

Contents

<i>Vision, Mission & Values</i>	2	<i>Financial Information</i>	29
<i>Highlights of the Year</i>	3	<i>Directors' Responsibility for Financial Reporting</i>	30
<i>Our Strategy</i>	4 - 5	<i>Auditor's Report</i>	31
<i>Chairman's Message</i>	6 - 7	<i>Income Statement</i>	32
<i>Chief Executive's Report</i>	8 - 13	<i>Balance Sheet</i>	33
<i>Board of Directors</i>	14 - 15	<i>Statement of Changes in Equity</i>	34
<i>Corporate Management</i>	16 - 17	<i>Cash Flow Statement</i>	35 - 36
<i>Senior Management</i>	18 - 19	<i>Accounting Policies</i>	37 - 42
<i>Events of the Year</i>	20	<i>Notes to the Financial Statements</i>	43 - 63
<i>Corporate Information</i>	21	<i>Investor Information</i>	64 - 65
<i>Risk Management</i>	22 - 23	<i>Five Year Summary</i>	66 - 67
<i>Corporate Governance Report</i>	24	<i>Glossary</i>	68 - 69
<i>Board Audit Review Committee Report</i>	25	<i>Notice of Meeting</i>	70
<i>Directors' Report</i>	26 - 28	<i>Form of Proxy</i>	71 - 72
		<i>Service Network</i>	<i>Inner Back Cover</i>

Vision

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

Mission

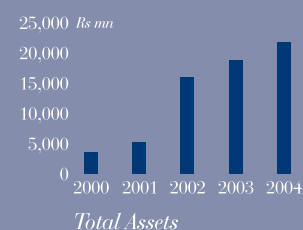
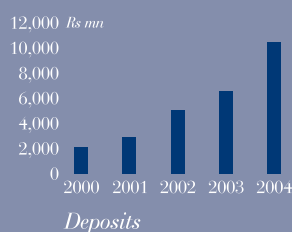
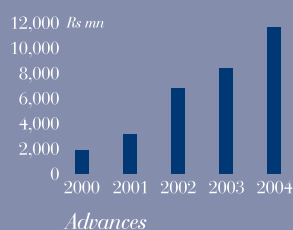
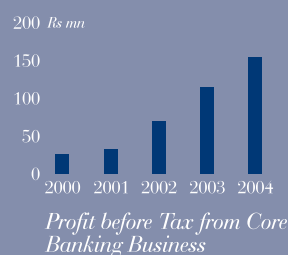
Guided by a conservative risk-taking regime, we will endeavor to achieve a 20% return on equity and a cost income ratio of 55% by the year 2008.

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

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

Values

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



Highlights of the Year

	Group 2004 Rs. mn	Group 2003 Rs. mn
Results for the year		
Gross Income	2,374	2,115
Net Profit before VAT and Tax	154	310
Income Tax and VAT on Profit	109	58
Net Profit after Tax	45	252
At the Year end		
Shareholders' Funds	1,339	1,336
Deposits from Customers	10,441	6,571
Advances to Customers	11,692	8,362
Information per Ordinary Share		
Earnings (Rs)	0.53	3.52
Net Assets Value (Rs)	15.75	15.71
Market Value at the year end (Rs)	18.25	28.25
Ratios		
Return on Average Shareholders' Funds prior to effect on retrospective tax legislation (%)	5.41	25.34
Return on Average Assets prior to effect on retrospective tax legislation (%)	0.36	1.45
Capital Adequacy Ratios		
Tier I (%)	9.86	14.07
Tier II (%)	13.91	15.24

“The Bank plans to expand its product range, enhance services and further consolidate the stable position achieved through our efforts and investments based on our strategic plans and policies.

Our strong retail focus, customer care and quality standards have yielded the results we show today and give us a solid foundation to build on for the future.”

Our Strategy

A mission to be consistently innovative in strategy, to benchmark excellent customer service standards and to develop our people to be the best in the industry.

Nations Trust Bank has rapidly grown in stature and rank in the industry, expanding and enhancing our business solutions and customer services. We have placed special emphasis on developing our Human Resources and on improving our Management Information and Information Technology, upgrading our Core Banking Software and successfully implementing several new innovations.

This strategy and the motivation towards continuous improvement have resulted in the significant growth in volumes that we proudly claim today.

And we also take pride in our strong reputation for personalised and friendly customer care, which, above all, is what makes us unique in the industry.





ADB grants a Trade Facilitation Facility of US\$ 5 mn.



Launch of American Express Blue Credit Card.



Hon. Minister of Finance Sarath Anunugama speaks at the Seminar on Treasury Management.



Signing of agreement with FMO for Euro 5 mn equivalent Sri Lankan Rupee denominated, subordinated loan.

What we have achieved...

- a premium market segment and a high quality advances portfolio
- a consistently low NPL ratio; one of the lowest among Sri Lankan commercial banks
- the implementation of an innovative retail banking strategy backed by an aggressive and successful sales team
- the expansion of our branches which now number twenty six - including an Inner Circle Centre at Odel
- the expansion of our ATM network from twenty to thirty during the year including six off-site ATMs at Lanka IOC multi-service stations

- the continued success of the American Express Credit Card in the premium market segment
- improved efficiency with the expansion of the Call Centre and the centralisation of back office operations
- a highly focused corporate institutional offering
- innovative HR practices in selection, training and development, competitive compensation and talent management of employees
- enhancements in Management Information and Information Technology systems and upgrading of the Core Banking Software
- state-of-the-art e-channels



“A robust growth in Deposits in excess of 59%, an increase in Loans and Advances of 40% and a very healthy non-performing loan ratio of 5.4%, reflect the success of our revised retail focused strategy, implemented during 2004. This was achieved despite the political and economic uncertainty that prevailed during the year.”

Chairman's Message

I have pleasure in presenting to you on behalf of your Board of Directors, the Annual Report of your Bank for the year ended 31st December 2004.

Your Bank, with its fully owned subsidiary, Waldock Mackenzie Ltd., recorded a Group Profit after Tax of Rs. 45.5 mn during the year, after charging additional tax of Rs. 26.9 mn, due to retrospective tax legislation. The result in 2003 included significant gains from the sale of government securities, which was not available in 2004. Excluding these items the core operating profit showed an increase of 35%.

The Group's tax liability has increased significantly from Rs. 24.5 mn in 2003 to Rs. 69.1 mn in 2004. This includes Rs. 26.9 mn, resulting from retrospective tax legislation that removes the distinction between capital gains and interest income thus making the capital gains earned in year 2003 liable for tax. The tax liability for 2004 has also shown an increase due to the extension of VAT on profits to the Bank's subsidiary, the increase in VAT rate to 15% as well as other amendments to tax regulations, in particular those relating to brought forward tax losses.

A robust growth in Deposits in excess of 59%, an increase in Loans and Advances of 40% and a very healthy non-performing loan ratio of 5.4%, reflect the success of our revised retail focused strategy, implemented during 2004. This was achieved despite the political and economic uncertainty that prevailed during the year.

Despite the adverse impact of both internal and external shocks, Sri Lanka's economy continued to grow during the year 2004, with the growth for the first three quarters estimated to be 5.5 %, slightly lower than the same period last year. The Parliamentary Elections held in April had a negative impact while growth in agriculture was hindered by the continuing drought that also affected the generation of hydropower. Escalating oil prices, a depreciating Sri Lankan Rupee and increasing interest rates, added to the adverse effects. All this contributed to upward pressure on the inflation rate which ended the year at around 7 % compared to 6.3 % in 2003.

As in the previous year the largest contributor to GDP was the services sector which contributed 55% while agriculture and industry are estimated to have contributed 18% and 27 % respectively. The services sector which includes transportation, communication, financial services, port services and tourism has grown not only in terms of the share of GDP, but in absolute volume as well.

The continuous drop in revenue and increase in expenditure in 2004, widened the budget deficit. Government Debt continued to rise and the government was compelled to take measures to increase revenue collection while rationalizing expenditure. These measures were incorporated in the 2005 budget proposals. The implementation of these proposals has increased the tax burden of commercial banks. The key change effecting financial institutions is the retrospective withdrawal of Sec 15(t), relating to income on Government Securities and removal of distinction between capital gains and interest income. Further, in 2005, VAT on financial services, foreign travel and entertainment expenses will be fully disallowed in computing corporate tax whilst 50% of advertising expenditure and 75% of all travel allowances will be disallowed. This again will have an adverse impact on returns.

On 26 December, a powerful earthquake, off the west coast of Sumatra, registering 9 on the Richter scale, triggered massive tsunamis that ravaged the coastal areas of many Indian Ocean countries, including Sri Lanka. The death toll is nearly a quarter of a million, many more have been injured and millions have been left homeless. The true extent of the damage may never be known. In Sri Lanka, the Tsunami claimed close to 40,000 lives, left approximately 100,000 houses destroyed and seriously damaged the infrastructure in most coastal areas. Sri Lanka has estimated the cost of reconstruction to be approximately \$ 1.5 bn. Support has already come in the form of relief services. In the medium and longer term the focus would be on the re-settlement of displaced people and the developing of infrastructure. World leaders attended a Disaster Summit in Jakarta and over \$ 4 bn has been pledged as aid to countries affected by the Tsunami.



“2004 was a year of challenges. Key imperatives of the new business model required several changes to your Bank’s “current way of doing business”. The Bank staff rose to the challenge and adapted to these changes very effectively. The Bank now has an aggressive sales force, efficient centralised operations and advanced information technology providing support to the branch network.”

The increased aid inflows and other forms of relief, including debt relief in the form of freezing of repayments and the cancellation of debt will ease the pressure on external debt and would result in a much more favourable overall balance of payments. It is hoped that funding would be targeted at rejuvenating the impacted sectors with a view to putting the economy on a sound footing for future growth.

2004 was a year of challenges. Key imperatives of the new business model required several changes to your Bank’s “current way of doing business”. I am pleased to say that the Bank staff rose to the challenge and adapted to these changes very effectively. The Bank now has an aggressive sales force, efficient centralised operations and advanced information technology providing support to the branch network.

I am also pleased to advise you of the successful negotiations firstly with the Asian Development Bank (ADB) for a USD 5 mn Trade Finance Facilitation programme and thereafter a subordinate loan facility of Euro 5 mn from Nederlandse Financiering-Maatschappij voor Ontwikkelingslanden NV (FMO) based in The Hague, Netherlands, repayable over 10 years, with a grace period of five years. This loan strengthens the capital position of the Bank as the terms of the loan allow the Bank to include it under Tier II capital thus boosting the Capital Adequacy ratio.

Both these deals reflect the enhanced standing of your Bank with multi lateral agencies.

Your Bank is on the threshold of achieving critical mass, which is a prerequisite for the Bank’s continuous health and uninterrupted enhancement of shareholder value. It will be appreciated that though the bank is relatively young, it has grown quite significantly in a comparatively short time. However, considerable additional growth is required if we are to generate the quantum of profits needed to support self-sufficiency in Capital.

Your directors, having considered the need to increase the Bank’s Resources, do not recommend the declaration of a dividend.



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Amidst the challenges and opportunities ahead we are strongly committed to achieve our growth aspirations and realize our vision of becoming the Premium Retail focused Sri Lankan Bank committed to superlative quality, while increasing shareholder returns.

I wish to conclude by expressing my gratitude to our valued shareholders, customers, Government Regulators and Auditors for their support and co-operation over the years.

I appreciate the effort and hard work of the staff and the Corporate Management team ably led by the CEO that has enabled your Bank to prosper and grow. I look forward to their continued efforts.

Vivendra Lintotawela
Chairman

16th March, 2005



“2004 has been a year of radical change. Consequent to the Strategy Review carried out with the assistance of the Boston Consultancy Group at the end of 2003, a complete organizational restructure was put in place, in order that we are better equipped to acquire and service our identified target segments.”

Chief Executive's Report

It is with great pleasure and a renewed sense of confidence in the future that I present the Chief Executive's Report, in my first year at the helm of Nations Trust Bank.

2004 has been a year of radical change. Consequent to the Strategy Review carried out with the assistance of the Boston Consultancy Group at the end of 2003, a complete organizational restructure was put in place, in order that we are better equipped to acquire and service our identified target segments. A comprehensive marketing and advertising initiative was undertaken in order to re-position the Bank in the eyes of the public. Complementary to this a number of Human Resource initiatives in Recruitment, Job Evaluation, Promotion, Training and Staff Communication were also put in place while the focus on achieving objectives, was enhanced across all business units. I am proud to say that our staff enthusiastically took up the challenge and ensured that the strategies were implemented as planned. The results have been quite encouraging.

2004 Highlights

- Core Operating Profit (excluding income from the sale of government securities in 2003) before Tax and VAT increased by 35% from Rs. 114.3 mn to 154.3 mn
- Customer Deposits grew by 59% to Rs. 10.4 bn and Loans and Advances grew by 40% to Rs. 11.7 bn
- Gross Non-Performing Loans Ratio reduced from 5.5% to 5.4%
- Number of new current & savings accounts acquired in 2004 was in excess of 20,000
- Number of manned delivery channels increased from 24 to 30
- Number of ATMs increased from 20 to 30
- Staff numbers increased from 405 to 479

The Bank's performance will I am sure be appreciated, in the context of an environment of volatile interest and exchange rates, in the face of

political and economic uncertainty which prevailed during most of the year. The additional tax burdens put on the banking industry have also affected the final result.

The Tsunami, which hit the country at the end of the year resulting in catastrophic loss of life and property, is bound to impact in the short term in cash flow difficulties, impacting further on the quality of credit. The immediate impact on your Bank was minimal in view of our geographic spread, though it is still too early to predict the knock on effects, which we may see. We hope that appropriate policies will be implemented by the authorities as announced, to ensure that the adverse fallout is minimized.

Financial Performance

Profit after VAT and Tax was Rs. 45.5 mn after charging Rs. 26.9 mn in tax due to retrospective legislation compared to Rs. 252 mn in 2003. The profits recorded by the Group in 2003 were boosted by capital gains earned, with the Group taking advantage of the declining interest rate scenario. The extension of the VAT on profits to the Bank's subsidiary, the increase in the VAT rate to 15% as well as other amendments to tax regulations, in particular those relating to brought forward losses, increased the Bank's tax liability significantly. Net interest income has increased by 25% from Rs. 472.6 mn to Rs. 590.0 mn. Non funds based income excluding profits on sale of government securities in 2003, increased by Rs. 228.2 mn (74%), the main contributor to this growth being credit card income. Operational expenses also increased from Rs. 703.2 mn in 2003 to Rs. 969 in 2004. The bulk of the increase was also due to credit card operations, which commenced in August 2003. The Bank additionally incurred costs of running six new branches opened this year.

Moreover, we have continued to be very conservative in our provisioning policy as reflected in the provisions for the year.



“In line with the new strategy, the Retail Banking operating model was changed with the introduction of centralized sales teams focused on aggressive sales, targeted at different segments of the market in terms of Consumer Assets, Liabilities and SME customers.”

Deposits and Advances

Customer deposits have increased by an impressive 59 % from Rs. 6.6 bn at the end of 2003 to Rs. 10.4 bn at the end of 2004 reflecting the accomplishments of our sales teams, the refocus of the branch network and the enhanced image in the market.

Total loans and advances have grown from Rs. 8.36 bn as at the end of 2003 to Rs. 11.69 bn as at the end of the year under review, an increase of approximately 40%. Nearly 23% of this growth is attributable to the increase in consumer asset sales and illustrates the success of the Retail Banking initiatives started last year.

Risk Management

We have continued with our policy of prudent risk management and have succeeded in maintaining the quality of the Advances portfolio. Our Gross Non-Performing Loan ratio of 5.4% is very healthy and may be categorized as one of the lowest in the Sri Lankan commercial banking sector.

Our provisioning policy continues to be more stringent than the guidelines issued by the Central Bank of Sri Lanka. We commence providing for overdue advances after 3 months versus the 6 months requirement by Central Bank. We have also continued with our policy of making general provisions of 1% on outstanding advances, including the leasing and the cards portfolio, in addition to specific provisions as required.

During the year, market risk exposures relating to foreign exchange, interest rates and liquidity were effectively managed through the ALCO process. The Bank was able to position itself on many occasions and take advantage of market rate movements whilst aggressively working towards improving liquidity. This is reflected by the significantly improved loan/deposit ratio of 92% and Central Bank liquidity ratio of 30.4% as at the end of the year.

Retail Banking

As stated in last year's report, the bank formulated and implemented a



“As stated in last year's report the bank formulated and implemented a strategy designed to exploit the gap that exists in the retail banking market, which will favourably differentiate us from other Banks.”

strategy designed to exploit the gap that exists in the retail banking market, which will favourably differentiate us from other Banks.

In line with the new strategy, the Retail Banking operating model was changed with the introduction of centralized sales teams focused on aggressive sales, targeted at different segments of the market in terms of Consumer Assets, Liabilities and SME customers.

Common sales processes have been established at all branches to monitor and retain customers, cross sell products and identify specified target markets, within their locality. Several branch wide and localized promotions were held during the year for lead generation and active cross selling opportunities. Special initiatives were introduced to increase fee generation through a focused approach to customer and product profitability.

The Inner Circle product, which comprises a membership to a special

Chief Executive's Report contd.

banking package, designed for the professional and high net-worth individuals, was launched in February. A special promotion was held in Kandy in October and the first Inner Circle Center was opened at Odel in December 2004. Growth has been pleasing.

An SME division was established to ensure that the bank meets the needs of those customers who fall into this category. This division provides cash management products and services to the SME sector. Product sales and relationship management is carried out by a centralized SME sales team working closely with the branch network.

In order to improve customer service we have introduced a customer complaints log and recovery mechanism through the establishment of an Internal Issue Management System accessible to all employees. A Mystery Customer program was also introduced to monitor customer service. We have steadily seen an improvement in the quality of service though it will continue to receive our close attention, being one of our major differentiators in the market.

