

# The bank grows up



*We understand you*

## CONTENTS

Financial Highlights [3](#) Chairman's Message [4](#) Chief Executive Officer's Report [8](#) Review of Operations [12](#) Financial Review [30](#)  
Contribution Towards the Society [34](#) Risk Management [37](#) Corporate Governance Report [40](#) Board of Directors [42](#)  
Corporate Management Team [44](#) Senior Management Team [45](#) Service Network [46](#) Board Audit Review Committee Report [47](#)  
Directors' Report [49](#)

Directors' Responsibility for Financial Reporting [54](#) Auditors' Report [55](#) Income Statement [56](#) Balance Sheet [57](#)  
Statement of Changes in Equity [58](#) Cash Flow Statement [59](#) Notes to the Financial Statements [60](#) Investor Information [95](#)  
Five Year Summary [97](#) Glossary [99](#) Notice of Meeting [101](#) Notes [102](#) Form of Proxy [103](#)

Born into a highly competitive environment, Nations Trust Bank has dealt successfully with the issues that inevitably accompany setting up, growing up and establishing a name and reputation. Now **eight years old**, it is a **big bank**, with a strong market presence, clear corporate identity and a highly profitable business portfolio.

### Vision

To be the premium retail focused Sri Lankan Bank, committed to superlative quality in all our dealings.

### Mission

Guided by a conservative risk-taking regime, we will endeavour to achieve a 20% return on equity and a cost income ratio of 55% by the year 2008.

Persistently and consistently be innovative in strategy whilst benchmarking excellent customer service standards to reach the pinnacle in our industry.

Creating a positive working environment and an open culture supportive of professionalism and fair play, we will strategically develop our people to be the best in the industry.

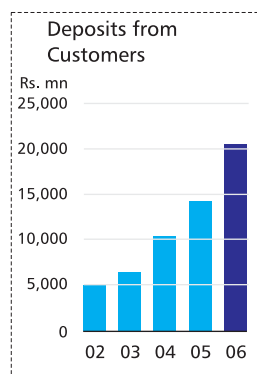
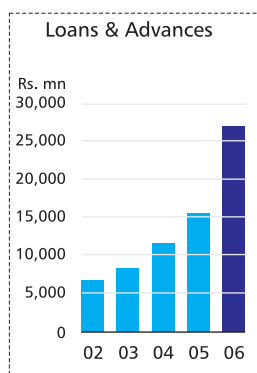
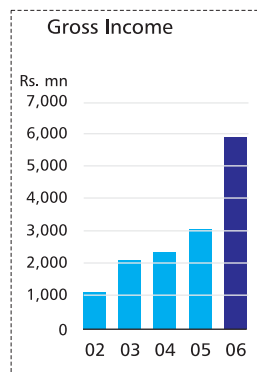
### Values

- Committed to change that will give us a strategic advantage
- Inspirational leadership
- Superior customer service
- Extreme focus on targets
- Integrity in all our dealings
- Premium market perception
- Benchmarking to international standards
- Bold to be innovative
- Conservative risk taking
- Learning focused



# Financial Highlights

	Group 2006 Rs. Mn.	Group 2005 Rs. Mn.
<b>Results for the year</b>		
Gross Income	5,922	3,085
Net Profit before Tax	538	198
Provision for Taxation	215	73
Net Profit after Taxation	323	125
<b>At the year end</b>		
Shareholders' Funds	2,862	1,463
Deposits from Customers	20,670	14,314
Repurchase Agreements against Corporate Debt Securities	2,127	1,615
Loans and Advances	26,993	15,603
<b>Information on Ordinary Shares (Rs.)</b>		
Earnings per Share	2.57	1.47
Net Assets Value per Share	22.75	17.21
Market Value at the year end	28.25	23.50
<b>Ratios (%)</b>		
Return on Average Assets	0.88	0.53
Return on Equity	11.30	8.54
<b>Capital Adequacy Ratios (%)</b>		
Tier I	7.86	8.74
Tier I & II (Total Capital)	11.86	13.92



## Chairman's Message



Your Bank will continue with its **DIFFERENTIATION STRATEGY** and focus on **SERVICE QUALITY** and a **CUSTOMER ORIENTED SERVICE CULTURE**. It is on these pillars that the 'Nations' brand will be built and marketed.

A handwritten signature in blue ink, consisting of stylized cursive letters, positioned above the printed name.

**Ajit Gunewardene**  
*Chairman*

19th February 2007

## Chairman's Message

On behalf of your Board of Directors, it is my pleasure to present to you, the Annual Report of the Bank for the year ended 31st December 2006.

2006 was an eventful year and saw a host of factors, both internal and external to the country, which caused erratic and volatile movements in some of the key macro-economic indicators, and in particular, inflation. Linked to this, interest rates and exchange rates fluctuated widely during the year causing uncertainty.

Global oil prices were a principal factor in causing this volatility. The price of a barrel of crude oil rose from a low of USD 59.60 in February 2006 to a high of USD 78.40 in July and fell again towards the latter part of the year. While the Central Bank of Sri Lanka tried to keep a tight hold on inflation, the effects of the rising oil prices were filtering through to all segments of the economy. The Central Bank of Sri Lanka increased policy rates four times during the year. However, excessive demand pressure caused inflation to rise. Added to this, the escalation in violence in the North and the East resulted in an increase in defence expenditure. Nevertheless, the economy has shown remarkable resilience and is forecast to achieve 7% GDP growth for the year.

In 2005, the depreciation of the Rupee was temporarily arrested with the foreign aid flows to the country for tsunami reconstruction. However, economic and political pressures pushed the Rupee down again in 2006 bringing it in line with the broader economic fundamentals.

Going forward, one of the key drivers for rapid economic growth will be the development of infrastructure. A focused approach to enhancing infrastructure will have a knock on effect on the entire economy. Two areas which require immediate attention are energy and highways. Uninterrupted power supply and improved accessibility will fuel the development of industry leading to employment generation and capacity building. This will provide the base for all other economic activity in the country.

The increase in Government spending, be it for infrastructure or defence, comes at a cost. Widening the tax net becomes a crucial mechanism to increase the revenue to the Government and bridge the budget deficit. In this regard, policy makers should endeavour to make the distinction between increasing the tax base and levying excessive taxes on certain targeted sectors of the economy. Such inequitable policies will eventually flow down to the consumers who may be unable to bear the increase in costs.

While infrastructure development and peace will provide an enabling environment for sustainable economic growth, access to capital is vital to jump start the process. The cost of capital is negatively correlated to investment and economic activity. The fundamental objective in a liberalised market is to make capital available at a reasonable cost to investors. An example of this is the housing and mortgage market. While there is a severe shortage of housing in the country, this market is being constrained by a

## Chairman's Message

lack of affordable financing for the average homeowner. As a result, this market is developing only at the higher end where funding is not a restricting factor. A sustainable low interest rate environment would lead to an active mortgage market which will have an immediate impact on the development of quality middle and low income housing. This in turn, will lead to activity in other sectors creating a snowball effect on economic growth and development.

In the case of investment in infrastructure, which was already identified as imperative for any form of accelerated growth in the future, the private sector can play a significant role only if funding is available at a competitive cost. A low cost of capital for the private sector can be achieved through low interest rates and a low cost of equity - a buoyant stock market where companies can raise equity capital at attractive valuations and bring down their cost of equity.

These conditions conducive for long-term sustainable economic activity will be brought about only through the strict financial discipline necessary to curb and control inflation, interest rates and other economic fundamentals.

Your Bank has performed commendably during the year. Net profit increased 50% on the back of a 46% increase in Loans and Advances and a 45% increase in Deposits. Earnings per share increased to Rs. 2.57 from Rs. 1.47 at the end of the year 2005, following the merger with Mercantile Leasing Limited. I will not go into detail on the Bank's operational performance, as this is comprehensively covered in the Chief Executive Officer's Report and the Review of Operations.

I am pleased to announce that your Board of Directors recommends a first and final dividend of 10% for the financial year ended 31st December 2006.

Five years ago, when the Bank was just three years from its inception, before we embarked upon a retail focused strategy, the Bank recorded assets of Rs. 5.2 bn, net income of Rs. 329 mn and a return on equity of 3.7%. Today, after an eventful journey navigating through the country's dynamic economic and political landscape, we are proud to place before you, consolidated assets of Rs. 47.6 bn, net income of Rs. 2.6 bn and a return on equity of 11.3%. These amounts to compounded annual growth rates of 56%, 52% and 25% respectively.

The challenge we have set ourselves is to maintain this momentum over the next five years, thereby establishing the Bank firmly as a key player in the financial services sector. We would be privileged to have all of you, our key stakeholders, partnering us as we move forward on this exciting journey.

Your Bank will continue with its differentiation strategy and focus on service quality and a customer oriented service culture. It is on these pillars that the 'Nations' brand will be built and marketed. Within the 'Nations' brand we now encompass banking products and services, leasing, treasury and money market operations. This will be further enhanced to offer a complete range of financial solutions over the next few years.

## Chairman's Message

The challenge we face is to continue to identify and enter into the more profitable market segments and customer segments, while at the same time evaluating and implementing the most efficient delivery channels. The Bank has thrived on being innovative and progressive in meeting our customer requirements and will continue along this path.

It is our vision to be among the top three players in our selected market segments. This we will achieve by continuously re-engineering our portfolio of products and services and being flexible and dynamic in our approach to tailoring financial solutions.

Over the past few years, your Bank has invested in infrastructure in the area of automated teller machines, branch networks and information technology to meet future demand. Over the next few years we will emphasise on optimising the return on these assets and bringing down the cost to income ratio of the Bank.

The key to the Bank's success has been and will continue to be its people. An experienced and professional management team has been at the helm of a pool of enthusiastic and bright young minds steering the Bank towards its goals. From the time of recruitment, our staff are motivated through regular training, a focused approach to objective setting and a clear and transparent link between objectives and rewards. This transparency and performance-oriented culture is changing the traditional mindset of the banking industry and challenging the staff to deliver results.

I take this opportunity to thank and commend the Chief Executive Officer and his senior management team for their dedication and zeal in delivering returns to all the Bank's stakeholders and to all our staff for their hard work and commitment.

It is with regret that I announce the passing away of Mr. S. Easparathan who served as a Member of the Board and as the Chairman of the Board Audit Review Committee. His valuable contribution and guidance will be missed.

I thank Mr. G.S.A. Gunsekera and Mrs. C. Kiriella, who stepped down from the Board, for their invaluable support and direction during their tenure. I would also like to welcome Mr. Z. Zavahir, Mr. S. Piyaatna, Mr. A.R. Rasiah, Mr. M.E. Wickremesinghe and Dr. Dushni Weerakoon as they take their place on the Board of Directors.

I would like to thank the Governor of the Central Bank of Sri Lanka and his team for their support and guidance throughout the year and our Auditors M/s. Ernst and Young for their professional approach and efficiency.

Finally, I thank all our customers and shareholders for their long-standing trust and unfailing support.

## Chief Executive Officer's Report



Our market positioning of '**ONE BANK MANY SOLUTIONS**' and our ability to differentiate our service proposition to the different target market segments, have been exceedingly successful and we have been able to penetrate markets which were the exclusive domain of the major foreign and the larger local banks.

A stylized blue ink signature of Z.H. Zavahir.

Z.H. Zavahir

*Chief Executive Officer*

19th February 2007

# Chief Executive Officer's Report

It is with pleasure and a great sense of satisfaction, that I present the Chief Executive Officer's Report.

2006 was a year where the Bank took its rightful place among the bigger Banks in the country. It was a year where everything came together to deliver a record performance and to create a platform for the next phase of significant growth.

All the Business Units in the Bank dealing with the different market segments performed extremely well. The Retail Banking Division increased Customer numbers by 40%, Deposits by 45% and Advances by 67%. The Treasury Division contribution was a record for the year, while the Corporate and Wholesale Banking Divisions too increased their portfolios and contribution quite pleasingly. The Leasing Division increased their new business by 50% compared to last year and recorded the highest volume of new business booked, in the last five years. The Credit Cards business continued to make rapid progress, with a very satisfying increase in both contribution and market share.

2006 also saw your Bank being ranked within the LMD Top 50.

In recognition of our performance, the prudent management of risk and the increase in Capital resulting from the merger with Mercantile Leasing Limited, Fitch Ratings Lanka Limited upgraded the Bank from 'A-(lka)' to 'A(lka)' in the middle of the year.

We can rightfully be proud of these achievements in only our seventh year of full operation.

The performance in 2006 should be looked at in the context of an economy, which was in the throes of uncertainty caused by the re-escalation of hostilities in the North and the East and the resultant spillover to the rest of the country. While GDP growth was at a healthy 7%, a number of industries suffered due to the uncertain political climate, further exacerbated with rising inflation, increasing interest rates and a depreciating rupee.

## Performance Highlights of 2006\*

- Operating Profits before Tax increased by 55% from Rs. 347.8 mn to Rs. 538.5 mn.
- Operating Profits after Tax increased by 50%, from Rs. 215.9 mn to Rs. 323 mn.
- The integration of the Mercantile Leasing business has proceeded seamlessly and has increased its contribution by 19%. Further economies of scale will be realised during 2007.
- Customer Deposits including Repurchase Agreements against Corporate Debt Securities grew by 51% to Rs. 23.2 bn.
- Loans and Advances including Corporate Debt Securities grew by 46% to Rs. 27 bn.
- Gross Non-Performing Loans reduced from 5.4% to 5.1%.

# Chief Executive Officer's Report

- Number of Branches grew from 28 to 30.
- Number of ATM's grew from 33 to 38.
- Staff numbers increased from 549 to 820 inclusive of the staff taken over from Mercantile Leasing Limited.

\* For comparison purposes, numbers for 2005 include that of Mercantile Leasing Limited and its fully owned subsidiaries for the year ended 31st December 2005, wherever appropriate.

Your Bank has got to this position due to a combination of well thought out strategies, meticulous and determined implementation of these strategies and a lot of hard work put in by the management and staff.

The journey, which we started in July 1999, has seen many milestones:

- The opening of our 30 branches over the years in carefully selected locations.
- The strategic acquisitions of Waldock MacKenzie, Standard Chartered, Kandy Branch, Deutsche Bank Personal Banking portfolio, the American Express Colombo Branch and the Foreign Exchange Services business in 2002.
- We became the sole American Express credit card franchisee in Sri Lanka, in August 2003 and have now become a force to reckon with in the local credit card industry.
- The merger with Mercantile Leasing Limited in 2006 increased our capital base, acquired a profitable business and enabled the Bank to add leasing to our suite of products.

- Central Bank of Sri Lanka Minimum Capital requirements have been complied with.
- Funding arrangements made with multi-lateral agencies - subordinated debt from FMO. (Netherlands), Trade Finance Facilitation Facility from the ADB.
- Fitch Ratings Lanka Limited upgraded the rating to 'A(Ika)' in 2006.
- Our strategy to differentiate ourselves in the market, to centralise support services, employ sales forces to acquire new customers and change our operating model in managing different market segments, were all new to the local banking industry and significantly contributed to bringing us to the advantageous position that we are in today.

The organisation has undergone wide-ranging change over the last few years. While this change has not been without pain, we can be proud that our staff rose to the challenges that they faced and have today, transformed into a professional winning team. The Board also played a big part in having the courage of its convictions to support management, in the various decisions that had to be taken, to bring the vision to reality.

The Bank has now reached a critical mass and is poised for further rapid growth. Over the last three years we have maintained a growth momentum disproportionate to the market,



# Chief Executive Officer's Report

we are confident that we will continue to surpass the market growth in the years to come. Our market positioning of "One Bank Many Solutions" and our ability to differentiate our service proposition to the different target market segments, have been exceedingly successful and we have been able to penetrate markets which were the exclusive domain of the major foreign and the larger local banks.

Our Information Technology, Branch infrastructure and staffing have sufficient capacity to cater to our expansion plans of the near future. Our plans for the next few years envisage doubling our Balance Sheet while improving our return on shareholders' funds. Our Branch network will continue to expand in the planned structured manner that we have done in the last few years.

Our growth over the last few years with the consequential need for expanded centralised support services has resulted in us having to operate from a number of different locations. In order that we rationalise our resources and reap the economies of scale, we entered into an agreement in 2006, for the construction of a bespoke Processing Centre that will be taken on a long-term rental basis by the Bank, to house all processing and support areas. We expect to move into these new premises in the first quarter of 2008. A decision on the Head Office premises too will be made during 2007, to rationalise the use of other premises including our Union Place Office and the Navam Mawatha building.

All this augurs well for the Bank. We are on the threshold of many more great achievements in the years to come. We are positive that we can rely on our shareholders to support us in the growth plans that we have.

In conclusion, I would like to thank our Chairman and the Board of Directors for the confidence they have placed and the proactive support extended to the Bank's management team and to me personally. I should place on record my appreciation of the contribution made to the Bank by the late Mr. S. Easparathan, as a Member of the Board and as the Chairman of the Board Audit Review Committee. His wise counsel will be missed.

My thanks also go to our enthusiastic and hard working staff without whose commitment, loyalty and the will to win, none of the achievements of the past year would have been possible. To my vibrant senior management team goes my gratitude for leading from the front and making it all happen.

We are grateful to the Governor of the Central Bank of Sri Lanka and the senior officials for their professional guidance, prompt and understanding responses to our needs.

A word of thanks too, to our Auditors M/s. Ernst and Young, for their highly professional and ethical approach to their work on our behalf. Last but not least, to our valued customers and shareholders for their belief and confidence in the Bank.



Nations Trust has  
come of age,  
establishing  
a unique, clearly  
differentiated  
identity in the  
market.

## Review of Operations



1. Launch of Nations Home Loans
2. Thimbirigasyaya branch opening
3. ATM Opening at John Keells Holdings by Mr. Susantha Ratnayake
4. Winning the Bronze Award for "New entrant of the year" at the SLIM Brand Excellence Awards



### Retail Banking

It was a year of record performance for the Retail Banking Division, one in which the implementation of an innovative retail banking strategy backed by an aggressive and successful sales force resulted in remarkable growth. 2006 saw the Bank post its highest-ever annual retail revenues since it commenced business operations in 2002.

Retail deposits grew by 45% against an estimated market growth of 16%. A significant

number of new savings accounts were opened during the year, while the overall deposits target for retail was over-achieved.

Meanwhile, retail loans and advances grew by 67% against an estimated market growth of 19%. This excellent result was complemented by a retail non-performing loan ratio that is one of the lowest among Sri Lankan commercial banks.

### Branch Improvements

The expansion of our branch network continued, and the Bank had a total of thirty branches strategically located in the Western Province by the end of the year. A parallel expansion took place in our ATM network, which now stands at thirty-eight machines, including eight off-site ATMs.

A number of branches were upgraded and relocated to improve the customer experience at the branch and to offer enhanced customer convenience.

Several new initiatives were also undertaken to further enhance the customer service levels in the Bank. Numerous promotional campaigns were also conducted during the year. This was complemented by a number of branch level CSR initiatives such as the Blood Donation Campaign at Gampaha Branch.

In keeping with our market positioning of "One Bank Many Solutions", we introduced a range of tailor-made "Bancassurance"

## Review of Operations

products for our customers and also opened leasing counters at some of our branches.

Furthermore, we reviewed and improved our existing products and packages to add value to the customers.

The “Inner Circle” brand, a package of products serving busy professionals which proved to be a winning proposition, won the Bronze Award for new entrant of the year, at this year’s SLIM Brand Excellence Awards.

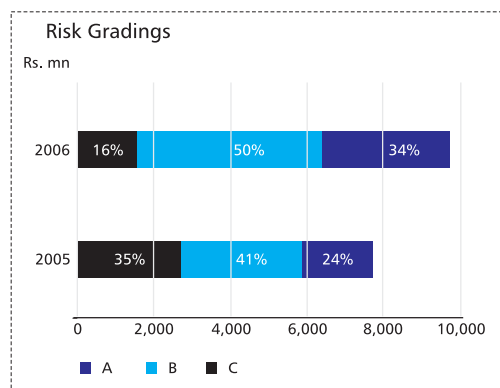
Several cost control measures and centralisation initiatives were undertaken during the year, to enhance efficiency and productivity.

### Corporate Banking

The Bank maintained its focus on creative, client-led solutions across a comprehensive product range, with the Wholesale Banking team concentrating on the upper segment of the market and the Corporate Banking team dealing with the thrust of lending to corporate customers.

### Product Portfolio

The main emphasis was on improving the risk profile of the loan book, the quality of which was substantially enhanced during the course of the year. The internal Risk A & B client segment now accounts for 84% of the portfolio, as against 65% a year ago. This was accomplished by the selective acquisition of



high-quality clients while de-risking the portfolio of marginal-risk clients. As a whole, the portfolio comfortably delivered budgeted returns with a 63:37 mix of interest to fee income while returning an impressive NPL figure of 3.9%.

Corporate internet banking made its debut with a ‘soft’ product launch and is already starting to show encouraging results.

The SME lending product was re-engineered to deliver a number of efficiencies, with turnaround time and client focus being the key drivers.

A Supplier Financing product was introduced to address the funding requirements of various suppliers who interact with large corporate clients while simultaneously enhancing collection parameters and key information requirements.





We have acquired  
the maturity to  
establish and sustain  
mutually profitable  
long-term partnerships.



Efforts were also initiated to deliver various insurance products to the customer base in collaboration with the group associate, Union Assurance.

### Drivers of Success

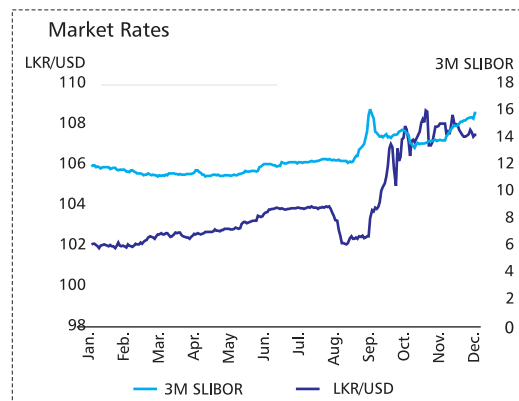
Excellent customer relationships have been the key driver of success. Such relationships are nurtured in many ways. One such initiative was the hugely successful NTrust Corporate Quiz, which drew immense interest and will continue to be a regular date on our calendar.

### Market Factors

Continually rising interest rates put pressure on lending margins on a number of occasions, compelling the Bank to reluctantly pass on increases in refinancing costs to customers. The competitive landscape was further muddled by the many lending institutions that undertook to perform transactions at less than cost in some instances and subsidising profits from non-related businesses and products.

