

Annual Report of the Board of Directors on the Affairs of the Company

The details set out herein provide the pertinent information required by the Companies Act No. 7 of 2007, the Listing Rules of the Colombo Stock Exchange and are guided by recommended best accounting practices.

GENERAL

The Directors have pleasure in presenting to the members their Report together with the audited Financial Statements of Nations Trust Bank PLC, a public limited liability company incorporated in Sri Lanka on 21st January 1999 under the Companies Act No. 17 of 1982, quoted in the Colombo Stock Exchange in May 1999 and a licensed commercial bank under the Banking Act No. 30 of 1988, for the year ended 31st December 2008.

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

The Annual Report of the Board of Directors and the Audited Financial Statements were approved by the Directors on 17th February 2009.

STATEMENT OF COMPLIANCE ON THE CONTENT OF THE ANNUAL REPORT

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

PRINCIPAL ACTIVITIES

Nations Trust Bank PLC is a Banking Company licensed as a commercial bank. There are four fully owned subsidiaries of Nations Trust Bank PLC which together constitute the Group. The principal activities of the Bank are commercial, personal and private banking, trade

services, leasing, factoring, treasury and capital market services and fee based activities. The principal activities of the Bank's subsidiaries viz. Waldock Mackenzie Limited, Allied Properties Limited, Mercantile Leasing (Financial Services) Limited and Nations Insurance Brokers Limited are carrying out money market operations and fund and fee based activities, property rental, managing an operating leases portfolio and insurance broking respectively. There has been no material change to the activities of the Company or any of the subsidiaries during the period under review.

Mercantile Leasing (Financial Services) Limited, continued to scale down its operations and is likely to be wound up during 2009.

FINANCIAL STATEMENTS

Financial Statements of the Company and the Group are given on pages 76 to 106 of this Annual Report.

AUDITOR'S REPORT

Auditor's Report on the Financial Statements is given on Page 75.

SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements are given from pages 80 to 88. There has been no change in the Accounting Policies adopted by the Company during the period under review, other than that indicated in Note No. 2.11.3 to the Financial Statement.

INTERESTS REGISTER

All Directors have made general declarations as provided for in Section 192 (2) of the Companies Act No. 7 of 2007. Arising from these, details of contracts in which they have an interest are given on pages 68 and 70 to 72 of this Report. The share ownership of Directors is given below. Entries relating to the following were made

in the Interests Register during the year under review:

1. Purchase of 'Rights' under the Banks rights issue through the Colombo Stock Exchange by Mr. A.D. Gunewardene - on 1st February 2008.
2. Allotment of shares to Messrs A.D. Gunewardene, E.H. Wijenaik, A.K. Gunaratna, C.H.S.K. Piyaratna and Z.H. Zavahir under the Bank's rights issue - on 27th February 2008.
3. Sale of shares by Mr. A.D. Gunewardene through the Colombo Stock Exchange - on 18th November 2008.
4. Approval of remuneration to Executive Directors by the Board - on 27th March 2008.
5. Approval of Directors fees to non-executive Directors by the Board - on 18th December 2008.

DIRECTORS' SHAREHOLDINGS

Directors' shareholdings as at 31st December 2008 and 2007 are given below:

Name of Director	No. of Shares	
	2008	2007
Mr. A.D. Gunewardene	3,253,667	1,166,111
Mr. E.H. Wijenaik	15,414	11,561
Mr. S.C. Ratnayake	-	-
Mr. J.R.F. Peiris	-	-
Mr. A.K. Gunaratne	14,133	10,600
Mr. A.R. Rasiah	16,304	16,304
Dr. (Ms.) D. Weerakoon	-	-
Mr. M.E. Wickremesinghe	-	-
Mr. Z.H. Zavahir	254,000	190,500
Mr. C.H.S.K. Piyaratna	67,066	50,300

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

DIRECTORS' REMUNERATION

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

	Bank (Rs. mn)	Group (Rs. mn)
Directors' Fees and Emoluments	34.018	37.354

CORPORATE DONATIONS

Donations by the Company during the year amounted to Rs. 1,000,000/-. This comprised of donations to the John Keells Social Responsibility Foundation.

