

A brief biography of each of the Directors is provided below.

MR. SUNIL WIJESINHA

No. 146/8 Havelock Road, Colombo 5

Mr. Wijesinha is a Chartered Engineer, a Chartered Management Accountant, FCMA (UK) and holds an MBA.

Mr. Wijesinha's experience in the financial services sector includes having been on the board of directors of: Sampath Bank PLC (as Deputy Chairman), Merchant Bank of Sri Lanka PLC (as Managing Director), Employees' Trust Fund Board (as Chairman), Merchant Credit of Sri Lanka (as Chairman), Lanka Securities (Pvt) Ltd, DNH Financial (Pvt) Ltd, Colombo Stock Exchange, DFCC Vardhana Bank PLC and Siyapatha Finance Ltd where he currently serves as the Deputy Chairman.

MR. ASHOK PATHIRAGE

No. 65/13, Kumaragewatta Road, Wickramasinghe Mawatha, Pelawatte, Battaramulla

Mr. Pathirage co-founded Softlogic in 1991 and has served the Softlogic Group as the Managing Director from its inception. He was appointed as the Chairman of the Softlogic Group in 2000.

Mr. Pathirage is the Managing Director of Asiri Hospital Holdings PLC and is the Chairman of other hospitals in the group. He is also the Chairman of Softlogic Capital PLC, Asian Alliance Insurance PLC and Softlogic Finance PLC besides being the Chairman of many other group companies that operate in leisure, retail, automobile and ICT sectors.

Mr. Pathirage also serves as the Chairman of NDB Capital Holdings PLC.

Mr. Pathirage started his career at a leading blue chip company in Sri Lanka and has over 25 years of experience in senior managerial capacity in the Information Technology industry and in the business world.

MR. RAJENDRA THEAGARAJAH

No. 5, Sukhastan Gardens, Colombo 7

Mr. Rajendra Theagarajah has joined NDB Group from one of the largest private sector banks in Sri Lanka where he was the CEO for the last nine years. Prior to being appointed as the Chief Executive Officer at the said bank, Mr. Theagarajah had been a member of the Corporate Management Team of that bank for nearly eight years.

Mr. Theagarajah counts over 29 years of experience in banking, including overseas experience, in banking. He had been with Chase Manhattan Bank (now known as JP Morgan Chase) in London and had served in the European, Middle Eastern and African regions.

Mr. Theagarajah is a Fellow Member of the Institute of Chartered Accountants (ICA) of Sri Lanka and the Chartered Institute of Management Accountants (CIMA), United Kingdom. He also holds an MBA from the Cranfield School of Management, United Kingdom.

Mr. Theagarajah's contribution and expertise has also been extended through many professional bodies. He was a past Chairman of Sri Lanka Banks' Association (Guarantee) Limited, Chairman of Asian Banks Association and a former director of the Colombo Stock Exchange. He was the first Sri Lankan to assume Chairmanship of the Asian Banks' Association from 01st November 2010 for a two year tenure.

Mr. Theagarajah is also a member of the Sri Lanka Accounting and Auditing Standards Monitoring Board, Committee Member of Ceylon Chamber of Commerce, Vice Chairman of the Chartered Institute of Management Accountants (UK) Sri Lanka Governing Board, member of the Sri Lanka Auditing Quality Assurance Board and Council Member of the Sri Lanka Institute of Directors. He is also Sri Lanka's representative in the CIMA UK's Global Council. He is also a non-executive director of Carson Cumberbatch PLC and several companies in the NDB Group.

MR. TREVINE JAYASEKARA

No. 82B, Ward Place, Colombo 07

Mr. Jayasekara is the Group Finance Director of Brandix Lanka Ltd and is responsible for the overall finance function of the Brandix Group, as well as its related support functions. Mr. Jayasekara brings with him a wealth of experience in international banking and finance, having worked at Arab Bank Ltd in Bahrain, Deutsche Bank, Colombo and Aitken Spence PLC. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and an Associate Member of the Chartered Institute of Management Accountants, UK. He is a non-executive director of Lanka Ventures PLC.

MR. SARATH WIKRAMANAYAKE

No. 8, Swarna Place, Nawala

Mr. Wikramanayake is a Chartered Accountant. He has worked with the Bank of Butterfield, a Bermuda-based international bank for 19 years, where he reached the position of Executive Vice-President. Since returning to Sri Lanka, he has been the Chief Executive Officer of Union Assurance PLC and the President of the Insurance Association of Sri Lanka in 2002. He is currently engaged in providing consultancy services to the Financial Services and ICT Industries. In addition to his role as a Director of National Development Bank PLC, Mr. Wikramanayake is also a director to several other companies including NDB Capital Holdings PLC, Orient Finance PLC, NDB Investment Bank Ltd and NDB Wealth Management Ltd.

MRS. KIMARLI FERNANDO

No. 14/2, Ward Place, Colombo 7

Mrs. Fernando is an Attorney-at-Law, and also a Barrister-at-Law, Lincoln's Inn, UK. She holds LL.B. (Hons.), from London School of Economics and Political Science, London, UK and successfully completed the Postgraduate Certificate Course in Human Resources Management at the Postgraduate Institute of Management (PIM), Sri Lanka.

Counting over 21 years of experience in the banking industry in Sri Lanka and Germany, Mrs. Fernando was seconded to Deutsche Bank, Frankfurt and thereafter worked at Standard Chartered Bank.

Mrs. Fernando joined Pan Asia Banking Corporation PLC as a director in March 2008 and functioned as the Chief Executive Officer of that bank until 2009 when she was also a director of Lanka Clear (Pvt) Ltd, Director and management committee member of Waters Edge and a member of Sri Lanka Bankers' Association. Currently, whilst serving as a Director of National Development Bank PLC, she also serves as a director of LB Finance PLC, Vallibel One PLC and Lewis Brown & Co. (Pvt) Ltd.

MR. ANURA SIRIWARDENA

No. 156/14, Makola Road, Kiribathgoda

Mr. Siriwardena holds a B.Sc. in Biological Sciences from University of Kelaniya and an MBA from the Postgraduate Institute of Management (PIM) of the University of Sri Jayewardenepura, Sri Lanka. He is a Member of numerous professional bodies, including the Sri Lanka Institute of Marketing, the Sri Lanka Institute of Biology and the Sri Lanka Association for the Advancement of Sciences.

Mr. Siriwardena was the past Chairman and Chief Executive Officer of the Independent Television Network Ltd, Secretary to the Ministry of Cooperatives and Internal Trade and Secretary to the Ministry of Coconut Development and Janatha Estate Development. He currently functions as the Secretary - Industry and Commerce of the Ministry of Industry and Commerce of the Government of Sri Lanka. Mr. Siriwardena is a Platinum Honour Awardee of the Postgraduate Institute of Management Alumni Association for his outstanding performance in the field of Management.

MS. CHANDRA EKANAYAKE

No. B 10, Ocean Blue Apartments, No 37, Sri Sumangala Mawatha, Ratmalana

Ms. Ekanayake is a nominee of the Ministry of Finance and Planning. She has been a member of the Sri Lanka Administrative Service since 1984. Presently, she is the Director General of the Department of National Budget of the Ministry of Finance and Planning. Previously, she has held senior positions in the Treasury as Director - Economic Affairs, Controller of Insurance, Additional Director General - Department of External Resources and Director General - Department of Trade, Tariff and Investment Policy over a span of approximately 25 years service. Ms. Ekanayake holds a Science Special Degree from the University of Kelaniya, an MBA from the Postgraduate Institute of Management (PIM), Sri Lanka and a Diploma in the fields of Development Planning Techniques, International Relations and Economic Development.

MR. SUJEEWA RAJAPAKSE

No. 9/31C, Perera Matoatha, Divulpitiya, Boralesgamuwa

Mr. Rajapakse is the Managing Partner of BDO Partners, a firm of Chartered Accountants and counts over 28 years of experience with that firm. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka and holds a Master's in Business Administration from the Postgraduate Institute of Management (PIM) of the University of Sri Jayawardenapura.

Mr. Rajapakse serves as the President of the Institute of Chartered Accountants of Sri Lanka (ICASL) and is a Technical Advisor of the South Asian Federation of Accountants and the Confederation of Asia Pacific Accountants.

Mr. Rajapakse is currently serving as a non-executive independent director at Asian Alliance PLC and also a board member at the National Institute of Business Management (NIBM), Postgraduate Institute of Management (PIM), Securities Exchange Commission (SEC) and the Sri Lanka Accounting and Auditing Monitoring Board (SLAAMB) as an ex-officio nominated by ICASL. He is also serving as a Committee Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka.

Mr. Rajapakse has held numerous honorary positions over the years and has functioned as a board member of First Capital Group and the Treasurer of Sri Lanka Cricket.

MRS. INDRANI SUGATHADASA

C 77, Gregory's Avenue (Hector Kobbekaduwa Mawatha), Colombo 7

Mrs. Sugathadasa is a senior public servant who joined the Sri Lanka Administrative Service in 1977 and reached up to the highest level in the administrative hierarchy.

Among other senior positions she held, she served as the Permanent Secretary to the Ministry of Child Development and Women's Affairs and Ministry of Plantation Industries. After retiring from mainstream public service, she was appointed as Chairperson of the Securities and Exchange Commission of Sri Lanka (SEC) and the Insurance Board of Sri Lanka (IBSL). Currently, she is serving only as the Chairperson of the Insurance Board of Sri Lanka.

Mrs. Sugathadasa, a product of Musaeus College, Colombo holds a Bachelor of Social Sciences degree from the University of Colombo and Masters Degree (MPA/MBA) from Monash University, Australia.

Mrs. Sugathadasa also has been awarded the prestigious Hubert H. Humphrey Fellowship (Fulbright) by the United States Government in 1990 and was attached to Hunter College, City University of New York during the one year Fellowship period.

Mrs. Sugathadasa has won several prizes and awards for her skills in different areas including a Gold Medal from an all Island oratorical competition.

In addition, Mrs. Sugathadasa has participated in various conferences and consultancies both locally and internationally.

8.2 DIRECTORS' STATEMENT

No Director or a person nominated to become a Director of the Bank is or was involved in any of the following events;

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer; and
- Conviction for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

8.3 DIRECTORS' INTEREST IN SHARES OF THE BANK

The Directors of NDB held the following shares in the Bank as at 31st October 2013.

Name of the Director	Number of Shares (No.)
Mr. Sunil Wijesinha	880
Mr. Ashok Pathirage	2,970,000
Mr. Rajendra Theagarajah	126
Mr. Trevine Jayasekara	-
Mr. Sarath Wikramanayake	-
Mrs. Kimarli Fernando	-
Mr. Anura Siriwardena	-
Ms. Chandra Ekanayake	-
Mr. Sujeewa Rajapakse	-
Mrs. Indrani Sugathadasa	-

Note:

Mr. Hemaka Amarasuriya who was the Chairman of the Bank held 28,150 shares of NDB as at 31st October 2013. He retired from the directorate with effect from 30th November 2013, in terms of Rule No. 3(3) (i) of Direction No. 11 of 2007 issued under the Banking Act No. 30 of 1988.

8.4 DIRECTORS' INTEREST IN ASSETS

The Directors of NDB hold no interest in acquisition, disposal, or lease of any asset of NDB during the past two (02) years preceding the Issue and have not proposed to acquire, dispose or lease any asset of NDB, during the two (02) years succeeding the Issue.

8.5 DIRECTORS' INTEREST IN CONTRACTS OR ARRANGEMENTS AND RELATED PARTY TRANSACTIONS

There are no contracts or arrangements in force in which a Director of NDB is materially interested in relation to the business of the Bank other than the details pertaining to related party transactions which are disclosed under Note 37 of the audited financial statements for the year ended 31st December 2012 of NDB presented in Section 11.2 of this Prospectus.

8.6 DIRECTORS' EMOLUMENTS

The aggregate emoluments including bonus and/or profit sharing payments made to the Directors for the financial year ended 31st December 2012 was LKR 45.7 Million.

The aggregate emoluments including bonus and/or profit sharing payments payable to the Directors for the financial year ending 31st December 2013 is estimated at LKR 63.9 Million.

9.0 CORPORATE MANAGEMENT

9.1 CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR

Mr. Rajendra Theagarajah

Please find details of Mr. Rajendra Theagarajah under Section 8.1 of this Prospectus.

The Chief Executive Officer/Managing Director or a person nominated to become the Chief Executive Officer/Managing Director of the Bank is or was not involved in the following events;

- A petition under any bankruptcy laws filed against such person or any partnership in which he was a partner or any corporation of which he was an executive officer; and
- Conviction for fraud, misappropriation or breach of trust or any other similar offence which the CSE considers a disqualification.

9.2 PROFILES OF THE KEY MANAGEMENT

The Key Management team of the Bank is as follows.