Complementary to the improvement in service quality and the sales focus, we have also adopted a process of centralization of "back office" type functions, in order that we free up front line staff to concentrate on their core functions of Sales and Service. This has greatly enhanced branch efficiency while enabling us to bring about economies of scale to a number of operational activities in the organization.

Delivery Channels

In keeping with our strategy, the branch operating model has changed with an increased focus on the sales and service of retail products. We continued to open branches in strategic locations. Our branch network grew from twenty four to thirty during the year with the opening of branches in Kiribathgoda, Panadura, Gampaha, Kotahena, and Negombo and the opening of an Inner Circle Center at ODEL. In addition the mini branch at Mount Lavinia was relocated with the new Keells Super outlet.

In order to align the design with the new Business Strategy and

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Our partnership with Lanka Indian Oil Company (LANKA IOC) for installing ATMs at their multi service stations has continued. Four off-site ATMs were opened during the year at the LANKA IOC multi- service centers in Maradana Dematagoda, Narahenpita, and Bambalapitya. Our ATM network now stands at thirty. Further expansion is planned in 2005.

standardize the look and feel of all branches, layout changes have been carried out in all main and some mini branches. This included the introduction of a special counter for the Inner Circle brand.

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Corporate Banking

Based on our conservative risk appetite, last year, the objective was to improve the quality of our portfolio, whilst targeting moderate growth. Accordingly the portfolio was split into distinct segments comprising 'Corporate & Retail' and 'Wholesale' customers. Identified customers



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and sectors were part of a “derisking” initiative, which was undertaken to exit from potential future risks. Other customers were identified where the Bank could with some degree of confidence extend further facilities. This enabled the Bank to focus on customer requirements with greater clarity and add value by combining competitively priced working capital and trade finance products that were delivered through superior relationship management. Risk weighted returns have been key in determining the composition and pricing of the portfolios.

Leasing

The acquisition of Mercantile Leasing Ltd. (MLL) by the John Keells Group provided the Bank with an opportunity to further diversify its range of products, and offer leasing to its clients. An innovative structure was set up wherein the processing activity associated with the leases was outsourced to MLL whilst the Bank retained ownership of the leased assets. We believe that our target client segments both on the Retail and Corporate fronts will have significant appetite for this product.

Treasury

The establishment of a ‘Corporate Desk’ enabled many of our Corporate and Institutional customers to gain valuable market insights and take timely advantage of movements relating to foreign exchange and interest rates. A seminar on ‘Challenges of Corporate Treasury Management’ was conducted in November. In the second half of this seminar, we were honoured that the Hon Minister of Finance took time off from his busy schedule to address the gathering of CEOs and Financial Controllers of our customers, on the implications of the 2005 Budget. We took the opportunity on this occasion to distribute a booklet titled ‘Treasury Products Made Simple’ published by the Bank. This is part of our effort at de-mystifying complicated Treasury products by presenting them in simple language.

American Express Credit Cards

The American Express card business grew much better than expected in 2004. The market positioning of the card together with the value proposition associated with the card, in terms of features/benefits and the service levels, all contributed to the great success that the Cards

Business is today. It is now positioned as a strategic business of the Bank. It not only complements the Retail Banking initiatives but also reached a critical mass, to enable the business to be a significant contributor to our profits in the coming years.

During the year, we introduced the American Express Blue card to supplement the other American Express card products and also launched the American Express Membership Rewards redemption programme to enable cardholders to redeem points earned on their spend.

The strategic decision taken to launch American Express cards as a franchisee has been more than vindicated and the Cards team is to be congratulated on their sterling performance during the year.

Multilateral Financing

ADB USD 5million Trade Finance Facilitation Facility

- In September, the Asian Development Bank (ADB) granted a Trade Finance Facilitation Facility for USD 5 mn. Nations Trust was the first Sri Lankan bank to be granted such accommodation. This facility is part of ADB’s Trade Finance Facilitation initiative across Asia, to promote trade and to enable Asian banks to fund global trade business in partnership with major banks across the globe.
- The facility comprises both a funding line and a standby guarantee line to enable easy confirmation of letters of credit from their correspondents across the world. The ADB has an agreement with over fifty banks to accept their standby guarantees and more banks will be added to the list on a need to basis.
- This facility will allow us to further strengthen our ability to satisfy the needs of our customers and to expand our Trade Financing activities.

Subordinated Debt from FMO

- Nations Trust Bank obtained a Euro 5 mn equivalent Sri Lankan Rupee denominated, subordinated loan from Nederlandse Financiering-Maatschappij voor Ontwikkelingslanden NV (FMO)

Chief Executive's Report contd.

based in The Hague, Netherlands, repayable over 10 years, with a grace period of five years.

- This loan strengthens the capital position of the Bank as the terms of the loan allow Nations Trust to include it under Tier II capital, thus boosting the Capital Adequacy ratio.
- The equivalent of Euro 2.5 mn has been disbursed already, while the second tranche of a further Euro 2.5 mn equivalent is due in the first quarter of 2005.
- This is the first time that a Sri Lankan commercial bank has obtained a subordinated loan from a foreign development organization without a government guarantee.
- This loan is denominated in Sri Lankan Rupees and hence there is no exchange risk for the Bank. Interest and installments when they become due are payable in Sri Lankan Rupees, which will be remitted at the rate prevailing at the time of remittance.

Both these transactions auger well for your Bank and are a reflection of the positioning of Nations Trust in terms of its risk profile and the favourable view taken by overseas agencies of the current performance and the future potential.

Rating by Fitch

Fitch Ratings Lanka an internationally recognized rating agency, has reaffirmed its rating of SL A- for Nations Trust Bank. SL A- denotes high credit quality. You will be pleased to note that this rating is the same as that of two much larger publicly quoted local Banks.

Our Human Capital

The year under review saw a number of HR initiatives being introduced with a view to attracting, developing and motivating employees while rewarding success and rejecting mediocrity. Some of the key initiatives implemented were the introduction of a revised recruitment process using competency testing models, psychometric and competency testing

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for promotions and talent management, 360 degree feed back for Corporate Management and a robust performance management system. A compensation policy based on job evaluation and market data was formulated. Employee relations and communication were improved via Joint Consultative Meetings, regular formal and informal briefings, and constant use of the Intranet. An Employee Attitude Survey was also carried out. Significant progress was made in the training and development of staff with particular emphasis on sales and service. We also made a sizeable investment in the installation of a Human Resource Management System.

All these initiatives highlight the importance laid on developing our human resource potential, which is a pre requisite for continued growth and good performance.

Information Technology

Information Technology capabilities of Nations Trust Bank underwent a major transformation during the year 2004. In order to provide our customers with enhanced and value added services the Bank strategically invested in the upgrading of all its internal and external delivery applications. The Bank upgraded its core banking system, retail internet banking, telephone banking, and ATM applications. In addition, corporate internet and SMS banking applications were also implemented. These initiatives will enable your Bank to match if not better the technological capabilities relative to the competition. Internal processing capabilities were also streamlined and enhanced with the development of robust software through the Bank's internal application development unit. Considering the state of the art application platform now established, the Bank is well poised to offer exceptional customer service and innovative products to the market in the year 2005.

Future

The period of turmoil during early 2004 in implementing the reorganization required for the new retail focused strategy was well worth the effort in reaping the rewards of properly implementing a well thought out strategy. This has resulted in a much enhanced brand image; greater focus on business unit objectives and a much more

“We are confident that with a relatively clean loan portfolio, a winning strategy and enthusiastic staff who believe that they can scale great heights we will greatly enhance your Bank’s stability and strength and continue to deliver superior shareholder value in the years to come...”

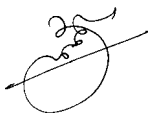
coherent understanding of what needs to be done. This has undoubtedly borne fruit, with your Bank showing increasing growth during 2004. I have no doubt that the pace would increase next year.

We are confident that with a relatively clean loan portfolio, a winning strategy and enthusiastic staff who believe that they can scale great heights, we will greatly enhance your Bank’s stability and strength and continue to deliver superior shareholder value in the years to come.

In conclusion, I would like to thank our Chairman and the Board for their support during the year. I am also grateful to the staff of the Bank in general, for their ability to adopt to change and for their commitment, hard work and sacrifices. Above all my thanks go to the Corporate Management team who took up the challenge and rallied round to make it happen.

Our gratitude also goes to the Governor, Central Bank of Sri Lanka and other senior officials for their prompt and understanding responses to our needs and their professional guidance.

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



Zulfiqar Zavahir
Chief Executive Officer

16th March, 2005



“The Bank upgraded its core banking system, retail internet banking, telephone banking, and ATM applications. In addition, corporate internet and SMS banking applications were also implemented. These initiatives will enable your Bank to match if not better the technological capabilities relative to the competition.”

Board of Directors

Vivendra Lintotawela

Chairman

Vivendra Lintotawela is the Chairman of John Keells Holdings Ltd. He has been a Director of John Keells Holdings since January 1986, becoming Deputy Chairman in January 1997 and Chairman in December 2000. In addition, he is the Chairman of 70 subsidiary companies of the John Keells Group. He counts over 25 years in the John Keells Group. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka. He is a former Chairman of the Employers' Federation of Sri Lanka and a Member of several sub-committees of the Ceylon Chamber of Commerce and Sri Lanka Institute of Directors. He is also the Honorary Consul General for Spain in Sri Lanka.

Chandra Wijenaik

Deputy Chairman

Chandra Wijenaik is the Founder Director and Chairman of Central Finance Co. Ltd. established in 1957. He was also one of the Founder Directors of the Hatton National Bank and resigned as its Deputy Chairman to set up Nations Trust Bank. He has over 50 years of management experience as a Chairman and Director of several public and private companies engaged in banking, industry, commerce, securities, property development, hotel services, etc.

Ajit Gunewardene

Director

Ajit Gunewardene is a Joint Managing Director of John Keells Holdings Ltd. and has been a member of the John Keells Holdings Ltd. Board since 1992. He oversees the Financial Services, Tea Broking and Warehousing, Information Technology and Leisure (Inbound Travel) Sectors of the Group, as well as the Human Resources and Real Estate functions at the Centre. A Director in many Group Companies, and previously Chairman of the Colombo Stock Exchange, Mr. Gunewardene brings over 20 years of management experience to the Board. He serves as the Chairman of the Board Supervisory Committee of the Bank.

Eranjith Wijenaik

Director

Eranjith Wijenaik is the Managing Director of Central Finance Co. Ltd, the largest non-banking Financial Institution in the country. He has over 20 years of management experience. He is a Director of several companies within and outside the Group. He holds a Bachelor's Degree in Commerce and a Postgraduate Diploma in Finance and Management. He serves as a member of the Board Supervisory Committee of the Bank.

Susantha Ratnayake

Director

Susantha Ratnayake is the Deputy Chairman and Joint Managing Director of John Keells Holdings Ltd. and has been a member on the John Keells Holdings Ltd. Board since 1992/1993. He oversees the Infrastructure, Logistics, Plantations and Leisure (Hotels) Sectors of the Group, as well as the Legal, Secretarial, New Business Development and Group Initiatives Functions at the Centre and John Keells, Singapore. A Director in a host of Group Companies, Mr. Ratnayake has over 26 years of management experience, all within the John Keells Holdings Group.

S Easparathan

Director

S Easparathan is a Non-Executive Director of John Keells Holdings Ltd. He served as the Senior Deputy Governor of Central Bank. He had been with the Central Bank since 1963 and has held various positions in the Bank including that of the Director of Economic Research, Advisor and Executive Director and Secretary to the Monetary Board, prior to his appointment in 1995 as Deputy Governor. He has also worked from 1975 -1980, as Director, Fiscal Policy in the Ministry of Finance. His overseas assignments include stints in the World Bank (as Senior Economist, Latin-American/ Caribbean Department) in 1984 and with the IMF (as Fiscal/Budget Advisor to the Government of the Federated States of Micronesia) in 1987/88. He has at various times served on the Boards of a number of Statutory Bodies and Corporations, including National Savings Bank, Development Finance Corporation, Securities and Exchange Commission and as Chairman of both the Credit Information Bureau and Sri Lanka Accounting and Auditing Standards Monitoring Board. He now serves as the Chairman of the Bank's Board Audit Review Committee.

Ronnie Peiris

Director

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

Charmaine Kiriella

Director

Charmaine Kiriella is the Legal Director of Central Finance Co. Ltd. and is a Director of several companies within the Central Finance Group. She has been with Central Finance Company Ltd. since 1979. She qualified as an Attorney-at-Law with a First Class in 1974 in Sri Lanka and also qualified as a Solicitor in the UK in 1978.

Sumithra Gunesekera

Director

Sumithra Gunesekera is a Director of John Keells Holdings. Appointed to the JKH Board in 1997/98, Mr. Gunesekera oversees the F & B Sector of the Group. A member of the Board of Governors of the Sri Lanka Institute of Tourism and Hotel Management. He is also a member of the Food Advisory Committee of the Health Ministry, representing the Ceylon Chamber of Commerce. Mr. Gunesekera is a Director in many John Keells Group Companies and has over 22 years of management experience.



Vivendra Lintotawela
Chairman



Chandra Wijenaik
Deputy Chairman



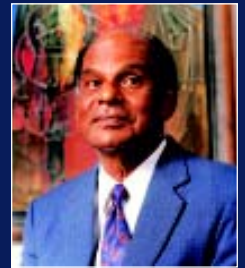
Ajit Gunewardene
Director



Eranjith Wijenaik
Director



Susantha Ratnayake
Director



S Easparathan
Director



Ronnie Peiris
Director



Charmaine Kiriella
Director



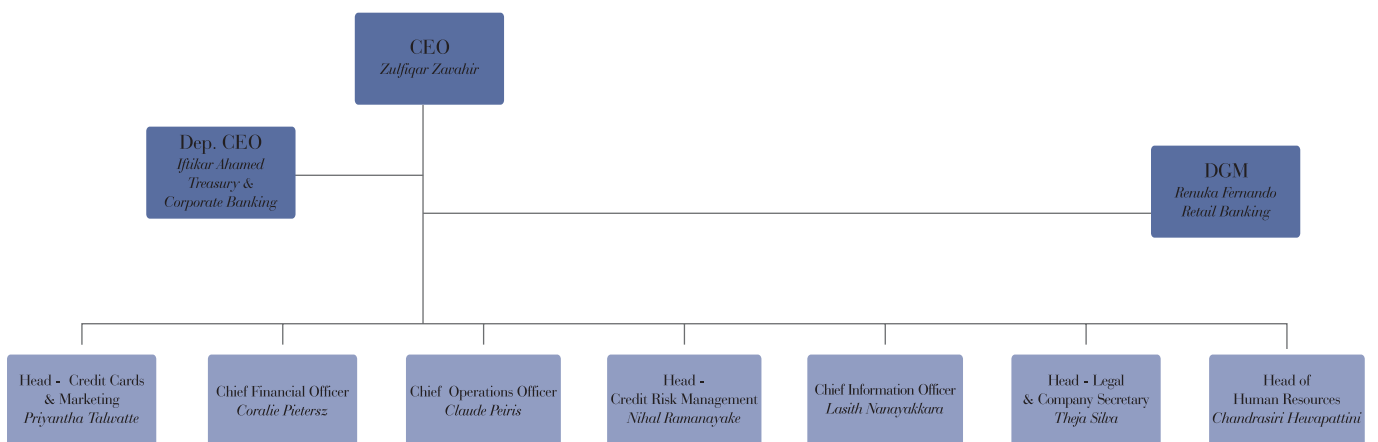
Sumithra Gunsekera
Director



Corporate Management

Opposite, L to R: Nihal Ramanayake (Head - Credit Risk Management), Iftikar Ahamed (Deputy Chief Executive Officer), Claude Peiris (Chief Operations Officer), Renuka Fernando (Deputy General Manager), Priyantha Talwatte (Head - Credit Cards & Marketing), Theja Silva (Head - Legal & Company Secretary), Chandrasiri Hewapattini (Head of Human Resources), Coralie Pietersz (Chief Financial Officer), Lasith Nanayakkara (Chief Information Officer), Zulfiqar Zavahir (Chief Executive Officer)

Organisational Structure



Senior Management



L to R: Nandana Premachandra (Senior Manager Assets Sales), Nadeesha Senaratne (Senior Manager Cards Operations), Indrajith Gunasekera (Senior Manager Business Banking - Zone 1), Rushira De Silva (Chief Manager Corporate & Retail Credit), Arthur Fernandez (Chief Manager Internal Audit), Bandara Jayatilake (Senior Manager Business Banking - Zone 2), Dilshan Wirasekara (Senior Manager Treasury), Ramanika

Unamboowe (Chief Manager Wholesale Banking), Rohitha Ganegoda (Chief Manager Information Technology), Reynold Abeykoon (Senior Manager Trade Services), Selliah Anandarajah (Senior Manager Business Banking - Zone 3), Piyal Hewapathirana (National Sales Manager - American Express Cards), Karthigesu Balachandrarajan (Senior Manager Central Operations), Anushan Fernando (Chief Manager Delivery Channels)



Events of the Year



Lanka IOC ATM opening at Bambalapitiya



Lanka IOC ATM opening at Maradana



The Panadura Branch opening



The Kiribathgoda Branch opening



The Inner Circle Centre opening at Odel Department Store

Branch Openings

10th March	Panadura
25th March	Campaha
29th March	Kiribathgoda
14th June	Kotahena
25th October	Negombo (2nd Branch)
10th December	Colombo (Odel)

Partnerships & Launches

June	Launch of Blue Credit Card
September	ADB grants a Trade Finance Facilitation facility of US\$ 5 mn.
December	Euro 5 mn equivalent Sri Lankan Rupee denominated, subordinated loan obtained from FMO.

