

NTB, WHERE GROWTH IS THE IMPERATIVE

# NTB, WHERE GROWTH IS THE IMPERATIVE

At Nations Trust Bank,

we have built into our foundation the pursuit of sustained growth. Our record over the years is one of consistently outperforming the industry. We live, breathe and imbibe growth. It is a way of life.



ANNUAL REPORT 2010

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## Vision

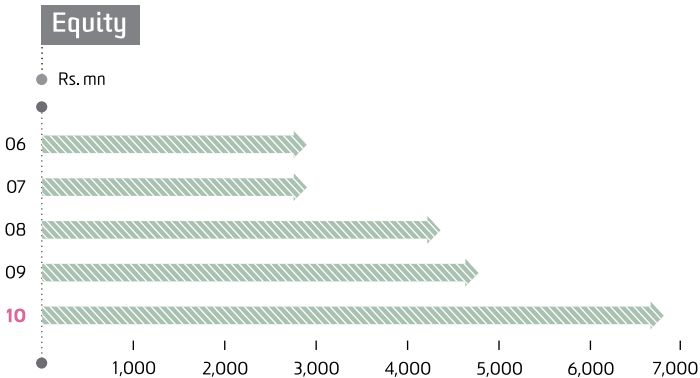
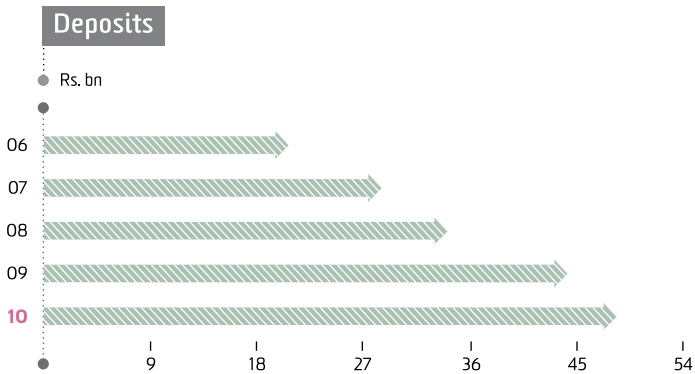
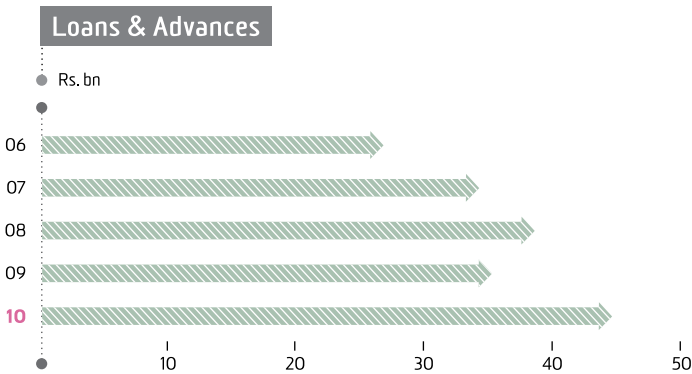
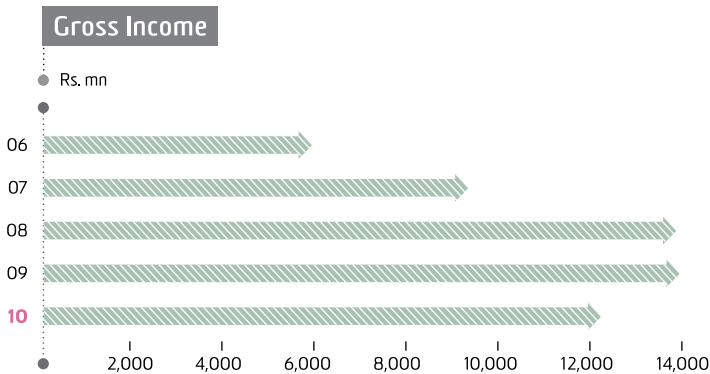
Making life simple by being the benchmark of convenience.

## 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 the report card below shows, the Bank delivered an excellent all-round performance during the year, crossing many a milestone, most notably profit before and after tax exceeding Rs. 2 bn and Rs. 1 bn respectively in only its 11th year of operation.

	2010 Rs. mn	Group 2009 Rs. mn	Change %
<b>Results for the Year</b>			
Gross Income	12,215	14,037	(13)
Profit before Taxation	2,028	1,381	47
Provision for Taxation	944	695	36
Profit after Taxation	1,084	686	58
<b>At the Year end</b>			
Shareholders' Funds	6,804	4,777	42
Deposits from Customers	48,315	44,222	9
Loans and Advances (Net)	44,571	35,336	26
Total Assets	83,248	70,504	18
<b>Information on Ordinary Shares (Rs.)</b>			
Earnings per Share	5.40	4.09	32
Net Assets Value per Share	32.46	28.48	14
Market Value at the Year end	83.40	36.75	127
<b>Ratios (%)</b>			
Return on Average Assets	1.41	0.99	42
Return on Equity	18.72	15.05	24
<b>Capital Adequacy Ratios (%)</b>			
Tier I	13.43	11.79	14
Tier I & II (Total Capital)	15.74	16.11	(2)



**"As Sri Lanka shrugs off the ashes of the conflict which ravaged the country for nearly three decades, our objective is to be at the forefront of the financial services industry to take advantage of the opportunities presented. We have initiated an accelerated expansion plan and are making good progress to stake our claim in the bigger league"**

"Our results speaks for itself, we have become more efficient, more responsive to customers with an operating model fit for the challenges posed by the economic and regulatory environment."



It is with great pleasure that I present to you the Annual Report of your Bank for the year ended 31st December 2010.

After completing the first milestone of the second decade of operations of Nations Trust Bank, I am delighted to state that we are embarking on an unprecedented expansion plan to well and truly etch our presence in the bigger league.

#### MACRO ECONOMIC ENVIRONMENT

2010 proved to be an extremely challenging year for Nations Trust Bank when Sri Lanka was shrugging off the ashes of three decades of conflict. The resurrection of the global economy from the recessionary doldrums did not materialise quite as expected and only modest indications of a revival was witnessed during the year. The depressed demand ensuing from its domino effect stifled the growth of emerging and export-dependent economies such as Sri Lanka. However, even against this backdrop, the Sri Lankan economy recorded a growth rate of 8%, signifying that the country is well on track to achieving the short and medium term growth aspirations.

Inflation remained at single digit levels throughout the year while the benign inflation outlook enabled the Central Bank to relax its monetary policy further, resulting in lower interest rates across the board. Higher foreign exchange inflows in terms of increased remittances, improved export



earnings due to favourable commodity prices and disbursements under the IMF Stand by Arrangement facility have raised the country's external reserves to the highest level ever recorded which ensured the stability of the exchange rate during 2010.

The gradual resurrection of the global economy augurs well for emerging economies like Sri Lanka. The Central Bank continued to manage its policy rates with the objective of boosting credit growth. In addition to the measures adopted by the Central Bank to stimulate economic growth, the Government's development oriented budget proposals which include tax reforms and selective reduction of import duties laid the foundation for Sri Lanka's ambitious economic revival. Political stability, strong macro economic fundamentals and the integration of Northern and Eastern regions into the economic mainstream has provided a strong foundation for the next phase of growth of the country. These signs augur well for financial institutions which are expected to perform a pivotal role in the resurgence of the country in the post-conflict era. This has given the impetus for organisations to explore opportunities and open new frontiers. In these circumstances, those who are quick to embrace change, spot opportunities and act decisively could expect to reap rich dividends.

## PERFORMANCE DURING THE YEAR

At industry level, deposits recorded a growth rate of 15.6% in 2010 compared to 18.8% in 2009. Total loans and advances in the banking industry increased by 25% during 2010, a remarkable turnaround from the 3% contraction evidenced in 2009, while credit quality showed a significant improvement with average non-performing advances ratio of the banking industry declining to 5.3% from 8.0% experienced in the previous year.

The challenges we faced during the journey from our simple beginnings up to the present have made us stronger and resilient to face the future with confidence. The extremely competitive environment which normally inhibits rapid progress, in fact made us more determined and gave us the strength to strive harder. As a result, we performed exceptionally well during the year to post an impressive Net Profit after Tax of Rs. 1,084 mn which is a 58% improvement on Rs. 686 mn posted in 2009. In most key ratios, NTB has out performed the market.

Despite narrowing margins, net interest income grew by 23% which signifies the growth in core banking activities. Non fund based income increased by 7% over the previous year. Despite a slow revival of the economy, your Bank managed to grow its business well above the industry average, and improve its market share to narrow the 'clear water gap' between NTB and peer group banks in the bigger league. The Bank's balance sheet grew by 18% during the year. The Bank also achieved satisfactory levels of growth in deposits and advances which increased by 9% and 26% respectively. The continued efforts to effectively manage costs have yielded positive results with Cost to Income ratio being contained at previous years' level despite a slower rise in income against expenses creating upward pressure on the ratio. Augmented by the improving economic outlook, the asset quality in the banking industry improved during the year. The non performing assets ratio of your bank improved from 8.5% to 4.9% as a result of prudent credit risk management, stringent monitoring and recovery efforts. More information on the performance of the Bank is provided in greater detail in the CEO's Review, Management Discussion & Analysis and the Financial Statements in the latter part of this Annual Report.

I am pleased to announce that the Board of Directors recommends a first and final dividend of Rs. 2.00 per share for the financial year ended 31st December 2010, payable in April 2011 subject to the approval of the shareholders at the forthcoming Annual General Meeting. This would entail a dividend pay out of Rs. 461.2 mn for 2010 as against a dividend pay out of Rs. 314.5 mn in the previous year, which is an increase of 46.6%.

## FIRST MILESTONE IN THE SECOND DECADE OF OPERATIONS

During its first decade of operations, Nations Trust Bank grew from its humble beginnings to a force to be reckoned with in the financial service industry. As we complete the first milestone in the second decade of the Bank, we have further improved our claim to be in the Bigger League. This was clearly validated when your Bank was rated at the 17th position by Brand Finance in their ranking of the country's most valued Brands in 2010. The Nations Trust Brand has nearly doubled in value from the previous year to Rs. 2.7 bn in 2010. The focus during the year was to consolidate our position and establish the infrastructure, processes, skills and policies to facilitate the next phase of growth. Coupled with our unparalleled service standards, we now possess a diverse range of products and services to cater to the growing needs of our customers.

Moving away from the focus in the Western Province, Nations Trust Bank branched out into Southern, Uva, Northern and Eastern Provinces and now has firmly established its presence in these regions. In the coming years, your Bank will expand into other regions of the country while consolidating its presence in the regions where it has already established itself.

With customer convenience being the unique selling proposition, your Bank has continued to develop and upgrade alternate delivery channels in the form of Internet banking, Bank at your Doorstep, SMS banking and Tele banking which improves the capacity to serve a larger number of customers in the future. Your Bank believes that improvement is a continuous process. We will not be content with the levels of customer satisfaction we have achieved, but will continue to improve with innovative products and services through different banking channels.

Your Bank takes social responsibility seriously and has been engaged in several projects to share our success with the society and the environment which sustain us. The future of a nation is its children. Having recognised the importance of their education, your Bank initiated a programme to contribute school books and stationery to deserving schools in rural areas of the country. Your Bank is actively involved with the construction of a base hospital for an animal rescue programme at Hiyare rainforest under its Bio-diversity conservation project. As an environmentally responsible corporate entity, the Bank has partnered with the Wildlife Conservation Society of Galle to protect and create awareness of the rich diversity of Hiyare's forest ecology.

## CORPORATE GOVERNANCE AND RISK MANAGEMENT

In the aftermath of the global financial crisis, attention has been focused on corporate governance and effective risk management in the financial services industry. The laws and regulations governing the financial services industry have, not surprisingly, come into focus with more stringent supervision by regulators, external auditors and Boards of Directors. Your Board of Directors who are entrusted with the responsibility for overseeing good governance and

risk management functions of the Bank, have recognised its value and have taken adequate measures to ensure strict adherence with the laws and regulations governing the banking business. Sound risk management, operational competence, greater transparency and disclosure have been ingrained into each and every aspect of our business to give the Board the assurance it needs to support the Bank's expansion plans.

### THE NEXT PHASE

The eleven year journey of your Bank has been a remarkable one. However, we are fully aware that we cannot rest on our past successes in the fast changing economic landscape. As I stated in my message last year, we geared ourselves to face new challenges as well as exploit the opportunities presented in post-conflict Sri Lanka during 2010.

From the inception, our shareholders have continued to be a great source of strength, which was reaffirmed with the successful conversion of 2010 warrants and I have no doubt that the 2011 warrants will also be fully subscribed to. Banking is inherently a capital intensive industry and the capital infusion by the warrant conversion will fuel our growth in the short to medium term.

The ambitious expansion plans will be rolled out with a number of new branches scheduled to be opened shortly. The expansion of our physical presence will enhance the Bank's reach to customers and deposits, in addition to being a channel for credit growth. We also have plans for investments in infrastructure, information technology and human resources as part of the expansion plan.

With the revival of the economy, we have identified the sectors with high growth potential and have positioned ourselves to become the preferred financial services provider for these sectors. In the medium term, demographic trends of customers are also expected to go through a transition. This would entail increased demand for home loans, leasing and personal credit and we plan to acquire a more than proportionate share of this business.

Exceptional customer services have been an integral part of Nations Trust Bank's culture, where each and every employee strives to exceed customer expectations. We have won many accolades for service excellence. **"Unparalleled and unprecedented levels of convenience"** formed the nucleus of the re-branding exercise, initiated during 2008. Along with the expansion drive, the brand will be reinforced to further improve customer awareness and to enhance the brand identity.

In addition to differentiating ourselves through unparalleled customer service and convenience, we have over the years, proved to be innovative and creative in providing solutions to meet customer needs. This will hold us in good stead since the rapidly changing economic environment will present many opportunities for the financial services industry. Our main challenge going forward is to exploit these opportunities to grow ahead of the industry while prudently managing the associated risks.

### NEW APPOINTMENTS TO THE BOARD

Mr. Murtaza Jafferjee joined your Board in December 2010 as an Independent Non-Executive Director. Specialising in corporate finance and financial analysis, Mr. Jafferjee brings with him a wealth of knowledge and experience to your Board.

Dr. Kemal De Soysa joined your Board in January 2011 as an Independent Non-Executive Director. Specialising in financial analysis and research, Dr. De Soysa too will add a different dimension to the Board. On behalf of the Board of Directors, I welcome Mr. Jafferjee and Dr. De Soysa to our Bank and wish them a long and productive association.

### APPRECIATIONS

I wish to place on record our appreciation of the Government budget proposals for 2011 wherein the tax rates applicable to the banking industry in particular, were reduced appreciably. The industry has been clamouring over many years for the effective tax rates of banks to be reduced, and this proposal will help the banking industry to attract investors as well as build up capital to drive the exponential growth in credit that is expected to take place in the years ahead.

Being a service provider, we firmly believe that customers continue to remain the key to our success. The trust and confidence our customers continue to place in us have been an immense source of strength. Customer loyalty has been the single most influential factor which enabled us to remain ahead of the growth in the industry, despite intense competition. I thank them for the loyalty and trust they have placed in us and look forward to their continued endorsement of your Bank.

The Bank possesses a dynamic, highly skilled and talented group of employees whose untiring efforts and dedication combined with the able leadership of the CEO, Mr. Saliya Rajakaruna and the management team has delivered excellent results during the year under review. On behalf of the Board, I wish to convey our appreciation to the CEO and the staff for their hard work, commitment and dedication.

My sincere gratitude is extended to my fellow Directors for their unstinted co-operation and support over the year. The knowledge and expertise they have shared with us is of immense value to the organisation.

The guidance and support extended to us during the year by the Governor of the Central Bank of Sri Lanka and his officials have been extremely valuable and much appreciated. I would like to take this opportunity to thank Messrs Ernst & Young for their professionalism while conducting the year end audit. Finally, a special note of appreciation is due to all our stakeholders for the trust and confidence they continue to place in us. Your trust and confidence have contributed immensely to making Nations Trust Bank what it is today.



**Ajit Gunewardene**  
Chairman

18th February 2011

## NTB...Where we Share Growth

### How we Share our Growth...

\*1

We paid Rs. 1,236 mn as dividends out of a cumulative profit after tax of Rs. 3,149 mn generated over the past 5 years - a payout ratio of 39.25%.

Our share price appreciated from Rs. 36.75 in December 2009 to Rs. 83.40 by December 2010.

Our ROA and ROE improved from 0.99% and 15.05% in 2009 to 1.41% and 18.72% respectively by 2010.



**"We are now in the cusp of a future never seen before carrying significant growth potential. We will take advantage of the new developments, and play to our strengths to grow. Growth provides the foundation for a sustainable business"**

"We have the right model, the right strategy and capacity for execution. Execution is what will give us our edge and I'm immensely proud of our people of the work they do."

It is with much satisfaction and pride that I present the Annual Review for 2010, my first full year of stewardship at Nations Trust Bank. I report on an exceptional year which not only generated uplifted profits but also consolidated and enhanced our market position through several revenue, cost, risk and people management measures. We are fully prepared and welcome 2011.

## ECONOMY

The global economy closed 2010 on a much better note than it began. Towards the latter end it responded somewhat as governments, central bankers and regulators intervened to restore confidence which declined to dangerously low levels during 2010 with several mooting a double dip recession. During the year, much of Europe was engulfed in serious debt related issues that not only weakened their respective banking systems but also questioned the viability of the Euro as a currency unit and the EEC framework as a single political entity. Although now showing some progress, the US too was not performing as expected requiring substantial intervention by the Federal Reserve. Elsewhere, while Japan continued to remain flat, India, China and much of Asia provided the momentum for global growth. Regulation now remains the focus of intense international debate to decide upon the nature and extent of future regulations for the banking industry. Up to now there seem to be a reasonable measure of international consensus in the form of BASEL III. Some understanding also seems to have been reached on the vexed question of Bonuses.

For Sri Lanka with social and economic conditions improving, 2010 has been a promising year although the external environment, as noted above, was proving to be challenging. With declining inflationary pressures, the easing of monetary policy and the resumption of capital inflows along with improved investor confidence following the end of the war, the local financial market became more liquid and stable in 2010. The Government and the Regulator for their part undertook several policy initiatives - merge regional banks into a single entity, implement mandatory lending to the Agri Sector and lower interest rates across the banking system being among them. These measures have fostered the efficient functioning of the financial sector whilst reinforcing the role of Government and Regulator as key contributors to sustained economic growth.

## FINANCIAL PERFORMANCE

Against this backdrop of an uneven but improved economic landscape both globally and locally, our successes were achieved not only by delivering exceptional growth in income and profits during the year, but also by growing our loan book, deposits, capital and balance sheet footings. 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. Showing strength and agility in the core activities, all business segments contributed to the bottom line and reflected good momentum in each area. Improving credit quality as experienced across the industry, resulted in a recovery period for collections which significantly boosted profits reported for the period under review.

Net interest income increased to Rs. 4,565 mn in 2010, achieving a growth of Rs. 845 mn over 2009 or 23%. Interest income declined by 16% due to the downward revision of interest rates but was more than off set by a 34% reduction in borrowing costs. Our margins have been quite stable and have been properly managed and maintained across portfolios. Although margins suffered as a result of the dip in interest rates and resulting lower level of revenue, the cost of funding was closely managed to mitigate the effect.

Operating expenses increased to Rs. 4,661 mn, a growth of Rs. 335 mn or 8%. With income growing at a faster rate of 17% than expenses, overall profitability improved significantly. Within operating expenses, provision for loan losses showed a significant turnaround with a 75% reduction contributing to a substantial growth in profits. As a result, the NPL Ratio improved during the year to 4.9% compared to 8.5% as at year end 2009.

All in all, the pistons of profitability performed admirably, resulting in Group post-tax profit for the year growing by Rs. 398 mn or 58% to Rs. 1,084 mn. Pre and post-tax profits for the Bank also showed similar growth.

During the year, the total assets of the Bank grew steadily and crossed the Rs. 80 bn milestone to reach Rs. 83 bn by year end. Gross loans and advances portfolio recorded a growth of Rs 9 bn or 24% of which almost 50% was extended in the last two quarters indicating the growing appetite for credit in the market. Although not expanding in the same magnitude as the loan book, the deposit base nevertheless increased to Rs. 48 bn by the end of December 2010 recording a growth of Rs. 4 bn or 9%. Our capital position also strengthened to Rs. 7 bn enabling the reporting of a healthy Capital Adequacy Ratio of 15.7%, well ahead of levels considered prudential thereby providing a safe haven for incremental loans and advances.

## PERFORMANCE OF CORE SEGMENTS

### Retail

Our retail banking business which engages in deposit generation and lending on a secured basis, underwent a 'profit driven' strategy during the year by enhancing its contribution to the bottom line significantly. Strategies were formulated for deposits mobilisation and growing the lending book with the objective of engaging and building both sides of the balance sheet. As a result of this two pronged strategy, the unit achieved profit and revenue diversification and simultaneously optimising the delivery network. Several initiatives were launched to build on the brand value of delivering 'simplicity and convenience' to its customers through innovative and flexible banking solutions. To our comprehensive suite of retail-banking products, we added a wide spectrum of products encompassing specialised current accounts, personal advances and investment plans.

We expanded our branch network by adding two more in the newly emerging cities of Jaffna and Batticaloa. Our service excellence continued to gather a strong foothold amongst our customers with customer commendations becoming frequent in our daily log.

### Corporate Banking

Our corporate and wholesale banking units continued to support related businesses, both local and multinational, drawn from a wide spectrum of sectors and industries, to suit their goals, challenges and scale. As expected, monetary policy for the year placed high priority on facilitating the recovery in the private sector. Growth in credit to the private sector returned to positive territory by the second quarter of 2010. We played to our strength in this area; our ability to understand closely the business needs of our customers and the reputation as a reliable and strong partner helped us in sourcing new business volumes as the economy rebounded opening up opportunities within existing and new customer segments. Our performance was primarily driven by significantly higher growth in business volumes. Our risks and exposures were also well managed and we closed the year with a clean corporate lending book. These successes were not achieved easily as we faced some significant challenges in terms of pricing, maintaining interest margins, controlling non-performing loans and generating fee-based income.

### SME Banking

Within the SME franchise, we are engaged in mobilising business current accounts, leasing and factoring. This sector did well in 2010, beginning to reap the dividends of peace in the country. The positive sentiment was clearly seen in the immediate improvement in recoveries and collections in the very



first quarter, even before many of the improvements in the economy actually materialised. Leasing, an important component in our SME business, recorded an excellent year with new business volumes surpassing all expectations as the vehicle market rebounded on the back of reduced vehicle duties. Improved business efficiency resulting from the implementation of an enhanced lease management system also added to its strong performance.

### Treasury

Our Treasury is entrusted with two major functions essentially resulting from its dual responsibilities. One is to ensure that the Bank is properly funded and liquid while the other is to generate earnings from market activity and function as any other profit centre working within their operating limits. The year 2010 began with much optimism among the market players as the country was emerging free from a decades old war. The favourable developments in the external environment brought about by the dawn of peace in the country facilitated a stable exchange rate and with the regulator systematically bringing down policy rates, enabled a downward shift in the entire market interest rate structure. Amidst this economic backdrop, our Treasury recorded healthy revenues in both Debt Trading and Forex Operations. Significant capital gains were also realised during the year on the Fixed Income Securities portfolio.

### Cards and Consumer Assets

2010 was a watershed year for the card business, but has remained resilient in such unsettling and challenging times. The industry was sluggish throughout the year, and most of the business drivers such as number of cards in force, card spend and outstanding balances either were stagnant or contracted. To make matters even more difficult, the operating landscape changed significantly during the latter part of the year with CBSL recommending a cap on interest rates charged on credit cards. We have been quick in bringing changes to our cards business model to improve profitability. We also rolled a number of initiatives offering value addition to our cardholders during the year. Despite the immediate negative impact the interest rate cap has had in terms of return on investment and profitability, we are confident of the potential for credit cards in the medium term and is committed to a leading role in the industry. During 2010, our consumer assets business turned around with improved new business volumes and decreased delinquencies. We penetrated into new customer segments improving the depth and breadth of our portfolio of consumer assets.

### FUTURE

Looking forward, the competitive and regulatory environment is likely to be very different from the recent past. While competition will become intensive with pricing under heavy pressure, regulatory intervention will also increase to reduce systemic risks. Our strategy will evolve both proactively and in response to these changes while remaining committed to the relationship based customer centric universal banking model as benefits of diversification embedded in it support our longer term view of the business. We are committed to meeting our responsibilities to all our stakeholders.

The period ahead will be one of great importance to the future of the industry and us, as the much anticipated economic boom starts to solidify. It is clear that policy makers and regulators will place the economy on a higher growth trajectory, while maintaining inflation at a low and stable level. The gradual recovery of the domestic economy which has enabled the re-integration of the Northern and Eastern provinces, are expected to provide opportunities for growth. The Sri Lankan economy has entered a new era of rapid social and economic development, creating an increase in demand for diversified financial services. We remain focused on continuing to increase the growth prospects of the Bank by engaging fully in the new opportunities, whilst keeping our eyes firmly on the needs and interests of our customers, managing our risks and maintaining strategic momentum.

### APPRECIATIONS

The strong performance delivered would not have been possible without the skilled and committed management and staff. Their passion in the pursuit of customer convenience and delivering outstanding service is fundamental to the reported profitability and remains intact. I also thank the Chairman and Board of Directors for their continued advice, wise counsel and unwavering support.

My appreciation also goes to the Governor and Officers of the Central Bank of Sri Lanka for their guidance and support at all times. I also thank Messrs Ernst & Young, our external auditors, for their valuable input.

### CONCLUSION

Born just eleven years ago in the midst of a tragic war, we are now in the cusp of a future never seen before carrying significant growth potential. New products, new market segments, new geographies and new demographics provide a lucrative landscape for growth. We will take advantage of these new developments and play to our strengths to grow. Growth provides the foundation for a sustainable business. I look forward to another landmark performance in the year ahead!



**Saliya Rajakaruna**  
Chief Executive Officer

18th February 2011



## NTB...Where we Dream Growth

Where our Dreams lead us...

\*2

We target to achieve Rs. 175 bn in Assets and Rs. 10 bn in equity in 3 years.

We project that our Total Assets will grow by Rs. 90 bn plus, by 2013.

We expect to double our market share in Deposits by 2013.



# Growth

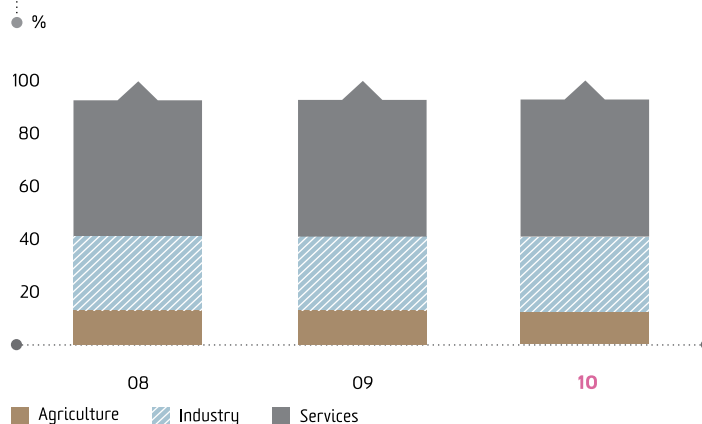
## MACRO ECONOMIC REVIEW

### Summary

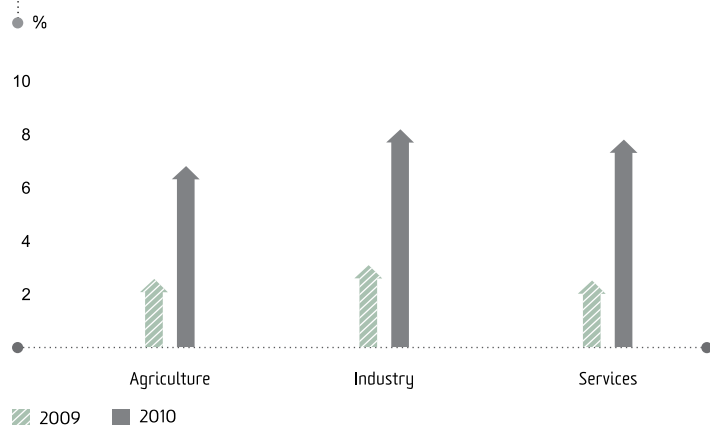
The dawn of 2010, in the aftermath of a three decade war against terrorism, unleashed, not only a sense of confidence and direction, but also a new era of economic development in Sri Lanka. The elimination of terrorism, the most serious hindrance to economic development, generated expectations of moving the economy into a higher plane of growth in the short and long-term. Further, political stability, a key factor required for rapid and sustained economic development and investor confidence, was visibly in place. A clear majority in the legislature, enabling the crafting and passing of legislation underpinning new and strong economic policy formulations for the development of the country was another tangible structural advantage that came into operation to steer growth.

Overall economic conditions, as expected, did not take long to improve in 2010. The year registered strong growth with favourable developments in all the sectors. Inflation remained subdued with average inflation for the year as a whole closed within single digits. External balances improved, remittance inflows continued at a high rate, and prospects for tourism took a quick turn for the better. Monetary conditions have also been stable. All rates of interest - policy rates, treasury bill rates and lending rates - have declined significantly. Despite market wide liquidity, credit growth showed some signs of pick up with demand for loans strengthening. Lift in investor confidence led to a pick up in private capital inflows into the country and in turn, a rise in foreign exchange reserves.

### GDP Contribution by Sector



### GDP Growth by Sector





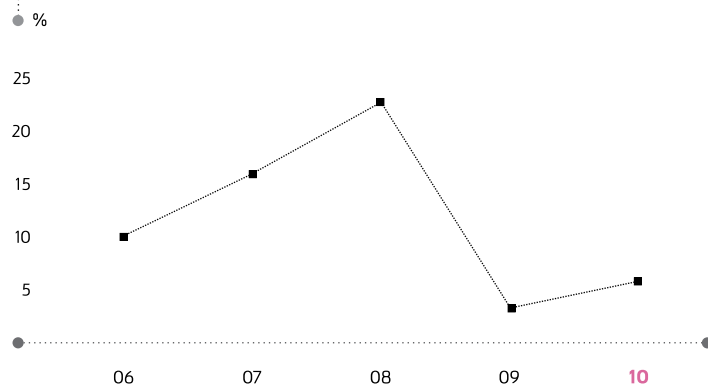
Recording an impressive growth of 8% for the year 2010, the Sri Lankan economy recovered strongly, thus moving on to an uplifted growth path. Such growth was, as noted above, underpinned by the restoration of peace, improved business confidence and a strong macroeconomic environment. The improved performance in all key sectors of the economy contributed towards this growth.

Inflation continued to remain at relatively low and stable levels during the year. On a year-on-year basis, it will remain within single digits at around 7% by end 2010. Such low inflation outlook enabled the Central Bank of Sri Lanka (CBSL) to relax its monetary policy stance further resulting in lower interest rates in all market segments supporting the recovery of domestic economic activity. Market interest rates continued to adjust downwards in line with policy rate changes by CBSL.

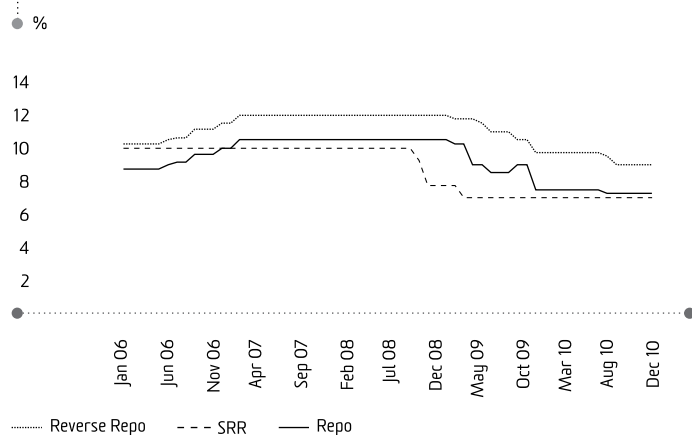
Meanwhile, the Government Securities market witnessed high activity levels during the year with yields falling by as much as 300bps on long-term bonds. The year closed with an average market liquidity of Rs. 125 bn rupees and the call money rates trading at 7.75 - 8.35%.

Exports and imports, which contracted in 2009 due to the global financial crisis, increased during 2010, reflecting a gradual recovery in foreign trade. Although earnings from exports increased by 15.4% while expenditure on imports increased by 32.6% thereby impacting the trade balance negatively, such flows reflect a return to robust level of engagement in international trade by Sri Lanka.

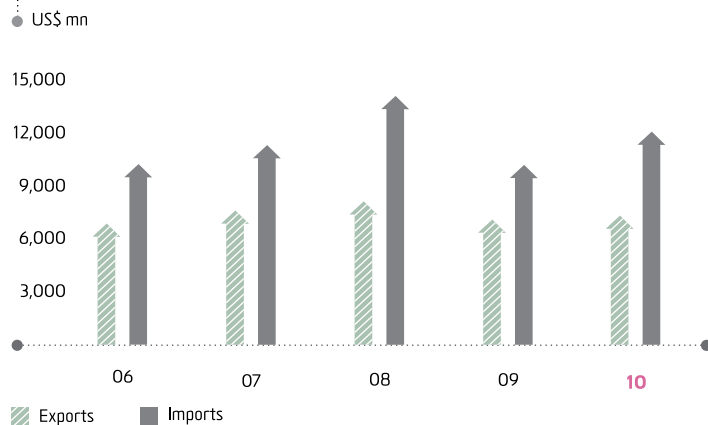
### Inflation



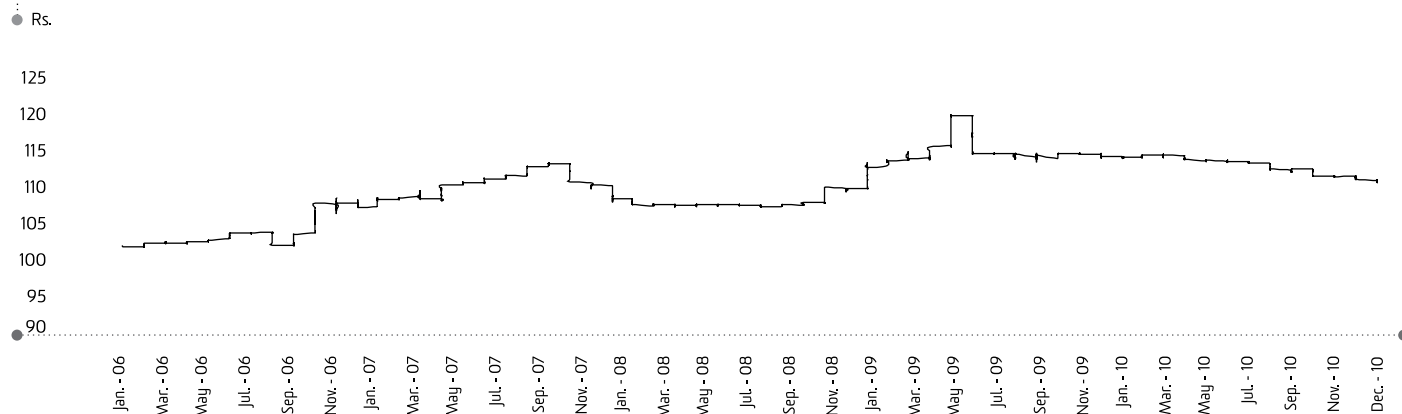
### Policy Rates



### Exports/Imports



### USD Vs LKR Movement

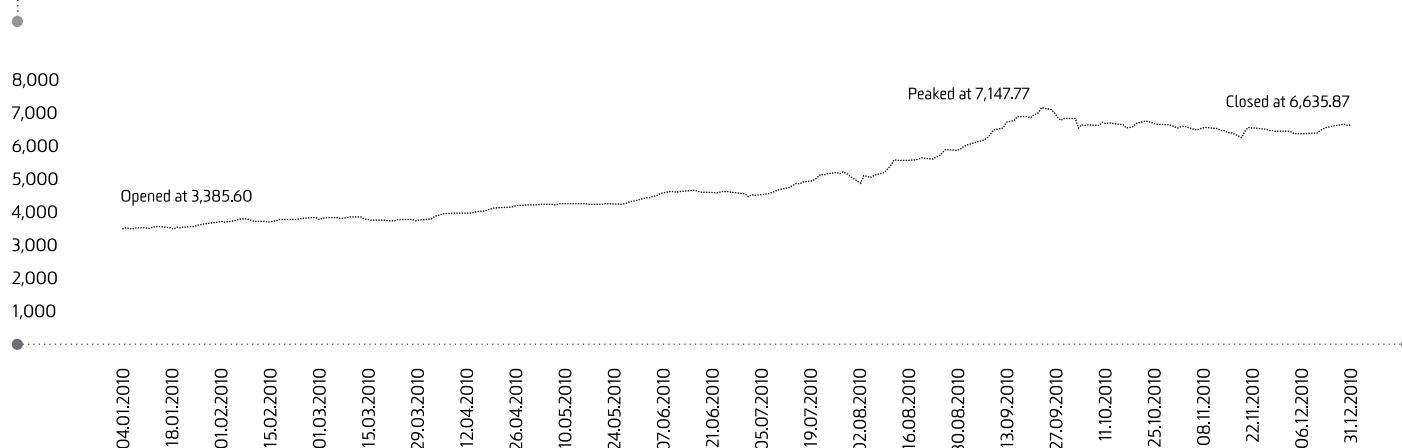


With tourist arrivals picking up significantly after the ending of the conflict, the tourism sector rebounded strongly. The trend is expected to continue in the years to come. In the face of significant inflows, the exchange rate policy continued to focus on maintaining stability in the domestic foreign exchange market. As expected the SLR continued to gain against the Dollar, finishing the year 2010 at 110.94/96. The local currency had appreciated against the USD by 3.09% during the year resulting from increased remittances and the release of the IMF tranches that were previously delayed. As the trend in the exchange rate established itself, exporters also continued to sell forward covering their future exports with the forward market generating high levels of activity.

Sri Lanka issued its 3rd International sovereign bond in September with a maturity of 10 years. Priced at a coupon of 6.75%, only 373 basis points above US Treasuries carrying similar maturities, it was oversubscribed by more than 6 times indicating improved investor sentiment.

The Sovereign Rating of Sri Lanka was also upgraded by all rating agencies during the year to B+ with a stable outlook. The gross official reserves stood at USD 6.7 bn, adequate to support some 7.5 months of imports. The current external reserves were at a comfortable level, boosting external liquidity. The net absorption of export proceeds, workers' remittances, receipts under the IMF SBA Facility and cash component of project loans and grants have all contributed to the improvement in the level of official reserves.

