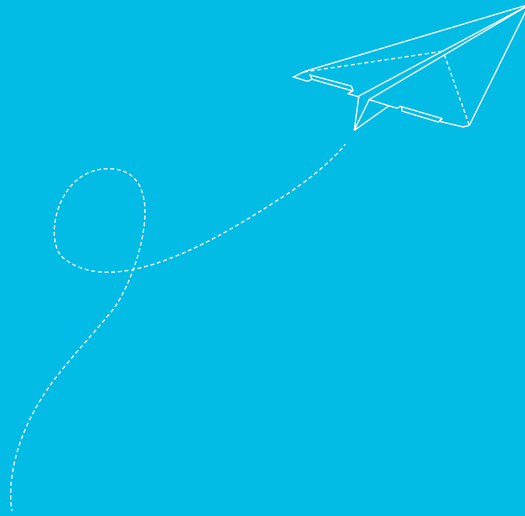


Annual Report 2007



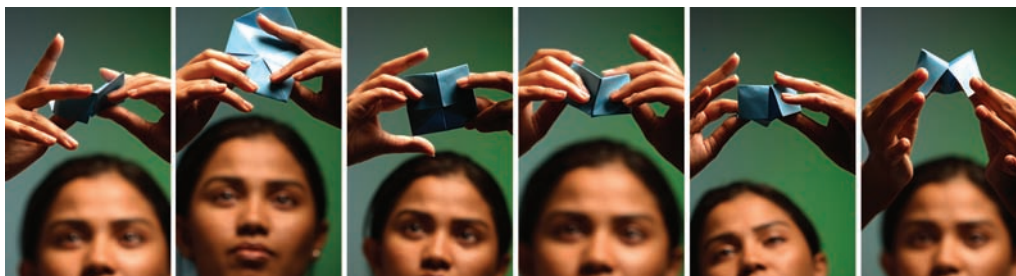
Propelled to the future with dexterity

We listen. We respond. Where necessary, We innovate



contents

Financial Highlights	5	Chairman's Message	6	Chief Executive Officer's Report	10	Management Discussion and Analysis	19		
Human Capital	51	Helping, Building & Caring	54	Risk Management	58	Valued Relationships	62	Corporate Governance	64
Board of Directors	66	Corporate Management	68	Senior Management	69	Service Network	71		
Board Audit Review Committee Report	72	Annual Report of the Board of Directors on the Affairs of the Company	74						
Directors' Interests in Contracts with the Bank	78	Directors' Responsibility for Financial Reporting	82						
Auditors' Report	83	Income Statement	84	Balance Sheet	85	Statement of Changes in Equity	86	Cash Flow Statement	87
Notes to the Financial Statements	88	Investor Information	119	Five Year Summary	121	Glossary	123	Notice of Meeting	125
Form of Proxy	Enclosed								



Be what you want to be, and we'll be what you want us to be

Where are you headed? What are your goals and ambitions?
And what kind of financial services and support do you need?

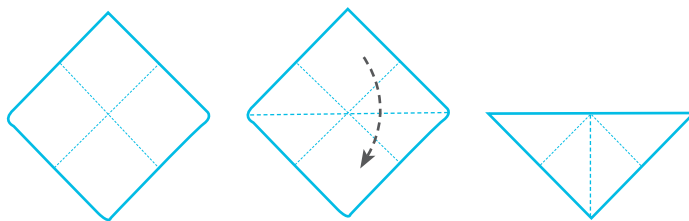
[Just tell us, and we'll do the rest.](#)

Nations Trust Bank doesn't force stakeholders into a mould shaped by its own business objectives, or by preconceived ideas about the market, or about fashion. Rather, we do the changing – reshaping our products and services, our ways of doing business, to suit the people we do business with. Like a sheet of paper folded into a myriad different shapes by the origami artist, we let people decide what to make of us. [We listen. We respond. Where necessary, we innovate. All to be whatever our stakeholders need from us, to the best of our ability and the full extent of our resources.](#)

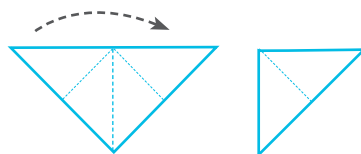
STEP 1

Vision

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



Fold into half



Fold into half again

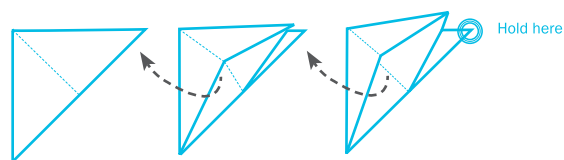
STEP 2

Mission

Guided by a conservative risk-taking regime, we will endeavour 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.



With your thumb, open up the inside of the top triangle until forming a pocket

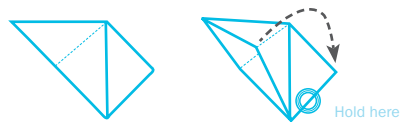


Fold the top right corner to the bottom and flip it over from left to right

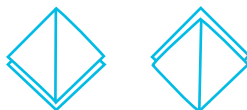
STEP 3

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

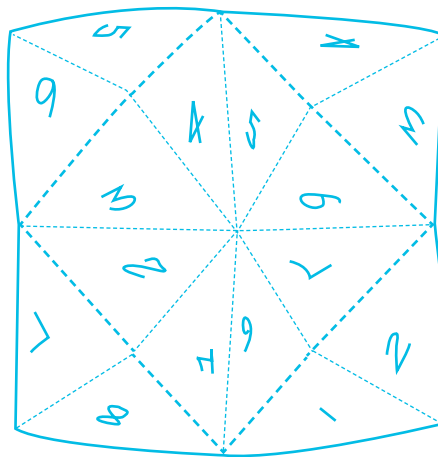


With your thumb, open up the inside of the top triangle until forming a pocket



Flatten, rotate so flaps are at the top

STEP 4



**The numbers that count,
and the story they tell**

Financial Highlights

	Group 2007 Rs. mn	Group 2006 Rs. mn
--	-------------------------	-------------------------

Results for the year

Gross Income	9,342	5,922
Net Profit before Taxation	847	538
Provision for Taxation	342	215
Net Profit after Taxation	505	323

At the year end

Shareholders' Funds	2,868	2,862
Deposits	28,666	20,670
Repurchase Agreements against Corporate Debt Securities	3,100	2,127
Loans and Advances (Net)	34,500	26,993
Total Assets	55,688	47,622

Information on Ordinary Shares (Rs.)

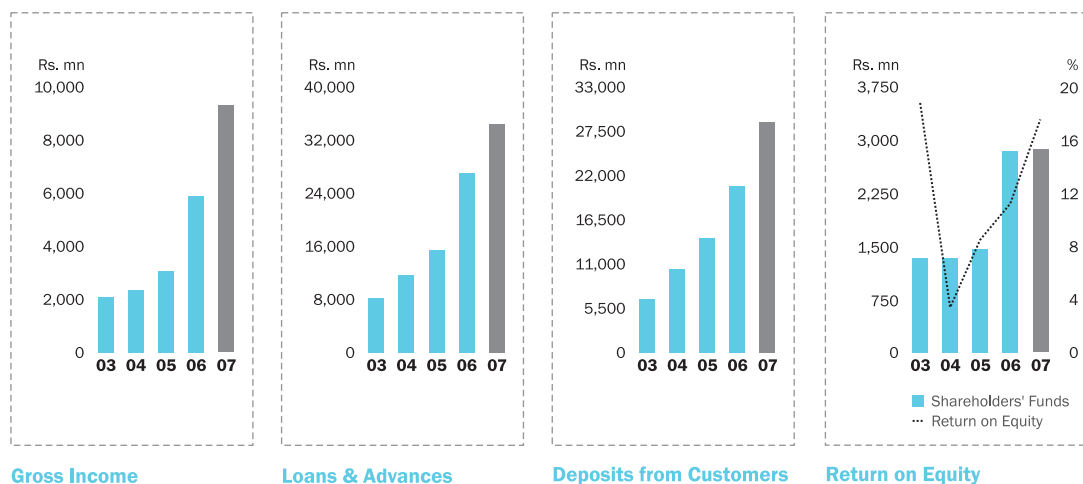
Earnings per Share	3.81	2.44
Net Assets Value per Share	21.65	21.60
Market Value at the year end	29.75	28.25

Ratios (%)

Return on Average Assets	0.98	0.88
Return on Equity	17.62	11.30

Capital Adequacy Ratios (%)

Tier I	7.20	7.86
Tier I & II (Total Capital)	10.44	11.86



Chairman's Message

It is with great pleasure that I present to you the Annual Report of your Bank for the year ended 31st December 2007.

Your Bank undoubtedly had an excellent year. Group Net Profit after Tax increased by 56% over the previous year to Rs. 504.8 mn. Net interest income recorded an increase of 23% while non fund-based income increased by 43% over the previous year. Increase in income was corresponding to the growth in lending and deposits by 28% and 39% respectively. Cost to Income ratio improved from 71% in 2006 to 69% in 2007. Increases in Earnings Per Share, Return on Assets and Return on Equity reflected the enhanced profitability of the Bank. The Chief Executive Officer's Report on page 10 and the Management Discussion and Analysis on page 19 analyse the Bank's performance in detail.

I am pleased to announce that your Board of Directors recommends a first and final dividend of Rs. 1/- per share for the financial year ended 31st December 2007 on the enhanced capital of the Bank, subsequent to the rights issue in 2008. This would entail a payout of Rs. 167.7 mn as dividends for 2007 as against a pay out of Rs. 125.8 mn in the previous year, which is an increase of 33%.

Since 2003, the Bank has been implementing a strategy which was retail focused and aimed at building up a strong market presence, a clear corporate identity and a highly profitable business portfolio. This we have done in no small measure, having achieved total assets and post-tax profits in excess of Rs. 50 bn and Rs. 500 mn respectively in 2007.

During the second half of last year, it was thought timely that the Bank reviews its strategy with a view to making a quantum leap over the next 5 years. Accordingly, a new strategic plan covering the period 2008-2012 was formulated on the theme of **'unparalleled and unprecedented levels of convenience'**. A large number of new initiatives, some requiring extensive investments, were identified and necessary budgetary allocations have been made. These initiatives will be rolled out shortly and will lay the foundation for the envisaged growth in the next phase of the Bank's rapid progress.

The Bank is planning on branching out of its main focus area of Western Province, to other major cities in the island, thus taking the Bank's products and services to a broader spectrum of clientele. The Bank is also planning to make more investments in technology which would enable it to reach out to other segments of clients and offer them convenient banking solutions.

Over the past years we have recruited, constantly trained and retained a highly talented and young group of people. They are a proactive, multi-skilled and enthusiastic team who can acclimatise to the continuous changes required to meet the emerging trends of the future. The Bank owes its achievements to them.

Bearing in mind the highly competitive environment that we operate in and the need to stay abreast with constantly evolving stakeholder needs, the Bank will be proactive in reinventing itself and re-engineering its products and services with which it will be able to add value to all our stakeholders.



Ajit Gunewardene

Chairman

A new strategic plan covering the period 2008-2012 was formulated on the theme of 'unparalleled and unprecedented levels of convenience'

Chairman's Message

There is an exciting future ahead of us.

The success of Nations Trust Bank to date can be attributed to its ethos of creating attractive and sustainable shareholder value. The primary objective of the Bank has been to drive shareholder returns. We firmly believe that while a bank can have a number of objectives, the most critical objective is strong financial performance as it is the financial performance of a bank that determines the resources available. To this end, senior management remuneration at your Bank is significantly linked to financial performance and thus shareholder returns. Most global banks have shareholder returns as their primary objective. J.S. Reed, the former Chairman of Citicorp, had as his key objective 'to deliver shareholder value on a sustained basis'.

In fact the importance of driving shareholder value was underlined by the events surrounding the recent sub-prime crisis. Due to the crisis, the large global banks needed billions of dollars of capital and investors have willingly infused this capital due to the track record of these financial institutions that focused on and delivered attractive shareholder returns in the past.

The most significant strength for Nations Trust Bank since its inception nine years back, has been the support of its shareholders. The Bank commenced operations with an initial capital of Rs. 500 mn which was increased by the infusion of additional capital (including share premium) of Rs. 455 mn through a 7 for 10 rights issue in 2003. In 2006, the capital of the Bank increased by a further Rs. 1.066 bn on account of the merger with Mercantile Leasing Limited, 60% of

this increase being contributed by the 2 founder shareholders of the Bank namely John Keells Holdings PLC and Central Finance Company PLC.

Taking into account the investments that are needed to implement the new initiatives identified in the strategic plan of 2008-2012 and the resulting growth in business volumes, a capital plan was prepared and approved by the Board of Directors, at the end of last year. In accordance with this capital raising plan, the Bank held an Extraordinary General Meeting of the shareholders on 17th January 2008 and obtained your approval for making a rights issue of shares coupled with an innovative scheme of warrants.

The confidence of the shareholders in the future of the Bank has once again been reaffirmed with the successful conclusion of the recent rights issue which raised a sum of Rs. 1.048 bn for the Bank. The support the Bank has received from its shareholders is a result of its focus on generating attractive shareholder returns as well as maintaining the highest standards of corporate governance. We are confident that the shareholders will subscribe to the conversion of warrants into shares in March 2010 and March 2011, which would meet the capital requirements of the Bank during the plan period and support the growth of the Bank going forward.

Critical to the performance of the Bank in the past and going forward is the strategic input from your Board of Directors and key shareholders. The Bank has had a medium and long-term strategic plan that has been developed by your Board in conjunction with management and this is

reviewed frequently. As outlined above, we have a new medium-term strategic plan with clearly defined milestones and deliverables to monitor performance. Your Board has ensured in the past and will ensure going forward that this plan does not gather dust and is implemented fully.

I take this opportunity to thank my fellow Directors for their valued advice and unstinted support. A special commendation is due to the Director/Chief Executive Officer, the Corporate and Senior Management teams and to all our staff for their dedication and zest which has enabled us to deliver excellent financial results and make substantive progress across our businesses.

I would like to thank the Governor of the Central Bank of Sri Lanka and his team for their continued support and guidance throughout the year 2007. Special thanks also go out to our Auditors, M/s. Ernst & Young for their professional approach and efficiency in conducting the year end audit and releasing the report in time, enabling the Bank to hold the Annual General Meeting early.

Finally, I thank all our customers and shareholders for their long-standing trust and unfailing support.



Ajit Gunewardene
Chairman

15th February 2008

Chief Executive Officer's Report

It is with a sense of great satisfaction that I present to you the Chief Executive Officer's Report for 2007, reflecting on the remarkable performance of a turbulent year.

Nations Trust Bank is undoubtedly one of the fastest growing banks in Sri Lanka today. In 2006, the Bank was able to race ahead of most of other small banks and join the big league. 2007 saw the continuation of this momentum, in the face of a challenging interest rate and operating environment during the year.

The extreme focus that we continued to display in the implementation of our long-term strategies and the ability to take proactive action in the face of unfriendly macro economic factors, contributed greatly to our success.

The results speak for themselves - your Bank has made remarkable progress within a relatively short period of 9 years since its commencement of business, growing at a Compounded Annual Growth Rate in excess of 38% in deposits and 41% in loans and 60% in profits over the past 5 years.

Complementing this aggressive growth, we also have great comfort in the fact that Non-Performing Loans Ratio (NPL) remains below 5%, Cost/Income Ratio is trending down nicely, the Bank's rating by Fitch Ratings Lanka Limited has been reaffirmed as A(Ika) and the brand value continues to increase significantly.

It is indeed a source of immense gratification.

Financial Highlights for 2007

For the year, we were able to report a Group Profit after Tax of Rs. 504.8 mn, an increase of Rs. 181.5 mn or 56% over the previous year. Profit after Tax of the Bank is higher than that of the Group due to the dividends received from subsidiary companies which were eliminated in the Group accounts as inter-company transactions. The underlying net income increased to Rs. 3,441.6 mn in 2007 reflecting a 30% growth while operating expenses increased only by 23%, signifying the improvements in productivity. As a result (though there is much room for further improvement), Cost to Income ratio improved from 71% in 2006 to 69% in 2007.

Net interest income grew by 23% as a result of higher volumes somewhat offset by lower margins reflecting rising interest rates and an uncertain liquidity position in the market.

Non-funds based income too grew by 43% resulting from a record foreign exchange income reflecting higher trade volumes and a greater presence in the market, pleasing growth in our Credit Cards business and the continued growth in business volumes across the Bank.

Despite the difficult economic conditions, we were able to maintain the asset quality at acceptable levels by containing the Non-performing Assets ratio at 4.96%, a reflection of the sound credit risk management practices and streamlined post sanction monitoring processes in place. The net charge to profits on provisions for bad and doubtful debts increased to Rs. 217.0 mn in 2007 from Rs. 214.7 mn in 2006, a marginal increase of 1%. As a percentage of average loans and advances, this charge amounted to 0.69%.

A photograph of Zulfiqar Zavahir, Chief Executive Officer, sitting in a black office chair. He is wearing a dark suit, a white shirt, and a dark red tie. He has grey hair and glasses. In the background, several people are walking, including a woman in a blue top and white skirt, and a man in a white shirt and blue tie. The background is a wooden wall.

Zulfiqar Zavahir

Chief Executive Officer

The future is ours to shape...

We have put in place a strong foundation to embark upon the next exciting phase of our growth...

Chief Executive Officer's Report

The increase in the Value Added Tax on Financial Services and the income tax liability correspond to the increase in profits liable for the respective taxes. Effective tax rate of the Group was 40.43% compared to 39.96% in 2006.

Business volumes too grew much faster than the industry as a whole. Loans and advances grew by an encouraging 28% during the year, with the higher yielding and wider risk diversified consumer portfolio increasing relatively faster than the Corporate portfolio. Deposits grew by 39%, with the low cost current/savings deposits growing relatively slower (albeit faster than industry) than term deposits reflecting the prevalence of high interest rates during the year.

Improvements in profitability resulted in a much improved Return on Assets of 0.98% and a Return on Equity of 17.62%.

The performance of our subsidiaries, Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited too exceeded our expectations. However, as a result of a decision taken to concentrate on financial leases through Mercantile Leasing Limited, the operating leases business of Mercantile Leasing (Financial Services) Limited (MLFS) continued to be scaled down. No new businesses were undertaken since October 2004, which resulted in the Company making an operating loss in the year. The Board and the Management are currently exploring the future of this Company.

Full provision was made against reserves during the year for goodwill of Rs. 372.1 mn that arose from the merger of Mercantile Leasing Limited

with the Bank. This provision was made in order to be compliant with the provisions of the Banking Act, before the payment of the dividends for the year ended 31st December 2006.

During the year, our ranking in the LMD Top 50 improved to 40 from 50 in 2006, rising by an impressive 10 places. Only one other company recorded a similar rise.

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

Strategic Direction

In the backdrop of the above mentioned achievements and the developments of the economy and industry over the last few years, it was thought timely that we review our strategy and lay down a road-map for the Bank for the next five years. It was also felt that a comprehensive Strategic Plan to support an aggressive growth agenda, be formulated for the Bank and form the basis of the request for additional capital needed to sustain further growth.

During the latter part of 2007, the Management of the Bank with the guidance of the Board, deliberated on the business model, the strategies to be followed and the resource requirements in relation thereto. These deliberations revolved around identifying and agreeing on a Unique Service Proposition, the customer and geographic segments to serve, the distribution channels required, the range of products and services to be offered, efforts on brand building, customer management, service standards and processes, risk management capabilities etc.

Having carefully analysed and deliberated on the strategies and the performance of the competitors over the past several years and also taking into account the improvements that need to be effected, the Management decided to revolve the new strategy around providing ***'unparalleled and unprecedented levels of convenience'*** as the Unique Service Proposition to gain competitive advantage. Numerous new initiatives have been identified and will be rolled out during 2008 in order to ensure the provision of the contemplated level of convenience to the customers.

Incorporating the new initiatives, infrastructural and other resource requirements such as capital and human resources, a Strategic Plan has been developed. The targets that we have set ourselves for the future are extremely challenging. We have already commenced laying down the required infrastructural foundation and strengthening capabilities so that the new initiatives will be fully operational in the second half of year 2008. We will run fast and work hard to ensure successful implementation. We expect all these activities to further strengthen our position in the Sri Lankan Banking Industry and to have a material impact on our performance by 2009.

Capital Augmentation Plan

In order to support the aggressive growth plans laid down in the Strategic Plan 2008-2012, while complying with the minimum capital requirements laid down by the regulator, the Bank's commitments to multilateral agencies, maintaining acceptable solvency ratios to support the current credit rating and attracting essential funding from multilateral agencies, an innovative

capital augmentation plan combining rights with warrants was approved by the Board. This capital plan is expected to infuse approximately Rs. 3.000 bn to the Bank by way of equity over the next three years. I wish to express my sincere gratitude for giving your approval for the capital augmentation plan at the Extraordinary General Meeting held on 17th January 2008, a clear mandate of your support.

The proceeds of the Rights Issue and the future proceeds upon exercising the warrants will ensure that the Bank is adequately capitalised to support the growth momentum over the next few years. The attachment of warrants ensures that the commitment of the shareholders for the infusion of further capital is evident, giving confidence to regulators, depositors, rating agencies and other interested parties. The attachment of warrants to the rights was acceptable to the shareholders, as they will be called upon to take up the rights only as and when the Bank actually needs capital funds, at a price, which is fixed now. On the other hand, the attachment of warrants places an onerous responsibility on the Management of the Bank to perform and to ensure the maintenance of the share price at appropriate levels, making it a winning proposition for both parties.

Growing Space Requirements

In view of the increasing space requirements arising from the expansion of the Bank, both in terms of the realised growth over the past several years and the growth projected in the Strategic Plan 2008-2012, the procurement of a suitable Head Office building for the Bank had been identified as one of the resource requirements.

Chief Executive Officer's Report

After evaluation of several options and also considering the escalating building costs and the potential loss of focus, which will result from management time needed for the construction of a Head Office building, it was decided that purchasing the Union Place building would be the most suitable option. Accordingly, the Bank purchased the land and the building at the current Head Office premises at No. 242, Union Place, Colombo 2, from its owners in January 2008. The space in the Head Office building along with the 'Millennium House' building and the Processing Centre in Kotahena which is nearing completion will be sufficient for the space requirements of the Bank over the next 5 years. We are planning to move all the processing departments of the Bank to the Processing Centre in Kotahena during the second quarter of the year.

Credit Rating

During the year, Fitch Ratings Lanka Limited carried out the annual review of the rating assigned to the Bank and reaffirmed it at A(lka) which denotes a strong credit risk relative to other issuers or issues in the country.

Capital Adequacy under Basel II

The regulatory Capital Adequacy computation, which was hitherto based on Basel I Accord, will be based on the Basel II Accord commencing from the first quarter of 2008. In this regard, we have taken the necessary steps to address certain difficulties arising from non-availability of data/information required in the core banking system, thereby realising potential benefits of the new Accord. The changed requirements under

Basel II are not expected to impact significantly on the Bank's Capital Adequacy position.

One Bank Many Solutions

The Bank's market positioning of 'One Bank Many Solutions' is actively supported with a host of financial services products and services that cater to the needs of the individual, corporate or institutional clients. The Bank ended the year with 31 branches, 8 leasing centres and 38 ATMs. An agreement signed with Commercial Bank of Ceylon PLC in January 2008 will enable our customers including American Express card holders to access the ATM network of the Commercial Bank. This will be in addition to the Cirrus/Maestro network that will continue to be available to current/savings account holders.

Considered to be one of the most customer centric financial institutions in the country today, Nations Trust Bank provides customer convenience through 365 day banking with branches being kept open for extended hours compared to most other banks in the country.

The Future

The future is ours to shape.

We have put in place a strong foundation to embark upon the next exciting phase of our growth. Growing customer numbers, standard setting services and strong presence in all business segments are achievements we are proud of today. All these undoubtedly build confidence of living up to the challenges we have set ourselves in the journey ahead.

Conclusion

I wish to thank the Chairman and other members of the Board of Directors for their expert guidance and unwavering commitment to the efforts of the Management.

We have been able to attract and retain the smartest and most dedicated people in the industry. I really appreciate this talented and energetic 'CAN DO' team who worked tirelessly to ensure the excellent performance I am proudly reporting to you today. They have demonstrated what it takes to be part of a winning team.

Once again, my thanks go to the ever-vibrant senior management for leading from the front and making it all happen.

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 the issuing of the report on a timely basis enabling us to publish this Report and hold the Annual General Meeting early.

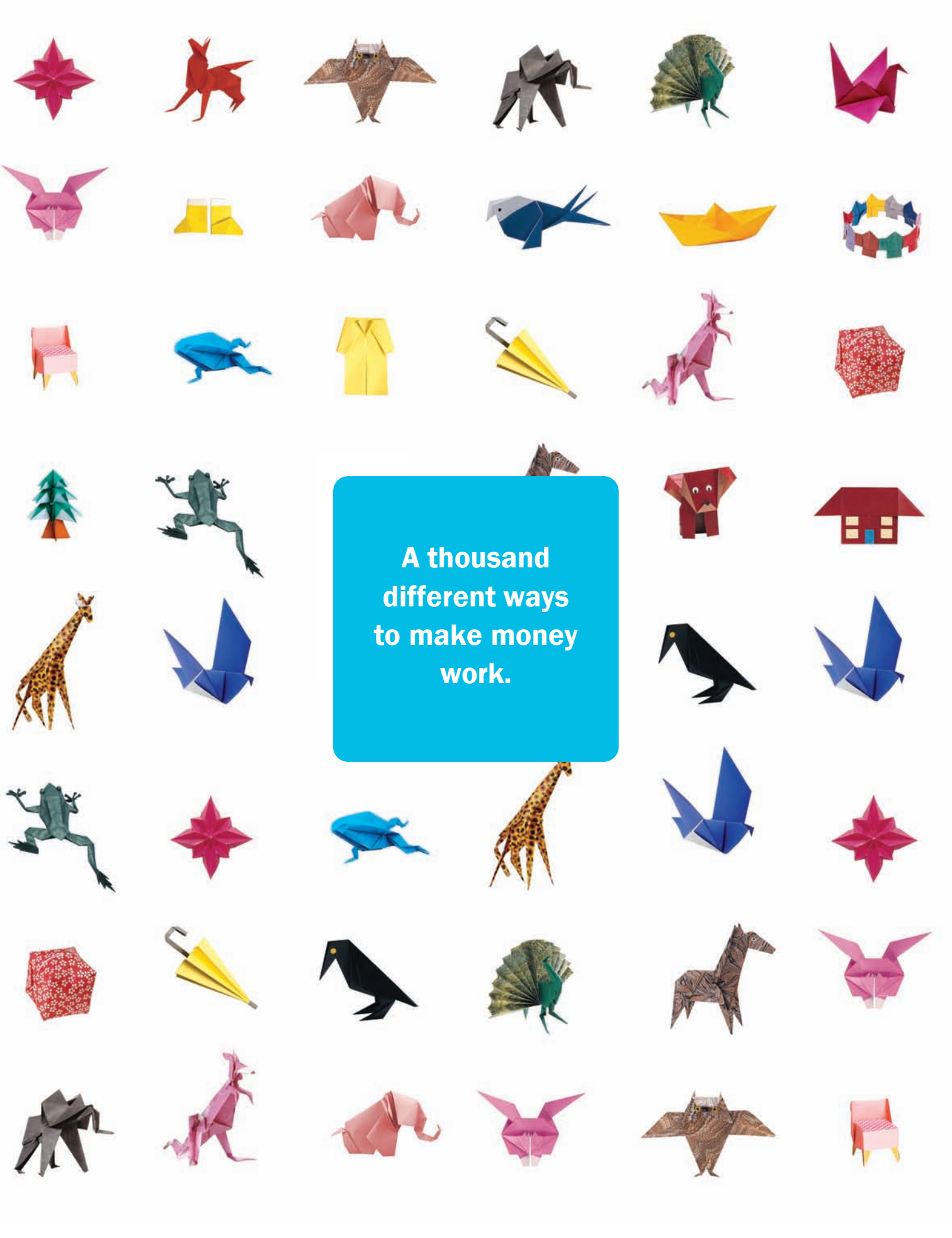


Zulfiqar Zavahir

Director/Chief Executive Officer

15th February 2008

One bank.



**A thousand
different ways
to make money
work.**

Cresting the Wave

Staying afloat is easy enough. Nations Trust Bank goes beyond - configuring itself and its business to catch the wave of opportunity as it rises, and sail onward to success.



Management Discussion and Analysis

The Bank began operations in 1999 following the acquisition of the Sri Lankan branch of Hong-Kong-based Overseas Trust Bank Limited and was promoted by leading corporates, John Keells Holdings (JKH) and Central Finance Company (CF) together with the International Finance Corporation. JKH, CF and their related entities currently hold 49.9% of its equity.

A strategy of aggressive but selective acquisition was pursued since its inception. The Bank acquired Waldock Mackenzie Limited (WML), the John Keells investment banking arm as a fully owned subsidiary in 2002. During the same year, it acquired the Kandy branch of Standard Chartered Bank, the personal banking portfolio of the Colombo branch of Deutsche Bank and the Colombo branch and foreign exchange services business of American Express Bank.

With the appointment as the exclusive franchisee for American Express (AMEX) credit cards in Sri Lanka in 2003, Nations Trust Bank entered into the domestic credit card business. On 1st January 2006, the merger with Mercantile Leasing Limited (MLL), a long established specialised leasing company acquired by the John Keells group in 2004, was effected through a share swap, boosting the Bank's capital base by Rs. 1 bn. As part of this transaction the Bank also acquired three fully owned subsidiaries of MLL namely Allied Properties Limited, Mercantile Leasing (Financial Services) Limited and Nations Insurance Brokers Limited.