DIRECTORATE

Directors of the Bank as at the end of the accounting period, their position and the number of Board meetings attended/ number of Board meetings held during the year are given below:

Non-Executive Directors

Mr. A.D. Gunewardene - Chairman	12/12
Mr. E.H. Wijenaike - Deputy Chairman	11/12
Mr. S.C. Ratnayake	11/12
Mr. J.R.F. Peiris	12/12
Mr. A.K. Gunaratne	12/12

Independent Non-Executive Directors

Mr. A.R. Rasiah - Senior Director	12/12
Dr. (Ms.) D. Weerakoon	12/12
Mr. M.E. Wickremesinghe	12/12

Executive Directors

Mr. Z.H. Zahir - CEO	12/12
Mr. C.H.S.K. Piyaratna	10/12

Mr. A.R. Rasiah being an Independent Director has been designated as the Senior Director in terms of Direction No. 3 (5) (ii) of the Banking Act Direction No. 11 of 2007 (on Corporate Governance).

Messrs S.C. Ratnayake, J.R.F. Peiris and C.H.S.K. Piyaratna retire by rotation as provided for in the Articles of Association of the Company and are recommended for re-election by the shareholders.

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

No Director ceased to hold office during the accounting period under review.

AUDITORS

Company's Auditors during the period under review were Messrs Ernst & Young, Chartered Accountants. Amounts paid and payable by the Bank to Messrs Ernst & Young and charged against income as audit fees and fees for other services are as follows:

	Bank (Rs. mn)	Group (Rs. mn)
Audit Fees	2.779	4.140
Fees for Other Services	1.721	2.355

Other services consisted of tax related work.

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

RESULTS AND DIVIDENDS

Consolidated Income Statement along with the Company's Income Statement for the year are given on page 77. Group Balance Sheet is given on page 76.

Having satisfied the solvency test requirement under the Companies Act No. 7 of 2007 the Directors recommend a first and final dividend of Rs. 1.50 Per Share to the holders of ordinary shares of the Company registered on the books of the Company as at end of 30th March 2009.

INFORMATION ON SHARES, WARRANTS AND DEBENTURES

Information relating to holdings of shares, warrants and debentures is given in pages 107-112 of this Report.

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No circumstances have arisen since the Balance Sheet date that would require adjustment or disclosure other than those disclosed in Note 33 to the Financial Statements contained on page 106.

CAPITAL ADEQUACY

The Group's capital adequacy ratios as at 31st December 2008 were 10.31% for Tier I and 15.70% for Tier I & II and are above the minimum requirements of the Central Bank of Sri Lanka of 5% and 10% respectively.

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

The Bank has complied with all the regulatory and prudential requirements arising from the provisions in the statutes applicable to the Bank such as the Banking Act No. 30 of 1988, directions and determinations issued by the Central Bank of Sri Lanka under the Banking Act, Monetary Law Act (MLA) No. 58 of 1949, Exchange Control Act No. 24 of 1953, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Prevention of Money Laundering Act No. 5 of 2006, Financial Transactions Reporting Act No. 6 of 2006, Convention on the Suppression of Terrorist Financing Act No. 25 of 2005, Inland Revenue Act No. 10 of 2006, Value Added Tax No. 14 of 2002, Finance Act No. 5 of 2005, Economic Service Charge Act No. 13 of 2006, Listing Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act No. 36 of 1987, Exchange Control Act No. 24 of 1953, Finance Leasing Act No. 56 of 2000, Payment of Gratuity Act No. 12 of 1983, Employees' Provident Fund Act No. 15 of 1958, Employees' Trust Fund Act No. 46 of 1980, etc. and amendments to such statutes.

