

## 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 2009 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 2009 were authorised for issue in accordance with the resolution of the Board of Directors on 18th February 2010.

### 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, pawning, 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, and all values are rounded to the nearest thousand (Rs. 000) unless indicated otherwise.

The preparation and presentation of these Financial Statements is in compliance with the requirements of the Companies Act No. 07 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.

### 2.3 Changes in Accounting Policies

The Accounting Policies adopted are consistent with those used in the previous financial year.

### 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%.

#### Subsidiary - Waldock Mackenzie Limited

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

#### 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 2009, amounted to Rs. 43.38 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.

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.

**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 or premiums arising on acquisition. All other interest-bearing securities and investments in unquoted shares are stated at cost. Provision is made for diminution in value of these investments only if they are expected to be permanent.

**(d) Investments in Subsidiaries**

Investments in subsidiaries are stated at cost in the Bank's Financial Statements in accordance with Sri Lanka Accounting Standard 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.

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 as mandated by the Central Bank of Sri Lanka 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.

**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, Treasury 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.

**(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 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.

#### 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 Group 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 Group.

### 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.

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	11%
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 12% of gross emoluments of employees to an approved private Provident Fund managed by Nations Trust Bank PLC and 3% 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, Treasury 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 23 on Revenue Recognition and Disclosures in 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. Interest accrued until such advances being classified as non-performing is 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.

#### (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

In terms of the provisions of SLAS 23 on the Revenue Recognition and disclosures in the Financial Statements of Banks, the interest on deposits and borrowings and other expenses payable are recognised on an accrual basis in the Income Statement.

## 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 86 for the Statement of the Directors' Responsibility for Financial Reporting.

## 2.19 Effect of Sri Lanka Accounting Standard issued but not yet effective

The following standards have been issued by The Institute of Chartered Accountants of Sri Lanka and are effective for the accounting periods on the dates specified below.

*(a) Sri Lanka Accounting Standard 44 - Financial Instruments; Presentation (SLAS 44) and Sri Lanka Accounting Standard 45 Financial Instruments, Recognition & Measurement (SLAS 45)*

SLAS 44 and 45 become effective for financial years beginning on or after 1st January 2011. Accordingly, the Financial Statements for the year ending 31st December 2011 will adopt SLAS 44 and 45, for the first time.

These two standards together provide comprehensive guidance on identification, classification, measurement and presentation of financial instruments (including Derivatives) into financial assets, financial liabilities and equity instruments.

In order to comply with the requirements of these standards, the Bank is in the process of assessing the effect of adoption of the aforesaid two standards. Due to the complex nature of the effects of these standards the impact of adoption cannot be estimated as at the date of publication of these Financial Statements.

*(b) Sri Lanka Accounting Standard 39 - Share Based Payments (SLAS 39)*

SLAS 39 - Share Based Payments, effective for periods beginning on or after 1st January 2010 will be first adopted in the year ending 31st December 2010. This standard requires an expense to be recognised where the Bank buys goods or services in exchange for shares or rights over shares (equity-settled transactions), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (cash - settled transactions). For equity-settled, share-based payment, transactions, the Bank is required to apply SLAS 39 for grants of shares, share options or other equity instruments that were granted after 1st January 2010.

The Bank is in the process of evaluating the impact of this standard. However, it is unlikely that this standard will have a material impact on the Financial Statements.

**3. CASH AND SHORT-TERM FUNDS**

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Cash in Hand	865,510	613,391	865,518	613,424
Money at Call and Short Notice	97,569	2,276,869	97,569	2,276,869
Balances with Banks	462,003	1,174,132	468,122	1,174,256
	<b>1,425,082</b>	<b>4,064,392</b>	<b>1,431,209</b>	<b>4,064,549</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 2009, the minimum cash reserve requirement was 7% (2008 - 7.75%) of the unpaid local currency deposit liabilities of Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities in Domestic Banking Unit and the deposit liabilities in Foreign Currency Banking Unit.

**5. GOVERNMENT TREASURY BILLS AND BONDS**

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Government Treasury Bills and Bonds held for Trading	9,638,564	1,160,103	11,437,873	8,054,497
Government Treasury Bonds held to Maturity (Note 5.1)	6,777,434	2,754,862	7,868,335	3,828,152
	<b>16,415,998</b>	<b>3,914,965</b>	<b>19,306,208</b>	<b>11,882,649</b>

5.1 The market value of these Treasury Bonds held to maturity as at 31st December 2009 amounts to Rs. 6,949 mn (2008 - Rs. 2,648 mn) and in the Group - Rs. 8,040 mn (2008 - Rs. 3,510 mn).

**6. INVESTMENTS AND OTHER PLACEMENTS****6.1 Other Placements, Sri Lanka Development Bonds and Sri Lanka Sovereign Bonds**

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Other Placements US\$ 15 mn (2008 - 20 mn)	1,721,577	2,271,795	1,721,577	2,271,795
Sri Lanka Development Bonds US\$ 11 mn (2008 - US\$ 9.5 mn) (Note 6.1.1)	1,261,012	1,083,447	1,261,012	1,083,447
Sri Lanka Sovereign Bonds US\$ 8 mn (2008 - nil) (Note 6.1.2)	901,046	-	901,046	-
	<b>3,883,635</b>	<b>3,355,242</b>	<b>3,883,635</b>	<b>3,355,242</b>

6.1.1 The investment in Sri Lanka Development Bonds amounts to US\$ 11 mn (2008 - US\$ 9.5 mn) and matures in years 2010 and 2011.