This report reviews the operations of the Bank and its subsidiaries. A review of the macro-economic landscape and regulatory environment as applicable to the Bank is given thereafter, followed by an assessment of the overall financial performance and position and the strategic direction for the future of the Bank.

Management Discussion and Analysis

Review of Operations

Retail Banking

Delivery Channels

Total number of branches increased to 31, with the opening of a new branch in Peradeniya. Colpetty, Kohuwala and Kandy branches were relocated to larger more conveniently located premises whilst the City branch was refurbished to enhance customer experience. The Bank Call Centre was extended to 24 hours, for customer convenience.

Enhancing the Customer Experience

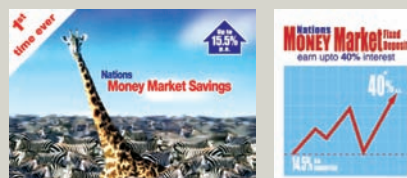
Several new initiatives commenced during 2007. The Mystery Customer Programme was re-launched to measure specific areas of customer service at our branches. Customer Feed Back Forms were introduced where valuable feedback was obtained on customer experience at the branches. Retail Banking introduced a quarterly rewards programme for staff members in order to promote and enhance the customer service culture across the business. The 'YES Campaign' was launched across the Bank to celebrate the Global Customer Service Week during October 2007 and top service providers in the Bank were duly rewarded. Delivery Standards were set for identified Critical Processes across the organisation and monthly evaluations were reported to the Customer Service Steering Committee. Customer Service Centre, the Bank's on-line complaint management system was re-launched during the year to offer more effective and speedy solutions. A customer service representative was also placed in some of our key branches to assist customers visiting our branches.

Product Innovations

The Retail Unit continued to offer innovative, highly competitive and customer friendly products. Amongst new products launched in 2007, Nations Money Market Fixed Deposits (MMFD) and Nations Money Market Saver were two of the pioneering and successful products. The success is attributed to the timing of the launch in a very volatile interest rates market, where the Bank used this volatility for the customers' advantage. Both these products were Sri Lanka Inter-Bank Offer Rate (SLIBOR) linked products which offered the benefit to customers in line with the movement of the overnight rates in the Colombo inter-bank market, while guaranteeing a minimum return on their deposit. MMFD was created as an opportunity for the customer to profit from high interest rates especially for term investors who can still invest their money in the long-term but have the flexibility to gain from high short-term rates. With the success of the MMFD the Bank by linking a



Peradeniya Branch Opening



Launch of SLIBOR linked deposit products



savings account to the SLIBOR, gave potential customers the opportunity to benefit from higher short-term interest rates, without compromising on the flexibility they have from a savings account.

Other Initiatives

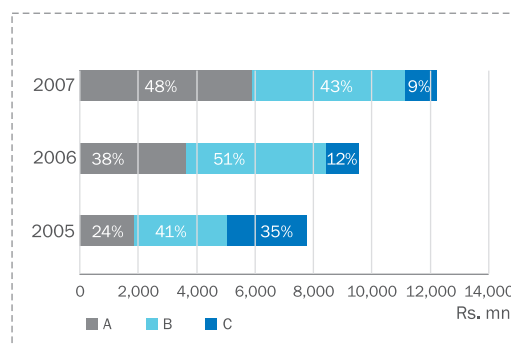
A sales management system was introduced at all branches, whereby the sales activities of the branches could be monitored and tracked for more effective product sales and customer acquisitions. Focus was given to branch productivity and profitability, with initiatives taken to drive retail revenue, productivity and cost control. Several sales generation activities such as Staff Get Member programmes and competitions were carried out during the year to enhance product sales and customer acquisitions.

Corporate and Wholesale Banking

In a year marked with significant interest rate hikes resulting from inflationary pressures and turbulence in the economy, the Bank focused on maintaining asset quality in the Corporate Banking and Wholesale Banking lending portfolios whilst striving towards improving fee income to boost risk-based return targets that were implemented to ensure optimal returns on capital. The Bank boasts a comprehensive suite of products and services. Varied solutions and instruments are developed by Relationship Managers closely working with Treasury product specialists who have in-depth knowledge of market intricacies and their movements.

Proactive interaction with clients and superior relationship management were the key drivers for the success of this unit. The 'NTrust Corporate Quiz' was held for the 2nd consecutive year and is now considered an important date on the corporate calendar, attracting top-drawer Sri Lankan names to the competition.

The team performed admirably under challenging conditions to surpass budgeted numbers delivering a fee based/funds based income ratio of 48:52 with the NPL ratio restricted to 4.1%. Whilst recording a good growth the quality of the loan portfolio continued to remain impressive, with A & B risk exposures accounting for 91% of the total. Competitive pressures continued unabated and were further complicated by aberrations in the LKR yield curve. Short-term rates continued to be distinctly lower than benchmark 3 month rates, beyond which most re-financing via customer deposits takes place.



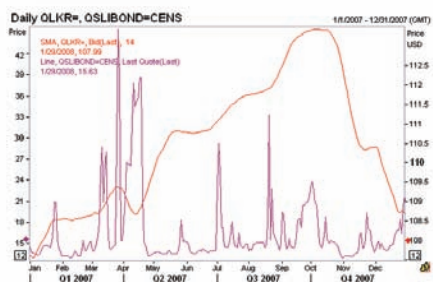
Loan Portfolio by Risk Grade

Lending units also focused on products that will facilitate financial dis-intermediation. This would eventually progress towards improving fee income, freeing up the Bank's risk capital and liquidity, whilst offering both borrowers and investors attractive pricing. Accordingly, the portfolio of Commercial Papers and other Debt Instruments originated for our corporate clients stood at Rs. 3.9 bn, peaking at an impressive Rs. 4.4 bn during the year.

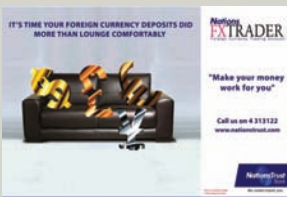
Management Discussion and Analysis

Treasury and Investment Banking

The performance achieved in the Treasury area was exceptional and highlighted the enormous strides made, with foreign exchange revenues well surpassing expectations in a year where the overall depreciation of the LKR was only 1%, although huge swings were seen in certain months.



The Bank has established a valuable franchise in the inter-bank market as market-maker in the USD/LKR currency pair in both the spot and forward markets. This has enabled pricing advantages to be translated to acquire customer positions by providing competitive rates to importers and exporters, thereby attracting significant business volumes. Volumes transacted through the Foreign Exchange booths of the Bank recorded an increase of 23% further helping the forex result. Expertise is also being built up in G8 currencies with benefits of currency trading being available to customers through the newly introduced 'Forex Trader' product.



Launch of FX Trader

Fixed income volumes that are mainly transacted through the Bank's fully owned subsidiary Waddock Mackenzie Limited grew to Rs. 14.6 bn which demonstrated the ability of the institution to attract flows from large institutional investors whilst growing the ever-important retail customer base. Selective strategies were employed to gain optimal results on LKR yield curve shifts that included Overnight Indexed Swaps (OIS) and Forward Repo's. Initiatives on portfolio management were vigorously pursued that further leveraged the fixed income capabilities. Equities Margin Trading volumes were stable despite relatively sluggish market conditions and contributed well to the overall result.

Leasing and Factors

Following the merger in January 2006 of Mercantile Leasing Limited with the Bank and the acquisition of its subsidiaries, 2007 saw the successful completion of the integration of the businesses, with support functions such as Treasury, Information Technology, Finance, Legal and Human Resources being centralised and a uniform organisational structure and compensation and benefits system being implemented.

The newly merged businesses made a significant contribution to the Group's bottom line in 2007, meeting the expectations of the Directors and shareholders in terms of realising the anticipated synergies of the merger.



Nations Banking Fair held at Nawam Mawatha

Leasing

The period under review witnessed another year of remarkable growth for the Leasing business. The volume of new business showed a growth of 28.5% over the previous year, despite strong competition from the larger established leasing companies, and from other banks, many of whom are coming into leasing for the first time. In an environment of ever increasing interest rates and default rates, the ratio of non-performing assets to total portfolio declined to 5.4%, probably one of the best for a leasing portfolio in Sri Lanka, reflecting a combination of good quality credit, effective collection procedures and strong relationship management of a loyal customer base.

A new leasing counter was opened at Kurunegala branch, building on the success of counters opened in Kandy and Panadura in 2006. The synergies with the Bank customer base as well as economies of scale have been well proven with all these leasing units breaking even and covering set-up costs within a matter of months. The leasing branches and counters outside Colombo performed exceptionally well in 2007, with the Bank having a dominant presence in the leasing markets of both Negombo and Bandarawela.

The Bank continues to focus on the Small and Medium Enterprises Sector (SME) and Consumer markets, with sector specific promotions carried out in all regions. Additionally, we launched innovative products such as the Nations Professional Lease and Nations Variable Lease, aimed at addressing specific needs of various customer segments.

Factors

Factors continued with its strategy of cautious growth and consolidation of good quality existing business, and remain the second largest factoring provider in the market. The receivable portfolio grew by 57% over the previous year, and revenue and profitability recorded growth of 28% and 89% respectively. Emphasis was given to risk management of the portfolio with customer acquisition in selected market segments, which paid rich dividends in keeping the NPA ratio below budgeted levels. In keeping with the Bank's credit profile, high risk and low yielding accounts were phased out during the course of the year.

Subsidiaries

Mercantile Leasing Insurance Brokers Limited was re-branded as Nations Insurance Brokers Limited in 2007. The Company continued to provide insurance services for the leasing portfolio ensuring that all leased assets are adequately insured, while earning above budget revenue and profits.

Management Discussion and Analysis

Mercantile Leasing (Financial Services) Limited continued to scale down and did not undertake new operating leases business during the year. The Board and the Management are currently exploring the future of this Company.

Allied Properties Limited which owns and manages the 'Millennium House' building at Nawam Mawatha continued to maintain 100% occupancy during the year under review and performed as per budget. The tax holiday enjoyed by the Company under its BOI status expired in March 2007 but a concessionary tax rate of 2% on turnover will be applicable for a period of 15 years.

American Express Credit Cards

The Bank's card business continued to strengthen its strategic position, making a significant contribution to profits. Since the launch of AMEX cards in August 2003, the card portfolio has grown at a rapid pace and is now a significant player in the premium category.

It was another exciting year, with several promotional campaigns being launched. Amongst these promotions was the launch of an exclusive Internet Payment Gateway [IPG] which got off the ground with the formal agreement with etickets.lk, as the first partner merchant offering Amex Card-members the convenience of booking their theatre or movie tickets online. In addition e-channelling was added to the list while flight tickets will be added in the future.

The Bank as a concerned corporate entity launched 'Save a Tree with American Express' campaign. The launch was held at the Wild Life

Nature Protection Society's (WNPS) head office at Battaramulla. The initial focus of the Save a Tree programme is to educate and encourage card members to opt for e-statements and e-messages thus saving paper that would then save trees.

A new exclusive 'My card on line' facility to our valued card-members was launched during the year. 'My card on line' services are available on www.americanexpress.lk which offers the facility to better manage one's credit card account. Through this service, card-members can make balance inquiries, view transactions/history, view current and previous statements, view Nexus and Membership Rewards points, redeem points on-line, view pending redemptions, update personal details, request for credit limit increases, e-statements, password changes,



At the launch of 'Save a tree, be Paper free' with American Express



Launch of American Express Internet Payment Gateway with etickets.lk



Launch of Global e-Shop website

register for Automatic Bill Settlement, as well as view all ongoing promotions. This facility promises to be a most convenient, informative and secure online banking service.

Automatic Bill Settlement facility, which enables customers to pay their bills hassle free, has also seen a tremendous customer uptake during the year.

The Global e-Shop was launched where card members can purchase goods directly from on-line shopping websites in USA at attractive prices.

Achievements during the year

Credit Rating

During the year, Fitch Ratings Lanka Limited carried out an annual review of the rating assigned to the Bank and reaffirmed it at A(Ika) which denotes a strong credit risk relative to other issuers or issues in the country.

ALM Competition

The Netherlands Development Finance Company (FMO), the international development bank of The Netherlands invests in risk capital in companies and financial institutions in developing countries. As part of its efforts in building capacities of the private sector, it conducted an Asset & Liability Management competition for their clients across the globe. During the first round, 20 teams competed and ran their own 'virtual' bank model in a simulated and changing on-line business environment. Every two weeks the teams delivered their investment decisions, which were put into the simulation programme which resulted in changes in their share price and performance ratios. After 12 weeks five finalists were invited to the Netherlands for the final round. After completing the ALM simulation during a three-day final event, Nations Trust Bank emerged as the winner of the competition.



Winning Team of the FMO ALM Competition

Management Discussion and Analysis

RANK 07	COMPANY	RANK 2006/07	RANK 2006/08
10	ACL CABLES	32	47
10	NATIONS TRUST BANK	40	50
5	HAYLEYS MGT	42	47
2	SAMPATH BANK	18	20
2	LOEC	34	36
1	ATTEN SPENCE	9	10
1	ANF	20	21
1	THE FINANCE	24	25
1	UNITED MOTORS	38	39
1	EAGLE INSURANCE	44	45

Lanka Monthly Digest - Movers and Shakers

The LMD 50, which is currently established as the Sri Lanka's version of THE FORTUNE 500 published the rankings of the nation's leading listed companies for the fiscal year 2006/07. Nations Trust Bank that made the entry to the top 50 companies in the previous year moved up 10 places to be ranked at number 40. Only one other company matched this rise. Principal ranking of the listed companies is turnover which is considered to be the yard stick for meaningful comparisons of diverse entities.

Highlights During the Year

Insurance Review

As requested by the members of the Board Audit Review Committee, Delmege Insurance Brokers Limited with technical advice from AON Corporation carried out a review of insurance requirements of the Bank with a view to ascertaining the adequacy of present covers. The policies were renewed based on their advice.

Building Plan

In view of the increasing space requirements arising from the expansion of the Bank, both in terms of the realised growth over the past several years and the projected growth in the Strategic Plan 2008-2012, a building plan was developed.

Procurement of a suitable Head Office building for the Bank was deliberated and after evaluation of several options, it was decided to purchase the land and building at the current Head Office premises at Union Place. Apart from the financial viability where positive returns would be generated in the longer term, other considerations such as rent revisions at periodic intervals having adverse implications on the Income Statement, shifting to new premises from time to time being costly in terms of disruptions to business, refurbishing, re-wiring, re-laying communication lines, transport etc. also justified the purchase.

As per the regulations of the Central Bank of Sri Lanka, a freehold building can be revalued every 7 years and 50% of the resulting gain can be considered as capital for regulatory capital adequacy purposes. Premises that appreciate in value, will also help the Bank in satisfying the 'Solvency Test' prescribed by the new Companies Act, before the payment of dividends.



Bank's Head Office premises at No. 242, Union Place, Colombo 2



Artist impression of the Processing Centre nearing completion



'Millennium House' building at Nawam Mawatha, Colombo 2

A new state-of-the-art 'intelligent' processing centre is being built. The Bank will take this custom built building on a long-term rent basis. The building will be operational in the second quarter of 2008 where all support functions will be centralised. The centralisation of these functions will enable the Bank to operate with much greater levels of efficiency.

The Head Office building, the Processing Centre and the 'Millennium House' building located at Nawam Mawatha will address the space requirements of the Bank over the next 5 years.

Internal Customer Survey

Just as much as we focus on providing excellent service to our clients through our Business units, we have been monitoring the service levels of the support units of the Bank to their customers who are primarily internal. Building on the open feedback culture within the Bank, this survey has been carried out every 6 months for the last 3 years and has proved a useful tool in improving efficiency and effectiveness throughout the support units. The score has been improving year-on-year and we hope to achieve even a higher level of service to our internal customers during the years to come.

New Software

Credit Scoring Solution

The Bank, in consultation with South Asia Enterprise Development Facility (SEDF) affiliated to International Finance Corporation, is to establish a robust credit scoring solution for its Credit Cards and Personal Loans product lines. In addition to technical expertise, SEDF provides financial assistance with the objective of developing strong origination/behavioural scorecard systems with internationally recognised risk management practices for consumer/retail banking portfolios, as well as developing portfolio management practices in-line with the best across the globe. The project is expected to be implemented by the second quarter of 2008.

Credit Cards

Currently the operations of the Credit Card Management Solution are outsourced to a service provider in India. The initial decision to go with this party was made due to cost

Partnership

Nations Trust Bank is nothing without its people: borrowers, depositors, officers, managers, shareholders and other stakeholders. Our Financial Review is a record of successful partnerships, every one unique, distilled into the most eloquent language of all - the numbers.



Management Discussion and Analysis

effectiveness and the speed at which the Bank could enter into the credit card business. However, in the wake of the increased business volumes, demanding customer requirements and the system being hosted off-shore, its now time to implement a new solution which could be managed by the Bank's IT team to have better flexibility and overall control. The project is expected to commence in the third quarter of 2008.

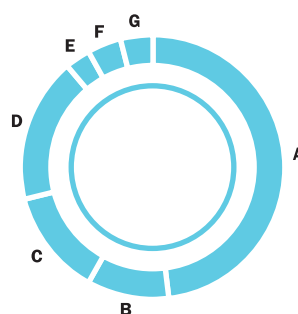
Business Continuity Planning (BCP)

Central Bank of Sri Lanka (CBSL) prepared itself and the banking sector to deal with operational disruptions caused by disasters. Plans for disaster recovery and business continuity have been documented and discussed with local law enforcement and emergency officials. Succession arrangements have been drawn up and back up sites have been created. Periodic tests are being carried out to test the efficacy of these sites. A revised BCP document was completed in 2007 in accordance with the guidelines laid down by the Central Bank of Sri Lanka addressing areas concerning business impact analysis, recovery time objectives, recovery strategies for critical operations and test plans.

The Bank's data center Hot Site was completed during the year, which is a fully operational off-site data processing facility, equipped with hardware, system software and fallback connectivity. The site is considered as the ultimate in disaster recovery preparation with data replication that is up-to-date, to within minutes, which would reduce the down time to a minimum in the event of a disaster.

Financial System in Sri Lanka

Overview

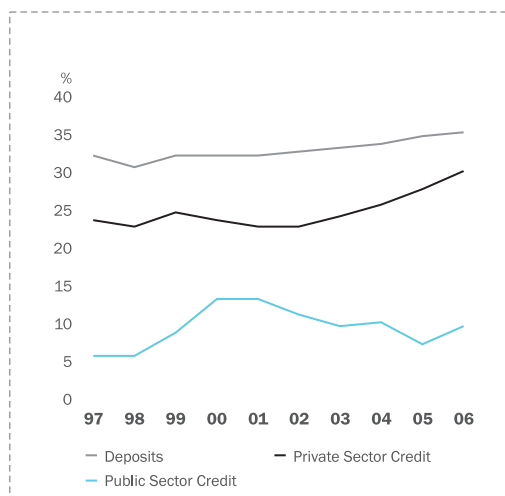
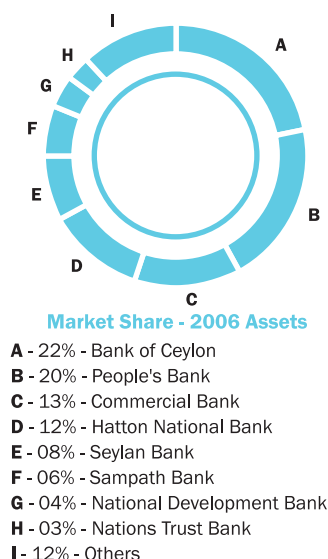


Composition of the Financial System in Sri Lanka

- A** - 48% - Licensed Commercial Banks
- B** - 10% - Licensed Specialised Banks
- C** - 13% - Central Bank
- D** - 18% - Provident Funds (ETF, EPF & Others)
- E** - 03% - Insurance Companies
- F** - 04% - Non Bank Deposit Taking Financial Institutions
- G** - 04% - Specialised Financial Institutions (Primary Dealers, Specialised Leasing Companies, Co-operative Rural Banks)

Sri Lanka's financial services sector is dominated by Licensed Commercial Banks (LCB) with a 48% share of assets while banking penetration in the country remains significantly low in comparison to the region despite a relatively high per capita GDP. The LCB segment is dominated by the two state banks - Bank of Ceylon and People's Bank accounting for 42% of LCB assets, while the four largest local private banks - Commercial Bank, Hatton National Bank, Sampath Bank and Seylan Bank account for a share of 39%.

Management Discussion and Analysis



Sri Lanka - Deposits, Private Sector Credit and Public Sector Credit (As a % of GDP)

Geographic distribution of business is heavily skewed in favour of districts in the Western Province which reflects the presence of the banks' branches, deposits and advances portfolios. Intense competition in the industry has brought pressure on interest margins. However, the lagging effect of deposits pricing and interest free balances in a rising interest rate environment has helped the banks to maintain their margins over a period of time.

Credit to the private sector has grown by a Compounded Annual Growth Rate (CAGR) of 21.1% since 2001, while average net advances in LCB's have grown at a CAGR of 18.26% in the same period, led by growth in consumer finance, leasing and pawning sub segments. Asset quality has also improved considerably over the last 5 years with gross Non-Performing Assets (NPA) declining from 15.3% in 2001 to 5.6% in 2006 with provision cover also improving consistently over the same period. Deposits have grown by a

CAGR of 17% in the last five years. High interest rates currently prevalent are expected to continue in the short term.

Regulatory Environment

Steady progress has been made with regard to the framework and capacity for effective banking supervision, though risk management and its supervision needs further strengthening. Since 2002, the legal framework and prudential regulations have been strengthened and the practice of supervision improved. However, the move from a compliance-based approach to a risk-focused approach is still in its early stages. A framework for overall risk assessment is still evolving and the current practice does not pay enough attention to management and the quality of internal systems and controls. Risk management systems and processes are unevenly implemented across banks. A more forward-looking approach to the supervision of credit risk is warranted in the Sri Lankan context.

Asset quality is subject to risk, with banks relying heavily on collateral, at times because of the absence of reliable financial statements for some borrower segments. In addition, the existing loan-loss classification and provisioning regime is based on formulae-based delinquency criteria.

During the year, Central Bank of Sri Lanka issued new directions on shareholder limits to facilitate broad-basing of ownership of banks. In terms of this direction, major shareholders of the banks have been given time up to a maximum of five years to regularise their shareholdings by reducing it to 15% or below.

The framework for consolidated supervision also needs to be strengthened to suit the changing landscape of the financial industry. Banks are permitted to invest in any activity 'not inconsistent with the business of banking and the provision of finance' and banks may own not just financial institutions but also non-financial businesses, such as property development companies. The Inter-Regulatory Institutions Council (IRIC) was set-up with representation from other regulatory authorities in 2007, to address this need.

Progress has been made in the area of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), including the enactment of three key laws. The passage of the legislation and the setting up of the Financial Intelligence Unit (FIU) are significant steps in the development of Sri Lanka's AML/CFT regime.

In line with global trends, the Central Bank has introduced a mandatory Code of Corporate

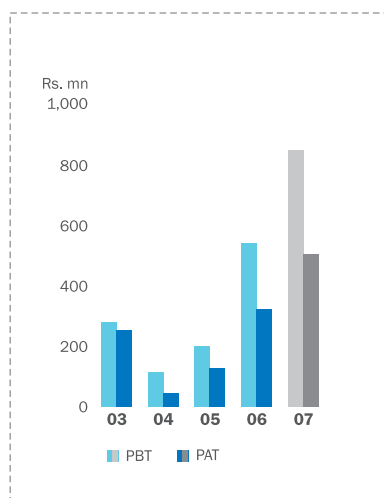
Governance in place of the voluntary code. The new Code of Corporate Governance for banks will make the Boards of Directors of banks responsible and accountable for the banks' performance and risk management, while attaching high priority to depositors' interests.

Financial Review

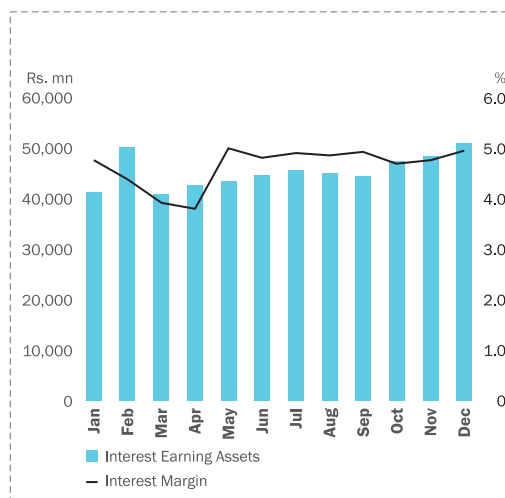
Industry overview - In spite of a volatile and rising interest rate environment, the Sri Lankan banking industry has managed to sustain profitability. Net interest margins have remained relatively stable, largely as a result of the short term nature of assets and liabilities, which allows for quick re-pricing and pass through. Effective taxation for the sector has steadily increased during the last two to three years through special taxes on the financial sector. The sector has grown in line with GDP and inflation.

Significant strides were made during the year and impressive results were posted both in profitability and business volumes. The Group closed the year with an all time high Profit after Tax of Rs. 505 mn an increase of 56% on the previous year. The growth in the profit of the Group for the year was facilitated by an all round improvement in performance compared to 2006. Growth in net income of 30% and cost increase of 23% enabled the Group to increase profit before tax by 57% and Profit after Tax by 56% respectively. Consequently, profitability as measured by ROA rose to 0.98% from 0.88% in 2006.

Management Discussion and Analysis



Profit Before and After Tax



Interest Earning Assets and Interest Margins

	2006		2007	
	Industry	NTB	Industry ¹	NTB
ROE (After Tax) - %	16.30	11.30	16.20	17.60
ROA (After Tax) - %	1.20	0.88	1.30	0.98
Interest Margin - %	4.30	5.10	4.30	4.50

1. Source for industry data is Central Bank statistics.

Net Interest Income

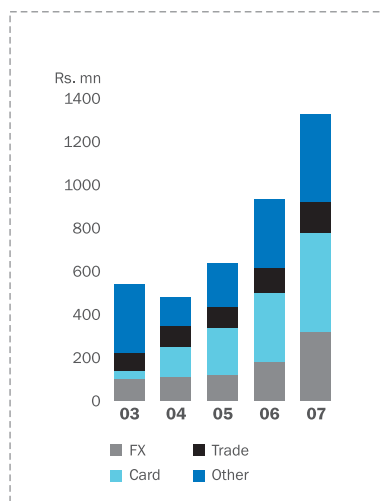
Industry overview - Despite fluctuations in interest rates, Sri Lankan banks have managed to hold onto net interest margins (NIMs) of 4.0%-4.5% during the last four years. Banks were generally able to pass on interest rate increases to borrowers more rapidly than to depositors, thereby sustaining NIMs. This trend showed some signs of reversing during the first half of 2007, due to intense competition for deposit funds as rising interest rates and inflation led to a shift of deposits to higher yielding accounts.

Net interest income increased by 23% a commendable achievement in the context of the interest rate volatility that prevailed in the market throughout the year. NII increase over the year is mostly in line with the deposits and gross advances growth posted for the year of 39% (Rs. 8.0 bn) and 26% (Rs. 7.3 bn) respectively. High and volatile interest regime prevalent in the market had an adverse impact on the NII especially in comparison with the previous year. Average cost of funds increased by 320 bps over the year as a result of matured deposits getting re-invested at higher rates and regular savings shifting to FDs due to higher rates. Despite these significant rate hikes on deposits, proactive re-pricing of assets and liabilities portfolios contributed to maintaining a net interest margin of 4.5% on interest earning assets for the year compared to 5.1% for the previous year.

Non-Fund Based Income

Industry overview - Although fee and commission income has been generally steady, FX income has fluctuated in line with market movements. The forex market witnessed extreme volatility with the local currency initially depreciating to US\$/LKR 113.57 and closing the year at US\$/LKR 108.60.

Non-fund based income recorded a growth of 43% with Foreign Exchange income recording an exceptional growth of 72% for the year as a result of increased business volumes and capitalisation on opportunities that were available in a rather volatile market, whilst trading within established risk parameters. The Credit Card business recorded a significant increase of 46% and Other Operating Income too recorded encouraging improvements during the period.

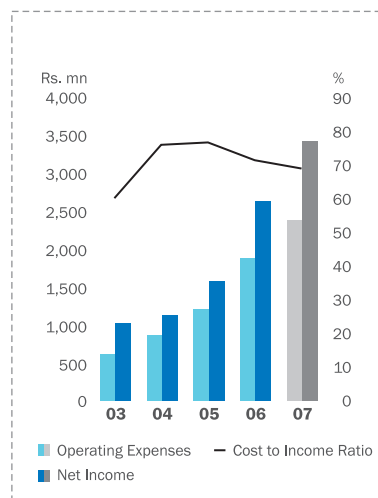


Composition of Non-fund Based Income

Contributions from foreign exchange income as well as fees and commission income arising from its credit card business and trade finance activities accounted for 72% of total non-fund based income in 2007. This was fueled by new value added services being promoted under the 'Nations' brand, offering a more diversified pool of banking solutions to its corporate and retail clients as seen by the growth in other operating income category.

Operating Expenses

Industry overview - Despite increased automation, the Cost/Income ratio has continued to be in the mid 50% region since 2002 and was 57.1% in 2006.