### Treasury & Investment Banking

The Bank's offering in this area is hard to match, with high levels of competence available on key product areas such as foreign exchange, money markets and fixed-income securities. Close collaboration with the corporate banking relationship managers enables client-focused solutions that address the funding and risk management requirements of our corporate and institutional clients.



This team had an exceptional year, achieving a handsome result on foreign exchange profitability by seeking out opportunities that were available in a rather volatile market and trading within established risk parameters. The Bank is an active player in the inter-bank market, committed to providing liquidity, especially in the USD/LKR currency pair, in both the spot and forward markets. The Foreign Exchange Services (FES) operation carried out through four dedicated counters, was revived and contributed notable volumes and income streams.

Sourcing liquidity was one of the main challenges of the year, primarily due to the merger with Mercantile Leasing Limited. Liquidity needs were successfully met without any disruption to business. Successful discussions with multilateral agencies such as the FMO and the ADB have augmented our sources of funding.

We continue to maintain a leading presence in the fixed-income securities market,



## Review of Operations

maintaining a portfolio of Rs. 9 bn. Debt origination deals for the year were worth over Rs. 2 bn, placed with private and institutional clients. The portfolio of corporate debt securities in comparison to total corporate advances is one of the highest amongst large commercial banks, reflecting our aim to provide solutions that address the funding needs of our clients while providing the Bank with assets that can generate liquidity. Most fixed income trading activities were undertaken through our fully-owned subsidiary Waldock Mackenzie, which also delivered remarkable profits.

The equities margin trading operation, one of the largest portfolios in the business, had a slow start but regained momentum towards year-end with the surge of activity on the CSE.

### Leasing and Factoring

Nations Trust Bank merged with Mercantile Leasing Limited (MLL) on 1st January 2006. The merger strengthened the capital base of the Bank, which acquired a ready-made and profitable leasing portfolio and added a team of experienced professionals to its human resources.

The potential of the merger was amply demonstrated in the first year of operations. The business of the former MLL and its subsidiaries achieved its all-time best performance, with new leasing business volumes increasing by 50% in the year. The contribution to the Group's bottom line was a healthy 33%.

The MLL leasing business was rebranded as Nations Leasing at a successful brand launch whose theme was 'A Meeting of Minds'. This theme emphasised the winning combination of, on the one hand, the well-entrenched values of MLL, a company counting 24 successful years of operation and, on the other, the innovation and ambitions of one of the fastest growing Sri Lankan banks. Nations Leasing continues to serve its existing customers, with its main thrust being towards the SME market, while also offering leasing products to the Bank's retail and corporate customer base. Specialised leasing counters were opened at the Bank branches at Kohuwela, Panadura and Kandy, while Nations Leasing products are available at all Bank branches islandwide.



1. Dr. P.B. Jayasundera, Secretary to the Ministry of Finance and Planning, addressing the client seminar - "Economic Outlook 2H 2006"
2. The winning team of the NTrust Corporate Quiz
3. Cocktail for Kandy and Kurunegala Corporate clients



Our persistent drive for success is steered and controlled by responsible governance and oversight.



## Review of Operations



1



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3

1. At the merger between MLL and Nations Trust Bank
2. Opening of a specialised leasing counter at the Bank's Panadura branch
3. The brand launch campaign "A Meeting of Minds" for Nations Leasing
4. The launching ceremony of Nations Factors

The merger also provided the Bank with an advanced factoring system and a factoring portfolio which, though small, is the second-largest in terms of market share in the country.

MFactor, as the business was known, has been rebranded Nations Factors. The Bank will continue with a strategy of cautious but steady growth, offering factoring as an additional product to its corporate customers and using it as a means towards further growth in the SME sector, where it presents a viable financial solution for medium-sized suppliers of goods and services.

The professional and courageous spirit of the Nations Leasing team was evident in their steady performance throughout the year, culminating in record new business volumes achieved. Additionally, provisioning for bad debts was brought strictly in line with the Central Bank of Sri Lanka guidelines for banks, including the recent requirement for a general provision of one per cent of the performing portfolio. This necessitated a provisioning somewhat above the amount originally forecasted, but made the portfolio completely compliant with regulatory requirements. Despite the additional provisions, the ratio of non-performing assets to total portfolio improved, reflecting the ongoing success of our collection procedures and tight control of credit quality within the Bank's strong credit risk management structure.

### Subsidiaries

The three wholly-owned subsidiaries of former MLL will be rationalised in the coming years. In the meantime, they have continued to deliver results as promised.

Mercantile Leasing (Financial Services), which engages in operating leases, showed losses due to a strategic decision made by management to focus on the core business of finance leasing and not to book any new operating lease business.

## Review of Operations

Allied Properties, the property management company that owns the flagship Millennium House Building at Navam Mawatha enjoys a BOI tax holiday until March 2007 and performed to plan.

MLL Insurance Brokers, which provides insurance services to our leasing portfolio also performed to plan. Regulatory developments in the insurance industry will determine whether the Bank needs a separate insurance broking arm in the future.

### American Express Credit Cards

The Bank's card business continued to strengthen its strategic position, making a significant contribution to profits.

Since the launch of American Express Cards in August 2003, the card portfolio has grown at a rapid pace and is now a significant market maker in the premium category.

In 2006, we continued our focus on enhancing value for our members by frequently introducing value-added services, always with a view to offering members the best combination of privileges, savings and convenience. Among the most notable of these programmes was the first ever 'fuel sale' (conducted in June and July 2006), in which members enjoyed discounts of up to 10% on fuel purchases during the period. American Express also conducted the biggest-ever Sri Lankan supermarket sale in August and September 2006, when members enjoyed

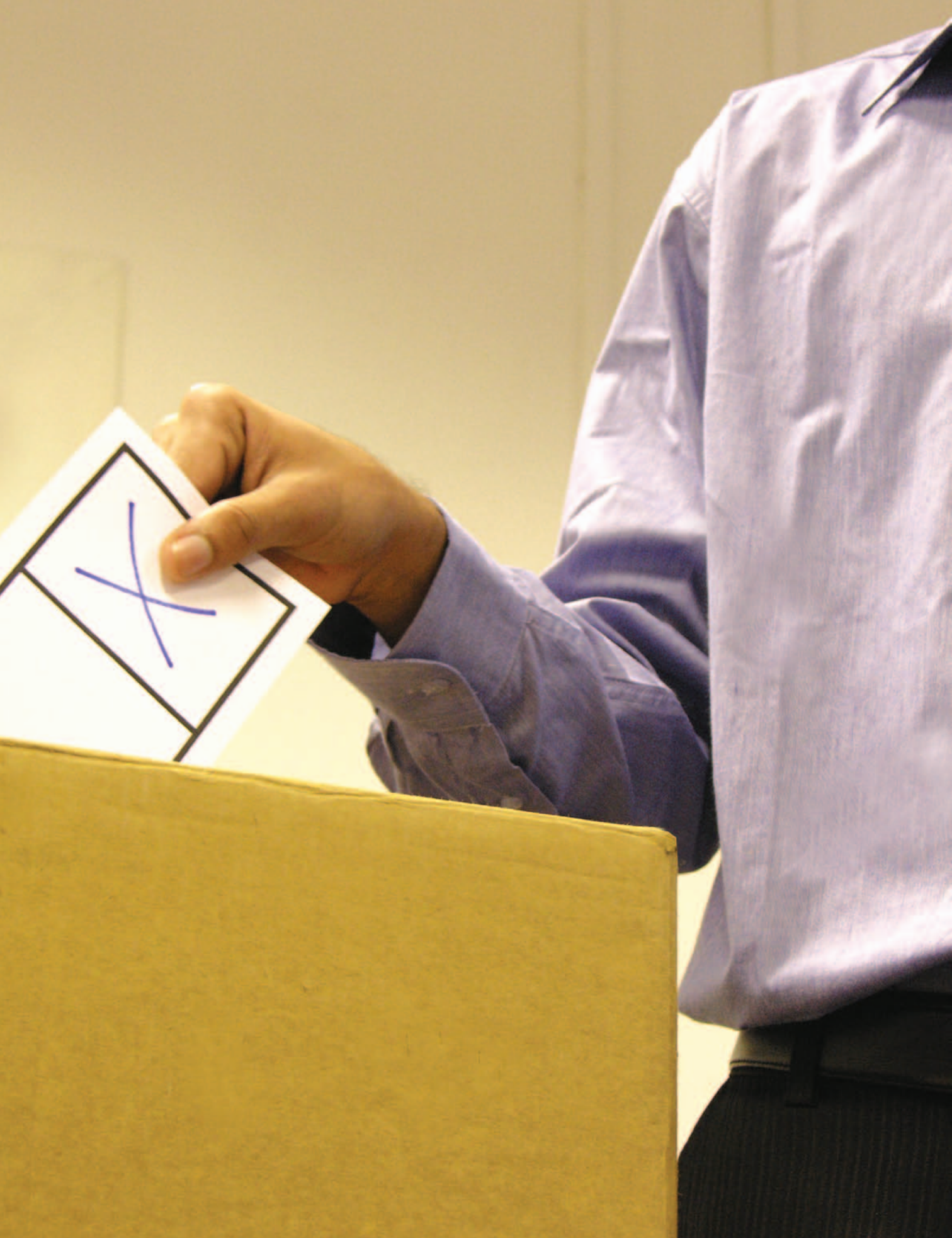
discounts of up to 10% on their purchases at supermarkets islandwide.

The card business continued to build exclusive partnerships and strategic alliances with organisations in order to create added value for its members. A partnership with Abans offered members the opportunity to enjoy discounts and make purchases on an interest-free instalment plan. Other exclusive deals were also offered through our partnership with Dialog Telekom.

Strategically, our focus was on further developing card acceptance. The year saw rapid growth in the merchant network through tie-ups with several leading establishments, fuel and utility providers.

### Global Advertising Campaign

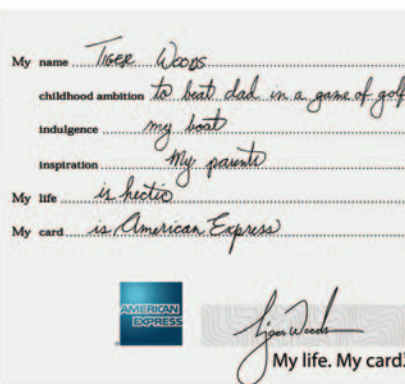
In keeping with the American Express brand promise we launched the American Express flagship brand campaigns in Sri Lanka in 2006, featuring testimonies from a number of famous successful people. Featured brand ambassadors include Tiger Woods, Robert De Niro and Kate Winslet. The campaign communicates the role the American Express brand plays in the lives of such extraordinary people and strengthens the appeal of American Express to people who want to live life to the fullest. Featuring the slogan "My life. My card", the campaign supported an aggressive drive by us to accelerate business growth in the Sri Lankan market.



All grown up now,  
our Bank is making  
its voice heard on  
professional,  
economic and  
national issues.



## Review of Operations



1. The first ever "fuel sale"
2. "My Life My Card" Global Advertising Campaign

While the card market grew by 30% we were able to grow our business over 60% in terms of new card accounts and receivables.

### Affinity Card Launch

A focus on leveraging Group synergies was manifested in the launch of the first-ever Nations Trust Bank - John Keells Group Affinity Card on 11th August 2006.

Combining the privileges of an American Express Credit Card and the Nexus programme, the Affinity Card is tailor-made for John Keells Group employees, offering them special privileges of membership. This new product offers card members the ease and convenience of making various purchases with a single card.

With the objective of supporting member interests in meaningful ways, the Bank co-sponsored the Wildlife and Nature Protection Society, Wildlife Photographer 2006 competition. This was an effort to communicate to a wider audience the need for conservation of wildlife and their natural habitats. A special

section was introduced to include children in the effort of conservation and protection of Sri Lanka's wildlife and their natural habitats.

### Support Services

#### Operational Support

The operations of the Bank were streamlined into four distinct units in 2006:

- Corporate Support Services (International Trade and Treasury Settlements)
- Central Operations
- Credit Operations
- Infrastructure and Administration

These divisions ably supported the rapid growth of the Bank in 2006 through efficient processing and the mitigation of operational losses. The development of our ability to process high business volumes, to establish and meet agreed service standards and to gear ourselves for future volume growth were the key operational achievements of the year.



## Review of Operations

Though business volumes showed significant increases in most areas, the support units were able to process and handle the incremental business with minimal or no increase in resources.

Progressive centralisation, cost reduction and the outsourcing of appropriate tasks were among the other achievements of 2006. Automation initiatives to further improve efficiencies, undertaken during the year under review, will yield results in the coming year.

In order to accommodate the rapid growth of the Bank and provide adequate facilities for all staff, work has begun on a new, state-of-the-art processing centre, with the foundation stone being laid on 8th June 2006. The Bank will take the building on a long-term rental basis and use it to house all its support divisions. The centre will facilitate implementation of the Bank's long-term growth strategy while ensuring day-to-day operational synergies and efficiencies.



*The proposed  
state-of-the-art  
processing centre*

### Information Technology

For the Information Technology unit, a highlight of the year under review was the implementation of High-Availability Cluster Multi-Processing (HACMP) and the Oracle Real Application Cluster (RAC). This combined implementation of HACMP and Oracle RAC, the first such implementation within the banking industry in Sri Lanka, was completed in the last quarter of 2006. The implementation allows the Bank to maintain resources availability at a very high level. The HACMP/RAC infrastructure was replicated at the Bank's disaster recovery site to ensure uninterrupted operations in case of any unforeseen contingency at our head office. HACMP/RAC is a scalable solution, currently equipped with two IBM nodes, which enables load balancing and failover at both sites.

Another innovation this year was the introduction of real-time disaster recovery by enabling real-time replication between production and Disaster Recovery (DR) sites. The core banking databases and applications of the Bank are now replicated at the DR location with a time-lag of less than a minute. The main and disaster recovery server rooms were also upgraded to match industry standards.

A Customer Service Centre application was developed and implemented to handle all internal and external issues, complaints and requests. The system logs all internal and external requests and issues so that these may be tracked and dealt with quickly, thereby improving response and resolution times.

## Review of Operations



1. A service excellence initiative by the Bank
2. A conference for all sales staff
3. All Managers participating at a Business Review



### Human Resources

The Bank has grown more than threefold in employee strength over the last five years. The Bank now employs 820 staff members, up from 271 at the end of 2002. The increase in head count in 2006 is partly due to the merger with Mercantile Leasing Limited.

#### Personnel Numbers

Year	Strength
2002	271
2003	405
2004	479
2005	549
2006	820

### Training and Career Development

It was a busy year for this function, with almost 5,000 days of employee training, or an average of six training days per employee, successfully delivered. A large component of training was in the areas of customer service, selling skills, management development and technical training. The Bank places strong and continuous emphasis on sales and service training, competency development and technical skills.

During the period under review, the Bank introduced e-Learning and product certification which has enabled employees to learn at their own pace, place and convenience.

### Performance Management

The Bank introduced a robust Performance Management Scheme which aligns the organisational objectives to those of the employees. The performance linked pay arrangements including the Variable Bonus Scheme have established a clear line of sight between the Bank's performance and employee contribution. The sales process has been suitably incentivised to ensure that sales targets are met. 360 Degree Feedback System has been introduced to assess the potential of the Senior Management team.

### Teambuilding

A variety of teambuilding initiatives are in place at the Bank.

## Review of Operations

Staff participation in social and sports activities is promoted as an integral aspect of teambuilding. The Bank has an active sports club with representation in a number of sports, the most popular being basketball. A wide range of non-sporting social activities are also held, and these have effectively enhanced morale and the quality of teamwork.

Accolades and recognition play a vital role in motivating our people. The Star Award scheme, which was initiated to recognise contributions above and beyond the call of duty, has been effective in developing higher performance and stronger self-motivation among employees.

### **Staff Communications and Management Feedback**

The Bank promotes open communication and the Joint Consultative Committee (JCC) forms a vital part in this process. The JCC is headed by

the Chief Executive Officer and consists of representatives from all Branches/ Departments. Further, the Bank conducts regular Employee Attitude Surveys and Internal Customer Surveys in order to receive employee feedback.

### **Human Resources Management System (HRMS)**

This highly effective IT system simplifies and rationalises numerous human resources management functions by placing them online. Its capabilities include e-Leave, e-Recruitment , e-Job Evaluation and e-Learning.

The e-Learning function was enabled in 2006. Initially, this consisted of six core product modules such as liability products, asset products, leasing, Treasury operations, etc. More recently, the Bank has started building “soft skills” through e-Learning in order to enhance staff capabilities in this area.

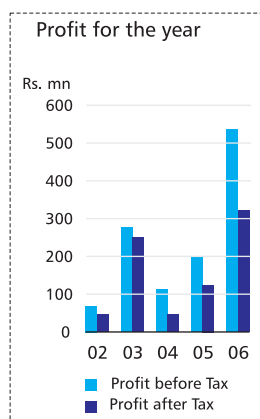


*Team-building activities*

# Financial Review

## Profit for the year\*

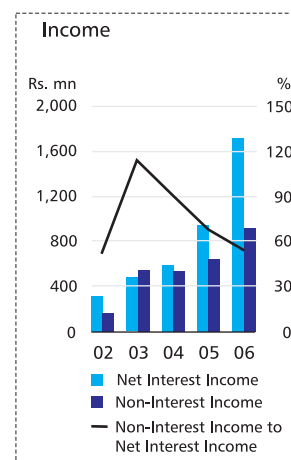
An excellent performance in core banking activities coupled with positive returns from the new leasing business enabled the Bank to report a record level of earnings for 2006. Profit before Tax for the Group was Rs.538.5 mn reflecting an impressive growth of 55% over the previous year. Revenue growth of 32% was facilitated by a 26% growth in Net Interest Income and 45% growth in Non-Fund Based Income. Operating expenses increased by 27% inclusive of overheads of the merged operations. Profit after Tax posted a significant growth of 50% in 2006 to reach Rs. 323 mn.



## Income

Total income grew by 32% out of which increases in Net Interest Income and Non-Fund Based Income were 26% and 45% respectively. Non-Interest Income recorded a Rs. 288 mn growth in absolute terms over the corresponding year. Leasing business

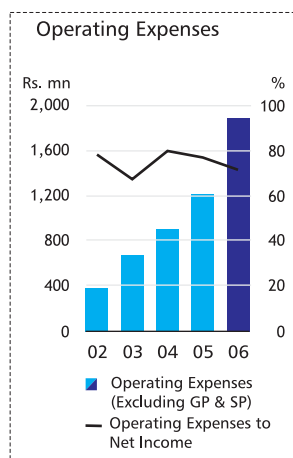
contributed 25% to the growth, while there was healthy contribution from Allied Properties, the property management company which owns the flagship Millennium House Building at Navam Mawatha and MLL Insurance Brokers Limited, which provides insurance services to the leasing portfolio. Foreign exchange income grew by 54% recording an exceptional year as a result of aggressively pursuing opportunities that were available in a rather volatile market, whilst trading within established risk parameters. Credit cards income grew by 43% reaping the benefits of strategies launched to enhance customer spend and card activation. Non-Fund Base Income to Net Interest Income ratio declined from 68% to 54% in 2006 as a result of the earnings in net interest income generated from the Leasing business.



\* For comparison purposes, numbers for 2005 include those of Mercantile Leasing Limited for the year ended 31st December 2005, wherever appropriate.

## Operating Expenses

The Bank continued its efforts on controlling costs during the year 2006. Operating expenses excluding provision for losses increased by Rs. 445 mn over the corresponding year out of which 58% was attributable to the new businesses which were merged at the beginning of the year. Revenue related costs which comprise of 12% of total operating expenses grew by 35% during the year, of which a large component was attributable to franchise fees and royalties payable on account of American Express Credit cards and payments made to revenue-sharing sales agents. Staff expenses, premises related cost and other operating expenses grew mainly to support growth in business volumes, customer acquisition and servicing activities and bankwide expansion plans. Notable increases in other expenses were travelling & transportation, printing and stationery and outsourced fees. Operating expenses to income ratio improved from last year's 77% to 71% in the year under review.

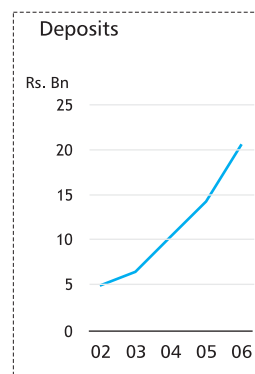


## Provision for Losses

Despite the customer base and volumes of business recording impressive growths during the year and Leasing business having to make provisions to comply with the regulations of the Central Bank of Sri Lanka, the Bank managed to maintain a healthy risk profile and reported improvement in credit quality in terms of NPLs ratio and level of provisions for possible loan losses. Group NPL ratio declined from 5.4% to 5.1% in 2006. Total specific provisions charge for the year stands at 0.45% of the total outstandings compared to 0.88% for year 2005.

## Deposits

The Bank's deposits increased to Rs. 20.7 bn recording an impressive growth of 45% from Rs. 14.3 bn in 2005. This was achieved in the backdrop of an estimated market growth of 16%. Term deposits recorded the highest growth of 49% while savings and current deposits grew by 38% and 34% respectively. Impact of the initiatives taken to aggressively mobilise low cost deposits during the year is evident from current and savings deposits

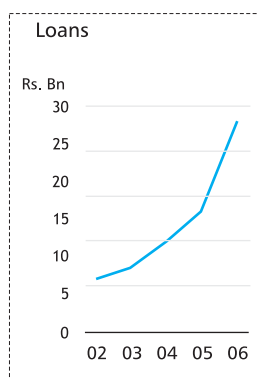


## Financial Review

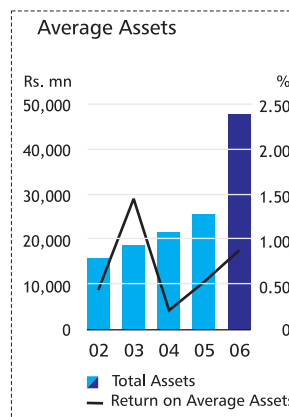
increasing by Rs. 1.7 bn out of a portfolio growth of Rs. 6.4 bn accounting for approximately 30% of the growth.

### Loans & Advances

Total Loans & Advances grew by Rs. 11 bn during the year with the Nations Leasing portfolio accounting for 46% of the growth in the total loan book. Credit expansion strategies rolled out during the year focused on consumer lending and selective acquisition of high-quality corporates. The consumer loan book grew by Rs. 2.5 bn, an impressive 67% increase whilst the corporate loan book inclusive of the SME segment grew by 36% and credit cards advances by 41%.

