

Chairman's Message

“We will continue in our quest to be the epitome of simplicity while providing our valued customers 'unparalleled and unprecedented levels of convenience'.”



It is with great pleasure that I present to you the Annual Report of your Bank for the year ended 31st December 2008.

MACROECONOMIC ENVIRONMENT

The year 2008 was a year of significant change and volatility - both globally and locally. Globally, commodity prices reached unprecedented levels during the first half of the year which together with the sub-prime crisis led to a global economic meltdown during the second half of the year. The faith and confidence in the financial services sector as a whole was severely dented by a spate of high profile bankruptcies and bail-outs in developed economies. In Sri Lanka, while the effects of these adverse developments did not fully impact the local economy in 2008, we did see a reduction in dollar liquidity leading to a drop in our foreign currency reserves. Despite a tight monetary policy by the Central Bank of Sri Lanka (CBSL), inflation rose to a level of 28.2% in June 2008 on a point-to-point basis and remained above 20% during most of the year.

“In the backdrop of a slowing down of the Sri Lankan banking industry, your Bank managed to grow its business volumes at above the industry growth rates, thus signifying an increase in its market share.”

The action by the CBSL of a tight monetary policy together with the dramatic drop in commodity prices in general and crude oil in particular resulted in containment and now, a reduction of the rate of inflation. This trend is expected to continue during 2009. The significant progress made by the Government in its military campaign and the liberation of areas that have hitherto been under the LTTE control and hence not in the local economic mainstream also augurs well for the country.

However the continuing global economic crisis and its potential fallout on Sri Lanka is a cause for concern. It is imperative that the Government formulates a local economic stimulus plan to avoid business closures, job losses and economic contraction as is taking place globally. The opening of the North and the East of the country presents a significant opportunity in this regard.

The economic developments of 2008 led to a slow down of the local banking industry with deposit growth being only 7.5% for

2008 against 16.3% in 2007 and loans & advances growth being only 6.0% for 2008 against 18.9% in 2007. Credit quality also deteriorated and the average non-performing loans ratio of the banking industry went up from 5.2% to 6.2% during the year.

PERFORMANCE DURING THE YEAR

Despite the turbulent macroeconomic environment, your Bank performed exceptionally well during the year. Group Profit after Tax increased by 17% to Rs. 593.1 mn. Net interest income grew by 38% while non-fund based income increased by 34% over the previous year. Even in the backdrop of a slowing down of the Sri Lankan banking industry, your Bank managed to grow its business volumes at above the industry growth rates, thus signifying an increase in its market share. Loans and advances and deposits grew by 16% and 19% respectively. Due to the heavy investments made in the initiatives identified in the Strategic Plan and the inflationary pressures, Cost to Income ratio witnessed only a marginal improvement from 69% to 68%. More information on

the performance of the Bank is given in the CEO's Review, Management Discussion & Analysis and in the Financial Statements found in this Annual Report.

I am pleased to announce that your Board of Directors recommends a first and final dividend of Rs. 1.50 per share for the financial year ended 31st December 2008 and payable on 6 April 2009 subject to the approval of the shareholders at the forthcoming Annual General Meeting. This would entail a dividend payout of Rs. 251.6 mn for 2008 as against a dividend payout of Rs. 167.7 mn in the previous year, which is an increase of 50%.

2008-FIRST YEAR OF OPERATIONS UNDER THE NEW STRATEGIC PLAN

Being the first year of operations under the new 5-year Strategic Plan 2008-2012 that was approved by the Board in December 2007 with a view to embarking on the next phase of growth, 2008 was an eventful year for your Bank. The new Strategic Plan envisaged a number of initiatives relating to brand building, delivery channels, products

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and processes. It also identified the resource requirements of the Bank, over the 5-year period in terms of capital, space, human resources etc. In this regard, I am happy to mention that a majority of the initiatives were implemented and resources were secured during the year as planned.

