as at the end of the year	<b>673,250</b>	<b>673,250</b>	<b>673,250</b>	<b>673,250</b>

The above represents 100% of the Sri Lanka Rupee designated subordinated housing loan credit facility obtained from Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO).

This loan is repayable in 10 equal semi-annual instalments commencing from 1st October 2009.

## Notes to the Financial Statements

### 18. STATED CAPITAL

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
Balance as at 1st January - 125,786,004 ordinary shares (125,786,004 shares in 2007)	2,061,554	2,061,554	2,061,554	2,061,554
Rights issue of shares in February 2008 on the basis of 1 for every 3 held - 41,928,668 ordinary shares	1,048,217	–	1,048,217	–
Balance as at 31st December - 167,714,672 ordinary shares (125,786,004 shares in 2007)	3,109,771	2,061,554	3,109,771	2,061,554

### 19. RESERVE FUND

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
As at the beginning of the year	56,679	28,995	56,679	28,995
Transferred during the year	23,830	27,684	23,830	27,684
As at the end of the year	80,509	56,679	80,509	56,679

Five per centum of profits after tax is transferred to the Reserve Fund as required by Section 20 (1) of the Banking Act No. 30 of 1988. This Reserve Fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No. 30 of 1988.

### 20. RESERVES

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
<b>20.1 Revenue Reserves</b>				
As at the beginning of the year	460,615	432,459	740,958	771,163
Profit for the Year	476,608	553,679	593,119	504,818
Dividend Paid	(167,715)	(125,786)	(167,715)	(125,786)
Provision made for Goodwill to be Compliant with the Banking Act	–	(372,053)	–	(372,053)
Transfers to Reserve Fund during the year (Note 19)	(23,830)	(27,684)	(23,830)	(27,684)
Capitalisation of Reserves on the Issue of Bonus Shares by a Subsidiary	–	–	–	(9,500)
As at the end of the year	745,678	460,615	1,142,532	740,958
<b>20.2 Capital Reserves</b>				
Capitalisation of Reserves on the Issue of Bonus Shares by a Subsidiary	–	–	9,500	9,500
Total Reserves	745,678	460,615	1,152,032	750,458

# Notes to the Financial Statements

## 21. COMMITMENTS AND CONTINGENCIES

### 21.1 Contingencies

In the normal course of business, the Bank makes various commitments and incurs contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Acceptances	2,485,340	744,546	2,485,340	744,546
Documentary Credits	1,135,259	1,797,792	1,135,259	1,797,792
Guarantees	243,389	403,580	243,389	403,580
Bonds and Warranties	3,993,652	2,218,936	3,993,652	2,218,936
Bills Sent on Collection	2,739,393	1,496,444	2,739,393	1,496,444
Forward Exchange Contracts (Net)	(1,362)	4,813	(1,362)	4,813
Undrawn Facilities	15,132,384	11,472,350	15,132,384	11,472,350
	<b>25,728,055</b>	<b>18,138,461</b>	<b>25,728,055</b>	<b>18,138,461</b>

- 21.2 During the year 2008, the Bank has entered into Interest Rate Swap Agreements amounting to a total notional value of Rs. 2,448.750 mn which mature in years 2011 and 2012. The details relating to Interest Rate Swap Agreements entered into prior to 2008 are given below:

Year of the Agreement	Notional Value (Rs. mn)	Year of Maturity
2005	250.000	2009
2007	700.000	2010 and 2011

In addition, during the year the Bank has entered into Overnight Indexed Swap Agreements amounting to a total notional value of Rs. 500 mn which mature in 2009.

- 21.3 The Bank has entered into several Currency Swaps totalling to Rs. 13,337.728 mn (2007 - Rs. 7,317.039 mn) as at the Balance Sheet date.
- 21.4 The Bank and the Group have entered into several forward contracts, to sell Government Securities of which face values amount to Rs. 50 mn and Rs. 850 mn respectively as at the Balance Sheet date (2007 - Nil).

