





## A foundation for sustainable growth in an environment like never before

Nations Trust Bank has completed a decade of growth; a decade within which we have been able to grow key indicators substantially. Our first ten years of operation saw terms such as 'young', 'innovative', 'pioneering' and 'fast growing' being applied to the Bank's profile.

As we look to the years ahead, we think it pertinent to present to all stakeholders the main attributes the Bank has in hand, which will fuel future growth. The proof of the efficacy of such attributes is amply reflected in key business indicators 'moving in the right direction'.

Among other aspects of definition, a white paper is an authoritative report used to educate, inform and influence. It often presents a basis for further discussion and help decision making. Our Annual Report takes its cue from this idea.

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## Vision

Making life simple by being the benchmark of convenience.

## Mission

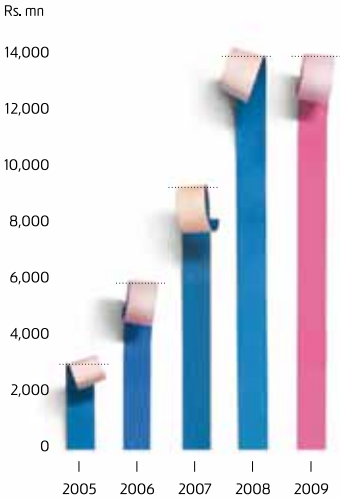
Be innovative in continuously developing customer centric solutions. Unleash the talent of our team to be the best in the industry. Consistently grow market share and be the most profitable and respected Sri Lankan bank by 2015.

## Values

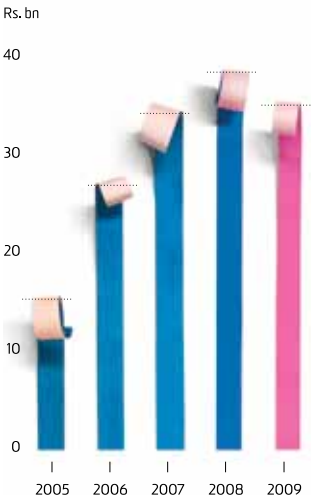
- Inspirational leadership
- Integrity in all our dealings
  - Open communication
  - Learning focused
  - Meritocracy
- Prudent risk management
  - Respect for all
- Innovation and continuous improvement
  - Nurture relationships
- Socially and environmentally responsible

“As we close the year 2009, the Bank remains financially strong with a favourable funding position, a comfortable capital adequacy ratio and all its businesses performing well.”

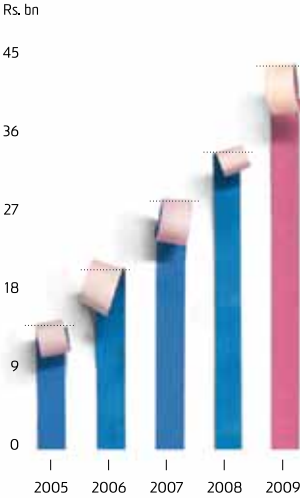
Gross Income



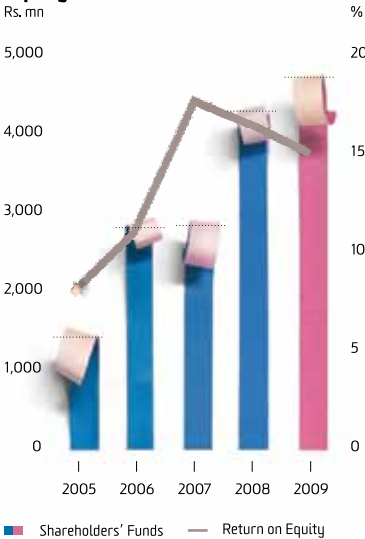
Loans & Advances



Deposits



Equity





	2009 Rs. mn	Group 2008 Rs. mn	Change %
<b>Results for the year</b>			
Gross Income	13,956	13,877	1
Profit before Taxation	1,381	1,029	34
Provision for Taxation	695	435	60
Profit after Taxation	686	593	16
<b>At the year end</b>			
Shareholders' Funds	4,777	4,342	10
Deposits from Customers	44,222	34,146	30
Loans and Advances (Net)	35,336	38,585	(8)
Total Assets	70,504	67,864	4
<b>Information on Ordinary Shares (Rs.)</b>			
Earnings per Share	4.09	3.67	11
Net Assets Value per Share	28.48	25.89	10
Market Value at the year end	36.75	22.25	65
<b>Ratios (%)</b>			
Return on Average Assets	0.99	0.96	3
Return on Equity	15.05	16.45	(9)
<b>Capital Adequacy Ratios (%)</b>			
Tier I	11.79	10.31	14
Tier I & II (Total Capital)	16.11	15.70	3









**“Diversity of revenue streams and a disciplined approach to managing cost and risk enabled us to improve our pre and post-tax profit. Despite an industry wide downturn in credit quality, strong capital and liquidity coupled with our inherent strengths to overcome adversity enabled us to withstand the negative effects and record a consistent and improved performance for the year 2009.”**



I am delighted to present to you the Annual Report of your Bank for the year ended 31st December 2009.

#### MACRO ECONOMIC ENVIRONMENT

Compared to 2008 which undoubtedly was the most turbulent year in recent times, 2009 was relatively uneventful from a global context with definite signs of relative stability and consolidation of the global economy. Although effects of these adverse developments did not fully impact Sri Lanka, inflation which rose to unprecedented levels in 2008 continued to decelerate throughout 2009 resulting in the annual average inflation recording a modest 4% per annum by year end. The sharp drop in the country's foreign currency reserves in late 2008 and early 2009 reversed itself towards the latter part of the year and is relatively well positioned. This, together with the drop in imports, higher earnings from favourable commodity prices and increased remittances contributed to a stable exchange rate.

Although there are definite signs of a reversal of the economic downturn seen in the previous year, 2009 on the whole only saw a moderate increase in economic activity. The Central Bank reduced policy rates during the year with the expectation that low interest rates will stimulate economic growth. At industry level,

deposits recorded a growth of 18.5% in 2009 compared to a 7.9% growth in 2008. Total loans and advances in the banking industry contracted by 4% during 2009 against a 6.6% growth in 2008. Credit quality deterioration continued with the average non-performing advances ratio of the banking industry rising from 6.3% in 2008 to 8.0% during 2009. The last quarter of 2009 saw a modest growth in loans and advances which perhaps signals a turnaround in the economy.

The defeat of terrorism and unification of the country through the integration of Northern and Eastern regions into the economic mainstream has provided unprecedented opportunity for accelerated economic growth in Sri Lanka. While the progress made in the development of these regions will no doubt continue to accelerate in the coming years, financial institutions are expected to perform a significant role in the re-emergence of not only the North and East, but the whole country in the post-conflict era. This provides tremendous opportunity for financial institutions, particularly to those who are quick to get off the block.



## PERFORMANCE DURING THE YEAR

Your Bank performed admirably well under difficult circumstances during the year to post a net profit after tax of Rs. 686.1 mn which is a 16% improvement on Rs. 593.1 mn posted in 2008. Net interest income grew by 30% signifying our strength in core banking activities. Non-fund based income increased by 8% over the previous year. Despite a slowing down of the financial services industry, your Bank managed to grow its business above the industry average to improve its market share. The Group Balance Sheet and Deposits grew by 4% and 30% respectively. The concerted efforts to effectively manage costs have borne fruit with a significant improvement in the cost to income ratio from 68% to 62%. Deterioration of asset quality was a common phenomenon across the banking industry in the light of the macroeconomic environment. Your Bank adopted sound credit risk management policies to control the quality of its advances portfolio.

I am pleased to announce that the Board of Directors recommends a first and final dividend of Rs. 1.50 per share for the financial year ended 31st December 2009, subject to the approval of the shareholders at the forthcoming Annual General Meeting. This would entail a maximum dividend payout of Rs. 314.5 mn for 2009 as against a dividend payout of Rs. 251.6 mn in the previous year, which is an increase of 25%.

## 10 YEARS OF OPERATIONS

Your Bank celebrated 10 years of operations in 2009. During the past ten years, Nations Trust Bank has grown from infancy into a force to be reckoned with, in the Banking industry. This was clearly validated when your Bank was rated 16th by LMD in their ranking of the country's most respected business entities.

Nations Trust Bank has traditionally been retail focused with most of its branches located in the Western Province. During 2008, Nations Trust Bank expanded its branch network to Southern and Uva Provinces and now has firmly established its presence in these regions. Continuing with this momentum, Homagama branch was opened in early 2009 followed by a branch in Vavuniya to etch our presence in the Northern Province as well.

Not limiting ourselves to increasing customer accessibility through traditional means, we have continued to develop and upgrade alternate delivery channels such as Internet banking, Bank at your Doorstep, SMS banking and Tele banking. These direct banking channels will improve access to our services and enhance customer convenience while building capacity to serve a larger number of customers in the future.

Exceptional customer service is, and always has been the unique selling proposition of Nations Trust Bank. Hence, 'Unparalleled and unprecedented levels of convenience' formed the nucleus of the re-branding exercise initiated in 2008. The high standards we maintain in customer service have once again been recognised by American Express who awarded their Global Service Award to us for the second time in 2009. It is very gratifying to see that our Brand value has grown by three-fold within a short span of time. According to the ranking of public brands in Sri Lanka by Brand Finance, an independent brand rating agency, your Bank improved its position from 41st place in 2008 to 21st place in 2009, with brand value increasing by 182% from Rs. 497 mn to Rs. 1.4 bn.

## CHALLENGES

During a relatively short but eventful history of your Bank, many challenges were encountered and overcome. Perhaps the most significant was the foreign exchange loss incurred as a result of a breach in operational procedures, which came to light in mid 2009. The real test of an organisation is its ability to triumph over adversity and emerge stronger. Your Bank did just that. Nations Trust Bank weathered this set back exceptionally well to emerge stronger and wiser and post commendable results that all of us can be proud of. Risk management functions have been further strengthened with skilled resources in place to ensure risks are identified, assessed and mitigated, so that the Bank can continue its growth momentum while balancing risk and return.

## CORPORATE GOVERNANCE AND RISK MANAGEMENT

Corporate governance and effective risk management in the financial services industry are under close scrutiny in the aftermath of the global financial crisis triggered in 2008. The laws and regulations governing the financial services industry have, quite rightly, come into focus with more stringent supervision by regulators, external auditors and Boards of Directors. Your Board of Directors who are mandated with the responsibility for overseeing good governance and risk management have taken every step to ensure compliance with the laws and regulations governing the businesses.

## THE NEXT PHASE

The first ten years of your Bank's journey has indeed been extremely satisfactory. However, as we embark on our next phase of growth, it is imperative that we gear ourselves to face new challenges as well as exploit the opportunities presented in post-conflict Sri Lanka.

Our shareholders continue to be a great source of strength and I am confident that the year 2010 warrants will be fully subscribed to support our ambitious expansion and growth plans.

Your Bank has recognised the significant opportunities presented to financial institutions as part of the peace dividend for the whole country. Ambitious plans have been drawn up for the expansion of our branch network, not only in the Northern and Eastern regions, but also wherever we see opportunity to do business and generate sustainable revenue. To support our growth plans, we have strengthened our senior management team by bringing in resources with proven skills and expertise. I am confident that these investments will provide attractive returns on the strength of a wide range of products and services and unparalleled customer service your Bank offers to its customers.

The year 2010, will undoubtedly be another challenging year. The turnaround in the economy is expected to gather momentum with the environment being more conducive for investment. This augurs well for the banking industry and your Bank is well positioned to reap the benefits from the resurgence in the Sri Lankan economy. Our main focus continues to be, to provide unparalleled and unprecedented levels of customer convenience, a strategy which has won us many loyal customers. In striving to provide exceptional customer convenience, we will continue to be innovative and quick as we have done in the past decade, without compromising risk management measures we have in place.

## APPRECIATIONS

The confidence, our customers continue to place in us has been very encouraging and has been instrumental in us achieving strong results under intense competition. I thank them for the trust they have placed on us and believe that our mutually beneficial partnerships will further strengthen in years to come.

From the inception, the dedicated and loyal group of employees has been the key to our success. They have proven their mettle under testing circumstances to overcome adversity and delivered commendable results yet again. I wish to convey my appreciation to them for their commitment and performance during the year under review.

After five years at the helm, Mr. Zulfiqar Zavahir retired from the Bank's service. I wish to express my sincere appreciation to Mr. Zavahir for his leadership in transforming Nations Trust Bank into what it is today. Mr. Saliya Rajakaruna took over the reins and I am confident that your Bank will soar to greater heights under his stewardship.

I also wish to place on record my sincere appreciation of the services rendered by Mr. Susantha Ratnayake, as a member of the Board since December 2000. He resigned from the Board with effect from 1st December 2009, in order to comply with CBSL directions which limit the tenure of a Director to 9 years.

I truly appreciate my fellow Directors for their unstinted co-operation and support over a turbulent year. They have been an immense source of strength to me.

The guidance and continued support extended to us during 2009 by the Governor of the Central Bank of Sri Lanka and his officials has been extremely valuable and much appreciated. Finally, a special note of thanks to our Auditors, Messrs Ernst & Young for the level of professionalism exhibited while conducting the year end audit.



**Ajit Gunewardene**  
Chairman

18th February 2010



**"In a challenging year with multiple distractions and strong headwinds we have reported solid profits and positioned the business for our second decade. With our customer first policy anchored to a strong capital base and a concerted effort in managing risks and costs, we are now on a growth curve to realise the expected upside."**



It is with great pleasure and a sense of pride that I present my 3rd review as CEO of Nations Trust Bank PLC. The third quarter of 2009, during which I commenced my stewardship, sees it stabilised and positioned to take advantage of the next 12 months - the first year of a new decade after the completion of its first decade of operation.

We commenced the year under review facing multiple challenges of stunted private sector credit growth, deteriorating credit quality and several economic sectors struggling to survive in a stressed post-global crisis scenario. To compound matters, competition among the local banks was severe with each trying to enhance market share resulting in a price war, threatening the erosion of core revenues and margins. The end of the civil war and the Government stimulus, however, provided much needed respite and a positive impact to the financial sector during the latter part of 2009.

Amidst these challenges we have delivered a creditable performance during the year with the core businesses not only intact but also continuing to develop strongly. We strengthened our internal capabilities to serve our core-customer segments through application of best practices, leveraged on people and technology and pursued a path of smart costs to generate the best results possible in a period where revenue generation, margin maintenance and provisioning for bad debt posed significant challenge.

## ECONOMY

The global economic and financial crisis saw a domino effect across the globe. The world economy has yet to recover from the resulting meltdown in demand. Like so many developing economies, we were not spared of the battering, but the fall out equally was perhaps less damaging and the effects on our economy were somewhat muted as a result of tight regulatory controls with no direct exposure to the infamous 'toxic assets' that were at the core of the issue. During the early part of the year, our economy performed well for a country that was at war coupled to a global economy in recession that had resulted in a substantial overhang of inventory. The Government's strong focus on development resulted in a considerable improvement in the country's infrastructure laying the foundation for future economic activity. Last year also marked one of the most dramatic moments in our country's long history. The end of the war in May, will undoubtedly remain in our

memories for many years to come. With the end of the war, the deceleration of the economy bottomed out and is now awaiting the ignition of activity to a level higher than the recently announced annual GDP growth of 4% for 2009. The much expected post-war economic boom, i.e., the so-called 'peace dividend' is likely to translate into considerably reduced levels of unemployment and improve production across all areas of the economy.



## Market Position further Strengthened

### Healthy Growth Yields Profit, Builds Trust and Generates Resources for Further Growth

Deposits Portfolio grew by a CAGR of 33% over the past 5 years.

Loans and Advances Portfolio grew by a CAGR of 25% over the past 5 years.

Customer Base grew from 44,000 in 2004 to 142,000 by 2009.

Branch Network grew by 12 branches - 26 branches in 2004 to 38 branches in 2009.

14 new ATM Points were added to the network over the past 5 years.

Staff Strength grew by 1,053 from 2004 to 2009, and stood at 1,532 as at December 31.

(For definitions, please refer the Glossary on page 128.)





Banking sector showed mixed signals with deposits increasing by Rs. 348 bn or 18.5%, loans and advances contracting by Rs. 65 bn or by 4.0% due to a combination of reasons - a lack of positive investment sentiment, high interest rates, cautious lending by banks, etc., with the mismatch being absorbed by investment in Government securities. Reflecting deteriorating credit quality, non-performing loans increased by Rs. 22 bn with the ratio increasing to 8.0% from 6.3% in 2008. The specific provision cover came down from 47.6% to 39.3% which is the lowest coverage since 1998, perhaps reflecting over provisioning in previous years.

### FINANCIAL PERFORMANCE

For 2009, we report profit before tax of Rs. 1,381 mn - an increase of 34% over the previous year with post-tax profits of Rs. 686 mn growing by 16%. Increase in the effective tax rate by 8% over 2008, restricted post-tax profit growth to a rate lower than the growth in pre-tax profits. Showing resilience and strength in core activities, the Group reported increased volumes and improved margins across all its business lines. The growth was broad based with all core-business segments reflecting good momentum in each area. The margin of net interest income to gross interest income increased from 24% to 31% in the year. Other operating income also showed a sizeable increase of 8%. Capital gains arising from our fixed income-trading portfolio contributed significantly to bridge the vacuum created by the foreign exchange loss that was recognised during the year. Net income grew by 22% over the previous year with operating expenses increasing by 10%. Conservative provisioning in response to tough economic conditions moderated earnings with specific provisioning rising from Rs. 436 mn in 2008 to Rs. 847 mn for the current year. Despite such constraints, PBT Margins remained healthy moving from 22% to 24% as focus on managing expenses also paid dividends. Expenses increased at a lower rate (18%) than net income (22%) thereby lowering the operating cost: income ratio from 68% to 62% for the year.

In an intensely competitive market, our deposit base grew by 30% to Rs. 44.2 bn with low cost funds contributing a healthy 26%. The adverse economic environment and conservative lending policies contributed respectively to increased NPLs and a contracting loan portfolio. For the year under review, NPLs increased from Rs. 2.4 bn to Rs. 3.8 bn and the Loan Portfolio decreased from Rs. 38.6 bn to Rs. 35.3 bn. As a result, although the net NPL Ratio deteriorated from 4.8% to 8.5%, it reflects both industry trends and management desire not to expand business under weak economic conditions. In the second half of 2009, as a result of a number of management actions, flows into delinquencies decreased and balances in arrears declined across the consumer unsecured loan and credit card portfolios. Hence, we believe that we have passed the worst in provisioning in the second half of 2009. In terms of Balance Sheet footings, our asset base increased by 4% to an aggregate Rs. 70.5 bn, while our capital position strengthened to Rs. 4.8 bn enabling the reporting of a healthy Capital Adequacy Ratio of 16.1%.

The results are equally pleasing for the enhanced productivity in the use of capital, risk and costs. Profits grew much faster than inflation, risk-weighted assets and the associated consumption of capital and most importantly the growth of income exceeded the growth of expenses by 4%. Equally the value of the NTB brand as recorded by Brand Finance Sri Lanka moved position from 41 to 21.



## PERFORMANCE IN CORE SEGMENTS

### Consumer Banking

Consumer banking continued to launch and refine several initiatives to build on its brand value of delivering 'simplicity and convenience' to its customers through innovative and flexible banking solutions. Our customer centric approach and strategies were well-executed during the year to this segment resulting in a 13% growth in the customer base and 43% growth in deposits mobilised. To our comprehensive suite of consumer-banking products, we added Nations Gold Advances together with Kidz Investment Planner and Auto Sweep Account bringing novelty and value addition to our customers. Our private banking product offering was relaunched with the opening of a new exclusive private banking centre.

Our branch network which is the backbone of our service infrastructure and the face of our Bank to all our customers was upgraded and geographic presence strengthened. We declared open our refurbished flagship Head Office Branch located at Union Place which is designed to provide customers with simple and convenient access to our full range of products and services. During the year, we also embarked on a strategy to establish our presence in the North and East Provinces not only to capitalise on the unique economic prospects available there but also accomplish island-wide coverage at a much faster pace. We believe all these initiatives have aided us to affirm our position as a long-term partner in the consumer banking segment.

### Corporate Banking

Our competitive strength in this area is the result of our ability to understand closely the business needs of our customers and the reputation built as a reliable and strong partner. We worked relentlessly to maintain and strengthen our relationships with corporate customers offering packages that fit their individual needs. Solutions such as International Banking At Your Door Step and E-mailing of Transactional Advices were introduced during the year providing simplicity and convenience to our customers. We continued to maintain a well-diversified portfolio of customers covering key areas of business activity and sectors of the

economy with a view to maintaining a healthy advances portfolio by managing exposure on a well Balanced risk-reward trade-off. Special vigilance was placed this year on facilities to corporate business entities that were considered vulnerable to the economic downturn of both local and international markets.

### SME Banking

Our SME banking business performed commendably during the year. The landscape for SME sector during the year has been very challenging with cash flows drying up and NPLs escalating. Economic pull back in the vehicle market posed a number of challenges in the leasing segment. Despite these, our winning formula for sourcing new customers in selected market segments and focused approach worked well. We also enhanced our product suite by launching Nations Business First, an exclusive package designed to help businesses handle their banking conveniently and efficiently.

### Treasury

It was a testing year for the Treasury. With the subdued economic activity and resultant poor customer volumes, foreign exchange profits recorded were low during the early part of the year. We were successful, however, in managing our liquidity and fixed income securities portfolio which resulted in significant trading gains for the year. Fresh challenges emerged due to the detection of operational lapses within the Treasury which resulted in a sizeable foreign exchange loss. The Board reacted quickly to stem and manage the issues. These developments resulted in enhanced treasury policies and processes, the establishment of fresh risk parameters, tightening of reconciliations and more importantly the establishment of an expertly skilled treasury middle office. As the treasury business undergoes rapid transformation having to operate in a more regulated environment, steps are underway to building a clear market position demonstrating our commitment to delivering sustainable treasury profits within a sound risk framework.

## Risk Management

We are exposed to a galaxy of risks on a daily basis in the pursuit of our business objectives, chief among them being credit, market, operational, compliance and strategic. Failure to adequately manage these risks exposes us not only to losses threatening our own survival as a business entity but also endangering the stability of the financial system. During the year, we took several steps to ensure that adequate policies are put in place to manage and mitigate the adverse effects of these risk elements across our operations. We also reviewed, developed and implemented appropriate and effective systems and procedures to manage and control such risks in line with policies set out by the Integrated Risk Management Committee of the Board. We believe that strengthening our risk management framework will generate competitive advantage leading to enhanced longer term sustainable shareholder value.

## Human Capital

We would not have navigated a year filled with many challenges if not for the commitment and sheer hard work of our staff, who embraced all these ups and downs to better anchor the institution they have come to love. We believe that as a Financial Institution our value creation and credibility lies with developing a pool of focused professionals with integrity, intent and capabilities, all of which play a vital role in today's business world. We have made a strong commitment to the continuous learning of our staff, to support them in their ability to change, adapt and flex with the changing demands of their tasks and responsibilities and become truly equipped to perform in their job roles.

The year was filled with more than 9,000 trainee days being completed with a leadership programme for our senior managers facilitated by Hewitt International. We also launched initiatives to groom our staff whilst fostering cross-functional interaction with initiatives such as Nations Mastermind, Inter Cluster Quiz, Nations Best Speaker Contest and an Inter Departmental Debating Championship. The enthusiasm and commitment shown by our staff at these events is commendable and the competitions were of high standard. The sporting prowess of our staff should also not go unmentioned. They competed across many activities to achieve widespread success. Their generosity also should be commended in supporting our Bank CSR efforts. Without doubt I will have to call on their many talents, expertise, advise and energy as we move forward into 2010.

## FUTURE

The dawn of peace has brought with it many exciting possibilities for Sri Lanka's entire economy. We are in the cusp of a future that offers significant upside if focused and managed well. To the banking sector, 2009 was a year filled with anxiety and challenges which we have faced successfully whilst consolidating our position in the market. The trends that lie behind our strong operating performance in core-business segments will be strengthened in the future. We are doing more business with more customers than at any time in our ten-year history. Hence, the platform for a launch that will take-off is now set.

Our plans for the future will focus on recognising that we are a regulated business aiming to deliver sustainable profits over the longer term within a sound risk management framework. In doing so, given the intense competition we need to demonstrate agility and balance in all our dealings. To our customers, we offer fulsome service and products second to none. To our employees, we offer ample avenues to grow to their full potential. To the regulators, we offer an undertaking to play according to the rules and finally to our shareholders, we offer better than average returns sustained over the longer term.

## APPRECIATIONS

Although, it is only a short period of some three months, I am indebted to many. Among them, I would like to record and acknowledge the support and guidance provided by the Governor of the Central Bank of Sri Lanka and his officials. No less important was the focus and assistance of the Chairman and unstinting time and expertise of the Board Members.

I would also like to express my sincere thanks for the yeoman service rendered by Mr. Zulfiqar Zavahir, my predecessor as CEO. My thanks also to the corporate management team who underwent a challenging year by my side in its latter part. I also take this opportunity to thank all of our employees for their dynamism, loyalty and support for the organisation they serve.

I also thank Messrs Ernst & Young, our External Auditors for their professionalism. The time and effort is indeed much appreciated.

## CONCLUSION

All those involved with NTB from its start in 1999, can look back with satisfaction and pride to what it has evolved today. Born to a war-torn economy it has withstood the ravages of an unprecedented global economic recession. Having survived by any reckoning, the most challenging decade, we are now ready to embark on the next, based on a strong foundation, a tested and modernised business model and a resilient and trained workforce. Although filled with fresh challenges, the resolve to overcome them as in the past, I am confident, remains intact.

In this period of sustained uncertainty, the strength of our brand, commitment of our people, quality of our portfolios and management processes are tell-tale signs of our ability to perform at greater heights in the future and provide sustainable returns to our shareholders.

We are fully committed to our disciplined strategy of balancing risk and return and look forward to playing a full role in the much anticipated economic recovery. Taking both the country and the Bank into consideration, we are in the threshold of a historical growth curve that needs careful nurturing and management.

I have engaged widely since my arrival at NTB. I am heartened by the knowledge that I can count on the support of our stakeholders.

I look forward to 2010 with confidence.



**Saliya Rajakaruna**  
*Director/Chief Executive Officer*

18th February 2010

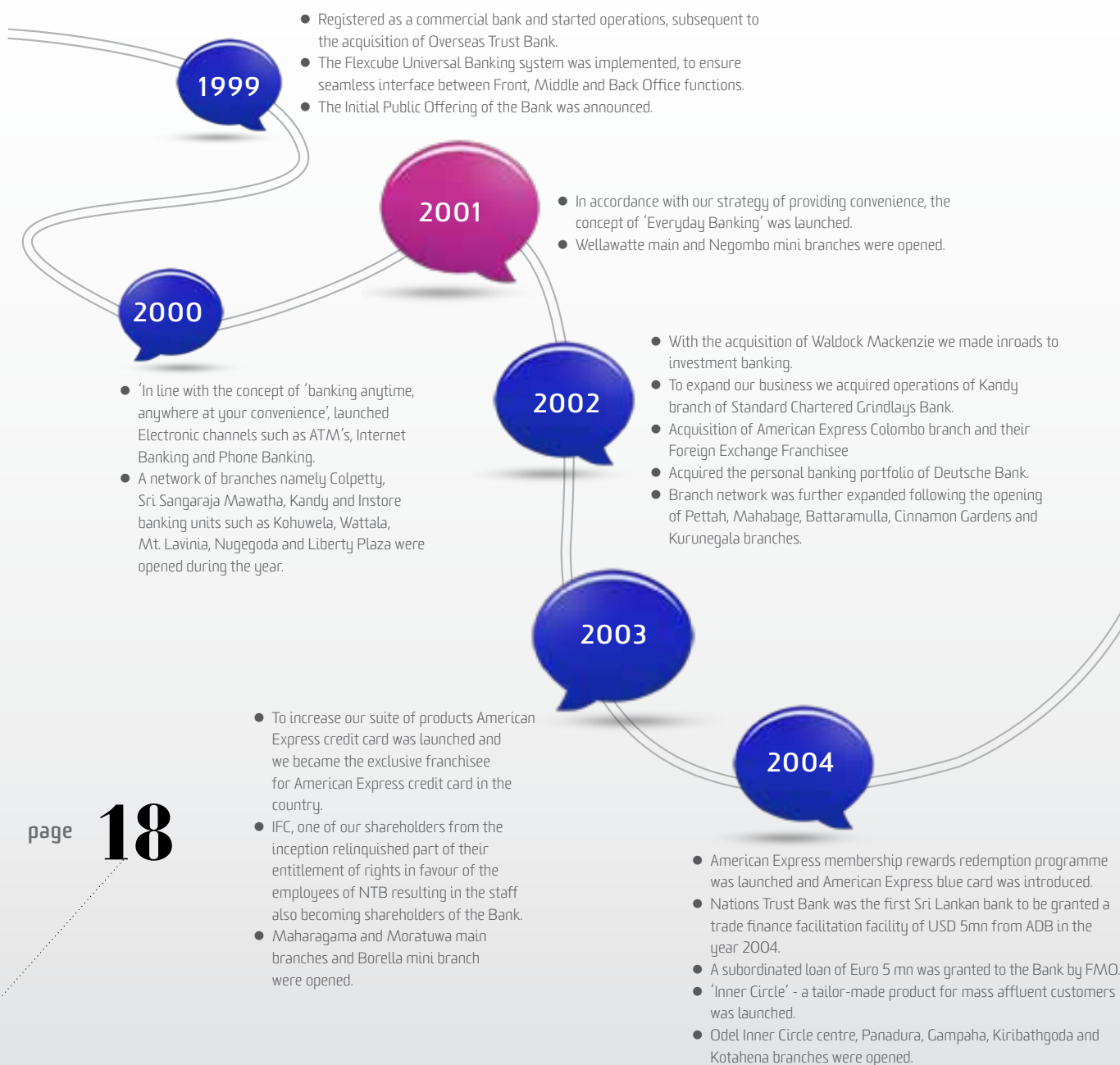


## Operational Efficiency and Productivity Through Optimal Staffing

**Talented and committed staff continue to deliver their best, thereby improving all per staff member ratios**

NTB's Cost Income Ratio improved from 80% in 2004 to 62% by 2009.  
Profit per employee grew from Rs. 94,918 in 2004 to Rs. 447,827 in 2009 (4.7 times).  
Improving ratio of fixed costs to revenue yielding economies of scale.  
(For definitions, please refer the Glossary on page 128.)