Cost: Income Ratio

Management Discussion and Analysis

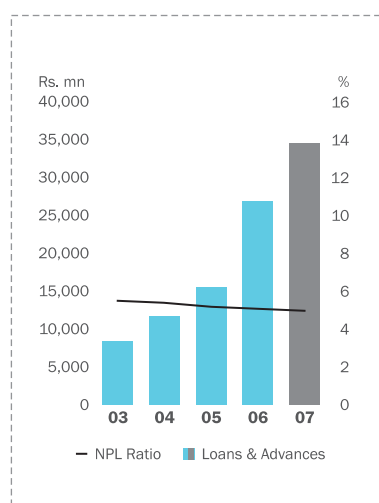
Curtailing growth in operational expenses at 26% over the previous year was a very challenging task. Cost increases were mainly due to increased business volumes and inflationary pressures. Key contributory factors for cost escalations during the year have been in personnel cost 30%, premises and establishment expenses 18%, advertising & business promotions 57% and other overheads 23%. With the head count increase of 419 for the year, expenses were well managed with the implementation of effective strategies to ensure enhanced productivity which in effect continued to contribute positively to the bottom-line. The year closed with a cost income ratio of 69% compared to 71% of the previous year. Scale benefits have begun to reflect in a declining Cost to Income ratio for the Bank.

Provisions

Industry overview - Non performing advances in commercial banks have declined significantly over the last five years from a gross NPA ratio of 15.30% in 2001 to 5.56% in 2006, even though strong growth in advances was recorded.

Despite loans & advances portfolio recording significant growth, tight credit conditions prevalent in the market and the weakening economic environment a healthy risk profile was maintained. Provisions for Bad and Doubtful Debts was restricted to a very commendable 1% increase whilst Gross Non-performing Ratio further declined to 4.96% compared to 5.1% reported for the previous year. This reflected the improvements in the asset quality through the

adaptation of sound risk management techniques and better loan recovery procedures. Intensive screening of customers and close follow-up action limited accretion of NPLs to 12% during the year.

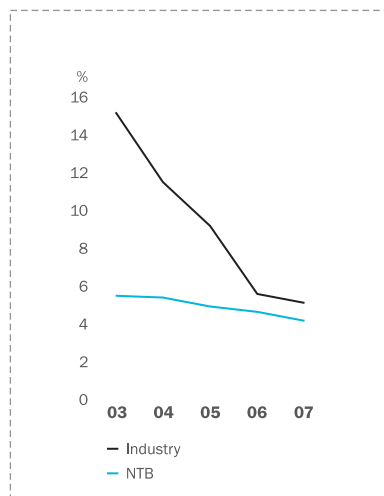


Loans & Advances & NPL Ratio

Total provision charge for the year stands at 0.69% of total average outstanding compared to 0.97% for year 2006.

Solvency, as measured by net NPLs/equity, marginally deteriorated to 9.7% end 2007 from 8.5% in 2006, mainly owing to the full provision made during the year against reserves for the goodwill that arose from the merger of Mercantile Leasing Limited with the Bank, in order to be compliant with the Banking Act, before the payment of dividends for 2006.

Provision cover too improved from 58% in 2006 to 56% in 2007 due to prudent provisioning policy.



NPL Ratio - Industry Vs. NTB

Taxes

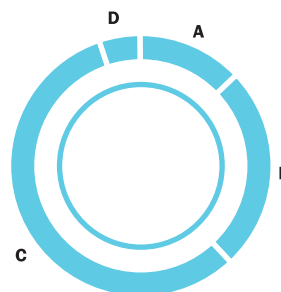
Industry overview - In addition to income tax on profits, banks also have to pay a Value Added Tax on Financial Services, pushing up the average effective taxation rate on pre tax profit to over 50%.

Effective tax rate of the Bank (inclusive of VAT on Financial Services) dropped to 34% from 45% recorded in the previous year, mainly due to the dividends received from two of the subsidiaries of the Bank - Waddock Mackenzie Limited and Allied Properties Limited. Total income tax expense of the Group increased from Rs. 215 mn to Rs. 343 mn, a 59% increase compared to a pre-tax profit increase of 57%.

Balance Sheet Structure

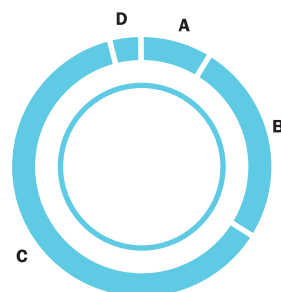
Industry overview - The share of loans and advances as a percentage of assets has risen steadily in the last five years and currently stands at 60%.

Loans and advances being the single biggest asset accounted for 62% of the Group's total assets for 2007 with Government securities taking up 20%. Overall, the assets structure has not changed significantly over the year but share of loans and advances increased moderately.



Asset Mix 2006

- A** - 13% - Cash and Balances with Banks
- B** - 25% - Government and Other Securities
- C** - 57% - Loans & Advances
- D** - 5% - Other Assets



Asset Mix 2007

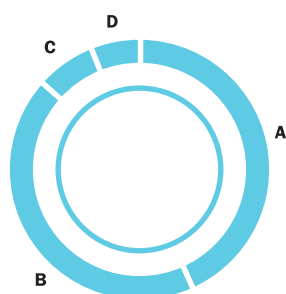
- A** - 9% - Cash and Balances with Banks
- B** - 25% - Government and Other Securities
- C** - 62% - Loans & Advances
- D** - 4% - Other Assets

Management Discussion and Analysis

Funding

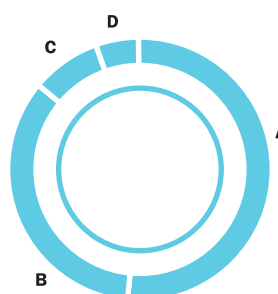
Industry overview - The funding mix continues to be dominated by deposits, although its share is gradually decreasing.

Deposits continued to remain as the main funding source with the share of borrowings as a source of funds decreasing steadily.



Liabilities - 2006

- A** - 43% - Deposits
- B** - 43% - Borrowings
- C** - 8% - Other Liabilities
- D** - 6% - Equity Capital & Reserves



Liabilities - 2007

- A** - 51% - Deposits
- B** - 35% - Borrowings
- C** - 9% - Other Liabilities
- D** - 5% - Equity Capital & Reserves

Detailed Liabilities Mix

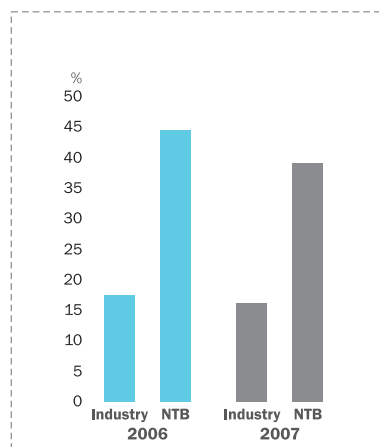
	2007	Mix	2006	Mix	2005	Mix	2004	Mix	Avg.	%
	Rs. mn		Rs. mn		Rs. mn		Rs. mn		Rs. mn	
Deposits	28,666	51%	20,670	43%	14,314	56%	10,460	48%	18,528	48%
Borrowings under Repo	11,337	20%	10,276	22%	6,154	24%	7,349	34%	8,779	23%
Other Borrowings	6,751	12%	9,100	19%	1,122	4%	756	3%	4,432	12%
Due to Banks	1,394	3%	1,076	2%	198	1%	457	2%	781	2%
Other Liabilities	3,296	6%	2,212	5%	1,388	5%	904	4%	1,950	5%
Deferred Liabilities	201	1%	193	1%	100	1%	97	1%	148	1%
Debentures	500	1%	560	1%	-	-	-	-	265	1%
Subordinated Loan	673	1%	673	1%	673	3%	351	2%	593	2%
Shareholders' Funds	2,869	5%	2,862	6%	1,463	6%	1,339	6%	2,133	6%
Total Liability and Shareholders' Funds	55,687	100%	47,622	100%	25,412	100%	21,713	100%	37,609	100%

On average, deposits have accounted for 48% of the funding mix over the last four years. Composition of deposits is skewed towards term deposits accounting for 70% while low cost deposits of current and savings accounting for 30%. Out of other sources of funding, borrowing under repurchase agreements amounts to 23% which supports the Banks' corporate debt and Government securities portfolios.

To supplement the funding, the Group borrowed from several Multilateral Funding Agencies such as the Asian Development Bank and the FMO. Borrowing from these agencies increased by 60% compared to 2006 which showcases the Bank's financial strength, stability and the trust placed by these agencies on the performance of the Bank.

Customer Deposits

Industry overview - Total deposits in LCB's recorded a growth of 16.1% in 2007, while growing at a CAGR of 17% from 2002 - 2006, despite treasury bill rates continuing to earn a better yields compared to bank fixed and savings deposits products. The relatively low deposit growth could be partly attributed to increasing depositor preference for alternative asset classes as a hedge against the negative/low real rate of return that deposits yield in a high inflation environment. Most banks have started to offer depositors high interest rates on short-term deposits and introduced attractively structured savings deposit schemes.

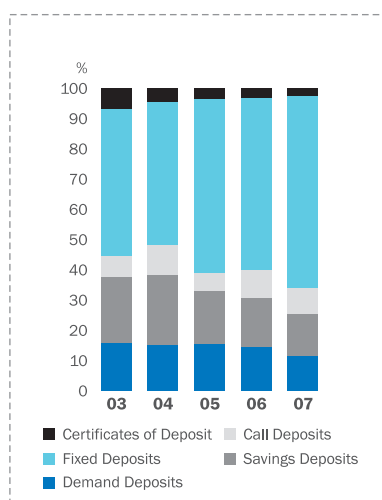


Deposit Growth - Industry Vs. NTB

The Bank's customer deposit base reached Rs. 28.7 bn increasing by 39% with a relatively healthy increase in low cost funds compared to industry, in the backdrop of intense competition and rising interest rates leading to a shift to higher-yielding deposits. Growth in deposit portfolio by Rs. 8 bn in absolute terms has been the result of the concentrated drive effected by the Bank, ably led by the Retail Unit to stabilise and increase the deposit base. Current and Savings deposits recorded a growth of Rs. 852 mn (13%) while Term deposits grew by Rs. 7.1 bn (50%).

Management Discussion and Analysis

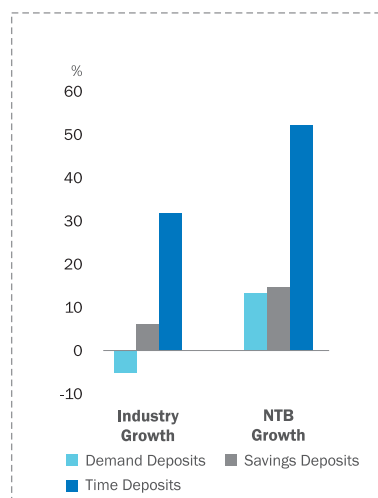
With the deposit base growing at a CAGR of 45% over the period 2004-2007 and increasing by 4 fold in absolute terms the concentration of low cost deposits has declined to 26% as at end 2007. The current account focused retail strategy has paid off as the Bank has recorded a growth of 12% for the year whereas industry has contracted by 5% as per the CBSL data.



Deposits Mix of the Bank

Risk Management

The performance detailed above was delivered while maintaining the optimum trade-off between risk and return. Detailed risk management measures in place in the Bank are given on page 58.



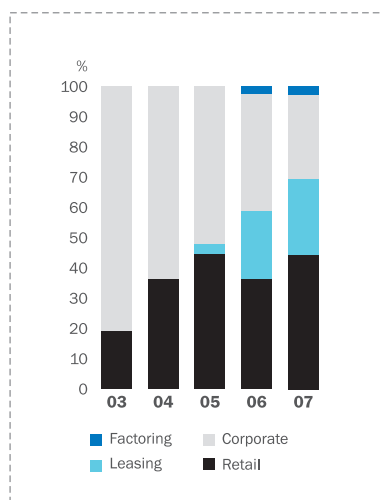
Deposit Growth for the year 2007 by Category - Industry Vs. NTB

Loans & Advances

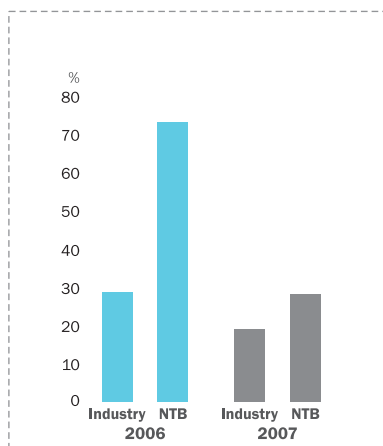
Industry overview - Credit growth continued at a robust pace, with strong demand emanating from consumers, business investors and the Government sector. Loans grew at a five year compound Annual Growth Rate (CAGR) of 20.7% during 2002-2006, whilst CBSL was keen to limit credit growth to a system wide 17.5% in a bid to curb inflation.

Loans and advances grew by 28% (Rs. 7,507 mn) to Rs. 34,500 mn (2006. Rs. 26,993 mn). The Bank has continuously recorded a strong loan growth over the last three years, augmented in 2006 by the merger of Mercantile Leasing Limited. The loan book is of sound asset quality with its corporate lending portfolio dominated by large stable corporates.

Much of the Bank's contribution to loan growth has arisen from personal loans, housing loans, leasing and credit card advances. Consumer finance segment accounts for over a third of the loan book, while being the largest contributor to loan growth.



Loan Portfolio by Business Unit



Loans & Advances Growth - Industry Vs. NTB

Capital Adequacy

Basel II Accord Based Capital Adequacy Computation

As is happening in most parts of the world, Central Bank introduced the Basel II Accord based regulatory Capital Adequacy computation in Sri Lanka with effect from 1st January 2008. Unlike in Basel I, capital requirements under Basel II are properly aligned to the underlying risks of banks thereby converging the regulatory and economic capital requirements. Apart from Credit Risk and Market Risk, capital needs to be maintained for Operational Risks too under the new Accord. Further to the minimum capital requirement, it has strengthened the role of the supervisor and made certain disclosures mandatory.

The statement ***'Indeed, if the effort does nothing but improve Risk Management at banks and improve the risk focus of supervisors, it will be worth the time and resources we have all expended'*** by a member of the Board of Governors of the US Federal Reserve System aptly summarises the value of the new Accord.

Given the benefits that will accrue to banks from the Basel II based capital adequacy computation such as concessionary/reduced risk weights, recognition of Credit Risk Mitigation techniques, incentives offered for introducing sound risk management practices etc., the Bank has been gradually gearing itself towards compliance with Basel II since test computations commenced years back. Based on the last test computation done as at 31st December, 2007 under the Basel II, the Tier I and Tier I & II ratios of the Bank stood at 7.2% and 10.7% respectively.

Management Discussion and Analysis

Capital

Capital of a bank is expected to serve the following purposes:

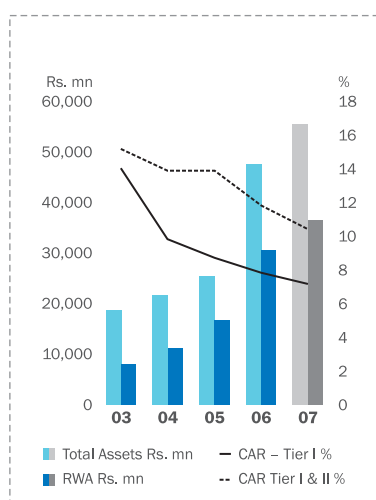
- > To protect an uninsured depositor
- > To absorb unanticipated losses
- > To fund physical property, plant & equipment and
- > To act as a regulatory constraint on unjustified asset expansion

As part of its responsibility to maintain financial system stability and in the interest of a strong and sound banking system, the Monetary Board of the Central Bank of Sri Lanka has directed that all licensed commercial banks are required to fulfil the minimum capital requirement at two levels, in terms of Section 19 of the Banking Act No. 30 of 1988. The two levels of capital requirement are a minimum core capital requirement of Rs. 2,500 bn irrespective of the size and complexity of operations and a Basel Accord based Capital Adequacy ratios of 5% and 10% for Tier I and Tier I & II, respectively.

As evident from the data in the following table as at 31st December 2007 the Bank and the Group complied with both these requirements.

	Bank	Group
Core Capital (Tier I) Rs. mn	2,579	2,789
Total Capital (Tier I & II) Rs. mn	3,830	4,044
Capital Adequacy Ratio - Tier I (%)	7.08	7.20
Capital Adequacy Ratio - Tier I & II (%)	10.52	10.44
Tier I Capital Leverage - Times	19.31	19.97
Solvency Ratio (Net NPL to equity) (%)	10.9	9.7

The capital intensive nature of banking business and the fact that growth in risk weighted assets cannot be supported solely by internally generated funds make it imperative that banks are required to approach their shareholders for infusion of new capital. Nations Trust Bank has in fact recorded a CAGR in assets of 28% over the past five years. Including the recently concluded rights issue, the Bank has approached shareholders four times over the short history of nine years and shareholders have infused Rs. 3,100 mn to the core capital. With the funds infused through the recent rights issue and to be infused in 2010 and 2011 on conversion of warrants into shares the Bank is confident that its capital requirements to support the growth plans in the medium term can be met.



Asset Growth and Capital Adequacy

The sources and utilisation of regulatory capital of the Group as at 31st December 2007 is given below.

Sources:			Utilisation:					
	Rs. '000	%		Balance Rs. '000	Risk Weight %	Risk Weighted Value Rs. '000	Capital Charge (10%) Rs. '000	%
Tier- I			Against credit risk					
Stated capital	2,061,553	5.32	Cash in Hand	346,161	-	-	-	-
Profit & Loss A/C	750,458	1.93	Due from CBSL	1,964,032	-	-	-	-
Equity Reserves	56,679	0.15	Govt. Securities	4,633,832	-	-	-	-
Less: Goodwill	(79,261)	(0.20)	Adv. Cash & Related	4,259,824	-	-	-	-
Total Tier I	2,789,430	7.20	Adv. guaranteed by SLECIC	27,466	20	5,493	549	-
			Adv. guaranteed by banks	214,698	50	107,349	10,735	0.03
			Adv. resid.mortg.	2,209,304	55	1,215,117	121,512	0.31
			Advances - others	27,949,143	110	30,744,057	3,074,406	7.94
			Contingency Advances	1,849,351	100	1,849,351	184,935	0.48
Tier II			Other Contingencies	432,116	20	86,423	8,642	0.02
Revaluation Reserve		-	Placements with banks	4,188,866	20	837,773	83,777	0.22
General Provisions	279,003	0.72	Investments	480,988	100	480,988	48,099	0.12
Subordinated			Fixed Assets	1,065,426	100	1,065,426	106,543	0.28
term-debt	975,250	2.52						
Total Tier II	1,254,253	3.24						
Sub-Total -			Other Assets	1,561,662	100	1,561,662	156,166	0.40
(Tier I & II)	4,043,683	10.44		51,182,869		37,953,640	3,795,364	9.80
Less: Deduction			RWA for Market Risk	76,552		765,520	76,552	0.20
for investments	-	-				38,719,160	3,871,916	10.00
Total Regulatory			Sub-Total				3,871,916	10.00
Capital	4,043,683	10.44	Net surplus in Regulatory Capital				171,767	0.44
							4,043,683	10.44

Management Discussion and Analysis

Value Added Statement

	2007 Rs. mn	%	2006 Rs. mn	%
Value Addition				
Income From Banking Activities	8,647		5,458	
Cost of Services	(6,431)		(3,771)	
Value Added By Banking Services	2,216		1,687	
Non-Banking Income	73		67	
Loan Losses and Provisions	(217)		(215)	
	2,072		1,539	
Distribution of Value Added				
To Employees - Salaries and Benefits	846	41	643	42
To Providers of Capital				
Dividends to Shareholders	168		126	
Interest to Debentureholders	77		89	
	244	12	214	14
To Government				
Taxes	441	21	294	19
To Expansion and Growth				
Retained Profit	337		198	
Depreciation	204		191	
	541	26	389	25
Total Value Addition	2,072		1,539	

Economic Value Added

Economic Value Added (EVA) is a measure of profitability which takes into consideration the cost of total invested equity of an entity.

Economic Value Added Statement

	2007 Rs. mn	2006 Rs. mn	2005 Rs. mn	2004 Rs. mn	2003 Rs. mn
Invested Equity:					
Shareholders' Funds	2,869	2,862	1,463	1,339	1,336
Add: Cumulative Loan Loss Provision	819	762	477	300	248
	3,688	3,624	1,894	1,639	1,584
Earnings:					
Profit After Taxation	505	323	125	45	252
Add: Loan Loss Provisions	217	215	169	134	93
	722	538	294	179	345
Cost of Equity based on the 12 Months					
Weighted Average Treasury Bill Rate Plus					
2% for the Risk Premium (%)	18.14	12.91	10.87	9.65	10.00
Cost of Average Equity	663	356	103	155	122
Economic Value Added	59	182	191	24	223

Despite the high risk-free returns that prevailed during the year, the Bank generated a positive EVA.

Management Discussion and Analysis

Strategic Context

In 2003, the Bank together with the Boston Consultancy Group (BCG) carried out a strategic review. The strategic context in the Sri Lankan banking industry was studied in detail to identify large profit pools in products, customers and geography which could be targeted to achieve disproportionate returns. Competitive landscape was profiled to ascertain gaps in competitive positions which could be leveraged to target these profit pools to our advantage.

The strategic context in which the Bank operated in 2003, clearly indicated an opportunity for the Bank to differentiate itself by adopting a new business model, which is more focused on specific profit pools and had aggressive sales and customer service orientation.

The implementation of the strategy required the Bank to pursue a focused retail strategy overcoming several challenges. This has paid off handsomely over the last few years. State of the art technology and modern delivery channels such as ATM's, Internet Banking and Phone Banking have aligned the Bank with its target customer segment. Considered to be one of the most customer centric financial institutions today, the Bank provides customer convenience through pioneering concepts such as '365 Day Banking', mini branches and extended banking hours which have also helped to win over and maintain a strong customer base.

Several challenges need to be overcome to succeed in Retail Banking

Customer Segmentation and Profitability

- > Identifying appropriate bases for segmenting customers
- > Assessing profitability of identified customer segments

Product Portfolio and Profitability

- > Assessing profitability of various products
- > Identifying key levers to improve profitability

Distribution Strategy

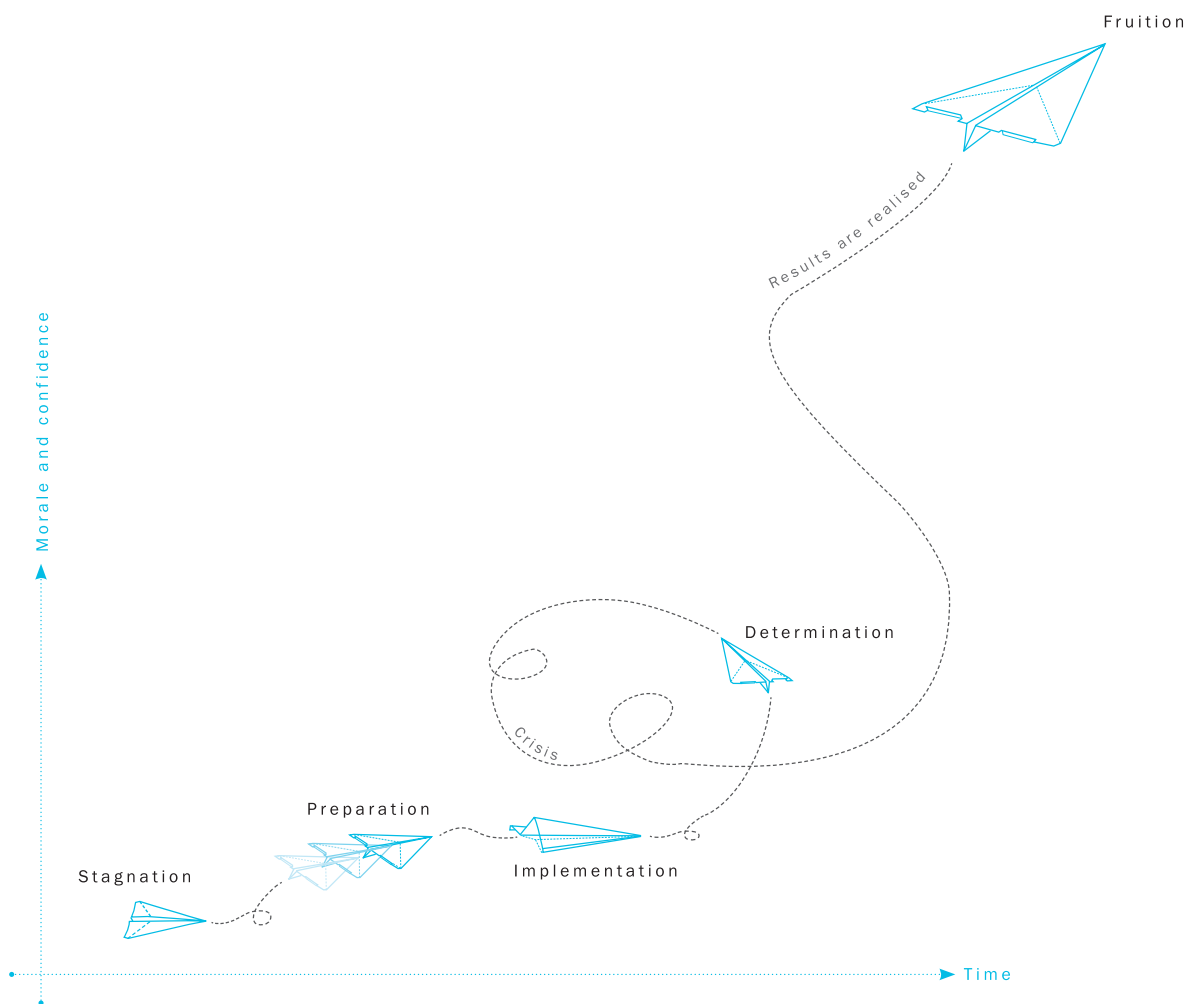
- > Deciding on optimal channel mix
- > Understanding channel economics

Managing Operations and Technology

- > Improving efficiency
- > Centralising back office operations

Developing Comprehensive Risk Management Systems

Organising to Focus on Strategic Priorities



Journey in numbers

	2003	2004	2005	2006	2007
Total Assets (Rs. mn)	18,773	21,713	25,412	47,622	55,687
Total Deposits (Rs. mn)	6,571	10,460	14,314	20,670	28,666
Total Loans & Advances (Rs. mn)	8,362	11,717	15,604	26,993	34,500
Shareholders' Funds (Rs. mn)	1,335	1,339	1,463	2,862	2,869
Profit Before Tax (Rs. mn)	277	114	198	538	847
Profit After Tax (Rs. mn)	252	45	125	323	505
Number of Branches	20	26	28	30	31
Number of ATMs	20	30	33	38	38
Cost: Income Ratio (%)	64.07	76.22	76.85	71.47	69.06
ROE (%)	18.88	3.36	8.54	11.30	17.62
ROA (%)	1.45	0.22	0.53	0.88	0.98
Staff Strength	405	479	549	820	1,239

Note: Year 2003 PAT includes capital gains of Rs. 171 mn.

Management Discussion and Analysis

Ratio Analysis

The positive trends indicated in the key ratios essentially reflect the Bank's performance on productivity of the Balance Sheet whilst maintaining the profitability equilibrium and management of operational expenditure without compromising on growth opportunities.

	2003 ¹	2004	2005	2006	2007
Productivity & efficiency					
Income per employee	2.50	2.34	2.88	3.22	2.78 ²
Operating expenses per employee	1.82	2.11	2.52	2.57	2.09
Average Assets per employee	42.80	42.26	42.92	44.53	41.69
Return per employee	0.62	0.09	0.23	0.39	0.41
Cost: Income ratio	64.17	76.22%	76.85%	71.47%	69.06%
Profitability					
Return on Equity	18.88%	3.36%	8.54%	11.30%	17.62%
Return on Assets	1.45%	0.22%	0.53%	0.88%	0.98%
Return on Risk Weighted Assets	3.15%	0.40%	0.75%	1.05%	1.38%
Asset Quality					
Net NPL ratio	5.48%	5.40%	5.19%	5.08%	4.96%
Provision cover	52.10	45.94	57.43	58.35	55.83
Provision charges/Assets outstanding	1.18%	1.10%	1.20%	0.97%	0.69%
Stability					
Capital Adequacy Ratio - Tier I	14.07%	9.86%	8.74%	7.86%	7.20%
Capital Adequacy Ratio - Tier I and II	15.24%	13.91%	13.92%	11.86%	10.44%
Investor Ratios					
Earnings Per Share	3.52	0.53	1.47	2.44	3.81
Net Assets Value per share	15.71	15.75	17.21	21.60	21.65
Price Earnings Ratio	32.47	49.75	27.33	11.58	7.80
Market Price - Highest	47.00	32.50	33.50	28.50	37.50
- Lowest	14.00	17.75	18.25	19.75	28.50

1. Year 2003 profits included capital gains of Rs. 171 mn.

2. Year 2007 includes 162 sales staff who were deployed on the direct pay roll of the Bank from 2007 onwards.

Strategic Direction for the Future

“Tomorrow’s leading companies will succeed not by battling competitors but by adopting a strategy which provides a systematic approach to making the competition irrelevant”

It has been nine years, and so far the journey has been a very eventful and highly exciting one. The Bank from its inception has been very competitive in every market in which it has operated. Though the banking landscape has been demanding, the Bank has been posting impressive results year on year over the last three years. The Bank can be proud of its evolution from modest beginnings to a robust, diversified financial group, growing in repute in the Sri Lankan banking industry.

Changing times have demanded a newer approach, that will not merely carry on the present growth rate but enable the Bank to make the quantum leap to accelerate growth at a faster pace than seen before in Sri Lanka. In this context, the Management of the Bank over the past several months deliberated and agreed on the business model, the strategies to be followed and the resource requirements in relation thereto.