### 21.5 Capital Commitments

Capital expenditure approved by the Board of Directors, for which no provision has been made in these Financial Statements as at 31st December is as follows:

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Approved and Contracted for	<b>306,655</b>	<b>790,810</b>	<b>306,655</b>	<b>790,810</b>

### 21.6 Material Litigation against the Bank

- (i) An appeal has been made against the injunction issued against the Bank in a Court action initiated in India by a customer seeking to restrain the Bank from invoking a letter of credit, where the Bill value paid by the Bank is US\$ 32,000. A connected case is pending where an amount of Indian Rupees 1,510,000/- is claimed against the Bank by the same customer. Both cases are still pending.

Based on the information available and on expert advice, the Directors are confident that the ultimate resolution of the above contingency is unlikely to have a material adverse effect on the financial position of the Bank.

## Notes to the Financial Statements

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>22. GROSS INCOME</b>				
Interest Income	10,304,526	6,950,949	12,094,171	8,010,729
Fees and Commission Income	302,153	279,509	338,249	307,019
Foreign Exchange Income	495,546	329,244	495,546	329,245
Other Operating Income	863,223	818,833	949,483	694,919
	<b>11,965,448</b>	<b>8,378,535</b>	<b>13,877,449</b>	<b>9,341,912</b>
<b>23. INTEREST INCOME</b>				
Customer Advances	7,255,916	4,954,801	7,455,364	5,252,282
Treasury Bills and Bonds	1,724,655	911,992	2,983,084	1,564,964
Deposits with Other Banks	424,173	238,107	424,173	238,107
Corporate Debt Securities	607,619	585,011	1,037,298	697,825
Other Interest Income	292,163	261,038	194,252	257,551
	<b>10,304,526</b>	<b>6,950,949</b>	<b>12,094,171</b>	<b>8,010,729</b>
<b>24. INTEREST EXPENSE</b>				
Customer Deposits	3,379,004	2,448,552	3,379,004	2,448,552
Borrowings	2,329,281	1,328,343	2,404,033	1,508,199
Treasury Bills, Bonds and Corporate Papers Repurchased	1,862,146	1,287,813	3,401,885	1,943,528
	<b>7,570,431</b>	<b>5,064,708</b>	<b>9,184,922</b>	<b>5,900,279</b>
<b>25. OTHER OPERATING INCOME</b>				
Gain/(Loss) on Sale of Government and Corporate Debt Securities	(9,800)	3,900	48,888	19,024
Fees and Other Income	873,023	814,933	900,595	675,895
	<b>863,223</b>	<b>818,833</b>	<b>949,483</b>	<b>694,919</b>
<b>26. PROFIT BEFORE TAXATION</b>				
Stated after charging/(crediting) the following among others:				
<b>Included in Personnel Cost</b>				
Defined Contribution Plan Cost - EPF and ETF	97,887	58,495	99,637	59,027
<b>Included in Provision for Staff Retirement Benefits</b>				
Defined Benefit Plan Cost - Gratuity	36,949	33,001	37,770	34,134
<b>Included in Premises, Equipment and Establishment Cost</b>				
Depreciation	191,883	174,690	210,631	204,300
Legal Fees	15,671	12,108	15,671	12,114
Business Promotion and Advertising	229,489	131,976	229,663	131,976
Transport Cost	99,563	81,441	101,293	83,820
(Profit)/Loss on Disposal of Property, Plant & Equipment	(425)	(9,151)	(2,752)	(11,101)

## Notes to the Financial Statements

### 27. TAXATION

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Income Tax on Profit for the year (27.1)	276,532	257,205	363,707	364,509
Charge/(Reversal) of Deferred Tax (15.1)	74,181	(6,076)	71,681	(21,933)
	<b>350,713</b>	<b>251,129</b>	<b>435,388</b>	<b>342,576</b>