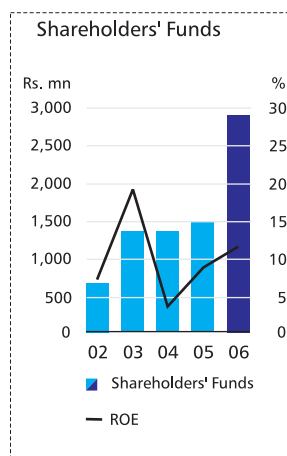


Return on Average Assets improved from 0.53% to 0.88% and has been trending in the right direction over the last three years.



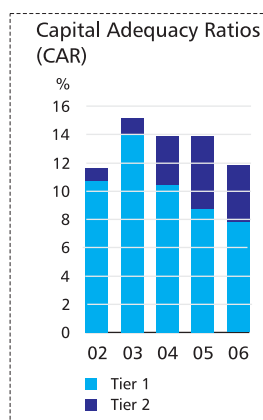
### Shareholders' Funds

Shareholders' Funds reported a significant growth of 96% from Rs. 1.5 bn to Rs. 2.9 bn, year-on-year as a result of Nations Trust Bank merging with Mercantile Leasing Limited. This enabled the Bank to comply with the enhanced capital requirements of the Central Bank of Sri Lanka. The Return on Equity improved from previous year's 8.5% to 11.3% in 2006.



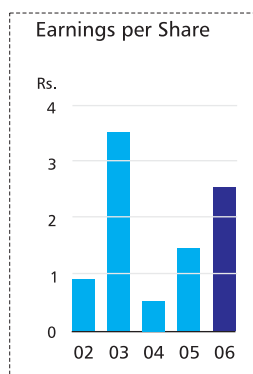
## Capital Adequacy Ratios (CAR)

The Bank's Tier I capital adequacy ratio as at end of 2006 stood at 7.86%, while Tier I & II capital was at 11.86%. Total risk weighted assets grew by Rs. 14 bn compared to 2005 of which the leasing portfolio assets falling within the 110% risk weighted category amounted to 30%. Based on current volumes of risk weighted assets, the Bank is also within the parameters of Basel II, laid down by the Central Bank of Sri Lanka, which is to be implemented in 2008.



## Earnings per Share

Earnings per share increased by 75% to Rs. 2.57, further enhancing shareholder value in 2006.





# Contribution Towards the Society

## Corporate Social Responsibility

Corporate social responsibility activities at the Bank form part of a larger John Keells Group CSR initiative, which is realised through a body incorporated for the purpose: the John Keells Social Responsibility Foundation.

The arrangement makes for better access to resources across the Group and helps exploit intra-group synergies for greater impact.

Projects supported by the foundation include a broad-based programme for teaching English in rural schools, an HIV/AIDS awareness programme for urban youth and several environmental projects in the country's nature reserves, in particular at Ruhunu (Yala) National Park.

## Wildlife Photographer 2006

In the cause of nature conservation, our American Express franchise joined hands with the Wildlife & Nature Protection Society of Sri Lanka (WNPS) to co-sponsor the Wildlife Photographer 2006 competition, by which means we helped raise interest in Sri Lanka's wildlife and their precious natural habitats and spread the message of conservation and protection.

## Other CSR projects

The Bank, on its own, also undertook several projects.



1. Ms. Ashwini Jayatilake, the youngest award winner at the wildlife photographer competition 2006
2. Blood donation programme organised by the Bank
3. Employees involved in the make over of the wards at the Cancer Hospital



## Contribution Towards the Society

In June 2006, employees undertook the makeover of two wards at the Maharagama Cancer Hospital followed by a distribution of dry rations for adult patients and children. Two blood donation programmes were also carried out during the year in collaboration with the National Blood Bank by the Panadura Branch in March 2006 and by the Nations Leasing team in October 2006.

All these initiatives were spearheaded by our staff, many of whom personally involved themselves in the work with enthusiasm and energy.

Overall, our future CSR approach will be to continue with our focus on deserving projects, with the active participation of our staff

wherever possible, while contributing to Group projects through the John Keells Social Responsibility Foundation.

### Nations Trust Sports & Welfare Club

In addition to contributing to public welfare, another important aspect of corporate social responsibility involves support for the health and welfare of our own people. The Bank's Sports & Welfare Club undertakes a number of activities on behalf of our staff and also organises social responsibility initiatives with their support and participation.



1. 'Gypsy Party 2006' - The Annual Dinner Dance
2. Sports Day
3. Marking the dawn of the Sinhala New Year - 'Soorya Mangalyaya'.

## Contribution Towards the Society

### Sporting Achievements

Sports and physical fitness are enthusiastically supported at the Bank.

In 2006, some of the achievements of our Sports Club and its members included:

#### Basketball

- Our team finished runners-up in the Delmege Mercantile Basketball Tournament, 2006.
- We emerged champions in both the A & D Divisions of the Mercantile 5-a-side Basketball Tournament organised by the MSBA.

- We were also the champions in the HNB Mercantile Basketball Tournament, 2006.

#### Badminton

- Our teams clinched the Dulux Inter-Firm Badminton Team Championship, 2006, winning the Men's D Division and the Veterans' Division.

#### Karate

- J.K. Dharmarathna secured first place in the S/H Weight category at the Shidokan Full-Body-Contact Karate Tournament, held in May 2006 at Hyderabad in Pakistan.



*Winners all the way - victors of Basketball, Karate and Badminton*

# Risk Management

Risk is an inherent feature of the Bank's business and its activities. The extent to which the Bank identifies and manages its risks is critical to its long-term profitability and stability. The Bank's policy of having a broad based portfolio of banking activities helps to mitigate the impact of risks in one area. With high volatility in commodity prices and trade flows impacting on exchange rates and decreasing margins in a competitive domestic environment, prudent risk management takes an increasing importance in managing and growing the business.

## Credit Risk

Credit Risk is one of the major risks faced by a Bank. It may be defined as a default by a counterparty and includes the inability to pay capital or interest on the due date. The banking sector has increased emphasis on managing the quality of lending with a view to controlling non-performing assets. Significant changes in both the local and global economy and the health of a particular industry impacts on credit risk. Central to the credit management process are the credit policies laid down by the Board. The Board has detailed limits for borrowers and industry segments. In addition, the Bank is also required to comply with the Single Borrower Limit set by the Central Bank of Sri Lanka, under the provisions of the Banking Act, which places a limitation on advances extended to a borrower or group of borrowers as a percentage of shareholders' funds. In order to manage credit risk the Bank has developed a comprehensive credit evaluation mechanism. The Credit Committee

of the Bank approves credit facilities under delegated authority and reviews and recommends to the Board Supervisory Committee, proposals which are outside its mandate. The delegated authority for approvals of credit facilities is linked to the risk classification of clients, to ensure a comprehensive risk management of credit. Monitoring and review of portfolio performance is also undertaken periodically to ensure early warning signals are detected and appropriate corrective action is initiated at the proper time. Monthly, the Credit Committee also reviews in detail an analysis of non-performing loans, sector exposure analysis, grade-wise analysis and recommends action, if any, to the Board Supervisory Committee, a sub-committee of the Board of Directors.

The Board Supervisory Committee also undertakes a monthly review of all credit facilities approved by management and other monthly reports, which are submitted to the Board. A quarterly update of all high value facilities approved on an unsecured basis is also submitted to the Board Supervisory Committee affording another opportunity to discuss/review portfolio status along with the Bank's corporate management.

The administration and management of credit risk is independent of the business units. The Credit Administration Unit deals with the operational issues relating to the granting of facilities, including the control of security, loading of limits to the system and the

# Risk Management

provision of reports. The Credit Risk Management Unit independently evaluates all credit proposals above a certain limit and monitors industry and sectoral exposure.

With a view to sustaining/improving asset quality in a rapidly expanding and well diversified credit portfolio under volatile economic conditions, the Credit Risk Management Unit has implemented strict controls in monitoring credit to proactively identify early warning signals to avoid/minimise probable credit losses. Introduction of specific reporting procedures to review excesses and to record important events of a relationship in chronological order are among key initiatives introduced to strengthen credit monitoring. These measures have resulted in achieving further improvement of portfolio quality in a year which recorded a significant growth in advances especially in Corporate/ Wholesale areas following a two-fold increase in the single borrower limit.

The Bank adopts a conservative policy towards provisioning and begins provisioning on facilities that are overdue for more than three months, which is more stringent than the requirements of the Central Bank of Sri Lanka. In addition, we carry forward a general provision of 1% on all outstanding advances.

## Asset and Liability Management

The Assets and Liabilities Committee (ALCO) is chaired by the Chief Executive Officer and comprises the Heads of Business Units, CFO, Head of Credit Risk Management and Head - Internal Audit. The Board has delegated

specific authority to the ALCO to review and implement prudent risk management policies in the day-to-day running of the Bank. The ALCO reports to the Board Supervisory Committee and to the Board and recommends any change of policy outside its authority for their approval.

An analysis of exchange rate risk exposures, liquidity and interest rate risk profiles is presented at the monthly ALCO meetings and the potential impact on the Bank, due to interest rate movements, is also reviewed. This is over and above the daily risk management reports that are reviewed by the relevant Heads of Department and other senior personnel. Appropriate Balance Sheet strategies are analysed for implementation in accordance with the risk objectives of the Bank. ALCO also establishes the basis for setting of deposit and lending rates.

## Market Risk

Market Risk arises from open positions in interest and currency positions. The Bank's exposure is controlled by limits approved by the Board, the monitoring of which is carried out by the ALCO.

The Treasury Division, in accordance with Board policy, centrally implements the management of market risks arising from interest and exchange rate volatility. The Bank's foreign exchange exposure is principally from trade and remittance flows, treasury trading activities and structural foreign currency translation exposure. In order

# Risk Management

to reinforce the Bank's risk management process, the back-office is independent of foreign currency dealing operations.

Interest rate exposure arises from treasury trading activities and structural interest rate exposure from the asset/liability portfolios. The Bank responds to changing market conditions by continuously monitoring and taking action to manage the cost of funding to maintain acceptable margins.

Concepts such as Value-At-Risk (VAR) and Duration are being introduced to complement the traditional measures of notional and gap limits.

The Treasury is responsible to ensure that exposures are within laid down parameters and ALCO reviews the positions periodically.

## Liquidity Risk

The objective of liquidity management is to ensure the availability of sufficient cash flows to meet all of the Bank's financial commitments and to facilitate the expansion of the business.

Liquidity management addresses the Bank's ability to meet mismatches arising from the maturity of its assets and liabilities, thus minimising the risks associated with systematic changes in market liquidity. Maximum cash outflow limits for various time-buckets are approved by the Board and monitored by the ALCO.

The Treasury Division is responsible for managing liquidity in accordance with Board policy. In order to mitigate liquidity risk the Bank holds a sufficient level of highly liquid marketable assets such as Government of Sri Lanka Treasury Bills and Bonds.

Particular emphasis is paid to observance of Central Bank requirements relating to Liquid Assets that need to be maintained at a minimum of 20%. The liquidity management policy entails the identification and continuous monitoring of alternative funding sources to enable the expansion and diversification of the liability portfolio.

## Operational Risk

Operational Risk may be defined as a loss arising from a breakdown in the Bank's systems, internal processes and procedures, human error or natural or man-made disasters and is inherent in any business.

Operational Risk is mitigated by the implementation of internal controls. The Bank's processes and procedures are under continuous review. Whenever possible identified operational risks are insured.

Regular reviews of the implementation of the Bank's procedures and internal controls and their effectiveness is carried out by the Internal Audit Department that reports to the Board Audit Review Committee. Focus on this area will be further intensified during the coming year to prepare for measures recommended with the BASEL II.

# Corporate Governance Report

As the representatives of the shareholders, the Board of Directors has placed great emphasis on enhancing stakeholder value whilst ensuring that proper internal control systems are in place to govern the day-to-day affairs of the Bank, in a manner, which is ethical and law abiding. Principles of fairness, transparency, responsibility and accountability are the pillars supporting the performance of your Bank. Compliance with the letter and the spirit of the law is also a guiding principle. Policy and procedures approved by the Board have taken these principles into account.

## The Board of Directors

The Board of Directors has control of the affairs of the Bank and is also accountable to the stakeholders. In keeping with the accepted principles of Corporate Governance the office of the Chairman and the Chief Executive Officer are kept separate, the former being a Non-Executive Director representing the largest shareholder. All Directors are professional and experienced leaders of high repute, from the corporate and finance sectors, who together contribute a wealth of practical insight and business acumen. Currently, there are two Executive Directors one of whom is the Chief Executive Officer and the other Directors are Non-Executive Directors.

The Chairman and the Board establish the strategies and key policies of the Bank and sets the goals and objectives for the Chief Executive Officer. The Board appoints the Chief Executive Officer and Corporate Management, defines their job responsibilities and plans for their succession. The main corporate goals and objectives of the Bank are

incorporated as personal goals of the Chief Executive Officer whose performance is assessed by the Board.

A Board Supervisory Committee, comprising three Non-Executive Directors has been appointed to oversee and guide the Bank with respect to credit and the management of credit risk, personnel and remuneration, corporate planning and performance management. The Chairman of the Board Audit Review Committee attends these meetings, by invitation. This Committee convenes at least once a month, in addition to special meetings and ongoing consultations as appropriate.

The Board monitors progress against plans on a monthly basis with the aid of monthly reports prepared using the well-streamlined Management Information System (MIS). Complementary to the Board Supervisory Committee meeting at least once monthly, the Board meets as regularly as required and during this financial year met five times. Additionally, the Board also takes decisions through the mechanism of adopting circular resolutions as and when required.

The Corporate Management headed by the Chief Executive Officer in accordance with the authority so delegated carries out the day-to-day management of the Bank. The Corporate Management meets weekly to monitor performance and deal with operational issues. In addition, monthly meetings are held, with all management staff to review performance against budget and the achievement of financial and non-financial targets.

## The Board Audit Review Committee

The Bank's audit functions are the responsibility of a Board Audit Review Committee reporting directly to the Board of Directors. The Committee consists of three Non-Executive Directors with the Head of Internal Audit acting as its Secretary. The Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Financial Officer and the Compliance Officer (Chief Operations Officer) attend the meetings by invitation. The full report of this Committee is given on page 47 of this report.

## Systems and Processes

All financial statements adhere strictly to the Sri Lanka Accounting Standards, requirements of the Colombo Stock Exchange and the Banking Act. All periodic information and returns are submitted to regulatory authorities as required.

The Board has implemented systems to ensure that the policies laid down by the Board are implemented and the assets of the Bank are safeguarded. Procedures have also been implemented to ensure compliance with statutory and regulatory requirements.



## Board of Directors





# Board of Directors as at 31st December 2006

## **A.D. Gunewardene (1)**

### *Chairman*

Mr. Gunewardene was appointed Chairman of Nations Trust Bank on 1st January 2006. He has been on the Board of Nations Trust Bank since its inception. He is also the Chairman of Union Assurance Limited. He is the Deputy Chairman of John Keells Holdings Limited and has been a member of their Board for over 14 years. He is a Director in many companies in the John Keells Group. He is a member of the Capital Markets Cluster of the NCED and has also served as Chairman of the Colombo Stock Exchange. Mr. Gunewardene brings over 24 years of management experience to your Board.

## **Z.H. Zavahir (2)**

### *Director/CEO*

Mr. Zavahir is the Director /Chief Executive Officer of the Bank. He has over 28 years of Banking experience, having served in various senior management positions with ANZ Grindlays Bank, both locally and overseas. Having joined Nations Trust Bank as AGM - Finance and Corporate Planning in early 2001, he assumed the position of Chief Executive Officer in April 2004. He was appointed a Director in October 2006. He is a Fellow member of the Chartered Institute of Management Accountants, London and an Associate Member of the Chartered Institute of Bankers, London.

## **E.H. Wijenaike (3)**

### *Director*

Mr. Wijenaike is the Managing Director of Central Finance Co. Limited, a leading Non-Banking Financial Institution (NBFI) in the country. He has over 25 years of management experience. He is a Director of several quoted companies within and outside the Group. He holds a Bachelor's Degree in Commerce and a Postgraduate Diploma in Finance and Management. He is a member of the Chartered Institute of Management (UK) and a Fellow of

the Institute of Credit Management. He has been a Director of the Bank since its inception and serves as a member of the Board Supervisory Committee of the Bank.

## **S.C. Ratnayake (4)**

### *Director*

Mr. Ratnayake is the Chairman of John Keells Holdings Limited. He has been a member of John Keells Holdings Limited Board since 1992/1993 and oversees Group Strategy and New Business Development.

## **Ms. C. Kiriella (5)**

### *Director*

Ms. Kiriella is the Legal Director of Central Finance Co. Limited and is a Director of several companies within the Central Finance Group. She has been with Central Finance Company Limited since 1979. She qualified as an Attorney-at-Law with a First Class in 1974 in Sri Lanka and also qualified as a Solicitor in the UK in 1978. Ms. Kiriella brings in over 20 years of management experience to the Board.

## **J.R.F. Peiris (6)**

### *Director*

A Director of John Keells Holdings and many of its subsidiaries, Mr. Peiris has overall responsibility for John Keells Group Finance, including Treasury, Taxation, Corporate Finance, Insurance and the Information Technology functions. Previously, Managing Director of Anglo American Corporation (Central Africa) Limited and EXCO Member of Konkola Copper Mines plc, both in Zambia, Mr. Peiris has served in many Boards overseas and has over 30 years finance and general management experience in Sri Lanka and abroad. Mr. Peiris also serves as the Chairman of the Taxation Sub - Committee of the Ceylon Chamber of Commerce. He is a FCMA and a FCCA, and also holds an MBA from the University of Cape Town, South Africa.

## **A.K. Gunaratne (7)**

### *Director*

Mr. Gunaratne is the Director-Group Co-ordination of Central Finance Company Limited a leading Non-Banking Financial Institution (NBFI) in the country where he oversees the functions of Strategic Planning and Risk Management. Mr. Gunaratne also functions as Director/CEO of CF Venture Management Company Limited and Zyrex Power Company Limited, which are companies within the Central Finance Group. He is a Fellow of the Chartered Institute of Management Accountants of UK and an Associate Member of the Institute of Chartered Accountants of Sri Lanka.

## **G.S.A. Gunsekera (8)**

### *Director*

Mr. Gunsekera is a Director of John Keells Holdings Limited. Appointed to the JKH Board in 1997/98, Mr. Gunsekera has overall responsibility for the Plantation Services Group and the Corporate Communications function at the Centre. He also heads the John Keells Social Responsibility Foundation Management Committee. Mr. Gunsekera is a Director in many John Keells Group Companies and has over 24 years of management experience.

## **C.H.S.K. Piyaratna (9)**

### *Director*

Mr. Sarath Piyaratna is an Executive Director of the Bank. He was appointed to the Board of Nations Trust Bank in October 2006, after a successful career at HSBC spanning 28 years which included assignments in group offices overseas. Mr. Piyaratna's overseas stints included serving as Vice-President - Custody and Clearing at HSBC Philippines. He served as the Deputy CEO and Head of Personal Financial Services at HSBC, Colombo from 2000 until his retirement in 2006. Mr. Piyaratna holds a Bachelor's Degree and a Master's Degree in Economics.

## Corporate Management Team



**Mr. Arthur Fernandez**  
Head - Internal Audit

1. **Mr. Zulfiqar Zavahir** *Director/Chief Executive Officer*
2. **Mr. Iftikar Ahamed** *Deputy Chief Executive Officer*
3. **Ms. Renuka Fernando** *Deputy General Manager - Retail*
4. **Ms. Keshini Jayawardena** *Deputy General Manager - Leasing*
5. **Mr. Lalith Fernando** *Head - Credit Risk Management*
6. **Mr. Rohitha Ganegoda** *Chief Operations Officer*
7. **Mr. Hewa Hewapattini** *Head - Human Resources*
8. **Mr. Lasith Nanayakkara** *Chief Information Officer*
9. **Mr. Theja Silva** *Head - Legal & Company Secretary*
10. **Mr. Priyantha Talwatte** *Head - Credit Cards and Strategic Marketing*

## Senior Management Team



1. Mr. Reynold Abeykoon *Chief Manager - Corporate Support Services*
2. Mr. Sheahan Arasaratnam *Chief Manager - Consumer Sales*
3. Mr. Anushan Fernando *Chief Manager - Delivery Channels*
4. Mr. Lorenzo Jayasinghe *Chief Manager - Corporate Banking*
5. Mr. Bandara Jayathilake *Chief Manager - Business Banking*
6. Mr. Nadeesha Senaratne *Chief Manager - American Express Cards*
7. Ms. Ramanika Unamboowe *Chief Manager - Wholesale Banking*
8. Mr. Dilshan Wirasekara *Chief Manager - Treasury*
9. Mr. Sheahan Daniels *AGM - Factoring*
10. Mr. Rohan Fonseka *AGM - Leasing Recoveries*
11. Mr. Priyantha Wijesekera *AGM - Leasing Operations*
12. Ms. Kushlani Allis *Senior Manager - Management Information and Planning*
13. Mr. Irishad Ally *Senior Manager - Delivery Channels*
14. Mr. Jayantha Amarasinghe *Senior Manager - Human Resources*
15. Mr. Karthigesu Balachandrarajan *Senior Manager - Central Operations*
16. Mr. Lewie Diasz *Senior Manager - Merchant Acquiring & Cards Marketing*
17. Mr. Indrajith Gunasekera *Senior Manager - Retail Banking Credit*
18. Mr. Chamath Munasinghe *Senior Manager - Credit Operations*
19. Mr. Sathish Madhavan *Consultant - Collections & Recoveries*
20. Mr. Sanjaya Perera *Senior Manager - Delivery Channels*
21. Mr. Nandana Senevirathne *Senior Manager - Compliance and Financial Reporting*
22. Mr. Azreen Shafeek *Senior Manager - Treasury*
23. Mr. Lalaka Siriwardena *Senior Manager - Corporate Banking*

# Service Network

## HEAD OFFICE AND CORPORATE BRANCH

Nations Trust Bank Limited  
242, Union Place, Colombo 2, Sri Lanka  
Call Centre: 4711411 Fax: 4313198  
E-mail: info@nationstrust.com  
Website: www.nationstrust.com

## BRANCHES

### City Office

No. 76, York Street, Colombo 1.

### Kollupitiya

No. 464, Galle Road, Colombo 3.

### Sangaraja Mawatha

No. 545A, Sri Sangaraja Mawatha, Colombo 10.

### Kandy

No. 147, Kotugodella Veediya, Kandy.

### Cinnamon Gardens

No. 104, Dharmapala Mawatha, Colombo 7.

### Maharagama

No. 129, High Level Road, Maharagama.

### Negombo

No. 113 A, Greens Road, Negombo.