Name	Designation	Educational/ Professional Qualifications	Experience in the Banking and Financial Field	Length of Service with the Bank
Mr. Rajendra Theagarajah	Chief Executive Officer	Fellow of the Chartered Institute of Management Accountants, UK Fellow of Institute of Chartered Accountants Sri Lanka Master of Business Administration, Cranfield Institute of Technology, UK Fellow of the Institute of Bankers Sri Lanka	MD/CEO – Hatton National Bank PLC 2004 to 2013 AGM/DGM - Hatton National Bank PLC 1997 to 2004 DGM - Banque Indosuez, Colombo 1992 to 1996 AVP/VP – Chase Manhattan Bank London 1984 to 1991	3 months
Mr. Indrajit Wickramasinghe	Chief Operating Officer - Business	Master's Degree in Business Administration from the University of Sri Jayawardenepura Postgraduate Diploma from the Chartered Institute of Marketing (CIM), UK Chartered Marketer and a Fellow of the Chartered Institute of Marketing, UK	Before joining NDB, he held the position of Head of Marketing at Reckitt & Colman of Ceylon Ltd. He has over 20 years experience in Fast-Moving Consumer Goods and Financial Service Sectors.	14 Years, 4 months
Mr. Faizan Ozman	Chief Financial Officer	Fellow of the Chartered Institute of Management Accountants - UK Certified Public Accountant and Certified Management Accountant from Australia Bachelor of Business and Commerce from the University of Sri Jayawardenepura	Before joining NDB, he worked at Seylan Bank PLC as its Chief Risk Officer and was the Chief Financial Officer at Standard Chartered Bank of Sri Lanka. Prior to that he was a Financial Analyst, Regional Credit Administrator, Resident Vice President at CITI Bank NA, UAE, Oman and Bahrain	2 Years
Mr. Mancius Paiva	Vice President - Administration & Services	BA (Hons) in Sociology from the University of Peradeniya	Deputy General Manager (DGM) – Strategy and Compliance Hatton National Bank PLC 1981 to 2013	1 month
Mr. Buwanekabahu Perera	Vice President - Corporate Banking	Bachelor's Degree in Financial Services from the University of Manchester Postgraduate Diploma in Bank Financial Management from the University of Sri Jayawardenepura. Associate member of the Chartered Institute of Bankers, UK	His 30 years experience in banking covers corporate banking, project finance and international trade. Before joining NDB in 1998, he worked at Banque Indosuez, Sampath Bank PLC and Deutsche Bank. Mr. Perera is a past President of the Association of Professional Bankers, Sri Lanka (APB).	15 Years, 1 month

Name	Designation	Educational/ Professional Qualifications	Experience in the Banking and Financial Field	Length of Service with the Bank
Mr. Raj Aboobucker	Vice President - Transactional & Institutional Banking	Master's Degree in Leadership and Sustainability from University of Cumbria, UK	He counts over 29 years of local and foreign banking experience. Prior to joining NDB in 2005, he was Vice-President and Head of Commercial Banking Group at Citibank in Colombo.	8 Years, 1 month
Ms. Nirmala Rayen	Vice President - Group Risk Management	Associate member of the Institute of Bankers, Sri Lanka	She counts over 27 years of banking experience. Prior to joining NDB, she worked at ABN AMRO Bank N.V., ABN Bank N.V. and Citibank N.A.	24 Years, 4 months
Mr. Sujeewa Dissanayake	Vice President - Information Technology	Master's Degree in Business Administration from the University of Lincoln, UK Chartered Member of the British Computer Society	Before joining NDB, he worked at PanAsia Banking Corporation PLC and Union Bank of Colombo PLC as Head of IT. He came to banking from the IBM World Trade Corporation, where he was an IT specialist for the Finance Industry. He has over 24 years experience in IT, 18 of which were acquired in the banking sector. He is the immediate past Chairman of British Computer Society Sri Lanka Section.	7 Years, 7 months
Mr. Niran Mahawatte	Vice President - Treasury	B.Sc. From the University of Colombo Associate Member of the Chartered Institute of Management Accountants (CIMA), UK. ACI Dealing certificate from the Financial Marketing Association - Paris	He joined the NDB Group Treasury in 2001, prior to which he worked at Deutsche Bank and Commercial Bank of Ceylon PLC. He has to his credit over 21 years of banking experience.	12 Years, 1 month
Ms. Ishani Senaweera	Vice President - Human Resources	Masters Degree in Business Administration from the University of Wales B.Sc. in Economics and Management from the University of London.	She counts over 18 years of experience in all areas of HR management and development. She joined NDB as a Management Trainee.	18 Years, 7 months
Mr. Dhanan Senathirajah	Vice President - Finance & Planning	Attorney-at-Law Fellow of the Chartered Institute of Management Accountants, UK	Before joining NDB in 1998, he worked at the Maharaja Organization and Reckitt & Colman of Ceylon Ltd. He counts 24 Years experience in finance and accounting.	15 Years, 4 months
Ms. Ruwani De Silva	Assistant Vice President - Internal Audit	Associate Member of the Chartered Institute of Management Accountants, UK Associate Member of Institute of Chartered Accountant, Sri Lanka	Prior to joining NDB, she worked at Ernst & Young and ABN AMRO Bank and counts over 18 years' experience at NDB	18 Years, 2 months
Ms. Melody Wickramanayake	Assistant Vice President - Legal	Attorney-at-law (Honours) of the Supreme Court of Sri Lanka Notary Public Qualified Company Secretary	She joined NDB in 1991 and had a brief stint in Dubai during 2008 to 2010 after which period she rejoined the Bank. She was also the Company Secretary of NDB Bank Limited	17 years 1 month (1 st stint) 3 years (2 nd stint)

Name	Designation	Educational/ Professional Qualifications	Experience in the Banking and Financial Field	Length of Service with the Bank
Ms. Delrene Seneviratne	Assistant Vice President - Network Management	Attorney-At-Law from the Sri Lanka Law College Solicitors Final (UK) Postgraduate Diploma in Commercial Law	Independent Newspapers Ltd Registrar - International Chamber of Commerce and Sri Lanka National Arbitration Centre	23 Years, 6 months

9.3 EMOLUMENTS OF THE KEY MANAGEMENT

The aggregate emoluments including bonus and/or profit sharing payments made to the Key Management for the financial year ended 31st December 2012 was LKR 143.7 Million.

The aggregate emoluments including bonus and/or profit sharing payments payable to the Key Management for the financial year ending 31st December 2013 is estimated at LKR 168.1 Million.

10.0 STATUTORY DECLARATIONS

10.1 STATUTORY DECLARATION BY THE DIRECTORS

We, the undersigned who are named herein as Directors of National Development Bank PLC hereby declare and confirm that we have read the provisions of CSE Listing Rules and of the Companies Act No. 7 of 2007 and any amendments thereto relating to the issue of the Prospectus and those provisions have been complied with.

"This Prospectus has been seen and approved by the directors of National Development Bank PLC and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that provisions of the CSE Listing Rules and of the Companies Act No. 07 of 2007 and any amendments to it from time to time have been complied with and after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading or inaccurate. Where representations regarding the future performance of the Entity have been given in the Prospectus, such representations have been made after due and careful enquiry of the information available to the Entity and making assumptions that are considered to be reasonable at the present point in time in the best judgement of the directors."

Name of Directors	Designation	Date	Place	Signature
Mr. Anura Siriwardena	Director	02/12/2013	Colombo	Sgd.
Mr. Ashok Pathirage	Director	02/12/2013	Colombo	Sgd.
Ms. Chandra Ekanayake	Director	02/12/2013	Colombo	Sgd.
Mrs. Indrani Sugathadasa	Director	02/12/2013	Colombo	Sgd.
Mrs. Kimarli Fernando	Director	02/12/2013	Colombo	Sgd.
Mr. Rajendra Theagarajah	Chief Executive Officer	02/12/2013	Colombo	Sgd.
Mr. Sujeewa Rajapakse	Director	02/12/2013	Colombo	Sgd.
Mr. Sunil Wijesinha	Director	02/12/2013	Colombo	Sgd.
Mr. Sarath Wikramanayake	Director	02/12/2013	Colombo	Sgd.
Mr. Trevine Jayasekara	Director	02/12/2013	Colombo	Sgd.

10.2 STATUTORY DECLARATION BY FINANCIAL ADVISORS AND MANAGERS TO THE ISSUE

We, NDB Investment Bank Limited, of No. 40, Navam Mawatha, Colombo 02 being the Financial Advisors and Managers to the Issue of the National Development Bank PLC, hereby declare and confirm that to the best of our knowledge and belief based on the information provided to us by the National Development Bank PLC, the Prospectus constitutes full and true disclosure of all material facts about the Issue and the National Development Bank PLC.

The Common Seal of NDB Investment Bank Limited affixed on the 29th day of November 2013 at Colombo in the presence of two Directors.

Sgd.
Director

Sgd.
Director

10.3 STATUTORY DECLARATION BY THE BANK

An application has been made to the Colombo Stock Exchange for permission to deal in and for a listing for Debentures issued by the National Development Bank PLC and those Debentures which are the subject of this Issue.

Such permission will be granted when Debentures are listed on the Colombo Stock Exchange. The Colombo Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports included in this Prospectus. Listing on the Colombo Stock Exchange is not to be taken as an indication of the merits of the National Development Bank PLC or of the Debentures issued.

The Common Seal of the National Development Bank PLC affixed on the 02nd day of December 2013 at Colombo in the presence of two Directors.

Sgd.
Director

Sgd.
Director

2.3 Audit Reports

We have audited the financial statements of the Bank and the consolidated financial statements of the Bank and its subsidiaries for the years ended 31 December 2008 to 31 December 2012. Unqualified audit opinions have been issued for the said financial years by our reports dated 18 February 2009, 15 February 2010, 18 February 2011, 24 February 2012 and 13 February 2013 respectively.

2.4 Accounting Policies

The financial statements of the Bank for the years ended 31 December 2008 to 31 December 2012 comply with Sri Lanka Accounting Standards and the accounting policies of the Bank are stated in the audited financial statements of National Development Bank PLC for the year ended 31 December 2012.

First-time adoption of Sri Lanka Accounting Standards ("SLFRS/LKAS")

For all periods up to and including the year ended 31 December 2011, the Bank has prepared its financial statements in accordance with previous Sri Lanka Accounting Standards (SLASs). The financial statements, for the year ended 31 December 2012 are the first Bank has prepared in accordance with revised Sri Lanka Accounting Standards comprising SLFRS and LKAS effective for the period beginning on or after 1 January 2012. There were no other material changes in accounting policies of the Bank.

2.5 Dividends

The Bank has declared and paid dividends in respect of Ordinary Shares for the years ended 31 December 2008 to 31 December 2012 in the following manner.

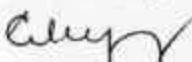
Year	Dividend Paid (Rs.000)	Dividend per Share (Rs.)
2008	552,524	6.75
2009	654,843	8.00
2010	697,858	8.50
2011	1,231,514	7.50
2012	2,463,029	15.00

2.6 Events after Reporting Date

The Bank has paid a dividend of Rs. 15/- per share amounting to Rs. 2,463,028,530/- for the financial year 2012 and an interim dividend of Rs. 5/- per share amounting to Rs.821, 009,510/- for the financial year 2013.

Other than the above there were no events after the reporting date which required adjustments to or disclosures in financial statements.

Yours faithfully



Statement of Financial Position

as at 31 December	BANK		GROUP	
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
ASSETS				
Cash and Cash equivalents	3,480,395	2,395,152	3,634,983	2,518,840
Balances with Central Bank	6,074,792	4,614,170	6,074,792	4,614,170
Placements with banks	3,559,354	517,833	3,559,354	517,833
securities purchased under resale agreements	3,324,868	911,709	3,324,868	911,709
Financial Assets held for trading	982,967	7,106,148	982,967	7,106,148
Derivative Financial Instruments	1,706,372	1,402,305	1,706,372	1,402,305
other Financial Assets held for trading	-	233,771	10,411,658	2,086,525
Loans and advances to banks	1,183,343	1,640,462	1,183,343	1,640,462
Loans and advances to customers	109,602,523	93,094,783	109,649,198	93,166,027
Lease rentals receivables	6,389,837	4,649,610	6,389,836	4,649,610
Other Financial Assets classified as loans and receivable	3,121,163	1,255,099	3,764,025	2,563,186
Financial Assets - Held to Maturity	19,257,271	15,566,201	19,223,228	15,666,201
Financial Assets - Available for sale	66,714	88,648	173,541	186,475
Investments in subsidiary companies	2,641,178	2,770,540	-	-
Investments in associate companies	18,525	286,898	33,301	1,796,695
Other assets	936,486	782,001	1,154,688	962,764
Intangible assets	272,314	278,633	318,723	318,347
property, plant & equipment	856,195	828,754	1,222,500	1,185,259
Investment Property	-	-	1,295,693	1,295,693
Goodwill	-	-	-	-
Total assets	163,474,296	138,422,718	174,103,071	142,588,249
LIABILITIES				
Due to Banks	2,319,984	5,923,527	2,319,984	5,923,527
Securities sold under repurchase agreements	12,515,861	11,360,101	12,515,861	10,132,841
Derivative Financial Instruments	1,736,838	1,022,462	1,736,838	1,022,462
Due to Customers	107,600,583	82,094,320	107,393,866	82,094,320
Debt Securities issued and other borrowed funds	17,841,963	19,466,302	17,802,038	19,466,303
Tax liabilities	656,211	304,662	633,838	355,976
Other liabilities	3,525,882	3,106,320	3,657,374	3,285,808
Subordinated Term debts	2,254,699	2,428,012	2,254,699	2,428,012
Deferred Tax	79,874	41,875	79,119	41,122
Total liabilities	148,531,895	125,747,579	148,393,617	124,750,370
Equity attributable to equity holders of parent				
Stated Capital	1,093,095	1,093,095	863,937	863,937
Statutory reserve fund	878,718	878,718	878,718	878,718
Investment Fund	924,333	386,825	924,333	386,825
Retained Earnings	12,046,255	10,316,500	22,216,054	14,795,649
	14,942,402	12,675,139	24,883,044	16,925,129
Non Controlling Interest	-	-	826,410	912,751
Total Equity	14,942,402	12,675,139	25,709,454	17,837,879
Total liabilities and Equity	163,474,296	138,422,718	174,103,071	142,588,249