#### 27.1 Reconciliation of Accounting Profit and Taxable Income

Accounting Profit (Profit before Taxation)	827,321	804,808	1,028,507	847,394
Add: Disallowable Expenses	2,697,546	2,315,303	2,796,274	2,386,555
	<b>3,524,867</b>	<b>3,120,111</b>	<b>3,824,781</b>	<b>3,233,949</b>
Less: Allowable Expenses	2,543,387	2,062,082	2,547,944	2,053,298
Less: Exempt Income	203,064	330,433	239,518	330,433
<b>Statutory Income</b>	<b>778,416</b>	<b>727,596</b>	<b>1,037,319</b>	<b>850,218</b>
Less: Tax losses brought forward and utilised	-	-	(1,681)	(8,875)
<b>Taxable Income</b>	<b>778,416</b>	<b>727,596</b>	<b>1,035,638</b>	<b>841,343</b>

Income Tax expense for the year is made up:

Current Income Tax Expense (Including SRL at 1.5% for 2008 and 1% for 2007)	276,532	257,205	363,707	364,509
Charge/(Reversal) of Deferred Tax	74,181	(6,076)	71,681	(21,933)
	<b>350,713</b>	<b>251,129</b>	<b>435,388</b>	<b>342,576</b>
Effective Income Tax Rate	<b>42.39%</b>	<b>31.20%</b>	<b>42.33%</b>	<b>40.43%</b>

Effective Tax rate of the Bank in 2007 is comparatively lower due to dividends received from two of the subsidiaries of the Group.

The Group Tax expense is based on the taxable profit of each Group Company, since at present the tax laws do not provide for Group taxation.

### 28. EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

	Group	
	2008	2007
<b>Amount Used as the Numerator:</b>		
Profit Attributable to Ordinary Shareholders (Rs.)	593,118,956	504,818,369
<b>Number of Ordinary Shares Used as the Denominator:</b>		
Ordinary Shares at the beginning of the year	125,786,004	125,786,004
Weighted Average of the Shares issued during the year	35,832,857	-
Bonus Share Element in the Rights Issue	-	3,462,000
<b>Weighted Average Number of Ordinary Shares in issue</b>	<b>161,618,861</b>	<b>129,248,004</b>
<b>Earnings Per Ordinary Share (Rs.)</b>	<b>3.67</b>	<b>3.91</b>

# Notes to the Financial Statements

## 29. DIVIDENDS PROPOSED

A first and final dividend of Rs. 1.50 per share has been proposed by the Board of Directors for the year 2008 to be approved at the Annual General Meeting. However, no provision is made for this proposed dividend in these Financial Statements in accordance with SLAS 12. A dividend of Rs. 1.00 was paid in April 2008 for the year ended 31st December 2007.

## 30. SEGMENTAL INFORMATION

In Rs. '000	Banking		Investment Banking		Others		Elimination/Allocated		Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>Total Revenue</b>	<b>11,965,448</b>	<b>8,378,535</b>	<b>3,013,586</b>	<b>2,112,583</b>	<b>90,859</b>	<b>95,862</b>	<b>(1,192,445)</b>	<b>(1,245,069)</b>	<b>13,877,449</b>	<b>9,341,912</b>
<b>Segment Results</b>										
Profit before Taxation	827,321	804,808	186,987	179,163	39,578	30,928	(25,379)	(167,505)	1,028,507	847,394
Taxation	(350,713)	(251,129)	(70,232)	(76,107)	(14,443)	(15,340)	-	-	(435,388)	(342,576)
Profit for the year	476,608	553,679	116,755	103,056	25,135	15,588	(25,379)	(167,505)	593,119	504,818
<b>Segment Assets</b>										
Goodwill	-	-	-	-	-	-	79,261	79,261	79,261	79,261
Total Assets	64,642,051	49,794,905	13,388,949	12,459,588	744,164	733,709	(11,121,472)	(7,379,887)	67,653,692	55,608,316
<b>Segment Liabilities</b>										
Deferred Tax Liabilities	188,329	114,148	-	-	-	-	-	2,500	188,329	116,648
Total Liabilities	60,706,093	47,216,057	13,100,565	12,252,960	58,008	65,688	(10,474,025)	(6,718,319)	63,390,641	52,818,886
<b>Others</b>										
Additions to Property,										
Plant & Equipment	1,193,872	156,286	-	-	1,490	1,781	-	-	1,195,362	158,068
Depreciation	191,883	174,690	11	192	18,737	29,418	-	-	210,631	204,300
<b>Non-Cash Expenses</b>										
Provision for Bad and										
Doubtful Debts	470,898	217,046	-	-	-	-	-	-	470,898	217,046
Provision for Gratuity	36,949	33,001	(348)	342	1,169	791	-	-	37,770	34,134