### Pettah

No. 244, Main Street, Colombo 11.

### Battaramulla

No. 15, Kaduwela Road, Battaramulla.

### Kurunegala

No. 37, Puttalam Road, Kurunegala.

### Moratuwa

No. 246, Galle Road, Idama, Moratuwa.

### Nugegoda

No. 128, High Level Road, Nugegoda.

### Wellawatte

No. 292, Galle Road, Wellawatte.

### Panadura

No. 229, Galle Road, Panadura.

### Gampaha

No. 16/1, Courts Road, Gampaha.

### Kiribathgoda

No. 94, Makola Road, Kiribathgoda.

### Kotahena

No. 200, George R. De Silva Mawatha, Colombo 13.

### Kadawata Branch

No. 25, Kandy Road, Kadawata.

### Dehiwela Branch

No. 163, Galle Road, Dehiwela.

## MINI BRANCHES

### Kollupitiya - Keells Super

No. 82, Liberty Plaza, R.A. De Mel Mawatha, Colombo 3.

### Wattala - Keells Super

No. 385, Negombo Road, Wattala.

### Kohuwela

No. 96, Dutugemunu Street, Kohuwela.

### Borella - Keells Super

No. 85, Dr. N.M. Perera Mawatha, Colombo 8.

### Mount Lavinia - Keells Super

No. 388, Galle Road, Mt Lavinia.

### Crescat Branch

G 9, No. 77, Crescat Boulevard, Galle Road, Colombo 3.

### Mahabage

No. 588, Thilakma Supermarket, Negombo Road, Mahabage.

### Ward Place - Inner Circle Centre

Odel, No. 10, Ward Place, Colombo 7.

### Millennium Branch

No. 46-58, Nawam Mawatha, Colombo 2.

### Havelock Town Branch

No. 100, Havelock Road, Colombo 5.

### Peradeniya Branch (Opened in January 2007)

Royal Mall Shopping Complex,  
No. 903/18, William Gopallawa Mawatha, Kandy.

## Off site ATMs

ATMs at Lanka IOC Filling Stations

- No. 291, Danister De Silva Mawatha, Dematagoda, Colombo 10.
- No. 75, Dr. C.W.W. Kannangara Mawatha, Colombo 7.
- No. 323, Havelock Road, Colombo 6.
- No. 762, Galle Road, Colombo 4.
- No. 570, Elvitigala Mawatha, Narahenpita, Colombo 5.

## Others

- Asiri Hospital  
No. 181, Kirula Road, Narahenpita.
- Asiri Surgical  
No. 21, Kirimandala Mawatha, Narahenpita.
- John Keells  
No. 130, Glennie Street, Colombo 2.



# Board Audit Review Committee Report

The Board Audit Review Committee (BARC) is appointed by the Board of Directors and comprises of three Non-Executive Directors. The Head of Internal Audit performs the role of the Secretary to the Committee.

The Director and Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Financial Officer, the Chief Operations Officer/Chief Compliance Officer and the External Auditors attend meetings by invitation. Other members of the Corporate Management attend the meeting if required.

The Board Audit Review Committee independently examines and evaluates the activities of the Bank. The Committee also advises all levels of management and the Board of Directors on the Bank's system of internal controls and the management of risk. As and when required, the Committee requests the Corporate Management for additional information/data in order to satisfy itself of the adequacy of the controls that are in place. The Minutes of the Board Audit Review Committee meetings are submitted for review to the Board of Directors of the Bank. The Head of Internal Audit reports directly to the Chairman of the Board Audit Review Committee, thereby strengthening the independence of the position.

The role of the Board Audit Review Committee is to monitor implementation of policies and the strategies approved by the Board of Directors, evaluate the extent to which corporate objectives are achieved and

provide assurance to the Board of Directors that regulatory and statutory requirements have been adhered to and that risks are identified and managed through an adequate, effective and efficient system of internal controls and procedures. During the year, the Committee met seven times and reviewed internal audit reports on the Bank and its subsidiaries.

## The Committee

- Reviewed thirty audit reports relating to branches and departments and the reports on special investigations.
- Paid special attention to the adequacy of procedures and effectiveness of internal controls, recommended corrective action and provided guidance to the management whenever necessary.
- Reviewed decisions taken by the Assets and Liabilities Committee (ALCO) of the Bank to ensure compliance with the risk management policies laid down by the Board.
- Monitored treasury activities and the customer asset portfolio to ensure that credit quality and the inherent risks were addressed with specific attention to ensure that preventive action was taken to minimise possible losses.
- Given the specialist nature of the IT Division the auditing of this Unit was outsourced to competent professionals who have extensive experience in this line of activity.

## Board Audit Review Committee Report

- The audit of the Leasing Unit is also outsourced and this function will be reviewed in the first quarter of 2007 with a view to having it done by the Bank's audit team.
- Reviewed the control processes pertaining to the Finance and IT area and modifications were made to ensure that the industry best practices were adopted.
- Discussed issues arising from the reports with the External Auditors, who attend BARC meetings by invitation.
- Reviewed the Management Letter sent by the Auditors and management's response thereon.
- Monitored compliance with requirements that have been laid down by the regulatory authorities.
- Ratified the quarterly Financial Statements prior to publication and submission to the Central Bank of Sri Lanka, Colombo Stock Exchange and shareholders.

The Board Audit Review Committee is of the view that adequate internal controls and procedures are in place in the Bank and its subsidiaries to provide reasonable assurance that the assets are safeguarded and financial stability maintained. The Board Audit Review Committee has recommended to the Board of Directors that Messrs. Ernst & Young be reappointed as Auditors for the financial year ending 31st December 2007 at the next Annual General Meeting.

**Ronnie Peiris**

*Acting Chairman*

Board Audit Review Committee

19th February 2007



# Directors' Report

The Directors of Nations Trust Bank Limited have pleasure in submitting their report and the audited accounts of the Group for the year ended 31st December 2006, which was approved by the Directors.

## Review of Performance for the year ended 31st December 2006

The operations of the Bank, for the year ended 31st December 2006 are reviewed in the Chief Executive Officer's Report, the Review of Operations and the Financial Review.

## Principal Activities

The principal activities of the Bank and the Group are commercial, investment, personal and private banking, leasing, insurance broking, fund and fee based activities and property management.

## Income

Operating profit before taxation of the Group for 2006 was Rs. 538.5 mn (2005 - Rs. 197.5 mn). Provision for taxation amounted to Rs. 215.2 mn (2005 - Rs. 72.8 mn).

## Results and Reserves for the Group

	2006 Rs.	2005 Rs.
Profit after deducting all expenses, known liabilities, provisions and depreciation	538,503,569	197,479,550
Provision for taxation	(215,183,115)	(72,769,302)
Profit after tax	323,320,454	124,710,248
Transferred to Reserve Fund	(12,474,271)	(3,674,275)
Retained profit at the beginning of the year	451,809,163	330,773,190

	2006 Rs.	2005 Rs.
Effect on transitional liability on adoption of Revised SLAS 14 on Income Taxes	8,507,213	–
Directors recommend the payment of a first and final dividend of 10% (125,786,004)		–
Retained profit to be carried forward	645,376,556	451,809,163

## Dividends

The Directors recommend the payment of a first and final dividend of 10%, in respect of the financial year ended 31st December 2006.

## Directorate

The Directors of the Bank during the year 2006 are listed below:

Mr. A.D. Gunewardene  
Mr. E.H. Wijenaike  
Ms. C. Kiriella  
Mr. S.C. Ratnayake  
Mr. S. Easparathan  
Mr. G.S.A. Gunesekera  
Mr. J.R.F. Peiris  
Mr. A.K. Gunaratne  
Mr. C.H.S.K. Piyaratna  
Mr. Z.H. Zavahir

Mr. S. Easparathan expired on 24th November 2006. Mr. C.H.S.K. Piyaratna and Mr. Z.H. Zavahir were appointed to the Board with effect from 3rd October 2006.

Mr. S.C. Ratnayake and Mr. J.R.F. Peiris retire by rotation in terms of Articles 84 and 85 of the Articles of Association of the Company and being eligible for re-election are recommended for re-election.

## Directors' Report

Mr. C.H.S.K. Piyaratna and Mr. Z.H. Zavahir who were appointed to the Board in terms of Article 91 are recommended for election by the shareholders as provided for in Article 91 of the Articles of Association of the Company.

Dr. Dushni Weerakoon, Mr. A.R. Rasiah and Mr. M.E. Wickremesinghe were appointed to the Board with effect from 1st March 2007 and being Directors appointed subsequent to the last Annual General Meeting are recommended for election by the shareholders as provided for in Article 91 of the Articles of Association of the Company.

Ms. C. Kiriella and Mr. G.S.A. Gunsekera resigned from the Board with effect from 28th February 2007.

### Share Capital

The Bank was incorporated in 1999 with an authorized share capital of 100,000,000 ordinary shares of Rs 10/- each. Authorised capital was increased to 250,000,000 shares of Rs. 10/- each at the Extraordinary General Meeting held on 21st November 2005. Issued capital was increased by 40,786,004 ordinary shares of Rs. 10/- each on 1st January 2006, consequent to the merger with Mercantile Leasing Limited. Accordingly, the issued share capital now stands at 125,786,004 shares.

### Directors' Shareholdings

<i>As at 31 December</i>	No. of Shares	
	2006	2005
A.D. Gunewardene	1,116,111	116,111
E.H. Wijenaike	11,561	11,561
C. Kiriella	1	1
G.S.A. Gunsekera	2,720	2,720
S.C. Ratnayake	–	–
S. Easparathan (Expired on 24th November 2006)	–	–
J.R.F. Peiris	–	–
A.K. Gunaratne	10,600	10,600
C.H.S.K. Piyaratna	–	–
Z.H. Zavahir	190,500	–

Includes the shares held by the spouses and dependant children of the Directors.

### Twenty Largest Shareholders

Refer page 96 for details.

### Directors' Interest in Contracts

None of the Directors had a direct or indirect interest in contracts with the Bank other than those disclosed in Note 32 to the Financial Statements as set out on page 87.

### Shareholders

The number of registered shareholders of the Bank, as at 31st December 2006 was 5,960. The distribution and analysis of shareholding is given on page 95.

### Share Information

Information relating to earnings, net assets and market value per share is given in Financial Highlights on page 3 of this report. Information on share trading and the percentage of public holding is given on page 95 of this report.

# Directors' Report

## Auditors

The accounts for the year ended 31st December 2006 have been audited by Messrs. Ernst & Young, Chartered Accountants, who offer themselves for reappointment.

## Financial Commitments

There were no material financial commitments outstanding as at 31st December 2006 other than those disclosed in the Financial Statements.

## Contingent Liabilities

There were no material contingent liabilities outstanding as at 31st December 2006 other than those disclosed in the Financial Statements.

## Capital Adequacy

	2006		2005	
	Rs mn	%	Rs. mn	%
Core capital	2,410	7.86	1,463	8.74
Total capital	3,639	11.86	2,331	13.92
Risk weighted assets	30,671	–	16,752	–

The Group's capital adequacy ratios are 7.86% for Tier 1 and 11.86% for Tier I & II, which fall within the minimum of 5% and 10% respectively, according to the requirement of the Central Bank of Sri Lanka.

## Post-Balance Sheet Events

No other circumstances have arisen since the Balance Sheet date which would require adjustments to/or disclosures in the Financial Statements.

By Order of the Board

**Theja Silva**

*Company Secretary*

Colombo

19th February 2007



# Financial Reports

Directors' Responsibility for Financial Reporting 54

Auditors' Report 55

Income Statement 56

Balance Sheet 57

Statement of Changes in Equity 58

Cash Flow Statement 59

Notes to the Financial Statements 60

# Directors' Responsibility for Financial Reporting

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Report of the Auditors on page 55 of the Report.

The Companies Act No. 17 of 1982, requires that the Directors prepare for each financial year and place before a General Meeting, Financial Statements comprising an Income Statement, which presents a true and fair view of the profit or loss of the Bank and its subsidiaries for the financial year and a Balance Sheet, which presents a true and fair view of the state of affairs of the Bank and its subsidiaries as at the end of the financial year.

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

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

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

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

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

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

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



■ **Chartered Accountants**

201, De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

■ Telephone : (0) 11 2463500  
Fax Gen : (0) 11 2697369  
Tax : (0) 11 5578180  
E-Mail : eysl@lk.ey.com

**TO THE MEMBERS OF NATIONS TRUST BANK LIMITED**

We have audited the Balance Sheet of Nations Trust Bank Limited as at 31 December 2006, the Consolidated Balance Sheet of the Bank and its Subsidiaries as at that date and the related Statements of Income, Cash Flows and Changes in Equity for the year then ended, together with the Accounting Policies and Notes as set out on pages 56 to 94.

**Respective Responsibilities of Directors and Auditors**

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

**Basis of Opinion**

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, so far as appears from our examination, the Bank has maintained proper books of account for the year ended 31 December 2006, and to the best of our information and according to the explanations given to us, the said Balance Sheet and related Statements of Income, Cash Flows and Changes in Equity and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and the Banking Act No. 30 of 1988 and amendments thereto, and give a true and fair view of the Bank's state of affairs as at 31 December 2006 and of its profit and cash flows for the year then ended.

In our opinion, the Consolidated Balance Sheet and Statements of Income, Cash Flows and Changes in Equity and the Accounting Policies and Notes thereto have been properly prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and the Banking Act No. 30 of 1988 and amendments thereto, and give a true and fair view of the state of affairs as at 31 December 2006 and of its profit and cash flows for the year then ended of the Bank and its Subsidiaries dealt with thereby, so far as concerns the members of the Bank.

**Directors' Interests in Contracts with the Bank**

According to the information made available to us, the Directors of the Bank were not directly or indirectly interested in contracts with the Bank during the year ended 31 December 2006 except as stated in Note 32 to these financial statements.



Colombo

19 February 2007

■ **Partners** : A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray FCA FCMA  
Ms. Y A De Silva ACA W R H Fernando FCA FCMA A P A Gunasekera FCA FCMA  
A Herath FCA D K Hulangamuwa ACA FCMA LLB (Lond) A S M Ismail ACA FCMA  
H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA

# Income Statement

		Bank		Group	
<i>For the year ended 31st December</i>		2006	2005	2006	2005
	Note	Rs.	Rs.	Rs.	Rs.
Gross Income	4	5,033,574,054	2,538,863,327	5,922,346,839	3,085,513,183
Interest Income	5	4,170,982,405	1,914,252,139	4,990,831,678	2,448,186,404
Interest Expense	6	(2,624,213,269)	(1,080,261,023)	(3,279,756,888)	(1,504,450,744)
Net Interest Income		1,546,769,136	833,991,116	1,711,074,790	943,735,660
Fees and Commission Income		254,433,832	198,877,994	275,392,397	198,877,994
Foreign Exchange Income		191,840,975	124,287,966	191,840,975	124,287,966
Other Operating Income	7	416,316,842	301,445,228	464,281,789	314,160,819
Net Income		2,409,360,785	1,458,602,304	2,642,589,951	1,581,062,439
Less:					
Operating Expenses					
Personnel Costs		612,564,369	363,650,814	624,868,203	366,230,350
Provision for Bad and Doubtful Debts		214,692,418	169,362,175	214,692,418	169,362,175
Other Fees and Charges		9,235,531	8,381,641	9,269,231	8,381,641
Provision for Staff Retirement Benefits		17,517,618	14,282,588	17,744,043	14,703,936
Premises, Equipment and Establishment Expenses		381,230,830	278,400,845	386,433,355	278,817,441
Other Operating Expenses		773,898,777	513,712,347	851,079,132	546,087,346
		2,009,139,543	1,347,790,410	2,104,086,382	1,383,582,889
Profit before Taxation	8	400,221,242	110,811,894	538,503,569	197,479,550
Less: Provision for Taxation	9	(150,735,817)	(37,326,392)	(215,183,115)	(72,769,302)
Profit after Taxation		249,485,425	73,485,502	323,320,454	124,710,248
Earnings per Share - Basic	10	1.98	0.86	2.57	1.47

The Notes to the Financial Statements from pages 60 to 94 form an integral part of these Financial Statements.

# Balance Sheet

As at 31st December	Bank					Group
		2006	2005	2006	2005	
	Note	Rs.	Rs.	Rs.	Rs.	
<b>Assets</b>						
Cash and Short-Term Funds	12	4,779,013,368	1,633,417,661	4,779,804,852	1,633,428,797	
Statutory Deposits with the						
Central Bank of Sri Lanka	13	1,314,915,247	955,007,214	1,314,915,247	955,007,214	
Government Treasury Bills and Bonds	14	5,645,237,838	2,232,670,611	10,322,990,484	5,340,911,349	
Investment Securities	15	1,629,269,406	621,317,576	1,629,269,406	621,317,576	
Loans and Advances						
Bills of Exchange	16.1	291,349,554	335,966,791	291,349,554	335,966,791	
Loans and Advances	16.2	17,365,211,146	11,255,172,837	18,838,903,626	12,299,303,252	
Lease Rentals Receivable within one year	16.3.1	1,770,373,368	80,038,443	1,774,403,990	80,038,443	
Lease Rentals Receivable after one year	16.3.2	3,416,411,800	248,594,657	3,416,411,800	248,594,657	
Corporate Debt Securities	16.4	2,137,770,213	1,528,092,170	2,672,062,061	2,640,384,529	
Other Assets	17	1,089,773,102	739,531,338	997,977,333	785,113,885	
Investment in Subsidiaries	18	682,205,961	—	—	—	
Property, Plant & Equipment	19	504,993,674	413,725,914	1,132,657,513	413,940,919	
Goodwill	20	372,052,672	—	451,313,886	58,500,000	
<b>Total Assets</b>		<b>40,998,577,349</b>	<b>20,043,535,212</b>	<b>47,622,059,752</b>	<b>25,412,507,412</b>	
<b>Liabilities</b>						
Deposits	21	20,672,459,548	14,314,995,947	20,670,354,877	14,314,039,138	
Due to Banks		1,076,431,916	198,488,006	1,076,431,916	198,488,008	
Borrowings	22	12,946,170,053	2,221,966,542	19,374,749,861	7,274,807,380	
Other Liabilities	23	2,374,179,403	1,348,581,336	2,211,820,227	1,388,152,674	
Deferred Liabilities	24	173,078,310	99,610,637	193,741,121	100,440,135	
Debentures	25	560,000,000	—	560,000,000	—	
Subordinated Loans	26	673,250,000	673,250,000	673,250,000	673,250,000	
<b>Total Liabilities</b>		<b>38,475,569,230</b>	<b>18,856,892,468</b>	<b>44,760,348,002</b>	<b>23,949,177,335</b>	
<b>Shareholders' Funds</b>						
Share Capital	27	1,257,860,040	850,000,000	1,257,860,040	850,000,000	
Reserve Fund	28	28,995,199	16,520,928	28,995,199	16,520,928	
Reserves	29	1,236,152,880	320,121,816	1,574,856,511	596,809,149	
<b>Total Shareholders' Funds</b>		<b>2,523,008,119</b>	<b>1,186,642,744</b>	<b>2,861,711,750</b>	<b>1,463,330,077</b>	
<b>Total Liabilities and Shareholders' Funds</b>		<b>40,998,577,349</b>	<b>20,043,535,212</b>	<b>47,622,059,752</b>	<b>25,412,507,412</b>	
<b>Commitments and Contingencies</b>	30	<b>5,385,747,067</b>	<b>3,831,586,588</b>	<b>5,385,747,067</b>	<b>3,831,586,588</b>	

The Notes to the Financial Statements from pages 60 to 94 form an integral part of these Financial Statements.

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

Approved and signed for and on behalf of the Board by,



**A.D. Gunewardene**  
Chairman



**E.H. Wijenaike**  
Director



**Z.H. Zavahir**  
Director/CEO



**Theja Silva**  
Company Secretary

Colombo  
19th February 2007

# Statement of Changes in Equity

Year ended 31st December 2006

	Note	Share Capital Rs.	Reserve Fund Rs.	Share Premium Rs.	Revenue Reserve Rs.	Total Rs.
<b>Bank</b>						
Balance as at 31st December 2004		850,000,000	12,846,653	144,999,986	105,310,603	1,113,157,242
Net Profit for the year		–	–	–	73,485,502	73,485,502
Transfers during the year	28/29.2	–	3,674,275	–	(3,674,275)	–
Balance as at 31st December 2005		850,000,000	16,520,928	144,999,986	175,121,830	1,186,642,744
Effect on Transitional Liability on Adoption of Revised SLAS 14 on Income Taxes	24.1	–	–	–	20,325,945	20,325,945
Issue of Share Capital	27/29.1	407,860,040	–	658,693,965	–	1,066,554,005
Net Profit for the year		–	–	–	249,485,425	249,485,425
Transfers during the year	28/29.2	–	12,474,271	–	(12,474,271)	–
<b>Balance as at 31st December 2006</b>		<b>1,257,860,040</b>	<b>28,995,199</b>	<b>803,693,951</b>	<b>432,458,929</b>	<b>2,523,008,119</b>
<b>Group</b>						
Balance as at 31st December 2004		850,000,000	12,846,653	144,999,986	330,773,190	1,338,619,829
Net Profit for the year		–	–	–	124,710,248	124,710,248
Transfers during the year	28/29.2	–	3,674,275	–	(3,674,275)	–
Balance as at 31st December 2005		850,000,000	16,520,928	144,999,986	451,809,163	1,463,330,077
Effect on Transitional Liability on Adoption of Revised SLAS 14 on Income Taxes	24.1	–	–	–	8,507,213	8,507,213
Issue of Share Capital	27/29.1	407,860,040	–	658,693,965	–	1,066,554,005
Net Profit for the year		–	–	–	323,320,454	323,320,454
Transfers during the year	28/29.2	–	12,474,271	–	(12,474,271)	–
<b>Balance as at 31st December 2006</b>		<b>1,257,860,040</b>	<b>28,995,199</b>	<b>803,693,951</b>	<b>771,162,560</b>	<b>2,861,711,750</b>

The Notes to the Financial Statements from pages 60 to 94 form an integral part of these Financial Statements.