We have progressed rapidly on an exciting journey growing in size and stature to become a key player in the financial services industry. We were quick to spot opportunity, identify customer needs and embrace change to penetrate the market with innovative products and value added banking solutions. We recognised the importance of customer service from inception and continued to invest and improve our service levels to reach where we are today.



- Merger with Mercantile Leasing Limited and its subsidiaries.
- LMD ranked the Bank within the Top 50 listed companies in the country.
- Bank's Fitch Rating was upgraded to A (lka).
- 'Inner Circle' won the Bronze award for the 'New Entrant of the year' at the SLIM brand excellence award ceremony.

**2005**

- American Express global network services announced Nations Trust Bank as the 'Winning Partner' out of an international field of 20 partners.
- Kadawatha, Dehiwela and Crescat branches were opened during the year.

**2006****2007**

- 'My card on line' facility was launched during the year. This facility enables the American Express card holders to better manage their account on line and also instigate Internet Payment gateway facility.
- Mercantile Insurance Brokers rebranded as 'Nations Insurance Brokers'.
- LMD ranking improved to 40.

**2008**

- A new brand identity was unveiled to reiterate the Bank's commitment to 'Making life simpler by being the benchmark of convenience'.
- Re-launched the flagship membership programme 'Inner Circle' with the 'Bank at your Doorstep' facility.
- Centralised all processing activities by moving the processing departments into a modern spacious brand new Processing Centre in Colombo 15.
- To provide convenient service to our customers, personal banking centres were opened with extended banking hours.
- LMD Ranking improved from 40 to 31.
- We successfully concluded a rights issue of shares with two tranches of warrants attached to it.
- Opened five fully-fledged branches in Nawala, Matara, Galle, Thalawathugoda, Bandarawela and opened six personal banking centers at Keells Super Outlets.
- Nations Trust Bank emerged as the winner in Asset and Liability Management competition organised by FMO held in the Netherlands.

**2009**

- Opening of Homagama and Vavuniya branches.
- Launch of SriLankan Airlines American Express co-branded Platinum Card.
- Winner of 2008 Service Quality Award in the issuing category, awarded by American Express Global Network Services.
- Winner of Gold Award in the In-House Applications Category at the National Best Quality Software Awards.
- Brand value ranked at 21, an improvement of 20 slots.
- Winner of 'Outstanding co-brand Launch' award under 2009 GNS Partner Awards Programme for SriLankan Airlines Platinum American Express card.
- LMD rating improved to 22.

Strategic Priorities



Uplift Customer  
Service Levels

Be the benchmark  
of convenience

Accelerate  
Core Business Revenue

Maximise the  
potential in  
core business areas  
of Consumer,  
Corporate, Treasury  
and SME

Strengthen  
Risk Management

New policies, processes,  
people and parameters

Enhance Operational  
Excellence

Inculcate cost management  
culture and efficient  
operations

Retain and  
Grow Talent

Employee  
empowerment

Year 2009, was a year of transformation for the country following the end of the civil war. The financial services industry saw a period of stability after the global turmoil and crisis in certain local financial institutions which impacted the industry towards the latter part of 2008. Whilst the local banking environment continued to be challenging, a progressive improvement in the expectations for global economic prospects was seen during the year.

We have managed the Bank carefully through this testing period. We have remained solid and profitable. Although, the 2009 profit after tax includes several individually significant one-off items, our performance during the year has been driven by our core businesses. Our endeavour is to optimise the alignment between the interests of all stakeholders as well as to ensure that our policies and practices are appropriately benchmarked against best practice in the industry.

Our objective for 2009 was to achieve sustainable growth across our diversified businesses whilst consolidating our presence in the markets we operate in, to improve market share. In doing so, we remained close to our customers; prudently managed risks and progressed on our chosen strategy. Performance of our core business areas, Consumer, Corporate, Treasury and SME reflects the strategic priorities established and followed during the year.



## CONSUMER BANKING

Our Consumer Banking business provides a wide range of products and services to personal customers, including day-to-day transactional banking accounts, savings and investment products, loans, credit cards and personal insurance. We are pleased to report that the business strengthened its core income streams during the year and integrated its product and service proposition to all personal customers in a holistic manner.

Our strategy is simple: to provide unparalleled and unprecedented levels of convenience to our customers. We aimed to do this by putting customers at the heart of our business, constantly improving our delivery channels and processes coupled with the introduction of new products that meet our customers' needs in a changing environment. Our Inner Circle and Private banking offerings give a segmented approach taking into consideration the differing needs of our customers. We continued to focus on our key strengths of providing customers with benchmark levels of customer service and in strengthening our relationships with all our customers. We have accelerated the rate of investment in our branch network, product innovations and people capabilities during the year. We launched our new branch layouts which were specifically designed to bring customers greater transacting convenience, easy access to information about our products and services and a warm and comfortable environment in which to do their banking. We, at Consumer Banking have also worked hard at increasing productivity of our people and increasing the return on our investments, through the improvement of our revenue streams and management of our costs.

## Delivery Network

Our delivery and distribution channels continued to strengthen through the expansion of our branch network across the country and the enhancement of our alternate customer touch points such as the 24 hours contact centre and the 'Bank at your Doorstep' service.

We opened our 37th new branch in Homagama, where the businesses and the residents in Homagama as well as neighbouring towns can experience a Bank that offers enhanced customer service, extended hours and a range of new and improved financial products to suit each individual need.

We carried out a number of relocation and refurbishments to our existing branch network providing more spacious and easily accessible locations. The newly relocated branches in Battaramulla and Nugegoda now give easier access to our customers.



Opening of Homagama Branch

During the year, we also declared open our flagship Head Office branch located at Union Place, incorporating our new brand guidelines. The new branch has been designed in consultation with retail store design experts from overseas in order to provide customers with a simple and clear walk through of the products and services the Bank has to offer. This has facilitated the creation of space which enables customers to attend to their banking requirements with greater convenience within a warm and friendly atmosphere. Deemed the model branch, the rich new layout and design will be implemented in the rest of our branches and personal banking centres in due course.

Heralding a new era in banking for the people of the area, we set up operations in Vavuniya. The opening of this branch marked an important milestone in our expansion plan, as it marks the Bank's affirmation in taking dynamic banking service and facilities to areas that are emerging. This marks our entry to the North and the East with more branch openings planned in the 1st half of 2010, thus taking Nations Trust Bank's premium brand of banking to key geographies in the country.

### Consumer Deposits

We took full advantage of the favourable market conditions of excess liquidity, to strengthen and grow our total deposits base with particular emphasis on low cost deposits. Consumer deposits, which outperformed average industry growth, reported an increase of 43% with rupee current and savings deposits increasing by 37% during the year.

### American Express Credit Cards

In an exceptionally challenging market environment with the industry being hit by high delinquency levels, rising attritions, pressure on interest rates and contraction in receivables, our card business put up a commendable performance, with an increase in income by 32% with 17,000 new cards.

Our premium customer segment is the heart of our growth strategy for credit cards. This was supported by the launch of the SriLankan Airlines Platinum American Express Card during the year.

The co-branded SriLankan Airlines Platinum American Express Card, will leverage on the combined strengths of SriLankan Airlines, American Express and Nations Trust Bank, delivering exceptional value to customers who deserve recognition and demand the highest levels of service standards.

This product offers a host of exclusive privileges and unsurpassed rewards to serve the lifestyle and travelling needs of discerning Cardmembers. In addition to enjoying an array of Platinum privileges, Cardmembers will earn FlySmiLes miles for purchases made and the accumulated FlySmiLes miles can be redeemed for flights on SriLankan Airlines.



1. Launch of Sri Lankan Airlines Platinum American Express Credit Card
2. Flagship Branch at Head Office
3. Opening of Vavuniya Branch



1. Receiving the GNS service quality award in the Issuing category for year 2008
2. American Express Automated Bill Settlement campaign
3. Launch of Private Banking campaign

We were also the proud winner of the 2008 Service Quality Award in the Issuing category awarded by American Express Global Network Services. The GNS Service Quality Awards recognise Partners of the American Express Card and their delivery of outstanding service to Cardmembers and merchant service establishments. The award selection process is highly competitive and has been selected from American Express partner organisations around the world. This marks the second time we are being recognised, having won the same award for our performance in 2004. This achievement signifies the passion and excellence of our team in delivering exceptional services. In qualifying for this award, GNS have particularly considered our Quality Circles which strives to continuously improve our delivery times and processes, our Customer Relationship Management Programme and our ongoing programmes to monitor and measure our critical service level agreements to our Cardmembers.

Our SriLankan Airlines Platinum American Express Card also won a marketing award in the 'Outstanding Co-brand Launch' category awarded under the 2009 GNS Partner Awards Programme. This, we consider to be a great achievement as we have competed against names in a global platform thus giving us recognition also at a global level.

Several promotions and campaigns were launched during the year to keep top of the mind recall of the AMEX Card, including the highly popular 'selects' campaign and seasonal promotions. During the year, we also launched a campaign titled 'Convenience

Redefined' to promote Cardmembers to sign up for Automated Bill Settlement through which monthly bill payments could be conveniently channelled via the American Express Card.

### Consumer Assets

Consumer assets market underwent challenges during the year with low credit demand, high NPLs and falling interest rates squeezing interest margins and profitability. The business focused on tighter lending criteria and improved collections throughout 2009, whilst repositioning to achieve sustainable, profitable growth by moving quickly into selective customer segments. We recorded consumer assets new business volume of Rs. 1.7 bn with top line revenue increasing by 20% even though increased bad debt provisions eroded bottom line profits significantly.

### Customer Management

Our private banking service was formally relaunched, offering the Bank's top end customers personalised and private banking solutions with exclusive facilities. This offer is directed at the premium segment of the customers, which offers personalised account relationship management and priority banking facilities, with the added advantage of preferential pricing rates and special offers.

We also introduced a structured customer management programme whereby our top tier customers are recognised and rewarded for their patronage of our Bank. This programme was designed to interact and form closer bonds with these customers at all levels of our Bank.



## Products

Granting credit facilities against pawned gold items has been a popular source of income among leading commercial banks in Sri Lanka. With the expansion of our branches to the North and the East, **Nations Gold Advances** was launched during the year. Pawning is considered to be a popular mode of borrowing among the community in N&E whose main source of savings are in the form of gold jewellery, which is used to secure advances especially to meet seasonal needs, in the agricultural, trading and fisheries sectors. With the economic boom and the expected level of development in this area with a number of small business start ups, commencement of cultivation in bare lands, this form of advances is expected to grow and add value to our consumer loan book considerably.

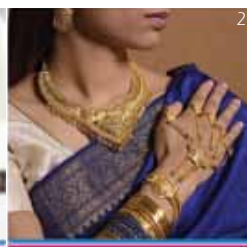
**Nations Auto Sweep Account** - an unique value proposition that combines the flexibility of a current account and the benefits of a savings account - all in one package was launched during the year extending our liability product suite to customers. This new solution transfers the surplus funds in the current account to a savings account that earns interest so that the account holder gains the maximum benefit from both these accounts with additional benefits of free ATM cards with higher withdrawal limits, emergency overdraft facilities and usage of safety deposit lockers as well as preferential tariff rates.

Our **Nations Kidz Investment Planner** is a bid to help plan for a financially secure future for the younger generation. This unique facility offers customers the opportunity to open an account for their child, or even a non-family member with a regular monthly

deposit. The Bank's assurance of an 18 year commitment to safeguard this investment plan at a fixed interest rate makes this an unmatched investment option. Offering this for an extended period helps the parent take into consideration a child's major milestones such as school fees, university education fees, higher studies or professional studies. The guaranteed fixed interest rate further provides assurance of the best benefit for the child whilst a free life insurance for the parent or guardian further secures this investment option.

## OUTLOOK 2010

We enter 2010 with a strong income momentum in Consumer Banking business, driven by high levels of customer activity and good risk control. As we look forward it is clear that the economic and business environment will remain challenging, and the quality of our assets and risk management capability will again be tested. Yet the economic outlook continues to be positive and we are well positioned to capture further growth in the years ahead. Our ambition is to make Nations Trust Consumer Banking a force to reckon within the industry. We will do this by putting the customer first in all that we do; ensuring that our operations, industry knowledge, service levels and product range are wholly relevant in meeting customers' needs.



1. Nations Auto-Sweep Account campaign
2. Nations Gold Advances campaign
3. Nations Kidz Investment Planner



## **Asset Quality Dynamically Managed and Monitored**

**Asset quality in line with market supported by  
stringent provisioning**

Net NPL Ratio stood at 8.5% as at 31st December 2009.  
The Bank's Provision Cover stood at 35% as at 31st December 2009.  
(For definitions, please refer the Glossary on page 128.)

## SME BANKING

2009 was a challenging year, with the Small and Medium Enterprise (SME) sector feeling the impact of the downward trends in the economy and the tightening of cash flows. This had an adverse impact on our new business growth and provisioning levels. However, we continued to progress well with our strategy of developing our customer base, consolidating skills and relationship management in this vital segment of the Sri Lankan economy.

### Business Banking

Our strategy this year was to focus on acquiring customers trading in business names and this specialised focus paid off rich dividends with the business current account base increasing by nearly 3,000 new customers in 2009. The current account portfolio saw a growth of 45%. Non-Funds Income increased well over plan reflecting an increase in transactional banking especially in terms of a new focus on trade services and cash management for these SME customers. The 'Nations Business First' package for Platinum, Gold and Silver customers, was re-launched in the first quarter and has been well accepted by customers who have been appreciative of the convenience and attractive benefits of the product.

On the lending side too, the business did well and the combined asset and liability business made a profit ahead of plan. In the year ahead, the business will look to increasing its lending business to our Business First customers and expanding out further in the outstation regions, with the set up of SME Centres in some of our main regional branches.

### Leasing

Our leasing business felt the dual blows of a significant shrinking of the vehicle market and an increase in delinquencies. The downturn in the market (new vehicle registrations decreased by 30% over 2008) resulted in a reduction in new business volumes, which at Rs. 2.9 bn was nearly 40% below last year's volumes. NPLs increased due to a rise in bad debts and the contraction of the overall book. The losses in asset value with the drop in vehicle prices also contributed to higher provisioning levels. However, the entire industry felt the same impact, and our NPL ratio of 12.4% for leasing remains within industry norms.

#### 1. Launch of Nations Business First Campaign



We continued to source new business throughout the year, but with a much more conservative and restrictive credit policy ensuring good credit quality. We also re-enforced our dominance in the salaried and professional market segment, supporting our individual customers with convenient vehicle financing. We are also pleased to report that the new branches in the South are establishing themselves as key players in their regions with steady growth of volumes in their second year of business.

**Factoring**

Nations Factors, the second largest factoring provider in the market also had a slow year, with a lesser demand for credit as our customers faced an unprecedented slump in sales and business. We took the opportunity to consolidate the business with the weeding out of non-performing customers and continued aggressive recoveries of old debt both of which resulted in significant write back of provisioning. NPL ratio of 6.8% is healthy by industry norms. We are confident that there is a market for this convenient source of financing amongst SME customers, and with the improvement expected in the economy the factoring business is expected to exceed 2009 levels in 2010.

**Nations Insurance Brokers Limited**

A subsidiary company whose main function is to provide insurance services for the leasing portfolio is the 9th largest insurance broker in Sri Lanka based on the Insurance Board of Sri Lanka Annual Report for 2008. Whilst the bulk of the business comes from the leasing portfolio, in 2009 the Company also extended its services to other sectors of the Bank's customer base which recorded very positive results. This business expansion will continue into the coming year.

**Mercantile Leasing (Financial Services) Limited**

A subsidiary company of former Mercantile Leasing Limited providing operating leases. The Company's leasing business is being gradually scaled down with no new operating leases undertaken during the year.

**OUTLOOK 2010**

With the end of the war, small and medium enterprises in Sri Lanka will provide the engine of growth for the economy. In 2010, we will focus on reaching out to SME customers in the outstation regions by opening SME Centres in our main regional branches, as well as increasing our market share in the Western Province. Our products, Nations Business First, Nations Leasing and Nations Factors are now well established and will be further developed to serve our SME customers together with competitive and convenient banking solutions designed to suit their needs. These product offerings will be served at our branches and supported by dedicated relationship managers. We firmly believe in the importance of the SME Sector in our economy and are confident of enhancing our presence by offering a valuable SME banking proposition.



## CORPORATE/ WHOLESALE BANKING

The year marked with turbulence in the economy with poor appetite for credit, difficult and challenging conditions permeating across the entire corporate sector of the country. We have managed our corporate and wholesale banking portfolios vigilantly recording a revenue growth of 31%, bad debt charges of less than 1.5% and contributing a healthy 30% to group profits despite the portfolio contracting by 24%. We were on a slow footing in growing asset volumes. New business volumes in excess of Rs. 4.0 bn were added to the portfolio during the year.

Managing our risks through the unfolding crisis had been a significant focus throughout the year whilst our approach of staying close to customers and clients helped us to manage our exposures well.

Keeping in line with the Bank's vision of providing unparalleled and unprecedented convenience to our customers, we undertook an initiative to simplify security documents. Several facility documents were looked at and coordinated with our Legal Department for simplification. Also on the same theme, we successfully initiated and implemented E-mailing of transactional advices such as trade-related advices, inward/outward remittance advices to clients. This resulted in good cost savings for the unit as well as being accepted by customers as a convenient hassle-free mode of delivery.

Beyond providing simply traditional banking solutions, we became bankers to the Union Assurance Dividend Payment and John Keells Holdings Mandatory Offer. Both of these initiatives contributed towards our fee income.

### Corporate/Wholesale Loan Portfolio by Risk Grading



We craft solutions to meet the growing needs of our customers and the newest addition was, 'International Trade At Your Doorstep' (TAYD), which was successfully launched during the year. A first of its kind, where a mobile service could be availed by the client to effect trade-related transactions such as the issuance of Shipping Guarantees, Bank Guarantees, Endorsement of Invoices, Collection of L/C Applications, OTT Request etc. The product was introduced to three key trade clients and accepted with high commendations. We would roll out this offering to our major import clients during the coming year.



1. Becoming Bankers to the Union Assurance Dividend Payment



2. Successful launch of 'International Trade At Your Doorstep'



Nations Trust American Express Golf Extravaganza

Our customer event calendar kicked off with the Nations Trust - American Express Golf Extravaganza. This was conducted on a Stableford Format and teed off at the Royal Colombo Golf Club for the second consecutive year. The tournament attracted a strong field of over 250 players. Proceedings concluded with fellowship, cocktails and entertainment. This tournament is a key event in our corporate calendar and is much looked forward to by the country's golfing fraternity. With greatly encouraging customer feedback on the event, we will continue our association with the sport in the future.

#### OUTLOOK 2010

Strong affiliation with customers remains the bedrock of our approach which we worked hard at during the year. This combined with our considered approach to risk and deliberate diversification of the lending portfolio, means we are relatively well-positioned, with less exposure to the riskiest market. With the end of the civil war, the local economy is expected to receive a substantial boost across all sectors in the year ahead. Prospects of a slow but steady global recovery appear bright and would provide enhanced growth impetus through recovery in export-related activities as well as tourism with a corresponding increase in supporting economic activities. Looking ahead, we will capitalise on these opportunities to grow not only our loan book but also the trade and cash management businesses. We will drive strong financial performance by expanding into new segments and increasing our share of those where we believe we have a competitive advantage.

## TREASURY AND INVESTMENT BANKING

During the first half of the year the economy was in difficulties with the reserves recording significantly low levels. However, with the ending of the civil war there was a considerable influx of foreign remittances which drove the reserves to record highs. The assistance given by the IMF was also a big boost to the market. Consequently a stable exchange rate prevailed during the second half of the year.

Our foreign exchange profits during the first half of the year were low due to low economic activity coupled with poor customer volumes. However, towards the latter part of the year, with demand for import volumes picking up and gradual appreciation of the USD/LKR, the interbank market became volatile creating enhanced market activity which in turn enabled us to post reasonable exchange profits. Further, with increased efforts made to strengthen corporate relationships by enhancing marketing initiatives, our customer volumes expanded significantly in the 4th quarter. This has put us in a strong position to considerably improve our share of customer business in the coming year.

Sri Lanka's fixed income markets witnessed a drastic reduction in the yields during the year 2009, resulting from the influx of money into Government Securities after the end of the war. Total Fixed Income Securities (FIS) portfolio of the Bank stood at Rs. 19.3 bn at the end of the year. The portfolio was often re-positioned to take advantage of changing interest rate structures and was able to capitalise on trading opportunities that prevailed in the market to realise capital gains.

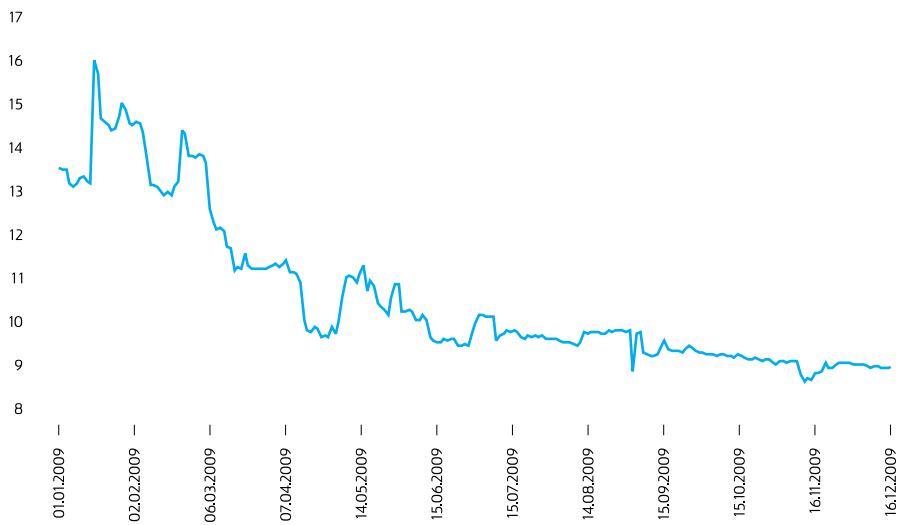
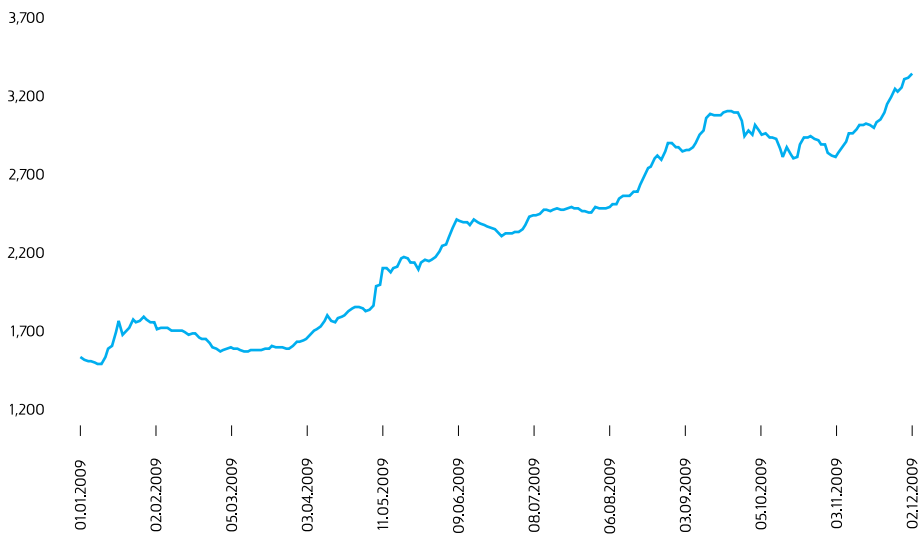
Sri Lanka's stocks smashed records in 2009, as a 30-year war ended, despite foreign buyers selling out on a net basis towards the end of the year. The benchmark All Share Price Index rose 125.3% in the year, becoming the world's second best performing market. Our margin trading portfolio continued to grow during the year and closed at Rs. 1.07 bn posting a growth of 34% compared to the previous year.

Funding was one of the key activities undertaken and relationships were strengthened with our institutional clients and development financial institutions such as FMO, ADB and IFC. Securitisations of our lease portfolio and issue of debentures were also executed to support this activity.

Our treasury middle office unit was established during the year to independently monitor, measure and analyse risks inherent in treasury operations of the Bank. Resourced by a 3-member team with expertise at very senior level, this unit performs risk review function of day-to-day activities of treasury as well as preparing reports for the information of the Corporate Management and the Banks' Asset and Liability Management Team, ensuring they are aware of the nature of output, how it is derived, assumptions and variables used in generating the outcome. The middle office is consistently monitoring and updating the methods adopted in line with the developments in international money markets.

## OUTLOOK 2010

The needs of our customers both internal and external are changing. The drivers of change include: wealth creation, explosive growth in demand for banking products, the securitisation of assets and cash flows, the use of derivatives in risk management, the tremendous opportunity for equity market boom, and the inflows of funds for infrastructural development in the country especially in the North and East. To capitalise on these sources of growth, our Treasury and Investment Banking unit is well equipped with the necessary expertise, capabilities, resources and the risk controls. We believe the year ahead will enable us to grow on our strengths in FIS trading, product expertise and customer relationships to deliver sustainable profits within a sound risk profile for the Bank.

**SLIBOR****All Share Price Index**

## Stability and Solvency Enhanced

### **Capital management optimised, maximising revenue mix from both fee and fund-based operations**

Credit rating upgraded from A- (lka) to A (lka) in 2006.

Capital Adequacy Ratios stood at 11.79% for Tier I and 16.11% for Tier I & II, as at 31st December 2009 and is maintained at comfortable levels with leeway for projected growth in comparison to minimum required levels stipulated by the Central Bank of Sri Lanka of 5% and 10% respectively.

The Bank's equity grew by a CAGR of 29% from 2004 to 2009.

(For definitions, please refer the Glossary on page 128.)



## INFORMATION TECHNOLOGY

The year under review saw the Bank continue with its new initiatives in technological advancements through enhancements to investments already made and also through new investments where essential. The primary focus in these initiatives was the enhancement of customer convenience and retention of business. Given below are some areas that made significant contributions to IT-related performance and progress during the year under review.

### Credit Card Operations

The operations of the Credit Card Management Solution was outsourced to a third party from its inception and the initial decision to opt for a third party vendor was made due to cost effectiveness and the speed at which we could get into the credit card business. However, in the wake of increased business volumes, demanding customer requirements and the system being hosted off-shore, we encountered various issues with the solution provided by the outsourced vendor. Considering these issues and the significant contribution credit cards make to the overall profitability of the Bank, it was felt essential that the Bank implemented a new solution which could be managed in-house to have better flexibility and overall control. In this regard, features of different solutions were reviewed and TSYS Card Tech Limited was selected based on the initial evaluation. In addition this solution has been implemented in three other local banks. Whilst preliminary

ground work was carried out during the latter part of 2008, the implementation was in full force during 2009. A full time project-team representing the business, IT and operations overlooked the implementation phase and we successfully cut-over to the new system in April 2009.

### E-Channels

We enhanced our offerings in this area during the year. American Express Credit cardholders can now pay on-line for many services such as paying utility bills, airline tickets, insurance premium, hotel reservations, at many websites including SriLankan Airlines, Mobitel, Dialog, SLT, LECO, Eagle Insurance, Union Assurance, Walkers, Aitken Spence, Expo Aviation to name a few. Customers are given further convenience to register for SMS Banking, e-Statements through the call centre and fill account application forms on-line through the website without having to walk into our branches.

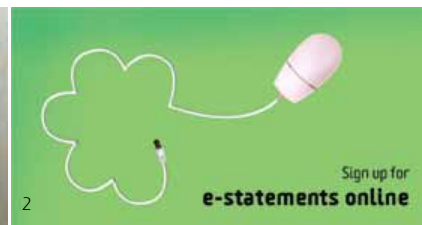
We have contributed to the environment by promoting e-statements to bank account holders as well as American Express cardmembers. This initiative is expected to give considerable cost savings to the Bank.

### Automated Teller Machines

In addition to 6 personal banking centres at Keells outlets in Wattala, Mt. Lavinia, Kandana, Peliyagoda, Kurunegala and Negombo we extended the Cash deposit ATMs to Corporate, Maharagama, Kiribathgoda and Mahabage branches. Customers can deposit up to 100 notes at a time in denominations of 1,000/- and 2,000/- to these machines and get the account credited instantly. Cardless cash feature allows customers to deposit cash to the account or pay the American Express credit card bill without having to carry the ATM card.



1



2

1. Opening of the ATM at National Hospital of Sri Lanka
2. Go Green with E-Statements

We also partnered with the National Hospital of Sri Lanka (NHSL) to extend our services for the doctors and staff of the hospital as well as its visitors with the opening of an ATM. Located at the entrance to the Doctor's quarters, the ATM offers cash withdrawals, payment of utility bills, checking account balances and transfer of funds within the account. Declared open by our Chairman together with the Director of the National Hospital Dr. Hector Weerasingha, the ATM would fulfil a much needed service in being a quick and convenient way to access funds for staff, visitors and patients within the National Hospital premises.

### National Best Quality Software Awards

Our IT Team gained recognition by winning the Gold Award in the In House Applications Category at the National Best Quality Software Awards (NBQSA) competition, at a glamorous event that was held at the Water's Edge Grand Ballroom, amidst a distinguished gathering of the country's top corporate and software development companies.



Gold award received in the In House Application category at the National Best Quality Software Awards

The Awards Ceremony is a much looked forward event within the IT fraternity and is an annual ceremony organised by the British Computer Society Sri Lanka (BCSSL) Section. The competition serves to showcase and benchmark Sri Lankan ICT products, which fulfils a much needed requirement of the software industry in this highly competitive globalised economic structure. The competition has been conducted by the BCS Sri Lanka Section since 1998 to recognise and honour significant technological developments in the software industry. We were recognised for the iApply V2 Module which was developed in-house. This module comprises of a three tier web based application with different areas for lodging of Personal Loan and Credit Card application and for the Credit Operations Department of the Bank to manage the application processing. The iApply was launched in year 2004 and has undergone interim modifications to support the dynamic requirements of the business and reviewed in year 2008. The module is essentially used by the Credit Operations Department of the Bank to process credit card and loan applications.



## CORPORATE BRANDING

Nothing touches the customer more than how he or she perceives our corporate image. This fundamental perception not only determines whether the customer will conduct business with us, but also provides competitive advantage, increase employee morale and loyalty, and a future direction for the Bank. With the unveiling of the new logo of Nations Trust Bank in 2008, we made significant investments in building our corporate brand and image during 2009.