Balance Sheet

as at 31 December	BANK			GROUP		
	2010 Rs '000	2009 Rs '000	2008 Rs '000	2010 Rs '000	2009 Rs '000	2008 Rs '000
ASSETS						
Cash and short-term funds	2,191,431	5,591,964	3,622,414	2,475,443	5,840,984	4,250,099
Balances with Central Bank	3,077,406	2,402,173	1,632,908	3,077,406	2,402,173	1,632,908
Investments held for trading	7,782,587	11,385,939	7,825,083	8,007,936	11,385,939	7,825,083
Investments held to maturity	15,222,142	16,879,061	6,529,884	16,740,026	18,887,773	6,894,810
Securities purchased under resale agreements	1,984,200	1,662,193	3,043,914	2,085,264	1,662,193	3,043,914
Dealing securities	368,650	22,140	54,967	832,427	42,683	54,967
Commercial paper	-	-	422,132	-	148,923	422,132
Bills of exchange	3,266,461	2,539,402	2,247,326	3,266,461	2,539,402	2,247,326
Loans and advances	63,813,641	49,679,330	50,414,393	64,837,507	49,703,722	50,431,285
Lease rentals receivable	2,326,989	1,863,362	1,910,423	2,326,989	1,863,362	1,910,423
Investments in subsidiary companies	2,770,540	2,748,586	2,617,913	-	-	-
Investments in associate companies	452,460	452,460	468,935	1,762,589	1,723,809	1,661,268
Other assets	625,256	838,881	2,404	997,324	1,050,507	925,401
Intangible assets	206,720	147,383	788,618	210,300	147,383	-
property, plant & equipment	650,433	611,281	758,317	707,727	658,099	780,629
Deferred Tax	-	23,305	-	-	24,741	-
Investment Property	-	-	-	1,200,000	1,200,000	1,200,000
Goodwill	-	-	-	4,330	4,330	-
Total assets	104,738,917	96,847,460	82,339,631	108,531,728	99,286,022	83,280,244
LIABILITIES						
Deposits	59,363,660	49,947,589	31,913,946	59,363,660	49,947,589	31,091,397
Borrowings	16,937,822	20,236,880	26,101,755	16,061,460	18,759,841	24,432,302
Securities sold under repurchase agreements	12,174,293	10,801,250	10,560,405	12,174,293	10,801,250	10,560,405
Other liabilities	3,784,733	3,899,829	3,298,175	3,941,121	3,989,746	3,364,127
Tax liabilities	361,370	523,130	243,053	482,287	560,115	343,853
Deferred Tax	59,256	-	8,267	59,753	-	7,873
Dividends payable	450,793	344,158	249,866	450,793	344,158	249,866
Total liabilities	93,131,927	85,752,836	72,375,468	92,533,368	84,402,689	70,049,823
SHAREHOLDERS FUNDS						
Stated Capital	1,093,095	1,032,931	1,032,931	1,093,095	1,032,931	1,032,931
Statutory reserve fund	878,718	818,554	818,554	878,718	818,554	818,554
Revenue reserves	9,635,177	9,243,139	8,112,678	13,309,466	12,345,216	10,810,519
	11,606,990	11,094,624	9,964,163	15,281,279	14,196,701	12,662,004
Minority interests	-	-	-	717,083	686,623	568,417
Total funds employed	11,606,990	11,094,624	9,964,163	15,998,362	14,883,324	13,230,422
Total liabilities and funds employed	104,738,917	96,847,460	82,339,631	108,531,729	99,286,022	83,280,244

Income Statement

for the year ended 31 December	BANK		GROUP	
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
Interest Income	16,983,637	11,387,683	17,149,866	11,654,594
Interest Expenses	11,309,774	6,826,023	11,254,042	6,745,376
NET INTEREST INCOME	5,673,863	4,561,660	5,895,824	4,909,218
Net Fee and commission Income	1,133,603	1,150,401	1,643,583	1,916,230
Net trading income/(Expenses)	1,010,276	568,196	1,272,496	448,396
Other operating income	997,474	427,488	6,126,547	647,784
Total operating income	8,815,215	6,707,746	14,938,450	7,921,629
Impairment charges/(Reversal) for loans and other losses	106,111	67,789	51,378	(88,492)
Net operating income	8,709,104	6,639,957	14,887,072	8,010,121
LESS: OPERATING EXPENSES				
Personnal Expenses	2,172,740	1,838,184	2,333,325	2,117,613
Depreciation of Property Plant & Equipments	181,837	178,287	205,161	198,556
Amortization of Intangible Assets	82,783	48,328	95,786	51,411
Other operating costs	1,664,833	1,465,019	1,861,926	1,612,976
Total operating expenses	4,102,193	3,529,818	4,496,198	3,980,556
OPERATING PROFIT BEFORE VALUE ADDED TAX (VAT)	4,606,911	3,110,138	10,390,874	4,029,564
Value Added Tax(VAT) on Financial Services	(622,286)	(504,960)	(622,287)	(504,960)
OPERATING PROFIT AFTER VALUE ADDED TAX (VAT)	3,984,625	2,605,178	9,768,587	3,524,604
Share of associate companies' profit	-	-	438,720	330,793
PROFIT BEFORE TAXATION	3,984,625	2,605,178	10,207,307	3,855,397
Taxation	(1,060,667)	(774,361)	(1,275,367)	(1,092,517)
PROFIT FOR THE YEAR	2,923,958	1,830,818	8,931,940	2,762,880
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	2,923,958	1,830,818	8,853,822	2,527,473
Non Controlling Interests	-	-	78,118	235,408
	2,923,958	1,830,818	8,931,940	2,762,880

Income Statement

for the year ended 31 December	BANK			GROUP		
	2010	2009	2008	2010	2009	2008
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
GROSS INCOME	11,720,054	13,821,072	12,093,491	12,633,542	14,166,864	12,522,183
Interest income	9,653,943	11,233,423	10,522,662	9,848,466	11,606,877	10,860,240
Interest Expenses	5,862,462	7,518,311	7,367,793	5,685,903	7,373,688	7,072,994
NET INTEREST INCOME	3,791,481	3,715,112	3,154,870	4,162,563	4,233,189	3,787,246
Other income	2,066,111	2,587,649	1,570,828	2,785,075	2,559,987	1,661,943
NET INCOME	5,857,592	6,302,761	4,725,698	6,947,638	6,793,176	5,449,189
OPERATING EXPENSES						
Personnel costs	1,293,673	1,190,232	1,070,054	1,530,081	1,281,153	1,129,013
Staff retirement benefits	32,000	14,746	20,015	36,689	18,676	22,104
Other administrative and general expenses	1,349,992	1,231,772	1,152,624	1,496,120	1,370,091	1,237,217
Total operating expenses	2,675,665	2,436,750	2,242,692	3,062,890	2,669,920	2,388,334
OPERATING PROFIT BEFORE PROVISIONS	3,181,927	3,866,011	2,483,006	3,884,748	4,123,256	3,060,856
Provision for bad and doubtful debts and fall in value of securities	(171,541)	373,495	124,450	(171,541)	373,495	115,707
OPERATING PROFIT AFTER PROVISIONS	3,353,468	3,492,516	2,358,556	4,056,288	3,749,761	2,945,149
Share of associate companies' profit	-	-	-	294,784	525,818	172,403
PROFIT BEFORE TAXATION	3,353,468	3,492,516	2,358,556	4,351,072	4,275,579	3,117,552
Taxation	(1,824,092)	(1,810,063)	(1,163,794)	(2,175,044)	(2,154,252)	(1,409,363)
PROFIT FOR THE YEAR	1,529,377	1,682,453	1,194,762	2,176,028	2,121,327	1,708,189
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	1,529,377	1,682,453	1,194,762	2,102,608	2,084,758	1,604,790
MINORITY INTERESTS	-	-	-	73,420	36,569	103,399
	1,529,377	1,682,453	1,194,762	2,176,028	2,121,327	1,708,189

National Development Bank PLC

Cash Flow Statement

for the year ended 31 December	Bank		Group	
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	16,317,018	11,391,173	16,568,884	11,572,159
Fee based income received	2,387,630	1,156,265	2,538,084	1,680,745
Dividend income received	126,848	311,124	162,855	132,595
Other Income received	312,748	980,585	661,633	1,446,844
Interest paid	(9,916,252)	(6,215,430)	(9,917,401)	(6,215,430)
Personnel costs paid	(876,337)	(1,704,905)	(1,031,225)	(1,958,117)
General expenses paid	(2,721,155)	(1,506,478)	(2,910,189)	(1,827,087)
Operating Profit before changes in operating assets and liabilities	5,626,296	4,412,314	6,062,641	4,831,709
Net increase in loans and advances	(17,296,517)	(30,184,985)	(17,288,517)	(30,164,965)
Net Increase in Deposits from customers	24,739,780	20,946,521	24,739,780	20,946,521
Net (increase)/decrease in other receivables	341,737	(784,843)	339,100	(680,499)
Net increase/(decrease) in other liabilities	83,841	207,653	(41,960)	174,920
Net cash inflow/(outflow) from operating activities before taxation	13,475,239	(5,383,320)	13,801,044	(4,892,314)
Financial Services VAT paid	(569,106)	(578,889)	(569,106)	(578,869)
Income taxes paid	(671,119)	(939,576)	(832,895)	(1,075,328)
Net cash provided by/(used in) operating activities	12,235,014	(6,901,785)	12,399,043	(6,546,511)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net increase in investments	-	-	-	-
Acquisition of total minority interest in a subsidiary company	-	-	-	-
Government treasury bills and bonds	(2,064,075)	453,245	(2,064,075)	452,718
Disposal of subsidiaries/associates	884,951	0	7,854,287	-
Change in other investments	192,500	46,858	(6,820,816)	(408,461)
Securities sold under repurchase agreements	1,105,367	(931,621)	1,105,367	(833,656)
Net due to/(from) related companies	256	(17,872)	256	(17,872)
Expenditure on property & equipment	(295,273)	(476,801)	(325,078)	(525,150)
Proceeds from sale of property & equipment	22,111	17,959	23,278	18,594
Net cash used in investing activities	(154,183)	(809,532)	(226,780)	(1,313,827)
CASH FLOWS FROM FINANCING ACTIVITIES				
(Decrease)/ Increase in borrowings	(5,330,589)	10,801,672	(5,330,589)	10,619,505
Dividend paid	(1,162,876)	(575,245)	(1,223,385)	(661,174)
Net cash provided by/(used in) financing activities	(6,493,465)	10,226,427	(6,553,974)	9,958,331
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,587,366	2,215,129	5,618,289	2,097,993
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	7,527,155	5,312,026	7,650,843	5,552,850
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	13,114,541	7,527,155	13,269,132	7,650,843