ATM Openings

Off site ATM's at LANKA IOC multi-service stations by special agreement with Lanka IOC

31st March	Maradana
26th April	Dematagoda
5th July	Narahenpita
16th July	Bambalapitiya

Other Events

February	Inner Circle Launch (Colombo)
March	Farewell to CEO, <i>Moksevi Prelis</i>
October	Inner Circle Launch (Kandy)
November	Customer Seminar on Treasury Management

Corporate Information

Registered Name

Nations Trust Bank Ltd.

Legal Form

A Licensed Commercial Bank established under the Banking Act No.30 of 1988. A Public Limited Liability Company incorporated in Sri Lanka, quoted on the Colombo Stock Exchange.

Registered No.

N (PBS) 805.

Date of Incorporation

January 21, 1999.

Registered Office

No. 76, York Street, Colombo 1.

Head Office

No. 242, Union Place, Colombo 2.

Telephone: 4 313131

Facsimile: 4 313132

E-mail: bank@nationstrust.com

Company Secretary

Theja Silva

Auditors

Messrs. Ernst & Young

Chartered Accountants,

No. 201, De Saram Place,

Colombo 10.

Directors

Vivendra Lintotawela (*Chairman*)

Chandra Wijenaik (*Deputy Chairman*)

Ajit Gunewardene

Eranjith Wijenaik

Charmaine Kiriella

S Easparathan

Ronnie Peiris

Sumithra Gunesekera

Susantha Ratnayake

Board Supervisory Committee

Ajit Gunewardene

Eranjith Wijenaik

By invitation

S Easparathan

Board Audit Review Committee

S Easparathan (*Chairman*)

Charmaine Kiriella

Ronnie Peiris

Secretary

A. Fernandez - *Internal Auditor*

By Invitation

Zulfiqar Zavahir

Coralie Pietersz

Ernst & Young - External Auditors

“With high volatility in commodity prices and trade flows impacting on exchange rates, and decreasing margins in a competitive domestic environment, prudent risk management takes an increasing importance in managing and growing the business.”

Risk Management

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

Credit Risk

Credit Risk is one of the major risks faced by a bank. It may be defined as a default by a counterparty and includes the inability to pay capital or interest on the due date. The rising trend of non-performing assets in the banking sector in Sri Lanka has increased emphasis on managing the quality of lending. Significant changes in both the local and global economy and the health of a particular industry impacts on credit risk. Central to the credit management process are the credit policies laid down by the Board. The Board has detailed limits for borrowers and industry segments. In addition the Bank is also required to comply with the Single Borrower Limit set by the Central Bank of Sri Lanka, under the provisions of the Banking Act, which limits a facility extended to a borrower or group of borrowers to 30% of shareholders' funds. In order to manage credit risk the Bank has developed a comprehensive credit evaluation mechanism. The Credit Committee of the Bank approves credit facilities under delegated authority and reviews and recommends, to the Board Supervisory Committee proposals, which are outside its mandate. The delegated authority for approvals of credit facilities is linked to the risk classification of clients, to ensure a comprehensive risk management of credit. Monitoring and review of portfolio performance is also undertaken periodically to ensure that early warning signals are detected and appropriate corrective action is initiated at the proper time. Monthly, the Credit Committee also reviews in detail an analysis of non-performing loans, sector exposure analysis, grade wise analysis and recommends action if any to the Board Supervisory Committee, a

sub-committee of the Board of Directors.

The Board Supervisory Committee also undertakes a monthly review of all credit facilities approved under delegated authority and other monthly reports, which are submitted to the Board.

The administration and management of credit risk is independent of the business units. The Credit Administration Unit deals with the operational issues relating to the granting of facilities, including the control of security, loading of limits to the system and the provision of reports. The Credit Risk Management Unit independently evaluates all credit proposals above a certain limit and monitors industry and sectoral exposure. All overdue advances and excesses are closely monitored by this unit, which also controls the recovery process.

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

Asset and Liability Management

The Assets and Liabilities Committee (ALCO) is chaired by the Chief Executive Officer and comprises the Heads of Business Units, CFO and Head of Credit Risk. The Board has delegated specific authority to the ALCO to review and implement prudent risk management policies in the day-to-day running of the Bank. The ALCO reports to the Board Supervisory Committee and to the Board and recommends any change of policy outside its authority for their approval. An analysis of Foreign Currency exposures, liquidity and interest rate risk profile is presented at the monthly ALCO meetings and the potential impact on the Bank, due to interest rate movements, is also reviewed. This is over and above the daily risk management reports that are reviewed by the relevant Heads of Department and other senior personnel.

“The Bank’s foreign exchange exposure is principally from Trade and remittance flows, treasury trading activities and structural foreign currency translation exposure. In order to reinforce the Bank’s risk management process, the back-office is independent of foreign currency dealing operations.”

ALCO also establishes the basis for setting of deposit and lending rates.

Market Risk

Market Risk arises from open positions in interest and currency positions. The Bank’s exposure is controlled by limits approved by the Board, the monitoring of which is carried out by the ALCO. The Treasury Division, in accordance with Board policy, centrally implements the management of market risks arising from interest and exchange rate volatility. The Bank’s foreign exchange exposure is principally from trade and remittance flows, treasury trading activities and structural foreign currency translation exposure. In order to reinforce the Bank’s risk management process, the back-office is independent of foreign currency dealing operations. Interest rate exposure arises from treasury trading activities and structural interest rate exposure from the asset/liability portfolios. The Bank responds to changing market conditions by continuously monitoring and taking action to reduce the cost of funding to maintain acceptable margins. The Treasury is responsible to ensure that exposures are within laid down parameters and ALCO reviews the positions periodically.

Liquidity Risk

The objective of liquidity management is to ensure the availability of sufficient cash flows to meet all of the Bank’s financial commitments and to facilitate the expansion of the business. Liquidity management addresses the Bank’s ability to meet mismatches arising from the maturity of its assets and liabilities, thus minimizing the risks associated with systematic changes in market liquidity. Limits for mismatches are approved by the Board and monitored by the ALCO, which reviews the gap reports, which show the mismatch between assets and liabilities. The Treasury Division is responsible for managing liquidity in accordance with Board policy. In order to mitigate liquidity risk, the Bank holds a sufficient level of highly liquid marketable assets such as Government of Sri Lanka Treasury Bills and Bonds. In terms of Central Bank requirements, Liquid Assets as defined by the regulation are maintained well above 20% right through the year. The liquidity management policy entails the identification and continuous monitoring of alternative funding sources to enable the expansion and diversification of the liability portfolio.



“The bank’s processes and procedures are under continuous review. Whenever possible, identified operational risks are insured. Regular reviews of the implementation of the Bank’s procedures and internal controls and their effectiveness are carried out by the Internal Audit Department that reports to the Board Audit Review Committee. Focus on this area will be further intensified during the coming year to prepare for measures recommended with Basle II.”

Operational Risk

Operational Risk may be defined as a loss arising from a breakdown in the bank’s systems, internal processes and procedures, human error or natural or man made disasters and is inherent in any business. Operational Risk is mitigated by the implementation of internal controls. The bank’s processes and procedures are under continuous review. Whenever possible, identified operational risks are insured. Regular reviews of the implementation of the Bank’s procedures and internal controls and their effectiveness are carried out by the Internal Audit Department that reports to the Board Audit Review Committee. Focus on this area will be further intensified during the coming year to prepare for measures recommended with Basle II.

Corporate Governance Report

The Board of Directors has placed great emphasis on enhancing stakeholder value whilst ensuring that proper internal control systems are in place to govern the day-to-day affairs of the Bank, in a manner which is ethical, and law abiding.

The Board comprises professional and experienced leaders of high repute from the corporate and finance sectors, who together contribute a wealth of practical insight and business acumen. All directors are non-executive directors and hence there is no conflict between the interest of the bank and the personal interests of the directors.

The Chairman and the Board establish the strategies and key policies of the Bank and set the goals and objectives for the Chief Executive Officer. The Board appoints the Chief Executive Officer and Corporate Management, defines their job responsibilities and plans for their succession. The Board meets regularly and in addition special meetings are also arranged as required. The Board monitors progress against plans on a monthly basis.

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

The day to day management of the Bank is carried out by the Corporate Management headed by the Chief Executive Officer. The Corporate Management meets weekly to monitor performance and deal with operational issues. In addition monthly meetings are held with all

management staff to review performance against the budget and the achievement of both financial and non – financial targets.

The Bank's audit functions are the responsibility of a Board Audit Review Committee reporting directly to the Board of Directors. The Committee consists of three non-executive directors with the Chief Manager Internal Audit acting as its secretary. The Chief Executive Officer and the Chief Financial Officer attend the meetings by invitation. The full report of this Committee is given on page 25 of this report.

The Board lays strong emphasis on transparency and accountability. All financial statements adhere strictly to the Sri Lanka Accounting Standards, requirements of the Colombo Stock Exchange and the Banking Act. All periodic information and returns are submitted to regulatory authorities as required. Compliance with statutory regulations is monitored regularly by the Board.

The Board has implemented systems to ensure that the policies laid down are implemented and the assets of the bank safeguarded. A management information system provides timely and reliable information. Procedures have also been implemented to ensure compliance with statutory and regulatory requirements.

Board Audit Review Committee Report

The Board Audit Review Committee independently examines and evaluates the activities of the Bank. The committee also advises all levels of management and the Board on the Bank's system of internal controls and the management of risk.

The committee is appointed by the Board and comprises three non-executive directors, with the Bank's Internal Auditor as Secretary. The Chief Executive Officer, External Auditors and the Chief Financial Officer attend meetings by invitation. Minutes of the Board Audit Review Committee meetings are submitted to the Board of Directors of the Bank.

The Internal Auditor reports direct to the Chairman of the Board Audit Review Committee, thereby strengthening the independence of the Internal Auditor.

The role of the Board Audit Review Committee is to monitor implementation of policies and strategies approved by the Board of Directors, evaluate the extent to which corporate objectives are achieved and provide assurance to the Board of Directors that regulatory and statutory requirements have been adhered to and that risks are identified and managed through an adequate, effective and efficient system of internal controls and procedures.

During the year, the Committee met six times and reviewed internal audit reports on the Bank and its subsidiary Waldock Mackenzie Ltd. The Committee :

- Reviewed twenty one audit reports relating to branches and departments and six reports on special investigations.
- Paid special attention to the adequacy of procedures and effectiveness of internal controls, recommended corrective action and provided guidance to the management whenever necessary.

- Reviewed decisions taken by the Assets and Liabilities Committee of the Bank to ensure compliance with the risk management policies laid down by the Board.
- Monitored treasury activities and the customer asset portfolio to ensure that credit quality and the inherent risks were addressed with specific attention to ensure that preventive action was taken to minimise possible losses.
- Discussed issues arising from the reports with the External Auditors, who attend Board Audit Review Committee meetings by invitation . Reviewed the Management Letter sent by the auditors and management's response thereon.
- Monitored compliance with requirements laid down by the regulatory authorities.
- Ratified the quarterly financial statements prior to publication and submission to the Central Bank of Sri Lanka, Colombo Stock Exchange and shareholders.

The Board Audit Review Committee is of the view that adequate internal controls and procedures are in place in the Bank and its subsidiary to provide reasonable assurance that the assets are safeguarded and financial stability maintained.

The Board Audit Review Committee has recommended to the Board of Directors that Messrs. Ernst and Young be reappointed as auditors for the financial year ending 31st December 2005 at the next Annual General Meeting.

S Easparathan
Chairman

Board Audit Review Committee
16th March, 2005

Directors' Report

The Directors of Nations Trust Bank Ltd. have pleasure in submitting their report and the audited financial statements of the Bank and its subsidiary for the year ended 31st December 2004, which were approved by the Directors.

Review of performance for the year ended 31st December 2004

The operations of the Bank for the year ended 31st December 2004 are reviewed in the Chief Executive Officer's Report.

Principal Activities

The principal activities of the Bank and the subsidiary are commercial, investment, personal and private banking, fund and fee based activities.

Profit

Operating profit before taxation of the Group for 2004 was Rs. 114.5 mn (in 2003 : 276.6 mn). Taxation amounted to Rs. 69.1 mn (in 2003 : 24.5 mn).

Details of profit relating to the Group are given below;

	2004 <i>Rs.</i>	2003 <i>Rs.</i>
Profit after deducting all expenses, known liabilities, provisions and depreciation	114,574,021	276,562,621
Taxation	(69,107,856)	(24,544,587)
Profit after Tax	45,466,165	252,018,034
Transferred to Reserve Fund	(1,558,928)	(3,097,097)
Retained profit at the beginning of the year	286,865,953	105,445,016
Directors recommended the payment of a first and final dividend of 5%	-	(42,500,000)
Retained profit to be carried forward	330,773,190	286,865,953

Directorate

The Directors of the bank are listed on page 14 of this report.

Mr. M R Prelis retired from the Board with effect from 26th March 2004.

Messrs E H Wijenaik, S Easparathan and G S A Gunsekera retire by rotation in terms of Articles 84 and 85 of the Articles of Association of the Company and being eligible for re-election are recommended for re-election.

Directors' Shareholdings

<i>As at 31st December</i>	No. of Shares	
	2004	2003
V Lintotawela	60,521	60,521
A D Gunewardene	116,111	116,111
E H Wijenaik	11,561	11,561
C Wijenaik	1	1
C Kiriella	1	1
M R Prelis*	N/a	216,700
G S A Gunsekera	2,720	2,720
S C Ratnayake	-	-
S Easparathan	-	-
J R F Peiris	-	-

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

** retired on 26th March 2004*

Directors' Interest in Contracts

None of the Directors had a direct or indirect interest in contracts with the Bank other than those disclosed in Note 33 to the Financial Statements as set out on page 56-57.

Directors' Responsibility for Financial Reporting

Directors responsibility for financial reporting is disclosed on page 30.

Share Capital

The Bank was incorporated in 1999 with an authorized share capital of 100,000,000 ordinary shares of Rs. 10/- each. 85,000,000 shares have been issued so far. There were no changes to the issued or authorized share capital during the year.

Shareholders

The number of registered shareholders of the Bank, as at 31st December 2004 was 6,051. The distribution and analysis of shareholdings is given on page 64-65.

Share information

Information relating to earnings, net assets and market value per share is given in Highlights for the year on page 3 of this report. Information on share trading is given on page 64-65 of this report.

Financial Commitments

There were no material financial commitments outstanding as at 31st December 2004 other than those disclosed in note 30 to the Financial Statements.

Contingent Liabilities

There were no material contingent liabilities outstanding as at 31st December 2004 other than those disclosed in note 30 to the Financial Statements.

Capital Adequacy

	2004		2003	
	<i>Rs. mn</i>	%	<i>Rs. mn</i>	%
Core Capital	1,096.31	9.86	1,124.48	14.07
Capital Base	1,546.54	13.91	1,218.00	15.24
Risk Weighted Assets	11,118.57	-	7,993.51	-

The Bank's capital adequacy ratios are 9.86% for Tier 1 and 13.91% for Tier 2, which fall within the Central Bank of Sri Lanka requirement of a minimum of 5% and 10% respectively.

Statutory Payments

The directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and in relation to the employees have been made.

Going Concern

The Board of Directors is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly financial statements are prepared based on the going concern concept.

Post Balance Sheet Events

No circumstances have arisen since the Balance Sheet date which would require adjustments to/or disclosures in the financial statements, other than those disclosed in note 32 to the financial statements.

Auditors

The financial statements for the year ended 31st December 2004 have been audited by Messrs. Ernst & Young, Chartered Accountants, who offer themselves for re-appointment.

Notice of Meeting

Notice of Meeting relating to the sixth Annual General Meeting is given on page 70 of this report.

Articles of Association

The Rules of the Colombo Stock Exchange (SEC) require the Articles of Association of all listed companies to incorporate the contents of Section 5 Rule 1 (a) of the Listing Rules of the CSE. Accordingly by their letter dated 17th November 2004 CSE requested Nations Trust Bank Limited to amend the Articles of Association of the Company to incorporate Section 5 Rule 1 (a) of Listing Rules of the CSE at the next Annual General Meeting of the company. The effect of the amendment is to enhance the free transferability of shares of the company quoted on the Colombo Stock Exchange and ensure the registration of such transfers without restriction. The Board is allowed to refuse the registration of a share transfer only to the extent required for compliance with statutory requirements. The Directors recommend the amendment of the Articles

Directors' Report contd.

of Association to give effect to this requirement under the Listing Rules by adopting a Special Resolution to that effect at the Annual General Meeting scheduled for 29th April 2005. Draft of the proposed Resolution is contained in the Notice of the Sixth Annual General Meeting. Approval of the Central Bank of Sri Lanka has been sought for this amendment as is required under the Banking Act. The Resolution will be considered for adoption at the Annual General Meeting subject to such approval being received prior to the date of the meeting.

By order of the Board

Theja Silva
Company Secretary

Colombo
16th March, 2005

Financial Information

<i>Directors' Responsibility for Financial Reporting</i>	30
<i>Auditor's Report</i>	31
<i>Income Statement</i>	32
<i>Balance Sheet</i>	33
<i>Statement of Changes in Equity</i>	34
<i>Cash Flow Statement</i>	35 - 36
<i>Accounting Policies</i>	37 - 42
<i>Notes to the Financial Statements</i>	43 - 63

Directors' Responsibility for Financial Reporting

The responsibility of the Directors, in relation to the financial statements, is set out in the following statement. The responsibility of the Auditors, in relation to the financial statements, is set out in the Report of the Auditors on page 31 of the Report.

The Companies Act No. 17 of 1982, requires that the Directors prepare for each financial year and place before a general meeting, financial statements comprising an Income Statement, which presents a true and fair view of the profit or loss of the Bank and its subsidiary 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 subsidiary 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 subsidiary have adequate resources to continue in operation and have applied the going concern basis in preparing these financial statements.