# Cash Flow Statement

Year ended 31st December	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
<b>Cash Flow from Operating Activities</b>				
Interest Received	4,153,040,550	1,820,801,814	4,874,486,037	2,268,319,379
Fees and Commission Received	254,342,906	198,877,994	273,060,518	198,877,994
Interest Paid	(2,765,760,139)	(1,080,261,023)	(3,374,687,452)	(1,504,450,744)
Foreign Exchange Income Received	191,840,975	124,287,966	191,840,975	124,287,966
Receipts from Other Operating Activities	416,440,295	306,751,779	453,738,056	319,467,369
Gratuity Payments made	(5,639,845)	(5,306,551)	(5,639,845)	(5,306,551)
Payments to Employees and Suppliers	(1,620,867,122)	(1,065,415,948)	(1,667,275,578)	(1,100,482,531)
<b>Net Cash Flow from Operating Activities before Income Tax (A)</b>	<b>623,397,620</b>	<b>299,736,031</b>	<b>745,522,711</b>	<b>300,712,882</b>
Income Tax Paid	(116,699,248)	(29,712,037)	(144,441,752)	(36,772,637)
<b>Operating Profit before Changes in Operating Assets and Liabilities</b>	<b>506,698,372</b>	<b>270,023,994</b>	<b>601,080,959</b>	<b>263,940,245</b>
<b>(Increase)/Decrease in Operating Assets</b>				
Treasury Bills and Bond Investments	(4,449,907,307)	(26,856,300)	(3,253,575,823)	639,383,022
Corporate Debt Securities	(703,789,824)	(1,370,375,579)	(1,763,544,909)	(997,627,165)
Bills of Exchange	44,617,237	45,136,717	44,617,237	45,136,717
Loans and Advances	(7,520,083,722)	(3,320,721,027)	(7,520,083,719)	(3,237,722,530)
Other Assets	(271,183,731)	(149,818,478)	(161,828,876)	(795,449,940)
	(12,900,347,347)	(4,822,634,667)	(12,654,416,090)	(4,346,279,896)
<b>Increase/(Decrease) in Operating Liabilities</b>				
Customer Deposits	6,378,563,491	3,846,706,584	6,376,458,820	3,846,178,510
Securities sold under Repurchase Agreements	3,285,636,482	331,504,074	6,408,078,958	(865,074,921)
Other Liabilities	768,726,371	251,134,261	458,229,369	977,970,304
	10,432,926,344	4,429,344,919	13,242,767,147	3,959,073,893
<b>Net Cash Flow from Operating Activities</b>	<b>(1,960,722,631)</b>	<b>(123,265,754)</b>	<b>1,189,432,016</b>	<b>(123,265,758)</b>
<b>Cash Flows from Investing Activities</b>				
Net Cash Acquired on Merger of Operation	51,247,138	–	55,745,896	–
Proceeds from sale of Fixed Assets	11,428,004	–	23,124,339	–
Purchase of Property, Plant & Equipment	(192,987,995)	(136,952,128)	(194,487,995)	(136,952,128)
	(130,312,853)	(136,952,128)	(115,617,760)	(136,952,128)
<b>Cash Flows from Financing Activities</b>				
Subordinated Loan	–	322,725,000	–	322,725,000
Increase/(Decrease) in Refinance Activities	543,116,937	(215,430,063)	543,116,937	(215,430,063)
Increase/(Decrease) in Call and Other Borrowings	3,636,579,292	(43,186,061)	471,553,090	(43,186,061)
Issue of Debentures	560,000,000	–	560,000,000	–
Dividend Paid	–	–	–	–
	4,739,696,229	64,108,876	1,574,670,027	64,108,876
<b>Net Increase in Cash and Cash Equivalents</b>	<b>2,648,660,745</b>	<b>(196,109,006)</b>	<b>2,648,484,283</b>	<b>(196,109,010)</b>
Cash and Cash Equivalents at the beginning of the year	2,368,835,954	2,586,045,877	2,369,803,900	2,586,057,013
<b>Cash and Cash Equivalents at the end of the year</b>	<b>5,017,496,699</b>	<b>2,389,936,869</b>	<b>5,018,288,183</b>	<b>2,389,948,003</b>
<b>Reconciliation of Cash and Cash Equivalents</b>				
Cash in Hand and Balances with Banks	209,005,892	461,902,704	209,797,376	660,401,846
Balances with the Central Bank of Sri Lanka	1,314,915,247	955,007,214	1,314,915,247	756,519,206
Money at Call and Short Notice	3,493,575,560	973,026,951	3,493,575,560	973,026,951
	5,017,496,699	2,389,936,869	5,018,288,183	2,389,948,003
<b>A. Reconciliation of Operating Profit</b>				
<b>Profit before Taxation</b>				
Profit before Tax	400,221,242	110,811,894	538,503,569	197,479,550
Depreciation	155,114,863	104,036,250	191,069,189	104,340,798
Loss from Disposal of Property, Plant & Equipment	990,251	–	646,946	–
Provision for Doubtful Debts	214,692,418	169,362,175	214,692,418	169,362,175
Provision for Gratuity	17,517,618	14,282,588	17,744,043	14,703,936
Increase in Interest Receivable	(17,941,854)	(34,891,750)	(147,158,411)	(38,309,953)
Decrease in Interest Payable	(141,557,073)	(58,558,575)	(63,662,646)	(141,557,072)
Other Debtors/Creditors	–	–	(4,050,292)	–
Impairment Losses Written Off during the year	–	–	3,377,740	–
Gratuity Payments made	(5,639,845)	(5,306,551)	(5,639,845)	(5,306,551)
	623,397,620	299,736,031	745,522,711	300,712,883

The Notes to the Financial Statements from pages 60 to 94 form an integral part of these Financial Statements.

# Notes to the Financial Statements

## 1. Corporate Information

### 1.1 General

Nations Trust Bank Limited (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. 76, York Street, Colombo 1.

The Consolidated Financial Statements of the Bank for the year ended 31st December 2006 comprise of the Bank and its subsidiaries (together referred to as the "Group").

The Financial Statements of Nations Trust Bank Limited, for the year ended 31st December 2006 were authorised for issue in accordance with the resolution of the Board of Directors on 19th February 2007.

### 1.2 Principal Activities

#### **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 MLL Insurance Brokers Limited, are money market operations and fund and fee based activities, property rental, operating leases 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 building 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.

No adjustments have been made for inflationary factors affecting these Financial Statements.

These Financial Statements are prepared and presented in Sri Lankan Rupees.

### 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 Format of Financial Statements, prior year Figures and Phrases

The Financial Statements of the Bank are presented in accordance with the format of accounts prescribed by the Central Bank of Sri Lanka.

The financial results for the year 2005 do not include the results of the previously Mercantile Leasing Limited (MLL) and its subsidiaries which were acquired on 1st January 2006, through the merger of operations. (Refer Note 3 to these Financial Statements.)

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 subsidiaries are prepared for the same reporting year as the parent company, 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

### 2.3.1 Sri Lanka Accounting Standards (SLAS) Adopted

The Accounting Policies adopted are consistent with those of the previous financial year except as follows: The Group has adopted the revised SLAS that are applicable in the current financial year. The 2006 Financial Statements have been prepared in accordance with the relevant transitional provisions in the respective SLAS. The following are the SLAS that are relevant to the Group:

- SLAS 3 (Revised) Presentation of Financial Statements
- SLAS 10 (Revised) Accounting Policies, Changes in Accounting Estimates and Errors
- SLAS 12 (Revised) Events After the Balance Sheet Date
- SLAS 14 (Revised) Income Taxes
- SLAS 18 (Revised) Property, Plant & Equipment
- SLAS 19 (Revised) Leases
- SLAS 21 (Revised) The Effects of Changes in Foreign Exchange Rates
- SLAS 25 (Revised) Business Combinations
- SLAS 26 (Revised) Consolidated and Separate Financial Statements
- SLAS 30 (Revised) Related Party Disclosures

The SLAS that have a significant impact on the preparation and presentation of the Financial Statements are as follows:

#### SLAS 14 (Revised) Income Taxes

The adoption of revised SLAS 14 requires deferred income tax to be provided using the liability method on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for reporting purposes.

In accordance with the transitional provisions of the Standard, the Bank and the Group have determined its transitional liability for deferred income tax, as the difference between the deferred income tax liability calculated based on the revised standard and the

deferred income tax liability as accounted and disclosed in the Financial Statements on that date and the resulting reduction of the deferred income tax liability has been immediately recognised under SLAS 10 in the brought forward retained earnings of the Bank and the Group amounting to Rs. 20,325,945 and Rs. 8,507,213 respectively. The deferred income tax liability as at 31st December 2006 is analysed in Note 24.1 to these Financial Statements.

#### SLAS 18 (Revised) Property, Plant & Equipment

Revised SLAS 18 requires the review of the residual value and the useful life of an asset at least annually and expects the depreciation of an asset to begin from when it is available for use. Accordingly, all assets excluding land acquired from 1st January 2006 are depreciated by the Group commencing from the month the asset is available for use. This change resulted in an increase in the depreciation charge for the year by Rs. 15,595,292 and Rs. 15,643,042 of the Bank and the Group respectively.

#### SLAS 25 (Revised) Business Combinations

Revised SLAS 25 requires all business combinations to be accounted for using the purchase method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value at the acquisition date. On 1st January 2006 the Bank merged its operations with the primary business operations of leasing and factoring of the previously Mercantile Leasing Limited. This merger of operations has been accounted for in accordance with revised SLAS 25. (Refer Note 3 to these Financial Statements.)

Additionally, revised SLAS 25 and SLAS 41 (which becomes applicable for all business combinations after 1st June 2005) resulted in a change to the accounting policy for goodwill acquired in a business combination after 1st June 2005 and thereby require the Group to cease the amortisation of goodwill arising from business combinations to the Income Statement. Impairment is required to be determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

# Notes to the Financial Statements

Impairment reviews are required annually or more frequently if there is any indication that the goodwill might be impaired.

In accordance with the transitional provisions of revised SLAS 25 and SLAS 41, the Group has revised its Accounting Policy for goodwill prospectively. Therefore, the change has no impact on amounts reported for previous financial years. No amortisation has been charged for the current financial year.

## **SLAS 30 (Revised) Related Parties**

Revised SLAS 30 requires additional disclosure on related party transactions and outstanding balances, together with the names of any parties who can control the reporting entity. Additionally, it requires the disclosure of compensation to key management personnel in total. The Group made the required disclosures under Note 33 to these Financial Statements.

## **2.3.2 SLAS Issued but Effective for Future Financial Years**

SLAS 41 on Impairment of Assets has been adopted by the Group in relation to goodwill acquired in a business combination as indicated under Accounting Policy No. 2.10.7 to these Financial Statements.

In line with the transitional provisions of SLAS 41, for all other assets, this standard will become effective from the ensuing financial year commencing 1st January 2007.

In relation to all other assets, the Group having evaluated the effect of this standard, envisage that adoption of this standard will have no significant impact on the Bank's and the Group's Financial Statements when adopted in 2007.

## **2.4 Significant Accounting Estimates**

The Groups' Accounting Policies and use of estimates are integral to the reported results. Certain accounting estimates require exercise of management's judgment in determining the appropriate methodology for valuation of assets and liabilities. 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 involving management's valuation judgment:

## **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. (Refer Accounting Policy No. 2.10.2 (b) and (c) and 2.10.3 (b) to these Financial Statements.)

## **Impairment Review of Goodwill**

The Group performs an impairment review to ensure that the carrying value of goodwill does not exceed its recoverable amount from the cash-generating unit to which the goodwill is allocated. The recoverable amount represents the present value of the estimated future cash flows expected to arise from continuing operations. Therefore, in arriving at the recoverable amount, management exercises judgment in estimating the future cash flows, growth rate and discount rate.

## **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 dates 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.

# Notes to the Financial Statements

## 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 amount expected to be paid to the taxation authority 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 Limited

Income tax on profit from the Domestic Banking Unit and the Foreign Currency Banking Unit (on shore) is calculated at the rate of 35%.

#### Subsidiary, Waddock Mackenzie Limited

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

#### Subsidiary, Allied Properties Limited

The Company enjoys a tax holiday of 7 years which expires on 31st March 2007. Income tax has been provided on profits arising from other sources of income at the rate of 35%.

#### Subsidiary, Mercantile Leasing (Financial Services) Limited

Income tax on profit from operations is calculated at the rate of 15% plus marginal relief. Tax losses carried forward as at 31st December 2006 was Rs. 54,801,855 which can be carried forward indefinitely and can be set off against the taxable profit subject to the limit of 35% of the taxable profit in one year of assessment.

#### Subsidiary, MLL 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 the 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 profit 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 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

# Notes to the Financial Statements

taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. 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 profit 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 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 set off current 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 Limited**

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 two years.

## **(e) Social Responsibility Levy**

As per the provisions of the Finance Act No. 5 of 2005, as amended by the Finance Act No. 11 of 2006, Social Responsibility Levy (SRL) was introduced with effect from 1st January 2005. SRL is payable at the rate of 1% 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 foreign currency 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 Bonds**

##### **Long-term Investments in Treasury Bonds held to Maturity**

Long-term investments in Treasury 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.

# Notes to the Financial Statements

## (c) *Investment in Treasury Bills 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 Financial Statements and Accounting for Investments in Subsidiaries.

## 2.10.2 Loans & Advances to Customers

- (a) Loans & 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 has adopted the guidelines issued by the Bank for International Settlement (BIS) in their consultative paper on sound practices for loan accounting and credit risk disclosure and related matters.

These requirements are more stringent than those prescribed by the Central Bank of Sri Lanka and at the minimum not falling below the following:

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

- (c) A 1% general provision is maintained, in addition to the specific provisions, 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 provide for 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 & doubtful recoveries and the initial rentals received.

### (b) *Provision for Lease Receivables*

Specific provision has been made in relation to identified bad & 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

Securities purchased under agreements for resale are classified under reverse repurchase agreement and accounted for as assets and are classified under assets.

# Notes to the Financial Statements

## 2.10.6 Tangible Assets

Resources which are controlled by the Company as a result of past events, and which are held for use in the supply of services or administrative purposes, from which future economic benefits are expected to flow to the enterprise, are capitalised as assets and depreciated over the useful life of the resource.

### 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 subsequent depreciation thereon. All other Property, Plant & Equipment are stated at cost less accumulated depreciation. Accumulated 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

Property, Plant & Equipment acquired prior to 1st January 2006 were fully depreciated in the year of disposal but none in the year of purchase. Property, Plant & Equipment acquired after 1st January 2006 are depreciated from the month the assets are available for use over their estimated useful lives.

Commencing from 1st January 2006, 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 profit or loss. 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.



# Notes to the Financial Statements

## 2.10.7 Business Combination and Goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination after 1st June 2005 represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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.

### Impairment

For the purpose of impairment testing, goodwill acquired in business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's primary reporting format determined in accordance with SLAS 28 - Segment Reporting.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, 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.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Group has tested its goodwill acquired on business combinations as at 31st December 2006 for impairment and has written off an amount of Rs. 3,377,740 as impairment loss. (Refer Note 20 to these Financial Statements.)

## 2.11 Provisions

Provisions are 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*

Gratuity is a Defined Benefit Plan. The Bank and its subsidiaries are liable to pay gratuity in terms of the relevant statute. In order to meet this liability a provision is carried forward in the Balance Sheet, equivalent to an amount calculated based on a half month's salary as of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between the provision brought forward at the beginning of a year and the carried forward provision at the end of a year is dealt within the Income Statement. The gratuity liability is not externally funded or actuarially valued.

However, as per the provisions of the Gratuity Act No. 12 of 1983, this liability only arises upon completion of five (5) years of continued service.

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

### 2.12 Repurchase Agreements

Securities sold under agreements to repurchase are classified under repurchase agreements and accounted for as liabilities and are classified under liabilities.

### 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 the recovery of interest or principal is in arrears for over three (3) months and interest accrued until such advances being classified as non-performing are 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 proportionately over the period of the instrument.

##### (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.

# Notes to the Financial Statements

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.

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 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 from 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. All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the profit for the year.

## **2.15 Cash Flow Statement**

The Cash Flow Statement has been prepared by using 'The Direct Method' whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognised. Cash & 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 exchange 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 54 for the Statement of the Directors' Responsibility for Financial Reporting.

# Notes to the Financial Statements

## 3. BUSINESS COMBINATION

### 3.1 Merger of Operations

On 1st January 2006, the Bank, merged its operations with the primary business operations of leasing and factoring of the previous Mercantile Leasing Limited (MLL).

The merger was effected by way of a share swap ratio of two Nations Trust Bank shares for every one MLL share and was for the entire share capital of MLL which amounted to 20,393,002 ordinary shares.

The fair values of the identifiable assets and liabilities of MLL as at the date of acquisition were;

	Fair Value as at 01.01.2006 Rs.
<b>Assets</b>	
Cash and Short-Term Funds	51,247,138
Loans and Advances	542,821,770
Lease Rentals Receivable	3,108,962,160
Investments in Subsidiaries	682,205,961
Other Assets	111,323,149
Property, Plant & Equipment	65,812,891
<b>Total Assets</b>	<b>4,562,373,069</b>
<b>Liabilities</b>	
Borrowings	3,500,427,866
Other Liabilities	267,259,541
Deferred Tax	100,184,329
<b>Total Liabilities</b>	<b>3,867,871,736</b>
Net Assets Acquired	694,501,333
Goodwill on the Merger of Operations	372,052,672
Purchase Consideration	<b>1,066,554,005</b>

Shares issued at valuation;

40,786,004 number of ordinary shares of Nations Trust Bank at Rs. 26.15 per share.

During the year the merged Leasing and Factoring operations contributed a sum of Rs. 137 million to the profit before tax of the Bank.

### 3.2 Net Cash Acquired on the Merger of Operations

	Rs.
Net Cash Acquired	51,247,138
Cash Paid	—
Net Cash Inflow	<b>51,247,138</b>

# Notes to the Financial Statements

	Bank		Group	
	2006	2005	2006	2005
	Rs.	Rs.	Rs.	Rs.
<b>4. Gross Income</b>				
Interest Income	4,170,982,405	1,914,252,139	4,990,831,678	2,448,186,404
Fees and Commission Income	254,433,832	198,877,994	275,392,397	198,877,994
Foreign Exchange Income	191,840,975	124,287,966	191,840,975	124,287,966
Other Operating Income	416,316,842	301,445,228	464,281,789	314,160,819
	<u>5,033,574,054</u>	<u>2,538,863,327</u>	<u>5,922,346,839</u>	<u>3,085,513,183</u>
<b>5. Interest Income</b>				
Customer Advances	3,161,243,604	1,488,807,673	3,295,826,306	1,565,492,845
Treasury Bills and Bonds	353,724,651	219,077,490	770,213,637	496,094,198
Deposits with Other Banks	185,069,955	42,463,986	185,069,955	42,463,986
Corporate Debt Securities	321,417,270	109,698,185	589,860,962	286,042,441
Other Interest Income	149,526,925	54,204,805	149,860,819	58,092,934
	<u>4,170,982,405</u>	<u>1,914,252,139</u>	<u>4,990,831,678</u>	<u>2,448,186,404</u>
<b>6. Interest Expense</b>				
Customer Deposits	1,163,068,172	641,305,961	1,163,068,172	641,305,961
Borrowings	901,957,396	224,937,368	900,655,715	224,937,368
Treasury Bills, Bonds and Corporate Papers Repurchased	559,187,701	214,017,694	1,216,033,001	638,207,415
	<u>2,624,213,269</u>	<u>1,080,261,023</u>	<u>3,279,756,888</u>	<u>1,504,450,744</u>
<b>7. Other Operating Income</b>				
Gain/(Loss) on Sale of Government Securities	32,528	221,588	3,513,070	686,568
Fees and Other Income	416,284,314	301,223,640	460,768,719	313,474,251
	<u>416,316,842</u>	<u>301,445,228</u>	<u>464,281,789</u>	<u>314,160,819</u>
<b>8. Profit before Taxation</b>				
Is stated after charging the following among others;				
Directors' Fees	220,000	240,000	220,000	240,000
Directors' Emoluments	3,827,937	—	3,827,937	—
Audit Fees	2,055,000	1,250,000	3,000,000	1,715,750
Staff Cost Includes				
Defined Benefit Plan Cost - Gratuity	17,517,618	14,282,588	17,744,043	14,703,936
Defined Contribution Plan Cost - EPF and ETF	50,284,760	32,203,696	51,227,323	32,515,741
Depreciation	155,114,863	104,036,250	191,069,189	104,340,798
Legal Expenses	17,073,038	3,986,342	17,094,313	3,986,342
Donations	4,021,000	20,000	4,021,000	20,000
Business Promotion and Advertising	84,232,403	58,341,743	84,257,033	58,341,743
Computer and Equipment Maintenance	61,849,639	51,567,644	62,708,302	51,567,644
Amortisation of Goodwill	—	—	—	9,000,000
Impairment of Goodwill	—	—	3,377,740	—

## Notes to the Financial Statements

		Bank		Group
	2006	2005	2006	2005
	Rs.	Rs.	Rs.	Rs.
<b>9. Taxation</b>				
Income Tax on Profit for the year (9.1)	<b>178,031,171</b>	43,301,483	<b>235,939,890</b>	78,744,393
Reversal of Deferred Tax (Refer Note 24.1)	<b>(27,295,354)</b>	(5,975,091)	<b>(20,756,775)</b>	(5,975,091)
	<b>150,735,817</b>	37,326,392	<b>215,183,115</b>	72,769,302

### 9.1 Reconciliation of Accounting Profit and Taxable Income

Accounting Profit (Profit before Taxation)	<b>400,221,242</b>	110,811,894
Add: Disallowable Expenses	<b>1,914,237,293</b>	287,516,288
	<b>2,314,458,535</b>	398,328,182
Less: Allowable Expenses	<b>1,738,794,645</b>	225,057,380
Less: Exempt Income	<b>72,039,651</b>	28,932,526
Statutory Income	<b>503,624,239</b>	144,338,276
Taxable Income	<b>503,624,239</b>	144,338,276
Income Tax expense for the year is made up;		
Current Income Tax Expense		
(Including SRL at 1%)	<b>178,031,171</b>	43,301,483
Reversal of Deferred Tax	<b>(27,295,354)</b>	(5,975,091)
	<b>150,735,817</b>	37,326,392
Effective Income Tax Rate	<b>37.66%</b>	33.68%

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.

### 10. Earnings Per Share

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

	Bank		Group
	2006	2005	2006
	Rs.	Rs.	Rs.
<b>Amount used as the Numerator</b>			
Net Profit Attributable to Ordinary Shareholders	<b>249,485,425</b>	73,485,502	<b>323,320,454</b>
			124,710,248
<b>Number of Ordinary Shares used as the Denominator</b>			
Weighted Average Number of Ordinary			
Shares in Issue	<b>125,786,004</b>	85,000,000	<b>125,786,004</b>
			85,000,000
Earnings per Ordinary Share	<b>1.98</b>	0.86	<b>2.57</b>
			1.47



# Notes to the Financial Statements

## 11. Dividends Proposed

A first and final dividend of 10% (Rs. 1/-) per share has been proposed by the Board of Directors for the year 2006 to be approved at the Annual General Meeting. However, no provision is made in these Financial Statements in accordance with SLAS 12.