Our corporate brand image was thoroughly thought out, planned, nurtured and executed with the customer in mind and it is considered as one of our most valuable intangible assets. We partnered with Kumar Sangakkara in the branding campaign signifying the versatility we both share on brand values of innovation, simplicity, flexibility and responsiveness.

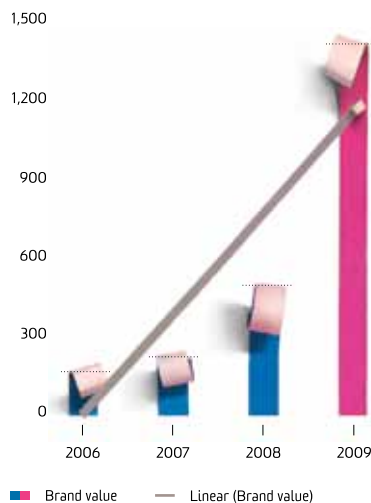
Sri Lanka's pioneering business magazine LMD and Brand Finance a global leader in quantifying and leveraging intangible assets publish an annual independent brand valuations of top 100 leading public brands. In 2009 NTB brand was valued at Rs. 1.4 bn. (in 2008 this was Rs. 497 mn) a 182% increase and was ranked at 21. (a 20 slot jump from 2008).

In the same business magazine which conducts the most respected 50 companies, NTB was ranked at number 16, (a 25 slot jump from 2008) giving credence to the growing stature of the Bank.

In the LMD magazine Sri Lanka's top 50 company listing, NTB occupied the 22nd position in 2009, a move up from the 31st position in 2008.

## Brand Value

Rs. mn



Corporate Branding campaign with Kumar Sangakkara



## FINANCIAL REVIEW

### HIGHLIGHTS - MACRO ECONOMY 2009

#### Inflation

According to the Department of Census and Statistics, the point to point change is expected to be around 5%-6% by end 2009, and the annual average inflation rate is expected to come down further to around 4%.

#### Budget Deficit

The budget deficit hit an estimated 8.5% of Gross Domestic Product (GDP) in the first ten months of the year, despite a recovery in revenues as expenses grew at a faster pace.

#### Private Remittances

Increased by 6.5% to USD 1,883.6 mn during the first 7 months of 2009, from USD 1,769.3 mn in the corresponding period of 2008.

#### Gross Official Reserves

Reserves amounted to USD 5.1 bn by the end of December 2009 and consisted of short-term inflows into Government Securities amounting to USD 3.1 bn.

#### War Risk Rating

The London market's Joint Cargo Committee (JCC) lowered the rating for Sri Lanka from 3.4 to 2.9 in September 2009, while changing the status from 'severe' to 'high'. S&P and Fitch Sovereign Rating outlook revised to stable from negative in August 2009.

#### Policy Interest Rates

The Central Bank eased its monetary policy stance during 2009 in view of the favourable inflationary outlook. Market interest rates declined to low levels by end 2009 in response to the monetary policy measures taken by the Central Bank.

#### Market Capitalisation

Touched Rs. 1.0 trillion in the Colombo Stock Exchange on 6th October 2009, and average turnover has been at an all time high.

#### Exchange Rate

With the influx of foreign capital, the Central Bank has been absorbing excess foreign exchange, preventing a sharp appreciation of the currency. The Rupee depreciated by a marginal 1.5% during 2009 against the US dollar.

#### GDP Growth

Sri Lanka's economic growth is projected to touch 6.0% in the 4th quarter of 2009 allowing the country to return to a higher growth path from 2010. Quarter by quarter GDP growth rates during the year have recorded an upward trend with 1st quarter at 1.5%, 2nd quarter at 2.1% and 3 quarter at 4.2%.

#### Private Sector Credit

Up to October 2009, credit to the private sector continued the declining trend. However, YOY credit growth in November was -6.1% compared to -6.5% in October 2009 as there was an increase obtained by the private sector in nominal terms.

#### Trade

Trade deficit contracted by 52.2% during the year to USD 2.8 bn from USD 5.9 bn in 2008 as exports declined at a slower pace than imports. Export earnings declined 12.7% whilst import spending registered a sharper decline of 30% for the year.

#### Market Liquidity

The significant absorption of foreign exchange by the CBSL led to a high level of excess rupee liquidity in the domestic market. With the retirement of a significant proportion of the Central Bank's holdings of Government Securities in August 2009, the Central Bank resorted to issuing Central Bank securities since October 2009 and foreign exchange SWAPs since November 2009 to absorb the excess rupee liquidity in the domestic market.

## MACRO ENVIRONMENT

Year 2009 commenced with financial conditions improving in the country more than expected, owing mainly to Government intervention resulting in the rate of decline in economic activity moderating. However, globally it was a year where maneuvering through the global financial crisis resulted in both the developed and emerging economies scrambling to weather the storm.

With the war ending the outlook for the country in the second half of the year remained good. The Central Bank took certain positive measures to kick-start economic growth. Reductions in policy and lending rates, the creation of liquidity and encouraging banks to lend to SMEs and private sector; all of these steps augured well for economic growth in the country. However, the stimulus made by the Government to fast-track prosperity and the surrounding optimism has been slow to convert into any significant increase in economic activity during the latter part of the year.

Banking sector continued to face many challenges with low demand for credit, high NPLs and falling interest rates squeezing out interest margins and profitability. Amidst these adversities, extraordinary gains realised by fixed income securities trading helped boost sector performance in 2009.

## SYNOPSIS OF OUR PERFORMANCE

While the macroeconomic conditions were better than anticipated, we managed to improve our performance in areas of deposit mobilisation, interest margins, fixed income securities trading profits and lower than planned operating expenses. Significant shortfall in advances volumes against plan and contraction of the loan book resulted in excess liquidity during major part of the year. New business volumes were much lower than previous year and growth was relatively slower. Revenue also came under pressure owing to low trade fee income and foreign exchange income due to slower import/export trade finance and a relatively stable exchange rate. The declining interest rates increased the trading activities in our Government Securities portfolio and were

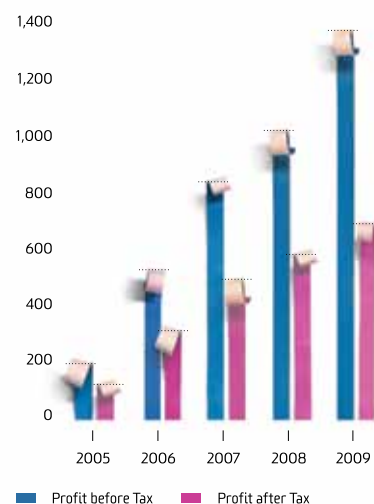
able to make handsome gains on the trading book. Furthermore, we had to grapple with the deteriorating credit quality as experienced in the industry, resulting in significantly higher than anticipated specific provisions.

High provisioning for debt, a slower growth in advances and operational losses booked in foreign exchange slowed our growth rate despite a solid performance in some other areas. All business segments played important roles in propping the Bank's bottom line. A comprehensive review of our financial performance is given in pages 37 to 45.

## PROFITABILITY

We posted pre-tax profits of Rs. 1,381 mn amounting to Rs. 353 mn more than the Rs. 1,028 mn reported in 2008. This absolute growth in pre-tax profits represents a 34% increase over 2008 and outperforms the rate of inflation which closed at single digit level for the year, thereby enhancing our operating capacity.

**Profit Before and After Tax**  
Rs. mn





## Optimum Liquidity and Funding Levels

**Financial resources are readily available to honour any commitment to any stakeholder**

NTB's Liquid Assets Ratio stood at 30% in the month of December 2009, against the minimum required ratio of 20%.

Liquid Assets over Total Assets stood at 24% as at 31st December 2009.

Loans to Deposits Ratio stood at 80% as at 31st December 2009.

(For definitions, please refer the Glossary on page 128.)

Net interest income growth of 30% was driven by moderate balance sheet growth, whilst non-interest income comprising of fees, commissions, foreign exchange and other income items increased by over 8%. Increasing operating expenses and provisions for loan losses at 18%, together with increase in taxes at 60%, restricted post tax profit growth to 16%.

### NET INTEREST INCOME

Total interest income in 2009, amounted to Rs. 12,028 mn, representing a marginal decrease of 1% over 2008. The drop in interest income resulted from decreases in both customer advances/corporate debt portfolio and investments in Government Securities. Customer advances/corporate debt portfolio during the year contracted by Rs. 3.3 bn resulting in a drop in absolute interest income despite increase in the overall yields. The larger Treasury Bill and Treasury Bond portfolio holding in 2009, compared to 2008, at significantly lower yields resulted in the decrease of interest income from Government Securities.

	2008 Rs. mn	2009 Rs. mn	Growth Rs. mn	Growth %
Total Interest Income	12,094	12,028	(66)	(1)
Total Interest Expense	9,185	8,248	(937)	(10)
Net Interest Income	2,909	3,780	871	30
Net Interest Margin (NIM) (%)	24.1	31.4		
Net Interest Spread (%)	4.7	5.5		

Interest expense on the other hand amounted to Rs. 8,248 mn in 2009, a decrease of 10% attributable to decreases in interest-bearing liabilities, both deposits and short and long-term borrowed funds. Customer deposits volume growth was 30% at a much lower weighted average cost of funds rate than in 2008, whilst absolute volume of borrowings contracted at lower yields. We also consciously reduced our reliance on high-end priced borrowed funds and high cost deposits during the year, both of which lowered interest bearing liability yields thereby slowing down growth in interest expenses.

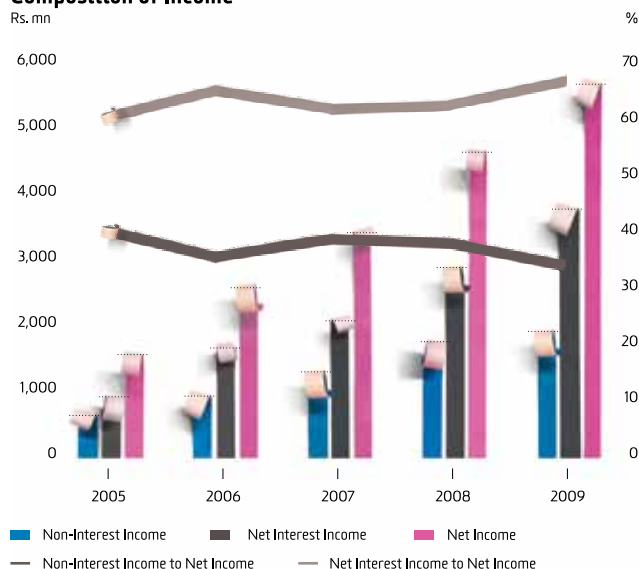
Interest costs decreased at a faster rate than interest income reflecting positively on our timely repricing strategy of assets and liabilities. Our Net Interest Margin (NIM) improved over the 12-month period in 2009 by 7% to 31%. It should also be noted that the improvements in the NIM was not made at the price of underwriting weaker credits at higher yields as we continued to maintain our credit standards on new advances volumes sourced during the year.

We do acknowledge that the market phenomena that prevailed during the year with high liquidity and declining interest rates also somewhat supported in improving NIM margins and that this situation may reverse in the year ahead. Measures are afoot to ensure

that we mitigate any significant margin erosion that may occur by re-balancing the deposit mix by boosting low-cost rupee deposit funds, generating lower-priced term deposits, refrain from doing business below our internal fund transfer pricing rates which is based on market yield curves for both advances and deposits and looking for alternative cheaper sources of funding for different classes of assets to counter the expensive fund base.



### Composition of Income



### NON-FUND-BASED INCOME

Total Non-Fund-Based (NFB) income increased moderately during 2009, compared to 2008 - an increase of over Rs. 140 mn or of 8% during the year. A few one-off, material events affected our performance in this area.

Foreign exchange income for the year includes an identified exchange loss of Rs. 913 mn (pre-tax) arising from a breach in operational procedures as announced in the second quarter results of the Bank, released in July 2009. Upon the identification and analysis of the breach in procedures, we took immediate action to review and resolve all issues arising from this matter. Furthermore, we introduced an independent Treasury Middle-Office function to monitor treasury related activities and liquidity risk, reporting directly to the Head of Credit Risk Management.

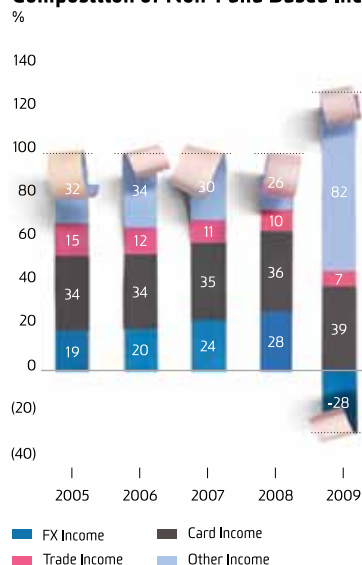
Foreign exchange income also came under pressure due to low customer volumes and subdued performance in proprietary trading. The losses in FX income were off-set to a greater extent by the gains on our Government

Securities portfolio. Both realised and unrealised gains increased to Rs. 1,031 mn in 2009, which also reflects the substantial size of our trading book. Our investment portfolio stood at Rs. 7.9 bn whilst trading portfolio amounted to Rs. 11.5 bn by the close of the year.

Adding to this substantial increase in trading income was the modest increase in net fee income, which increased by over 16% to Rs. 1,435 mn in 2009 from Rs. 1,239 mn in 2008. This increase came from the areas of trade, credit card and other fees and commission generated through ordinary course of business activities. Generating trade income was challenging during the year with the fall in import and export volumes across the industry. A sharp decline in Letters of Guarantee and Bills sourced from our existing customers dried up our main avenues of income generation and new names had to be sourced to bridge the vacuum created.

Increase in credit card income by 14% was quite commendable in an industry which experienced a contraction in active card base, high attritions, declining receivables and poor appetite for consumer credit. Whilst issuing income comprising of card fees, cash advances and issuer commission increased well over 20%, acquiring income growth was dented due to slow growth in both local and destination sales.

### Composition of Non-Fund Based Income



Strategically, our focus has been to enhance income generation that minimises capital utilisation with the objective of diversifying our revenue base. Despite the internal and external impediments faced during the year to grow our non-fund base revenue we closed the year on NFB to Net Income ratio at 34%.

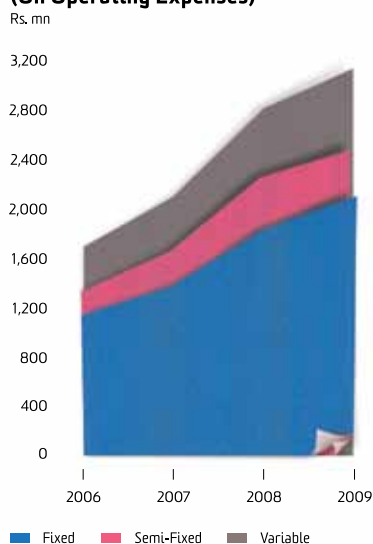
### OPERATING EXPENSES

Operating expenses increased by 10% during the year to Rs. 3,524 mn which was at a far slower pace than the increment seen in 2008. Our operating cost base absorbs 2/3 of revenue leaving only 1/3 for provisions, taxes and profits.

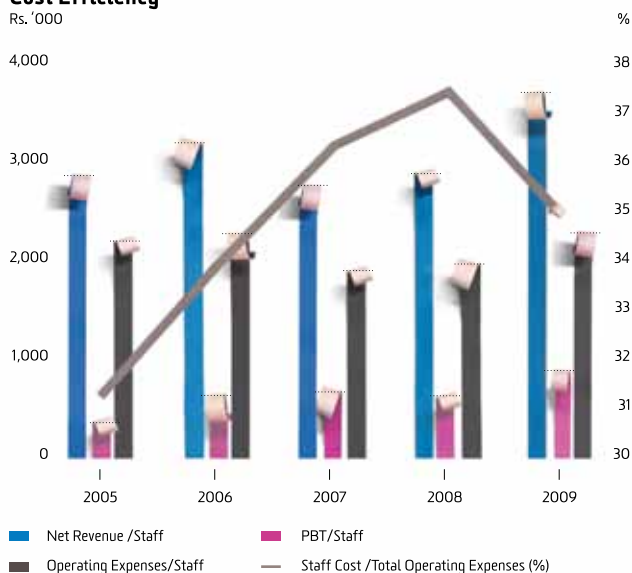
Out of the total operating cost base, currently we are straddled with a large fixed cost component which is essential to support the core elements of the operating model. As with any other capital intensive sector, a relatively high fixed cost element is common till economies of scales are reached, the downside of which is having to incur such costs irrespective of the level of revenue generation or business volume growth. This fixed cost element also requires minimum increments year on year due to inflationary pressures, supplier rate hikes and salary revisions. As we reach economies of scale and volumes ramp up, fixed cost element as a proportion of revenue is expected to decrease resulting in better efficiencies and lower cost income ratio. Our variable and semi-variable cost element of the total cost base has been relatively a small component which has seen marginal increases over the years. The heavy capital investments that were made throughout 2008 for upgrading, re-structuring and improving delivery channels, brand building and increasing head count is now fully absorbed into our cost base and the year on year increments have stabilised. We have seen favourable trends in our fixed cost base. With less capital intensive investments being made in 2009 and overall consolidation taking place across front-end and support functions of the Bank this trend is expected to spill over to the forthcoming years.

Our cost: income ratio has been above the peer group over the years due to developing economies of scale and the relatively high cost structure associated with our operating model.

### Fixed and Variable Cost Composition (On Operating Expenses)



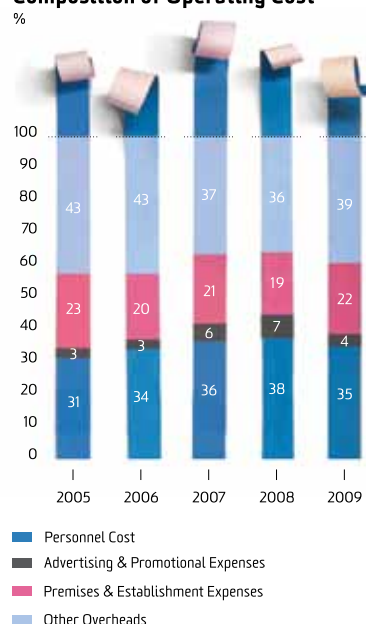
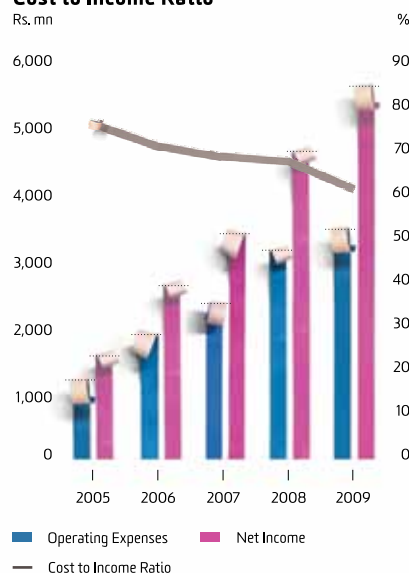
### Cost Efficiency



Management attention given to contain costs and enhance productivity has been notable during the year with both business and support areas consciously looking at initiatives to control costs, implementing business process re-engineering propositions and introducing quality circles.

Our efficiency indicators of income, expenses and profit per staff member also have been above the peer group but trending in the correct direction indicating that efficiency and productivity gains are being harnessed which augurs well for the future.



**Composition of Operating Cost****Cost to Income Ratio**

Composition of our operating cost base remained unchanged in 2009 with personnel cost representing the highest element of 35%, premises and depreciation at 22%, other operating expenses and advertising expenses following with 39% and 4% respectively.

Overall personnel cost increase was only 2% mainly due to the decline in the provision made for variable bonus which has off-set the double digit increases in salaries and allowances and other staff benefits. Overall, headcount numbers decreased from 1,615 in 2008 to 1,532 at close in 2009, mainly due to downsizing of sales teams. Premises and establishment costs and other overhead expenses also reported increases on account of inflationary pressures and supplier rate hikes. The recurring cost impact of capital investments made in 2008, on the branch network and other infrastructural developments being accounted in full in the current year also intensified this increase. Despite these increases in operating expenses, the improvement in our cost to income ratio was more significant in 2009, than what was visible in 2008. For 2009, the cost to income ratio has reduced to 62%, a further 6% below the level reported in 2008.

**PROVISIONS**

Specific and general provision for the year amounted to Rs. 804 mn compared to Rs. 471 mn in 2008. Increase in specific provision was broad based across all our loan portfolios. Consumer and Leasing felt the largest impact. Total specific provision for the year amounted to Rs. 847 mn an increase of Rs. 411 mn. The increase in specific provisioning reflected the impact of deteriorating debt servicing capacity which was felt across the industry as a whole. In the light of deteriorating economic conditions, we pursued vigorously on multiple measures to improve credit quality encompassing thorough credit evaluation prior to disbursements of credit facilities, continuous review of credit granted and timely action to arrest delinquencies thereby minimising the impact on our bottom line.

	2008 Rs. mn	2009 Rs. mn	Growth Rs. mn	Growth %
Specific Provision	436.3	847.2	410.9	94
General Provision	34.6	(43.6)	(9.0)	(126)
Total Provision	470.9	803.6	332.7	71
Specific Provision as a % of Gross Advances	1.13	2.39		

Specific provision expressed as a percentage of total portfolio soared by one percentage point to 2.39% in 2009. However, provisioning, NPLs and delinquency trends improved significantly during the latter part of the year. Therefore we believe that the extreme deterioration that we endured in credit quality has finally bottomed out. Our aggressive provisioning coupled with further tightening of risk management measures during 2009 means, that we have cleared the decks and now have a much healthier and spruced up loan book. With the economy expected to pick up further providing a more conducive environment for corporates, it will ease off pressure equally on these corporates and their employees, thus giving

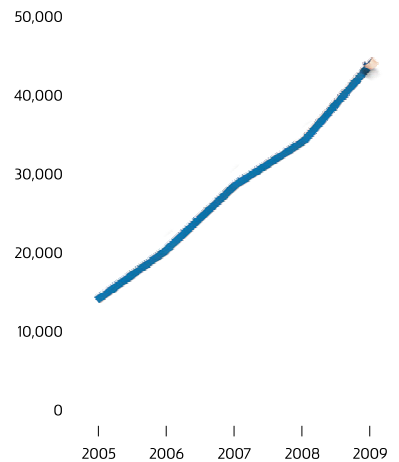
rise to an improvement in their debt servicing capacity. This, coupled with favourable trends that we have experienced within our portfolios will bode well for the future.

## DEPOSITS

Total deposit base increased by 30% to Rs. 44.2 bn, boasting one of steepest increases we have recorded in the past few years. Our deposit mobilising strategy ably led by our consumer banking unit and supported by our 'feet on street' sales teams capitalised well on the excess liquidity position that prevailed during the year despite stiff competition from competitors to capture the profitable customer segment. This growth is also commendable having operated in a more price-sensitive environment with alternative investment and savings options spurting out continuously. Our composition of the deposit base remained unchanged during 2009 despite all efforts to enhance the low cost base. Although we could not influence the mix, the growth in low cost rupee funds was substantial, amounting to Rs. 1.64 bn a 25% increase which carried cost benefits by way of lowering funding costs thereby improving interest margins. Low cost rupee savings and demand deposits were stable at 19% in both 2008 and 2009 while rupee term deposits contracted by 1% to 52% in the same period. Conversely, foreign currency deposits increased during the period from 28% in 2008 to 29% in 2009.

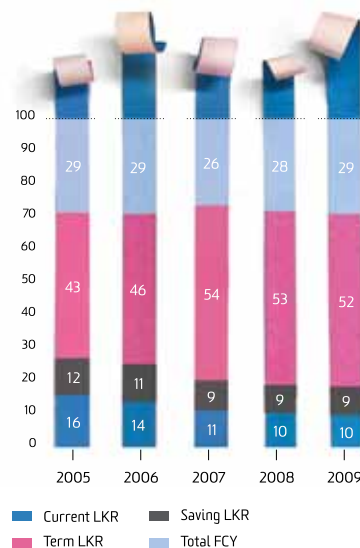
## Deposits from Customers

Rs. mn



## Deposit Mix

%



## LOANS AND ADVANCES

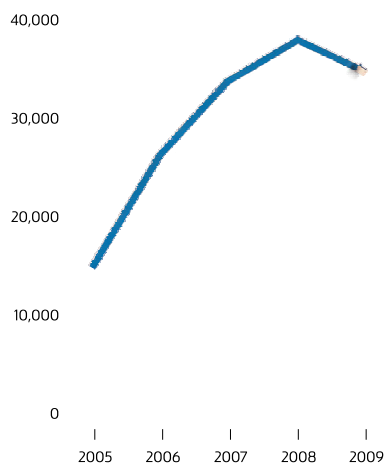
Credit growth slowed down in the banking sector and lending activities in respect of all sectors moderated during the first six months of 2009. An area where we fell below expectations has been on achieving the planned growth volumes in our Loans and Advances portfolio. Although we witnessed a declining loan base of 8%, due to lower demand for credit, high interest rates which prevailed during early part of the year and our cautious approach to lending, we grew market share by simply outperforming industry contraction of selected segments.

Much of the contraction of the portfolio was seen in corporate lending where we consciously let go some large facilities due to competitive pricing as these did not meet our internal pricing benchmarks and risk-return hurdles. Nevertheless our prime customers were safeguarded. We also diverted most of our energies making our presence felt in sourcing new names, engaging the key top and middle market players and diversifying the customer base across several economic sectors.

Retail sector dominated our portfolio comprising of home, unsecured and secured lending and credit cards.

### Loans & Advances

Rs. mn



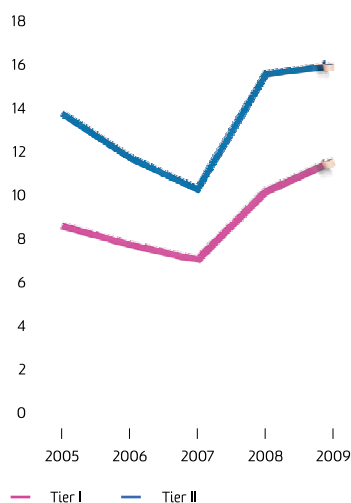
## CAPITAL BASE

The capital base of the Bank expanded by way of retained earnings during the year. With dividend declared for 2008 at Rs. 251 mn being the only outflow in our internal capital formation, we reported an equity capital position at year end 2009 of Rs. 4.7 bn, an increase of 10% from 2008. This is after accounting for over 50% for taxes on current year profits, which is considered a drag on expansion of the capital base and internal generation of capital for the entire banking sector in the country.

Our Capital Adequacy Ratio (CAR) increased to 16.11% from 15.70% in 2008. We do feel that the current high level of CAR may be construed as sub-optimal capital management where too much of a comfortable position reflects a very risk averse position for the Bank trading off profitability. High CAR for 2009 is mainly due to the sharp decrease in customer risk assets resulting from the contraction of the loan portfolio. We expect this industry wide trend to taper off with the growth picking up in the loan book as economic resurgence returns to the country. This would result in having a ratio comfortably above minimum regulatory requirements demonstrating adequate resilience to risk and capacity to absorb losses.

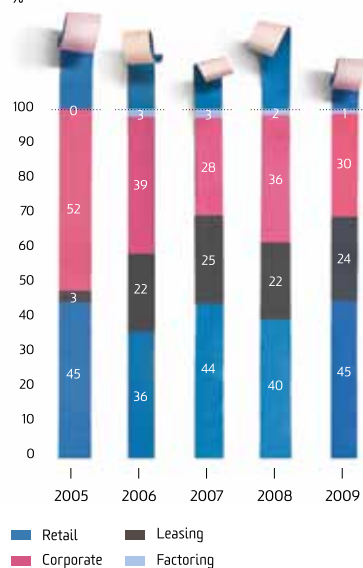
### Capital Adequacy Ratio

Rs. mn



### Loan Mix

%



## OUTLOOK 2010 AND BEYOND

It is widely believed that there will be a significant economic peace dividend as investment opportunities sprout in former conflict areas, costs such as insurance and transportation reduce, and the country's labour force effectively expands to include those previously unable to participate in the formal economy due to the conflict. Sri Lanka should also benefit from a considerable increase in foreign currency inflows from international donors, investors, the Sri Lankan diaspora, and also from a recovery of the tourism sector. A pick-up in gross fixed capital formation as the Government embarks on rebuilding the North and East, and an increase in foreign direct investments supported by the improved domestic security situation, would help to improve GDP growth rates in 2010.

This peace dividend has certainly created tremendous optimism across all sectors and the private sector in particular. In addition, declining interest rates, a stable exchange rate, improved foreign exchange reserves and country risk ratings have provided a firm foundation for economic growth.

Globally, for the countries caught in the global recession and financial melt down, the progress in 2010 is expected to be uneven with some countries bouncing back quickly taking advantages of the stimulus packages while others with significant structural problems taking longer.

Notwithstanding the global scenario, the peace dividend alone can provide the impetus to our economy. Timing as to when such economic activity would take off is the question given the many variables at play having seen mixed economic signals emanating for 2009 and two major elections in the 1st half of 2010.

Year 2010, will also mark a new era for the Bank with the end of a decade where we were known as 'innovative', 'progressive' and will be stepping into the bigger league. We have laid a strong foundation over the past decade to be in a position to propel ourselves to take advantage of the opportunities arising in the future. We will manage for sustainable growth and profitability and take our first step in 2010 towards achieving these longer term objectives.

Our strategies are based within a framework that takes into consideration prudent risk management, strong capital and liquidity, and consistent customer service centric business models for each one of our core businesses.

We will improve core banking profitability whilst focusing on customer service and convenience as a differentiator to both gain and retain customers. This customer focus will be backed by at all times with sound application of risk management controls and processes across the Bank.

Given the challenges on revenue growth, the need to manage and control costs will take a pivotal role in our strategic focus.

Managing people more effectively with performance-oriented rewards and ensuring that key people are retained and groomed will be in our scope for the future. We strongly believe in creating a culture that fosters empowerment, unleash talent and promotes a healthy balance of life and work.

With this mind set, we look forward for another eventful year and a new era with great optimism and even greater confidence.

Our fast-paced working environment drives a high performance culture. We believe in open feedback and performance-based rewards. Our people live the values and ethics of Nations Trust Bank because they find it such a great place to work.

The vision of Nations Trust Bank is captured in the idea of making life simple by being the benchmark of convenience. This culture of making things simple and easy for our customers was further prompted in 2009 through a variety of HR initiatives, detailed below.