The Directors are responsible for ensuring that the Bank and its subsidiary maintain sufficient accounting records to be able to disclose, with reasonable accuracy, the financial position of the Company and to be able to ensure that the financial statements of the Bank and its subsidiary 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 subsidiary 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.

Auditor's Report



■ **Chartered Accountants**
201 De Saram Place
P. O. Box 101
Colombo 10
Sri Lanka

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

AUDITOR'S REPORT TO THE MEMBERS OF NATIONS TRUST BANK LIMITED

We have audited the Balance Sheet of Nations Trust Bank Ltd. as at 31st December 2004, the Consolidated Balance Sheet of the Bank and its Subsidiary as at that date and the related statements of Income, Cash Flows and Changes in Equity for the year then ended, together with the Accounting Policies and Notes as set out on pages 32 to 63.

Respective Responsibilities of Directors and Auditors

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

Basis of Opinion

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

Opinion

In our opinion, so far as appears from our examination, the Bank has maintained proper books of account for the year ended 31st

December 2004, and to the best of our information and according to the explanations given to us, the said Balance Sheet and related statements of Income, Cash Flows and Changes in Equity and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995, and give a true and fair view of the Bank's state of affairs as at 31st December 2004 and of its profit and cash flows for the year then ended.

In our opinion, the Consolidated Balance Sheet and statements of Income, Cash Flows and Changes in Equity and the Accounting Policies and Notes thereto have been properly prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and give a true and fair view of the state of affairs as at 31st December 2004 and of its profit and cash flows for the year then ended of the Bank and its Subsidiary dealt with thereby, so far as concerns the members of the Company.

Directors' Interests in Contracts with the Bank

According to information made available to us, the Directors of the Bank were not directly or indirectly interested in contracts with the Bank during the year ended 31st December 2004 except as stated in Note 33 to these financial statements.

Colombo,
16th March, 2005

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

Income Statement

Year ended 31 December 2004	Note	Bank		Group	
		2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
GROSS INCOME	3	1,701,929,384	1,391,573,576	2,374,229,380	2,114,663,721
Interest Income	4	1,166,067,909	1,047,199,433	1,708,551,286	1,574,390,790
Interest Expense	5	(644,516,837)	(627,871,830)	(1,118,509,452)	(1,101,786,005)
NET INTEREST INCOME		521,551,072	419,327,603	590,041,834	472,604,785
Fees and Commission Income		147,960,573	116,248,518	138,732,258	116,248,518
Foreign Exchange Income		143,101,963	105,087,938	143,101,963	105,087,938
Other Operating Income	6	244,798,939	123,037,687	251,423,910	318,936,475
NET INCOME		1,057,412,547	763,701,746	1,123,299,965	1,012,877,716
Less : Operating Expenses					
Personnel Costs		262,370,517	198,558,186	264,842,308	200,889,255
Provision for Bad & Doubtful Debts & Fall in Value of Treasury Bonds		113,903,983	73,074,166	113,903,983	93,117,996
Fees and Commission Expenses		6,445,992	13,136,187	6,445,992	13,136,187
Provision for Staff Retirement Benefits		4,676,861	5,853,405	4,837,025	5,975,797
Premises, Equipment and Establishment Expenses		206,868,270	151,649,319	208,138,518	151,951,252
Other Operating Expenses	7	359,996,967	195,950,000	361,873,214	215,590,720
Goodwill Amortisation		-	13,566,947	9,000,000	22,566,947
		954,262,590	651,788,210	969,041,040	703,228,154
PROFIT FROM OPERATING ACTIVITIES	8	103,149,957	111,913,536	154,258,925	309,649,562
Value Added Tax		(31,622,217)	(25,427,003)	(39,684,904)	(33,086,941)
PROFIT BEFORE TAXATION		71,527,740	86,486,533	114,574,021	276,562,621
Taxation	9	(40,349,189)	(24,544,587)	(69,107,856)	(24,544,587)
PROFIT AFTER TAXATION		31,178,551	61,941,946	45,466,165	252,018,034
Earnings Per Share - Basic	10	0.37	0.87	0.53	3.52
Dividend Per Share - Proposed		-	0.50	-	0.50

The Accounting Policies and Notes on pages 37 through 63 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2004	Note	Bank		Group	
		2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
ASSETS					
Cash and Short Term Funds	11	1,977,008,897	1,606,032,106	1,977,020,033	1,605,784,258
Statutory Deposits with the Central Bank of Sri Lanka	12	609,036,980	347,414,873	609,036,980	347,414,873
Treasury Bills & Other Securities eligible for re-discounting with the Central Bank of Sri Lanka	13	2,205,814,311	2,802,467,402	5,770,710,817	7,489,550,549
Investments in Corporate Debt Securities	14	157,716,591	-	2,102,553,474	1,738,580,318
Investment Securities	15	629,480,000	49,905,000	629,480,000	49,905,000
Bills of Exchange	16	381,068,731	426,985,492	381,068,731	426,985,492
Loans and Advances	17	8,279,350,699	5,809,926,869	9,138,074,278	6,196,473,078
Lease Rentals Receivable Within One Year	18.1	17,573,456	-	17,573,456	-
Lease Rentals Receivable After One Year	18.2	53,045,488	-	53,045,488	-
Other Assets	19	843,691,859	422,572,296	594,298,952	519,075,209
Property, Plant & Equipment	20	380,810,036	321,828,335	381,329,587	322,637,998
Goodwill	21	-	-	67,500,000	76,500,000
Total Assets		15,534,597,048	11,787,132,373	21,721,691,796	18,772,906,775
LIABILITIES					
Deposits	22	10,448,996,540	6,570,879,272	10,441,116,821	6,570,694,782
Borrowings	23	2,173,318,549	2,801,801,453	8,117,792,000	9,582,889,681
Due to Banks		457,297,699	506,883,311	457,297,699	506,883,311
Other Liabilities	24	894,692,328	682,616,843	919,322,607	675,651,049
Deferred Liabilities	25	96,609,690	100,472,803	97,017,840	101,134,288
Subordinated Loan	26	350,525,000	-	350,525,000	-
Total Liabilities		14,421,439,806	10,662,653,682	20,383,071,967	17,437,253,111
SHAREHOLDERS' FUNDS					
Share Capital	27	850,000,000	850,000,000	850,000,000	850,000,000
Reserve Fund	28	12,846,653	11,287,725	12,846,653	11,287,725
Reserves	29	250,310,589	263,190,966	475,773,176	474,365,939
Total Shareholders' Funds		1,113,157,242	1,124,478,691	1,338,619,829	1,335,653,664
Total Liabilities and Shareholders' Funds		15,534,597,048	11,787,132,373	21,721,691,796	18,772,906,775
Commitments and Contingencies	30	4,613,189,430	3,972,127,261	4,613,189,430	3,972,127,261

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed for on behalf of the Board by;



V Lintotawela
Chairman



A D Gunewardene
Director



E H Wijenaik
Director



Theja Silva
Company Secretary

The Accounting Policies and Notes on pages 37 through 63 form an integral part of these financial statements.

Colombo
16th March, 2005

Statement of Changes in Equity

Year ended 31 December 2004

Bank	Share Capital	Reserve Fund	Share Premium	Revenue Reserve	Total
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
Balance as at 31 December 2002	500,000,000	8,190,628	39,999,986	84,346,131	632,536,745
Net Profit for the Year	-	-	-	61,941,946	61,941,946
Capital Infusion - Rights Issue	350,000,000	-	105,000,000	-	455,000,000
Dividend Paid	-	-	-	(25,000,000)	(25,000,000)
Transfers During the Year	-	3,097,097	-	(3,097,097)	-
Balance as at 31 December 2003	850,000,000	11,287,725	144,999,986	118,190,980	1,124,478,691
Net Profit for the Year	-	-	-	31,178,551	31,178,551
Dividend Paid	-	-	-	(42,500,000)	(42,500,000)
Transfers During the Year	-	1,558,928	-	(1,558,928)	-
Balance as at 31 December 2004	850,000,000	12,846,653	144,999,986	105,310,603	1,113,157,242

Group	Share Capital	Reserve Fund	Share Premium	Revenue Reserve	Total
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
Balance as at 31 December 2002	500,000,000	8,190,628	39,999,986	105,445,016	653,635,630
Net Profit for the Year	-	-	-	252,018,034	252,018,034
Capital Infusion - Rights Issue	350,000,000	-	105,000,000	-	455,000,000
Dividend Paid	-	-	-	(25,000,000)	(25,000,000)
Transfers During the Year	-	3,097,097	-	(3,097,097)	-
Balance as at 31 December 2003	850,000,000	11,287,725	144,999,986	329,365,953	1,335,653,664
Net Profit for the Year	-	-	-	45,466,165	45,466,165
Dividend Paid	-	-	-	(42,500,000)	(42,500,000)
Transfers During the Year	-	1,558,928	-	(1,558,928)	-
Balance as at 31 December 2004	850,000,000	12,846,653	144,999,986	330,773,190	1,338,619,829

The Accounting Policies and Notes on pages 37 through 63 form an integral part of these financial statements.

Colombo

16th March, 2005

Cash Flow Statement

Year ended 31 December 2004	Bank		Group	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
Cash Flow from Operating Activities				
Interest Received	1,166,067,909	1,047,199,433	1,817,985,782	1,574,390,790
Fees and Commission Received	147,960,573	128,548,772	147,960,573	128,548,772
Interest Paid	(644,516,837)	(627,871,830)	(1,227,943,947)	(1,101,786,005)
Foreign Exchange Income Received	143,101,963	105,087,938	143,101,963	105,087,938
Receipts from Other Operating Activities	244,798,939	110,737,433	251,710,432	306,636,221
Payments to Employees and Suppliers	(735,039,059)	(507,795,681)	(750,367,374)	(537,420,541)
Operating Profit before Changes in Operating Assets and Liabilities	322,373,488	255,906,065	382,447,429	475,457,175
(Increase)/Decrease in Operating Assets				
Placements with Local Banks	-	53,245,236	-	53,245,236
Treasury Bills & Bond Investments	609,007,341	(385,762,268)	1,487,609,177	(1,418,047,367)
Corporate Debt Securities	(157,716,591)	-	(363,973,156)	-
Bills of Exchange	45,916,761	(41,380,250)	45,916,761	(41,380,250)
Loans & Advances	(2,623,813,279)	(1,475,441,991)	(2,558,599,645)	(1,641,536,026)
Other Assets	(491,444,785)	(237,165,720)	(918,765,951)	(339,347,772)
	<u>(2,618,050,553)</u>	<u>(2,086,504,993)</u>	<u>(2,307,812,814)</u>	<u>(3,387,066,179)</u>
Increase/(Decrease) in Operating Liabilities				
Due to Banks	(49,585,611)	79,964,316	(49,585,611)	79,964,316
Customer Deposits	3,878,117,268	1,528,300,739	3,920,869,646	1,528,116,249
Securities sold under Repurchase Agreements	81,076,837	25,878,541	(562,585,231)	1,200,403,164
Other Liabilities	140,104,080	234,567,043	370,975,515	230,245,670
	<u>4,049,712,574</u>	<u>1,868,710,639</u>	<u>3,679,674,319</u>	<u>3,038,729,399</u>
Net Cash Flow from Operating Activities	1,754,035,509	38,111,711	1,754,308,934	127,120,395
Cash Flows from Investing Activities				
Investment in Subsidiary - Unquoted Debenture	-	90,000,000	-	-
(Payments) / Receipts of Investments in Securities	(579,575,000)	193,425,000	(579,575,000)	193,425,000
Net Cash Received/(Paid) on Acquisitions of other Banks Operations	-	(11,376,869)	-	(11,376,869)
Purchase of Property Plant & Equipment	(140,326,870)	(95,794,709)	(140,341,311)	(95,810,465)
	<u>(719,901,870)</u>	<u>176,253,422</u>	<u>(719,916,311)</u>	<u>86,237,666</u>

Cash Flow Statement contd.

Year ended 31 December 2004	Bank		Group	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
Cash Flows from Financing Activities				
Issuance of Ordinary Share Capital - Rights Issue	-	455,000,000	-	455,000,000
Subordinated Loan	350,525,000	-	350,525,000	-
Increase / (Decrease) in Refinance Activities	202,772,483	(5,858,389)	(6,527,517)	(5,858,389)
Increase / (Decrease) in Call Borrowings	(912,332,224)	(52,400,626)	(703,032,225)	(52,400,626)
Dividend Paid	(42,500,000)	(25,000,000)	(42,500,000)	(25,000,000)
	<u>(401,534,741)</u>	<u>371,740,985</u>	<u>(401,534,742)</u>	<u>371,740,985</u>
Net Increase/(Decrease) in Cash & Cash Equivalents	632,598,898	586,106,118	632,857,881	585,099,046
Cash and Cash Equivalents at the beginning of the year	1,953,446,979	1,367,340,861	1,953,199,132	1,368,100,085
Cash and Cash Equivalents at the end of the year	<u>2,586,045,877</u>	<u>1,953,446,979</u>	<u>2,586,057,013</u>	<u>1,953,199,131</u>
Reconciliation of Cash & Cash Equivalents				
Cash in Hand & Balances with Banks	860,059,335	779,649,778	860,070,471	779,401,930
Balances with the Central Bank of Sri Lanka	609,036,980	347,414,873	609,036,980	347,414,873
Money at Call & Short Notice	1,116,949,562	826,382,328	1,116,949,562	826,382,328
	<u>2,586,045,877</u>	<u>1,953,446,979</u>	<u>2,586,057,013</u>	<u>1,953,199,131</u>
A. Reconciliation of Operating Profit				
Profit Before Taxation	103,149,957	86,486,533	154,258,925	276,562,621
Provision for Bad & Doubtful Debts & Fall in				
Value of Treasury Bonds	113,903,983	73,074,166	113,903,983	93,117,996
Provision for Staff Retirement Benefit	4,676,861	5,853,405	4,837,025	5,975,797
Depreciation and other non cash charges	100,725,169	77,079,540	100,943,478	77,388,340
Goodwill Amortisation	-	13,566,947	9,000,000	22,566,947
Gratuity Payment	(82,482)	(154,526)	(495,982)	(154,526)
	<u>322,373,488</u>	<u>255,906,065</u>	<u>382,447,429</u>	<u>475,457,175</u>

The Accounting Policies and Notes on pages 37 through 63 form an integral part of these financial statements.

Accounting Policies

1. CORPORATE INFORMATION

1.1 General

Nations Trust Bank Ltd. is a licensed commercial bank established under the Banking Act No. 30 of 1988. It is a public limited liability company, listed on the Colombo Stock Exchange, incorporated and domiciled in Sri Lanka. The registered office of the Bank is located at No. 76, York Street, Colombo 01.

The consolidated financial statements of the Company for the year ended 31st December 2004 comprise of the Bank and its Subsidiary Waldock Mackenzie Ltd. (referred to as the Group.)

1.2 Principal Activities and Nature of Operations

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

The principal activities of the Subsidiary, Waldock Mackenzie Ltd., were carrying out money market operations, fund and fee based activities.

1.3 Date of Authorisation for Issue

The financial statements of Nations Trust Bank Ltd., for the year ended 31st December 2004 were authorised for issue in accordance with the resolution of the Board of Directors on 16th March 2005.

1.4 Number of Employees

The number of employees of the Group at the end of the year was 479. (Group : 2003- 405)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 General Policies

2.1.1 Basis of Preparation

The Balance Sheet, Statements of Income, Changes in Equity and Cash Flow, together with the Accounting Policies and Notes, ("Financial Statements") of the Bank as at 31st December 2004 and for the year then ended, comply with the Sri Lanka Accounting Standards.

These financial statements, presented in Sri Lanka Rupees, have been prepared on a historical cost basis except for the valuation of Treasury Bonds held for trading as explained in Accounting Policy No. 2.2.1 to these financial statements.

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

2.1.2 Comparative Information

The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year.

Wherever necessary amounts shown for the previous year have been reclassified to facilitate comparison.

2.1.3 Foreign Currency Translation

All foreign exchange transactions are converted to Sri Lanka Rupees, which is the reporting currency, 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 Lanka Rupee equivalents using year-end middle foreign exchange rates. Non- monetary assets and liabilities are translated to Sri Lanka Rupees using exchange rates that existed when the values were determined. The resulting gains and losses are accounted for in the income statement.

2.1.4 Basis of Consolidation

- (a) The consolidated financial statements include the results, assets and liabilities of the Bank and its Subsidiary, Waldock Mackenzie Ltd. The results of the Subsidiary are included from the date on which the Bank effectively acquired control of its Subsidiary. The profits and losses of the Bank and its Subsidiary are shown in the consolidated income statement. All assets and liabilities of the Bank and its Subsidiary are shown in the consolidated balance sheet.
- (b) The consolidated financial statements are prepared to a common financial year ending December 31.

Accounting Policies contd.

- (c) All significant inter-company balances and transactions and any unrealised gains arising from inter-company transactions and balances have been eliminated in preparing the consolidated financial statements.
- (d) Goodwill comprises of the excess of the cost of acquisition over the fair value of the net identifiable assets acquired. Goodwill arising on acquisition is recognised in the consolidated financial statements and amortised on a straight-line basis over a period of 10 years from the date of initial recognition. Goodwill is stated at cost less accumulated amortisation.

2.1.5 Taxation

(a) Income Tax

Provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 38 of 2000 and the amendments thereto.

Nations Trust Bank Ltd.

Income tax on profit from the Domestic Banking Unit and the Foreign Currency Banking Unit (on shore) is calculated at the rate of 30%.

Subsidiary; Waldock Mackenzie Ltd.

Income tax on profit from operations is calculated at the rate of 32.5%.

(b) Value Added Tax

Nations Trust Bank Ltd.

During the year 2004, the Bank's total value addition was subjected to a 15% Value Added Tax as per Section 25 A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

Subsidiary; Waldock Mackenzie Ltd.

