

Notes to the Financial Statements

13. Dividends Paid and Proposed

The Bank paid an interim dividend of Rs 5.00 per share for the year ended 31 December 2012. (2011 - Rs. 3.50). A final dividend of Rs 4.00 per share for the year ended 31 December 2011, was paid in 2012.

	BANK			GROUP		
	2012 Rs '000	2011 Rs '000	1 Jan 11 Rs '000	2012 Rs '000	2011 Rs '000	1 Jan 11 Rs '000
14. Cash and Cash Equivalents						
Cash in hand	1,546,788	1,140,934	241,385	1,546,864	1,140,997	241,448
Dues from banks	1,933,607	1,254,218	1,983,074	2,088,119	1,377,843	2,267,022
	3,480,395	2,395,152	2,224,459	3,634,983	2,518,840	2,508,470
15. Balances with Central Bank						
Statutory balances with Central Bank of Sri Lanka	6,074,792	4,614,170	3,077,406	6,074,792	4,614,170	3,077,406
	6,074,792	4,614,170	3,077,406	6,074,792	4,614,170	3,077,406

Balances with Central Bank include the cash balance that is required as per the provisions of Section 93 of the Monetary Law Act. The minimum cash reserve requirement was 8.0% of the rupee deposit liabilities as at 31 December 2012 (8.0% as at 31 December 2011). This reserve requirement is not applicable for the foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

	BANK			GROUP		
	2012 Rs '000	2011 Rs '000	1 Jan 11 Rs '000	2012 Rs '000	2011 Rs '000	1 Jan 11 Rs '000
16. Placements with Banks						
Placements with Banks	3,559,354	517,833	-	3,559,354	517,833	-
17. Financial Assets Held for Trading						
Treasury bills	448,489	3,105,847	3,404,406	448,489	3,105,847	3,629,755
Treasury bonds	534,478	4,000,301	4,557,179	534,478	4,000,301	4,557,179
	982,967	7,106,148	7,961,585	982,967	7,106,148	8,186,934

Notes to the Financial Statements

	BANK & GROUP					
	Financial Assets 2012 Rs '000	Financial Liabilities 2012 Rs '000	Financial Assets 2011 Rs '000	Financial Liabilities 2011 Rs '000	Financial Assets 2010 Rs '000	Financial Liabilities 2010 Rs '000
18. Derivative Financial Instruments						
Derivatives Held for Trading						
Interest rate swaps	-	-	1,306	-	-	-
Currency options	-	-	13,901	-	-	-
Forward Foreign Exchange contracts	1,706,372	1,736,838	1,387,098	1,022,462	140,565	-
	1,706,372	1,736,838	1,402,305	1,022,462	140,565	-
	BANK			GROUP		
	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000
19. Other Financial Assets Held for Trading						
Equity securities	-	233,771	368,650	123,717	543,809	832,427
Investment in unit trusts	-	-	-	10,287,941	1,542,716	1,019,557
	-	233,771	368,650	10,411,658	2,086,525	1,851,984
20. Repurchase Agreements						
Securities purchased under resale agreements	3,324,868	911,709	2,154,637	3,324,868	911,709	2,154,637
Securities sold under repurchase agreements	12,515,861	11,360,101	12,351,199	12,515,861	10,132,841	11,474,836
21. Loans and Advances to Banks						
Gross loans and receivables	1,183,343	1,640,462	1,816,744	1,183,343	1,640,462	1,816,744
(Less): allowances for impairment losses	-	-	-	-	-	-
Net loans and advances to banks	1,183,343	1,640,462	1,816,744	1,183,343	1,640,462	1,816,744

Notes to the Financial Statements

	BANK			GROUP		
	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000
22. Loans and Advances to Customers						
Gross loans and receivables (Note 22.1)	112,475,910	95,902,772	67,639,422	112,522,586	95,974,016	67,672,388
(Less): Allowances for impairment losses (Note 22.4)	2,873,387	2,807,989	2,627,470	2,873,387	2,807,989	2,627,470
Net loans and advances to customer	109,602,523	93,094,783	65,011,952	109,649,198	93,166,027	65,044,918
22.1 Loans and advances to customers - by product						
Long-term loans	21,235,303	23,951,494	17,376,969	21,235,303	23,952,758	17,376,971
Medium and Short-term loans	20,325,610	15,290,882	11,138,081	20,325,610	15,290,882	11,138,081
Overdrafts	18,634,753	14,409,916	8,775,492	18,634,753	14,408,653	8,775,492
Trade Finance loans	31,171,501	22,331,054	16,564,527	31,171,501	22,331,054	16,564,526
Consumer loans	11,341,513	11,203,238	7,654,032	11,341,513	11,203,238	7,654,032
Housing loans	4,972,040	5,134,789	4,497,903	4,972,040	5,134,789	4,497,903
Pawning	4,011,455	2,873,588	1,122,657	4,011,455	2,873,588	1,122,657
Staff loans	783,735	707,811	509,761	830,411	779,054	542,726
Gross loans and advances	112,475,910	95,902,772	67,639,422	112,522,586	95,974,016	67,672,388
22.2 Loans and advances to customers - by currency						
Loans and advances - LCY	84,641,250	72,713,320	48,538,595	84,687,926	72,784,563	48,571,561
Loans and advances - FCY	27,834,660	23,189,452	19,100,827	27,834,660	23,189,453	19,100,827
	112,475,910	95,902,772	67,639,422	112,522,586	95,974,016	67,672,388
22.3. Loans and Advances to Customers - By Industry						
	2012		2011		2010	
	Rs mn	%	Rs mn	%	Rs mn	%
Food, beverages and tobacco	3,868	3.4	9,220	9.6	2,654	3.9
Agriculture, agro-business and fisheries	16,611	14.8	15,665	16.3	16,521	24.4
Textiles and garments	11,800	10.5	9,007	9.4	8,500	12.6
Wood and paper products	1,608	1.4	547	0.6	592	0.9
Leather and plastic products	2,794	2.5	1,064	1.1	1,327	2.0
Metals, chemicals and engineering	9,783	8.7	9,061	9.4	8,456	12.5
Hotels and Tourism	2,080	1.8	753	0.8	361	0.5
Utilities	2,591	2.3	434	0.5	545	0.8
Construction and Housing Finance	9,649	8.6	7,812	8.1	4,721	7.0
Services	17,380	15.5	17,954	18.7	11,004	16.3
Transport	734	0.7	1,716	1.8	1,678	2.5
Consumer	32,721	29.1	17,903	18.7	10,725	15.9
Other	857	0.7	4,767	5.0	555	0.7
	112,476	100.0	95,903	100.0	67,639	100.0

Notes to the Financial Statements

22.4 Impairment for Loans and Advances to Customers

BANK & GROUP									
	Long-term Loans	Medium and Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Housing Loans	Pawning	Staff Loans	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
At 1 January 2012	1,041,179	423,704	588,409	457,317	273,052	18,787	72	5,471	2,807,989
Charges for the year (Note 7)	(96,319)	43,024	128,984	(65,264)	(25,920)	30,173	(24,290)	677	(8,885)
Amounts written-off	(48,619)	(12,406)	-	-	-	(127)	-	-	(61,152)
Other movements	34,142	(5,233)	80,451	(32,993)	33,023	(6,070)	32,115	-	135,435
At 31 December 2012	930,383	449,089	797,844	359,060	280,155	42,763	7,947	6,148	2,873,387
Individual Impairment:	245,289	210,753	371,506	148,983	-	-	2,654	-	979,186
Collective Impairment:	685,094	238,336	426,338	210,077	280,155	42,763	5,293	6,148	1,894,201
At 31 December 2012	930,383	449,089	797,844	359,060	280,155	42,763	7,947	6,148	2,873,387
Gross amount of loan individually determined to be impaired, before deduction of individually assessed impairment allowance	1,620,989	571,330	500,925	345,773	-	-	47,869	-	3,086,886

BANK & GROUP									
	Long-term Loans	Medium and Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Housing Loans	Pawning	Staff Loans	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
At 1 January 2011	1,279,621	303,938	259,007	558,093	197,567	21,761	-	7,483	2,627,469
Charges for the year	(448,129)	62,561	355,013	5,993	16,169	(21,948)	(753)	(2,012)	(33,106)
Amounts written-off	(6,237)	(10,693)	-	-	-	-	-	-	(16,930)
Other movements	215,924	67,898	(25,611)	(106,769)	59,316	18,974	825	-	230,556
At 31 December 2011	1,041,179	423,704	588,409	457,317	273,052	18,787	72	5,471	2,807,989
Individual Impairment:	286,222	213,984	335,269	151,579	-	-	-	-	987,053
Collective Impairment:	754,957	209,720	253,140	305,738	273,052	18,787	72	5,471	1,820,936
At 31 December 2011	1,041,179	423,704	588,409	457,317	273,052	18,787	72	5,471	2,807,989
Gross amount of loan individually determined to be impaired, before deduction of individually assessed impairment allowance	630,171	488,599	527,005	1,662,438	-	-	-	-	3,308,213

Notes to the Financial Statements

23. Loans granted by utilizing the Funds in the Investment Fund Account

The above long-term loans include Rs 799 mn of loans disbursed by utilizing the Investment Fund Account Balance.

Bank & Group									2010
Sector	Interest Rates %	Tenure (Years)	Number of Loans Granted	Total 2012 (Rs. '000)	Interest Rates %	Tenure (Years)	Number of Loans Granted	Total 2011 (Rs. '000)	Total 2010 (Rs. '000)
(a) Cultivation of agriculture/ plantation crops			23	101,927			6	67,302	-
(b) Factory/mills modernization			40	217,966			14	70,248	-
(c) Small and medium enterprises	11.0 - 18.0	5-6	72	369,092	11.1 - 14.3	5-6	16	142,887	-
(d) Information technology and BPO			1	2,093			1	2,200	-
(e) Education			1	4,250			-	-	-
(g) Construction of hotel			14	104,042			-	-	-
			151	799,370			37	282,637	-

	BANK			GROUP		
	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000
24. Lease Rentals Receivable						
Gross loans and receivables	9,764,885	6,611,411	3,137,682	9,764,885	6,611,411	3,137,682
(Less): Allowance for impairment losses (Note 24.1)	49,735	56,448	16,894	49,734	56,448	16,894
(Less): Unearned income	3,325,314	1,905,353	708,588	3,225,314	1,905,353	708,588
Net loans and receivables	6,389,837	4,649,610	2,412,200	6,389,837	4,649,610	2,412,200

	BANK & GROUP	
	2012 Rs '000	2011 Rs '000
24.1 Allowance for Impairment Losses		
At 01 January	56,448	16,895
Charges for the year (Note 07)	66,496	(64,665)
Amounts written-off	(5,618)	-
Other movement	(67,591)	104,218
At 31 December	49,735	56,448
Individual impairment	-	-
Collective impairment	49,735	56,448
	49,735	56,448
Gross amount of loan individually determined to be impaired, before deduction of individually assessed impairment allowance	19,697	-

Notes to the Financial Statements

	Up to 1 year Rs '000	1 to 5 years Rs '000	More than 5 years Rs '000	Total 2012 Rs '000
24.2 Maturity of Lease Rentals Receivable of the Bank				
Total rentals receivable	845,012	8,644,413	288,343	9,777,768
Interest in suspense	(57,714)	(4,825)	(78)	(62,617)
Unearned income	(86,089)	(3,115,193)	(124,032)	(3,325,314)
Net rentals receivable	701,209	5,524,395	164,233	6,389,837

	BANK			GROUP		
	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000
25. Other Financial Assets Classified as						
Loans and Receivables						
Sri Lanka Development Bonds	2,981,123	924,604	559,028	2,981,123	924,604	559,028
Redeemable Cumulative Preference Shares	140,040	330,495	520,000	140,040	375,495	610,000
Investment in Securitization	-	-	-	642,862	1,263,087	1,162,222
Central Bank Securities	-	-	6,847,257	-	-	6,847,257
	3,121,163	1,255,099	7,926,285	3,764,025	2,563,186	9,178,507
26. Financial Assets - Held to Maturity						
Treasury Bills	3,476,192	462,379	2,165,409	3,500,061	462,379	2,165,409
Treasury Bonds	15,781,079	14,318,987	4,363,763	15,616,573	14,318,987	4,670,106
Sovereign Bonds	-	784,835	744,106	-	784,835	744,107
Debentures	-	-	-	106,594	100,000	100,000
	19,257,271	15,566,201	7,273,278	19,223,228	15,666,201	7,679,622
27. Financial Assets - Available for Sale						
Non quoted ordinary shares	4,790	4,790	4,790	111,617	102,617	6,774
Investment Fund Account (Note 27.a)	61,924	83,858	-	61,924	83,858	-
	66,714	88,648	4,790	173,541	186,475	6,774

Notes to the Financial Statements

BANK & GROUP				
2012				2011
	Maturity Date	Rate of Interest %	Rs '000	Rs '000
27.a Investment Fund Account				
Treasury Bills	Feb.-April 2013	10.5 -13.5	61,924	83,858
			61,924	83,858

	Percentage Holding	Cost	Directors' Valuation/Market Value	Percentage Holding	Cost	Directors' Valuation/Market Value	Percentage Holding	Cost	Directors' Valuation/Market Value
	%	2012 Rs '000	2012 Rs '000	%	2011 Rs '000	2011 Rs '000	%	2010 Rs '000	2010 Rs '000
28. Investments in									
Subsidiary Companies									
NDB Capital Holdings PLC	99.66	2,330,855	19,063,550	99.66	2,330,855	12,149,626	99.66	2,330,855	5,749,391
Development Holdings (Pvt) Ltd.	58.61	228,150	1,072,860	58.61	228,150	1,060,291	58.61	228,150	817,438
NDB Investment Bank Ltd.	-	-	-	100	53,922	287,885	100	53,922	147,650
NDB Stock Brokers (Pvt) Ltd.	-	-	-	100	26,940	297,914	100	26,940	237,661
NDB Capital Ltd.	77.80	130,673	82,216	77.80	130,673	130,673	77.80	130,673	130,673
Less: Provision made for impairment of investments	-	(48,500)	-	-	-	-	-	-	-
		2,641,178	20,218,625		2,770,540	13,926,389		2,770,540	7,082,813

28.1 The Bank has a 100% holding in NDB Industrial Estates (Pvt) Ltd., in which Company, Rs 30 has been invested as share capital.

28.2 The Directors' valuation of investments in subsidiary companies has been carried out on a net assets basis except for investments in quoted companies, which are at the market value as at the Balance Sheet date.

28.3 As explained in 28.2, NDB Capital Holdings PLC has been valued at the market price as at the Balance Sheet date. The Company's shares are traded and the market price is driven by the non-controlling shareholders of only 0.4%.

28.4 The Bank's 99.6% owned subsidiary Capital Development and Investment Company PLC (CDIC), approved a business plan to position itself as a diversified financial services conglomerate with ultimate exposure to investment banking (both regionally and in Sri Lanka), stock broking, wealth management, private equity investments and the insurance sectors. Accordingly, in March 2012, CDIC acquired full ownership of NDB Investment Bank and 5% holding in AVIVA NDB Insurance PLC which was directly held by the Bank, to compliment its investments in AVIVA NDB Insurance PLC and NDB AVIVA Wealth Management Ltd. Further in April 2012, the shares of the Bank's fully-owned subsidiary NDB Stock Brokers (Private) Ltd. was also transferred to CDIC in line with this business plan. Following this strategic restructuring of the Group's corporate equity holdings, CDIC was relaunched under a new corporate identity named NDB Capital Holdings PLC.

Notes to the Financial Statements

	Percentage Holding	Cost	Directors' Valuation	Percentage Holding	Cost	Directors' Valuation	Percentage Holding	Cost	Directors' Valuation
	%	2012 Rs '000	2012 Rs '000	%	2011 Rs '000	2011 Rs '000	%	2010 Rs '000	2010 Rs '000
29. Investments in Associate Companies									
(A) Bank									
Ayojana Fund (Pvt) Ltd. (Under Liquidation)	50	100	–	50	100	–	50	100	–
Maldives Finance Leasing Co. (Pvt) Ltd.	35	165,462	–	35	165,462	–	35	165,462	145,300
NDB Venture Investments (Pvt) Ltd. (Under Liquidation)	50	18,525	33,301	50	18,525	33,301	50	18,525	29,124
AVIVA NDB Insurance PLC	5	–	–	5	268,373	371,100	5	268,373	420,000
Less: Provision made for Impairment of Investments		(165,562)	–		(165,562)	–		–	–
		18,525	33,301		286,898	404,401		452,460	594,424

	Percentage Holding	As at 01.01.2012 Rs '000	Provisions/ Disposals Rs '000	Exchange Gain on Valuation Rs '000	Profit net of Dividend Received Rs '000	As at 31.12.2012 Rs '000	As at 31.12.2011 Rs '000	As at 31.12.2010 Rs '000
	%							
(B) Group								
Maldives Finance Leasing Co. (Pvt) Ltd.	35	–	6,234	8,450	(14,684)	–	–	145,299
NDB Venture Investments (Pvt) Ltd.	50	33,301	–	–	–	33,301	33,301	29,124
AVIVA NDB Insurance PLC	41.14	1,374,393	(1,374,393)	–	–	–	1,374,393	1,197,027
AVIVA NDB Finance Lanka (Pvt) Ltd.	41.41	389,001	(613,712)	–	224,711	–	389,001	391,139
		1,796,695	(1,981,871)	8,450	210,027	33,301	1,796,695	1,762,589

	2012 Rs '000	2011 Rs '000	2010 Rs '000
(C) Summarized Financial Information of the NDB Group's Investment in its Associates			
Total Assets	15,516,824	15,758,076	13,918,595
Total Liabilities	14,112,316	14,338,047	12,541,906
Net Assets	1,404,509	1,420,028	1,376,689
Revenue	4,142,957	4,146,227	6,406,529
Profits	438,720	330,793	294,784

(D) On 27 September 2012, the Bank (NDB) and NDB Capital Holdings PLC entered into a Share Sale and Purchase Agreement with American International Assurance Company Ltd. (AIA) of Hongkong to divest the 41.56% shareholding in AVIVA NDB Holdings and 5% of AVIVA NDB Insurance PLC. Accordingly, on 5 December 2012 the divestment of these resulted in a capital gain of Rs 5.8 bn to the NDB Group.

Notes to the Financial Statements

	BANK			GROUP		
	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000
30. Other Assets						
Sundry Receivables	597,359	544,832	272,163	880,842	794,134	555,332
Payments In Advance	257,820	144,150	114,653	273,846	168,630	135,658
Employee Share Ownership Plan (ESOP)	80,205	91,663	103,121	-	-	-
Group Balance Receivable	1,101	1,357	2,359	-	-	-
	936,485	782,002	492,296	1,154,688	962,764	690,990

The ESOP represents the written down value of the NDB shares paid for by the Bank on behalf of a trust for the benefit of the employees. The total cost of Rs 229 mn is being amortized over a period of 20 years with effect from 1 January 2000.