RESOURCING

In 2009, the end of a 30-year war opened the prospect of business expansion in Sri Lanka’s North and East. New personnel, fluent in Tamil and comfortable with local ways, will be needed to staff new NTB branches and other operations in these areas. The first step towards recruiting them was taken with the holding of a Career Guidance Programme in Vavuniya, which was well attended as we had expected. From examinations and interviews of attendees who expressed interest in joining the Bank, the HR team was able to identify and recruit staff to man our branch in Vavuniya. All new entrants attended a structured induction programme where 40% of the time was spent in cultural integration. The branch opened for business on 24th August 2009.

We acknowledge with gratitude the support of Mrs. Charles, Government Agent, Vavuniya. Through her our activities in the district were greatly encouraged and facilitated.

Another important HR initiative in 2009 was, the redeployment of personnel over the NTB branch network so that staff strength at a given branch is proportional to the average business volume of that branch. This contributed greatly in managing staff costs.

The staff induction programme was revised and increased in duration to ten days.

STAFF NUMBERS

2005	2006	2007	2008	2009
549	820	1,239	1,615	1,532

TALENT MANAGEMENT

The year under review saw substantial investments in talent management. Of particular note was the decision to retain the services of Hewitt International, a leading international human-relations consultancy, to help us define required competencies and inculcate them through talent analysis and coaching. First, Hewitt helped us define a ‘Competency Model’ to align with the vision, mission and values adopted by the Bank in 2008. This was followed, in 2009, by an assessment of the leadership potential of the senior team by means of a feedback tool known as ‘Lifestyle Inventory’. Superiors, peers and subordinates gave their evaluations of each senior team member. Four senior-management coaches from Hewitt conducted one-on-one coaching sessions for the senior team based on the results obtained from these assessments and evaluations. The feedback sessions were well received and the process continues in collaboration with Hewitt. A first ‘group development session’ will be held in March 2010.

We plan to offer a similar programme for middle-management staff in 2010.

PERFORMANCE MANAGEMENT

All management staff from the CEO downwards are rated according to the balanced-scorecard method, which is primarily used for staff development and reward assessment.

Key accountabilities were established at the beginning of 2009. All staff were subject to at least one formal mid-year review.

A standardised procedure is in place to address staff grievances arising from the above process. HR has also established a counselling process to address unsatisfactory performance.

**Interests of all stakeholders with diverse needs are well looked after**

We endeavour to comply in spirit and letter, with the directions, determinations and guidelines issued by the Central Bank.

Service standards have been established in terms of the speed of processing applications, handling customer queries, time taken to serve, etc. Unparalleled levels of convenience are offered by way of facilities such as 365 day banking, Bank At Your Doorstep, eChannels, Branch and ATM Networks etc. Business units evaluate the support service units in an Internal Customer Survey where the rating improved from 3.0 to 2.8 during the year 2009, an indication of the Bank gearing itself to better serve its customers.

Share price appreciated from Rs. 18.25 in December 2004 to Rs. 36.75 by December 2009.  
Rs. 860 mn was paid as dividends out of a cumulative profit after tax of Rs. 2,232 mn generated over the past 5 years.  
ROA and ROE improved from 0.22% and 3.36% in 2004 to 0.99% and 15.05% respectively by 2009.

Employee Engagement Index (evaluated on the basis of overall satisfaction with working experience, sense of belonging to NTB, willingness to recommend NTB to friends/relatives and being inspired to give of one's best efforts) has improved from 58% to 71%. The Bank's investment in Training and Development amounted to Rs. 108 mn from 2005 to 2009. (For definitions, please refer the Glossary on page 128.)

## TRAINING & DEVELOPMENT

In was a busy year for the training team, with more than 9,000 trainee days completed. Training and Development played a pivotal role in developing and maintaining the Bank's performance culture. The annual training cycle commenced with year-end appraisals, in which the training needs of individual personnel were identified. Objectives and goals of departments were discussed with their respective heads and integrated with the appraisals to plan training programmes for each department and to identify attendees. Special attention was paid to aspects of customer service, communication skills and teamwork, as well as developing a succession of potential leaders within the Company. Special emphasis was also given in developing the technical skills and knowledge necessary for compliance with banking regulations amongst our staff.

Nations Toastmasters, a club originally begun with the aim of improving staff communication skills, has acquired public distinction in its very first year of existence, a noteworthy achievement for any such institution.

In 2009, the Bank introduced 'Product Certification Programmes' for certain specialised types of businesses. Staff members can follow these programmes to acquire and enhance their competency in these areas. Eventually, only staff thus certified will be assigned to these areas, ensuring a high standard of competency.

New modules were added to the 'e-learning' programme, enabling each staff member to acquire new skills and competencies at his or her own pace and convenience.

Other events which were held to promote staff development during the year are: Nations Masterminds, Inter-Cluster Quiz, Nations Best Speaker Contest and the Inter-Departmental Debating Championship. The enthusiasm and commitment shown by staff at these events is commendable and the competitions were of a high standard.

## REWARDS AND RECOGNITION

The Bank operates a number of rewards schemes, both financial and non-financial. Sales incentives, Star Performer, Customer Service Awards and the CEO's Club are some of them. Adding to this the 'Nations Quality Circle', an award for the best quality initiative, open to all staff was launched in 2009. Nominations were received and validated by an independent panel and the best initiative was selected and rewarded.

## EMPLOYEE COMMUNICATIONS

All employees who left the Bank in 2009, attended an exit interview with HR at which their feedback was recorded for later action, if necessary. The Internal Customer Survey, which was conducted twice in the year under review has proved to be a rich source of feedback for the support services of the Bank. It has greatly improved the quality of our internal customer service.

HR also plays a pivotal role in improving the NTB's internal communications. Its Joint Consultative Committee system facilitates employee representation to the CEO and corporate management. Employee suggestions and other feedback are taken constructively and corrective action implemented as deemed fit.

The CEO and Head of HR made it a point to visit branches over the course of the year and engage themselves in open discussion with staff. This 'Small Pocket' interaction concept has given employees the confidence to air their views freely.



## STAFF WELFARE

If we had to explain the purpose of our staff welfare team, we might do it by quoting Lincoln's famous trope, saying that it is 'Of the people, by the people, for the people.'

In 2009, our Sports and Welfare Club carried out a number of activities. Some of the year's highlights are listed below:

### Anniversary Social

The year marked the tenth anniversary of our Bank. In celebration of this, a grand Staff Social was held at BMICH. Staff members who commenced employment at the inception of the Bank were rewarded for their long, tireless service.

### Sports Day

The Annual Sports Day was held in June. There were numerous track events and much fun was had by all, while our more energetic staff members relished the opportunity to show off their sporting skills and physical fitness.

### Christmas Party

The Christmas Party is an annual event organised for the children of our staff. This year, attendance at the event was swelled by children from the Pamunuwa and Panadura orphanages, whom we invited to join our own children in celebration of the festive season. Forty children from these orphanages accepted

our invitation. Their evident pleasure at sharing in the fun and excitement was more than sufficient reward for the small extra effort and expenditure incurred. Members of the Sports Club are commended for their untiring efforts in making this event a success.

### IDP Relief

The welfare team also helped coordinate a staff initiative in aid of internally-displaced people in Vavuniya, which resulted in a collection of Rs. 1.6 mn from staff members. The team subsequently visited the Vavuniya camp and handed over provisions purchased with these funds.

### Staff Sports

It was a year of sporting success for our staff, whose active and enthusiastic involvement in badminton, basketball, netball and cricket paid off in public competition.

Our badminton team won three titles in a single tournament, securing the following coveted challenge trophies for the bank:

- Men's Veterans Team: champions for the fourth consecutive year
- Men's Team: Mercantile 'C' Division Champions
- Women's Team: Mercantile 'E' Division Champions

In basketball, the Nations Trust Bank Women's Basketball Team won the Mercantile 'B' Division Champions, while the Men's Team were Runners-up in the MSBA Delmege Super League 'A' Division and won the MSBA Ram Ratnawel Challenge Trophy to emerge champions in the 'D' Division. The team was also 'A' Division Runners-up in the MSBA HNB semi-league tournament.

Our netball players were declared champions in the Mixed (men and women) category, while the Women's Team made it through to the quarter-finals of the Sri Lanka Sports.com Challenge, which was held in December.

In softball cricket, our team emerged as Winners in the Mercantile Softball Cricket Sixes. Our bowling team was ranked Runners-up in the HNB Assurance Welfare Society Bowling Tournament.

### National Representation by Our Staff Members

Three members of our staff represented their country in international competition. Eranga Alwis of the Central Operations Department helped Sri Lanka win the Bronze medal in team squash at the Eleventh South Asian Games, which was held this year in Bangladesh. Sidath Senanayake and Prageeth Pushpakuma of the Central Operations Department also represented the National Basketball Team at the South Asian Games.



1. Cutting of Cake at the 10th Anniversary of the Bank Social.  
2. 'Christmas with a Difference'.  
3. Our staff participating enthusiastically at the Annual Sports Day.

In a rapidly developing country, good corporate citizenship is a matter of urgent relevance for any organisation. Economic mobility often creates unavoidable gaps between haves and have-nots, which must be addressed so as to reduce social tensions arising among those who feel passed over by development. Another frequent victim of economic growth is the environment: its protection becomes a matter of urgency if future generations are not to be deprived of their natural rights to clean air, clean water and a functionally diverse natural environment. Whilst the Government carry the principal responsibility of public welfare and environmental stewardship, such matters are everybody's responsibility, and it is fitting that we, as beneficiaries of economic growth and development, should take a hand. Good corporate citizenship also has strong positive effects on how we are perceived by our customers, as well as by policymakers and the public. Employees, too, find great satisfaction in these activities, which help bind them together and bond them to the organisation. Finally, the welfare of the environment and our fellow-citizens are matters very close to our hearts; in pursuing activities that support it, we are following our own very strong inclinations.

In the year under review, a number of CSR initiatives were undertaken. Given below are the most important of these:



Our staff engaged in conserving the biodiversity of Hiyare.

#### HIYARE BIODIVERSITY CONSERVATION PROJECT: WILD ANIMAL RESCUE PROGRAMME

In 2008, the Galle Wildlife Conservation Society and Nations Trust Bank initiated a coordinated effort to rescue and release of wild animals captured by humans, injured or endangered due to human-influenced changes in their habitat. This was the first such partnership between a volunteer conservation group and a private sector firm, since ordinarily only the Department of Wildlife Conservation and National Zoological Gardens are authorised to undertake animal-rescue operations; in this initiative, the Department was an active collaborator, while the Bank provided funding support. Thus equipped with suitable equipment expertise, the society has rescued and successfully released many endangered animals.

#### BIODIVERSITY CONSERVATION EDUCATION

Assistance from our Bank has enabled the Galle Wildlife Conservation Society to conduct a series of education programmes and workshops for schoolchildren, university students and the general public. The programmes include slide shows, practical lessons in conservation, nature walks, exposure to captive breeding programmes, etc. The programme covered the areas of:

- The biodiversity of Sri Lanka and its conservation
- Snakes of Sri Lanka
- Birds of Sri Lanka
- Butterflies of Sri Lanka
- Fresh water fish of Sri Lanka



Beneficiaries of our literacy project.

Workshops conducted covered the areas of:

- Ecology of the lowland rainforest
- Snakes of Sri Lanka: identification, snakebite prevention and first aid
- The captive breeding of rare animals
- Plant identification and forest restoration
- Identifying the ecology of Sri Lankan butterflies

A total of 70 environmental education programmes for children has been conducted during the year.

### LITERACY PROJECT IN RURAL SCHOOLS

We undertook a project aimed at improving literacy levels amongst schools attended by underprivileged children in impoverished rural districts during the year. This was a CSR initiative in partnership with CandleAid Lanka (formerly AFLAC International). The commitment of our Bank was to improve twelve school libraries. The beneficiaries were:

- Seewali Vidyalaya, Rupawatta
- Udahena Kanishta Vidyalaya, Udahena
- Galabadawatta Kanishta Vidyalaya, Rangala
- Habarakada Dharmapala Primary, Tawalama
- Millawa Kanishta Vidyalaya, Morawaka
- Manampita Ratnasara Vidyalaya, Mattaka
- Nitalawa Kanishta Vidyalaya, Makulawa, Galgamuwa
- Kimbissa Kanishta Vidyalaya, Sigiriya
- Navuntuduwa Navodya Vidyalaya, Matugama
- Amunutenna Kanishta Dwithika Vidiyalaya, Ratnapura

Each of these libraries received a donation of books selected by the school's academic staff. Additionally, a second-hand book collection was held with staff in all branches and departments participating. The Bank also pledged support for two more schools in the North and the East of the country, thus making this initiative an island-wide project.

### GOING PAPERLESS

As part of our commitment to preserving the environment, we stepped up our campaign to 'go paperless' by requesting customers to switch to electronic statements.

In keeping with the spirit of this effort, the Bank will donate Rs. 100/- to the Wildlife and Nature Protection Society for every customer who chooses to go green. This society is, incidentally, one of the oldest environmental NGOs in Sri Lanka. It will use the proceeds from our initiative to help finance a tree-planting campaign.

### CAREER GUIDANCE IN VAVUNIYA

Staff from our HR division held a pioneering career-guidance workshop in Vavuniya for the benefit of young job seekers and school leavers in the district. The workshop was conducted in Tamil and English and entrance was free of charge.

## Risks Closely Managed and Controlled

### We managed risks optimising the risk-return trade off

The Bank has in place a risk governance structure at Board and Management level with comprehensive policies that guide Risk Management. The Bank has in place properly constituted Board and Management Committees to oversee key areas such as Credit, Market and Operational Risks. Diversification in terms of sources of income, geography and business units is proactively pursued by the Bank.

## OVERVIEW

Based on the many views expressed in the aftermath of the recent turmoil affecting the credit markets and their constituent financial institutions, there is absolutely no doubt in the value of prudent risk management policies and processes. It remains an essential building block for longer term stability for both the individual Financial Institutions (FIs) as well as the financial systems. Today, given the intense competition and commoditised banking products, risk management plays another more important role as a strategic differentiator between the many FIs that look and feel the same. Viewed as a business limiter and a cost burden, some FIs engage in its exercise and application only as a response to regulatory censure while others do so for not only regulatory reasons but also to obtain competitive advantage enabling them to undertake more and new business in a measured and controlled environment. The need for risk management is also rooted in the scarcity of capital and difficulty of capital accumulation via the earnings stream. The capacity to capture and measure risks, to monitor their impact and manage their outcome in real time, to avoid concentrations be they customers, industries, currencies, tenors, rates, etc., provides tangible safeguards in the preservation of capital and hence a basis to grow and expand.

Our risk management strategy encapsulates all of the above and strives to ensure that only well-calculated conservative risks are undertaken while the integrity and reputation of the institution remains paramount. The systematic identification of risks and a structured process for managing them, which includes well-defined responsibilities and demarcated areas of accountability, are cornerstones of the process. The aim is to optimise stakeholder value by achieving an appropriate balance between risk and return with a clear focus of encouraging and inculcating an organisation with a wide risk management culture.

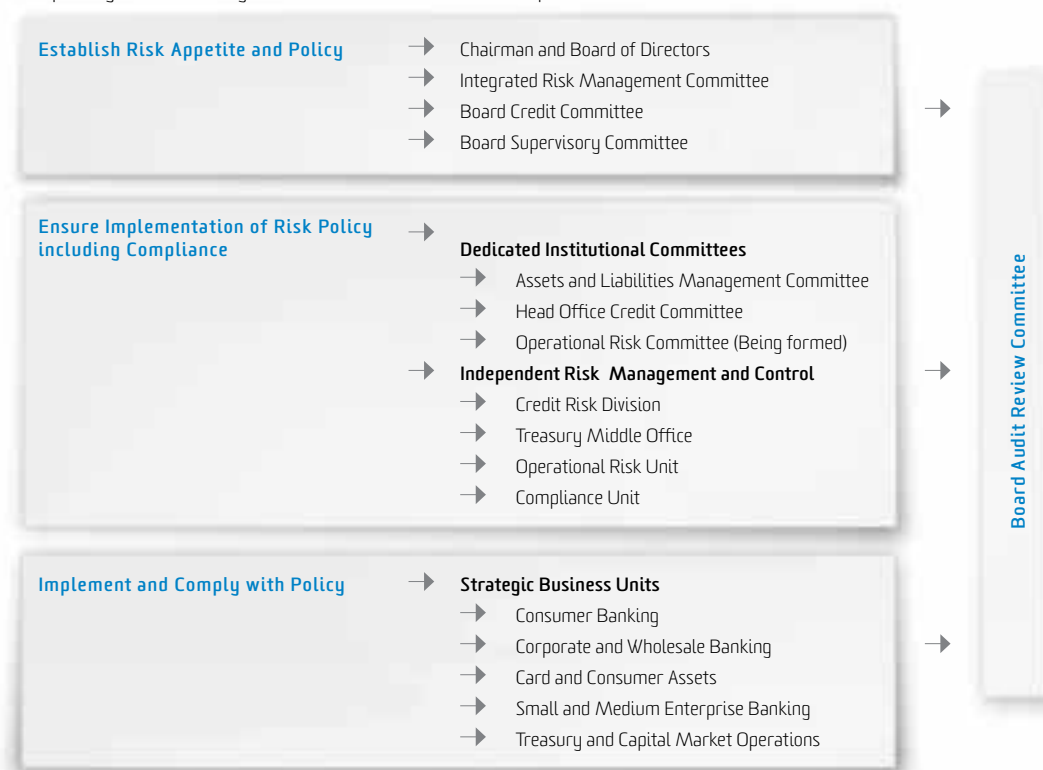
## RISK GOVERNANCE

The NTB Board identifies the optimal risk - return profile for the business at the strategic planning level while establishing the appropriate risk governance structure both at the Board and at the Management Level. Also the Board puts in place comprehensive risk management policies and processes on the recommendation of Management and Board Committees which are frequently reviewed in tandem with local and international best practices. In discharging its governance responsibility for overall risk management and control, the Board has established two key Committees, the Integrated Risk Management Committee (IRMC) and the Board Audit Review Committee (BARC).

The IRMC assists the Board in fulfilling its responsibilities relating to the oversight and review of risk management strategies, policies, processes and establishing mechanisms to identify sources of risk, methods for risk assessment and measurement and introduction of appropriate controls and monitoring. It also sets and monitors a variety of numerical risk goals and limits that capture the entirety of the Bank's operations. The BARC assists the Board in overseeing Management compliance with set policies, procedures and relevant regulations and ensures the effectiveness of the system of internal controls.

Management for their part continues to oversee and update the systems, policies and procedures in all dimensions of operations within the broad guidelines and policies set by the Board. These policies and procedures are integrated into the day-to-day operations and decision making process of all business and support units.

Graphically the Risk Management Framework at NTB can be expressed as follows:



## CREDIT RISK

Credit Risk is the possibility of losses resulting from the failure or unwillingness of a borrower or counterparty to meet the contractual obligations to the Bank and the risk that collateral will not cover such claim. Being the largest source of risk, the Bank attaches a greater emphasis and importance to its management.

Our credit risk management policies and guidelines are approved by the Board of Directors with a comprehensive mechanism to evaluate and approve credit exposure through delegated powers entrusted with the Head Office Credit Committee. In turn, the Committee recommends to the Board Credit Committee proposals and transactions beyond its delegated authority.

Responsibilities for credit risk are clearly demarcated between:

- Marketing and relationship management
- Credit risk management
- Documentation and administration and
- Recovery and management of distressed loans

The Credit Risk Management Division closely monitors changes in economic and market conditions, identifying trends and concentrations. It guides business units in their responsibilities for managing their customer portfolios while focusing on the quality of the entire loan portfolio.

It independently evaluates all credit proposals above specified limits and monitors industry and sector exposures while also ensuring that regulatory guidelines pertaining to the Single Borrower Limit and maximum aggregate limits to large exposure clients are complied with. It also monitors portfolio performance through periodic reviews and identifies early warning signals and emerging trends to take appropriate remedial action.

Another Board committee, the Board Supervisory Committee, reviews amongst others detailed analysis of non-performing loans and advances, sector-wise NPL statistics and high risk exposures on a monthly basis,

all of which are submitted to the Board for discussion. It also undertakes a comprehensive review of all large exposures on a quarterly basis to gauge and understand the quality of the loan portfolio and recommends suitable action to management.

Our internal risk identification and monitoring system which is consistent with the nature, size and complexity of the Bank's activities together with tools and control procedures plays a pivotal role identifying emerging trends and taking proactive steps to minimise losses. Further, the introduction of an additional mid-year financial and performance review of large credit exposures and a more stringent risk grading methodology of customers with greater focus on financial data has enabled reassessment of the overall credit quality of the loan portfolio relating to the Corporate and Wholesale banking sector. An Internal Rating System is currently being used for a range of purposes. At one end it is primarily used to determine and identify risk level of borrowers, while at the other it is also an integral element of credit portfolio monitoring and management, capital allocation and pricing of risk.

The asset writing strategy for the consumer lending area consisting of consumer loans and credit cards comes under the scrutiny of a separate Consumer Credit Risk Committee. It reviews market developments and weakening disposable income levels of average consumers during the year for appropriate risk control measures. Further, steps have been taken to develop a scoring mechanism to underwrite Credit Cards and Personal Loans, which will be implemented during the 1st quarter 2010.

We adopt a conservative policy towards specific provisioning and commence provisioning on facilities that are in arrears for more than 90 days, a more stringent requirement than that set by the Central Bank of Sri Lanka (CBSL). In the case of the Lease Portfolio, the provisioning is in line with CBSL guidelines.

#### MARKET RISK

Arising in the normal course of business of any financial institution, market risk incorporates liquidity risk and price risk. Liquidity risk is the possibility that an entity may be unable to meet a financial commitment to a customer, creditor or investor or another market participant when contractually due. On the other hand, price risk is the potential threat to earnings arising from fluctuations in interest rates, foreign exchange rates, equities and commodity prices and may be incurred in both non-trading and trading portfolios.

At the Bank, market risk has received significant additional management attention during 2009 as a result of not only the operational lapses that occurred during the year but also as a result of directives issued by CBSL to the banking industry.

Management of market risk at the Bank is supervised by the Assets and Liabilities Committee (ALCO) headed by the CEO with the participation of the Executive Director and heads of key business divisions together with the Head of Credit and Market Risk Management and Chief Financial Officer who meets at least once a month. ALCO formulates the market risk management policies to appropriately manage the assets and liabilities and relevant exposures within set limits. Key market and operational risk indicators with

liquidity and interest rate gap reports are monitored and discussed at ALCO. It also reviews the potential impact of concentrations and various scenarios on the Treasury business and other business units to mitigate and manage the related risks.

We have now clearly defined the division of responsibility for day-to-day management of market risks. The Head of Treasury who manages the overall Treasury business and market risks reports to CEO, while the Back Office which processes the Treasury transactions reports to the Chief Operating Officer. The Treasury Middle Office (TMO) independently monitors, measures and analyses the transactions booked on a real time basis. It reports to the Head of Credit and Market Risk Management via key market risk indicator reports that are compiled, reviewed and circulated to the CEO on a daily basis.

Through the internally developed Funds Transfer Pricing System, the interest rate risk and other types of market risks are managed under the Treasury. It in turn assists in ensuring that the various capital, liquidity and pricing issues are well understood by business managers and that they remain adequately motivated by the profitability of the various products coming under their purview.

#### LIQUIDITY RISK

As mentioned earlier, liquidity risk is the insufficiency of cash flows to meet all financial obligations of the Bank as and when they fall due. Thus the overall funding strategy is planned annually taking into consideration both timing and size of business and investment together with the various sources of funding.





Considerable importance is placed on maintaining the stability of current, savings and other core deposits which are diversified by type and maturity, representing a stable source of funds. Stability depends on maintaining high levels of depositor confidence that we have achieved through fair, competitive and transparent deposit pricing policies. The Bank also maintains active participation in the wholesale and inter-bank money market with established lines of credit. The Bank has appropriate levels of unencumbered marketable securities, principally government securities, which can be realised, repurchased or used as collateral in the event of stress or need for liquidity.

The balance and mix of these two essential sources of funds i.e. deposits and money market funds, play a key role in strategic liquidity management at the Bank.

The ALCO reviews local and foreign currency maturity gaps of assets and liabilities separately and analyses the various stress scenarios which could cause the Bank specific or market-wide liquidity shortfall taking into account forecast for deposit withdrawals and drawdown of committed lending facilities. It also reviews liquidity contingency plans to manage serious disruptions to the liquidity profile. In accordance with the Liquidity Policy, the ALCO which meets on a monthly basis under normal market conditions, is required to meet more frequently when abnormal market conditions emerge to monitor and map out strategies to address liquidity concerns. Additionally, the Bank continuously complies with a statutory requirement to maintain a minimum 20% Statutory Liquid Asset Ratio on a daily basis within both the Domestic Banking Unit and the Foreign Currency Banking Unit.

## INTEREST RATE RISK

As the repricing of assets and liabilities is not identically matched, Interest Rate Risk is unavoidable in any financial institution. The Treasury manages the potential impact which may be caused by the volatility of changes in market interest rates and yield curves in order to optimise net interest income. The ALCO reviews interest rate gap reports with various market scenarios and considers the impact on

capital. This assists the ALCO to decide timely re-pricing of products and to device strategies to manage and ensure the financial stability of the Bank in the event of noticeable changes in market conditions and sentiment. Also the TMO monitors the mark to market profitability of the trading portfolio together with the profitability of the investment portfolio.

## FOREIGN EXCHANGE RISK

The foreign exchange exposure is derived from many sources. In the main, they result from trade and remittance flows, treasury trading activities and structural foreign currency translation exposures. The Bank has established Risk Tolerance Limits in tandem with CBSL directives and guidelines to ensure that adverse exchange rate movements due to un-hedged foreign exchange positions are restrained within acceptable parameters. The most significant limits in place are -

- Foreign currency position limits for individual currencies and on an aggregate basis;
- Individual dealer limits and Intra-day transaction limits;
- Counterparty Spot, Forward and Placement limits;
- Trading Stop-loss limits; and
- Off-market trades.

While the Treasury is primarily responsible for maintaining these limits, the TMO independently monitors all of them. Details of cash flows and open positions are maintained by both the Treasury Front Office and Treasury Back Office. They are independently reconciled with the books on a daily basis.

## OPERATIONAL RISK

Operational risk is the risk of loss arising from failed or inadequate internal processes, people and systems or from external events. Operational Risk Management is an integral part of the duties of the Heads of each business and support units. They are responsible for maintaining an appropriate internal control environment commensurate with the nature of the operations within the framework of the Bank's wide policies and procedures, which are regularly updated in response to changing conditions. Each of the business and support units also has their own risk grids that identify risk events and related impact on their respective units.

Extensive on-going training is provided to ensure that the staff are fully aware of their responsibility for complying with the correct operational procedures in order to optimise operational efficiency and individual accountability at all levels of the Bank. Some of the Internal Controls which are in place for mitigating Operational Risk are:

- Setting of appropriate risk limits and controls and monitor the risks and adherence to limits on a regular basis
- Regular MIS reports to capture exceptional transactions and other risk events for management investigation
- Clear management reporting lines, empowerment and accountability
- Appropriate segregation of duties to prevent any single person being allowed to carry out a process from beginning to end without independent review and to prevent conflicts of interest
- Regular staff rotation and compulsory avilment of annual leave
- Maintaining the right MIS infrastructure and upgrading where necessary
- On-going staff training and development

The Bank's Compliance Department also monitors all regulatory activities and ensures that the Bank complies with all laws, regulatory directives and drives the compliance culture across the Bank. Key business processes, procedures and products are regularly reviewed by the Business Process Re-engineering Unit to find any gaps in controls and improve efficiency. Regular staff training programmes on Compliance, Know Your Customer and Anti-Money Laundering as well as Financing of Terrorism Activities are conducted with the participation of industry experts to reinforce staff awareness. We expect to implement an annual self-certification programme for all customer-facing staff covering these aspects of compliance.

The control environment in each business, department and branch is subject to an independent periodic audit by the Internal Audit Department. Major or high-risk observations made during these inspections and corrective action are brought to the attention of the Board Audit Review Committee.

A documented Business Continuity Plan (BCP) is in place to ensure banking operations are carried out without disruption in the event of any external disasters or severe system breakdown. Risk mitigation including insurance for potential low frequency high severity losses is obtained where it is available and cost-effective.

## CAPITAL RESOURCES

The capital management framework of the Bank is designed to ensure that it maintains adequate capital resources in relation to its risk profile as both market and public confidence is obtained and retained by such self-regulation and attention to all applicable legislation, regulatory supervision and external rating agency recommendations. The process is interactive and subject to continuous review. As commonly appreciated capital is generated principally via retained earnings, issuance of stock and subordinated debt. Excess capital, alternatively, is used to pay dividends or restructure the business. Capital targets for both the Bank and its subsidiaries are set at levels that exceed regulatory standards.

NTB in common with other banks in Sri Lanka is subject to risk-based capital ratios issued by CBSL. Basically, capital adequacy is measured under two risk-based ratios, namely Tier I and Total Capital (Tier I + Tier II Capital). Tier I capital is considered core capital while Total Capital includes other items such as subordinated debt and loan loss provisions. Both measures are stated as a percentage of risk-adjusted assets, which are measured in terms of their perceived credit risk and include selected off-balance sheet items such as unfunded loan commitments, Letters of Credit and FX contracts.

## REGULATORY CAPITAL RATIOS

The Regulatory Capital Ratios of the Group are disclosed in some detail below. In the interest of fuller disclosure on this important aspect, ratios for years 2008 and 2009 are given below:

	2009 Rs. mn	2008 Rs. mn
Tier I Capital	<b>4,687.21</b>	4,253.55
Tier II Capital	<b>1,720.38</b>	2,222.66
Total Capital	<b>6,407.60</b>	6,476.21
Risk-Weighted Amount for Credit Risk	<b>32,282.69</b>	36,791.23
Risk-Weighted Amount for Market Risk	<b>2,143.26</b>	632.62
Risk-Weighted Amount for Operational Risk	<b>5,352.68</b>	3,832.64
Total Risk-Weighted Amount	<b>39,778.63</b>	41,256.49
Risk-Adjusted Capital Ratio against Tier I Capital* (Tier I Capital/Total Risk-Weighted Amount)	<b>11.79%</b>	10.31%
Risk-Adjusted Capital Ratio against Total Capital** (Total Capital/Total Risk-Weighted Amount)	<b>16.11%</b>	15.70%

\*Statutory minimum 5%

\*\*Statutory minimum 10%

The decrease of Rs. 4.5 bn in Risk-Weighted Assets for credit risk was mainly due to the contraction of loans and advances evidenced industry-wide during the year. In contrast, Risk-Weighted Assets for Market risk increased by Rs. 1.5 bn with the expanded trading activity in 2009. Growth in business volumes contributed to the increase in operational risk by another Rs. 1.5 bn. As a result, the overall Risk-Weighted assets of the Group reduced by Rs. 1.5 bn.