### All Share Price Index at Market Close

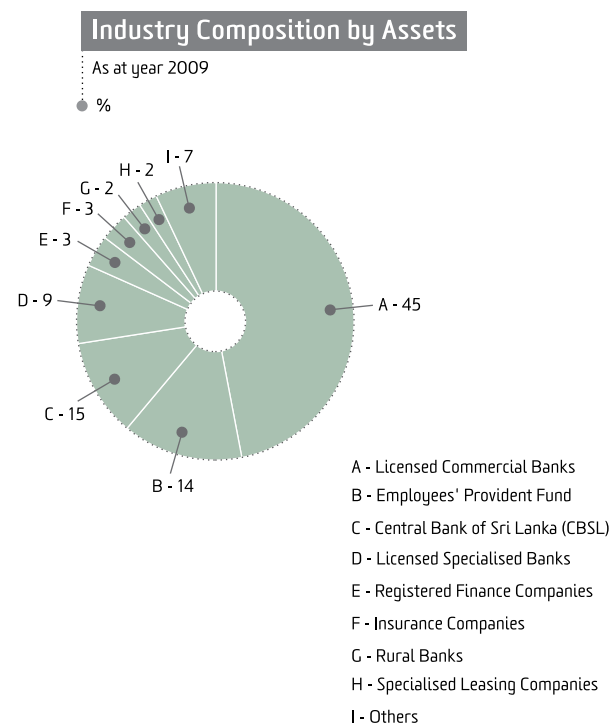


Again as the 30-year war ended, and economic potential looked not too distant, 2010 saw Sri Lanka's stocks reach heights never witnessed before. Although not entirely rational the Market continued to set records despite the strict regulations imposed by the SEC. The benchmark All Share Index rose 96% in the year, becoming the world's second best performing market. Market capitalisation increased to Rs. 2.2 tn at end December 2010, from Rs. 1 tn at end 2009.

## BANKING SECTOR PERFORMANCE

### Summary

The banking sector in Sri Lanka, which comprises Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs), dominates the financial system and accounts for 54% of the total assets of the financial sector. The banking sector comprises 22 LCBs and 14 LSBs. With respect to the asset base and the magnitude of services provided, the LCBs are the single most important category of financial institution within the banking sector. Improvements were noted in the banking sector during 2010 as financial markets gained strength, underpinned by enhanced political stability, improved investor confidence and a stable macroeconomic environment. The overall soundness of the sector, as reflected by higher levels of capital, liquidity, asset quality and profitability improved significantly during the year.



### Key Performance Indicators of the Banking Sector

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Capital Adequacy Ratio - Tier I Capital Ratio (%)	11.7	11.3	11.4	13.2	12.0	12.5	12.4	14.1	13.4
Capital Adequacy Ratio - Total Capital Ratio (%)	12.3	11.8	11.3	13.4	13.2	14.1	14.4	16.1	15.5
Gross NPA as a % of Total Loans and Advances	14.3	12.3	9.1	7.0	5.6	5.1	6.3	8.5	5.3
Net NPA as a % of Capital Funds	7.4	5.4	3.3	2.4	1.9	1.8	2.5	5.0	3.0
Return on Assets (%)	1.4	1.7	1.7	1.8	1.8	1.9	1.9	1.8	2.8
Return on Equity (%)	19.1	21.7	18.0	16.4	15.2	14.0	13.3	11.8	21.6
Liquidity Ratio % (DBU)	32.9	32.2	33.8	31.7	30.3	30.3	31.3	35.2	31.3

Source - Central Bank of Sri Lanka

The business volumes expanded at a moderate pace during the year. Total assets increased by Rs. 530 bn or 17.6% due to a growth in lending activities coupled with increased investments in Government Securities and the Equity market. Credit growth improved, with loans and advances increasing by Rs. 380 bn or 24.9% compared to a negative growth of 3.0% in the corresponding period of 2009. Lending activities mainly in the categories of overdrafts, import bills and pawning increased with the improvement in trading activities in the country coupled with a decline in market interest rates. Meanwhile, deposits increased by only 15.6% or Rs. 348 bn as against 18.8% in the previous year, due to lower interest rates that prevailed in the market during the period.

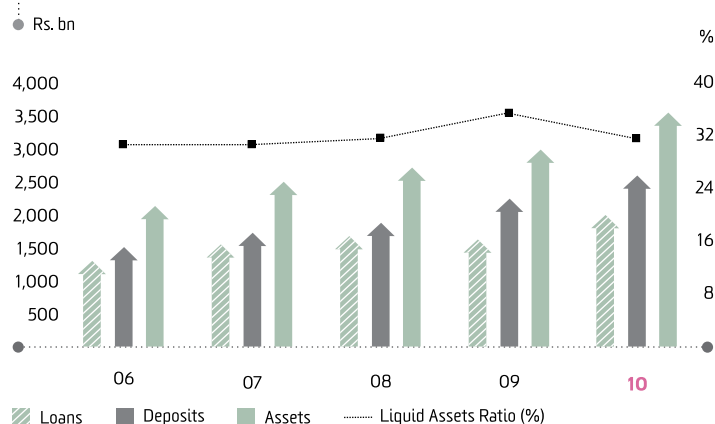
Asset quality improved. The ratio of gross non-performing loans (NPLs) to total loans has shown a moderate improvement over the period and stood at 5.3% in December 2010 as against 8.5% in December 2009. The specific provisions to NPL ratio increased to 59.5% as at end December 2010 from 53% in December 2009.

The liquidity position was high. The statutory liquid asset ratio was maintained at 31.3%, well above the regulatory minimum of 20%.

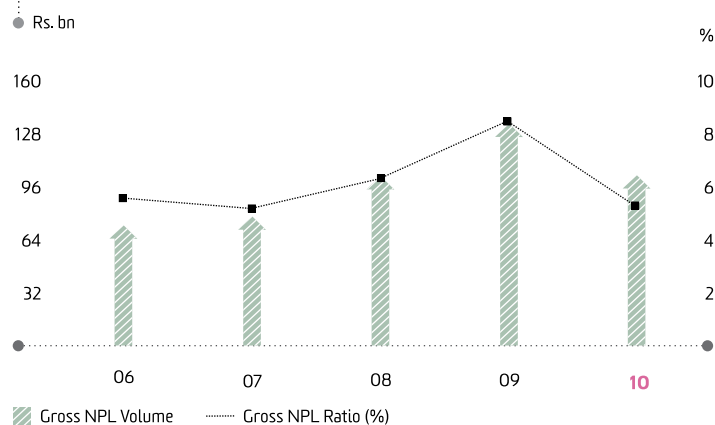
Profitability showed a significant improvement, with the Return On Assets (ROA) and the Return On Equity (ROE) rising noticeably in the current year.

Regulatory Capital Adequacy Ratios (CAR) were maintained well above the required levels during December 2010. The total CAR of Banking Industry stood at 15.5% in December 2010 compared with 16.1% in December 2009, while Tier I CAR stood at 13.4% in December 2010 compared with 14.1% in December 2009.

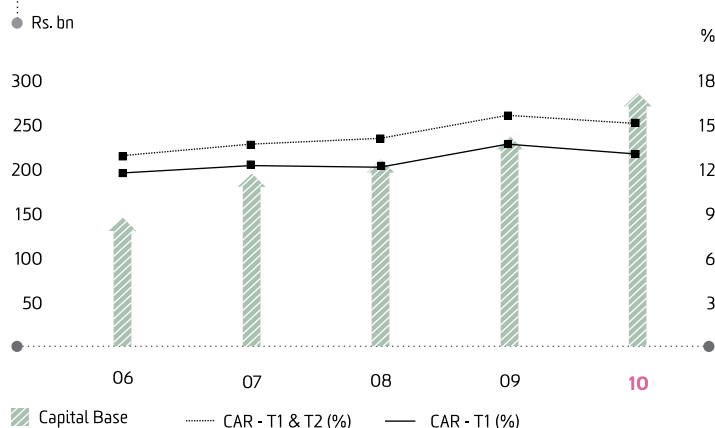
### Loans, Deposits & Assets



### Industry NPL



### Industry Capital Base



## Future Outlook

*With the eradication of the 30-year old conflict and the resurgence of several sectors of the economy such as tourism and the development of the North and the East, the productive capacity of Sri Lanka is expected to improve and boost real GDP growth to average 8% during 2011-2013 compared to an average of 5.1% in the previous 20 years. Also noteworthy is the level of state intervention in terms of deregulations, tax reforms and on economic fundamentals. All these key elements should provide a platform for growth resulting in investments, socioeconomic development and improvement in quality of life across Sri Lanka. Per capita income is expected to double by 2014 from the levels in 2003 which will see credit expansion across the banking system reach Rs. 3.3 tn.*

*Economic growth is expected to be broad-based with positive contributions from all major sectors of the economy. Higher growth is to be achieved by further strengthening the enabling environment for the real economy - in particular, agriculture, SMEs, and other value-adding industries - to respond more positively. Monetary policy will be aimed at maintaining price stability while ensuring adequate provision of credit to the private sector. The external sector is expected to improve further in 2011 recording a surplus in the BOP, thereby further increasing external reserves. Exports are projected to rise in 2011 resulting from higher value addition, diversification of products and markets, and gradual recovery of the world economy. Imports are projected to grow in 2011, mainly due to the higher import demand arising from economic activities including those expected in the North and the East provinces, better performance of the tourism sector, and the development of major roads, ports and power-generating projects. The outlook for the banking sector is also favourable with forecast acceleration in domestic economic growth. The improvement in the business environment and the revival of activities in the economy will expand opportunities for financial institutions. As a consequence, credit growth is expected to pick up strongly, while non-performing loans of the banking sector which have now stabilised are expected to decline further.*

## ABOUT THE BANK

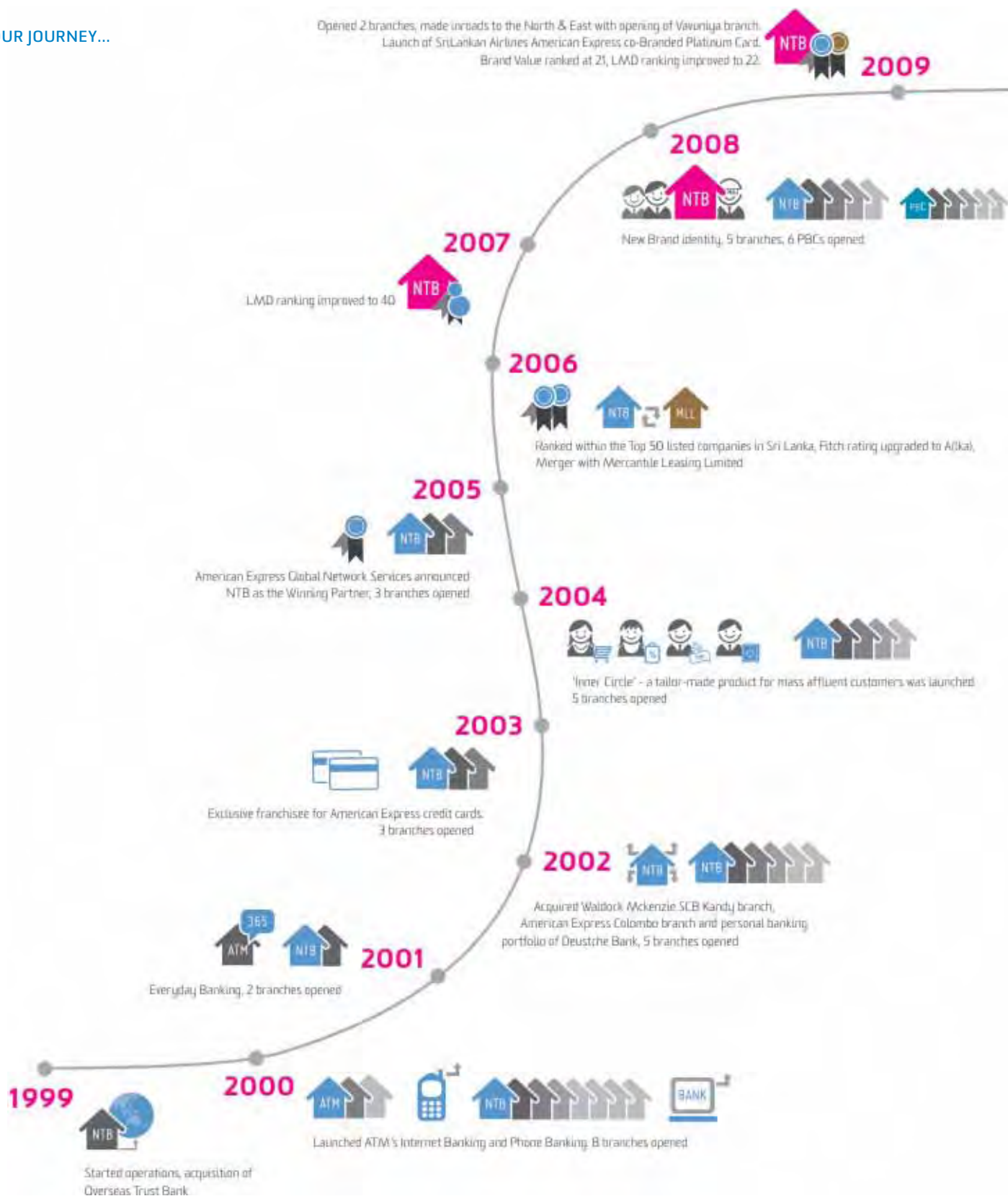
### Background

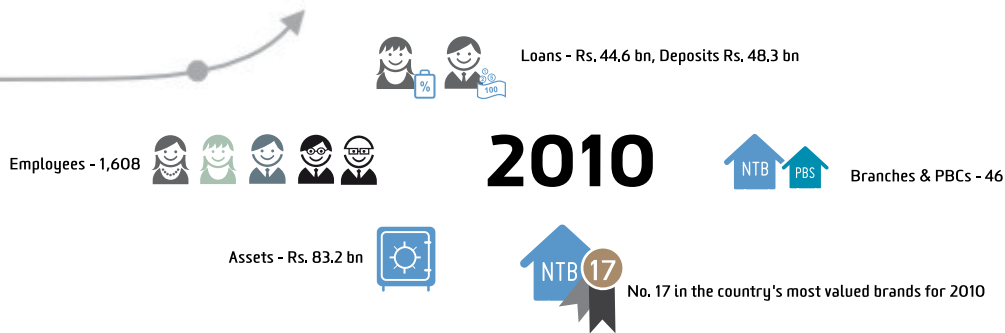
Nations Trust Bank (NTB) began operations in 1999 following the acquisition and re-naming of the Sri Lankan branch of Hong-Kong based Overseas Trust Bank Limited. Its purchase was promoted by two leading corporate entities, John Keells Holdings (JKH) and Central Finance (CF) together with the International Finance Corporation (IFC, a subsidiary of The World Bank). JKH, CF and their related entities currently hold 49.9% of the equity of NTB.

A strategy of aggressive but selective acquisition has been pursued since 1999. The Bank acquired Waldock Mackenzie Limited (WML), the investment banking arm of JKH and became a fully-owned subsidiary in 2002. With the appointment as the exclusive franchisee for American Express (AMEX) Credit Cards in Sri Lanka in 2003, the Bank entered the domestic credit card business. On 1st January 2006, the merger with Mercantile Leasing Limited (MLL), a long established specialised leasing company acquired by JKH in 2004, was effected through a share swap which resulted in acquiring both a leasing and a factoring portfolio together with businesses in insurance and real estate.

We are now one of the fastest growing banks in the country today. Within a relatively short period of 11 years, the Bank has carved out a respectable market share in almost all business lines in addition to becoming a leading player in the consumer banking, credit card and leasing businesses. We continue to retain the sole franchise for issuing and acquiring American Express Credit Cards in Sri Lanka.

## OUR JOURNEY...





### Our Structure

The organisation structure follows the customer centric universal banking business model of the Bank, aligned under five strategic revenue generating business pillars that includes deposit generation and is integrated with essential support and risk management units. The structure allows flexibility, accountability and transparency across the functions of the Bank.



## STRATEGIC FIT

### Strategy Execution

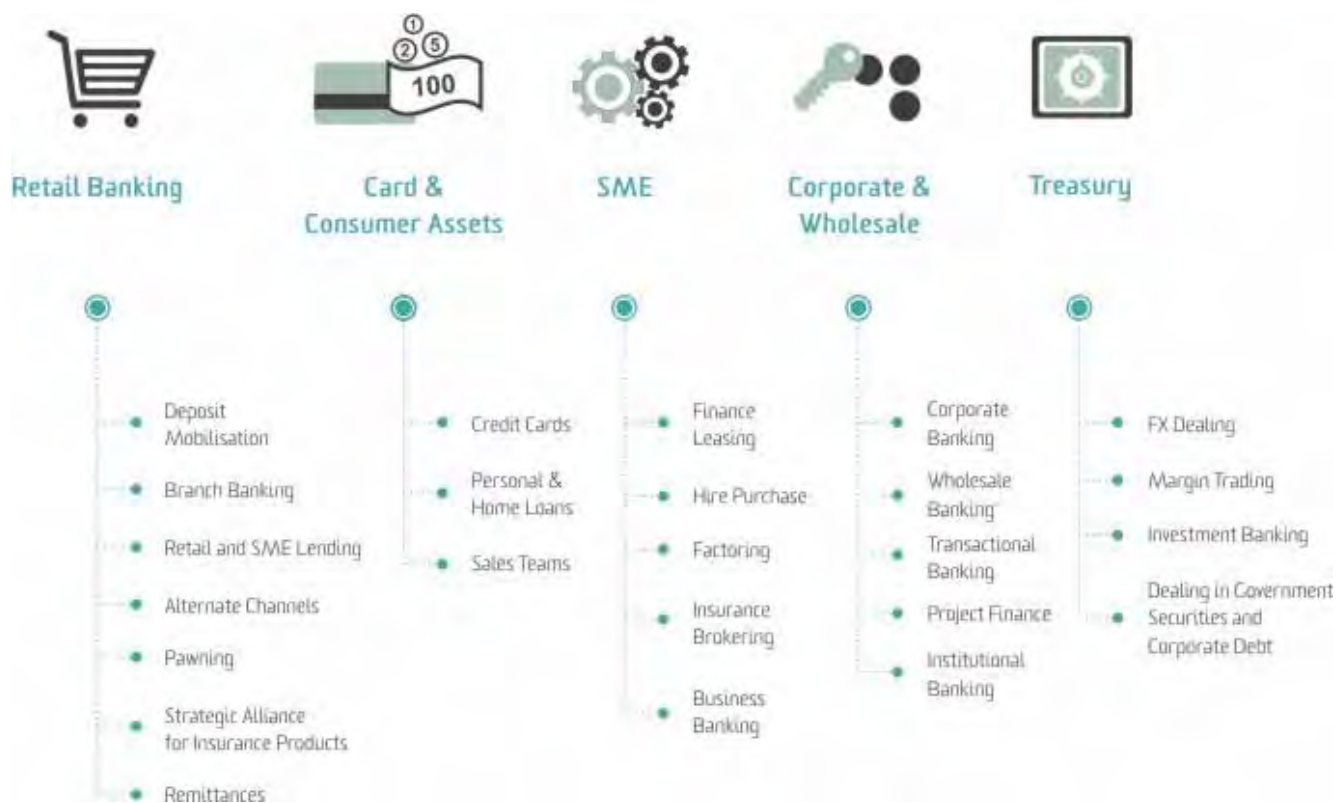
Our objective is to achieve sustainable growth through time by diversifying our business base and increasing our presence in markets and segments that are profitable and expanding at a relatively rapid pace. This is driven by our ambition to become the most profitable and respected Financial Institution in Sri Lanka, leading the financial services industry, assisting customers to achieve their goals.








Our strategy is guided by the core principles of Convenience, Customer Focus, Empowerment and Trust. Our Unique Selling Proposition (USP) is to provide 'unparalleled and unprecedented levels of convenience' thereby linking us as closely as possible to the customer. We focus on the convenience of our customers and provide services through 365 days and extended banking hours. Our emphasis is on service, convenience and making it easy for the customers to transact. We have invested in a considerable amount of resources in placing trained people in empathy with the customer in front of them and ensure that our back-office is also a partner in this effort. We are focused on the customer and recognise that there is no better, more durable asset than a satisfied customer.

Customer segmentation is a key focus area in executing our USP to gain competitive advantage. Our core customer segments are Consumer, SME and Larger corporate entities. The provision of the contemplated level of convenience to our customer segments require multiple delivery channels, a range of products and services, benchmarked service standards and streamlined processes through differentiated value propositions. These strategic elements are aligned to service the core customer segments through our five strategic business units.





## Our strategic drivers by business segment

Business Segment	Business Strategy	Core Competencies	Strategic Goals
 <b>Retail</b>	<ul style="list-style-type: none"> <li>• Building diversified revenue base</li> <li>• Broad basing customer base</li> <li>• Acquisition thrust</li> <li>• Cross-Selling to increase wallet share</li> <li>• Value-based deposit mobilisation and risk-based asset lending</li> <li>• Customer management; get:grow:build strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Convenience</li> <li>• Centralised processing</li> <li>• Sales orientation</li> <li>• Young energetic team</li> </ul>	<ul style="list-style-type: none"> <li>• Low cost deposit mobilisation</li> <li>• Grow asset book</li> <li>• Cost control</li> <li>• Sales productivity</li> <li>• Risk management</li> </ul>
 <b>Consumer Assets and Cards</b>	<ul style="list-style-type: none"> <li>• Focused differentiation through Brand</li> <li>• Market penetration</li> <li>• Market development</li> </ul>	<ul style="list-style-type: none"> <li>• Data analytics</li> <li>• Sales process</li> <li>• Break through service proposition and customer experience</li> <li>• Customer Relationship Management</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance market share on billings and receivables</li> <li>• Clear value proposition for all products</li> <li>• Cost management</li> <li>• Operational efficiencies</li> </ul>
 <b>SME</b>	<ul style="list-style-type: none"> <li>• Full product range</li> <li>• Market Segmentation</li> <li>• Customer Relationship Management</li> <li>• Value addition</li> </ul>	<ul style="list-style-type: none"> <li>• Customer service/Convenience</li> <li>• Specialised expertise</li> <li>• Product Management</li> <li>• Sales process</li> <li>• Portfolio management</li> </ul>	<ul style="list-style-type: none"> <li>• Make presence felt in the SME segment</li> <li>• Grow asset book</li> <li>• Maintain asset margins</li> <li>• Cost control</li> <li>• Process efficiencies</li> <li>• Risk management</li> </ul>
 <b>Corporate/Wholesale</b>	<ul style="list-style-type: none"> <li>• Drive financial performance by expanding into new segments</li> <li>• Optimise use of capital</li> <li>• Cement corporate relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Network/Contacts</li> <li>• Product specialists</li> <li>• Market insights</li> <li>• Flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Support the Bank to grow market share on loans and advances</li> <li>• Improve utilisation of approved limits</li> <li>• Maintain NPL ratio below industry norm</li> </ul>
 <b>Treasury</b>	<ul style="list-style-type: none"> <li>• Proactive Asset/Liability Management</li> <li>• Facilitate the growth of an optimal Balance Sheet</li> </ul>	<ul style="list-style-type: none"> <li>• Accurate reading of market signals.</li> <li>• Quick decision making/reaction time/ adaptability.</li> </ul>	<ul style="list-style-type: none"> <li>• Most preferred bank amongst corporate clients for treasury-related business.</li> <li>• Acquire a reasonable share of capital market business.</li> </ul>

## NTB...Where Growth is Life's Breath

### Life's Breath...

\*3

Our Deposits Portfolio grew by a CAGR of 28% over the past 5 years.

Our Loans and advances grew by a CAGR of 23% over the past 5 years.

The Bank's equity grew by a CAGR of 36% from 2005 to 2010.





Implementation of our strategy has been a key priority and in this regard we have ensured that the top management team drives a disciplined focus on execution. Despite the challenges that continued to confront the industry and the Bank this year, our strategic path remained clear, to increase the growth potential of the Bank by continuing to diversify our business by customer, product and geography. That strategy lay behind our branch expansion to the North and the East, new products launched and further penetration of the focused customer segments during the year. The pursuit of our strategy was both measured and robust. It was engaged within an established risk framework, which positioned us well in enabling us to capitalise on the growth opportunities that emerged during the year.

Our strategic focus and execution is aptly demonstrated in our performance for the year 2010 which resulted in exceptional profit growth, sound financial and structural footings. We have consistently been proactive and responsive to the changing economic, market and operational environments realigning our strategies accordingly. The key strategic imperatives underpinning our performance for the year are illustrated in the diagram above.

### Accomplishments

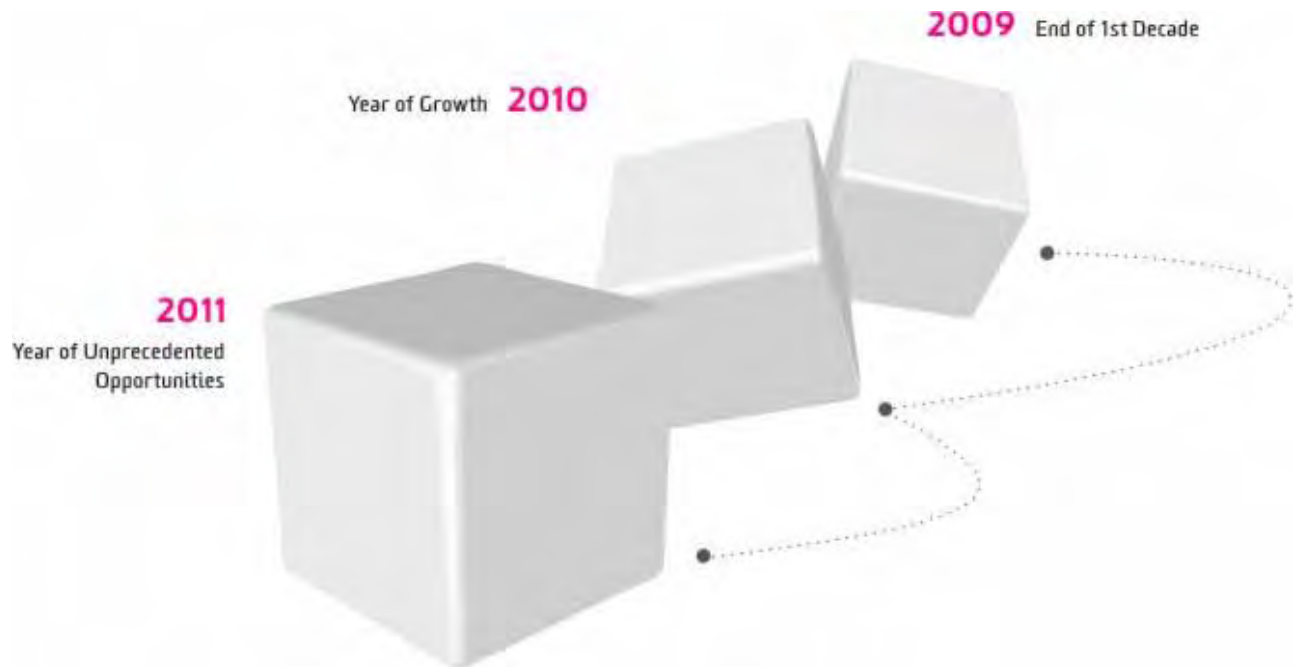
As we conclude 2010 a year in which we have grown in size and stature and crossed many milestones, we have put in place a strong foundation to embark upon the next exciting phase of our growth. In keeping with our beginnings, we have steered ahead amidst a demanding and challenging banking landscape by being competitive and gaining market share whilst posting incremental results. Growing customer numbers, standard setting services and strong presence in all business segments are achievements we are proud of today. All these accomplishments build confidence in both living up to the challenges and surpassing the targets we foresee and have set ourselves in the journey ahead.



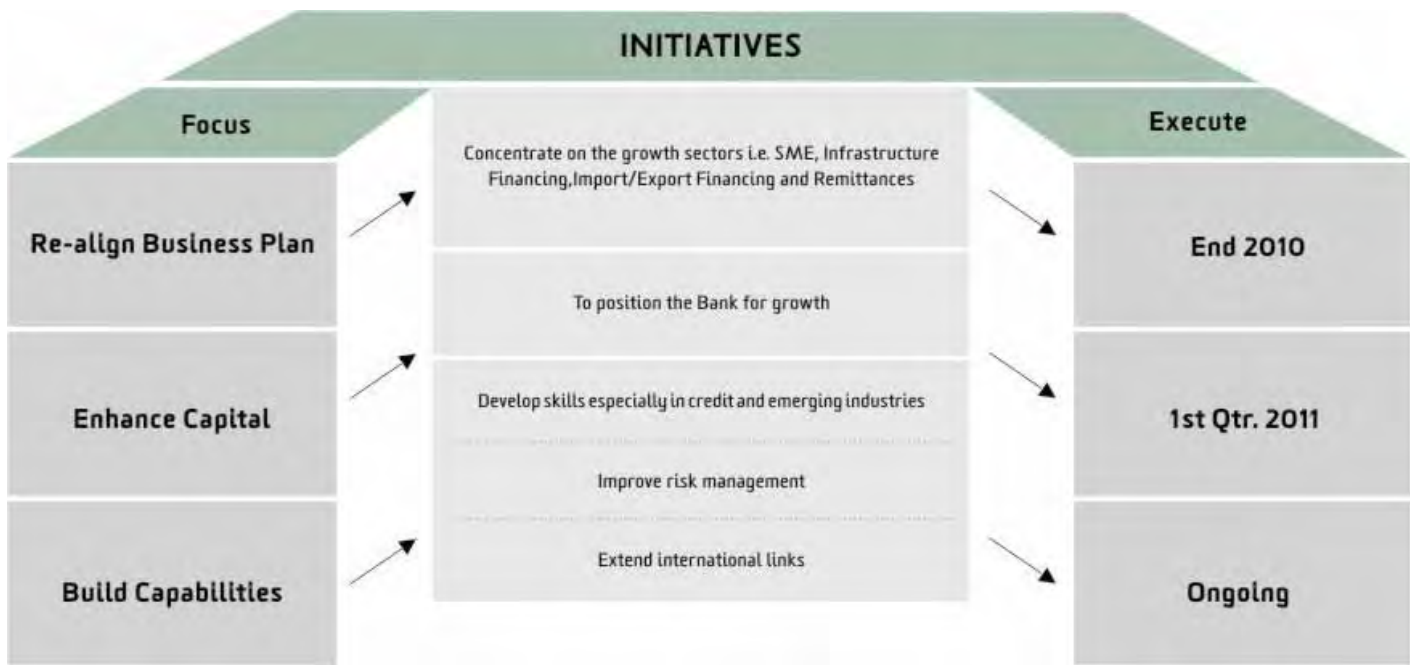
### Strategic Direction for the Future

In the past, the war in Sri Lanka was widely deemed the single most serious factor for slow economic growth and development. Not any longer. Infrastructure destroyed is being redeveloped while new infrastructure is being installed.

The path for rapid economic growth has been recouped. The effects of the changes are reflected to some extent in the uplift experienced by the Colombo Stock Exchange and investor interest. Sri Lanka look poised at the threshold of an era of significant opportunity.



We revisited our strategy and developed a new Strategic Plan to drive the Bank over the next three years and take a firm grip on future opportunities that will arise in the years ahead. The plan has been formulated on the basis of our core competencies, forecast uplift in the macroeconomic environment and anticipated tightening of the regulatory framework. The Strategic Plan outlines an ambitious growth strategy, setting a new direction. During its plan period of 2011- 2013, we will focus on the growth areas of tourism, construction, transport, housing, consumer goods/services, agriculture and most importantly the SME Sector. These sectors of the economy are expected to grow at disproportionate levels and our business strategies have been formulated to capture the opportunities arising from such growth areas.



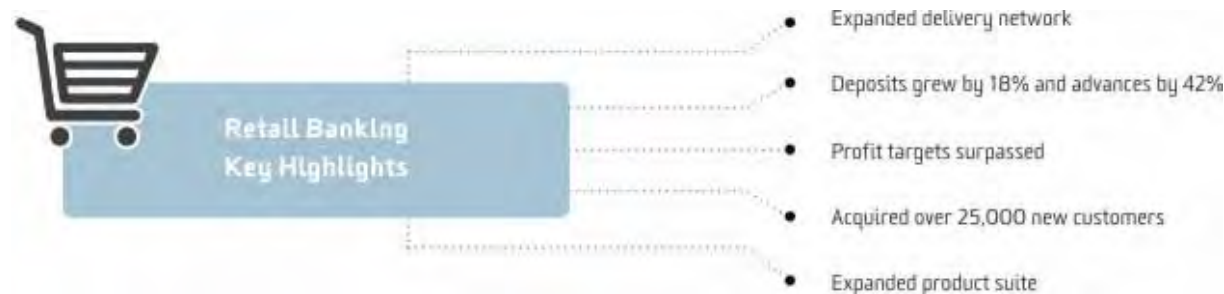
The main driving factors for the Bank will be market development with continuous expansion of the delivery network, value added products and services to customers and new business developments in strategically important growth sectors. While executing our plan, we will continue to act as responsible corporate citizens. We will ensure that our wider responsibilities to society are reflected in how we operate. To the extent consistent with what is required of us by our regulators and with our obligations to shareholders, we will continue to play our part in economic growth and job creation in the geographies in which we operate, thereby contributing to the revival of Sri Lanka that we all envision.



## OPERATIONS REVIEW

Key highlights for year 2010 are reviewed under the strategic business segments of the Bank. It is then followed by an assessment of the overall financial performance.

### RETAIL BANKING



We transformed from a 'volume' driven to a 'profit' driven business segment by offering holistic product propositions via streamlined operating platforms, focused customer segmentation and leveraging on service excellence. In 2010, the emphasis was on creating critical mass as well as growing and strengthening our existing customer relationships by expanding our suite of products to position us as their primary banker. We believe that a focused approach to deepening our customer relationships through multiple products will enable us to continue growing in a highly competitive environment. Our key priorities were on, (a) profit growth and profit diversification, (b) reviewing and revamping our assets proposition and expanding our lending book, (c) deeper penetration of our existing markets and (d) strengthening service excellence across our delivery network. Delivering on these priorities and ensuring that we maintain control over every aspect of our operations has been extremely challenging, but rewarding as demonstrated by our performance against the targets set for the year.

#### Branches

The branch network continues to be the cornerstone for the delivery of our products and services through our proposition of 'convenience, simplicity and unparalleled service experience'. The branches are also the primary acquisition and customer relationship management channel of our Bank. For that reason, we are investing to make them more accessible and comfortable and, crucially, making it simpler for customers to conduct their banking with us in a way that suits them. Our branch network investment and transformation continued during the year

with two new flagship branches opened in the North and the East provinces, and a further two being refurbished as per the new customer friendly standards implemented in the previous year.

In Jaffna we opened a full-service 365-day branch with extended banking hours, to provide the people of Jaffna with unmatched banking convenience, and choice in terms of financial products and services. Our Jaffna branch is the only Bank offering pawning services on a 365-day basis. Significant development is likely to happen in Jaffna which is already flourishing with many banks and finance houses. Already a global city, it is certain to attract much attention as a leading tourist city. The Government is likely to route significant investments into the region and we intend playing our part in the region, by delivering holistic financial solutions and benchmark customer experience.

A number of activities were organised to coincide with the branch opening in Jaffna. Nations Trust Bank together with Sri Lanka Cricket carried out a talent search programme to identify the finest fast and spin bowlers in Jaffna. A Career Guidance Workshop was conducted by our experts in Human Resource Management in conjunction with the University of Jaffna where students were given an opportunity to attend the workshop free of charge and better acquaint themselves with information on various aspects and techniques to aid them in their careers. An Inter-School Art Competition was also held amongst the schools in Jaffna under the theme, 'My Jaffna' giving the children an opportunity to exhibit their talent.



Opening of Jaffna Branch



Inter-school Art Competition held in Jaffna



Opening of Batticaloa Branch

Considered the economic hub in the East, we opened our 39th branch in the Land of the Singing Fish, bringing our unique 365 days banking and extended banking hours concept to the town of Batticaloa. NTB will now connect Batticaloa with the rest of the country helping the people of the area to reach out through a banking network that's unparalleled in service and convenience. The opening of the branch in Batticaloa is an important milestone in the history of the Bank as it marks our affirmation in taking dynamic banking services to the East.

During the year we also revisited our branch strategy and expansion plan. The Sri Lankan banking landscape was reviewed to identify the gaps in our branch network with due consideration given to the anticipated economic boom creating increased business activities and per capita income, island-wide coverage of the key cities which will follow money flows, further expansion in the Western Province to follow the fast expanding urban sprawl, Government focus towards rebuilding the North and the East and the growth of the SME segment. Taking the above into consideration, we have drawn up a comprehensive expansion plan for the next 3 years, which identifies the geographic locations, customer segments, products and type of branches required in these locations.

### Customers

Retail Banking focuses on high networth, mass affluent and self-employed customer segments. We have significantly changed the footprint in these sub-segments over the years, with the customer base reaching over 130,000 in 2010.

In December 2010, we underwent a change to the organisation structure with the transfer of the Business Banking business currently under SME Banking Division to be within the Retail Banking umbrella. The shift is expected to better mine the geographies that we are present in and project the Bank as a 'one stop' shop to meet customer needs as we expand to the provinces. The formation of the Retail/SME Banking unit would accelerate the execution of our strategy, continue to adjust dynamically to the changing environment, and respond rapidly to client and customer needs. This new structure allows us to serve our customers even better. We will place particular emphasis on the SME segment creating appropriate strategies to scale up our presence.

### Product Innovations

In continuing our commitment to deliver enhanced levels of service and convenience to our customers, **Nations Personal Current Account** was enhanced and launched during the year offering our current account holders a host of privileges and benefits to execute their business transactions with ease. Customers are able to access their accounts through branches that provide 365 Day Banking with extended banking hours. This provides account holders the opportunity to perform their transactions even during holidays and enjoy faster cheque clearing. Customers can also enjoy a host of other benefits such as Bank-At-Your-Doorstep service, Account Relationship Officers and access to a 24-hour call centre.

The need for a sound financial plan is a growing demand amongst Sri Lankans. The future cannot be predicted and contingency measures as well as sound investment plans will only serve to benefit the community. The essence of Investment Planning revolves around primarily identifying one's financial goals in life. We recognised the need to offer a flexible product that enables and encourages customers to invest funds based on their financial capability and future objectives. The new **Nations Personal Investment Plan** requires customers to identify and project the bulk amount that they wish to save and put away a monthly sum towards achieving the target. The customer will also enjoy a guaranteed 10% p. a interest rate on their investment. An additional feature of this new product is the free life insurance offered to all product participants.

We also launched a special **Kids Investment Planner** that is similar to the Personal Investment Plan, enabling parents to invest for their child's future of which funds will be available when the child reaches the age of 18.



Left - Nations Personal Current Account campaign  
Center - Nations Personal Investment Plan campaign  
Right - Nations Personal Advances campaign



**Nations Personal Advances** is a fast, flexible and simple solution to raise funds for any investment at affordable borrowing rates. Customers can obtain a term loan or an overdraft against their property, quoted shares, life insurance policies or Government Securities to profit from opportunities. In keeping with the Bank's core values of simplicity and convenience Nations Personal Advances provides flexible repayment options on these facilities backed by excellent customer service through fast credit evaluation and processing, allowing customers to obtain a hassle free advance.

### Customer Management and Service Delivery

The Bank's customer philosophy has always been one of long-term partnerships with our discerning customers nurtured to assure a winning formula. We firmly believe that it is our customer who sustains our business. Service is a fundamental catalyst in our business and is the cornerstone of our success. We have always pursued global processes, systems and best practices, striving to give our customers the best in class.

### Passion for Excellence

Service excellence is fundamental to us, and it is one of the primary challenges we continue to face in ensuring that we are constantly ahead of customer expectations. Getting the right equation in following controls and processes while providing customers with fast and simple interactions with the Bank requires our constant attention and a customer mindset.

During the year under review, the Customer Service Steering Committee, on which all divisions of the Bank are represented, undertook a series of initiatives to enhance simplicity of delivery through the review of customer processes and services. The reviewing of policies entailed identifying process hiccups leading to various customer complaints and addressing the gaps in skills required to deliver exceptional customer care across the organisation. To this end we employed a series of customer service measures to better understand short-falls in the service philosophy and levels. Delivery Standards are set for identified critical processes across the organisation and monthly evaluations of these standards are reported to the Customer Service Steering Committee. The 'mystery shopper' concept was also revamped and continued to ascertain a qualitative 'feel' for the service levels at the branch level. Analysis of findings and customer input is expected to generate more rigorous criteria in laying out the customer service thresholds in the year ahead.