6.1.2 The market value of Sri Lanka Sovereign Bonds amounts to Rs. 988 mn (2008 - nil).

## 6.2 Investment Securities

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Unquoted - Shares</b>				
Lanka Clear (Pvt) Limited				
150,000 Ordinary Shares of Rs. 10/- each	1,500	1,500	1,500	1,500
Credit Information Bureau				
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	1,125	1,125	1,125	1,125
<b>Unquoted Preference Shares (Rated)</b>				
Dialog Telekom PLC				
352.5 mn Cumulative Redeemable Preference Shares of Rs. 1/- each (2008 - 423 mn)	352,500	423,000	352,500	423,000
	<b>355,215</b>	<b>425,715</b>	<b>355,215</b>	<b>425,715</b>
	<b>4,238,850</b>	<b>3,780,957</b>	<b>4,238,850</b>	<b>3,780,957</b>

6.2.1 The Directors' valuation of unquoted Shares and Sri Lanka Development Bonds of the Bank and the Group amounts to Rs. 1,616 mn (2008 - Rs. 1,509 mn).

## 7. LOANS AND ADVANCES

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000

### 7.1 Bills of Exchange

Inland Bills	31,182	36,738	31,182	36,738
Export Bills	109,823	376,106	109,823	376,106
Import Bills	4,610	10,142	4,610	10,142
	<b>145,615</b>	<b>422,986</b>	<b>145,615</b>	<b>422,986</b>

### 7.2 Loans and Advances

Overdrafts	6,484,349	6,215,343	6,484,349	6,215,343
Term Loans	12,260,109	12,578,417	12,260,109	12,578,417
Staff Loans	1,100,102	881,023	1,100,102	881,023
Import Loans	612,321	2,007,704	612,321	2,007,704
Packing Credit Loans	478,929	346,832	478,929	346,832
Other Advances	5,710,802	5,603,888	5,842,974	5,773,990
	<b>26,646,612</b>	<b>27,633,207</b>	<b>26,778,784</b>	<b>27,803,309</b>
<b>Less:</b>				
Loan Loss Provision	(1,057,934)	(992,288)	(1,048,802)	(992,288)
Interest-in-Suspense	(575,864)	(432,932)	(575,864)	(432,932)
	<b>25,012,814</b>	<b>26,207,987</b>	<b>25,154,118</b>	<b>26,378,089</b>

**7.3 Lease Rentals Receivables**

	2009 Rs. '000	Bank 2008 Rs. '000	2009 Rs. '000	Group 2008 Rs. '000
--	------------------	--------------------------	------------------	---------------------------

**7.3.1 Lease Rentals Receivable within one Year**

Total Lease Rentals Receivable	10,424,290	12,367,891	10,424,351	12,368,155
Lease Rentals Receivable after one Year from Balance Sheet Date (Note 7.3.2)	(5,848,916)	(7,612,637)	(5,848,916)	(7,612,637)
Lease Rentals Receivable within one Year from Balance Sheet Date	4,575,374	4,755,254	4,575,435	4,755,518
Unearned Lease Income	(1,492,404)	(1,730,220)	(1,492,404)	(1,730,220)
Overdue Lease Rentals	534,088	435,590	534,088	435,590
Terminated Leases	122,989	44,561	122,989	44,561
Accrued Income on Non-Performing Leases	(78,946)	(56,624)	(78,946)	(56,624)
Provision for Bad and Doubtful Leases	(148,081)	(80,278)	(148,081)	(80,278)
	3,513,020	3,368,283	3,513,081	3,368,547

**7.3.2 Lease Rentals Receivable after one Year**

Lease Rentals Receivable after one Year from Balance Sheet Date	5,848,916	7,612,637	5,848,916	7,612,637
Unearned Lease Income	(1,186,623)	(1,722,516)	(1,186,623)	(1,722,516)
Provision for Bad and Doubtful Leases	(171,689)	(121,660)	(171,689)	(121,660)
	4,490,604	5,768,461	4,490,604	5,768,461

**7.4 Corporate Debt Securities**

Commercial Papers/Debentures	393,970	929,189	423,767	317,237
Fixed/Floating Rate Notes	761,396	1,513,156	761,395	1,523,437
Trust Certificates	746,590	149,935	847,108	806,337
	1,901,956	2,592,280	2,032,270	2,647,011

**7.5 Non-Performing Loans and Advances**

Overdrafts	621,589	263,315	621,589	263,315
Term Loans	1,622,452	1,025,901	1,622,452	1,025,901
Import Loans	106,760	53,668	106,760	53,668
Packing Credit Loans	57,326	57,240	57,326	57,240
Other Advances	238,162	377,487	238,162	377,487
Lease Rentals Receivable	1,116,049	660,794	1,116,049	660,794
	3,762,338	2,438,405	3,762,338	2,438,405

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

	Provision Against Loans and Advances			Suspended Interest Rs. '000
	Specific Rs. '000	General Rs. '000	Total Rs. '000	

**7.6.1 Bank**

As at the beginning of the Year	879,819	314,408	1,194,227	489,557
Provision/(Reversal) made during the Year (Net of Interest Suspended, Suspended Interest Recovered and Provision Written Off)	217,664	(34,483)	183,181	165,254
Translation Difference in Foreign Currency Conversion	91	205	296	-
As at the end of the Year	1,097,574	280,130	1,377,704	654,811

**7.6.2 Group**

As at the beginning of the Year	879,819	314,408	1,194,227	489,557
Provision/(Reversal) made during the Year (Net of Interest Suspended, Suspended Interest Recovered and Provision Written Off)	217,664	(43,615)	174,049	165,254
Translation Difference in Foreign Currency Conversion	91	205	296	-
As at the end of the Year	1,097,574	270,998	1,368,572	654,811