Due to the combined effect of 2009 earnings and depreciation of subordinate debt during the year, total capital declined by Rs. 68 mn.

However, the significant decrease in Risk Weighted Assets in comparison to the decrease in capital, resulted in appreciation of Total Capital Adequacy Ratio by 0.41%.

The Bank constantly reviews its risk management process and every year takes steps to refine it further. For the years ahead in response to the new Risk Management Guidelines issued by the Central Bank of Sri Lanka (CBSL), we propose to introduce some new risk management processes and structures.

Currently risk management processes operate independently of the revenue-generating business units but have two reporting lines instead of the recommended single reporting line to a Chief Risk Officer (CRO). Under the existing process both credit and market risk is handled by the Head of Credit and Market Risk Management while both Operational Risk and Compliance report to another Head. It is our intention in the fullness of time but as early as possible to combine them in a single role. For the time being, however, we believe that the risks although reported via two channels is well covered and independently managed thereby fulfilling the CBSL guidelines in spirit.

Good governance is an integral part of the corporate culture at Nations Trust Bank PLC. The Board of Directors of the Bank has placed great emphasis on ensuring good governance in every aspect of its operations. Board is committed to 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 transparent, ethical and law abiding. Whilst ensuring that generally accepted corporate governance practices are followed, the Board is also required to comply with the specific requirements under the Listing Rules of the Colombo Stock Exchange relating to Corporate Governance and the requirements under Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka.

#### BOARD OF DIRECTORS

The Board comprises of experienced and respected leaders in the fields of Finance, Law, Academics and Corporate who individually and collectively contribute a wealth of practical insight and business acumen. Board approves a strategic plan and key policies for the Bank and effectively monitors their implementation through a number of Board sub-committees and Key Management Personnel. The Board appoints the Chief Executive Officer and Corporate Management who together make up the Key Management Personnel of the Bank.

Board has also approved a risk policy whereby the principal risks have been identified with measurable goals for managing such risks. Board continuously monitors the efficacy of the risk management mechanism in the Bank through the Integrated Risk Management Committee (IRMC). IRMC met 12 times during the year under review.

Board has also approved a communication policy for the Bank. Board has a formal schedule of matters specifically reserved for Board approval to ensure that the direction and control of the Bank is firmly under its authority.

The role and responsibilities of the Chairman and the CEO has been clearly defined and reduced into writing by the Board. In keeping with best practices the positions of Chairman and CEO are separated and held by two individuals who have no relationship with each other. Eight Directors out of the total number of Ten are Non-Executive Directors. Three of the Non-Executive Directors are independent of management and ownership being free from any business or other relationship which could materially interfere with their judgment. Executive Directorate comprises of the CEO and one other Executive Director. Names of the Directors and their status are given in the Annual Report of the Board of Directors on page 75. Chairman of the Bank is a Non-Executive Director. The Bank currently has three Directors who satisfy the requirements under the Listing Rules of the Colombo Stock Exchange applicable to Independent Directors and has designated one such Director namely Mr. A.R. Rasiah as the Senior Director.

Board sets goals and targets for the Chief Executive Officer (CEO) and the Executive Director based on the recommendation of the Human Resources and Remuneration Committee. Performance of the CEO and the Executive Director is monitored on an ongoing basis and a formal appraisal is carried out at the end of the year by the Human Resources and Remuneration Committee based on whose recommendation the Board determines the remuneration of the CEO and the Executive Director.

Recommendation of suitable names to the Board is the responsibility of the Nominations Committee. Nominations Committee also assists the Board to determine whether the Directors are fit and proper persons as required under the Banking Act and Directions issued thereunder.

## BOARD MEETINGS

During the year under review, the Board met 15 times. Board meeting schedule for the year is approved in advance by the Board. Attendance of the Directors at the Board meetings are given on page 76 in the Annual Report of the Board of Directors.

A Board Supervisory Committee, comprising of two Non-Executive Directors and one Executive Director has been appointed to oversee and guide the Bank with respect to corporate planning, performance management and operations. As a practice the CEO and all Key Management Personnel (other than the Head of Internal Audit) are invited to this meeting. This Committee convenes at least once a month, in addition to special meetings and ongoing consultations as appropriate.

The day-to-day management of the Bank is carried out by the Corporate Management headed by the Chief Executive Officer. 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 both financial and non-financial targets.

Board Audit Review Committee, reporting directly to the Board of Directors is responsible for the audit functions of the Bank. The Committee consists of three Non-Executive Directors with two of them including the Chairman being Independent Directors. Head of Internal Audit functions as the Secretary to this Committee. The Chief Executive Officer and the Chief Financial Officer attend the meetings by invitation. Other members of the Corporate Management attend as and when required. Report of the Board Audit Review Committee is given on page 71 of this report.

The Board places strong emphasis on transparency and accountability. All Financial Statements strictly adhere 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. Compliance with statutory regulations is monitored regularly by the Board. Bank employs a dedicated Compliance Officer at a senior level.

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. A management information system provides timely and reliable information. Procedures have also been implemented to ensure compliance with statutory and regulatory requirements.

Board has specifically approved and documented the procedure for Board meetings. All Directors are entitled to include an item for discussion in the Agenda and has the right to call for explanations from any officer of the Bank relating to the business of the Bank. Board is provided with complete and adequate information relating to matters listed in the agenda of every Board meeting well in advance of the meeting. All Directors have access to the advice and services of the Company Secretary. The Company Secretary complies with the requirements under Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka. Board procedure provides for Directors to have access to independent professional advice at the expense of the Company as and when required and the Company Secretary takes the initiative in this connection.

The Directors do not participate in the decision-making process on matters, in which they have an interest and avoid conflicts of interests in their activities with the Bank.

The table below indicates the level of compliance with the Listing Rules on Corporate Governance (Section 7.10 of the Listing Rules of the Colombo Stock Exchange).

Rule No.	Applicable Requirement	Compliance Status	Details
7.10.1	At least one-third of the total number of Directors should be Non-Executive Directors	Complied	Eight out of ten Directors are Non-Executive Directors.
7.10.2	Two or one-third of Non-Executive Directors, whichever is higher should be independent	Complied	Three out of ten Directors (three out of eight Non-Executive Directors) are Independent Directors.
	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format	Complied	Non-Executive Directors have submitted these declarations
7.10.3	Names of Independent Directors should be disclosed in the Annual Report	Complied	Please refer page 76.
	The basis for the Board to determine a Director is independent, if criteria specified for independence is not met.	Complied	All Independent Directors meet the set criteria.
	A brief resume of each Director should be included in the Annual Report and should include the Director's areas of expertise	Complied	A brief resume of each Director is stated on pages 62 and 63.
7.10.4	Criteria for defining 'Independence'	Complied	All Directors listed as independent satisfy the criteria given in this rule
7.10.5	Remuneration Committee A listed company shall have a Remuneration Committee which shall comprise of Non-Executive Directors a majority of whom shall be independent	Complied	Comprises of three Non- Executive Directors, two of whom are independent
	Names of the Directors comprising the Remuneration Committee to be given in the Annual Report	Complied	Please refer page 129.
	Statement of Remuneration Policy to be given in the Annual Report	Complied	Please refer page 72.
	Aggregate remuneration paid to Executive and Non-Executive Directors to be disclosed	Complied	Please refer page 76.
7.10.6	Audit Committee Audit Committee shall comprise of Non-Executive Directors majority of whom will be independent	Complied	Comprise of three Non-Executive Directors, two of whom are independent.
	A Non-Executive Director shall be appointed as the Chairman of the Committee	Complied	Chairman of the Committee is a Non-Executive Director
	Names of the Directors comprising the Audit Committee to be disclosed in the Annual Report	Complied	Please refer page 129.
	The Audit committee shall make a determination of the independence of the Auditors and disclose the basis for such independence	Complied	Please refer Report of the Board Audit Review Committee on page 71.
	Report of the Audit Committee setting out the manner of compliance with the listing rules governing their functions shall be contained in the Annual Report	Complied	Please refer Report of the Board Audit Review Committee on page 71.

#### Rule No. 7.6 (viii) - Property Holdings

Location of the Property	Extent of the Land Perches	Value of the Property Rs. mn	Number of Buildings
Bank owned two parcels of properties as given below:			
No. 242, Union Place, Colombo 2	77.2	604.6	01
No. 76, York Street, Colombo 1	8.66	19.5	01
Bank's fully owned subsidiary Allied Properties Limited holds the following property on a 99 year lease.			
No. 46/58, Nawam Mawatha, Colombo 2.	65.5	543.5	01



### 1. A.D. Gunewardene

*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 PLC. He is the Deputy Chairman of John Keells Holdings PLC and has been a member of their Board for over 17 years. He is a Director in many companies in the John Keells Group. He has served as the Chairman of the Colombo Stock Exchange. Mr. Gunewardene brings over 27 years of management experience to the Board.

### 2. E.H. Wijenaike

*Deputy Chairman*

Mr. Wijenaike is the Managing Director of Central Finance Co. PLC, a leading Non-Banking Financial Institution (NBFI) in the country. He has over 28 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, Credit Committee and the Nominations Committee of the Bank.

### 3. Saliya Rajakaruna

*Director/CEO*

Mr. Rajakaruna joined the Bank as its Chief Executive Officer and Director on 15th September 2009. He is a Member of the Chartered Institute of Management - (UK) and holds an MBA from Cranfield University, United Kingdom. Mr. Rajakaruna brings with him over 30 years of varied international experience covering UK, Europe, USA, Scandinavia, South Africa and Asia all with Citibank during which period he performed several roles relating to corporate banking, risk management, finance, marketing product management and treasury activities. With a proven track record in balancing revenue generation and risk management, Mr. Rajakaruna brings an appropriate dimension to the operations of the Bank. Mr. Rajakaruna has also functioned as the Chief Financial Officer and Chief Risk Officer of Bank of Ceylon, Director and the Chairman of the Audit Committee of Ceylon Petroleum Corporation.



### 4. Krishan Balendra

*Director*

Mr. Krishan Balendra is the President of Corporate Finance, Strategy, Retail and Stock Broking at John Keells Holdings PLC. He started his professional career at UBS Warburg, Hong Kong, in investment banking, focusing primarily on equity capital markets. After a four year stint in Hong Kong, he continued his career in corporate finance at Aitken Spence & Co. Ltd., Sri Lanka prior to joining John Keells Holdings PLC. He holds a Law Degree (LLB) from the University of London and a Master's Degree in Business Administration from INSEAD. He is a member of the Board of Directors of the Colombo Stock Exchange.

### 5. A.K. Gunaratne

*Director*

Mr. Gunaratne is the Director - Group Co-ordination of Central Finance Company PLC, 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 Member of The Chartered Institute of Management Accountants of UK and The Institute of Chartered Accountants of Sri Lanka. Mr. Gunaratne serves as a member of the Board Supervisory Committee, Audit Committee, Credit Committee and the Integrated Risk Management Committee of the Bank.



### 6. J.R.F. Peiris

*Director*

A Director of John Keells Holdings PLC and many of its subsidiaries, Mr. Peiris has overall responsibility for John Keells Group Finance, including Treasury, Taxation, Corporate Finance, Insurance and 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 35 years finance and general management experience in Sri Lanka.





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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. Mr. Peiris functions as the Chairman of the Integrated Risk Management Committee of the Bank.

#### 7. C.H.S.K. Piyaratna

*Executive 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. His career at HSBC included assignments in Group offices in Hong Kong and 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. Mr. Piyaratna is the Chairman of the Board Supervisory Committee of the Bank.

#### 8. Dr. Dushni Weerakoon

*Director*

Dr. (Ms.) Weerakoon holds a Ph.D. and a MA in Economics from the University of Manchester, United Kingdom and a B.Sc. in Economics from Queens University of Belfast, U.K. Currently, Dr. (Ms.) Weerakoon is carrying out research and teaching in international economics and macroeconomic policy management.

#### 9. A.R. Rasiah

*Director*

Mr. Rasiah is a fellow member of The Institute of Chartered Accountants of Sri Lanka and holds a Bachelor of Science Degree from the University of Sri Lanka. Mr. Rasiah possesses well over 30 years of experience in Finance at a very senior level both internationally and locally and currently serves on the Board of Ceylon Cold Stores PLC, Walkers Sons & Co. Limited. and MTD Walkers PLC. He is also a Commercial Consultant for Bairdwear

Interfashion Limited. Mr. Rasiah has been a visiting lecturer on Finance and Accounts for Nestlé SA for Africa-Asia and Oceanic Regions and former visiting lecturer and examiner at The Institute of Chartered Accountants of Sri Lanka. He is currently a visiting lecturer for MBA students on Finance at Postgraduate Institute of Management (PIM). A keen social worker, he is a former President of the Benevolent Society of The Institute of Chartered Accountants of Sri Lanka and a Committee member of Sri Lanka Institute of Directors. Mr. Rasiah is also a sportsman of repute having represented Sri Lanka at Table Tennis.

Mr. Rasiah functions as the Chairman of the Board Audit Review Committee and is also a member of the Human Resources and Remuneration Committee.

#### 10. M.E. Wickremesinghe

*Director*

Mr. Wickremesinghe holds an Honours Degree in Laws from the University of Colombo, is a Fellow of the Chartered Institute of Management Accountants of the United Kingdom and is an Attorney-at-Law of the Supreme Court of Sri Lanka specialising in Corporate, Commercial and Banking Law. He has lectured and examined at the Faculty of Law of the University of Colombo, at the University of Moratuwa and at the Kotalawela Defence Academy. Mr. Wickremesinghe functions as the Chairman of the Nominations Committee of the Board and also serves as a member of the Integrated Risk Management Committee.



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1. **Saliya Rajakaruna** Director/CEO
2. **Renuka Fernando** DGM - Retail Banking
3. **Keshini Jayawardena** DGM - SME Banking
4. **Priyantha Talwatte** DGM - Cards, Consumer Assets and Strategic Marketing
5. **Kapila Ariyaratne** DGM - Corporate and Institutional Banking (joined w.e.f. 1st January 2010)
6. **Rohitha Ganegoda** Chief Operating Officer
7. **Theja Silva** Head of Legal and Company Secretary
8. **Ajith Akmeemana** Chief Financial Officer
9. **Ramanika Unamboowe** Head of Human Resources
10. **Anura Yapa** Head of Credit and Market Risk Management
11. **Arthur Fernandez** Head of Internal Audit
12. **Mahendra Galgamuwa** Consultant/Head of Treasury
13. **Kumar Mayadunne** Consultant/Head of Operational Risk and Compliance (joined w.e.f. 1st January 2010)



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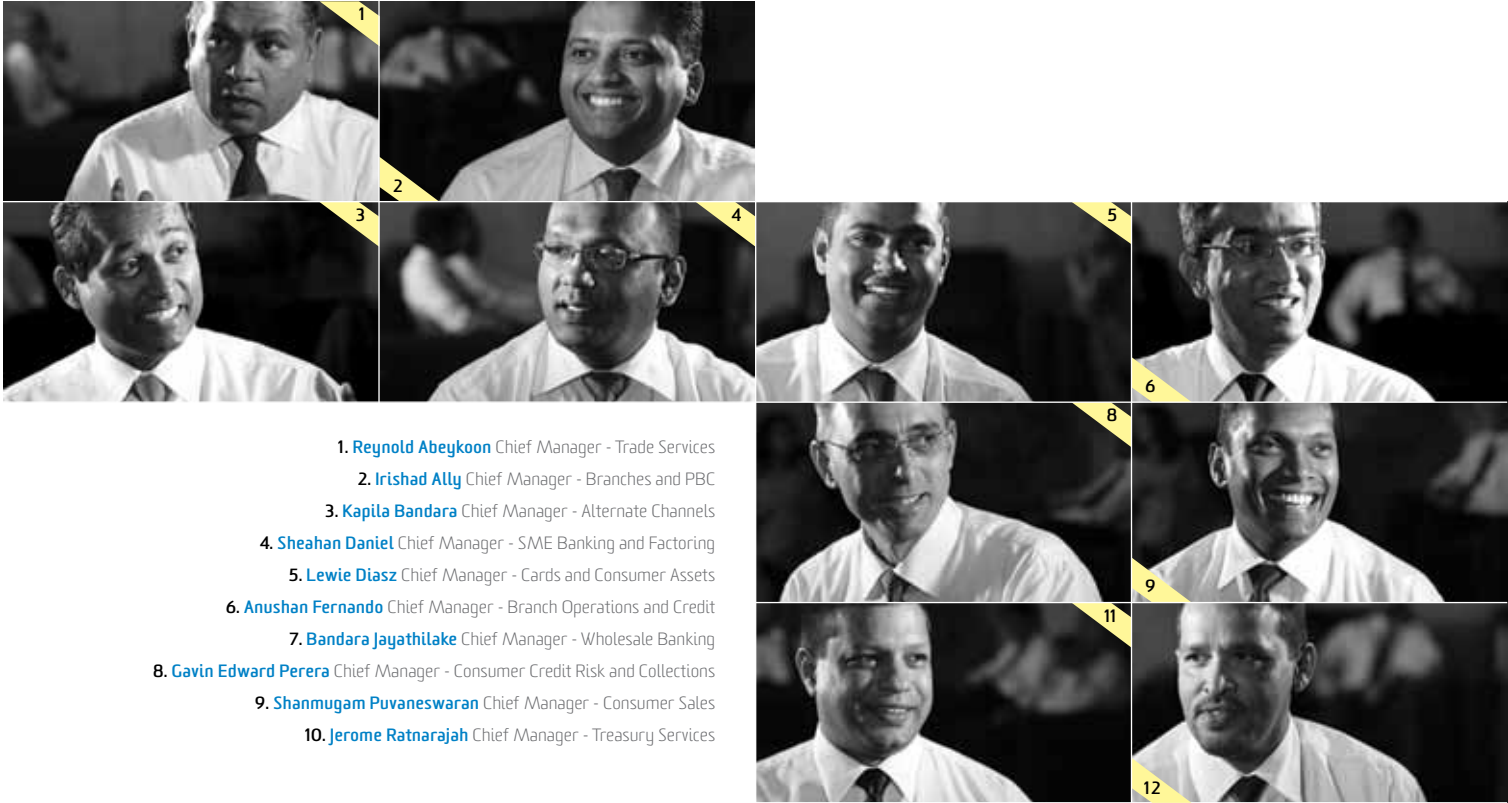
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1. **Reynold Abeykoon** Chief Manager - Trade Services
2. **Irishad Ally** Chief Manager - Branches and PBC
3. **Kapila Bandara** Chief Manager - Alternate Channels
4. **Sheahan Daniel** Chief Manager - SME Banking and Factoring
5. **Lewie Diasz** Chief Manager - Cards and Consumer Assets
6. **Anushan Fernando** Chief Manager - Branch Operations and Credit
7. **Bandara Jayathilake** Chief Manager - Wholesale Banking
8. **Gavin Edward Perera** Chief Manager - Consumer Credit Risk and Collections
9. **Shanmugam Puvaneswaran** Chief Manager - Consumer Sales
10. **Jerome Ratnarajah** Chief Manager - Treasury Services

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11. **Rajeev de Silva** Chief Manager - Leasing
12. **Lalaka Siriwardena** Chief Manager - Corporate Banking
13. **Priyantha Wijesekera** Chief Manager - Leasing Operations
14. **Kushlani Allis** Senior Manager - Management Information and Planning
15. **Sharmila Arasaratnam** Senior Manager - Cards Marketing
16. **Nisaja Argyasinghe** Senior Manager - Collections
17. **Karthigesu Balachandrarajan** Senior Manager - Central Operations
18. **Tharusha Ekanayake** Senior Manager - Fixed Income Securities
19. **Priyashantha Fernando** Senior Manager - Leasing - Zone 2
20. **Ruwan Fernando** Senior Manager - Leasing Recoveries



- 21. Nilmini Gunaratne Senior Manager - Marketing Services
- 22. Indrajith Gunasekera Senior Manager - Retail Banking Credit
- 23. Samantha Herath Senior Manager - Delivery Channels
- 24. Chaminda Jayawardena Senior Manager - Nations Insurance Brokers
- 25. Nisala Kodippiti Senior Manager - Technology
- 26. Laksara Marapana Senior Manager - Legal
- 27. Chamath Munasinghe Senior Manager - Credit Operations
- 28. Damith Pallewatte Senior Manager - Credit Risk
- 29. Melanie Perera Senior Manager - Corporate Banking



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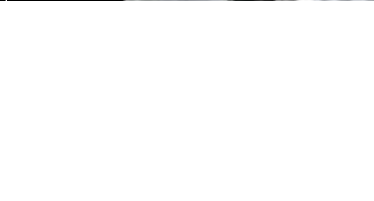
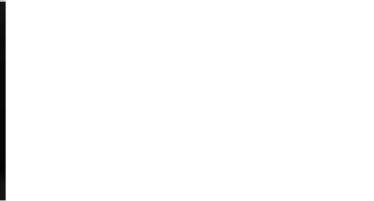
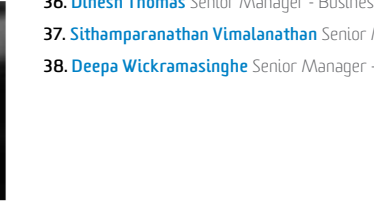
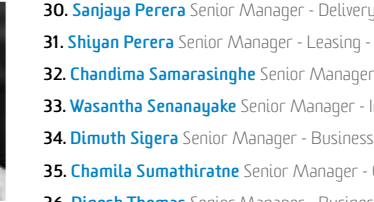
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- 30. **Sanjaya Perera** Senior Manager - Delivery Channels
- 31. **Shiyan Perera** Senior Manager - Leasing - Zone 1
- 32. **Chandima Samarasinghe** Senior Manager - Internal Audit
- 33. **Wasantha Senanayake** Senior Manager - Infrastructure and Administration
- 34. **Dimuth Sigera** Senior Manager - Business Banking
- 35. **Chamila Sumathiratne** Senior Manager - Compliance and Financial Reporting
- 36. **Dinesh Thomas** Senior Manager - Business Solutions
- 37. **Sithamparanathan Vimalanathan** Senior Manager - Delivery Channels
- 38. **Deepa Wickramasinghe** Senior Manager - Credit Risk - Leasing and Factoring





Nations Trust Bank PLC,  
No. 242, Union Place,  
Colombo 2, Sri Lanka



Call Centre: 4711411



Fax: 4313198



E-mail: [info@nationstrust.com](mailto:info@nationstrust.com)



Web: [www.nationstrust.com](http://www.nationstrust.com)

## BRANCHES

### Bandarawela

No. 326, Badulla Road, Bandarawela

### Battaramulla

No. 103 A, Pannipitiya Road, Battaramulla

### Borella

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

### Cinnamon Gardens

No. 4A, Independence Avenue, Colombo 7

### City Office

No. 76, York Street, Colombo 1 (Adjoining Laksala)

### Colpetty

No. 464, Galle Road, Colombo 3

### Corporate Branch

No. 242, Union Place, Colombo 2  
(Adjoining JAIC Hilton)

### Crescat

C9, No. 77, Crescat Boulevard, Galle Road,  
Colombo 3

### Dehiwala

No. 163, Galle Road, Dehiwala

### Galle

No. 16, Matara Road, Galle

### Gampaha

No. 16/1, Courts Road, Gampaha

### Havelock

No. 100, Havelock Road, Colombo 5  
(Opposite Police Park)

### Homagama

No. 113/A, High Level Road, Homagama

### Kadawatha

No. 25, Kandy Road, Kadawatha

### Kandy

No. 147, Kotugodella Veediya, Kandy

### Kiribathgoda

No. 69, Makola Road, Kiribathgoda

### Kohuwala

No. 96/B, Dutugamunu Street, Kohuwala

### Kotahena

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

### Kurunegala

No. 37, Puttalam Road, Kurunegala

### Liberty Plaza

Keells Super, B2, Liberty Plaza,  
R.A. De Mel Mawatha, Colombo 3

### Mahabage

No. 590, Negombo Road, Mahabage

### Maharagama

No. 129, High Level Road, Maharagama

### Matara

No. 56, Esplanade Road, Matara

### Millennium Branch

No. 46/58, Nawam Mawatha, Colombo 2

### Moratuwa

No. 89, New Galle Road, Moratuwa

### Mount Lavinia

No. 269, Galle Road, Mount Lavinia

### Nawala

No. 267A, Nawala Road, Nawala

### Negombo

No. 14, Fernando Avenue, Negombo

### Nugegoda

No. 128, High Level Road, Nugegoda

### Panadura

No. 229, Galle Road, Panadura

### Peradeniya

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

### Pettah

No. 244, Main Street, Pettah

### Sri Sangaraja Mawatha

No. 545A, Sri Sangaraja Mawatha, Colombo 10

### Thalawatugoda

No. 755, Madiwela Road, Thalawatugoda

### Ward Place - Inner Circle Center

ODEL, No. 10, Ward Place, Colombo 7

### Wattala

No. 492, Negombo Road, Wattala

### Wellawatte

No. 292, Galle Road, Wellawatte

### Vavuniya

No. 222, Kandy Road, Vavuniya

## LEASING CENTRES LOCATED OUTSIDE BRANCHES

### Kuliyaipitiya

No. 72A, Hettipola Road, Kuliyaipitiya

### Negombo

No. 72A, Old Chilaw Road, Negombo

## OFF SITE ATMS

- > Asiri Hospital, No. 181, Kirula Road, Narahenpita
- > Asiri Surgical, No. 21, Kirimandala Mawatha, Narahenpita
- > John Keells, No. 130, Glennie Street, Colombo 2
- > National Hospital of Sri Lanka, Doctors Quarters, Regions Street, Colombo 8

## PERSONAL BANKING CENTRES

### Kandana

Keells Super, No. 176, Negombo Road,  
Nagoda, Kandana

### Kurunegala

Keells Super, No. 138, Colombo Road,  
Kurunegala

### Mount Lavinia

Keells Super, No. 388, Galle Road, Mount Lavinia

### Negombo

Keells Super, No. 41, Arch Bishop Nicholas Marcus  
Fernando Mawatha, Negombo

### Peliyagoda

Keells Super, No. 407/A, Kandy Road, Peliyagoda

### Wattala

Keells Super, No. 385, Negombo Road, Wattala



The Board Audit Review Committee is appointed by the Board of Directors and comprises three Non-Executive Directors. The Head of Internal Audit performs the role of Secretary to the Committee. The Director/ Chief Executive Officer attends the meetings by invitation. Other members of the Corporate Management attend as and when required.

#### FUNCTIONS OF THE COMMITTEE

The Committee independently examines and evaluates the activities of the Bank. It advises all levels of management and the Board of Directors on the Bank's system of internal controls and on management of risk. As and when required, it requests additional information from management in order to satisfy itself of the adequacy of the controls in place.

The minutes of Committee meetings are submitted for review to the Board of Directors. The Head of Internal Audit reports directly to the Chairman of the Committee, a practice that strengthens the independence of the position.

The role of the Board Audit Review Committee is:

1. To monitor the implementation of policies and strategies approved by the Board of Directors.
2. To evaluate the extent to which corporate objectives are achieved and to provide assurance to the Board that regulatory and statutory requirements have been adhered to.
3. Oversight of the presentation and adequacy of the disclosure in the Financial Statements of the Bank, in accordance with the Sri Lanka Accounting Standards.
4. To ensure that risks are identified and managed through an adequate, effective and efficient system of internal controls and procedures.
5. To make recommendations to the Board pertaining to the appointment, reappointment and removal of the External Auditors and to approve the remuneration and terms of engagement of the External Auditors.

#### ACTIVITIES OF THE COMMITTEE

During the year under review, the Committee met nine times and reviewed the internal audit reports of the Bank and its subsidiaries.

During the year, the Committee also:

- Reviewed forty three audit reports relating to branches, personal banking centres and the leasing branches;
- Reviewed forty four departmental, process audit and investigation reports;
- Paid special attention to the adequacy of procedures and effectiveness of internal controls, recommended corrective action 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;
- Reviewed the adequacy of the insurance cover of the various policies in force;
- Monitored Treasury activities and the customer asset portfolio to ensure that credit quality and the inherent risks were addressed, with specific attention to ensure that preventive action was taken to minimise possible losses;
- Reviewed the control processes pertaining to the Central Operations, Finance, Credit Cards, Loan Processing and IT area and proposed modifications to be made in order to ensure that industry best practices were adopted;
- Reviewed and monitored the progress of the implementation of the IT audit recommendations;
- Discussed issues arising from the reports with the External Auditors, who attend Committee meetings by invitation;
- Reviewed the management letter sent by the Auditors and management's response thereto;
- Met with the external auditors in the closed sessions of the BARC meetings thereby providing them with an opportunity to express their views independent of the Bank's management;

- Monitored compliance with requirements laid down by the regulatory authorities;
- Ratified the quarterly Financial Statements prior to publication and submission to the Central Bank, the Colombo Stock Exchange and Shareholders.

The BARC reviewed the audit and non-audit work, that is assigned to our External Auditors to ensure that the provision of such services does not impair the External Auditors' independence. Based on these reviews, the BARC has no reason to doubt the independence and effectiveness of the External Auditors.

The Board Audit Review Committee is of the view that adequate internal controls and procedures are in place at the Bank and its subsidiaries to provide reasonable assurance that its assets are safeguarded and financial stability 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 2010 at the next Annual General Meeting.



**A.R. Rasiah**  
Chairman  
Board Audit Review Committee

18th February 2010

## Human Resources and Remuneration Committee Report

The Human Resources and Remuneration Committee comprises of three Non-Executive Directors namely Mr. A.D. Gunewardene (Chairman), Mr. A.R. Rasiah and Dr. (Ms.) D. Weerakoon. The Committee held one meeting during the year. The Chief Executive Officer (CEO) of the Bank is present at the meetings of the Committee as an invitee, except when matters relating to the CEO are being discussed.

The objectives of the Committee as per its charter are:

- To assist the Board of Directors in formulating and establishing a set of comprehensive remuneration policies and practices within the Bank.
- To review and recommend to the Board, appropriate remuneration policies for the CEO, Executive Director and Key Management Personnel of the Bank.
- To recommend to the Board, objectives and targets to be set for the CEO, Executive Director and Key Management Personnel of the Bank.
- To evaluate the performance of the CEO, Executive Director and Key Management Personnel of the Bank, against the agreed objectives and targets and make suitable recommendations to the Board.