"... I want to thank you both, the team at Private Banking and the team at ODEL for the excellent service. It's a pleasure working with you guys. All the best!"

A Leading Private Banking Client



"Thank you very much for processing the transaction within such a short time and following up on areas lying even beyond your levels of responsibility. Greatly appreciate it".

Ms. Natasha Hay

### Customer Commendations

"... has constantly provided superior customer service and relationship on the many occasions at which I have required assistance, always providing courteous and undistributed attention at all times I have had reason to contact him. He has shown great politeness and consideration, taking the initiative in following up on matters until satisfactorily sorted. In fact due to excellent customer care, customer relationship and his manner of going the extra mile to assist, working with your Bank has been a pleasure and an experience which I am sure is a mark of quality of your service all-around."

Mr. Fayaz Saleem

Complaints Handling

The Bank has a well structured complaints management process from initiation to resolution at customer level as well as at an organisational level which addresses the root cause of such complaints. The Bank encourages customer feedback at several points, including the 24 hour contact centre, the branch network or directly to the Customer Service department. All complaints are logged into the automated complaints management system on a mandatory basis, from the department receiving the complaint, which in turn enables us, at a central point, to track any concern from inception to conclusion. These are raised and reviewed monthly at Corporate Management level as well as at the Customer Service Steering Committee.

Retail Awards

We believe that excellence, which is identified and rewarded, multiplies excellence. With the objective of promoting and improving productivity and profitability whilst maintaining our aptitude and attitude to service, we have launched a formal rewards programme across our business and our support departments, to recognise our champions in sales, service, customer relationship management, processing, productivity and profitability management. There is also a Business Impact Award which encourages staff at any level to give their innovative ideas which lead to enhanced productivity, profitability or business volumes.

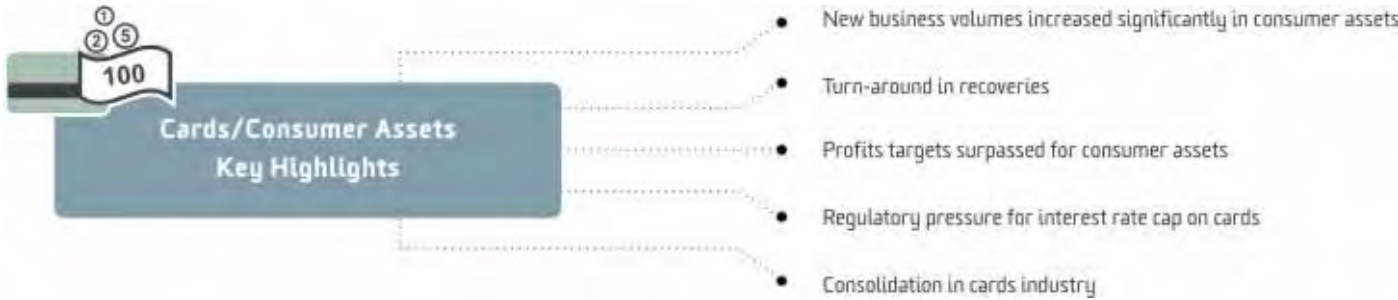


Recipient at Retail Awards 2010

Future Outlook

*Our Retail Banking unit now offers the full array of products and services from both sides of the Balance Sheet to our personal as well as SME customers, and we are gathering momentum as we increase market share. We have a unique opportunity in the years to come, and we are determined to take advantage. We have the right model, the right culture and the right people to succeed as long as we continue to manage our risks and our costs, deliver flawless execution of our plans, and maintain our momentum. Most important of all, however, we must as always, stay close to our customers. We are determined to continue exceeding our customers' expectations.*

CARDS/CONSUMER ASSETS



Consumer Assets

It was a turnaround year for consumer assets business with improved new business volumes and decreased delinquencies. The business unit capitalised on the opportunities the market posed during the year for consumer asset growth as the debt servicing capacity of borrowers improved due to lower inflation and higher spending power. Business volumes grew steadily as we penetrated into new customer segments with bundled offerings improving the depth and breadth of

our consumer assets portfolio. However, product margins narrowed as a result of intense price competition particularly in premium segments. The sales teams made significant contribution in building the consumer assets portfolio amidst the heavy competition and tightening of internal credit verification processes.

**Nations Education Loans** were launched in October with the goal of creating positive customer sentiments amongst the target segment and providing a financial solution to suit both academic and professional educational needs. The key focus of the product is to facilitate tertiary education to school leavers and (young) employed professionals to induce their loyalty towards the Bank and create more value to the Bank within the life cycle of the customer. Education Loans are tailor made to accommodate needs of school leavers (unemployed), salaried and self employed individuals. Loans are granted with or without security at a preferential interest rate based on repayment capacity and other risk based parameters applicable for loans granted by the Bank.

### Acquisition Promotions

An acquisition drive was conducted at Nawam Mawatha during October where sales teams for Personal Loans and American Express Cards visited all companies in and around the area to acquire Loans and Cards. The unique feature of the drive was that the applications collected at the promotion were processed within 24 hours via a super urgent channel. A branded sales stall was placed at the car park and the shops in and around Nawam Mawatha were branded with the special offers for AMEX.

An acquisition promotion similar to Nawam Mawatha sales drive was held at the World Trade Center during the last week of November. The promotion mechanics were similar to the Nawam Mawatha acquisition drive where Loans and Cards were promoted to the employees of the companies at World Trade Center.

### Credit Cards

Globally the credit card business consolidated as people were more inclined to save than spend. American Express (AMEX) card, well-known globally is recognised as a prime indicator of one's way of life embedded with aspirational qualities. The card has been built over a number of years supported by enhanced systems, marketed and positioned well. In the context of Sri Lanka, Amex Card has a close relationship with SriLankan Airlines where cardholders are entitled to various facilities such as baggage allowances and lounge facilities. Over the last few years the Bank had committed significant resources by way of staff, systems/technology and capital to bring the business to its current level and build critical mass. Our credit cards business has grown leaps and bounds during the eight years it has been in issuance in Sri Lanka and has contributed well to the Bank's overall bottom line.

Year 2010 was a testing year for Card business where the operating landscape changed significantly during the latter part of the year with the Regulator recommending a rate cap on interest rates. The industry was shaken as the interest rate declined from 36% to 24% overnight with margin reducing by 12%. The business was also impacted by various other events both favourable and unfavourable. Cards industry was sluggish throughout the year, and most of the business drivers such as number of cards in force, receivables and interest bearing balances either were stagnant or contracted. We acquired over 13,000 plus new cards during the year and attritions both voluntary and involuntary declined during

the latter part of the year with improved economic conditions. No material growth was recorded in card receivable which was in line with the industry which showed a contraction of 9% for the year. On the positive side, credit card spend increased with destination sales picking up significantly with the tourist arrivals. We also strengthened our position in the premium segment with the SriLankan Airlines co branded card and improved our customer service and convenience through Automatic Bill Settlements (ABS). ABS recorded over 3,200 new registrations for the year.

During the year a number of value propositions were offered to Amex cardholders.

Bringing more convenience to American Express Cardmembers, we tied up with Abans (Pvt) Limited to accept American Express Credit Card bill payments at over 250 Abans showrooms island-wide. This strategic partnership with Abans would provide all American Express Cardmembers greater convenience through the widely accessible Abans network.



Top - Tie-up with AMEX-Abans campaign  
Middle - Nations Educational Loans campaign  
Bottom - Acquisition Promotions held at Nawam Mawatha





Amex pump fuel campaign

Amex festive season campaign

Amex 1 for 1 dining campaign

American Express offered Cardmembers a chance to win big during the month of August by pumping fuel at any fuel station island-wide. With no surcharge and the widest acceptance of fuel stations in the country, each time the American Express Card is used to pump fuel a Cardmember stood a chance to get their fuel bill wiped out on a daily basis. Apart from that all Cardmembers got another chance at winning a trip for two to view the Formula1 Grand Prix live in Singapore.

American Express offered Cardmembers 1 for 1 dining at a select range of star quality restaurants where Cardmembers could enjoy 50% savings when dining with their companions allowing them to treat themselves and their companion to a wide variety of cuisine available at our partner restaurants.

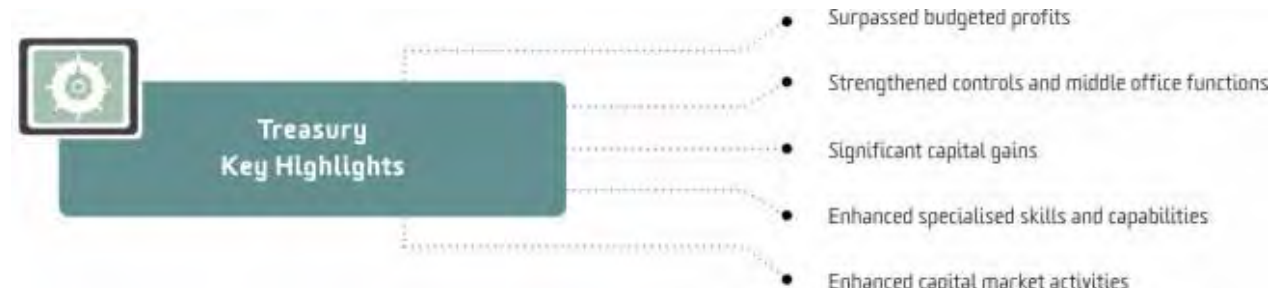
The year concluded with offering a host of special privileges and savings during the festive season joining with the country's premium malls. Offering these benefits to our Cardmembers helped us to reiterate that AMEX is indeed the card for all seasons.

### Future Outlook

*The post-war economic conditions in the country backed by the proposed budget for year 2011 promises an unanticipated growth in disposable income of individuals and expansion of the middle class population which in turn promotes more abundant lifestyle and improved living conditions. With the anticipated economic revival the market for loans is expected to grow rapidly with high potential for portfolio growth in the consumer loan space.*

*On the credit cards front, despite the immediate impact the interest rate cap has had on return on investment and profitability of the business, we see considerable value in the medium term in using the experience and reputation we have gained in the card business to increase our market share. NTB as the second largest credit card issuer, is committed to investing in building brand, acquiring and enhancing skills, product value addition and marketing to consolidate and expand our market share. We also need to streamline operating expenses further including acquisition cost and marketing investments. Whilst credit cards as a transaction mechanism will remain important and necessary, the profitability of the business will depend even more now on credit and operational risk management, overheads, productivity, service levels and above all, portfolio growth.*

## TREASURY



Post-war economic optimism itself helped financial markets to change their traditional view of a stronger Dollar and an annual depreciation of 4-5% which the country has witnessed for years. As expected the SLR continued to gain against the Dollar. The USD/LKR market, which has been supply driven in 2010, saw forward premiums adjusting downward, to reflect the realities in the domestic interest rate scenario. In this back drop, the exporters too had joined the rally by converting long held Dollar positions in the forward FX market in an attempt to hedge their positions against this situation. The year started with a Month To Month premium of 35 cents and ended at around 15 cents a month. This is a direct result of the low interest rate regime that prevailed as a result of the global economic downturn that also had a trickle down effect on Sri Lanka since 2008. In the year 2010, we saw excess market liquidity reaching a record high. In response to this and to stimulate private sector credit expansion, CBSL systematically brought down the policy rates from 10.25% in 2009 to 7.25% in July 2010.

Amidst all these challenges in a fiercely competitive environment our Treasury performed exceptionally both in Debt Trading as well as in Forex Operations registering healthy revenues. The ability of the fixed income securities trading division to read the emerging trends in the yield curves enabled it to realise significant capital gains during the year. More importantly it has firmly established amongst the corporate and institutional customers as a key player in the market for tailor made solutions for their financial needs.

### Asset and Liability Management (ALM)

The Treasury balance sheet management desk was responsible for guiding and advising the Asset and Liability Committee (ALCO) of the Bank through the year of suitable strategies to be implemented. ALM provided insight into anticipated market trends and advised the various business lines of the Bank on strategic decisions and reduction of funding costs. ALM supported the new Treasury Middle Office to restructure the Market Risk Policy of the Bank which tightened controls and risk management functions of the Bank in tandem with the CBSL guidelines. The well-positioned Balance Sheet and timely repricing of assets and liabilities yielded healthy net interest income which was a key contributory factor behind the Treasury generated profits for the year.

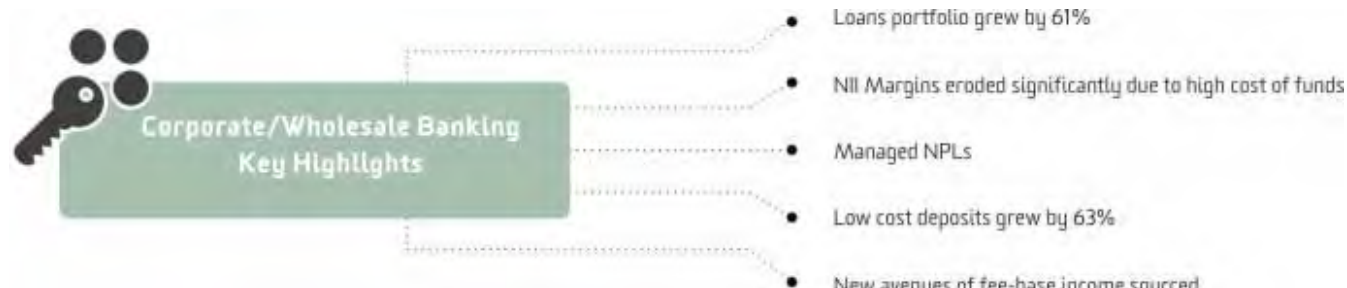
The Bank has strengthened risk control aspects by recruiting experienced personnel into the Front Office as well as the Middle Office and introduced several monitoring mechanisms of international standards enabling it to make further inroads into Treasury business.

### Future Outlook

*As Sri Lanka enters a new era of development catalysed by the end of the ethnic conflict, the Government is on a mission to fast track infrastructure development. As a result, the macroeconomic fundamentals are getting into good shape. In order to harvest the benefits of this environment we, at the Treasury will operate and strengthen our skilled and experienced team to gear ourselves to match the scale of operation envisaged for the future.*



## CORPORATE BANKING



The economy rebounded with inflation and interest rates declining. Corporate and Wholesale Banking units capitalised on these opportunities so generated by recording a strong growth in volumes, outperforming industry average. Continuous emphasis was directed at maintaining and improving our relationships with corporate customers, whilst managing our risks and exposures well. Throughout the year we were challenged by high cost of funds putting pressure on our net interest income margins and booking profitable new business volumes. Amidst these challenges we grew the loan book by 61% contributing to 72% of the overall loan growth of the Bank for the year.

We also recorded a good growth in low cost deposits, mobilised through our Transactional Banking arm by providing enhanced service levels. Our focus during the year was also on diversifying the revenue base by increased cross-sell of fee income generating products across the portfolios.

The unit also undertook several initiatives to meet statutory agriculture exposure targets set by CBSL. Our International Trade At Your Doorstep' (TAYD), product which was successfully launched in 2009 was rolled out to new import clients during the year.

Our Corporate, Wholesale and Institutional Banking units liaised closely with market experts and product specialists of our Trade and Treasury departments to enhance fee based revenue, structure effective debt financing solutions and cross selling of products. This relationship is of great strategic importance in our drive to optimise market opportunities. Designing specific products and financial solutions is our expertise which continues to add value and dynamism to the business.

Our corporate event calendar kicked off with the Annual Golf Extravaganza in February. Built on the remarkable success of the previous year's tournament, the Annual Nations Trust Golf Extravaganza was conducted on a Stableford Format at the Royal Colombo Golf Club. The tournament delivered an exciting day of golf to all participants, the majority of who were valued customers of the Bank. The day out on the green for a challenging game of golf concluded with cocktails and entertainment in the evening.

The 'NTrust Corporate Quiz' was held for the 4th year at the Waters Edge Grand Ballroom in August. The cream of Sri Lanka's corporate sector was captivated by the galactical ambiance and glamour as forty teams battled out to gain supremacy under the theme of the movie phenomenon 'Star Wars'. Based on the theme of One World, One Universe, One Team the event was complete with galactical décor, lights and out of space ambiance, where all the participants had to register their bar code number at the entrance to enter the event. Each team or Starfleet in this case that comprised five members faced a barrage of questions that tested them through five different rounds of questions. The final winners were Akbar Brothers and the runners-up John Keells Holdings with Aitken Spence securing the third place. The event was an overwhelming success and constituted an audio visual treat, dance and entertainment acts, with the participants having an enjoyable evening with a number of prizes and surprises in between rounds that complemented the main prizes, followed by cocktails and fellowship.



Nations Trust Annual Golf Extravaganza



Winners of 'NTrust Corporate Quiz'

## Future Outlook

*Across our corporate banking activities we continued to consolidate our position in our core segments through organic revenue, cost and risk management measures. We have been conscious of our allocation of capital and return across the customer segments which will now be even more important as we move into a low interest margin regime. Whilst we nurture profitable relationships in industries well-known to us we will also seize the opportunities emerging before us in areas such as infrastructure development, commercial agriculture, tourism and transportation. With strategies in place we will continue to adjust dynamically to the changing environment, and respond rapidly to client and customer needs. We are operating in a great business, with superb relationships, a client-focused culture, and outstanding prospects in the years to come.*

## SME BANKING



This sector did well in 2010, beginning to reap the dividends of peace in the country. The positive sentiment was clearly seen in the immediate improvement in recoveries and collections in the very first quarter, even before many of the improvements in the economy actually materialised. As a result the SME business unit reported excellent profits in 2010, surpassing expectations and recouping much of the lost ground of 2009, contributing 20% to the Banks' bottom line and firmly establishing the Bank as a serious player in this sector.

### Business Banking

We continued with our strategy of acquiring small businesses by offering them Nations Business First, a portfolio of products and facilities relevant to their business with dedicated relationship management and special tariffs for larger customers. We added 3,042 new accounts to our portfolio and increased our current accounts by Rs. 390 mn, well over plan. Overall deposits increased by 11% over the previous year, reflecting steady growth of our customer base. Of particular note was the significant increase in income from trade finance, as our customers enjoyed our service and convenient facilities.

As part of our strategy to add value to our customers' businesses a seminar for business customers representing businessmen across the industries was held with the objective of discussing the tax proposals in the 2011 budget and its impact on their businesses.

The invitees were given an opportunity to interact with the panel consisting of eminent professionals in the field of Tax and Compliance to discuss and clarify specifics on the 2011 budget tax proposals relating to different businesses. The elite panel encouraged businessmen to take advantages of the benefits offered by the 2011 Tax Proposals and further grow their specific business segments. The first of its kind, we will be organising such forums for business customers on varied topics of interest in the future.

Going forward, Business Banking will move under the Retail Banking umbrella focusing on lending to the SME sector through the branch network. This would expand our reach into the provinces where we have opened new branches, and thereby managing relationships directly through our branch managers who will be in the best position to ascertain and respond to our customers' needs.

### Leasing

2010 was a turnaround year for the leasing business at the Bank as well as for the industry in general. The first half of the year was characterised by a significant improvement in collections which was sustained for the rest of the year, with the unit recording write backs of provision for 9 successive months. The business ended with a net write back of provision for the year boosting the bottom line. This excellent collections performance also contributed significantly to profits through the reversal of suspended interest on previously bad debts. Overall the leasing business ended the year with a NPL ratio of 11%, construed to be a very healthy ratio in the leasing industry.

New business volumes were given a boost by the revival of the vehicle industry in June 2010 when the Government reduced vehicle duties. Vehicle sales increased dramatically in the following months, with leasing volumes reaching new heights for the industry. We closed the year with our highest new business volume ever of Rs. 5.5 bn, a very creditable result for a marketing team consisting of only 40 staff. We were pleased to see business volumes come in from our new branches in Jaffna, Batticaloa and Vavuniya.

Overall, with excellent recoveries, good business volumes, on-budget margins and well-controlled operating costs, leasing closed the year well ahead of budgeted profits surpassing all expectations.

### Factoring

Nations Factors saw competition increase with several new entrants into the market, a clear indication of the appetite for SME working capital financing. Growth for the year in volumes exceeded the budget with a strong push in the second half of the year. With the opening of the credit market, utilisation of existing facilities was however below budget as some of our customers moved to traditional banking facilities. Our credit policy remained conservative, with NPLs at 4.3% - very healthy for this sector.



Campaign on Nations Professional lease



Campaign on Nations Factors



## Future Outlook

*Amidst the challenges from leasing and finance companies due to a somewhat uneven regulatory playing field, we are confident that our leasing business will continue to grow as a key pillar of our SME lending strategy. We will continue with expanding our reach with a leasing counter in every new outstation branch bringing our convenient leasing facilities to customers all over the island. Nations Factors will capitalise on the strength and experience of its factoring staff, some of whom are pioneers of the business in Sri Lanka by aggressively growing the book and setting up factoring as part of our SME Centres in outstation branches, thus offering this innovative financing tool to SME businesses all over Sri Lanka for the first time.*

## STRATEGIC MARKETING

Strategic marketing initiatives were directed at strengthening the corporate brand of the Bank during the year. We renewed our contract with Sri Lankan cricket skipper Kumar Sangakkara who has been our brand ambassador since December 2008. Our strategy primarily aimed at enhancing our corporate image whilst concurrently generating consumer interest in our products and services through a series of tactical promotions, thereby motivating consumers to convert their brand awareness and interest into action.

## INFORMATION TECHNOLOGY

At the Bank, information technology is integrated with the business functions under a strong management framework and good governance. We believe our IT investments are most fruitful when they match technology strategy with business strategy, implement systems in a disciplined way and balance value creation with increased IT capabilities.

Our branches are connected on-line real time basis via a Virtual Private Network supported by electronic banking channels including ATMs, Internet Banking, IVR and SMS banking facilities. All Banking transactions are carried out via Flexcube core banking software solution provided by Oracle Financial Services. Moreover, the MIS system of the Bank has been in place since 2004, providing critical analytical information in terms of Segments, Branches, Products, Customers and Transactions in the analysis of profitability, portfolios, trends, etc. Our 'Bank At Your Door Step' is a unique service, where banking services are performed at the doorstep of the customer. This is a fully-automated service carried out using handheld Enterprise Digital Assistants (EDA), which is communicated via secured GPRS communication. Bank hardware includes enterprise level and mid-level database servers, application servers and web servers. Our disaster recovery site is equipped with similar capacity servers and on-line data replication. During the year 2010, several initiatives took place in enhancing our IT capabilities.

Internally developed fully-fledged Lease Management System was launched in February 2010. The new system replaced the legacy system, which was in operation from our inception. This state-of-the-art application has now provided leasing staff with on-line connectivity from all branches. The new system also is integrated with the Bank's Collection, General Ledger and Banking applications. The system has further strengthened and streamlined controls and operational processes within the Leasing Business.

Our online Stationary Management System went live in March 2010. The new system provides on-line ordering capability for all user departments and branches. The system also facilitates better controls in terms stock management and management reporting for usage and cost control.

American Express Credit Card has tie ups with utility providers and other service merchants, providing card holders the flexibility to automatically settle their bills on a monthly basis. In order to further streamline the processes associated with Automatic Bill Settlement, the Bank internally developed a fully-automated system, which was launched in September 2010. This system provides the Bank to grow volumes with relative ease. The system will also be integrated into a new SMS solution for customer alerts as a second phase.



Renewal of contract with our Brand Ambassador

During the year the Bank's data centre hardware was converted into a Virtual environment, keeping abreast with global trends. This has enabled creating virtual pools of resources such as servers, storage devices and operating systems where the framework divides the resource into one or more executable environments.

The Bank has moved its critical applications such as core banking and credit cards, both production and DR environments into virtual servers using VMWare technology on IBM Hardware. By acquiring this technology the Bank has gained the advantages of having high availability systems, centralised administrative tasks, and also saving on power, cooling requirements and data centre space.

## ACHIEVEMENTS DURING THE YEAR

### Credit Rating

During the year, Fitch Ratings Lanka Limited carried out an annual review of the rating assigned to the Bank and reaffirmed it at A(lka), coupled to a Stable Outlook. The rating denotes a strong credit risk relative to other issuers in the country. It should be noted that NTB was assigned this rating by Fitch Lanka in 2006 and has retained it since that time with no downgrades.

### Brand Rating

We were awarded a A+ brand rating by Brand Finance PLC, the world's leading independent brand valuation and ratings firm. The brand rating is based on detailed analysis of data obtained from public and other sources, which is reviewed by an expert panel of brand analysts and consultants.

### ICASL Annual Report Awards

NTB Annual Report 2009 received a Certificate of Compliance in the Banking Sector category at the 46th Annual Report Awards organised by The Institute of Chartered Accountants of Sri Lanka. The competition saw 81 applicants with the panel of judges consisting of 15 members chaired by CBSL Governor Ajith Nivard Cabraal. A total of 150 Chartered Accountants were appointed to closely scrutinise the annual reports during the initial selection process, while some 40 experts from respective sectors were tasked with going through the reports in those relevant sectors. The competition is seen as a platform, which encourages excellence in the presentation of information covering transparency, social accountability and good governance among diverse Sri Lankan business entities in the field of financial reporting.



Receiving of Certificate of Compliance at ICASL Annual Report Awards

### MerComm Annual Report Competition - The ARC Awards

ARC Awards, considered the most prestigious Annual Report Awards Scheme in the world attracts over 2,000 entries mainly from United States and other highly developed markets. These awards have been popularly dubbed as the Oscars of Annual Reports. The Awards are globally recognised, providing a platform for the highest standards in the annual report publication industry. The 2009 NTB Annual Report won two Silver Awards for Non-Traditional Annual Report and Illustrations in the Banks: Local category. In addition, the Report has also been awarded Honours for financial data in the same category.



Certification received on Brand Rating



Silver Award for NTB Annual Report 2009 at 'Vision Awards'

### LACP Awards

League of American Communications Professionals LLC (LACP) was established in 2001 in order to create a forum within the public relations industry that facilitates discussion of best-in-class practices within the profession while also recognising those who demonstrate exemplary communication capabilities.

The Vision Awards is a premiere annual report competition, which recognises the outstanding annual reports of organisations who compete against peers of similar size, staff, and means to earn recognition for their organisation's achievements. Judged across a broad range of criteria, awards are presented across five tiers: platinum, gold, silver, bronze, and honours. Ratings are based upon an evaluation point system, which considers a number of factors measuring the effectiveness of communications materials. The 2009 NTB Annual Report won the silver category in this prestigious awards scheme. Out of more than 4,000 entries from 28 countries, some 20% have been annual reports of Fortune 1000 companies. Only the top 15% received award level recognition.

### Warrants Issue

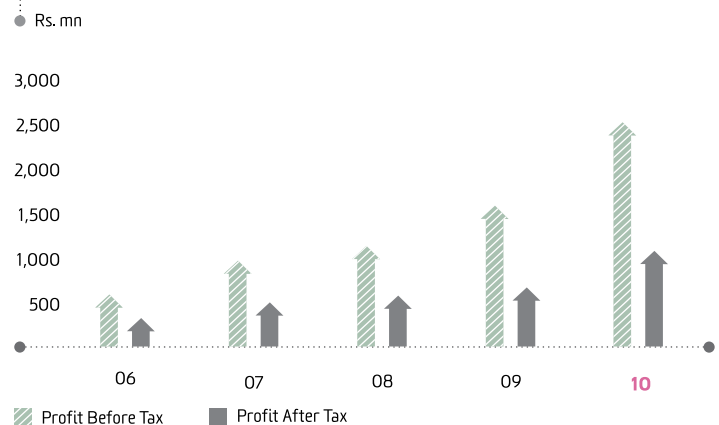
The conversion of '2010 Warrants' issued by the Bank was an overwhelming success with the 41,928,668 shares that were on offer for conversion being over-subscribed by 12,076,786 shares with warrant holders applying for 54,005,454 shares. In February 2008, NTB issued two types of share warrants attached to its rights issue of shares. These warrants were to be converted into shares in 2010 and 2011 respectively. A sum of Rs. 1,257,860,040/- was raised by the Bank through the 2010 warrant conversion, while 20,963,943 warrants are on offer for conversion to shares in February 2011 at an exercise price of Rs. 35/- per share.

## FINANCIAL REVIEW

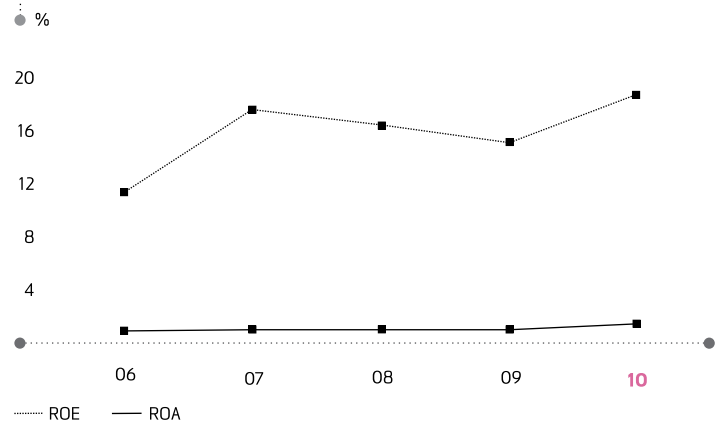
### Summary

We are reporting strong profit growth for the year resulting from a substantial improvement in provisioning combined with a growth in income, loan book, deposits and balance sheet footings. We have also generated higher returns, on both increased equity and assets. We have managed capital tightly, keeping leverage stable and further strengthened our liquidity position while continuing to support our customers. With net income recording a faster rate of growth than operating expenses, coupled to a significant turnaround in provision for loan losses, Group closed the year crossing the one billion Rupee mark in post tax profits reaching Rs. 1.084 bn. The Balance Sheet, continued to reflect strength and stability, proving that sound fundamentals, astute financial policies and customer centric strategies are core to sustainable business growth. We successfully managed the asset mix to optimise growth and stability. With loans and advances distributed across the industry spectrum - from Retail and SME to Corporate - we focused on the management of a quality portfolio coupled with growth. Accordingly, we recorded growth in loans and advances of 26% and lower NPA at 4.9% for the year.

### Profit Before and After Tax



### ROE/ROA



## Net Interest Income

	2009 Rs. mn	2010 Rs. mn	Growth Rs. mn	Growth %
<b>Total Interest Income</b>	12,049	10,090	-1,959	-16
Customer Advances	7,813	6,461	-1,352	-17
Fixed Income Securities	3,389	3,056	-333	-10
Investments	847	573	-274	-32
<b>Total Interest Expense</b>	8,329	5,525	-2,804	-34
Deposits	4,028	2,933	-1,095	-27
Borrowings	4,301	2,592	-1,709	-40
<b>Net Interest Income</b>	3,720	4,565	845	23
Net Interest Margin (NM%)	31%	45%		
Net Interest Spread	5.4%	5.9%		

Total interest income in 2010 amounted to Rs. 10,090 mn, representing a decrease of 16% over 2009. The reduction in interest income is mainly a function of volumes and yields. Yields across all interest earning asset portfolios comprising customer advances, fixed income securities and investments declined during the year. In contrast volume of customer advances grew by 26% amounting to Rs. 9.0 bn for the year whilst balances in Fixed Income Securities increased by Rs. 3.0 bn and Investments decreased marginally. Hence, the net growth in balances of interest earning assets amounting to Rs. 12.0 bn partly offset the negative impact to interest income as a result of the decline in yields.

Interest expense on the other hand amounted to Rs. 5,525 mn in 2010, a decrease of 34%, purely attributable to decreases in yields of interest-bearing liabilities, comprising both deposits and borrowed funds. Customer deposits volume grew by 9% amounting to Rs. 4.0 bn at a much lower weighted average cost of funds than in 2009, whilst absolute volume of borrowings contracted at lower yields. Overall, the Net Interest Margin increased from 31% to 45% and, the Net Interest Spread increased from 5.4% to 5.9% as a result of deposit and borrowing rates falling more steeply than lending rates. However, it is unlikely that these high NII spreads could be sustained in the medium term.

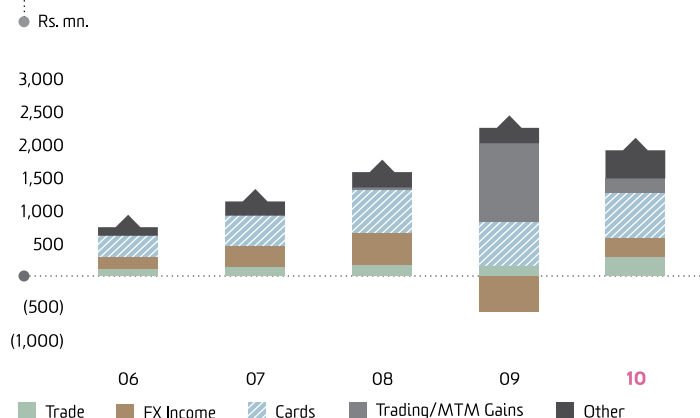
Towards the latter part of year, we witnessed lending rates reducing steeply with the Regulator taking an interventionist stance to curb interest rates. It is likely that the downward interest rate revision would prevail in the months to come in an effort to build a low interest rate regime in the country, with 2011 probably being the year of transition. The Regulator has clearly signaled such a direction with the strongly recommended downward revision of rate on credit cards. There is also likely to be widespread price wars especially in the leasing, housing and consumer loans market as competition become stiffer and customers become extremely rate sensitive. Risk reward pricing will need to be managed carefully at the portfolio level with a fine balancing between volume growth and product profitability.

We anticipate the interest margins to suffer compression in the forthcoming year, which will be partly - off set by growth in business volumes where high yielding assets and product portfolios will be grown aggressively whilst sourcing low cost deposits and alternative funding.

## Non-Fund-Based Income

Total non-fund-based income showed a good growth of 7% over the previous period. Trade and FX income showed exceptional growth levels for the current year. Trade income growth was due to the general increase seen in import/export volumes compared to previous year and IPO related guarantee commission. FX income performed well due to increase in customer volumes and favourable movements in forward premiums. Trading income on the FIS portfolio was notably below the levels seen in 2009. Our investment portfolio stood at Rs. 7.4 bn whilst trading portfolio amounted to Rs. 16.0 bn at the close of 2010.

### Composition of Non-Fund Based Income



Credit card non-fund-based income was marginally above the previous period. Late payment and overlimit fees both showed around 20-30% drop over previous period which was partly off-set by increase in merchant commission income. Increase in credit card income was quite commendable in an industry which experienced contraction in the active card base, high attritions, declining receivables and stagnant interest bearing balances. Whilst issuing income comprising of card fees, cash advances and issuer commission increased by 8%, acquiring income growth was around 17% due to increase in both local and destination sales.

Strategically our focus has been to enhance income generation that minimises capital utilisation with the objective of diversifying our revenue base. We closed the year with the NFB to Total Income Ratio at 32%.

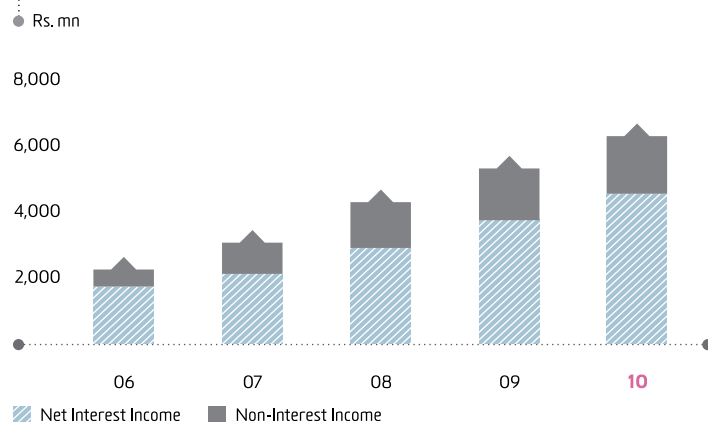
### Operating Expenses

	2009 Rs. mn	2010 Rs. mn	Growth Rs. mn	Growth %
Personnel Cost	1,253	1,677	424	34
Premises & Establishment Expenses	465	437	-28	-6
Depreciation	312	348	36	11
Other Overheads	1,262	1,471	209	17
<b>Total Operating Expenses</b>	<b>3,292</b>	<b>3,933</b>	<b>640</b>	<b>19</b>
Provision for Bad & Doubtful Debts	804	203	-601	-75
Financial VAT	231	526	295	128
<b>Total Expenses</b>	<b>4,327</b>	<b>4,662</b>	<b>335</b>	<b>8</b>

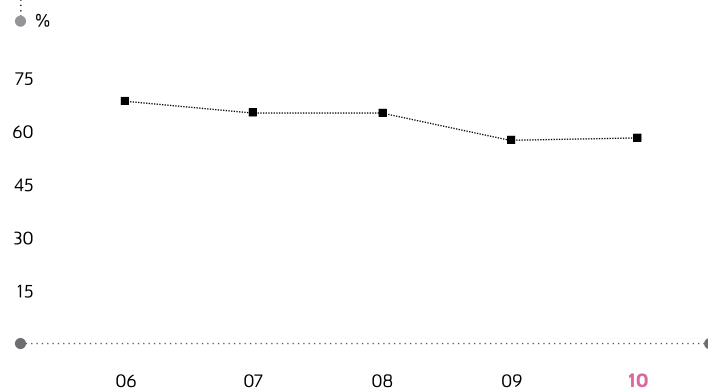
Operating expenses increased by 19% during the year to Rs. 3,933 mn. Overall increase in personnel cost is 34% mainly attributable to the provision for performance-related pay. Premises and establishment costs and other overhead expenses also reported increases on account of inflationary pressures and supplier rate hikes.

On a regular basis we have been looking at our controllable expenses on how we are performing against the budget. All the businesses and the support functions contribute to setting up the budget, which is prepared by the senior management and then approved by the Board. Expenses are based on the zero-based budgeting concept which is cascaded down to departmental levels. The controllable cost lines which are continuously scrutinised by management on a monthly basis are Electricity, Telephone, Travelling, Overtime, Printing and Stationery. The idea is, to not only to see that at a minimum, one manages within the budget for these cost lines but also to stretch and exceed them. We have ensured that we perform much better than the budget numbers by being continuously cost conscious and efficient whilst being deeply aware of wastage. In this respect several internal promotions were launched during the year to build and inculcate cost consciousness amongst staff.

### Composition of Net Income



### Cost/Income Ratio



Composition of our cost base remained unchanged in 2010 with personnel cost representing the highest element at 43%, premises and depreciation at 20%, other operating expenses and advertising expenses following with 32% and 5% respectively.

Our efficiency ratios, such as Profit per Employee and Assets per Employee and Net Revenue per Employee are increasing indicating that the Bank is moving towards a higher level of efficiency in operations. Substantial automation employed in the centralised processes and integration of application systems has also reaped in operating efficiencies during the year.