**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:

Bank Sector	2009		2008	
	Rs. '000	%	Rs. '000	%
Food, Beverages and Tobacco	448,800	1	815,243	2
Textile and Wearing Apparel	535,342	1	902,907	2
Rubber and Leather Products	77,260	0	1,362,229	3
Metals, Chemicals and Engineering	199,353	1	397,620	1
Services	2,837,051	7	4,247,345	10
Tourism	756,884	2	591,144	1
Agro-Business and Fisheries	2,153,632	5	993,433	2
Industrial	1,915,853	5	2,169,997	5
Housing	3,016,579	8	3,291,625	8
Commercial Trading	8,613,171	22	8,264,183	19
Consumption - Leasing	3,352,860	9	4,556,668	11
- Others	15,211,688	39	15,423,970	36
	39,118,473	100	43,016,364	100

**8. OTHER ASSETS**

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Deposits and Prepayments	262,897	481,622	262,990	481,678
Amounts due from Related Parties	–	223,996	–	–
Other Receivables	641,711	1,245,557	672,547	1,301,893
	<b>904,608</b>	<b>1,951,175</b>	<b>935,537</b>	<b>1,783,571</b>

**9. INVESTMENTS IN SUBSIDIARIES****Unquoted**

Name of Company	Country of Incorporation	Holding %	2009		Holding %	2008	
			Cost Rs. '000	Directors' Valuation* Rs. '000		Cost Rs. '000	Directors' Valuation* Rs. '000
Waldock Mackenzie Limited	Sri Lanka	100	–	437,699	100	–	288,384
<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	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)	–
<b>Net Carrying Amount</b>			<b>678,710</b>	<b>1,116,409</b>		<b>678,710</b>	<b>967,094</b>

\* Directors' value is based on net assets value of respective investee companies.

**10. PROPERTY, PLANT & EQUIPMENT****10.1 Bank**

	Balance as at 01.01.2009 Rs. '000	Additions during the Year Rs. '000	Disposals during the Year Rs. '000	Balance as at 31.12.2009 Rs. '000

**10.1.1 Gross Carrying Amounts**

<b>At Cost</b>				
Land and Buildings	654,404	8,987	–	663,391
Motor Vehicles	63,996	–	(10,002)	53,994
Office and Electrical Equipment	251,504	52,680	(1,273)	302,911
Computer Software and Equipment	1,107,002	276,206	(4,448)	1,378,760
Furniture and Fittings	201,681	130,693	(4,393)	327,981
Leasehold Improvements	121,079	37,263	(17,360)	140,982
<b>Total Gross Carrying Amounts</b>	<b>2,399,666</b>	<b>505,829</b>	<b>(37,476)</b>	<b>2,868,019</b>

*10.1.2 Depreciation*

<b>At Cost</b>	<b>Balance as at 01.01.2009 Rs. '000</b>	<b>Charge for the Year Rs. '000</b>	<b>Disposals during the Year Rs. '000</b>	<b>Balance as at 31.12.2009 Rs. '000</b>
Land and Buildings	12,927	5,055	–	17,982
Motor Vehicles	38,477	11,330	(6,804)	43,003
Office and Electrical Equipment	139,667	31,323	(875)	170,115
Computer Software and Equipment	581,855	184,159	(3,865)	762,149
Furniture and Fittings	81,826	30,050	(2,258)	109,618
Leasehold Improvements	69,515	19,150	(16,530)	72,135
<b>Total Depreciation</b>	<b>924,267</b>	<b>281,067</b>	<b>30,332</b>	<b>1,175,002</b>

*10.1.3 Net Book Value*

Land and Buildings	641,477	645,409
Motor Vehicles	25,519	10,991
Office and Electrical Equipment	111,837	132,796
Computer Software and Equipment	525,147	616,611
Furniture and Fittings	119,855	218,363
Leasehold Improvements	51,564	68,847
<b>Total Net Book Value</b>	<b>1,475,399</b>	<b>1,693,017</b>

*10.1.4* During the financial year, the Bank acquired Property, Plant & Equipment to the aggregate value of Rs. 505.8 mn (2008 - Rs. 1,193.8 mn). Cash payments amounting to Rs. 505.8 mn (2008 - Rs. 1,193.8 mn) were made during the year for purchase of Property, Plant & Equipment.

*10.1.5* Property, Plant & Equipment includes fully depreciated assets having a gross carrying amount of Rs. 650.6 mn (2008 - Rs. 582.7 mn).

**10.2 Group**

	Balance as at 01.01.2009 Rs. '000	Additions during the Year Rs. '000	Disposals during the Year Rs. '000	Balance as at 31.12.2009 Rs. '000
--	--	---	---	--

**10.2.1 Gross Carrying Amounts**

	Balance as at 01.01.2009 Rs. '000	Additions during the Year Rs. '000	Disposals during the Year Rs. '000	Balance as at 31.12.2009 Rs. '000
<b>At Cost/Valuation</b>				
Land and Buildings	1,241,734	9,040	-	1,250,774
Motor Vehicles	81,359	-	(23,602)	57,757
Office and Electrical Equipment	258,516	52,680	(3,215)	307,981
Computer Software and Equipment	1,110,572	276,206	(4,448)	1,382,330
Furniture and Fittings	201,912	130,693	(4,393)	328,212
Leasehold Improvements	121,079	37,263	(17,360)	140,982
<b>Total Gross Carrying Amounts</b>	<b>3,015,172</b>	<b>505,882</b>	<b>(53,018)</b>	<b>3,468,036</b>

	Balance as at 01.01.2009 Rs. '000	Charge for the year Rs. '000	Disposals during the year Rs. '000	Balance as at 31.12.2009 Rs. '000
--	--	---------------------------------------	---	--