The new strategy revolves around providing **“Unparalleled and Unprecedented Levels of Convenience”**, as the Unique Service Proposition (USP) to gain competitive advantage. The provision of the contemplated level of convenience requires multiple channels, a range of products and services, benchmarked service standards and streamlined processes to the

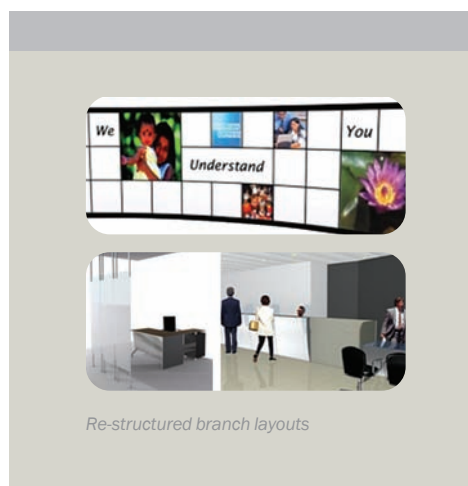
target market through a differentiated value proposition. All dimensions of the business strategy will be aligned to customer segments with the organisation structure following suit.

Customer segmentation will be a key focus area in the new strategy.

The new strategy requires a roll out of initiatives which call for a “mindset of experimentation” rather than “comfort in proven ways”.

Nations Trust Bank will offer a level of service that “wows” the customers. People at all levels will be crucial. Customer service and customer relationship management will play a key role. Branch lay-out will be re-structured. The process of customer management will be revamped.

With staff requirements expected to double by 2012 a lot of effort will be directed at training to churn out staff requirements with emphasis on “Talent Management”.

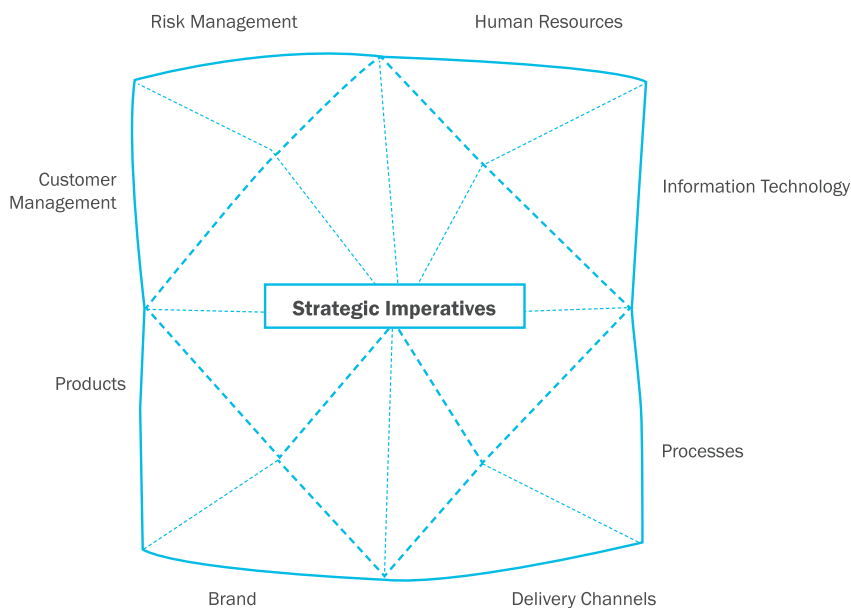


Management Discussion and Analysis

An effective risk management framework will require development of risk management infrastructure (systems and procedures while attracting specific skills and expertise), setting up of an integrated risk management system, software support and aggressive collections management tools. Benchmarking service standards is key and will require continuous measurement against ourselves and the market. A customer centric approach for processes with simple and user friendly documentation and fast approvals through a higher degree of delegated

authority will be implemented. Enhancement of productivity and cost efficiency through a higher degree of automation, centralisation of internal processes and the implementation of Six Sigma/ Business Process Re-engineering will support in realising strategic objectives of low cost to income ratios and reaching economies of scale.

Branding will be the corner stone of the strategy where a clear positioning strategy for “Nations Trust” brand will be developed and launched.



Perspectives

Financial business performance levers How do we create value?	The Four quadrants of financial, customer, internal processes and capabilities represent the pillars on which the Bank's strategy has been formulated. Under each of these quadrants milestones for achievement have been established and will be closely monitored for effective execution.
Customer Value proposition What do our customers expect and value?	
Process Value Chain To satisfy our customers at what processes must we excel?	
Enabling Capability What capability must we learn, innovate and improve?	

Capital Augmentation Plan

In order to support its ambitious expansion strategy, the Bank recently announced an innovative capital augmentation plan combining rights and warrants, which is expected to infuse over Rs. 3 bn by way of equity over the next four years. Fresh capital funds will also help the Bank to maintain capital adequacy ratios well above minimum regulatory requirements, demonstrating higher risk absorption capacity and improved resilience in the light of new capital adequacy framework. The first tranche of capital of Rs. 1 bn has already been raised and future capital is to be raised through exercise of 2010 and 2011 Warrants which were issued along with rights.

The Road Ahead

The call of a new era for greatness for Nations Trust Bank has dawned. The Bank is geared with a new mind-set, a new skills-set and a new tool-set to overcome challenges and execute the strategic plan. A firm foundation has now been laid and 2009 will see the start of a new journey which takes Nations Trust Bank to further greatness.

Two roads diverged in a wood, and I took the one less travelled by, and that has made all the difference

Robert Frost - The Road Not Taken

In the Bag

Flexible product and service offerings, better ways of doing business: our people are the hands and deeds behind these accomplishments.



Human Capital

Set amidst a fast-paced work environment that nurtures a high performance culture, we believe in open feedback and performance-based rewards. Our staff live the values and ethics of Nations Trust Bank which is truly a great place to work.

Following a comprehensive review of strategy undertaken in 2003, Nations Trust Bank first established its vision of becoming the premium retail-focused Bank in 2004. In keeping with its unique customer offering of service and convenience, the Bank came up with the concept of '365-day banking', a first for Sri Lanka. Progressive HR Processes played a major role in realising this goal, helping build a service-mindset among employees. 2007 saw numerous initiatives which strengthened the Bank's carefully-nurtured performance and feedback-driven culture.

Resourcing

As is customary, the Bank's HR officers visited numerous professional institutes, universities, schools, promoting Nations Trust Bank as an employer of choice and winning the trophy for Most Innovative Stall at the annual EDEX Exhibition. Our recruitment advertising continued to draw an overwhelming response. Despite the fierce competition for talent among local organisations and from overseas our staff turnover ratio actually decreased year-on-year.

All newly-recruited staff attended a structured Induction Programme, two-fifths of which is devoted to cultural integration. Helping promote and sustain a sales mindset among our people was the objective of the 'Employee Get Employee' (EGE) scheme, which we launched this year with great success.

Talent Management

The '360° Feedback' process was extended to middle management in 2007. Based on the feedback we received from this process, the Bank was able to ensure that all senior and middle managers attended appropriate career and leadership development programmes, helping maintain a smooth succession stream for future key management.

Performance Management

Through the introduction of a robust performance management system, the Bank has been able to perpetuate a culture of achievement throughout the Bank. All management staff from the CEO downwards are evaluated via the Balanced Scorecard method, which is primarily used for developmental and reward purposes.

Further improvements in the Bank's Variable Bonus Scheme (VBS), undertaken during the course of the year, reinforced this culture. With the VBS now covering all categories of staff, we may be the only financial institution in Sri Lanka to have moved completely away from fixed bonuses.

Key accountabilities were established at the beginning of the year and there was at least one formal mid-year review. A grievance procedure for employees was also established in 2007, together with a counselling process for lagging performers.

Training & Development (T&D)

It was a busy year for the training team, with more than 6,000 trainee days completed. T&D played a pivotal role in developing and maintaining the all-important performance culture.

The annual training cycle commenced with the 2006 year-end appraisals, in which employees' performance was evaluated and their training needs identified. Training plans for every department were drawn up by the trainers after close consultation with Department Heads to establish objectives and goals. Particular attention was paid this year to training in the areas of 'customer service', 'technical skills' and 'teamwork'. Attention was also closely focused on developing a stream of potential leaders within the organisation.

An important development in 2007 was the introduction of 'soft' e-learning courses that let staff acquire knowledge at their own pace and schedule.

Human Capital

Throughout the year, we worked hard to maximise the Bank's return on its investment in training. T&D cost rose, from Rs. 19.2 mn in 2006 to Rs. 21 mn in the year under review. Although we have no intention of investing less in this vital area, responsibility towards our stakeholders demands that we receive maximum value for money. Such thinking lay behind the deployment of structured training programmes for banking trainees and business development officers; the purpose of these was to shorten the learning curve, enabling them to reach full performance in a shorter period.

Reward and Recognition

The Bank was an active participant in the 2007 Hewitt Compensation and Benefits (C&B) Survey. Our comparator group included leading foreign and local banks and some top multinational corporations, and it is a matter of pride to be able to report that the survey results show that we have achieved our desired market position.

The Bank operates a number of reward schemes for employees. Among these are Sales Incentives, Star Performer awards, Customer Service awards and the CEO's Club. Only some of these rewards are financial. It is now clearly understood by our people that at Nations Trust Bank rewards are not based on seniority but on performance.

A new quarterly award for the best internal and external 'Customer Service Moment' was launched in 2007 creating great interest. Nominations for this award are received and validated by the Customer Service Steering Committee.

Communication

We are in the process of finalising ePerformance, eRecruitment and eAttendance, automated processes that will greatly increase HR efficiency.

All employees who left the organisation in 2007 attended an Exit Interview with HR. In striving to improve our processes, policies and practices, we have taken their comments constructively and taken action thereon.

The year saw the in-house development of software for job evaluation. Service level agreements have been established with all departments on resourcing, training and HR operations.

The Bank's Internal Customer Survey (ICS), which was conducted twice this year, has tremendously improved the level of service provided by the support departments to the front office.

Maintaining open channels of communication plays a pivotal role in improving employee relations in the Bank. The Joint Consultative Committee (JCC) facilitates employee representation to the CEO and Corporate Management. This Committee comprises representatives of all departments and meets with the CEO and selected members of the Corporate Management every two months to discuss issues ranging from premises to improvement in revenue. In 2007, the CEO and Head of HR made it a point to attend the wrap-up sessions of all internal training programmes and engaged themselves with the trainees and trainers in an open forum. This has given employees the confidence to air their views freely on issues affecting the organisation and themselves. In addition, all Bank policies and procedures are posted on the company intranet, accessible by all employees.

The year saw the successful HR integration of the Leasing division with the rest of the Bank, with due recognition given to the sensitivities of all those involved. An Employee Attitude Survey (EAS) conducted for Leasing staff saw a response rate of 94%.

Cultivated with Care

For a bank that prizes personal relationships with stakeholders corporate citizenship is not an optional extra. Nations Trust Bank cultivates social ties that are of genuine benefit to the community through a variety of public-service projects set up to answer specific, clearly identified needs.



Helping, Building & Caring



Members of the Nations Trust Bank Sports and Welfare Club for 2007



An event from the 'Soorya Mangalyaya' ceremony



Our staff at the make over of ward No. 19 of the Cancer Hospital

Social and staff welfare at Nations Trust Bank is a cooperative enterprise in which all our people participate. The majority of such activities are organised and conducted by the Nations Trust Bank Sports and Welfare Club. In 2007, the Club undertook a full programme of events and activities with both an internal and an external focus.

The first of these events was the Soorya Mangalyaya conducted on 21st April at the Dampe Village in Piliyandala to celebrate the Sinhala and Tamil New Year. This traditional event, featuring a number of colourful ceremonies and rituals, was greatly enjoyed by all who attended.

The next major initiative was a make over of Ward No. 19 at the Cancer Hospital, Maharagama, undertaken on 5th May to celebrate the Vesak festival. Around 100 staff members participated in the makeover, which included donation of equipment, medicines for the ward, food and clothes for the patients and painting of the ward and the equipment.

The annual Bank's Sports Day was held on 21st July at the Burgher Recreation Club, with track and fun events, a six-a-side cricket tournament and a fancy dress competition for which the staff took part house-wise. The event afforded many opportunities for our energetic staff members, particularly the younger ones, to show-off their sporting skills. The Badminton, Cricket, Karate, Bowling and Basketball teams were also felicitated at the sports day for their achievements during 2007.

Another noteworthy social project was undertaken by the Club for the benefit of Amunuthenna Primary School at Gallalle, Ratnapura. Club members' donations, supplemented by a grant from the Bank were used to purchase stationery and various other classroom materials for the entire school, which has about 90 students. Additional donations included school uniforms, a few other essential items for the students and teachers together with equipment and books for the school library.

Staff Events

The year's end was celebrated with the customary staff gatherings. The Annual Dinner Dance was held on 8th December at the Waters Edge. It was a great success, with many employees and their spouses/partners participating in the festivities. Winners were awarded with air tickets in the staff draw competition with many other valuable and exciting prizes offered for the table draw, spot competitions, NTB Queen and King competitions.

The Staff Family Christmas Party was held exactly a week later, on 15th December at the 80 Club. At this event children came first, with presents for all, games and even a visit by Santa Claus.

The Club also conducted a number of events connected with staff welfare at the Bank's Head Office, Card Centre, City Office and Leasing Office. Among these were a number of sales and exhibitions most popular with the ladies, such as a display of cosmetics and sale of garments.



Winners of the NTB Queen and King competitions at the Annual Dinner Dance



Jubilant school children at Amunuthenna Primary School



Santa Claus distributing gifts to children at the Christmas Party

Helping, Building & Caring

Popular appliance vendors conducted other sales for staff, while a variety of special offers were also made available.

On a more serious note, a cancer specialist and a qualified stress therapist were retained at the Bank's expense who conducted a number of awareness sessions for staff.

Staff Sports

Our active people participated in a number of sporting activities during the course of the year, many winning honours at tournaments organised by Mercantile and other sporting bodies.

The Bank's basketball teams were on a winning streak. Both A and B teams won a number of tournaments held during the year.

The veterans men's badminton team won the Dulux Mercantile Championship.

The Nations Trust Bank netball team had a busy year, participating in the People's Bank tournament by playing against Hatton National Bank in February 2007 and facing teams from Star Garments and the Sri Lanka Air Force at the Netball Federation tournament in September. The team also participated in the 2007 Sportsline Marketing tournament, where they received a trophy plate as runners-up.

Bank employees also showed off their cricketing skills at a number of encounters during the year. In the Mercantile Cricket Association C Division tournament, the Bank team emerged as tournament runners-up. The team was also placed second runners-up in the annual Bank of

Ceylon cricket tournament. The Bank also fielded a team in the over-40 sixes series organised by the MCA.



Lighting the Torch at the Inauguration of the Sports Day



The A Team that won the Mercantile Knock-out Basketball Tournament



Netball Team of the Bank

Death Donation Scheme

The Bank's Death Donation Scheme grew by another 374 subscribers to reach a strength of 983 at the end of December. The scheme assisted 21 staff members during the course of the year, disbursing a total of Rs. 1,704,800/- in relief.

Taking a Stand Against Child Abuse on the Internet

This year, the banking community took up a commitment of great importance to our society, one that especially concerns its younger members.

Reports indicate that one in five children is solicited sexually while on the internet, while 10,000 to 20,000 children appear online in pornographic images with four or five new recruits to the industry appearing almost every week. Many of these sites feature Sri Lankan children.

To combat this social evil, the banking community, with leadership from the Standard Chartered Bank and the Sri Lanka Banks' Association took an important step towards combating this deadly phenomenon. Nations Trust Bank was part of the initiative.

In the future, singular attention will be invested in the usage of credit cards to access such sites. Special restrictions will be available for use against merchants involved in suspicious transactions involving access to websites featuring child pornography.

Risk Management

Banks make money by providing services and by taking on risks. Unlike other organisations, institutions in the financial services industry can and often resort to operate at high levels of gearing in order to generate an acceptable return to the shareholders. This is primarily due to the Return on Assets of financial institutions being relatively lower. Such lower Return on Assets adversely impacts on the Return on Equity which can be overcome by gearing the capital to higher levels. Gearing entails mobilising funds from depositors and borrowings from other institutions and lending such funds to borrowing customers of the Bank. The entire gamut of activities underlying the operations of a financial institution therefore has a multitude of risks.

In the context of the above, managing a bank is in fact managing risks.

At Nations Trust Bank, we attempt to ensure that our risk taking is informed and prudent. Our efforts on risk management are geared to ensure that the total risk being taken is matched to the Bank's capacity for absorbing losses if things go wrong and to direct the scarce resource of capital to opportunities that are expected to create the optimal return with the minimum risk.

Broad Risk Exposures

The Bank is exposed to four major categories of risks viz. Credit, Market, Liquidity and Operational.

Credit Risk

Credit Risk is the risk of loss due to adverse changes in a borrowers' ability to meet their obligations on agreed upon terms. Such changes may cause a deterioration in the credit quality of the loans and advances portfolio of the Bank and can have a negative impact on its earnings, resulting from increased provisioning for loan losses and increased non-accrual loans causing a decrease in interest earning assets.

It is evident that the changing economic and security situation of the country that has affected trading performance of business entities during the year has placed increasing burden on them to service debt with Financial Institutions.

The position of the average consumer has been even more difficult given the sharp rise in cost-of-living and its consequent impact on their disposable income. The Bank operated in this difficult environment during the year yet successfully managed to control non-performing assets while maintaining the quality of its loans and advances portfolio amidst a significant growth in assets.

Bank's Credit Policy and lending guidelines are laid down by the Board Credit Committee, which also determines sectoral industry exposure limits. Central Bank too has set maximum lending limits (Single Borrower Limit) under the provisions of the Banking Act placing limitations on advances that can be extended to a borrower or a group of borrowers as a percentage of shareholders' funds.

The Bank has a comprehensive credit evaluation mechanism. The Board Credit Committee has delegated authority to the Bank's Credit Committee which reviews and recommends credit proposals outside its lending authority to the Board Credit Committee.

The Board Supervisory Committee, a sub-committee of the Board of Directors reviews movements in specific provisions and non-performing loans, high-risk graded accounts and makes recommendations on appropriate action.

A quarterly update of all moderate and high value facilities approved on an unsecured basis is also submitted to the Board Supervisory Committee affording another opportunity to discuss/review portfolio status along with the Bank's Corporate Management.

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 exposures apart from providing advice on business outlook, potential growth areas in keeping with the Bank's risk appetite and also identifies and guides lending units against high risk business.

The Credit Risk Management unit has implemented strict control in monitoring credit and expanded the scope of an early warning signals tracking mechanism to minimise probable credit losses. Periodic credit monitoring and review of portfolio performance is regularly undertaken to recommend corrective action in a timely manner.

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 requirement of the Central Bank of Sri Lanka. In addition, the Bank maintains a general provision of 1% on all performing advances, excluding those cash backed, at all times.

Asset and Liability Management

As a key financial and risk management discipline, Bank accords highest importance to the Asset and Liability Management (ALM) function. ALM encompasses the management of the Bank's On-Balance Sheet and Off-Balance Sheet positions in such a way that the Bank is able to offer competitively priced products and services to customers whilst maintaining an appropriate risk/reward profile that creates shareholder value. This includes risk assessment in all dimensions including;

- > Policy setting
- > Structuring of the Bank's re-pricing and maturity schedules
- > Undertaking financial hedge positions
- > Capital budgeting
- > Internal profitability measurement

Risk Management

ALM also includes contingency planning by analysing various impacts of unexpected changes in the environment and planning as to how the Bank will respond to them such as;

- > Interest rates
- > Competitive conditions
- > Economic fundamentals

Managing the risk that arises from the mismatches in various attributes of assets and liabilities is a key for the success of Bank's growth and profitability. The Asset and Liability Committee (ALCO) is chaired by the Chief Executive Officer and comprise the Heads of Business Units, Head of Credit Risk Management, Chief Financial Officer and Head of Internal Audit. ALCO, under delegated authority from the Board, sets policies in relation to management of structural Balance Sheet exposures. The ALCO is also given specific authority by the Board to review and implement prudent risk management policies in the day-to-day operations of the Bank. ALCO reports to the Board and recommends changes of the policy beyond its authority of approval.

Exchange rate risk exposures, liquidity and interest rate risk profiles are analysed and reported at the ALCO meetings held monthly. The potential impact due to interest rate movements is also reviewed. The Bank also adopts a daily risk management process by reviewing risk management reports daily by the relevant Heads of Departments and other senior personnel in order to achieve the risk objectives of the Bank. Appropriate Balance Sheet strategies are discussed and implemented. ALCO keeps an eye on the structure/composition of Bank's assets

and liabilities and decides on product pricing for deposits and advances. ALCO also decides on the transfer pricing policy of the Bank.

Market Risk

Market Risk is the risk of potential for losses that will result due to unfavourable movements in factors such as interest rates, exchange rates, equity and commodity prices. It is the risk of losing money because the perceived value of an instrument has changed. The primary market risk to which the Bank is exposed to are interest rate risk and exchange rate risk. The Bank's exposure is controlled by limits approved by the Board, the monitoring of which is carried out by the ALCO. The market risk arising from the interest and exchange rates volatility is centrally managed by the Treasury Division. The foreign exchange exposure is mainly derived from trade and remittance flows, trading activities by treasury and structural foreign currency translation exposure. The Settlements Department is independent of foreign currency dealing operations in order to reinforce the Bank's risk management process. The Bank is currently implementing a front-end treasury IT system that will allow straight through processing of transactions and enable the setting up of an independent middle office for risk monitoring.

The Bank monitors continuously and takes necessary actions to manage the cost of funding to maintain acceptable margins to respond to changing market conditions. The Value-At-Risk and the Duration concepts as well as dynamic gap planning are implemented and calculated daily to complement the traditional measures of notional and gap limits. Treasury Department is mainly responsible to ensure that exposures are within set parameters, which is reviewed by ALCO.

Liquidity Risk

Liquidity Risk is the risk of being unable to ensure sufficient availability of cash flows to meet all financial obligations of the Bank as and when they fall due. Hence, the Bank's main objective in this regard is to ensure that sufficient cash flows are available to meet all of the Bank's financial commitments and to accommodate business expansions, on a timely and cost effective basis, under various market conditions. Categorising the maximum cash outflow in the Balance Sheet into suitable time buckets and placing exposure limits on each bucket, which is monitored by ALCO, is one method the Bank adopts to manage liquidity risk. Treasury division is responsible for adopting liquidity policy to ensure it has sufficient cash flows to meet financial obligations on a timely basis in accordance with the Board policy. In order to mitigate liquidity risk, Bank holds a sufficient level of highly liquid marketable assets such as Government of Sri Lanka Treasury Bills and Bonds. The Bank also has standby liquidity facilities with highly rated and very liquid Government institutions that can be drawn down in case of a liquidity crisis. Attention is also paid to adhere to the Central Bank requirements relating to Liquid Assets and the ratio is maintained above the minimum of 20% at all times.

Operational Risk

Operational Risk can be defined as a potential loss arising from a breakdown in the Bank's systems and procedures, internal controls, compliance requirements or corporate governance practices that results from human error, fraud, failure, delay to perform or compromise of the Bank's interests by employees. High volumes of transactions and increasing dependence on automated systems to

record them, further increase the risk that technical system flaws or employee tampering with the systems may result in losses. System disruptions can occur arising from events that are wholly or partially beyond control of the Bank. These risks may sometimes harm even the reputation of the Bank.

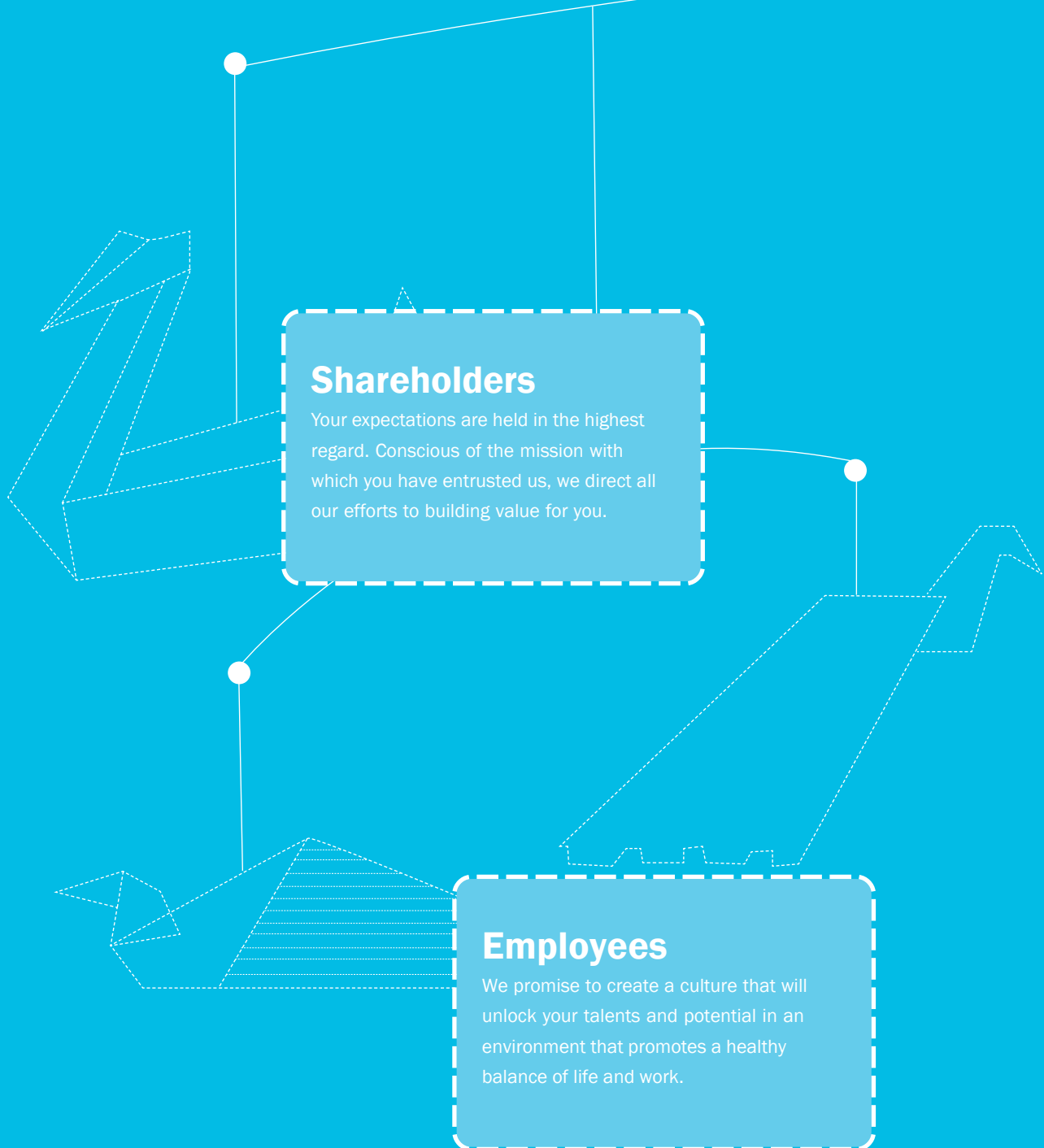
Primary responsibility for managing operational risks rests with the business lines. Operational risk is mitigated by the implementation of internal controls. The Bank's processes and procedures are under continuous review. Where possible, identified operational risks are insured.

Regular reviews of the implementation of the Bank's procedures and internal controls and their effectiveness is carried out by the Internal Audit Department and the newly set up Compliance Department.

Conclusion

Risk management capabilities that the Bank has built up over the past several years have helped the Bank in achieving the set performance targets while preventing loss of resources, thereby leading to creation of shareholder value. These capabilities also ensure effective reporting and compliance with laws and regulations, and help avoid damage to the Bank's reputation and associated consequences. The Bank has given due importance to the development and implementation of risk management capabilities which in turn have helped the Bank to get to where it is today within a relatively short period of time.

Valued Relationships





Customers

You made us what we are. In return, we dedicate ourselves to helping you realise your life goals, ambitions and seeing you through hard times. We truly value our relationship with you; if we are winners, it is because you helped us win.

Regulator

You have made straight the path that leads us to our goal. Your guidance and support have been invaluable. You make the rules; we play the game accordingly.

Corporate Governance

Developments on the Subject

Last year saw important developments relating to corporate governance. Securities and Exchange Commission through the Colombo Stock Exchange (CSE) issued a set of rules relating to corporate governance applicable to all listed companies. There was a discussion on mandatory rules on corporate governance proposed by the Central Bank of Sri Lanka. These rules have now become applicable to all licensed banks. It will be mandatory for Nations Trust Bank to comply with the CSE rules from the financial year commencing on or after 1st January 2008. All banks are required to be fully compliant with the rules of Corporate Governance issued by the Central Bank by 31st December 2008. The Board of Directors places a great emphasis on good governance and works hard to enhance 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. Principles of fairness, transparency, responsibility and accountability are the pillars supporting the performance of your Bank.

The Board of Directors

The Board of Directors has control of the affairs of the Bank and is also accountable to the stakeholders. In keeping with the accepted principles of Corporate Governance the office of the Chairman and the Chief Executive Officer (CEO) are kept separate, the former being a Non-Executive Director representing the largest shareholder. All Directors are professional and experienced leaders of high repute, from the

corporate, finance and legal sectors, who together contribute a wealth of practical insight and business acumen. Board meets quarterly as a matter of routine. Additional meetings are held as and when necessary. In the year under review the Board met seven times. A Board Supervisory Committee (Sub-Committee of the Board) which meets every month has been delegated the necessary powers to attend to matters which require more frequent attention of the Board. Current composition of the Board and their participation at Board meetings are given on page 75. Three Directors out of a total of ten are Independent Directors. Two Directors are Executive Directors one of whom is the CEO. The remaining Directors numbering five are Non-Executive Directors.

The Chairman and the Board establish the strategies and key policies of the Bank and set the goals and objectives for the CEO. The Board appoints the CEO and Corporate Management, defines their job responsibilities and plans for their succession. The main corporate goals and objectives of the Bank are incorporated as personal goals of the CEO whose performance is assessed by the Board. The Board monitors progress against plans on a monthly basis with the aid of monthly reports prepared using the well streamlined Management Information System (MIS). Compliance with the letter and the spirit of the law is a guiding principle at the Bank. Towards this end the Board actively encourages the Management to maintain regular dialogue with the regulatory authorities.