## 12. Cash and Short-Term Funds

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
Cash in Hand	305,570,337	231,169,137	305,603,337	231,180,273
Money at Call and Short Notice	3,493,575,560	973,026,951	3,493,575,560	973,026,951
Balances with Banks	979,867,471	429,221,573	980,625,955	429,221,573
	<b>4,779,013,368</b>	<b>1,633,417,661</b>	<b>4,779,804,852</b>	<b>1,633,428,797</b>

## 13. Statutory Deposits 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 2006 the minimum cash reserve requirement was 10% of the unpaid local currency deposit liabilities of the Domestic Banking Unit. There is no reserve requirement for the foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

## 14. Government Treasury Bills and Bonds

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
Govt. Treasury Bills and Bonds held for Trading	243,360,486	—	1,440,894,670	—
Govt. Treasury Bills and Bonds held to Maturity (14.1)	686,156,439	1,249,961,013	1,710,993,337	3,991,364,380
Treasury Bills under Reverse Repo's	4,715,720,913	982,709,598	7,171,102,477	1,349,546,969
	<b>5,645,237,838</b>	<b>2,232,670,611</b>	<b>10,322,990,484</b>	<b>5,340,911,349</b>

14.1 The market value of these Treasury Bonds held to maturity as at 31st December 2006 amounts to Rs. 646 mn (2005 - Rs. 1,213 mn) and in the Group - Rs. 1,569 mn (2005 - Rs. 3,909 mn).

## 15. Investment Securities

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
<b>Unquoted - Shares</b>				
Lanka Clear (Pvt.) Limited				
150,000 Ordinary Shares of Rs.10/- each	1,500,000	1,500,000	1,500,000	1,500,000
Credit Information Bureau				
9,000 Ordinary Shares of Rs.10/- each	90,000	80,000	90,000	80,000
<b>Unquoted - Bonds</b>				
Sri Lanka Development Bonds - USD (15.1)	1,627,679,406	619,737,576	1,627,679,406	619,737,576
	<b>1,629,269,406</b>	<b>621,317,576</b>	<b>1,629,269,406</b>	<b>621,317,576</b>

## Notes to the Financial Statements

**15.1** The investment in Sri Lanka Development Bonds, amounts to USD 15 mn (2005 - USD 6 mn) and matures in the years 2008 and 2009.

**15.2** The Directors' valuation of unquoted investments of the Bank and the Group amount to Rs.1,629,269,406/- (2005 - Rs. 621,317,576/-) and Rs.1,629,269,406/- (2005 - Rs. 621,317,576/-) respectively.

### 16. Loans and Advances

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
<b>16.1 Bills of Exchange</b>				
Inland Bills	29,844,182	43,263,371	29,844,182	43,263,371
Export Bills	259,124,098	273,037,134	259,124,098	273,037,134
Import Bills	2,381,274	19,666,286	2,381,274	19,666,286
	<b>291,349,554</b>	<b>335,966,791</b>	<b>291,349,554</b>	<b>335,966,791</b>
<b>16.2 Loans and Advances</b>				
Overdrafts	4,652,223,588	3,971,421,532	4,652,223,588	3,971,421,532
Term Loans	8,828,836,574	4,709,235,481	8,828,836,574	4,709,235,481
Staff Loans	390,438,913	201,554,641	390,438,913	201,554,641
Import Loans	1,190,624,979	968,237,313	1,190,624,979	968,237,313
Packing Credit Loans	538,253,009	289,629,301	538,253,009	289,629,301
Other Advances	2,670,764,679	1,659,667,898	4,144,457,159	2,728,642,979
	<b>18,271,141,742</b>	<b>11,799,746,166</b>	<b>19,744,834,222</b>	<b>12,868,721,247</b>
Less:				
Loan Loss Provision	(624,800,960)	(422,572,832)	(624,800,960)	(447,417,498)
Interest-in-Suspense	(281,129,636)	(122,000,497)	(281,129,636)	(122,000,497)
	<b>17,365,211,146</b>	<b>11,255,172,837</b>	<b>18,838,903,626</b>	<b>12,299,303,252</b>
<b>16.3 Lease Rentals Receivable</b>				
Cost of Leased Assets	16,959,247,356	367,323,470	16,963,277,978	367,323,470
Unearned Lease Income	7,090,219,032	135,864,375	7,090,219,032	135,864,375
	<b>24,049,466,388</b>	<b>503,187,845</b>	<b>24,053,497,010</b>	<b>503,187,845</b>
Initial Rentals Received (Prepaid)	(12,062,387)	(5,751,953)	(12,062,387)	(5,751,953)
Lease Rentals Received	(17,075,805,578)	(49,533,566)	(17,075,805,578)	(49,533,566)
Lease Rentals Receivable (16.3.1)	<b>6,961,598,423</b>	<b>447,902,326</b>	<b>6,965,629,045</b>	<b>447,902,326</b>

## Notes to the Financial Statements

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
<b>16.3.1 Lease Rentals Receivable within one year</b>				
Total Lease Rentals Receivable	<b>6,961,598,423</b>	447,902,326	<b>6,965,629,045</b>	447,902,326
Lease Rentals Receivable after one year				
from Balance Sheet Date (16.3.2)	<b>(4,390,107,770)</b>	(338,487,853)	<b>(4,390,107,770)</b>	(338,487,853)
Lease Rentals Receivable within				
one year from Balance Sheet date	<b>2,571,490,653</b>	109,414,473	<b>2,575,521,275</b>	109,414,473
Unearned Lease Income	<b>(738,080,209)</b>	(26,995,892)	<b>(738,080,209)</b>	(26,995,892)
Accrued Income on				
Non-Performing Leases	<b>(19,798,280)</b>	(430,532)	<b>(19,798,280)</b>	(430,532)
Provision for Bad and Doubtful Leases	<b>(43,238,796)</b>	(1,949,606)	<b>(43,238,796)</b>	(1,949,606)
	<b>1,770,373,368</b>	80,038,443	<b>1,774,403,990</b>	80,038,443
<b>16.3.2 Lease Rentals Receivable after one year</b>				
Lease Rentals Receivable after one year				
from Balance Sheet Date	<b>4,390,107,770</b>	338,487,853	<b>4,390,107,770</b>	338,487,853
Unearned Lease Income	<b>(879,715,737)</b>	(83,515,291)	<b>(879,715,737)</b>	(83,515,291)
Provision for Bad and Doubtful Leases	<b>(93,980,233)</b>	(6,377,905)	<b>(93,980,233)</b>	(6,377,905)
	<b>3,416,411,800</b>	248,594,657	<b>3,416,411,800</b>	248,594,657
<b>16.4 Corporate Debt Securities</b>				
Commercial Paper/Debentures	<b>1,507,082,702</b>	1,328,092,170	<b>1,735,847,723</b>	1,704,898,696
Fixed/Floating Rate Notes	<b>93,255,602</b>	200,000,000	<b>398,782,429</b>	935,485,833
Trust Certificates	<b>537,431,909</b>	—	<b>537,431,909</b>	—
	<b>2,137,770,213</b>	1,528,092,170	<b>2,672,062,061</b>	2,640,384,529
<b>16.5 Non-Performing Advances</b>				
Overdrafts	<b>341,445,965</b>	163,536,790	<b>341,445,965</b>	163,536,790
Term Loans	<b>284,366,969</b>	352,529,462	<b>284,366,969</b>	352,529,462
Import Loans	<b>76,392,633</b>	95,848,800	<b>76,392,633</b>	95,848,800
Packing Credit Loans	<b>39,950,974</b>	42,432,470	<b>39,950,974</b>	42,432,470
Other Advances	<b>172,140,165</b>	104,132,044	<b>186,457,926</b>	138,903,605
Lease Rentals Receivable	<b>377,450,586</b>	—	<b>377,450,586</b>	—
	<b>1,291,747,292</b>	758,479,566	<b>1,306,065,053</b>	793,251,127

## Notes to the Financial Statements

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

#### 16.6.1 Bank

	Specific	Provision against Loans and Advances		Suspended Interest
	Rs.	General Rs.	Total Rs.	Rs.
As at the beginning of the year	<b>312,282,329</b>	118,618,014	<b>430,900,343</b>	122,431,029
Acquired on Merger of Operations	<b>175,584,892</b>	34,199,924	<b>209,784,816</b>	153,434,594
Provision made during the year (Net of Interest Suspended, Suspended Interest recovered and Provision written off)	<b>49,150,673</b>	68,759,570	<b>117,910,243</b>	25,062,293
Translation Difference in Foreign Currency Conversion	<b>2,902,219</b>	522,368	<b>3,424,587</b>	—
As at the end of the year	<b>539,920,113</b>	222,099,876	<b>762,019,989</b>	300,927,916

#### 16.6.2 Group

As at the beginning of the year	<b>312,282,329</b>	118,618,014	<b>430,900,343</b>	122,431,029
Acquired on Merger of Operations	<b>175,584,892</b>	34,199,924	<b>209,784,816</b>	153,434,594
Provision made during the year (Net of Interest Suspended, Suspended Interest recovered and Provision written off)	<b>49,150,673</b>	68,759,570	<b>117,910,243</b>	25,062,293
Translation Difference in Foreign Currency Conversion	<b>2,902,219</b>	522,368	<b>3,424,587</b>	—
As at the end of the year	<b>539,920,113</b>	222,099,876	<b>762,019,989</b>	300,927,916

### 16.7 Concentration of Credit Risk

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

Sector	2006		2005	
	Rs.	%	Rs.	%
Food, Beverages and Tobacco	<b>298,468,961</b>	<b>1%</b>	265,841,281	2%
Textile and Wearing Apparel	<b>211,401,887</b>	<b>1%</b>	522,412,139	4%
Rubber and Leather Products	<b>62,731,159</b>	<b>0%</b>	215,672,661	2%
Metals, Chemicals and Engineering	<b>663,010,231</b>	<b>2%</b>	1,053,137,322	8%
Services	<b>3,059,070,940</b>	<b>11%</b>	1,800,421,835	13%
Agro-Business and Fisheries	<b>1,478,992,506</b>	<b>5%</b>	856,382,344	6%
Industrial	<b>2,254,211,921</b>	<b>8%</b>	1,207,670,055	9%
Housing	<b>1,780,828,365</b>	<b>7%</b>	879,106,843	6%
Commercial Trading	<b>7,068,421,796</b>	<b>26%</b>	3,364,166,735	24%
Consumption - Leasing	<b>1,616,135,155</b>	<b>6%</b>	21,432,937	0%
- Others	<b>8,877,237,457</b>	<b>33%</b>	3,589,496,508	26%
	<b>27,370,510,378</b>	<b>100%</b>	13,775,740,660	100%

# Notes to the Financial Statements

## 17. Other Assets

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
Deposits and Prepayments	208,138,173	180,727,698	203,802,706	180,727,695
Amounts due from Related Parties	290,617,364	41,868,934	–	–
Other Receivables	591,017,565	516,934,706	794,174,627	604,386,190
	<u>1,089,773,102</u>	<u>739,531,338</u>	<u>997,977,333</u>	<u>785,113,885</u>

## 18. INVESTMENTS IN SUBSIDIARIES

### Non-Quoted

Name of Company	Country of Incorporation	Holding %	2006 Cost Rs.	Directors' Valuation Rs.	Holding %	2005 Cost Rs.	Directors' Valuation Rs.
Waldock Mackenzie Limited	Sri Lanka	100	–	–	100	–	–
<b>Acquired on Merger of Operations</b>							
Allied Properties Limited	Sri Lanka	100	652,907,861	652,907,861	–	–	–
MLL Insurance Brokers Limited	Sri Lanka	100	25,802,600	25,802,600	–	–	–
Mercantile Leasing (Financial Services) Limited	Sri Lanka	100	3,495,500	3,495,500	–	–	–
Total Non-Quoted Investments in Subsidiaries			<u>682,205,961</u>	<u>682,205,961</u>	–	–	–

## 19. Property, Plant & Equipment

### 19.1 Bank

	Balance as at 01.01.2006 Rs.	Acquired on Merger of Operations Rs.	Additions during the year Rs.	Disposals during the year Rs.	Balance as at 31.12.2006 Rs.
<b>19.1.1 Gross Carrying Amounts</b>					
<b>At Cost</b>					
Land and Buildings	37,122,638	–	2,638,579	–	39,761,217
Motor Vehicles	6,714,900	74,398,456	31,862,130	(16,397,134)	96,578,352
Office and Electrical Equipment	70,305,848	60,260,855	28,429,657	(2,026,170)	156,970,190
Computer Software and Equipment	526,089,165	–	99,995,798	(6,540,657)	619,544,306
Furniture and Fittings	64,920,315	25,951,922	21,862,245	–	112,734,482
Leasehold Improvements	77,468,286	–	8,199,579	(57,114)	85,610,751
<b>Total Value of Depreciable Assets</b>	<u>782,621,152</u>	<u>160,611,233</u>	<u>192,987,988</u>	<u>(25,021,075)</u>	<u>1,111,199,298</u>

## Notes to the Financial Statements

	Balance as at 01.01.2006 Rs.	Acquired on Merger of Operations Rs.	Charge for the year Rs.	Disposals during the year Rs.	Balance as at 31.12.2006 Rs.
<b>19.1.2 Depreciation</b>					
Land and Buildings	6,537,182	–	1,133,393	–	<b>7,670,575</b>
Motor Vehicles	4,238,079	17,803,502	20,811,678	(5,127,763)	<b>37,725,496</b>
Office and Electrical Equipment	30,335,054	52,602,383	15,669,174	(2,005,703)	<b>96,600,908</b>
Computer Software and Equipment	262,056,795	–	95,436,000	(5,456,307)	<b>352,036,488</b>
Furniture and Fittings	19,607,568	24,392,457	9,722,981	–	<b>53,723,006</b>
Leasehold Improvements	46,120,560	–	12,341,637	(13,046)	<b>58,449,151</b>
<b>Total Depreciation</b>	<b>368,895,238</b>	<b>94,798,342</b>	<b>155,114,863</b>	<b>(12,602,819)</b>	<b>606,205,624</b>
<b>19.1.3 Net Book Value</b>	<b>413,725,914</b>				<b>504,993,674</b>

**19.1.4** In relation to all assets acquired after 1st January 2006, the Bank commenced depreciating the assets from when the assets are available for use. Due to this change more fully described under Accounting Policy No. 2.10.6 (c) to these Financial Statements, the Bank's depreciation charge for the year has increased by Rs. 15,595,292/-.

### 19.2 Group

	Balance as at 01.01.2006 Rs.	Acquired on Merger of Operations Rs.	Additions during the year Rs.	Disposals during the year Rs.	Balance as at 31.12.2006 Rs.
<b>19.2.1 Gross Carrying Amounts</b>					
<b>At Cost/Cost Incurred since last Revaluation</b>					
Land and Buildings	37,122,638	587,000,000	2,734,929	(96,350)	<b>626,761,217</b>
Motor Vehicles	6,771,401	212,371,654	33,362,130	(50,091,661)	<b>202,413,524</b>
Office and Electrical Equipment	70,758,372	62,438,397	28,429,657	(2,026,170)	<b>159,600,256</b>
Computer Software and Equipment	529,659,108	–	99,995,798	(6,540,657)	<b>623,114,249</b>
Furniture and Fittings	65,115,249	25,988,429	21,862,245	–	<b>112,965,923</b>
Leasehold Improvements	77,468,286	–	8,199,579	(57,114)	<b>85,610,751</b>
<b>Total Value of Depreciable Assets</b>	<b>786,895,054</b>	<b>887,798,480</b>	<b>194,584,338</b>	<b>(58,811,952)</b>	<b>1,810,465,920</b>



## Notes to the Financial Statements

	Balance as at 01.01.2006 Rs.	Acquired on Merger of Operations Rs.	Charge for the year Rs.	Disposals during the year Rs.	Balance as at 31.12.2006 Rs.
<b>19.2.2 Depreciation</b>					
Land and Buildings	6,537,182	–	12,108,393	–	<b>18,645,575</b>
Motor Vehicles	4,294,580	69,995,632	45,563,930	(27,469,261)	<b>92,384,881</b>
Office and Electrical Equipment	30,763,671	54,306,554	15,891,832	(2,005,703)	<b>98,956,354</b>
Computer Software and Equipment	265,450,082	–	95,439,541	(5,456,307)	<b>355,433,316</b>
Furniture and Fittings	19,788,060	24,427,214	9,723,856	–	<b>53,939,130</b>
Leasehold Improvements	46,120,560	–	12,341,637	(13,046)	<b>58,449,151</b>
<b>Total Depreciation</b>	<b>372,954,135</b>	<b>148,729,400</b>	<b>191,069,189</b>	<b>(34,944,317)</b>	<b>677,808,407</b>
<b>19.2.3 Net Book Value</b>	<b>413,940,919</b>				<b>1,132,657,513</b>

**19.2.4** In relation to all assets acquired after 1st January 2006, the Group commenced depreciating the assets from when the assets are available for use. Due to this change more fully described under Accounting Policy No. 2.10.6 (c) to these Financial Statements, the Group's depreciation charge for the year has increased by Rs. 15,643,042/-.

**19.2.5** 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.	Cumulative Depreciation if Assets were carried at Cost Rs.	Net carrying Amount 2006 Rs.	Net carrying Amount 2005 Rs.
Buildings	270,789,072	52,420,827	<b>218,368,245</b>	225,137,972

## 20. Goodwill

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
Balance as at the beginning of the year	–	–	<b>58,500,000</b>	67,500,000
Acquired on Merger of Operations	<b>372,052,672</b>	–	<b>396,191,626</b>	–
Amortised during the year	–	–	–	(9,000,000)
Impairment Losses Written Off during the year	–	–	<b>(3,377,740)</b>	–
Balance as at the end of the year	<b>372,052,672</b>	–	<b>451,313,886</b>	58,500,000

## Notes to the Financial Statements

**20.1** 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.

### Key assumptions used in value in use calculation of the above units:

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

**Volume growth** - Volume growth has been budgeted on a reasonable and realistic basis by taking into account the growth rates of the two years immediately preceding the budgeted year and forecast industry growth rates in the future.

**Gross margins** - The basis used to determine the value assigned to the budgeted gross margins is the gross margins achieved in the year preceding the budgeted year adjusted for projected market conditions.

**Cost inflation** - The basis used to determine the value assigned to the budgeted cost inflation is the inflation rate based on projected economic conditions.

**Discount rate** - The discount rate used is a Sri Lankan Government bond rate applicable at the end of the year preceding the budgeted year adjusted by the addition of an appropriate risk premium.

**20.2** For the year ended 31st December 2006, an impairment loss of Rs. 3,377,740/- has been recorded in the Group Income Statement. This has arisen due to the impairment of Goodwill on the acquisition of Mercantile Leasing (Financial Services) Limited.

## 21. Deposits

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
<b>21.1 Analysis of Deposits</b>				
Demand Deposits	2,999,631,739	2,238,715,313	2,997,527,068	2,237,758,504
Savings Deposits	3,409,494,894	2,480,149,049	3,409,494,894	2,480,149,049
Call Deposits	1,853,026,054	904,434,045	1,853,026,054	904,434,045
Fixed Deposits	11,722,368,067	8,191,040,442	11,722,368,067	8,191,040,442
Certificates of Deposit	687,938,794	500,657,098	687,938,794	500,657,098
	<b>20,672,459,548</b>	<b>14,314,995,947</b>	<b>20,670,354,877</b>	<b>14,314,039,138</b>

## Notes to the Financial Statements

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
<b>21.2 Sources of Deposits</b>				
Deposits from Non-Banking Customers	19,361,588,540	14,016,344,037	19,361,588,540	14,016,344,037
Deposits from other Banks	876,628,768	229,893,420	876,628,768	229,893,420
Deposits from other Financial Institutions	434,242,240	68,758,490	432,137,569	67,801,681
	<u>20,672,459,548</u>	<u>14,314,995,947</u>	<u>20,670,354,877</u>	<u>14,314,039,138</u>
<b>22. Borrowings</b>				
<b>22.1 Borrowings</b>				
Money Market Borrowings	5,650,021,105	8,716,000	5,650,021,105	8,716,000
Borrowings under Repurchase Agreements				
- Treasury Bills, Treasury Bonds and				
Commercial Paper	5,467,386,962	2,181,750,480	10,275,404,717	6,153,006,437
Commercial Paper	–	–	1,315,392,337	1,081,584,881
Trust Certificates	1,254,144,988	–	1,254,144,988	–
Refinance Borrowings	574,616,998	31,500,062	574,616,998	31,500,062
Other Borrowings	–	–	305,169,716	–
	<u>12,946,170,053</u>	<u>2,221,966,542</u>	<u>19,374,749,861</u>	<u>7,274,807,380</u>
<b>22.2 Borrowings - Maturity Analysis</b>				
Repayments due within one year	11,869,282,868	2,190,466,480	18,297,862,676	7,243,307,318
Repayments due between 1 to 5 years	1,076,887,185	31,500,062	1,076,887,185	31,500,062
	<u>12,946,170,053</u>	<u>2,221,966,542</u>	<u>19,374,749,861</u>	<u>7,274,807,380</u>
<b>23. Other Liabilities</b>				
Accrued Expenditure	995,042,824	521,981,108	998,045,057	521,981,108
Margin Balances	266,414,775	86,510,366	266,414,775	86,510,366
Pay Orders	256,629,278	194,229,051	256,629,278	194,229,051
Tax Payable	104,557,426	14,095,548	130,417,155	27,700,865
Amounts due to Related Parties	49,402,720	–	–	–
Others	702,132,380	531,765,263	560,313,962	557,731,284
	<u>2,374,179,403</u>	<u>1,348,581,336</u>	<u>2,211,820,227</u>	<u>1,388,152,674</u>
<b>24. Deferred Liabilities</b>				
Retirement Benefits Obligation - Gratuity	52,854,681	31,950,038	55,160,181	32,779,536
Deferred Taxation (24.1)	120,223,629	67,660,599	138,580,940	67,660,599
	<u>173,078,310</u>	<u>99,610,637</u>	<u>193,741,121</u>	<u>100,440,135</u>

## Notes to the Financial Statements

### 24.1 Deferred Taxation

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
Balance as at the beginning of the year	67,660,599	73,635,690	67,660,599	73,635,690
Balance Acquired on Merger of Operations	100,184,329	–	100,184,329	–
Effect on Transitional Liability on adoption of Revised SLAS 14 on Income Taxes	(20,325,945)	–	(8,507,213)	–
Charge/(Reversal) made during the year	(27,295,354)	(5,975,091)	(20,756,775)	(5,975,091)
Balance as at the end of the year	<u>120,223,629</u>	<u>67,660,599</u>	<u>138,580,940</u>	<u>67,660,599</u>

### 24.2 Deferred Tax Liability

	2006 Rs.	2005 Rs.
Accelerated Depreciation Allowances for Tax purposes (Lease Rentals Receivable)	(123,243,473)	(19,059,525)
Accelerated Depreciation Allowances for Tax purposes (Property, Plant & Equipment)	<u>(91,098,658)</u>	<u>(99,515,426)</u>
	<u>(214,342,131)</u>	<u>(118,574,951)</u>
<b>Deferred Tax Assets</b>		
General Provision for Loans, Advances and Lease Receivables	75,619,364	39,731,839
Defined Benefit Plan Liability	<u>18,499,138</u>	<u>11,182,513</u>
	<u>94,118,502</u>	<u>50,914,352</u>
<b>Bank</b>		
Net Deferred Tax Liability	<u>(120,223,629)</u>	<u>(67,660,599)</u>
<b>Group</b>		
Undistributed Profits of a subsidiary company	<u>(18,357,311)</u>	<u>–</u>
Net Deferred Tax Liability	<u>(138,580,940)</u>	<u>(67,660,599)</u>

**24.3** 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.

# Notes to the Financial Statements

## 25. Debentures

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
Balance as at the beginning of the year	–	–	–	–
Issued during the year	<b>560,000,000</b>	–	<b>560,000,000</b>	–
Redemptions during the year	–	–	–	–
Balance as at the end of the year	<b>560,000,000</b>	–	<b>560,000,000</b>	–

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

## 26. Subordinated Loan

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
Balance as at the beginning of the year	<b>673,250,000</b>	350,525,000	<b>673,250,000</b>	350,525,000
Loans obtained during the year	–	322,725,000	–	322,725,000
Repayments during the year	–	–	–	–
Balance as at the end of the year	<b>673,250,000</b>	673,250,000	<b>673,250,000</b>	673,250,000

The above represents 100% of the Sri Lankan 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.