**10.2.2 Depreciation**

	Balance as at 01.01.2009 Rs. '000	Charge for the year Rs. '000	Disposals during the year Rs. '000	Balance as at 31.12.2009 Rs. '000
<b>At Cost/Valuation</b>				
Land and Buildings	45,859	16,039	-	61,898
Motor Vehicles	53,393	11,330	(18,577)	46,146
Office and Electrical Equipment	144,307	31,998	(2,774)	173,531
Computer Software and Equipment	585,421	184,162	(3,865)	765,718
Furniture and Fittings	82,056	30,050	(2,258)	109,848
Leasehold Improvements	69,515	19,150	(16,538)	72,127
<b>Total Depreciation</b>	<b>980,551</b>	<b>292,729</b>	<b>(44,012)</b>	<b>1,229,268</b>

**10.2.3 Net Book Value**

Land and Buildings	1,195,875	1,188,876
Motor Vehicles	27,966	11,611
Office and Electrical Equipment	114,209	134,450
Computer Software and Equipment	525,151	616,612
Furniture and Fittings	119,856	218,364
Leasehold Improvements	51,564	68,855
<b>Total Net Book Value</b>	<b>2,034,621</b>	<b>2,238,768</b>

10.2.4 During the financial year, the Group acquired Property, Plant & Equipment to the aggregate value of Rs. 505.9 mn (2008 - Rs. 1,195.3 mn). Cash payments amounting to Rs. 505.9 mn (2008 - Rs. 1,195.3 mn) were made during the year for purchase of Property, Plant & Equipment.

10.2.5 Property, Plant & Equipment includes fully depreciated assets having a gross carrying amount of Rs. 654.9 mn (2008 - Rs. 607.9 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.

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 2009 Rs. '000	Net carrying amount 2008 Rs. '000
Buildings	270,789	72,729	198,060	204,829

## 11. GOODWILL

	2009 Rs. '000	Bank 2008 Rs. '000	2009 Rs. '000	Group 2008 Rs. '000
Goodwill on Acquisition	372,053	372,053	451,314	451,314
Provision made to be compliant with the Banking Act (Note 11.2)	(372,053)	(372,053)	(372,053)	(372,053)
	-	-	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. 372,052,672/-, that arose from the merger of 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

	2009 Rs. '000	Bank 2008 Rs. '000	2009 Rs. '000	Group 2008 Rs. '000
--	------------------	--------------------------	------------------	---------------------------

### 12.1 Analysis of Deposits

Demand Deposits	4,722,675	3,844,770	4,722,675	3,844,744
Savings Deposits	5,631,952	5,838,663	5,631,952	5,838,663
Call Deposits	633,321	1,400,036	633,321	1,400,036
Fixed Deposits	31,454,715	21,671,833	31,454,715	21,671,833
Certificates of Deposit	1,778,908	1,391,198	1,778,908	1,391,198
	44,221,571	34,146,500	44,221,571	34,146,474

### 12.2 Sources of Deposits

Deposits from Banks	2,716	92	2,716	92
Deposits from Other Financial Institutions	1,481,498	739,749	1,481,498	739,749
Deposits from Other Customers	42,737,357	33,406,659	42,737,357	33,406,633
	44,221,571	34,146,500	44,221,571	34,146,474

**13. BORROWINGS**

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000

**13.1 Borrowings**

Money Market Borrowings	1,268,705	5,048,857	1,268,705	5,048,857
Borrowings under Repurchase Agreements - Treasury Bills, Treasury Bonds and Commercial Paper	10,475,037	10,316,405	10,475,037	13,155,004
Commercial Paper	-	-	-	5,731
Trust Certificates	707,337	1,766,331	707,337	1,766,331
Refinance Borrowings	5,853	578,588	5,853	578,588
Other Borrowings	1,567,717	1,899,975	1,567,716	1,899,975
	<b>14,024,649</b>	<b>19,610,156</b>	<b>14,024,648</b>	<b>22,454,486</b>

**13.2 Borrowings - Maturity Analysis**

Repayments due within one Year	11,497,667	16,834,140	11,497,666	19,175,830
Repayments due between 1 to 5 Years	2,526,982	2,776,016	2,526,982	3,278,656
	<b>14,024,649</b>	<b>19,610,156</b>	<b>14,024,648</b>	<b>22,454,486</b>

**14. OTHER LIABILITIES**

Accrued Expenditure	2,014,313	1,829,542	2,047,042	1,809,937
Margin Balances	203,563	163,287	203,563	163,287
Pay Orders	247,160	256,714	247,160	256,714
Tax Payable	493,554	79,787	547,801	102,838
Amounts due to Related Parties	333	-	335	-
Others	1,158,764	1,106,891	1,001,827	939,430
	<b>4,117,687</b>	<b>3,436,221</b>	<b>4,047,728</b>	<b>3,272,206</b>

**15. DEFERRED LIABILITIES/(ASSETS)**

Retirement Benefits Obligation - Gratuity (Note 15.1)	140,020	112,771	145,474	117,031
Deferred Taxation - Liability (Note 15.2.1)	291,130	319,249	291,130	319,249
	<b>431,150</b>	<b>432,020</b>	<b>436,604</b>	<b>436,280</b>
Deferred Taxation - Assets (Note 15.2.2)	(307,363)	(130,921)	(307,363)	(130,921)

**15.1 Retirement Benefits Obligation - Gratuity**

Balance as at the beginning of the Year	112,771	81,587	117,030	85,026
Charge during the Year	40,954	36,949	42,149	37,770
Payments made during the Year	(13,705)	(5,765)	(13,705)	(5,766)
Balance as at the end of the Year	<b>140,020</b>	<b>112,771</b>	<b>145,474</b>	<b>117,030</b>

**15.2 Deferred Taxation**

Balance as at the beginning of the Year	188,329	114,148	188,329	116,648
Charge/(Reversal) during the Year	(204,562)	74,181	(204,562)	71,681
Balance as at the end of the Year	<b>(16,233)</b>	<b>188,329</b>	<b>(16,233)</b>	<b>188,329</b>