Board has delegated appropriate authority to the Management to implement the strategies adopted by the Board. The day-to-day management of the Bank is carried out by the Corporate Management headed by the CEO, in accordance with the authority so delegated. The Corporate Management meets weekly to monitor performance and deals with operational issues. In addition, monthly meetings are held with senior management staff to review performance against budget and the level of achievement of both financial and non-financial targets.

Quarterly, all management staff are briefed on the progress of the Bank and the strategies to be adopted for the next quarter.

The Board Audit Review Committee

The Bank's audit functions are the responsibility of the Board Audit Review Committee reporting directly to the Board of Directors. The Committee which is headed by an independent Director consists of five Non-Executive Directors majority of whom are independent. Head of Internal Audit acts as its Secretary. The CEO and the Deputy CEO attend the meetings by invitation. The full report of this Committee is given on page 72 of this Annual Report.

Systems and Processes

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 considers the Annual General Meeting as an opportunity to communicate with the shareholders and encourages their participation. The Board is also ready to answer questions raised by shareholders at General Meetings and to maintain an appropriate dialogue with them.

Board of Directors



01. A.D. Gunewardene | Chairman

Mr. Gunewardene was appointed Chairman of Nations Trust Bank on 1st January 2006. He has been on the Board of Nations Trust Bank since its inception. He is also the Chairman of Union Assurance PLC. He is the Deputy Chairman of John Keells Holdings PLC and has been a member of their Board for over 15 years. He is a Director in many companies in the John Keells Group. He has served as the Chairman of the Colombo Stock Exchange. Mr. Gunewardene brings over 25 years of management experience to your Board.

02. Z.H. Zavahir | Director/CEO

Mr. Zavahir is the Director/Chief Executive Officer of the Bank. He has over 29 years of banking experience, having served in various senior management positions with ANZ Grindlays Bank, both locally and overseas. Having joined Nations Trust Bank as Assistant General Manager - Finance and Corporate Planning in early 2001, he assumed the position of Chief Executive Officer in April 2004. He was appointed a Director in October 2006. He is a Fellow member of the Chartered Institute of Management Accountants, London and an Associate member of the Chartered Institute of Bankers, London.

03. E.H. Wijenaike | Director

Mr. Wijenaike is the Managing Director of Central Finance Co. PLC, a leading Non-Banking Financial Institution (NBFI) in the country. He has over 26 years of management experience. He is a Director of several quoted companies within and outside the Group. He holds a Bachelor's

Degree in Commerce and a Postgraduate Diploma in Finance and Management. He is a member of the Chartered Institute of Management (UK) and a Fellow of the Institute of Credit Management. He has been a Director of the Bank since its inception and serves as a member of the Board Supervisory Committee of the Bank.

04. S.C. Ratnayake | Director

Mr. Ratnayake is the Chairman of John Keells Holdings PLC. He has been a member of John Keells Holdings PLC Board since 1992/1993. He oversees Group Strategy and New Business Development.

05. J.R.F. Peiris | Director

A Director of John Keells Holdings PLC and many of its subsidiaries, Mr. Peiris has overall responsibility for John Keells Group Finance, including Treasury, Taxation, Corporate Finance, Insurance and the Information Technology functions. Previously, Managing Director of Anglo American Corporation (Central Africa) Limited and EXCO Member of Konkola Copper Mines PLC, both in Zambia. Mr. Peiris has served in many Boards overseas and has over 31 years finance and general management experience in Sri Lanka and abroad. Mr. Peiris also serves as the Chairman of the Taxation Sub-Committee of the Ceylon Chamber of Commerce. He is a FCMA and a FCCA, and also holds an MBA from the University of Cape Town, South Africa.



06. A.K. Gunaratne | Director

Mr. Gunaratne is the Director - Group Co-ordination of Central Finance Company PLC, a leading Non-Banking Financial Institution (NBFI) in the country where he oversees the functions of Strategic Planning and Risk Management. Mr. Gunaratne also functions as Director/CEO of CF Venture Management Company Limited and Zyrex Power Company Limited, which are companies within the Central Finance Group. He is a Fellow of The Chartered Institute of Management Accountants of UK and an Associate Member of The Institute of Chartered Accountants of Sri Lanka.

07. C.H.S.K. Piyaratna | Executive Director

Mr. Sarath Piyaratna is an Executive Director of the Bank. He was appointed to the Board of Nations Trust Bank in October 2006, after a successful career at HSBC spanning 28 years which included assignments in Group offices overseas. Mr. Piyaratna's overseas stints included serving as Vice-President - Custody and Clearing at HSBC - Philippines. He served as the Deputy CEO and Head of Personal Financial Services at HSBC - Colombo from 2000 until his retirement in 2006. Mr. Piyaratna holds a Bachelor's Degree and a Master's Degree in Economics.

08. Dushni Weerakoon | Director

Dr. (Ms.) Weerakoon holds a Ph.D. in Economics, MA in Economics and B.Sc. in Economics from the University of Manchester, United Kingdom. Currently, Dr. (Ms.) Weerakoon is carrying-out research and teaching in international economics and macroeconomic policy management.

09. A.R. Rasiah | Director

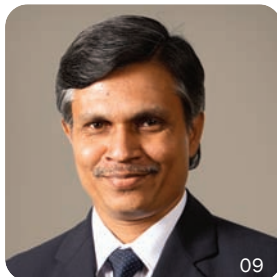
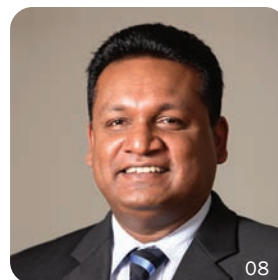
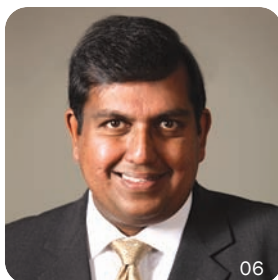
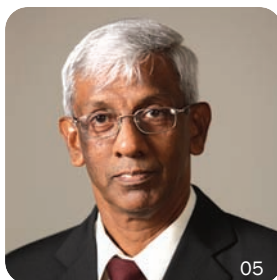
Mr. Rasiah is a Fellow member of The Institute of Chartered Accountants of Sri Lanka and holds a Bachelor of Science Degree from the University of Sri Lanka. Mr. Rasiah possesses well over 30 years of experience in Finance at a very senior level both internationally and locally and currently serves on the Board of Ceylon Cold Stores PLC. He is also Commercial Consultant for Bairdwear Interfashion Limited.

Mr. Rasiah has been a visiting lecturer on Finance and Accounts for Nestlé SA for Africa-Asia and Oceanic Regions and former visiting lecturer and examiner at The Institute of Chartered Accountants of Sri Lanka. A keen social worker, he is the President of the Benevolent Society of The Institute of Chartered Accountants of Sri Lanka and a Committee member of Sri Lanka Institute of Directors. Mr. Rasiah is also a sportsman of repute having represented Sri Lanka at Table Tennis.

10. M.E. Wickremesinghe | Director

Mr. Wickremesinghe holds an Honors Degree in Law from the University of Colombo. He is also a Fellow of the Chartered Institute of Management Accountants of the United Kingdom and Attorney-at-Law of the Supreme Court of Sri Lanka. Currently, Mr. Wickremesinghe is a practicing Attorney-at-Law specialising in Commercial and Banking Law.

Corporate Management



Mr. Arthur Fernandez
Head of Internal Audit

- 01. **Mr. Zulfikar Zavahir**
Director/CEO
- 02. **Mr. Iftikar Ahamed**
Deputy Chief Executive Officer
- 03. **Ms. Renuka Fernando**
Deputy General Manager - Retail
- 04. **Ms. Keshini Jayawardena**
Deputy General Manager - Nations Leasing
- 05. **Mr. Lalith Fernando**
Head of Credit Risk Management
- 06. **Mr. Rohitha Ganegoda**
Chief Operations Officer

- 07. **Mr. Chandrasiri Hewapattini**
Head of Human Resources
- 08. **Mr. Lasith Nanayakkara**
Chief Information Officer
- 09. **Mr. Raja Senanayake**
Chief Financial Officer
- 10. **Mr. Theja Silva**
Head of Legal & Company Secretary
- 11. **Mr. Priyantha Talwatte**
Head of Credit Cards and Strategic Marketing

Senior Management



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01. Mr. Reynold Abeykoon

Chief Manager -
Corporate Support Services

02. Mr. Sheahan Daniel

Asst. General Manager -
Factoring

03. Mr. Rajeev de Silva

Asst. General Manager -
Leasing

04. Mr. Anushan Fernando

Chief Manager -
Delivery Channels

05. Mr. Lorenzo Jayasinghe

Chief Manager -
Corporate Banking

06. Mr. Bandara Jayathilake

Chief Manager -
Business Banking

07. Mr. Shanmugam

Puvaneswaran
Chief Manager -
Consumer Sales

08. Mr. Nadeesha Senaratne

Chief Manager -
American Express Cards

09. Ms. Ramanika Unamboowe

Chief Manager -
Wholesale Banking

10. Mr. Priyantha Wijesekera

Asst. General Manager -
Leasing Operations

11. Mr. Dilshan Wirasekara

Chief Manager - Treasury

12. Ms. Kushlani Allis

Senior Manager -
Management Information and
Planning

13. Mr. Irishad Ally

Senior Manager -
Delivery Channels

14. Mr. Jayantha Amarasinghe

Senior Manager -
Human Resources

15. Mr. Nisaja Aryasinghe

Senior Manager - Collections

16. Mr. Karthigesu

Balachandrarajan
Senior Manager -
Central Operations

17. Mr. Minodh De Sylva

Senior Manager -
Retail Marketing

18. Mr. Lewie Diaz

Senior Manager -
Merchant Acquiring &
Cards Marketing

Senior Management (Contd.)



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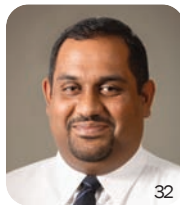
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19. Mr. Priyashantha Fernando

Senior Manager - Leasing - Zone 2

20. Mr. Ruwan Fernando

Senior Manager - NL Recoveries

21. Mr. Indrajith Gunasekera

Senior Manager -

Retail Banking Credit

22. Mr. Nisala Kodippiliarachchige

Senior Manager - Technology

23. Ms. Laksara Marapana

Senior Manager - Legal

24. Mr. Chamath Munasinghe

Senior Manager -

Credit Operations

25. Mr. Damith Pallewatte

Senior Manager - Credit Risk

26. Ms. Ruthie Pelpola

Senior Manager - NL Finance & Planning

27. Mr. Sanjaya Perera

Senior Manager -

Delivery Channels

28. Mr. Shiyan Perera

Senior Manager - Leasing - Zone 1

29. Mr. Azreen Shafeek

Senior Manager - Treasury

30. Mr. Lalaka Siriwardena

Senior Manager -

Corporate Banking

31. Mr. Dinesh Thomas

Senior Manager -

Business Solutions

32. Mr. Deepa Wickramasinghe

Senior Manager - NL Credit Risk

Service Network

HEAD OFFICE AND CORPORATE BRANCH

Nations Trust Bank PLC, No. 242, Union Place, Colombo 2, Sri Lanka

Call Centre: 4711411 Fax: 4313198 E-mail: info@nationstrust.com Website: www.nationstrust.com

BRANCHES

City Office

No. 76, York Street, Colombo 1

Kollupitiya

No. 464, Galle Road, Colombo 3

Sangaraja Mawatha

No. 545 A, Sri Sangaraja Mawatha, Colombo 10

Kandy

No. 147, Kotugodella Veediya, Kandy

Cinnamon Gardens

No. 104, Dharmapala Mawatha, Colombo 7

Maharagama

No. 129, High Level Road, Maharagama

Negombo

No. 113 A, Greens Road, Negombo

Pettah

No. 244, Main Street, Colombo 11

Battaramulla

No. 15, Kaduwela Road, Battaramulla

Kurunegala

No. 37, Puttalam Road, Kurunegala

Moratuwa

No. 246, Galle Road, Idama, Moratuwa

Nugegoda

No. 128, High Level Road, Nugegoda

Wellawatte

No. 292, Galle Road, Wellawatte

Panadura

No. 229, Galle Road, Panadura

Gampaha

No. 16/1, Courts Road, Gampaha

Kiribathgoda

No. 94, Makola Road, Kiribathgoda

Kotahena

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

Kadawata Branch

No. 25, Kandy Road, Kadawata

Dehiwela Branch

No. 163, Galle Road, Dehiwela

MINI BRANCHES

Kollupitiya - Keells Super

No. 82, Liberty Plaza, R.A. De Mel Mawatha, Colombo 3

Wattala - Keells Super

No. 385, Negombo Road, Wattala

Kohuwala

No. 96, Dutugemunu Street, Kohuwala

Borella - Keells Super

No. 85, Dr. N.M. Perera Mawatha, Colombo 8

Mount Lavinia - Keells Super

No. 388, Galle Road, Mt. Lavinia

Crescat Branch

G 9, No. 77, Crescat Boulevard, Galle Road, Colombo 3

Mahabage

No. 590, Negombo Road, Mahabage

Ward Place - Inner Circle Centre

Odel, No. 10, Ward Place, Colombo 7

Millennium Branch

No. 46-58, Nawam Mawatha, Colombo 2

Havelock Town Branch

No. 100, Havelock Road, Colombo 5

Peradeniya Branch

Royal Mall Shopping Complex,

No. 903/18, William Gopallawa Mawatha, Kandy

Off site ATMs

ATMs at Lanka IOC Filling Stations

> No. 291, Danister De Silva Mawatha, Dematagoda, Colombo 10

> No. 75, Dr. C.W.W. Kannangara Mawatha, Colombo 7

> No. 323, Havelock Road, Colombo 6

> No. 762, Galle Road, Colombo 4

> No. 570, Elvitigala Mawatha, Narahenpita, Colombo 5

Others

> **Asiri Hospital**, No. 181, Kirula Road, Narahenpita

> **Asiri Surgical**, No. 21, Kirimandala Mawatha, Narahenpita

> **John Keells**, No. 130, Glennie Street, Colombo 2

PERSONAL BANKING SERVICE CENTRE

> **Keells Super**, No. 41, Archbishop Nicholas Marcus Fernando Mawatha, Negombo

LEASING CENTRES

Bandarawela Branch

No. 342/1, Badulla Road, Bandarawela

Kandy Branch

No. 147, Kotugodella Veediya, Kandy

Kiribathgoda Branch

G4, Udeshi City, No. 94, Makola Road, Kiribathgoda

Kohuwala Branch

No. 96 B, Dutugamunu Street, Kohuwala

Kuliyaipitiya Branch

No. 72 A, Hettipola Road, Kuliyaipitiya

Kurunegala Branch

No. 37, Puttalam Road, Kurunegala

Negombo Branch

No. 450, Main Street, Negombo

Panadura Branch

No. 229, Galle Road, Panadura

Board Audit Review Committee Report

The Board Audit Review Committee (BARC) is appointed by the Board of Directors and comprises five Non-Executive Directors. The Head of Internal Audit performs the role of the Secretary to the Committee. The Director/Chief Executive Officer and the Deputy Chief Executive Officer attend the meetings by invitation. Other members of the Corporate Management attend as and when required.

Functions of the Committee

The Committee independently examines and evaluates the activities of the Bank. It advises all levels of management and the Board of Directors on the Bank's system of internal controls and on management of risk. As and when required, it requests additional information from the Corporate Management in order to satisfy itself of the adequacy of controls in place.

The Minutes of Committee meetings are submitted for review to the Board of Directors. The Head of Internal Audit reports directly to the Chairman of the Committee, a practice that strengthens the independence of the position.

The role of the Board Audit Review Committee is threefold: to monitor the implementation of policies and strategies approved by the Board of Directors, to evaluate the extent to which corporate objectives are achieved and to provide assurance to the Board 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.

Activities of the Committee

During the year under review, the Committee met eight times and reviewed internal audit reports on the Bank and its subsidiaries.

During the year, the Committee also

- > reviewed forty-one audit reports relating to branches including seven reports pertaining to the year 2006;
- > reviewed forty-five departmental, process audit and investigation reports.
- > 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 (ALCO) of the Bank to ensure compliance with the risk management policies laid down by the Board;
- > reviewed the adequacy of the insurance cover of the various policies in force;
- > 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;
- > reviewed the control processes pertaining to the Finance and IT areas and proposed modifications to be made in order to ensure that industry best practices were adopted;
- > reviewed and monitored the progress of the implementation of the IT audit recommendations;

- > discussed issues arising from the reports with the external auditors, who attend Committee meetings by invitation;
- > reviewed the Management Letter sent by the auditors and management's response thereto;
- > monitored compliance with requirements laid down by the regulatory authorities;
- > ratified the quarterly Financial Statements prior to publication and submission to the Central Bank, the Colombo Stock Exchange and shareholders; and
- > reviewed and submitted the Internal Audit Charter for approval of the Board of Directors.

As indicated in the 2006 Annual Report the auditing of the leasing units was brought under the control of the Bank's own audit team in the third quarter of the year.

The Board Audit Review Committee is of the view that adequate internal controls and procedures are in place at the Bank and its subsidiaries to provide reasonable assurance that its assets are safeguarded and financial stability maintained. The Board Audit Review Committee has recommended to the Board of Directors that Messrs. Ernst & Young be reappointed as Auditors for the financial year ending 31st December 2008 at the next Annual General Meeting.

A.R. Rasiah

Chairman

Board Audit Review Committee

15th February 2008

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 Colombo Stock Exchange Listing Rules 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 2007.

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

This report of the Board of Directors and the Audited Financial Statements were approved by the Directors on 15th February 2008.

Principal Activities, Business Review/ Future Development

The principal activities of Nations Trust Bank PLC and of its subsidiaries, Waldock Mackenzie Limited, Allied Properties Limited, Mercantile Leasing (Financial Services) Limited and Nations Insurance Brokers Limited (which together constitute the Group) are commercial, investment, personal and private banking, leasing, fund and fee based activities, property management and insurance broking. There has been no material change to the activities of the Company or any of the subsidiaries during the period under review.

Financial Statements

Financial Statements of the Company and the Group are given on pages 84 to 118 of this Annual Report.

Auditors' Report

Auditors' Report on the Financial Statements is given on Page 83.

Accounting Policies

The accounting policies adopted in the preparation of the Financial Statements are given on pages 88 to 97. 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. 2.3 to the Financial Statements.

Interests Register

The Interests Register was introduced during the period under review. Accordingly, all entries in the Interests Register were made during the accounting period ended 31st December 2007. All Directors have made general declarations as provided for in Section 192 (2) of the Companies Act No. 7 of 2007. Arising from this details of contracts in which they have an interest are found on pages 78 to 80. The share ownership of Directors stands as indicated on page 75. Except for Mr. A.R. Rasiah, no change has taken place in the number of shares owned by any Director after the requirement relating to the Interests Register came in to force. An entry was made in the Interests Register relating to a purchase of 6,300 shares by Mr. A.R. Rasiah, Director on 3rd December 2007.

Directors' Shareholdings

As at 31st December	No. of Shares	
	2007	2006
Mr. A.D. Gunewardene	1,166,111	1,116,111
Mr. E.H. Wijenaike	11,561	11,561
Mr. S.C. Ratnayake	-	-
Mr. J.R.F. Peiris	-	-
Mr. A.K. Gunaratne	10,600	10,600
Mr. A.R. Rasiah	16,304	4
Dr. (Ms.) D. Weerakoon	-	-
Mr. M.E. Wickremesinghe	-	-
Mr. Z.H. Zavahir	190,500	190,500
Mr. C.H.S.K. Piyaratna	50,300	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.	Group Rs.
Directors' Fees and Emoluments	24,608,182	36,041,812

Corporate Donations

Donations by the Company during the year amounted to Rs. 1,345,000/-. 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 since their appointment to the Board are given below:

Non-Executive Directors

Name of Director	Position	No. of meetings attended/No. of meetings held during the year, since appointment to the Board
Mr. A.D. Gunewardene	Chairman	7/7
Mr. E.H. Wijenaike		7/7
Mr. S.C. Ratnayake		6/7
Mr. J.R.F. Peiris		7/7
Mr. A.K. Gunaratne		7/7
Mr. A.R. Rasiah	Independent Director	6/6
Dr. (Ms.) D. Weerakoon	Independent Director	5/6
Mr. M.E. Wickremesinghe	Independent Director	6/6

Executive Directors

Name of Director	Position	No. of meetings attended/No. of meetings held during the year, since appointment to the Board
Mr. Z.H. Zavahir	Chief Executive Officer	7/7
Mr. C.H.S.K. Piyaratna		7/7

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

Resignations and Appointments of Directors

Ms. C. Kiriella and Mr. G.S.A. Gunasekera resigned from the Board with effect from 28th February 2007.

Dr. (Ms.) Dushni Weerakoon, Mr. A.R. Rasiah and Mr. M.E. Wickremesinghe were appointed to the Board with effect from 1st March 2007 and got elected by the shareholders as provided for in Article 91 of the Articles of Association of the Company at the Annual General Meeting held on 30th March 2007.

Recommendation for Re-election of Directors

Messrs. A.D. Gunewardene and E.H. Wijenaike retire by rotation and Mr. A.K. Gunaratne retires in terms of Article 91 as provided for in the Articles of Association of the Company and are recommended for re-election by the shareholders.

Directors' Responsibility for Financial Reporting

Directors responsibility for financial reporting is detailed on page 82.

Board Sub-Committees

The Board has appointed the following Board Sub-Committees.

Board Supervisory Committee

C.H.S.K. Piyaaratna - Chairman
E.H. Wijenaike
A.K. Gunaratne

Board Audit Review Committee

A.R. Rasiah - Chairman
J.R.F. Peiris
A.K. Gunaratne
M.E. Wickremesinghe
Dr. (Ms.) D. Weerakoon

Board Remuneration Committee

A.D. Gunewardene - Chairman
E.H. Wijenaike
Dr. (Ms.) D. Weerakoon
A.R. Rasiah

Board Nominations Committee

A.D. Gunewardene - Chairman
E.H. Wijenaike
M.E. Wickremesinghe

Directors of the Subsidiaries are as follows:

Allied Properties Limited

A.D. Gunewardene - Chairman
E.H. Wijenaike
Z.H. Zavahir

Nations Insurance Brokers Limited

Z.H. Zavahir - Chairman
C.H.S.K. Piyaaratna
W.M.C. Weerasinghe

Mercantile Leasing (Financial Services) Limited

A.D. Gunewardene - Chairman
E.H. Wijenaike
Z.H. Zavahir

Waldock Mackenzie Limited

A.D. Gunewardene - Chairman
E.H. Wijenaike
Z.H. Zavahir
T.M.I. Ahamed

Direction No. 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance for Licensed Commercial Banks

The Board of Directors wishes to state that necessary steps will be taken to comply with the requirements of the above direction by the due dates.

Auditors

Group's Auditors during the period under review were Messrs. Ernst & Young, Chartered Accountants.

The following payments were made to them during the year.

	Bank Rs.	Group Rs.
Audit Fees	4,301,230	5,859,000
Fees for other Services	1,180,993	1,644,154

Other services consisted of tax related work.

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

Results and Dividends

Consolidated Income Statement along with the Company's Income Statement for the year are given on page 84. Group Balance Sheet is given on page 85.

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/- per share to the holders of ordinary shares of the Company registered on the books of the Company as at end of 28th March 2008.

Share Information and Shareholders

Information relating to shareholding is given on page 119 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 34 to the Financial Statements on page 118.

Capital Adequacy

The Group's capital adequacy ratios as at 31st December 2007 were 7.20% for Tier I and 10.44% for Tier I & II and are above the minimum requirements of the Central Bank of Sri Lanka of 5% and 10% respectively.

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 Ceylon Chamber of Commerce at No. 50, Nawam Mawatha, Colombo 2, on 28th March 2008 at 10.00 a.m.



Ajit Gunewardene
Chairman



Zulfiqar Zavahir
Director/CEO



Theja Silva
Company Secretary

Colombo
15th February 2008

Directors' Interests in Contracts with the Bank

The Bank carried out transactions in the ordinary course of its business at commercial rates with the following director related entities;

Details of transactions carried out with director related entities during the year 2007

Name of Related Party	Name of Director	Relationship	Details	Balance outstanding as at 31.12.2007 Rs.
Central Finance Co. PLC	E.H. Wijenaike	Managing Director	A sum of Rs. 21,110,554/- was paid in respect of operating leases for cars and purchase of cars.	Nil
	A.K. Gunaratne	Director	A sum of Rs. 36,502,575/- was received as interest income & other income. A sum of Rs. 64,005,668/- was paid as interest expense.	
Keells Business Systems Limited	A.D. Gunewardene	Chairman	A sum of Rs. 10,172,529/- was paid for the purchase of computer equipment and other computer services.	Nil
	J.R.F. Peiris	Director		
John Keells Office Automation (Pvt) Limited	A.D. Gunewardene	Chairman	A sum of Rs. 312,904/- was paid for the purchase of office equipment, stationery and service maintenance.	Nil
	J.R.F. Peiris	Director		
John Keells Holdings PLC	S.C. Ratnayake	Chairman	A sum of Rs. 251,094/- was paid as advisory charges.	Nil
	A.D. Gunewardene	Deputy Chairman	A sum of Rs. 11,680,189/- was received as interest income.	
	J.R.F. Peiris	Director	A sum of Rs. 350,183,170/- was paid as interest expenses.	
Mackinnons American Express Travel (Pvt) Limited	S.C. Ratnayake	Chairman	A sum of Rs. 43,550/- was paid for air travel.	Nil
D H L Keells (Pvt) Limited	S.C. Ratnayake	Chairman	A sum of Rs. 977,708/- was paid as courier charges	30,761
Jaykay Marketing Services (Pvt) Limited	S.C. Ratnayake	Chairman	A sum of Rs. 5,328,826/- was incurred as rental payments, electricity chargers and cost of gift vouchers.	634,000
	J.R.F. Peiris	Director		
Odel (Pvt) Limited	A.D. Gunewardene	Chairman	A sum of Rs. 1,743,498/- was incurred as advertisements, rental and other utility charges.	32,000
Asian Hotels & Properties Limited	S.C. Ratnayake	Chairman	A sum of Rs. 4,417,256/- was incurred as rental and other utility charges.	388,352
	A.D. Gunewardene	Managing Director		
Ceylon Holiday Resorts Limited	J.R.F. Peiris	Director	A sum of Rs. 1,064,662/- was paid as room charges for training programs.	Nil
	S.C. Ratnayake	Chairman		
Financial Ombudsman Sri Lanka (Guarantee) Limited	A.D. Gunewardene	Director	A sum of Rs. 86,250/- was paid as annual membership fees.	Nil
	J.R.F. Peiris	Director		
Mackinnon and Keells Financial Services Limited	E.H. Wijenaike	Director	A sum of Rs. 3,630/- was received as interest income A sum of Rs. 7,310,988/- was paid as interest expenses.	Nil
	S.C. Ratnayake	Chairman		
	A.D. Gunewardene	Director		
	J.R.F. Peiris	Director		

Name of Related Party	Name of Director	Relationship	Details	Balance outstanding as at 31.12.2007 Rs.
CF Insurance Brokers (Pvt) Limited	E.H. Wijenaike	Director	A sum of Rs. 4,628/- was received as interest income.	Nil
Habarana Walk Inn Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 80,400/- was paid as hotel accommodation charges.	Nil
Keells Hotel Management Services Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 2,500/- was paid for customer entertainment.	Nil
Keells Tours (Pvt) Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 33,350/- was paid for transport charges.	Nil
Nature Oddysey (Pvt) Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 2,000/- was paid for the vehicle hire charges.	Nil
Trans Asia PLC	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 1,812,291/- was paid for conference room charges and customer entertainment.	Nil
Waldock Mackenzie Limited	A.D. Gunewardene E.H. Wijenaike Z.H. Zavier	Chairman Director Director	A sum of Rs. 477,811,446/- was paid as interest expenses. A sum of Rs. 572,017,604/- was received as interest income.	25,664,366
Allied Properties Limited	A.D. Gunewardene E.H. Wijenaike Z.H. Zavier	Chairman Director Director	A sum of Rs. 9,350,823/- was paid as rent, utility expenses, and for refurbishing work. Reimbursement of expenses amounting to Rs. 1,605,800/- was received. Interest paid amounted to Rs. 9,601,222/-. Deposit for rentals amounts to Rs. 5,922,000/-.	(104,887,286)
Nations Insurance Brokers Limited	Z.H. Zavier C.H.S.K. Piyaratna	Chairman Director	A sum of Rs. 3,101,200/- was received as reimbursement of expenses. A sum of Rs. 1,120,903/- was paid as interest expenses.	(15,601,627)
Mercantile Leasing (Financial Services) Limited	A.D. Gunewardene E.H. Wijenaike Z.H. Zavier	Chairman Director Director	A sum of Rs. 687,800/- was received as reimbursement of expenses. A sum of Rs. 4,384,490/- was received as interest income.	28,419,724
Cinnamon Hotels & Resorts (Pvt) Limited	A.D. Gunewardene S.C. Ratnayake	Chairman	A sum of Rs. 1,370,286/- was paid for seminar charges and sponsorships.	Nil
Union Assurance PLC	A.D. Gunewardene J.R.F. Peiris	Chairman Director	A sum of Rs. 545,304/- was paid as insurance premia.	Nil
John Keells Social Responsibility Foundation	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 1,345,000/- was made as donations.	Nil

Directors' Interests in Contracts with the Bank

Details of Accommodation granted and Balances outstanding as at 31st December 2007

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance outstanding as at 31.12.2007 Rs.
Central Finance Co. PLC	E.H. Wijenaike	Managing Director	Working Capital Financing	300,000,000	117,331
	A.K. Gunaratne	Director	Trade Finance Facilities	Sub Limit	5,398,719
Central Industries Limited	E.H. Wijenaike	Director	Working Capital Financing	75,000,000	11,600,000
	A.K. Gunaratne	Director	Trade Finance Facilities	Sub Limit	38,608,735
John Keells Office Automation (Pvt) Limited	A.D. Gunewardene	Chairman	Working Capital Financing	140,000,000	1,845,035
	J.R.F. Peiris	Director	Trade Finance Facilities	Sub Limit	71,608,605
D H L Keells (Pvt) Limited	S.C. Ratnayake	Chairman	Trade Finance Facilities	1,000,000	1,000,000
Ceylon Cold Stores PLC	S.C. Ratnayake	Chairman	Working Capital Financing	140,000,000	8,911,070
	A.D. Gunewardene	Director	Trade Finance Facilities	Sub Limit	64,158,263
	J.R.F. Peiris	Director			
Whitall Boustead Limited	A.R. Rasiah	Director			
	S.C. Ratnayake	Chairman	Trade Finance Facilities	819,000	818,460
	A.D. Gunewardene	Director			
Habarana Walk Inn Limited	J.R.F. Peiris	Director			
	S.C. Ratnayake	Chairman	Working Capital Financing	7,000,000	722,164
	A.D. Gunewardene	Director	Finance Leases	-	3,249,180
Habarana Lodge Limited	J.R.F. Peiris	Director			
	S.C. Ratnayake	Chairman	Working Capital Financing	6,000,000	938,904
	A.D. Gunewardene	Director	Finance Leases	-	3,249,180
Kandy Walk Inn Limited	J.R.F. Peiris	Director			
	S.C. Ratnayake	Chairman	Working Capital Financing	40,000,000	8,798,979
	A.D. Gunewardene	Director	Finance Leases	-	3,249,180
Ceylon Holiday Resorts Limited	J.R.F. Peiris	Director			
	S.C. Ratnayake	Chairman	Working Capital Financing	16,000,000	4,044,152
	A.D. Gunewardene	Director	Finance Leases	-	6,500,016
Yala Village (Pvt) Limited	J.R.F. Peiris	Director			
	S.C. Ratnayake	Deputy Chairman	Finance Leases	-	3,332,214
	A.D. Gunewardene	Director			
Trinco Walk Inn Limited	J.R.F. Peiris	Director			
	S.C. Ratnayake	Chairman	Finance Leases	-	3,332,214
	A.D. Gunewardene	Director			
John Keells Holdings PLC	J.R.F. Peiris	Director			
	S.C. Ratnayake	Chairman	Corporate Credit Card	5,000,000	131,245
	A.D. Gunewardene	Deputy Chairman			
Allied Properties	J.R.F. Peiris	Director			
	A.D. Gunewardene	Chairman	Working Capital Financing	-	1,911
	E.H. Wijenaike	Director			
Asian Hotels and Properties PLC	Z.H. Zavier	Director			
	S.C. Ratnayake	Chairman	Working Capital Financing	100,000,000	67,788,259
	A.D. Gunewardene	Managing Director			
Associated Motorways PLC	J.R.F. Peiris	Director			
	S.C. Ratnayake	Director	Working Capital Financing Trade Finance Facilities.	600,000,000 Sub Limit	1,517,483 4,328,827

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Financial Reports

Directors' Responsibility for Financial Reporting	82
Auditors' Report	83
Income Statement	84
Balance Sheet	85
Statement of Changes in Equity	86
Cash Flow Statement	87
Notes to the Financial Statements	88

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 83 of the Report.