## 27. Share Capital

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
<b>Authorised</b>				
250,000,000 Ordinary Shares of Rs. 10/- each	<b>2,500,000,000</b>	2,500,000,000	<b>2,500,000,000</b>	2,500,000,000
<b>Issued and Fully Paid</b>				
As at the beginning of the year				
85,000,000 Ordinary Shares of Rs. 10/- each	<b>850,000,000</b>	850,000,000	<b>850,000,000</b>	850,000,000
Issue of 40,786,004 Shares at				
Rs. 10/- each for non-cash consideration	<b>407,860,040</b>	–	<b>407,860,040</b>	–
As at the end of the year				
125,786,004 Ordinary Shares of Rs. 10/- each	<b>1,257,860,040</b>	850,000,000	<b>1,257,860,040</b>	850,000,000

These shares are quoted on the Colombo Stock Exchange.

# Notes to the Financial Statements

## 28. Reserve Fund

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
As at the beginning of the year	16,520,928	12,846,653	16,520,928	12,846,653
Transferred during the year	12,474,271	3,674,275	12,474,271	3,674,275
As at the end of the year	28,995,199	16,520,928	28,995,199	16,520,928

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.

## 29. Reserves

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
<b>29.1 Share Premium</b>				
As at the beginning of the year	144,999,986	144,999,986	144,999,986	144,999,986
Issue of Shares for non-cash consideration during the year	658,693,965	—	658,693,965	—
As at the end of the year	803,693,951	144,999,986	803,693,951	144,999,986

The Share Premium account is generally used for scrip issues of ordinary shares and writing-off of share issue expenses.

## 29.2 Revenue Reserves

As at the beginning of the year	175,121,830	105,310,603	451,809,163	330,773,190
Effect on transitional liability on adoption of Revised SLAS 14 on Income Taxes	20,325,945	—	8,507,214	—
Profit for the year	249,485,425	73,485,502	323,320,454	124,710,248
Transfers to Reserve Fund during the year	(12,474,271)	(3,674,275)	(12,474,271)	(3,674,275)
As at the end of the year	432,458,929	175,121,830	771,162,560	451,809,163
<b>Total</b>	<b>1,236,152,880</b>	<b>320,121,816</b>	<b>1,574,856,511</b>	<b>596,809,149</b>



## Notes to the Financial Statements

### 30. Commitments and Contingencies

#### 30.1 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.

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
Acceptances	695,436,470	261,546,951	695,436,470	261,546,951
Documentary Credits	1,461,515,067	974,585,600	1,461,515,067	974,585,600
Guarantees	485,181,164	541,124,640	485,181,164	541,124,640
Bonds and Warranties	1,625,029,347	934,373,411	1,625,029,347	934,373,411
Bills sent on Collection	1,116,309,921	1,118,237,748	1,116,309,921	1,118,237,748
Forward Exchange Contracts (Net)	2,275,098	1,718,238	2,275,098	1,718,238
	<u>5,385,747,067</u>	<u>3,831,586,588</u>	<u>5,385,747,067</u>	<u>3,831,586,588</u>

**30.2** During the year 2006 the Bank entered into an Interest Rate SWAP agreement amounting to a notional value of Rs. 56.25 mn which matures in year 2008. During the year 2004 the Bank entered into two Interest Rate SWAP agreements amounting to a notional value of Rs. 1,000 mn which mature in years 2008 and 2009.

**30.3** The Bank has entered into several currency SWAPs totalling Rs. 5,169,098,614/- as at the Balance Sheet date.

#### 30.4 Capital Commitments

Capital expenditure approved by the Board of Directors, for which no provision has been made in these accounts as at 31st December 2006

	2006 Rs.	Bank 2005 Rs.	2006 Rs.	Group 2005 Rs.
Approved and contracted for Computer System	52,851,032	9,795,201	52,851,032	9,795,201
Approved and contracted for Office and Electrical Equipment	13,750,520	—	13,750,520	—
	<u>66,601,552</u>	<u>9,795,201</u>	<u>66,601,552</u>	<u>9,795,201</u>

#### 30.5 Material Litigation against the Bank

- a) 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.

# Notes to the Financial Statements

## 31. Segmental Information

In Rs. ' 000	Banking		Investment Banking		Others		Elimination/Allocated		Group	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005
<b>Total Revenue</b>	<b>5,494,305</b>	2,538,863	<b>930,419</b>	663,525	<b>109,444</b>	–	<b>(611,822)</b>	(116,875)	<b>5,922,347</b>	3,085,513
<b>Segment Results</b>										
Profit before Taxation	<b>400,221</b>	110,812	<b>114,754</b>	95,667	<b>26,906</b>	–	<b>(3,378)</b>	(9,000)	<b>538,504</b>	197,479
Taxation	–	–	–	–	–	–	–	–	<b>(215,183)</b>	(72,769)
Net Profit for the year	–	–	–	–	–	–	–	–	<b>323,321</b>	124,710
<b>Segment Assets</b>	<b>46,737,856</b>	20,043,535	<b>13,499,974</b>	6,726,188	<b>766,474</b>	–	<b>(13,833,558)</b>	(1,415,717)	<b>47,170,746</b>	25,354,006
Goodwill	–	–	–	–	–	–	<b>451,314</b>	58,500	<b>451,314</b>	58,500
Total Assets	<b>46,737,856</b>	20,043,535	<b>13,499,974</b>	6,726,188	<b>766,474</b>	–	<b>(13,382,244)</b>	(1,357,217)	<b>47,622,060</b>	25,412,507
<b>Segment Liabilities</b>	<b>43,400,123</b>	18,789,232	<b>13,216,401</b>	6,508,001	<b>90,041</b>	–	<b>(12,084,798)</b>	(1,415,716)	<b>44,621,767</b>	23,881,517
Deferred Tax Liabilities	<b>120,224</b>	67,660	–	–	–	–	<b>18,357</b>	–	<b>138,581</b>	61,685
Total Liabilities	<b>43,520,347</b>	18,856,892	<b>13,216,401</b>	6,508,001	<b>90,041</b>	–	<b>(12,066,441)</b>	(1,415,716)	<b>44,760,348</b>	23,949,177
<b>Others</b>										
Additions to Property, Plant & Equipment	<b>192,988</b>	138,516	–	–	<b>1,596</b>	–	–	–	<b>194,584</b>	138,516
Depreciation	<b>155,115</b>	104,036	<b>12</b>	305	<b>35,943</b>	–	–	–	<b>191,069</b>	104,341
Amortisation of Goodwill on Consolidation	–	–	–	–	–	–	–	–	–	9,000
Impairment of Goodwill	–	–	–	–	–	–	–	–	<b>3,378</b>	–
<b>Non-Cash Expenses</b>										
Provision for Bad and Doubtful Debts	<b>200,473</b>	169,362	–	–	–	–	<b>14,219</b>	–	<b>214,692</b>	169,362
Provision for Gratuity	<b>17,518</b>	14,283	<b>340</b>	421	<b>(114)</b>	–	–	–	<b>17,744</b>	14,704

# Notes to the Financial Statements

## 32. Directors' Interests in Contracts with the Bank

A.D. Gunewardene (Chairman), S.C. Ratnayake, J.R.F. Peiris, E.H. Wijenaike, Ms. C. Kiriella, G.S.A. Gunsekera and A.K. Gunaratne are Directors of the Bank from 1st January 2006 to 31st December 2006. Z.H. Zavahir and C.H.S.K. Piyyaratna were appointed to the Board on 3rd October 2006. S. Easparathan who was a Director of the Bank ceased to be a member of the Board upon his demise on 24th November 2006.

The Bank carried out transactions in the ordinary course of its business at commercial rates with the following director related entities;

### 32.1.1 Details of Transactions carried out with director related entities during the year 2006

Name of Related Party	Name of Director	Relationship	Details	Balance outstanding as at 31.12.2006 Rs.
Central Finance Co. Limited	E.H. Wijenaike Ms C. Kiriella A.K. Gunaratne	Managing Director Director Director	A sum of Rs. 9,296,669/- was paid in respect of operating leases for cars.	Nil
Keells Business Systems Limited	A.D. Gunewardene J.R.F. Peiris	Chairman Director	A sum of Rs. 35,002,698/- was paid for the purchase of computer equipment and other computer services.	Nil
John Keells Office Automation (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris	Chairman Director	A sum of Rs. 5,152,290/- was paid for the purchase of office equipment, stationery and service maintenance.	Nil
John Keells Holdings Limited	S.C. Ratnayake A.D. Gunewardene G.S.A. Gunsekera J.R.F. Peiris	Chairman Deputy Chairman Director Director	A sum of Rs. 28,750/- was paid as advisory charges.	Nil
Mackinnons American Express Travel (Pvt) Limited	S.C. Ratnayake	Chairman	A sum of Rs. 141,790/- was incurred for air travel.	(130,000)
D H L Keells (Pvt) Limited	S.C. Ratnayake	Chairman	A sum of Rs. 846,069/- was paid as courier charges	Nil
Jaykay Marketing Services (Pvt) Limited	S.C. Ratnayake J.R.F. Peiris	Chairman Director	A sum of Rs. 2,189,276/- was incurred as rental payments.	(290,500)
Odel (Pvt) Limited	A.D. Gunewardene	Chairman	A sum of Rs. 1,757,066/- was incurred as gift vouchers, rental and other utility charges.	(40,000)
Asian Hotels & Properties Limited	S.C. Ratnayake A.D. Gunewardene G.S.A. Gunsekera J.R.F. Peiris	Chairman Managing Director Alt. Director Director	A sum of Rs. 3,894,176/- was incurred as rental and other utility charges.	(31,000)
Ceylon Holiday Resorts Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 5,000/- was paid as cost of gift items.	Nil

## Notes to the Financial Statements

Name of Related Party	Name of Director	Relationship	Details	Balance outstanding as at 31.12.2006 Rs.
Financial Ombudsman Sri Lanka (Guarantee) Limited	E.H. Wijenaik	Director	A sum of Rs. 86,250/- was paid as annual membership fees.	<b>Nil</b>
Habarana Walk Inn Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 1,165,986/- was paid as conference/accommodation charges.	<b>Nil</b>
Keells Hotel Management Services Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 37,312/- was paid as prizes and contributions.	<b>Nil</b>
Keells Tours (Pvt) Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 37,000/- was paid for transport charges.	<b>Nil</b>
Nature Oddysey (Pvt) Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 8,000/- was paid for the vehicle hire charges.	<b>Nil</b>
Trans Asia Limited	S.C. Ratnayake A.D. Gunewardene G.S.A. Gunsekera J.R.F. Peiris	Chairman Director Alt. Director Director	A sum of Rs. 1,243,293/- was paid for conference charges and customer entertainment.	<b>Nil</b>
Waldock Mackenzie Limited	A.D. Gunewardene E.H. Wijenaik Z.H. Zavahir	Chairman Director Director	A sum of Rs. 61,423,197/- was paid as interest expense. A sum of Rs. 42,114,677/- was received as interest income.	<b>131,017,364</b>
Allied Properties Limited	A.D. Gunewardene E.H. Wijenaik Z.H. Zavahir	Chairman Director Director	A sum of Rs. 11,282,085/- was paid as rent, utility expenses, training room charges and for partitioning work. Reimbursement of expenses amounting to Rs. 1,471,500/- was received. Interest paid amounted to Rs. 5,208,031/-. Deposit for rentals amounts to Rs. 5,922,000/-.	<b>(101,473,762)</b>
MLL Insurance Brokers Limited	G.S.A. Gunsekera Z.H. Zavahir	Chairman Director	A sum of Rs. 2,736,000/- was received as reimbursement of expenses.	<b>(4,898,303)</b>
Mercantile Leasing (Financial Services) Limited	A.D. Gunewardene E.H. Wijenaik Z.H. Zavahir	Chairman Director Director	A sum of Rs. 706,500/- was received as reimbursement of expenses. A sum of Rs. 7,488,754/- was received as interest.	<b>60,631,350</b>

## Notes to the Financial Statements

### 32.1.2 Details of Accommodation granted and Balances outstanding as at 31st December 2006

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit	Balance Outstanding as at 31.12.2006
				Rs.	Rs.
Central Finance Co. Limited	E.H. Wijenaike Ms C. Kiriella A.K. Gunaratne	Managing Director Director Director	Working Capital Financing	300,000,000	285,292,594
Central Industries Limited	E.H. Wijenaike A.K. Gunaratne	Director Director	Working Capital Financing	80,500,000	79,754,588
John Keells Office Automation (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris	Chairman Director	Working Capital Financing	115,000,000	100,949,164
D H L Keells (Pvt) Limited	S.C. Ratnayake	Chairman	Trade Finance Facilities	–	1,000,000
Jaykay Marketing Services (Pvt) Limited	S.C. Ratnayake J.R.F. Peiris	Chairman Director	Working Capital Financing	10,000,000	–
Ceylon Cold Stores Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	Working Capital Financing	50,000,000	49,853,404
Keells Restaurants (Pvt) Limited	S.C. Ratnayake J.R.F. Peiris	Chairman Director	Working Capital Financing	100,000,000	41,219,117
Walkers Air Services (Pvt) Limited	S.C. Ratnayake J.R.F. Peiris	Chairman Director	Working Capital Financing	10,000,000	9,697,500
Whitall Boustead Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	Working Capital Financing	819,000	818,460
Mack Air Limited	S.C. Ratnayake J.R. F Peiris	Chairman Director	Working Capital Financing	2,000,000	20,000
Habarana Walk Inn Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	Working Capital Financing Finance Leases	2,000,000 –	904,381 4,115,628
Habarana Lodge Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	Working Capital Financing Finance Leases	100,000,000 –	21,928,845 4,115,628
Kandy Walk Inn Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	Working Capital Financing Finance Leases	70,000,000 –	52,075,371 4,115,628
Ceylon Holiday Resorts Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	Working Capital Financing Finance Leases	20,000,000 –	15,423,507 8,231,537
Yala Village (Pvt) Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Deputy Chairman Director Director	Finance Leases	–	4,115,628
Trinco Walk Inn Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	Finance Leases	–	4,115,628
John Keells Holdings Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris G.S.A. Gunesekera	Chairman Deputy Chairman Director Director	Corporate Credit Card	5,000,000	452,578

## Notes to the Financial Statements

### 32.1.3 Details of Deposits and Repurchase agreements placed as at 31st December 2006

Deposits and Repurchase agreements placed with the Bank by director related entities;

	Rs.
- John Keells Holdings Limited and related entities	1,312,387,260
- Central Finance Co. Limited and related entities	331,466,229
- Fully-owned subsidiaries of the Bank, Waldock Mackenzie Limited, Allied Properties Limited, MLL Insurance Brokers Limited and Mercantile Leasing (Financial Services) Limited	2,149,857,935

Name of Related Party	Face Value Rs.
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### 32.1.4 Details of Reverse Repurchase agreements against Government Securities

Waldock Mackenzie Limited	4,456,720,364
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### 32.1.5 Details of Short-Term Loans/Supplier Finance

Central Finance Company Limited	278,000,000
Jaykay Marketing Services (Pvt) Limited	5,663,734

### 32.1.6 Details of Guarantees Issued (Floating Rate Note)

Keells Restaurants (Pvt) Limited	35,000,000
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### 32.1.7 Details of Forward Exchange Contracts

Lanka Marine Services (Pvt) Limited	539,230,000
John Keells Office Automation (Pvt) Limited	4,335,600

### 32.1.8 Details of Lending for Margin Trading

Waldock Mackenzie Limited	159,600,000
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## 33. RELATED PARTY TRANSACTIONS

	31.12.2006 Rs.	31.12.2005 Rs.
<b>33.1 Compensation to Key Management Personnel (*)</b>		
Directors' Fees	220,000	240,000
Emoluments	19,626,753	11,566,572
Post employment benefits	889,950	840,050
Total compensation paid to Key Management Personnel	<u>20,736,703</u>	<u>12,646,622</u>

(\*) Key Management Personnel include the Board of Directors of the Bank, Chief Executive Officer of the Bank and Key employees of the Bank who are Directors of subsidiary companies of the Bank.

## Notes to the Financial Statements

The Bank had the undermentioned financial dealings during the year in the ordinary course of business on commercial terms and conditions with the following related parties.

### 33.2 Transactions, arrangements and agreements involving Key Management Personnel

	31.12.2006	31.12.2005
	Rs.	Rs.
<b>Directors and Officers</b>		
Loans and Advances	7,316,325	8,714,064
Credit Cards	1,314,638	1,207,563
Deposits/Repos	21,056,405	17,544,692
<b>Close Family Members of Key Management Personnel</b>		
Credit Cards	246,525	72,903
Deposits/Repos	6,659,388	13,362,697

### 33.3 Transactions, arrangements and agreements involving companies controlled by Key Management Personnel and their close family members

The spouse of Mr. Z.H. Zavahir who is one of the Directors of the Bank, is a significant shareholder of M/s Lanka Construction & Marketing (Pvt) Limited. The Bank had the following financial dealings with the party,

	31.12.2006	31.12.2005
	Rs.	Rs.
Loans and Advances	8,917,313	7,035,258
Guarantees Issued	617,400	830,000
Deposits	10,000,000	2,760,718

The total facilities granted to the above customer were fully secured against cash deposits.

### 33.4 Transactions with other Related Parties

Balances with shareholders with significant influence:

	31.12.2006	31.12.2005
	Rs.	Rs.
<b>John Keells Holdings Limited</b>		
Corporate Credit Cards	452,578	84,634
Deposits/Repurchase Agreements	76,934	313,535
Fixed Rate Notes Purchased	100,000,000	100,000,000
<b>Central Finance Co. Limited</b>		
Loans and Advances	285,292,594	138,041,576
Deposits/Repurchase Agreements	330,282,166	800,916,744
Interest Rate SWAP	120,000,000	120,000,000



# Notes to the Financial Statements

## 33.5 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 2006 has contributed a sum of Rs. 41,189,435/- to the Fund. As at 31st December 2006, the Fund has invested a sum of Rs. 160,158,258/- with the Bank.