15.2.1 Deferred Tax Liability

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Accelerated Depreciation Allowances for Tax Purposes (Lease Rentals Receivable)	199,551	240,552	199,551	240,552
Accelerated Depreciation Allowances for Tax Purposes (Property, Plant & Equipment)	91,579	78,697	91,579	78,697
	<b>291,130</b>	<b>319,249</b>	<b>291,130</b>	<b>319,249</b>

15.2.2 Deferred Tax Asset

Provisions for Loans, Advances and Lease Receivables	(258,356)	(91,451)	(258,356)	(91,451)
Defined Benefit Plan Liability	(49,007)	(39,470)	(49,007)	(39,470)
	<b>(307,363)</b>	<b>(130,921)</b>	<b>(307,363)</b>	<b>(130,921)</b>
Net Deferred Tax (Assets)/Liability	<b>(16,233)</b>	<b>188,329</b>	<b>(16,233)</b>	<b>188,329</b>

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

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Balance as at the beginning of the Year	1,500,000	500,000	1,500,000	500,000
Issued during the Year	500,000	1,000,000	500,000	1,000,000
Balance as at the end of the Year	<b>2,000,000</b>	<b>1,500,000</b>	<b>2,000,000</b>	<b>1,500,000</b>

The Bank issued unsecured subordinated redeemable debentures that were fully subscribed.

The tenor of the debentures ranges from 4 to 6 years with redemptions in the years 2010 and 2013. The debentures are secured by a negative pledge over specified lease agreements of motor vehicles. In 2009 the Bank issued further Rs. 500 mn worth of unsecured unsubordinated redeemable debentures which will mature in 2013. These debentures have been issued to fund customer lending activities.

**17. SUBORDINATED LOAN**

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Balance as at the beginning of the Year	673,250	673,250	673,250	673,250
Repayments during the Year	(67,325)	-	(67,325)	-
Balance as at the end of the Year	605,925	673,250	605,925	673,250

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 which commenced from 1st October 2009.

**18. STATED CAPITAL**

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Balance as at 1st January - 167,714,672 Ordinary Shares (125,786,004 Shares in 2008)	3,109,771	2,061,554	3,109,771	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	3,109,771	3,109,771	3,109,771	3,109,771

**19. RESERVE FUND**

As at the beginning of the Year	80,509	56,679	80,509	56,679
Transferred during the Year	25,090	23,830	25,090	23,830
As at the end of the Year	105,599	80,509	105,599	80,509

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**

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000

**20.1 Revenue Reserves**

As at the beginning of the Year	745,678	460,615	1,142,532	740,958
Profit for the Year	501,801	476,608	686,071	593,119
Dividend Paid	(251,572)	(167,715)	(251,572)	(167,715)
Transfers to Reserve Fund during the Year (Note 19)	(25,090)	(23,830)	(25,090)	(23,830)
As at the end of the Year	970,817	745,678	1,551,941	1,142,532

**20.2 Capital Reserves**

Bonus Shares by a Subsidiary	-	-	9,500	9,500
Total Reserves	970,817	745,678	1,561,441	1,152,032

**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	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Acceptances	446,805	2,485,340	446,805	2,485,340
Documentary Credits	1,589,119	1,135,259	1,589,119	1,135,259
Guarantees	199,486	243,389	199,486	243,389
Bonds and Warranties	3,659,357	3,993,652	3,659,357	3,993,652
Bills Sent on Collection	3,131,850	2,739,393	3,131,850	2,739,393
Forward Exchange Contracts	18,074,251	27,888,002	18,074,251	27,888,002
Undrawn Facilities	24,414,722	15,132,384	24,414,722	15,132,384
	51,515,590	53,617,419	51,515,590	53,617,419

21.2 During the year 2007/08, the Bank has entered into Interest Rate Swap agreements amounting to a total notional value of Rs. 2,916 mn which mature in years 2010, 2011 and 2012. The details relating to Interest Rate Swap Agreements outstanding as at 31st December 2009 are given below:

Year of the Agreement	Notional Value (Rs. mn)	Year of Maturity
2007	700.000	2010 and 2011
2008	2,216.000	2011 and 2012

21.3 The Bank and the Group has entered into several forward contracts to sell Government Securities of which face value amounts to Rs. 1,700 mn and 2,000 mn respectively as at the Balance Sheet date (2008 - Rs. 50 mn and Rs. 850 mn).

The Bank has also entered into a forward contract to buy Government Securities of which face value amounts to Rs. 1,700 mn as at the Balance Sheet date (2008 - Nil).

#### 21.4 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 2009, is as follows:

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Approved and Contracted for	56,699	306,655	56,699	306,655

#### 21.5 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. The matter came up for hearing on 30th January 2010, and as the stay order granted by the High Court continues, the same stands adjourned to 26th February 2010, for further hearing.

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.

## 22. GROSS INCOME

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Interest Income	11,610,954	10,304,526	12,028,293	12,094,171
Fees and Commission Income	287,606	302,153	375,436	338,249
Foreign Exchange Gain/(Loss)	(538,792)	495,546	(538,792)	495,546
Other Operating Income	1,926,230	863,223	2,090,606	949,483
	13,285,998	11,965,448	13,955,543	13,877,449

The above foreign exchange gain/(loss) includes an identified foreign exchange loss of Rs. 913 mn (pre-tax) arising from a breach in operational procedures as announced in the second quarter results of the Bank, released in July 2009. Upon the identification and analysis of the breach in procedures, the Bank took immediate remedial action to review and resolve all issues arising from this matter.