# Notes to the Financial Statements

## 31. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

### 31.1 Transactions with Related Parties

#### *Name of the Company and Relationship*

	Significant Investors*		Subsidiaries**	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Balance Sheet</b>				
<b>Assets</b>				
Loans and Advances	50,014	117	5,962	34,344
Corporate Credit Cards	135	131	–	–
Investments in Corporate Debts and Government Securities	–	100,000	8,780,484	6,438,422
Other Assets	–	–	597,357	252,178
<b>Liabilities</b>				
Deposits	2,924,572	1,326,432	5,759	865
Borrowings	3,346,006	453,028	2,314,063	2,347,285
Other Liabilities	–	–	135,479	120,488
<b>Equity</b>				
Dividends Paid	75,607	56,490	–	–
Issue of Bonus Shares	–	–	–	9,500
<b>Off Balance Sheet</b>				
Undrawn Facilities	202,905	2,868	–	–
Guarantees/Collateral given	27,727	5,399	–	50
<b>Income Statement</b>				
Interest Income	27,751	48,040	907,487	576,402
Interest Paid	537,247	421,500	251,555	488,534
Other Income	302	152	6,146	5,395
Dividends Received (net)	–	–	37,800	186,000
Expenses Paid	14,642	21,362	13,060	9,351
Provisions for Investment and against Receivables	–	–	12,421	18,496

\* Significant Investors include John Keells Holdings PLC, Mackinnon & Keells Financial Services Limited, Central Finance Company PLC, CF Growth Fund Limited and CF Insurance Brokers Limited.

\*\* Subsidiaries of the Group include Waldock Mackenzie Limited, Allied Properties Limited, Nations Insurance Brokers Limited and Mercantile Leasing (Financial Services) Limited.

## Notes to the Financial Statements

### 31.2 Transactions with Key Management Personnel

Key Management Personnel (KMP) include the Board of Directors of the Bank, Chief Executive Officer of the Bank, Key Employees of the Bank including Directors in subsidiary companies and corporate management of the Bank.

#### (a) Compensation to Key Management Personnel

	2008 Rs. '000	2007 Rs. '000
Emoluments/Fees	124,523	97,697
Post Employment Benefits	4,973	3,845
	<b>129,496</b>	<b>101,542</b>

#### (b) Transactions, Arrangements and Agreements involving Key Management Personnel

	Key Management Personnel and their Close Family Members (CFM)		Entities in which KMPs and their CFMs have control, joint control or significant influence	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Balance Sheet</b>				
<b>Assets</b>				
Loans and Advances	56,096	48,705	3,698	448
Credit Cards	4,070	3,465	-	-
Investments in Government Securities	507	5,153	-	-
<b>Liabilities</b>				
Deposits	62,063	55,347	21,144	23,778
Borrowings	23,629	20,311	-	-
<b>Equity</b>				
Dividends Paid (net)	3,379	1,406	-	-
<b>Off Balance Sheet</b>				
Undrawn Facilities	13,422	20,636	8,602	-
Guarantees/Collateral given	-	-	3,473	1,552
<b>Income Statement</b>				
Interest Income	4,709	2,383	545	483
Interest Paid	7,045	6,215	2,946	2,059
Other Income	39	14	377	357
Expenses Paid	-	-	2,518	1,743

During the year 2008, Key Management Personnel (KMP) and their Close Family Members (CFM) have bought 2,222,743 shares. During the year 2008, KMPs and their CFMs have sold 26,000 shares of the Bank.