	BANK			GROUP		
	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000
31. Intangible Assets						
31.1 Computer Software						
Cost/Valuation						
As at 1 January	598,196	385,141	338,859	641,457	389,185	350,960
Additions during the Year	87,062	213,055	46,282	106,746	252,272	49,690
Transfers/Adjustments	(199,489)	-	-	(199,476)	-	(11,465)
As at 31 December	485,769	598,196	385,141	548,727	641,457	389,185
Depreciation/Amortization						
As at 1 January	329,984	281,656	245,726	333,531	282,120	257,233
Charge for the Year	82,783	48,328	35,930	95,785	51,411	36,352
Transfers/Adjustments	(199,312)	-	-	(199,312)	-	(11,465)
As at 31 December	213,455	329,984	281,656	230,004	333,531	282,120
Written-Down Value						
As at 31 December	272,314	268,212	103,485	318,723	307,926	107,065
31.2 Software Under Development						
Cost/Valuation						
As at 1 January	10,421	103,235	54,250	10,421	103,235	54,250
Additions during the Year	7,935	8,190	50,294	7,935	8,190	50,294
Transfers/Adjustments	(18,356)	(101,004)	(1,309)	(18,356)	(101,004)	(1,309)
As at 31 December	-	10,421	103,235	-	10,421	103,235
Net Book Value of Total Intangible Assets	272,314	278,633	206,720	318,723	318,347	210,300

Notes to the Financial Statements

	Land and Buildings Rs '000	Motor Vehicles Rs '000	Furniture and Equipment Rs '000	Work-in-Progress Rs '000	Total Rs '000
32. Property, Plant & Equipment					
32.1 Bank					
(a) Cost					
Freehold Assets [Note 32.2]					
As at 1 January 2012	743,890	173,742	1,317,188	9,480	2,244,300
Additions during the Year	41,909	50,438	135,765	80,176	308,288
Disposals during the Year	(2,037)	(51,689)	(459,285)	-	(513,011)
Transfers/Adjustments	-	-	-	(89,656)	(89,656)
As at 31 December 2012	783,762	172,491	993,668	-	1,949,921
(b) Depreciation/Amortization					
Freehold Assets					
As at 1 January 2012	352,667	109,459	953,420	-	1,415,546
Charge for the Year	47,255	25,808	108,580	-	181,643
On Disposals	(1,372)	(46,834)	(455,257)	-	(503,463)
As at 31 December 2012	398,550	88,433	606,743	-	1,093,726
Written Down Value as at 31 December 2012 (a) - (b)	385,212	84,058	386,925	-	856,195
Written Down Value as at 31 December 2011	391,223	64,283	363,768	9,480	828,754
Written Down Value as at 31 December 2010	377,719	41,164	216,986	14,564	650,433

Location	Extent (Perches)	Cost or Revaluation of Land Rs '000	Buildings (Square Feet)	Cost or Revaluation of Buildings Rs '000	Total Value Rs '000	Accumulated Depreciation Rs '000	Written Down Value Rs '000	As a % of Total Cost
32.2 Freehold Land and Building								
Head Office - Dharmapala Mawatha No. 103 A, Dharmapala Mawatha, Colombo 07	20.00	164,857	3,766	20,185	185,042	2,100	182,942	58.2
Head Office - Nawam Mawatha No. 40, Nawam Mawatha, Colombo 02	1.43	159	8,842	388,491	388,650	257,230	131,420	41.8
	21.43	165,016	12,608	408,676	573,692	259,330	314,362	100.0
Add: Improvement to Buildings of the Bank Branches					210,070	139,220	70,850	
Written Down Value as at 31 December 2012					783,762	398,550	385,212	

Notes to the Financial Statements

	Land and Buildings Rs '000	Motor Vehicles Rs '000	Furniture and Equipment Rs '000	Work-in- Progress Rs '000	Total Rs '000
32.3 Group					
(a) Cost					
Freehold Assets					
As at 1 January 2012	1,048,247	258,315	1,492,905	(2,159)	2,797,308
Additions during the Year	41,859	28,715	138,695	91,815	301,084
Disposals during the Year	(2,037)	(53,725)	(459,689)	–	(515,451)
Transfers/Adjustments	–	–	–	(89,656)	(89,656)
As at 31 December 2012	1,088,069	233,305	1,171,911	–	2,493,285
(b) Depreciation/Amortization					
Freehold Assets					
As at 1 January 2012	352,677	133,134	1,126,238	–	1,612,049
Charge for the Year	47,245	32,956	84,425	–	164,626
On Disposals	(1,372)	(48,870)	(455,648)	–	(505,890)
As at 31 December 2012	398,550	117,220	755,015	–	1,270,785
Written Down Value as at 31 December 2012 (a) - (b)	689,519	116,085	416,896	–	1,222,500
Written Down Value as at 31 December 2011	695,570	125,180	366,668	(2,159)	1,185,259
Written Down Value as at 31 December 2010	377,719	64,636	250,808	14,564	707,727

	GROUP		
	2012 Rs '000	2011 Rs '000	2010 Rs '000
33. Investment Properties			
Balance as at 1 January	1,295,693	1,200,000	1,200,000
Change in the Fair Value during the Year	–	400,000	–
Transferred to Property, Plant & Equipment	–	(304,307)	–
Balance as at 31 December	1,295,693	1,295,693	1,200,000

The Investment Property is owned by Development Holdings (Pvt) Ltd., a subsidiary of the Bank, whose principal activity is renting out premises for commercial use.

Investment Properties are stated at fair value, which has been determined based on valuations performed by a professional valuer on the basis of an open market value, supported by market evidence.

Notes to the Financial Statements

	BANK			GROUP		
	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000
34. Due to Banks						
Amounts due to Foreign Banks	132,445	48,178	84,982	132,445	48,178	84,982
Money Market Borrowings	2,187,539	5,875,349	485,403	2,187,539	5,875,349	485,403
	2,319,984	5,923,527	570,385	2,319,984	5,923,527	570,385
35. Due to Customers						
Savings Deposits	18,023,160	11,299,306	10,094,596	18,023,160	11,299,306	10,094,596
Time Deposits	81,648,029	63,361,906	42,913,031	81,441,312	63,361,906	42,913,031
Demand Deposits	7,742,146	7,059,107	7,301,268	7,742,146	7,059,107	7,301,268
Margins	143,600	312,007	189,676	143,600	312,007	189,676
Other Deposits	43,648	61,994	34,414	43,648	61,994	34,414
	107,600,583	82,094,320	60,532,985	107,393,866	82,094,320	60,532,985
				2012 Rs '000	2011 Rs '000	2010 Rs '000
36. Debt Securities Issued and Other Borrowed Funds						
(a) Bank						
Government of Sri Lanka Loans under ADB, IDA, KFW and JBIC Credit Lines				7,762,298	9,473,226	10,536,326
Other Government of Sri Lanka Loans				885,011	1,069,800	1,406,924
Foreign Borrowings				2,690,692	3,886,161	1,135,542
Local Borrowings				5,579,551	4,112,797	360,956
Debentures (Note 36.1)				924,411	924,318	521,162
				17,841,963	19,466,302	13,960,910

Notes to the Financial Statements

36.1 Debentures

As at 31 December 2012 debentures consisted of 400,000 unlisted unsecured redeemable debentures of Rs 1,000/- each Issued by the Bank in 2011 and of 500,000 debentures issued in 2005 details are given below:

	Interest Payable	Issue Date	Maturity Date	Value as at 31st December		
				2012 Rs '000	2011 Rs '000	2010 Rs '000
Floating Rate Debenture						
2011 - 2016 - 3-month TB rate (gross) +1% p.a.	Quarterly	30.06.2011	30.06.2016	110,000	110,000	-
2011 - 2016 - 3-month TB rate (gross) +1% p.a.	Quarterly	18.07.2011	30.06.2016	50,000	50,000	-
2011 - 2016 - 3-month TB rate (gross) +1% p.a.	Quarterly	19.07.2011	30.06.2016	40,000	40,000	-
2011 - 2016 - 3-month TB rate (gross) +1% p.a.	Quarterly	21.07.2011	30.06.2016	200,140	200,213	-
				400,140	400,213	-
Fixed Rate Debenture						
2005 - 2013 - 10.13% p.a.	Semi Annually	23.03.2005	24.01.2013	524,271	524,105	521,162
				924,411	924,318	521,162
				2012 Rs '000	2011 Rs '000	2010 Rs '000
(b) Group						
Government of Sri Lanka Loans Under ADB, IDA, KfW and JBIC Credit Lines				7,762,298	9,473,226	10,536,326
Other Government of Sri Lanka Loans				885,011	1,069,800	1,406,882
Foreign Borrowings				2,690,692	3,886,161	1,109,500
Local Borrowings				5,569,626	4,142,798	387,040
Non-Quoted Debentures				894,411	894,318	521,162
				17,802,038	19,466,303	13,960,910

Notes to the Financial Statements

	BANK			GROUP		
	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000
37. Other Liabilities						
Accrued Expenses	421,203	302,587	290,156	436,911	339,917	345,317
Retirement benefit liability (Note 37.1)	122,192	94,106	55,702	129,850	203,481	98,486
Other liabilities	2,982,487	2,709,625	2,322,514	3,090,614	2,742,407	2,380,962
	3,525,882	3,106,318	2,668,372	3,657,375	3,285,805	2,824,765

37.1 The movement in the retirement benefit liability of Bank is given below:

	2012 Rs '000	2011 Rs '000	2010 Rs '000
Present Value of defined benefit obligation	146,953	131,554	139,879
Outstanding balance of transition (Liability)/Asset	-	(3,840)	(7,682)
Unrecognised net actuarial (Loss) or gain	(24,761)	(33,608)	(76,495)
Retirement benefit liability as at 31 December	122,192	94,106	55,702

(a) Messrs Piyal S Goonethilleke and Associates, a firm of professional actuaries has carried out an independent actuarial valuation of the Defined Benefit Plan - Gratuity and accordingly compatible assumptions have been used in determining the cost of retirement benefits.

(b) The key assumptions used by the Actuary include the following:

	2012	2011	2010
Rate of interest	12%	10%	10%
Rate of salary increase	10%	9%	12%
Retirement age	55-60 years	55-60 years	55-60 years

(c) The transitional liability of Rs 19.2 mn on the adoption of SLAS 16 (Employee Benefits) is expensed on a straight-line basis over five years from the date of adoption.

Notes to the Financial Statements

38. Subordinated Term Debts

						BANK			GROUP		
	Repayment Terms	Issued Date	Maturity Date	Rate of Interest %	Amount FCY	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000
Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden N.V. (FMO)											
FMO Loan 1 -	Semi annually	20 Jan. 2006	1 Oct. 2015	AWPR +5%	EUR 7,500,000	573,879	760,699	956,961	573,879	760,699	956,961
FMO Loan 11	Semi annually	18 Dec. 2007	15 Oct. 2017	Avg (6 months AWPR, 6 months T Bill rate) + 3%	USD 15,000,000	1,680,820	1,667,313	1,668,282	1,680,820	1,667,313	1,668,282
						2,254,699	2,428,012	2,625,243	2,254,699	2,428,012	2,625,243

	Statement of Financial Position						Income Statement					
	BANK			GROUP			BANK			GROUP		
	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000
39. Deferred Taxation												
Deferred Tax Liabilities												
Accelerated Depreciation for Tax Purposes	57,013	40,108	27,731	57,335	41,286	31,402	16,905	12,378	969	16,048	9,884	6,076
Finance Leases	238,568	172,810	177,179	238,568	172,810	177,179	65,758	(4,370)	16,980	65,758	(4,369)	16,980
	295,581	212,918	204,910	295,903	214,096	208,581	82,663	8,008	17,949	81,806	5,515	23,056
Deferred Tax Assets												
Defined Benefit Plans	34,214	26,350	19,496	35,290	28,280	22,671	(7,864)	(6,854)	(4,307)	(7,008)	(5,611)	(7,481)
C/F loss on leasing business	104,269	62,363	27,643	104,269	62,363	27,643	(41,905)	(34,720)	(11,660)	(41,905)	(34,720)	(11,660)
Loss on other operations	70,233	70,233	-	70,233	70,233	-	-	(70,233)	-	-	(70,233)	-
Provision for bad and doubtful debts	6,991	12,097	98,515	6,991	12,098	98,514	5,106	86,416	80,580	5,107	86,416	80,580
	215,707	171,043	145,654	216,783	172,974	148,828	(44,663)	(25,391)	64,613	(43,806)	(24,148)	61,439
							38,000	(17,383)	82,562	38,000	(18,633)	84,195
Net deferred tax liability/(Asset)	79,874	41,875	59,256	79,120	41,122	59,753						

Notes to the Financial Statements

	2012		2011		2010	
	Number	Value Rs '000	Number	Value Rs '000	Number	Value Rs '000
40. Stated Capital						
40.1 Issued and Fully Paid - Bank						
Balance as at 1 January	164,201,902	1,093,095	82,100,951	1,093,095	81,855,385	1,032,931
Issue of shares under the Equity Linked Compensation Plan (Note 40.3)	-	-	-	-	245,566	60,164
Subdivision of shares - Scrip Issue (Note 40.4)	-	-	82,100,951	-	-	-
Balance as at 31 December	164,201,902	1,093,095	164,201,902	1,093,095	82,100,951	1,093,095

	2012		2011		2010	
	Number	Rs '000	Number	Rs '000	Number	Rs '000
40.2 Issued and Fully Paid - Group						
Balance as at 1 January	160,068,176	863,937	80,034,088	863,937	81,855,385	1,032,931
Issue of shares under the Equity Linked Compensation Plan (Note 40.3)	-	-	-	-	245,566	60,164
Subdivision of Shares (Scrip Issue) (Note 40.4)	-	-	80,034,088	-	-	-
Adjustment on Employee Share Ownership Plan	-	-	-	-	(2,066,863)	(229,158)
Balance as at 31 December	160,068,176	863,937	160,068,176	863,937	80,034,088	863,937

40.3 Equity Linked Compensation Plan

The Bank obtained approval of the shareholders at an Extra Ordinary General Meeting held in April 2010, to enable the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. Accordingly, the ELCP will create a maximum of 3% of the ordinary voting shares, half of such shares are to be awarded as share options and the other half as share grants in equal proportions. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

Accordingly, on 6 July 2010, 245,566 shares were issued to the Trustees of the ELCP grant scheme, being the first tranche under the share grant scheme. This share issue resulted in the increase of the stated capital of the Bank from Rs 1,032.9 mn to Rs 1,093.1 mn and the number of shares from 81,855,385 to 82,100,951 during the year 2010.

40.4 Subdivision of Shares (Scrip Issue)

At the Annual General Meeting held on 30 March 2011, the shareholders of the Bank approved to increase the number of existing ordinary shares amounting to 82,100,951 by subdividing the said existing ordinary shares in the proportion of one share for every ordinary share in issue so that the number of ordinary shares representing the Stated Capital of the Bank be increased to 164,201,902. Accordingly, the number of shares as at 31 December 2011 was 164,201,902.

Notes to the Financial Statements

41. Statutory Reserve Fund

The Statutory Reserve Fund was created out of revenue reserves to comply with a direction issued to Licensed Banks by the Monetary Board of the Central Bank of Sri Lanka under Section 76 (1) and is maintained under Section 20 of the Banking Act No. 30 of 1988.

	BANK			GROUP		
	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000
Balance as at 1 January	878,718	878,718	818,554	878,718	878,718	818,554
Transfer from revenue reserves	-	-	60,164	-	-	60,164
Balance as at 31 December	878,718	878,718	878,718	878,718	878,718	878,718

42. Investment Fund Account

Transfers to Investment Fund Account 2011 Government Budget

As proposed in the 2011 Government Budget as and when taxes are paid after 1 January 2011, licensed banks must make transfers to the Investment Fund Account to build up a permanent fund within the Bank. Accordingly such account has been established and operated based on the guideline on the operation of the Investment fund account issued by Central Bank of Sri Lanka on 29 April 2011 with the Concurrence of the Commissioner General of Inland Revenue.

- I. 8% of the profits calculated for the payment of Value Added Tax (VAT) on Financial Services on dates as specified in the VAT Act for payment of VAT.
- II. 5% of the profit before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payment of tax.

	BANK			GROUP		
	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000
Balance as at 1 January	386,825	-	-	386,825	-	-
Transfer from revenue reserves	537,508	386,825	-	537,508	386,825	-
Balance as at 31 December	924,333	386,825	-	924,333	386,825	-

Notes to the Financial Statements

	General Reserves Rs '000	Retained Profit Rs '000	Total Rs '000
43. Revenue Reserves			
(a) Bank			
As at 1 January 2012	5,805,707	4,510,793	10,316,500
Profit after taxation	–	2,923,958	2,923,958
Transferred to investment fund	–	(537,507)	(537,507)
Dividends paid	–	(656,696)	(656,696)
As at 31 December 2012	5,805,707	6,240,548	12,046,255

	General Reserves Rs '000	Retained Profit Rs '000	Total Rs '000
(b) Group			
As at 1 January 2012	5,805,707	8,989,942	14,795,649
Exchange gain from valuation of foreign associate	–	18,824	18,824
Transferred to investment fund	–	(537,507)	(537,507)
Change in the holding in Group companies	–	(258,037)	(258,037)
Profit after taxation	–	8,853,821	8,853,821
Dividends paid	–	(656,696)	(656,696)
As at 31 December 2012	5,805,707	16,410,347	22,216,054

Notes to the Financial Statements

44. Measurement of Financial Instruments

	HFT Rs '000	HTM Rs '000	L & R Rs '000	AFS Rs '000	Others Rs '000	Total Rs '000
(a) Bank - Current Year (2012)						
Cash and Cash equivalents	-	-	3,480,395	-	-	3,480,395
Balances with Central Bank	-	-	6,074,792	-	-	6,074,792
Placements with banks	-	-	3,559,354	-	-	3,559,354
Securities purchased under resale agreements	-	-	3,324,868	-	-	3,324,868
Financial assets held for trading	982,967	-	-	-	-	982,967
Derivative financial instruments	1,706,372	-	-	-	-	1,706,372
Other financial assets held for trading	-	-	-	-	-	-
Loans and advances to banks	-	-	1,183,343	-	-	1,183,343
Loans and advances to customers	-	-	109,602,523	-	-	109,602,523
Lease rentals receivable	-	-	6,389,837	-	-	6,389,837
Other Financial Assets classified as loans and receivable	-	-	3,121,163	-	-	3,121,163
Financial assets - held to maturity	-	19,257,271	-	-	-	19,257,271
Financial assets - available for sale	-	-	-	66,714	-	66,714
Total Financial Assets	2,689,339	19,257,271	136,736,275	66,714	-	158,749,599
Investments in subsidiary companies	-	-	-	-	2,641,178	2,641,178
Investments in associate companies	-	-	-	-	18,525	18,525
Other assets	-	-	-	-	936,486	936,486
Intangible assets	-	-	-	-	272,314	272,314
Property, plant & equipment	-	-	-	-	856,195	856,195
Total Assets	2,689,339	19,257,271	136,736,275	66,714	4,724,699	163,474,296

	HFT Rs '000	Amortized Cost Rs '000	Others Rs '000	Total Rs '000
Liabilities				
Due to Banks	-	2,319,984	-	2,319,984
Securities sold under repurchase agreements	-	12,515,861	-	12,515,861
Derivative financial instruments	1,736,838	-	-	1,736,838
Due to customers	-	107,600,583	-	107,600,583
Debt securities issued and other borrowed funds	-	17,841,963	-	17,841,963
Subordinated Term debts	-	2,254,699	-	2,254,699
Total Financial Liabilities	1,736,838	142,533,090	-	144,269,928
Tax liabilities	-	-	656,211	656,211
Other liabilities	-	-	3,525,882	3,525,882
Deferred Tax	-	-	79,874	79,874
Total liabilities	1,736,838	142,533,090	4,261,966	148,531,895

Notes to the Financial Statements

	HFT Rs '000	HTM Rs '000	L & R Rs '000	AFS Rs '000	Others Rs '000	Total Rs '000
(b) Group - Current Year (2012)						
Cash and Cash equivalents	-	-	3,634,983	-	-	3,634,983
Balances with Central Bank	-	-	6,074,792	-	-	6,074,792
Placements with banks	-	-	3,559,354	-	-	3,559,354
Securities purchased under resale agreements	-	-	3,324,868	-	-	3,324,868
Financial assets held for trading	982,967	-	-	-	-	982,967
Derivative financial instruments	1,706,372	-	-	-	-	1,706,372
Other financial assets held for trading	10,411,658	-	-	-	-	10,411,658
Loans and advances to banks	-	-	1,183,343	-	-	1,183,343
Loans and advances to customers	-	-	109,649,198	-	-	109,649,198
Lease rentals receivable	-	-	6,389,837	-	-	6,389,837
Other financial assets classified as loans and receivable	-	-	3,764,025	-	-	3,764,025
Financial assets - held to maturity	-	19,223,228	-	-	-	19,223,228
Financial assets - available for sale	-	-	-	173,541	-	173,541
Total Financial Assets	13,100,997	19,223,228	137,580,399	173,541	-	170,078,171
Investments in subsidiary companies	-	-	-	-	-	-
Investments in associate companies	-	-	-	-	33,301	33,301
Other assets	-	-	-	-	1,154,688	1,154,688
Intangible assets	-	-	-	-	318,723	318,723
Property, plant & equipment	-	-	-	-	1,222,500	1,222,500
Investment properties	-	-	-	-	1,295,693	1,295,693
Total Assets	13,100,997	19,223,228	137,580,399	173,541	4,024,905	174,103,071