### Provisions

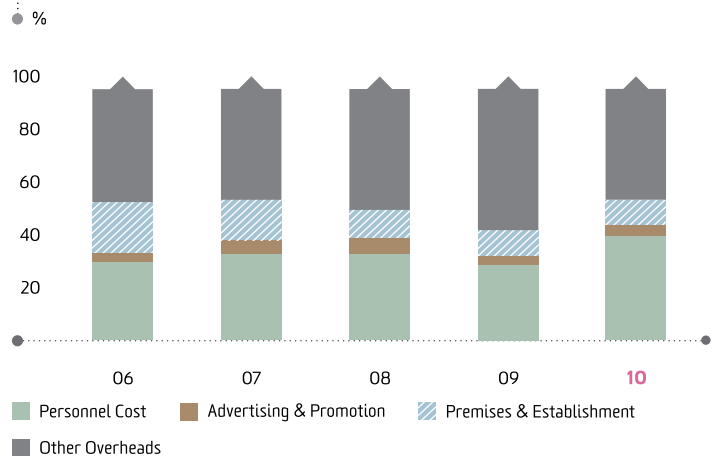
Largest turnaround in the current period compared to the previous period has been on specific provisions, which dropped by 75% with the net NPL ratio decreasing from 8.5% to 4.9% in 2010. Industry NPL ratio (nett of IIS) stood at 5.3% as at December 2010. Specific provision expressed as a percentage of the total portfolio plummeted by one percentage point to 1.9% in 2010.

During the year we took a closer look at the NPLs and did some good recovery work as we believe that constant vigilance is a must in maintaining a good loan book. We were well focused on NPLs as the economic growth picked up during the year and were able to reverse what had been provided for. The benefit of such action was two-fold; interest income improved and NPLs also improved thereby returning to being interest-generating assets. We also ensured that we were writing good credit and booking good assets. We have developed a strong credit culture and an evaluation process with all new business that come into the Bank being vigorously evaluated and monitored on a regular basis. Disbursements were also controlled ensuring that all pre-conditions were understood and adhered.

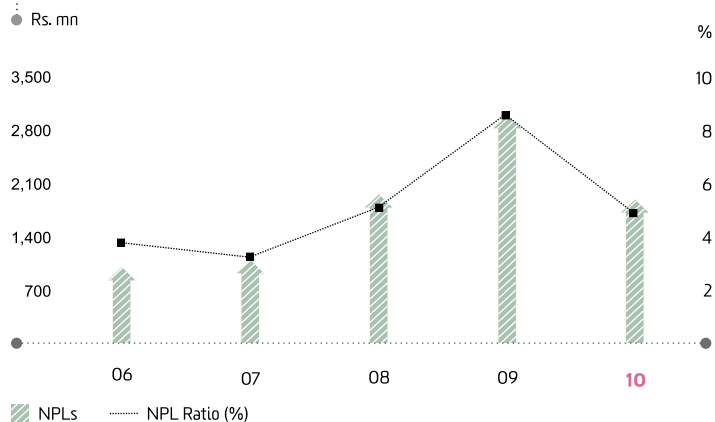
### Cost Efficiency



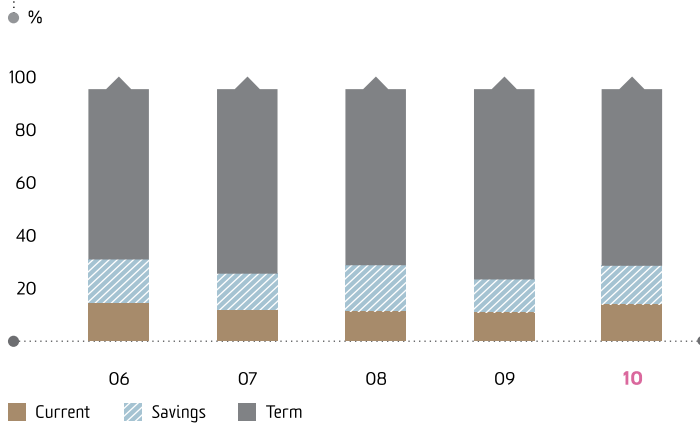
### Composition of Operating Cost



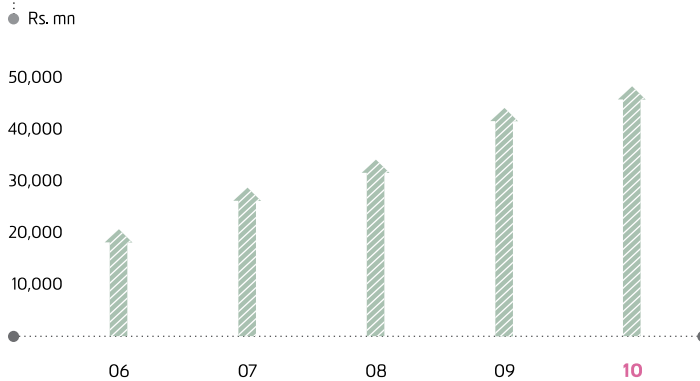
### Non-Performing Loans & NPL Ratio



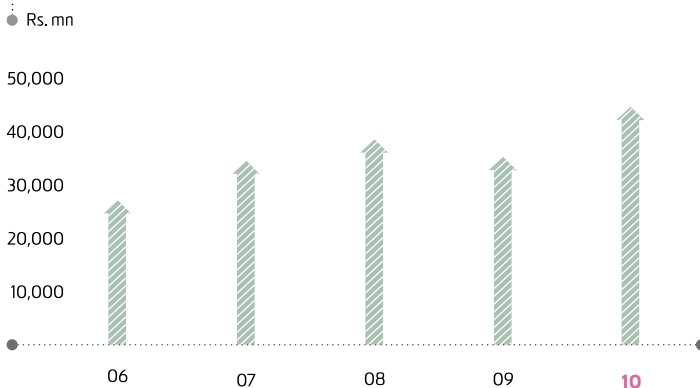
### Deposit Mix



### Total Deposits



### Loans & Advances



### Deposits

Deposit mobilisation during the year proved to be more challenging predominantly due to low interest rates, alternative savings and investment options and stiff competition from peers. We also made our basic deposit products attractive by not only simply manoeuvring the rate, but by adding additional features that are attractive and enticing to customers. Total deposit base grew by Rs. 4.0 bn to Rs. 48.3 bn recording an increase of 9%. Our composition of the deposit base changed marginally during 2010 as our efforts to enhance the low cost base paid off with the current and savings mix improving from 24% to 29%. Out of the growth in total deposits, the growth in low cost funds was substantial amounting to Rs. 1.7 bn, a 26% increase which carried cost benefits by way of lowering funding costs thereby improving interest margins. Time deposits continued to be the highest contributor to the overall composition of deposits accounting for over 71% of the base. NTB being a late entrant to the industry, lag behind the longer established banks in terms of the low cost deposit mix which is around 30-40% predominantly due to savings balances being longer term in nature requiring maturity of the establishment as well as reach. With the expansion of the branch network and the target market beyond mass affluent in the Western Province, our objective is to gradually change the mix of low cost deposits by growing the typical savers.

### Loans and Advances

Loans and advances grew by 26% amounting to Rs. 9 bn compared to a contraction of 8% in the previous year. Growth came from across the business lines with Corporate Banking accounting for the highest growth. The new acquisition volume from consumer and leasing portfolios increased over 50% from previous year levels. Despite this achievement net growth of these portfolios was not significant due to the early settlement of loans and leases at high fixed rates. It was also a difficult year to push credit card interest bearing balances despite recording good growth in spend. Incremental card spend did not convert to outstanding as anticipated.

The Bank has been focusing on sectorial exposure concentrations throughout the past few years to avoid any undue impact to any single event or shock. We do not carry any significant exposure to any single sector, an aspect that attracts continuous monitoring internally.



### Capital Base

Our total capital adequacy ratio in 2010 declined marginally to 15.7% from 16.1%, while the Tier I ratio improved to 13.4% compared to 11.8% in 2009. During 2010, the Bank did not look at new avenues of generating capital due to high interest rates and inflow of warrants to equity being adequate to support asset growth planned for the year. Hence business growth was funded through retained profits and new equity. The strong capital adequacy ratio for 2010 is testimony to the fact that the Bank is well-capitalised to successfully build substantial growth in risk assets into the future.

### Outlook for 2011 and Beyond

*Our model of revenue maximisation through the five strategic business units has stood us in good stead. The units need to continuously and collectively focus on attractive customer segments, product areas and locations, in order to deliver broad-based revenue streams, thereby generating sustainable profits in a low margin regime.*

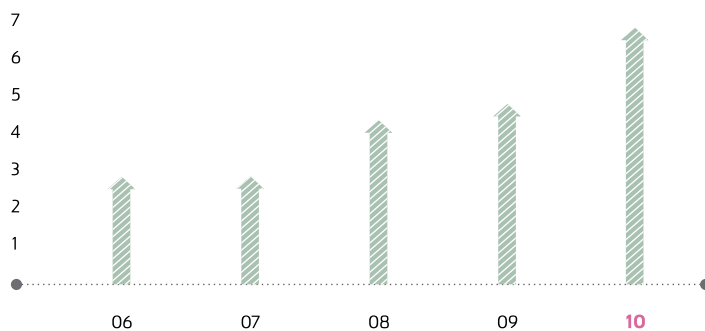
*Our 2011 performance will have the added pressure of increases in operating costs resulting from proposed capital investments in line with our strategic plan. We want to have a managed, controlled growth and be a business managing for the longer term. We appreciate the rewards that come with good risk management and good compliance. Given the future focus of the regulatory framework such attributes are likely to serve us well.*

*The CBSL Roadmap 2011 and Beyond announced a number of new reform initiatives including the creation of a deposit insurance fund, regulation of pension funds and capital market development. Such financial sector reforms needs to balance a safer financial system with the importance of economic growth, the capacity of the banks to accumulate capital via profits and the ability of shareholders to earn an appropriate return. The achievement of these objectives, fundamental to the development of the country over the course of the next decade, will be facilitated by a strong and supportive banking system providing credit, managing risk and supporting innovation, and unlikely to be a burden on the state as witnessed elsewhere in the recent past.*

*We value our role in the banking sector and appreciate the regulatory changes underway. We are well prepared for future economic challenges and to execute on our strategy. Plans for the future entail a much larger business in terms of branches, products, assets, capital and profits. Equally good well-trained people fully engaged with such corporate aspirations and a longer-term view are central to our plans.*

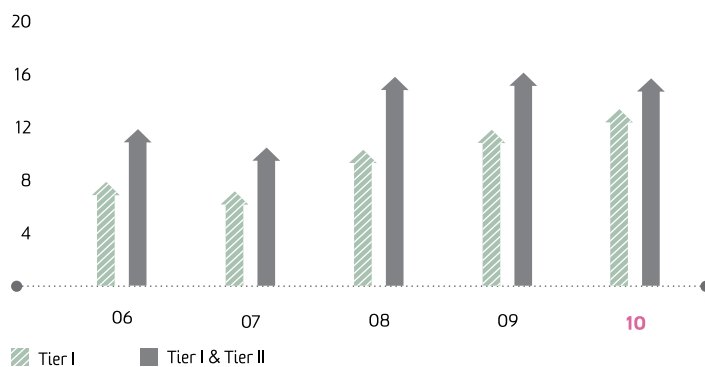
### Capital & Reserves

Rs. bn



### Capital Adequacy Ratios

%



## NTB...Where Seeing Growth is the Norm

What clear sightedness reveals...

\*4

Our 20/20 vision of the customer helped develop our Vision "Making life simple by being the benchmark of convenience".

A clear view of potential helped define our Mission "To be the most profitable and respected Sri Lankan bank by 2015".

The expectations of us are clear; they confidently propel us to join the big league of banks within a decade.



Operating in a fast-paced working environment that nurtures a high performance culture, we believe in open feedback and performance-based rewards. Our staff live the values and ethics of Nations Trust Bank, which is truly a 'great place to work'.

## RESOURCING AND RECRUITMENT

Throughout the year under review, we continued to move forward with employer branding initiatives which were planned and adopted the previous year. This involved participation by our HR Team in a number of regional and national level career guidance programmes, which were held at various universities and educational institutions. A very significant human resource activity undertaken in 2010 was the career guidance programme we held at Jaffna University in June, in which approximately two hundred and fifty university students participated. This programme was part of our larger North and East expansion initiative, which commenced in 2009 following the end of hostilities in those regions. Amongst other programmes were those organised by the University of Colombo in May and a similar one hosted by Kelaniya University in August, as well as a career guidance event held at ACBT Campus in September. Our participation in these events garnered a fruitful return on investment in the form of numerous applications received in response to our press advertisement for management trainees and a further, constant stream of applications for various other posts, received daily via our Careers website.

In all, we received some three thousand applications in response to the Management Trainee advertisement (which ran in September), and selected a total of six trainees following very stringent assessment and elimination. The Bank's recruitment process includes written examinations, an assessment centre and interviews. The selected trainees began their careers with the Bank on 1st January 2011.

We have introduced a job rotation scheme, the purpose of which was to boost employees' motivation and help them acquire new professional skills as well as mitigate operational risks associated with prolonged involvement in one role. The programme was inaugurated this year, initially for staff grades of Assistant Manager and below.

As a part of our ongoing CSR activity, ten interns were provided with the opportunity during the course of the year to serve in various departments of the Bank.

## TALENT MANAGEMENT AND EMPLOYEE DEVELOPMENT

The dearth of adequate management talent in Sri Lanka has led to something of a bidding contest between private sector firms for what talent is available. Attracting and retaining the best people is now a high priority at leading Sri Lankan companies, and employee expectations have risen correspondingly. The Bank made a substantial investment in talent management during the course of the year, retaining the services of a leading US-based consultancy firm, Hewitt Associates, to support our work in this area.

Additionally, an intensive development-based activity to identify those with potential amongst the Bank's middle managers was completed. Based on their performance at the programme, managers identified as having high potential will be developed to take over greater authority and responsibility in the future. Middle managers who participated in these assessments received feedback from certified trainers in one-to-one interviews at which their strengths and areas for improvement were discussed and an individualised, structured development plan put in place for each member.

## PERFORMANCE MANAGEMENT

A robust performance management system enables the Human Resources Division to maintain NTB's high performance culture. Managers are assessed against a 'balanced scorecard' and junior staff on an appraisal system based on performance and competency. The Bank's statement of key strategies, decided and ratified by corporate management at the commencement of the year, becomes the CEO's balanced scorecard. From this level, accountability for various strategic outputs is delegated as appropriate to managers, assistant managers and staff grades. These accountabilities are formally established at the beginning of the year and become the subject of a formal mid year review at which areas for further development are identified and discussed in order for the staff member to enhance performance by the year end when the full year's performance is evaluated. The process is given due recognition as the performance rewards are linked to the performance. Following this review, the HR Division has established a coaching and counselling process to address unsatisfactory performance.



Induction training programme in progress

## TRAINING

It was a busy year for the training team, with more than 9,000 person-days of training completed.

The training cycle started with year end appraisals for 2009, in which every staff member's performance was evaluated and training needs of the individual concerned identified. Then, in consultation with the Bank's business heads, the HR Division prepared a comprehensive training plan, with particular focus on customer service, technical skills, risk management, selling skills and teamwork. Greater attention was also paid this year to assessing and quantifying the return on investment in training.

To ensure that staff is encouraged to attend training sessions without compromising the efficient functioning of the Bank, an annual training calendar was prepared for 2011. This will help staff members and their supervisors to plan ahead to balance training schedules with workload.

The form and content of training at NTB evolves constantly, according to the needs and objectives of the Bank. Our response to the current phase of expansion has been a series of cross functional training initiatives to be undertaken across the business and support units with the object of stimulating creativity, making more productive use of limited resources and improving team synergies across front-line and support functions.

Also as part of our campaign to improve processes and manage costs, a performance initiative called 'Nations Quality Circle' was conducted with the participation of all staff. It took the form of an inter-departmental competition, with each department undertaking and implementing a designated project. Department performance was evaluated by an independent panel of judges.

Other staff development and motivation initiatives conducted during the year included the Annual Masterminds Quiz Competition, inter-departmental debates and public speaking contests (such as that organised by the Toastmasters' Society, in which the Bank participates).

## REWARDS AND RECOGNITION

Again, this year, NTB was a participant in the Annual Compensation and Benefits Survey, conducted by Hewitt Associates, India as well as a Compensation Survey commissioned by HSBC and conducted by Cerebrus Consultants Private Limited, India. Our comparator group included leading foreign and local banks as well as top multinational companies.

The Bank continued to operate a number of staff rewards schemes, both financial and non-financial. Among these were sales incentives, Star Performer Awards and the CEO's Club.

## COMMUNICATIONS

All employees who left the organisation in 2010 attended an Exit Interview with HR. We take leaving employees' comments seriously, finding them a useful input to the task of improving our policies, processes and practices.

The Joint Consultative Committee facilitates employee representation to the CEO and corporate management.

In December 2010, the Bank employed Ma Foi Randstad, India to conduct an 'Employee Engagement Survey'. Based on the findings of the survey, a committee of senior managers will formulate an action plan to address the concerns raised.

## ACCOLADES

The HR Division received valuable accolades at several forums in the year under review of particular note was our receipt of the Young HR Minds Award, conferred by the Sri Lanka Institute of Personnel Management at the IPM International Conference, 2010, and the Achievers' and Leaders' Award for Excellence in Talent Management, awarded at the Global Knowledge Share Symposium, which was held in Sri Lanka on 5th December.

Nations Toast Masters' Club achieved "President's Distinguished Status", which is awarded by Toast Masters' International for clubs achieving the highest educational and other club goals. One of our members was elected Governor of Division A, while another was appointed Area Governor of A3. The club conducted a Speechcraft Programme for Marks & Spencer and Etisalat.



Nations Cards Team at an out bound training programme



Winners at 'Nations Master Mind'



## STAFF WELFARE

Despite the worldwide quest for Work-Life Balance, very few have found the equilibrium. We see organisations taking bold steps encouraging their employees to manage work-life balance. On one hand, the environment in which we operate has become extremely challenging as a result of which work has become more demanding. This sap out all of our energy whilst networking and socialising outside working hours has also become equally important in our respective professions taking up most of our time.

Our staff welfare activities have revolved around providing our employees with a healthy work life balance. Our Sports and Welfare Club organised several events throughout the year to foster fellowship and interaction amongst the staff. Some of these events were also opened to spouses and children of staff members, extending employer-employee relationship beyond work-life boundaries and embracing them into Nations family.

### Avurudu Ulela

The Nations Avurudu Ulela which was open for all staff members ended in style on the 9th of May at the Beddegana Football Federation Grounds. The event included traditional games, ceremonies and cultural performances. It was indeed a splendid event and most of all it was good to see staff members coming out of their official spheres' and enjoying the day.

### Sports Day

The Annual Sports Day was held in September at BRC Grounds. There were numerous events and our staff members relished the opportunity to showoff their sporting skills and physical fitness. True sportsmanship was displayed by all participants with the day concluding with fun and fellowship.

### Christmas Party

The year concluded with the Annual Kiddies' Christmas Party held at CH & FC grounds under the theme "Christmas in Wonderland". It was primarily organised for the children of the staff members but the most significant part was that we were able to invite children from the 'Gangodawila Balika Niwasaya'. The day was packed with fun events and christmas cheer with everyone enjoying a memorable evening. It was a day of remembrance for all the children who participated and the members of the Sports Club are commended for their untiring efforts in making this event a success.

## 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 the Mercantile Open Badminton Team Championship under Men's-Veterans category for the fifth consecutive year. Priyantha Wijesekera secured the Best Player award at the championship for the fifth consecutive year.

In basketball, the Nations Trust Bank Men's Basketball 'A' Team became the 1st Runner-up in the Mercantile Semi League 'A' Division Tournament. Our Women's team won the Mercantile Knockout Tournament 'B' Division Championship. In softball cricket, our team emerged as Winners in the Mercantile Softball Cricket Sixes for the second consecutive year.

## National Representations

Priyantha Samaradiwakara of our Leasing Division, represented Sri Lanka at the Master's Indoor Cricket World Cup 2010 held in Singapore. Two staff members; Prageeth Pushpakumara and Gavi Cooray represented the country at the Indian South Zone Basketball Championship held during the year.



Our staff participating at a track event at the Annual Sports Day



A fun event at Nations Avurudu Ulela



Kids enjoying at the Annual Christmas Party

## HONOURING OUR SOCIAL OBLIGATIONS

The Bank is conscious of its larger social obligations and is taking every step to create both social and financial wealth for its stakeholders. Bank's CSR policy has identified Environment, Education and Health as the thrust areas for the Bank's CSR activities together with Disaster Relief.

### Raising Awareness on Biodiversity Conservation

Firmly believing in conservation through education the Bank continued its support for education programmes on the environment during the year under review. These programmes conducted mainly at the Hiyare Bio Diversity Conservation Centre cater to a variety of groups which include schoolchildren, university students and the larger public.

The programmes use slide shows, field visits, nature walks and the captive breeding programmes to raise awareness on the value of biodiversity and its conservation. During the year the programmes attracted approximately 650 participants who were predominantly school children. Participants also included 25 staff members from the Department of Wildlife.

### Protecting the 'Southern Purple-Faced Leaf Monkey'

The Bank also funded a programme aimed at the conservation of the globally threatened 'Southern Purple-Faced Leaf Monkey'. International Union for Conservation of Nature (IUCN) has listed the purple-faced leaf monkey as Endangered. The Purple-faced Langur (*Trachypithecus vetulus*), or Purple-faced Leaf Monkey, is a species of Old World Monkey endemic to Sri Lanka. Southern Lowland Wetzone Purple-faced Langur, is one of the four sub species of the Purple-faced Leaf Monkey. Southern Lowland Wetzone Purple-faced Leaf Monkey, is native to the rainforests of Southern Sri Lanka, ranging from South of the Kalu Ganga. It is said to be very selective in its diet, and its range has contracted greatly in the face of human encroachment.

The programme funded by the Bank focuses on:

- Research on the distribution, feeding patterns, habitats, and behaviour.
- Educational programmes for schoolchildren and the general public.
- The rescue, rehabilitation and release of these animals.
- A restoration programme for their habitats.

The research and the replanting under the programme will continue in the year 2011 and is administered by the Wildlife Conservation Society of Galle.

### Protecting Freshwater Fish

Hiyare area in the Galle District is home to 31 out of the approximately 68 freshwater fish species found in Sri Lanka.

This includes 14 endemic species and few other very rare species. As part of its efforts in Biodiversity conservation Bank supported a Captive Breeding Programme in the Hiyare area last year. Under the Captive Breeding Programme several species of freshwater fish are bred in captivity and then released into their natural habitats. The programme is being administered by the Galle Wildlife Conservation Society and the Bank will continue to support the programme in 2011 as well.



Animals being rehabilitated at Hiyare



Conservation of the 'Southern Purple-faced Leaf Monkey'

### 'Animal Rescue and Rehabilitation'

In 2008 the Bank partnered the Wildlife Conservation Society of Galle to launch an initiative that would co-ordinate the rescue, rehabilitation and release of injured animals. Over these three years the Bank funded the project which helped the Wildlife Conservation Society to develop a co-ordinated response to injured animals in order to bring them to the Biodiversity Centre at Hiyare, treat them and release them to their natural habitats after rehabilitation.

Last year the Bank supported the construction of a permanent animal hospital in Hiyare, to further strengthen the animal rescue programme. The hospital will be administered by the Galle Wildlife Conservation Society in close collaboration with the Department of Wildlife Conservation.

The foundation stone for the building was laid by His Worship, the Mayor of Galle in September and the hospital building will become operational in the first quarter of 2011.

### Investing in the Future Generation

As part of its corporate responsibilities the Bank continues to invest in education and in the future of our children. During the year under its "Literacy" initiative the Bank directed its activities at assisting underprivileged schools in the North, East and North-Central Provinces.

Under this programme the Bank helped enhance the library resources at the Araly Hindu College located in Vattukottai North, Jaffna which is a mixed school with a student population of around 500, guided by a group of devoted tutors. Teachers and parents had to struggle to keep the school running during the conflict and the Bank is helping the school transcend the scars of the past.

The school library at Kithul Sri Krishna Vidiyalayam in Karadiyanaru, Batticaloa was another beneficiary under the Bank's literacy project. In this case too, the school had to battle hard to ensure that the children of the area had access to education during the conflict. The Bank's support to both these schools is an effort to enhance access to quality education and to support the revival of life in all its forms in the war-affected North and East of Sri Lanka.

The Jayanthi Gurukula Vidyalyaya in Giritale was the third beneficiary. The Bank donated several items of stationery to the school and organised an exposure visit to Colombo for the students. For many of the students it was their first visit to Colombo.



Our staff engaged in conserving the biodiversity of Hiyare



Handing over the sponsorship for the school Library project at Kithul Sri Krishna Vidyalyayam in Batticaloa



Launch of DVD "From Metre to Melody"



Official handover of refurbishment of Ward 19 at Cancer Hospital

### Keeping Our Heritage Alive

The Bank supported the launch of a DVD that contained a re-creation of a seminal presentation on the heritage of Sinhala music by the late Tissa Abeysekera, well-known filmmaker, author and scriptwriter. The DVD, titled 'From Metre to Melody', was launched in partnership with the National Trust of Sri Lanka.

### Refurbishment of the Cancer Hospital

Over the past few years the Bank has been assisting the Maharagama Cancer Hospital in routine maintenance of its Ward No. 19 through the Staff Welfare and Sports Club. In 2010, the Bank helped the Cancer Hospital in Maharagama to refurbish Ward No 19. This project was initiated by the Bank's Staff Welfare and Sports Club and was partially funded by voluntary contributions from staff members with the Bank providing the balance funding. The Bank will continue to support the hospital by maintaining this ward.



## INTRODUCTION

The business of banking involves undertaking financial risks defined as the possibility of losses or profits foregone, however caused. Such risks are inherent in the activities of the Bank and are managed through a process of ongoing identification, measurement and monitoring, subject to limits, controls and capital allocations. NTB regularly reviews its risk management policies, processes and related systems to reflect changes in markets, products and best practice. The aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on financial performance. This process of risk management is critical to the continuing profitability of NTB and achieving its strategic agenda. It is inextricably linked to the core purpose of the Bank which is to create longer term value for shareholders whilst enabling our customers and the communities in which we operate to realise their potential. Each individual within NTB is accountable for the risk exposures relating to his or her responsibilities. Accordingly we review here the approach we adopt at NTB to manage financial risk and capital adequacy, with regard to its operating environment.

## THE GOVERNANCE FRAMEWORK

NTB maintains a strong risk governance and oversight framework that originates at the Board of Directors, which has overall responsibility for the establishment and oversight of its risk management governance framework. In common with other incorporated entities, the Board derives its authority to act from the Articles of the Company, the laws governing corporates, banking and finance entities and directions issued by regulators. The primary authorities and responsibilities of the Board are set out in the Board Charter. This includes the establishment of committees to assist the Board in carrying out its responsibilities. The Board has established the Integrated Risk Management Committee (IRMC), the Board Credit Committee (BCC), the Board Supervisory Committee (BSC) and the Board Audit Review Committee (BARC) in discharging its responsibility for overall risk management and control.

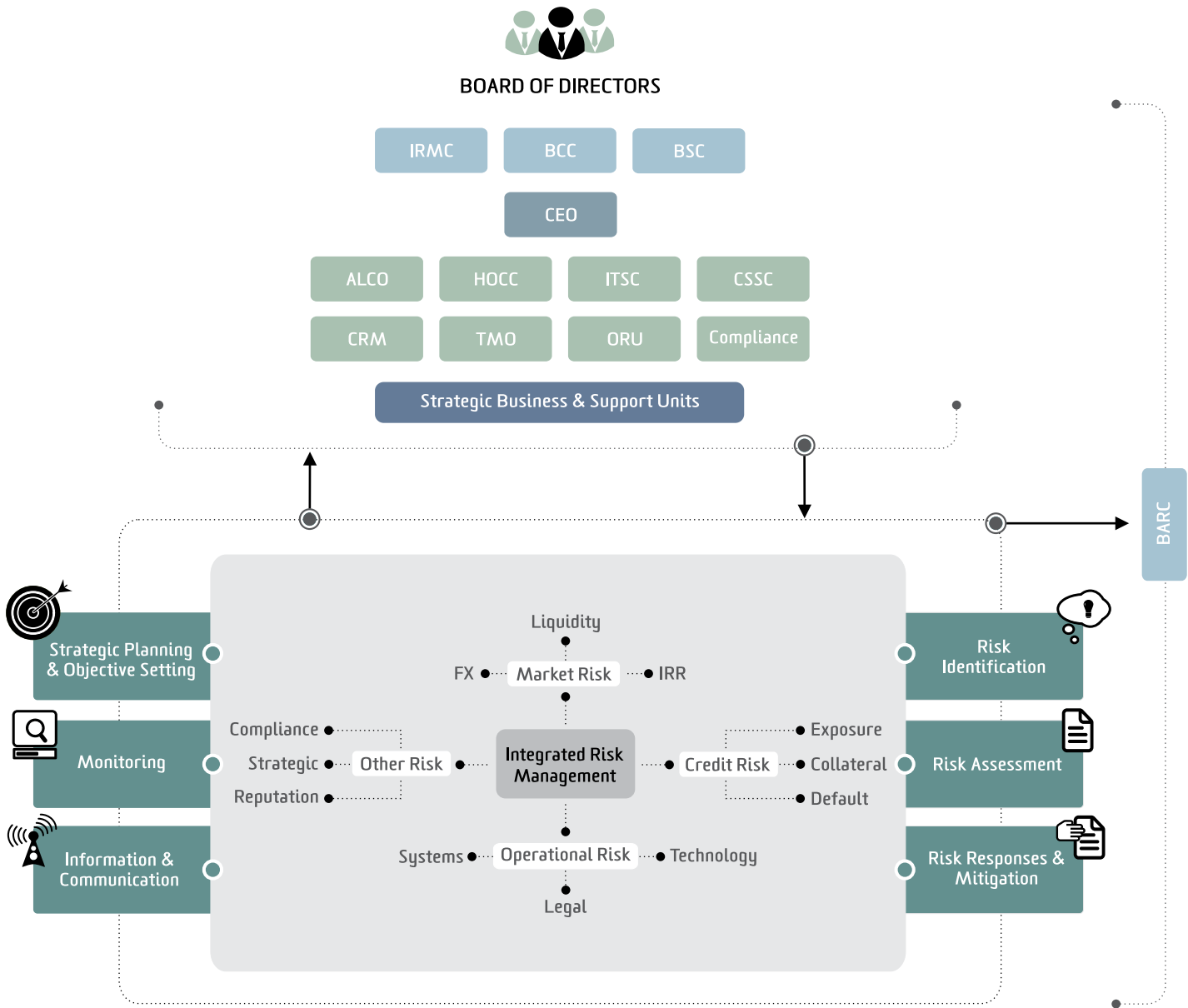
The IRMC is responsible for ensuring that appropriate risk management strategies, policies and processes are in place in the Bank in line with the risk appetite as determined by the Board. IRMC monitors and reviews key financial and other indicators regularly in order to establish the actual risk status of the Bank. The IRMC also regularly reviews the adequacy of the risk management framework in relation to the risks faced by the Bank.

The BARC is responsible for ensuring that risks are identified and managed through an adequate, effective and efficient system of internal controls and procedures. It is assisted in these functions by the Internal Audit Department (IAD) and the External Auditors, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the BARC. The mandate of the BSC is to review and approve among other matters, all operating policies and processes covering the Bank. Finally the BCC is involved in evaluating and approving credit proposals and transactions beyond a predetermined value.

The purpose of risk management policies is to identify and analyse the risks faced by the Bank, to set appropriate limits and controls, to monitor such risks and compliance with the set limits. Such policies, processes and systems are reviewed regularly to reflect changes in market conditions, products and services offered. In addition by way of training, discussion and management action, the Bank aims to develop a disciplined and constructive control culture, in which all employees understand their roles and appreciate their obligations.

## EXECUTIVE MANAGEMENT

The day-to-day management of the business together with risk-related oversight and control has been delegated by the Board to the CEO who, in turn, has delegated certain authorities and powers to individuals and Management Committees. The CEO chairs and/or participates in the various management committees, which provides leadership in respect of risk matters relating to culture, integrated processes and performance. In this connection the CEO and Executive Management is assisted by two significant subcommittees each overseeing a specific risk area, the Head Office Credit Committee (HOCC) and the Asset and Liability Committee (ALCO). The 5 Strategic Business Units (SBUs), all Strategic Support Units (SSUs) and Operations have Risk Grids covering their respective activities which are updated regularly via monthly meetings, minutes of which are reported to the CEO who maintains a Risk Grid covering the whole Bank. The role of the Risk Grids is to provide management focus on risk issues prevalent within their businesses, evaluate their impact, undertake mitigating actions, allocate responsibility and thereby manage the risks so identified. In addition the IRMC together with Executive Management measures performance against regulatory ratios as well as Risk Goals/Limits set out in the risk management policies.



- IRMC - Integrated Risk Management Committee
- BCC - Board Credit Committee
- BSC - Board Supervisory Committee
- CEO - Chief Executive Officer
- ALCO - Assets & Liability Committee
- HOCC - Head Office Credit Committee
- ITSC - IT Steering Committee
- CSSC - Customer Service Steering Committee
- CRM - Credit Risk Management
- TMO - Treasury Middle Office
- ORU - Operational Risk Unit
- BARC - Board Audit Review Committee

## APPROACH AND CAPITAL OBJECTIVE

Our approach to risk management is based on the premise that, to be effective, such capability must be embedded in the front-line teams coupled with independent design, oversight and objective assurance. Implementation of this view is carried out at three levels as follows:

- Businesses are accountable for identifying and managing the risks associated with their activities. It includes pricing to ensure an appropriate return for the risk incurred, implementing and monitoring the effectiveness of controls, compliance with policies, limits, escalation requirements and evaluation of the level and trends of material risks.
- Central functions, such as Finance, Credit, Marketing, etc., are accountable for the independent design of bank-wide policies and the related processes and approvals.
- IAD reporting directly to the Chairman of the BARC provides independent validation and compliance with risk policies, procedures and independent testing of key controls undertaken throughout the year across the Bank thereby supporting the issuance of the Certificate of Internal Controls by the Board.

In terms of the approach to capital, the task is to ensure that the overarching objective of adequate capital for a sustainable business are met via the following:

- External credit rating in the A - AA range;
- Comply with regulatory capital requirements;
- Dividend levels to attract and maintain investor interest;
- Flexibility to deal with unexpected events; and
- Efficiency in the amount and type of capital.

## Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations on agreed terms. It arises principally from loans and advances to customers and trading transactions with other financial institutions. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposures (such as individual obligor default risk, sector risk and concentration risk). Credit risk is the single largest risk for the Bank and hence exercises significant care in managing its exposure to such risk. The major component within credit risk is the risk of default and the resulting loss due to non-payment of loans, because of adverse changes in a borrowers' ability to meet their obligations under agreed terms and conditions. Such changes, if widespread and long lasting, may cause deterioration in the credit quality of the lending portfolio of the Bank and can have a negative impact on its earnings and standing.

Other forms of credit risk exist throughout the activities of the Bank. They lie within the banking book, the trading book and other financial instruments and loans including acceptances, inter-bank transactions and off-balance sheet transactions that facilitate trade, foreign exchange transactions as well as in the extension of commitments, guarantees and the settlement of transactions.

Bank seeks to achieve effective credit risk management by maintaining credit risk exposure within acceptable parameters while maximising the rate of return. Our approach to credit risk management is designed to support strategic priorities, meet regulatory expectations, and ensure a robust, responsible and sustainable business model with ownership and accountability across the Bank.

## Management of Credit Risk

The Board of Directors holds the overall responsibility for the oversight of credit risk. The Board delegates credit decision-making authority to the HOCC via the BCC and then throughout the organisation via the CEO, who set the Delegated Approval Limits (DALs) on the recommendation of the HOCC. The BCC evaluates and approves credit proposals and transactions which are beyond the delegated authority of the HOCC who makes the decision on credit proposals, that are greater than DALs. In addition, the HOCC makes recommendations and takes action, to control or manage high-risk situations and escalates credit risk issues to the BSC and BCC. The IRMC, BCC and the HOCC oversee the processes, systems, methodologies and models for the management of credit risk across the Bank.

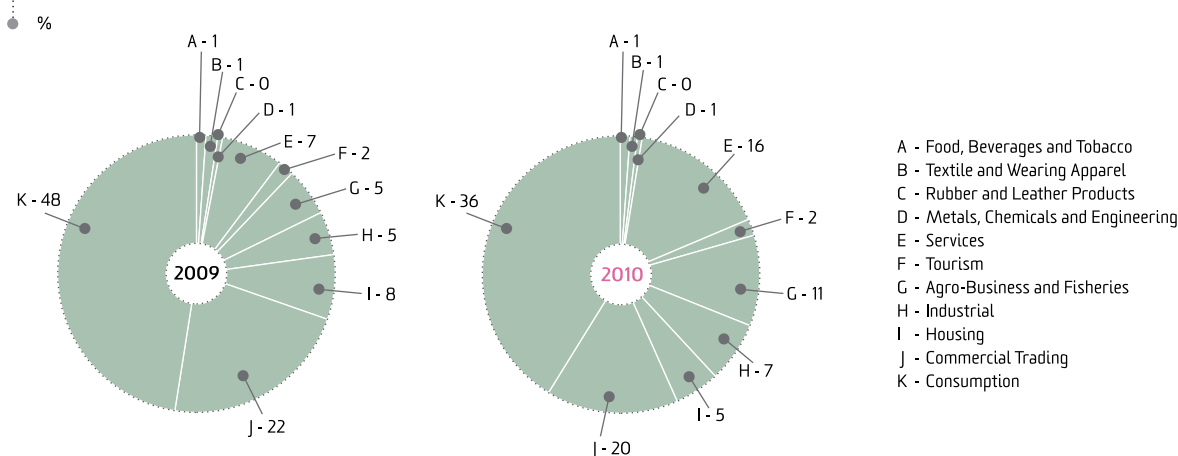
The Credit Risk Management Division (CRMD) is a separate independent division that evaluates all credit proposals above specified limits and monitors industry and sector exposures while also ensuring that regulatory guidelines pertaining to the Single Borrower Limits (SBLs) and Maximum Aggregate Limits (MALs) 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. It guides SBUs in their responsibilities for managing their customer portfolios while focusing on the quality of the entire loan portfolio.

Each SBU is required to implement the institutional credit policies and procedures and comply with DALs. Each SBU is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks inherent therein, including those subject to central approval.

In order to manage default risk of corporate and wholesale lending, such proposals are evaluated extensively covering several issues relevant to the borrower such as their business, cash flow, management, collateral, etc. Also external ratings are taken into account as another basis for assessment of risk in this segment.

With regard to the Retail and SME lending, individual clients are critically assessed in terms of current and future income, age, lifestyle, family, employment/profession, past track records, etc., prior to making credit decisions. A comprehensive credit manual provides guidelines for credit approvals focusing on default risk.

### Exposure Concentration by Economic Sector

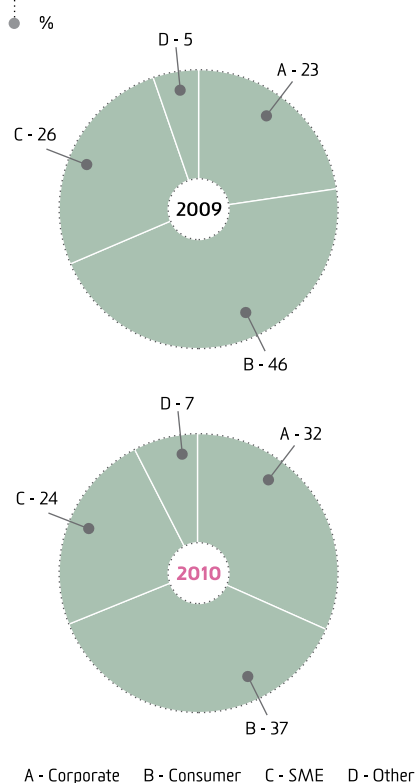


Exposure risk arises due to the over-dependency on a particular sector of the economy, geographical area and exposure for a single party or a group. The exposure to sectors is managed through sector limits and resulting exposure is periodically reviewed. Continuous monitoring and post-approval/investment review is initiated on a quarterly basis and reported. The overriding intention is to acquire a diversified loan portfolio.