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

TRANSACTIONS WITH RELATED PARTIES

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

Category of Related Parties	Subsidiary Companies*		Directors of the Bank		Key Management Personnel (KMP) of the Bank**		Close Relations of Directors and KMP		Shareholders owning a Material Interest in the Bank***		Concerns in which Directors, close Relations of Directors or Material Shareholders have a Substantial Interest	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Balance Sheet												
Assets												
Accommodation												
Loans and Advances	5,962	34,344	2,447	2,838	52,061	43,210	1,048	2,657	50,014	117	3,698	448
Credit Cards	-	-	2,025	2,168	2,045	1,297	-	-	135	131	-	-
Investments in Corporate Debts and												
Government Securities	8,780,484	6,438,422	-	5,153	507	-	-	-	-	100,000	-	-
Other Assets	597,357	252,178	-	-	-	-	-	-	-	-	-	-
Total Accommodation	9,383,802	6,724,943	4,472	10,159	55,153	44,507	1,048	2,657	50,149	100,249	3,698	448
Less: Cash Collateral	-	-	8,946	10,911	13,869	14,696	2,000	2,000	300,000	300,000	16,403	13,500
Inv. made in the Bank's Equity and Debt Instruments	-	-	-	-	-	-	-	-	1,595,935	1,070,875	-	-
Total Net Accommodation	9,383,802	6,724,943	Nil	Nil	41,285	29,810	Nil	657	Nil	Nil	Nil	Nil
Liabilities												
Deposits	5,759	865	17,239	16,613	38,093	31,185	6,731	7,550	2,924,572	1,326,432	21,144	23,778
Borrowings	2,314,063	2,347,285	10,076	10,296	13,553	10,015	-	-	3,346,006	453,028	-	-
Other Liabilities	135,479	120,488	-	-	-	-	-	-	-	-	-	-
Equity												
Dividends Paid (Net)	-	-	3,232	1,201	84	158	63	47	75,607	56,490	-	-
Issue of Bonus Shares	-	9,500	-	-	-	-	-	-	-	-	-	-
Off-Balance Sheet												
Undrawn Facilities	-	-	2,680	7,976	10,402	12,570	340	90	202,905	2,868	8,602	-
Guarantees/Collateral Given	-	50	-	-	-	-	-	-	27,727	5,399	3,473	1,552
Income Statement												
Interest Income	907,487	576,402	397	474	3,983	1,467	328	442	27,751	48,040	545	483
Interest Paid	251,555	488,534	2,691	2,472	3,411	2,882	943	862	537,247	421,500	2,946	2,059
Other Income Earned	6,146	5,395	8	4	28	9	3	1	302	152	377	357
Dividends Received (Net)	37,800	186,000	-	-	-	-	-	-	-	-	-	-
Expenses Paid	13,060	9,351	-	-	-	-	-	-	14,642	21,362	2,518	1,743
Provision for Investments and Against Receivables	12,421	18,496	-	-	-	-	-	-	-	-	-	-
Compensation Paid:												
Emoluments/Fees	-	-	34,018	25,265	90,505	72,535	-	-	-	-	-	-
Post-Employment Benefits	-	-	1,160	1,094	3,813	2,751	-	-	-	-	-	-
No. of Shares of the Bank Bought	-	-	2,185,513	116,300	19,833	3,000	17,397	-	-	-	-	-
No. of Shares of the Bank Sold	-	-	26,000	-	-	150,000	-	-	-	-	-	-

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

** KMPs include only the members of Corporate Management.

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

The Group does not have Associate Companies.

DIRECTORS OF THE SUBSIDIARIES

Allied Properties Limited

A.D. Gunewardene - *Chairman*

E.H. Wijenaikē

Z.H. Zavahir

Nations Insurance Brokers Limited

Z.H. Zavahir - *Chairman*

C.H.S.K. Piyaratna

T.M.I. Ahamed

Mercantile Leasing (Financial Services) Limited

A.D. Gunewardene - *Chairman*

E.H. Wijenaikē

Z.H. Zavahir

Waldock Mackenzie Limited

A.D. Gunewardene - *Chairman*

E.H. Wijenaikē

Z.H. Zavahir

T.M.I. Ahamed

GOING CONCERN

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

ANNUAL GENERAL MEETING

Annual General Meeting of the Company will be held at the Auditorium of the Institute of Chartered Accountants of Sri Lanka at No. 30A, Malalasekara Mawatha Colombo 7 on 30th March 2009 at 10.00 a.m.



Ajit Gunewardene

Chairman



Zulfiqar Zavahir

Director/CEO



Theja Silva

Company Secretary

Colombo,
17th February 2009