	HFT Rs '000	Amortized Cost Rs '000	Others Rs '000	Total Rs '000
Liabilities				
Due to Banks	-	2,319,984	-	2,319,984
Securities sold under repurchase agreements	-	12,515,861	-	12,515,861
Derivative financial instruments	1,736,838	-	-	1,736,838
Due to Customers	-	107,393,866	-	107,393,866
Debt securities issued and other borrowed funds	-	17,802,038	-	17,802,038
Subordinated Term debts	-	2,254,699	-	2,254,699
Total Financial Liabilities	1,736,838	142,286,448	-	144,023,286
Tax liabilities	-	-	633,838	633,838
Other liabilities	-	-	3,657,375	3,657,375
Deferred Tax	-	-	79,119	79,120
Total Liabilities	1,736,838	142,286,448	4,391,865	148,393,619

Notes to the Financial Statements

	HFT Rs '000	HTM Rs '000	L & R Rs '000	AFS Rs '000	Others Rs '000	Total Rs '000
(a) Bank - Previous Year (2011)						
Cash and Cash equivalents	—	—	2,395,152	—	—	2,395,152
Balances with Central Bank	—	—	4,614,170	—	—	4,614,170
Placements with banks	—	—	517,833	—	—	517,833
Securities purchased under resale agreements	—	—	911,709	—	—	911,709
Financial assets held for trading	7,106,148	—	—	—	—	7,106,148
Derivative financial Instruments	1,402,305	—	—	—	—	1,402,305
Other financial assets held for trading	233,771	—	—	—	—	233,771
Loans and advances to banks	—	—	1,640,462	—	—	1,640,462
Loans and advances to customers	—	—	93,094,783	—	—	93,094,783
Lease rentals receivable	—	—	4,649,610	—	—	4,649,610
Other financial assets classified as loans and receivable	—	—	1,255,099	—	—	1,255,099
Financial assets - held to maturity	—	15,566,201	—	—	—	15,566,201
Financial assets - available for sale	—	—	—	88,648	—	88,648
Total Financial Assets	8,742,224	15,566,201	109,078,819	88,648	—	133,475,892
Investments in subsidiary companies	—	—	—	—	2,770,540	2,770,540
Investments in associate companies	—	—	—	—	286,898	286,898
Other assets	—	—	—	—	782,002	782,002
Intangible assets	—	—	—	—	278,633	278,633
Property, plant & equipment	—	—	—	—	828,754	828,754
Total Assets	8,742,224	15,566,201	109,078,819	88,648	4,946,827	138,422,719

	HFT Rs '000	Amortized Cost Rs '000	Others Rs '000	Total Rs '000
Liabilities				
Due to banks	—	5,923,527	—	5,923,527
Securities sold under repurchase agreements	—	11,360,101	—	11,360,101
Derivative financial Instruments	1,022,462	—	—	1,022,462
Due to customers	—	82,094,320	—	82,094,320
Debt securities issued and other borrowed funds	—	19,466,302	—	19,466,302
Subordinated Term debts	—	2,428,012	—	2,428,012
Total Financial Liabilities	1,022,462	121,272,261	—	122,294,724
Tax liabilities	—	—	304,662	304,662
Other liabilities	—	—	3,106,320	3,106,318
Deferred Tax	—	—	41,875	41,875
Total Liabilities	1,022,462	121,272,261	3,452,857	125,747,579

Notes to the Financial Statements

	HFT Rs '000	HTM Rs '000	L & R Rs '000	AFS Rs '000	Others Rs '000	Total Rs '000
(b) Group - Previous Year (2011)						
Cash and Cash equivalents	-	-	2,518,840	-	-	2,518,840
Balances with Central Bank	-	-	4,614,170	-	-	4,614,170
Placements with banks	-	-	517,833	-	-	517,833
Securities purchased under resale agreements	-	-	911,709	-	-	911,709
Financial assets held for trading	7,106,148	-	-	-	-	7,106,148
Derivative financial instruments	1,402,305	-	-	-	-	1,402,305
Other financial assets held for trading	2,086,525	-	-	-	-	2,086,525
Loans and advances to banks	-	-	1,640,462	-	-	1,640,462
Loans and advances to customers	-	-	93,166,027	-	-	93,166,027
Lease rentals receivable	-	-	4,649,610	-	-	4,649,610
Other financial assets classified as loans and receivable	-	-	2,563,186	-	-	2,563,186
Financial assets - held to maturity	-	15,666,201	-	-	-	15,666,201
Financial assets - available for sale	-	-	-	186,475	-	186,475
Total Financial Assets	10,594,978	15,666,201	110,581,837	186,475	-	137,029,491
Investments in subsidiary companies	-	-	-	-	-	-
Investments in associate companies	-	-	-	-	1,796,695	1,796,695
Other assets	-	-	-	-	962,764	962,764
Intangible assets	-	-	-	-	318,347	318,347
Property, plant & equipment	-	-	-	-	1,185,259	1,185,259
Investment property	-	-	-	-	1,295,693	1,295,693
Total Assets	10,514,367	15,666,201	110,581,837	186,475	5,558,758	142,588,249

	HFT Rs '000	Amortized Cost Rs '000	Others Rs '000	Total Rs '000
Liabilities				
Due to Banks	-	5,923,527	-	5,923,527
Securities sold under repurchase agreements	-	10,132,841	-	10,132,841
Derivative financial instruments	1,022,462	-	-	1,022,462
Due to customers	-	82,094,320	-	82,094,320
Debt securities issued and other borrowed funds	-	19,466,303	-	19,466,303
Subordinated term debts	-	2,428,012	-	2,428,012
Total Financial Liabilities	1,022,462	120,045,002	-	121,067,465
Tax liabilities	-	-	355,976	355,976
Other liabilities	-	-	3,285,807	3,285,805
Deferred Tax	-	-	41,122	41,122
Total Liabilities	1,022,462	120,045,002	3,682,905	124,750,368

Notes to the Financial Statements

45. Fair Value of Financial Instruments

Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Financial Assets Held for Trading

Financial assets held for trading consist of quoted equity securities and Government debt securities. Quoted equity securities are valued using market price published by the Colombo Stock Exchange. Government debt securities are valued using discounted cash flow techniques which incorporate market interest rate for similar investments.

Financial Derivatives

Financial derivatives are valued using valuation techniques which consider current market interest rates, forward interest rates and spot and forward exchange rates.

Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Notes to the Financial Statements

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	BANK			
31 December 2012	Level 1 Rs '000	Level 2 Rs '000	Level 3 Rs '000	Total Rs '000
Financial Assets				
Financial Assets held for trading				
Treasury Bills	448,489	–	–	448,489
Treasury Bonds	534,478	–	–	534,478
Derivative financial instruments				
Forward foreign exchange contracts	–	1,706,372	–	1,706,372
Total financial assets	982,967	1,706,372	–	2,689,339
Derivative financial instruments				
Forward foreign exchange contracts	–	1,736,838	–	1,736,838
Total financial liabilities	–	1,736,838	–	1,736,838

	BANK			
31 December 2011	Level 1 Rs '000	Level 2 Rs '000	Level 3 Rs '000	Total Rs '000
Financial Assets				
Financial Assets held for trading				
Treasury Bills	3,105,847	–	–	3,105,847
Treasury Bonds	4,000,301	–	–	4,000,301
Other financial assets held for trading				
Equity securities	233,771	–	–	233,771
Derivative Financial instruments				
Interest rate swaps	–	1,306	–	1,306
Currency options	–	13,901	–	13,901
Forward foreign exchange contracts	–	1,387,098	–	1,387,098
Total financial assets	7,106,148	1,636,076	–	8,742,224
Derivative financial instruments				
Forward foreign exchange contracts	–	1,022,462	–	1,022,462
Total financial liabilities	–	1,022,462	–	1,022,462

Notes to the Financial Statements

	GROUP			
31 December 2012	Level 1 Rs '000	Level 2 Rs '000	Level 3 Rs '000	Total Rs '000
Financial Assets				
Financial Assets held for Trading				
Treasury Bills	448,489	—	—	448,489
Treasury Bonds	534,478	—	—	534,478
Other Financial Assets held for Trading				
Equity securities	123,717	—	—	123,717
Investment in unit trusts	10,287,941	—	—	10,287,941
Derivative Financial Instruments				
Forward Foreign exchange contracts	—	1,706,372	—	1,706,372
Total financial assets	982,967	12,118,030	—	13,100,997
Derivative Financial Instruments				
Forward Foreign exchange contracts	—	1,736,838	—	1,736,838
Total financial liabilities	—	1,736,838	—	1,736,838

	GROUP			
31 December 2011	Level 1 Rs '000	Level 2 Rs '000	Level 3 Rs '000	Total Rs '000
Financial Assets				
Financial Assets held for Trading				
Treasury Bills	3,105,847	—	—	3,105,847
Treasury Bonds	4,000,301	—	—	4,000,301
Other Financial Assets held for Trading				
Equity securities	543,809	—	—	543,809
Investment in unit trusts	1,542,716	—	—	1,542,716
Derivative Financial Instruments				
Interest rate swaps	—	1,306	—	1,306
Currency options	—	13,901	—	13,901
Forward Foreign exchange contracts	—	1,387,098	—	1,387,098
Total financial assets	7,106,148	3,488,830	—	10,594,978
Derivative Financial Instruments				
Forward Foreign exchange contracts	—	1,022,462	—	1,022,462
Total financial liabilities	—	1,022,462	—	1,022,462

Notes to the Financial Statements

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	2012		2011	
	Carrying Amount Rs '000	Fair Value Rs '000	Carrying Amount Rs '000	Fair Value Rs '000
Financial Assets				
Cash and cash equivalents	3,480,395	3,480,395	2,395,152	2,395,152
Balances with Central Bank	6,074,792	6,074,792	4,614,170	4,614,170
Placements with banks	3,559,354	3,559,354	517,833	517,833
Financial assets held for trading	982,967	982,967	7,106,148	7,106,148
Derivative financial instruments	1,706,372	1,706,372	1,402,305	1,402,305
Other financial assets held for trading	-	-	233,771	233,771
Securities purchased under resale agreements	3,324,868	3,324,868	911,709	911,709
Loans and advances to banks	1,183,343	1,029,596	1,640,462	1,640,462
Loans and advances to customers	109,602,523	105,501,130	93,094,783	91,717,841
Lease rentals receivables	6,389,837	5,601,146	4,649,610	4,423,656
Other financial assets classified as loans and receivables	3,121,163	3,121,163	1,255,099	1,298,288
Financial assets - Held to maturity	19,257,271	17,346,778	15,566,201	15,388,935
Financial assets - Available-for-sale	66,714	66,714	88,648	88,648
Total financial assets	158,749,598	151,795,275	133,475,892	131,738,918
Financial Liabilities				
Due to banks	2,319,984	2,319,984	5,923,527	5,923,527
Derivative financial instruments	1,736,838	1,736,838	1,022,462	1,022,462
Securities sold under repurchase agreements	12,515,861	12,515,861	11,360,101	11,360,101
Due to customers	107,600,583	104,231,973	82,094,320	79,521,844
Debt securities issued and other borrowed funds	17,841,963	17,841,963	19,466,302	19,466,302
Subordinated term debts	2,254,699	2,254,699	2,428,012	2,428,012
Total financial liabilities	144,269,927	140,901,317	122,294,724	117,294,236

Notes to the Financial Statements

Fair Value of Financial Assets and Liabilities Not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements:

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognized.

46. Risk Management

46.1 Introduction

Risk Management Structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Board Integrated Risk Management Committee (IRMC) which is a subcommittee of the Board meets quarterly to review and assess the Bank's overall risks and to focus on policy recommendations and strategies in an integrated manner. The IRMC Charter was formulated and approved by the Board of Directors.

The Bank's Assets & Liabilities Committee (ALCO) reviews all market and liquidity related exposures, excesses on a monthly basis and decisions are made to facilitate the business requirements. These decisions are further reviewed at IRMC and reviewed by the Board.

The Credit and Market Risk Policy Committee and Operational Risk Policy Committee are in operation to formulate policies and to focus more clearly on defined risk areas. These committees comprise of the CEO, COO, CFO, the heads of business units, Treasury and representatives of the Group Risk Management. The committees meet regularly to review the Bank's risk policy framework, overall performance and the potential risks faced by specific lines of business and support functions:

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Notes to the Financial Statements

Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled is examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the Board subcommittee for Integrated Risk Management and heads of each business division. The report includes aggregate credit exposure based on business lines, product, group and industry concentrations, NPL movements, liquidity ratios, maturity gap analysis, price sensitivity, stress tests. The Committee also assesses the appropriateness of the provision for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

46.2 Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual/ group counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established by the use of a internally-designed credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit Risk Management verifies and manages the credit process from origination to collection. NDB Bank has a well-defined credit policy approved by the Board of Directors. It defines the -

- credit culture of the Bank
- specify target markets for lending
- specify prohibited lending which the Bank under no circumstances will entertain
- set acceptable risk parameters
- set remedial and recovery actions

The principles guiding the credit risk management across the Bank is given on page 156.

Risk management works closely with the Bank's business units at every stage of the credit process, from facility origination to approval to collections, adding value as appropriate and developing the proposal in terms of risks, mitigants and returns. A post-sanction review and monitoring mechanism is in place to ensure quality of credit is not compromised. Any deteriorating credits with emphasis on internal and external early warning signals are identified and such accounts are 'Watch Listed'. The Watch Listed clients are monitored closely with quarterly reports submitted to the Executive Credit Committee. Further, based on the Watch Lists the Bank assesses the portfolio at risk in the event, such accounts deteriorates further. Non-performing assets are identified at an early stage, enabling management to take action as appropriate.

Notes to the Financial Statements

Impairment Assessment

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or other financial reorganization
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis if there is any objective evidence of a loss based on the above. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy arise, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively Assessed Allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including personal loans, leases and pawning) and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience and market factors. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, and other relevant consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as loan types, industry codes, internal risk ratings and level of arrears).

Notes to the Financial Statements

Analysis of Gross Exposure on Credit Risk and Impairment

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's classification of assets. The amounts presented are gross of impairment allowances.

		Past Due but not Impaired*							
Products	Note	Neither Past Due Nor Impaired* Rs mn	Less than 3 months Rs mn	3-6 months Rs mn	6-12 months Rs mn	12-18 months Rs mn	Over 18 months Rs mn	Individually Impaired Rs mn	Total Rs mn
Bank									
Cash and cash equivalents	14	3,480	—	—	—	—	—	—	3,480
Balances with Central Bank	15	6,075	—	—	—	—	—	—	6,075
Placements with banks	16	3,559	—	—	—	—	—	—	3,559
Securities purchased under resale agreements	20	3,325	—	—	—	—	—	—	3,325
Financial assets held for trading	17	983	—	—	—	—	—	—	983
Derivative financial instruments	18	1,706	—	—	—	—	—	—	1,706
Other financial assets held for trading	19	—	—	—	—	—	—	—	—
Loans and advances to banks	21	1,183	—	—	—	—	—	—	1,183
Loans and advances to customers	22	89,803	15,289	656	2,901	832	1,646	1,349	112,476
Lease rentals receivable	24	6,336	3,158	52	31	5	183	—	9,765
Other financial assets classified as loans and receivables	25	3,121	—	—	—	—	—	—	3,121
Financial assets - held to maturity	26	19,257	—	—	—	—	—	—	19,257
Financial assets - available for sale	27	67	—	—	—	—	—	—	67

		Past Due but not impaired*							
Products	Note	Neither Past Due Nor Impaired* Rs mn	Less than 3 months Rs mn	3-6 months Rs mn	6-12 months Rs mn	12-18 months Rs mn	Over 18 months Rs mn	Individually Impaired Rs mn	Total Rs mn
Group									
Cash and cash equivalents	14	3,635	—	—	—	—	—	—	3,635
Balances with Central Bank	15	6,075	—	—	—	—	—	—	6,075
Placements with banks	16	3,559	—	—	—	—	—	—	3,559
Securities purchased under resale agreements	20	3,325	—	—	—	—	—	—	3,325
Financial assets held for trading	17	983	—	—	—	—	—	—	983
Derivative financial instruments	18	1,706	—	—	—	—	—	—	1,706
Other financial assets held for trading	19	9,781	—	—	—	—	—	—	10,412
Loans and advances to banks	21	1,183	—	—	—	—	—	—	1,183
Loans and advances to customers	22	89,849	15,289	656	2,901	832	1,646	1,349	112,522
Lease rentals receivable	24	6,336	3,158	52	31	5	183	—	9,765
Other financial assets classified as loans and receivables	25	3,764	—	—	—	—	—	—	3,764
Financial assets - held to maturity	26	19,223	—	—	—	—	—	—	19,223
Financial assets - available for sale	27	174	—	—	—	—	—	—	174

* Collective impairment allowances are made for 'neither past due nor impaired' and 'past due but not impaired' loans.

Notes to the Financial Statements

Industry Analysis Risk Concentration

The Bank's concentrations of risk are managed by client/counterparty and by industry sector.