In order to achieve the above objectives, the Committee has been adopting the following, as its guiding principles.

- Ensuring that the shareholder and employee interests are aligned.
- Setting base pay and total remuneration at a level that can attract, motivate and retain high quality staff talent.
- Regular remuneration surveys to ensure that remuneration is linked to market.
- Setting remuneration levels in such a manner that a significant portion of the remuneration is linked to performance.
- Setting up a framework of regular performance appraisals to enable the staff to obtain feedback from their superiors in furtherance of achieving their objectives and targets.

In its deliberations, the Committee has been keen to ensure that the compensation and benefits structure of the Bank harmonises and strengthens the performance driven culture of the Bank within agreed risk parameters.

As part of creating this performance driven culture in the Bank, employees are entitled to a Variable Bonus at the year-end. The size of the bonus pool is determined by the Bank achieving pre-agreed targets. The Committee annually revises the criteria for achieving the bonus pool in order to ensure that risk and reward is aligned and also that the medium term objectives of the Bank are taken into account when achieving that year's targets. The distribution of the bonus pool is dependent upon the ratings achieved by the staff during the year-end performance appraisal.

During the year, the Bank engaged the services of an external consulting firm to carry out a remuneration survey. The results of this survey will be used in formulating staff remuneration for year 2010.

During the year, the Committee evaluated the performance of the CEO, Executive Director and Key Management Personnel of the Bank against their pre-agreed objectives and targets. The Committee also agreed on the objectives and targets of the CEO, Executive Director and Key Management Personnel of the Bank for the following year. The proceedings of the Committee meetings are regularly reported to the Board of Directors.



**A.D. Gunewardene**

*Chairman*

Human Resources and Remuneration Committee

18th February 2010

The members of the Nomination Committee are appointed by the Board and comprise of the following Directors:

Mr. M.E. Wickremesinghe - Chairman

Mr. A.D. Gunewardene

Mr. E.H. Wijenaikie

The Chairman of the Committee is an Independent Non-Executive Director while the other members are Non-Executive Directors.

The Committee held two meetings during the year under review. All members of the Committee attended each meeting. The proceedings of the meetings were reported to the Board.

The Committee's main responsibilities include the following:

- Implementing a procedure to select and appoint new Directors, considering and recommending from time to time the requirements of additional/new expertise on the Board and recommending after due consideration the re-election of current Directors.
- Implementing a procedure to select and appoint the Chief Executive Officer and Key Management Personnel and setting up criteria for their appointment or promotion.
- Ensuring compliance with the provisions of the Articles of Association, Written Law, the Rules of the Colombo Stock Exchange and Directions of the Monetary Board of the Central Bank of Sri Lanka as may be applicable to the appointment of Directors, the Chief Executive Officer and key Management Personnel.

When recommending the appointment of new Directors, the Committee considers the particular skills, knowledge and experience that would benefit the Board most significantly for each appointment. Having carried out this evaluation the Committee recommended to the Board the appointment of Mr. Krishan Balendra as a Non-Executive Director.

The Committee continues to work closely with the Board in evaluating and reviewing regularly, the skills required for the Bank and the Board. The Committee is satisfied that the representation of skills on the Board is appropriate for the Bank's current needs at Board level.

**M.E. Wickremesinghe**

*Chairman - Nomination Committee*

Colombo  
18th February 2010



## COMPOSITION

The Integrated Risk Management Committee (IRMC) comprises of the following three Directors:

Mr. J.R.F. Peiris (Chairman)

Mr. A.K. Gunaratne

Mr. M.E. Wickremesinghe

Chief Executive Officer, Mr. Saliya Rajakaruna and the following Key Management Personnel attend meetings of the Integrated Risk Management Committee:

Mr. Ajith Akmeemana - Chief Financial Officer

Mr. Rohitha Ganegoda - Chief Operating Officer

Mr. Anura Yapa - Head of Credit and Market Risk Management

Mr. K. Mayadunne - Consultant - Operational Risk Management and Compliance

Mr. Mahendra Galgamuwa - Consultant - Treasury

In addition to the above, Mr. Sarath Piyaratna, Chairman of the Board Supervisory Committee also attends meetings of the Integrated Risk Management Committee by invitation.

## TERMS OF REFERENCE

Integrated Risk Management Committee's mandate includes the following:

- Overseeing the formulation of strategies and management of the overall risks associated with the Bank's activities and satisfy itself on the design and completeness of the framework relative to the Bank's activities and risk profile.
- Overseeing the formal development of risk management policies within the Group, encompassing all products and business and support units and ensuring the development of policy manuals and procedures.
- Compliance of the Bank's operations with relevant laws, regulations and standards.
- Ensuring that the Board of Directors is kept aware of the Group's risk exposure.

The process through which the IRMC discharges its responsibilities is detailed in the Risk Management section of this Annual Report. Given that there are ongoing structures to monitor risks such as credit risk, market risk and liquidity risk, the IRMC during the year placed special emphasis in ensuring that operational risk is managed prudently and efficiently. Towards this end, the IRMC ensured that the required structures were put in place and necessary expertise was brought on board.

## MEETINGS

The IRMC held twelve meetings during the year under review. All members of the IRMC attended all twelve meetings. The proceedings of the IRMC meetings are regularly reported to the Board. The IRMC reviewed policy frameworks, risk management strategies and key risk indicators at the meetings and was satisfied that the risk exposures of the Bank were being appropriately managed.

**J.R.F. Peiris**

*Chairman*

Integrated Risk Management Committee

Colombo

18th February 2010

The details set out herein provide the pertinent information required by the Companies Act No. 07 of 2007, the Listing Rules of the Colombo Stock Exchange and are guided by recommended best accounting practices.

## GENERAL

The Directors have pleasure in presenting to the members their Report together with the audited Financial Statements of Nations Trust Bank PLC, a public limited liability Company incorporated in Sri Lanka on 21st January 1999 under the Companies Act No. 17 of 1982, quoted in the Colombo Stock Exchange in May 1999 and a licensed commercial bank under the Banking Act No. 30 of 1988, for the year ended 31st December 2009.

The Company was re-registered on 14th February 2008 as required under the provisions of the Companies Act No. 7 of 2007.

The Annual Report of the Board of Directors and the Audited Financial Statements were approved by the Directors on 18th February 2010.

## STATEMENT OF COMPLIANCE ON THE CONTENT OF THE ANNUAL REPORT

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

## PRINCIPAL ACTIVITIES

Nations Trust Bank PLC is a Banking Company licensed as a commercial bank. There are four fully owned subsidiaries of Nations Trust Bank PLC which together constitute the Group. The principal activities of the Bank are commercial, personal and private banking, trade services, leasing, factoring, treasury and capital market services and fee-based activities. The principal activities of the Bank's subsidiaries viz. Waldock Mackenzie Limited, Allied Properties Limited, Mercantile Leasing (Financial Services) Limited and Nations Insurance Brokers Limited are carrying out money market operations and fund and fee-based activities, property rental, managing an operating leases portfolio and insurance broking respectively. There has been no material change to the activities of the Company or any of the subsidiaries during the period under review.

## FINANCIAL STATEMENTS

Financial Statements of the Company and the Group are given on pages 88 to 119 of this Annual Report.

## AUDITORS' REPORT

Auditors' Report on the Financial Statements is given on Page 87.

## SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Financial Statements are given from pages 92 to 99. There has been no change in the accounting policies adopted by the Company during the period under review.

## INTERESTS REGISTER

All Directors have made general declarations as provided for in Section 192 (2) of the Companies Act No. 07 of 2007. Arising from these, details of contracts in which they have an interest are given on pages 78 and 80 to 83 of this Report. Entries relating to the following were made in the Interests Register during the year under review:

1. Transfer of one share (being a subscriber's share) by Mr. A.D. Gunewardene with the approval of the Securities and Exchange Commission on 9th March 2009.
2. Approval of remuneration to Executive Directors by the Board - 30th March 2009.
3. Disposal of shares by Mr. A.D. Gunewardene through the Colombo Stock Exchange on 18th, 19th and 25th May 2009.

## DIRECTORS' SHAREHOLDINGS

Directors' shareholding as at 31st December 2009 and 2008 are given below:

Name of the Director	No. of Shares	
	2009	2008
Mr. A.D. Gunewardene	2,583,366	3,253,667
Mr. E.H. Wijenaike	15,414	15,414
Mr. J.R.F. Peiris	—	—
Mr. A.K. Gunaratne	14,133	14,133
Mr. A.R. Rasiah	16,304	16,304
Dr. D. Weerakoon	—	—
Mr. M.E. Wickremesinghe	—	—
Mr. K.N.J. Balendra	—	—
Mr. S.G. Rajakaruna	—	—
Mr. C.H.S.K. Piyaratna	67,066	67,066

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

**DIRECTORS' REMUNERATION**

Details of Directors' fees and emoluments paid during the year are as follows:

	Bank Rs. mn	Group Rs. mn
Directors' Fees and Emoluments	44,987	44,987

**CORPORATE DONATIONS**

Donations by the Company during the year amounted to Rs. 16,000/-. This comprised of a donation to Messrs Venura Aabadhitha Kapakaru Maapiya Sangamaya for the purchase of material for school uniforms to be given to children of destitute families.

**DIRECTORATE**

Directors of the Bank as at the end of the accounting period and their attendance at the Board meetings during the year were as follows:

**Non-Executive Directors**

Mr. A.D. Gunewardene - Chairman	15/15
Mr. E.H. Wijenaike - Deputy Chairman	15/15
Mr. J.R.F. Peiris	15/15
Mr. A.K. Gunaratne	15/15
Mr. K.N.J. Balendra	01/01

**Independent Non-Executive Directors**

Mr. A.R. Rasiyah - Senior Director	13/15
Ms. D. Weerakoon	14/15
Mr. M.E. Wickremesinghe	15/15

**Executive Directors**

Mr. S.G. Rajakaruna - CEO	04/04
Mr. C.H.S.K. Piyaratna	15/15

Mr. A.R. Rasiyah has been designated as the Senior Director in terms of Direction No. 3 (5) (ii) of Banking Act, Direction No. 11 of 2007 (Directions on Corporate Governance for Licensed Commercial Banks).

Dr. Dushni Weerakoon, Mr. A.R. Rasiyah and Mr. M.E. Wickremesinghe retire by rotation as provided for in the Articles of Association of the Company and are recommended for re-election by the shareholders.

Mr. S.G. Rajakaruna and Mr. K.N.J. Balendra were appointed by the Board subsequent to the last Annual General Meeting and as such are recommended for election by the shareholders pursuant to Article No. 91 of the Articles of Association of the Company.

Having given due consideration to the criterion set out in the Banking Act No. 30 of 1988 and Banking Act Direction No. 11 of 2007, Board is of the view that all Directors of the Bank including those who are recommended for re-election and election are fit and proper persons to hold office as Directors of the Bank.

Mr. S.C. Ratnayake who would have completed 9 years as a Director of the Bank on 8th December 2009, resigned from the Board of Directors of the Bank with effect from 1st December 2009, in order to comply with the Banking Act Direction No. 11 of 2007 (Directions on Corporate Governance for Licensed Commercial Banks).

Mr. Z.H. Zavahir retired from the Bank with effect from 20th August 2009, and accordingly ceased to be a Director of the Bank with effect from the same date.

**AUDITORS**

Company's Auditors during the period under review were Messrs Ernst & Young, Chartered Accountants. Fees charged against the income is as follows:

	Bank Rs. mn	Group Rs. mn
Audit Fees and Expenses	4.026	6.198
Fees for Other Services	0.491	0.573

Other services consisted of tax related work.

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

### RESULTS AND DIVIDENDS

Consolidated Income Statement along with the Company's Income Statement for the year is given on page 89. Group and Bank Balance Sheets are given on page 88.

Having satisfied the solvency test requirement under the Companies Act No. 07 of 2007 the Directors recommend a first and final dividend of Rs. 1.50 per share to the holders of ordinary shares of the Company registered on the books of the Company as at end of 30th March 2010.

### INFORMATION ON SHARES, WARRANTS AND DEBENTURES

Information relating to holdings of shares, warrants and debentures is given from pages 120 to 125 of this Report.

### POST-BALANCE SHEET EVENTS

No circumstances have arisen since the Balance Sheet date that would require adjustment or disclosure other than those disclosed in Note 33 to the Financial Statements contained on page 119.

### CAPITAL ADEQUACY

The Group's capital adequacy ratios as at 31st December 2009 were 11.79% for Tier I and 16.11% for Tier I & II and are above the minimum requirements of the Central Bank of Sri Lanka of 5% and 10% respectively.

### REPORT ON COMPLIANCE WITH PRUDENTIAL REQUIREMENTS, REGULATIONS, LAWS AND INTERNAL CONTROLS

The Bank has complied with all the regulatory and prudential requirements arising from the provisions in the statutes applicable to the Bank such as the Banking Act No. 30 of 1988, directions and determinations issued by the Central Bank of Sri Lanka under the Banking Act, Monetary Law Act Chapter 422, Exchange Control Act No. 24 of 1953, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Prevention of Money Laundering Act No. 5 of 2006, Financial Transactions Reporting Act No. 6 of 2006, Convention on the Suppression of Terrorist Financing Act No. 25 of 2005, Inland Revenue Act No. 10 of 2006, Value Added Tax No. 14 of 2002, Finance Act No. 5 of 2005, Economic Service Charge Act No. 13 of 2006, Listing Rules of the Colombo Stock Exchange including the rules relating to Corporate Governance, Securities and Exchange Commission Act No. 36 of 1987, Financial Leasing Act No. 56 of 2000, Payment of Gratuity Act No. 12 of 1983, Employees' Provident Fund Act No. 15 of 1958, Employees' Trust Fund Act No. 46 of 1980, etc. and amendments to such statutes.

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

## RELATED PARTY DISCLOSURES

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

## Transactions with Related Parties

Category of Related Party	Subsidiary Companies*		Directors of the Bank		Key Management Personnel (KMP) of the Bank		Close Relations of Directors and KMP		Shareholders Owning a Material Interest in the Bank**		Concerns in which Directors, Close Relations of Directors or Material Shareholders have a Substantial Interest	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Balance Sheet Items</b>												
<b>Assets</b>												
Accommodation												
Loans and Advances	914,373	373,360	1,962	2,447	37,327	52,601	111	1,048	24,547	50,014	–	3,698
Credit Cards	–	–	1,180	2,025	1,686	2,045	–	–	753	135	–	–
Reverse Repurchase												
Agreements	2,619,129	8,780,484	–	–	–	507	–	–	–	–	–	–
Other Assets	34,105	229,958	–	–	–	–	–	–	–	–	–	–
Total Accommodation	3,567,607	9,383,802	3,142	4,472	39,013	55,153	111	1,048	25,300	50,149	–	3,698
Cash Collaterals Against Loans and Advances	–	–	7,893	8,946	25,871	13,869	–	2,000	408,560	300,000	–	16,403
<b>Liabilities</b>												
Deposits	4,252	5,759	26,600	17,239	30,111	38,093	667	6,731	4,157,170	2,924,572	4,708	21,144
Borrowings	–	2,314,063	6,247	10,076	12,646	13,553	–	–	899,682	3,346,006	–	–
Other Liabilities	189,344	135,479	–	–	–	–	–	–	–	–	–	–
<b>Equity</b>												
Dividends Paid	–	–	4,583	3,232	463	84	125	63	116,331	75,607	–	–
<b>Off-Balance Sheet Items</b>												
Undrawn Facilities	–	–	5,720	2,680	14,359	10,402	–	340	299,726	202,905	–	8,602
Guarantees	450	–	–	–	–	–	–	–	15,787	27,727	–	3,473
<b>Income Statement Items</b>												
Interest Income Earned	839,300	907,487	3,374	397	3,736	3,983	133	328	6,334	27,751	169	545
Interest Expenses Paid	17,350	251,555	10,846	2,691	4,896	3,411	816	943	489,179	537,247	2,208	2,946
Other Income Earned	2,821	6,146	5	8	24	28	4	3	326	302	212	377
Dividends Received (Gross)	37,320	37,800	–	–	–	–	–	–	–	–	–	–
Expenses Paid	17,830	13,060	–	–	–	–	–	–	16,107	14,642	2,905	2,518
Provision for Investments	723	12,421	–	–	–	–	–	–	–	–	–	–
<b>Compensation Paid:</b>												
Emoluments/Fees	–	–	44,987	36,698	113,499	99,083	–	–	–	–	–	–
Post-Employment Benefits	–	–	1,195	1,160	3,284	3,813	–	–	–	–	–	–
No. of shares of the Bank Bought	–	–	–	2,185,513	–	19,833	–	17,397	–	–	–	–
No. of shares of the Bank Sold	–	–	670,301	26,000	–	–	–	–	–	–	–	–

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

\*\* Since John Keells Holdings PLC together with Mackinnon & Keells Financial Services Limited and Central Finance Company PLC together with CF Growth Fund Limited and CF Insurance Brokers Limited hold material interest in the Bank transactions with these companies have been disclosed.

The Group does not have Associate companies.



#### DIRECTORS OF SUBSIDIARY COMPANIES

##### Waldock Mackenzie Limited

Mr. A.D. Gunewardene  
Mr. E.H. Wijenaikē  
Mr. C.H.S.K. Piyaṛatna  
Mr. S.G. Rajakaruna  
Mr. A.D.S. Yapa

Resignations during the accounting period  
Mr. Z.H. Zavahir  
Mr. T.M.I. Ahamed

##### Nations Insurance Brokers Limited

Ms. R.K. Jayawardena  
Mr. C.H.S.K. Piyaṛatna  
Mr. S.G. Rajakaruna

Resignations during the accounting period  
Mr. Z.H. Zavahir  
Mr. T.M.I. Ahamed

##### Allied Properties Limited

Mr. A.D. Gunewardene  
Mr. E.H. Wijenaikē

Resignations during the accounting period  
Mr. Z.H. Zavahir

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

Mr. A.D. Gunewardene  
Mr. E.H. Wijenaikē

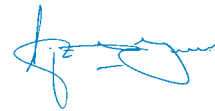
Resignations during the accounting period  
Mr. Z.H. Zavahir

#### GOING CONCERN

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

#### ANNUAL GENERAL MEETING

Annual General Meeting of the Company will be held at the Auditorium of The Institute of Chartered Accountants of Sri Lanka at No. 30A, Malalasekara Mawatha, Colombo 7 on 30th March 2010 at 10.00 a.m.



**Ajit Gunewardene**  
*Chairman*



**Saliya Rajakaruna**  
*Director/Chief Executive Officer*



**Theja Silva**  
*Company Secretary*

Colombo  
18th February 2010

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

Details of transactions carried out with Director-related entities during the year 2009

Name of Related Party	Name of Director	Relationship	Details	Amount Outstanding as at 31.12.2009 (Rs.)
Central Finance Co. PLC	E.H. Wijenaik	Director	A sum of Rs. 16,003,414/- was paid as car rentals.	Nil
	A.K. Gunaratne	Director	A sum of Rs. 6,620,953/- was received as interest and other income.	
			A sum of Rs. 60,773,450/- was paid as interest expense.	
John Keells Office Automation (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 1,044,718/- was paid for the purchase of office equipment and stationery.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 4,586,901/- was paid as Repair & maintenance charges.	
			A sum of Rs. 4,500/- was received as other income.	
John Keells Holdings PLC	A.D. Gunewardene	Director	A sum of Rs. 103,870/- was paid as economic advisory work charges.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 30,148/- was received as interest and other income.	
			A sum of Rs. 424,082,603/- was paid as interest expenses.	
D.H.L. Keells (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 1,188,582/- was paid as courier charges.	Nil
			A sum of Rs. 10,500/- was received as interest and other income.	
Jaykay Marketing Services (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 6,079,689/- was paid as rent & utility charges.	Nil
	K. Balendra	Director	A sum of Rs. 3,957,657/- was paid as interest expenses.	
			A sum of Rs. 14,389/- was received as interest and other income.	
Odel (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 2,903,196/- was paid as advertisement, rental and other utility charges.	Nil
			A sum of Rs. 2,250/- was received as interest and other income.	
Asian Hotels & Properties PLC	A.D. Gunewardene	Director	A sum of Rs. 4,180,801/- was paid as rental and other utility charges.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 26,461,920/- was paid as interest expenses.	
			A sum of Rs. 5,159/- was received as other income.	
Ceylon Holiday Resorts Limited	A.D. Gunewardene	Director	A sum of Rs. 223,956/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 183,225/- was received as interest and other income.	
Mackinnon and Keells Financial Services Limited	A.D. Gunewardene	Director	A sum of Rs. 4,323,409/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director		
C.F Insurance Brokers (Pvt) Limited	E.H. Wijenaik	Director	A sum of Rs. 8,500/- was received as other income.	Nil
Habarana Walk Inn Limited	A.D. Gunewardene	Director	A sum of Rs. 67,771/- was received as interest income and other income.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 142,581/- was paid as interest expenses.	

Name of Related Party	Name of Director	Relationship	Details	Amount Outstanding as at 31.12.2009 (Rs.)
Walkers Tours Limited	A.D. Gunewardene	Director	A sum of Rs. 32,200/- was paid as Transport Charges.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 414,906/- was paid as interest expenses.	
			A sum of Rs. 1,000/- was received as interest income and other income.	
Trans Asia PLC	A.D. Gunewardene	Director	A sum of Rs. 580,235/- was paid as accommodation & customer entertainment charges.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 512,024/- was paid as interest expenses.	
Waldock Mackenzie Limited	A.D. Gunewardene	Director	A sum of Rs. 836,077,394/- was received as interest income.	Nil
	E.H. Wijenaikie	Director		
	S. Rajakaruna	Director		
	C.H.S.K. Piyaratna	Director		
Allied Properties Limited	A.D. Gunewardene	Director	A sum of Rs. 17,829,639/- was paid as rent expenses.	Nil
	E.H. Wijenaikie	Director	A sum of Rs. 553,440/- was received as reimbursement of expenses. Interest paid amounted to Rs. 14,023,922/-. Deposit for rentals amounts to Rs. 5,922,000/-.	
Nations Insurance Brokers Limited	S. Rajakaruna	Director	A sum of Rs. 1,883,472/- was received as reimbursement of expenses.	Nil
	C.H.S.K. Piyaratna	Director	A sum of Rs. 3,325,633/- was paid as interest expenses.	
Mercantile Leasing (Financial Services) Limited	A.D. Gunewardene	Director	A sum of Rs. 382,560/- was received as reimbursement of expenses.	Nil
	E.H. Wijenaikie	Director	A sum of Rs. 3,222,393/- was received as interest income.	
Union Assurance PLC	A.D. Gunewardene	Director	A sum of Rs. 133,385/- was paid as insurance renewal charges.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 910,706/- was paid as interest expenses.	
	K. Balendra	Director	A sum of Rs. 58,801/- was received as interest and other income.	
	A.K. Gunaratne	Director	A sum of Rs. 6,662,024/- was received as Bancassurance commission income	
Central Industries PLC	E.H. Wijenaikie	Director	A sum of Rs. 1,740,446/- was received as interest and other income.	Nil
	A.K. Gunaratne	Director	A sum of Rs. 1,210,988/- was paid as interest expenses.	
Habarana Lodge Limited	A.D. Gunewardene	Director	A sum of Rs. 132,362/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 169,659/- was received as interest and other income.	
Kandy Walk Inn Limited	A.D. Gunewardene	Director	A sum of Rs. 77,895/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 398,324/- was received as interest and other income.	
International Tourists & Hoteliers Limited	A.D. Gunewardene	Director	A sum of Rs. 2,350/- was received as interest and other income.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 96,567/- was paid as interest expenses.	
Nexus Networks (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 566,921/- was paid as interest expenses.	Nil
	K. Balendra	Director	A sum of Rs. 5,300/- was received as interest and other income.	
John Keells Warehousing (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 2,932,926/- was paid as interest expenses.	Nil
			A sum of Rs. 900/- was received as interest and other income.	
Capital Suisse Asia Limited	E.H. Wijenaikie	Director	A sum of Rs. 42,521/- was paid as interest expenses.	Nil
	A.K. Gunaratne	Director		
Keells Food Products PLC	A.D. Gunewardene	Director	A sum of Rs. 1,580,791/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 77,916/- was received as interest and other income.	

Name of Related Party	Name of Director	Relationship	Details	Amount Outstanding as at 31.12.2009 (Rs.)
Mortlake Private Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	A sum of Rs. 565,184/- was paid as interest expenses.	Nil
Whittall Boustead (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	A sum of Rs. 16,596,261/- was paid as interest expenses.	Nil
John Keells Hotels PLC	A.D. Gunewardene J.R.F. Peiris	Director Director	A sum of Rs. 1,344,775/- was paid as interest expenses. A sum of Rs. 490,968/- was received as interest and other income.	Nil
Hemas Holdings PLC	M.E. Wickremesinghe	Director	A sum of Rs. 17,645/- was paid as interest expenses. A sum of Rs. 120,686/- was received as interest and other income.	Nil
Lanka Marine Services (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	A sum of Rs. 38,628,177/- was paid as interest expenses.	Nil
Swiss Biogenics Limited	C.H.S.K. Piyaratna	Director	A sum of Rs. 6,662,938/- was received as interest and other income	Nil
Tea Smallholder Factories PLC	A.D. Gunewardene J.R.F. Peiris	Director Director	A sum of Rs. 1,980,163/- was paid as interest expenses.	Nil
John Keells Teas Limited	J.R.F. Peiris	Director	A sum of Rs. 1,510,792/- was paid as expenses. A sum of Rs. 211/- was received as interest income.	Nil
Ceylon Cold Stores PLC	A.D. Gunewardene J.R.F. Peiris A.R. Rasiah	Director Director Director	A sum of Rs. 42,395/- was paid as interest expenses. A sum of Rs. 4,574,650/- was received as interest and other income.	Nil
John Keells Stock Brokers (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris K. Balendra	Director Director Director	A sum of Rs. 12,162,575/- was paid as interest expenses. A sum of Rs. 55,881/- was received as interest and other income.	Nil
John Keells Computer Services (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	A sum of Rs. 718,796/- was paid as interest expenses.	Nil
John Keells International (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	A sum of Rs. 2,175,145/- was paid as interest expenses.	Nil
Rajawella Holdings Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	A sum of Rs. 104,644/- was received as interest and other income.	Nil
Whittall Boustead (Travel) Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	A sum of Rs. 2,001/- was paid as interest expenses.	Nil
Keells Hotel Management Services Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	A sum of Rs. 9,262/- was received as interest and other income.	Nil
Sunshine Power Pvt Limited	C.H.S.K. Piyaratna	Director	A sum of Rs. 137,240/- was paid as interest expenses. A sum of Rs. 6,598/- was received as interest and other income.	Nil
Colombo Stock Exchange	K. Balendra	Director	A sum of Rs. 112,114/- was paid as listing & subscription fees.	Nil

Details of accommodation granted and balances outstanding as at 31st December 2009.

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit (Rs.)	Amount Outstanding as at 31.12.2009 (Rs.)
Central Finance Co. PLC	E.H. Wijenaike A.K. Gunaratne	Director Director	Working Capital Financing	300,000,000	24,521,139
			Trade Finance Facilities	Sub Limit	15,787,200
Central Industries PLC	E.H. Wijenaike A.K. Gunaratne	Director Director	Trade Finance Facilities	140,000,000	40,843,660
D.H.L. Keells (Pvt) Limited	J.R.F. Peiris	Director	Trade Finance Facilities	1,000,000	1,000,000
Ceylon Cold Stores PLC	A.D. Gunewardene J.R.F. Peiris A.R. Rasiah	Director Director Director	Working Capital Financing	50,000,000	10,172,220
			Trade Finance Facilities	Sub Limit	88,950
Whitall Boustead (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Trade Finance Facilities	2,300,000	-
Habarana Lodge Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing	4,000,000	3,248,326
			Finance Leases	3,040,625	1,304,837
Kandy Walk Inn Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing	5,000,000	3,800,453
			Finance Leases	3,040,625	1,304,837
Ceylon Holiday Resorts Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing	5,000,000	5,000,961
			Finance Leases	6,081,250	2,695,406
Trinco Walk Inn Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Finance Leases	3,040,625	1,470,950
John Keells Holdings PLC	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing		25,883
			Corporate Credit Card	25,000,000	753,048
Rajawella Holdings Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Trade Finance Facilities	8,042,654	7,303,865
Nexus Networks (Pvt) Limited	J.R.F. Peiris K. Balendra	Director Director	Working Capital Financing	-	250
Swiss Biogenics Limited	C.H.S.K. Piyaratna	Director	Working Capital Financing	205,000,000	2,352,604
			Trade Finance Facilities	Sub Limit	190,046,151
Hemas Holdings PLC	M.E. Wickremesinghe	Director	Trade Finance Facilities	50,620,000	8,755,736
			Corporate Credit Card	20,000,000	1,237,818
Waldock Mackenzie Limited	A.D. Gunewardene E.H. Wijenaike S. Rajakaruna C.H.S.K. Piyaratna	Director Director Director Director	Working Capital Financing	1,400,000,000	914,372,671
Habarana Walk Inn Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing	2,000,000	227,594
			Finance Leases	3,040,625	1,304,837
Jaykay Marketing Services (Pvt) Limited	J.R.F. Peiris K. Balendra	Director Director	Working Capital Financing	-	9,850
			Factoring Facilities	19,680,000	19,680,000
Union Assurance PLC	A.D. Gunewardene J.R.F. Peiris K. Balendra A.K. Gunaratne	Director Director Director Director	Working Capital Financing	1,060,000	750
John Keells Hotels PLC	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing	20,500,000	10,049,434
Keells Hotel Management Services Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Trade Finance Facilities	2,100,000	2,079,966
			Working Capital Financing	Sub Limit	100
			Corporate Credit Card	5,000,000	-
Walkers Tours Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Corporate Credit Card	2,500,000	56,077
			FX Forward Deals	21,600,000	14,872,000
Lanka Marine Services (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	FX Forward Deals	57,000,000	45,760,000
John Keells Computer Services	A.D. Gunewardene J.R.F. Peiris	Director Director	FX Forward Deals	11,500,000	6,864,000
Nations Insurance Brokers Limited	S. Rajakaruna C.H.S.K. Piyaratna	Director Director	Guarantee Facilities	500,000	450,000
Asian Hotels and Properties PLC	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing	100,000,000	-

# FINANCIAL REPORTS

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## Financial Reports

NATIONS TRUST BANK PLC ANNUAL REPORT 2009

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 87 of the Report.