Our Shareholders have continued to be a tower of strength since the inception of the Bank. The infusion of Rs. 1.048 bn by way of new capital under the first tranche of the novel capital augmentation plan was completed in early 2008. Warrants have been issued for conversion to shares in March 2010 and 2011. We are confident that the Bank’s consistently good performance will ensure a share price that will make these warrants attractive at the time they fall due.

The Bank also purchased the Head Office building in Union Place, while all the processing activities were centralised into a plush new Processing Centre at Kotahena, which has been leased on a long-term basis. These two buildings, together with the

‘Millennium House’ building at Nawam Mawatha will meet the space requirements over the plan period.

As part of the implementation of our Strategic Plan, a major re-branding and re-positioning exercise was implemented on the underlying theme of ‘Unparalleled and Unprecedented Levels of Convenience’. A Bank wide initiative in aligning the Vision, Mission and Values was undertaken as a prelude to the launch of the new brand and logo. Our new Vision, Mission and Values are given on page 2.

Specific initiatives to enhance accessibility included branching out of the Western Province to the Uva and Southern Provinces while filling the perceived gaps in the Western Province. We also opened six Personal Banking Centres at Keells Super outlets, launched an Internet Payment Gateway facility and enhanced accessibility for AMEX Card members through a strategic alliance with Commercial Bank of Ceylon PLC, for the use of their ATM network.

With the relaunch of our flagship membership programme ‘Inner Circle’, we introduced the ‘Bank at Your Doorstep’ facility which provided banking services at the customer’s residence or office. This service is proving to be quite popular and is a very good example of ‘living the brand’.

CORPORATE GOVERNANCE INITIATIVES

In the milieu of the global financial meltdown, good corporate governance has become the dictum. Complying with the guidelines issued by the Central Bank of Sri Lanka, the Board of your Bank has set up a number of Board subcommittees, the latest being an Integrated Risk Management Committee, which will ensure that Corporate Governance guidelines are strictly adhered to.

LOOK TO THE FUTURE

Without dwelling on our past laurels, we need to plan and prepare for the future, especially in the context of an extremely challenging year envisaged for 2009.

The outlook of 2009 will depend on a combination of factors such as intensity and duration of the war, length of the global downturn, economic policies of the Government etc. We have taken these economic realities into account and prepared ourselves to brace for any scenario that may unfold. We foresee maintaining liquidity, cost containment, revenue growth and maintaining asset quality to be business imperatives for succeeding under trying and testing conditions envisaged for 2009. We also foresee significant opportunities to expand and capture profitable market share in this environment. We believe, we are well poised to grab these opportunities.

In the backdrop of these developments, retention of a loyal clientele is of added significance. We will continue in our quest to be the epitome of simplicity while providing our valued customers 'unparalleled and unprecedented levels of convenience'. As I stated in my message

last year, the Bank has and will continue to be proactive and re-engineer its products and services while striving to exceed customer expectations.

APPRECIATIONS

Since the inception of the Bank, we have recruited, trained and groomed a highly skilled and talented group of employees, whose dedication and untiring efforts have been instrumental in delivering the excellent results we have seen this year. The conditions they had to operate in were, to say the least, extremely testing. On behalf of the Board of Directors, I wish to convey our appreciation to the team led by the CEO/Director Mr. Zulfiqar Zavahir for their commitment and performance during the year under review.

My sincere appreciation also goes out to my fellow Directors for their unstinted co-operation and support over the year. They have been an immense source of strength to me during the year.

The loyalty of our customers has been very encouraging despite intense competition. This has helped us maintain a competitive edge and gain business and market share outperforming our more established peers over the year. I thank them for the confidence they continue to place in us.

I take this opportunity to thank the Governor of the Central Bank of Sri Lanka and his officials, for their guidance and continued support during 2008. Special gratitude is extended towards our auditors M/s. Ernst & Young for the level of professionalism exhibited while conducting the year-end audit. Finally, I would like to thank all the stakeholders for the trust and confidence they continue to place in our Bank.



Ajit Gunewardene
Chairman

17th February 2009



Opening up new territories

Nations Trust Bank opened branches at Nawala, Matara, Galle, Thalawathugoda and Bandarawela in the year under review. We intend to expand our coverage further in the years to come.