The following tables show the risk concentration by industry:

As at 31 December 2012	Financial Services Rs '000	Government Rs '000	Consumer Rs '000	Retail and Wholesale Rs '000	Construction Rs '000	Manufacturing Rs '000	Service Rs '000	Total Rs '000
Bank								
Financial Assets								
Cash and Cash Equivalents								
Cash in hand	1,546,788	-	-	-	-	-	-	1,546,788
Dues from banks	1,933,607	-	-	-	-	-	-	1,933,607
	3,480,395	-	-	-	-	-	-	3,480,395
Balances with Central Bank	-	6,074,792	-	-	-	-	-	6,074,792
Placements with banks	3,559,354	-	-	-	-	-	-	3,559,354
Financial Assets Held for Trading								
Treasury Bills	-	448,489	-	-	-	-	-	448,489
Treasury Bonds	-	534,478	-	-	-	-	-	534,478
	-	982,967	-	-	-	-	-	982,967
Derivative Financial Instruments								
Forward foreign exchange contracts	1,706,372	-	-	-	-	-	-	1,706,372
	1,706,372	-	-	-	-	-	-	1,706,372
Securities purchased under resale agreements	3,324,868	-	-	-	-	-	-	3,324,868
Loans and Advances to Banks	1,183,343	-	-	-	-	-	-	1,183,343
Loans and Advances to Customers								
Gross loans and receivables	13,202,534	-	11,386,699	22,823,870	18,831,013	33,420,267	12,811,527	112,475,910
(Less): Allowance for impairment losses	(375,678)	-	(196,711)	(396,948)	(507,165)	(1,175,192)	(221,693)	(2,873,387)

Notes to the Financial Statements

As at 31 December 2012	Financial Services Rs '000	Government Rs '000	Consumer Rs '000	Retail and Wholesale Rs '000	Construction Rs '000	Manufacturing Rs '000	Service Rs '000	Total Rs '000
	12,826,856	-	11,189,988	22,426,922	18,323,848	32,245,075	12,589,834	109,602,523
Lease Rentals Receivables								
Gross loans receivables	135,775	-	-	4,455,006	1,385,779	1,654,863	2,133,463	9,764,886
(Less) Unearned income	(46,236)	-	-	(1,517,099)	(471,910)	(563,544)	(726,525)	(3,325,314)
(Less) Collective impairment charges	(692)	-	-	(22,690)	(7,058)	(8,429)	(10,866)	(49,735)
	88,847	-	-	2,915,217	906,811	1,082,890	1,396,072	6,389,837
Other Financial Assets Classified As Loans and Receivable								
Sri Lanka Development Bonds	-	2,981,123	-	-	-	-	-	2,981,123
Redeemable cumulative preference shares	-	-	-	-	-	-	140,040	140,040
	-	2,981,123	-	-	-	-	140,040	3,121,163
Financial Investments - Held to Maturity								
Treasury Bills	-	3,476,192	-	-	-	-	-	3,476,192
Treasury Bonds	-	15,781,079	-	-	-	-	-	15,781,079
	-	19,257,271	-	-	-	-	-	19,257,271
Financial Investments - Available for Sale								
Non-quoted ordinary shares	-	-	-	-	-	-	4,790	4,790
Investment fund account	-	61,924	-	-	-	-	-	61,924
	-	61,924	-	-	-	-	4,790	66,714
	26,170,032	29,358,077	11,189,988	25,342,139	19,230,659	33,327,966	14,130,736	158,749,599

Notes to the Financial Statements

As at: 31 December 2012	Financial Services Rs '000	Government Rs '000	Consumer Rs '000	Retail and Wholesale Rs '000	Construction Rs '000	Manufacturing Rs '000	Service Rs '000	Total Rs '000
Group								
Financial Assets								
Cash and Cash equivalents								
Cash in hand	1,546,864	—	—	—	—	—	—	1,546,864
Dues from Banks	2,088,119	—	—	—	—	—	—	2,088,119
	3,634,983	—	—	—	—	—	—	3,634,983
Balances with Central Bank	—	6,074,792	—	—	—	—	—	6,074,792
Placements with banks	3,559,354	—	—	—	—	—	—	3,559,354
Financial Assets Held for Trading	—	—	—	—	—	—	—	—
Treasury Bills	—	448,489	—	—	—	—	—	448,489
Treasury Bonds	—	534,478	—	—	—	—	—	534,478
	—	982,967	—	—	—	—	—	982,967
Derivative Financial Instruments								
Forward foreign exchange contracts	1,706,372	—	—	—	—	—	—	1,706,372
	1,706,372	—	—	—	—	—	—	1,706,372
Other Financial Assets Held for Trading								
Equity Securities	123,717	—	—	—	—	—	—	123,717
Investment in Unit Trusts	10,287,941	—	—	—	—	—	—	10,287,941
	10,411,658	—	—	—	—	—	—	10,411,658
Securities purchased under resale agreements	3,324,868	—	—	—	—	—	—	3,324,868
Loans and advances to banks	1,183,343	—	—	—	—	—	—	1,183,343
Loans and advances to customers								
Gross loans and receivables	13,202,532	—	11,386,699	22,870,543	18,831,013	33,420,267	12,811,527	112,522,586
(Less): Allowance for Impairment losses	(375,679)	—	(196,711)	(396,948)	(507,165)	(1,175,192)	(221,693)	(2,873,388)
	12,826,853	—	11,189,988	22,473,595	18,323,848	32,245,076	12,589,835	109,649,198

Notes to the Financial Statements

As at 31 December 2012	Financial Services Rs '000	Government Rs '000	Consumer Rs '000	Retail and Wholesale Rs '000	Construction Rs '000	Manufacturing Rs '000	Service Rs '000	Total Rs '000
Lease Rentals Receivables								
Gross loans and receivables	135,775	-	-	4,455,006	1,385,779	1,654,863	2,133,463	9,764,886
(Less) Unearned income	(46,236)	-	-	(1,517,099)	(471,910)	(563,544)	(726,525)	(3,325,314)
(Less) Collective impairment charges	(692)	-	-	(22,690)	(7,058)	(8,429)	(10,866)	(49,735)
	88,847	-	-	2,915,217	906,811	1,082,890	1,396,072	6,389,837
Other Financial Assets Classified as Loans and Receivable								
Sri Lanka Development Bonds	-	2,981,123	-	-	-	-	-	2,981,123
Redeemable cumulative preference shares	-	-	-	-	-	-	140,040	140,040
Investment in securitization	642,862	-	-	-	-	-	-	642,862
	642,862	2,981,123	-	-	-	-	140,040	3,764,025
Financial Investments - Held to Maturity								
Treasury Bills	-	3,500,061	-	-	-	-	-	3,500,061
Treasury Bonds	-	15,616,573	-	-	-	-	-	15,616,573
Debentures	106,594	-	-	-	-	-	-	106,594
	106,594	19,116,635	-	-	-	-	-	19,223,228
Financial Investments - Available for sale								
Non-quoted ordinary shares	-	-	-	-	-	-	68,201	68,201
Investment fund account	43,412	61,924	-	-	-	-	-	105,336
	43,412	61,924	-	-	-	-	68,201	173,537
	37,529,145	29,217,441	11,189,988	25,388,812	19,230,659	33,327,966	14,194,147	170,078,163

Notes to the Financial Statements

Commitments and Guarantees

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The table below shows the Bank's maximum credit risk exposure for commitments and guarantees.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank would have to pay if the guarantee is called upon.

	2012 Rs mn	2011 Rs mn
Guarantees & Bonds	9,120	7,731
Shipping guarantees	3,668	6,893
Advanced documents endorsed	1,571	2,123
LCs	7,168	8,955
Acceptances	5,866	5,918
Undrawn ODs & credit cards	5,839	4,911
Commitments	43,598	28,176
Forex	81,910	80,960
Total	158,740	145,667

46.3 Liquidity Risk and Funding Management

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis.

Notes to the Financial Statements

The Bank has developed internal control processes and is equipped with a comprehensive Liquidity Contingency Funding Plan (LCFP) linked to the Business Continuity Plan, which is in line with the regulatory guidelines. The LCFP clearly defines the responsibilities of the Liquidity Management Team and ensures the business continuity through close monitoring of the Bank's liquidity position against the pre-defined liquidity risk trigger points. Trigger points have been defined taking into consideration the Bank specific and systemic triggers which would cause a liquidity crisis. Action Plans are set out under each level of liquidity crisis (Mild, Moderate, Severe) with responsibilities assigned to a Liquidity Management Team nominated from all areas of business to ensure that all stakeholders of the Bank are safeguarded.

The Bank maintains a portfolio of marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains a statutory deposit with the Central Bank of 8% of customer deposits.

In accordance with the Bank's policy, the liquidity position is assessed/stressed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale.

Liquidity Ratios

Liquid Asset Ratio

The Bank defines liquid assets for the purposes of the liquidity ratio as cash balances, short-term interbank deposits and highly-rated debt securities available for immediate sale and for which a liquid market exists. The Bank is expected to maintain a minimum Liquid Asset Ratio of 20% on a daily basis. An internally set prudential liquid asset ratio on top of the regulatory requirement level ensures that the Bank is maintaining adequate liquidity buffer throughout the year.

	2012 %
Year end	24.92
Maximum	27.67
Minimum	23.17
Average	24.35

Notes to the Financial Statements

Advances to Deposit Ratio (ADR Ratio)

The Bank stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with term funding with a remaining term to maturity in excess of one year. Loans to customers that are part of reverse repurchase arrangements, and where the Bank receives securities which are deemed to be liquid, are excluded from the advances to deposits ratio. Due to the fact that the Bank has been a Development Bank, the Balance Sheet Structure has resulted in an ADR ratio higher than the industry norm. The Bank is consciously managing same with adequate measures to improve the ratio gradually. Continuous growth in the deposit base has resulted in bringing the ADR ratio in line with the approved limit.

Advances to Deposit Ratios

	2012 %
Year end	105.0
Maximum	107.7
Minimum	102.4
Average	105.4

Net Loans to Total Assets

The consistency in the Net Loans to Total Assets Ratio of the Bank reflects that the Bank has maintained the share of loans and advances in total asset base focusing mainly on Loans and Advances.

Net Loans to Total Assets Ratio During the Year	2011 December	2012 March	2012 June	2012 September	2012 December
Net Loans (Rs mn)	99,384	103,964	99,615	111,782	117,151
Total Assets (Rs mn)	138,797	143,756	138,366	159,004	163,474
Ratio (%)	71.60	72.32	71.99	70.30	71.66

Notes to the Financial Statements

Liquidity Risk and Funding Management

The table below summarizes the maturity profile of the undiscounted cash flows of the bank's financial assets and liabilities as at 31 December 2012.

Liquidity Mismatch Report Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities

	On Demand Rs mn	Trading Derivatives Rs mn	Less than 3 months Rs mn	3 - 12 months Rs mn	1 - 5 years Rs mn	Over 5 Years Rs mn	Total Rs mn
Assets:							
Cash and Cash equivalents	3,480,395	-	-	-	-	-	3,480,395
Balances with Central Bank	6,074,792	-	-	-	-	-	6,074,792
Placements with Banks	-	-	3,533,292	80,796	-	-	3,614,088
Financial Assets held for trading	-	-	255,275	603,965	201,444	-	1,060,684
Derivative Financial Instruments	-	1,706,372	-	-	-	-	1,706,372
Securities purchased under resale agreements	-	-	3,324,868	-	-	-	3,324,868
Loans and advances to banks	-	-	191,615	460,677	816,726	1,334	1,470,352
Loans and advances to customers	-	-	68,161,319	18,595,307	33,182,867	8,887,742	128,827,235
Lease rentals receivables	-	-	878,738	1,942,782	5,488,402	25,000	8,334,922
Other Financial Assets classified as loans and receivable	-	-	3,000,181	-	-	-	3,000,181
Financial assets - Held to Maturity	-	-	4,834,000	6,293,000	10,969,000	-	22,096,000
Financial assets - Available for sale	-	-	66,714	-	-	-	66,714
Total Financial Assets	9,555,187	1,706,372	84,246,003	27,976,526	50,658,439	8,914,075	183,056,603
Financial Liabilities:							
Due to Banks	1,682,521	637,463	-	-	-	-	2,319,984
Derivative Financial Instruments	-	1,736,838	-	-	-	-	1,736,838
Securities sold under repurchase agreements	-	-	2,571,929	10,107,646	-	-	12,679,575
Due to Customers	-	-	70,611,726	34,699,328	3,484,738	-	108,795,791
Debt Securities issued and other borrowed funds	-	-	7,509,125	1,875,490	6,256,251	1,094,023	16,734,889
Subordinated term debts	-	-	-	-	3,176,025	-	170,840
Total Financial Liabilities	1,682,521	2,374,301	80,692,780	46,682,464	12,917,014	1,094,023	142,437,917

Notes to the Financial Statements

Contractual Maturities for Contingencies

The table below summarises the maturity profile of the Bank's Contingent liabilities as at 31 December 2012.

	On Demand Rs '000	Less than 3 months Rs '000	3 - 12 months Rs '000	1 - 5 years Rs '000	Over 5 Years Rs '000	Total Rs '000
Undisbursed financing commitments	5,838,596	42,207,558	14,271	695,133	681,706	49,437,265
Guarantees	3,893,151	3,611,044	4,906,953	1,891,829	56,412	14,359,389
Commitments on account of letter of credit	494,795	6,000,394	664,348	8,424	–	7,167,961
Forward exchange contracts	–	44,473,483	37,039,657	397,150	–	81,910,289
Acceptances	–	4,772,503	1,093,413	–	–	5,865,916
	10,226,543	101,064,981	43,718,642	2,992,536	738,118	158,740,820

46.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately. The market risk for the trading portfolio is managed and monitored based on a mark to market computation and duration analysis that reflects the portfolio volatility and the market sensitivity.

Mark to Market Exercise - Trading

Trading portfolios of Securities (Treasury Bills/Bonds), Equity and Foreign Currency Options are subject to mark to market exercise on a daily basis and are monitored against the set stop-loss limits. Prompt management action taken where necessary ensuring minimum loss situations to the portfolios.

Mark to market results are being monitored against the Board approved stop-loss limit on a daily basis and reviewed at monthly ALCO and the Integrated Risk Management Committee on a quarterly basis to assess the portfolio performance and investment decisions.

46.4.1 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the non-trading interest rate gaps for stipulated periods. The Bank's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's Income Statement

The sensitivity of the Income Statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the interest rate sensitive assets and liabilities as at 31 December 2012.

	Increase/(Decrease) in basis points	Sensitivity of profit or loss Rs mn	Sensitivity of Equity Rs mn
Trading	+ 100/(100)	6.64/6.64	(6.64)/6.64

Notes to the Financial Statements

46.4.2 Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2012 on its currency exposures. The analysis calculates the sensitivity of each currency position to the increase in exchange rate against the LKR with all other variables held constant, on the Income Statement and equity. A negative amount in the table reflects a potential net reduction in Income Statement or equity, while a positive amount reflects a net potential increase depending on the side of the currency position. An equivalent decrease in below currencies against the LKR would have resulted in an equivalent but opposite impact.

Change in currency rate in %

Currency	%	Effect on Profit 2012 Rs '000	Effect on Equity 2012 Rs
USD	2.50	(15,327)	(15,327)
GBP	2.50	(144)	(144)
EUR	2.50	1,100	1,100

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available for sale. The Bank was insensitive to the equity price changes since the Bank did not carry an equity portfolio as at 31 December 2012.

Prepayment Risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall.

The Bank uses regression models to project the impact of varying levels of prepayment on its net interest income. The model makes a distinction between the different reasons for repayment (e.g., relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties.

Notes to the Financial Statements

46.5 Country Risk

Country risk is the risk that an occurrence within a country could have an adverse effect on the Bank directly by impairing the value of the Bank or indirectly through an obligor's ability to meet its obligations to the Bank. Generally, these occurrences relate, but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non-market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

Geographical Analysis - Bank

31 December 2012	Sri Lanka Rs '000	Europe Rs '000	America Rs '000	Asia Rs '000	Oceania Rs '000	Total Rs '000
Cash and Cash equivalents	1,678,833	346,098	1,137,254	237,112	81,099	3,480,395
Balances with Central Bank	6,074,792	-	-	-	-	6,074,792
Placements with banks	3,559,354	-	-	-	-	3,559,354
Securities purchased under resale agreements	3,324,868	-	-	-	-	3,324,868
Financial assets held for trading	982,967	-	-	-	-	982,967
Derivative financial instruments	1,706,372	-	-	-	-	1,706,372
Loans and advances to banks	1,183,343	-	-	-	-	1,183,343
Loans and advances to customers	109,602,523	-	-	-	-	109,602,523
Lease rentals receivables	6,389,837	-	-	-	-	6,389,837
Other financial assets classified as loans and receivable	3,121,163	-	-	-	-	3,121,163
Financial assets - held to maturity	19,257,271	-	-	-	-	19,257,271
Financial assets - available for sale	66,714	-	-	-	-	66,714
Investments in subsidiary companies	2,641,178	-	-	-	-	2,641,178
Investments in associate companies	18,525	-	-	-	-	18,525
Other assets	936,485	-	-	-	-	936,485
Intangible assets	272,314	-	-	-	-	272,314
Property, plant & equipment	856,195	-	-	-	-	856,195
Total Assets	161,672,734	346,098	1,137,254	237,112	81,099	163,474,296

Notes to the Financial Statements

Geographical Analysis - Group

31 December 2012	Sri Lanka Rs '000	Europe Rs '000	America Rs '000	Asia Rs '000	Oceania Rs '000	Total Rs '000
Cash and Cash equivalents	1,833,420	346,098	1,137,254	237,112	81,099	3,634,983
Balances with Central Bank	6,074,792	-	-	-	-	6,074,792
Placements with banks	3,559,354	-	-	-	-	3,559,354
Securities purchased under resale agreements	3,324,868	-	-	-	-	3,324,868
Financial assets held for trading	982,967	-	-	-	-	982,967
Derivative financial instruments	1,706,372	-	-	-	-	1,706,372
Other financial assets held for trading	10,411,658	-	-	-	-	10,411,658
Loans and advances to banks	1,183,343	-	-	-	-	1,183,343
Loans and advances to customers	109,649,198	-	-	-	-	109,649,198
Lease rentals receivables	6,389,837	-	-	-	-	6,389,837
Other financial assets classified as loans and receivable	3,764,025	-	-	-	-	3,764,025
Financial assets - held to maturity	19,223,228	-	-	-	-	19,223,228
Financial assets - available for sale	173,541	-	-	-	-	173,541
Investments in associate companies	33,301	-	-	-	-	33,301
Other assets	1,154,688	-	-	-	-	1,154,688
Intangible assets	318,723	-	-	-	-	318,723
Property, plant & equipment	1,222,500	-	-	-	-	1,222,500
Investment properties	1,295,693	-	-	-	-	1,295,693
Total Assets	172,382,606	346,098	1,137,254	237,112	81,099	174,103,071

	2012 Rs '000	2011 Rs '000
47. Share-Based Payments to Key Management Personnel		
Share Grant		
No. of ordinary shares held [Refer Note (a)]	209,848	209,848
Dividends paid (In Rs '000)	755	1,127
No. of cumulative grants allocated under the Equity Linked Compensation Plan (ELCP) Tranche 1 (6 July 2010)	209,848	209,848

Share Option

As at 31 December 2010, the eligible members of the staff were allocated share options as follows:

209,848 ordinary shares at a price of Rs 124.21 each, was vested on 6 July 2011 and exercisable before 30 June 2014.

Note (a)

At the Annual General Meeting held on 30 March 2011, the shareholders of the Bank approved to increase the number of existing ordinary shares amounting to 82,100,951 by subdividing the said existing ordinary shares in the proportion of one share for every ordinary share in issue so that the number of ordinary shares representing the Stated Capital of the Bank be increased to 164,201,902. Accordingly, the number of shares of the share grant and the share option as at 31 December 2011 and 31 December 2012 was 209,848.

Notes to the Financial Statements

48. Maturity Analysis

An analysis of the assets and liabilities based on the remaining period at the Balance Sheet date to the respective contractual maturity dates, is as follows:

	Within 12 Months Rs '000	After 12 Months Rs '000	Total Rs '000
Cash and cash equivalents	3,480,395	–	3,480,395
Balance with Central Bank	6,074,792	–	6,074,792
Placements with banks	3,559,354	–	3,559,354
Securities purchased under resale agreements	3,324,868	–	3,324,868
Assets held for trading	982,967	–	982,967
Derivative financial Instruments	1,706,372	–	1,706,372
Loans and advances to banks	567,608	615,735	1,183,343
Loans and advances to customers	78,753,164	30,849,359	109,602,523
Lease rentals receivables	2,287,859	4,101,978	6,389,837
Other financial assets classified as loans and receivables	48,623	3,072,540	3,121,163
Financial assets - held to maturity	9,704,863	9,552,408	19,257,271
Financial assets - available for sale	66,714	–	66,714
Investments in subsidiary companies	–	2,641,178	2,641,178
Investments in associate companies	–	18,525	18,525
Group balances/Other Assets	936,485	–	936,485
Intangible assets	–	272,314	272,314
Property, plant & equipment	–	856,195	856,195
Total assets	111,494,064	51,980,232	163,474,296
Liabilities			
Due to banks	2,319,984	–	2,319,984
Securities sold under repurchase agreements	12,513,817	2,044	12,515,861
Derivatives financial Instruments	1,736,838	–	1,736,838
Due to customers	104,525,878	3,074,705	107,600,583
Debt securities issued and other borrowed funds	8,730,100	9,111,863	17,841,963
Tax liabilities	656,211	–	656,211
Other liabilities	3,525,882	–	3,525,882
Subordinated term debts	577,999	1,676,700	2,254,699
Deferred tax	–	79,874	79,874
Total liabilities	134,586,709	13,945,186	148,531,895
SHAREHOLDERS FUNDS			
Stated capital	–	1,093,095	1,093,095
Statutory reserve fund	–	878,718	878,718
Investment fund	–	924,333	924,333
Revenue reserves	–	12,046,255	12,046,255
Minority interests	–	–	–
Total funds employed	–	14,942,401	14,942,401
Total liabilities and funds employed	–	–	–
As at 31 December 2012	134,586,709	28,887,587	163,474,296

Notes to the Financial Statements

49. Commitment and Contingencies

49.1 Business Commitments

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities some of which give rise to legal recourse to its customers. No material losses are anticipated as a result of these transactions. These commitments are quantified below:

	BANK			GROUP		
	2012 Rs '000	2011 Rs '000	2010 Rs '000	2012 Rs '000	2011 Rs '000	2010 Rs '000
Undisbursed financing commitments	49,437,265	33,086,804	21,495,867	49,437,265	33,086,804	21,495,867
Guarantees	14,359,389	16,747,134	7,919,207	14,359,389	16,747,134	7,919,207
Commitments on account of letters of credit	7,167,960	8,955,288	6,197,540	7,167,960	8,955,288	6,197,540
Forward exchange contracts	81,910,290	80,959,785	56,226,251	81,910,290	80,959,785	56,226,251
Acceptances	5,865,916	5,918,369	3,865,228	5,865,916	5,918,369	3,865,228
	158,740,820	145,667,380	95,704,093	158,740,820	145,667,380	95,704,093

49.2 Litigation against the Bank

In the normal course of business, the Bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their loan agreements. As of the Balance Sheet date thirty five clients/third parties have filed cases against the Bank preventing the sale of assets mortgaged to the Bank. The Bank's legal counsel is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or the future operations of the Bank.

