

Chief Executive Officer's Review

“As we close the year 2008, the Bank remains in a strong financial position with all its business divisions performing well, a favourable funding position and comfortable capital adequacy ratios.”

It is with an enduring sense of satisfaction and accomplishment that I present to you the Chief Executive Officer's Report for 2008, reflecting on the continued strong performance during what was clearly the most challenging year for the Bank, in its relatively short but eventful decade-long history.

2008 saw the start of your Bank's next phase of growth with the implementation of our Strategic Plan 2008-2012. The Bank made a substantial investment to lay down the required infrastructural foundation for a quantum leap and implement several new initiatives during the first half of 2008. The second half of the year however, saw global economic turmoil, severe liquidity constraints with several large global institutions with household names in the financial services industry facing bankruptcy and requiring Government bailouts. In Sri Lanka, increasing interest rates, high inflation and the lowest growth in the Banking sector we have seen in years, all combined to produce economic conditions, which were probably the most difficult during the Bank's brief history.



As the saying goes true mettle comes out at times of adversity. Validating our strategy and focus, the Bank's talented and able team was successfully able to navigate these challenging times, to emerge a winner and deliver a strong overall performance.

FINANCIAL PERFORMANCE

Group Profit after Tax for the year amounted to Rs. 593.1 mn, an increase of Rs. 88.3 mn or 17% over 2007. Bank's Profit after Tax for 2008 is lower than that reported for 2007 due to the dividends received from the subsidiaries being Rs. 38 mn only as against Rs. 186 mn received in 2007. The underlying net income of the Group increased to Rs. 4,692.5 mn, reflecting a pleasing 36% growth, while operating expenses (including provisions) increased by 41%. Apart from the inflationary pressures, the increase in operating expenses was to a great extent in line with our projections, which took into account the cost of the initiatives implemented during the year to provide the level of convenience contemplated in our Unique Service Proposition of '**unparalleled and unprecedented levels of convenience**'. As a result, the Cost to Income ratio

improved only marginally from 69% in 2007 to 68% in 2008. We are confident that we will see significant improvement in this key ratio, as we begin to reap the benefits of the costs already incurred, in the next few years.

Net interest income too grew by a gratifying 38% on higher business volumes and improved margins in the backdrop of rising interest rates and liquidity constraints in the market.

Non-fund based income grew by a satisfying 34%, main contributory factors being a 51% growth in foreign exchange income from increased trade/forex volumes and active market participation and a 37% increase in Other Operating Income from growth in our American Express Credit Cards business and the continued growth in business volumes across the Bank.

The Banking industry was not immune to the effects of the market turmoil and economic slow down experienced during the year. Credit quality continued to suffer resulting in increased credit losses and

higher Non-Performing Assets (NPA) ratios across the Banking industry. Gross NPA ratio of the Bank deteriorated to 5.98% as at 31st December 2008 from 4.96% a year before but compares well against an industry average of 6.2%. Provisions for credit losses too increased by 117% to Rs. 470.9 mn, contributed to by the repayment difficulties faced by some segments in our consumer assets portfolio of Credit Cards and Loans and to prudential provisions made on account of several corporate customer exposures over and above the provisioning policy of the Bank, which is more stringent than the guidelines of the Central Bank of Sri Lanka.

As mentioned before, we saw the lowest growth in the Banking industry in years. Deposits grew by a mere 7.5% while Loans grew by only 6%. The high interest rates that prevailed throughout the year also resulted in a significant shift from current/savings accounts to higher yielding deposits during the year. Your Bank however, was able to outperform the industry. Deposits grew by 19% signifying an increase in market share, with the low cost current/savings deposits

growing relatively slower (though faster than industry) than term deposits. Loans and advances grew by an encouraging 16% during the year with the SME and Consumer portfolios increasing relatively faster than the Corporate portfolio.

Return on Assets and Return on Equity were 0.96% and 16.45% for 2008 in comparison to 0.98% and 17.62% respectively for the previous year.

The performance of our subsidiaries, Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited too exceeded our expectations. Mercantile Leasing (Financial Services) Limited (MLFS) continued to scale down its operating leases business and made an operating loss in the year. It is likely that the Company will be wound up during the year 2009.