The Companies Act No. 7 of 2007, requires that the Directors prepare for each financial year and place before a General Meeting, Financial Statements comprising an Income Statement, which presents a true and fair view of the profit or loss of the Bank and its subsidiaries for the financial year and a Balance Sheet, which presents a true and fair view of the state of affairs of the Bank and its subsidiaries as at the end of the financial year.

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

- i. the appropriate Accounting Policies have been selected and have been applied consistently. Material departures, if any, have been disclosed and explained;
- ii. all applicable Accounting Standards have been followed;
- iii. 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. Mercantile Leasing (Financial Services) Limited continued to scale down its operating leases business with no new business being sourced during the year 2009.

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

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

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

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



**Chartered Accountants**

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

Tel : (0) 11 2463500  
Fax Gen : (0) 11 2697369  
Tax : (0) 11 5578180  
eysl@lk.ey.com

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Nations Trust Bank PLC, the consolidated financial statements of the Bank and its subsidiaries, which comprise the Balance Sheets as at 31 December 2009, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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 maintained proper accounting records for the year ended 31 December 2009 and the financial statements give a true and fair view of the Bank's state of affairs as at 31 December 2009 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31st December 2009 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Bank.

### Report on Other Legal and Regulatory Requirements


In our opinion, these financial statements also comply with the requirements of Section 151 (2) and Sections 153 (2) to 153 (7) of the Companies Act No. 07 of 2007.

Colombo  
18 February 2010

As at 31st December		Bank			Group		
	Note	2009 Rs. '000	2008 Rs. '000	Change %	2009 Rs. '000	2008 Rs. '000	Change %
<b>ASSETS</b>							
Cash and Short-Term Funds	3	1,425,082	4,064,392	(65)	1,431,209	4,064,549	(65)
Statutory Deposit with the Central Bank of Sri Lanka	4	2,043,624	1,716,713	19	2,043,624	1,716,713	19
Government Treasury Bills and Bonds	5	16,415,998	3,914,965	319	19,306,208	11,882,649	62
Reverse Repurchase Agreements		7,206,969	8,699,742	(17)	4,587,840	3,805,538	21
Investments and Other Placements	6	4,238,850	3,780,957	12	4,238,850	3,780,957	12
Loans and Advances:							
Bills of Exchange	7.1	145,615	422,986	(66)	145,615	422,986	(66)
Loans and Advances	7.2	25,012,814	26,207,987	(5)	25,154,118	26,378,089	(5)
Lease Rentals Receivable within one Year	7.3.1	3,513,020	3,368,283	4	3,513,081	3,368,547	4
Lease Rentals Receivable after one Year	7.3.2	4,490,604	5,768,461	(22)	4,490,604	5,768,461	(22)
Corporate Debt Securities	7.4	1,901,956	2,592,280	(27)	2,032,270	2,647,011	(23)
Other Assets	8	904,608	1,951,175	(54)	935,537	1,783,571	(48)
Deferred Assets	15	307,363	130,921	135	307,363	130,921	135
Investments in Subsidiaries	9	678,710	678,710	–	–	–	–
Property, Plant & Equipment	10	1,693,017	1,475,399	15	2,238,768	2,034,621	10
Goodwill	11	–	–	–	79,261	79,261	–
<b>Total Assets</b>		<b>69,978,230</b>	<b>64,772,971</b>	<b>8</b>	<b>70,504,348</b>	<b>67,863,874</b>	<b>4</b>
<b>LIABILITIES</b>							
Deposits	12	44,221,571	34,146,500	30	44,221,571	34,146,474	30
Due to Banks		391,061	1,038,866	(62)	391,061	1,038,866	(62)
Borrowings	13	14,024,649	19,610,156	(28)	14,024,648	22,454,486	(38)
Other Liabilities	14	4,117,687	3,436,221	20	4,047,728	3,272,206	24
Deferred Liabilities	15	431,150	432,020	–	436,604	436,280	–
Debentures	16	2,000,000	1,500,000	33	2,000,000	1,500,000	33
Subordinated Loan	17	605,925	673,250	(10)	605,925	673,250	(10)
<b>Total Liabilities</b>		<b>65,792,043</b>	<b>60,837,013</b>	<b>8</b>	<b>65,727,537</b>	<b>63,521,562</b>	<b>3</b>
<b>SHAREHOLDERS' FUNDS</b>							
Stated Capital	18	3,109,771	3,109,771	–	3,109,771	3,109,771	–
Reserve Fund	19	105,599	80,509	31	105,599	80,509	31
Reserves	20	970,817	745,678	30	1,561,441	1,152,032	36
<b>Total Shareholders' Funds</b>		<b>4,186,187</b>	<b>3,935,958</b>	<b>6</b>	<b>4,776,811</b>	<b>4,342,312</b>	<b>10</b>
<b>Total Liabilities and Shareholders' Funds</b>		<b>69,978,230</b>	<b>64,772,971</b>	<b>8</b>	<b>70,504,348</b>	<b>67,863,874</b>	<b>4</b>
<b>Commitments and Contingencies</b>	21	<b>51,515,590</b>	<b>53,617,419</b>	<b>(4)</b>	<b>51,515,590</b>	<b>53,617,419</b>	<b>(4)</b>
Net Assets Value per Ordinary Share (Rs.)		<b>24.96</b>	<b>23.47</b>		<b>28.48</b>	<b>25.89</b>	

**Certification**

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



**Ajith Akmeemana**  
Chief Financial Officer

The Notes to the Financial Statements from pages 92 to 119 form an integral part of these Financial Statements.

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

Signed for and on behalf of the Board by:



**A.D. Gunewardene**  
Chairman



**E.H. Wijenaike**  
Deputy Chairman



**Saliya Rajakaruna**  
Director/CEO



**Theja Silva**  
Company Secretary

Year ended 31st December	Note	Bank			Group		
		2009 Rs. '000	2008 Rs. '000	Change %	2009 Rs. '000	2008 Rs. '000	Change %
<b>GROSS INCOME</b>	22	13,285,998	11,965,448	11	13,955,543	13,877,449	1
Interest Income	23	11,610,954	10,304,526	13	12,028,293	12,094,171	(1)
Interest Expense	24	(8,041,523)	(7,570,431)	6	(8,247,750)	(9,184,922)	(10)
<b>NET INTEREST INCOME</b>		3,569,431	2,734,095	31	3,780,543	2,909,249	30
Fees and Commission Income		287,606	302,153	(5)	375,436	338,249	11
Foreign Exchange Gain/(Loss)		(538,792)	495,546	(209)	(538,792)	495,546	(209)
Other Operating Income	25	1,926,230	863,223	123	2,090,606	949,483	120
<b>NET INCOME</b>		5,244,475	4,395,017	19	5,707,793	4,692,527	22
<b>Less: Operating Expenses</b>							
Personnel Costs		1,165,120	1,135,762	3	1,188,241	1,159,683	2
Provision for Bad and Doubtful Debts		812,779	470,898	73	803,646	470,898	71
Other Fees and Charges		27,691	16,455	68	27,964	16,565	69
Provision for Staff Retirement Benefits		40,954	36,949	11	42,149	37,770	12
Premises, Equipment and Establishment Expenses		775,209	598,227	30	776,803	620,894	25
Other Operating Expenses		1,361,978	1,309,405	4	1,488,028	1,358,210	10
		4,183,731	3,567,696	17	4,326,831	3,664,020	18
<b>PROFIT BEFORE TAXATION</b>	26	1,060,744	827,321	28	1,380,962	1,028,507	34
Less: Provision for Taxation	27	(558,943)	(350,713)	59	(694,891)	(435,388)	60
<b>PROFIT AFTER TAXATION</b>		501,801	476,608	5	686,071	593,119	16
Earnings per Share - Basic (Rs.)	28				4.09	3.67	11
Dividend per Share (Rs.)	29	1.50	1.50		1.50	1.50	

The Notes to the Financial Statements from pages 92 to 119 form an integral part of these Financial Statements.

Colombo  
18th February 2010

	Note	Stated Capital Rs. '000	Capital Reserve Rs. '000	Reserve Fund Rs. '000	Revenue Reserve Rs. '000	Total Rs. '000
<b>BANK</b>						
Balance as at 31st December 2007		2,061,554	–	56,679	460,615	2,578,848
Rights Issue of Shares		1,048,217	–	–	–	1,048,217
Dividend Paid for 2007		–	–	–	(167,715)	(167,715)
Profit for the Year		–	–	–	476,608	476,608
Transfers during the Year	19	–	–	23,830	(23,830)	–
Balance as at 31st December 2008		3,109,771	–	80,509	745,678	3,935,958
Dividend Paid for 2008		–	–	–	(251,572)	(251,572)
Profit for the Year		–	–	–	501,801	501,801
Transfers during the Year	19	–	–	25,090	(25,090)	–
<b>Balance as at 31st December 2009</b>		<b>3,109,771</b>	<b>–</b>	<b>105,599</b>	<b>970,817</b>	<b>4,186,187</b>
<b>GROUP</b>						
Balance as at 31st December 2007		2,061,554	9,500	56,679	740,958	2,868,691
Rights Issue of Shares		1,048,217	–	–	–	1,048,217
Dividend Paid for 2007		–	–	–	(167,715)	(167,715)
Profit for the Year		–	–	–	593,119	593,119
Transfers during the Year	19	–	–	23,830	(23,830)	–
Balance as at 31st December 2008		3,109,771	9,500	80,509	1,142,532	4,342,312
Dividend Paid for 2008		–	–	–	(251,572)	(251,572)
Profit for the Year		–	–	–	686,071	686,071
Transfers during the Year	19	–	–	25,090	(25,090)	–
<b>Balance as at 31st December 2009</b>		<b>3,109,771</b>	<b>9,500</b>	<b>105,599</b>	<b>1,551,941</b>	<b>4,776,811</b>

The Notes to the Financial Statements from pages 92 to 119 form an integral part of these Financial Statements.

Colombo  
18th February 2010

Year ended 31st December	Bank		Group	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Cash Flow from Operating Activities</b>				
Interest Received	10,773,033	10,299,975	10,855,530	12,191,771
Fees and Commission Received	287,606	302,153	375,435	385,581
Interest Paid	(7,447,873)	(7,217,046)	(7,832,433)	(8,698,988)
Foreign Exchange Income Received	316,978	495,546	316,978	495,546
Receipts from Other Operating Activities	1,916,532	863,223	2,011,939	919,185
Gratuity Payments Made	(13,705)	(5,766)	(13,705)	(5,766)
Payments to Employees and Suppliers	(3,027,705)	(2,855,970)	(3,165,824)	(2,935,054)
<b>Net Cash Flow from Operating Activities before Income Tax (A)</b>	<b>2,804,866</b>	<b>1,882,115</b>	<b>2,547,920</b>	<b>2,352,275</b>
Income Tax Paid	(204,946)	(184,946)	(310,357)	(261,514)
<b>Operating Profit before Changes in Operating Assets and Liabilities</b>	<b>2,599,920</b>	<b>1,697,169</b>	<b>2,237,563</b>	<b>2,090,761</b>
<b>(Increase)/Decrease in Operating Assets</b>				
Investments in Treasury Bills, Treasury Bonds and Reverse Repurchase Agreements	(10,821,410)	(4,018,781)	(7,691,121)	(3,268,743)
Investments and Other Placements	(465,306)	(1,388,544)	(465,306)	(1,388,544)
Corporate Debt Securities	746,309	(656,356)	637,158	294,515
Bills of Exchange	277,371	138,623	277,371	138,623
Loans and Advances	1,831,167	(6,793,427)	(310,308)	(6,278,492)
Other Assets	199,057	(1,017,261)	179,979	(731,750)
	(8,232,812)	(13,735,746)	(7,372,227)	(11,234,391)
<b>Increase/(Decrease) in Operating Liabilities</b>				
Customer Deposits	9,739,242	5,254,316	9,739,242	5,254,290
Securities Sold under Repurchase Agreements	141,694	6,033,409	(2,424,711)	6,906,003
Other Liabilities	204,979	(27,884)	2,276,368	(436,085)
	10,085,915	11,259,841	9,590,899	11,724,208
<b>Net Cash Flow from Operating Activities</b>	<b>4,453,023</b>	<b>(778,736)</b>	<b>4,456,235</b>	<b>2,580,578</b>
<b>Cash Flows from Investing Activities</b>				
Proceeds from Sale of Property, Plant & Equipment	3,219	9,694	6,031	18,290
Purchase of Property, Plant & Equipment	(505,830)	(1,193,872)	(505,882)	(1,195,362)
	(502,611)	(1,184,178)	(499,851)	(1,177,072)
<b>Cash Flows from Financing Activities</b>				
Proceeds from Rights Issue of Shares	-	1,048,217	-	1,048,217
Increase/(Decrease) in Refinance Activities	-	16,895	-	16,895
Increase/(Decrease) in Call and Other Borrowings	(5,863,435)	1,091,797	(5,863,435)	(2,274,878)
Issue/(Redemption) of Debentures	500,000	1,000,000	500,000	1,000,000
Dividend Paid	(251,572)	(167,715)	(251,572)	(167,715)
	(5,615,007)	2,989,194	(5,615,007)	(377,481)
<b>Net Increase in Cash and Cash Equivalents</b>	<b>(1,664,595)</b>	<b>1,026,280</b>	<b>(1,658,623)</b>	<b>1,026,025</b>
Cash and Cash Equivalents at the beginning of the Year	4,742,239	3,715,959	4,742,395	3,716,370
<b>Cash and Cash Equivalents at the end of the Year</b>	<b>3,077,644</b>	<b>4,742,239</b>	<b>3,083,772</b>	<b>4,742,395</b>
<b>Reconciliation of Cash and Cash Equivalents</b>				
Cash in Hand, Balances with Banks and Due to Banks	936,451	748,657	942,579	748,813
Balance with the Central Bank of Sri Lanka	2,043,624	1,716,713	2,043,624	1,716,713
Money at Call and Short Notice	97,569	2,276,869	97,569	2,276,869
	3,077,644	4,742,239	3,083,772	4,742,395
<b>A. Reconciliation of Operating Profit</b>				
Profit before Taxation	1,060,744	827,321	1,380,962	1,028,507
Depreciation	281,067	191,883	292,729	210,631
(Profit)/Loss on Disposal of Property, Plant & Equipment	3,925	(425)	2,975	(2,752)
Provision for Doubtful Debts	812,779	470,898	803,646	470,898
Provision for Gratuity	40,954	36,949	42,149	37,770
(Increase)/Decrease in Interest Receivable	(503,537)	81,847	(712,494)	192,024
Increase/(Decrease) in Interest Payable	404,735	279,408	132,542	420,963
Other Non-Cash Items	717,904	-	619,116	-
Gratuity Payments Made	(13,705)	(5,766)	(13,705)	(5,766)
	2,804,866	1,882,115	2,547,920	2,352,275

The Notes to the Financial Statements from pages 92 to 119 form an integral part of these Financial Statements.

Colombo

18th February 2010

**1. CORPORATE INFORMATION****1.1 General**

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

The Consolidated Financial Statements of Nations Trust Bank PLC for the year ended 31st December 2009 comprise of the Bank and its subsidiaries, Waldock Mackenzie Limited, Allied Properties Limited, Mercantile Leasing (Financial Services) Limited and Nations Insurance Brokers Limited (together referred to as the 'Group').

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

The Financial Statements of Nations Trust Bank PLC, for the year ended 31st December 2009 were authorised for issue in accordance with the resolution of the Board of Directors on 18th February 2010.

**1.2 Principal Activities and Nature of Operations Bank**

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

**Subsidiaries**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****2.1 Basis of Preparation**

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for Government Securities held for trading and certain land and buildings that have been stated at valuation as explained in Accounting Policy No. 2.10.1 (b) and No. 2.10.6 (a) respectively to these Financial Statements. Assets and liabilities are grouped by nature and are listed in an order that reflect their relative liquidity.

No adjustments have been made for inflationary factors affecting these Financial Statements. These Financial Statements are prepared and presented in Sri Lankan Rupees, and all values are rounded to the nearest thousand (Rs. 000) unless indicated otherwise.

The preparation and presentation of these Financial Statements is in compliance with the requirements of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto.

**2.1.1 Statement of Compliance**

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

**2.1.2 Prior Year Figures and Phrases**

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

**2.2 Basis of Consolidation**

(a) The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries as at 31st December each year. The Financial Statements of the subsidiaries are prepared for the same reporting year as the Bank using consistent Accounting Policies.

(b) All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets are eliminated in full.

(c) Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

**2.3 Changes in Accounting Policies**

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

**2.4 Significant Accounting Estimates and Assumptions**

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

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

**Losses for Loans and Advances**

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

**Impairment of Non-Financial Assets**

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

## 2.5 Foreign Currency Translation

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

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

## 2.6 Going Concern

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

## 2.7 Taxation

### (a) Income Tax

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

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

### Nations Trust Bank PLC

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

### Subsidiary - Waldock Mackenzie Limited

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

### Subsidiary - Allied Properties Limited

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

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

Income tax on profit from operations is calculated at the rate of 35%. Tax losses carried forward as at 31st December 2009, amounted to Rs. 43.38 mn, which can be carried forward indefinitely and can be set off against the taxable profits subject to the limit of 35% of the taxable profit in each year of assessment.

### Subsidiary - Nations Insurance Brokers Limited

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

### (b) Deferred Income Tax

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

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

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

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

carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor the taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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



(c) Value Added Tax

Nations Trust Bank PLC

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

Subsidiary - Waldock Mackenzie Limited

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

(d) Economic Service Charge (ESC)

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

(e) Social Responsibility Levy (SRL)

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

2.8 Events After the Balance Sheet Date

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

2.9 Hedging

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

2.10 Valuation of Assets and Their Measurement Bases

2.10.1 Investments

(a) Treasury Bills and Bonds Held to Maturity

Investments in Treasury Bills and Bonds held to maturity are recorded at cost plus or minus a proportion of the discount or premium as the case may be on a straight-line basis over the period of

maturity. Provision is made for diminution in value of these investments only if they are expected to be permanent.

(b) Treasury Bills and Bonds Held for Trading

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

(c) Investment in Development Bonds and Other Securities

Securities, including Sri Lanka Development Bonds (SLDB) and other discountable securities are reflected at the purchased value by adjusting for discounts or premiums arising on acquisition. All other interest-bearing securities and investments in unquoted shares are stated at cost. Provision is made for diminution in value of these investments only if they are expected to be permanent.

(d) Investments in Subsidiaries

Investments in subsidiaries are stated at cost in the Bank's Financial Statements in accordance with Sri Lanka Accounting Standard 26 on Consolidated and Separate Financial Statements.

2.10.2 Loans and Advances to Customers

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

(b) Specific provisions for possible loan losses are made on the basis of a continuous review of all advances to customers, including consumer advances and credit cards.

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

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

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

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

(c) A 1% general provision as mandated by the Central Bank of Sri Lanka is maintained on all performing advances, in addition to the specific provisions made on non-performing advances to cover potential bad debts which are inherent in the loan portfolio but not yet identified. The provision is estimated after deducting facilities secured against cash.

2.10.3 Finance Leases

(a) Lease Receivables

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



**(b) Provision for Lease Receivables**

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

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

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

**2.10.4 Advances to Margin Trading Customers**

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

**2.10.5 Reverse Repurchase Agreements**

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

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

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

**2.10.6 Property, Plant & Equipment****(a) Cost and Valuation**

All items of Property, Plant & Equipment are initially recorded at cost. Certain land and buildings are subsequently revalued. Subsequent to the initial recognition as an asset at cost,

revalued assets are carried at revalued amounts less any accumulated depreciation on buildings and accumulated impairment losses recognised after the date of revaluation. All other Property, Plant & Equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided for, on the bases specified in (c) below.

**(b) Restoration Cost**

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

**(c) Depreciation**

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

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

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

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

#### *(d) Revaluation*

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

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

#### *(e) Derecognition*

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is derecognised.

#### *2.10.7 Business Combinations and Goodwill*

Business combinations are accounted for using the purchase method.

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

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

#### *2.10.8 Impairment of Non-Financial Assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are

discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

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

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

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

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

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

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

## 2.11 Provisions

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

### 2.11.1 Proposed Dividend

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

### 2.11.2 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of liabilities of the Group.

### 2.11.3 Retirement Benefit Obligations

#### (a) Defined Benefit Plan - Gratuity

The Group measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan with the advice of an actuary using the Projected Unit Credit Method.

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

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

The key assumptions used by the actuary include the following:

Rate of Interest	11%
Rate of Salary Increase	11%
Retirement Age	55-60 years

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

#### (b) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with respective statutes and regulations. The Bank and its subsidiaries except for Nations Insurance Brokers Limited contribute 12% of gross emoluments of employees to an approved private Provident Fund managed by Nations Trust Bank PLC and 3% to the Employees' Trust Fund respectively. Nations Insurance Brokers Limited contributes to the Employees' Provident Fund and the Employees' Trust Fund respectively.

## 2.12 Repurchase Agreements

These are borrowings collateralised by sale of securities held by the Group to counterparties from whom the Group borrowed, subject to a commitment to repurchase them at a pre-determined price. All repurchase agreements involve debt instruments, such as Treasury Bills, Treasury Bonds and Corporate Papers.

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

## 2.13 Income Statement

### 2.13.1 Revenue Recognition

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

In terms of the provisions of the Sri Lanka Accounting Standard 23 on Revenue Recognition and Disclosures in Financial Statements of Banks and the guidelines issued by the Central Bank of Sri Lanka, interest receivable is recognised on an accrual basis. Interest ceases to be taken into revenue when three instalments are overdue. Interest accrued until such advances being classified as non-performing is eliminated from interest income and transferred to interest in suspense. The interest income on non-performing advances is recognised on a cash basis.

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

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

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

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

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

#### (d) Fees and Commission Income

Fees and commission income comprise mainly of fees receivable from customers for guarantees, factoring, credit cards and other services

provided by the Bank together with foreign and domestic tariff. Such income is recognised as revenue as the services are provided.

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

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

#### (f) Lease Income

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

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

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

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

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

#### (h) Dividend Income

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

#### (i) Rental Income

Rental income is recognised on an accrual basis.

#### (j) Other Income

Other income is recognised on an accrual basis.

## 2.14 Expenses

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

## 2.15 Cash Flow Statement

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

## 2.16 Segment Reporting

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

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

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

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

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

## 2.17 Off-Balance Sheet Transactions

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

## 2.18 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 86 for the Statement of the Directors' Responsibility for Financial Reporting.

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

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

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

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

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

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

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

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

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

### 3. CASH AND SHORT-TERM FUNDS

	2009 Rs. '000	Bank 2008 Rs. '000	2009 Rs. '000	Group 2008 Rs. '000
Cash in Hand	865,510	613,391	865,518	613,424
Money at Call and Short Notice	97,569	2,276,869	97,569	2,276,869
Balances with Banks	462,003	1,174,132	468,122	1,174,256
	<b>1,425,082</b>	<b>4,064,392</b>	<b>1,431,209</b>	<b>4,064,549</b>

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

As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka.

As at 31st December 2009, the minimum cash reserve requirement was 7% (2008 - 7.75%) of the unpaid local currency deposit liabilities of Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities in Domestic Banking Unit and the deposit liabilities in Foreign Currency Banking Unit.

### 5. GOVERNMENT TREASURY BILLS AND BONDS

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

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

### 6. INVESTMENTS AND OTHER PLACEMENTS

#### 6.1 Other Placements, Sri Lanka Development Bonds and Sri Lanka Sovereign Bonds

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

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

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

## 6.2 Investment Securities

	2009 Rs. '000	Bank 2008 Rs. '000	2009 Rs. '000	Group 2008 Rs. '000
<b>Unquoted - Shares</b>				
Lanka Clear (Pvt) Limited				
150,000 Ordinary Shares of Rs. 10/- each	1,500	1,500	1,500	1,500
Credit Information Bureau				
9,000 Ordinary Shares of Rs. 10/- each	90	90	90	90
Lanka Financial Services Bureau Limited				
112,500 Ordinary Shares of Rs. 10/- each	1,125	1,125	1,125	1,125
<b>Unquoted Preference Shares (Rated)</b>				
Dialog Telekom PLC				
352.5 mn Cumulative Redeemable Preference Shares of Rs. 1/- each (2008 - 423 mn)	352,500	423,000	352,500	423,000
	355,215	425,715	355,215	425,715
	4,238,850	3,780,957	4,238,850	3,780,957

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

## 7. LOANS AND ADVANCES

	2009 Rs. '000	Bank 2008 Rs. '000	2009 Rs. '000	Group 2008 Rs. '000
<b>7.1 Bills of Exchange</b>				
Inland Bills	31,182	36,738	31,182	36,738
Export Bills	109,823	376,106	109,823	376,106
Import Bills	4,610	10,142	4,610	10,142
	145,615	422,986	145,615	422,986

## 7.2 Loans and Advances

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

**7.3 Lease Rentals Receivables**

	2009 Rs. '000	Bank 2008 Rs. '000	2009 Rs. '000	Group 2008 Rs. '000
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**7.3.1 Lease Rentals Receivable within one Year**

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

**7.3.2 Lease Rentals Receivable after one Year**

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

**7.4 Corporate Debt Securities**

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

**7.5 Non-Performing Loans and Advances**

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



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

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

**7.6.1 Bank**

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

**7.6.2 Group**

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

**7.7 Concentration of Credit Risk**

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

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

**8. OTHER ASSETS**

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

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

Name of Company	Country of Incorporation	Holding %	2009 Cost Rs. '000	Directors' Valuation* Rs. '000	Holding %	2008 Cost Rs. '000	Directors' Valuation* Rs. '000
Waldock Mackenzie Limited	Sri Lanka	100	–	437,699	100	–	288,384
<b>Acquired on Merger of Operations</b>							
Allied Properties Limited	Sri Lanka	100	652,907	652,907	100	652,907	652,907
Nations Insurance Brokers Limited	Sri Lanka	100	25,803	25,803	100	25,803	25,803
Mercantile Leasing (Financial Services) Limited	Sri Lanka	100	3,496	–	100	3,496	–
Provision for Diminution in Value			(3,496)	–		(3,496)	–
Net Carrying Amount			678,710	1,116,409		678,710	967,094

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

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

	Balance as at 01.01.2009 Rs. '000	Additions during the Year Rs. '000	Disposals during the Year Rs. '000	Balance as at 31.12.2009 Rs. '000
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**10.1.1 Gross Carrying Amounts**

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

*10.1.2 Depreciation*

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

*10.1.3 Net Book Value*

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

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

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

**10.2 Group**

	Balance as at 01.01.2009 Rs. '000	Additions during the Year Rs. '000	Disposals during the Year Rs. '000	Balance as at 31.12.2009 Rs. '000
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**10.2.1 Gross Carrying Amounts**

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

	Balance as at 01.01.2009 Rs. '000	Charge for the year Rs. '000	Disposals during the year Rs. '000	Balance as at 31.12.2009 Rs. '000
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**10.2.2 Depreciation**

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

**10.2.3 Net Book Value**

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

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

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

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

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

Class of Asset	Cost Rs. '000	Cumulative Depreciation if assets were carried at Cost Rs. '000	Net carrying amount 2009 Rs. '000	Net carrying amount 2008 Rs. '000
Buildings	270,789	72,729	198,060	204,829

## 11. GOODWILL

	2009 Rs. '000	Bank 2008 Rs. '000	2009 Rs. '000	Group 2008 Rs. '000
Goodwill on Acquisition	372,053	372,053	451,314	451,314
Provision made to be compliant with the Banking Act (Note 11.2)	(372,053)	(372,053)	(372,053)	(372,053)
	-	-	79,261	79,261

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

Bank : Leasing and Factoring  
Group : Investment Banking  
Insurance Broking

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

11.2 A full provision was made in the books of the Bank in April 2007, against equity for the goodwill of Rs. 372,052,672/-, that arose from the merger of Mercantile Leasing Limited with the Bank in order to be compliant with the provisions contained in Section 22 of the Banking Act, before the payment of the dividend for the year ended 31st December 2006.

## 12. DEPOSITS

	2009 Rs. '000	Bank 2008 Rs. '000	2009 Rs. '000	Group 2008 Rs. '000
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### 12.1 Analysis of Deposits

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

### 12.2 Sources of Deposits

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

**13. BORROWINGS**

	2009 Rs. '000	Bank 2008 Rs. '000	2009 Rs. '000	Group 2008 Rs. '000
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**13.1 Borrowings**

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

**13.2 Borrowings - Maturity Analysis**

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

**14. OTHER LIABILITIES**

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

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

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

**15.1 Retirement Benefits Obligation - Gratuity**

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

**15.2 Deferred Taxation**

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

### 15.2.1 Deferred Tax Liability

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

### 15.2.2 Deferred Tax Asset

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

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

## 16. DEBENTURES

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

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

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

**17. SUBORDINATED LOAN**

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

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

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

**18. STATED CAPITAL**

	2009 Rs. '000	Bank 2008 Rs. '000	2009 Rs. '000	Group 2008 Rs. '000
Balance as at 1st January - 167,714,672 Ordinary Shares (125,786,004 Shares in 2008)	3,109,771	2,061,554	3,109,771	2,061,554
Rights Issue of Shares in February 2008 on the basis of 1 for every 3 held - 41,928,668 Ordinary Shares	–	1,048,217	–	1,048,217
Balance as at 31st December - 167,714,672 Ordinary Shares	3,109,771	3,109,771	3,109,771	3,109,771

**19. RESERVE FUND**

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

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



## 20. RESERVES

	2009 Rs. '000	Bank 2008 Rs. '000	2009 Rs. '000	Group 2008 Rs. '000
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### 20.1 Revenue Reserves

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

### 20.2 Capital Reserves

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

## 21. COMMITMENTS AND CONTINGENCIES

### 21.1 Contingencies

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

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

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

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

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

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

#### 21.4 Capital Commitments

Capital expenditure approved by the Board of Directors, for which no provision has been made in these Financial Statements as at 31st December 2009, is as follows:

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

#### 21.5 Material Litigation against the Bank

(i) An appeal has been made against the injunction issued against the Bank in a Court action initiated in India by a customer seeking to restrain the Bank from invoking a letter of credit, where the Bill value paid by the Bank is US\$ 32,000. A connected case is pending where an amount of Indian Rupees 1,510,000/- is claimed against the Bank by the same customer. The matter came up for hearing on 30th January 2010, and as the stay order granted by the High Court continues, the same stands adjourned to 26th February 2010, for further hearing.