49.3 Rs 165 mn was provided during the year ended 31 December 2011 in respect of the impairment of the Bank's investment in Maldives Finance Leasing Company Ltd., which is disclosed in the Income Statement under Provision/(Release) for the fall in value of investment securities. Further, the Bank has provided letters of comfort for the borrowings undertaken by the Company. Accordingly, the probable liability in the event the Company fails to meet its debt obligations amounts to Rs 18 mn as at the Balance Sheet date.

50. Post-Balance Sheet Events

There have been no events subsequent to the end of the reporting period that require disclosure.

Notes to the Financial Statements

51. SEGMENTAL ANALYSIS - GROUP

	Banking		Capital Markets		Property Investment		Others		Consolidated	
For the year ended 31 December	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
Revenue										
External income	19,468,265	13,487,317	5,897,725	946,580	123,646	494,613	610,059	(365,653)	26,099,695	14,562,857
Inter-segment income	-	-	51,794	62,723	41,001	41,424	-	-	92,795	104,147
Total income	19,468,265	13,487,317	5,949,519	1,009,303	164,647	536,037	610,059	(365,653)	26,192,490	14,667,004
Segment expenses	(15,413,846)	(10,177,421)	(332,705)	(408,921)	(61,300)	(41,818)	6,233	(9,281)	(15,801,618)	(10,637,441)
Segment results	4,054,419	3,298,270	5,616,814	295,684	103,346	494,219	616,292	189,605	10,390,872	4,029,561
Share of associate companies profit before taxation	-	-	-	4,177	-	-	438,719	326,615	438,719	330,793
Taxation									(1,275,367)	(1,092,514)
VAT on financial services									(622,286)	(504,960)
Profit after taxation									8,931,939	2,762,881
Other information										
Segment assets	163,474,297	137,151,887	8,921,190	2,392,997	1,674,283	1,246,571	-	-	174,069,770	140,791,555
Investment in associates	-	-	-	-	-	-	33,301	1,796,694	33,301	1,796,694
Consolidated total assets									174,103,071	142,588,249
Segment liabilities	148,283,244	124,476,747	73,581	182,907	36,795	90,714	-	-	148,393,619	124,750,368
Consolidated total liabilities									148,393,619	124,750,368
Segmental Cash flows										
Cash flows from operating activities	12,235,016	(6,876,411)	(95,356)	49,066	(712)	17,882	260,095	262,952	12,399,043	(6,546,511)
Cash flows from investing activities	(154,163)	(909,533)	196,967	(97,156)	37,493	18,899	(307,077.76)	(326,038)	(226,781)	(1,313,828)
Cash flows from financing activities	(6,493,464)	10,044,260	(11,907)	(8,546)	(36,781)	(36,781)	(11,825)	(40,602)	(6,553,977)	9,958,331

52. Related Party Disclosures

52.1 Parent and Ultimate Control Party

The Bank does not have an identifiable Parent of its own.

52.2 Transactions with Key Management and their Close Family Members

Related parties include Key Management Personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Bank and its subsidiaries.

Key Management Personnel include the members of the Board of Directors of the Bank, key employees who are holding directorships in subsidiary companies and other key employees who meet the criteria mentioned above.

Notes to the Financial Statements

The Bank carries out transactions with Key Management and their related concerns in the ordinary course of its business on an arm's length basis at commercial rates except the loans that the Key Management have availed under the loan schemes uniformly applicable to all the staff at concessory rates.

	2012 Rs '000	2011 Rs '000
52.2.1 Compensation of Key Management Personnel of the Bank		
Short-term employee benefits	193,331	111,603
Post-employment benefits (defined contribution)	7,258	6,301
Share-based payments (Note 52.2.1.1)	755	1,127
	201,344	119,031

In addition to the salaries, the Bank has also provided non-cash benefits such as vehicle, insurance for Key Management Personnel in line with the approved benefit plan of the Bank.

	2012 Rs '000	2011 Rs '000
52.2.1.1 Share-Based Payments to Key Management Personnel		
Share Grant		
No. of ordinary shares held [Note (a)]	209,848	209,848
Dividends paid (in Rs '000)	755	1,127
No of cumulative grants allocated under the Equity Linked Compensation Plan (ELCP) Tranche 1 (6 July 2010)	209,848	209,848

Share Option

As at 31 December 2010, the eligible members of the staff were allocated share options as follows:

209,848 ordinary shares at a price of Rs 124.21 each, was vested on 6 July 2011 and exercisable before 30 June 2014.

Note (a)

At the Annual General Meeting held on 30 March 2011, the shareholders of the Bank approved to increase the number of existing ordinary shares amounting to 82,100,951 by subdividing the said existing ordinary shares in the proportion of one share for every ordinary share in issue so that the number of ordinary shares representing the Stated Capital of the Bank be increased to 164,201,902. Accordingly, the number of shares of the share grant and the share option as at 31 December 2011 and 31 December 2012 was 209,848.

52.2.2 Key management of the Bank and their close family members had the following transactions with the Bank as at 31 December.

	2012 Rs '000	2011 Rs '000
As at		
Residential mortgages	39,913	24,807
Credit cards	1,042	210
Other loans and advances	24,395	15,856
Deposits placed	228,488	59,248
For the year		
Interest income	5,322	1,171

Notes to the Financial Statements

52.2.3 Transactions involving entities which are controlled/significantly influenced by Key Management Personnel and their close family members.

	31.12.2012 Rs '000	31.12.2011 Rs '000
As at		
Loans and advances	2,767,736	1,579,178
Guarantees/LCs	130,830	66,237
Deposits placed	2,139,049	13,705
For the year		
Interest Income	361,382	104,709
Interest Expense	42,053	1,208
Other Income	10,536	4,659

52.2.4 Direct and Indirect accommodation to Key Management Personnel and their close family members & entities that have significant influence.

Direct and indirect accommodation as a % of the Bank's regulatory capital	19.82	13.62
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52.3 Transactions with the Government of Sri Lanka and its Related Entities

A number of entities in which the Government of Sri Lanka has an interest, have a significant interest in the Bank.

The Bank enters into transactions, arrangements and agreements with Government of Sri Lanka and its related entities. The significant financial dealings during the year and as at the Balance Sheet date are as follows:

	31.12.2012 Rs '000
As at	
Loans and advances	2,579,503
Investment	3,224,905
Deposits	23,275
Repo borrowings	1,064,215
Borrowings	700,000
Credit lines	8,555,805
Guarantees	68,468
FX contracts	9,065,250
For the year	
Interest Income	367,228
Interest expenses	979,404
Other income	826

Notes to the Financial Statements

Further transactions as detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities;

Investments in Treasury Bills, Treasury Bonds

Payments of statutory rates and taxes

Payments for utilities mainly comprising of telephone, electricity and water

Payments for employment retirement benefits - ETF

During the year, the Government of Sri Lanka proposed in the Budget 2013 that certain identified financial institutions including NDB raise long-term foreign development finance up to US\$ 250 mn each with a tenure of over 10 years, to provide long-term funding for SMEs, plantations, the construction industry and other manufacturing industries.

52.4 Transactions with Related Entities

52.4.1 The Bank had the undermentioned financial dealings during the year with the following subsidiaries and associates of the Bank.

	Subsidiaries of the Group*				Associates of the Group*			
	Balances as at end of the Year		Average Balance during the Year		Balances as at end of the Year		Average Balance during the Year	
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
Loans and advances	4	1,263	634	674	—	453	226	7,968
Group company receivables	1,100	1,640	1,370	820	—	—	—	678
Deposits placed	228,502	1,254,506	741,504	1,115,181	1	378,800	189,401	380,999
Other payables	2,862	12,163	7,512	10,649	—	—	—	—
Investment in ordinary shares net of provision for impairment	2,641,178	2,770,540	2,705,859	2,770,540	18,525	286,898	152,712	369,679
Disposal of investments	80,862	—	40,431	—	268,373	—	134,187	—
Contingencies & commitments	—	—	—	—	—	285,000	—	142,500

Notes to the Financial Statements

	Subsidiaries of the Group* during the Year		Associates of the Group* during the Year	
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
Income Statement				
Interest received/(paid) - net	(48,282)	(80,520)	(22,060)	(22,580)
Rent and utilities received	15,477	12,368	2,590	-
Rent and utilities paid	(18,937)	(15,582)	-	-
Management fees received	5,788	17,289	-	-
Front end fees received	952	5,876	-	-
Bancassurance income	-	-	9,251	27,018
Insurance paid	-	-	(119,947)	(61,248)
Claims received	-	-	25,813	28,167
Share brokerages paid	(1,240)	(927)	-	-
Dividends received	95,698	244,821	-	12,590
Capital gains received	501,759	-	33,958	17,300

* Refer Note 28 and Note 29 for details of subsidiary and associate companies.

52.4.2 The Bank had the undermentioned financial dealings during the year with NDB Provident Fund:

	2012 Rs '000	2011 Rs '000
Deposits with the Bank	22,908	44,658
Interest paid on deposits during the year	2,618	1,052
Contribution made by the Bank	138,864	116,948
Investments in Government Securities	401,941	220,809

52.4.3 NDB Wealth Management Ltd., a subsidiary of the Bank had the under mentioned financial dealings with NDB Provident Fund:

	2012 Rs '000	2011 Rs '000
Portfolio balance as at 31 December managed on behalf of NDB Provident Fund	933,491	847,442

52.4.4 Direct and indirect accommodation of related companies

Direct and indirect accommodation of subsidiaries and associate companies as a % of the Bank's regulatory capital	-	0.01
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Capital Adequacy

This term is used to describe the adequacy of Bank's aggregate capital in relation to the risks which arise from its assets and its Off-Balance Sheet transactions, its dealing operations and its human activities, technology and natural incidents. Central Bank of Sri Lanka has prescribed the minimum risk sensitive capital and effective from 1 January 2008 required the Bank to compute the minimum capital in accordance with the 'International Convergence of Capital Measurement and Capital Standards - a Revised Framework' (Basel II). The aim is to ensure minimum capital, commensurate with risks assumed by the Bank, is maintained as a buffer to absorb foreseeable future credit, market and operational losses.

Basis of Computation

The risks weights assigned to the On and Off-Balance Sheet assets and the composition of capital are prescribed by the Central Bank of Sri Lanka.

Capital Base as at 31 December	BANK	
	2012 Rs '000	2011 Rs '000
Tier I: Core Capital		
Stated capital	1,093,095	1,093,095
Statutory reserve fund	878,718	878,718
Published retained profits	6,240,549	4,510,794
General & other reserves	6,730,039	6,192,532
	14,942,401	12,675,139
Deductions - Tier I		
Intangible assets	272,314	278,634
50% investments in unconsolidated banking & financial subsidiaries	1,206,514	1,271,195
50% investments in capital of other banks & financial institutions	9,263	151,575
Total Tier I Capital	13,454,310	10,973,735
Tier II: Supplementary Capital		
General provision	528,401	460,873
Approved subordinated term debt	2,188,350	2,373,300
	2,716,751	2,834,173
Deductions - Tier II		
50% investments in unconsolidated banking & financial subsidiaries	1,206,514	1,271,195
50% investments in capital of other banks & financial institutions	9,263	151,575
	1,215,777	1,422,770
Eligible Tier II Capital	1,500,974	1,411,403
Capital Base	14,955,284	12,385,138

Capital Adequacy

Risk-Weighted Assets and Off-Balance Sheet Exposure

	BANK				
	Principal Amount of On-Balance Sheet Items		Risk Weights	Risk Weighted Asset Amount	
	2012 Rs '000	2011 Rs '000		2012 Rs '000	2011 Rs '000
Cash, Treasury Bills & other securities with Central Bank	29,542,462	21,942,787	0	–	–
Loans against cash deposits & gold	11,847,144	7,546,053	0	–	–
Claims on banks	6,719,738	3,685,237	20-100	1,673,817	1,147,889
Claims on financial institutions	10,811,311	8,694,418	50-100	7,156,750	5,139,402
Loans secured by primary mortgages	5,446,713	5,505,536	50	2,723,356	2,752,768
Other claims	89,027,408	77,264,316	20-150	82,465,798	72,570,716
Property & equipment	856,194	828,754	100	856,194	828,754
Other receivables	738,471	1,124,870	100	738,471	1,124,870
Total assets considered for credit risk	154,989,441	126,591,971		95,614,386	83,564,399

Off-Balance Sheet Exposure

	BANK				
	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit Equivalent of Off-Balance Sheet Items	
	2012 Rs '000	2011 Rs '000		2012 Rs '000	2011 Rs '000
General guarantees of indebtedness	6,304,827	7,643,592	100	6,304,827	7,643,592
Standby LCs relating to particular transactions	36,193	18,844	50	18,096	9,422
Performance Bonds, Bid Bonds	2,784,498	2,210,523	50	1,392,249	1,105,262
Trade-related acceptances, advance documents endorsed	7,370,072	5,918,368	20	1,474,014	1,183,674
Shipping guarantees	1,186,614	2,297,673	20	237,323	459,535
Documentary letters of credit	7,124,801	8,936,444	20	1,424,960	1,787,289
Undrawn term loans	1,399,849	1,389,401	0, 20 & 50	693,022	694,701
FX contracts	64,384,677	66,149,182	2 & 5	1,300,125	1,385,674
Undrawn overdrafts	5,838,596	4,911,290	0	–	–
Other unutilized facilities	42,198,820	26,786,112	0, 20 & 50	130,335	1,010,873
Total Off-Balance Sheet exposure	138,628,947	126,261,429		12,974,951	15,280,022

Capital Adequacy

	2012 Rs '000	2011 Rs '000
Capital Charge for Market Risk		
Capital charge for interest rate risk	12,544	62,503
Capital charge for equity	–	37,758
Capital charge for foreign exchange & gold	158,255	123,778
Total capital charge for market risk	170,799	224,039
Total risk-weighted assets equivalent for Market Risk	1,707,988	2,240,390
Capital Charge for Operational Risk		
Gross Income:		
Year 1	5,653,829	5,411,883
Year 2	6,681,169	5,653,829
Year 3	8,148,959	6,681,169
Average gross income	6,827,985	5,915,627
Total capital charge for operational risk -15%	1,024,198	887,344
Total risk-weighted assets equivalent for operational risk	10,241,978	8,873,440
Total risk-weighted assets and Off-Balance Sheet exposure	120,539,303	109,958,251
Risk-Weighted Capital Ratios		
Tier I (Required statutory minimum ratio is 5%)	11.16%	9.98%
Tier I & Tier II (Required statutory minimum ratio is 10%)	12.41%	11.26%
GROUP		
<i>Capital Base as at 31 December</i>	2012 Rs '000	2011 Rs '000
Tier I: Core Capital		
Stated capital	863,937	863,937
Statutory reserve fund	878,718	878,718
Published retained profits	16,410,347	8,989,942
General & other reserves	6,730,039	6,192,532
Minority interests	826,411	912,752
	25,709,452	17,837,881
Deductions - Tier I		
Intangible assets	318,723	318,347
50% investments in the capital of other banks and financial institutions	88,943	986,971
Total Tier I Capital	25,301,786	16,532,563

Capital Adequacy

	GROUP	
Capital Base as at 31 December	2012 Rs '000	2011 Rs '000
Tier II: Supplementary Capital		
General provision	528,401	460,873
Approved subordinated term debt	2,188,350	2,373,300
	2,716,751	2,834,173
Deductions - Tier II		
50% Investments in the capital of other banks and financial institutions	88,943	986,971
Capital base	27,929,594	18,379,765

Risk-Weighted Assets and Off-Balance Sheet Exposure

	GROUP				
	Principal Amount of On-Balance Sheet Items		Risk Weights	Risk-Weighted Asset Amount	
	2012 Rs '000	2011 Rs '000	%	2012 Rs '000	2011 Rs '000
Cash, Treasury Bills & other securities with Central Bank	29,542,538	21,955,774	0	—	—
Loans against cash deposits & gold	11,847,144	7,546,053	0	—	—
Claims on banks	6,874,251	3,808,862	20-100	1,722,775	1,196,293
Claims on financial institutions	11,171,411	9,791,618	20-100	7,370,650	5,775,902
Loans secured by primary mortgage	5,446,713	5,505,536	50	2,723,356	2,752,768
Other claims	99,252,404	78,780,029	20-150	92,690,794	74,050,429
Property & equipment	2,515,678	2,480,961	100	2,515,678	2,480,961
Other receivables	1,086,268	1,571,939	100	1,086,268	1,571,939
Total assets considered for credit risk	167,736,407	131,440,772		108,109,521	87,828,292

Capital Adequacy

Off-Balance Sheet Exposure

	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit Equivalent of Off-Balance Sheet Items	
	2012 Rs '000	2011 Rs '000		2012 Rs '000	2011 Rs '000
General guarantees of indebtedness	6,304,827	7,643,592	100	6,304,827	7,643,592
Standby LCs relating to particular transactions	36,193	18,844	50	18,096	9,422
Performance Bonds, Bid Bonds	2,784,498	2,210,523	50	1,392,249	1,105,262
Trade-related acceptances, advance documents endorsed	7,370,072	5,918,368	20	1,474,014	1,183,674
Shipping guarantees	1,186,614	2,297,673	20	237,323	459,535
Documentary letters of credit	7,124,801	8,936,444	20	1,424,960	1,787,289
Undrawn term loans	1,399,849	1,389,401	0, 20 & 50	693,022	694,701
FX contracts	64,384,677	66,149,182	2 & 5	1,300,125	1,385,674
Undrawn overdrafts	5,838,596	4,911,290	0	—	—
Other unutilized facilities	43,473,820	26,786,112	0, 20 & 50	130,335	1,010,873
Total Off-Balance Sheet exposure	139,903,947	126,261,430		12,974,951	15,280,022

	2012 Rs '000	2011 Rs '000
Capital Charge for Market Risk		
Capital charge for interest rate risk	12,544	62,503
Capital charge for equity	13,268	80,831
Capital charge for foreign exchange & gold	158,255	123,778
Total capital charge for market risk	184,067	267,112
Total risk-weighted assets equivalent for market risk	1,840,666	2,671,120
Capital Charge for Operational Risk		
Gross income:		
Year 1	6,744,675	5,996,782
Year 2	7,929,433	6,744,675
Year 3	9,192,963	7,929,433
Average gross income	7,955,690	6,890,296
Total capital charge for operational risk -15%	1,193,354	1,033,544
Total risk-weighted assets equivalent for operational risk	11,933,535	10,335,445
Total risk-weighted assets and Off-Balance Sheet exposure	134,858,673	116,114,879
Risk-Weighted Capital Ratios		
Tier I (Required statutory minimum ratio is 5%)	18.76%	14.24%
Tier I & Tier II (Required statutory minimum ratio is 10%)	20.71%	15.83%