During the year 2004, the Company's total value addition was subjected to a 15% Value Added Tax as per Section 25 A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

(c) Economic Service Charge

Nations Trust Bank Ltd.

As per the provisions of the Finance Act No. 11 of 2004, a new levy namely Economic Service Charge (ESC) was introduced with effect from 01 April 2004. ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the Bank's income tax liability. Any unclaimed liability can be carried forward and set off against the income tax payable for a further two years.

Subsidiary; Waldock Mackenzie Ltd.

As per the provisions of the Finance Act No. 11 of 2004, a new levy namely Economic Service Charge (ESC) was introduced with effect from 01 April 2004. ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the Company's income tax liability. Any unclaimed liability can be carried forward and set off against the income tax payable for a further two years.

2.1.6 Deferred Taxation

Deferred taxation is provided on the liability method. The tax effect of all timing differences which occur where items are allowed for income tax purposes in a period different from that when they are recognised in the financial statements is included in the provision for deferred taxation at current rates of taxation.

2.1.7 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.

2.1.8 Hedging

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

2.2 Valuation of Assets and their Measurement Bases

2.2.1 Investments

a) Treasury Bonds

Long-term investments in Treasury Bonds

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

Treasury Bonds held for Trading

Treasury Bonds held for trading are recorded at cost plus or minus a proportion of the discount or premium as the case may be on a straight line basis over the period of maturity or the market value whichever is lower on an individual portfolio basis with any resultant gain or loss recognized in the income statement. During the year, the Group has sold its Treasury Bonds portfolio held for trading purposes.

b) Investment in Treasury Bills and Other Securities

Securities, including Treasury Bills and other discountable securities are reflected at the purchased value by adjusting for discounts arising on acquisition. All other interest bearing securities and investments in unquoted shares are stated at cost.

c) Investment in Subsidiary

Investment in Subsidiary is stated at cost in the Bank's financial statements in accordance with the Sri Lanka Accounting Standard No. 26 on Consolidated Financial Statements and Accounting for Investment in Subsidiaries.

2.2.2 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, in accordance with the applicable accounting standard and the requirement as laid down by the Central Bank of Sri Lanka.

The Bank has adopted the guidelines issued by the Bank of International Settlement (BIS) in their consultative paper on sound practices for loan accounting and credit risk disclosure and related matters. These requirements are more stringent than those prescribed by the Central Bank of Sri Lanka and as required by Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks. Such provisions have been made as follows:

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

c) A 1% general provision is maintained, in addition to the specific provisions, to cover potential bad debts which are inherent in the loan portfolio but not yet identified. The provision is estimated after deducting cash back facilities.

2.2.3 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. In addition, a general provision for possible losses on lease receivables is made at 1% of the total capital outstanding.

2.2.4 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.

Accounting Policies contd.

2.2.5 Repurchase and Reverse – Repurchase Agreements

- a) Securities purchased under agreements for resale are classified under reverse repurchase agreement and accounted for as assets and are classified under assets.
- b) Securities sold under agreements to repurchase are classified under repurchase agreement and accounted for as liabilities and are classified under liabilities.

2.2.6 Tangible & Intangible Assets

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

Property, Plant & Equipment

- a) Cost
Property, Plant and Equipment are recorded at cost of purchase or construction together with any incidental expenses thereon. The assets are stated at cost less accumulated depreciation which is provided for, on the bases specified in (c) below.
- b) Restoration Cost
Expenditure incurred on repairs or maintenance of Property, Plant and Equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance, is recognised as an expense when incurred.
- c) Depreciation
The provision for depreciation is calculated by using a straight line method on the cost of all Property, Plant & Equipment other than Freehold Land in order to write-off such amounts over the following estimated useful lives in equal installments as follows:

Nations Trust Bank Ltd.

Buildings	over 20 years
Motor Vehicles	over 04 years
Vault / Safes	over 20 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

Subsidiary; Waldock Mackenzie Ltd.

Motor Vehicles	over 05 years
Office Equipment	over 06 years
Computer Equipment	over 05 years
Furniture & Fittings	over 08 years

Full provision is made in the year of sale and none in the year of purchase.

2.2.7 License Fee - Credit Card

Trade-mark Licence Rights are amortised over the period the legal right of use persists.

2.2.8 Goodwill on Acquisitions

Goodwill on acquisition, i.e. purchased goodwill represents the difference between the purchase price and the value of the net assets acquired at the date of acquisition. Goodwill is stated at cost less accumulated amortisation. The remaining goodwill has been fully absorbed during the last financial year. (Refer Note 21)

2.3 *Liabilities and Provisions*

2.3.1 Provisions for Liabilities

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and 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.

2.3.2 Proposed Dividend

First & final dividend proposed by the Board of Directors, after the balance sheet date is not recognised as a liability and the amount of dividend is included in the profit for the year attributable to shareholders.

2.3.3 Commitments and Contingencies

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

2.3.4 Retirement Benefit Obligations

a) Defined Benefit Plan – Gratuity

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

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

b) Defined Contribution Plans – Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with respective statutes and regulations. The Bank and its Subsidiary contribute the defined percentages of gross emoluments of employees to an approved private Provident Fund managed by Nations Trust Bank Ltd., and to the Employees' Trust Fund respectively.

2.4 Income Statement

2.4.1 Revenue Recognition

a) Interest Income from Customer Advances

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks and the guidelines issued by the Central Bank of Sri Lanka, interest receivable is recognised on an accrual basis. Interest ceases to be taken into revenue when the recovery of interest or principal is in arrears for over three (3) months and interest accrued until such advances being classified as non-performing are also eliminated from interest income and transferred to interest in suspense. The interest income on non-performing advances is recognised on a cash basis.

b) Income from Bills of Exchange

Income on discounting of Bills of Exchange is recognised proportionately over the period of the instrument.

c) Income from Government and Other Discounted Securities

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

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

d) Fees and Commission Income

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

e) Profit or Loss on Sale of Securities.

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

Accounting Policies contd.

f) Lease Income

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

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of a lease. The unearned lease income is taken into income over the term of the lease, commencing with the month in which the lease is executed in proportion to the declining receivable balance.

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

2.4.2 Expenses

Interest payable is recognised on an accrual basis. All other expenses have been recognised in the financial statements as they are incurred in the period to which they relate. All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the Bank's and its Subsidiary's profit for the year.

2.5 Cash Flow Statement

The Cash Flow Statement has been prepared by using "The Direct Method" whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognised. Cash and cash equivalents comprise mainly of cash balances, call placements and balances with the Central Bank of Sri Lanka.

2.6 Segment Information

(a) Segment Reporting

Segment information is presented in respect of the Bank and the Group's business. The Bank's segments comprises the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU). The Group's segments comprises DBU, FCBU and Investment Banking, where Investment Banking includes the entire operations of Waldock Mackenzie Ltd.

(b) Segment Accounting Policies

The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the financial statements for the Group. All values reported in Segment Information are in Rupees thousands (Rs.'000s).

(c) Inter-Segment Pricing

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

2.7 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these financial statements.

Notes to the Financial Statements

Year ended 31 December 2004	Bank		Group	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
3. GROSS INCOME				
Interest Income	1,166,067,909	1,047,199,433	1,841,057,489	1,574,390,790
Fees and Commission Income	147,960,573	116,248,518	138,732,258	116,248,518
Foreign Exchange Income	143,101,963	105,087,938	143,101,963	105,087,938
Other Operating Income	244,798,939	123,037,687	251,337,670	318,936,475
	<u>1,701,929,384</u>	<u>1,391,573,576</u>	<u>2,374,229,380</u>	<u>2,114,663,721</u>
4. INTEREST INCOME				
Customer Advances	897,145,805	701,170,720	882,788,609	701,170,720
Treasury Bills & Bonds	238,147,774	244,931,642	576,292,783	655,135,471
Deposits with Other Banks	19,338,213	11,686,274	19,338,213	11,686,274
Corporate Debt Securities	3,278,116	82,086,916	178,767,969	172,971,706
Other Interest Income	8,158,001	7,323,881	12,203,418	9,117,420
Margin Trading Interest Income	-	-	39,160,294	24,309,199
	<u>1,166,067,909</u>	<u>1,047,199,433</u>	<u>1,708,551,286</u>	<u>1,574,390,790</u>
5. INTEREST EXPENSE				
Customer Deposits	366,560,193	283,973,669	366,560,193	283,973,669
Borrowings	67,338,762	79,564,753	67,338,762	79,564,753
Treasury Bills, Bonds & Corporate Papers Repurchased	210,617,882	264,333,408	684,610,497	738,247,583
	<u>644,516,837</u>	<u>627,871,830</u>	<u>1,118,509,452</u>	<u>1,101,786,005</u>
6. OTHER OPERATING INCOME				
Profit on Sale of Government Securities	-	40,060,913	-	235,147,612
Merchant Commission & Other Fees	175,689,832	37,878,333	175,689,832	37,878,333
Others	69,109,107	45,098,441	75,734,078	45,910,530
	<u>244,798,939</u>	<u>123,037,687</u>	<u>251,423,910</u>	<u>318,936,475</u>
7. OTHER OPERATING EXPENSES				
Business Promotion & Advertising	52,089,679	40,342,398	52,089,679	40,342,398
Computer & Equipment Maintenance	33,446,370	30,862,766	33,538,370	30,862,766
Travelling & Transportation	37,136,867	26,167,557	37,215,952	26,542,734
Card Centre Expenses	105,965,249	27,245,505	105,965,249	27,245,505
Others	131,358,802	71,331,774	133,063,964	90,597,317
	<u>359,996,967</u>	<u>195,950,000</u>	<u>361,873,214</u>	<u>215,590,720</u>

Notes to the Financial Statements contd.

Year ended 31 December 2004	Bank		Group	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
8. PROFIT FROM OPERATING ACTIVITIES				
Stated after Charging the following among others				
Directors' Emoluments	1,810,875	6,452,500	1,810,875	6,452,500
Audit Fees	1,200,000	1,050,000	1,650,000	1,450,000
Defined Contribution Plan Cost - EPF & ETF	23,509,099	16,435,198	23,797,789	16,697,505
Depreciation	81,345,169	70,738,194	81,649,721	71,046,997
Legal Expenses	810,430	240,000	810,430	240,000
Provision for Bad & Doubtful Debts	113,903,983	53,279,466	113,903,983	53,279,466
Donations	1,203,500	39,000	1,203,500	39,000
9. TAXATION				
Current Income Tax				
Current Tax Expenses on Ordinary Activities for the Year (9.1)	38,455,568	-	50,664,165	-
Increase in Current Tax Expenses on Ordinary Activities for the year due to retrospective effect of change in tax legislation	-	-	5,932,242	-
Under Provision of current taxes in respect of prior years due to change in tax legislation	10,351,112	-	20,968,940	-
Deferred Taxation Charge/(Reversal)	(8,457,491)	24,544,587	(8,457,491)	24,544,587
	<u>40,349,189</u>	<u>24,544,587</u>	<u>69,107,856</u>	<u>24,544,587</u>
9.1 Reconciliation between Current Tax Expense and the product of Accounting Profit				
Accounting Profit (Profit before Taxation)	71,527,740	86,486,533		
Add: Disallowable Expenses	153,774,482	156,942,283		
	<u>225,302,222</u>	<u>243,428,816</u>		
Less: Allowable Expenses	89,559,047	267,032,031		
Less: Exempt Interest Income and Profit	7,557,947	53,543,284		
Statutory Income / (Loss)	<u>128,185,228</u>	<u>(77,146,499)</u>		
Less: Tax Losses Brought Forward and Utilised	-	(25,474,376)		
Taxable Income / (Loss)	<u>128,185,228</u>	<u>(102,620,875)</u>		
Current Income Tax Expense	38,455,568	-		
Deferred Tax Charge/(Reversal)	(8,457,491)	24,544,587		
	<u>29,998,077</u>	<u>24,544,587</u>		
Effective Tax Rate	41.94%	28.38%		
The Group tax expense is based on the taxable profit of each Group Company, since at present the tax laws do not provide for Group taxation.				

10. EARNINGS PER SHARE

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

<i>Year ended 31 December 2004</i>	Bank		Group	
	2004 <i>Rs.</i>	2003 <i>Rs.</i>	2004 <i>Rs.</i>	2003 <i>Rs.</i>
Amount Used as the Numerator:				
Net Profit Attributable to Ordinary Shareholders (Rs.)	31,178,551	61,941,946	45,466,165	252,018,034
Number of Ordinary Shares Used as the Denominator:				
Weighted Average number of Ordinary Shares in issue	85,000,000	71,571,110	85,000,000	71,571,110
Earnings per Ordinary Share (Rs.)	0.37	0.87	0.53	3.52
11. CASH AND SHORT TERM FUNDS				
Cash in Hand	265,582,904	217,132,658	265,594,040	217,132,658
Money at Call & Short Notice	1,116,949,562	826,382,328	1,116,949,562	826,382,328
Balances with Banks	594,476,431	562,517,120	594,476,431	562,269,272
	<u>1,977,008,897</u>	<u>1,606,032,106</u>	<u>1,977,020,033</u>	<u>1,605,784,258</u>

12. STATUTORY DEPOSITS WITH THE CENTRAL BANK OF SRI LANKA

A cash balance is required to be maintained with the Central Bank of Sri Lanka according to statutory reserve requirements. At present the minimum cash reserve requirement is 10% of the deposit liabilities of the Domestic Banking Unit. There is no reserve requirement for the foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

13. TREASURY BILLS & OTHER SECURITIES ELIGIBLE FOR RE-DISCOUNTING WITH THE CENTRAL BANK OF SRI LANKA

Treasury Bills	564,072,204	156,192,294	1,275,173,048	433,087,860
Treasury Bonds (13.1)	1,093,287,075	1,804,740,724	2,873,889,395	3,167,965,819
Treasury Bills under Reverse Repo's	548,455,032	841,534,384	1,621,648,374	3,888,496,870
	<u>2,205,814,311</u>	<u>2,802,467,402</u>	<u>5,770,710,817</u>	<u>7,489,550,549</u>

13.1 These investments in Treasury Bonds are held to maturity. The market value of these Treasury Bonds as at 31 December 2004 amounts to Rs. 1,058 mn (Group - Rs. 2,799 mn). Refer Accounting Policy No. 2.2.1.

14. INVESTMENTS IN CORPORATE DEBT SECURITIES

Commercial Paper	-	-	1,403,116,707	1,253,220,668
Fixed/ Floating Rate Notes	157,716,591	-	698,430,597	466,636,082
Trust Certificates	-	-	1,006,170	18,723,568
	<u>157,716,591</u>	<u>-</u>	<u>2,102,553,474</u>	<u>1,738,580,318</u>

Notes to the Financial Statements contd.

Year ended 31 December 2004	Bank		Group	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
15. INVESTMENT SECURITIES				
Unquoted-Shares				
Lanka Clear (Pvt.) Ltd.				
150,000 Ordinary Shares of Rs. 10/- each	1,500,000	1,500,000	1,500,000	1,500,000
Credit Information Bureau				
8,000 Ordinary Shares of Rs. 10/- each	80,000	80,000	80,000	80,000
Unquoted-Bonds				
Sri Lanka Development Bonds - USD (15.1)	627,900,000	48,325,000	627,900,000	48,325,000
	<u>629,480,000</u>	<u>49,905,000</u>	<u>629,480,000</u>	<u>49,905,000</u>
<i>15.1</i> The investment in Sri Lanka Development Bonds, worth USD 6 mn (2003-USD 0.5 mn) matures in the year 2006.				
<i>15.2</i> The Directors valuation of unquoted investments amounts to Rs. 629,480,000/- (2003 - Rs. 49,905,000/-).				
16. BILLS OF EXCHANGE				
Inland Bills	137,588,105	83,469,254	137,588,105	83,469,254
Export Bills	231,679,913	342,843,232	231,679,913	342,843,232
Import Bills	11,800,713	673,006	11,800,713	673,006
	<u>381,068,731</u>	<u>426,985,492</u>	<u>381,068,731</u>	<u>426,985,492</u>
17. LOANS AND ADVANCES				
<i>17.1 Loans and Advances</i>				
Overdrafts	3,181,228,693	2,423,095,095	3,181,228,693	2,423,095,095
Term Loans	2,791,107,050	1,810,085,276	2,791,107,050	1,720,085,276
Staff Loans	148,704,334	106,973,933	148,704,334	106,973,933
Import Loans	942,424,656	834,206,091	942,424,656	834,206,091
Packing Credit Loans	481,048,621	760,792,909	481,048,621	760,792,909
Credit Card Advances	1,096,054,597	175,993,656	1,096,054,597	175,993,656
Margin Trading Advances	-	-	885,057,502	503,277,705
	<u>8,640,567,951</u>	<u>6,111,146,960</u>	<u>9,525,625,453</u>	<u>6,524,424,665</u>
Less:				
Loan Loss Provision	(274,012,454)	(221,712,044)	(300,346,377)	(248,443,540)
Interest-in-Suspense	(87,204,798)	(79,508,047)	(87,204,798)	(79,508,047)
	<u>8,279,350,699</u>	<u>5,809,926,869</u>	<u>9,138,074,278</u>	<u>6,196,473,078</u>

Year ended 31 December 2004	Bank		Group	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
17.2 Non Performing Advances				
Overdrafts	201,520,618	132,680,373	201,520,618	132,680,373
Term Loans	254,869,502	177,978,087	254,869,502	177,978,087
Import Loans	94,733,701	110,545,407	94,733,701	110,545,407
Packing Credit Loans	56,683,991	28,610,550	56,683,991	28,610,550
Credit Card Advance	9,950,000	-	9,950,000	-
Margin Trading Advances	-	-	35,605,550	26,333,923
	<u>617,757,812</u>	<u>449,814,417</u>	<u>653,363,362</u>	<u>476,148,340</u>

17.3 Movements in the Provision

For Loan Losses & Suspended Interest - Bank

	Provision Against Advances				Suspended Interest Rs.
	Specific Rs.	General Rs.	General Discount Rs.	Total Rs.	
As at the beginning of the Year	128,183,911	65,587,733	27,940,400	221,712,044	79,508,047
Provision made during the Year	46,943,919	21,965,771	(21,788,759)	47,120,931	-
Translation Difference on FCBU Conversion	3,385,063	1,794,416	-	5,179,479	-
Net of Interest Suspended during the Year & Suspended Interest Recovered	-	-	-	-	7,696,751
As at the end of the Year	<u>178,512,893</u>	<u>89,347,920</u>	<u>6,151,641</u>	<u>274,012,454</u>	<u>87,204,798</u>

For Loan Losses & Suspended Interest - Group

	Provision Against Advances				Suspended Interest Rs.
	Specific Rs.	General Rs.	General Discount Rs.	Total Rs.	
As at the beginning of the Year	154,915,407	65,587,733	27,940,400	248,443,540	79,508,047
Provision made during the Year	46,546,346	21,965,771	(21,788,759)	46,723,358	-
Translation Difference on FCBU Conversion	3,385,063	1,794,416	-	5,179,479	-
Net of Interest Suspended during the Year & Suspended Interest Recovered	-	-	-	-	7,696,751
As at the end of the Year	<u>204,846,816</u>	<u>89,347,920</u>	<u>6,151,641</u>	<u>300,346,377</u>	<u>87,204,798</u>

Notes to the Financial Statements contd.