The Bank holds collateral against loans and advances to customers in the form of mortgages over property, other registered securities over assets and guarantees. Collateral generally is not held over loans and advances to other financial institutions, except when securities are held as part of reverse repurchase and securities borrowing activity. The policy is to mitigate collateral risk to a great extent by obtaining enforceable securities and pursue timely realisation of collateral in an orderly manner. Also a prudent process for the valuation of security and internal inspections/verification prior to disbursement, comprehensive legal and other documentation which minimises the risk of recovery is in place. The Bank does not utilise non-cash collateral for its own operations.

Neither of the two portfolios exhibited in the diagrams, indicates any significant concentrations except in the category of Consumption. Such consumption-related exposure is against a base of customers diversified by many criteria such as age, profession, industry, product, etc.

### Exposure Concentration by Customer Type

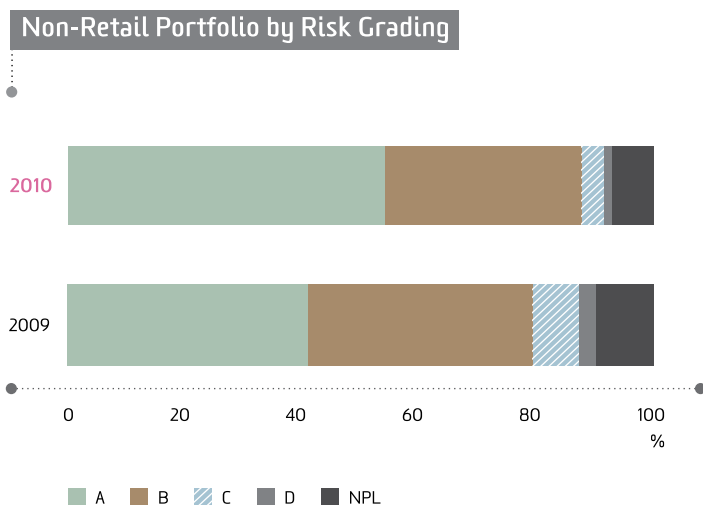


### Credit Rating System

The Bank currently deploys a spread-sheet based Obligor Risk Rating System for its Corporate and Wholesale business. In addition to performance evaluation based on the rating, credit facilities are reviewed at least annually. Regular independent reviews are also conducted. The annual review involves a detailed analysis of performance against established benchmarks.

### Non-Retail Exposure by Risk Rating

The following chart provides a breakdown of gross non-retail credit exposures by risk rating for both on and off-balance sheet products. They are categorised into bands that broadly correspond to externally recognised risk grades.



The loan book in 2010 shows improvement over 2009 with over 50% of the exposures in 'A' rated corporate entities versus only 40% in 2009. During the period the level of NPLs also reduced together with those in all of the other ratings signifying a better quality loan book than in 2009.

### Market Risks

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, equity prices, commodity price and credit spreads will affect the income of the Bank or the value of its holdings of financial assets or liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Bank makes a distinction between traded and non-traded market risks for the purpose of managing market risk. Traded market risk principally arises from activities within the Bank's trading book. Non-traded market risk arises from activities within the Bank's banking book.

### Traded Market Risk

The Bank undertakes trading activities to support its clients and to profit in the short term from differences in market factors, such as interest and foreign exchange rates. Trading activities are carried out by specialist areas within the Bank and generate revenue through active management of market risk in the Dealing Room. Traded market risk is the potential for losses arising from trading activities undertaken by the Bank as a result of adverse movement in market prices.

### Management of Market Risk Related to Trading Book

The risk appetite in relation to market risk is reflected in the overall limits, which are approved by the Board. Under the guidance of the IRM and the BSC, the Board monitors and reviews the adequacy of the Traded Market Risk Framework and endorses its Management and Reporting Framework. Market risk policies are subject to an annual review process.

The Treasury Middle Office (TMO) is an independent specialist function responsible for-

- The quantification of market risk for the trading book at the desk,
- The daily oversight and analysis of risk, including limit monitoring and limit breach management and escalation; and
- Policy formulation, limit approval as per DALs and analysis/reporting of limit breaches.

Each day, TMO monitors desk positions against the relevant limits. Any breaches are escalated in accordance with policy and procedures. The team also performs extensive portfolio analysis including use of Modified Duration to identify the change in the value of the portfolio in response to a change in interest rates. Results of the portfolio analysis are communicated to senior management and ultimately to the CEO. Extreme events risk is measured and monitored through stress testing. The TMO uses stress tests to identify possible material events or changes in market conditions that could adversely impact the Group. The analysis of results is used to assess the provision of capital adequacy, verify the competence of established limits and define appropriate mitigating action.

Limits are set at various levels and are checked daily against the results of stress tests. The TMO also runs stress scenarios based on historical events and estimates as part of the stress testing programme. These results are used for analysis and identifying portfolio sensitivities that are not otherwise evident.

The TMO reports to the Head of Credit Risk Management (HCRM).

### Non-Traded Market Risk

Non-traded market risk arises from the banking book activity of the Bank and includes capital risk, owned asset securitisation risk, non-traded equity risk, interest rate risk, funding risk, liquidity risk, and foreign exchange risk. Under the guidance from the IRMC and BSC, the Board monitors and reviews the adequacy of the Bank's Non-Traded Market Risk Management and Compliance Framework developed by Management. The Board approves risk appetite limits, which in turn are reflected in policies that provide direction for the management, measurement, monitoring and reporting of non-traded market risks.

Non-traded market risk policies apply both at a bank and subsidiary level and comprise-

- Capital Risk;
- Funding Risk;
- Liquidity Risk;
- Interest Rate Risk in the Banking Book (IRRBB);
- Foreign Exchange (FX) Risk in the Banking Book;
- Non-Traded Equity Risk; and
- Funds Transfer Pricing (FTP) Risk.

### Capital Risk

A number of risks exist in the management of the Bank's capital position which, if not appropriately managed, could lead to the Bank not holding sufficient capital and reserves to achieve its strategic aspirations or cover the risks to which it is exposed and protect against unexpected losses. The Board, with the guidance of IRMC monitors and reviews the adequacy of the Bank's capital framework. Although an Internal Capital Adequacy Assessment Process (ICAAP) is to be initiated in 2011, the capital framework is built around the Board's guiding principles, including preserving the Bank's credit rating, maintaining capital adequacy, and an efficient capital mix. Bank Treasury together with Finance Department is responsible for managing the capital risk. They are responsible for maintaining the Bank's capital ratio to satisfy regulatory and rating agency requirements, in line with the Bank's target rating of a minimum 'A'. The Bank's capital position is monitored on a monthly basis, with capital reported to key management and Board committees.

### Funding and Liquidity Risk

Liquidity risk is the risk that the Bank will encounter with difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and taxes, the payment of dividends to shareholders, and the ability to fund the Bank's strategic plan and growth initiatives. Funding Risk is the risk arising due to change in appetite and capacity of the market to provide adequate long-term and short-term funds to meet the Bank's strategic plans and objectives at an acceptable cost. This includes the risk of over-reliance on any source of funding to the extent that a lack of diversified funding sources jeopardises the Bank's ability to raise funds at acceptable costs under adverse business conditions.

### Management of Funding and Liquidity Risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Thus the overall funding strategy is planned as part of the annual budget process taking into consideration both timing and size of business and investment together with the various sources of funding.

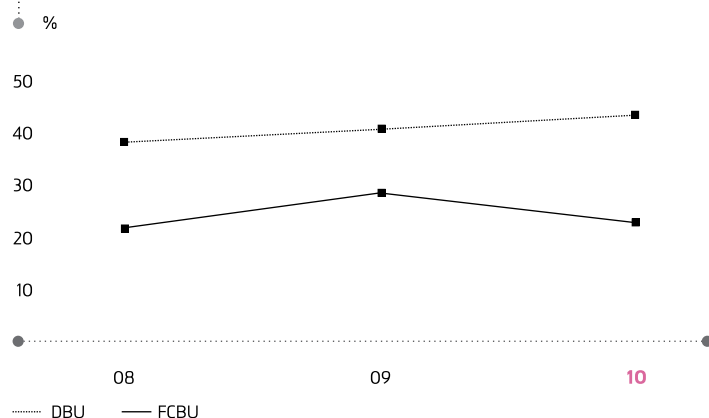
Treasury receives information from other SBUs and subsidiaries regarding the liquidity profile of their financial assets and liabilities and details of other forecast cash flows arising from future business and volume growth. It then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. These daily reports cover the liquidity position of both the Domestic Banking Unit and Foreign Currency Banking Units separately. All liquidity policies and procedures are subject to review and approval by ALCO.

The Bank relies on deposits and borrowing from customers and other financial institutions, and issued debt securities and subordinated liabilities as its primary sources of funding. While the debt securities and subordinated liabilities have maturities of over one year, deposits and borrowings from customers and other financial institutions generally have shorter maturities and a considerable proportion of them are repayable on demand. The short-term nature of these deposits increases liquidity risk. Hence it actively manages this risk by maintaining competitive pricing and constant monitoring of market trends.

The key measure used by the Bank for managing liquidity risk is the Statutory Liquid Assets Ratio (SLAR). It is used to measure compliance with the liquidity limit established by the Central Bank of Sri Lanka (CBSL). In order to comply with the statutory requirement to maintain a minimum SLAR of 20% on a daily basis covering both the Domestic Banking Unit and the Foreign Currency Banking Unit, the bank maintains a minimum threshold of 22% to take account of any unexpected events.

### 3-Year Liquidity Ratio (DBU + FCBU)



Although the trend line for DBU is in decline and the FCBU is increasing, the trend line taking into account both indicates the trend line to be well within the 22% threshold. It should be noted that higher the level of liquidity the more profitability is compromised.

Liquidity planning is an important aspect of the risk management framework in the Bank. It examines how liquidity requirements are likely to evolve under different scenarios taking into account growth and market expectations of the Bank. The maturity profile, as given in the table below for both 2009 and 2010 can be used for measuring the future cash flows of the Bank in different time bands.

The Bank closely monitors the mismatches in the 1 month, 1 to 3 months and in particular 12 months time bands. Tolerance levels on mismatches are fixed for various maturities, depending on the asset-liability profile, core deposit base, nature of cash flows, etc. The Bank also tracks the impact of loan repayments and premature closure of deposits to estimate the cash flow profile on a realistic basis. In addition, behavioural maturity profile of various components of on/off Balance Sheet items is also analysed with variance analysis undertaken regularly. As a result of such management action by the Assets Liability Management (ALM) Unit, 2010 maturity mismatches in all the time bands, except for the 1 to 3 years and over 5-year time buckets, have improved compared to 2009.

Based on CBSL Guideline issued for the purpose, we place all cash inflows and outflows in the time bands according to the residual time to maturity. It should be noted, however, that some of the assets and liability items like overdraft, savings, current deposits etc., lack any definite contractual maturity. Similarly, a part of time deposits are also rolled over on maturity while the consumer loans are topped-up at frequent intervals. Thus, while determining the likely cash inflows/outflows, Bank has to make a number of assumptions according to the behaviour of assets and liabilities. ALCO in its monthly meetings reviews assets and liability maturity gaps both in local and foreign currencies and analyses the various stress scenarios which could cause the Bank specific and market wide shortfall taking into account forecast for deposit withdrawals and draw down of committed lending facilities.

### Summary Maturity Gap - 2010 vs 2009

	Upto 3 Months Rs. bn	3 to 12 Months Rs. bn	1 to 3 Years Rs. bn	3 to 5 Years Rs. bn	Over 5 Years Rs. bn	Total 2009 Rs. bn
Interest Earning Assets	32,971	7,075	18,527	3,338	1,656	63,566
Non-Interest Earning Assets	4,002	209	102	–	2,625	6,938
<b>Total Assets</b>	<b>36,973</b>	<b>7,284</b>	<b>18,628</b>	<b>3,338</b>	<b>4,281</b>	<b>70,504</b>
Interest-Bearing Liabilities	27,627	18,156	7,097	3,250	–	56,129
Non-Interest Bearing Liabilities	9,161	–	–	73	5,141	14,375
<b>Total Liabilities and Shareholders' Funds</b>	<b>36,788</b>	<b>18,156</b>	<b>7,097</b>	<b>3,323</b>	<b>5,141</b>	<b>70,504</b>
<b>Maturity Gap</b>	<b>185</b>	<b>(10,872)</b>	<b>11,532</b>	<b>15</b>	<b>(860)</b>	<b>–</b>

	Upto 3 Months Rs. bn	3 to 12 Months Rs. bn	1 to 3 Years Rs. bn	3 to 5 Years Rs. bn	Over 5 Years Rs. bn	Total 2010 Rs. bn
Interest Earning Assets	45,591	9,790	14,786	3,592	1,715	75,474
Non-Interest Earning Assets	3,921	841	316	36	2,660	7,774
<b>Total Assets</b>	<b>49,512</b>	<b>10,631</b>	<b>15,102</b>	<b>3,628</b>	<b>4,375</b>	<b>83,248</b>
Interest-Bearing Liabilities	34,806	18,633	9,572	648	–	63,658
Non-Interest Bearing Liabilities	12,329	–	–	91	7,169	19,590
<b>Total Liabilities and Shareholders' Funds</b>	<b>47,135</b>	<b>18,633</b>	<b>9,572</b>	<b>739</b>	<b>7,169</b>	<b>83,248</b>
<b>Maturity Gap</b>	<b>2,377</b>	<b>(8,002)</b>	<b>5,530</b>	<b>2,889</b>	<b>(2,794)</b>	<b>–</b>



### Interest Rate Risks

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial assets or liabilities because of a change in market interest rates. Interest rate movements affect reported equity arising from increases or decreases in net interest income and the fair value changes reported in the Income Statement.

#### Management of Interest Rate Risk

Treasury manages the potential impact on unavoidable and inherent interest rate fluctuations and yield curve changes in order to optimise the net interest income. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by TMO and Finance in its day-to-day monitoring activities and in turn it decides timely strategies for changes in market conditions and sentiments. Such strategies would normally include uses or reposition of investment securities, advances to banks, deposits from banks and derivative instruments such as interest rate swaps, forward rate agreements and overnight swaps to manage the overall position arising from the Bank's activities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's significant financial assets and liabilities to various standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100-basis point parallel fall or rise in all yield curves.

### Foreign Exchange Risk

Currency risk is the risk that the value of assets and liabilities will fluctuate due to changes in foreign exchange rates. The Bank monitors any concentration risk in relation to any individual currency with regard to the translation of foreign currency transactions and monetary assets and liabilities into the functional currency of both domestic and foreign banking units. This mainly includes foreign currency risks resulting from trade and remittance flows, treasury trading activities and translation of structural foreign currency assets and liabilities.

Foreign exchange risk is principally managed through well-established limits covering all foreign currency transactions and balances which will ensure that the unhedged foreign exchange positions are restrained within acceptable parameters. These limits mainly include maximum position limits for individual currencies as well as aggregate of such currencies, individual dealer limits, intra-day transaction limits and counterparty limits etc.

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.

### Non-Traded Equity Risk

The Bank does not undertake direct investments in the equity market. Its exposure to the equity market is indirect via collateral taken for facilities extended to customers, both corporate and individual. Such facilities are extended both for the purpose of trading in equities and in the ordinary course of lending. For both types of lending, only selected equities are taken as collateral and carries significant haircuts. All such extensions of credit are subject to the usual principles of credit evaluation and limited by CBSL directives at the aggregate level.

#### Funds Transfer Pricing (FTP) Risk

The transfer price for each type of asset and liability are at the market rate for the maturity. Where use of long-term transfer price rates is not possible due to lack of depth and liquidity in the money/capital markets, we use rates applicable to short-term maturities with agreed re-pricing dates/cycle. FTPs are based on the money market interest rates in the currency of the relevant transaction. Daily market yield curves are prepared by Treasury to provide an objective transfer pricing reference rate; TMO checks the rates to satisfy themselves of the accuracy of the rates used.

### Operational Risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of Bank's operations.

## Management of Operational Risk

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to corporate and senior management within each business and support unit which are having their own risk grids that identify risk events and related impact on their respective units. This responsibility is supported by the development of overall Bank wide standards for the management of operational risk.

Operational Risk Division (ORD), as part of its oversight activities, provides assurance to Executive Management that operational risk is being managed effectively throughout the Bank. ORD provide the framework, policies, process and tools for the business to use in the identification, assessment, mitigation, monitoring and reporting of operational risks.

The Bank's Compliance Department acts as a central point in monitoring and co-ordinating all regulatory activities and ensures that the Bank complies with all laws, regulatory directives and drives the compliance culture across the Bank. Business Process Re-engineering Unit with experts in banking processes, procedures and products, regularly reviews the business and supporting activities in order to ensure the all controls in place are working as expected and improve efficiency and eliminate non-value adding activities. 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.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board Audit Review Committee

## Capital Management

Managing risks has always been at the heart of any bank's activities. The existence of financial intermediation is clearly linked with a bank's advantage in evaluating the riskiness of potential borrowers and in building well-diversified portfolios. A bank's ability to survive adverse economic cycles (and phases of high volatility, as far as market risk exposure are concerned) is linked to the quality of its risk selection, management processes and ultimately to its capital endowment. Capital is therefore, the key resource for both shareholders and managers who are interested in a bank's ability to survive while offering an attractive return for shareholders. At the same time, capital is important for financial system supervisors who are interested in safeguarding the stability of the system by reducing the risk of bank failures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and leverage and the advantages and security afforded by a sound capital position.

## Regulatory Capital

CBSL sets and monitors capital requirements for the Bank as a whole. With effect from 1st January 2008 the Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital. Under the Basel II framework, the Bank adopted the standard approach to assess the capital requirement for Credit and Market Risk while following the Basic Indicator Approach for Operational Risk.

Capital adequacy is measured under two risk-based ratios, namely Tier I and Total Capital which includes both Tier I + Tier II Capital as follows:

- **Tier I Capital**, which includes stated capital, profit for the period and retained earnings, and other equity reserves after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- **Tier II Capital**, which includes qualifying subordinated liabilities, general provisions made and qualifying revaluation reserves if any.

Management uses regulatory capital ratios in order to monitor its capital base, and these capital ratios remain the CBSL's standards for measuring capital adequacy. CBSL approach to such measurement based upon Basel II is primarily by monitoring the relationship of the Capital Resources Requirement (measured as 10% of risk-weighted assets) to available capital resources.

## Capital Planning

The Capital Management Plan embedded in the Strategic Plan is an integral part of the planning process, which considers how the Bank will meet its capital requirements over the planning period. The Capital Management Plan mainly covers:

- The Bank's capital outlook, including capital forecast;
- Risks to the forecast;
- Capital initiatives over the plan period;
- Dividend outlook and sustainability;
- Expected profits and
- Other strategic initiatives.

In addition to a base case, the planning process also considers stressed scenarios to ensure the Bank maintains capital adequacy in these situations. Within certain risk categories, the Bank performs regular sensitivity and stress tests across material models and businesses to test the veracity of assumptions and to determine the sensitivity of key risk measures (including capital) to management actions and potential changes in the external environment.

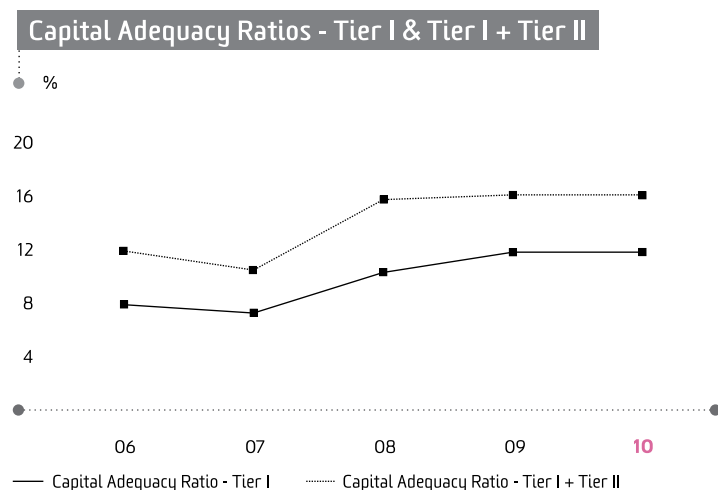
Details of the Capital Adequacy Ratio computation are as follows:

	2010 Rs. mn	2009 Rs. mn
Tier I Capital	6,716	4,687
Tier II Capital	1,154	1,720
Total Capital	7,869	6,408
Risk-Weighted Amount for Credit Risk	40,281	32,283
Risk-Weighted Amount for Market Risk	3,354	2,143
Risk-Weighted Amount for Operational Risk	6,371	5,353
Total Risk-Weighted Amount	50,007	39,779
Risk-Adjusted Capital Ratio Against Tier I Capital* (Tier I Capital/Total Risk-Weighted Amount)	13.43%	11.79%
Risk-Adjusted Capital Ratio Against Total Capital** (Tier I Capital/Total Risk-Weighted Amount)	15.74%	16.11%

\* Statutory minimum 5%

\*\* Statutory minimum 10%

Below we graph the trend of CAR since 2005. We have complied with all regulatory capital requirements imposed by CBSL throughout the period.



## Capital Allocation

The allocation of capital between specific business operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each business or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be fixed to reflect differing risk profiles, subject to the overall level of capital to support a particular business or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific business or activity is undertaken independently of those responsible for the operation of business units.

Although maximisation of the return on capital is the principal basis used in determining how capital is allocated within the Bank to particular business or activities, it is not the sole basis used for decision-making. Consideration is given to synergies with other operations and activities, the availability of management and other resources and the fit of the activity with longer term strategic objectives.

Our policies in respect of capital management and allocation are reviewed regularly. In addition, the Bank is closely monitoring both the CBSL and Basel reform agenda as it evolves and will adjust our Balance Sheet settings as required, taking into account transition periods.

## NTB...Where we Touch Growth everyday

### Where Growth is Tangible...

\*5

We grew our customer base during the year to reach 285,000  
10 new branches and 11 ATM points were added to our network over the past 5 years.

We have established and closely monitor service standards of the highest quality,  
in all customer facing situations and activities.



The Board of Directors of the Bank places great emphasis on ensuring good governance in every aspect of Bank's operations. Board of Directors has established necessary policies and procedures to ensure that the day-to-day affairs of the Bank are governed by adequate internal control mechanisms in a manner that would enhance stakeholder confidence. Board is assisted in this effort by 5 Board sub-committees. Whilst ensuring that the business is carried on adhering to the generally-accepted corporate governance practices, the Board is also required to comply with the Corporate Governance Rules under Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka. Bank has obtained a certificate from the External Auditors in compliance with Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka.



The Board comprises of highly respected individuals who have reached the pinnacle of their chosen fields displaying multidisciplinary competencies. Expertise on the Board represents a cross section from the Finance, Corporate, Academic and Professional spheres, who together contribute a wealth of practical insight and business acumen. Board currently comprise of a healthy balance of experience and youth. 10 Directors out of a total number of 12 (9 out of 11 as at 31st December 2010) are Non-Executive Directors. Board approves a strategic plan and key policies for the Bank and effectively monitors their implementation through the Board sub-committees and Key Management Personnel. All the Board members and Corporate Management together make up the Key Management Personnel of the Bank.

Names of the Directors and their status are given in the Annual Report of the Board of Directors on Pages 78 to 79. Chairman of the Bank is a Non-Executive Director. The Bank currently has 5 Directors who satisfy the requirements under the Listing Rules of the Colombo Stock Exchange applicable to Independent Directors and has 4 Directors who satisfy the criteria of independence prescribed under Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka. Non-Executive Independent Director, Mr. M.E. Wickremesinghe has been designated as the Senior Director.


Positions of the Chairman and the CEO are separated. Chairman provides leadership to the Board while the CEO manages the day-to-day operations of the Bank giving effect to the strategies and policies approved by the Board. Chairman and the CEO are not related to each other. 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.

Identifying and recommending suitable individuals to be appointed as Directors is the responsibility of the Nomination Committee. Nomination Committee also assists the Board to determine whether the Directors and Key Management Personnel are fit and proper persons as required under the Banking Act and Directions issued thereunder.


### Details of Compliance with Rules of Corporate Governance for Licensed Commercial Banks



Rule No.	 Rule	Status of Compliance
<b>3 (1)</b>	<b> The Responsibilities of the Board</b>	
<b>3 (1) (i)</b>	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:	
3 (1) (i) (a)	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated through the Bank	Compliant
3 (1) (i) (b)	Approve the overall business strategy of the Bank, including the Risk Policy and Risk Management procedures and mechanisms with measurable goals, for at least for the next three years.	Compliant
3 (1) (i) (c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	Compliant
3 (1) (i) (d)	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	Compliant
3 (1) (i) (e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Compliant - Policies and procedures in this respect are being further improved on an ongoing basis
3 (1) (i) (f)	Identify and designate Key Management Personnel, as defined in the International Accounting Standards, who are in a position to - (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and Risk Management	Compliant


Rule No.	Rule	Status of Compliance
3 (1) (i) (g)	Define the areas of authority and Key Responsibilities for the Board of Directors themselves and for Key Management Personnel.	Compliant
3 (1) (i) (h)	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy	Compliant
3 (1) (i) (i)	Periodically assess the effectiveness of the Board of Directors' own governance practices, including - (i) the selection, nomination and election of Directors and Key Management Personnel; (ii) the management of conflicts of interest; and (iii) the determination of weaknesses and implementation of changes where necessary.	Compliant
3 (1) (i) (j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Compliant
3 (1) (i) (k)	Meet regularly, on needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives	Compliant
3 (1) (i) (l)	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Compliant
3(1) (i) (m)	Exercise due diligence in the hiring and oversight of External Auditors	Compliant
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	Compliant
<b>Board Procedure</b>		
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present.  Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Compliant
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Compliant
3 (1) (v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	Compliant
3 (1) (vi)	The Board procedures shall ensure that a Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an alternative Director shall, however, be acceptable as attendance.	Compliant
3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Compliant
3 (1) (viii)	All Directors shall have access to advise and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Compliant
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Compliant
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties.	Compliant
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	Compliant

Rule No.	Rule	Status of Compliance
3 (1) (xii)	<p>Directors shall avoid conflicts of interest, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties.</p> <p>If a director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board meeting, where Independent Non-Executive Directors [refer to direction 3 (2) (iv) of these Directions] who have no material interest in the transaction, are present.</p> <p>The Director shall abstain from voting on any Board Resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested.</p> <p>He/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.</p>	Compliant - Board has treated any interest to be material and ensured that any matter in which a Board member has an interest is dealt with as provided herein. Directors do not participate in deliberations on matters in which they have an interest. Board ensures that Directors with interest in the matter to be discussed are not present when the matter is deliberated by the Board
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Compliant
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	No such situation has arisen during the year
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Compliant
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual Corporate Governance Report setting out the compliance with Direction 3 of these Directions.	Compliant
3 (1) (xvii)	The Board shall adopt a scheme of self assessment to be undertaken by each Director annually and maintain records of such assessments.	Compliant
<b>3 (2)</b>	<b> The Board's Composition</b>	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Compliant
3 (2) (ii) (A)	<p>The total period of service of a Director other than a Director who holds a position of a Chief Executive Officer shall not exceed nine years, and such period of office shall be inclusive of the total period of service served by such Director up to 1st January 2008.</p> <p>In this context the following general exemption shall apply [3 (2) (ii) (B)]</p> <p>A Director who has completed nine years as at 1st January 2008, or who complete such term at any time prior to 31st December 2008, may continue for a further maximum period of three years commencing 1st January 2009.</p>	Compliant
3 (2) (iii)	An employee of a bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Compliant - Bank has 2 Executive Directors out of a total of 12 Directors as of the date of this Report
3 (2) (iv)	The Board shall have at least 3 independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher. This sub direction shall be applicable from 1st January 2010 onwards.	Compliant - Bank has 4 Independent Directors out of a total of 12 Directors as at the date of this Report



Rule No.	Rule	Status of Compliance
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applies to the Independent Director.	Not applicable as there were no alternate Directors appointed
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Compliant
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one-half of the number of Directors present at such meeting are Non-Executive Directors. This sub direction shall be applicable from 1st January 2010 onwards.	Compliant
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance Report.	Compliant
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments of the Board.	Compliant
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	Compliant
3 (2) (xi)	If a Director resigns or if removed from office, the Board shall: (a) <b>Announce</b> the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) Issue a <b>statement</b> confirming whether or not there are any matters that need to be brought to the attention of shareholders.	There has been no resignations/ removals during the year
3 (2) (xii)	A Director or an employee of a Bank shall not be appointed, elected or nominated as a Director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Compliant - None of the Directors or employees is a Director of another Bank
<b>3 (3)</b>	 <b>Criteria to Assess the Fitness and Propriety of Directors</b> In addition to provisions of Section 42 of the Banking Act No. 30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a Director of a bank. Non-compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a Director or to continue as a Director.	
3 (3) (i)	Directors shall be below the age of 70 years.	Compliant - All Directors of the Bank are below the age of 70 years
3 (3) (ii) and 3 (3)(ii) (A)	A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank. Of such 20 companies/entities/institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. If any person holds in excess of the limitation as above, such person shall within a maximum period of three years from 1st January 2009 comply with the above-mentioned limitation and notify the Monetary Board accordingly.	Compliant


Rule No.	Rule	Status of Compliance
<b>3 (4)</b>	<b> Management Functions Delegated by the Board</b>	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Compliant - All delegations have been done by the Board after due consideration
3 (4) (ii)	The Board shall not delegate any matters to the Board committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Compliant
3 (4) (iii)	The Board shall review the delegation process in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Compliant - As and when new requirements have arisen the Board reviews and amends delegation arrangements on the recommendations of the management
<b>3 (5)</b>	<b> The Chairman and the Chief Executive Officer</b>	
3 (5) (i)	The roles of the Chairman and the Chief Executive Officer shall be separated and shall not be performed by the same individual.	Positions of the Chairman and the CEO are separated. Chairman provides leadership to the Board while the CEO manages the day-to-day operations of the Bank giving effect to the strategies and policies approved by the Board
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of senior Director shall be disclosed in the Bank's Annual Report.	Chairman is a Non-Executive Director. Mr. Maithri Wickremesinghe who is an Independent Director has been designated as the Senior Director
3 (5) (iii)	The Board shall disclose in its Corporate Governance report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of the relationship (including financial, business, family or other material/relevant relationship(s), if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Compliant - Business relationships among the Directors are disclosed in Directors' Interests in Contract on pages 97 to 100
3 (5) (iv)	The Chairman shall; (a) provide leadership to the Board (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure all key and appropriate issues are discussed by the Board in a timely manner.	Compliant
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Compliant
3 (5) (vi)	The Chairman shall ensure that all the Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Compliant

Rule No.	Rule	Status of Compliance
3 (5) (vii)	The Chairman shall encourage all the Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Compliant
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors	Compliant
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Compliant
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Compliant
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Compliant
<b>3 (6)</b>	 <b>Board Appointed Committees</b>	
	3 (6) (i) - Each bank shall have at least the following committees; 3 (6) (ii) - Audit Committee 3 (6) (iii) - Human Resources and Remuneration Committee 3 (6) (iv) - Nomination Committee 3 (6) (v) - Integrated Risk Management Committee	Compliant
	<ul style="list-style-type: none"> <li>Each Committee shall report directly to the Board.</li> </ul>	Compliant
	<ul style="list-style-type: none"> <li>Each committee shall appoint a Secretary to arrange the meetings and maintain, minutes, records etc. under the supervision of the Chairman of the committee.</li> </ul>	Compliant - The Remuneration Committee Charter was amended in January 2011 including the appointment of a Secretary
	<ul style="list-style-type: none"> <li>The Board shall present a report of the performance on each committee, on their duties and roles at the Annual General Meeting</li> </ul>	Compliant
<b>3 (6) (ii)</b>	<b>Audit Committee</b>	
3 (6) (ii) (a)	The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accounting and/or audit.	Mr. A.R. Rasiah is the Chairman of the Board Audit Review Committee. He does not satisfy the criteria for Independent Directors prescribed by the Central Bank of Sri Lanka. Board has appointed Mr. Maithri Wickremesinghe as the Chairman of the Board Audit Review Committee with effect from 1st March 2011
3 (6) (ii) (b)	All members of the committee shall be Non-Executive Directors	Compliant
3 (6) (ii) (c)	The committee shall make recommendations on matters in connection with; (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant status; (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor, provided that the engagement of the audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous item.	Compliant - please refer to the Report of the Board Audit Review Committee given on page 87

Rule No.	Rule	Status of Compliance
3 (6) (ii) (d)	The committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and best practices.	Compliant
3 (6) (ii) (e)	<p>The committee shall develop and implement a policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant status, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an external auditor of non-audit services does not impair the Independence Auditor's independence or objectivity. When assessing the External Auditor's Independence or objectivity in relation to the provision of non-audit services, the committee shall consider;</p> <ul style="list-style-type: none"> <li>(i) whenever the skills and experience of the audit firm make it a suitable provider of the Non-Audit services;</li> <li>(ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and</li> <li>(iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor</li> </ul>	Compliant
3 (6) (ii) (f)	<p>The committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and the scope of the audit, including;</p> <ul style="list-style-type: none"> <li>(i) an assessment of the Bank's compliance with the relevant directions in relation to corporate governance and the Management's Internal Controls over financial reporting;</li> <li>(ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and</li> <li>(iii) the co-ordination between the firms where more than one audit firm is involved.</li> </ul>	Compliant
3 (6) (ii) (g)	<p>The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on;</p> <ul style="list-style-type: none"> <li>(i) major judgmental areas</li> <li>(ii) any changes in Accounting Policies and practices</li> <li>(iii) significant judgments arising from the audit</li> <li>(iv) the going concern assumption; and</li> <li>(v) the compliance with relevant accounting standards and other legal requirements.</li> </ul>	Compliant
3 (6) (ii) (h)	The Committee shall discuss issues, problems and reservations arising from the interim and financial audits, and any matter the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Compliant
3 (6) (ii) (i)	The committee shall review the External Auditor's management letter and the management's response thereto.	Compliant


Rule No.	Rule	Status of Compliance
3 (6) (ii) (j)	<p>The Committee shall take the following steps with regard to the internal audit function of the Bank;</p> <ul style="list-style-type: none"> <li>(i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work;</li> <li>(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;</li> <li>(iii) Review any appraisal or assessment of the performance of the head and senior staff member of the Internal Audit Department.</li> <li>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</li> <li>(v) Ensure that the Committee is appraised of resignations of senior staff members of the internal audit department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning</li> <li>(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;</li> </ul>	Compliant
3 (6) (ii) (k)	The Committee shall consider the major findings of internal investigations and management's responses thereto	Compliant
3 (6) (ii) (l)	<p>The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee.</p> <p>However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.</p>	Compliant
3 (6) (ii) (m)	<p>The Committee shall have;</p> <ul style="list-style-type: none"> <li>(i) explicit authority to investigate into any matter within its terms of reference</li> <li>(ii) the resources which it needs to do so</li> <li>(iii) full access to information; and</li> <li>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience and attend, if necessary.</li> </ul>	Compliant
3 (6) (ii) (n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Compliant
3 (6) (ii) (o)	<p>The Board shall disclose in an informative way;</p> <ul style="list-style-type: none"> <li>(i) details of the activities of the Audit Committee</li> <li>(ii) the number of Audit Committee meetings held in the year</li> <li>(iii) details of attendance of each individual Director at such meeting</li> </ul>	Compliant - Please refer the Board Audit Review Committee report on page 87
3 (6) (iii) (p)	The Secretary of the Committee (who may be the Company Secretary or the head of the internal audit) shall keep and record detailed minutes of the committee meetings.	Compliant
3 (6) (iii) (q)	The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with External Auditor.	Compliant

Rule No.	Rule	Status of Compliance
<b>3 (6) (iii)</b>	<b>Human Resources and Remuneration Committee (HRRC)</b>	
3 (6) (iii) (a)	The Committee shall determine the remuneration policy relating to Directors, CEO and Key Management Personnel of the Bank.	Compliant - please refer the HRRC report on page 88
3 (6) (iii) (b)	The Committee shall set goals and targets for the Directors, CEO and Key Management Personnel.	Compliant
3 (6) (iii) (c)	The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Compliant
3(6) (iii) (d)	The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Compliant
<b>3 (6) (iv)</b>	<b>Nomination Committee</b>	
3 (6) (iv) (a)	The Committee shall implement a procedure to select/appoint new Director, CEO and Key Management Personnel	Compliant - please refer the report of the Nomination Committee on page 89
3 (6) (iv) (b)	The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by a Director concerned towards the overall discharge of the Board's responsibilities.	Compliant
3 (6) (iv) (c)	The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the Key Management Positions.	Compliant
3 (6) (iv) (d)	The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the Statutes.	Compliant
3 (6) (iv) (e)	The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Compliant
3 (6) (iv) (f)	The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at the meetings by invitation.	Compliant
<b>3 (6) (v)</b>	<b>Integrated Risk Management Committee (IRMC)</b>	
3 (6) (v) (a)	Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	Compliant - please refer the report of the IRMC on page 90
3 (6) (v) (b)	The Committee shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of Subsidiary companies and Associate companies, risk management shall be done, both on a bank basis and group basis.	Compliant
3 (6) (v) (c)	The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Compliant
3 (6) (v) (d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Compliant
3 (6) (v) (e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Compliant

Rule No.	Rule	Status of Compliance
3 (6) (v) (f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Compliant
3 (6) (v) (g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Committee's assessment of the risks are submitted to the Board through the minutes of the IRMC meetings. This has been done on a monthly basis to the Board meeting held immediately after the IRMC meeting
3 (6) (v) (h)	The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Compliant
<b>3 (7)</b>	 <b>Related Party Transactions</b>	
3 (7) (i)	<p>The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purpose of this Direction</p> <ul style="list-style-type: none"> <li>(a) Any of the Bank's Subsidiary Companies</li> <li>(b) Any of the Bank's Associate Companies</li> <li>(c) Any of the Directors of the Bank</li> <li>(d) Any of the Bank's Key Management Personnel</li> <li>(e) A close relation of any of the Bank's Directors or Key Management Personnel</li> <li>(f) A shareholder owing a material interest in the Bank</li> <li>(e) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest</li> </ul>	<p>Compliant</p> <p>Board procedure contains provisions on avoiding conflicts of interests. Bank's credit policy contains provisions for ensuring compliance. Necessary steps have been taken by the Board to avoid any conflict of interests, that may arise, in transacting with related parties as per the definition in the direction. Further, as evidenced by the minutes of Board Meetings, the Board ensures that related parties are not accorded any preferential treatment over and above those accorded to similarly placed non-related parties. Policies and procedures in related party transactions are being further improved on an ongoing basis</p>
3 (7) (ii)	<p>The type of transactions with related parties that shall be covered by this Direction shall include the following;</p> <ul style="list-style-type: none"> <li>• The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation</li> <li>• The creation of any liabilities of the Bank in the form of deposits, borrowings and investments</li> <li>• The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank</li> <li>• The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially priority, confidential or otherwise sensitive information that may give benefits to such related parties.</li> </ul>	
3 (7) (iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business. Type of transactions that should be avoided are given in the subsections of this rule.	