NATIONAL DEVELOPMENT BANK PLC

INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013

INCOME STATEMENT										
	Bank					Group				
	Nine months ended 9/30/2013 Rs '000	Nine months ended 9/30/2012 Rs '000	Change %	Quarter ended 9/30/2013 Rs '000	Quarter ended 9/30/2012 Rs '000	Nine months ended 9/30/2013 Rs '000	Nine months ended 9/30/2012 Rs '000	Change %	Quarter ended 9/30/2013 Rs '000	Quarter ended 9/30/2012 Rs '000
Interest income	15,511,181	12,156,832	28	5,270,253	4,527,724	15,599,152	12,288,932	27	5,304,805	4,555,864
Interest Expenses	10,331,629	8,081,024	28	3,458,726	3,055,504	10,296,306	8,033,958	28	3,446,595	3,043,571
Net interest income	5,179,552	4,075,808	27	1,811,528	1,471,721	5,302,846	4,254,935	25	1,858,210	1,512,293
Fee and commission income	1,198,599	861,217	39	449,646	286,224	1,198,599	861,217	39	449,646	286,224
Fee and commission Expenses	73,952	43,691	69	14,937	43,691	73,952	43,691	69	14,937	43,691
Net Fee and commission income	1,124,647	817,526	38	434,709	242,533	1,124,647	817,526	38	434,709	242,533
Net gain/(loss) from trading	732,999	689,695	(18)	238,578	385,111	1,230,251	762,695	61	404,033	258,111
Other operating income	6,184,245	1,000,821	518	46,069	(85,575)	665,061	1,015,168	(34)	228,954	221,692
	13,221,443	6,789,851	95	2,590,884	2,613,791	8,522,806	6,850,324	21	2,925,707	2,294,631
Impairment charges for loans and other losses										
Individual Impairment	104,150	72,143	44	166,313	28,318	83,458	72,143	16	172,513	28,318
Collective Impairment	121,957	22,147	481	(89,112)	(16,609)	121,957	22,147	481	(89,112)	(16,609)
	226,107	94,290	140	77,201	11,717	205,415	94,290	118	83,201	11,717
Net operating income	12,995,336	6,695,560	94	2,513,683	2,602,073	8,117,391	6,756,033	20	2,842,506	2,222,913
Operating Expenses										
Personnel Expenses	1,887,346	1,625,952	16	658,660	586,087	2,072,518	1,766,306	17	732,521	638,103
Depreciation and amortisation	224,032	214,022	5	77,247	72,523	252,045	217,813	16	86,493	73,582
Other Expenses	1,502,219	1,213,928	24	535,659	419,559	1,715,776	1,379,571	24	589,107	467,698
Total operating expenses	3,613,597	3,053,901	18	1,281,566	1,078,168	4,040,339	3,363,690	20	1,408,122	1,179,383
Operating Profit Before Value Added Tax (VAT)	9,381,739	3,641,659	158	1,232,117	923,905	4,077,052	3,392,344	20	1,434,384	1,043,530
Value Added Tax(VAT) of Financial Services	(827,435)	(526,215)	57	(205,140)	(141,677)	(827,435)	(526,215)	57	(205,140)	(141,677)
Operating Profit After Value Added Tax (VAT)	8,554,304	3,115,444	175	1,026,976	782,228	3,249,616	2,866,129	13	1,229,244	901,854
Share of associate companies' profit	-	-	-	-	-	39,658	172,524	(77)	28,980	60,314
Profit Before Taxation	8,554,304	3,115,444	175	1,026,976	782,228	3,289,274	3,038,653	8	1,258,224	962,167
Taxation	(1,000,065)	(810,437)	23	(333,663)	(233,407)	(1,077,177)	(899,581)	8	(353,119)	(278,654)
Profit for the period	7,554,239	2,299,007	229	693,313	548,821	2,212,097	2,039,072	8	905,105	683,514
Profit Attributable to:										
Equity Holders of the parent	7,554,239	2,299,007	229	693,313	548,821	2,195,602	1,997,529	10	891,961	667,917
Non Controlling Interests	-	-	-	-	-	15,495	41,543	(62)	13,144	15,596
	7,554,239	2,299,007	229	693,313	548,821	2,212,097	2,039,072	8	905,105	683,514
Basic Earnings per share (In Rs)	45.96	14.80	228	4.21	3.34	13.71	12.17	13	5.42	4.87
Diluted Earnings per share (In Rs)	45.94	-	-	-	-	13.70	-	-	-	-

STATEMENT OF COMPREHENSIVE INCOME										
	Nine months ended 30/09/2013 Rs '000	Nine months ended 30/09/2012 Rs '000	Change %	Quarter ended 30/09/2013 Rs '000	Quarter ended 30/09/2012 Rs '000	Nine months ended 30/09/2013 Rs '000	Nine months ended 30/09/2012 Rs '000	Change %	Quarter ended 30/09/2013 Rs '000	Quarter ended 30/09/2012 Rs '000
Profit for the period	7,554,239	2,299,007	229	693,313	548,821	2,212,097	2,039,072	8	905,105	683,514
Exchange gain from valuation of foreign associates and subsidiaries	-	-	-	-	-	(1,228)	23,344	(105)	818	(5,215)
Total Other Comprehensive Income /(expenses)	-	-	-	-	-	(1,228)	23,344	(105)	818	(5,215)
Total Comprehensive Income for the period	7,554,239	2,299,007	229	693,313	548,821	2,210,869	2,062,416	229	906,741	678,084
Attributable to:										
Equity holders of the parent	7,554,239	2,299,007	229	693,313	548,821	2,195,663	2,017,673	9	893,414	658,549
Non Controlling Interests	-	-	-	-	-	15,206	44,743	(66)	13,326	14,534
	7,554,239	2,299,007	229	693,313	548,821	2,210,869	2,062,416	7	906,741	673,084

CONSOLIDATED STATEMENT OF FINANCIAL POSITION						
	BANK			Group		
	Current Period	Previous Period		Current Period	Previous Period	
	As at 30/09/2013 Rs '000	As at 31/12/2012 (Audited) Rs '000	Change %	As at 30/09/2013 Rs '000	As at 31/12/2012 (Audited) Rs '000	Change %
Assets						
Cash and cash equivalents	2,750,407	3,480,395	(21)	2,797,786	3,634,983	(23)
Balances with Central Bank	4,907,669	6,074,792	(19)	4,907,669	6,074,792	(19)
Placements with banks	1,088,626	3,559,354	(69)	1,088,626	3,559,354	(69)
Derivative Financial Instruments	1,234,292	1,706,372	(28)	1,234,292	1,706,372	(28)
Financial Investments - Held for trading	13,357,904	982,967	1,259	13,357,904	982,967	1,259
Other Financial Assets Held for trading	1,065,005	-	-	5,532,551	10,411,658	(47)
Loans and Receivables to banks	735,435	1,183,343	(38)	735,435	1,183,343	(38)
Loans and Receivables to other customer	122,730,098	115,992,360	6	122,769,873	116,039,035	6
Financial investments - Loans and receivable	14,927,176	6,446,031	132	15,157,762	7,088,893	114
Financial Investments - Available for sale	140,283	66,714	110	264,248	173,541	52
Financial investments - Held to maturity	16,870,900	19,257,271	(12)	17,173,479	19,223,228	(11)
Investments in subsidiary companies	2,037,773	2,641,178	(23)	-	-	-
Investments in associate companies	18,526	18,525	-	72,959	33,301	119
Investment Property	-	-	-	1,295,693	1,295,693	-
Intangible assets	274,320	272,314	1	317,031	318,723	(1)
Property, plant & equipment	875,274	856,195	2	1,225,948	1,222,500	-
Other assets	211,846	936,485	(77)	375,969	1,154,688	(67)
Total assets	183,225,534	163,474,296	12	188,307,225	174,103,072	8
Liabilities						
Due to Banks	9,663,391	2,319,984	317	9,663,391	2,319,984	317
Derivative Financial Instruments	874,128	1,736,838	(50)	874,128	1,736,838	(50)
Due to other Customers	118,489,102	107,600,583	10	118,094,538	107,393,866	10
Debt Securities issued and other borrowed funds	28,283,648	30,357,824	(7)	28,246,948	30,317,899	(7)
Current Tax Liabilities	660,709	656,211	-	676,777	633,838	7
Deferred Tax	204,875	79,874	156	197,026	79,120	149
Other liabilities	2,906,917	3,276,861	(11)	3,035,594	3,408,354	(11)
Dividends payable	36,160	249,021	(85)	36,160	249,021	(85)
Subordinated Term debts	1,931,219	2,254,699	(14)	1,931,219	2,254,699	(14)
Total liabilities	163,050,150	148,531,895	10	162,755,782	148,393,619	10
Equity						
Stated Capital (164,693,034 shares)	1,172,903	1,093,095	7	943,745	863,937	9
Statutory reserve fund	958,527	878,718	9	958,527	878,718	9
Investment Fund	1,579,023	924,333	71	1,579,023	924,333	71
Revenue reserves	16,464,931	12,046,255	37	21,276,153	22,216,055	(4)
Total shareholders' equity	20,175,384	14,942,401	35	24,757,448	24,883,043	(1)
Non Controlling Interests	-	-	-	793,995	826,410	(4)
Total Equity	20,175,384	14,942,401	35	25,551,443	25,709,453	(1)
Total liabilities and equity	183,225,534	163,474,296	12	188,307,225	174,103,072	8
Net Book Value Per Share (Rs)	122.50	91.00	35	150.32	151.54	(1)
Contingent liabilities and commitments	177,525,122	158,740,820	12	177,525,122	158,740,820	12
Memorandum Information						
Number of Employees	1,599	1,447				
Number of Branches	76	69				

STATEMENT OF CHANGES IN EQUITY								
for the nine months ended 30 September 2013	Stated Capital Rs'000	Reserves				Total	Non Controlling Interests Rs'000	Total Equity Rs'000
		Statutory Reserve Fund Rs'000	General Reserve Rs'000	Investment Fund Rs'000	Retained Profit Rs'000			
BANK								
Balance as at 1 January 2012	1,093,095	878,718	5,805,707	386,825	4,510,794	12,675,139	-	12,675,139
Total Comprehensive Income for the period	-	-	-	-	2,299,007	2,299,007	-	2,299,007
Profit for the Period	-	-	-	-	2,299,007	2,299,007	-	2,299,007
Other Comprehensive Income net of Tax	-	-	-	-	-	-	-	-
Total Comprehensive Income for the period	-	-	-	-	2,299,007	2,299,007	-	2,299,007
Transactions with equity holders								
Transfer to Investment Fund	-	-	-	652,285	(652,285)	-	-	-
Dividend paid	-	-	-	-	(656,696)	(656,696)	-	(656,696)
Balance as at 30 September 2012	1,093,095	878,718	5,805,707	1,039,110	5,508,828	14,317,450	-	14,317,450
Balance as at 1 January 2013	1,093,095	878,718	5,805,707	924,332	6,240,549	14,942,401	-	14,942,401
Total Comprehensive Income for the period	-	-	-	-	7,554,239	7,554,239	-	7,554,239
Profit for the Period	-	-	-	-	7,554,239	7,554,239	-	7,554,239
Other Comprehensive Income net of Tax	-	-	-	-	-	-	-	-
Total Comprehensive Income for the period	-	-	-	-	7,554,239	7,554,239	-	7,554,239
Transactions with equity holders								
Issue of Shares	79,809	-	-	-	-	79,809	-	79,809
Transfer to Investment Fund	-	-	-	654,691	(654,691)	-	-	-
Transfer to statutory reserve fund	-	79,809	-	-	(79,809)	-	-	-
Dividend paid	-	-	-	-	(2,401,065)	(2,401,065)	-	(2,401,065)
Balance as at 30 September 2013	1,172,904	958,527	5,805,707	1,579,023	10,658,228	20,175,384	-	20,175,384
GROUP								
Balance as at 1 January 2012	863,937	878,718	5,805,707	386,825	8,989,942	16,925,129	912,752	17,837,881
Total Comprehensive Income for the period	-	-	-	-	1,997,929	1,997,929	41,143	2,039,072
Profit for the Period	-	-	-	-	1,997,929	1,997,929	41,143	2,039,072
Other Comprehensive Income net of Tax	-	-	-	-	19,744	19,744	3,600	23,344
Total Comprehensive Income for the period	-	-	-	-	2,017,673	2,017,673	44,743	2,062,416
Transactions with equity holders								
Transfer to Investment Fund	-	-	-	652,285	(652,285)	-	-	-
Dividend paid	-	-	-	-	(656,696)	(656,696)	(17,333)	(674,029)
Change in group company holding	-	-	-	-	(2,672)	(2,672)	2,072	-
Balance as at 30 September 2012	863,937	878,718	5,805,707	1,039,110	9,896,562	18,284,034	922,234	19,206,268
Balance as at 1 January 2013	863,937	878,718	5,805,707	924,332	16,410,347	24,883,041	826,411	25,709,452
Total Comprehensive Income for the period	-	-	-	-	2,196,602	2,196,602	15,495	2,212,097
Profit for the Period	-	-	-	-	2,196,602	2,196,602	15,495	2,212,097
Other Comprehensive Income net of Tax	-	-	-	-	(939)	(939)	(290)	(1,229)
Total Comprehensive Income for the period	-	-	-	-	2,195,663	2,195,663	15,206	2,210,869
Transactions with equity holders								
Issue of new shares	79,809	-	-	-	-	79,809	-	79,809
Transfer to Investment Fund	-	-	-	654,691	(654,691)	-	-	-
Transfer to Statutory Reserve Fund	-	79,809	-	-	(79,809)	-	-	-
Dividend paid	-	-	-	-	(2,401,065)	(2,401,065)	(34,604)	(2,435,669)
Change in group company holding	-	-	-	-	-	-	(13,017)	(13,017)
Balance as at 30 September 2013	943,746	958,527	5,805,707	1,579,023	15,478,445	24,757,448	793,995	25,551,444

Notes to the Financial Statements

- The figures are extracted from unaudited financial statements.
- The accounting policies and methods of computation are consistent with those followed during the previous financial year.
- These interim financial statements of the Bank and the Group have been prepared based on the same accounting policies and methods applied for the year ended 31 December 2012 and comply with Sri Lanka Accounting Standard 34- "Interim Financial Reporting". Previous years figures and phrases have been re-arranged wherever necessary to conform to current year's presentation.
- On 27 September 2012, the Bank (NDB) and NDB Capital Holdings PLC (NCAH) entered into a Share Sale and Purchase Agreement with American International Assurance Company Limited (AIA) of Hong Kong to divest the 41.56% shareholding in Aviva NDB Holdings and 5% of Aviva NDB Insurance PLC. Accordingly on 5 December 2012 the divestment of these shares resulted in capital gain of Rs 5.9 billion to the NDB group during the fourth quarter of 2012. Pursuant to this divestment, the shareholders of NCAH approved a share repurchase plan in March 2013, which resulted in NCAH buying back 25% of its share capital, posting a capital gain of Rs 5.3 bn to the Bank during the first quarter of 2013.
- As per the Equity Linked Compensation Plan (ELCP) of the Bank, the eligible members of the staff were allocated 491,132 ordinary shares at a price of Rs 152.50/- per share in July 2013, as a grant (which will have a vesting period of three years). Accordingly the said shares were issued to the trustees of the ELCP share grant scheme. This share issue resulted in the increase of the stated capital of the Bank from Rs 1,093.1 mn to Rs 1,172.9 mn, and the number of shares in issue from 164,201,902 to 164,693,034.
- There have been no events subsequent to the end of the reporting period that require disclosure.

7. ADDITIONAL QUARTERLY DISCLOSURES PRESCRIBED BY CBSL AS PER CIRCULAR DATED 11TH OCTOBER 2013

a) Loans and Receivables to Other Customers

Bank		Group	
Current Period	Previous Period	Current Period	Previous Period
As at 30/09/2013 Rs '000	As at 31/12/2012 Rs '000	As at 30/09/2013 Rs '000	As at 31/12/2012 Rs '000
125,894,119	118,915,483	125,879,894	118,962,158
1,084,958	979,186	1,064,958	979,186
2,019,063	1,843,937	2,019,063	1,843,937
122,790,098	115,992,360	122,790,873	116,039,035

b) Gross Loans and Receivables to Other Customers - By product

Bank		Group	
As at 30/09/2013 Rs '000	As at 31/12/2012 Rs '000	As at 30/09/2013 Rs '000	As at 31/12/2012 Rs '000
22,660,944	21,235,305	22,660,944	21,235,305
16,431,125	14,255,371	16,431,125	14,255,371
16,807,504	17,596,248	16,807,504	17,596,248
8,676,012	10,546,855	8,676,012	10,546,855
13,333,793	11,341,517	13,333,793	11,341,517
8,065,730	6,439,571	8,065,730	6,439,571
4,717,405	4,872,040	4,717,405	4,872,040
3,146,527	4,011,458	3,146,527	4,011,458
904,404	783,735	944,178	830,410
94,743,445	91,183,095	94,743,445	91,228,770
1,018,359	1,038,504	1,018,359	1,038,504
7,345,686	6,070,239	7,345,686	6,070,239
22,726,630	20,624,645	22,726,630	20,624,645
31,090,674	27,733,388	31,090,674	27,733,388
125,894,119	118,915,483	125,879,894	118,962,158

c) Movements in Individual and Collective Impairment during the period for Loans and Receivables to Other Customers

Bank		Group	
As at 30/09/2013 Rs '000	As at 31/12/2012 Rs '000	As at 30/09/2013 Rs '000	As at 31/12/2012 Rs '000
979,186	987,053	979,186	987,053
83,458	(8,941)	83,458	(8,941)
(284,091)	(66,770)	(284,091)	(66,770)
305,404	87,844	305,404	87,844
1,084,957	979,186	1,084,957	979,186
1,943,938	1,877,384	1,943,938	1,877,384
121,957	66,554	121,957	66,554
(65,832)	-	(65,832)	-
2,019,063	1,943,938	2,019,063	1,943,938
3,104,020	2,823,124	3,104,020	2,823,124

d) Due to Other Customers - By product	Bank		Group	
	As at	As at	As at	As at
	30/09/2013	31/12/2012	30/09/2013	31/12/2012
	Rs '000	Rs '000	Rs '000	Rs '000
By product-Domestic Currency				
Demand deposits	5,644,891	6,210,907	5,644,891	6,210,907
Savings deposits	13,710,639	10,726,146	13,710,639	10,726,146
Fixed deposits	73,134,830	62,255,739	72,740,258	62,069,042
Other deposits	227,666	139,430	227,666	139,430
Sub total	89,718,026	79,332,222	82,323,454	79,145,524
By product- Foreign Currency				
Demand deposits	1,280,429	1,581,239	1,280,429	1,581,239
Savings deposits	4,631,320	7,297,015	4,631,320	7,297,015
Fixed deposits	19,768,722	10,352,270	19,768,720	19,352,170
Other deposits	75,605	67,818	75,605	67,818
Sub total	25,775,076	29,298,342	25,775,074	28,298,242
Total	115,493,102	107,630,563	108,098,528	107,443,766

Share Information	30.09.2013	30.09.2012
Market value per share (Rs.)	143.80	149.40
Highest price per share for the period (Rs.)	169.00	155.00
Lowest price per share for the period (Rs.)	138.00	98.00