The Companies Act No. 7 of 2007, 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 subsidiaries 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 subsidiaries 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 subsidiaries 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 subsidiaries maintains sufficient accounting records to be able to disclose, with reasonable accuracy, the financial position of the entities and to be able to ensure that the Financial Statements of the Bank and its subsidiaries 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 subsidiaries 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.

Auditors' Report



■ Chartered Accountants

201 De Saram Place

P.O.Box 101

Colombo 10

Sri Lanka

■ Telephone

: (0) 11 2463500

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONS TRUST BANK PLC

Report on the Financial Statements

We have audited the accompanying Financial Statements of Nations Trust Bank PLC, the consolidated Financial Statements of the Bank and its subsidiaries, which comprise the Balance Sheets as at 31st December 2007, and the Income Statements, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the

accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

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 maintained proper accounting records for the year ended 31st December 2007 and the Financial Statements give a true and fair view of the Bank's state of affairs as at 31st December 2007 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated Financial Statements give a true and fair view of the state of affairs as at 31st December 2007 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

Report on Other Legal and Regulatory Requirements

In our opinion, these Financial Statements also comply with the requirements of Sections 151 (2) and 153 (2) to 153 (7) of the Companies Act No. 7 of 2007.

Colombo

15th February 2008

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

Income Statement

Year ended 31st December			Bank			Group	
	Note	2007 Rs.	2006 Rs.	Change %	2007 Rs.	2006 Rs.	Change %
Gross Income	4	8,378,534,789	5,033,574,054	66	9,341,911,438	5,922,346,839	58
Interest Income	5	6,950,948,743	4,170,982,405	67	8,010,729,030	4,990,831,679	61
Interest Expense	6	(5,064,708,149)	(2,624,213,269)	93	(5,900,278,820)	(3,279,756,888)	80
Net Interest Income		1,886,240,594	1,546,769,136	22	2,110,450,210	1,711,074,791	23
Fees and Commission Income		279,508,723	254,433,832	10	307,018,900	275,392,397	11
Foreign Exchange Income		329,244,664	191,840,975	72	329,244,664	191,840,975	72
Other Operating Income	7	818,832,659	416,316,842	97	694,918,844	464,281,788	50
Net Income		3,313,826,640	2,409,360,785	38	3,441,632,618	2,642,589,951	30
Less:							
Operating Expenses							
Personnel Costs		795,888,314	612,564,369	30	811,808,794	624,868,203	30
Provision for Bad and Doubtful Debts		217,045,773	214,692,418	1	217,045,773	214,692,418	1
Other Fees and Charges		11,402,508	9,235,531	23	11,402,508	9,269,231	23
Provision for Staff Retirement Benefits		33,000,851	17,517,618	88	34,134,377	17,744,043	92
Premises, Equipment and Establishment Expenses		449,113,771	381,230,830	18	456,065,725	386,433,355	18
Other Operating Expenses		1,002,566,953	773,898,777	30	1,063,781,629	851,079,132	25
		2,509,018,170	2,009,139,543	25	2,594,238,806	2,104,086,382	23
Profit before Taxation	8	804,808,470	400,221,242	101	847,393,812	538,503,569	57
Less: Provision for Taxation	9	(251,129,488)	(150,735,817)	67	(342,575,443)	(215,183,115)	59
Profit after Taxation		553,678,982	249,485,425	122	504,818,369	323,320,454	56
Earnings per Share - Basic	10				3.81	2.44	56

The Notes to the Financial Statements from pages 84 to 118 form an integral part of these Financial Statements.

Balance Sheet

As at 31st December		Bank			Group		
	Note	2007 Rs.	2006 Rs.	Change %	2007 Rs.	2006 Rs.	Change %
ASSETS							
Cash and Short-Term Funds	12	3,145,647,235	4,779,013,368	(34)	3,146,512,585	4,779,804,852	(34)
Statutory Deposits with the Central Bank of Sri Lanka	13	1,964,032,208	1,314,915,247	49	1,964,032,208	1,314,915,247	49
Government Treasury Bills and Bonds	14	7,368,493,416	5,645,237,838	31	11,330,683,338	10,322,990,484	10
Investment Securities	15	2,392,433,541	1,629,269,406	47	2,392,433,541	1,629,269,406	47
Loans and Advances:							
Bills of Exchange	16.1	561,609,250	291,349,554	93	561,609,250	291,349,554	93
Loans and Advances	16.2	21,360,013,160	17,365,211,146	23	22,418,410,671	18,838,903,626	19
Lease Rentals Receivable within one year	16.3.1	2,434,930,681	1,770,373,368	38	2,437,753,065	1,774,403,990	37
Lease Rentals Receivable after one year	16.3.2	4,816,384,302	3,416,411,800	41	4,816,384,302	3,416,411,800	41
Corporate Debt Securities	16.4	3,288,632,316	2,137,770,213	54	4,265,741,382	2,672,062,061	60
Other Assets	17	1,301,342,613	1,089,773,102	19	1,209,329,590	997,977,333	21
Investment in Subsidiaries	18	678,710,461	682,205,961	(1)	–	–	–
Property, Plant & Equipment	19	482,676,703	504,993,674	(4)	1,065,426,212	1,132,657,513	(6)
Goodwill	20	–	372,052,672	(100)	79,261,214	451,313,886	(82)
Total Assets		49,794,905,886	40,998,577,349	21	55,687,577,358	47,622,059,752	17
LIABILITIES							
Deposits	21	28,665,757,479	20,672,459,548	39	28,665,757,479	20,670,354,877	39
Due to Banks		1,393,720,353	1,076,431,916	29	1,394,174,351	1,076,431,916	30
Borrowings	22	12,479,179,101	12,946,170,053	(4)	18,088,138,129	19,374,749,861	(7)
Other Liabilities	23	3,308,415,428	2,374,179,403	39	3,295,891,833	2,211,820,228	49
Deferred Liabilities	24	195,735,100	173,078,310	13	201,674,124	193,741,121	4
Debentures	25	500,000,000	560,000,000	(11)	500,000,000	560,000,000	(11)
Subordinated Loan	26	673,250,000	673,250,000	–	673,250,000	673,250,000	–
Total Liabilities		47,216,057,461	38,475,569,230	23	52,818,885,916	44,760,348,003	18
SHAREHOLDERS' FUNDS							
Stated Capital	27	2,061,553,991	2,061,553,991	–	2,061,553,991	2,061,553,991	–
Reserve Fund	28	56,679,148	28,995,199	95	56,679,148	28,995,199	95
Reserves	29	460,615,286	432,458,929	7	750,458,303	771,162,559	(3)
Total Shareholders' Funds		2,578,848,425	2,523,008,119	2	2,868,691,442	2,861,711,749	–
Total Liabilities and Shareholders' Funds		49,794,905,886	40,998,577,349	21	55,687,577,358	47,622,059,752	17
Commitments and Contingencies	30	18,138,461,278	13,276,545,790	37	18,138,461,278	13,276,545,790	37
Net Assets Value per Ordinary Share		19.47	19.04	2	21.65	21.60	–

Certification

I certify that the above Financial Statements give a true and fair view of the state of affairs as at 31st December 2007 and of its profit for the year then ended.



Raja Senanayake

Chief Financial Officer

The Notes to the Financial Statements from pages 84 to 118 form an integral part of these Financial Statements.

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board by:



A.D. Gunewardene

Chairman



E.H. Wijenaike

Director



Z.H. Zavahir

Director/CEO



Theja Silva

Company Secretary

Colombo, 15th February 2008

Statement of Changes in Equity

Year ended 31st December 2007

	Note	Stated Capital Rs.	Capital Reserve Rs.	Reserve Fund Rs.	Revenue Reserve Rs.	Total Rs.
BANK						
Balance as at 31st December 2005		994,999,986	–	16,520,928	175,121,830	1,186,642,744
Effect on Transitional Liability on Adoption of Revised SLAS 14 on Income Taxes	24.1	–	–	–	20,325,945	20,325,945
Issue of Shares		1,066,554,005	–	–	–	1,066,554,005
Net Profit for the Year		–	–	–	249,485,425	249,485,425
Transfers during the Year	28	–	–	12,474,271	(12,474,271)	–
Balance as at 31st December 2006		2,061,553,991	–	28,995,199	432,458,929	2,523,008,119
Net Profit for the Year		–	–	–	553,678,982	553,678,982
Dividend Paid for 2006		–	–	–	(125,786,004)	(125,786,004)
Provision for Goodwill	20.2	–	–	–	(372,052,672)	(372,052,672)
Transfers during the Year	28	–	–	27,683,949	(27,683,949)	–
Balance as at 31st December 2007		2,061,553,991	–	56,679,148	460,615,286	2,578,848,425
GROUP						
Balance as at 31st December 2005		994,999,986	–	16,520,928	451,809,163	1,463,330,077
Effect on Transitional Liability on Adoption of Revised SLAS 14 on Income Taxes	24.1	–	–	–	8,507,213	8,507,213
Issue of Shares		1,066,554,005	–	–	–	1,066,554,005
Net Profit for the Year		–	–	–	323,320,454	323,320,454
Transfers during the Year	28	–	–	12,474,271	(12,474,271)	–
Balance as at 31st December 2006		2,061,553,991	–	28,995,199	771,162,559	2,861,711,749
Net Profit for the Year		–	–	–	504,818,369	504,818,369
Dividend Paid for 2006		–	–	–	(125,786,004)	(125,786,004)
Provision for Goodwill	20.2	–	–	–	(372,052,672)	(372,052,672)
Transfers during the Year	28	–	–	27,683,949	(27,683,949)	–
Capitalisation of reserves on the Issue of Bonus Shares by a Subsidiary		–	9,500,000	–	(9,500,000)	–
Balance as at 31st December 2007		2,061,553,991	9,500,000	56,679,148	740,958,303	2,868,691,442

The Notes to the Financial Statements from pages 84 to 118 form an integral part of these Financial Statements.

Cash Flow Statement

Year ended 31st December	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
Cash Flow from Operating Activities				
Interest Received	6,867,179,906	4,153,040,550	7,959,222,065	4,874,486,037
Fees and Commission Received	279,508,723	254,342,906	306,910,249	273,060,518
Interest Paid	(4,971,483,122)	(2,765,760,139)	(5,708,481,334)	(3,374,687,452)
Foreign Exchange Income Received	329,244,664	191,840,975	329,244,664	191,840,975
Receipts from Other Operating Activities	818,832,658	416,440,295	691,972,040	453,738,056
Gratuity Payments made	(4,268,450)	(5,639,845)	(4,268,450)	(5,639,845)
Payments to Employees and Suppliers	(2,093,432,540)	(1,620,867,122)	(2,166,198,102)	(1,667,275,578)
Net Cash Flow from Operating Activities before Income Tax (A)	1,225,581,839	623,397,620	1,408,401,132	745,522,711
Income Tax Paid	(288,360,605)	(116,699,248)	(370,270,331)	(144,441,752)
Operating Profit before Changes in Operating Assets and Liabilities	937,221,234	506,698,372	1,038,130,801	601,080,959
(Increase)/Decrease in Operating Assets				
Investments in Treasury Bills and Bonds	(1,744,686,908)	(4,449,907,307)	(2,862,522,343)	(3,253,575,823)
Corporate Debt Securities	(1,895,008,499)	(703,789,824)	(709,141,495)	(1,763,544,909)
Bills of Exchange	(487,305,469)	44,617,237	(487,305,469)	44,617,237
Loans and Advances	(5,979,547,065)	(7,520,083,722)	(5,979,545,155)	(7,520,083,719)
Other Assets	(220,172,364)	(271,183,731)	298,080,629	(161,828,876)
	(10,326,720,305)	(12,900,347,347)	(9,740,433,833)	(12,654,416,090)
Increase/(Decrease) in Operating Liabilities				
Customer Deposits	7,993,297,933	6,378,563,491	7,995,402,603	6,376,458,820
Securities sold under Repurchase Agreements	1,184,422,441	3,285,636,482	1,054,333,253	6,408,078,958
Other Liabilities	983,887,033	768,726,371	550,637,568	458,229,369
	10,161,607,407	10,432,926,344	9,600,373,424	13,242,767,147
Net Cash Flow from Operating Activities	772,108,336	(1,960,722,631)	898,070,392	1,189,432,016
Cash Flows from Investing Activities				
Net Cash Acquired on Merger of Operation	–	51,247,138	–	55,745,896
Proceeds from Sale of Property, Plant & Equipment	13,064,456	11,428,004	32,165,176	23,124,339
Purchase of Property, Plant & Equipment	(156,286,491)	(192,987,995)	(158,068,021)	(194,487,995)
	(143,222,035)	(130,312,853)	(125,902,845)	(115,617,760)
Cash Flows from Financing Activities				
Increase/(Decrease) in Refinance Activities	(1,799,079)	543,116,937	(1,799,079)	543,116,937
Increase/(Decrease) in Call and Other Borrowings	(1,742,838,827)	3,636,579,292	(1,886,500,205)	471,553,090
Issue of Debentures	(60,000,000)	560,000,000	(60,000,000)	560,000,000
Dividend Paid	(125,786,004)	–	(125,786,004)	–
	(1,930,423,910)	4,739,696,229	(2,074,085,288)	1,574,670,027
Net Increase in Cash and Cash Equivalents	(1,301,537,609)	2,648,660,745	(1,301,917,741)	2,648,484,283
Cash and Cash Equivalents at the beginning of the year	5,017,496,699	2,368,835,954	5,018,288,183	2,369,803,900
Cash and Cash Equivalents at the end of the year	3,715,959,090	5,017,496,699	3,716,370,442	5,018,288,183
Reconciliation of Cash and Cash Equivalents				
Cash in Hand and Balances with Banks	656,528,780	209,005,892	656,940,132	209,797,376
Balances with the Central Bank of Sri Lanka	1,964,032,208	1,314,915,247	1,964,032,208	1,314,915,247
Money at Call and Short Notice	1,095,398,102	3,493,575,560	1,095,398,102	3,493,575,560
	3,715,959,090	5,017,496,699	3,716,370,442	5,018,288,183
A. Reconciliation of Operating Profit:				
Profit before Taxation	804,808,470	400,221,242	847,393,812	538,503,569
Depreciation	174,689,978	155,114,863	204,299,512	191,069,189
(Profit)/Loss from Disposal of Property, Plant & Equipment	(9,150,971)	990,251	(11,100,954)	646,946
Provision for Doubtful Debts	217,045,773	214,692,418	217,045,773	214,692,418
Provision for Gratuity	33,000,851	17,517,618	34,134,377	17,744,043
(Increase)/Decrease in Interest Receivable	(83,768,838)	(17,941,854)	(62,017,307)	(147,158,411)
Increase/(Decrease) in Interest Payable	93,225,026	(141,557,073)	184,987,521	(63,662,646)
Other Debtors/Creditors	–	–	(2,073,152)	(4,050,292)
Impairment Losses Written Off during the year	–	–	–	3,377,740
Gratuity Payments made	(4,268,450)	(5,639,845)	(4,268,450)	(5,639,845)
	1,225,581,839	623,397,620	1,408,401,132	745,522,711

The Notes to the Financial Statements from pages 84 to 118 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 General

Nations Trust Bank PLC (the 'Bank') 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. 242, Union Place, Colombo 2.

The Consolidated Financial Statements of Nations Trust Bank PLC for the year ended 31st December 2007 comprise of the Bank and its subsidiaries, Waldock Mackenzie Limited, Allied Properties Limited, Mercantile Leasing (Financial Services) Limited and Nations Insurance Brokers Limited (together referred to as the 'Group').

Nations Trust Bank PLC does not have an identifiable parent of its own.

The Financial Statements of Nations Trust Bank PLC, for the year ended 31st December 2007 were authorised for issue in accordance with the resolution of the Board of Directors on 15th February 2008.

1.2 Principal Activities and Nature of Operations

Bank

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

Subsidiaries

The principal activities of the Bank's subsidiaries namely 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 lease portfolio and insurance broking respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for Government Securities held for trading and certain land and building that have been stated at valuation as explained in Accounting Policy No. 2.10.1 (b) and No. 2.10.6. (a) respectively to these Financial Statements. Assets and liabilities are grouped by nature and are listed in an order that reflect their relative liquidity.

No adjustments have been made for inflationary factors affecting these Financial Statements. These Financial Statements are prepared and presented in Sri Lankan Rupees.

The preparation and presentation of these Financial Statements is in compliance with the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto.

2.1.1 Statement of Compliance

The Financial Statements of the Bank and the Group have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS).

2.1.2 Prior year Figures and Phrases

Certain prior year figures and phrases are rearranged whenever necessary to conform to the current year's presentation.

2.2 Basis of Consolidation

(a) The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries as at 31st December each year. The Financial Statements of the subsidiaries are prepared for the same reporting year as the Bank using consistent Accounting Policies.

(b) All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

- (c) Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

2.3 Changes in Accounting Policies

The Accounting Policies adopted are consistent with those used in the previous financial year except as follows:

The Group has adopted the new standard SLAS 41 on Impairment of Assets for all assets other than goodwill. This adoption did not have a significant impact on the Financial Statements (Refer Accounting Policy No. 2.10.8). SLAS 41 in relation to goodwill was adopted by the Group last year.

2.4 Significant Accounting Estimates and Assumptions

In the process of applying the Group's Accounting Policies, management is required to make estimates and assumptions that affect the amounts recognised in the Financial Statements. Use of available information and application of judgment are inherent in the formation of estimates. The Group believes its estimates for determining the valuation of its assets and liabilities are appropriate.

The following is a brief description of the Group's critical accounting estimates and assumptions:

Losses for Loans and Advances

It is the Group's policy to establish, through charges against profits, specific and general provisions in respect of estimated and inherent credit losses in its portfolio.

Impairment of Non-Financial Assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators

exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in Notes 2.10.7 and 2.10.8.

2.5 Foreign Currency Translation

The Consolidated Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional and presentation currency. All foreign exchange transactions are converted to Sri Lankan Rupees, 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 Lankan Rupee equivalents using year-end middle foreign exchange rates. The resulting gains and losses are accounted for in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to Sri Lankan Rupees using the exchange rates as at the date of the initial transactions.

Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Unrealised gains and losses are dealt with through the Income Statement.

2.6 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

2.7 Taxation

(a) Income Tax

The provision for income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act.

Notes to the Financial Statements

Income tax liabilities for the current period are measured at the amounts expected to be paid to the taxation authorities in accordance with the provisions of the Inland Revenue Act No. 10 of 2006. The tax rates applicable as of the Balance Sheet date are given below:

Nations Trust Bank PLC

Income tax on profit from the Domestic Banking Unit and on shore operations of the Foreign Currency Banking Unit is calculated at the rate of 35% while tax on profits from the off-shore operations of the Foreign Currency Banking Unit is calculated at the rate of 20%.

Subsidiary - Waldock Mackenzie Limited

Income tax on profit from operations is calculated at the rate of 35%.

Subsidiary - Allied Properties Limited

The Company enjoyed a tax holiday of 7 years which expired on 31st March 2007. Effective from 1st April 2007, the Company enjoys a concessionary tax rate of 2% on its turnover for a period of 15 years. Income tax has been provided at the rate of 35% on profits arising from other sources of income.

Subsidiary - Mercantile Leasing (Financial Services) Limited

Income tax on profit from operations is calculated at the rate of 35%. Tax losses carried forward as at 31st December 2007 amounted to Rs. 45.926 mn, which can be carried forward indefinitely and can be set off against the taxable profits subject to the limit of 35% of the taxable profit in each year of assessment.

Subsidiary - Nations Insurance Brokers Limited

Income tax on profit from operations is calculated at the rate of 35%.

(b) Deferred Income Tax

Deferred income tax is provided using the liability method on temporary differences at the Balance Sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor the taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each Balance Sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or subsequently enacted as at the Balance Sheet date.

Deferred income tax assets relating to items recognised directly in equity is recognised in the Equity Statement and not in the Income Statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

**(c) Value Added Tax
Nations Trust Bank PLC**

During the year, the Bank's total value addition was subjected to a 20% Value Added Tax on Financial Services as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

Subsidiary - Waldock Mackenzie Limited

During the year, the Company's total value addition was subjected to a 20% Value Added Tax on Financial Services as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

(d) Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set off against the income tax payable for a further four years.

(e) Social Responsibility Levy

As per the provisions of the Finance Act No. 5 of 2005, as amended by the Finance Act No. 11 of 2006, Social Responsibility Levy (SRL) was introduced with effect from 1st January 2005. SRL is payable at the rate of 1% on all taxes and levies chargeable as specified in the First Schedule of the Act.

2.8 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.

2.9 Hedging

The Bank uses derivative financial instruments such as interest rate swaps and foreign currency contracts 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.

**2.10 Valuation of Assets and their
Measurement Bases**

2.10.1 Investments

(a) Treasury Bonds held to Maturity

Investments in Treasury Bonds held to maturity 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.

(b) Treasury Bills and Bonds held for Trading

Investments in Treasury Bills and Bonds held for trading are marked to market and carried at that value in the Balance Sheet. Gains and losses on marked to market valuation are dealt with through the Income Statement.

(c) Investment in Treasury Bonds and Other Securities

Securities, including Sri Lanka Development Bonds (SLDB) 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.

(d) Investments in Subsidiaries

Investments in subsidiaries are stated at cost in the Bank's Financial Statements in accordance with Sri Lanka Accounting Standard No. 26 on Consolidated Financial Statements and Accounting for Investments in Subsidiaries.

Notes to the Financial Statements

2.10.2 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, including consumer advances and credit cards.

The Bank's provisioning policy is more stringent than the guidelines issued by the Central Bank of Sri Lanka and at the minimum not falling below the following. Accordingly, specific 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 on all performing advances, in addition to the specific provisions made on non-performing advances to cover potential bad debts which are inherent in the loan portfolio but not yet identified. The provision is estimated after deducting facilities secured against cash. The Central Bank of Sri Lanka in their direction dated 21st November 2006, has made it mandatory that all banks make this provision, with time being given to build up the required provisions over 10 quarters, at the rate of 0.10% per quarter.

The Bank, however, is already fully compliant with this requirement, having provided the 1% general provision for all eligible advances.

2.10.3 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 on the following basis which is in line with the directions issued by the Central Bank of Sri Lanka.

Overdue Period	Provision Required
6-12 months	20%
12-18 months	50%
Over 18 months	100%

A general provision for possible losses on lease receivables is made at 1% of the total capital outstanding of the performing leases.

2.10.4 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.

2.10.5 Reverse Repurchase Agreements

These are advances collateralised by purchase of securities by the Group from counterparties to whom the Group lent, subject to a commitment to resell them at a predetermined price. All reverse repurchase agreements involve debt instruments, such as Treasury Bills and Bonds and commercial paper.

In reverse repurchase agreements, the cash delivered is derecognised and a corresponding receivable, including accrued interest, is recorded recognising the right to receive it back. Interest earned on reverse repurchase agreements is recognised as interest income over the life of each agreement.

Additionally, the sale of securities received in reverse repurchase transactions triggers the recognition of a trading liability (short sale).

2.10.6 Property, Plant & Equipment

(a) Cost and Valuation

All items of Property, Plant & Equipment are initially recorded at cost. Certain land and buildings are subsequently revalued. Subsequent to the initial recognition as an asset at cost, revalued assets are carried at revalued amounts less any accumulated depreciation on buildings and accumulated impairment losses recognised after the date of revaluation. All other Property, Plant & Equipment are

stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided for, on the bases specified in (c) below.

(b) Restoration Cost

Expenditure incurred on repairs or maintenance of Property, Plant & 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 or valuation of all Property, Plant & Equipment other than freehold land in order to write-off such amounts over the following estimated useful lives in equal instalments as follows:

Buildings	over 20-40 years
Motor Vehicles	over 04 years
Vault/Safes	over 08 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

Full depreciation was provided in the year of disposal and no depreciation was provided in the year of purchase on Property, Plant & Equipment acquired prior to 1st January 2006. Property, Plant & Equipment acquired after 1st January 2006 are depreciated from the month the assets are available for use over their estimated useful lives.

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

(d) Revaluation

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the Balance Sheet, except to the extent that it

reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in the Income Statement. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(e) Derecognition

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is derecognised.

2.10.7 Business Combinations and Goodwill

Business combinations are accounted for using the purchase method.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination after 1st June 2005 is from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Notes to the Financial Statements

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill acquired in a business combination prior to 1st June 2005 in accordance with the transitional provisions of revised SLAS 25 was amortised over a period of 10 years until 31st December 2005. Thereafter, commencing 1st January 2006 such amortisation of goodwill has been discontinued and the accumulated amortisation at that date has been eliminated against the carrying value of goodwill and the balance goodwill tested for impairment in accordance with SLAS 41.

2.10.8 Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses of continuing operations are recognised in the Income Statement in those expense categories consistent with the function of the impaired asset, except for property previously

revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of Goodwill:

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates.

Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised.

Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31st December.

A full provision has been made in 2007 against equity for the goodwill of Rs. 372.052 mn that arose on the acquisition of the former Mercantile Leasing Limited on 1st January 2006 to comply with Section 22 of the Banking Act before the payment of dividends for the year 2006.

2.11 Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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.

2.11.1 Proposed Dividend

Dividend proposed/declared by the Board of Directors, after the Balance Sheet date is not recognised as a liability and is only disclosed as a note to the Financial Statements.

2.11.2 Commitments and Contingencies

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

2.11.3 Retirement Benefit Obligations

(a) Defined Benefit Plan - Gratuity

Gratuity is a Defined Benefit Plan. The Bank and its subsidiaries 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 Payment of 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 subsidiaries except for Nations Insurance Brokers Limited contribute defined percentages of gross emoluments of employees to an approved private Provident Fund managed by Nations Trust Bank PLC and to the Employees' Trust Fund respectively. Nations Insurance Brokers Limited contributes to the Employees' Provident Fund and the Employees' Trust Fund respectively.

2.12 Repurchase Agreements

These are borrowings collateralised by sale of securities held by the Group to counterparties from whom the Group borrowed, subject to a commitment to repurchase them at a pre-determined price. All repurchase agreements involve debt instruments, such as Treasury Bills and Bonds and commercial paper.