Rule No.	Rule	Status of Compliance
3 (7) (iv)	A bank shall not grant any accommodation to any of its directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	
3 (7) (v)	<p>(a) Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be obtained by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a director.</p> <p>(b) Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.</p> <p>(c) Any director who fails to comply with the above sub-directions shall be deemed to have vacated the office of a director and the Bank shall disclose such fact to the public.</p> <p>(d) This sub-direction, however, shall not apply to a director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.</p>	Not applicable
3 (7) (vi)	A Bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above	Compliant - No accommodation has been granted to the employees on a favourable basis other than under the schemes applicable to all employees of the Bank
3 (7) (vii)	No accommodation granted by the Bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Not applicable

Rule No.	Rule	Status of Compliance
<b>3 (8)</b>	 <b>Disclosures</b>	
3 (8) (i)	(a) The Board shall ensure that the annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards and (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Compliant Compliant
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report; (a) A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. (b) A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. (c) The External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above, in respect of any statements prepared or published after 31st December 2008. (d) Details of Directors, including names, fitness and propriety - Directors' transactions with the Bank - the total of fees/remuneration paid by the Bank to the Directors. (e) Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital. (f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank. (g) The External Auditor's certification of the compliance with these Directions in the Annual Corporate Governance reports published after 1st January 2010. (h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance (i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Refer page 92 Refer page 96 Certification obtained from External Auditors Refer page 92 Refer page 100 Refer page 134 Certification obtained from External Auditors Refer page 96 Not applicable

As per listing rule No. 7.6 (viii) of the Colombo Stock Exchange, details of the property holdings of the Group are as follows:

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/Non-Executive Director*

Mr. Gunewardene was appointed Chairman of Nations Trust Bank PLC on 1st January 2006. He has been on the Board of Nations Trust Bank PLC 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 18 years. He is a Director in many companies in the John Keells Group. He has also served as the Chairman of the Colombo Stock Exchange. Mr. Gunewardene brings over 28 years of management experience to the Board.

**2. E.H. Wijenaike***Deputy Chairman/Non-Executive Director*

Mr. Wijenaike is the Managing Director of Central Finance Co. PLC, a leading Non-Banking Financial Institution (NBFI) in the country. He has over 29 years of management experience. He is a Director of several quoted companies within and outside the Central Finance 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 Nomination Committee of the Bank.

**3. Saliya Rajakaruna***Executive 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 a MBA from Cranfield School of Management, 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 the Bank of Ceylon, Director and the Chairman of the Audit Committee of Ceylon Petroleum Corporation.

**4. Krishan Balendra***Non-Executive Director*

Mr. 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. Limited, 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***Non-Executive 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. 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***Non-Executive Director*

A Director of John Keells Holdings PLC and many of its subsidiaries, Mr. Peiris has overall responsibility for John Keells Group Finance and Accounting and related areas, Insurance and the Information Technology functions. Mr. Peiris has served in many Boards overseas and has 40 years finance and general management experience at very senior levels in Sri Lanka and abroad. Mr. Peiris is currently the Chairman of the Taxation Subcommittee 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. 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***Independent Non-Executive 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, UK. Currently, Dr. (Ms.) Weerakoon is carrying out research and teaching in international economics and macroeconomic policy management. Dr. (Ms.) Weerakoon is a member of the Board Audit Review Committee and the Human Resources & Remuneration Committee.



### 9. A.R Rasiah

#### *Non-Executive 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, MTD Walkers PLC and EB Creasy Group of Companies. He is also a Management Consultant of Ceylon Pencil Company. 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 is a member of the Human Resources and Remunerations Committee and is the Chairman of the Board Audit Review Committee of the Bank.

### 10. M.E. Wickremesinghe

#### *Senior Director/Independent Non-Executive Director*

Mr. Wickremesinghe holds an Honours Degree in Law 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 Nomination Committee of the Board and also serves as a member of the Integrated Risk Management Committee.

### 11. Murtaza Jafferjee

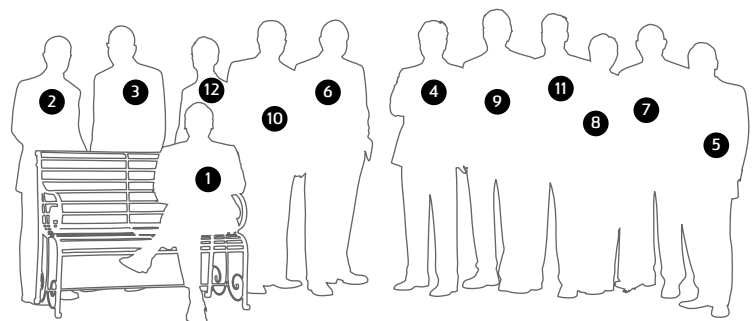
#### *Independent Non-Executive Director*

Mr. Jafferjee holds a Masters in Financial Economics from the University of Colombo, Sri Lanka, Chartered Financial Analyst from CFA Institute, Charlottesville, Virginia, USA, Bachelors in Computer Science and Bachelors in Engineering-Mechanical (Hons.) from University of New South Wales, Australia. He was appointed to the Board of Nations Trust Bank PLC in December 2010. He is currently a Director and the Chief Executive Officer of JB Securities (Pvt) Limited, Immediate Past President of CFA Sri Lanka, the local member society representing CFA charter holders in Sri Lanka and also an Independent Non-Executive Director of Serendib Hotels PLC. He is also a Director of several other companies including Star Packaging (Pvt) Limited and Serendib Hotels PLC. He was a Director of Colombo Stock Exchange from April 2007 to August 2009. He possesses experience and skills in the fields of management, corporate finance, financial statement analysis and industry analysis.

### 12. Dr. Kemal De Soysa

#### *Independent Non-Executive Director*

Dr. De Soysa holds a Ph.D. in History of Science, MPhil in History and Philosophy of Science and Medicine and BA Hons. in Natural Science from University of Cambridge. He was appointed to the Board of Nations Trust Bank PLC on 21st January 2011. He is currently the Country Head of Amba Research Lanka (Pvt) Limited, managing the Sri Lanka-based operation of Amba Research Lanka (Pvt) Limited, the leading provider of investment research and analytics support services to the global capital market industry. He is responsible for all aspects of service delivery and operational management as well as building local strategic capabilities and driving profitability. He has also served as the Country Delivery Head, Head of Equity Research Delivery and also as the Vice-President of Amba Research Lanka (Pvt) Limited. He has also worked as Head of Equity Research Delivery at Amba Research India (Pvt) Limited.



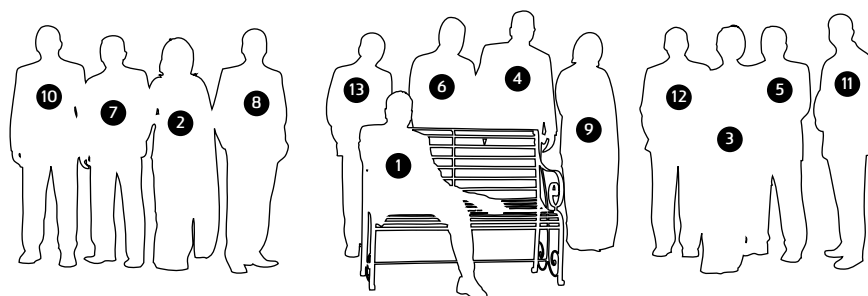






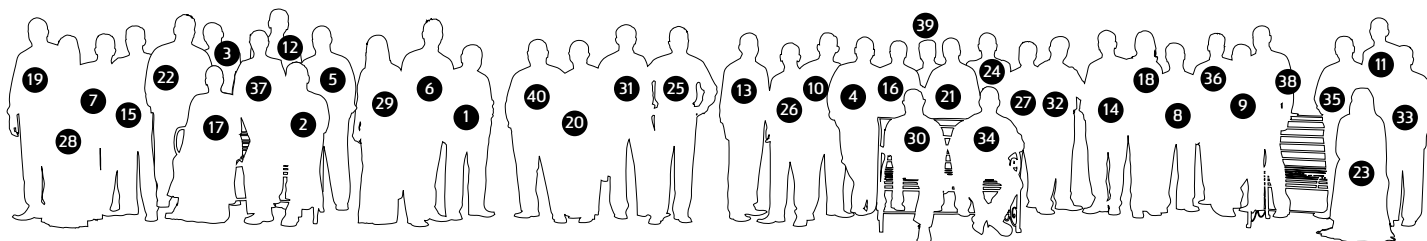


**Corporate Management**



1. [Saliya Rajakaruna](#) Director/CEO
2. [Renuka Fernando](#) DGM - Retail and SME Banking
3. [Keshini Jayawardena](#) DGM - Leasing & Factoring
4. [Priyantha Talwatte](#) DGM - Cards, Consumer Assets and Strategic Marketing
5. [Kapila Ariyaratne](#) DGM - Corporate and Institutional Banking
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

1. [Reynold Abeykoon](#) Chief Manager - Corporate Support Services
2. [Karthigesu Balachandrarajan](#) Chief Manager - Central Operations
3. [Kapila Bandara](#) Chief Manager - Alternate Channels
4. [Sheahan Daniel](#) Chief Manager - Factoring
5. [Rajeev De Silva](#) Chief Manager - Leasing
6. [Lewie Diasz](#) Chief Manager - Cards
7. [Anushan Fernando](#) Chief Manager - Branch Operations
8. [Bandara Jayathilake](#) Chief Manager - Wholesale Banking
9. [Chamath Munasinghe](#) Chief Manager - Credit Operations
10. [Damith Pallewatte](#) Chief Manager - Credit Risk Management
11. [Gavin Perera](#) Chief Manager - Consumer Credit Risk
12. [Sanjaya Perera](#) Chief Manager - Branches and PBCs
13. [Shanmugam Puvaneswaran](#) Chief Manager - Consumer Sales
14. [Jerome Ratnarajah](#) Chief Manager - Treasury Services
15. [Lalaka Siriwardena](#) Chief Manager - Corporate Banking
16. [Priyantha Wijesekera](#) Chief Manager - NL Operations
17. [Kushlani Allis](#) Senior Manager - Management Information and Planning
18. [Sharmila Arasaratnam](#) Senior Manager - Cards Marketing
19. [Nisaja Aryasinghe](#) Senior Manager - Consumer Collections
20. [Nilanthie De Meral](#) Senior Manager - Wholesale Banking
21. [Tharusha Ekanayake](#) Senior Manager - FIS & Structured Products
22. [Priyashantha Fernando](#) Senior Manager Leasing - Zone 2
23. [Nilmini Gunaratne](#) Senior Manager - Marketing Services
24. [Indrajith Gunasekera](#) Senior Manager - Retail & SME Credit
25. [Samantha Herath](#) Senior Manager - Branches - Zone 2
26. [Chaminda Jayawardena](#) Senior Manager - Nations Insurance Brokers
27. [Nisala Kodippili](#) Senior Manager - Technology
28. [Laksara Marapana](#) Senior Manager - Legal
29. [Amanthi Motha](#) Senior Manager - Human Resources
30. [Kapila Nanayakkara](#) Senior Manager - FX & Money Markets
31. [Prabath Perera](#) Senior Manager - Branches - Zone 1
32. [Chandima Samarasinghe](#) Senior Manager - Internal Audit
33. [Wasantha Senanayake](#) Senior Manager - Infrastructure and Administration
34. [Dimuth Sigera](#) Senior Manager - SME Banking
35. [Damitha Silva](#) Senior Manager - Remittances
36. [Chamila Sumathirathne](#) Senior Manager - Financial & Risk Reporting
37. [Charmaine Tillegaratne](#) Senior Manager - Taxation and Payments
38. [Dinesh Thomas](#) Senior Manager - Business Solutions
39. [Sithamparanathan Vimalanathan](#) Senior Manager - Zone 3
40. [Deepa Wickramasinghe](#) Senior Manager - Credit Risk - Leasing and Factoring
41. [Melanie Perera](#) Senior Manager - Corporate Banking (*Absent*)





ANNUAL REPORT 2010





Senior Management











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



Call Centre: 011-4711411



Fax: 011-2307854



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. 103A, Pannipitiya Road, Battaramulla

### Batticaloa

No. 29, Bar Road, Batticaloa

### Borella

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

### Cinnamon Gardens

No. 4A, Independence Avenue, Colombo 7

### City

No. 76, York Street, Colombo 1

### Colpetty

No. 464, Galle Road, Colombo 3

### Corporate

No. 242, Union Place, Colombo 2

### Crescat

B 14, Basement, 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 Town

No. 100, Havelock Road, Colombo 5

### Homagama

No. 113/A, High Level Road, Homagama

### Jaffna

No. 35, Stanley Street, Jaffna

### Kadawatha

No. 25, Kandy Road, Kadawatha

### Kandy

No. 147, Kotugodella Street, 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

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. 72/A, Old Chilaw Road, 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

### Thalawathugoda

No. 755, Madiwela Road, Thalawathugoda

### Ward Place - Inner Circle Centre

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

### Kuliyapitiya

No. 72A, Hettipola Road, Kuliyapitiya

## 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

## OFF SITE ATMS

### Asiri Hospital Limited Complex

No. 181, Kirula Road, Narahenpita

### Asiri Surgical Hospital

21, Kirimandala Mawatha, Narehenpita

### John Keells Holdings PLC

No. 130, Glennie Street, Colombo 2

### National Hospital of Sri Lanka

Doctors Quarters, Regent Street, Colombo 8

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 all 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 on the Bank and its subsidiaries.

During the year, the Committee also:

- Reviewed forty seven audit reports relating to branches, personal banking Centres and the leasing branches;
- Reviewed fifty eight 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;
- Outsourced the External penetration testing and the application vulnerability Assessment of the IT resources;
- Discussed issues arising from the reports with the External Auditors, who attend Committee meetings regularly 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;
- Paid special attention to the items highlighted in the CBSL examination report with a view of ensuring that all the highlighted items were brought to a logical conclusion;
- Followed up closely with the External Auditors with regard to the application of SLAS 44 and 45 and its impact on the operations of the Bank;
- Monitored the buildup of ground work leading to the eventual certification of the Internal Control Mechanism of the Bank;

The BARC reviewed the audit and the 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 2011 at the next Annual General Meeting.



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

18th February 2011

During the year under review, the Human Resources and Remuneration Committee comprised of 3 Non-Executive Directors namely Mr. A.D. Gunewardene (Chairman), Mr. A.R. Rasiyah and Dr. (Ms.) D. Weerakoon. The Committee held one meeting during the year. The Chief Executive Officer (CEO) of the Bank was present at the meeting of the Committee as an invitee, except when matters relating to the CEO were being discussed.

As per the Human Resources and Remuneration Committee Charter, the objectives of the Committee are as follows:

- 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 participated in 2 remuneration surveys carried out by external consulting firms. The results of these surveys will be used in formulating staff remuneration for the year 2011.

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 ensuing year. The minutes of the Committee meeting was forwarded to the Board of Directors.



**A.D. Gunewardene**

*Chairman*

Human Resources and Remuneration Committee

18th February 2011

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. Wijenaike

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

The Committee held four 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:

- Selecting and appointing 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 of the Bank and setting up criteria for their appointment or promotion.
- Ensuring that the Directors and the Key Management Personnel are fit and proper persons to hold office conforming to the criteria prescribed by the Central Bank of Sri Lanka.
- 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.

The Committee worked closely with the Board in evaluating and reviewing, the skills required for the Bank and the Board. When recommending the appointment of new Directors, the Committee considers for each appointment, the particular skills, knowledge and experience that would benefit the Board most significantly. Having carried out this evaluation the Committee recommended to the Board the appointment of Mr. Murtaza Jafferjee and Dr. Kemal De Soysa during the year. The Committee is satisfied that the representation of skills on the Board is appropriate for the Bank's current needs at Board level.

The Committee also works closely with the Board in ensuring that the Key Management Personnel comprise of persons of required skill and expertise and that their responsibilities and areas of authority are aligned with the Board approved strategy.



**M.E. Wickremesinghe**

*Chairman*

Nomination Committee

Colombo  
18th February 2011

## COMPOSITION

During the year under review, the Integrated Risk Management Committee (IRMC) comprised 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 attended 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 & Market Risk Management  
Mr. K. Mayadunne - Consultant - Operational Risk Management & Compliance  
Mr. Mahendra Galgamuwa - Consultant - Treasury

In addition to the above, Mr. Sarath Piyaratna, Chairman of the Board Supervisory Committee and Mr. Arthur Fernandez, Head of Internal Audit also attended meetings of the Integrated Risk Management Committee by invitation.

## TERMS OF REFERENCE

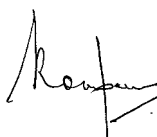
Integrated Risk Management Committee's mandate includes the following:

- Ensuring that the Bank has a comprehensive risk management framework in place relative to the Bank's activities and risk profile,
- Assessing the effectiveness of the Bank's risk management system and monitoring the impact to the Bank from risk types such as credit, market, liquidity, operational and strategic through appropriate risk indicators and management information,
- Ensuring that a compliance function is in place to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies relating to all areas of Bank operations,
- Ensuring that the Board of Directors is kept updated 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. During the year, the IRMC placed special emphasis in ensuring that a risk awareness culture is created in the Bank through the development of divisional risk grids and the monthly divisional meetings, which discuss and update the risk grid of the division. These initiatives cascaded the risk awareness culture to the lower levels of staff and enabled the staff to understand and voice their opinions on risks and risk management practices of the Bank in an open and transparent manner.

## MEETINGS

The IRMC held twelve meetings during the year under review. The minutes of the IRMC meetings were regularly forwarded to the Board. The IRMC reviewed risk policy frameworks, risk management strategies and key risk indicators were discussed at the meetings and the IRMC is satisfied that the risk exposures of the Bank are being appropriately managed.



**J.R.F. Peiris**

*Chairman*

Integrated Risk Management Committee

Colombo  
18th February 2011

## NTB...Where Driving Growth is Second Nature

Where our Drive takes us...

\*6

We developed many alternate delivery channels over the past five years.

We invested Rs. 2.6 bn as CAPEX to grow the Bank over the past five years.

The drop in cost: income ratio over the past five years from 69% to 59% stands testimony to the Bank's success in enhancing productivity and efficiency.



## Annual Report of the Board of Directors on the Affairs of the Bank

The details set out herein provide the pertinent information in accordance with the statutory requirements, requirements of relevant regulatory authorities for the listed companies in the financial industry and best accounting practices.

### GENERAL

The Directors have pleasure in presenting to the members their Report together with the Audited Financial Statements for the year ended 31st December 2010 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. The Bank was re-registered on 14th February 2008 as required under the provisions of the Companies Act No. 07 of 2007.

The Annual Report of the Board of Directors and the Audited Financial Statements were approved by the Directors on 18th February 2011.

### STATEMENT OF COMPLIANCE ON THE CONTENTS 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.

#### Bank

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.

#### Subsidiaries

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 margin trading, 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 Bank or any of the subsidiaries during the period under review.

### FINANCIAL STATEMENTS

Financial Statements of the Bank and the Group are given on pages 104 to 137 of this Annual Report.

### AUDITORS' REPORT

Auditors' Report on the Financial Statements is given on Page 105.

### SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Financial Statements are given from pages 110 to 117. There has been no change in the accounting policies adopted by the Bank 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 97 and 99 of this Report.

Entries relating to the following were made in the Interests Register during the year under review:

1. Allotment of shares to Directors namely Mr. A.D. Gunewardene, Mr. E.H. Wijenaike, Mr. A.K. Gunaratne and Mr. C.H.S.K. Piyaratna on 19th March 2010 pursuant to conversion of 'Warrants 2010'.
2. Approval of remuneration to Executive Directors by the Board - 31st March 2010.

### DIRECTORS' SHAREHOLDINGS

Directors' shareholding as at 31st December 2010 and 2009 are given below:

Name of the Director	No. of Shares	
	2010	2009*
Mr. A.D. Gunewardene	4,621,272	2,521,486
Mr. E.H. Wijenaike	9,635	7,708
Mr. J.R.F. Peiris	—	—
Mr. A.K. Gunaratne	17,666	14,133
Mr. A.R. Rasiah	16,304	16,304
Dr.(Ms.) D. Weerakoon	—	—
Mr. M.E. Wickremesinghe	—	—
Mr. K.N.J. Balendra	—	—
Mr. S.G. Rajakaruna	—	—
Mr. C.H.S.K. Piyaratna	83,832	67,066
Mr. M. Jafferjee	—	—

\* Figures given in the Annual Report for the year 2009 included 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	29.9	29.9



## CORPORATE DONATIONS

No donations have been made by the Bank during the year.

## DIRECTORATE

The names of the Directors of the Bank as at the end of 31st December 2010 and their attendance at the Board meetings during the year were as follows:

Name and Designation	Eligibility	Attendance	Excused
<b>Non-Executive Directors</b>			
Mr. A.D. Gunewardene - <i>Chairman</i>	13	13	Nil
Mr. E.H. Wijenaikie - <i>Deputy Chairman</i>	13	13	Nil
Mr. J.R.F. Peiris	13	12	1
Mr. A.K. Gunaratne	13	13	Nil
Mr. K.N.J. Balendra	13	13	Nil
Mr. A.R. Rasaiiah	13	12	1
<b>Independent Non-Executive Directors</b>			
Mr. M. E. Wickremesinghe - <i>Senior Director</i>	13	13	Nil
Dr. (Ms.) D. Weerakoon	13	13	Nil
Mr. Murtaza Jafferjee	1	1	Nil
<b>Executive Directors</b>			
Mr. S.G. Rajakaruna	13	13	Nil
Mr. C.H.S.K. Piyaratna	13	13	Nil

Mr. Murtaza Jafferjee and Dr. Kemal De Soysa were appointed to the Board with effect from 15th December 2010 and 21st January 2011 respectively as Independent Non-Executive Directors.

Mr. M.E. Wickremesinghe, an Independent Non-Executive Director, was designated as the Senior Director with effect from 30th September 2010. He replaced Mr. A.R. Rasaiiah who was the Senior Director of the Bank up to that date.

Mr. A.D. Gunewardene, Mr. E.H. Wijenaikie and Mr. A.K. Gunaratne retire by rotation and being eligible for re-election are recommended for re-election as provided for in the Articles of Association of the Bank.

Mr. Murtaza Jafferjee and Dr. Kemal De Soysa were appointed to 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 Bank and in terms of Direction No. 3 (2) (x) of the Banking Act Direction No. 11 of 2007 (Directions on Corporate Governance for Licensed Commercial Banks).

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.

## AUDITORS

Bank's Auditors during the period under review were Messrs Ernst & Young, Chartered Accountants. The following payments were made to them during the year:

	Bank Rs. mn	Group Rs. mn
Statutory and Other Assurance Services	7.742	9.141
Fees for Other Services	6.379	6.973

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 Bank or any of its subsidiaries other than those disclosed above.

## RESULTS AND DIVIDENDS

Consolidated Income Statement along with the Bank's Income Statement for the year is given on page 107, Balance Sheets of the Bank and Group are given on page 106.

Having satisfied the solvency test requirement under the Companies Act No. 07 of 2007 the Directors recommend a first and final dividend of Rs. 2.00 per share to the holders of ordinary shares of the Bank registered on the books of the Bank as at end of 30th March 2011.

## INFORMATION ON SHARES, WARRANTS AND DEBENTURES

Information relating to holdings of shares, warrants and debentures is given from pages 138 to 141 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 137.

## CAPITAL ADEQUACY

The Group's capital adequacy ratios as at 31st December 2010 were 13.43% for Tier I and 15.74% 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 No. 58 of 1949, Exchange Control Act No. 24 of 1953, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Prevention of Money Laundering Act No. 05 of 2006, Financial Transactions Reporting Act No. 06 of 2006, Convention on the Suppression of Terrorist Financing Act No. 25 of 2005, Inland Revenue Act No. 10 of 2006, Value Added Tax Act No. 14 of 2002, Finance Act No. 05 of 2005,

Economic Service Charge Act No. 13 of 2006, Listing Rules of the Colombo Stock Exchange, 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.

## TRANSACTIONS WITH RELATED PARTIES

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

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	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Assets</b>												
Accommodation												
Loans and Advances	1,703,906	914,373	2,034	1,962	48,437	37,327	29	111	32,153	24,547	–	–
Credit Cards	–	–	957	1,180	5,012	1,686	–	–	395	753	–	–
Reverse Repurchase Agreements	1,193,185	2,619,129	–	–	–	–	–	–	–	–	–	–
Other Assets	34,080	34,105	–	–	–	–	–	–	–	–	–	–
Total Accommodation	2,931,170	3,567,607	2,991	3,142	53,449	39,013	29	111	32,548	25,300	–	–
Less: Cash Collaterals against Loans and Advances	–	–	4,085	7,893	28,726	25,871	–	–	35,000	408,560	–	–
Inv. made in the Bank's Equity and debt instruments	–	–	–	–	–	–	–	–	2,206,265	1,578,594	–	–
Total net Accommodation	2,931,170	3,567,607	Nil	Nil	24,723	13,142	29	111	Nil	Nil	–	–
<b>Liabilities</b>												
Deposits	39,199	4,252	179,302	26,600	61,788	30,111	3,997	667	2,172,974	4,157,170	3,768	4,708
Borrowings	19,090	100,518	7,000	6,247	9,000	12,646	–	–	2,923,005	899,682	–	–
Other Liabilities	229,172	189,344	–	–	–	–	–	–	–	–	–	–
<b>Equity</b>												
Dividends Paid	–	–	6,654	4,583	191	463	127	125	146,574	116,331	–	–
<b>Off-Balance Sheet Items</b>												
Undrawn Facilities	296,144	485,677	5,387	5,720	16,744	14,359	–	–	218,985	299,726	–	–
Guarantees	450	450	–	–	–	–	–	–	63,467	15,787	–	–
<b>Income Statement Items</b>												
Interest Income Earned	360,712	839,300	476	3,374	2,865	3,736	10	133	1,587	6,334	2	169
Interest Expenses Paid	13,513	17,350	6,010	10,846	3,324	4,896	107	816	625,285	489,179	–	2,208
Other Income Earned	2	2,821	8	5	81	24	9	4	1,620	326	103	212
Dividends Received (Gross)	53,750	37,320	–	–	–	–	–	–	–	–	–	–
Expenses Paid	30,008	17,830	–	–	–	–	–	–	23,347	16,107	3,297	2,905
Provision for Investments	–	723	–	–	–	–	–	–	–	–	–	–
<b>Compensation Paid:</b>												
Emoluments/Fees	–	–	29,988	44,987	83,783	113,499	–	–	–	–	–	–
Post-Employment Benefits	–	–	959	1,195	2,795	3,284	–	–	–	–	–	–
No. of shares of the Bank (Bought)	–	–	2,122,012	–	50,533	–	17,396	–	–	–	–	–
No. of shares of the Bank (Sold)	–	–	–	670,301	19,000	–	–	–	–	–	–	–

\* 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 - *Chairman*

Mr. E.H. Wijenaïke

Mr. C.H.S.K. Piyaratna

Mr. S.G. Rajakaruna

Resignation during the accounting period

Mr. A.D.S. Yapa

### Nations Insurance Brokers Limited

Mr. S.G. Rajakaruna - *Chairman*

Mr. C.H.S.K. Piyaratna

Ms. R.K. Jayawardene

### Allied Properties Limited

Mr. A.D. Gunewardene - *Chairman*

Mr. E.H. Wijenaïke

Mr. S.G. Rajakaruna (Appointed with effect from 30th July 2010)

### Mercantile Leasing (Financial Services) Limited

Mr. A.D. Gunewardene - *Chairman*

Mr. E.H. Wijenaïke

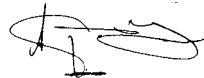
Mr. S. G. Rajakaruna (Appointed with effect from 30th July, 2010)

## GOING CONCERN

Directors after making necessary inquiries have a reasonable expectation that the Bank 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 Bank 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 2011 at 10.00 a.m.



**Ajit Gunewardene**

*Chairman*



**Saliya Rajakaruna**

*Director/Chief Executive Officer*



**Theja Silva**

*Company Secretary*

Colombo

18th February 2011

## RESPONSIBILITY

In line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (ii) (b), the Board of Directors present this report on Internal Control.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of Nations Trust Bank's ("the Bank") system of internal controls. In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

## KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan

is reviewed and approved by the Board Audit Review Committee. Findings of the internal audit are submitted to the Board Audit Review Committee for review at their periodic meetings.

- The Board Audit Review Committee of the Bank reviews internal control issues identified by the Internal Audit Division, regulatory authorities and management and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Board Audit Review Committee meetings are forwarded to the Board of the Bank on a periodic basis. Further details of the activities undertaken by the Board Audit Review Committee of the Bank are set out in the Board Audit Review Committee Report on page 87.
- In assessing the internal control system, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. This assessment relates only to the Bank.

## CONFIRMATION

Based on the above processes, the Board confirms that to the best of their knowledge the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

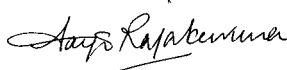
## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed the above Directors' Statement on Internal Control included in the annual report of the Bank for the year ended 31st December 2010 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.

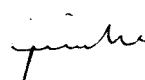
By order of the Board,



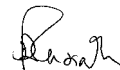
**A.D. Gunewardene**  
Chairman



**Saliya Rajakaruna**  
Director/CEO



**E.H. Wijenaike**  
Deputy Chairman



**A.R. Rasiah**  
Director/Chairman - BARC

Colombo  
18th February 2011

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 2010:

Name of Related Party	Name of Director	Relationship	Details	Amount Outstanding as at 31.12.2010 (Rs.)
Central Finance Co. PLC	E.H. Wijenaik	Director	A sum of Rs. 21,443,239/- was paid as car rentals.	Nil
	A.K. Gunaratne	Director	A sum of Rs. 2,951,459/- was received as interest and other income.	
			A sum of Rs. 59,590,395/- was paid as interest expense.	
John Keells Office Automation (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 5,438,706/- was paid for Stationery Items purchased and repair & maintenance charges.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 449,579/- was paid as interest expense.	
			A sum of Rs. 7,065,211/- was received as interest and other income.	
John Keells Holdings PLC	A.D. Gunewardene	Director	A sum of Rs. 1,903,917/- was paid as economic advisory service charges.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 239,072/- was received as interest and other income.	
			A sum of Rs. 561,041,400/- was paid as interest expenses.	
D.H.L. Keells (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 1,009,975/- was paid as courier charges.	Nil
			A sum of Rs. 10,750/- was received as interest and other income.	
Jaykay Marketing Services (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 4,470,943/- was paid as rent, utility payments & sponsorships.	Nil
	K. Balendra	Director	A sum of Rs. 1,666,293/- was paid as interest expenses.	
			A sum of Rs. 12,900/- was received as interest and other income.	
Odel (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 3,296,639/- was paid as rent, utility payments & sponsorships.	Nil
			A sum of Rs. 103,686/- was received as interest and other income.	
Asian Hotels & Properties PLC	A.D. Gunewardene	Director	A sum of Rs. 4,802,721/- was paid as rent, utility payments & sponsorships.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 14,959,020/- was paid as interest expenses.	
			A sum of Rs. 61,438/- was received as interest and other income.	
Ceylon Holiday Resorts Limited	A.D. Gunewardene	Director	A sum of Rs. 933/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 251,883/- was received as interest and other income.	
Mackinnon and Keells Financial Services Limited	A.D. Gunewardene	Director	A sum of Rs. 4,652,958/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director		
Habarana Walk Inn Limited	A.D. Gunewardene	Director	A sum of Rs. 39,780/- was received as interest and other income.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 112,154/- was paid as interest expenses.	
			A sum of Rs. 158,251/- was paid as business promotion expenses.	

Name of Related Party	Name of Director	Relationship	Details	Amount Outstanding as at 31.12.2010 (Rs.)
Walkers Tours Limited	A.D. Gunewardene	Director	A sum of Rs. 5,951,147/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 47,150/- was received as interest and other income.	
Trans Asia PLC	A.D. Gunewardene	Director	A sum of Rs. 89,852/- was paid as staff training & customer entertainment charges.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 3,887,575/- was paid as interest expenses. A sum of Rs. 6,500/- was received as interest and other income.	
Waldock Mackenzie Limited	A.D. Gunewardene	Director	A sum of Rs. 360,708,788/- was received as interest income.	Nil
	E.H. Wijenaïke	Director	A sum of Rs. 45,500,000/- was received as dividend income.	
	S. Rajakaruna	Director		
	C.H.S.K. Piyaratna	Director		
Allied Properties Limited	A.D. Gunewardene	Director	A sum of Rs. 900/- was received as interest and other income.	Nil
	E.H. Wijenaïke	Director	Interest paid amounted to Rs. 10,527,895/-.	
	S. Rajakaruna	Director	A sum of Rs. 30,008,359/- was paid as rent and electricity expenses. A sum of Rs. 4,800,000/- was received as dividend income. Deposit of rentals amounts to Rs. 5,922,000/-.	
Nations Insurance Brokers Limited	S. Rajakaruna	Director	A sum of Rs. 3,912/- was received as interest and other income.	Nil
	C.H.S.K. Piyaratna	Director	A sum of Rs. 2,985,154/- was paid as interest expenses. A sum of Rs. 3,450,000/- was received as dividend income.	
Union Assurance PLC	A.D. Gunewardene	Director	A sum of Rs. 867,028/- was paid as insurance premiums.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 335,626/- was paid as interest expenses.	
	K. Balendra	Director	A sum of Rs. 121,646/- was received as interest and other income.	
	A.K. Gunaratne	Director		
Central Industries PLC	E.H. Wijenaïke	Director	A sum of Rs. 3,119,589/- was received as interest and other income.	Nil
	A.K. Gunaratne	Director	A sum of Rs. 382,150/- was paid as interest expenses.	
Habarana Lodge Limited	A.D. Gunewardene	Director	A sum of Rs. 97,031/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 126,046/- was received as interest and other income.	
Kandy Walk Inn Limited	A.D. Gunewardene	Director	A sum of Rs. 11,282/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 164,266/- was received as interest and other income.	
International Tourists & Hoteliers Limited	A.D. Gunewardene	Director	A sum of Rs. 5,250/- was received as other income.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 7,328,288/- was paid as interest expenses.	
Nexus Networks (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 466,110/- was paid as interest expenses.	Nil
	K. Balendra	Director	A sum of Rs. 14,100/- was received as interest and other income.	
John Keells Warehousing (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 2,478,438/- was paid as interest expenses. A sum of Rs. 400 was received as other income.	Nil
Capital Suisse Asia Limited	E.H. Wijenaïke	Director	A sum of Rs. 27,827/- was paid as interest expenses.	Nil
	A.K. Gunaratne	Director		
Keells Food Products PLC	A.D. Gunewardene	Director	A sum of Rs. 783,574/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 1,975,499/- was received as interest and other income.	

Name of Related Party	Name of Director	Relationship	Details	Amount Outstanding as at 31.12.2010 (Rs.)
Mortlake Private Limited	A.D. Gunewardene	Director	A sum of Rs. 457,241/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director		
Whittall Boustead (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 3,513,162/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director		
John Keells Hotels PLC	A.D. Gunewardene	Director	A sum of Rs. 28,152,651/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 642,737/- was received as interest and other income.	
Hemas Holdings PLC	M.E. Wickremesinghe	Director	A sum of Rs. 13,946/- was paid as interest expenses.	Nil
			A sum of Rs. 296,334/- was received as other income.	
Lanka Marine Services (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 15,205/- was received as interest income.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 16,376,098/- was paid as interest expenses.	
Swiss Biogenics Limited	C.H.S.K. Piyaratna	Director	A sum of Rs. 2,899,234/- was received as interest and other income.	Nil
Ceylon Cold Stores PLC	A.D. Gunewardene	Director	A sum of Rs. 654,066/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 324,823/- was received as interest and other income.	
	A.R. Rasiah	Director		
John Keells Stock Brokers (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 24,185,538/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 199,805/- was received as interest and other income.	
	K. Balendra	Director		
John Keells Computer Services (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 8,755/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director		
John Keells International (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 1,530,722/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director		
Keells Hotel Management Services Limited	A.D. Gunewardene	Director	A sum of Rs. 15,352/- was received as interest and other income.	Nil
	J.R.F. Peiris	Director		
Sunshine Power (Pvt) Limited	C.H.S.K. Piyaratna	Director	A sum of Rs. 19,451/- was paid as interest expenses.	Nil
			A sum of Rs. 6,625/- was received as interest and other income.	
Mackinnons Travels Private Limited	A.D. Gunewardene	Director	A sum of Rs. 277,136/- was paid as interest expenses.	Nil
	J.R.F. Peiris	Director	A sum of Rs. 10,565/- was received as interest income.	
			A sum of Rs. 45,762/- was paid for air ticket purchases.	
Serendib Hotels PLC	Murtaza Jafferjee	Director	A sum of Rs. 3,925/- was paid as interest expenses.	Nil
Mack Air (Pvt) Limited	J.R.F. Peiris	Director	A sum of Rs. 7,500/- was received as other income.	Nil
			A sum of Rs. 1,336,870/- was paid as interest expenses.	
John Keells Maldivian Resorts (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 17,099,580/- was received as interest and other income.	Nil
	J.R.F. Peiris	Director		
CIF Insurance Brokers (Pvt) Limited	E.H. Wijenaik	Director	A sum of Rs. 17,250/- was received as other income.	Nil
Central Hospitals (Pvt) Limited	A.D. Gunewardene	Director	A sum of Rs. 25,200/- was paid as medical charges for new recruits.	Nil
	K. Balendra	Director		
Colombo Stock Exchange	K. Balendra	Director	A sum of Rs. 362,548/- was paid for professional services provided.	Nil



Details of accommodation granted and balances outstanding as at 31st December 2010.

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit (Rs.)	Amount Outstanding as at 31.12.2010 (Rs.)
Central Finance Co. PLC	E.H. Wijenaik A.K. Gunaratne	Director Director	Working Capital Financing Trade Finance Facilities	290,000,000 Sub Limit	32,153,353 63,466,981
Central Industries PLC	E.H. Wijenaik A.K. Gunaratne	Director Director	Working Capital Financing Trade Finance Facilities	15,000,000 125,000,000	Nil 28,755,510
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 Trade Finance Facilities	9,900,000 100,000	212,704 88,950
Whitall Boustead (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Trade Finance Facilities	11,105,000	1,110,500
Habarana Lodge Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing Finance Leases	5,000,000 727,812	2,011,779 727,812
Kandy Walk Inn Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing Finance Leases	10,000,000 727,812	6,774,529 727,812
Ceylon Holiday Resorts Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing Finance Leases	10,000,000 1,455,624	9,158,202 1,455,624
Trinco Walk Inn Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Finance Leases	773,171	773,171
John Keells Holdings PLC	A.D. Gunewardene J.R.F. Peiris	Director Director	Corporate Credit Card	25,000,000	394,978
Nexus Networks (Pvt) Limited	J.R.F. Peiris K. Balendra	Director Director	Working Capital Financing	Nil	150
Swiss Biogenics Limited	C.H.S.K. Piyaratna	Director	Working Capital Financing Trade Finance Facilities	5,000,000 200,000,000	150 231,428,058
Hemas Holdings PLC	M.E. Wickremesinghe	Director	Working Capital Financing Trade Finance Facilities	30,000,000 Sub Limit	Nil 19,700,599
Waldock Mackenzie Limited	A.D. Gunewardene E.H. Wijenaik S. Rajakaruna C.H.S.K. Piyaratna	Director Director Director Director	Working Capital Financing Reverse Repurchase Agreements	2,000,000,000	1,703,905,671 1,193,184,710
Habarana Walk Inn Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing Finance Leases	5,000,000 727,812	Nil 727,812
Jaykay Marketing Services (Pvt) Limited	J.R.F. Peiris K. Balendra	Director Director	Finance Leases	20,000,000	19,811,575
Union Assurance PLC	A.D. Gunewardene J.R.F. Peiris K. Balendra A.K. Gunaratne	Director Director Director Director	Reverse Repurchase Agreements	1,000,000,000	Nil
John Keells Hotels PLC	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing Corporate Credit Cards	20,000,000 5,000,000	150 Nil
Walkers Tours Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing Trade Finance Facilities Corporate Credit Card	46,000,000 2,500,000	650 5,618,491 86,601
Lanka Marine Services (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Trade Finance Facilities	83,287,500	83,287,500
John Keells Computer Services	A.D. Gunewardene J.R.F. Peiris	Director Director	Trade Finance Facilities	11,105,000	3,331,500
Nations Insurance Brokers Limited	S. Rajakaruna C.H.S.K. Piyaratna	Director Director	Trade Finance Facilities	500,000	450,000
Asian Hotels and Properties PLC	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing	28,818,000	Nil
John Keells Office Automation	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing Trade Finance Facilities	100,000,000 350,000,000	67,066,093 226,004,996
Keells Food Products PLC	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing	100,000,000	81,801,592
John Keells Maldivian Resorts (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing	334,350,000	292,645,878

## NTB...Where we Speak of Growth everyday

Where Growth is on all Lips...