Selected Performance Indicators (As per regulatory Reporting)	BANK		GROUP	
	As at	As at	As at	As at
	30/09/2013	31/12/2012	30/09/2013	31/12/2012
Regulated Capital Adequacy				
Core Capital (Tier 1 Capital) (Rs m)	18,467	13,454	24,598	25,302
Total Capital Base (Rs m)	20,239	14,955	26,365	27,925
Core Capital adequacy Ratio -Core Capital as a % of Risk-weighted Assets (Minimum Requirement, 5%)	14.13	11.18	17.04	18.76
Total Capital Adequacy Ratio -Total Capital as a % of (Tier 1 & 2) (%)	15.18	12.41	18.25	20.71
Asset Quality				
Gross Non-performing Advances Ratio (%)	1.94	1.31	1.94	1.31
Net Non-performing Advances Ratio (%)	1.14	0.50	1.14	0.50
Profitability				
Earnings Per Share (Rs.) -annualised	49.73	17.81	17.78	55.31
Return on Average Shareholders' Funds (%)	46.64	21.17	11.80	42.17
Return on Average Assets (%)	4.72	1.94	1.82	5.62
Net interest margin (%)	3.99	3.70	3.99	3.76
Debt Security - Related Ratios				
Interest Cover (Times)	1.50	1.50	1.52	1.52
Debt to Equity (Times)	7.85	9.54	8.38	5.87
Regulatory Liquidity				
Statutory liquid assets- Rs m	39,103	31,971	39,103	31,971
Statutory liquid assets ratio (%)				
Domestic Banking Unit	24.66	22.02	24.66	22.02
Foreign Currency Banking Unit	27.06	24.92	27.06	24.92

Certification:	
We hereby certify that the above financial statements are in compliance with the requirements of the Companies Act No. 07 of 2007.	
(Sgt.) Dhanan Senathirajah Vice President- Finance & Planning	(Sgt.) Fahim Osman Chief Financial Officer
We the undersigned, being the Chairman and the Chief Executive Officer of National Development Bank PLC certify jointly that:	
(a) The above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka	
(b) The information contained in these statements have been extracted from the unaudited financial statements of the Bank, unless indicated as audited.	
(Sgt.) H D S Amarasinghe Chairman	(Sgt.) R Theagarajah Chief Executive Officer
12 November 2013	

STATEMENT OF CASH FLOW

for the period ended 30 September

BANK

Group

	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	16,025,587	11,843,257	16,188,885	11,678,808
Fee based income received	1,124,647	817,526	2,179,265	954,931
Dividend income received	710,802	118,990	25,081	152,676
Other income received	829,646	1,601,399	283,102	1,822,494
Interest paid	(9,765,135)	(6,980,572)	(9,765,369)	(6,800,901)
Personnel cost paid	(1,824,346)	(1,538,576)	(1,954,475)	(1,644,702)
General expenses paid	(1,413,692)	(1,225,320)	(1,621,084)	(1,269,974)
Income taxes paid	(870,567)	(477,381)	(903,781)	(598,292)
VAT paid	(749,458)	(527,309)	(749,458)	(483,152)
Net (increase) / decrease in loans and advances	(7,009,611)	(11,368,235)	(7,009,611)	(11,014,966)
Net increase in Deposits from customers	10,902,877	16,212,330	10,902,877	16,207,495
Net (increase) / decrease in other receivables	1,223,254	123,492	1,238,418	(33,439)
Net increase / (decrease) in other liabilities	(2,022,773)	(103,641)	(2,008,944)	(428,248)
Net cash provided by / (used in) operating activities	7,161,231	8,495,960	6,804,906	8,540,730
CASH FLOWS FROM INVESTING ACTIVITIES				
Change in other investments	(2,017,393)	47,605	4,263,037	980,241
Government treasury bills and bonds	(17,553,202)	(6,107,476)	(17,553,202)	(6,107,476)
Disposal of group companies	5,954,774	884,951	(13,016)	0
Net due to/(from) related companies	227	(1,746)	227	(1,746)
Securities sold under repurchase agreements	4,637,799	5,065,339	4,637,799	5,065,339
Proceeds from disposal of fixed assets	2,416	128,339	(75,830)	142,968
Expenditure on fixed assets	(247,534)	(338,175)	(165,947)	(337,755)
Net cash provided by/(used in) investing activities	(9,222,913)	(321,163)	(8,906,932)	(258,429)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase/(decrease) in borrowings	307,950	(2,613,279)	307,951	(2,613,279)
Dividend paid	(2,614,106)	(1,172,829)	(2,710,973)	(1,233,338)
Net cash provided by/(used in) financing activities	(2,306,156)	(3,786,108)	(2,403,022)	(3,846,617)
Net increase/(decrease) in cash and cash equivalents	(4,367,838)	4,388,689	(4,505,048)	4,435,684
Cash and cash equivalents at the beginning of the period	13,114,541	7,840,168	13,269,129	7,963,857
Cash and cash equivalents at the end of the period	8,746,703	12,228,857	8,764,081	12,399,541
Cash and cash equivalents	2,750,407	1,319,776	2,797,786	1,242,353
Balances with Central Bank	4,907,669	6,061,643	4,907,669	6,061,643
Placement with banks	1,088,626	4,847,438	1,088,626	5,095,545
	8,746,703	12,228,857	8,794,081	12,399,541

SEGMENTAL ANALYSIS- GROUP

For the nine months ended 30 September

	Banking		Capital Markets		Property Investment		Others		Consolidated	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Revenue										
External Income	17,705,531	14,227,572	780,770	521,095	74,412	78,414	-	-	18,560,714	14,827,081
Inter-segment Income	-	-	16,233	20,282	42,166	36,958	-	-	58,398	57,240
Total Income	17,705,531	14,227,572	797,003	541,378	116,578	115,372	-	-	18,619,112	14,884,321
Segment expenses	(14,115,318)	(11,229,215)	(368,331)	(218,517)	(58,411)	(44,245)	-	-	(14,542,060)	(11,491,978)
Segment results	3,590,213	2,998,357	428,671	322,860	58,167	71,126	-	-	4,077,052	3,392,344
Share of associate companies profit before taxation	-	-	-	-	-	-	39,658	172,524	39,658	172,524
Taxation	-	-	-	-	-	-	-	-	(1,077,177)	(999,581)
VAT on financial services	-	-	-	-	-	-	-	-	(827,435)	(528,215)
Profit after taxation	-	-	-	-	-	-	72,959	1,748,157	2,212,097	2,039,072
Other Information										
Segment assets	188,122,416	156,127,045	3,701,254	4,390,320	1,410,595	1,661,013	-	-	188,234,266	162,178,378
Investment in associates	-	-	-	-	-	-	-	-	72,959	1,748,157
Consolidated total assets									188,307,225	163,926,536
Segment liabilities	162,614,690	144,342,767	106,557	54,423	34,533	116,142	-	-	162,755,781	144,513,332
Consolidated total liabilities									162,755,781	144,513,331
Segmental Cash flows										
Cash flows from operating activities	7,161,231	8,636,799	(95,356)	(95,356)	(712)	(712)	(260,257)	-	6,804,906	8,540,731
Cash flows from investing activities	(9,222,913)	(321,163)	106,967	25,241	37,493	37,493	81,521	-	(8,906,912)	(258,429)
Cash flows from financing activities	(2,306,156)	(3,786,108)	(60,087)	(23,728)	(36,779)	(36,781)	-	-	(2,403,022)	(3,846,617)

MEASUREMENT OF FINANCIAL INSTRUMENTS AS AT 30 SEPTEMBER 2013 - BANK							
ASSETS	Held for Trading	Designated at FVTPL	Held to Maturity	Loans and Receivable	Available for Sale	Others	Total
Cash and cash equivalents	-	-	-	2,750,407	-	-	2,750,407
Balances with Central Bank	-	-	-	4,907,669	-	-	4,907,669
Placements with banks	-	-	-	1,088,626	-	-	1,088,626
Derivative Financial Instruments	1,234,282	-	-	-	-	-	1,234,282
Financial Investments - held for trading	13,357,904	-	-	-	-	-	13,357,904
Other Financial Assets held for trading	1,065,005	-	-	-	-	-	1,065,005
Loans and receivables to banks	-	-	-	735,435	-	-	735,435
Loans and Receivables to other customer	-	-	-	122,730,098	-	-	122,730,098
Financial Investments - loans and receivable	-	-	-	14,527,176	-	-	14,527,176
Financial Investments - Available for sale	-	-	-	-	140,283	-	140,283
Financial Investments - Held to maturity	-	-	16,870,900	-	-	-	16,870,900
Total Financial Assets	13,657,391	-	16,870,900	147,138,412	340,566	-	179,907,269
Investments in subsidiary companies	-	-	-	-	-	2,037,773	2,037,773
Investments in associate companies	-	-	-	-	-	18,336	18,336
Investment Property	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	274,320	274,320
Property, plant & equipment	-	-	-	-	-	875,234	875,234
Other assets	-	-	-	-	-	211,846	211,846
Total assets	13,657,391	-	16,870,900	147,138,412	340,566	3,417,798	189,225,064

LIABILITIES	Held for Trading	Amortised cost	Others	Total
Due to banks	-	9,663,391	-	9,663,391
Derivative Financial Instruments	874,128	-	-	874,128
Due to other Customers	-	118,488,102	-	118,488,102
Debt Securities issued and other borrowed funds	-	28,283,648	-	28,283,648
Subordinated Term debts	-	1,931,219	-	1,931,219
Total Financial Liabilities	874,128	128,367,349	-	129,241,477
Current Tax Liabilities	-	-	660,709	660,709
Deferred Tax	-	-	204,875	204,875
Other liabilities	-	-	2,906,917	2,906,917
Dividends payable	-	-	36,160	36,160
Total liabilities	874,128	128,367,349	3,808,661	133,050,138

MEASUREMENT OF FINANCIAL INSTRUMENTS AS AT 30 SEPTEMBER 2013 - GROUP							
ASSETS	Held for Trading	Designated at FVTPL	Held to Maturity	Loans and Receivable	Available for Sale	Others	Total
Cash and cash equivalents	-	-	-	2,757,785	-	-	2,757,785
Balances with Central Bank	-	-	-	4,907,669	-	-	4,907,669
Placements with banks	-	-	-	1,088,626	-	-	1,088,626
Derivative Financial Instruments	1,234,282	-	-	-	-	-	1,234,282
Financial Investments - held for trading	13,357,904	-	-	-	-	-	13,357,904
Other Financial Assets held for trading	5,532,551	-	-	-	-	-	5,532,551
Loans and receivables to banks	-	-	-	735,435	-	-	735,435
Loans and Receivables to other customer	-	-	-	122,768,873	-	-	122,768,873
Financial Investment - loans and receivables	-	-	-	15,157,762	-	-	15,157,762
Financial Investments - Available for sale	-	-	-	-	264,348	-	264,348
Financial Investment - Held to maturity	-	-	17,179,479	-	-	-	17,179,479
Total Financial Assets	30,124,747	-	17,179,479	147,667,551	264,348	-	185,236,125
Investments in subsidiary companies	-	-	-	-	-	-	-
Investments in associate companies	-	-	-	-	-	72,959	72,959
Investment Property	-	-	-	-	-	1,295,893	1,295,893
Intangible assets	-	-	-	-	-	817,031	817,031
Property, plant & equipment	-	-	-	-	-	1,225,948	1,225,948
Other assets	-	-	-	-	-	375,929	375,929
Total assets	30,124,747	-	17,179,479	147,667,551	264,348	3,887,860	189,907,225

LIABILITIES	Held for Trading	Amortised cost	Others	Total
Due to banks	-	9,663,391	-	9,663,391
Derivative Financial Instruments	874,128	-	-	874,128
Due to other Customers	-	118,094,518	-	118,094,518
Debt Securities issued and other borrowed funds	-	28,246,948	-	28,246,948
Subordinated Term debts	-	1,931,219	-	1,931,219
Total Financial Liabilities	874,128	127,895,067	-	128,769,195
Current Tax Liabilities	-	-	676,777	676,777
Deferred Tax	-	-	197,026	197,026
Other liabilities	-	-	3,035,594	3,035,594
Dividends payable	-	-	36,160	36,160
Total liabilities	874,128	127,895,067	3,945,557	132,765,752

MEASUREMENT OF FINANCIAL INSTRUMENTS AS AT 31 DECEMBER 2012 - BANK							
	Held for Trading	Designated at FVTPL	Held to Maturity	Loans and Receivables	Available for Sale	Others	Total
ASSETS							
Cash and cash equivalents	-	-	-	3,480,395	-	-	3,480,395
Balances with Central Bank	-	-	-	6,074,792	-	-	6,074,792
Placements with banks	-	-	-	3,538,354	-	-	3,538,354
Derivative Financial Instruments	1,706,372	-	-	-	-	-	1,706,372
Financial Investments - Held for trading	982,967	-	-	-	-	-	982,967
Other Financial Assets held for trading	-	-	-	-	-	-	-
Loans and receivables to banks	-	-	-	1,383,343	-	-	1,383,343
Loans and receivables to other customer	-	-	-	113,992,360	-	-	113,992,360
Financial Investments - loans and receivable	-	-	-	6,446,051	-	-	6,446,051
Financial Investments - Available for sale	-	-	-	66,714	-	-	66,714
Financial Investments - Held to maturity	-	-	-	18,257,371	-	-	18,257,371
Total Financial Assets	2,689,339	-	-	194,660,260	-	-	197,349,599
Investments in subsidiary companies	-	-	-	-	-	3,641,178	3,641,178
Investments in associate companies	-	-	-	-	-	18,525	18,525
Investment Property	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	272,334	272,334
Property, plant & equipment	-	-	-	-	-	856,135	856,135
Other assets	-	-	-	-	-	876,485	876,485
Total assets	2,689,339	-	-	194,660,260	-	4,374,297	197,043,896
LIABILITIES							
Due to banks	-	-	-	-	-	2,319,584	2,319,584
Derivative Financial Instruments	1,736,838	-	-	-	-	-	1,736,838
Due to other Customers	-	-	-	107,600,583	-	-	107,600,583
Debt Securities issued and other borrowed funds	-	-	-	30,357,824	-	-	30,357,824
Subordinated Term debts	-	-	-	-	-	2,254,699	2,254,699
Total Financial Liabilities	1,736,838	-	-	137,958,407	-	4,574,283	142,269,528
Current Tax Liabilities	-	-	-	-	-	655,331	655,331
Deferred Tax	-	-	-	-	-	78,874	78,874
Other liabilities	-	-	-	-	-	3,276,861	3,276,861
Dividends payable	-	-	-	-	-	249,021	249,021
Total liabilities	1,736,838	-	-	137,958,407	-	4,260,067	142,215,312

MEASUREMENT OF FINANCIAL INSTRUMENTS AS AT 31 DECEMBER 2012 - GROUP							
	Held for Trading	Designated at FVTPL	Held to Maturity	Loans and Receivables	Available for Sale	Others	Total
ASSETS							
Cash and cash equivalents	-	-	-	3,634,983	-	-	3,634,983
Balances with Central Bank	-	-	-	6,074,792	-	-	6,074,792
Placements with banks	-	-	-	3,538,354	-	-	3,538,354
Derivative Financial Instruments	1,706,372	-	-	-	-	-	1,706,372
Financial Investments - Held for trading	982,967	-	-	-	-	-	982,967
Other Financial Assets held for trading	10,411,658	-	-	-	-	-	10,411,658
Loans and receivables to banks	-	-	-	1,383,343	-	-	1,383,343
Loans and receivables to other customer	-	-	-	116,038,055	-	-	116,038,055
Financial Investments - loans and receivable	-	-	-	7,086,899	-	-	7,086,899
Financial Investments - Available for sale	-	-	-	-	173,543	-	173,543
Financial Investments - Held to maturity	-	-	-	18,223,228	-	-	18,223,228
Total Financial Assets	12,108,967	-	-	137,980,400	173,543	-	138,262,910
Investments in subsidiary companies	-	-	-	-	-	-	-
Investments in associate companies	-	-	-	-	-	33,301	33,301
Investment Property	-	-	-	-	-	1,295,699	1,295,699
Intangible assets	-	-	-	-	-	518,723	518,723
Property, plant & equipment	-	-	-	-	-	1,232,500	1,232,500
Other assets	-	-	-	-	-	1,254,688	1,254,688
Total assets	12,108,967	-	-	137,980,400	173,543	4,324,911	138,407,821
LIABILITIES							
Due to banks	-	-	-	-	-	2,319,584	2,319,584
Derivative Financial Instruments	1,736,838	-	-	-	-	-	1,736,838
Due to other Customers	-	-	-	107,393,866	-	-	107,393,866
Debt Securities issued and other borrowed funds	-	-	-	30,317,899	-	-	30,317,899
Subordinated Term debts	-	-	-	-	-	2,254,699	2,254,699
Total Financial Liabilities	1,736,838	-	-	137,711,764	-	4,574,283	142,022,925
Current Tax Liabilities	-	-	-	-	-	655,331	655,331
Deferred Tax	-	-	-	-	-	78,120	78,120
Other liabilities	-	-	-	-	-	3,408,354	3,408,354
Dividends payable	-	-	-	-	-	249,021	249,021
Total liabilities	1,736,838	-	-	137,711,764	-	4,377,129	142,065,722

TOP 20 LARGEST SHARE HOLDERS OF NATIONAL DEVELOPMENT BANK PLC AS AT 30.09.2013

	Name	No of Shares	%
1.	BANK OF CEYLON NO. 1 ACCOUNT	16,371,076	9.94
2.	EMPLOYEES PROVIDENT FUND	15,810,248	9.6
3.	SRI LANKA INSURANCE CORPORATION LTD-GENERAL FUND	9,388,488	5.7
4.	DR. S YADDEHIGE	8,669,000	5.26
5.	HSBC INTL NOM LTD-SNFE- NTASIAN DISCOVERY MASTER FUND	8,432,154	5.12
6.	SRI LANKA INSURANCE CORPORATION LTD-LIFE FUND	7,805,426	4.74
7.	HSBC INTL NOM LTD-BPSS LUX-ABERDEEN GLOBAL ASIA PACIFIC EQUITY FUND	5,715,450	3.47
8.	EMPLOYEES TRUST FUND BOARD	5,303,700	3.22
9.	HSBC INTERNATIONAL NOMINEES LIMITED-MSNY-BAY POND PARTNERS L.P	4,501,200	2.73
10.	HSBC INTL NOM LTD-BPSS LDN- ABERDEEN ASIA PACIFIC FUND	4,294,800	2.61
11.	HATTON NATIONAL BANK PLC A/C NO 1	4,282,200	2.6
12.	NATIONAL DEVELOPMENT BANK PLC – ESOP A/C NO 5	4,133,726	2.51
13.	ASIAN ALLIANCE INSURANCE PLC ACCOUNT NUMBER 3/LIFE SHAREHOLDERS FUND	3,500,000	2.13
14.	BNY-CF RUFFER INVESTMENT FUNDS : CF RUFFER PACIFIC FUND	3,000,000	1.82
15.	MR. A K PATHIRAGE	2,970,000	1.8
16.	ASIAN ALLIANCE INSURANCE PLC-GENERAL FUND ACCOUNT NUMBER 1	2,540,977	1.54
17.	ASIRI HOSPITAL HOLDINGS PLC	2,411,583	1.46
18.	ASIAN ALLIANCE INSURANCE PLC-A/C 02 (LIFE FUND)	2,110,723	1.28
19.	HSBC INTERNATIONAL NOMINEES LIMITED-MSNY-BAY POND INVESTORS (BERMUDA) LP	2,045,200	1.24
20.	UNITED MOTORS LANKA PLC	2,000,000	1.21

Public holding as at 30.09.2013– 75.65%*

* In computing the public holding, we have excluded the shares directly or indirectly held by directors, spouses and by the Bank of Ceylon and the Sri Lanka Insurance Corporation which entities hold shares through several accounts which collectively exceed 10% each of the shares in issue of NDB.