During the year, our ranking in the LMD Top 50 improved to 31 from 40 in 2007, rising by an impressive 9 places. You will be pleased to note that we have moved from 50th position in 2006 to 31st position in 2008, an upward movement of 19 places in two years. Of the Business Today Top 10 rankings we ranked No. 2 in turnover growth and No. 8 in profit growth for 2007/08.

A detailed review of performance of the Bank during the year is given in the section on Management Discussion and Analysis.

INITIATIVES IMPLEMENTED

The preliminary steps in the implementation of the Strategic Plan 2008-2012 envisaged a re-branding and re-positioning of the Bank, with a view to developing a long-term strategy to propel the brand and would emphasise the Bank's commitment in 'making life simple'. This started off with a presentation to all staff on the strategies and way forward, followed by the unveiling of the new corporate brand identity and a logo. The new identity represents the core values of flexibility, simplicity, of being responsive and innovative - all of which are values

espoused by the Bank in delivering a higher level of service to our customers. The new logo is a dynamic and living mark, almost a physical reminder of how the Bank can touch the lives of its customers in a genuine, meaningful manner.

The Senior Management team also brainstormed to re-articulate the Vision, Mission and Values to align them with the strategy and the unique selling proposition of simplicity. Our ongoing training continues to reinforce this, so that all staff actively practice the Bank's Values while working towards the achievement of the Mission and Vision of the Bank.

Work also commenced at reviewing products and services, service standards, processes and documentation used in customer interactions with a view to simplifying them with the objective of providing greater customer convenience. These initiatives are ongoing with phased implementation as and when they are completed.

Some of the important customer centric initiatives implemented for making life simple for them included:

- Opening of five fully-fledged branches in Nawala, Matara, Galle, Thalawathugoda and Bandarawela increasing the branch network to 36.
- Opening of six Personal Banking Centres at Keells Super outlets at Kandana, Kurunegala, Mount Lavinia, Negombo, Piliyandala and Wattala.
- Refurbishing/relocating of 10 branches with a new look and feel for greater customer convenience.
- Increasing the number of ATMs to 47 from 38 an year ago, with new ATMs accepting cash and crediting customer accounts on an on-line real-time basis.
- Opening a new SME Banking Centre at the 'Millennium House' building.
- Re-location of the Private Banking Centre in a more spacious and convenient location in Colombo 7.

- Setting up of a fully-fledged Contact Centre for both inbound and outbound services.
- Launching an Internet Payment Gateway facility for the benefit of merchants and customers to receive and make payments using American Express Credit Cards.
- Widening the Automatic Bill Settlement (ABS) facility, a unique and convenient payment service for American Express cardholders under which payments of monthly recurring bills for telephone, water, insurance and other service providers can be arranged.
- Partnering with Commercial Bank of Ceylon PLC to enhance accessibility for American Express card members enabling them to access their accounts, withdraw money and check balances from more than 300 Commercial Bank ATMs.
- Restructuring business into three focused and independent business units viz. Consumer, SME and Corporate/ Wholesale/Treasury, so that a holistic approach could be applied when dealing with different customer segments.
- Further centralising all the processing activities by bringing them under one roof by moving the processing departments into a modern spacious brand new Processing Centre in Colombo 15.
- Re-launching the flagship membership programme 'Inner Circle' with the 'Bank At Your Doorstep' facility.
- Introducing a new product 'Forex Trader', that helped the Bank mobilise significant amounts of foreign currency deposits, enhance Forex profitability and build customer loyalty.
- Increasing customer facing staff in branches by deploying 'floor walkers' to assist clients who visit the Bank branches to fulfill their banking requirements in an efficient and effective manner.
- Setting up a fully-equipped Staff Learning Centre to conduct training programmes for the staff.

We are delighted that the impact of these initiatives are being noticed by our customers who are very positive about the convenience they provide and improvements in our service standards. The knowledge we gather from the customer experiences and interactions in turn help us create new and better products and services that are attractive and meaningful to them.