## Notes to the Financial Statements

### 31.3 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 for the year ended 31st December 2008 has contributed a sum of Rs. 79.584 mn to the Fund (2007 - Rs. 49.028 mn).

As at 31st December 2008, the Fund has invested a sum of Rs. 372.067 mn with the Bank (2007 - Rs. 211.190 mn).

## 32. MATURITY ANALYSIS

### 32.1 Bank

(In Rs. '000)	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	2008 Total	2007 Total
<b>Assets</b>							
<b>Interest Earning Assets</b>							
Money at Call and Short Notice	2,276,869	-	-	-	-	2,276,869	1,095,398
Government Treasury Bills and Bonds	7,957,955	527,122	2,794,337	-	-	11,279,414	7,368,493
Corporate Debt Securities	2,292,465	1,387,444	68,664	-	179,000	3,927,573	3,288,632
Bills of Exchange	422,986	-	-	-	-	422,986	561,609
Loans & Advances	13,740,161	1,896,821	2,987,698	4,218,182	2,991,764	25,834,626	21,360,013
Investments	294,102	1,093,050	1,141,090	1,250,000	2,715	3,780,957	2,392,434
Lease Rentals Receivable	855,849	2,469,971	4,762,476	1,053,510	874	9,142,680	7,251,315
	27,840,387	7,374,408	11,754,265	6,521,692	3,174,353	56,665,105	43,317,894
<b>Non-Interest Earning Assets</b>							
Cash and Short-term Funds	1,787,523	-	-	-	-	1,787,523	2,050,249
Statutory Deposit with the Central Bank of Sri Lanka	1,716,713	-	-	-	-	1,716,713	1,964,032
Other Assets	2,080,027	112,251	57,810	11,046	57,467	2,318,601	1,301,343
Property, Plant & Equipment	-	-	-	-	1,475,399	1,475,399	482,677
Investments in Subsidiaries	-	-	-	-	678,710	678,710	678,710
	5,584,263	112,251	57,810	11,046	2,211,576	7,976,949	6,477,011
<b>Total Assets</b>	<b>33,424,650</b>	<b>7,486,659</b>	<b>11,812,075</b>	<b>6,532,738</b>	<b>5,385,929</b>	<b>64,642,051</b>	<b>49,794,905</b>
<b>Liabilities</b>							
<b>Interest Bearing Liabilities</b>							
Deposits	18,332,769	7,989,172	3,231,202	731,702	16,885	30,301,730	25,309,442
Borrowings	8,848,331	7,985,809	1,807,171	968,845	-	19,610,156	12,468,054
Subordinated Loan	-	67,325	269,300	269,300	67,325	673,250	673,250
Debentures	-	-	330,000	1,170,000	-	1,500,000	500,000
	27,181,100	16,042,306	5,637,673	3,139,847	84,210	52,085,136	38,950,746
<b>Non-Interest Bearing Liabilities</b>							
Demand Deposits	961,192	961,193	1,922,385	-	-	3,844,770	3,356,315
Due to Banks	1,038,866	-	-	-	-	1,038,866	1,393,720
Deferred Liabilities	-	-	-	56,385	244,715	301,100	195,735
Other Liabilities	3,436,221	-	-	-	-	3,436,221	3,319,541
Stated Capital	-	-	-	-	3,109,771	3,109,771	2,061,554
Reserves	-	-	-	-	826,187	826,187	517,294
	5,436,279	961,193	1,922,385	56,385	4,180,673	12,556,915	10,844,159
<b>Total Liabilities and Shareholders' Funds</b>	<b>32,617,379</b>	<b>17,003,499</b>	<b>7,560,058</b>	<b>3,196,232</b>	<b>4,264,883</b>	<b>64,642,051</b>	<b>49,794,905</b>