17.4 Concentration of Credit Risk

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

Bank Sector	2004		2003	
	Rs.	%	Rs.	%
Food, Beverages & Tobacco	279,729,803	3%	289,622,042	5%
Textile & Wearing Apparel	728,111,304	8%	772,818,576	13%
Rubber & Leather Products	145,028,947	2%	120,079,197	2%
Metals, Chemicals & Engineering	443,028,947	5%	382,408,405	6%
Services	957,655,097	11%	935,488,324	15%
Agro Business and Fisheries	43,588,242	1%	49,336,507	1%
Industrial	438,879,828	5%	466,769,261	8%
Housing	502,064,922	6%	329,444,484	5%
Commercial Trading	2,589,426,994	30%	1,600,201,575	26%
Consumption	2,513,053,867	29%	1,164,978,589	19%
	<u>8,640,567,951</u>	<u>100%</u>	<u>6,111,146,960</u>	<u>100%</u>

Year ended 31 December 2004	Bank		Group	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
18. LEASE RENTALS RECEIVABLE				
Cost of Leased Assets	76,374,492	-	76,374,492	-
Unearned Lease Income	23,336,504	-	23,336,504	-
Total Rentals Receivable	99,710,996	-	99,710,996	-
Initial Rentals Received (Prepaid)	(602,527)	-	(602,527)	-
Lease Rentals Received	(2,769,294)	-	(2,769,294)	-
Lease Rentals Receivable (18.1)	<u>96,339,175</u>	<u>-</u>	<u>96,339,175</u>	<u>-</u>
18.1 Lease Rentals Receivable Within One Year				
Total Lease Rentals Receivables	96,339,175	-	96,339,175	-
Lease Rentals Receivable after One Year from Balance Sheet Date (18.2)	(72,282,496)	-	(72,282,496)	-
Lease Rentals Receivable within One Year from Balance Sheet Date	24,056,679	-	24,056,679	-
Unearned Lease Income	(5,677,477)	-	(5,677,477)	-
Provision for bad & doubtful leases - Specific	(624,486)	-	(624,486)	-
- General	(181,260)	-	(181,260)	-
	<u>17,573,456</u>	<u>-</u>	<u>17,573,456</u>	<u>-</u>

Notes to the Financial Statements contd.

20.1.3 Depreciation	Balance as at 01/01/2004	Charge for the Year	Disposals During the Year	Balance as at 31/12/2004
At Cost	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
Land & Buildings	4,471,042	1,024,170	-	5,495,212
Motor Vehicles	1,848,043	1,025,001	-	2,873,044
Office & Electrical Equipment	9,300,212	5,196,939	-	14,497,151
Computer Software & Equipment	139,115,428	57,655,327	-	196,770,755
Furniture & Fittings	9,375,745	4,461,634	-	13,837,379
Leasehold Improvements	19,403,350	11,982,098	-	31,385,448
Total Depreciation	<u>183,513,820</u>	<u>81,345,169</u>	<u>-</u>	<u>264,858,989</u>
20.1.4 Net Book Value				
At Cost	<u>321,828,335</u>			<u>380,810,036</u>
20.2 Group				
20.2.1 Gross Carrying Amounts				
At Cost	Balance as at 01/01/2004	Additions During the Year	Disposals During the Year	Balance as at 31/12/2004
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
Land & Buildings	35,938,396	356,003	-	36,294,399
Motor Vehicles	4,979,544	1,000,139	-	5,979,683
Office & Electrical Equipment	30,768,653	17,271,974	-	48,040,627
Computer Software & Equipment	334,063,128	107,347,464	-	441,410,592
Furniture & Fittings	35,873,610	8,843,390	-	44,717,000
Leasehold Improvements	59,910,487	12,026,433	-	71,936,920
Total Value of Depreciable Assets	<u>501,533,818</u>	<u>146,845,403</u>	<u>-</u>	<u>648,379,221</u>
20.2.2 In the Course of Construction				
At Cost	Balance as at 01/01/2004	Incurred During the Year	Transfers During the Year	Balance as at 31/12/2004
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
Capital Work in Progress	8,067,798	-	(6,504,093)	1,563,705
Total Gross Carrying Amount	<u>509,601,616</u>	<u>146,845,403</u>	<u>(6,504,093)</u>	<u>649,942,926</u>

20.2.3 Depreciation

At Cost	Balance as at 01/01/2004 <i>Rs.</i>	Charge for the Year <i>Rs.</i>	Disposals During the Year <i>Rs.</i>	Balance as at 31/12/2004 <i>Rs.</i>
Land & Buildings	4,471,042	1,024,170	-	5,495,212
Motor Vehicles	1,904,543	1,025,002	-	2,929,545
Office & Electrical Equipment	9,712,892	5,204,907	-	14,917,799
Computer Software & Equipment	141,909,730	57,957,733	-	199,867,463
Furniture & Fittings	9,562,061	4,455,811	-	14,017,872
Leasehold Improvements	19,403,350	11,982,098	-	31,385,448
Total Depreciation	<u>186,963,618</u>	<u>81,649,721</u>	<u>-</u>	<u>268,613,339</u>
20.2.4 Net Book Value				
At Cost	<u>322,637,998</u>			<u>381,329,587</u>

<i>Year ended 31 December 2004</i>	2004 <i>Rs.</i>	Bank 2003 <i>Rs.</i>	2004 <i>Rs.</i>	Group 2003 <i>Rs.</i>
21 GOODWILL				
21.1 <i>Balance as at the beginning of the Year</i>	-	13,566,947	76,500,000	99,066,947
Amounts written off during the Year		(13,566,947)	(9,000,000)	(22,566,947)
Balance as at the end of the Year (21.2)	<u>-</u>	<u>-</u>	<u>67,500,000</u>	<u>76,500,000</u>
21.2 <i>Amounts to be absorbed</i>				
- within 12 months from the Balance Sheet date	-	-	9,000,000	9,000,000
- after 12 months from the Balance Sheet date	-	-	58,500,000	67,500,000
	<u>-</u>	<u>-</u>	<u>67,500,000</u>	<u>76,500,000</u>

During the year 2002, the Bank acquired the private banking operations of Deutsche Bank - Colombo, the entire operations of Standard Chartered Grindlays Bank - Kandy Branch and the commercial banking and foreign exchange services operations of American Express Bank - Sri Lanka Branch.

Notes to the Financial Statements contd.

Year ended 31 December 2004	Bank		Group	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
22. DEPOSITS				
<i>22.1 Analysis of Deposits</i>				
Demand Deposits	1,589,267,927	1,061,673,382	1,581,388,208	1,061,488,892
Savings Deposits	2,416,301,473	1,424,359,131	2,416,301,473	1,424,359,131
Call Deposits	1,023,764,048	451,404,222	1,023,764,048	451,404,222
Fixed Deposits	4,976,144,477	3,205,903,605	4,976,144,477	3,205,903,605
Certificate of Deposits	443,518,615	427,538,932	443,518,615	427,538,932
	<u>10,448,996,540</u>	<u>6,570,879,272</u>	<u>10,441,116,821</u>	<u>6,570,694,782</u>
<i>22.2 Sources of Deposits</i>				
Deposits from non banking customers	10,084,240,405	6,522,292,647	10,076,360,686	6,522,108,157
Deposits from other banks	207,092,000	48,501,711	207,092,000	48,501,711
Deposits from other financial institutions	157,664,135	84,914	157,664,135	84,914
	<u>10,448,996,540</u>	<u>6,570,879,272</u>	<u>10,441,116,821</u>	<u>6,570,694,782</u>
23. BORROWINGS				
<i>23.1 Borrowings</i>				
Money Market Borrowings	76,142,019	988,474,243	76,142,019	988,474,243
Borrowings under Repurchase Agreements				
- Treasury Bills, Treasury Bonds and Commercial Paper	1,850,246,405	1,769,169,568	7,349,857,779	8,156,027,816
- Commercial Papers issued by Waldox Mackenzie Ltd.	-	-	444,862,077	394,229,980
Refinance Borrowings	246,930,125	44,157,642	246,930,125	44,157,642
	<u>2,173,318,549</u>	<u>2,801,801,453</u>	<u>8,117,792,000</u>	<u>9,582,889,681</u>
<i>23.2 Borrowings - Maturity Analysis</i>				
Repayments due within one year	2,023,318,549	2,763,999,186	7,966,792,000	9,545,087,414
Repayments due between 01 to 05 years	150,000,000	25,421,500	151,000,000	25,421,500
Repayments due after 05 years	-	12,380,767	-	12,380,767
	<u>2,173,318,549</u>	<u>2,801,801,453</u>	<u>8,117,792,000</u>	<u>9,582,889,681</u>
24. OTHER LIABILITIES				
Accrued Expenditure	343,777,667	209,807,497	351,812,644	211,311,135
Margin Balances	171,609,719	120,209,874	171,609,719	120,209,874
Pay Orders	102,212,329	105,277,165	102,212,329	105,277,165
Others	277,092,613	247,322,307	293,687,915	238,852,875
	<u>894,692,328</u>	<u>682,616,843</u>	<u>919,322,607</u>	<u>675,651,049</u>

With regard to the Tsunami disaster that took place on December 26, 2004 the Management has assessed its impact on the financial position and financial performance of the Bank and has accordingly made the necessary provisions in the financial statements for the year ended 31st December 2004.

<i>Year ended 31 December 2004</i>	Bank		Group	
	2004 <i>Rs.</i>	2003 <i>Rs.</i>	2004 <i>Rs.</i>	2003 <i>Rs.</i>
25. DEFERRED LIABILITIES				
Retirement Benefits Obligation-Gratuity	22,974,000	18,379,622	23,382,150	19,041,107
Deferred Taxation (25.1)	73,635,690	82,093,181	73,635,690	82,093,181
	<u>96,609,690</u>	<u>100,472,803</u>	<u>97,017,840</u>	<u>101,134,288</u>
25.1 Deferred Taxation				
Balance as at the beginning of the Year	82,093,181	57,548,594	82,093,181	57,548,594
Charge/(Reversal) made during the Year	(8,457,491)	24,544,587	(8,457,491)	24,544,587
Balance as at the end of the Year	<u>73,635,690</u>	<u>82,093,181</u>	<u>73,635,690</u>	<u>82,093,181</u>
26. SUBORDINATED LOAN				
Balance as at the beginning of the Year	-	-	-	-
Loans Obtained during the Year	350,525,000	-	350,525,000	-
Repayments during the Year	-	-	-	-
Balance as at the end of the Year	<u>350,525,000</u>	<u>-</u>	<u>350,525,000</u>	<u>-</u>

The above represents 50% of the Sri Lanka Rupee designated subordinated housing loan credit facility obtained from Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V (FMO).

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

<i>Year ended 31 December 2004</i>	Bank		Group	
	2004 <i>Rs.</i>	2003 <i>Rs.</i>	2004 <i>Rs.</i>	2003 <i>Rs.</i>
27. SHARE CAPITAL				
Authorised				
100,000,000 Ordinary Shares of Rs. 10/- each	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>1,000,000,000</u>
Issued and Fully Paid				
As at the beginning of the Year				
Ordinary Shares of Rs. 10/- each	850,000,000	500,000,000	850,000,000	500,000,000
Issued for Cash during the Year				
Rights Issue of 7:10				
35,000,000 Ordinary Shares of Rs. 10/- each	-	350,000,000	-	350,000,000
As at the end of the Year	<u>850,000,000</u>	<u>850,000,000</u>	<u>850,000,000</u>	<u>850,000,000</u>
85,000,000 Ordinary Shares of Rs. 10/- each				

Notes to the Financial Statements contd.

<i>Year ended 31 December 2004</i>	2004 <i>Rs.</i>	Bank 2003 <i>Rs.</i>	2004 <i>Rs.</i>	Group 2003 <i>Rs.</i>
28. RESERVE FUND				
As at the beginning of the Year	11,287,725	8,190,628	11,287,725	8,190,628
Transferred during the Year	1,558,928	3,097,097	1,558,928	3,097,097
As at the end of the Year	<u>12,846,653</u>	<u>11,287,725</u>	<u>12,846,653</u>	<u>11,287,725</u>

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

29. RESERVES

29.1 Capital Reserves

Share Premium - Public Issue 19,999,993 shares @ Rs. 2/- premium	39,999,986	39,999,986	39,999,986	39,999,986
Share Premium - Rights Issue 35,000,000 shares @ Rs. 3/- premium	105,000,000	105,000,000	105,000,000	105,000,000
	<u>144,999,986</u>	<u>144,999,986</u>	<u>144,999,986</u>	<u>144,999,986</u>

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

29.2 Revenue Reserves

Retained Profit brought forward	118,190,980	84,346,131	329,365,953	105,445,016
Net movement during the Year (Refer Statement of Changes in Equity)	(12,880,377)	33,844,849	1,407,237	223,920,937
Retained Profit carried forward	<u>105,310,603</u>	<u>118,190,980</u>	<u>330,773,190</u>	<u>329,365,953</u>
Total	<u>250,310,589</u>	<u>263,190,966</u>	<u>475,773,176</u>	<u>474,365,939</u>

30. COMMITMENTS AND CONTINGENCIES

30.1 Contingencies

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

<i>Year ended 31 December 2004</i>	Bank		Group	
	2004 <i>Rs.</i>	2003 <i>Rs.</i>	2004 <i>Rs.</i>	2003 <i>Rs.</i>
Acceptances	393,852,766	387,225,414	393,852,766	387,225,414
Documentary Credits	960,174,934	725,530,743	960,174,934	725,530,743
Guarantees	1,453,431,726	1,474,217,579	1,453,431,726	1,474,217,579
Bonds and Warranties	1,112,526,294	852,021,433	1,112,526,294	852,021,433
Bills sent on collection	680,955,728	533,132,092	680,955,728	533,132,092
Forward Exchange Contracts (Net)	12,247,982	-	12,247,982	-
	4,613,189,430	3,972,127,261	4,613,189,430	3,972,127,261

30.2 During the year the Bank has entered into two interest rate SWAP agreements amounting to the notional value of Rs. 1,000 mn which mature in the year 2008 & 2009 respectively.

30.3 The Bank has entered into several currency SWAP's totalling Rs. 2,547,928,271/- as at the Balance Sheet date.

30.4 Capital Commitments

Capital expenditure approved by the Board of Directors, for which no provision has been made in these accounts as at 31 December 2004 amounted to approximately:

<i>Year ended 31 December 2004</i>	Bank		Group	
	2004 <i>Rs.</i>	2003 <i>Rs.</i>	2004 <i>Rs.</i>	2003 <i>Rs.</i>
Approved and contracted for Computer System & Credit Card Licensing	22,813,700	1,526,746	22,813,700	1,526,746
Approved and contracted for Office & Electrical Equipment	86,014	2,406,530	86,014	2,406,530
	22,899,714	3,933,276	22,899,714	3,933,276

30.5 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 US\$ 32,000/-. A connected case is pending where an amount of Indian Rupees 1,510,000/- together with interest and costs are claimed against the Bank by the same customer. Both cases are fixed for framing issues and the court will fix a date for hearing after framing issues.
- A case has been filed by an ex employee of American Express Bank against termination of employment due to the take over of AMEX operations by Nations Trust Bank Ltd. Next date of the trial is fixed for 16th June 2005.
- A case has been filed against the Bank by a customer who pledged his fixed deposit as security for a guarantee facility given to a third party. The deposit pledged had been set off by the Bank against a claim on the guarantee issued on such security. This case has been filed challenging the set off effected by the Bank.

Notes to the Financial Statements contd.