\*7

Customer commendation of our service excellence has reached unprecedented levels.

Our staff - the livewire and 'voice' behind our enterprise have grown in number - from 1,532 in 2009 to 1,608 in 2010.

Testifying to the growing value of the Bank, our Brand rating improved from 21 in 2009 to 17 in 2010.





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## Financial Reports

NATIONS TRUST BANK PLC ANNUAL REPORT 2010

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 105 of the Report.

The Companies Act No. 07 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 since 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.


**ERNST & YOUNG**
**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 2010, 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 2010 and the financial statements give a true and fair view of the Bank's state of affairs as at 31 December 2010 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 2010 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 2011

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. Y A De Silva ACA W R H Fernando FCA FCMA  
W K B S P Fernando FCA ACMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond)  
H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA B E Wijesuriya ACA ACMA

As at 31st December		Bank			Group		
	Note	2010 Rs. '000	2009 Rs. '000	Change %	2010 Rs. '000	2009 Rs. '000	Change %
<b>ASSETS</b>							
Cash and Short-Term Funds	3	1,530,529	1,425,082	7	1,530,548	1,431,209	7
Statutory Deposit with the Central Bank of Sri Lanka	4	2,416,235	2,043,624	18	2,416,235	2,043,624	18
Government Treasury Bills and Bonds	5	21,985,628	16,415,998	34	23,392,222	19,306,208	21
Reverse Repurchase Agreements		4,677,281	7,206,969	(35)	3,484,096	4,587,840	(24)
Investments and Other Placements	6	4,019,535	4,238,850	(5)	4,019,535	4,238,850	(5)
Loans and Advances:							
Bills of Exchange	7.1	510,432	145,615	251	510,432	145,615	251
Loans and Advances	7.2	33,168,030	25,012,814	33	33,799,028	25,154,118	34
Lease Rentals Receivable within One Year	7.3.1	3,641,576	3,513,020	4	3,641,576	3,513,081	4
Lease Rentals Receivable after One Year	7.3.2	5,151,492	4,490,604	15	5,151,492	4,490,604	15
Corporate Debt Securities	7.4	1,454,275	1,901,956	(24)	1,468,492	2,032,270	(28)
Other Assets	8	1,136,503	871,843	30	1,173,910	902,769	30
Deferred Assets	15	113,544	307,363	(63)	113,544	307,363	(63)
Investments in Subsidiaries	9	678,710	678,710	–	–	–	–
Property, Plant & Equipment	10	1,254,019	1,372,599	(9)	1,788,444	1,918,353	(7)
Intangible Assets	11	679,057	353,183	92	758,318	432,444	92
<b>Total Assets</b>		<b>82,416,846</b>	<b>69,978,230</b>	<b>18</b>	<b>83,247,872</b>	<b>70,504,348</b>	<b>18</b>
<b>LIABILITIES</b>							
Deposits	12	48,353,755	44,221,571	9	48,314,555	44,221,571	9
Due to Banks		499,813	391,061	28	499,813	391,061	28
Borrowings	13	19,290,684	14,024,649	38	19,673,885	14,024,649	40
Other Liabilities	14	5,386,204	4,117,687	31	5,193,113	4,047,727	28
Deferred Liabilities	15	448,596	431,150	4	455,800	436,604	4
Debentures	16	1,835,000	2,000,000	(8)	1,835,000	2,000,000	(8)
Subordinated Loan	17	471,275	605,925	(22)	471,275	605,925	(22)
<b>Total Liabilities</b>		<b>76,285,327</b>	<b>65,792,043</b>	<b>16</b>	<b>76,443,441</b>	<b>65,727,537</b>	<b>16</b>
<b>SHAREHOLDERS' FUNDS</b>							
Stated Capital	18	4,367,631	3,109,771	40	4,367,631	3,109,771	40
Reserve Fund	19	155,696	105,599	47	155,696	105,599	47
Reserves	20	1,608,192	970,817	66	2,281,104	1,561,441	46
<b>Total Shareholders' Funds</b>		<b>6,131,519</b>	<b>4,186,187</b>	<b>46</b>	<b>6,804,431</b>	<b>4,776,811</b>	<b>42</b>
<b>Total Liabilities and Shareholders' Funds</b>		<b>82,416,846</b>	<b>69,978,230</b>	<b>18</b>	<b>83,247,872</b>	<b>70,504,348</b>	<b>18</b>
<b>Commitments and Contingencies</b>	21	<b>60,843,585</b>	<b>51,590,764</b>	<b>18</b>	<b>60,843,585</b>	<b>51,590,764</b>	<b>18</b>
Net Assets Value per Ordinary Share (Rs.)		29.25	24.96		32.46	28.48	

**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 110 to 137 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

Colombo  
18th February 2011



Year ended 31st December	Note	Bank			Group		
		2010 Rs. '000	2009 Rs. '000	Change %	2010 Rs. '000	2009 Rs. '000	Change %
<b>GROSS INCOME</b>	22	11,954,249	13,367,254	(11)	12,215,201	14,036,800	(13)
Interest Income	23	9,830,929	11,632,137	(15)	10,090,176	12,049,477	(16)
Interest Expense	24	(5,516,461)	(8,122,780)	(32)	(5,525,069)	(8,329,008)	(34)
<b>NET INTEREST INCOME</b>		4,314,468	3,509,357	23	4,565,107	3,720,469	23
Fees and Commission Income		425,351	287,606	48	499,192	375,436	33
Foreign Exchange Gain/(Loss)		314,824	(538,792)	158	314,824	(538,792)	158
Other Operating Income	25	1,383,145	1,986,303	(30)	1,311,009	2,150,679	(39)
<b>NET INCOME</b>		6,437,788	5,244,474	23	6,690,132	5,707,793	17
<b>Less: Operating Expenses</b>							
Personnel Costs		1,604,492	1,187,625	35	1,630,097	1,210,746	35
Provision for Bad and Doubtful Debts		209,062	812,779	(74)	202,807	803,646	(75)
Other Fees and Charges		20,831	27,691	(25)	21,052	27,964	(25)
Provision for Staff Retirement Benefits		44,941	40,954	10	46,691	42,149	11
Premises, Equipment and Establishment Expenses		769,007	775,209	(1)	784,431	776,803	1
Other Operating Expenses		1,935,832	1,339,472	45	1,976,486	1,465,523	35
		4,584,165	4,183,730	10	4,661,564	4,326,831	8
<b>PROFIT BEFORE TAXATION</b>	26	1,853,623	1,060,744	75	2,028,568	1,380,962	47
Less: Taxation	27	(851,686)	(558,943)	52	(944,343)	(694,891)	36
<b>PROFIT AFTER TAXATION</b>		1,001,937	501,801	100	1,084,225	686,071	58
Earnings per Share - Basic (Rs.)	28				5.40	4.09	32
Diluted Earnings per Share (Rs.)	28				5.28	4.09	
Dividend per Share (Rs.)	29	2.00	1.50		2.00	1.50	

The Notes to the Financial Statements from pages 110 to 137 form an integral part of these Financial Statements.

Colombo  
18th February 2011

## Statement of Changes in Equity

	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 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	20	–	–	25,090	(25,090)	–
Balance as at 31st December 2009		3,109,771	–	105,599	970,817	4,186,187
Dividend Paid for 2009		–	–	–	(314,465)	(314,465)
Shares issued on '2010 warrants' exercised		1,257,860	–	–	–	1,257,860
Profit for the Year		–	–	–	1,001,937	1,001,937
Transfers during the Year	20	–	–	50,097	(50,097)	–
<b>Balance as at 31st December 2010</b>		<b>4,367,631</b>	<b>–</b>	<b>155,696</b>	<b>1,608,192</b>	<b>6,131,519</b>
<b>GROUP</b>						
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	20	–	–	25,090	(25,090)	–
Balance as at 31st December 2009		3,109,771	9,500	105,599	1,551,941	4,776,811
Dividend Paid for 2009		–	–	–	(314,465)	(314,465)
Shares issued on '2010 warrants' exercised		1,257,860	–	–	–	1,257,860
Profit for the Year		–	–	–	1,084,225	1,084,225
Transfers during the Year	20	–	–	50,097	(50,097)	–
<b>Balance as at 31st December 2010</b>		<b>4,367,631</b>	<b>9,500</b>	<b>155,696</b>	<b>2,271,604</b>	<b>6,804,431</b>

The Notes to the Financial Statements from pages 110 to 137 form an integral part of these Financial Statements.

Colombo  
18th February 2011

Year ended 31st December	Bank		Group	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Cash Flow from Operating Activities</b>				
Interest Received	9,751,952	10,773,033	9,992,097	10,855,530
Fees and Commission Received	425,351	287,606	499,192	375,436
Interest Paid	(5,706,060)	(7,447,873)	(5,711,904)	(7,832,433)
Foreign Exchange Income Received	248,599	316,978	248,599	316,978
Receipts from Other Operating Activities	1,184,701	1,916,532	1,150,557	2,011,939
Gratuity Payments Made	(9,895)	(13,705)	(9,895)	(13,705)
Payments to Employees and Suppliers	(4,288,963)	(3,027,705)	(4,376,151)	(3,165,824)
<b>Net Cash Flow from Operating Activities before Income Tax (A)</b>	<b>1,605,685</b>	<b>2,804,866</b>	<b>1,792,495</b>	<b>2,547,920</b>
Income Tax Paid	(460,349)	(204,946)	(538,005)	(310,357)
<b>Operating Profit before Changes in Operating Assets and Liabilities</b>	<b>1,145,336</b>	<b>2,599,920</b>	<b>1,254,490</b>	<b>2,237,563</b>
<b>(Increase)/Decrease in Operating Assets</b>				
Investments in Treasury Bills, Treasury Bonds and Reverse Repurchase Agreements	(3,122,180)	(10,821,410)	(425,240)	(7,691,121)
Investments and Other Placements	224,571	(465,306)	224,571	(465,306)
Corporate Debt Securities	447,680	746,309	447,680	637,158
Bills of Exchange	(364,818)	277,371	(364,818)	277,371
Loans and Advances	(9,096,778)	1,831,167	(8,549,906)	(310,308)
Other Assets	(327,113)	199,057	(344,339)	179,979
	(12,238,638)	(8,232,812)	(9,012,052)	(7,372,227)
<b>Increase/(Decrease) in Operating Liabilities</b>				
Customer Deposits	4,388,941	9,739,242	4,388,941	9,739,242
Securities Sold under Repurchase Agreements	6,926,986	141,694	4,268,575	(2,424,711)
Other Liabilities	1,282,774	204,979	2,322,585	2,276,368
	12,598,701	10,085,915	10,980,101	9,590,899
<b>Net Cash Flow from Operating Activities</b>	<b>1,505,399</b>	<b>4,453,023</b>	<b>3,222,539</b>	<b>4,456,235</b>
<b>Cash Flows from Investing Activities</b>				
Purchase of Intangible Assets	(104,072)	(235,234)	(104,072)	(235,234)
Proceeds from Sale of Property, Plant & Equipment	3,594	3,219	3,596	6,031
Purchase of Property, Plant & Equipment	(109,390)	(270,596)	(109,750)	(270,648)
	(209,868)	(502,611)	(210,226)	(499,851)
<b>Cash Flows from Financing Activities</b>				
Issuance of Ordinary Share Capital - Warrants	1,257,860	—	1,257,860	—
Decrease in Refinance Activities	(5,431)	—	(5,431)	—
Decrease in Call and Other Borrowings	(1,699,188)	(5,863,435)	(3,422,080)	(5,863,435)
Issue/(Redemption) of Debentures	(165,000)	500,000	(165,000)	500,000
Dividend Paid	(314,465)	(251,572)	(314,465)	(251,572)
	(926,224)	(5,615,007)	(2,649,116)	(5,615,007)
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>369,307</b>	<b>(1,664,595)</b>	<b>363,197</b>	<b>(1,658,623)</b>
<b>Cash and Cash Equivalents at the beginning of the Year</b>	<b>3,077,644</b>	<b>4,742,239</b>	<b>3,083,773</b>	<b>4,742,395</b>
<b>Cash and Cash Equivalents at the end of the Year</b>	<b>3,446,951</b>	<b>3,077,644</b>	<b>3,446,970</b>	<b>3,083,772</b>
<b>Reconciliation of Cash and Cash Equivalents</b>				
Cash in Hand, Balances with Banks and Due to Banks	1,023,845	936,451	1,023,864	942,579
Balance with the Central Bank of Sri Lanka	2,416,235	2,043,624	2,416,235	2,043,624
Money at Call and Short Notice	6,871	97,569	6,871	97,569
	3,446,951	3,077,644	3,446,970	3,083,772
<b>A. Reconciliation of Operating Profit</b>				
Profit before Taxation	1,853,623	1,060,744	2,028,568	1,380,962
Depreciation and Amortisation	335,929	346,527	347,617	358,188
(Profit)/Loss on Disposal of Property, Plant & Equipment	(205)	3,925	(205)	2,975
Provision for Doubtful Debts	209,063	812,779	202,863	803,646
Provision for Gratuity	44,941	40,954	46,691	42,149
(Increase)/Decrease in Interest Receivable	(78,977)	(503,537)	(122,988)	(712,494)
Increase/(Decrease) in Interest Payable	(189,599)	404,735	(161,926)	132,542
Other Non-Cash Items	(559,195)	652,444	(538,230)	553,657
Gratuity Payments Made	(9,895)	(13,705)	(9,895)	(13,705)
	1,605,685	2,804,866	1,792,495	2,547,920

The Notes to the Financial Statements from pages 110 to 137 form an integral part of these Financial Statements.

## 1. CORPORATE INFORMATION

### 1.1 General

Nations Trust Bank PLC (the 'Bank') is a licensed commercial bank established under the Banking Act No. 30 of 1988. It is a public limited liability company, incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. 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 2010 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 Consolidated Financial Statements of Nations Trust Bank PLC, for the year ended 31st December 2010 were authorised for issue in accordance with the resolution of the Board of Directors on 18th February 2011.

### 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, unless otherwise indicated. 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.

#### 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).

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

#### 2.1.2 Prior Year Figures and Phrases

Certain prior year figures and phrases have been rearranged wherever necessary for better presentation and to conform to current year's presentation including the following;

Intangible assets, previously classified under Property, Plant & Equipment and other assets have been reclassified separately on the face of the Balance Sheet for better 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 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 Judgments, Estimates and Assumptions

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

The key items which involve these judgments, estimates and assumptions are discussed below:

#### Impairment Losses on Loans and Advances

In addition to the allowances made for doubtful recoveries based on SLAS 23 and Central Bank guidelines and directives for specific and general provisions for loans and advances, the Bank reviews its Loans and Advances at each reporting date to assess whether an allowance for impairment should be recorded in the Income Statement. Management is required to exercise judgment in the estimation of these amounts and such estimations are based on assumptions about a number of factors such as any deterioration of country risk, industry risk and technological obsolescence, as well as security values and deterioration in cash flows.

#### 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 2.9.7 and 2.9.8.

**Going Concern**

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Bank has resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

**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 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 2010, amounted to Rs. 43.39 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 25 A 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 25 A 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.

**2.7 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.

**2.8 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.

**2.9 Valuation of Assets and Their Measurement Bases****2.9.1 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 yield to maturity 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 Other Securities**

Securities, including Sri Lanka Development Bonds (SLDB), Dollar denominated Sovereign Bonds and other securities are reflected at the purchased value by adjusting for discount or premium 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 SLAS 26 on Consolidated and Separate Financial Statements.

**2.9.2 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, except for leasing and factoring portfolios. Accordingly, specific provisions have been made as follows:

Overdue Period	Provision Required (%)
90-179 days	20
180-365 days	50
Over 365 days	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.

Specific provisions on factoring facilities are made as per CBSL guidelines on the basis of 20% when in arrears for 180 days and 50% when in arrears for 360 days and 100% when in arrears for 540 days.

Pawning advances unpaid since falling due are recovered by disposing of the articles pawned. Any shortfall after disposing of the articles or outstanding in respect of unsold articles are written-off within 3 months since falling due.

(c) A 0.9% (1% as at 31st December 2009) 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, gold and government securities with the Bank.

**2.9.3 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 0.9% (1% as at 31st December 2009) of the total capital outstanding of the performing leases.

**2.9.4 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.

**2.9.5 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).

**2.9.6 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) 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
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.

**(c) 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.

**(d) 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.

**2.9.7 Intangible Assets****(a) 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.

**(b) Intangible Assets**

The Bank's intangible assets excluding goodwill comprise computer software and franchise fees. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. Following the initial recognition, intangible assets are carried at cost, less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets are amortised over the useful life. Useful life of the intangible assets is reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives which range from 7 to 10 years.

**2.9.8 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.

## 2.10 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.

### 2.10.1 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.

### 2.10.2 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 as per SLAS 16 (Revised 2006) on "Employee benefits".

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:

	2010	2009
Rate of Interest	10%	11%
Rate of Salary Increase	10%	11%
Retirement Age	55-60 years	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.

## 2.11 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.

## 2.12 Income Statement

### 2.12.1 Revenue Recognition

Revenue is recognised to the extent that is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised.

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

In terms of the provisions of the SLAS 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks and the guidelines issued by the Central Bank of Sri Lanka, interest receivable is recognised on an accrual basis. Interest ceases to be taken into revenue when loans and advances are classified as non-performing, based on criteria set out in Notes 2.9.2 and 2.9.4. Thereafter, interest income on these loans and advances is recognised on a cash basis. Interest falling due on non-performing advances is credited to interest in suspense account which is netted in the Balance Sheet. 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 Securities, Securities purchased under resale agreements and Other Securities**

Discount/premium on Treasury Bills, Treasury Bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on Treasury Bonds is recognised on an accrual basis. The interest income on securities purchased under resale agreements and other securities are recognised in the Income Statement on a straight-line basis.

**(d) Fees and Commission Income**

The Bank earns fees and commission income from a diverse range of services including 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 the date of transaction.

**(f) Lease Income**

In terms of SLAS 19 (Revised 2005) on "Leases", the recognition of finance income on leasing is accounted based on a pattern reflecting a constant periodic rate of return on capital outstanding.

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 from the month in which the lease is executed in proportion to the capital outstanding.

Interest ceases to be taken into revenue when leases are classified as non-performing, based on criteria set out in Note 2.9.3. Interest accrued until such leases are being classified as non-performing, is also eliminated from interest income and transferred to interest in suspense. Thereafter, interest income on these leases is recognised on a cash basis.

**(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 minimum payment is overdue for three months. Thereafter, interest and fees are accounted for on a cash basis.

**(h) Dividend Income**

Dividend income from shares is recognised when the Bank's right to receive the dividend is established.

**(i) Rental Income**

Rental income is recognised on an accrual basis.

**(j) Other Income**

Other income is recognised on an accrual basis.

**2.13 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.

**2.14 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.

**2.15 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.

**2.16 Commitments and Contingencies**

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

**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 104 for the Statement of the Directors' Responsibility for Financial Reporting.

**2.19 Effect of Sri Lanka Accounting Standards issued but not yet effective**

(a) The following standards have been issued by The Institute of Chartered Accountants of Sri Lanka:

- Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44)
- Sri Lanka Accounting Standard 45 Financial Instruments; Recognition & Measurement (SLAS 45)
- Sri Lanka Accounting Standard 39 Share Based Payments (SLAS 39)

The effective date of SLAS 44, SLAS 45 and SLAS 39 was changed during the year to be effective for financial periods beginning on or after 01st January 2012. These three standards have been amended and form a part of the new set of financial reporting standards mentioned under Note (b). In order to comply with the requirements of SLAS 44 & SLAS 45, the Bank is in the process of assessing the effect of adoption. Due to the complex nature of the effects of these two standards the impact of adoption cannot be estimated as at the date of publication of these Financial Statements.

(b) Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards, the Council of the Institute of Chartered Accountants of Sri Lanka has adopted a new set of financial reporting standards that would apply for financial periods beginning on or after 01st January 2012. The application of these financial reporting standards is substantially different to the prevailing standards.

### 3. CASH AND SHORT-TERM FUNDS

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
Cash in Hand	873,295	865,510	873,303	865,518
Money at Call and Short Notice	6,871	97,569	6,871	97,569
Balances with Banks	650,363	462,003	650,374	468,122
	1,530,529	1,425,082	1,530,548	1,431,209

### 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 2010, the minimum cash reserve requirement was 7% of the rupee 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

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
Government Treasury Bills and Bonds held for Trading	15,195,791	9,638,564	16,033,313	11,437,873
Government Treasury Bonds held to Maturity (Note 5.1)	6,789,837	6,777,434	7,358,909	7,868,335
	21,985,628	16,415,998	23,392,222	19,306,208

5.1 The market value of these Treasury Bonds held to maturity as at 31st December 2010 amounts to Rs. 7,029 mn (2009 - Rs. 6,949 mn) and in the Group - Rs. 7,670 mn (2009 - Rs. 8,040 mn).

### 6. INVESTMENTS AND OTHER PLACEMENTS

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

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
Other Placements USD 15 mn (2009 - USD 15 mn)	1,671,164	1,721,577	1,671,164	1,721,577
Sri Lanka Development Bonds USD 11 mn (Note 6.1.1) (2009 - USD 11 mn)	1,224,039	1,261,012	1,224,039	1,261,012
Sri Lanka Sovereign Bonds USD 8 mn (Note 6.1.2) (2009 - USD 8 mn)	884,286	901,046	884,286	901,046
	3,779,489	3,883,635	3,779,489	3,883,635

6.1.1 The investment in Sri Lanka Development Bonds amounts to USD 11 mn (2009 - USD 11 mn) and matures in the years 2011 and 2012.

6.1.2 The market value of Sri Lanka Sovereign Bonds amounts to Rs. 978 mn (2009 - Rs. 988 mn).



## 6.2 Investment Securities

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
<b>Unquoted - Shares</b>				
Lanka Clear (Private) 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
SWIFT Shares of USD 20,989.23	2,331	-	2,331	-
<b>Unquoted Preference Shares (Rated)</b>				
Dialog Axiata PLC 235 mn Cumulative Redeemable Preference Shares of Rs. 1/- each (2009 - 352.5 mn)	235,000	352,500	235,000	352,500
	240,046	355,215	240,046	355,215
	4,019,535	4,238,850	4,019,535	4,238,850

6.2.1 The Directors' valuation based on cost of unquoted shares and Sri Lanka Development Bonds of the Bank and the Group amounts to Rs. 1,464 mn (2009 - Rs. 1,616 mn).

## 7. LOANS AND ADVANCES

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
<b>7.1 Bills of Exchange</b>				
Inland Bills	31,278	31,182	31,278	31,182
Export Bills	458,480	109,823	458,480	109,823
Import Bills	20,674	4,610	20,674	4,610
	510,432	145,615	510,432	145,615

## 7.2 Loans and Advances

Overdrafts	10,979,783	6,484,349	10,979,783	6,484,349
Term Loans	13,602,673	12,260,109	13,602,673	12,260,109
Staff Loans	1,411,816	1,100,102	1,411,816	1,100,102
Import Loans	1,344,787	612,321	1,344,787	612,321
Packing Credit Loans	1,038,144	478,929	1,038,144	478,929
Other Advances	6,264,335	5,710,802	6,880,002	5,842,974
	34,641,538	26,646,612	35,257,205	26,778,784
Less:				
Loan Loss Provision	(865,369)	(1,057,934)	(850,038)	(1,048,802)
Interest-in-Suspense	(608,139)	(575,864)	(608,139)	(575,864)
	33,168,030	25,012,814	33,799,028	25,154,118

**7.3 Lease Rentals Receivables**

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
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**7.3.1 Lease Rentals Receivable within one Year**

Total Lease Rentals Receivable	11,125,654	10,424,290	11,125,654	10,424,351
Lease Rentals Receivable after one Year from Balance Sheet Date (Note 7.3.2)	(6,493,162)	(5,848,916)	(6,493,162)	(5,848,916)
Lease Rentals Receivable within one Year from Balance Sheet Date	4,632,492	4,575,374	4,632,492	4,575,435
Unearned Lease Income	(1,250,180)	(1,492,404)	(1,250,180)	(1,492,404)
Overdue Lease Rentals	318,110	534,088	318,110	534,088
Terminated Leases	229,439	122,989	229,439	122,989
Accrued Income on Non-Performing Leases	(175,229)	(78,946)	(175,229)	(78,946)
Provision for Bad and Doubtful Leases	(113,056)	(148,081)	(113,056)	(148,081)
	3,641,576	3,513,020	3,641,576	3,513,081

**7.3.2 Lease Rentals Receivable after one Year**

Lease Rentals Receivable after one Year from Balance Sheet Date	6,493,162	5,848,916	6,493,162	5,848,916
Unearned Lease Income	(1,155,874)	(1,186,623)	(1,155,874)	(1,186,623)
Provision for Bad and Doubtful Leases	(185,796)	(171,689)	(185,796)	(171,689)
	5,151,492	4,490,604	5,151,492	4,490,604

**7.4 Corporate Debt Securities**

Commercial Papers	847,511	393,970	861,728	423,767
Fixed/Floating Rate Notes	130,977	761,396	130,977	761,396
Trust Certificates	475,787	746,590	475,787	847,107
	1,454,275	1,901,956	1,468,492	2,032,270

**7.5 Non-Performing Loans and Advances**

Overdrafts	639,014	621,589	639,014	621,589
Term Loans	1,119,059	1,622,452	1,119,059	1,622,452
Import Loans	53,618	106,760	53,618	106,760
Packing Credit Loans	124,225	57,326	124,225	57,326
Other Advances	81,119	238,162	81,119	238,162
Lease Rentals Receivable	1,020,872	1,116,049	1,020,872	1,116,049
	3,037,907	3,762,338	3,037,907	3,762,338

**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	1,097,574	280,130	1,377,704	654,811
Provision/(Reversal) made during the Year (Net of Interest Suspended, Suspended Interest Recovered and Provision Written Off)	(243,889)	31,035	(212,854)	128,557
Translation Difference in Foreign Currency Conversion	(265)	(364)	(629)	—
As at the end of the Year	853,420	310,801	1,164,221	783,368

**7.6.2 Group**

As at the beginning of the Year	1,097,574	270,998	1,368,572	654,811
Provision/(Reversal) made during the Year (Net of Interest Suspended, Suspended Interest Recovered and Provision Written Off)	(243,889)	24,836	(219,053)	128,557
Translation Difference in Foreign Currency Conversion	(265)	(364)	(629)	—
As at the end of the Year	853,420	295,470	1,148,890	783,368

**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	2010		2009	
	Rs. '000	%	Rs. '000	%
Food, Beverages and Tobacco	529,994	1	448,800	1
Textile and Wearing Apparel	324,890	1	503,916	1
Rubber and Leather Products	10,119	0	77,260	0
Metals, Chemicals and Engineering	238,187	1	199,353	1
Services	7,440,395	16	2,532,573	7
Tourism	980,714	2	747,041	2
Agro-Business and Fisheries	4,844,412	11	2,096,332	6
Industrial	3,247,677	7	1,702,978	5
Housing	2,394,543	5	2,938,364	8
Commercial Trading	8,991,035	20	7,934,800	21
Consumption - Leasing	3,178,194	7	2,703,420	7
- Others	13,692,514	29	15,211,686	39
	45,873,394	100	39,118,473	100

## 8. OTHER ASSETS

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
Deposits and Prepayments	172,793	262,897	166,871	262,990
Other Receivables	963,710	608,946	1,007,039	639,779
	1,136,503	871,843	1,173,910	902,769

## 9. INVESTMENTS IN SUBSIDIARIES

### Unquoted

Name of Company	Country of Incorporation	Holding %	2010 Cost Rs. '000	Directors' Valuation* Rs. '000	Holding %	2009 Cost Rs. '000	Directors' Valuation* Rs. '000
Waldock Mackenzie Limited	Sri Lanka	100	–	487,437	100	–	437,699
<b>Acquired on Merger of Operations</b>							
Allied Properties Limited	Sri Lanka	100	652,907	704,826	100	652,907	690,425
Nations Insurance Brokers Limited	Sri Lanka	100	25,803	55,190	100	25,803	43,284
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	1,247,453		678,710	1,171,408

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

## 10. PROPERTY, PLANT & EQUIPMENT

### 10.1 Bank

#### 10.1.1 Gross Carrying Amounts

	Balance as at 01.01.2010 Rs. '000	Transfers during the Year Rs. '000	Additions during the Year Rs. '000	Disposals during the Year Rs. '000	Balance as at 31.12.2010 Rs. '000
<b>At Cost</b>					
Land and Buildings	663,391	–	18	–	663,409
Motor Vehicles	53,994	–	–	(17,482)	36,512
Office and Electrical Equipment	302,912	(78,325)	23,389	(3,439)	244,537
Computer Equipment	831,716	40,514	39,604	–	911,834
Furniture and Fittings	327,981	(2,356)	25,115	(109)	350,631
Leasehold Improvements	140,982	3,521	21,264	–	165,767
<b>Total Gross Carrying Amounts</b>	2,320,976	(36,646)	109,390	(21,030)	2,372,690

**10.1.2 Depreciation**

<b>At Cost</b>	<b>Balance as at 01.01.2010 Rs. '000</b>	<b>Transfers during the Year Rs. '000</b>	<b>Charge for the Year Rs. '000</b>	<b>Disposals during the Year Rs. '000</b>	<b>Balance as at 31.12.2010 Rs. '000</b>
Buildings	17,982	–	5,199	–	23,181
Motor Vehicles	43,003	–	4,645	(14,265)	33,383
Office and Electrical Equipment	170,115	(67,940)	24,568	(3,349)	123,394
Computer Equipment	535,524	31,551	130,640	–	697,715
Furniture and Fittings	109,618	19	36,362	(27)	145,972
Leasehold Improvements	72,135	698	22,193	–	95,026
<b>Total Depreciation</b>	<b>948,377</b>	<b>(35,672)</b>	<b>223,607</b>	<b>(17,641)</b>	<b>1,118,671</b>

**10.1.3 Net Book Value**

Land and Buildings	645,409	640,228
Motor Vehicles	10,991	3,129
Office and Electrical Equipment	132,797	121,143
Computer Equipment	296,192	214,119
Furniture and Fittings	218,363	204,659
Leasehold Improvements	68,847	70,741
<b>Total Net Book Value</b>	<b>1,372,599</b>	<b>1,254,019</b>

**10.1.4** During the financial year, the Bank acquired Property, Plant & Equipment to the aggregate value of Rs. 109.4 mn (2009 - Rs. 270.6 mn). Cash payments amounting to Rs. 109.4 mn (2009 - Rs. 270.6 mn) were made during the year for purchase of Property, Plant & Equipment.

**10.1.5** Property, Plant & Equipment include fully depreciated assets having a gross carrying amount of Rs. 617 mn (2009 - Rs. 484.7 mn).

**10.2 Group**

	<b>Balance as at 01.01.2010 Rs. '000</b>	<b>Transfers during the Year Rs. '000</b>	<b>Additions during the Year Rs. '000</b>	<b>Disposals during the Year Rs. '000</b>	<b>Balance as at 31.12.2010 Rs. '000</b>
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**10.2.1 Gross Carrying Amounts**

<b>At Cost/Valuation</b>					
Land and Buildings	1,250,774	–	18	–	1,250,792
Motor Vehicles	57,757	–	–	(18,352)	39,405
Office and Electrical Equipment	304,152	(78,325)	23,389	(3,439)	245,777
Computer Equipment	839,115	40,514	39,964	–	919,593
Furniture and Fittings	328,212	(2,356)	25,115	(109)	350,862
Leasehold Improvements	140,982	3,521	21,264	–	165,767
<b>Total Gross Carrying Amounts</b>	<b>2,920,992</b>	<b>(36,646)</b>	<b>109,750</b>	<b>(21,900)</b>	<b>2,972,196</b>

	Balance as at 01.01.2010 Rs. '000	Transfers during the Year Rs. '000	Charge for the Year Rs. '000	Disposals during the Year Rs. '000	Balance as at 31.12.2010 Rs. '000
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### 10.2.2 Depreciation

<b>At Cost/Valuation</b>					
Buildings	61,898	–	16,184	–	78,082
Motor Vehicles	46,139	–	4,645	(15,133)	35,651
Office and Electrical Equipment	171,356	(67,940)	24,568	(3,349)	124,635
Computer Equipment	541,261	31,551	131,343	–	704,155
Furniture and Fittings	109,849	19	36,362	(27)	146,203
Leasehold Improvements	72,135	698	22,193	–	95,026
<b>Total Depreciation</b>	<b>1,002,638</b>	<b>(35,672)</b>	<b>235,295</b>	<b>(18,509)</b>	<b>1,183,752</b>

### 10.2.3 Net Book Value

Land and Buildings	1,188,876	1,172,710
Motor Vehicles	11,618	3,754
Office and Electrical Equipment	132,796	121,142
Computer Equipment	297,854	215,438
Furniture and Fittings	218,362	204,659
Leasehold Improvements	68,847	70,741
<b>Total Net Book Value</b>	<b>1,918,353</b>	<b>1,788,444</b>

10.2.4 During the financial year, the Group acquired Property, Plant & Equipment to the aggregate value of Rs. 109.7 mn (2009 - Rs. 270.6 mn). Cash payments amounting to Rs. 109.7 mn (2009 - Rs. 270.6 mn) were made during the year for purchase of Property, Plant & Equipment.

10.2.5 Property, Plant & Equipment include fully depreciated assets having a gross carrying amount of Rs. 625.8 mn (2009 - Rs. 494.3 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 were 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 2010 Rs. '000	Net carrying amount 2009 Rs. '000
Buildings	270,789	79,498	191,291	198,060



## 11. INTANGIBLE ASSETS

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
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### 11.1 Goodwill

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)
Balance as at the end of the Year	–	–	79,261	79,261

**11.1.1** Goodwill acquired through business combinations has been allocated to three individual cash-generating units, for impairment testing is 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.

**11.1.2** 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.

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
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### 11.2 Other Intangible Assets

<b>At Cost</b>				
Balance as at 1st January	702,548	467,314	702,548	467,314
Additions	437,222	235,234	437,222	235,234
Disposals	(23,348)	–	(23,348)	–
Transfers	36,646	–	36,646	–
Balance as at 31st December	1,153,068	702,548	1,153,068	702,548
<b>Accumulated Amortisation</b>				
Balance as at 1st January	349,365	283,905	349,365	283,905
Amortisation Charge for the Year	112,322	65,460	112,322	65,460
Disposals	(23,348)	–	(23,348)	–
Transfers	35,672	–	35,672	–
Balance as at 31st December	474,011	349,365	474,011	349,365
Carrying value as at the end of the year	353,183	183,409	353,183	183,409

Total Carrying value as at the end of the year	679,057	353,183	758,318	432,444
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**12. DEPOSITS**

	Bank		Group	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000

**12.1 Analysis of Deposits**

Demand Deposits	6,675,693	4,722,675	6,636,493	4,722,675
Savings Deposits	7,061,789	5,631,952	7,061,789	5,631,952
Call Deposits	882,083	633,321	882,083	633,321
Fixed Deposits	30,994,226	31,454,715	30,994,226	31,454,715
Certificates of Deposit	2,739,964	1,778,908	2,739,964	1,778,908
	<b>48,353,755</b>	<b>44,221,571</b>	<b>48,314,555</b>	<b>44,221,571</b>

**12.2 Sources of Deposits**

Deposits from Banks	5,449	2,716	5,449	2,716
Deposits from Other Financial Institutions	1,542,690	1,481,498	1,542,690	1,481,498
Deposits from Other Customers	46,805,616	42,737,357	46,766,416	42,737,357
	<b>48,353,755</b>	<b>44,221,571</b>	<b>48,314,555</b>	<b>44,221,571</b>

**13. BORROWINGS**

	Bank		Group	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000

**13.1 Borrowings**

Money Market Borrowings	611,726	1,268,705	611,726	1,268,705
Borrowings under Repurchase Agreements -				
Treasury Bills, Treasury Bonds and Commercial Paper	17,411,161	10,475,037	17,411,161	10,475,037
Trust Certificates	182,450	707,337	163,360	707,337
Refinance Borrowings	422	5,853	422	5,853
Other Borrowings	1,084,925	1,567,717	1,487,216	1,567,717
	<b>19,290,684</b>	<b>14,024,649</b>	<b>19,673,885</b>	<b>14,024,649</b>

**13.2 Borrowings - Maturity Analysis**

Repayments due within one Year	17,088,812	11,497,667	17,472,013	11,497,667
Repayments due between 1 to 5 Years	2,201,872	2,526,982	2,201,872	2,526,982
	<b>19,290,684</b>	<b>14,024,649</b>	<b>19,673,885</b>	<b>14,024,649</b>

**14. OTHER LIABILITIES**

Accrued Expenditure	2,432,675	1,862,643	2,441,063	1,895,374
Margin Balances	342,183	203,563	342,183	203,563
Pay Orders	242,884	247,160	242,884	247,160
Tax Payable	549,739	493,554	537,155	547,801
Amounts due to Related Parties	164,308	164,584	-	335
Others	1,654,415	1,146,181	1,629,828	1,153,494
	<b>5,386,204</b>	<b>4,117,687</b>	<b>5,193,113</b>	<b>4,047,727</b>

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

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
Retirement Benefits Obligation - Gratuity (Note 15.1)	175,066	140,020	182,270	145,474
Deferred Taxation - Liability (Note 15.2.1)	273,530	291,130	273,530	291,130
	448,596	431,150	455,800	436,604
Deferred Taxation - Asset (Note 15.2.2)	(113,544)	(307,363)	(113,544)	(307,363)

**15.1 Retirement Benefits Obligation - Gratuity**

Balance as at the beginning of the Year	140,020	112,771	145,474	117,030
Charge during the Year	44,941	40,954	46,691	42,149
Payments made during the Year	(9,895)	(13,705)	(9,895)	(13,705)
Balance as at the end of the Year	175,066	140,020	182,270	145,474

**15.2 Deferred Taxation**

Balance as at the beginning of the Year	(16,233)	188,329	(16,233)	188,329
Charge/(Reversal) during the Year	176,219	(204,562)	176,219	(204,562)
Balance as at the end of the Year	159,986	(16,233)	159,986	(16,233)

**15.2.1 Deferred Tax Liability**

Accelerated Depreciation Allowances for Tax Purposes (Lease Rentals Receivable)	191,864	199,551		
Accelerated Depreciation Allowances for Tax Purposes (Property, Plant & Equipment)	81,666	91,579		
	273,530	291,130		

**15.2.2 Deferred Tax Asset**

General Provision for Loans & Advances and Lease Receivables	(64,526)	(258,356)		
Defined Benefit Plan Liability	(49,018)	(49,007)		
	(113,544)	(307,363)		
<b>Bank</b>				
Net Deferred Tax (Asset)/Liability	159,986	(16,233)		
<b>Group</b>				
Net Deferred Tax (Asset)/Liability	159,986	(16,233)		

**15.2.3** The Group has a Tax Loss of Rs. 43.39 mn (2009 - Rs. 43.41 mn) which arose in Mercantile Leasing (Financial Services) Limited that is available indefinitely for offset against future taxable profit of the Company, subject to the limit of 35% of taxable profit in one year of assessment. A deferred tax asset has not been recognised in respect of this tax loss as it is anticipated that the deferred tax asset will not realise in the foreseeable future.