Cash Flow Statement

for the year ended 31 December	BANK			GROUP		
	2010	2009	2008	2010	2009	2008
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
CASH FLOWS FROM OPERATING ACTIVITIES						
Interest received	10,352,927	11,001,686	10,209,005	10,685,516	11,488,993	10,831,770
Fee based income received	157,736	587,826	544,065	253,040	587,826	606,317
Dividend income received	197,284	394,661	439,942	213,917	340,373	341,210
Other income received	2,277,768	1,543,688	621,909	2,852,743	1,709,597	697,070
Interest paid	(6,252,562)	(7,337,323)	(6,714,565)	(6,251,883)	(7,337,323)	(6,714,567)
Personnel costs paid	(1,293,673)	(1,190,088)	(964,054)	(1,347,754)	(1,221,314)	(1,023,013)
General expenses paid	(1,211,287)	(930,617)	(1,093,216)	(1,377,592)	(1,007,340)	(1,106,781)
Financial Services VAT paid	(792,174)	(519,407)	(314,456)	(792,174)	(919,407)	(514,456)
Income taxes paid	(1,078,899)	(714,388)	(741,878)	(1,216,623)	(968,143)	(957,382)
Net increase in loans and advances	(15,733,608)	435,507	(4,632,044)	(15,733,608)	435,507	(4,632,044)
Deposits from customers	9,416,071	18,033,643	6,515,010	9,416,071	18,033,643	6,515,010
Net (increase)/decrease in other receivables	18,387	(115,393)	(322,825)	(228,096)	(125,963)	(344,556)
Net increase/(decrease) in other liabilities	291,175	369,089	97,866	406,770	392,385	62,550
Net cash provided by operating activities	(3,690,854)	21,158,884	3,444,459	(3,317,673)	21,408,854	3,812,128
CASH FLOWS FROM INVESTING ACTIVITIES						
Net increase in investments						
Acquisition of total minority interest in a subsidiary company	(21,883)	(130,672)	(1,161,447)	(21,883)	118,220	(1,161,447)
Return of capital by associate companies	-	110,959	-	-	110,959	-
Government treasury bills and bonds	4,866,426	(12,907,074)	(4,353,348)	4,676,815	(14,088,220)	(4,533,349)
Change in other investments	(904,164)	713,676	853,699	(955,332)	1,659,308	(544,633)
Securities sold under repurchase agreements	1,373,043	240,845	1,717,290	1,373,043	240,845	1,717,290
Net due to/(from) related companies	17,889	1,030	15,321	17,889	1,030	15,321
Expenditure on property & equipment	(257,265)	(126,392)	(166,152)	(292,212)	(148,968)	(169,646)
Proceeds from sale of property & equipment	27,177	665	6,597	27,248	710	6,597
Net cash provided by investing activities	5,101,223	(12,096,963)	(3,288,040)	4,825,568	(12,706,021)	(4,689,869)
CASH FLOWS FROM FINANCING ACTIVITIES						
Issue of shares	-	-	-	-	3,300	-
(Decrease)/ increase in borrowings	(3,299,056)	(3,864,875)	(325,438)	(3,299,056)	(5,864,875)	(525,438)
Dividend paid	(876,613)	(458,231)	(411,352)	(899,147)	(481,088)	(461,377)
Net cash used in financing activities	(4,175,669)	(6,323,106)	(736,790)	(4,198,203)	(6,342,663)	(986,815)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(2,725,300)	2,738,815	(780,371)	(2,690,308)	2,360,150	(1,864,556)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	7,994,137	5,255,322	6,035,693	8,243,157	5,883,007	7,747,563
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5,268,837	7,994,137	5,255,322	5,552,849	8,243,157	5,883,007

11.2 AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER 2012

Independent Assurance Report 220

Audit Committee Report 221

Independent Auditors' Report 225

Income Statement 228

Independent Auditors' Report



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL DEVELOPMENT BANK PLC

Report on the Financial Statements

We have audited the accompanying financial statements of National Development Bank PLC ("Bank"), the consolidated financial statements of the Bank and its subsidiaries, which comprise of the statements of financial position as at 31 December 2012, and the income statements and statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended 31 December 2012 and the financial statements give a true and fair view of the Bank's financial position as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the financial position as at 31 December 2012 and its financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiary dealt with thereby, so far as concerns the shareholders of the Bank.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 151(2) and 153(2) to 153(7) of the Companies Act No. 07 of 2007.

(Sgd.)
13 February 2013
Colombo

Income Statement

		BANK			GROUP		
For the year ended 31 December	Note	2012 Rs '000	2011 Rs '000	Change %	2012 Rs '000	2011 Rs '000	Change %
Interest income	2	16,983,637	11,387,683	49	17,149,866	11,654,594	47
Interest expenses	3	11,309,774	6,826,023	66	11,254,042	6,745,376	67
NET INTEREST INCOME		5,673,863	4,561,660	24	5,895,824	4,909,218	20
Net Fee and commission income	4	1,133,603	1,150,401	(1)	1,643,583	1,916,230	(14)
Net trading income/(expenses)	5	1,010,276	568,196	78	1,272,496	448,396	184
Other operating income	6	997,474	427,489	133	6,126,547	647,785	846
Total operating income		8,815,216	6,707,746	31	14,938,450	7,921,629	89
Impairment charges/(reversal) for loans and other losses	7	106,112	67,789	57	51,379	(88,492)	158
Net operating income		8,709,104	6,639,957	31	14,887,071	8,010,121	86
LESS: OPERATING EXPENSES							
Personnel expenses	8	2,172,740	1,838,184	18	2,333,325	2,117,613	10
Depreciation of property, plant & equipment		181,837	178,287	2	205,161	198,556	3
Amortization of intangible assets		82,783	48,328	71	95,786	51,411	86
Other operating costs		1,664,833	1,465,019	14	1,861,926	1,612,976	15
Total operating expenses		4,102,193	3,529,818	16	4,496,198	3,980,556	13
OPERATING PROFIT BEFORE VALUE ADDED TAX (VAT)	9	4,606,911	3,110,139	48	10,390,873	4,029,565	158
Value Added Tax (VAT) on financial services		(622,286)	(504,960)	23	(622,287)	(504,960)	23
OPERATING PROFIT AFTER VALUE ADDED TAX (VAT)		3,984,625	2,605,179	53	9,768,586	3,524,605	177
Share of associate companies' profit	10	-	-	-	438,720	330,793	33
PROFIT BEFORE TAXATION		3,984,625	2,605,179	53	10,207,306	3,855,398	165
Taxation	11	(1,060,667)	(774,361)	37	(1,275,367)	(1,092,517)	17
PROFIT FOR THE YEAR		2,923,958	1,830,818	60	8,931,939	2,762,881	223
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		2,923,958	1,830,818	60	8,853,821	2,527,473	250
Non-Controlling Interests		-	-	-	78,118	235,408	(67)
		2,923,958	1,830,818	60	8,931,939	2,762,881	223
Earnings per share (in Rs)	12	17.81	11.15	-	55.31	15.79	-
Dividend per share (in Rs)	13	5.00	7.50	-	-	-	-

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 233 to 318 are an integral part of these Financial Statements.

13 February 2013

Statement of Comprehensive Income

	BANK			GROUP		
<i>For the year ended 31 December</i>	2012 Rs '000	2011 Rs '000	Change %	2012 Rs '000	2011 Rs '000	Change %
Profit for the year	2,923,958	1,830,818	60	8,931,939	2,762,881	223
Total other comprehensive income/(expenses)	–	–	–	–	–	–
Total comprehensive income for the year	2,923,958	1,830,818	60	8,931,939	2,762,881	223
ATTRIBUTABLE TO:						
Equity holders of the parent	2,923,958	1,830,818	60	8,853,821	2,527,473	250
Non-controlling interests	–	–	–	78,118	235,408	(67)
	2,923,958	1,830,818	60	8,931,939	2,762,881	223

Statement of Financial Position

		BANK				GROUP			
As at 31 December	Note	2012 Rs '000	2011 Rs '000	Change %	As at 1 January 2011 Rs '000	2012 Rs '000	2011 Rs '000	Change %	As at 1 January 2011 Rs '000
ASSETS									
Cash and cash equivalents	14	3,480,395	2,395,152	45	2,224,459	3,634,983	2,518,840	44	2,508,470
Balances with Central Bank	15	6,074,792	4,614,170	32	3,077,406	6,074,792	4,614,170	32	3,077,406
Placements with banks	16	3,559,354	517,833	587	—	3,559,354	517,833	587	—
Securities purchased under resale agreements	20	3,324,868	911,709	265	2,154,637	3,324,868	911,709	265	2,154,637
Financial assets held for trading	17	982,967	7,106,148	(86)	7,961,585	982,967	7,106,148	(86)	8,186,934
Derivative financial instruments	18	1,706,372	1,402,305	22	140,565	1,706,372	1,402,305	22	140,565
Other financial assets held for trading	19	—	233,771	(100)	368,650	10,411,658	2,086,525	399	1,851,984
Loans and advances to banks	21	1,183,343	1,640,462	(28)	1,816,744	1,183,343	1,640,462	(28)	1,816,744
Loans and advances to customers	22	109,602,523	93,094,783	18	65,011,952	109,649,198	93,166,027	18	65,044,918
Lease rentals receivables	24	6,389,837	4,649,610	37	2,412,200	6,389,837	4,649,610	37	2,412,200
Other financial assets classified as loans and receivable	25	3,121,163	1,255,099	149	7,926,285	3,764,025	2,563,186	47	9,178,507
Financial assets - held to maturity	26	19,257,271	15,566,201	24	7,273,278	19,223,228	15,666,201	23	7,679,622
Financial assets - available for sale	27	66,714	88,648	(25)	4,790	173,541	186,475	(7)	6,774
Investments in subsidiary companies	28	2,641,178	2,770,540	(5)	2,770,540	—	—	—	—
Investments in associate companies	29	18,525	286,898	(94)	452,460	33,301	1,796,695	(98)	1,762,589
Other assets	30	936,485	782,002	20	492,296	1,154,688	962,764	20	690,990
Intangible assets	31	272,314	278,633	(2)	206,720	318,723	318,347	—	210,300
Property, plant & equipment	32	856,195	828,754	3	650,433	1,222,500	1,185,259	3	707,727
Investment properties	33	—	—	—	—	1,295,693	1,295,693	—	1,200,000
Goodwill									4,330
Total assets		163,474,296	138,422,718	18	104,945,000	174,103,071	142,588,249	22	108,634,697
LIABILITIES									
Due to Banks	34	2,319,984	5,923,527	(61)	570,385	2,319,984	5,923,527	(61)	570,385
Securities sold under repurchase agreements	20	12,515,861	11,360,101	10	12,351,199	12,515,861	10,132,841	24	11,474,836
Derivative financial instruments	18	1,736,838	1,022,462	70	—	1,736,838	1,022,462	70	—
Due to customers	35	107,600,583	82,094,320	31	60,532,985	107,393,866	82,094,320	31	60,532,985
Debt securities issued and other borrowed funds	36	17,841,963	19,466,302	(8)	13,960,910	17,802,038	19,466,303	(9)	13,960,910
Tax liabilities		656,211	304,662	115	452,497	633,838	355,976	78	573,416
Other liabilities	37	3,525,882	3,106,318	14	2,668,372	3,657,375	3,285,805	11	2,824,765
Subordinated term debts	38	2,254,699	2,428,012	(7)	2,625,243	2,254,699	2,428,012	(7)	2,625,243
Deferred Tax	39	79,874	41,875	91	59,256	79,120	41,122	92	59,753
Total liabilities		148,531,895	125,747,579	18	93,220,847	148,393,619	124,750,368	19	92,622,293

Statement of Financial Position

		BANK				GROUP			
As at 31 December	Note	2012 Rs '000	2011 Rs '000	Change %	As at 1 January 2011 Rs '000	2012 Rs '000	2011 Rs '000	Change %	As at 1 January 2011 Rs '000
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT									
Stated capital	40	1,093,095	1,093,095	—	1,093,095	863,937	863,937	—	863,937
Statutory reserve fund	41	878,718	878,718	—	878,718	878,718	878,718	—	878,718
Investment Fund	42	924,333	386,825	139	—	924,333	386,825	139	—
Retained Earnings	43	12,046,255	10,316,501	17	9,752,340	22,216,055	14,795,649	50	13,552,666
		14,942,401	12,675,139	18	11,724,153	24,883,042	16,925,129	47	15,295,321
Non-controlling interests		—	—	—	—	826,410	912,752	(9)	717,083
Total equity		14,942,401	12,675,139	18	11,724,153	25,709,452	17,837,881	44	16,012,404
Total liabilities and total equity		163,474,296	138,422,718	18	104,945,000	174,103,071	142,588,249	22	108,634,697
Commitments and contingencies	49	158,740,820	145,667,380	9	95,704,093	158,740,820	145,667,380	9	95,704,093

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



D Senathirajah
Vice-President - Finance & Planning



Faizan Ozman
Chief Financial Officer

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



H D S Amarasinghe
Chairman
13 February 2013



N I R De Mel
Chief Executive Officer

S A Ranasinghe
Company Secretary

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 233 to 318 are an integral part of these Financial Statements.