## 33.6 Transactions with Subsidiary Companies

Allied Properties Limited	Refer Note 32.1.1, 32.1.3
MLL Insurance Brokers Limited	Refer Note 32.1.1, 32.1.3
Mercantile Leasing (Financial Services) Limited	Refer Note 32.1.1, 32.1.3
Waldock Mackenzie Limited	Refer Note 32.1.1, 32.1.3, 32.1.4, 32.1.8

## 34. Maturity Analysis

### 34.1 Bank

(In Rs. '000)	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Total
<b>Assets</b>						
<b>Interest Earning Assets</b>						
Money at Call and Short Notice	4,473,443	–	–	–	–	4,473,443
Government Treasury						
Bills and Bonds	4,969,813	368,863	306,562	–	–	5,645,238
Corporate Debt Securities	1,364,173	321,050	390,869	61,678	–	2,137,770
Bills of Exchange	291,350	–	–	–	–	291,350
Loans and Advances	6,574,123	877,351	6,160,587	1,926,546	1,826,604	17,365,211
Investment Securities	–	11,429	1,616,250	–	1,590	1,629,269
Lease Rentals Receivable	579,482	1,157,588	3,030,552	419,163	–	5,186,785
	<u>18,252,384</u>	<u>2,736,281</u>	<u>11,504,820</u>	<u>2,407,387</u>	<u>1,828,194</u>	<u>36,729,066</u>
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Total
<b>Non-Interest Earning Assets</b>						
Cash and Short-Term Funds	305,570	–	–	–	–	305,570
Statutory Deposits with the						
Central Bank of Sri Lanka	1,314,915	–	–	–	–	1,314,915
Other Assets	1,065,375	15,165	2,518	4,197	684,724	1,771,979
Property, Plant & Equipment	–	–	–	–	504,994	504,994
Goodwill	–	–	–	–	372,053	372,053
	<u>2,685,860</u>	<u>15,165</u>	<u>2,518</u>	<u>4,197</u>	<u>1,561,771</u>	<u>4,269,511</u>
<b>Total Assets</b>	<b><u>20,938,244</u></b>	<b><u>2,751,446</u></b>	<b><u>11,507,338</u></b>	<b><u>2,411,584</u></b>	<b><u>3,389,965</u></b>	<b><u>40,998,577</u></b>

## Notes to the Financial Statements

(In Rs. '000)	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Total
<b>Liabilities</b>						
<b>Interest Bearing Liabilities</b>						
Deposits	9,899,100	4,627,145	2,939,583	217,000	–	17,672,828
Borrowings	11,217,789	651,494	1,076,887	–	–	12,946,170
Subordinated Loans	–	–	–	67,325	605,925	673,250
	<u>21,106,889</u>	<u>5,278,639</u>	<u>4,016,470</u>	<u>284,325</u>	<u>605,925</u>	<u>31,292,248</u>
<b>Non-Interest Bearing Liabilities</b>						
Demand Deposits	1,659,689	1,339,943	–	–	–	2,999,632
Due to Banks	1,076,432	–	–	–	–	1,076,432
Deferred Liabilities	–	–	–	26,427	146,651	173,078
Other Liabilities	2,434,179	–	–	165,000	335,000	2,934,179
Share Capital	–	–	–	–	1,257,860	1,257,860
Reserves	–	–	–	–	1,265,148	1,265,148
	<u>5,170,300</u>	<u>1,339,943</u>	<u>–</u>	<u>191,427</u>	<u>3,004,659</u>	<u>9,706,329</u>
<b>Total Liabilities and Shareholders' Funds</b>	<b><u>26,277,189</u></b>	<b><u>6,618,582</u></b>	<b><u>4,016,470</u></b>	<b><u>475,752</u></b>	<b><u>3,610,584</u></b>	<b><u>40,998,577</u></b>
<b>34.2 Group</b>						
<b>Assets</b>						
<b>Interest Earning Assets</b>						
Money at Call and Short Notice	4,474,039	–	–	–	–	4,474,039
Government Treasury						
Bills and Bonds	9,605,447	410,982	306,562	–	–	10,322,991
Corporate Debt Securities	1,600,030	624,228	344,563	103,241	–	2,672,062
Bills of Exchange	291,350	–	–	–	–	291,350
Loans and Advances	8,047,816	877,351	6,160,587	1,926,546	1,826,604	18,838,904
Investment Securities	–	11,429	1,616,250	–	1,590	1,629,269
Lease Rentals Receivable	579,482	1,157,588	3,034,582	419,163	–	5,190,815
	<u>24,598,164</u>	<u>3,081,578</u>	<u>11,462,544</u>	<u>2,448,950</u>	<u>1,828,194</u>	<u>43,419,430</u>
<b>Non-Interest Earning Assets</b>						
Cash and Short-Term Funds	305,766	–	–	–	–	305,766
Statutory Deposits with the						
Central Bank of Sri Lanka	1,314,915	–	–	–	–	1,314,915
Other Assets	291,373	15,165	2,518	4,197	684,724	997,977
Property, Plant & Equipment	–	–	–	–	1,132,658	1,132,658
Goodwill	–	–	–	–	451,314	451,314
	<u>1,912,054</u>	<u>15,165</u>	<u>2,518</u>	<u>4,197</u>	<u>2,268,696</u>	<u>4,202,630</u>
<b>Total Assets</b>	<b><u>26,510,218</u></b>	<b><u>3,096,743</u></b>	<b><u>11,465,062</u></b>	<b><u>2,453,147</u></b>	<b><u>4,096,890</u></b>	<b><u>47,622,060</u></b>

## Notes to the Financial Statements

<i>(In Rs. '000)</i>	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Total
<b>Liabilities</b>						
<b>Interest Bearing Liabilities</b>						
Deposits	9,889,100	4,627,145	2,939,583	217,000	–	17,672,828
Borrowings	17,148,848	1,149,015	1,076,887	–	–	19,374,750
Subordinated Loans	–	–	–	67,325	605,925	673,250
	<u>27,037,948</u>	<u>5,776,160</u>	<u>4,016,470</u>	<u>284,325</u>	<u>605,925</u>	<u>37,720,828</u>
<b>Non-Interest Bearing Liabilities</b>						
Demand Deposits	1,657,584	1,339,943	–	–	–	2,997,527
Due to Banks	1,076,432	–	–	–	–	1,076,432
Deferred Liabilities	–	–	–	27,580	166,161	193,741
Other Liabilities	2,271,820	–	–	165,000	335,000	2,771,820
Share Capital	–	–	–	–	1,257,860	1,257,860
Reserves	–	–	–	–	1,603,852	1,603,852
	<u>5,005,836</u>	<u>1,339,943</u>	<u>–</u>	<u>192,580</u>	<u>3,362,873</u>	<u>9,901,232</u>
<b>Total Liabilities and Shareholders' Funds</b>	<b><u>32,043,784</u></b>	<b><u>7,116,103</u></b>	<b><u>4,016,470</u></b>	<b><u>476,905</u></b>	<b><u>3,968,798</u></b>	<b><u>47,622,060</u></b>

### 35. Post-Balance Sheet Events

Mr. A.R. Rasiah, Mr. M.E. Wickremesinghe and Dr. Dushni Weerakoon were appointed as Directors to the Board with effect from 1st March 2007.

Mr. G.S.A. Gunsekera and Ms. C. Kiriella resigned from the Board with effect from 28th February 2007.

# Investor Information

## Stock Exchange Listing

The ordinary shares of the Bank are listed in the Colombo Stock Exchange. The audited Income Statement for the year ended 31st December 2006 and the audited Balance Sheet as at that date will be submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

## Distribution of Ordinary Shareholders

<i>As at 31st December 2006</i>				Resident			Non-Resident			Total		
	No. of	No. of		No. of	No. of		No. of	No. of				
Shareholders	Shareholders	Shares	%	Shareholders	Shares	%	Shareholders	Shares	%			
Less than 1,000 shares	3,247	1,527,092	1.21	21	11,272	0.01	3,268	1,538,364	1.22			
1,001 - 5,000	1,923	4,317,672	3.43	20	44,714	0.04	1,943	4,362,386	3.47			
5,001 - 10,000	322	2,442,218	1.94	5	44,950	0.04	327	2,487,168	1.98			
10,001 - 50,000	317	6,864,635	5.46	6	234,300	0.19	323	7,098,935	5.64			
50,001 - 100,000	46	3,372,782	2.68	—	—	—	46	3,372,782	2.68			
100,001 - 500,000	33	6,860,963	5.45	2	543,600	0.43	35	7,404,563	5.89			
500,001 - 1,000,000	6	4,039,505	3.21	—	—	—	6	4,039,505	3.21			
Over 1,000,000	11	91,582,301	72.81	1	3,900,000	3.10	12	95,482,301	75.91			
	<b>5,905</b>	<b>121,007,168</b>	<b>96.19</b>	<b>55</b>	<b>4,778,836</b>	<b>3.81</b>	<b>5,960</b>	<b>125,786,004</b>	<b>100.00</b>			

There were 5,450 Resident and 44 Non-Resident Shareholders as at 31st December 2005.

## Analysis of Shareholders

	31.12.2006			31.12.2005		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	<b>5,631</b>	<b>38,130,003</b>	<b>30.31</b>	5,207	30,858,216	36.30
Institutional	<b>329</b>	<b>87,656,001</b>	<b>69.69</b>	287	54,141,784	63.70
	<b>5,960</b>	<b>125,786,004</b>	<b>100.00</b>	5,494	85,000,000	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at 31st December 2006 was 68.72% (66.62% as at 31st December 2005).

## Market Information on Ordinary Shares of the Company

	2006	2005
<b>Market Value</b>		
Highest Value (Rs.)	<b>28.50</b>	33.50
Lowest Value (Rs.)	<b>19.75</b>	18.25
Value at end of the year (Rs.)	<b>28.25</b>	23.50
<b>Trading Statistics</b>		
No. of Transactions	<b>5,919</b>	12,370
No. of Shares Traded (mn)	<b>29.95</b>	47.43
Value of Shares Traded (Rs. mn)	<b>738.33</b>	1,217.92
<b>Market Capitalisation</b>		
Market Capitalisation (Rs. mn)	<b>3,553.45</b>	1,997.50

## Investor Information

### Twenty Largest Shareholders

Name of the Shareholder	31.12.2006	
	No. of Shares	%
John Keells Holdings Limited	25,157,200	20.00
Central Finance Company Limited	12,861,600	10.23
Mr. T. Senthilvel	12,578,600	10.00
Mackinnon & Keells Financial Services Limited	12,452,814	9.90
Indra Traders (Pvt) Limited	9,482,966	7.54
CF Growth Fund Limited	8,079,968	6.42
CF Insurance Brokers (Pvt) Limited	4,215,632	3.35
Galleon Diversified Fund Limited	3,900,000	3.10
Mr. Y.S.H.I.K. Silva	3,089,520	2.46
Freudenberg Shipping Agencies Limited	1,346,000	1.07
Timex (Garments) Limited	1,250,000	0.99
Mr. L.P. Hapangama	1,235,400	0.98
Mr. A. D. Gunewardene	1,068,001	0.85
Rockland Distilleries Limited	858,700	0.68
Mr. H. Beruwalage	650,420	0.52
Asia Capital Limited	575,000	0.46
Mr. M.F. Hashim	584,075	0.46
Mr. M.J. Fernando	546,410	0.43
Mr. B. Thapar	400,000	0.32
Hi-Line Trading (Pvt) Limited	399,280	0.32
	<b>100,731,586</b>	<b>80.08</b>
Others	<b>25,054,418</b>	<b>19.92</b>
Total	<b>125,786,004</b>	<b>100.00</b>

## Five Year Summary

	2002 Rs. mn	2003 Rs. mn	2004 Rs. mn	2005 Rs. mn	2006 Rs. mn
<b>OPERATING RESULTS</b>					
Gross Income	1,148	2,115	2,374	3,086	5,922
Interest Income	1,001	1,574	1,708	2,448	4,991
Interest Expenses	(690)	(1,102)	(1,118)	(1,504)	(3,280)
Net Interest Income	311	472	590	944	1,711
Fee and Commission Income	81	117	139	199	275
Foreign Exchange Income	56	105	143	124	192
Other Operating Income	23	319	251	314	464
Net Income	471	1,013	1,123	1,581	2,642
Operating Expenses	(401)	(736)	(1,009)	(1,383)	(2,104)
Profit before Taxation	70	277	114	198	538
Provision for Taxation	(24)	(25)	(69)	(73)	(215)
<b>Profit after Taxation</b>	<b>46</b>	<b>252</b>	<b>45</b>	<b>125</b>	<b>323</b>
<b>BALANCE SHEET</b>					
<b>Assets</b>					
Cash and Short-Term Funds	1,076	1,606	1,977	1,633	4,780
Statutory Deposits with the Central Bank of Sri Lanka	345	347	609	955	1,315
Treasury Bills and other Securities Eligible for Rediscounting with the CBSL	6,799	7,489	5,771	5,341	10,323
Investment Securities	243	50	632	621	1,629
Loans and Advances					
Bills of Exchange	386	427	381	336	291
Loans and Advances	4,592	6,196	9,162	12,299	18,839
Lease Debtors	–	–	71	329	5,191
Corporate Debt Securities	1,848	1,739	2,103	2,640	2,672
Other Assets	212	519	558	785	998
Property, Plant & Equipment	297	323	381	414	1,133
Goodwill	99	77	68	59	451
<b>Total Assets</b>	<b>15,897</b>	<b>18,773</b>	<b>21,713</b>	<b>25,412</b>	<b>47,622</b>

## Five Year Summary

	2002	2003	2004	2005	2006
	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn
<b>LIABILITIES</b>					
Deposits from Customers	5,042	6,571	10,460	14,314	<b>20,670</b>
Borrowings	9,238	9,583	8,105	7,275	<b>19,374</b>
Due to other Banks	427	507	457	199	<b>1,077</b>
Other Liabilities	465	676	904	1,388	<b>2,212</b>
Deferred Liabilities	71	101	97	100	<b>194</b>
Debentures Issued	—	—	—	—	<b>560</b>
Subordinated Loans	—	—	351	673	<b>673</b>
<b>Total Liabilities</b>	<b>15,243</b>	<b>17,438</b>	<b>20,374</b>	<b>23,949</b>	<b>44,760</b>
<b>SHAREHOLDERS' FUNDS</b>					
Share Capital	500	850	850	850	<b>1,258</b>
Reserve Fund	8	11	13	16	<b>29</b>
Reserves	146	474	476	597	<b>1,575</b>
<b>Total Shareholders' Funds</b>	<b>654</b>	<b>1,335</b>	<b>1,339</b>	<b>1,463</b>	<b>2,862</b>
<b>Total Liabilities &amp; Shareholders' Funds</b>	<b>15,897</b>	<b>18,773</b>	<b>21,713</b>	<b>25,412</b>	<b>47,622</b>
<b>Commitments and Contingencies</b>	<b>3,480</b>	<b>3,972</b>	<b>4,886</b>	<b>3,832</b>	<b>5,386</b>
<b>Ratios and other Information</b>					
<b>Ratios</b>					
Income Growth (%)	63.77%	84.23%	12.25%	29.99%	<b>91.91%</b>
Return on Average Assets (%)	0.44%	1.45%	0.22%	0.53%	<b>0.88%</b>
Capital Adequacy (%)					
Tier I	10.70%	14.07%	10.44%	8.74%	<b>7.86%</b>
Tier I & II	11.56%	15.24%	13.91%	13.92%	<b>11.86%</b>
Return on Equity	7.03%	18.88%	3.36%	8.54%	<b>11.30%</b>
<b>Information on Ordinary Shares</b>					
Market Value per Share (Rs.)	16.75	28.25	18.25	23.50	<b>28.25</b>
Earnings per Share (Rs.) - Bank	0.48	0.87	0.37	0.86	<b>1.98</b>
Earnings per Share (Rs.) - Group	0.92	3.52	0.53	1.47	<b>2.57</b>
Price Earnings Ratio (Times) - Bank	34.90	32.47	49.75	27.33	<b>14.24</b>
Net Assets Value per Share (Rs.)	13.08	15.71	15.75	17.21	<b>22.75</b>
<b>Other Information</b>					
No. of Employees	271	405	479	549	<b>820</b>
No. of Branches/Mini Branches	17	20	26	28	<b>30</b>
Leasing Centres	—	—	—	—	<b>5</b>
No. of ATMs	13	20	30	33	<b>38</b>



# Glossary

## Acceptances

Promise to pay created when the drawee of a time draft stamps or writes the words "accepted" above his signature and a designated payment date.

## Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

## Bills for Collection

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

## Capital Adequacy Ratios

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

## Capital Employed

Sum total of liabilities and shareholders' funds.

## Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

## Contingencies

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

## Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and the direction of entity, the supervision of executive actions and accountability to owners and others.

## Deferred Tax

Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

## Documentary Credits

Commercial Letters of Credit provided for payment by a bank to the named beneficiary, usually the seller of merchandise, against delivery of documents specified in the credit.

## Earnings per Ordinary Share

Profit after taxation and after dividend on Preference Shares divided by the number of ordinary shares in issue.

## Effective Tax Rate

Provision for taxation divided by the profit before taxation.

## Finance Lease

A contract whereby a lessor conveys the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

## Foreign Exchange Profit

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Balance Sheet date and the settlement/ Balance Sheet date. Also arises from trading in foreign currencies.

## Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

## Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owning a debt if that person fails to perform.

## Gross Dividends

The portion of profits distributed to the shareholders including tax withheld.

## Historical Cost Convention

Recording transactions at the actual value received or paid.

## Interest in Suspense

Interest suspended on non-performing loans and advances.

## Interest Margin

The difference between the average interest rate earned and the average interest rate paid.

## Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

## Loan Losses and Provisions

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of their becoming partly or wholly uncollectable.

## Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of a share as at the year-end.

# Glossary

## **Materiality**

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

## **Net Assets Value per Ordinary Share**

Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

## **Net Dividends**

Dividends net of withholding tax.

## **Net Interest Income**

Difference between what banks earn on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

## **Non-Performing Loans**

A loan placed on a cash basis (i.e. Interest income is only recognised when cash is received) because, there is reasonable doubt regarding the collectibility of principal and interest. Loans are automatically placed on cash basis when a payment is three months past due.

## **Off-Balance Sheet Transactions**

Transactions that are not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

## **Prudence**

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

## **Return on Average Shareholders' Funds**

Profit after Tax divided by the average shareholders' funds.

## **Related Parties**

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

## **Return on Average Assets**

Profit after Tax divided by the average assets.

## **Risk Weighted Assets**

On Balance Sheet assets and the credit equivalent of off Balance Sheet assets multiplied by the relevant risk weighting factors.

## **Repurchase Agreement**

Contract to sell and subsequently repurchase securities at specified date and price.

## **Reverse Repurchase Agreement**

Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.

## **Revenue Reserve**

Reserve set aside for future distribution and investment.

## **Segmental Analysis**

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

## **Shareholders' Funds**

Total of issued and fully paid share capital and capital and revenue reserves.

## **Statutory Reserve Fund**

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

## **Substance Over Form**

The consideration that the accounting treatment and the presenting in Financial Statements of transactions and the events should be governed by their substance and financial reality and not merely by legal form.

## **Subsidiary Company**

An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as a parent).

## **Tier I Capital**

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

## **Tier II Capital**

Supplementary capital representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debt.

## **Value Added**

Value of wealth created by providing banking and other related services less the cost of providing such services.

# Notice of Meeting

Notice is hereby given that the Eighth Annual General Meeting of Nations Trust Bank Limited will be held on Friday, 30th March 2007 at 9.30 a.m. at the Union Ballroom of Hilton Colombo Residencies at Union Place, Colombo 2.

The business to be brought before the meeting will be:

1. To read the notice convening the Meeting.
2. To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st December 2006 with the Report of the Auditors thereon.
3. To declare a first and final dividend for the year ended 31st December 2006 of 10% on the Company's ordinary shares of Rs. 10/- each.
4. To re-elect Mr. S.C Ratnayake, who retires by rotation at the Annual General Meeting as a Director.
5. To re-elect Mr. J.R.F. Peiris, who retires by rotation at the Annual General Meeting as a Director.
6. To elect Mr. C. H. S. K. Piyaratna, as a Director of the Company in terms of Article 91 of the Articles of Association of the Company.
7. To elect Dr. Dushni Weerakoon, as a Director of the Company in terms of Article 91 of the Articles of Association of the Company.
8. To elect Mr. M.E. Wickremesinghe as a Director of the Company in terms of Article 91 of the Articles of Association of the Company.
9. To elect Mr. A.R. Rasiah as a Director of the Company in terms of Article 91 of the Articles of Association of the Company.
10. To elect Mr. Z.H. Zavahir as a Director of the Company in terms of Article 91 of the Articles of Association of the Company.
11. To reappoint Auditors and to authorise the Directors to determine their remuneration.
12. To authorise the Directors to determine and make donations.
13. To consider any other business of which due notice has been given.

## **Note**

- i. A member unable to attend is entitled to appoint a proxy to attend and vote in his/her place.
- ii. A proxy need not be a member of the Company.
- iii. A member wishing to vote by proxy at the meeting may use the Proxy Form given on page 103.
- iv. To be valid, the completed Proxy Form must be lodged at the Registered Office of the Company not less than 48 hours before the meeting.

By Order of the Board

**Theja Silva**

*Company Secretary*

Colombo

19th February 2007

## This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

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# Form of Proxy

I/We.....of

..... being

a member/members of Nations Trust Bank Limited, hereby appoint .....of

..... or failing him/her

Mr. A.D. Gunewardene	or failing him
Mr. E.H. Wijenaik	or failing him
Mr. S. C. Ratnayake	or failing him
Mr. J.R. F. Peiris	or failing him
Mr. A.K. Gunaratne	or failing him
Dr. Dushni Weerakoon	or failing her
Mr. M.E. Wickremesinghe	or failing him
Mr. A.R. Rasiah	or failing him
Mr. C. H. S. K. Piyaratna	or failing him
Mr. Z.H. Zavahir	

as my/our Proxy to represent me/us and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Friday, 30th March 2007 at 9.30 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

The Proxy may vote as he/she thinks fit on any other resolution brought before the meeting and may also speak on my/our behalf at the meeting.

In witness I/we placed my/our hand/s hereto on this ..... day of..... 2007.

.....  
Signature/s

Please indicate with a ✓ in the space below how you wish your votes to be cast:

	For	Against
1. To adopt the Report of the Directors and the Statement of Accounts for the year ended 31st December 2006 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final dividend for the year ended 31st December 2006 of 10% on the Company's ordinary shares of Rs. 10/- each.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. S.C. Ratnayake who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. J.R.F. Peiris, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. To elect Mr. C. H. S. K. Piyaratna as a Director of the Company in terms of Article 91 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. To elect Dr. Dushni Weerakoon as a Director of the Company in terms of Article 91 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
7. To elect Mr. M.E. Wickremesinghe as a Director of the Company in terms of Article 91 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
8. To elect Mr. A.R. Rasiah as a Director of the Company in terms of Article 91 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
9. To elect Mr. Z.H. Zavahir as a Director of the Company in terms of Article 91 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
10. To reappoint Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
11. To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>

# Form of Proxy

## Instructions as to Completion

1. Please perfect the Form of Proxy by filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 76, York Street, Colombo 1, not less than 48 hours before the time appointed for the holding of the Meeting.
3. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the appointer is a Company or Corporation, this Form must be executed under the Common Seal or the hand of a duly authorised Officer.
5. If this Form is returned without any indication as to how the person appointed as Proxy shall vote, the Proxy shall exercise his/her discretion as to how he/she votes, or whether he/she abstains from voting.

Please fill in the following details:

NIC No.: .....

Share Folio No.: .....

Name: .....

Address: .....

.....

.....

.....

Jointly with: .....

#### Registered Name

Nations Trust Bank Limited

#### Legal Form

A Licensed Commercial Bank established under the Banking Act No. 30 of 1988. A Public Limited Liability Company incorporated in Sri Lanka.

#### Registered No.

N (PBS) 805

#### Date of Incorporation

January 21st 1999

#### Head Office

No. 242, Union Place, Colombo 2.

Telephone : 4313131

Facsimile : 4313132

E-mail : info@nationstrust.com

#### Company Secretary

Theja Silva

#### Auditors

Messrs. Ernst & Young

Chartered Accountants,

No. 201, De Saram Place,

Colombo 10.

#### Directors

Ajit Gunewardene (*Chairman*)

Eranjith Wijenaike

Susantha Ratnayake

Ronnie Peiris

Arjuna Gunaratne

Dushni Weerakoon

A.R. Rasiah

M.E. Wickremesinghe

Sarath Piyaratna

Zulfiqar Zavahir

#### Board Supervisory Committee

Ajit Gunewardene (*Chairman*)

Eranjith Wijenaike

Arjuna Gunaratne

#### Board Audit Review Committee

Ronnie Peiris (*Acting Chairman*)

Arjuna Gunaratne

#### **Secretary**

Arthur Fernandez - Head-Internal Audit

#### **By Invitation**

Zulfiqar Zavahir

Iftikar Ahamed

Rohitha Ganegoda

External Auditors - Messrs. Ernst & Young





*We understand you*

Nations Trust Bank Ltd.  
76, York Street  
Colombo 1  
Sri Lanka