

“Diversity of revenue streams and a disciplined approach to managing cost and risk enabled us to improve our pre and post-tax profit. Despite an industry wide downturn in credit quality, strong capital and liquidity coupled with our inherent strengths to overcome adversity enabled us to withstand the negative effects and record a consistent and improved performance for the year 2009.”



I am delighted to present to you the Annual Report of your Bank for the year ended 31st December 2009.

MACRO ECONOMIC ENVIRONMENT

Compared to 2008 which undoubtedly was the most turbulent year in recent times, 2009 was relatively uneventful from a global context with definite signs of relative stability and consolidation of the global economy. Although effects of these adverse developments did not fully impact Sri Lanka, inflation which rose to unprecedented levels in 2008 continued to decelerate throughout 2009 resulting in the annual average inflation recording a modest 4% per annum by year end. The sharp drop in the country's foreign currency reserves in late 2008 and early 2009 reversed itself towards the latter part of the year and is relatively well positioned. This, together with the drop in imports, higher earnings from favourable commodity prices and increased remittances contributed to a stable exchange rate.

Although there are definite signs of a reversal of the economic downturn seen in the previous year, 2009 on the whole only saw a moderate increase in economic activity. The Central Bank reduced policy rates during the year with the expectation that low interest rates will stimulate economic growth. At industry level,

deposits recorded a growth of 18.5% in 2009 compared to a 7.9% growth in 2008. Total loans and advances in the banking industry contracted by 4% during 2009 against a 6.6% growth in 2008. Credit quality deterioration continued with the average non-performing advances ratio of the banking industry rising from 6.3% in 2008 to 8.0% during 2009. The last quarter of 2009 saw a modest growth in loans and advances which perhaps signals a turnaround in the economy.

The defeat of terrorism and unification of the country through the integration of Northern and Eastern regions into the economic mainstream has provided unprecedented opportunity for accelerated economic growth in Sri Lanka. While the progress made in the development of these regions will no doubt continue to accelerate in the coming years, financial institutions are expected to perform a significant role in the re-emergence of not only the North and East, but the whole country in the post-conflict era. This provides tremendous opportunity for financial institutions, particularly to those who are quick to get off the block.

PERFORMANCE DURING THE YEAR

Your Bank performed admirably well under difficult circumstances during the year to post a net profit after tax of Rs. 686.1 mn which is a 16% improvement on Rs. 593.1 mn posted in 2008. Net interest income grew by 30% signifying our strength in core banking activities. Non-fund based income increased by 8% over the previous year. Despite a slowing down of the financial services industry, your Bank managed to grow its business above the industry average to improve its market share. The Group Balance Sheet and Deposits grew by 4% and 30% respectively. The concerted efforts to effectively manage costs have borne fruit with a significant improvement in the cost to income ratio from 68% to 62%. Deterioration of asset quality was a common phenomenon across the banking industry in the light of the macroeconomic environment. Your Bank adopted sound credit risk management policies to control the quality of its advances portfolio.

I am pleased to announce that the Board of Directors recommends a first and final dividend of Rs. 1.50 per share for the financial year ended 31st December 2009, subject to the approval of the shareholders at the forthcoming Annual General Meeting. This would entail a maximum dividend payout of Rs. 314.5 mn for 2009 as against a dividend payout of Rs. 251.6 mn in the previous year, which is an increase of 25%.

10 YEARS OF OPERATIONS

Your Bank celebrated 10 years of operations in 2009. During the past ten years, Nations Trust Bank has grown from infancy into a force to be reckoned with, in the Banking industry. This was clearly validated when your Bank was rated 16th by LMD in their ranking of the country's most respected business entities.

Nations Trust Bank has traditionally been retail focused with most of its branches located in the Western Province. During 2008, Nations Trust Bank expanded its branch network to Southern and Uva Provinces and now has firmly established its presence in these regions. Continuing with this momentum, Homagama branch was opened in early 2009 followed by a branch in Vavuniya to etch our presence in the Northern Province as well.

Not limiting ourselves to increasing customer accessibility through traditional means, we have continued to develop and upgrade alternate delivery channels such as Internet banking, Bank at your Doorstep, SMS banking and Tele banking. These direct banking channels will improve access to our services and enhance customer convenience while building capacity to serve a larger number of customers in the future.