31. SEGMENTAL INFORMATION

In Rs' 000	DBU		FCBU		Bank		Investment Banking		Elimination/Allocated		Group	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Total Revenue	1,659,080	1,329,905	42,849	61,668	1,701,929	1,391,573	681,901	912,889	(9,601)	(189,798)	2,374,229	2,114,664
Segment Results												
Profit Before Taxation	43,907	63,240	27,620	23,247	71,527	86,487	51,960	199,076	(8,913)	(9,000)	114,574	276,563
Taxation	(31,131)	(15,071)	(9,218)	(9,474)	(40,349)	(24,545)	(28,759)	-	-	-	(69,108)	(24,545)
Net Profit for the Year	12,776	48,169	18,402	13,773	31,178	61,942	23,201	199,076	(8,913)	(9,000)	45,466	252,018
Segment Assets	14,235,520	11,072,044	1,299,077	715,088	15,534,597	11,787,132	7,495,857	8,846,969	(1,376,262)	(1,937,695)	21,654,192	18,696,406
Goodwill					-	-	-	-	67,500	76,500	67,500	76,500
Total Assets					15,534,597	11,787,132	7,495,857	8,846,969	(1,308,762)	(1,861,195)	21,721,692	18,772,906
Segment Liabilities	13,829,402	10,027,919	518,402	552,642	14,347,804	10,580,561	7,337,894	8,712,208	(1,376,262)	(1,937,609)	20,309,436	17,355,160
Deferred Tax Liabilities	57,663	68,351	15,973	13,742	73,636	82,093	-	-	-	-	73,636	82,093
Total Liabilities					14,421,440	10,662,654	7,337,894	8,712,208	(1,376,262)	(1,937,609)	20,383,072	17,437,253
Others												
Additions to Property,												
Plant and Equipment	146,831	95,808	-	-	146,831	95,808	14	15	-	-	146,845	95,823
Depreciation					81,345	70,738	305	309			81,650	71,047
Amortisation of Goodwill					-	13,567	-	-			-	13,567
Amortisation of Goodwill on Consolidation											9,000	9,000
Total Amortisation											9,000	22,567
Non Cash Expenses												
Provision for Bad and Doubtful Debts and Fall in Value of Treasury Bonds	113,493	59,332	411	13,742	113,904	73,074	-	20,044			113,904	93,118
Provision for Gratuity	4,677	5,853	-	-	4,677	5,853	160	122			4,837	5,975

32. POST BALANCE SHEET EVENTS

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in these financial statements.

33. DIRECTORS' INTERESTS IN CONTRACTS WITH THE BANK

V Lintotawela (Chairman), C Wijenaik (Deputy Chairman), A D Gunewardene, J R F Peiris, S C Ratnayake, E H Wijenaik, Ms. C Kiriella, S Easparathan and G S A Guneseera are Directors' of the Bank from 1st January 2004 to 31st December 2004.

M R Prelis retired from the Board with effect from 26th March 2004.

The Bank had the under mentioned financial dealings during the year with the following Directors' of the Bank.

Name of Director	Facility	Balance as at		Security	Purpose
		Limit	31.12.04		
		<i>Rs.</i>	<i>Rs.</i>		
E H Wijenaik	Installment Loan	4,413,000	3,555,362	Fixed Deposit	Housing

Accommodation granted to Directors for Credit Cards

Name of Director	Credit Card Limit	Balance as at 31.12.2004
	<i>Rs.</i>	<i>Rs.</i>
V Lintotawela	2,000,000	893,749.28
S C Ratnayake	1,500,000	200,522.48
G S A Gunsekera	1,500,000	170,971.37
A D Gunewardene	1,500,000	294,874.63
J R F Peiris	1,000,000	96,937.33

In addition to the above, all other Directors' interests in contracts are disclosed in Note 34 to these financial statements.

34. RELATED PARTY DISCLOSURES

34.1 The Bank carried out transactions in the ordinary course of its business on an arms length basis at commercial rates with Director related entities. These related parties, names of Directors and their relationships are as listed below:

34.1.1 Details of Other Transactions Carried Out during the year 2004

Name of Related Party	Name of Director	Relationship	Details
Central Finance Co. Ltd.	C Wijenaik	Chairman	A sum of Rs. 4,046,737/- was paid in respect of operating leases for cars.
	E H Wijenaik	Managing Director	
	C Kiriella	Directress	
Keells Business Systems Ltd.	V Lintotawela	Chairman	A sum of Rs. 31,423,489/- was paid for the purchase of computer equipment and other computer services.
	A D Gunewardene	Director	
	S C Ratnayake	Director	
	G S A Gunsekera	Director	
	J R F Peiris	Director	
John Keells Office Automation (Pvt.) Ltd.	V Lintotawela	Chairman	A sum of Rs. 1,925,595/- was paid for the purchase of office equipment, stationery and service maintenance of office equipment.
	A D Gunewardene	Director	
	S C Ratnayake	Director	
	G S A Gunsekera	Director	
	J R F Peiris	Director	

Notes to the Financial Statements contd.

34.1.1 Details of Other Transactions Carried Out during the year 2004 contd.

Name of Related Party	Name of Director	Relationship	Details
John Keells Holdings Ltd.	V Lintotawela	Chairman	A sum of Rs. 259,395/- was paid for training and computer software maintenance. Corporate credit cards to the limit of Rs. 5,000,000/-. As at 31.12.04 the balance outstanding on such cards amounts to Rs. 703,799/-
	A D Gunewardene	Director	
	S C Ratnayake	Director	
	S Easparathasan	Director	
	G S A Gunsekera	Director	
	J R F Peiris	Director	
Mackinnons American Express Travel (Pvt.) Ltd.	V Lintotawela	Chairman	A sum of Rs. 566,017/- was paid for air travel fares.
	S C Ratnayake	Alternate Chairman	
Keells Consultants Ltd.	V Lintotawela	Chairman	A sum of Rs. 40,300/- was paid as secretarial fees.
	J R F Peiris	Director	
D H L Keells (Pvt.) Ltd.	V Lintotawela	Chairman	A sum of Rs. 1,191,276/- was paid for courier services.
	S C Ratnayake	Director	
Mercantile Leasing Ltd.	V Lintotawela	Chairman	A sum of Rs. 59,402/- was paid as management fees on the lease portfolio.
	A D Gunewardene	Director	
	S C Ratnayake	Director	
	J R F Peiris	Director	
Odel (Pvt.) Ltd.	A D Gunewardene	Director	A sum of Rs. 270,000/- was paid as a refundable deposit for the lease of premises.

34.1.2 Details of Accommodation Granted and the Balances Outstanding as at 31 December 2004

Nations Trust Bank Ltd. (NTB)

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance Outstanding Rs.	Security
Ceylon Holiday Resorts Ltd.	V Lintotawela	Chairman	Working Capital Financing	20,000,000	18,462,523	Mortgage over inventories & book debts
	A D Gunewardene	Director				
	S C Ratnayake	Director				
John Keells Ltd.	V Lintotawela	Chairman	Working Capital Financing	60,000,000	Nil	Clean
	A D Gunewardene	Director				
	S C Ratnayake	Director				
Central Industries Ltd.	C Wijenaik	Director	Working Capital Financing	75,000,000	44,375,121	Negative pledge over assets
	E H Wijenaik	Director				

34.1.2 Details of Accomodation Granted and the Balances Outstanding as at 31 December 2004 *contd.*

Nations Trust Bank Ltd. (NTB)

Name of Related Party	Name of Director	Relationship	Accomodation Granted	Limit	Balance Outstanding	Security
				<i>Rs.</i>	<i>Rs.</i>	
Central Finance Co. Ltd.	C Wijenaikē E H Wijenaikē C Kiriella	Director Director Directress	Working Capital Financing	150,000,000	57,887,088	Mortgage over property
Central Finance Co. Ltd.	C Wijenaikē E H Wijenaikē C Kiriella	Director Director Directress	Short Term Loan	69,000,000	69,000,000	Clean
Ceylon Cold Stores Ltd.	V Lintotawela A D Gunewardene S C Ratnayake G S A Gunesekera J R F Peiris	Chairman Director Director Director Director	Working Capital Financing	9,000,000	8,207,377	Clean
Mack Air Ltd.	V Lintotawela A D Gunewardene G S A Gunesekera	Chairman Director Director	Working Capital Financing	38,000,000	38,092,600	Clean
Walkers Air Services (Pvt.) Ltd.	V Lintotawela A D Gunewardene S C Ratnayake J R F Peiris	Chairman Director Director Director	Working Capital Financing	12,000,000	12,034,750	Clean
John Keells Office Automation (Pvt.) Ltd.	V Lintotawela A D Gunewardene S C Ratnayake G S A Gunesekera J R F Peiris	Chairman Director Director Director Director	Working Capital Financing	50,000,000	43,589,115	Clean
Keells Restaurants (Pvt.) Ltd.	V Lintotawela S C Ratnayake G S A Gunesekera J R F Peiris	Chairman Director Director Director	Working Capital Financing	91,000,000	54,421,392	Clean
Mercantile Leasing Ltd.	V Lintotawela A D Gunewardene S C Ratnayake J R F Peiris	Chairman Director Director Director	Working Capital Financing	145,000,000	100,000,000	Mortgage over lease receivables

Notes to the Financial Statements contd.

34.1.2 Details of Accomodation Granted and the Balances Outstanding as at 31 December 2004 contd.

Nations Trust Bank Ltd. (NTB)

Name of Related Party	Name of Director	Relationship	Accomodation Granted	Limit	Balance Outstanding	Security
				<i>Rs.</i>	<i>Rs.</i>	
International Tourists & Hoteliers Ltd.	V Lintotawela	Chairman	Working Capital Financing	2,000,000	1,288	Clean
	A D Gunewardene	Director				
	S C Ratnayake	Director				
	G S A Gunesekera	Director				
	J R F Peiris	Director				
Whittall Boustead Ltd.	V Lintotawela	Chairman	Working Capital Financing	818,460	818,460	Clean
	A D Gunewardene	Director				
	S C Ratnayake	Director				
	G S A Gunesekera	Director				
	J R F Peiris	Director				
Habarana Walk Inn Ltd	V Lintotawela	Chairman	Working Capital Financing	2,000,000	Nil	Clean
	A D Gunewardene	Director				
	S C Ratnayake	Director				
	G S A Gunesekera	Director				
	J R F Peiris	Director				
Habarana Lodge Ltd.	V Lintotawela	Chairman	Working Capital Financing	2,000,000	Nil	Clean
	A D Gunewardene	Director				
	S C Ratnayake	Director				
	G S A Gunesekera	Director				
	J R F Peiris	Director				
Kandy Walk Inn Ltd.	V Lintotawela	Chairman	Working Capital Financing	2,000,000	Nil	Clean
	A D Gunewardene	Director				
	S C Ratnayake	Director				
	G S A Gunesekera	Director				
	J R F Peiris	Director				

34.1.3 Treasury Bills Under Repurchase Agreements

Name of Related Party	Face Value	Value Date	Maturity Date
	<i>Rs.</i>		
Central Finance Co. Ltd.	415,000,000	30/11/2004	04/01/2005
Central Finance Co. Ltd.	21,617,109	30/11/2004	04/01/2005
Union Assurance Ltd.	150,000,000	05/10/2004	05/10/2007
Union Assurance Ltd.	92,104,681	31/12/2004	03/01/2005

34.1.4 Guarantees Issued (Corporate Papers)

Name of Related Party	Face Value Rs.	Value Date	Maturity Date
Ceylon Holiday Resorts Ltd.	15,000,000	28/12/2004	28/03/2005
Keells Restaurants (Pvt.) Ltd.	15,000,000	19/09/2003	19/09/2007
Keells Restaurants (Pvt.) Ltd.	20,000,000	19/09/2003	19/09/2008
Keells Restaurants (Pvt.) Ltd.	15,000,000	19/09/2003	19/09/2006

34.2 The Bank's fully owned subsidiary - Waldock Mackenzie Ltd., carried out transactions in the ordinary course of its business on an arm's length basis at commercial rates with Director related entities. These related parties are as listed below;

34.2.1 Investments In Fixed Rate Notes

John Keells Holdings Ltd.	100,000,000	17/02/2003	18/02/2008
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34.2.2 Repurchase Agreements - Corporate Papers

Kandy Walk Inn Ltd.	2,400,000	31/12/2004	03/01/2005
Habarana Lodge Ltd.	1,100,000	31/12/2004	03/01/2005
Habarana Walk Inn Ltd.	44,400,000	31/12/2004	03/01/2005
Keells Hotels Ltd.	1,300,000	31/12/2004	03/01/2005
Keells Restaurants Ltd.	4,000,000	31/12/2004	03/01/2005
Nexus Networks (Pvt.) Ltd.	6,000,000	29/12/2004	31/01/2005

34.2.3 Repurchase Agreements - Treasury Bills

Keells Food Products Ltd.	187,219	10/09/2004	11/03/2005
Keells Food Products Ltd.	100,000	18/10/2004	18/04/2005
Mackinnon Mackenzie of Ceylon Ltd.	75,484,441	28/12/2004	04/01/2005

34.2.4 Commercial Paper Purchase

Namunukula Plantation Ltd.	50,000,000	07/10/2004	06/01/2005
Namunukula Plantation Ltd.	50,000,000	29/12/2004	30/03/2005

34.2.5 NTB Guaranteed Commercial Paper

Ceylon Holiday Resorts Ltd.	15,000,000	28/12/2004	28/03/2005
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34.2.6 NTB Guaranteed Floating Rate Notes

Keells Restaurants (Pvt.) Ltd.	15,000,000	19/09/2003	19/09/2007
Keells Restaurants (Pvt.) Ltd.	20,000,000	19/09/2003	19/09/2008
Keells Restaurants (Pvt.) Ltd.	15,000,000	19/09/2003	19/09/2009

34.2.7 Interest Rate Swaps

Central Finance Co. Ltd.	120,000,000	30/05/2003	30/05/2007
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35. ASSETS PLEDGED AS SECURITY

The Bank has not pledged any of its assets other than the securities pledged for the purpose of borrowings under repurchase agreements disclosed in the financial statements.

Notes to the Financial Statements contd.

36. MATURITY ANALYSIS

An analysis of the total assets and liabilities based on the remaining period at the balance sheet date to the respective contractual maturity date is as follows.

36.1 Bank

	upto 3 Months	3 to 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
Assets						
Interest Bearing Assets						
Money at Call & Short Notice	1,116,949,562	-	-	-	-	1,116,949,562
Treasury Bills, Bonds & other securities eligible for rediscounting						
with the Central Bank of Sri Lanka	1,204,814,311	350,000,000	350,000,000	301,000,000	-	2,205,814,311
Investments in Corporate Debt Securities	105,391,591	52,325,000	-	-	-	157,716,591
Bills of Exchange	381,068,731	-	-	-	-	381,068,731
Loans & Advances	3,920,481,597	2,491,546,677	579,259,425	629,797,141	658,265,859	8,279,350,699
Investments in Securities	-	-	627,900,000	-	1,580,000	629,480,000
Lease Rentals Recievables	4,393,364	13,180,092	35,363,659	17,681,829	-	70,618,944
	<u>6,733,099,156</u>	<u>2,907,051,769</u>	<u>1,592,523,084</u>	<u>948,478,970</u>	<u>659,845,859</u>	<u>12,840,998,838</u>
Non-Interest Bearing Assets						
Cash & Short term funds	860,059,335	-	-	-	-	860,059,335
Balances with the Central Bank of Sri Lanka	609,036,980	-	-	-	-	609,036,980
Other Assets	719,330,109	14,535,750	38,762,000	38,762,000	32,302,000	843,691,859
Property, Plant & Equipment	-	-	-	3,050,140	377,759,896	380,810,036
	<u>2,188,426,424</u>	<u>14,535,750</u>	<u>38,762,000</u>	<u>41,812,140</u>	<u>410,061,896</u>	<u>2,693,598,210</u>
Total Assets	<u>8,921,525,580</u>	<u>2,921,587,519</u>	<u>1,631,285,084</u>	<u>990,291,110</u>	<u>1,069,907,755</u>	<u>15,534,597,048</u>
Liabilities						
Interest Bearing Liabilities						
Deposits	5,632,872,575	2,853,773,474	309,358,349	63,724,215	-	8,859,728,613
Borrowings	1,814,018,549	209,300,000	112,240,781	37,759,219	-	2,173,318,549
Subordinated Loan	-	-	-	-	350,525,000	350,525,000
	<u>7,446,891,124</u>	<u>3,063,073,474</u>	<u>421,599,130</u>	<u>101,483,434</u>	<u>350,525,000</u>	<u>11,383,572,162</u>
Non- Interest bearing liabilities						
Demand Deposits	1,589,267,927	-	-	-	-	1,589,267,927
Due to Banks	457,297,699	-	-	-	-	457,297,699
Deferred Liabilities	-	-	-	73,635,690	22,974,000	96,609,690
Others	894,692,328	-	-	-	-	894,692,328
Share Capital	-	-	-	-	850,000,000	850,000,000
Reserves	-	-	-	-	263,157,242	263,157,242
	<u>2,941,257,954</u>	<u>-</u>	<u>-</u>	<u>73,635,690</u>	<u>1,136,131,242</u>	<u>4,151,024,886</u>
Total Liabilities & Shareholders' Funds	<u>10,388,149,078</u>	<u>3,063,073,474</u>	<u>421,599,130</u>	<u>175,119,124</u>	<u>1,486,656,242</u>	<u>15,534,597,048</u>