We laid the base for further growth in 2009 with the signing of an agreement with the National Carrier, SriLankan Airlines for the issuance of the co-branded American Express SriLankan Airlines Platinum Credit Card. The card was launched in the first week of January 2009. We also signed up Kumar Sangakkara as our brand ambassador who epitomises the values of Nations Trust Bank; that of youth, talent and capability. He will be the driving force of our Consumer Banking advertising campaign in 2009 and beyond. I am sure that these two initiatives will contribute to an even better 2009.

STABILITY

Capital Adequacy being one of the important indicators of stability of a bank, we always attempt to maintain a ratio of not less than 12% at all times at the Tier I & II level against the statutory minimum of 10%. During the year, the shareholders infused Rs. 1.048 bn in equity capital under the first tranche of the Capital Augmentation Plan. The Bank also mobilised Rs. 1.000 bn by way of issuing unsecured, subordinated, redeemable debentures during the year, which were subsequently listed on the Colombo Stock Exchange. These funds helped the Bank to maintain the Tier I and Tier I & II Capital Adequacy Ratios at 10.31% and 15.70% respectively as at 31st December 2008.

In addition, the Bank supplemented its deposits mobilisation efforts with long-term funding secured from multilateral funding agencies. All these agencies have reaffirmed their commitment to the Bank to continue with their facilities and to also consider increases in 2009, a reflection of their confidence in the stability of the Bank.

Upon completion of their annual review, Fitch Ratings Lanka Limited reaffirmed the A (lka) rating assigned to the Bank during the year, which denotes a strong credit risk relative to other issuers or issues in the country.

FUTURE

The Sri Lankan economy is yet to experience the full impact of the global economic slow down. We expect 2009 to be a difficult year. Credit growth is likely to moderate further and credit quality may continue to deteriorate. In this environment, the Bank recognises the need to be prudent and the importance of strengthening Risk Management capabilities while maintaining a strong capital base and high levels of liquidity. We are optimistic that we have the people and the processes required to weather the storm and navigate the Bank into calmer waters, which will set the stage for sustained growth in future years.

As we close the year 2008, the Bank remains in a strong financial position with all its business divisions performing well, a favourable funding position and comfortable capital adequacy ratios. Every single day, we remain focused on growing Nations Trust Bank in size and stature. We are all very optimistic about its future. The challenges of last year and your Bank's ability to stand apart are a testament to the talent and enthusiasm of Team Nations Trust.

APPRECIATIONS

The ability to deliver the strong performance we have seen over the past financial year across the Group would not have been possible without the commitment of the highly skilled and competent management and staff who are passionate about the pursuit of customer convenience and delivering outstanding service. I am very grateful for the high level of support I have received across the organisation and continue to be enormously impressed with their dedication and capability. It is a great privilege to lead this organisation and I am confident that we can continue to deliver to all our stakeholders well beyond their expectations in the coming years.

I also thank the Chairman and Board of Directors for their continued advice, wise counsel and unwavering support to the endeavours of management.

My appreciation goes to the Governor of the Central Bank of Sri Lanka and his officers for their guidance and co-operation at all times.

I also thank M/s Ernst & Young, our external auditors for their professional and ethical conduct of the audit and for ensuring that the timelines was met so that we could publish this Report and have the Annual General Meeting early.

CONCLUSION

We are pleased with the performance of the Group across all areas, although there is no limit for improvement in the pursuit of providing unparalleled and unprecedented levels of convenience. We have already made elaborate arrangements to improve customer convenience, operational efficiencies and productivity further during 2009.

The headwinds, which impacted the economic performance in 2008, are likely to continue in 2009. I believe that these will present us with both challenges and opportunities. However, with the outlook for global financial markets being uncertain and economic growth expected to slow down, we will continue to remain cautious but focused on our strategic imperatives. We will ensure that we remain well capitalised and funded, thereby ensuring that we balance these short-term challenges with the need to continue to invest, in creating long-term value for our shareholders.



Zulfiqar Zavahir

Director/Chief Executive Officer

17th February 2009



Faster than a speeding bullet

It's a bird, it's a plane... no, it's a bill payment, winging its way to your merchant or service provider via Nations Trust Bank's automated, online payment gateway. It almost makes paying bills a pleasure. Almost.