Statement of Changes in Equity

	Attributable to Equity Holders of the Parent						
For the year ended 31 December	Stated Capital	Statutory Reserve Fund	General Reserve	Investment Fund	Retained Profit	Non-Controlling Interests	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
BANK							
Balance as at 1 January 2011	1,093,095	878,718	5,805,707	–	3,946,633	–	11,724,153
Profit for the year	–	–	–	–	1,830,818	–	1,830,818
Transfer to Investment fund	–	–	–	386,825	(386,825)	–	–
Dividends paid	–	–	–	–	(879,832)	–	(879,832)
Balance as at 31 December 2011	1,093,095	878,718	5,805,707	386,825	4,510,794	–	12,675,139
Balance as at 1 January 2012	1,093,095	878,718	5,805,707	386,825	4,510,794	–	12,675,139
Profit for the year	–	–	–	–	2,923,958	–	2,923,958
Transfer to investment fund	–	–	–	537,507	(537,507)	–	–
Dividends paid	–	–	–	–	(656,696)	–	(656,696)
Balance as at 31 December 2012	1,093,095	878,718	5,805,707	924,332	6,240,549	–	14,942,401
GROUP							
Balance as at 1 January 2011	1,093,095	878,718	5,805,707	–	7,620,922	717,083	16,115,525
Adjustment for Employee Share Ownership Plan (ESOP)	(229,158)	–	–	–	126,037	–	(103,121)
Balance as at 1 January 2011 restated	863,937	878,718	5,805,707	–	7,746,959	717,083	16,012,404
Exchange gain from valuation of foreign associate	–	–	–	–	(17,832)	(1,988)	(19,820)
Transfer to investment fund	–	–	–	386,825	(386,825)	–	–
Profit for the year	–	–	–	–	2,527,473	235,408	2,762,881
Dividends paid	–	–	–	–	(879,833)	(37,751)	(917,584)
Balance as at 31 December 2011	863,937	878,718	5,805,707	386,825	8,989,942	912,752	17,837,881
Balance as at 1 January 2012	863,937	878,718	5,805,707	386,825	8,989,942	912,752	17,837,881
Exchange gain from valuation of foreign associate	–	–	–	–	18,824	2,960	21,784
Transfer to Investment Fund	–	–	–	537,507	(537,507)	–	–
Effect of change in the holding in group companies	–	–	–	–	(258,037)	(130,086)	(388,123)
Profit for the year	–	–	–	–	8,853,821	78,118	8,931,939
Dividends paid	–	–	–	–	(656,696)	(37,333)	(694,029)
Balance as at 31 December 2012	863,937	878,718	5,805,707	924,332	16,410,347	826,411	25,709,452

Cash Flow Statement

For the year ended 31 December	Note	BANK		GROUP	
		2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
Cash flows from operating activities					
Interest received		16,317,018	11,391,173	16,568,884	11,572,159
Fee-based income received		2,387,630	1,156,265	2,538,084	1,680,745
Dividend income received		126,648	311,124	162,855	132,595
Other income received		312,746	980,565	651,633	1,446,844
Interest paid		(9,918,252)	(6,215,430)	(9,917,401)	(6,215,430)
Personnel costs paid		(876,337)	(1,704,905)	(1,031,225)	(1,958,117)
General expenses paid		(2,721,155)	(1,506,478)	(2,910,189)	(1,827,087)
Operating profit before changes in operating assets and liabilities	a	5,628,298	4,412,314	6,062,641	4,831,709
Net increase in loans and advances		(17,298,517)	(30,164,965)	(17,298,517)	(30,164,965)
Net increase in deposits from customers		24,739,780	20,946,521	24,739,780	20,946,521
Net (increase)/decrease in other receivables		341,737	(784,843)	339,100	(680,499)
Net increase/(decrease) in other liabilities		63,941	207,653	(41,960)	174,920
Net cash inflow/(outflow) from operating activities before taxation		13,475,249	(5,383,320)	13,801,044	(4,892,314)
Financial Services VAT paid		(569,106)	(578,869)	(569,106)	(578,869)
Income taxes paid		(671,119)	(939,576)	(832,895)	(1,075,328)
Net cash provided by/(used in) operating activities		12,235,014	(6,901,765)	12,399,043	(6,546,511)
Cash flows from investing activities					
Net increase in investments -					
Government treasury bills and bonds		(2,064,075)	453,245	(2,064,075)	452,718
Disposal of subsidiaries/associates		884,951	-	7,654,287	-
Change in other investments		192,500	45,558	(6,620,816)	(408,461)
Securities sold under repurchase agreements		1,105,367	(931,621)	1,105,366	(833,656)
Net due to/(from) related companies		256	(17,872)	256	(17,872)
Expenditure on property and equipment		(295,273)	(476,801)	(325,078)	(525,150)
Proceeds from sale of property and equipment		22,111	17,959	23,278	18,594
Net cash used in investing activities		(154,163)	(909,532)	(226,780)	(1,313,827)
Cash flows from financing activities					
(Decrease)/increase in borrowings		(5,330,589)	10,601,672	(5,330,589)	10,619,505
Dividend paid		(1,162,876)	(575,246)	(1,223,388)	(661,174)
Net cash provided by/(used in) financing activities		(6,493,465)	10,026,426	(6,553,977)	9,958,331
Net increase/(decrease) in cash and cash equivalents		5,587,386	2,215,129	5,618,286	2,097,993
Cash and cash equivalents at the beginning of the year		7,527,155	5,312,026	7,650,843	5,552,850
Cash and cash equivalents at the end of the year	b	13,114,541	7,527,155	13,269,129	7,650,843

Cash Flow Statement

	BANK		GROUP	
For the year ended 31 December	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
Note a				
Reconciliation of Operating profit				
Profit before taxation	4,606,912	3,110,139	10,390,872	4,029,564
Add/(less)				
Accrued interest on loans and advances	(667,925)	2,964	(667,925)	2,964
Accrued interest on interest rate swap	1,306	48,543	1,306	48,543
Accrued interest on deposits & borrowings	1,391,522	610,593	1,391,522	610,593
Profit on disposal of fixed assets	(12,384)	(17,807)	(12,384)	(17,807)
Depreciation of property, plant & equipment	264,620	226,615	300,947	249,966
(Gain)/loss on mark to market valuation on shares	(51,427)	74,787	(51,427)	194,589
Capital (gain)/loss on sale of shares	(575,649)	8,076	(5,790,875)	8,076
Sales proceeds on sale of shares	325,130	188,799	579,881	107,853
Accrued general expenses	220,026	71,761	(150,710)	65,805
Provision for investment	48,500	165,562	(6,233)	9,281
Impairment of financial assets	57,612	(97,773)	57,612	(97,773)
Deferment of equity linked compensation plan	20,055	20,055	20,055	20,055
Change in the fair value of investment property	-	-	-	(400,000)
Operating profit before changes in operating assets and liabilities	5,628,298	4,412,314	6,062,641	4,831,709
Note b				
Reconciliation of cash and cash equivalents				
Cash and short-term funds	7,039,749	2,912,985	7,194,337	3,036,673
Balances with Central Bank	6,074,792	4,614,170	6,074,792	4,614,170
	13,114,541	7,527,155	13,269,129	7,650,843

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 233 to 318 are an integral part of these Financial Statements.

Significant Accounting Policies

1. Corporate Information

National Development Bank PLC together with its subsidiaries provides retail, corporate banking and investment banking services. National Development Bank is the Ultimate Parent of the Group.

National Development Bank PLC is a listed limited liability company incorporated and domiciled in Sri Lanka. Its registered office is at No. 40, Navam Mawatha, Colombo 2, Sri Lanka.

The Financial Statements of National Development Bank PLC for the year ended 31 December 2012 was authorized for issue in accordance with a resolution of the Board of Directors on 13 February 2013.

2. Accounting Policies

2.1 Basis of Preparation

For all periods up to and including the year ended 31 December 2011, the Bank and the Group prepared its Financial Statements in accordance with Sri Lanka Accounting Standards effective as at 31 December 2011. These Financial Statements for the year ended 31 December 2012 represents first time adoption of Sri Lanka Accounting Standards comprising SLFRS/LKAS effective 1 January 2012. Accordingly, the NDB Group has prepared Financial Statements which comply with SLFRS/LKAS applicable for periods ending on or after 1 January 2012, together with the comparative period data as at and for the year ended 31 December 2011, as described in the Accounting Policies. In preparing these Financial Statements, the Group's opening statement of financial position was prepared as at 1 January 2011, the Group's date of transition to SLFRS. Refer Note 2.5 on page 257 for information on how the Group adopted SLFRS.

The Consolidated Financial Statements have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position:

- Investment properties which are measured at fair value
- Available for sale Financial Assets which are measured at fair value
- Derivative financial Instruments which are measured at fair value
- Other financial assets and liabilities held for trading which are measured at fair value
- Financial assets and liabilities designated at fair value through profit or loss which are measured at fair value

2.1.1 Functional and Presentation Currency

The Consolidated Financial Statements are presented in Sri Lankan Rupees and all values are rounded to the nearest thousand Rupees, except when otherwise indicated.

2.1.2 Statement of Compliance

The Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows together with Accounting Policies and Notes, (Financial Statements), i.e., Consolidated Financial Statements of NDB Group as at 31 December 2012 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS) issued by The Institute of Chartered Accountants of Sri Lanka. The preparation and presentation of these Financial Statements are in compliance of the Companies Act No. 07 of 2007. The presentation of these Financial Statements are also in compliance with the requirements of Banking Act No. 30 of 1988 and amendments thereto.

Significant Accounting Policies

2.1.3 Presentation of Financial Statements

The Bank and the Group present its Statement of Financial Position broadly in order of liquidity. The contractual maturities of the assets and liabilities of the Bank is presented in Note 48 to the Financial Statements.

2.1.4 Materiality and Aggregation

In compliance with UKAS 01 on Presentation of Financial Statements, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously.

Income and expenses are not offset in the Consolidated Income Statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the Accounting Policies of the Bank.

Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries for the year ended 31 December 2012. The Financial Statements of National Development Bank PLC's subsidiaries are prepared for the same reporting year as National Development Bank PLC, using consistent Accounting Policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements.

Subsidiaries are fully-consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the Consolidated Income Statement and within equity in the Consolidated Statement of Financial Position, but separate from Parent shareholders' equity. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in a deficit balance. Acquisitions of non-controlling interests are accounted for using the Parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognized as equity.

Significant Accounting Policies

2.2 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying Group Accounting Policies, management is required to make judgments, which may have significant effects on the amounts recognized in the Financial Statements. Further, management is also required to consider key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The key significant accounting judgments, estimates and assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in related Notes.

2.2.1 Judgments

Taxation

The Group is subject to income taxes and other taxes including VAT on financial services. Significant judgement is required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the Financial Statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements. The Group recognized assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made.

2.2.2 Estimates and Assumptions

Going Concern

The Board of Directors of the Bank has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values.

Significant Accounting Policies

Impairment losses on Loans and Advances

The Bank and the Group review their individually-significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the Income Statement. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is 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. The collective assessment takes account of data from the loan portfolio such as loan ownership type, levels of arrears, industries etc. and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, inflation rate, interest rates, exchange rates). The impairment loss on loans and advances is disclosed in more detail in Note 22 and Note 24.

Impairment of Available for Sale Investments

The Group reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Deferred Tax Assets

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses where applicable, to the extent that it is probable that taxable profit will be available against which such items can be deducted in the future. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Defined Benefit Plans

The cost of the defined benefit plans (gratuity and pension plan) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The assumptions used to arrive in defined benefit obligation reported in Financial Statements are disclosed in Note 37.1.

Significant Accounting Policies

Distinction Between Investment Properties and Owner-Occupied Properties

The NDB Group determines whether a property qualifies as investment property by considering whether the property generates cash flows largely independently of the other assets held by the entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Group considers each property separately in making its judgment.

2.3 Summary of Significant Accounting Policies

2.3.1 Financial Instruments - Initial Recognition and Subsequent Measurement

(a) Date of Recognition

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(b) Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(c) Derivatives Recorded at Fair Value through Profit or Loss

The Group uses derivatives such as interest rate swaps, forward foreign exchange contracts and options on interest rates. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

(d) Financial Assets held for Trading

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

Significant Accounting Policies

(e) Available for Sale Financial Investments

Available for sale investments include equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Group has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealized gains and losses are recognized directly in equity (Other comprehensive income) in the 'Available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the Income Statement in 'Other operating income'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the Effective Interest Rate (EIR).

Dividends earned whilst holding available for sale financial investments are recognized in the Income Statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the Income Statement in 'Impairment losses on financial investments' and removed from the 'Available for sale reserve'.

(f) Held to Maturity Financial Investments

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the Income Statement.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

Significant Accounting Policies

(g) Financial Assets classified as Loans and Receivables

Financial Assets classified as Loans and Receivables includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss
- Those that the Group, upon initial recognition, designates as available for sale
- Those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the Income Statement. The losses arising from impairment are recognized in the Income Statement in 'Credit loss expense'.

(h) 'Day 1' Difference for Staff Loans

All staff loans granted at below market interest rates were recognized at fair value. The difference between the fair value and the amount disbursed were treated as day 1 difference and amortized as staff cost over the loan period by using effective interest rate. The staff loans were subsequently measured at amortized costs.

(i) Other Financial Liabilities

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Other financial Liabilities include, deposits from customers, amount due to banks, borrowings from bank and others and debentures.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

Significant Accounting Policies

2.3.2 Derecognition of Financial Assets and Financial Liabilities

(a) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when -

- The rights to receive cash flows from the asset have expired,
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either,
- The Group has transferred substantially all the risks and rewards of the asset, or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(b) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

2.3.3 Securities Purchased Under Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the Statement of Financial Position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the Consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'securities purchased under Repurchase Agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Significant Accounting Policies

2.3.4 Securities Sold Under Repurchase Agreements

Securities purchased under agreements to resell at a specified future date are not recognized in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'securities sold under Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the repurchase and resale prices is recorded in 'Net Interest Income' and is accrued over the life of the agreement using the EIR.

2.3.5 Determination of Fair Value of Financial Instruments

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 45.

2.3.6 Impairment of Financial Assets

(a) Loans and advances

Losses for impaired loans are recognized promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the Income Statement. The carrying amount of impaired loans on the Balance Sheet is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognized.