In repurchase agreements, the cash received, including accrued interest, is recognised on the Balance Sheet with a corresponding obligation to return it. Interest incurred on repurchase agreements is recognised as an interest expense over the life of each agreement.

2.13 Income Statement

2.13.1 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 is also eliminated from interest income and transferred to interest in suspense. The interest income on non-performing advances is recognised on a cash basis.

Notes to the Financial Statements

(b) Income on Discounting of Bills of Exchange

Income from 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, factoring, credit cards 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.

(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, ensuring a constant rate of return, in terms of the provisions of SLAS 19 on Leases.

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 are being classified as non-performing is also eliminated from interest income and transferred to interest in suspense.

(g) Interest and Fees Receivable from Credit Cards

Interest and fees receivable from credit cards are recognised on an accrual basis. Interest and fees cease to be taken to revenue when the recovery of interest or fees is identified as non-performing. Thereafter, interest and fees are accounted for on a cash basis.

(h) Dividend Income

Dividend income from shares is recognised in the period in which they are declared and approved.

(i) Rental Income

Rental income is recognised on an accrual basis.

(j) Other Income

Other income is recognised on an accrual basis.

2.14 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.

2.15 Cash Flow Statement

The Cash Flow Statement has been prepared by using 'The Direct Method' in accordance with SLAS No. 9 on Cash Flow Statements, 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.

2.16 Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing services (Business Segments) which is subject to risks and rewards that are different from those of other segments.

In accordance with SLAS 28 on Segment Reporting, segment information is presented in respect of the Group. The segments comprise of Banking, Investment Banking and Others.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Accounting Policies adopted for segment reporting are those Accounting Policies adopted for preparing the Financial Statements of the Group.

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

2.17 Off-Balance Sheet Transactions

The Bank enters into Off-Balance Sheet transactions such as forward exchange contracts and currency swaps. At the year end, profits and losses on such transactions are dealt with through the Income Statement.

2.18 Future Changes in Accounting Policies Standards Issued but not yet Effective:

Sri Lanka Accounting Standard 16 (Revised) - Employee Benefits

SLAS 16 (Revised) was issued in 2007, and becomes effective for financial years beginning on or after 1st July 2007. Accordingly, the Financial Statements for the year ending 31st December 2008 will adopt the Revised SLAS 16.

As a result of the revision all short-term employee benefits of the Group will require to be recognised when an employee has rendered service in exchange for those benefits. For post-employment benefits, the Group will be required to involve a qualified actuary in their measurement. Based on an initial study, management is of the view that this revised standard when adopted would not have a significant impact on the Financial Statements.

2.19 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 82 for the Statement of the Directors' Responsibility for Financial Reporting.

Notes to the Financial Statements

3. BUSINESS COMBINATION

3.1 Merger of Operations

On 1st January 2006, the Bank merged its operations with the primary business operations of leasing and factoring of the previous Mercantile Leasing Limited (MLL).

The merger was effected by way of a share swap ratio of two Nations Trust Bank shares for every one MLL share and was for the entire share capital of MLL which amounted to 20,393,002 ordinary shares.

The fair values of the identifiable assets and liabilities of MLL as at the date of acquisition were:

	Fair Value as at 01.01.2006 Rs.
Assets	
Cash and Short-Term Funds	51,247,138
Loans and Advances	542,821,770
Lease Rentals Receivable	3,108,962,160
Investments in Subsidiaries	682,205,961
Other Assets	111,323,149
Property, Plant & Equipment	65,812,891
Total Assets	<u>4,562,373,069</u>
Liabilities	
Borrowings	3,500,427,866
Other Liabilities	267,259,541
Deferred Tax	100,184,329
Total Liabilities	<u>3,867,871,736</u>
Net Assets Acquired	694,501,333
Goodwill on the Merger of Operations	372,052,672
Purchase Consideration	<u>1,066,554,005</u>

Shares issued at valuation:

40,786,004 ordinary shares of Nations Trust Bank at Rs. 26.15 per share.

The merged Leasing and Factoring operations contributed a sum of Rs 137 mn to the the profit before tax of the Bank during the year ended 31st December 2006.

3.2 Net Cash Acquired on the Merger of Operations

	Rs.
Net Cash Acquired	51,247,138
Cash Paid	—
Net Cash Inflow	<u>51,247,138</u>

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
4. GROSS INCOME				
Interest Income	6,950,948,743	4,170,982,405	8,010,729,030	4,990,831,679
Fees and Commission Income	279,508,723	254,433,832	307,018,900	275,392,397
Foreign Exchange Income	329,244,664	191,840,975	329,244,664	191,840,975
Other Operating Income	818,832,659	416,316,842	694,918,844	464,281,788
	8,378,534,789	5,033,574,054	9,341,911,438	5,922,346,839
5. INTEREST INCOME				
Customer Advances	4,954,801,035	3,161,243,604	5,252,281,997	3,295,826,306
Treasury Bills and Bonds	911,992,256	353,724,651	1,564,964,442	770,213,637
Deposits with Other Banks	238,106,831	185,069,955	238,106,831	185,069,955
Corporate Debt Securities	585,010,828	321,417,270	697,825,112	589,860,962
Other Interest Income	261,037,793	149,526,925	257,550,648	149,860,819
	6,950,948,743	4,170,982,405	8,010,729,030	4,990,831,679
6. INTEREST EXPENSE				
Customer Deposits	2,448,551,517	1,163,068,172	2,448,551,517	1,163,068,172
Borrowings	1,328,343,302	901,957,396	1,508,199,292	900,655,715
Treasury Bills, Bonds and Corporate Papers Repurchased	1,287,813,330	559,187,701	1,943,528,011	1,216,033,001
	5,064,708,149	2,624,213,269	5,900,278,820	3,279,756,888
7. OTHER OPERATING INCOME				
Gain/(Loss) on Sale of Government and Corporate Securities	3,899,847	32,528	19,023,992	3,513,070
Fees and Other Income	814,932,812	416,284,314	675,894,852	460,768,718
	818,832,659	416,316,842	694,918,844	464,281,788
8. PROFIT BEFORE TAXATION				
Is stated after charging the following among others:				
Included in Personnel Cost				
Defined Contribution Plan Cost - EPF and ETF	58,494,649	50,284,760	59,027,389	51,227,323
Included in Provision for Staff Retirement Benefits				
Defined Benefit Plan Cost - Gratuity	33,000,851	17,517,618	34,134,377	17,744,043
Included in Premises, Equipment and Establishment Cost				
Depreciation	174,689,978	155,114,863	204,299,512	191,069,189
Legal Fees	12,108,045	17,073,038	12,113,870	17,094,313
Business Promotion and Advertising	131,975,644	84,232,403	131,975,644	84,257,033
Transport Cost	81,440,557	61,176,455	83,820,092	64,252,639
(Profit)/Loss on disposal of Property, Plant and Equipment	(9,150,971)	990,251	(11,100,954)	646,946

Notes to the Financial Statements

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
9. TAXATION				
Income Tax on Profit for the year (9.1)	257,205,099	178,031,171	364,508,365	235,939,890
Reversal of Deferred Tax (Refer Note 24.1)	(6,075,611)	(27,295,354)	(21,932,922)	(20,756,775)
	251,129,488	150,735,817	342,575,443	215,183,115

9.1 Reconciliation of Accounting Profit and Taxable Income

Accounting Profit (Profit before Taxation)	804,808,470	400,221,242
Add: Disallowable Expenses	2,315,302,853	1,914,237,300
	3,120,111,323	2,314,458,542
Less: Allowable Expenses	2,062,082,505	1,738,794,645
Less: Exempt Income	330,433,066	72,039,651
Statutory Income	727,595,752	503,624,246
Taxable Income	727,595,752	503,624,246
Income Tax expense for the year is made up:		
Current Income Tax Expense		
(Including SRL at 1%)	257,205,099	178,031,171
Reversal of Deferred Tax	(6,075,611)	(27,295,354)
	251,129,488	150,735,817
Effective Income Tax Rate	31.20%	37.66%

Effective tax rate of the Bank has reduced in comparison to 2006 due to receipt of dividends from two of the subsidiaries of the Group.

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.

	2007 Rs.	Group 2006 Rs.
Amount Used as the Numerator:		
Net Profit Attributable to Ordinary Shareholders	504,818,369	323,320,454
Number of Ordinary Shares Used as the Denominator:		
Ordinary Shares at the beginning of the year	125,786,004	125,786,004
Bonus Share Element in the Rights Issue	6,694,493	6,694,493
Weighted Average Number of Ordinary Shares in issue	132,480,497	132,480,497
Earnings per Ordinary Share	3.81	2.44

11. DIVIDENDS PROPOSED

A first and final dividend of Rs. 1/- per share has been proposed by the Board of Directors for the year 2007 to be approved at the Annual General Meeting. However, no provision is made in these Financial Statements in accordance with SLAS 12. A dividend of Rs. 1/- per share was paid in April 2007 for the year ended 31st December 2006.

12. CASH AND SHORT-TERM FUNDS

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
Cash in Hand	346,128,097	305,570,337	346,161,097	305,603,337
Money at Call and Short Notice	1,095,398,100	3,493,575,560	1,095,398,100	3,493,575,560
Balances with Banks	1,704,121,038	979,867,471	1,704,953,388	980,625,955
	<u>3,145,647,235</u>	<u>4,779,013,368</u>	<u>3,146,512,585</u>	<u>4,779,804,852</u>

13. STATUTORY DEPOSITS WITH THE CENTRAL BANK OF SRI LANKA

As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka. As at 31st December 2007 the minimum cash reserve requirement was 10% of the unpaid local currency 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.

14. GOVERNMENT TREASURY BILLS AND BONDS

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
Govt. Treasury Bills and Bonds				
held for Trading	2,449,723,529	243,360,486	4,238,102,140	1,440,894,670
Govt. Treasury Bonds held to Maturity (14.1)	303,477,218	686,156,439	1,603,196,624	1,710,993,337
Treasury Bills under Reverse Repurchase				
Agreements	4,615,292,669	4,715,720,913	5,489,384,574	7,171,102,477
	<u>7,368,493,416</u>	<u>5,645,237,838</u>	<u>11,330,683,338</u>	<u>10,322,990,484</u>

14.1 The market value of these Treasury Bonds held to maturity as at 31st December 2007 amounts to Rs. 287 mn (2006 - Rs. 646 mn) and in the Group - Rs. 1,369 mn (2006 - Rs. 1,569 mn).

Notes to the Financial Statements

15. INVESTMENT SECURITIES

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
Unquoted - Shares				
Lanka Clear (Pvt.) Limited				
150,000 Ordinary Shares of Rs. 10/- each	1,500,000	1,500,000	1,500,000	1,500,000
Credit Information Bureau of Sri Lanka				
9,000 Ordinary Shares of Rs. 10/- each	90,000	90,000	90,000	90,000
Lanka Financial Services Bureau Limited (Shares yet to be allotted. Approximate ownership is 4.61%)	3,000,000	—	3,000,000	—
Unquoted - Preference Shares (Rated)				
Dialog Telekom PLC				
470 mn Cumulative Redeemable Preference Shares of Rs. 1/- each	470,000,000	—	470,000,000	—
Unquoted - Bonds				
Sri Lanka Development Bonds - USD (15.1)	1,917,843,541	1,627,679,406	1,917,843,541	1,627,679,406
	2,392,433,541	1,629,269,406	2,392,433,541	1,629,269,406

15.1 The investment in Sri Lanka Development Bonds, amounts to USD 17.5 mn (2006 - USD 15 mn) and matures in the years 2008 and 2009.

15.2 The Directors' valuation of unquoted investments of the Bank and the Group amounts to Rs. 2,392,433,541/- (2006 - Rs. 1,629,269,406/-).

16. LOANS AND ADVANCES

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
16.1 Bills of Exchange				
Inland Bills	27,608,003	29,844,182	27,608,003	29,844,182
Export Bills	530,550,751	259,124,098	530,550,751	259,124,098
Import Bills	3,450,496	2,381,274	3,450,496	2,381,274
	561,609,250	291,349,554	561,609,250	291,349,554
16.2 Loans and Advances				
Overdrafts	5,206,039,149	4,652,223,588	5,206,037,238	4,652,223,588
Term Loans	10,394,740,704	8,828,836,574	10,394,740,704	8,828,836,574
Staff Loans	556,073,577	390,438,913	556,073,577	390,438,913
Import Loans	1,719,678,953	1,190,624,979	1,719,678,953	1,190,624,979
Packing Credit Loans	333,557,171	538,253,009	333,557,171	538,253,009
Other Advances	4,170,693,610	2,670,764,679	5,229,093,032	4,144,457,159
	22,380,783,164	18,271,141,742	23,439,180,675	19,744,834,222
Less:				
Loan Loss Provision	(680,531,118)	(624,800,960)	(680,531,118)	(624,800,960)
Interest-in-Suspense	(340,238,886)	(281,129,636)	(340,238,886)	(281,129,636)
	21,360,013,160	17,365,211,146	22,418,410,671	18,838,903,626

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
16.3 Lease Rentals Receivable				
Cost of Leased Assets	21,025,152,397	16,729,943,459	21,027,974,784	16,733,974,081
Unearned Lease Income	9,364,460,568	7,090,219,032	9,364,460,568	7,090,219,032
Total Rentals Receivable	30,389,612,965	23,820,162,491	30,392,435,352	23,824,193,113
Lease Rentals Received	(20,630,269,021)	(17,087,867,965)	(20,630,269,021)	(17,087,867,965)
Lease Rentals Receivable (16.3.1)	9,759,343,944	6,732,294,526	9,762,166,331	6,736,325,148
16.3.1 Lease Rentals Receivable within one year				
Total Lease Rentals Receivable	9,759,343,944	6,732,294,526	9,762,166,328	6,736,325,148
Lease Rentals Receivable after one year				
from Balance Sheet Date (16.3.2)	(6,279,513,510)	(4,390,107,770)	(6,279,513,510)	(4,390,107,770)
Lease Rentals Receivable within				
One Year from Balance Sheet Date	3,479,830,434	2,342,186,756	3,482,652,818	2,346,217,378
Unearned Lease Income	(1,253,118,338)	(738,080,209)	(1,253,118,338)	(738,080,209)
Overdue Lease Rentals	244,834,626	159,874,038	244,834,626	159,874,038
Terminated Leases	38,404,775	69,429,859	38,404,775	69,429,859
Accrued Income on				
Non-Performing Leases	(26,632,639)	(19,798,280)	(26,632,639)	(19,798,280)
Provision for Bad and Doubtful Leases	(48,388,177)	(43,238,796)	(48,388,177)	(43,238,796)
	2,434,930,681	1,770,373,368	2,437,753,065	1,774,403,990
16.3.2 Lease Rentals Receivable after one year				
Lease Rentals Receivable after one year				
from Balance Sheet Date	6,279,513,510	4,390,107,770	6,279,513,510	4,390,107,770
Unearned Lease Income	(1,373,036,490)	(879,715,737)	(1,373,036,490)	(879,715,737)
Provision for Bad and Doubtful Leases	(90,092,718)	(93,980,233)	(90,092,718)	(93,980,233)
	4,816,384,302	3,416,411,800	4,816,384,302	3,416,411,800
16.4 Corporate Debt Securities				
Commercial Paper/Debentures	1,364,327,991	1,507,082,702	1,553,903,619	1,735,847,723
Fixed/Floating Rate Notes	1,586,730,068	93,255,602	1,759,837,462	398,782,429
Trust Certificates	337,574,257	537,431,909	952,000,301	537,431,909
	3,288,632,316	2,137,770,213	4,265,741,382	2,672,062,061
16.5 Non-Performing Advances				
Overdrafts	255,242,672	341,445,965	255,242,672	341,445,965
Term Loans	434,844,593	284,366,969	434,844,593	284,366,969
Import Loans	50,787,526	76,392,633	50,787,526	76,392,633
Packing Credit Loans	73,011,847	39,950,974	73,011,847	39,950,974
Other Advances	215,363,123	172,140,165	215,363,123	186,457,926
Lease Rentals Receivable	437,254,623	377,450,586	437,254,623	377,450,586
	1,466,504,384	1,291,747,292	1,466,504,384	1,306,065,053

Notes to the Financial Statements

16.6 Movements in the Provision for Bad and Doubtful Debts and Suspended Interest

16.6.1 Bank

	Provision against Loans and Advances		Total	Suspended Interest
	Specific	General		
	Rs.	Rs.	Rs.	Rs.
As at the beginning of the year	541,748,080	220,271,912	762,019,992	300,927,916
Provision made during the year				
(Net of Interest Suspended, Suspended Interest recovered and Provision written off)	(1,931,725)	58,545,937	56,614,212	65,943,609
Translation Difference in Foreign Currency Conversion	192,569	185,240	377,809	–
As at the end of the year	540,008,924	279,003,089	819,012,013	366,871,525

16.6.2 Group

As at the beginning of the year	541,748,080	220,271,912	762,019,992	300,927,916
Provision made during the year				
(Net of Interest Suspended, Suspended Interest recovered and Provision written off)	(1,931,725)	58,545,937	56,614,212	65,943,609
Translation Difference in Foreign Currency Conversion	192,569	185,240	377,809	–
As at the end of the year	540,008,924	279,003,089	819,012,013	366,871,525

16.7 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:

	2007		2006	
	Rs.	%	Rs.	%
Sector				
Food, Beverages and Tobacco	385,264,525	1	298,468,961	1
Textile and Wearing Apparel	719,376,221	2	211,401,887	1
Rubber and Leather Products	462,395,598	1	62,731,159	–
Metals, Chemicals and Engineering	829,767,171	2	663,010,231	2
Services	2,601,373,109	7	3,059,070,940	11
Tourism	609,805,242	2	89,907,619	–
Agro-Business and Fisheries	852,338,343	2	1,478,992,506	5
Industrial	2,703,635,788	8	2,164,304,302	8
Housing	2,420,273,537	7	1,780,828,365	7
Commercial Trading	9,936,506,267	28	7,068,421,796	26
Consumption - Leasing	1,948,835,732	6	1,845,439,052	7
Others	11,959,187,891	34	8,877,237,457	32
	35,428,759,424	100	27,599,814,275	100

17. OTHER ASSETS

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
Deposits and Prepayments	249,409,889	208,138,173	249,585,039	203,802,706
Amounts due from Related Parties	252,178,262	290,617,364	–	–
Other Receivables	799,754,462	591,017,565	959,744,551	794,174,627
	1,301,342,613	1,089,773,102	1,209,329,590	997,977,333

18. INVESTMENTS IN SUBSIDIARIES

Non-Quoted

Name of Company	Country of Incorporation	Holding %	2007 Cost Rs.	Directors' Valuation Rs.	Holding %	2006 Cost Rs.	Directors' Valuation Rs.
Waldock Mackenzie Limited	Sri Lanka	100	–	206,628,686	100	–	283,573,139
Acquired on Merger of Operations							
Allied Properties Limited	Sri Lanka	100	652,907,861	652,907,861	100	652,907,861	652,907,861
Nations Insurance Brokers Limited (formerly MLL Insurance Brokers Limited)	Sri Lanka	100	25,802,600	25,802,600	100	25,802,600	25,802,600
Mercantile Leasing (Financial Services) Limited	Sri Lanka	100	3,495,500	–	100	3,495,500	3,495,500
Provision for Diminution in Value			(3,495,500)	–		–	–
Net Carrying Amount			678,710,461	885,339,147		682,205,961	965,779,100

19. PROPERTY, PLANT & EQUIPMENT

19.1 Bank

	Balance as at 01.01.2007 Rs.	Additions during the year Rs.	Disposals during the year Rs.	Balance as at 31.12.2007 Rs.
19.1.1 Gross Carrying Amounts				
At Cost				
Land and Buildings	37,463,785	–	–	37,463,785
Motor Vehicles	96,578,352	11,922,306	(22,120,001)	86,380,657
Office and Electrical Equipment	156,961,190	21,805,714	–	178,766,904
Computer Software and Equipment	619,553,306	100,487,041	–	720,040,347
Furniture and Fittings	112,734,482	19,550,267	–	132,284,749
Leasehold Improvements	87,908,700	2,521,163	–	90,429,863
Total	1,111,199,815	156,286,491	(22,120,001)	1,245,366,305

Notes to the Financial Statements

	Balance as at 01.01.2007 Rs.	Charge for the year Rs.	Disposals during the year Rs.	Balance as at 31.12.2007 Rs.
19.1.2 Depreciation				
Land and Buildings	7,670,575	988,094	–	8,658,669
Motor Vehicles	37,084,981	18,947,653	(18,206,517)	37,826,117
Office and Electrical Equipment	97,241,407	19,243,443	–	116,484,850
Computer Software and Equipment	352,036,488	109,937,414	–	461,973,902
Furniture and Fittings	53,723,539	12,371,839	–	66,095,378
Leasehold Improvements	58,449,151	13,201,535	–	71,650,686
Total	606,206,141	174,689,978	(18,206,517)	762,689,602
19.1.3 Net Book Value	504,993,674			482,676,703

19.2 Group

	Balance as at 01.01.2007 Rs.	Additions during the year Rs.	Disposals during the year Rs.	Balance as at 31.12.2007 Rs.
19.2.1 Gross Carrying Amounts				
At Cost/Valuation:				
Land and Buildings	624,463,785	245,000	–	624,708,785
Motor Vehicles	202,413,529	11,922,306	(71,823,920)	142,511,915
Office and Electrical Equipment	159,591,251	23,341,728	–	182,932,979
Computer Software and Equipment	623,123,249	100,487,041	–	723,610,290
Furniture and Fittings	112,965,923	19,550,267	–	132,516,190
Leasehold Improvements	87,908,700	2,521,164	–	90,429,864
Total	1,810,466,437	158,067,506	(71,823,920)	1,896,710,023
	Balance as at 01.01.2007 Rs.	Charge for the year Rs.	Disposals during the year Rs.	Balance as at 31.12.2007 Rs.

19.2.2 Depreciation

At Cost/Valuation:

Land and Buildings	18,645,575	11,963,094	–	30,608,669
Motor Vehicles	91,744,365	37,029,103	(50,824,625)	77,948,843
Office and Electrical Equipment	99,596,849	19,611,245	–	119,208,094
Computer Software and Equipment	355,433,316	110,107,378	–	465,540,694
Furniture and Fittings	53,939,668	12,387,157	–	66,326,825
Leasehold Improvements	58,449,151	13,201,535	–	71,650,686
Total	677,808,924	204,299,512	(50,824,625)	831,283,811

19.2.3 Net Book Value:

At Cost/Valuation	1,132,657,513	1,065,426,212
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19.2.4 The land and building of Allied Properties Limited were revalued in October 2005 by Mr. P.B. Kalugalagedara, an independent chartered valuer. The results of such revaluation was incorporated in the Financial Statements from its effective date, which is 1st January 2006. The surplus arising from the revaluation was transferred to a Revaluation Reserve. Depreciation based on the last valuation was made commencing from 1st January 2006.

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation is as follows:

Class of Asset	Cost Rs.	Cumulative Depreciation if assets were carried at Cost Rs.	Net carrying amount 2007 Rs.	Net carrying amount 2006 Rs.
Buildings	270,789,072	59,190,554	211,598,518	218,368,245

20. GOODWILL

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
Balance as at the beginning of the year	372,052,672	–	451,313,886	58,500,000
Acquired on Merger of Operations	–	372,052,672	–	396,191,626
Impairment Losses written off during the year	–	–	–	(3,377,740)
Provision made to be compliant with the Banking Act (20.2)	(372,052,672)	–	(372,052,672)	–
Balance as at the end of the year	–	372,052,672	79,261,214	451,313,886

20.1 Goodwill acquired through business combinations have been allocated to three individual cash generating units, for impairment testing as follows:

Bank : Leasing and Factoring

Group : Investment Banking

Insurance Broking

The recoverable amounts of the above units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management, covering a five year period. Cash flows beyond the five year period are extrapolated using a zero growth rate.

20.2 A full provision was made in the books of the Bank in April 2007 against equity for the goodwill of Rs. 372,052,672/- that arose from the merger of Mercantile Leasing Limited with the Bank in order to be in compliant with the provisions contained in Section 22 of the Banking Act, before the payment of the dividend for the year ended 31st December 2006.

Notes to the Financial Statements

21. DEPOSITS

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
21.1 Analysis of Deposits				
Demand Deposits	3,356,314,967	2,999,631,739	3,356,314,967	2,997,527,068
Savings Deposits	3,902,706,989	3,409,494,894	3,902,706,989	3,409,494,894
Call Deposits	2,555,938,739	1,853,026,054	2,555,938,739	1,853,026,054
Fixed Deposits	18,130,177,664	11,722,368,067	18,130,177,664	11,722,368,067
Certificates of Deposit	720,619,120	687,938,794	720,619,120	687,938,794
	28,665,757,479	20,672,459,548	28,665,757,479	20,670,354,877

21.2 Sources of Deposits

Deposits from Banks	41,040,690	5,245,016	41,040,690	5,245,016
Deposits from other Financial Institutions	608,925,734	434,242,240	608,925,734	432,137,569
Deposits from other Customers	28,015,791,055	20,232,972,292	28,015,791,055	20,232,972,292
	28,665,757,479	20,672,459,548	28,665,757,479	20,670,354,877

22. BORROWINGS

22.1 Borrowings

Money Market Borrowings	2,727,952,424	5,650,021,105	2,727,952,424	5,650,021,105
Borrowings under Repurchase Agreements				
- Treasury Bills, Treasury Bonds and				
Commercial Paper	6,603,899,895	5,467,386,962	11,337,173,011	10,275,404,717
Commercial Paper	–	–	819,062,244	1,315,392,337
Trust Certificates	1,847,608,863	1,254,144,988	1,847,608,863	1,254,144,988
Refinance Borrowings	572,817,919	574,616,998	572,817,919	574,616,998
Other Borrowings	726,900,000	–	783,523,668	305,169,716
	12,479,179,101	12,946,170,053	18,088,138,129	19,374,749,861

22.2 Borrowings - Maturity Analysis

Repayments due within one year	11,476,453,894	11,869,282,868	16,380,891,275	18,297,862,676
Repayments due between 1 to 5 years	1,002,725,207	1,076,887,185	1,707,246,854	1,076,887,185
	12,479,179,101	12,946,170,053	18,088,138,129	19,374,749,861

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
23. OTHER LIABILITIES				
Accrued Expenditure	1,395,269,766	995,042,824	1,417,940,957	998,045,057
Margin Balances	198,202,912	266,414,775	198,202,912	266,414,775
Pay Orders	251,389,441	256,629,278	251,389,441	256,629,278
Tax Payable	103,424,665	104,557,426	147,814,793	130,417,155
Amounts due to Related Parties	–	49,402,720	–	–
Others	1,360,128,644	702,132,380	1,280,543,730	560,313,963
	3,308,415,428	2,374,179,403	3,295,891,833	2,211,820,228

24. DEFERRED LIABILITIES

Retirement Benefits Obligation - Gratuity	81,587,082	52,854,681	85,026,106	55,160,181
Deferred Taxation (24.1)	114,148,018	120,223,629	116,648,018	138,580,940
	195,735,100	173,078,310	201,674,124	193,741,121

24.1 Deferred Taxation

Balance as at the beginning of the year	120,223,629	67,660,599	138,580,940	67,660,599
Balance Acquired on Merger of Operations	–	100,184,329	–	100,184,329
Effect on Transitional Liability on adoption of Revised SLAS 14 on Income Taxes	–	(20,325,945)	–	(8,507,213)
Charge/(Reversal) during the year	(6,075,611)	(27,295,354)	(21,932,922)	(20,756,775)
Balance as at the end of the year	114,148,018	120,223,629	116,648,018	138,580,940

24.2 Deferred Tax Liability

	2007 Rs.	2006 Rs.
Accelerated Depreciation Allowances for Tax purposes (Lease Rentals Receivable)	(165,127,132)	(123,243,473)
Accelerated Depreciation Allowances for Tax purposes (Property, Plant & Equipment)	(69,027,540)	(91,098,658)
	(234,154,672)	(214,342,131)
Deferred Tax Assets		
General Provision for Credit Cards, Advances and Lease Receivables	91,451,175	75,619,364
Defined Benefit Plan Liability	28,555,479	18,499,138
	120,006,654	94,118,502
Bank		
Net Deferred Tax Liability	(114,148,018)	(120,223,629)
Undistributed Profits of a subsidiary company	(2,500,000)	(18,357,311)
Group		
Net Deferred Tax Liability	(116,648,018)	(138,580,940)

Notes to the Financial Statements

24.3 The Group has a Tax Loss which arose in Mercantile Leasing (Financial Services) Limited that is available indefinitely for offset against future taxable profit of the Company subject to the limit of 35% of taxable profit in each year of assessment. A deferred tax asset has not been recognised in respect of this tax loss as it is anticipated that the deferred tax asset will not realise in the foreseeable future.

25. DEBENTURES

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
Balance as at the beginning of the year	560,000,000	–	560,000,000	–
Issued during the year	–	560,000,000	–	560,000,000
Redemptions during the year	(60,000,000)	–	(60,000,000)	–
Balance as at the end of the year	500,000,000	560,000,000	500,000,000	560,000,000

The Bank issued unsecured redeemable debentures that were fully subscribed by DFCC Bank PLC, which also arranged the issue. The tenor of the debentures ranges from 1 to 6 years with redemptions in the years of 2007, 2011 and 2012 respectively. The debentures are secured by a negative pledge over specified lease agreements of motor vehicles.

26. SUBORDINATED LOAN

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
Balance as at the beginning of the year	673,250,000	673,250,000	673,250,000	673,250,000
Balance as at the end of the year	673,250,000	673,250,000	673,250,000	673,250,000

The above represents 100% of the Sri Lankan 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 instalments commencing from 1st October 2009.