## Notes to the Financial Statements

### 32.2 Group

(In Rs. '000)	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	2008 Total	2007 Total
<b>Assets</b>							
<b>Interest Earning Assets</b>							
Money at Call and Short Notice	2,276,869	–	–	–	–	2,276,869	1,095,398
Government Treasury Bills and Bonds	5,319,911	4,284,264	3,613,575	1,121,082	–	14,338,832	11,330,683
Corporate Debt Securities	1,989,171	1,489,208	338,987	–	179,000	3,996,366	4,265,741
Bills of Exchange	422,986	–	–	–	–	422,986	561,609
Loans and Advances	14,029,203	1,936,723	3,050,547	4,306,917	3,054,699	26,378,089	22,418,411
Investments	294,102	1,093,050	1,141,090	1,250,000	2,715	3,780,957	2,392,434
Lease Rentals Receivable	855,874	2,470,043	4,762,613	1,053,541	873	9,142,944	7,254,137
	25,188,116	11,273,288	12,906,812	7,731,540	3,237,287	60,337,043	49,318,413
<b>Non-Interest Earning Assets</b>							
Cash and Short-term Funds	1,787,680	–	–	–	–	1,787,680	2,051,115
Statutory Deposit with the Central Bank of Sri Lanka	1,716,713	–	–	–	–	1,716,713	1,964,030
Other Assets	1,539,017	112,292	57,811	11,045	57,470	1,777,635	1,209,330
Property, Plant & Equipment	–	–	–	–	2,034,621	2,034,621	1,065,426
Goodwill	–	–	–	–	79,261	79,261	79,261
	5,043,410	112,292	57,811	11,045	2,171,352	7,395,910	6,369,164
<b>Total Assets</b>	<b>30,231,526</b>	<b>11,385,580</b>	<b>12,964,623</b>	<b>7,742,585</b>	<b>5,408,639</b>	<b>67,732,953</b>	<b>55,687,577</b>
<b>Liabilities</b>							
<b>Interest Bearing Liabilities</b>							
Deposits	18,332,769	7,989,172	3,231,202	731,702	16,885	30,301,730	25,309,442
Borrowings	11,630,873	7,544,957	1,908,844	1,369,812	–	22,454,486	18,077,013
Subordinated Loans	–	67,325	269,300	269,300	67,325	673,250	673,250
Debentures	–	–	330,000	1,170,000	–	1,500,000	500,000
	29,963,642	15,601,454	5,739,346	3,540,814	84,210	54,929,466	44,559,705
<b>Non-Interest Bearing Liabilities</b>							
Demand Deposits	961,186	961,186	1,922,372	–	–	3,844,744	3,356,315
Due to Banks	1,038,866	–	–	–	–	1,038,866	1,394,174
Deferred Liabilities	–	–	–	58,515	246,844	305,359	201,674
Other Liabilities	3,272,206	–	–	–	–	3,272,206	3,307,018
Stated Capital	–	–	–	–	3,109,771	3,109,771	2,061,554
Reserves	–	–	–	–	1,232,541	1,232,541	807,137
	5,272,258	961,186	1,922,372	58,515	4,589,156	12,803,487	11,127,872
<b>Total Liabilities and Shareholders' Funds</b>	<b>35,235,900</b>	<b>16,562,640</b>	<b>7,661,718</b>	<b>3,599,329</b>	<b>4,673,366</b>	<b>67,732,953</b>	<b>55,687,577</b>

### 33. POST-BALANCE SHEET EVENTS

No material events have taken place since 31st December 2008 that require disclosure or/and adjustments in these accounts, except for the following:

- 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. 1.50 per share for the year ended 31st December 2008.