DIRECTORS INTEREST IN SHARES OF NDB AS AT 30.09.2013

NAME	NO OF SHARES
H D S AMARASURIYA	28,150
A K PATHIRAGE	2,970,000
R THEAGARAJAH (CEO)	126
T L F JAYASEKARA	-
K FERNANDO	-
H A SIRIWARDENA	-
D S P WIKRAMANAYAKE	-
G D C EKANAYAKE	-
S RAJAPAKSE	-



Fitch Rates NDB's Subordinated Debt Final 'A+(lka)'

Fitch Ratings-Colombo/Hong Kong-27 November 2013: Fitch Ratings Lanka has assigned National Development Bank PLC's (NDB; AA-(lka)/Stable) proposed subordinated debentures of up to LKR10bn a final National Long-Term Rating of 'A+(lka)'. The debentures will be issued in three tranches with maturity of five, 10 and 12 years while coupon payments will be at fixed rates. The assignment of the final rating follows the receipt of final documents, which conform to information previously received. The final rating is at the same as the expected rating assigned on 18 November 2013.

KEY RATING DRIVERS

The proposed debentures are rated one notch below NDB's National Long-Term Rating to reflect their below-average recovery prospect relative to senior unsecured debt in the event of liquidation, in line with Fitch's criteria for rating such securities.

RATING SENSITIVITIES

The subordinated debt rating will move in tandem with NDB's National Long-Term Rating.

A solid track record in developing and maintaining a commercial banking franchise with commensurate credit metrics could result in an upgrade of NDB's ratings while a sustained and substantial weakening in asset quality, in capitalisation and in provision coverage could result in a downgrade.

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Colombo 1, Sri Lanka

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Committee Chairperson
Sabine Bauer
Senior Director
+852 2263 9966

Media Relations: Bindu Menon, Mumbai, Tel: +91 22 4000 1727, Email: bindu.menon@fitchratings.com.

Additional information is available on www.fitchratings.com.

NDB has a 1.78% equity stake in Fitch Ratings Lanka Ltd. No shareholder other than Fitch, Inc. is involved in the day-to-day rating operations of, or credit reviews undertaken by, Fitch Ratings Lanka Ltd.

Applicable criteria, "Global Financial Institutions Rating Criteria", dated 15 August 2012, "National Scale Ratings Criteria", dated 30 October 2013 and "Assessing and Rating Bank

Subordinated and Hybrid Securities", dated 5 December 2012, are available on www.fitchratings.com.

**Additional Disclosure
Solicitation Status**

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

ANNEXURE II - COLLECTION POINTS

Copies of the Prospectus and the Application Form can be obtained free of charge from the following collection points.

Financial Advisors and Managers to the Issue	Registrars to the Issue	Bankers to the Issue
NDB Investment Bank Limited No. 40, Navam Mawatha Colombo 02 Tel: +94 11 2 300 385 Fax: +94 11 2 300 393	S S P Corporate Services (Private) Limited No. 101, Inner Flower Road Colombo 03 Tel: +94 11 2 573 894 Fax: +94 11 2 573 609	National Development Bank PLC No. 40, Navam Mawatha Colombo 02 Tel : +94 11 2 448 448 Fax : +94 11 2 341 044

Members of the CSE

Acuity Stockbrokers (Private) Limited Level 6, Acuity House 53, Dharmapala Mawatha Colombo 03 Tel: +94 11 2 206 206 Fax: +94 11 2 206 298-9 E-mail: sales@acuitystockbrokers.com	Asha Phillip Securities Limited 10, Prince Alfred Towers 2 nd Floor, Alfred House Gardens Colombo 03 Tel: +94 11 2 429 100 Fax: +94 11 2 429 199 E-mail: apsl@ashaphillip.net
Asia Securities (Private) Limited Level 21, West Tower World Trade Centre Echelon Square Colombo 01 Tel: +94 11 2 423 905, +94 11 5 320 000 Fax: +94 11 2 336 018 E-mail: enquiry@asiacapital.lk	Assetline Securities (Private) Limited 120, 120A, Pannipitiya Road Battaramulla Tel: +94 11 4 700 111, +94 11 2 307 366 Fax: +94 11 4 700 112 E-mail: colombo.dpglobal@dpmcfs.com

Bartleet Religare Securities (Private) Limited Level "G", "Bartleet House" 65, Braybrooke Place Colombo 02 Tel: +94 11 5 220 200 Fax: +94 11 2 434 985 E-mail: info@bartleetstock.com	Capital TRUST Securities (Private) Limited 42, Sir Mohamed Macan Markar Mawatha Colombo 03 Tel: +94 11 2 174 174 Fax: +94 11 2 174 173 E-mail: inquiries@capitaltrust.lk
CT Smith Stockbrokers (Private) Limited 4-14, Majestic City 10, Station Road Colombo 04 Tel: +94 11 2 552 290-4 Fax: +94 11 2 552 289 E-mail: ctssales@sltnet.lk	First Capital Equities (Pvt) Limited No. 01, Level 02 Lake Crescent Colombo 02 Tel: +94 11 2 145 000 Fax: +94 11 2 145 050 E-mail: info@dnhfinancial.com
J B Securities (Private) Limited 150, St. Joseph Street Colombo 14 Tel: +94 11 2 490 900, +94 77 2 490 900-1 Fax: +94 11 2 430 070 E-mail: jbs@jb.lk	John Keells Stockbrokers (Private) Limited 130, Glennie Street Colombo 02 Tel: +94 11 2 306 250, +94 11 2 338 066-7 Fax: +94 11 2 342 068 E-mail: jstock@keells.com
Lanka Securities (Private) Limited 228/2, Galle Road Colombo 04 Tel: +94 11 4 706 757, +94 11 2 554 942 Fax: +94 11 4 706 767 E-mail: lankasec@sltnet.lk	Nation Lanka Equities (Private) Limited 44, Guildford Crescent Colombo 07 Tel: +94 11 4 714 300, +94 11 4 714 388-9, +94 77 3 421 821 Fax: +94 11 2 387 228 E-mail: info@nlequities.com
NDB Securities (Private) Limited 5 th Floor, NDB Building 40, Navam Mawatha Colombo 02 Tel: +94 11 2 314 170-8 Fax: +94 11 2 314 180 E-mail: mail@ndbs.lk	S C Securities (Private) Limited 2 nd Floor, 55, D. R. Wijewardena Mawatha Colombo 10 Tel: +94 11 4 711 000 Fax: +94 11 2 394 405 E-mail: ceo@sampathsecurities.lk

Somerville Stockbrokers (Private) Limited 137, Vauxhall Street Colombo 02 Tel: +94 11 2 329 201-5, +94 11 2 332 827, +94 11 2 338 292-3 Fax: +94 11 2 338 291 E-mail: ssb-web@sltnet.lk

Trading Members

Softlogic Stockbrokers (Private) Limited Level 23, East Tower World Trade Centre Echelon Square Colombo 01 Tel: +94 11 7 277 000-98 Fax: +94 11 7 277 099 Email: info@equity.softlogic.lk	Capital Alliance Securities (Private) Limited Level 5, "Millennium House" 46/58, Navam Mawatha Colombo 02 Tel: +94 11 2 317 777 Fax: +94 11 2 317 788 Email: general@capitalalliance.lk
Claridge Stockbrokers (Private) Limited 10, Gnanartha Pradeepa Mawatha Colombo 08 Tel: +94 11 2 697 974 Fax: +94 11 2 689 250 E-mail: csb@mackwoods.com	First Guardian Equities (Private) Limited 32 nd Floor, East Tower World Trade Centre Echelon Square Colombo 01 Tel: +94 11 5 884 400 Fax: +94 11 5 884 401 E-mail: info@firstguardianequities.com
Candor Equities Ltd Level 8, South Wing Millennium House 46/58, Navam Mawatha Colombo 02 Tel: +94 11 2 359 100 Fax: +94 11 2 305 522 E-mail: info-hasl@heraymila.com	IIFL Securities Ceylon (Private) Limited 27 th Floor, East Tower World Trade Centre Echelon Square Colombo 01 Tel: +94 11 2 333 000 Fax: +94 11 2 333 383 E-mail: info.ceylon@iiflcap.com

LOLC Securities (Private) Limited Level 18, West Tower World Trade Centre Echelon Square Colombo 01 Tel: +94 11 7 880 880 Fax: +94 11 2 434 771	New World Securities (Private) Ltd 2 nd Floor, 45/2, Braybrooke Street Colombo 02 Tel: +94 11 2 358 700-20 Fax: +94 11 2 358 701 E-mail: viraj@nws.lk
SMB Securities (Private) Limited 47, Dharmapala Mawatha Colombo 03 Tel: +94 11 5 232 091 Fax: +94 11 2 339 292 E-mail: admin@smbsecurities.lk	Serendib Stock Brokers (Private) Limited 156, 3 rd Floor, Walukarama Road, Colombo 03 Tel: +94 11 2 565 635 Fax: +94 11 2 565 604 E-mail: info@serendibsb.com
Taprobane Securities (Private) Limited 2 nd Floor 10, Gotham Road Colombo 08 Tel: +94 11 5 328 200 Fax: +94 11 5 328 277 E-mail: info@taprobane.lk	TKS Securities (Private) Limited 19-01, East Tower World Trade Centre Echelon Square Colombo 01 Tel: +94 11 7 857 799 Fax: +94 11 7 857 857 E-mail: info@tkslk
Richard Pieris Securities (Pvt) Ltd 55/20, Vauxhall Lane, Colombo 02 Tel: +94 11 7 448 900, +94 11 5 900 800 Fax: +94 11 2 330 711 E-mail: jayantha@rpsecurities.com	First Capital Markets Limited No.02, Deal Place Colombo 03 Tel: +94 11 2 639 898, +94 11 2 681 888 Fax: +94 11 2 639 899, +94 11 2 681 460 E-Mail: info@firstcapital.lk

Selected Branches of National Development Bank PLC

BRANCH	ADDRESS	CONTACT NUMBER
Akuressa	No. 21, Main Street, Akuressa	+94 41 2 284 541/2
Aluthgama	No. 267, Galle Road, Aluthgama	+94 34 2 275 625/6
Ambalangoda	No. 333, Galle Road, Ambalangoda	+94 91 2 256 562/63
Ambalantota	No. 127, Main Street, Ambalantota	+94 47 2 225 552/3
Ampara	No. 103f, D. S. Street, Ampara	+94 63 2 223 209
Anuradhapura	No. 522/C, Maithreepala Senanayake Mw	+94 25 4 581 142/3
Athurugirya	No. 70/20 C, Main Street, Athurugirya	+94 11 2 563 325
Avissawella	No. 93, Ratnapura Road, Avissawella	+94 36 2 233 610/1
Badulla	No. 242, Lower Street, Badulla	+94 55 2 231 419/20
Bandarawela	No. 317, Main Street, Bandarawela	+94 57 2 233 690/691
Batticaloa	No. 42/1, Trinco Road, Batticaloa	+94 65 2 227 944/45
Boralasgamuwa	No. 49, Colombo Road, Boralasgamuwa	+94 11 2 509 701
Borella	No. 31/5, Dr. N. M. Perera Mawatha, Colombo 8	+94 11 2 694 484/5
Chilaw	No. 50-52, Skyline Building, Colombo Rd, Chilaw	+94 32 2 220 107/8
Chunnakam	No. 30, K. K. S. Road, Chunnakam	+94 21 2 242093/94
Colombo 7	No. 103a, Dharmapala Mw, Colombo 7	+94 11 2 448 448
Dambulla	No. 42, Kurunegala Road, Dambulla	+94 66 2 285 502/3
Eheliyagoda	No. 153, Main Street, Eheliyagoda	+94 36 2 257 321/22
Elpitiya	No. 23, Ambanlangoda Road, Elpitiya	+94 91 2 290 481/2
Embilipitiya	No. 67, Pallegama, Embilipitiya	+94 47 2 261 752/3
Galle	No. 1/A, Abeysekara Building, Wakwella Road, Galle	+94 91 2 224 136/38/39
Gampaha	No. 153, Colombo Road, Gampaha	+94 33 2 225 051/3
Gampola	No. 75, Nuwaraeliya Road, Gampola	+94 81 2 354 400
Hambantota	No. 34, Wilmot Street, Hambantota	+94 47 2 222 178/9
Havelock Town	No. 117, Havelock Rd, Colombo 05	+94 11 2 591 140/1
Homagama	No. 64, Highlevel Road, Homagama	+94 11 2 894 880/1
Horana	No. 135, Panadura Road, Horana	+94 34 2 265 171
Jaela	No. 121, Colombo Road, Jaela	+94 11 2 248 982/3
Jaffna	No. 62/6, Stanley Road, Jaffna	+94 21 2 221 180/1
Kadawatha	No. 147, Kandy Road, Kadawatha	+94 11 2 926 453/4
Kaduruwela	No. 300/2, Sawmill Junction, Kaduruwela, Polonnaruwa	+94 27 2 225 193 +94 27 2 225 103
Kaduwela	No. 501/2, Avissawella Road, Kaduwela	+94 11 2 548 571/2
Kalmunai	No. 165, Batticaloa Road, Kalmunai	+94 67 2 225 781/2
Kalutara	No. 290, Galle Road, Kalutara South	+94 34 2 229 680/2
Kandana	No. 54, Negombo Road, Kandana	+94 11 2 228 601/2
Kandy	No. 133, Kotugodella Veediya, Kandy	+94 81 2 202 776/7
Kegalle	No. 261/1, Kandy Road, Kegalle	+94 35 2 232 536/7
Kiribathgoda	No. 139/1, Kandy Road, Kiribathgoda	+94 11 2 907 511/2
Kohuwala	No. 118, S. De S. Jayasinghe Mawatha, Kohuwala	+94 11 2 814 224/5
Kollupitiya	No. 712, Galle Road, Colombo 3	+94 11 2 504 961/2
Kotahena	No. 295, George R. De Silva Mw, Colombo 13	+94 11 2 436 169/70
Kuliyapitiya	No. 133, Main Street, Kuliyapitiya	+94 37 2 281 255/6

BRANCH	ADDRESS	CONTACT NUMBER
Kurunegala	No. 6, Rajapihilla Mw, Kurunegala	+94 37 2 231 952/3
Maharagama	No. 108 A, Highlevel Road, Maharagama	+94 11 2 745 091/2
Mahiyangana	No. 2, New Town, Mahiyanganaya	+94 55 2 051 671/2
Malabe	No. 760, Kaduwela Road, Malabe	+94 11 2 762 345/6
Matale	No. 144, Main Street, Matale	+94 66 2 224 405/6
Matara	No. 60, Uyanwatte Rd, Matara	+94 41 2 231 542/3
Matugama	No. 98, Agalawatta Road, Matugama	+94 34 2 249 509/10
Minuwangoda	No. 49, Negombo Road, Minuwangoda	+94 11 2 280 970/1
Monaragala	No. 29, Potuvil Road, Monaragala	+94 55 2 277 327/8
Moratuwa	No. 255, Galle Road, Idama, Moratuwa	+94 11 2642 021/2
Mt Lavinia	No. 270, Galle Road, Mt Lavinia	+94 11 2 739 176 +94 11 2 737 144
Narahrenpita	No. 42, Kirimandala Mawatha Colombo 5	+94 11 2 369 580/1
Nawalapitiya	No. 70b, Campola Road, Nawalapitiya	+94 54 2 223 933 +94 54 2 223 949
Nawam Mawatha	No. 42, Dhpl Bldg, Nawam Mw, Colombo 2	+94 11 2 314 640/1
Negombo	No. 456, Main Street, Negombo	+94 31 2 220 246/7
Nelliady	No. 109, Jaffna Road, Neeliady	+94 21 2 263 402/3
Nikaweratiya	No. 65, Puttlam Road, Nikaweratiya	+94 37 2 260 192/3
Nittambuwa	No. 496, Kandy Road, Nittambuwa	+94 33 2 294 931/2
Nugegoda	No. 152, Nawala Rd, Nugegoda	+94 11 2 820 885/7
Nuweraeliya	No. 50/2, Siva Complex, Lawson Street, Nuweraeliya	+94 52 5 535 212/3
Panadura	No. 319, Galle Road, Panadura	+94 38 2 241 893/4
Pelawatta	No. 730a, Pannipitya Road, Pelawatte, Battaramulla	+94 11 2 786 708/9
Pettah	No. 202, Main Street, Colombo 11	+94 11 2 331 204/5
Pilimathalawala	No. 239, Colombo Road, Pilimathalawala	+94 81 2 579 665/6
Piliyandala	No. 21, Second Cross Street, Piliyandala	+94 11 2 604 600
Puttalam	No. 104, Kurunegala Road, Puttalam	+94 32 2 265 529
Rajagiriya	No. 505, Sri Jayawardenapura Etul Kotte, Kotte	+94 11 2 885 790/2
Ratmalana	No. 143 C, "Mount City", Galle Road, Ratmalana	+94 11 2 719 361
Ratnapura	No. 32 A, Zavira Road, Ratnapura	+94 45 2 230 910/11
Trinco	No. 91 & 93, North Coast Road, Trincomalli	+94 26 2 226 771/2
Vavuniya	No. 2, 1 st Cross Street, Vavuniya	+94 24 2 225 780/1
Wariyapola	Navinna Building, Puttlam Road, Wariyapola	+94 37 2 267 838/9
Wattala	No. 378a, Negombo Road, Wattala	+94 11 2 981 519/20
Wellawatta	No. 302, Galle Road, Colombo 6	+94 11 2 361 903/4
Wennappuwa	No. 56/C, Main Street, Wennappuwa.	+94 31 2 245 431/2
Yakkala	No. 65 / 5 B, Kandy Road , Yakkala	+94 33 2 239 395/6

ANNEXURE III - CUSTODIAN BANKS

Bank of Ceylon Head Office 11 th Floor 04, Bank of Ceylon Mawatha, Colombo 01 Tel: +94 11 2 317 777, +94 11 2 448 348, +94 11 2 338 742/55, +94 11 2 544 333	Citi Bank, N A 65 C, Dharmapala Mawatha P.O. Box 888, Colombo 07 Tel: +94 11 2 447 316/8, +94 11 2 447 318, +94 11 2 449 061, +94 11 2 328 526, +94 11 4 794 700
Commercial Bank of Ceylon PLC Commercial House No 21, Sir Razik Fareed Mawatha Colombo 01 Tel: +94 11 2 445010-15, 011 238193-5, 011 430420, 011 2336700	Deutsche Bank AG P.O. Box 314 86, Galle Road, Colombo 03 Tel: +94 11 2 447 062, +94 11 2 438 057
Hatton National Bank PLC HNB Towers 479, T. B. Jayah Mawatha, Colombo 10 Tel: +94 11 2 664 664	The Hong Kong and Shanghai Banking Corporation Limited 24, Sir Baron Jayathilake Mawatha, Colombo 01 Tel: +94 11 2 325 435, +94 11 2 446 591, +94 11 2 446 303, +94 11 2 346 422
People's Bank Head Office, 5th Floor Sir Chittampalam A Gardiner Mawatha, Colombo 02 Tel: +94 11 2 781 481, +94 11 2 37 841-9, +94 11 2 446 315/6, +94 11 2 430 561	Standard Chartered Bank 37, York Street P. O. Box 112, Colombo 01 Tel: +94 11 4 794 400, +94 11 2 480 000
National Development Bank PLC 110, Sir James Peiris Mawatha, Colombo 02 Tel: +94 11 5 331 441	State Bank of India 16, Sir Baron Jayathilake Mawatha, Colombo 01 Tel: +94 11 2 326 133-5, +94 11 2 439 405-6, +94 11 2 447 166, +94 11 2 472 097

Seylan Bank PLC Level 8, Ceylinco Seylan Towers 90, Galle Road, Colombo 03 Tel: +94 11 2 456 789, +94 11 4 701 812, +94 11 4 701 819, +94 11 4 701 829	Union Bank of Colombo PLC 64, Galle Road, Colombo 03 Tel: +94 11 2 374 100
National Savings Bank 255, Galle Road, Colombo 03 Tel: +94 11 2 573 008-15	Pan Asia Banking Corporation PLC Head Office 450, Galle Road, Colombo 03 Tel: +94 11 2 565 565
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