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

#### 22. GROSS INCOME

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

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

	2009 Rs. '000	Bank 2008 Rs. '000	2009 Rs. '000	Group 2008 Rs. '000
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### 23. INTEREST INCOME

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

### 24. INTEREST EXPENSE

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

### 25. OTHER OPERATING INCOME

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

### 26. PROFIT BEFORE TAXATION

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

**27. TAXATION**

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

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

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

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

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

**28. EARNINGS PER SHARE**

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

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

## 29. DIVIDENDS PROPOSED

A first and final dividend of Rs. 1.50 per share has been proposed by the Board of Directors for the year 2009 to be approved at the Annual General Meeting. However, no provision is made for this proposed dividend in these Financial Statements in accordance with SLAS 12. A dividend of Rs. 1.50 per share was paid in April 2009, for the year ended 31st December 2008.

## 30. SEGMENTAL INFORMATION

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



### 31. RELATED PARTY DISCLOSURES

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

#### 31.1 Transactions with Related Entities

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

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

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

#### 31.2 Transactions with Key Management Personnel

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

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

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

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

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

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

**31.3 Post-Employment Benefits Plan**

The Employees' Private Provident Fund of the Bank is managed by a Committee of Trustees appointed by the members.

The Bank, for the year ended 31st December 2009, has contributed a sum of Rs. 94.068 mn to the Fund (2008 - Rs. 79.584 mn).

As at 31st December 2009, the Fund has invested a sum of Rs. 476.602 mn with the Bank (2008 - Rs. 372.067 mn).

**32. MATURITY ANALYSIS****32.1 Bank**

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



## 32.2 Group

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

## 33. POST-BALANCE SHEET EVENTS

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

- (a) Subject to approval of the Shareholders at the forthcoming Annual General Meeting, the Directors recommended the payment of a first and final dividend of Rs. 1.50 per share for the year ended 31st December 2009.

## STOCK EXCHANGE LISTING

The ordinary shares of the Bank are all listed in the Colombo Stock Exchange. The audited Income Statement for the year ended 31st December 2009, and the audited Balance Sheet as at that date will be submitted to the Colombo Stock Exchange within two months of the Balance Sheet date.

## DISTRIBUTION OF ORDINARY SHAREHOLDERS

As at 31st December 2009			Resident			Non-Resident			Total		
Shareholders	No. of Shareholders	No. of Shares	%	Shareholders	No. of Shares	%	Shareholders	No. of Shares	%		
1	1,000	3,306	1,406,648	0.84	27	15,233	0.00	3,333	1,421,881	0.84	
1,001 - 10,000	2,244	7,352,504	4.38	40	161,443	0.10	2,284	7,513,947	4.48		
10,001 - 100,000	436	13,062,427	7.79	10	334,711	0.20	446	13,397,138	7.99		
100,001 - 1,000,000	53	16,182,781	9.65	6	1,103,666	0.66	59	17,286,447	10.31		
Over 1,000,000	14	114,693,901	68.39	6	13,401,358	7.99	20	128,095,259	76.38		
	6,053	152,698,261	91.05	89	15,016,411	8.95	6,142	167,714,672	100.00		

There were 5,385 Resident and 73 Non-Resident Shareholders as at 31st December 2008.

## ANALYSIS OF SHAREHOLDERS

	31.12.2009			31.12.2008		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	5,809	51,636,010	30.79	5,152	43,427,354	25.89
Institutional	333	116,078,662	69.21	306	124,287,318	74.11
	<b>6,142</b>	<b>167,714,672</b>	<b>100.00</b>	<b>5,458</b>	<b>167,714,672</b>	<b>100.00</b>

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at 31st December 2009 was 78.39% (77.84% as at 31st December 2008).

## MARKET INFORMATION ON ORDINARY SHARES OF THE COMPANY

	2009	2008
<b>Market Value</b>		
Highest Value (Rs.)	39.50	37.75
Lowest Value (Rs.)	22.00	21.00
Value at end of the year (Rs.)	36.75	22.25
<b>Trading Statistics</b>		
No. of Transactions	13,207	3,994
No. of Shares Traded (mn)	72.24	20.47
Value of Shares Traded (Rs. mn)	2,304.85	635.29
<b>Market Capitalisation</b>		
Market Capitalisation (Rs. mn)	6,163.51	3,731.65
Dividend per Share	1.50	1.50
Dividend Payout Ratio (%) *	50.13	52.78

\*Considering the number of shares outstanding as at end of financial year.

## TWENTY LARGEST SHAREHOLDERS AS AT 31ST DECEMBER

Name of the Shareholder	2009		2008*	
	No. of Shares	%	No. of Shares	%
John Keells Holdings PLC	33,542,937	20.00	33,542,933	20.00
Mackinnon & Keells Financial Services Limited	16,603,752	9.90	16,603,752	9.90
Central Finance Company PLC	16,491,520	9.83	16,491,520	9.83
Mr. Y.S.H.I.K. Silva	16,005,214	9.54	3,440,348	2.05
CF Growth Fund Limited	10,773,290	6.42	10,773,290	6.42
CF Insurance Brokers (Pvt) Limited	6,278,122	3.74	6,278,122	3.74
HSBC International Nominees Limited - Credit Suisse AG Zurich	4,025,600	2.40	–	–
First Capital Treasuries Limited	3,842,600	2.29	–	–
Mr. A.M.A. Almeshaal	2,560,025	1.53	4,378,725	2.61
Mr. A.D. Gunewardene	2,521,486	1.50	3,191,787	1.90
Heraymila Investments Limited	2,000,000	1.19	–	–
BNY - J.P. Morgan Clearing Corporation	1,899,000	1.13	–	–
Mr. M.F. Hashim	1,756,000	1.05	1,250,000	0.75
HSBC International Nominees Limited - SSBT - Deutsche Bank AG Singapore A/C 01	1,746,700	1.04	3,202,000	1.91
Mr. M.J. Fernando	1,720,680	1.03	1,720,680	1.03
Renuka City Hotels Limited	1,632,000	0.97	1,592,000	0.95
Freudenberg Shipping Agencies Limited	1,301,100	0.78	1,376,300	0.82
Employees' Trust Fund Board	1,197,000	0.71	–	–
Mrs. B. Thapar	1,170,033	0.70	1,291,733	0.77
Janashakthi Insurance PLC (Shareholders)	1,028,200	0.61	–	–
	128,095,259	76.38	105,133,190	62.69
Others	39,619,413	23.62	62,581,482	37.31
<b>Total</b>	<b>167,714,672</b>	<b>100.00</b>	<b>167,714,672</b>	<b>100.00</b>

\*Comparative shareholdings as at 31st December 2008 of the twenty largest shareholders as at 31st December 2009.

## STOCK EXCHANGE LISTING

The Warrants 2010 of the Bank are all listed in the Colombo Stock Exchange and are convertible into shares in March 2010. These were issued in February 2008.

## DISTRIBUTION OF WARRANTS 2010

As at 31st December 2009											
			Resident			Non-Resident			Total		
Warrantholders	No. of Warrantholders	No. of Warrants	%	No. of Warrantholders	No. of Warrants	%	No. of Warrantholders	No. of Warrants	%	No. of Warrants	%
1 - 1,000	1,214	467,466	1.11	6	1,727	0.01	1,220	469,193	1.12		
1,001 - 10,000	599	2,309,878	5.51	4	14,000	0.03	603	2,323,878	5.54		
10,001 - 100,000	185	5,265,982	12.56	4	172,912	0.41	189	5,438,894	12.97		
100,001 - 1,000,000	24	5,457,187	13.02	3	1,026,499	2.45	27	6,483,686	15.47		
Over 1,000,000	7	27,213,017	64.90	—	—	—	7	27,213,017	64.90		
	<b>2,029</b>	<b>40,713,530</b>	<b>97.10</b>	<b>17</b>	<b>1,215,138</b>	<b>2.90</b>	<b>2,046</b>	<b>41,928,668</b>	<b>100.00</b>		

## ANALYSIS OF WARRANTHOLDERS

	31.12.2009			31.12.2008		
	No. of Warrantholders	No. of Warrants	%	No. of Warrantholders	No. of Warrants	%
Individual	1,894	18,240,427	43.50	1,646	14,456,811	34.48
Institutional	152	23,688,241	56.50	177	27,471,857	65.52
	<b>2,046</b>	<b>41,928,668</b>	<b>100.00</b>	<b>1,823</b>	<b>41,928,668</b>	<b>100.00</b>

## MARKET INFORMATION ON WARRANTS 2010 OF THE COMPANY

	2009	2008
<b>Market Value</b>		
Highest Value (Rs.)	10.50	10.00
Lowest Value (Rs.)	2.70	1.70
Value at end of the Year (Rs.)	8.25	3.10
<b>Trading Statistics</b>		
No. of Transactions	8,320	3,557
No. of Warrants Traded (mn)	41.059	10.912
Value of Warrants Traded (Rs. mn)	274.615	77.467
<b>Market Capitalisation</b>		
Market Capitalisation (Rs. mn)	345.91	129.98

## TWENTY LARGEST WARRANTHOLDERS AS AT 31ST DECEMBER

Name of the Warrantheolder	2009		2008*	
	No. of Warrants	%	No. of Warrants	%
John Keells Holdings PLC	8,385,733	20.00	8,385,733	20.00
Mr. Y.S.H.I.K. Silva	4,190,828	10.00	4,190,828	10.00
Mackinnon & Keells Financial Services Limited	4,150,938	9.90	4,150,938	9.90
Central Finance Company PLC A/C No. 03	3,629,920	8.66	3,629,920	8.66
CF Growth Fund Limited A/C No. 01	2,693,322	6.42	2,693,322	6.42
Mr. A.D. Gunewardene	2,099,786	5.01	2,099,786	5.01
CF Insurance Brokers (Pvt) Limited	2,062,490	4.92	2,062,490	4.92
Mrs. B. Thapar	552,933	1.32	472,933	1.13
Mr. S. Abishek	475,000	1.13	–	–
Mr. M.J. Fernando	430,170	1.03	430,170	1.03
Mr. E.P.A. Cooray	400,000	0.95	–	–
Mr. H.N. de Silva	340,000	0.81	–	–
Mr. E.P.I. Fernando	336,900	0.80	–	–
First Capital Markets Limited/Mr. S.H. Jayasuriya	316,700	0.76	–	–
Mr. D.J.M. Blackler	307,366	0.73	307,366	0.73
Mr. M.M. Udeshi	306,600	0.73	–	–
Premium Brands (Pvt) Limited	260,400	0.62	–	–
Renuka City Hotels Limited	226,750	0.54	226,750	0.54
Asian Alliance Insurance PLC - General Fund A/C No. 01	221,800	0.53	–	–
Timex (Garments) Limited	200,066	0.48	416,666	0.99
	31,587,702	75.34	29,066,902	69.32
Others	10,340,966	24.66	12,861,766	30.68
<b>Total</b>	<b>41,928,668</b>	<b>100.00</b>	<b>41,928,668</b>	<b>100.00</b>

\*Comparative warrantheholdings as at 31st December 2008 of the twenty largest warrantheolders as at 31st December 2009.

## STOCK EXCHANGE LISTING

The Warrants 2011 of the Bank are all listed in the Colombo Stock Exchange and are convertible into shares in March 2011. These were issued in February 2008.

## DISTRIBUTION OF WARRANTS 2011

As at 31st December 2009											
			Resident			Non-Resident			Total		
Warrantholders	No. of Warrantholders	No. of Warrants	%	No. of Warrantholders	No. of Warrants	%	No. of Warrantholders	No. of Warrants	%	No. of Warrants	%
1 - 1,000	1,311	351,724	1.68	6	819	0.00	1,317	352,543	1.68		
1,001 - 10,000	351	1,308,117	6.24	4	7,998	0.04	355	1,316,115	6.28		
10,001 - 100,000	85	2,346,058	11.19	2	189,100	0.90	87	2,535,158	12.09		
100,001 - 1,000,000	13	2,763,471	13.19	2	390,149	1.86	15	3,153,620	15.05		
Over 1,000,000	7	13,606,507	64.90	-	-	-	7	13,606,507	64.90		
	<b>1,767</b>	<b>20,375,877</b>	<b>97.20</b>	<b>14</b>	<b>588,066</b>	<b>2.80</b>	<b>1,781</b>	<b>20,963,943</b>	<b>100.00</b>		

## ANALYSIS OF WARRANTHOLDERS

31.12.2009				31.12.2008		
	No. of Warrantholders	No. of Warrants	%	No. of Warrantholders	No. of Warrants	%
Individual	1,636	8,881,458	42.37	1,550	7,567,051	36.10
Institutional	145	12,082,485	57.63	160	13,396,892	63.90
	1,781	20,963,943	100.00	1,710	20,963,943	100.00

## MARKET INFORMATION ON WARRANTS 2011 OF THE COMPANY

	2009	2008
<b>Market Value</b>		
Highest Value (Rs.)	10.25	11.00
Lowest Value (Rs.)	3.50	1.60
Value at end of the Year (Rs.)	8.25	4.00
<b>Trading Statistics</b>		
No. of Transactions	3,014	2,836
No. of Warrants Traded (mn)	13.608	7.231
Value of Warrants Traded (Rs. mn)	99.266	53.238
<b>Market Capitalisation</b>		
Market Capitalisation (Rs. mn)	172.95	83.86

## TWENTY LARGEST WARRANTHOLDERS AS AT 31ST DECEMBER

Name of the Warrantholder	2009		2008*	
	No. of Warrants	%	No. of Warrants	%
John Keells Holdings PLC	4,192,866	20.00	4,192,866	20.00
Mr. Y.S.H.I.K. Silva	2,095,414	10.00	2,095,414	10.00
Mackinnon & Keells Financial Services Limited	2,075,469	9.90	2,075,469	9.90
Central Finance Company PLC A/C No. 03	1,814,960	8.66	1,814,960	8.66
CF Growth Fund Limited A/C No. 01	1,346,661	6.42	1,346,661	6.42
Mr. A.D. Gunewardene	1,049,892	5.01	1,049,892	5.01
CF Insurance Brokers (Pvt) Limited	1,031,245	4.92	1,031,245	4.92
Mr. E.P.A. Cooray	400,000	1.91	—	—
Prime Lands (Pvt) Limited	321,700	1.53	—	—
Miss. G.I. Vasunthara	283,400	1.35	—	—
Mrs. B. Thapar	236,466	1.13	236,466	1.13
Mr. P.H.D. Waidyatilaka	227,316	1.08	220,016	1.05
Hi-Line Trading (Pvt) Limited	223,146	1.06	223,146	1.06
Mr. M.J. Fernando	215,085	1.03	215,085	1.03
Timex (Garments) Limited	208,333	0.99	208,333	0.99
Mr. K.I. Dharmawardena	200,016	0.95	—	—
Mr. A.V.A.D. Rushantha	200,000	0.95	—	—
Mr. D.J.M. Blackler	153,683	0.73	153,683	0.73
Mr. U.E. Theverapperuma	136,775	0.65	—	—
Mr. K. Balendra	125,000	0.60	125,000	0.60
	16,537,427	78.89	14,988,236	71.50
Others	4,426,516	21.11	5,975,707	28.50
<b>Total</b>	<b>20,963,943</b>	<b>100.00</b>	<b>20,963,943</b>	<b>100.00</b>

\*Comparative warrantholdings as at 31st December 2008 of the twenty largest warrantholders as at 31st December 2009.

## DEBENTURES

### Stock Exchange Listing

The Unsecured, Subordinated, Redeemable Debentures 2006/10, 2006/11, 2006/12, 2008/13 and 2009/13 (unsubordinated) of the Bank are listed in the Colombo Stock Exchange. However, these debentures have not been traded from the date of listing up to 31st December 2009.

Debenture Category	Interest Payable Frequency	Interest Rate %		Interest Rate of Comparable Government Security %	
		Coupon Rate	Effective Annual Yield	Coupon Rate	Yield to Maturity
2006/10	Quarterly	14.10	14.86	7.20	9.34
2006/11	Quarterly	14.10	14.86	7.00	10.54
2006/12	Quarterly	14.10	14.86	6.85	10.92
2008/13	Annually	21.00	21.00	7.50	11.65
2009/13	Semi-Annually	20.53	21.58	10.50	11.65

As at 31st December	2009	2008
Debt/Equity Ratio* (%)	47.78	38.11
Interest Cover* (Times)	4.03	6.58
Liquid Assets Ratio - Domestic Banking Unit (%)	28.17	21.40
Liquid Assets Ratio - Foreign Currency Banking Unit (%)	40.24	37.89

\* Only debentures have been considered for above ratio computations.

Group	2000 Rs. mn	2001 Rs. mn	2002 Rs. mn	2003 Rs. mn	2004 Rs. mn	2005 Rs. mn	2006 Rs. mn	2007 Rs. mn	2008 Rs. mn	2009 Rs. mn
<b>OPERATING RESULTS</b>										
Gross Income	303	701	1,148	2,115	2,374	3,086	5,922	9,342	13,877	13,956
Interest Income	253	607	1,001	1,574	1,708	2,448	4,991	8,011	12,094	12,029
Interest Expenses	(142)	(385)	(690)	(1,102)	(1,118)	(1,504)	(3,280)	(5,900)	(9,185)	(8,249)
Net Interest Income	111	222	311	472	590	944	1,711	2,110	2,909	3,781
Fee and Commission Income	26	52	81	117	139	199	275	307	338	375
Foreign Exchange Income	28	39	56	105	143	124	192	329	496	(539)
Other Operating Income	21	16	23	319	251	314	464	695	949	2,091
Net Income	186	329	471	1,013	1,123	1,581	2,642	3,442	4,692	5,708
Operating Expenses	(160)	(296)	(401)	(736)	(1,009)	(1,383)	(2,104)	(2,594)	(3,664)	(4,327)
Profit before Taxation	26	33	70	277	114	198	538	847	1,028	1,381
Provision for Taxation	(6)	(10)	(24)	(25)	(69)	(73)	(215)	(343)	(435)	(695)
<b>Profit after Taxation</b>	<b>20</b>	<b>23</b>	<b>46</b>	<b>252</b>	<b>45</b>	<b>125</b>	<b>323</b>	<b>505</b>	<b>593</b>	<b>686</b>
<b>BALANCE SHEET</b>										
<b>ASSETS</b>										
Cash and Short-Term Funds	894	986	1,023	1,606	1,977	1,633	4,780	3,147	4,065	1,431
Statutory Deposit with the Central Bank of Sri Lanka	169	169	345	347	609	955	1,315	1,964	1,717	2,044
Government Treasury Bills and Bonds	322	396	6,799	7,489	5,771	5,341	10,323	11,331	15,688	23,894
Investment Securities	1	186	243	50	632	621	1,629	2,392	3,781	4,239
Loans & Advances:										
Bills of Exchange	91	78	386	427	381	336	291	562	423	146
Loans and Advances	1,610	2,288	4,591	6,196	9,162	12,299	18,839	22,418	26,378	25,154
Lease Receivables	-	-	-	-	71	329	5,191	7,254	9,137	8,003
Corporate Debt Securities	182	788	1,848	1,739	2,103	2,640	2,672	4,266	2,647	2,032
Other Assets	57	82	212	519	558	785	998	1,209	1,914	1,243
Property, Plant & Equipment	246	263	298	323	381	414	1,133	1,065	2,035	2,239
Goodwill	-	-	99	77	68	59	451	79	79	79
<b>Total Assets</b>	<b>3,573</b>	<b>5,236</b>	<b>15,897</b>	<b>18,773</b>	<b>21,713</b>	<b>25,412</b>	<b>47,622</b>	<b>55,687</b>	<b>67,864</b>	<b>70,504</b>
<b>LIABILITIES</b>										
Deposits	2,139	2,893	5,042	6,571	10,460	14,314	20,670	28,666	34,146	44,221
Borrowings	571	1,469	9,238	9,583	8,105	7,275	19,374	18,077	22,455	14,025
Due to Banks	58	1	427	507	457	199	1,077	1,394	1,039	391
Other Liabilities	195	221	465	676	904	1,388	2,212	3,307	3,272	4,048
Deferred Liabilities	24	44	71	101	97	100	193	201	436	436
Debentures	-	-	-	-	-	-	560	500	1,500	2,000
Subordinated Loan	-	-	-	-	351	673	673	673	673	606
<b>Total Liabilities</b>	<b>2,987</b>	<b>4,628</b>	<b>15,243</b>	<b>17,438</b>	<b>20,374</b>	<b>23,949</b>	<b>44,760</b>	<b>52,818</b>	<b>63,521</b>	<b>65,727</b>



	2000 Rs. mn	2001 Rs. mn	2002 Rs. mn	2003 Rs. mn	2004 Rs. mn	2005 Rs. mn	2006 Rs. mn	2007 Rs. mn	2008 Rs. mn	2009 Rs. mn
<b>SHAREHOLDERS' FUNDS</b>										
Share Capital/Stated Capital	500	500	500	850	850	850	2,062	2,062	3,110	3,110
Reserve Fund	6	7	8	11	13	16	29	57	80	106
Reserves	80	101	146	474	476	597	771	750	1,152	1,561
<b>Total Shareholders' Funds</b>	<b>586</b>	<b>608</b>	<b>654</b>	<b>1,335</b>	<b>1,339</b>	<b>1,463</b>	<b>2,862</b>	<b>2,869</b>	<b>4,343</b>	<b>4,777</b>
<b>Total Liabilities &amp; Shareholders' Funds</b>	<b>3,573</b>	<b>5,236</b>	<b>15,897</b>	<b>18,773</b>	<b>21,713</b>	<b>25,412</b>	<b>47,622</b>	<b>55,687</b>	<b>67,864</b>	<b>70,504</b>
<b>Commitments &amp; Contingencies</b>	<b>912</b>	<b>1,365</b>	<b>3,480</b>	<b>3,972</b>	<b>4,886</b>	<b>3,832</b>	<b>13,276</b>	<b>18,138</b>	<b>53,617</b>	<b>51,516</b>
<b>Ratios and Other Information</b>										
<b>Ratios</b>										
Income Growth (%)	–	131.35	63.77	84.23	12.25	29.99	91.91	57.74	48.55	0.56
Return on Average Assets (%)	–	0.52	0.44	1.45	0.22	0.53	0.88	0.98	0.96	0.99
<b>Capital Adequacy (%)</b>										
Tier I	–	15.95	10.70	14.07	10.44	8.74	7.86	7.20	10.31	11.79
Tier I & II	–	16.93	11.56	15.24	13.91	13.92	11.86	10.44	15.70	16.11
Return on Equity (%)	–	3.78	7.03	18.88	3.36	8.54	11.30	17.62	16.45	15.05
<b>Information on Ordinary Shares</b>										
Market Value per Share (Rs.)	–	15.00	16.75	28.25	18.25	23.50	28.25	29.75	22.25	36.75
Earnings per Share (Rs.) - Group	–	–	0.92	3.52	0.53	1.47	2.44	3.91	3.67	4.09
Price Earnings Ratio (Times) - Bank	–	32.61	34.90	32.47	49.75	27.33	11.58	7.61	6.06	8.98
Net Assets Value per Share (Rs.)	–	12.16	13.08	15.71	15.75	17.21	21.60	22.81	25.89	28.48
<b>Other Information</b>										
No. of Employees	–	164	271	405	479	549	820	1,239	1,615	1,532
No. of Branches/Mini Branches	–	11	17	20	26	28	30	31	36	38
Personal Banking Centres	–	–	–	–	–	–	–	–	6	6
Leasing Centres	–	–	–	–	–	–	5	8	8	10
No. of ATMs	–	6	13	20	30	33	38	38	47	44

**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.

**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.

**CAGR**

Compounded annual growth rate. The rate at which it would have grown if it grew at an even rate compounded annually.

**CAPITAL ADEQUACY RATIO**

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

**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.

**COST TO INCOME RATIO**

Operating expenses (excluding provision for bad and doubtful debts) expressed as a percentage of net income.

**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 INCOME TAX RATE**

Provision for taxation divided by the profit before taxation.

**EMPLOYEE ENGAGEMENT INDEX**

A measure of the extent employees are engaged with the organisation. An increase in the index reflects a situation where employees feeling engaged and finding personal meaning and motivation in work, receiving positive interpersonal support and operating in an efficient work environment.

**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.

**INTEREST IN SUSPENSE**

Interest suspended on non-performing loans and advances.

**INTEREST MARGIN**

Net interest income expressed as a percentage of interest earning assets.

**LIQUID ASSETS**

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

**LIQUID ASSETS RATIO**

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities

**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 uncollectible.

**LOANS TO DEPOSITS RATIO**

Total loans and advances expressed as a percentage of the total deposit portfolio.

**MARKET CAPITALISATION**

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

**MATERIALITY**

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

**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 three instalments are overdue.

**NPL RATIO**

Non Performing Loans expressed as a percentage of the total loans and advances.

**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.

**PROVISION COVER**

Total provision for bad and doubtful debts expressed as a percentage of net non performing loans before discounting for provisions for non performing loans.

**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 ASSETS**

Profit after tax divided by average assets.

**RETURN ON EQUITY**

Profit after Tax divided by the average shareholders' funds.

**RELATED PARTIES**

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

**RETURN ON AVERAGE ASSETS**

Profit after Tax divided by the average assets.

**RISK WEIGHTED ASSETS**

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

**REPURCHASE AGREEMENT**

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

**REVERSE REPURCHASE AGREEMENT**

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

**SEGMENTAL ANALYSIS**

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

**SHAREHOLDERS' FUNDS**

Total of stated capital and capital and revenue reserves.

**STATUTORY RESERVE FUND**

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

**SUBSIDIARY COMPANY**

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

**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.

**Registered Name**

Nations Trust Bank PLC

**Legal Form**

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

**Company Number**

PQ 118

**Date of Incorporation**

21st January 1999

**Registered 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

**Credit Rating**

A (Ika) from Fitch Ratings Lanka Ltd.

**Directors**

A.D. Gunewardene (Chairman)  
E.H. Wijenaike (Deputy Chairman)  
A.R. Rasiah (Senior Director)  
J.R.F. Peiris  
A.K. Gunaratne  
C.H.S.K. Piyaratna  
M.E. Wickremesinghe  
Dr. (Ms.) D. Weerakoon  
K.N.J. Balendra  
S.G. Rajakaruna

**Board Supervisory Committee**

C.H.S.K. Piyaratna (Chairman)  
E.H. Wijenaike  
A.K. Gunaratne

**Board Audit Review Committee**

A.R. Rasiah - (Chairman)  
A.K. Gunaratne  
Dr. (Ms.) D. Weerakoon  
A. Fernandez - Head of Internal Audit -  
(Secretary - Board Audit Review Committee)

**Human Resources and Remuneration Committee**

A.D. Gunewardene - (Chairman)  
Dr. (Ms.) D. Weerakoon  
A.R. Rasiah

**Nominations Committee**

M.E. Wickremesinghe - (Chairman)  
A.D. Gunewardene  
E.H. Wijenaike

**Credit Committee**

C.H.S.K. Piyaratna  
E.H. Wijenaike  
A.K. Gunaratne  
A.D. Gunewardene - (Alternate J.R.F. Peiris)

**Integrated Risk Management Committee**

J.R.F. Peiris - (Chairman)  
A.K. Gunaratne  
M.E. Wickremesinghe

Notice is hereby given that the Eleventh Annual General Meeting of Nations Trust Bank PLC will be held on 30th March 2010 at 10.00 a.m. at the Auditorium of The Institute of Chartered Accountants of Sri Lanka at No. 30A, Malalasekera Mawatha, Colombo 7.

The business to be brought before the meeting will be:

1. To read the Notice convening the Meeting.
2. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December 2009 with the Report of the Auditor's thereon.
3. To declare a first and final dividend of Rs. 1.50 per share on the ordinary shares of the Company.
4. To re-elect Mr. A.R. Rasiah, who retires by rotation at the Annual General Meeting as a Director.
5. To re-elect Mr. M.E. Wickremesinghe, who retires by rotation at the Annual General Meeting as a Director.
6. To re-elect Dr. (Ms.) Dushni Weerakoon, who retires by rotation at the Annual General Meeting as a Director.
7. To elect Mr. K.N.J. Balendra as a Director pursuant to Article No. 91 of the Articles of Association of the Company.
8. To elect Mr. S.G. Rajakaruna as a Director pursuant to Article No. 91 of the Articles of Association of the Company.
9. To reappoint Auditors and to authorise the Directors to determine their remuneration.
10. To authorise the Directors to determine and make donations.
11. To consider any other business of which due notice has been given

**Notes:**

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

By Order of the Board



**Theja Silva**  
*Company Secretary*

Colombo  
18th February 2010

I/We ..... of  
 ..... being

a member/members of Nations Trust Bank PLC, hereby appoint ..... of  
 ..... or failing him/her.

Mr. A.D. Gunewardene	or failing him
Mr. E.H. Wijenaïke	or failing him
Mr. J.R.F. Peiris	or failing him
Mr. A.K. Gunaratne	or failing him
Dr. (Ms.) 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. K.N.J. Balendra	or failing him
Mr. S.G. Rajakaruna	

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 30th March 2010 at 10.00 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

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

In witness I/we placed my/our hand/s hereto on this ..... day of March 2010.

.....  
 Signature/s

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

	For	Against
1. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December 2009 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final dividend of Rs. 1.50 per share on the ordinary shares of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. A.R. Rasiah, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. M.E. Wickremesinghe, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Dr. (Ms.) Dushni Weerakoon, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6. To elect Mr. K.N.J. Balendra as a Director pursuant to Article No. 91 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
7. To elect Mr. S.G. Rajakaruna as a Director pursuant to Article No. 91 of the Articles of Association	<input type="checkbox"/>	<input type="checkbox"/>
8. To reappoint Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
9. To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>

Instructions as to Completion

- 1. Please perfect the Form of Proxy by filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
- 2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 242, Union Place, Colombo 2, not less than 48 hours before the time appointed for the holding of the Meeting.
- 3. If the Form of Proxy is signed by an Attorney, the 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: .....



## The Source of Inspiration

*Visual elements of this report highlight white on white. The inspiration for this concept came from 'Paper Art' which comprises folding, cutting and shaping of paper. Paper cutting originated in China where the oldest surviving paper cut-out, a symmetrical circle from the 6th Century, is found in Xinjiang. Paper cutting is a widespread art form popular in Asia, Europe and Latin America.*

*The cut-outs used throughout this Report were custom designed for the 2009 Annual Report of Nations Trust Bank. Reflecting both simplicity and clarity, the process used only 300 gsm paper board, a knife... and skill.*