## 16. DEBENTURES

	Bank		Group	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Balance as at the beginning of the Year	2,000,000	1,500,000	2,000,000	1,500,000
Issued/(Redemption) during the Year	(165,000)	500,000	(165,000)	500,000
Balance as at the end of the Year	1,835,000	2,000,000	1,835,000	2,000,000

The Bank has in issue unsecured subordinated redeemable debentures that were fully subscribed. The tenor of the debentures ranges from 4 to 6 years with redemptions in the years 2011 and 2013. The debentures are secured by a negative pledge over specified lease agreements of motor vehicles.

## 17. SUBORDINATED LOAN

	Bank		Group	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Balance as at the beginning of the Year	605,925	673,250	605,925	673,250
Repayments during the Year	(134,650)	(67,325)	(134,650)	(67,325)
Balance as at the end of the Year	471,275	605,925	471,275	605,925

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

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

## 18. STATED CAPITAL

	Bank		Group	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Balance as at 1st January - 167,714,672 Ordinary Shares	3,109,771	3,109,771	3,109,771	3,109,771
Shares issued on '2010 Warrants' exercise (41,928,668 Shares)	1,257,860	—	1,257,860	—
Balance as at 31st December - 209,643,340 Ordinary Shares (167,714,672 Ordinary Shares in 2009)	4,367,631	3,109,771	4,367,631	3,109,771

## 19. RESERVE FUND

As at the beginning of the Year	105,599	80,509	105,599	80,509
Transferred during the Year	50,097	25,090	50,097	25,090
As at the end of the Year	155,696	105,599	155,696	105,599

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

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
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### 20.1 Revenue Reserves

As at the beginning of the Year	970,817	745,678	1,551,941	1,142,532
Profit for the Year	1,001,937	501,801	1,084,225	686,071
Dividend Paid	(314,465)	(251,572)	(314,465)	(251,572)
Transfers to Reserve Fund during the Year (Note 19)	(50,097)	(25,090)	(50,097)	(25,090)
As at the end of the Year	1,608,192	970,817	2,271,604	1,551,941

### 20.2 Capital Reserves

Issue of Bonus Shares by a Subsidiary	–	–	9,500	9,500
Total Reserves	1,608,192	970,817	2,281,104	1,561,441

## 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.

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
Acceptances	989,383	446,805	989,383	446,805
Documentary Credits	3,666,356	1,589,119	3,666,356	1,589,119
Guarantees	246,603	199,486	246,603	199,486
Bonds and Warranties	4,283,867	3,659,357	4,283,867	3,659,357
Bills Sent on Collection	1,540,036	3,131,850	1,540,036	3,131,850
Undrawn Facilities	32,477,664	24,414,722	32,477,664	24,414,722
	43,203,909	33,441,339	43,203,909	33,441,339
Forward Exchange Purchases	10,399,181	12,031,961	10,399,181	12,031,961
Forward Exchange Sales	7,240,495	6,117,464	7,240,495	6,117,464
FX Contracts	17,639,676	18,149,425	17,639,676	18,149,425
Total Commitments and Contingencies	60,843,585	51,590,764	60,843,585	51,590,764

21.2 During the year 2007/08, the Bank has entered into Interest Rate Swap Agreements amounting to a total notional value of Rs. 2,665.75 mn (2009 - Rs. 2,916.00 mn) which mature in the years 2011 and 2012. The details relating to Interest Rate Swap Agreements outstanding as at 31st December 2010 are given below:

Year of the Agreement	Notional Value (Rs. mn)	Year of Maturity
2007	500.00	2011
2008	2,165.75	2011 and 2012

**21.3** As of the comparative Balance Sheet date of 31st December 2009 the Bank and the Group have entered into several forward contracts to sell Government Securities of which face value amounts to Rs. 1,700 mn and Rs. 2,000 mn respectively.

As of the comparative Balance Sheet date of 31st December 2009 the Bank has also entered into a forward contract to buy Government Securities of which face value amounts to Rs. 1,700 mn.

## 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 2010 is as follows:

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
Approved and Contracted for	28,651	56,699	28,651	56,699

## 21.5 Material Litigation against the Bank

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 USD 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 31st January 2011, and as the stay granted by the High Court continues, the same stands adjourned to 28th February 2011, for further hearing.

Based on the above, no provision has been made in these Financial Statements as the Directors do not anticipate any significant liability in respect of the same.

## 22. GROSS INCOME

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
Interest Income	9,830,929	11,632,137	10,090,176	12,049,477
Fees and Commission Income	425,351	287,606	499,192	375,436
Foreign Exchange Gain/(Loss)	314,824	(538,792)	314,824	(538,792)
Other Operating Income	1,383,145	1,986,303	1,311,009	2,150,679
	11,954,249	13,367,254	12,215,201	14,036,800

The foreign exchange loss reported in 2009 includes an identified foreign exchange loss of Rs. 913 mn (pre-tax) arising from a breach in operational procedures as announced in the 2009 second quarter results of the Bank. 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.

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
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## 23. INTEREST INCOME

Customer Advances	6,353,852	7,670,567	6,460,776	7,812,946
Treasury Bills and Bonds	2,924,420	3,080,493	3,056,128	3,389,463
Deposits with Other Banks	168,929	244,218	168,929	244,218
Corporate Debt Securities	235,478	537,205	253,305	585,548
Other Interest Income	148,250	99,654	151,038	17,302
	9,830,929	11,632,137	10,090,176	12,049,477

## 24. INTEREST EXPENSE

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
Customer Deposits	2,932,580	4,027,637	2,932,580	4,027,637
Borrowings	1,057,593	1,930,091	1,065,465	1,933,466
Treasury Bills, Bonds and Corporate Papers Repurchased	1,526,288	2,165,052	1,527,024	2,367,905
	5,516,461	8,122,780	5,525,069	8,329,008

## 25. OTHER OPERATING INCOME

Gain on Sale of Government and Corporate Debt Securities	59,196	922,448	45,026	1,031,353
Fees and Other Income	1,323,949	1,063,855	1,265,983	1,119,326
	1,383,145	1,986,303	1,311,009	2,150,679

## 26. PROFIT BEFORE TAXATION

	2010 Rs. '000	Bank 2009 Rs. '000	2010 Rs. '000	Group 2009 Rs. '000
Stated after Charging the following among others;				
<b>Included in Personnel Cost</b>				
Defined Contribution Plan Cost - EPF & ETF	127,452	115,016	130,350	117,102
<b>Included in Provision for Staff Retirement Benefits</b>				
Defined Benefit Plan Cost - Gratuity	44,941	40,954	46,691	42,149
<b>Included in Premises, Equipment and Establishment Cost</b>				
Depreciation and Amortisation	335,929	346,527	347,617	358,188
Legal Fees	19,349	22,578	19,375	22,578
Business Promotion and Advertising	175,912	132,886	175,912	133,079
Transport	75,843	100,145	76,722	101,632
(Profit)/Loss on Disposal of Property, Plant & Equipment	(205)	41,996	(205)	39,669



**27. TAXATION**

	Bank		Group	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Income Tax on Profit for the Year (Note 27.1)	730,973	763,505	823,630	899,453
Adjustments of taxes in respect of prior years	(55,505)	–	(55,505)	–
Charge/(Reversal) of Deferred Tax (Note 27.1)	176,218	(204,562)	176,218	(204,562)
	851,686	558,943	944,343	694,891

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

Accounting Profit (Profit before Taxation)	1,853,623	1,060,744	2,028,568	1,380,962
Add: Disallowable Expenses	4,347,997	4,827,274	4,394,297	4,936,237
	6,201,620	5,888,018	6,422,865	6,317,199
Less: Allowable Expenses	(3,916,652)	(3,545,064)	(3,917,290)	(3,557,239)
Less: Exempt Income	(227,341)	(193,745)	(227,341)	(230,043)
<b>Statutory Income/(Loss)</b>	<b>2,057,627</b>	<b>2,149,209</b>	<b>2,278,234</b>	<b>2,529,917</b>
Less: Tax Losses Brought Forward and Utilised	–	–	(20)	(855)
<b>Taxable Income/(Loss)</b>	<b>2,057,627</b>	<b>2,149,209</b>	<b>2,278,214</b>	<b>2,529,062</b>
Income Tax Expenses for the Year is made up of;				
Current Income Tax Expense (Including SRL at 1.5% )	730,973	763,505	823,630	899,453
Adjustments of taxes in respect of prior years	(55,505)	–	(55,505)	–
Charge/(Reversal) of Deferred Tax	176,218	(204,562)	176,218	(204,562)
	851,686	558,943	944,343	694,891
Effective Income Tax Rate	45.95%	52.69%	46.55%	50.32%

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 net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

	2010	Group 2009
<b>Amount Used as the Numerator:</b>		
Net Profit Attributable to Ordinary Shareholders (Rs. '000)	1,084,225	686,071
<b>Number of Ordinary Shares Used as the Denominator:</b>		
Ordinary Shares at the beginning of the Year	167,714,672	167,714,672
Weighted average of the shares issued during the Year	33,083,442	–
Weighted average Number of Ordinary Shares in issue	200,798,114	167,714,672
Earnings per Ordinary Share - Basic (Rs.)	5.40	4.09
Diluted Earnings per Share (Rs.)	5.28	4.09

**29. DIVIDENDS PROPOSED**

A first and final dividend of Rs. 2/- per share has been proposed by the Board of Directors for the year 2010 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 was paid in April 2010, for the year ended 31st December 2009.

## 30. SEGMENTAL INFORMATION

In Rs. '000	Banking		Investment Banking		Others		Elimination/Allocated		Group	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<b>Total Revenue</b>	<b>11,954,249</b>	<b>13,367,254</b>	<b>599,826</b>	<b>1,451,218</b>	<b>104,791</b>	<b>106,632</b>	<b>(443,665)</b>	<b>(888,304)</b>	<b>12,215,201</b>	<b>14,036,800</b>
<b>Segment Results</b>										
Profit before Taxation	1,853,623	1,060,744	172,420	299,360	48,329	45,314	(45,804)	(24,456)	2,028,568	1,380,962
Taxation	(851,686)	(558,943)	(77,182)	(120,545)	(8,926)	(15,403)	(6,549)	–	(944,343)	(694,891)
Net Profit for the Year	1,001,937	501,801	95,238	178,815	39,403	29,913	(52,353)	(24,456)	1,084,225	686,071
<b>Segment Assets</b>	<b>82,416,846</b>	<b>69,978,230</b>	<b>3,775,253</b>	<b>4,077,828</b>	<b>799,536</b>	<b>767,032</b>	<b>(3,823,024)</b>	<b>(4,398,003)</b>	<b>83,168,611</b>	<b>70,425,087</b>
Goodwill	–	–	–	–	–	–	79,261	79,261	79,261	79,261
Total Assets	82,416,846	69,978,230	3,775,253	4,077,828	799,536	767,032	(3,743,763)	(4,318,742)	83,247,872	70,504,348
<b>Segment Liabilities</b>	<b>75,836,731</b>	<b>65,360,893</b>	<b>3,287,815</b>	<b>3,640,129</b>	<b>64,985</b>	<b>58,794</b>	<b>(3,201,890)</b>	<b>(3,768,883)</b>	<b>75,987,641</b>	<b>65,290,933</b>
Deferred Liabilities	448,595	431,150	–	–	–	–	7,205	5,454	455,800	436,604
Total Liabilities	76,285,327	65,792,043	3,287,815	3,640,129	64,985	58,794	(3,194,686)	(3,763,429)	76,443,441	65,727,537
<b>Others</b>										
Additions to Property, Plant and Equipment and Other Intangible Assets	546,612	505,829	–	–	360	53	–	–	546,972	505,882
Depreciation and Amortisation	335,930	281,067	–	11	11,689	11,651	–	–	347,617	292,729
<b>Non-Cash Expenses</b>										
Provision for Bad & Doubtful Debts	209,062	812,779	–	–	–	–	(6,255)	(9,133)	202,807	803,646
Provision for Gratuity	44,941	40,954	686	664	1,064	531	–	–	46,691	42,149

**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**	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Assets</b>				
Loans and Advances	32,153	24,547	1,703,906	914,373
Corporate Credit Cards	395	753	–	–
Reverse Repurchase Agreements	–	–	1,193,185	2,619,129
Other Assets	–	–	34,080	34,105
<b>Liabilities</b>				
Deposits	2,172,974	4,157,170	39,199	4,252
Borrowings	2,923,005	899,682	19,090	100,518
Other Liabilities	–	–	229,172	189,344
<b>Equity</b>				
Dividends Paid	146,574	116,331	–	–
<b>Off-Balance Sheet Items</b>				
Undrawn Facilities	218,985	299,726	296,144	485,677
Guarantees	63,467	15,787	450	450
<b>Income Statement Items</b>				
Interest Income	1,587	6,334	360,712	839,300
Interest Paid	625,285	489,179	13,513	17,350
Other Income	1,620	326	2	2,821
Dividend Received (Gross)	–	–	53,750	37,320
Expenses	23,347	16,107	30,008	17,830
Provisions for Investment	–	–	–	723

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

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

**31.2 Transactions with Key Management Personnel**

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

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

	2010 Rs. '000	2009 Rs. '000
Emoluments/Fees Paid	113,771	158,486
Post-Employment Benefits	3,754	4,479
	117,525	162,965

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

	Key Management Personnel and their Close Family Members (CFM)		Entities in which KMPs and their CFMs have Control, Joint Control or Significant Influence	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Balance Sheet Items</b>				
<b>Assets</b>				
Loans and Advances	50,500	39,401	–	–
Credit Cards	5,969	2,866	–	–
<b>Liabilities</b>				
Deposits	245,088	57,378	3,768	4,708
Borrowings	16,000	18,893	–	–
<b>Equity</b>				
Dividends Paid (Net)	6,972	5,171	–	–
<b>Off-Balance Sheet Items</b>				
Undrawn Facilities	22,131	20,079	–	–
<b>Income Statement Items</b>				
Interest Income Earned	3,351	7,243	2	169
Interest Expenses Paid	9,442	16,558	–	2,208
Other Income Earned	98	33	103	212
Expenses Paid	–	–	3,297	2,905

During the year 2010 Key Management Personnel (KMP) have acquired 2,189,941 shares of the Bank and have sold 19,000 shares.

**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 2010, has contributed a sum of Rs. 101,800 mn to the Fund. (2009 - Rs. 94.068 mn).

As at 31st December 2010, the Fund has invested a sum of Rs. 707.951 mn with the Bank (2009 - Rs. 476.602 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	2010 Total	2009 Total
<b>Assets</b>							
<b>Interest Earning Assets</b>							
Money at Call and Short Notice	6,871	–	–	–	–	6,871	97,569
Government Treasury Bills and Bonds	17,165,874	2,215,025	2,604,729	–	–	21,985,628	16,415,998
Reverse Repurchase Agreements	4,407,751	260,570	8,960	–	–	4,677,281	7,206,969
Bills of Exchange	490,974	19,458	–	–	–	510,432	145,615
Loans and Advances	21,228,371	2,867,092	4,825,296	2,538,555	1,708,716	33,168,030	25,012,814
Investments and other Placements	113,107	1,459,915	2,441,467	–	5,046	4,019,535	4,238,850
Lease Rentals Receivable	1,042,323	2,599,253	4,111,837	1,038,839	816	8,793,068	8,003,624
Corporate Debt Securities	862,745	342,782	233,748	15,000	–	1,454,275	1,901,956
	45,318,016	9,764,095	14,226,037	3,592,394	1,714,578	74,615,120	63,023,395
<b>Non-Interest Earning Assets</b>							
Cash and Short-Term Funds	1,523,658	–	–	–	–	1,523,658	1,327,513
Statutory Deposit with the Central Bank of Sri Lanka	1,365,214	750,660	271,361	29,000	–	2,416,235	2,043,624
Other Assets	995,850	89,290	44,534	6,829	–	1,136,503	871,843
Deferred Assets	–	–	–	–	113,544	113,544	307,363
Investments in Subsidiaries	–	–	–	–	678,710	678,710	678,710
Property, Plant & Equipment	–	–	–	–	1,254,019	1,254,019	1,372,599
Intangible Assets	–	–	–	–	679,057	679,057	353,183
	3,884,722	839,950	315,895	35,829	2,725,330	7,801,726	6,954,835
<b>Total Assets</b>	<b>49,202,738</b>	<b>10,604,045</b>	<b>14,541,932</b>	<b>3,628,223</b>	<b>4,439,908</b>	<b>82,416,846</b>	<b>69,978,230</b>
<b>Liabilities</b>							
<b>Interest Bearing Liabilities</b>							
Deposits	20,645,006	15,022,227	5,430,491	580,339	–	41,678,063	39,498,896
Borrowings	13,612,613	3,476,199	2,201,872	–	–	19,290,684	14,024,649
Subordinated Loan	–	134,650	269,300	67,325	–	471,275	605,925
Debentures	165,000	–	1,670,000	–	–	1,835,000	2,000,000
	34,422,619	18,633,076	9,571,663	647,664	–	63,275,022	56,129,470
<b>Non-Interest Bearing Liabilities</b>							
Deposits from Customers	6,675,692	–	–	–	–	6,675,692	4,722,675
Due to Banks	499,813	–	–	–	–	499,813	391,061
Deferred Liabilities	–	–	–	87,533	361,063	448,596	431,150
Other Liabilities	5,386,204	–	–	–	–	5,386,204	4,117,687
Stated Capital	–	–	–	–	4,367,631	4,367,631	3,109,771
Reserves	–	–	–	–	1,763,888	1,763,888	1,076,416
	12,561,709	–	–	87,533	6,492,582	19,141,824	13,848,760
<b>Total Liabilities and Shareholders' Funds</b>	<b>46,984,328</b>	<b>18,633,076</b>	<b>9,571,663</b>	<b>735,197</b>	<b>6,492,582</b>	<b>82,416,846</b>	<b>69,978,230</b>

## 32.2 Group

(In Rs. '000)	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	2010 Total	2009 Total
<b>Assets</b>							
<b>Interest Earning Assets</b>							
Money at Call and Short Notice	6,871	–	–	–	–	6,871	97,569
Government Treasury Bills and Bonds	17,996,145	2,231,609	3,164,468	–	–	23,392,222	19,306,208
Reverse Repurchase Agreements	3,214,566	260,570	8,960	–	–	3,484,096	4,587,840
Bills of Exchange	490,974	19,458	–	–	–	510,432	145,615
Loans and Advances	21,859,369	2,867,092	4,825,296	2,538,555	1,708,716	33,799,028	25,154,118
Investments and Other Placements	113,107	1,459,915	2,441,467	–	5,046	4,019,535	4,238,850
Lease Rentals Receivable	1,042,323	2,599,253	4,111,837	1,038,839	816	8,793,068	8,003,685
Corporate Debt Securities	867,443	352,301	233,748	15,000	–	1,468,492	2,032,270
	45,590,798	9,790,198	14,785,776	3,592,394	1,714,578	75,473,744	63,566,155
<b>Non-Interest Earning Assets</b>							
Cash and Short-Term Funds	1,523,677	–	–	–	–	1,523,677	1,333,640
Statutory Deposit with the Central Bank of Sri Lanka	1,364,361	751,269	271,582	29,023	–	2,416,235	2,043,624
Other Assets	1,033,257	89,290	44,534	6,829	–	1,173,910	902,769
Deferred Assets	–	–	–	–	113,544	113,544	307,363
Property, Plant & Equipment	–	–	–	–	1,788,444	1,788,444	1,918,353
Intangible Assets	–	–	–	–	758,318	758,318	432,444
	3,921,295	840,559	316,116	35,852	2,660,306	7,774,128	6,938,193
<b>Total Assets</b>	<b>49,512,093</b>	<b>10,630,757</b>	<b>15,101,892</b>	<b>3,628,246</b>	<b>4,374,884</b>	<b>83,247,872</b>	<b>70,504,348</b>
<b>Liabilities</b>							
<b>Interest Bearing Liabilities</b>							
Deposits	20,645,005	15,022,227	5,430,491	580,339	–	41,678,062	39,498,896
Borrowings	13,995,815	3,476,198	2,201,872	–	–	19,673,885	14,024,649
Subordinated Loans	–	134,650	269,300	67,325	–	471,275	605,925
Debentures	165,000	–	1,670,000	–	–	1,835,000	2,000,000
	34,805,820	18,633,075	9,571,663	647,664	–	63,658,222	56,129,470
<b>Non-Interest Bearing Liabilities</b>							
Deposits from Customers	6,636,493	–	–	–	–	6,636,493	4,722,675
Due to Banks	499,813	–	–	–	–	499,813	391,061
Deferred Liabilities	–	–	–	91,135	364,665	455,800	436,604
Other Liabilities	5,193,113	–	–	–	–	5,193,113	4,047,727
Stated Capital	–	–	–	–	4,367,631	4,367,631	3,109,771
Reserves	–	–	–	–	2,436,800	2,436,800	1,667,040
	12,329,419	–	–	91,135	7,169,096	19,589,650	14,374,878
<b>Total Liabilities and Shareholders' Funds</b>	<b>47,135,239</b>	<b>18,633,075</b>	<b>9,571,663</b>	<b>738,799</b>	<b>7,169,096</b>	<b>83,247,872</b>	<b>70,504,348</b>

## 33. POST-BALANCE SHEET EVENTS

No material events have taken place since 31st December 2010, 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. 2.00 per share for the year ended 31st December 2010.

## 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 2010, 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 2010			Resident			Non-Resident			Total		
Shareholders	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%		
1	1,000	4,714	2,156,725	1.03	40	23,589	0.01	4,754	2,180,314	1.04	
1,001 - 10,000	2,956	9,940,724	4.74	51	219,165	0.10	3,007	10,159,889	4.85		
10,001 - 100,000	574	16,504,046	7.87	22	757,401	0.36	596	17,261,447	8.23		
100,001 - 1,000,000	60	15,861,821	7.57	4	2,327,798	1.11	64	18,189,619	8.68		
Over 1,000,000	14	140,333,647	66.94	3	21,518,424	10.26	17	161,852,071	77.20		
	8,318	184,796,963	88.15	120	24,846,377	11.84	8,438	209,643,340	100.00		

There were 6,053 Resident and 89 Non-Resident Shareholders as at 31st December 2009.

## ANALYSIS OF SHAREHOLDERS

	31.12.2010			31.12.2009		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	7,991	63,188,783	30.14	5,809	51,636,010	30.79
Institutional	447	146,454,557	69.86	333	116,078,662	69.21
	<b>8,438</b>	<b>209,643,340</b>	<b>100.00</b>	<b>6,142</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 2010 was 77.69% (78.39% as at 31st December 2009).

## MARKET INFORMATION ON ORDINARY SHARES OF THE COMPANY

	2010	2009
<b>Market Value</b>		
Highest Value (Rs.)	114.70	39.50
Lowest Value (Rs.)	34.00	22.00
Value at the end of the year (Rs.)	83.40	36.75
<b>Trading Statistics</b>		
No. of Transactions	31,533	13,207
No. of Shares Traded (mn)	97.02	72.24
Value of Shares Traded (Rs. mn)	5,900.59	2,304.85
<b>Market Capitalisation</b>		
Market Capitalisation (Rs. mn)	17,484.25	6,163.51



## TWENTY LARGEST SHAREHOLDERS AS AT 31ST DECEMBER

Name of the Shareholder	2010		2009*	
	No. of Shares	%	No. of Shares	%
John Keells Holdings PLC	41,928,670	20.00	33,542,937	20.00
Mackinnons & Keells Financial Services Limited	20,754,690	9.90	16,603,752	9.90
Mr. Y.S.H.I.K. Silva	20,196,042	9.63	16,005,214	9.54
Central Finance Company Limited	19,532,440	9.32	16,491,520	9.83
HSBC International Nominees Limited - Credit Suisse AG Zurich - Uma Kumar Sharma	18,156,100	8.67	4,025,600	2.40
CF Growth Fund Limited	13,466,612	6.42	10,773,290	6.42
CF Insurance Brokers (Pvt) Limited	8,929,612	4.26	6,278,122	3.74
Mr. A.D. Gunewardene	4,621,272	2.20	2,521,486	1.50
Mr. M.F. Hashim	2,283,325	1.09	1,756,000	1.05
HSBC International Nominees Limited - SSBT - Deutsche Bank AG Singapore A/C 01	2,041,700	0.97	1,746,700	1.04
Renuka City Hotels Limited	1,858,750	0.89	1,632,000	0.98
Mr. S.K. Sharma	1,661,800	0.79	50,000	0.03
Bank of Ceylon - No. 2 A/C	1,546,100	0.74	625,000	0.38
Mr. N.R. Somaiya	1,320,624	0.63	5,012	0.00
Employees' Trust Fund Board	1,276,800	0.61	1,197,000	0.71
Mr. M.M. Udeshi	1,155,434	0.55	81,634	0.05
Sri Lanka Insurance Corporation Limited - Life Fund	1,122,100	0.54	449,600	0.27
Mr. A.A.V. Amerasinghe	1,000,000	0.48	1,000,000	0.60
Bank of Ceylon No. 1 A/C	953,500	0.45	—	—
Timex (Garments) Limited	930,132	0.44	730,066	0.44
	<b>164,735,703</b>	<b>78.58</b>	<b>115,514,933</b>	<b>68.88</b>
Others	44,907,637	21.42	52,199,739	31.12
<b>Total</b>	<b>209,643,340</b>	<b>100.00</b>	<b>167,714,672</b>	<b>100.00</b>

\*Comparative shareholdings as at 31st December 2009 of the twenty largest shareholders as at 31st December 2010.

## 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 2010			Resident			Non-Resident			Total		
			No. of	No. of		No. of	No. of		No. of	No. of	
Warrantholders			Warrantholders	Warrants	%	Warrantholders	Warrants	%	Warrantholders	Warrants	%
1	-	1,000	1,848	616,566	2.94	11	4,069	0.02	1,859	620,635	2.96
1,001	-	10,000	588	1,957,900	9.34	9	31,032	0.15	597	1,988,932	9.49
10,001	-	100,000	75	1,909,127	9.11	1	30,200	0.14	76	1,939,327	9.25
100,001	-	1,000,000	8	2,237,693	10.68	3	570,849	2.72	11	2,808,542	13.40
Over 1,000,000			7	13,606,507	64.90	–	–	–	7	13,606,507	64.90
			2,526	20,327,793	96.97	24	636,150	3.03	2,550	20,963,943	100.00

## ANALYSIS OF WARRANTHOLDERS

	31.12.2010			31.12.2009		
	No. of Warrantholders	No. of Warrants	%	No. of Warrantholders	No. of Warrants	%
Individual	2,374	9,194,300	43.86	1,636	8,881,458	42.37
Institutional	176	11,769,643	56.14	145	12,082,485	57.63
	<b>2,550</b>	<b>20,963,943</b>	<b>100.00</b>	<b>1,781</b>	<b>20,963,943</b>	<b>100.00</b>

## MARKET INFORMATION ON WARRANTS 2011 OF THE COMPANY

	2010	2009
<b>Market Value</b>		
Highest Value (Rs.)	93.90	10.25
Lowest Value (Rs.)	6.75	3.50
Value at the end of the Year (Rs.)	57.60	8.25
<b>Trading Statistics</b>		
No. of Transactions	18,288	3,014
No. of Warrants Traded (mn)	43.00	13.608
Value of Warrants Traded (Rs. mn)	1,135.16	99.266
<b>Market Capitalisation</b>		
Market Capitalisation (Rs. mn)	1,207.52	172.95

## TWENTY LARGEST WARRANTHOLDERS AS AT 31ST DECEMBER

Name of the Warrantholder	2010		2009*	
	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
Mackinnons & 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. S.D.R. Arudpragasam	800,000	3.82	–	–
Mr. S.K. Sharma	511,100	2.44	–	–
Mrs. B. Thapar	260,166	1.24	236,466	1.13
Mr. M.J. Fernando.	215,085	1.03	215,085	1.03
Timex (Garments) Limited	208,333	0.99	208,333	0.99
HSBC International Nominees Limited - Credit Suisse AG Zurich-Uma Kumar Sharma	157,000	0.75	–	–
Mr. D.J.M. Blackler	153,683	0.73	153,683	0.73
Mr. U.E. Theverapperuma	140,975	0.67	133,775	0.64
Pan Asia Banking Corporation PLC/Mr. S. Gobinath	129,500	0.62	–	–
Mr. K. Balendra	125,000	0.60	125,000	0.60
Mr. K.N.J. Balendra	107,700	0.51	107,700	0.51
Mrs. D.C.J. Kalupathirana	100,000	0.48	–	–
Mr. R.P.L. Eheliyagoda	98,000	0.47	–	–
	16,613,049	79.25	14,786,549	70.53
Others	4,350,894	20.75	6,177,394	29.47
<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 2009 of the twenty largest warrantholders as at 31st December 2010.

## DEBENTURES

### Stock Exchange Listing

The Unsecured, Subordinated, Redeemable Debentures 2006/11, 2006/12, 2008/13 and 2009/13 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	Effective Annual Yield
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	2010	2009
Debt/Equity Ratio* (%)	29.93	47.78
Interest Cover* (Times)	6.23	4.03
Liquid Assets Ratio - Domestic Banking Unit (%)	22.13	28.17
Liquid Assets Ratio - Foreign Currency Banking Unit (%)	42.97	40.24

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

Group	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	2010 Rs. mn
<b>OPERATING RESULTS</b>										
Gross Income	714	1,161	2,115	2,241	3,085	5,922	9,342	13,877	14,037	12,215
Interest Income	607	1,001	1,574	1,708	2,448	4,991	8,011	12,094	12,049	10,090
Interest Expense	(385)	(690)	(1,102)	(1,118)	(1,504)	(3,280)	(5,900)	(9,185)	(8,329)	(5,525)
Net Interest Income	222	311	472	590	944	1,711	2,111	2,909	3,720	4,565
Fees & Commission Income	52	81	117	139	199	275	307	338	375	499
Foreign Exchange Profit	39	56	105	143	124	192	329	496	(539)	315
Other Operating Income	16	23	319	251	314	464	695	949	2,151	1,311
Net Income	329	471	1,013	1,123	1,581	2,643	3,442	4,693	5,708	6,690
Operating Expenses & Provisions	(296)	(401)	(736)	(1,009)	(1,383)	(2,104)	(2,594)	(3,664)	(4,327)	(4,662)
Profit Before Taxation	33	70	277	114	198	539	848	1,029	1,381	2,029
Provision for Taxation	(10)	(24)	(25)	(69)	(73)	(215)	(343)	(435)	(695)	(944)
<b>Profit After Taxation</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>1,084</b>
<b>ASSETS</b>										
Cash and Short-Term Funds	986	1,023	1,606	1,977	1,633	4,780	3,147	4,065	1,431	1,531
Statutory Deposit with Central Bank	169	345	347	609	955	1,315	1,964	1,717	2,044	2,416
Government Treasury Bills, Bonds	396	6,799	7,489	5,771	5,341	10,323	11,331	15,688	23,894	26,876
Investment Securities	186	243	50	632	621	1,629	2,392	3,781	4,239	4,020
<b>Loans &amp; Advances</b>	<b>3,154</b>	<b>6,824</b>	<b>8,362</b>	<b>11,717</b>	<b>15,604</b>	<b>26,993</b>	<b>34,500</b>	<b>38,585</b>	<b>35,336</b>	<b>44,571</b>
Bills of Exchange	78	386	427	381	336	291	562	423	146	510
Loans and Advances	2,288	4,591	6,196	9,162	12,299	18,839	22,418	26,378	25,154	33,799
Lease Receivables				71	329	5,191	7,254	9,137	8,003	8,794
Corporate Debt Securities	788	1,848	1,739	2,103	2,640	2,672	4,266	2,647	2,032	1,468
Other Assets including Deferred Assets	82	212	519	558	785	998	1,209	1,914	1,210	1,287
Property, Plant & Equipment	263	298	323	381	414	1,133	1,065	2,035	1,918	1,788
Intangible Assets		99	77	68	59	451	79	79	432	758
<b>Total Assets</b>	<b>5,236</b>	<b>15,844</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>83,248</b>
<b>LIABILITIES</b>										
<b>Deposits</b>	<b>2,893</b>	<b>5,042</b>	<b>6,571</b>	<b>10,460</b>	<b>14,314</b>	<b>20,670</b>	<b>28,666</b>	<b>34,146</b>	<b>44,222</b>	<b>48,315</b>
Borrowings	1,469	9,238	9,583	8,105	7,275	19,374	18,077	22,455	14,025	19,674
Due to Banks	1	427	507	457	199	1,077	1,394	1,039	391	500
Other Liabilities	221	412	676	904	1,388	2,213	3,307	3,273	4,048	5,193
Deferred Liabilities	44	71	101	97	100	193	201	436	437	456
Debentures	–	–	–	–	–	560	500	1,500	2,000	1,835
Subordinated Loan	–	–	–	351	673	673	673	673	606	471
<b>Total Liabilities</b>	<b>4,628</b>	<b>15,190</b>	<b>17,438</b>	<b>20,374</b>	<b>23,949</b>	<b>44,760</b>	<b>52,818</b>	<b>63,522</b>	<b>65,728</b>	<b>76,443</b>
<b>SHAREHOLDERS' FUNDS</b>										
Share/Stated Capital	500	500	850	850	850	2,062	2,062	3,110	3,110	4,368
Reserve Fund	7	8	11	13	16	29	57	80	106	156
Reserves	101	146	474	476	597	771	750	1,152	1,561	2,281
<b>Total Shareholders' Funds</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>4,342</b>	<b>4,777</b>	<b>6,804</b>
<b>Total Liabilities and Shareholders' Funds</b>	<b>5,236</b>	<b>15,844</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>83,248</b>
Commitments and Contingencies	1,365	3,480	3,972	4,886	3,832	13,276	18,138	53,617	51,591	60,844

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>RATIOS</b>										
Return on Average Shareholders' Funds (%)	3.78	7.03	18.88	3.36	8.54	11.30	17.62	16.45	15.05	18.72
Income Growth (%)	117.68	62.61	82.17	5.96	37.66	91.97	57.74	48.55	1.15	(12.98)
Return on Average Assets (%)	0.52	0.44	1.45	0.22	0.53	0.88	0.98	0.96	0.99	1.41
Property, Plant & Equipment to Shareholders' Funds (%)	43.26	45.53	24.19	28.45	28.30	39.58	37.12	46.86	40.16	26.28
Total Assets to Shareholders' Funds (Times)	8.6	24.2	14.1	16.2	17.4	16.6	19.4	15.6	14.8	12.2
Capital Funds to Liabilities Including Contingent Liabilities (%)	10.15	3.50	6.24	5.30	5.27	4.93	4.04	3.71	4.07	4.96
Cost/Income Ratio (%)	79.08	78.03	63.46	76.17	72.48	68.56	65.38	65.42	57.68	58.78
Capital Adequacy Ratio Tier I (%)	15.95	10.70	14.07	10.44	8.74	7.86	7.20	10.31	11.79	13.43
Capital Adequacy Ratio Tier I & II (%)	16.93	11.56	15.24	13.91	13.92	11.86	10.44	15.70	16.11	15.74
<b>SHARE INFORMATION</b>										
Market Value per Share (Rs.)	15.00	16.75	28.25	18.25	23.50	28.25	29.75	22.25	36.75	83.40
Earnings Per Share (Rs.) - Group	—	0.92	3.52	0.53	1.47	2.44	3.91	3.67	4.09	5.40
Price Earnings Ratio (Times) - Bank	32.61	34.90	32.47	49.75	27.33	11.58	7.61	6.06	8.98	15.45
Net Assets Value Per Share (Rs.)	12.16	13.08	15.71	15.75	17.21	21.60	22.81	25.89	28.48	32.46
Earnings Yield (%)	—	5.49	12.46	2.90	6.26	8.64	13.14	16.49	11.13	6.47
Dividend Per Share (Rs.)	—	0.50	0.85	—	—	1.00	1.33	1.50	1.50	2.00
Dividend Payout Ratio (%)	—	54.35	24.15	—	—	40.98	34.10	40.87	36.67	27.78
% of 20 Largest Shareholders	—	—	—	63.15	71.91	80.08	81.07	81.32	76.38	78.58
<b>OTHER INFORMATION</b>										
Number of Employees	164	271	405	479	549	820	1,239	1,615	1,532	1,608
Number of Branches	11	17	20	26	28	30	31	36	38	40
Personal Banking Centres	—	—	—	—	—	—	—	6	6	6
Leasing Centres	—	—	—	—	—	5	8	8	2	1
Number of ATMs	6	13	20	30	33	38	38	47	44	48

**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 to 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 Registration Number**

PQ 118

**Date of Incorporation**

21st January 1999

**Registered Office**

No. 242, Union Place, Colombo 2  
Telephone : 4313131  
Facsimile : 2307854  
E-mail : info@nationstrust.com  
Web page : www.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)  
M.E. Wickremesinghe (Senior Director)  
A.R. Rasiah  
J.R.F. Peiris  
A.K. Gunaratne  
C.H.S.K. Piyaratna  
Dr. (Ms.) D. Weerakoon  
K.N.J. Balendra  
S.G. Rajakaruna  
Murtaza Jafferjee  
Dr. Kemal De Soysa

**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

**Nomination Committee**

M.E. Wickremesinghe - (Chairman)  
A.D. Gunewardene  
E.H. Wijenaike

**Credit Committee**

A.D. Gunewardene - (Chairman)  
(Alternate J.R.F. Peiris)  
C.H.S.K. Piyaratna  
E.H. Wijenaike  
A.K. Gunaratne

**Integrated Risk Management Committee**

J.R.F. Peiris - (Chairman)  
A.K. Gunaratne  
M.E. Wickremesinghe



Notice is hereby given that the Twelfth Annual General Meeting of Nations Trust Bank PLC will be held on 30th March 2011 at 10.00 a.m. at the Auditorium of The Institute of Chartered Accountants of Sri Lanka at No. 30A, Malalasekera Mawatha, Colombo 7.

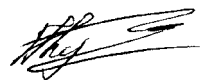
The business to be brought before the meeting will be-

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 2010 with the Report of the Auditor's thereon.
3. To declare a first and final dividend of Rs. 2.00/- per share on the ordinary shares of the Company.
4. To re-elect Mr. A.D. Gunewardene, who retires by rotation at the Annual General Meeting as a Director.
5. To re-elect Mr. E.H. Wijenaike, who retires by rotation at the Annual General Meeting as a Director.
6. To re-elect Mr. A.K. Gunaratne, who retires by rotation at the Annual General Meeting as a Director.
7. To elect Mr. M. Jafferjee as a Director pursuant to Article No. 91 of the Articles of Association of the Company.
8. To elect Dr. Kemal De Soysa 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 2011

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. 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. M. Jafferjee	or failing him
Dr. Kemal De Soysa	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 2011, 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 2011.

.....  
 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 2010 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final dividend of Rs. 2.00/- per share on the ordinary shares of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. A.D. Gunewardene, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. E.H. Wijenaïke, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr. A.K. Gunaratne as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. To elect Mr. M. Jafferjee as a Director pursuant to Article No. 91 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
7. To elect Dr. Kemal De Soysa 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: .....