27. STATED CAPITAL

	2007	Bank 2006	2007	Group 2006
Ordinary Shares Issued and Fully paid (No.)	125,786,004	125,786,004	125,786,004	125,786,004
Fully Paid Ordinary Shares (Rs.)	2,061,553,991	2,061,553,991	2,061,553,991	2,061,553,991

With the enactment of the Companies Act No. 7 of 2007 effective from 3rd May 2007 the concept of authorised capital and par value is no longer applicable. Therefore, comparable figures have been restated accordingly. The total amount received by the Company or due and payable to the Company in respect of the issue of shares are referred to as Stated Capital.

28. RESERVE FUND

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
As at the beginning of the year	28,995,199	16,520,928	28,995,199	16,520,928
Transferred during the year	27,683,949	12,474,271	27,683,949	12,474,271
As at the end of the year	56,679,148	28,995,199	56,679,148	28,995,199

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

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
29.1 Revenue Reserves				
As at the beginning of the year	432,458,929	175,121,830	771,162,559	451,809,163
Effect on Transitional Liability on adoption of Revised SLAS 14 on Income Taxes	–	20,325,945	–	8,507,213
Profit for the Year	553,678,982	249,485,425	504,818,369	323,320,454
Dividend Paid for 2006	(125,786,004)	–	(125,786,004)	–
Provision made for Goodwill to be compliant with the Banking Act	(372,052,672)	–	(372,052,672)	–
Transfers to Reserve Fund during the year	(27,683,949)	(12,474,271)	(27,683,949)	(12,474,271)
Capitalisation of reserves on the Issue of Bonus Shares by a Subsidiary	–	–	(9,500,000)	–
As at the end of the year	460,615,286	432,458,929	740,958,303	771,162,559
29.2 Capital Reserves				
Issue of Bonus Shares by a subsidiary	–	–	9,500,000	–
Total Reserves	460,615,286	432,458,929	750,458,303	771,162,559

Notes to the Financial Statements

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.

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
Acceptances	744,546,341	695,436,470	744,546,341	695,436,470
Documentary Credits	1,797,792,415	1,461,515,067	1,797,792,415	1,461,515,067
Guarantees	403,580,404	485,181,164	403,580,404	485,181,164
Bonds and Warranties	2,218,935,481	1,625,029,347	2,218,935,481	1,625,029,347
Bills sent on Collection	1,496,443,696	1,116,309,921	1,496,443,696	1,116,309,921
Forward Exchange Contracts (Net)	4,813,187	2,275,098	4,813,187	2,275,098
Undrawn Facilities	11,472,349,754	7,890,798,723	11,472,349,754	7,890,798,723
	18,138,461,278	13,276,545,790	18,138,461,278	13,276,545,790

30.2 During the year 2007 the Bank entered into Interest Rate Swap agreements amounting to a notional value of Rs. 700 mn which matures in years 2010 and 2011. The details relating to Interest Rate Swap agreements entered into prior to 2007 are given below:

Year of the Agreement	Notional Value (Rs. mn)	Year of Maturity
2004	750.000	2008
2005	250.000	2009
2006	18.750	2008

In addition, during the year the Bank has entered into Overnight Indexed Swap agreements amounting to a total notional value of Rs. 1,200.000 mn which mature in 2008.

30.3 The Bank has entered into several currency Swaps totalling to Rs. 7,317,039,335/- (2006 - Rs. 5,169,098,614/-) 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 Financial Statements as at 31st December 2007 is as follows:

	2007 Rs.	Bank 2006 Rs.	2007 Rs.	Group 2006 Rs.
Approved and contracted for	790,809,649	66,601,552	790,809,649	66,601,552

30.5 Material 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 USD 32,000. A connected case is pending where an amount of Indian Rupees 1,510,000/- is claimed against the Bank by the same customer. Both cases are still pending.

31. SEGMENTAL INFORMATION

In Rs. '000	Banking		Investment Banking		Others		Elimination/Allocated		Group	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Total Revenue	8,378,535	5,033,574	2,112,583	930,419	95,862	109,444	(1,245,069)	(151,090)	9,341,911	5,922,347
Segment Results										
Profit before Taxation	804,808	400,221	179,163	114,754	30,928	26,906	(167,505)	(3,378)	847,394	538,503
Taxation	(251,129)	(150,736)	(76,107)	(49,368)	(15,339)	(15,079)	–	–	(342,575)	(215,183)
Net Profit for the year	553,679	249,485	103,056	65,386	15,589	11,827	(167,505)	(3,378)	504,819	323,320
Segment Assets	49,794,906	40,626,525	12,459,588	13,499,974	733,709	766,473	(7,379,887)	(7,722,226)	55,608,316	47,170,746
Goodwill	–	372,053	–	–	–	–	79,261	79,261	79,261	451,314
Total Assets	49,794,906	40,998,578	12,459,588	13,499,974	733,709	766,473	(7,300,626)	(7,642,965)	55,687,577	47,622,060
Segment Liabilities	47,101,909	38,355,346	12,252,960	13,216,401	65,688	90,041	(6,718,319)	(7,040,021)	52,702,238	44,621,767
Deferred Tax Liabilities	114,148	120,224	–	–	–	–	2,500	18,357	116,648	138,581
Total Liabilities	47,216,057	38,475,570	12,252,960	13,216,401	65,688	90,041	(6,715,819)	(7,021,664)	52,818,886	44,760,348
Others										
Additions to Property,										
Plant & Equipment	156,287	192,988	–	–	1,781	1,499	–	–	158,068	194,487
Depreciation	174,690	155,115	192	12	29,418	35,943	–	–	204,300	191,070
Impairment of										
Goodwill	–	–	–	–	–	–	–	–	–	3,378
Non-Cash Expenses										
Provision for Bad and										
Doubtful Debts	217,046	214,692	–	–	–	–	–	–	217,046	214,692
Provision for Gratuity	33,001	17,518	342	340	791	(114)	–	–	34,134	17,744

Notes to the Financial Statements

32. Related Party Disclosures

32.1 Transactions with Related Entities

Name of the Company and Relationship	Significant Investors*		Subsidiaries**	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Balance Sheet Items				
Assets				
Loans and Advances	117,331	285,292,594	28,421,635	59,431,010
Corporate Credit Cards	131,245	452,578	–	–
Investments in Corporate Debts and Government Securities	100,000,000	100,000,000	6,438,421,606	5,939,526,325
Liabilities				
Deposits	1,326,432,048	3,543,162	6,786,830	7,392,700
Borrowings	453,027,953	430,589,295	2,347,284,588	2,112,776,046
Equity				
Dividends Paid (net)	56,490,493	–	–	–
Issue of Bonus Shares	–	–	9,500,000	–
Off-Balance Sheet Items				
Undrawn Facilities	2,867,595	2,547,422	–	–
Guarantees/Collateral given	5,398,719	7,292,594	50,000	450,000
Interest Rate Swaps (Notional Value)	–	120,000,000	–	–
Income Statement Items				
Interest Income Earned from Related Parties	48,039,746	42,056,621	576,402,094	49,603,431
Interest Paid to Related Parties	421,499,827	76,554,425	488,533,571	66,753,378
Other Income Earned from Related Parties	151,966	165,224	5,394,800	4,914,000
Dividends Received (net)	–	–	186,000,000	–
Expenses Paid to Related Parties	21,361,648	9,325,419	9,350,823	11,282,085
Provision for investment and against receivables	–	–	18,495,500	–

* Significant Investors Include John Keells Holdings PLC, Mackinon & Keells Financial Services Limited, Central Finance Co. PLC, CF Growth Fund Limited and CF Insurance Brokers Limited.

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

32.2 Transactions with Key Management Personnel

Key Management Personnel (KMP) include the Board of Directors of the Bank, Chief Executive Officer of the Bank and Key employees of the Bank who are Directors of subsidiary companies of the Bank.

	2007 Rs.	2006 Rs.
a) Compensation to Key Management Personnel		
Emoluments/Fees	36,041,812	11,353,279
Post Employment Benefits	1,547,150	889,950
	37,588,962	12,243,229

b) Transactions, Arrangements and Agreements Involving Key Management Personnel

	Key Management Personnel and their Close Family Members		Entities in which Key Management Personnel and their Close Family Members have control, joint control or significant influence	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Balance Sheet Items				
Assets				
Loans and Advances	4,368,455	3,025,426	448,183	3,691,314
Credit Cards	2,390,096	1,561,163	–	–
Investments in Government Securities	5,152,801	–	–	–
Liabilities				
Deposits	22,826,904	20,211,041	23,777,673	10,649,382
Borrowings	10,295,864	5,054,247	–	–
Equity				
Dividends Paid (net)	1,284,764	–	–	–
Off-Balance Sheet Items				
Undrawn Facilities	9,331,054	3,801,923	–	–
Guarantees/Collateral given	–	–	1,551,677	5,843,400
Income Statement Items				
Interest Income Earned from Related Parties	708,324	448,494	482,542	259,109
Interest Paid to Related Parties	3,157,355	1,796,760	2,058,821	754,796
Other Income Earned from Related Parties	4,700	8,222	356,809	344,878
Expenses Paid to Related Parties	–	–	1,743,498	1,757,066

During the year 2007, Key Management Personnel have bought 116,300 shares of the Bank.

32.3 Post-Employment Benefits Plan

The Employees' Private Provident Fund of the Bank is managed by a Committee of Trustees appointed by the members.

The Bank for the year ended 31st December 2007 has contributed a sum of Rs. 81,713,151/- to the Fund.
(2006 - Rs. 68,649,058/-)

As at 31st December 2007, the Fund has invested a sum of Rs. 211,190,064/- with the Bank.
(2006 - Rs. 160,158,258/-)

Notes to the Financial Statements

33. MATURITY ANALYSIS

33.1 Bank

(In Rs. '000)	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	2007 Total	2006 Total
Assets							
Interest Earning Assets							
Money at Call and Short Notice	1,095,398	–	–	–	–	1,095,398	3,493,576
Government Treasury Bills and Bonds	6,144,608	1,223,885	–	–	–	7,368,493	5,645,238
Corporate Debt Securities	2,183,309	592,035	340,803	–	172,486	3,288,633	2,137,770
Bills of Exchange	561,609	–	–	–	–	561,609	291,350
Loans & Advances	13,113,080	1,131,947	4,931,129	1,237,462	946,396	21,360,014	17,365,211
Investment Securities	–	1,201,490	716,354	–	474,590	2,392,434	1,629,269
Lease Rentals Receivable	664,478	1,770,453	3,730,665	1,082,415	3,303	7,251,314	5,186,785
	<u>23,762,482</u>	<u>5,919,810</u>	<u>9,718,951</u>	<u>2,319,877</u>	<u>1,596,775</u>	43,317,895	<u>35,749,199</u>
Non-Interest Earning Assets							
Cash and Short-term Funds	2,050,249	–	–	–	–	2,050,249	1,285,438
Statutory Deposit with the Central Bank of Sri Lanka	1,964,032	–	–	–	–	1,964,032	1,314,915
Other Assets	1,198,616	33,400	64,150	4,969	208	1,301,343	1,089,772
Property, Plant & Equipment	–	–	–	–	482,677	482,677	504,994
Investment in Subsidiaries	–	–	–	–	678,710	678,710	682,206
Goodwill	–	–	–	–	–	–	372,053
	<u>5,212,897</u>	<u>33,400</u>	<u>64,150</u>	<u>4,969</u>	<u>1,161,595</u>	6,477,011	<u>5,249,378</u>
Total Assets	28,975,379	5,953,210	9,783,101	2,324,846	2,758,370	49,794,906	40,998,577
Liabilities							
Interest Bearing Liabilities							
Deposits	18,462,027	4,396,745	2,221,889	228,782	–	25,309,443	17,672,828
Borrowings	9,079,206	2,397,248	1,002,725	–	–	12,479,179	12,946,170
Subordinated Loan	–	–	336,625	269,300	67,325	673,250	673,250
Debentures	–	–	330,000	170,000	–	500,000	560,000
	<u>27,541,233</u>	<u>6,793,993</u>	<u>3,891,239</u>	<u>668,082</u>	<u>67,325</u>	38,961,872	<u>31,852,248</u>
Non-Interest Bearing Liabilities							
Demand Deposits	839,079	839,079	1,678,157	–	–	3,356,315	2,999,632
Due to Banks	1,393,720	–	–	–	–	1,393,720	1,076,432
Deferred Liabilities	–	–	–	40,794	154,942	195,736	173,078
Other Liabilities	3,308,415	–	–	–	–	3,308,415	2,374,179
Stated Capital	–	–	–	–	2,061,554	2,061,554	2,061,554
Reserves	–	–	–	–	517,294	517,294	461,454
	<u>5,541,214</u>	<u>839,079</u>	<u>1,678,157</u>	<u>40,794</u>	<u>2,733,790</u>	10,833,034	<u>9,146,329</u>
Total Liabilities and Shareholders' Funds	33,082,447	7,633,072	5,569,396	708,876	2,801,115	49,794,906	40,998,577

33.2 Group

(In Rs. '000)	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	2007 Total	2006 Total
Assets							
Interest Earning Assets							
Money at Call and Short Notice	1,095,398	–	–	–	–	1,095,398	3,493,576
Government Treasury Bills							
and Bonds	7,952,642	2,102,070	1,275,971	–	–	11,330,683	10,322,990
Corporate Debt Securities	3,240,643	568,296	326,880	6,324	123,598	4,265,741	2,672,062
Bills of Exchange	561,609	–	–	–	–	561,609	291,350
Loans and Advances	14,171,477	1,131,947	4,931,129	1,237,462	946,396	22,418,411	18,838,904
Investment Securities	–	1,201,490	716,354	474,590	–	2,392,434	1,629,269
Lease Rentals Receivable	664,737	1,773,016	3,730,243	1,082,836	3,304	7,254,136	5,190,816
	<u>27,686,506</u>	<u>6,776,819</u>	<u>10,980,577</u>	<u>2,801,212</u>	<u>1,073,298</u>	<u>49,318,412</u>	<u>42,438,967</u>
Non-Interest Earning Assets							
Cash and Short-term Funds	2,051,114	–	–	–	–	2,051,114	1,286,229
Statutory Deposit with the							
Central Bank of Sri Lanka	1,964,032	–	–	–	–	1,964,032	1,314,915
Other Assets	1,105,421	33,785	64,890	5,026	210	1,209,332	997,977
Property, Plant & Equipment	–	–	–	–	1,065,426	1,065,426	1,132,658
Goodwill	–	–	–	–	79,261	79,261	451,314
	<u>5,120,567</u>	<u>33,785</u>	<u>64,890</u>	<u>5,026</u>	<u>1,144,897</u>	<u>6,369,165</u>	<u>5,183,093</u>
Total Assets	<u>32,807,073</u>	<u>6,810,604</u>	<u>11,045,467</u>	<u>2,806,238</u>	<u>2,218,195</u>	<u>55,687,577</u>	<u>47,622,060</u>
Liabilities							
Interest Bearing Liabilities							
Deposits	18,462,027	4,396,745	2,221,889	228,782	–	25,309,443	17,672,828
Borrowings	13,083,150	3,297,742	1,705,747	1,500	–	18,088,139	19,374,750
Subordinated Loan	–	–	336,625	269,300	67,325	673,250	673,250
Debentures	–	–	330,000	170,000	–	500,000	560,000
	<u>31,545,177</u>	<u>7,694,487</u>	<u>4,594,261</u>	<u>669,582</u>	<u>67,325</u>	<u>44,570,832</u>	<u>38,280,828</u>
Non-Interest Bearing Liabilities							
Demand Deposits	839,079	839,079	1,678,157	–	–	3,356,315	2,997,527
Due to Banks	1,394,174	–	–	–	–	1,394,174	1,076,432
Deferred Liabilities	–	–	–	42,513	159,161	201,674	193,741
Other Liabilities	3,295,891	–	–	–	–	3,295,891	2,211,820
Stated Capital	–	–	–	–	2,061,554	2,061,554	2,061,554
Reserves	–	–	–	–	807,137	807,137	800,158
	<u>5,529,144</u>	<u>839,079</u>	<u>1,678,157</u>	<u>42,513</u>	<u>3,027,852</u>	<u>11,116,745</u>	<u>9,341,232</u>
Total Liabilities and							
Shareholders' Funds	<u>37,074,321</u>	<u>8,533,566</u>	<u>6,272,418</u>	<u>712,095</u>	<u>3,095,177</u>	<u>55,687,577</u>	<u>47,622,060</u>

Notes to the Financial Statements

34. POST-BALANCE SHEET EVENTS

No material events have taken place since 31st December 2007 that require disclosure or/and adjustments in these accounts, except for the following:

- (a) In January 2008, the Bank purchased the Head Office building at No. 242, Union Place, Colombo 2.
- (b) At an Extraordinary General Meeting held on 17th January 2008, shareholders approved a rights issue of shares on the basis of one-for-three at a price of Rs. 25/- per share and attaching of two tranches of warrants to the rights which can be converted to shares upon exercise of warrants in 2010 and 2011. The prices of a share on conversion of 2010 and 2011 warrants are Rs. 30/- and Rs. 35/- respectively. The 2010 warrants will be attached to the rights on the basis of one-for-one while 2011 warrants will be attached on the basis of one-for-two.
- (c) Subject to approval of the Shareholders at the forthcoming Annual General Meeting the Directors recommended the payment of a first and final dividend of Rs. 1/- per share for the year ended 31st December 2007.

Investor Information

STOCK EXCHANGE LISTING

The ordinary shares of the Bank are all listed in the Colombo Stock Exchange. The audited Income Statement for the year ended 31st December 2007 and the audited Balance Sheet as at that date will be submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

DISTRIBUTION OF ORDINARY SHAREHOLDERS

As at 31st December 2007									
Shareholders	Resident			Non-Resident			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Less than 1,000 shares	3,063	1,345,973	1.07	20	10,498	0.01	3,083	1,356,471	1.08
1,001 - 5,000	1,652	3,587,456	2.85	25	60,300	0.05	1,677	3,647,756	2.90
5,001 - 10,000	295	2,227,027	1.77	5	38,200	0.03	300	2,265,227	1.80
10,001 - 50,000	241	4,949,618	3.93	8	224,710	0.18	249	5,174,328	4.11
50,001 - 100,000	45	3,287,482	2.61	1	50,300	0.04	46	3,337,782	2.65
100,001 - 500,000	26	5,820,404	4.64	2	510,900	0.40	28	6,331,304	5.04
500,001 - 1,000,000	6	4,276,575	3.40	1	818,800	0.65	7	5,095,375	4.05
Over 1,000,000	15	95,896,061	76.24	1	2,681,700	2.13	16	98,577,761	78.37
	5,343	121,390,596	96.51	63	4,395,408	3.49	5,406	125,786,004	100.00

There were 5,905 Resident and 55 Non-Resident Shareholders as at 31st December 2006.

ANALYSIS OF SHAREHOLDERS

	31.12.2007			31.12.2006		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	5,109	39,537,663	31.43	5,631	38,130,003	30.31
Institutional	297	86,248,341	68.57	329	87,656,001	69.69
	5,406	125,786,004	100.00	5,960	125,786,004	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at 31st December 2007 was 68.63% (68.72% as at 31st December 2006).

MARKET INFORMATION ON ORDINARY SHARES OF THE COMPANY

	2007	2006
Market Value		
Highest Value (Rs.)	37.50	28.50
Lowest Value (Rs.)	28.50	19.75
Value at end of the year (Rs.)	29.75	28.25
Trading Statistics		
No. of Transactions	6,603	5,919
No. of Shares Traded (mn)	29.72	29.95
Value of Shares Traded (Rs. mn)	1,004.00	738.33
Market Capitalisation		
Market Capitalisation (Rs. mn)	3,742.13	3,553.45

Investor Information

TWENTY LARGEST SHAREHOLDERS AS AT 31ST DECEMBER

Name of the Shareholder	2007		2006*	
	No. of Shares	%	No. of Shares	%
John Keells Holdings PLC	25,157,200	20.00	25,157,200	20.00
Central Finance Company PLC	12,861,600	10.22	12,861,600	10.22
Mackinnon & Keells Financial Services Limited	12,452,814	9.90	12,452,814	9.90
Mr. T. Senthilvel	12,044,700	9.58	12,578,600	10.00
Indra Traders (Pvt) Limited	9,482,966	7.54	9,482,966	7.54
CF Growth Fund Limited	8,079,968	6.42	8,079,968	6.42
CF Insurance Brokers (Pvt) Limited	4,215,632	3.35	4,215,632	3.35
Mr. Y.S.H.I.K. Silva	3,089,520	2.46	3,089,520	2.46
Mr. A.M.A. Almeshaal	2,681,700	2.13	–	–
Freudenberg Shipping Agencies Limited	1,376,300	1.09	1,346,000	1.07
Rockland Distilleries Limited	1,300,000	1.03	858,700	0.68
Timex (Garments) Limited	1,250,000	0.99	1,250,000	0.99
Mr. M.J. Fernando	1,248,510	0.99	546,410	0.43
Mr. A.F. Munas	1,182,500	0.94	–	–
Mr. A.D. Gunewardene	1,118,001	0.89	1,068,001	0.85
Renuka City Hotels Limited	1,036,350	0.82	50	–
Mr. A.A.V. Amerasinghe	1,000,000	0.80	319,000	0.25
Hi-Line Trading (Pvt) Limited	918,280	0.73	399,280	0.32
Mrs. B. Thapar	818,800	0.65	400,000	0.32
Mr. M.F. Hashim	663,075	0.53	584,075	0.46
Sub Total	101,977,916	81.07	94,689,816	75.26
Others	23,808,088	18.93	31,096,188	24.74
Total	125,786,004	100.00	125,786,004	100.00

* Comparative shareholdings as at 31st December 2006 of the twenty largest shareholders as at 31st December 2007.

Five Year Summary

	2003 Rs. mn	2004 Rs. mn	2005 Rs. mn	2006 Rs. mn	2007 Rs. mn
OPERATING RESULTS					
Gross Income	2,115	2,374	3,086	5,922	9,342
Interest Income	1,574	1,708	2,448	4,991	8,011
Interest Expense	(1,102)	(1,118)	(1,504)	(3,280)	(5,900)
Net Interest Income	472	590	944	1,711	2,110
Fee and Commission Income	117	139	199	275	307
Foreign Exchange Income	105	143	124	192	329
Other Operating Income	319	251	314	464	695
Net Income	1,013	1,123	1,581	2,642	3,442
Operating Expenses	(736)	(1,009)	(1,383)	(2,104)	(2,594)
Profit before Taxation	277	114	198	538	847
Provision for Taxation	(25)	(69)	(73)	(215)	(343)
Profit after Taxation	252	45	125	323	505
BALANCE SHEET					
Assets					
Cash and Short-Term Funds	1,606	1,977	1,633	4,780	3,147
Statutory Deposits with the Central Bank of Sri Lanka	347	609	955	1,315	1,964
Government Treasury Bills and Bonds	7,489	5,771	5,341	10,323	11,331
Investment Securities	50	632	621	1,629	2,392
Loans and Advances					
Bills of Exchange	427	381	336	291	562
Loans and Advances	6,196	9,162	12,299	18,839	22,418
Lease Debtors	–	71	329	5,191	7,254
Corporate Debt Securities	1,739	2,103	2,640	2,672	4,266
Other Assets	519	558	785	998	1,209
Property, Plant & Equipment	323	381	414	1,133	1,065
Goodwill	77	68	59	451	79
Total Assets	18,773	21,713	25,412	47,622	55,687

Five Year Summary

	2003 Rs. mn	2004 Rs. mn	2005 Rs. mn	2006 Rs. mn	2007 Rs. mn
LIABILITIES					
Deposits	6,571	10,460	14,314	20,670	28,666
Borrowings	9,583	8,105	7,275	19,374	18,088
Due to Banks	507	457	199	1,077	1,394
Other Liabilities	676	904	1,388	2,212	3,296
Deferred Liabilities	101	97	100	193	201
Debentures	–	–	–	560	500
Subordinated Loan	–	351	673	673	673
Total Liabilities	17,438	20,374	23,949	44,760	52,818
SHAREHOLDERS' FUNDS					
Share Capital/Stated Capital	850	850	850	2,062	2,062
Reserve Fund	11	13	16	29	57
Reserves	474	476	597	771	750
Total Shareholders' Funds	1,335	1,339	1,463	2,862	2,869
Total Liabilities & Shareholders' Funds	18,773	21,713	25,412	47,622	55,687
Commitments and Contingencies	3,972	4,886	3,832	5,386	6,674
Ratios and other Information					
Ratios					
Income Growth (%)	84.23%	12.25%	29.99%	91.91%	57.74%
Return on Average Assets (%)	1.45%	0.22%	0.53%	0.88%	0.98%
Capital Adequacy (%)					
Tier I	14.07%	10.44%	8.74%	7.86%	7.20%
Tier I & II	15.24%	13.91%	13.92%	11.86%	10.44%
Return on Equity	18.88%	3.36%	8.54%	11.30%	17.62%
Information on Ordinary Shares					
Market Value per Share (Rs.)	28.25	18.25	23.50	28.25	29.75
Earnings per Share (Rs.) - Group	3.52	0.53	1.47	2.44	3.81
Price Earnings Ratio (Times) - Bank	32.47	49.75	27.33	11.58	7.80
Net Assets Value per Share (Rs.) - Group	15.71	15.75	17.21	21.60	21.65
Other Information					
No. of Employees	405	479	549	820	1,239
No. of Branches/Mini Branches	20	26	28	30	31
Leasing Centres	–	–	–	5	8
No. of ATMs	20	30	33	38	38

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 utilised 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 risks 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 fulfil 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

Net interest income expressed as a percentage of interest earning assets.

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 uncollectible.

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.

Glossary

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

OFF-BALANCE SHEET TRANSACTIONS

Transactions that are not recognised 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 stated 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

An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as a parent).

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.

VALUE ADDED

Value of wealth created by providing banking and other related services less the cost of providing such services.

Notice of Meeting

Notice is hereby given that the Ninth Annual General Meeting of Nations Trust Bank PLC will be held on 28th March 2008 at 10.00 a.m. at the Auditorium of the Ceylon Chamber of Commerce at No. 50, Nawam Mawatha, 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 Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December 2007 with the Report of the Auditors thereon.
3. To declare a first and final dividend of Rs. 1/- per share on the ordinary shares of the Company.
4. To re-elect Mr. A.D. Gunewardene, who retires by rotation at the Annual General Meeting as a Director.
5. To re-elect Mr. E.H. Wijenaik, who retires by rotation at the Annual General Meeting as a Director.
6. To elect Mr. A.K. Gunaratne, as a Director of the Company in terms of Article 91 of the Articles of Association of the Company.
7. To reappoint 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.

Notes:

- 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

15th February 2008

Notes

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and extend across the width of the page. There are no margins, text, or other markings on the paper.[illegible]

Form of Proxy

I/We.....of
..... being
a member/members of Nations Trust Bank PLC., hereby appointof
..... or failing him/her

Mr. A.D. Gunewardene	or failing him
Mr. E.H. Wijenaike	or failing him
Mr. S.C. Rathnayake	or failing him
Mr. J.R.F. Peiris	or failing him
Mr. A.K. Gunaratne	or failing him
Dr. Dushni Weerakoon	or failing her
Mr. M.E. Wickremesinghe	or failing him
Mr. A.R. Rasiah	or failing him
Mr. C.H.S.K. Piyaratna	or failing him
Mr. Z.H. Zavahir	

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 28th March 2008 at 10.00 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 and may also speak on my/our behalf at the meeting.

In witness I/we placed my/our hand/s hereto on this day of March 2008.

.....
Signature/s

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

	For	Against
1. To adopt the Annual Report of the Board of Directors and the Statement of Accounts for the year ended 31st December 2007 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final dividend of Rs. 1/- per share on the ordinary shares of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. A.D. Gunewardene, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. E.H. Wijenaike, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. To elect Mr. A.K. Gunaratne as a Director of the Company in terms of Article 91 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. To reappoint Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>

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. 242, Union Place, Colombo 2, 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 Authorised 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:

Registered Name

Nations Trust Bank PLC

Legal Form

A Licensed Commercial Bank established under the Banking Act No. 30 of 1988.

A Public Limited Liability Company incorporated in Sri Lanka.

Company Number

PQ 118

Date of Incorporation

21st January 1999

Registered Office

No. 242, Union Place, Colombo 2.

Telephone : 4313131

Facsimile : 4313132

E-mail : info@nationstrust.com

Company Secretary

Theja Silva

Auditors

Messrs. Ernst & Young
Chartered Accountants,
No. 201, De Saram Place,
Colombo 10.

Credit Rating

A (Ika) from Fitch Ratings Lanka Ltd.

Directors

A.D. Gunewardene (Chairman)
E.H. Wijenaike
S.C. Ratnayake
J.R.F. Peiris
A.K. Gunaratne
C.H.S.K. Piyaratna
A.R. Rasiah
M.E. Wickremesinghe
Dr. (Ms.) D. Weerakoon
Z.H. Zavahir

Board Supervisory Committee

C.H.S.K. Piyaratna (Chairman)

E.H. Wijenaike

A.K. Gunaratne

Board Audit Review Committee

A.R. Rasiah - (Chairman)

J.R.F. Peiris

A.K. Gunaratne

M.E. Wickremesinghe

Dr. (Ms.) D. Weerakoon

A. Fernandez - Head of Internal Audit -
(Secretary - Board Audit Review Committee)

Remuneration Committee

A.D. Gunewardene - (Chairman)

E.H. Wijenaike

Dr. (Ms.) D. Weerakoon

A.R. Rasiah

Nominations Committee

A.D. Gunewardene - (Chairman)

E.H. Wijenaike

M.E. Wickremesinghe

Nations Trust Bank PLC

No. 242, Union Place, Colombo 2, Sri Lanka