36. MATURITY ANALYSIS Contd.**36.2 Group**

	upto 3 Months	3 to 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
Interest Bearing Assets						
Money at Call & Short Notice	1,116,949,562	-	-	-	-	1,116,949,562
Treasury Bills, Bonds & other securities eligible for rediscounting with the Central Bank of Sri Lanka	3,400,040,817	1,013,340,000	350,000,000	1,007,330,000	-	5,770,710,817
Investments in Corporate Debt Securities	1,458,528,474	171,025,000	273,000,000	200,000,000	-	2,102,553,474
Bills of Exchange	381,068,731	-	-	-	-	381,068,731
Loans & Advances	4,779,205,176	2,491,546,677	579,259,425	629,797,141	658,265,859	9,138,074,278
Investments in Securities	-	-	627,900,000	-	1,580,000	629,480,000
Lease Rentals Receivables	4,393,364	13,180,092	35,363,659	17,681,829	-	70,618,944
	<u>11,140,186,124</u>	<u>3,689,091,769</u>	<u>1,865,523,084</u>	<u>1,854,808,970</u>	<u>659,845,859</u>	<u>19,209,455,806</u>
Non-Interest Bearing Assets						
Cash & Short term Funds	860,070,471	-	-	-	-	860,070,471
Balances with the Central Bank of Sri Lanka	609,036,980	-	-	-	-	609,036,980
Other Assets	469,937,202	14,535,750	38,762,000	38,762,000	32,302,000	594,298,952
Property, Plant & Equipment	-	-	-	3,050,140	378,279,447	381,329,587
Goodwill	2,250,000	6,750,000	18,000,000	18,000,000	22,500,000	67,500,000
	<u>1,941,294,653</u>	<u>21,285,750</u>	<u>56,762,000</u>	<u>59,812,140</u>	<u>433,081,447</u>	<u>2,512,235,990</u>
Total Assets	<u>13,081,480,777</u>	<u>3,710,377,519</u>	<u>1,922,285,084</u>	<u>1,914,621,110</u>	<u>1,092,927,306</u>	<u>21,721,691,796</u>
Liabilities						
Interest Bearing Liabilities						
Deposits	5,632,872,575	2,853,773,474	309,358,349	63,724,215	-	8,859,728,613
Borrowings	7,757,492,000	209,300,000	113,240,781	37,759,219	-	8,117,792,000
Subordinated Loan	-	-	-	-	350,525,000	350,525,000
	<u>13,390,364,575</u>	<u>3,063,073,474</u>	<u>422,599,130</u>	<u>101,483,434</u>	<u>350,525,000</u>	<u>17,328,045,613</u>
Non- Interest bearing liabilities						
Demand Deposits	1,581,388,208	-	-	-	-	1,581,388,208
Due to Banks	457,297,699	-	-	-	-	457,297,699
Deferred Liabilities	-	-	-	73,635,690	23,382,150	97,017,840
Others	919,322,607	-	-	-	-	919,322,607
Share Capital	-	-	-	-	850,000,000	850,000,000
Reserves	-	-	-	-	488,619,829	488,619,829
	<u>2,958,008,514</u>	<u>-</u>	<u>-</u>	<u>73,635,690</u>	<u>1,362,001,979</u>	<u>4,393,646,183</u>
Total Liabilities & Shareholders' Funds	<u>16,348,373,089</u>	<u>3,063,073,474</u>	<u>422,599,130</u>	<u>175,119,124</u>	<u>1,712,526,979</u>	<u>21,721,691,796</u>

Investor Information

Stock Exchange

The ordinary shares of the Bank are all listed in the Colombo Stock Exchange. The audited Income Statement for the year ended December 31, 2004 and the audited Balance Sheet as at date will be submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

Distribution of Ordinary Shareholders

As at December 31, 2004										
Shareholders	No. of Shareholders	Resident			Non- Resident			Total		
		No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	
Less than 1,000 shares	2,956	1,578,739	1.86	12	7,340	0.01	2,968	1,586,079	1.87	
1,001 - 5,000	2,194	5,052,667	5.94	17	50,050	0.06	2,211	5,102,717	6.00	
5,001 - 10,000	372	2,815,160	3.31	10	86,300	0.10	382	2,901,460	3.41	
10,001 - 50,000	350	7,619,029	8.96	12	332,500	0.39	362	7,951,529	9.35	
50,001 - 100,000	58	4,246,670	5.00	1	59,500	0.07	59	4,306,170	5.07	
100,001 - 500,000	48	9,484,115	11.16	-	-	-	48	9,484,115	11.16	
500,001 - 1,000,000	6	4,261,220	5.01	1	1,000,000	1.18	7	5,261,220	6.19	
Over 1,000,000	11	43,698,610	51.41	3	4,708,100	5.54	14	48,406,710	56.95	
	<u>5,995</u>	<u>78,756,210</u>	<u>92.65</u>	<u>56</u>	<u>6,243,790</u>	<u>7.35</u>	<u>6,051</u>	<u>85,000,000</u>	<u>100.00</u>	

Analysis of Shareholders

	No. of Shareholders	No. of Shares	%
Individual	5,752	29,934,456	95.05
Institutional	299	55,065,544	4.95
	<u>6,051</u>	<u>85,000,000</u>	<u>100.00</u>

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2004 was 61.57 (45.70 % as at December 31, 2003).

Market Information on Ordinary Shares of the Company

	2004	2003
Market Value		
Highest Value (Rs.)	32.50	47.00
Lowest Value (Rs.)	17.75	14.00
Value at end of year (Rs.)	18.25	28.25

Market Information on Ordinary Shares of the Company contd.

	2004	2003
Trading Statistics		
No of transactions	14,683	10,295
No of shares traded (mn)	49.99	55.99
Value of shares traded (Rs. mn)	1,183.36	729.06
Market Capitalization		
Market capitalization (Rs. mn)	1,551.25	2,401.25

Twenty Largest Shareholders

Name of the Shareholder	31st December 2004	
	No. of Shares	%
John Keells Holdings Ltd.	17,000,000	20.000
Central Finance Company Ltd.	11,050,000	13.000
Mackinnon & Keells Financial Services Ltd.	4,250,000	5.000
CF Growth Fund Ltd.	3,910,000	4.600
CF Insurance Brokers (Pvt) Ltd.	2,040,000	2.400
H.V. De Alwis	1,864,300	2.200
S.A.S. Al Hokoani	1,778,800	2.093
Freudenberg Shipping Agencies Ltd.	1,173,590	1.381
Nuwara Eliya Property Developers (Pvt) Ltd.	1,134,500	1.335
Alliance Finance Company Ltd.	1,102,500	1.297
Belmont Agents Ltd.	1,065,000	1.253
P.N. Bhatt	1,038,000	1.221
Mr. Y. S. H. I. K. Silva	1,000,020	1.176
BNP Paribas South Asia Investment Company Ltd. - South Asia Access Fund	1,000,000	1.176
Timex (Garments) Ltd.	980,000	1.153
Mr. B. A. Mahipala	843,800	0.993
Sino Lanka (Pvt) Ltd.	716,290	0.843
Hatton National Bank	588,300	0.692
Mr. H. Beruwalage	586,420	0.689
M.J. Fernando	546,410	0.643
	53,667,930	63.145
Others	31,332,070	36.855
Total	85,000,000	100.00

Five Year Summary

<i>Year ended 31 December</i>	2000	2001	2002	2003	2004
Group Financials	<i>Rs. mn</i>	<i>Rs. mn</i>	<i>Rs. mn</i>	<i>Rs. mn</i>	<i>Rs. mn</i>
OPERATING RESULTS					
Gross Income	303	701	1,148	2,115	2,374
Interest Income	253	607	1,001	1,574	1,708
Interest Expenses	(142)	(385)	(690)	(1,102)	(1,118)
Net Interest Income	111	222	311	472	590
Other Income	75	107	160	541	533
Net Income	186	329	471	1,013	1,123
Operating Expenses	(160)	(296)	(402)	(703)	(969)
Profit from Operating Activities	26	33	69	310	154
Value Added Tax	Nil	Nil	Nil	(33)	(40)
Profit before Taxation	26	33	69	277	114
Income Tax on Profits	(6)	(10)	(24)	(25)	(69)
Profits after Taxation	20	23	45	252	45
Income Growth (%)		131.35	63.77	84.23	12.25
Total assets to Shareholders' Funds (times)		8.61	24.31	14.06	16.82
Capital Funds to Liabilities including Contingencies (%)		10.15	3.49	6.24	5.08
Capital Adequacy (%)					
Tier I		15.95	10.70	14.07	9.86
Tier I & II		16.93	11.56	15.24	13.91
Market Value per Share (Rs.)		15.00	16.75	28.25	18.25
Earnings Per Share (Rs.) - Bank		0.46	0.48	0.87	0.37
Earnings Per Share (Rs.) - Group		Nil	0.92	3.52	0.53
Price Earnings Ratio (times) - Bank		32.61	34.90	32.47	49.32
Net Assets Value per Share (Rs.)		12.16	13.08	15.71	15.75
No. of Employees		164	290	405	479
No. of Branches/Mini Branches		11	17	20	26

* Ratios and other information have not been given for the year 2000, as it was the first full year of operation.

<i>Year ended 31 December</i>	2000	2001	2002	2003	2004
Group Financials	<i>Rs. mn</i>	<i>Rs. mn</i>	<i>Rs. mn</i>	<i>Rs. mn</i>	<i>Rs. mn</i>
BALANCE SHEET					
ASSETS					
Cash and Short-Term Funds	585	738	1,023	1,606	1,977
Statutory Deposits with CBSL	169	169	345	347	609
Treasury Bills and Other					
Securities eligible for re-discounting with CBSL	322	397	6,799	7,489	5,771
Investment in Corporate Debt Securities	182	788	1,848	1,739	2,103
Investment securities	1	186	243	50	629
Balances with Banks	309	248	53	-	-
Bills of Exchange	91	78	386	427	381
Loans & Advances	1,610	2,285	4,591	6,196	9,138
Lease Debtors	-	-	-	-	71
Other Assets	58	82	212	519	595
Property, Plant & Equipment	246	264	298	323	381
Goodwill	Nil	Nil	99	77	67
Total Assets	3,573	5,235	15,897	18,773	21,722
LIABILITIES					
Deposits	2,139	2,893	5,042	6,571	10,441
Borrowings	571	1,469	9,238	9,583	8,118
Due to Banks	58	1	427	507	457
Other Liabilities	195	221	465	676	919
Deferred Liabilities	24	43	71	101	97
Subordinated Loan	-	-	-	-	351
Total Liabilities	2,987	4,627	15,243	17,438	20,383
SHAREHOLDERS' FUNDS					
Share Capital	500	500	500	850	850
Reserve Fund	6	7	8	11	13
Reserves	80	101	146	474	476
Total Shareholders' Funds	586	608	654	1,335	1,339
Commitments & Contingencies	913	1,365	3,480	3,972	4,613

Glossary

Acceptances

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

Accrual Basis

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

Bills for Collection

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

Capital Adequacy Ratios

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

Capital Employed

Sum total of liabilities and shareholders' funds.

Cash Equivalents

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

Commitments

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

Contingencies

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

Corporate Governance

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

Deferred Tax

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

Documentary Credits

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

Earnings per Ordinary Share

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

Effective Tax Rate

Provision for taxation divided by the profit before taxation.

Finance Lease

A contract whereby a lessor conveys the lessee the right to use an asset for rent over an agreed period of time which is sufficient to

amortise the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risk 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 fulfill the obligations of a person owning a debt if that person fails to perform.

Gross Dividends

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

Historical Cost Convention

Recording transactions at the actual value received or paid.

Interest in Suspense

Interest suspended on non-performing loans and advances.

Interest Margin

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

Liquid Assets

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

Loan Losses and Provisions

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

Market Capitalisation

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

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 recognized when cash is received) because, there is reasonable doubt regarding the collectability of principal and interest. Loans are automatically placed on cash basis when a payment is 3 months past due.

Off-Balance Sheet Transactions

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

Prudence

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

Return on Average Shareholders' Funds

Profit after Tax divided by the average shareholders' funds.

Related Parties

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

Return on Average Assets

Profit after Tax divided by the average assets.

Risk Weighted Assets

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

Repurchase Agreement

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

Reverse Repurchase Agreement

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

Revenue Reserve

Reserve set aside for future distribution and investment.

Segmental Analysis

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

Shareholders' Funds

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

Statutory Reserve Fund

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

Substance Over Form

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

Subsidiary Company

A company is a subsidiary of another company if the parent company holds more than 50% of the nominal value of its equity capital or holds some shares in it and controls the composition of its Board of Directors.

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.

Notice of Meeting

Notice is hereby given that the Sixth Annual General Meeting of Nations Trust Bank Ltd. will be held on 29th April 2005 at 9.00 a.m. at the Union Ballroom, Hilton Residencies, Union Place, Colombo 2.

The business to be brought before the meeting will be:

1. To read the notice convening the Meeting.
2. To receive and consider the Report of the Directors and the Statement of Accounts for the period ended 31st December 2004 with the Report of the Auditors thereon.
3. To adopt the following resolution as a special resolution to amend the Articles of Association of the Company:

“It is hereby resolved that the Articles of Association of the Company be and is hereby amended by the addition immediately after Article 36 A, of the following new Article numbered 36B;

“36 B Notwithstanding any provision in these Articles suggesting the contrary, shares quoted on the Colombo Stock Exchange shall be freely transferable and registration of the transfer of such quoted shares shall not be subject to any restriction save and except to the extent required for compliance with statutory requirements.”
4. To re-elect Mr. E H Wijenaike who retires by rotation at the Annual General Meeting, as a Director.
5. To re-elect Mr. S Easparathan who retires by rotation at the Annual General Meeting, as a Director.
6. To re-elect Mr. G S A Gunsekera who retires by rotation at the Annual General Meeting, as a Director .
7. To re-appoint Auditors and to authorise the Directors to determine their remuneration.
8. To authorise the Directors to determine and make donations.
9. To consider any other business of which due notice has been given.

Note:

- i. A member unable to attend is entitled to appoint a proxy to attend and vote in his/ her place.
- ii. A proxy need not be a member of the Company.
- iii. A member wishing to vote by proxy at the meeting may use the Proxy Form 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
16th March, 2005

Form of Proxy

I/We of
 being a member/ s of
 Nations Trust Bank Ltd., hereby appoint of
 or failing him/her

Mr. Vivendra Lintotawela	or failing him
Mr. Chandra Wijenaik	or failing him
Mr. Ajit Damon Gunewardene	or failing him
Mr. Eranjith Harendra Wijenaik	or failing him
Ms. Charmaine Kiriella	or failing her
Mr. Susantha Chaminda Ratnayake	or failing him
Mr. Saravanamuthu Easparathan	or failing him
Mr. Gerard Sumithra Abeywardena Gunesekera	or failing him
Mr. James Ronnie Felitus Peiris	

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 29th April 2005 at 9.00 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.

In witness I/we placed my/our hand/s hereto on this day of 2005.

.....
 Signature/s

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

	For	Against
i) To adopt the Report of the Directors and the Statement of Accounts for the period ended 31st December 2004 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
ii) To amend the Articles of Association of the Company by adding the following new article as Article No. 36 B : "36 B Notwithstanding any provision in these Articles suggesting the contrary shares quoted on the Colombo Stock Exchange shall be freely transferable and registration of the transfer of such quoted shares shall not be subject to any restriction save and except to the extent required for compliance with statutory requirements."	<input type="checkbox"/>	<input type="checkbox"/>
iii) To re-elect Mr. E H Wijenaik, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
iv) To re-elect Mr. S Easparathan, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
v) To re-elect Mr. G S A Gunesekera, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
vi) To re-appoint Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
vii) To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>

*Form of Proxy contd.***Instructions as to Completion**

1. Please perfect the Form of Proxy by filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 76, York Street, Colombo 1, not less than 48 hours before the time appointed for the holding of the Meeting.
3. If the Form of Proxy is signed by an attorney, the relative power of attorney should accompany the Form of Proxy for registration, if such power of attorney has not already been registered with the Company.
4. If the appointer is a Company or Corporation, this Form must be executed under the Common Seal or the hand of a duly authorized 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 :

Service Network

Head Office & Corporate Branch

Nations Trust Bank Ltd., 242, Union Place,
Colombo 2, Sri Lanka.

Call Centre 4711411 Fax: 4313198

E-mail: bank@nationstrust.com

Website: www.nationstrust.com

Branches

City Office

76, York Street, Colombo 1.

Kollupitiya

435, Galle Road, Colombo 3.

Sangaraja Mawatha

545A, Sri Sangaraja Mawatha, Colombo 10.

Kandy

14-16, Colombo Street, Kandy.

Cinnamon Gardens

104, Dharmapala Mawatha, Colombo 7.

Maharagama

129, High Level Road, Maharagama.

Pettah

244, Main Street, Colombo 11.

Battaramulla

15, Kaduwela Road, Battaramulla.

Kurunegala

37, Puttalam Road, Kurunegala.

Moratuwa

246, Galle Road, Idama, Moratuwa.

Nugegoda

128, High Level Road, Nugegoda.

Wellawatte

No. 292, Galle Road, Wellawatte.

Panadura

No 229, Galle Road, Panadura.

Gampaha

16/1, Courts Road, Gampaha.

Kiribathgoda

No. 94, Makola Road, Kiribathgoda.

Kotahena

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

Negambo Main Branch

No. 113A, Greens Road, Negombo.

Mini Branches

Kollupitiya - Keells Super

82, Liberty Plaza,
R A De Mel Mawatha, Colombo 3.

Wattala - Keells Super

385, Negombo Road, Wattala.

Kohuwela - Park & Shop

106/3, Bernard's Bldg.,
Dutugemunu Street,
Kohuwela.

Negombo

367, Main Street, Negombo.

Mount Lavinia - Keells Super

388, Galle Road, Mt Lavinia.

Mahabage

588, Thilakma Super Market,
Negombo Road, Mahabage.

Borella - Keells Super

85, Dr. N M Perera Mawatha, Colombo 8.

Ward Place - Inner Circle Center

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

ATMs at Lanka IOC multi-service Stations

- No. 650, Maradana Road, Colombo 10.
- No. 291, Danister De Silva Mawatha,
Dematagoda, Colombo 10.
- No. 75, Dr. CWW Kannangara Mawatha,
Colombo 7.
- No. 323, Havelock Road, Colombo 6.
- No. 762, Galle Road, Colombo 4.
- No. 570, Elvitigala Mawatha,
Narahenpita, Colombo 5.

Foreign Exchange Services

Main Office

435, Galle Road, Colombo 3.

Gabo Travels

11, Bagatelle Road, Colombo 3.

Sales Outlet

Cinnamon Gardens Branch
104, Dharmapala Mawatha,
Colombo 7.

Jetwing Travels

Jetwing House
46/26, Nawam Mawatha, Colombo 2.

NATIONS TRUST BANK

76, York Street, Colombo 2.

T. (+94) 11 4313131 F. (+94) 11 4313132

E. bank@nationstrust.com