Individually assessed loans and advances

For all loans that are considered individually significant, the Bank assesses on a case-by-case basis at each Balance Sheet date whether there is any objective evidence that a loan is impaired. The criteria used to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

Significant Accounting Policies

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- Bank's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the extent of other creditors' commitments ranking ahead of, or *pari passu* with, the Bank and the likelihood of other creditors continuing to support the Bank;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses reassessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- For homogeneous groups of loans that are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank has incurred as a result of events occurring before the date of the Statement of Financial Position, which the Bank and the Group are not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the Group, those loans are removed from the Group and assessed on an individual basis for impairment.

Significant Accounting Policies

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk; and
- management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the date of the Statement of Financial Position is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans and advances

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

Two alternative methods are used to calculate historical loss experience on a collective basis:

- *When the group of loan by nature long term, the Group uses probability of default method*
Under this methodology the movement in number of customers into non-performing categories over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the date of the Statement of Financial Position which the group is not able to identify on an individual loan basis, and that can be reliably estimated.
- *When the group of loan by nature short term, the Bank uses net flow rate method*
Under this methodology the movement in the outstanding balance of customers into different age categories over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the date of the Statement of Financial Position which the group is not able to identify on an individual loan basis, and that can be reliably estimated.

Under both methodologies, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required to cover inherent loss.

These additional macro and portfolio risk factors may include:

- recent loan portfolio growth and product mix,
- unemployment rates, Gross Domestic Production (GDP) growth, inflation
- exchange rates, interest rates
- changes in Government laws and regulations

Significant Accounting Policies

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, the excess is written back by reducing the loan impairment allowance account accordingly. The write back is recognized in the Income Statement.

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(b) Financial assets carried at amortized cost

For financial assets carried at amortized cost (such as amounts due from banks, loans and advances to customers as well as held to maturity investments), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

Significant Accounting Policies

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the Income Statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

See Note 7 for details of impairment losses on financial assets carried at amortized cost, Notes 22 and 24 for an analysis of the impairment allowance on loans and advances by class.

Significant Accounting Policies

(c) Available for sale financial investments

For available for sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available for sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the Income Statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the Income Statement, the impairment loss is reversed through the Income Statement.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost.

(d) Rescheduled loan facilities

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

(e) Collateral

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and other credit enhancements.

2.3.7 Impairment of Non-Financial Assets Other than Goodwill

NDB Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Significant Accounting Policies

2.3.8 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

2.3.9 Business Combinations and Goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition (negative goodwill) is recognized directly in the Income Statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

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

Carrying amount of the goodwill arising on acquisition of subsidiaries is presented as an intangible and the goodwill on an acquisition of an equity accounted investment in investment in associates is included in the carrying value of the investment.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortized goodwill is recognized in the Income Statement.

Significant Accounting Policies

2.3.10 Investment in an Associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence. Under the equity method, the investment in the associate is carried on the Statement of Financial Position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Income Statement reflects the Group's share of the results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the Statement of Changes in Equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate is shown on the face of the Income Statement. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

The Financial Statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the Accounting Policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit of an associate' in the Income Statement.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

2.3.11 Property, Plant and Equipment

(a) Basis of recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be reliably measured.

(b) Basis of measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the assets and subsequent cost as explained below. The cost of self constructed assets includes the cost of the materials and direct labour, any other cost directly attributable to bringing the assets to a working condition for its intended use and cost of dismantling and removing the old items and restoring site on which they are located. Purchased software which is integral to the functionality of the related equipment is capitalized as part of computer equipment.

Significant Accounting Policies

(c) Subsequent cost

There are costs that are recognized in the carrying amount of an item if it is probable that the future economic benefits embodied within that part will flow to the Group and it can be reliably measured.

(d) Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from when the assets are available for use. The estimated useful lives of the assets are as follows:

Buildings/improvements	20 years - 40 years
Motor vehicles	4 years
Furniture and office equipment	5 years

Depreciation is provided proportionately for the completed number of months the asset is in use, if it is purchased or sold during the financial year.

Leasehold assets are amortized over the lower of the useful life and the lease period of the respective assets.

(e) Derecognition

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

2.3.12 Intangible Assets

The Group's intangible assets include the value of computer software and work in progress. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives as given below:

Computer software	5 years
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Intangible assets are derecognized on disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset is included in the Income Statement in the year the asset is derecognized.

Significant Accounting Policies

2.3.13 Leases | Assets leased to customers under agreements that transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Lease rentals receivable in the Statement of Financial Position include total lease payments due net of unearned interest income not accrued to revenue and allowance for impairment.

2.3.14 Investment Property | Properties held to earn rental income and properties held for capital appreciations have been classified as investment property. Investment properties are initially recognized at cost. Subsequent to the initial recognition, the investment properties are stated at fair values, which reflect market conditions at the date of the Statement of Financial Position. Gains or losses arising from changes in the fair values are included in the Income Statement in the year in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Investment properties are derecognized when disposed of or permanently withdrawn from use because no future economic benefits are expected. Any gains or losses on retirement or disposal are recognized in the Income Statement in the year of retirement or disposal.

An external, independent valuer, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property every 3 years. In financial periods within that period the fair value is determined by the Directors.

2.3.15 Taxation | **(a) Domestic Banking Unit and Foreign Currency Banking Unit**
Provision for taxation is based on the elements of income and expenditure as reported in the Financial Statements and computed in terms of the provisions of the Inland Revenue Act No 10 of 2006 and amendments thereto, at the rate of 28% for both on-shore domestic banking unit and on-shore foreign currency banking unit transactions (2011 - 28%).

(b) Deferred tax

Deferred tax is provided on temporary differences at the date of the Statement of Financial Position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except -

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

Significant Accounting Policies

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

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

The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each Statement of Financial Position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the Statement of Financial Position.

(c) Value Added Tax on financial services

The basis for the computation of value added tax on financial services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on prescribed rates. The amount of value added tax charged at 12% in determining the profit for the period is given in the Income Statement.

2.3.16 Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the Financial Statements (within 'other liabilities') at fair value, being the premium received.

Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the Income Statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

The premium received is recognized in the Income Statement in 'Net Fees and Commission Income' on a straight line basis over the life of the guarantee.

Significant Accounting Policies

2.3.17 Pensions and Retirement Benefits

The Bank operates an approved employee non-contributory pension Plan for the payment of pensions to members of its permanent staff who qualify for such payments when retiring. Employees who joined since 1999 are not covered under the said pension scheme. These employees are entitled to retirement gratuity as explained in Note 8 on page 266. Up to 31 December 2002, annual contributions to the pension plan was payable by the Bank based on a percentage of gross salaries, as stipulated in the pension deed. However, following the formulation of a revised pension deed, which has been approved by the Department of Inland Revenue, the contributions in subsequent years are determined on the basis of an actuarial valuation each year.

The costs of retirement gratuities are determined by a qualified actuary using projected unit credit method. This item is stated under other liabilities in the Statement of Financial Position. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains or losses at the end of the previous reporting period exceeded 10% of the defined benefit obligation at the date and recognized over the expected average working lives of employees participating in the plan of the defined benefit obligation at that date, in accordance with the Corridor Method.

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in accordance with the respective statutes and regulations. The Bank contributes 15% and 3% of gross salaries of employees to the Bank's Employees' Provident Fund and the Employees' Trust Fund respectively. Group companies contributes 12% and 3% to Central Bank of Sri Lanka for eligible employees for Employees' Provident Fund contributions and Employees' Trust Fund contributions respectively.

2.3.18 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.3.19 Equity-Linked Compensation Plan

On 1 July 2010, shareholders of the Bank approved an Equity Linked Compensation Plan (ELCP), 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. A total quantum of 2,455,661 shares of the Bank which is equivalent to a maximum of 3% of the present voting share capital of the Bank is to be issued to the ELCP. Half of such shares are to be awarded as share options and the other half as Share Grants in equal proportions. The issue of shares for the ELCP will take place over five years commencing July 2010. Each of the five tranches would amount to a maximum of 0.6% of the voting shares. Subsequent to the subdivision of the Bank's ordinary shares in the proportion of one share for every ordinary share in issue, which was approved at the Annual General Meeting held on 30 March 2011, the total quantum of shares has now increased to 4,911,322 shares.

Significant Accounting Policies

Details of the Share Options and the Share Grants are given in Note 47 to the Financial Statements.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest.

The Income Statement expense or credit for a period is recorded in 'Personnel expenses' and represents the movement in cumulative expense recognized as at the beginning and end of that period.

2.3.20 Dividends on Ordinary Shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Board of Directors.

2.3.21 Equity Reserves

The reserves recorded in equity (Other comprehensive income) on the Group's Statement of Financial Position include -

- 'Available for sale' reserve, which comprises changes in fair value of available for sale investments.
- 'Foreign currency translation reserve', which is used to record exchange differences arising from the translation of the net investment in foreign operations.

2.3.22 Foreign Currency Translation

(a) Transactions in foreign currencies are initially recorded using the closing exchange rate of the functional currency ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the middle exchange rate of the functional currency ruling at the date of the Statement of Financial Position. The resulting gains and losses are accounted for in the Income Statement.

Non-monetary assets and liabilities that are measured on a historical cost basis in foreign currency are translated using the exchange rates prevailing at that date. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Significant Accounting Policies

(b) Transactions of the Foreign Currency Banking Unit

These have been recorded in accordance with Note (a) above. Net gains and losses are dealt within the Income Statement.

(c) Forward exchange contracts are valued at the forward market rates prevailing at the date of the Statement of Financial Position. Profits and losses on such transactions are dealt within the Income Statement.

(d) Liabilities in respect of foreign currency borrowings guaranteed by the Government of Sri Lanka are not translated at rates of exchange prevailing at the date of the Statement of Financial Position, since the Government of Sri Lanka is required to bear any exchange risk that may arise at the time debt service payments are being made. The Bank pays a premium to the Government of Sri Lanka for bearing such risk.

(e) As at the reporting date, the assets and liabilities of overseas subsidiaries/associates are translated into the Bank's presentation currency at the rate of exchange ruling at the Statement of Financial Position date, and their Income Statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity.

(f) On disposal of a foreign subsidiary/associate, the deferred cumulative amount recognized in equity relating to that particular foreign subsidiary/associate is recognized in the Income Statement in 'Other operating expenses' or 'Other operating income', respectively.

2.3.23 Recognition of Income and Expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(a) Interest and similar income and expense

For all financial instruments measured at amortized cost, interest-bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Significant Accounting Policies

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'interest and similar income' for financial assets and interest and similar expense for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Dividend Income

Dividend income from shares is recognized when the Group's right to receive the payment is established.

(c) Income from fee-based activities

Fees for underwriting, advisory work, loan syndication, management of funds and all other fees and commissions are recognized on an accrual basis. Fees charged on guarantee/bid bonds are recognized on an accrual basis over the period the service is performed.

(d) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading.

(e) Expenditure recognition

Operating expenses are recognized in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

2.3.24 Cash and Cash Equivalents

Cash and cash equivalents comprise of cash balances, short-term funds and balances with Central Bank of Sri Lanka. The cash flow statement has been prepared by using 'The Direct Method', whereby gross cash receipts and gross cash payments of operating activities, investing and financing activities have been recognized.

Significant Accounting Policies

2.3.25 Segment Reporting

A segment is a distinguishable component of the NDB Group that is engaged in providing services (Business Segment) or in providing services within a particular economic environment (Geographical Segment) which is subject to risks and rewards that are different from those of other segments.

In accordance with the Sri Lanka Accounting Standard No. 28 on Segment Reporting, segmental information is presented in respect of the NDB Group. The NDB Group's segmental reporting is based on the following operating segments: Banking, Investment Banking, Property Development, and Others. Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

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

2.4 Standards Issued But Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Consolidated Financial Statements are set out below along with details of SLFRS which will have a future effect on the Accounting Policies adopted by the Group.

(i) SLFRS 9 - Financial Instruments: Classification and Measurement

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

(ii) SLFRS 13 - Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS.

SLFRS 9 and SLFRS 13 will be effective for financial periods beginning on or after 1 January 2015 and 2014 respectively.

Significant Accounting Policies

In addition to the above, following standards have also been issued and will be effective for financial periods beginning on or after 01 January 2014.

SLFRS 10 - Consolidated Financial Statements

SLFRS 11 - Joint Arrangements

SLFRS 12 - Disclosure of Interests in Other Entities

The Group will adopt these standards when they become effective. Pending a detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

2.5 First-Time Adoption of SLFRSs and LKASs

The Group adopted Sri Lanka Accounting Standards comprising LKAS and SLFRS effective 1 January 2012. Prior to the adoption of SLFRS, the Group prepared its Consolidated Financial Statements in accordance with previous Sri Lanka Accounting Standards. The Group prepared its opening SLFRS Consolidated Financial Statements as at 1 January 2011, the date of transition to SLFRS which forms the starting point for the group's financial reporting under SLFRS. These Consolidated Financial Statements have been prepared in accordance with the Accounting Policies described in Note 2 on page 233.