Exceptional customer service is, and always has been the unique selling proposition of Nations Trust Bank. Hence, 'Unparalleled and unprecedented levels of convenience' formed the nucleus of the re-branding exercise initiated in 2008. The high standards we maintain in customer service have once again been recognised by American Express who awarded their Global Service Award to us for the second time in 2009. It is very gratifying to see that our Brand value has grown by three-fold within a short span of time. According to the ranking of public brands in Sri Lanka by Brand Finance, an independent brand rating agency, your Bank improved its position from 41st place in 2008 to 21st place in 2009, with brand value increasing by 182% from Rs. 497 mn to Rs. 1.4 bn.

CHALLENGES

During a relatively short but eventful history of your Bank, many challenges were encountered and overcome. Perhaps the most significant was the foreign exchange loss incurred as a result of a breach in operational procedures, which came to light in mid 2009. The real test of an organisation is its ability to triumph over adversity and emerge stronger. Your Bank did just that. Nations Trust Bank weathered this set back exceptionally well to emerge stronger and wiser and post commendable results that all of us can be proud of. Risk management functions have been further strengthened with skilled resources in place to ensure risks are identified, assessed and mitigated, so that the Bank can continue its growth momentum while balancing risk and return.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

Corporate governance and effective risk management in the financial services industry are under close scrutiny in the aftermath of the global financial crisis triggered in 2008. The laws and regulations governing the financial services industry have, quite rightly, come into focus with more stringent supervision by regulators, external auditors and Boards of Directors. Your Board of Directors who are mandated with the responsibility for overseeing good governance and risk management have taken every step to ensure compliance with the laws and regulations governing the businesses.

THE NEXT PHASE

The first ten years of your Bank's journey has indeed been extremely satisfactory. However, as we embark on our next phase of growth, it is imperative that we gear ourselves to face new challenges as well as exploit the opportunities presented in post-conflict Sri Lanka.

Our shareholders continue to be a great source of strength and I am confident that the year 2010 warrants will be fully subscribed to support our ambitious expansion and growth plans.

Your Bank has recognised the significant opportunities presented to financial institutions as part of the peace dividend for the whole country. Ambitious plans have been drawn up for the expansion of our branch network, not only in the Northern and Eastern regions, but also wherever we see opportunity to do business and generate sustainable revenue. To support our growth plans, we have strengthened our senior management team by bringing in resources with proven skills and expertise. I am confident that these investments will provide attractive returns on the strength of a wide range of products and services and unparalleled customer service your Bank offers to its customers.

The year 2010, will undoubtedly be another challenging year. The turnaround in the economy is expected to gather momentum with the environment being more conducive for investment. This augurs well for the banking industry and your Bank is well positioned to reap the benefits from the resurgence in the Sri Lankan economy. Our main focus continues to be, to provide unparalleled and unprecedented levels of customer convenience, a strategy which has won us many loyal customers. In striving to provide exceptional customer convenience, we will continue to be innovative and quick as we have done in the past decade, without compromising risk management measures we have in place.

APPRECIATIONS

The confidence, our customers continue to place in us has been very encouraging and has been instrumental in us achieving strong results under intense competition. I thank them for the trust they have placed on us and believe that our mutually beneficial partnerships will further strengthen in years to come.

From the inception, the dedicated and loyal group of employees has been the key to our success. They have proven their mettle under testing circumstances to overcome adversity and delivered commendable results yet again. I wish to convey my appreciation to them for their commitment and performance during the year under review.

After five years at the helm, Mr. Zulfiqar Zavahir retired from the Bank's service. I wish to express my sincere appreciation to Mr. Zavahir for his leadership in transforming Nations Trust Bank into what it is today. Mr. Saliya Rajakaruna took over the reins and I am confident that your Bank will soar to greater heights under his stewardship.

I also wish to place on record my sincere appreciation of the services rendered by Mr. Susantha Ratnayake, as a member of the Board since December 2000. He resigned from the Board with effect from 1st December 2009, in order to comply with CBSL directions which limit the tenure of a Director to 9 years.

I truly appreciate my fellow Directors for their unstinted co-operation and support over a turbulent year. They have been an immense source of strength to me.

The guidance and continued support extended to us during 2009 by the Governor of the Central Bank of Sri Lanka and his officials has been extremely valuable and much appreciated. Finally, a special note of thanks to our Auditors, Messrs Ernst & Young for the level of professionalism exhibited while conducting the year end audit.



Ajit Gunewardene
Chairman

18th February 2010