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000

### 23. INTEREST INCOME

Customer Advances	7,670,567	7,255,916	7,812,946	7,455,364
Treasury Bills and Bonds	3,080,493	1,724,655	3,389,463	2,983,084
Deposits with Other Banks	244,218	424,173	244,218	424,173
Corporate Debt Securities	537,205	607,619	585,548	1,037,298
Other Interest Income	78,471	292,163	(3,882)	194,252
	<b>11,610,954</b>	<b>10,304,526</b>	<b>12,028,293</b>	<b>12,094,171</b>

### 24. INTEREST EXPENSE

Customer Deposits	4,027,637	3,379,004	4,027,637	3,379,004
Borrowings	1,848,834	2,329,281	1,852,208	2,404,033
Treasury Bills, Bonds and Corporate Papers Repurchased	2,165,052	1,862,146	2,367,905	3,401,885
	<b>8,041,523</b>	<b>7,570,431</b>	<b>8,247,750</b>	<b>9,184,922</b>

### 25. OTHER OPERATING INCOME

Gain/(Loss) on Sale of Government and Corporate Debt Securities	922,448	(9,800)	1,031,353	48,888
Fees and Other Income	1,003,782	873,023	1,059,253	900,595
	<b>1,926,230</b>	<b>863,223</b>	<b>2,090,606</b>	<b>949,483</b>

### 26. PROFIT BEFORE TAXATION

Stated after Charging the following among others:				
<b>Included in Personnel Cost</b>				
Defined Contribution Plan Cost - EPF and ETF	115,016	97,887	117,102	99,637
<b>Included in Provision for Staff Retirement Benefits</b>				
Defined Benefit Plan Cost - Gratuity	40,954	36,949	42,149	37,770
<b>Included in Premises, Equipment and Establishment Cost</b>				
Depreciation	281,067	191,883	292,728	210,631
Legal Fees	22,578	15,671	22,578	15,671
Business Promotion and Advertising	132,886	229,489	133,079	229,663
Transport	100,145	99,563	101,632	101,293
(Profit)/Loss on Disposal of Property, Plant & Equipment	41,996	(425)	39,669	(2,752)

**27. TAXATION**

	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Income Tax on Profit for the Year (Note 27.1)	763,505	276,532	899,453	363,707
Charge/(Reversal) of Deferred Tax (Note 15.2)	(204,562)	74,181	(204,562)	71,681
	<b>558,943</b>	<b>350,713</b>	<b>694,891</b>	<b>435,388</b>

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

Accounting Profit (Profit before Taxation)	1,060,744	827,321	1,380,962	1,028,507
Add: Disallowable Expenses	4,827,274	2,697,546	4,936,237	2,796,274
	<b>5,888,018</b>	<b>3,524,867</b>	<b>6,317,199</b>	<b>3,824,781</b>
Less: Allowable Expenses	(3,545,064)	(2,543,387)	(3,557,239)	(2,547,944)
Less: Exempt Income	(193,745)	(203,064)	(230,043)	(239,518)
<b>Statutory Income/(Loss)</b>	<b>2,149,209</b>	<b>778,416</b>	<b>2,529,917</b>	<b>1,037,319</b>
Less: Tax Losses Brought Forward and Utilised	-	-	(855)	(1,681)
<b>Taxable Income/(Loss)</b>	<b>2,149,209</b>	<b>778,416</b>	<b>2,529,062</b>	<b>1,035,638</b>
Income Tax Expenses for the Year is made up:				
Current Income Tax Expense (Including SRL at 1.5%)	763,505	276,532	899,453	363,707
Charge/(Reversal) of Deferred Tax	(204,562)	74,181	(204,562)	71,681
	<b>558,943</b>	<b>350,713</b>	<b>694,891</b>	<b>435,388</b>
Effective Income Tax Rate	<b>52.69%</b>	<b>42.39%</b>	<b>50.32%</b>	<b>42.33%</b>

Effective Tax rate of the Bank in 2009 is comparatively higher due to lower contribution from tax exempt income in 2009.

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	
	2009	2008
<b>Amount Used as the Numerator:</b>		
Profit Attributable to Ordinary Shareholders (Rs. '000)	686,071	593,119
<b>Number of Ordinary Shares Used as the Denominator:</b>		
Ordinary Shares at the beginning of the Year	167,714,672	125,786,004
Weighted Average of the Shares issued during the Year	-	35,832,857
Weighted Average Number of Ordinary Shares in Issue	167,714,672	161,618,861
Earnings Per Ordinary Share (Rs.)	4.09	3.67

## 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 2009 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. 1.50 per share was paid in April 2009, for the year ended 31st December 2008.