In preparing these Consolidated Financial Statements, the Group has applied the requirements of SLFRS1 - First-time adoption of Sri Lanka Accounting Standards, including retrospective application of SLFRS effective for the Group on adoption, unless otherwise indicated. The resulting adjustments are described below.

Significant Accounting Policies

First-Time Adoption of SLFRS

Reconciliation of Equity as at 1 January 2011 (Date of transition to SLFRS)

		BANK			GROUP				
	Note	SLAS* Rs '000	Reclassifi- cation Rs '000	Remeasure- ments Rs '000	SLFRS as at** 1 January 2011 Rs '000	SLAS* Rs '000	Reclassifi- cation Rs '000	Remeasure- ments Rs '000	SLFRS as at** 1 January 2011 Rs '000
ASSETS									
Cash and cash equivalents		2,191,431	33,028	—	2,224,459	2,475,443	33,028	—	2,508,471
Balances with Central Bank		3,077,406	—	—	3,077,406	3,077,406	—	—	3,077,406
Securities purchased under resale agreement	A	1,984,200	169,204	1,233	2,154,637	2,085,264	68,140	1,233	2,154,637
Financial assets held for trading		7,782,587	179,525	(526)	7,961,585	8,007,936	179,525	(525)	8,186,935
Derivative financial instruments	B	—	90,715	49,849	140,565	—	90,715	49,849	140,565
Other financial assets held for trading		368,650	—	—	368,650	832,427	1,019,557	—	1,851,984
Bills of exchange		3,266,461	(3,266,461)	—	—	3,266,461	(3,266,461)	—	—
Loans and advances to banks		—	1,816,744	—	1,816,744	—	1,816,744	—	1,816,744
Loans and advances to customers	D	63,813,641	1,449,717	(251,406)	65,011,952	64,837,507	458,815	(251,405)	65,044,917
Lease rentals receivable		2,326,989	—	85,211	2,412,200	2,326,989	—	85,211	2,412,200
Other financial assets classified as loans and receivable		—	7,926,285	—	7,926,285	—	9,178,507	—	9,178,507
Financial assets - held to maturity	C	15,222,142	(7,948,864)	—	7,273,278	16,740,026	(9,060,404)	—	7,679,622
Financial assets - available for sale		—	4,790	—	4,790	—	6,774	—	6,774
Investments in subsidiary companies		2,770,540	—	—	2,770,540	—	—	—	—
Investments in associate companies		452,460	—	—	452,460	1,762,589	—	—	1,762,589
Other assets	E	625,256	(454,683)	321,723	492,296	997,327	(628,060)	321,722	690,989
Intangible assets		206,720	—	—	206,720	210,299	—	—	210,299
Property, plant & equipment		650,433	—	—	650,433	707,727	—	—	707,727
Investment properties		—	—	—	—	1,200,000	—	—	1,200,000
Goodwill		—	—	—	—	4,330	—	—	4,330
Total assets		104,738,916	—	206,084	104,945,000	108,531,731	(103,120)	206,085	108,634,697

* Based on Sri Lanka Accounting Standards (SLAS) at 1 January 2011 (Date of transition).

**Based on Sri Lanka Accounting Standards comprising LKAS and SLFRS (SLFRS) at 1 January 2011 (Date of transition).

Significant Accounting Policies

		BANK				GROUP			
	Note	SLAS* Rs '000	Reclassification Rs '000	Remeasure- ments Rs '000	SLFRS as at** 1 January 2011 Rs '000	SLAS* Rs '000	Reclassification Rs '000	Remeasure- ments Rs '000	SLFRS as at** 1 January 2011 Rs '000
LIABILITIES									
Due to Banks		–	570,385	–	570,385	–	570,385	–	570,385
Securities sold under repurchase agreements	F	12,174,293	176,906	–	12,351,199	12,174,293	(699,457)	–	11,474,836
Due to customers	G	59,363,660	1,223,604	(54,279)	60,532,985	59,363,660	1,223,603	(54,278)	60,532,985
Debt securities issued and other borrowed funds		16,937,822	(2,976,912)	–	13,960,910	16,061,460	(2,100,550)	–	13,960,910
Tax liabilities	J	361,370		91,127	452,497	482,289	–	91,127	573,416
Other liabilities		3,784,732	(1,168,431)	52,073	2,668,374	3,941,122	(1,168,431)	52,074	2,824,765
Dividends payable		450,793	(450,793)	–	–	450,793	(450,794)	–	–
Subordinated term debts		–	2,625,243	–	2,625,243	–	2,625,243	–	2,625,243
Deferred Tax	J	59,256	–	–	59,256	59,753	–	–	59,753
Total liabilities		93,131,926	–	88,921	93,220,847	92,533,369	–	88,923	92,622,293
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT									
Stated capital		1,093,095	–	–	1,093,095	1,093,095	(229,158)	–	863,937
Statutory reserve fund		878,718	–	–	878,718	878,718	–	–	878,718
Retained Earnings	H	9,635,177	–	117,163	9,752,340	13,309,466	126,038	117,163	13,552,666
		11,606,990	–	117,163	11,724,153	15,281,279	(103,120)	117,163	15,295,321
Non-controlling interests		–	–	–	–	717,083	–	–	717,083
Total equity		11,606,990	–	117,163	11,724,153	15,998,362	(103,120)	117,163	16,012,404
Total liabilities and equity		104,738,916	–	206,084	104,945,000	108,531,731	(103,120)	206,086	108,634,697

* Based on Sri Lanka Accounting Standards (SLAS) at 1 January 2011 (Date of transition).

** Based on Sri Lanka Accounting Standards comprising LKAS and SLFRS (SLFRS) at 1 January 2011 (Date of transition).

Significant Accounting Policies

First-Time Adoption of SLFRS

Reconciliation of Equity as at 31 December 2011

		BANK			GROUP				
	Note	SLAS* Rs '000	Reclassifi- cation Rs '000	Remeasure- ments Rs '000	SLFRS as at** 31 December 2011 Rs '000	SLAS* Rs '000	Reclassifi- cation Rs '000	Remeasure- ments Rs '000	SLFRS as at** 31 December 2011 Rs '000
ASSETS									
Cash and cash equivalents		3,225,999	(830,847)	–	2,395,152	3,349,687	(830,847)	–	2,518,840
Balances with Central Bank		4,614,170	–	–	4,614,170	4,614,170	–	–	4,614,170
Placements with banks		–	517,833	–	517,833	–	517,833	–	517,833
Securities purchased under resale agreement	A	911,709	–	–	911,709	911,709	–	–	911,709
Financial assets held for trading		7,058,269	47,879	–	7,106,148	7,058,269	47,879	–	7,106,148
Derivative financial instruments	B	–	1,400,999	1,306	1,402,305	–	1,400,999	1,306	1,402,305
Other financial assets held for trading		233,771	–	–	233,771	543,809	1,542,716	–	2,086,525
Bills of exchange		3,824,828	(3,824,828)	–	–	3,824,828	(3,824,828)	–	–
Loans and advances to banks		–	1,640,462	–	1,640,462	–	1,640,462	–	1,640,462
Loans and advances to customers	D	91,510,422	2,184,366	(600,004)	93,094,783	92,678,865	1,087,166	(600,004)	93,166,026
Lease rentals receivable		4,508,959	–	140,651	4,649,610	4,508,959	–	140,651	4,649,610
Other financial assets classified as loans and receivable		–	1,252,104	2,994	1,255,099	–	2,560,191	2,994	2,563,186
Financial assets - held to maturity	C	16,383,363	(817,161)	–	15,566,202	18,168,909	(2,502,708)	–	15,666,201
Financial assets - available for sale		–	88,648	–	88,648	–	186,475	–	186,475
Investments in subsidiary companies		2,770,540	–	–	2,770,540	–	–	–	–
Investments in associate companies		286,898	–	–	286,898	1,796,695	–	–	1,796,695
Other assets	E	1,406,665	(1,011,030)	386,367	782,002	1,853,741	(1,277,343)	386,366	962,764
Intangible assets		278,633	–	–	278,633	318,347	–	–	318,347
Property, plant & equipment		828,754	–	–	828,754	1,185,259	–	–	1,185,259
Investment property		–	–	–	–	1,295,693	–	–	1,295,693
Total assets		137,842,980	648,425	(68,687)	138,422,718	142,108,940	547,995	(68,687)	142,588,249

* Based on Sri Lanka Accounting Standards (SLAS) at 31 December 2011.

**Based on Sri Lanka Accounting Standards comprising LKAS and SLFRS (SLFRS) at 31 December 2011.

Significant Accounting Policies

		BANK				GROUP			
	Note	SIAS* Rs '000	Reclassification Rs '000	Remeasure- ments Rs '000	SLFRS as at** 31 December 2011 Rs '000	SIAS* Rs '000	Reclassification Rs '000	Remeasure- ments Rs '000	SLFRS as at** 31 December 2011 Rs '000
LIABILITIES									
Due to Banks		-	5,923,527	-	5,923,527	-	5,923,527	-	5,923,527
Securities sold under repurchase agreements	F	11,242,671	117,430	-	11,360,101	11,242,671	(1,109,830)	-	10,132,841
Derivative financial instruments	B	-	1,022,462	-	1,022,462	-	1,022,462	-	1,022,462
Due to customers	G	80,310,181	1,862,355	(78,216)	82,094,320	80,310,181	1,862,355	(78,216)	82,094,321
Debt securities issued and other borrowed funds		27,913,530	(8,447,229)	-	19,466,302	26,686,271	(7,219,968)	-	19,466,303
Tax liabilities	J	213,535	-	91,127	304,662	264,849	-	91,127	355,976
Other liabilities		4,557,003	(1,502,751)	52,066	3,106,318	4,736,410	(1,502,671)	52,066	3,285,805
Dividends payable		755,381	(755,381)	-	-	755,381	(755,381)	-	-
Subordinated term debts		-	2,428,012	-	2,428,012	-	2,428,012	-	2,428,012
Deferred Tax	J	112,108	-	(70,233)	41,875	111,353	-	(70,231)	41,122
Total liabilities		125,104,410	648,425	(5,256)	125,747,579	124,107,117	648,507	(5,256)	124,750,368
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT									
Stated capital		1,093,095	-	-	1,093,095	1,093,095	(229,158)	-	863,937
Statutory reserve fund		878,718	-	-	878,718	878,718	-	-	878,718
Investment Fund		386,825	-	-	386,825	386,825	-	-	386,825
Retained Earnings	H	10,379,932	-	(63,431)	10,316,501	14,730,509	128,577	(63,437)	14,795,649
		12,738,570	-	(63,431)	12,675,139	17,089,147	(100,581)	(63,437)	16,925,129
Non-controlling Interests		-	-	-	-	912,675	76	-	912,752
Total equity		12,738,570	-	(63,431)	12,675,139	18,001,823	(100,506)	(63,437)	17,837,881
Total liabilities and equity		137,842,980	648,425	(68,687)	138,422,718	142,108,940	547,995	(68,687)	142,588,249

* Based on Sri Lanka Accounting Standards (SIAS) at 31 December 2011.

**Based on Sri Lanka Accounting Standards comprising LKAS and SLFRS (SLFRS) at 31 December 2011.

Significant Accounting Policies

First-Time Adoption of SLFRS

Reconciliation of Income for the year ended 31 December 2011

		BANK				GROUP			
	Note	SLAS* Rs '000	Reclassifi- cation Rs '000	Remeasure- ments Rs '000	31 December 2011** Rs '000	SLAS* Rs '000	Reclassifi- cation Rs '000	Remeasure- ments Rs '000	31 December 2011** Rs '000
Interest income	C & D	11,337,032	-	50,651	11,387,683	11,541,126	62,176	51,292	11,654,594
Interest expenses	G	6,849,961	-	(23,937)	6,826,023	6,769,314	-	(23,938)	6,745,376
NET INTEREST INCOME		4,487,071	-	74,589	4,561,660	4,771,812	62,176	75,230	4,909,218
Net fee and commission income		-	1,150,401	-	1,150,401	-	1,916,227	-	1,916,230
Net trading income/(expenses)	B	-	616,214	(48,017)	568,196	-	496,414	(48,017)	448,396
Other operating income	D	2,194,098	(1,766,610)	-	427,489	3,157,621	(2,510,999)	1,158	647,785
Total operating income		6,681,169	-	26,572	6,707,746	7,929,433	(36,182)	28,371	7,921,629
Impairment charges/(Reversal) for loans and other losses		(160,727)	-	228,516	67,789	(317,008)	-	228,516	(88,492)
Net operating income		6,841,896	-	(201,944)	6,639,957	8,246,441	(36,182)	(200,145)	8,010,121
LESS: OPERATING EXPENSES									
Personnel expenses	D	1,704,906	84,389	48,889	1,838,184	1,976,398	91,166	50,049	2,117,612
Staff retirement benefits		84,389	(84,389)	-	-	91,166	(91,166)	-	-
Depreciation of property plant & equipment		-	178,287	-	178,287	-	198,556	-	198,556
Amortization of intangible assets		-	48,328	-	48,328	-	51,411	-	51,411
Other operating costs	E	1,691,634	(226,615)	-	1,465,019	1,901,099	(286,149)	(1,974)	1,612,976
Total operating expenses		3,480,929	-	48,889	3,529,818	3,968,663	(36,182)	48,075	3,980,556
OPERATING PROFIT BEFORE VALUE ADDED TAX (VAT)		3,360,967	-	(250,833)	3,110,139	4,277,778	-	(248,220)	4,029,565
Value Added Tax (VAT) on Financial Services	J	-	(504,960)	-	(504,960)	-	(504,960)	-	(504,960)
OPERATING PROFIT AFTER VALUE ADDED TAX (VAT)		3,360,967	(504,960)	(250,833)	2,605,179	4,277,778	(504,960)	(248,220)	3,524,605
Share of associate companies' profit		-	-	-	-	330,793	-	-	330,793
PROFIT BEFORE TAXATION		3,360,967	(504,960)	(250,833)	2,605,179	4,608,571	(504,960)	(248,220)	3,855,398
Taxation	J	(1,349,554)	504,960	70,233	(774,361)	(1,667,710)	504,960	70,233	(1,092,517)
PROFIT FOR THE YEAR		2,011,413	-	(180,600)	1,830,818	2,940,861	-	(177,987)	2,762,881
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		2,011,413	-	(180,600)	1,830,818	2,705,530	-	(178,064)	2,527,473
Non-Controlling Interests		-	-	-	-	235,331	-	77	235,408
		2,011,413	-	(180,600)	1,830,818	2,940,861	-	(177,987)	2,762,881
Earnings Per Share									
Basic Earnings Per Share		12.25			11.15	16.48			15.39
Dividend Per Share		7.5							