## 30. SEGMENTAL INFORMATION

In Rs. '000	Banking		Investment Banking		Others		Elimination/Allocated		Group	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
<b>Total Revenue</b>	<b>13,285,998</b>	<b>11,965,448</b>	<b>1,451,218</b>	<b>3,013,586</b>	<b>106,631</b>	<b>90,860</b>	<b>(888,304)</b>	<b>(1,192,445)</b>	<b>13,955,543</b>	<b>13,877,449</b>
<b>Segment Results</b>										
Profit before Taxation	1,060,744	827,321	299,360	186,987	45,314	39,578	(24,456)	(25,379)	1,380,962	1,028,507
Taxation	(558,943)	(350,713)	(120,545)	(70,232)	(15,403)	(14,443)	-	-	(694,891)	(435,388)
Net Profit for the Year	501,801	476,608	178,815	116,755	29,911	25,135	(24,456)	(25,379)	686,071	593,119
<b>Segment Assets</b>	<b>69,978,230</b>	<b>64,772,971</b>	<b>4,077,828</b>	<b>13,388,949</b>	<b>767,032</b>	<b>744,164</b>	<b>(4,398,003)</b>	<b>(11,121,471)</b>	<b>70,425,087</b>	<b>67,784,613</b>
Goodwill	-	-	-	-	-	-	79,261	79,261	79,261	79,261
Total Assets	69,978,230	64,772,971	4,077,828	13,388,949	767,032	744,164	(4,318,742)	(11,042,209)	70,504,348	67,863,874
<b>Segment Liabilities</b>	<b>65,360,893</b>	<b>60,404,993</b>	<b>3,640,129</b>	<b>13,100,565</b>	<b>58,794</b>	<b>58,008</b>	<b>(3,768,883)</b>	<b>(10,478,284)</b>	<b>65,290,933</b>	<b>63,085,282</b>
Deferred Tax Liabilities	431,150	432,020	-	-	-	-	5,454	4,260	436,604	436,280
Total Liabilities	65,792,043	60,837,013	3,640,129	13,100,565	58,794	58,008	(3,763,429)	(10,474,024)	65,727,537	63,521,562
<b>Others</b>										
Additions to Property,										
Plant & Equipment	505,829	1,193,872	-	-	53	1,490	-	-	505,882	1,195,362
Depreciation	281,067	191,883	11	11	11,651	18,737	-	-	292,729	210,631
<b>Non-Cash Expenses</b>										
Provision for Bad and										
Doubtful Debts	812,779	470,898	-	-	-	-	(9,133)	-	803,646	470,898
Provision for Gratuity	40,954	36,949	664	(348)	531	1,169	-	-	42,149	37,770

### 31. RELATED PARTY DISCLOSURES

The Bank carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties. Details of significant related party disclosures are as follows:

#### 31.1 Transactions with Related Entities

Balance Sheet Items	Significant Investors*		Subsidiaries**	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Assets</b>				
Loans and Advances	24,547	50,014	914,373	373,360
Corporate Credit Cards	753	135	-	-
Reverse Repurchase Agreements	-	-	2,619,129	8,780,484
Cash Collaterals Against Loans and Advances	408,560	300,000	-	-
Other Assets	-	-	34,105	229,958
<b>Liabilities</b>				
Deposits	4,157,170	2,924,572	4,252	5,759
Borrowings	899,682	3,346,006	-	2,314,063
Other Liabilities	-	-	189,344	135,479
<b>Equity</b>				
Dividends Paid	116,331	75,607	-	-
<b>Off-Balance Sheet Items</b>				
Undrawn Facilities	299,726	202,905	-	-
Guarantees	15,787	27,727	450	-
<b>Income Statement Items</b>				
Interest Income	6,334	27,751	839,300	907,487
Interest Paid	489,179	537,247	17,350	251,555
Other Income	326	302	2,821	6,146
Dividend Received (Gross)	-	-	37,320	37,800
Expenses	16,107	14,642	17,830	13,060
Provisions for Investment	-	-	723	12,421

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

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

#### 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

	2009 Rs. '000	2008 Rs. '000
Emoluments/Fees	158,486	135,781
Post-Employment Benefits	4,479	4,973
	<b>162,965</b>	<b>140,754</b>

*(b) Transactions, Arrangements and Agreements Involving Key Management Personnel*

Balance Sheet Items	Key Management Personnel and their Close Family Members (CFM)		Entities in which KMPs and their CFMs have Control, Joint Control or Significant Influence	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Assets</b>				
Loans and Advances	39,401	56,096	-	3,698
Credit Cards	2,866	4,070	-	-
Cash Collaterals Against Loans and Advances	33,764	24,815	-	-
Reverse Repurchase Agreements	-	507	-	-
<b>Liabilities</b>				
Deposits	57,378	62,063	4,708	21,144
Borrowings	18,893	23,629	-	-
<b>Equity</b>				
Dividends Paid	5,171	3,379	-	-
<b>Off-Balance Sheet Items</b>				
Undrawn Facilities	20,079	13,422	-	8,602
Guarantees	-	-	-	3,473
<b>Income Statement Items</b>				
Interest Income Earned	7,243	4,709	169	545
Interest Expenses Paid	16,558	7,045	2,208	2,946
Other Income Earned	33	39	212	377
Expenses Paid	-	-	2,905	2,518

During the year 2009, Key Management Personnel (KMP) and their Close Family Members (CFM) have sold 670,301 shares (2008 - 26,000) of the Bank, and there have not been any share purchases (2008 - 2,222,743).

**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 2009, has contributed a sum of Rs. 94.068 mn to the Fund (2008 - Rs. 79.584 mn).

As at 31st December 2009, the Fund has invested a sum of Rs. 476.602 mn with the Bank (2008 - Rs. 372.067 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	2009 Total	2008 Total
<b>Assets</b>							
<b>Interest Earning Assets</b>							
Money at Call and Short Notice	97,569	-	-	-	-	97,569	2,276,869
Government Treasury Bills and Bonds	9,691,413	975,935	5,248,444	500,206	-	16,415,998	3,914,965
Reverse Repurchase Agreements	7,110,589	96,132	248	-	-	7,206,969	8,699,742
Corporate Debt Securities	1,067,043	283,001	358,762	193,150	-	1,901,956	2,592,280
Bills of Exchange	145,615	-	-	-	-	145,615	422,986
Loans and Advances	14,597,156	2,718,564	4,439,087	1,606,079	1,651,928	25,012,814	26,207,987
Investments and Other Placements	6,630	456,432	3,773,073	-	2,715	4,238,850	3,780,957
Lease Rentals Receivable	934,428	2,548,712	4,010,981	508,639	864	8,003,624	9,136,744
	33,650,443	7,078,776	17,830,595	2,808,074	1,655,507	63,023,395	57,032,530
<b>Non-Interest Earning Assets</b>							
Cash and Short-Term Funds	1,327,513	-	-	-	-	1,327,513	1,787,523
Statutory Deposit with the Central Bank of Sri Lanka	2,043,624	-	-	-	-	2,043,624	1,716,713
Other Assets	604,118	202,273	98,217	-	-	904,608	1,951,175
Deferred Assets	-	-	-	-	307,363	307,363	130,921
Investments in Subsidiaries	-	-	-	-	678,710	678,710	678,710
Property, Plant & Equipment	-	-	-	-	1,693,017	1,693,017	1,475,399
	3,975,255	202,273	98,217	-	2,679,090	6,954,835	7,740,441
<b>Total Assets</b>	<b>37,625,698</b>	<b>7,281,049</b>	<b>17,928,812</b>	<b>2,808,074</b>	<b>4,334,597</b>	<b>69,978,230</b>	<b>64,772,971</b>
<b>Liabilities</b>							
<b>Interest Bearing Liabilities</b>							
Deposits	18,981,235	15,004,504	4,641,223	871,934	-	39,498,896	30,301,730
Borrowings	8,480,557	3,017,110	1,851,096	675,886	-	14,024,649	19,610,156
Subordinated Loan	-	134,650	269,300	201,975	-	605,925	673,250
Debentures	165,000	-	335,000	1,500,000	-	2,000,000	1,500,000
	27,626,792	18,156,264	7,096,619	3,249,795	-	56,129,470	52,085,136
<b>Non-Interest Bearing Liabilities</b>							
Demand Deposits	4,722,675	-	-	-	-	4,722,675	3,844,770
Due to Banks	391,061	-	-	-	-	391,061	1,038,866
Deferred Liabilities	-	-	-	70,010	361,140	431,150	432,020
Other Liabilities	4,117,687	-	-	-	-	4,117,687	3,436,221
Stated Capital	-	-	-	-	3,109,771	3,109,771	3,109,771
Reserves	-	-	-	-	1,076,416	1,076,416	826,187
	9,231,423	-	-	70,010	4,547,327	13,848,760	12,687,835
<b>Total Liabilities and Shareholders' Funds</b>	<b>36,858,215</b>	<b>18,156,264</b>	<b>7,096,619</b>	<b>3,319,805</b>	<b>4,547,327</b>	<b>69,978,230</b>	<b>64,772,971</b>

## 32.2 Group

(In Rs. '000)	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	2009 Total	2008 Total
<b>Assets</b>							
<b>Interest Earning Assets</b>							
Money at Call and Short Notice	97,569	-	-	-	-	97,569	2,276,869
Government Treasury Bills and							
Bonds	11,485,028	958,536	5,832,938	1,029,706	-	19,306,208	11,882,649
Reverse Repurchase Agreements	4,491,460	96,132	248	-	-	4,587,840	3,805,538
Corporate Debt Securities	1,071,689	296,896	470,535	193,150	-	2,032,270	2,647,011
Bills of Exchange	145,615	-	-	-	-	145,615	422,986
Loans and Advances	14,738,460	2,718,564	4,439,087	1,606,079	1,651,928	25,154,118	26,378,089
Investments and							
Other Placements	6,630	456,432	3,773,073	-	2,715	4,238,850	3,780,957
Lease Rentals Receivable	934,489	2,548,712	4,010,981	508,639	864	8,003,685	9,137,008
	32,970,940	7,075,272	18,526,862	3,337,574	1,655,507	63,566,155	60,331,107
<b>Non-Interest Earning Assets</b>							
Cash and Short-Term Funds	1,333,640	-	-	-	-	1,333,640	1,787,680
Statutory Deposit with the							
Central Bank of Sri Lanka	2,043,624	-	-	-	-	2,043,624	1,716,713
Other Assets	624,776	209,187	101,574	-	-	935,537	1,783,571
Deferred Assets	-	-	-	-	307,363	307,363	130,921
Property, Plant & Equipment	-	-	-	-	2,238,768	2,238,768	2,034,621
Goodwill	-	-	-	-	79,261	79,261	79,261
	4,002,040	209,187	101,574	-	2,625,392	6,938,193	7,532,767
<b>Total Assets</b>	<b>36,972,980</b>	<b>7,284,459</b>	<b>18,628,436</b>	<b>3,337,574</b>	<b>4,280,899</b>	<b>70,504,348</b>	<b>67,863,874</b>
<b>Liabilities</b>							
<b>Interest Bearing Liabilities</b>							
Deposits	18,981,235	15,004,504	4,641,223	871,934	-	39,498,896	30,301,730
Borrowings	8,480,557	3,017,110	1,851,096	675,886	-	14,024,649	22,454,486
Subordinated Loans	-	134,650	269,300	201,975	-	605,925	673,250
Debentures	165,000	-	335,000	1,500,000	-	2,000,000	1,500,000
	27,626,792	18,156,264	7,096,619	3,249,795	-	56,129,470	54,929,466
<b>Non-Interest Bearing Liabilities</b>							
Deposits from Customers	4,722,675	-	-	-	-	4,722,675	3,844,744
Due to Banks	391,061	-	-	-	-	391,061	1,038,866
Deferred Liabilities	-	-	-	72,737	363,867	436,604	436,280
Other Liabilities	4,047,728	-	-	-	-	4,047,728	3,272,206
Stated Capital	-	-	-	-	3,109,771	3,109,771	3,109,771
Reserves	-	-	-	-	1,667,040	1,667,040	1,232,541
	9,161,464	-	-	72,737	5,140,678	14,374,879	12,934,408
<b>Total Liabilities and Shareholders' Funds</b>	<b>36,788,255</b>	<b>18,156,264</b>	<b>7,096,619</b>	<b>3,322,532</b>	<b>5,140,678</b>	<b>70,504,348</b>	<b>67,863,874</b>

## 33. POST-BALANCE SHEET EVENTS

No material events have taken place since 31st December 2009, that require disclosure or/and adjustments in these accounts, except for the following:

- (a) 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 2009.