* Based on Sri Lanka Accounting Standards (SLAS) at 31 December 2011

**Based on Sri Lanka Accounting Standards comprising LKAS and SLFRS (SLFRS) at 31 December 2011

Significant Accounting Policies

2.5.1 Notes to the Reconciliation of Equity as at 1 January 2011, 31 December 2011 and Income Statement for the year ended 31 December 2011

(A) Reverse Repurchase Agreements

On adoption of SLFRS, the interest income on reverse repurchase agreements is recognized based on an effective interest rate (EIR) method.

(B) Derivative Financial Instruments

The fair value of derivative instruments is recognized as per the SLFRS on the Statement of Financial Position. That was not recognized under SLAS.

(C) Financial Assets Held to Maturity

Financial assets where the Group has the ability and intention to hold to maturity were classified as held to maturity and measured at amortized cost using effective interest rate method.

(D) Loans and Advances to Customers

Previous SLAS required provision for impairment of receivables to consist of both a specific amount for incurred losses and general amount for expected future losses. SLFRS does not permit recognition of impairment for expected future losses and instead assessed on a collective as well as individual basis, based on objective evidence that there has been an impairment.

Based on SLFRS, all loans granted to staff of the Group at concessionary rates are initially recognized at fair value. Subsequent interest thereon was recognized on EIR. Day 1 difference is treated as pre-paid staff cost and amortized over the remaining tenor of the loan.

(E) Other Assets

SLFRS requires total lease payments under operating leases be recognized as an expense on a straight-line basis over the lease term.

(F) Repurchase Agreements

On adoption of SLFRS, the interest expense on repurchase contracts is recognized based on an EIR method.

(G) Amounts due to Customers

On adoption of SLFRS, the interest expense on amounts due to customers (deposits) is recognized based on an EIR method.

(H) Reserves

The net effect of adoption of SLFRS as of the transition date of 1 January 2011 is recorded through 'Retained Earnings'.

(I) Statement of Cash Flows

The transition from SLAS to SLFRS did not have a material impact on the Statement of Cash Flows.

(J) SLFRS Tax

This represents the effect on taxes arising on adjustments following the adoption of Sri Lanka Accounting Standards. Pending the issue of tax guidelines, such impact on taxes has been assessed based on the currently applicable tax laws and regulations.

Notes to the Financial Statements

1. Incorporation, Principal Activities and Significant Changes in the Group Structure

The National Development Bank of Sri Lanka was incorporated under the National Development Bank of Sri Lanka Act No. 02 of 1979. In 2005, pursuant to the provisions of the National Development Bank of Sri Lanka (Consequential Provisions) Act No. 01 of 2005, a company by the name of 'National Development Bank Limited' was incorporated for the purposes of taking over the business of National Development Bank of Sri Lanka. Accordingly, on 15 June 2005, the National Development Bank Ltd. was incorporated and with effect from that date the National Development Bank of Sri Lanka Act No. 02 of 1979 was repealed except for certain provisions contained therein.

In terms of the new Companies Act No. 07 of 2007, the name of the Bank was changed as 'National Development Bank PLC'. The Bank was re-registered in terms of the new companies regime on 4 July 2007 and was assigned with PQ 27 as the new Registration Number.

The Bank is listed on the Colombo Stock Exchange. The registered office of the Bank and its principal place of business is situated at No. 40, Navam Mawatha, Colombo 2.

The principal activities of the Bank, its subsidiaries and associate companies (NDB), consist of the business of commercial banking, development financing, merchant banking, investment banking, leasing, housing finance, venture capital, stockbroking, wealth management and property investment.

The number of staff employed by NDB as at 31 December 2012 was 1,447 (2011 - 1,357).

The number of branches of NDB as at 31 December 2012 was 69 (2011 - 60).

	BANK		GROUP	
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
2. Interest Income				
Loans and advances - due from banks	105,400	131,370	105,400	131,370
Loans and advances to customers	13,227,224	8,467,524	13,231,487	8,471,053
Lease rentals receivables	819,472	489,580	819,472	489,580
Money market lending	309,346	120,021	337,064	171,451
Reverse repurchase agreements	252,473	22,980	252,473	22,980
Financial investments held for trading	107,238	139,685	214,210	292,236
Financial investments held for maturity	1,399,424	1,962,122	1,399,424	1,972,868
Other Interest income from Government Securities	763,060	54,401	790,336	103,056
	16,983,637	11,387,683	17,149,866	11,654,594
3. Interest Expenses				
Due to banks	444,581	372,459	444,581	372,459
Securities lent and repurchase agreements	1,398,432	923,460	1,398,432	923,460
Due to customers	7,853,381	4,227,557	7,853,381	4,227,557
Debt Issued and other borrowed funds	1,613,380	1,302,547	1,557,648	1,221,900
	11,309,774	6,826,023	11,254,042	6,745,376

Notes to the Financial Statements

	BANK		GROUP	
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
4. Net Fee and Commission Income				
Management fees	4,995	7,740	-	-
Fee and commission income - loans & other products	1,128,608	1,142,661	1,643,583	1,916,230
Net fee and commission income	1,133,603	1,150,401	1,643,583	1,916,230
5. Net Trading Income				
Foreign exchange income	976,401	760,123	976,401	760,122
Equities	238	(100,055)	9,099	(219,854)
Debt securities	33,637	(43,855)	286,996	(43,855)
Other interest rate instruments	-	(48,017)	-	(48,017)
	1,010,276	568,196	1,272,496	448,396

'Foreign Exchange' income includes gains and losses from spot and forward contracts and other currency derivatives.

'Equities' income includes the results of buying and selling, and changes in the fair value of equity securities. 'Debt securities' income includes the results of buying and selling and changes in the fair value of debt securities and debt securities sold short as well as the related interest income and expense. The results of trading money market instruments and interest rate swaps, are recorded under 'Other Interest Rate Instruments'.

	BANK		GROUP	
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
6. Other Operating Income				
Dividend income from securities				
- Quoted investments	-	8,837	-	15,352
- Non-quoted investments	30,950	44,875	40,496	116,068
Dividend income from subsidiaries/associates				
- Quoted investments	-	179,194	-	-
- Non-quoted investments	95,699	78,217	-	-
Capital gains from sale of securities	91,122	(110)	91,122	(110)
Capital gains from sale of group investments	535,716	17,300	5,750,942	17,300
Non-trading foreign exchange income	218,830	64,979	218,830	64,979
Revaluation gain on investment properties	-	-	-	400,000
Others	25,157	34,197	25,157	34,196
	997,474	427,489	6,126,547	647,785

Notes to the Financial Statements

	BANK		GROUP	
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
7. Impairment Charges/(Reversal) for Loans and Other Losses				
Loans and receivables				
Long-term loans	(96,318)	(448,129)	(96,318)	(448,129)
Medium and short-term loans	43,024	62,561	43,024	62,561
Overdrafts	128,985	355,013	128,985	355,013
Trade finance loans	(65,265)	5,993	(65,265)	5,993
Consumer loans	(25,920)	16,169	(25,920)	16,169
Housing loans	32,826	(21,949)	32,826	(21,949)
Pawning	(26,893)	(753)	(26,894)	(753)
Staff loans	677	(2,012)	677	(2,012)
Leases	66,496	(64,666)	66,496	(64,666)
Investment securities	48,500	165,562	(6,233)	9,281
Total	106,112	67,789	51,379	(88,492)
8. Personnel Expenses				
Remuneration	1,843,769	1,498,315	2,044,332	1,769,808
Contribution to defined benefit plan				
Pension fund (Note 8.1)	22,706	36,304	29,253	43,082
Gratuity (Note 8.2)	40,960	48,084	40,960	48,084
Share based payments	20,054	20,055	20,054	20,055
Others	245,251	235,426	198,726	236,584
Total	2,172,740	1,838,184	2,333,325	2,117,613

8.1 Pension Fund

The Bank operates an approved non-contributory Pension Plan for the payment of pensions to members of its permanent staff who qualify for such payments when retiring.

Please refer Accounting Policy 2.3.17.

The amount funded since the inception of the Plan is the amount recognized as an expense over the respective periods. The adequacy of the contributions was reviewed by an actuary as at 31 December 2012.

The actuarial method used is the Projected Unit Credit method. The principal assumptions, which have the most significant effect on the valuation, are the investment return net of taxes, which has been estimated at 12% (2011 - 10%) and the rate of increase in salaries, which have been estimated at 10% (2011 - 9%).

The actuarial experience losses or gains have been recognized in line with the corridor method over the expected future working life of the participants.

Accordingly, the provision made for pension liability was Rs 22.7 mn as at 31 December 2012 (Rs 36.3 mn in 2011)

The Pension Plan is fully funded.

Notes to the Financial Statements

8.2 Gratuity

Provisions for retirement gratuities have been made based on the actuarial valuation carried out as at 31 December 2012. Please refer Note 37 (1) for detailed disclosure and assumptions on the retirement benefit liability.

	BANK		GROUP	
	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
9. Operating Profit Before Value Added Tax				
Status after charging,				
Directors' emoluments	45,740	35,952	46,710	36,923
Auditors' remuneration	7,188	5,903	8,773	7,223
Legal expenses	12,051	14,753	13,908	16,106
Office administration and establishment expenses	876,351	764,388	1,015,955	868,701
Others	745,783	662,446	798,860	702,446

	Percentage Holding 2012/2011	GROUP	
		2012 Rs '000	2011 Rs '000
10. Share of Associate Companies' Profit/(Loss) before Taxation			
Ayojana Fund (Pvt) Ltd. (under liquidation)	50.00%	-	-
Maldives Finance Leasing Co (Pvt) Ltd.	35.00%	(14,683)	(125,152)
NDB Venture Investments (Pvt) Ltd. (under liquidation)	50.00%	-	4,177
AVIVA NDB Insurance PLC (Note 10.1)	41.14%	440,000	430,724
AVIVA NDB Finance Lanka (Pvt) Ltd. (Note 10.1)	41.42%	13,403	21,044
		438,720	330,793

10.1 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

11. Taxation

The components of income tax expense for the years ended 31 December 2012 and 2011 are:

		BANK		GROUP	
	Note	2012 Rs '000	2011 Rs '000	2012 Rs '000	2011 Rs '000
Current tax expenses					
Income tax expense		1,039,602	790,450	1,039,602	790,450
Adjustment in respect of current income tax of prior years		(16,935)	1,294	(16,935)	1,294
		1,022,667	791,744	1,022,667	791,744
Income tax of subsidiary companies		–	–	74,853	146,480
Income tax of associate companies		–	–	139,847	172,928
	a	1,022,667	791,744	1,237,367	1,111,152
Deferred tax expense					
Temporary differences	b	38,000	(17,383)	38,000	(18,635)
Total tax charged to the Income Statement		1,060,667	774,361	1,275,367	1,092,517
Effective tax rate (%)		23	25	12	27

Reconciliation of the total tax expense

(a) Income tax

Profit before tax	4,606,911	3,110,139	10,390,873	4,029,565
Income tax for the period (Accounting profit @ applicable tax rate)	1,289,935	870,838	3,342,894	1,274,867
Tax effect of exempt income	(269,649)	(100,520)	(2,107,123)	(114,908)
Adjustment in respect of current income tax of prior period	(16,935)	1,294	(16,935)	1,294
Add: Tax effects of expenses that are not deductible for tax purposes	606,972	391,951	612,837	391,951
(Less): Tax effects of expenses that are deductible for tax purposes	(625,679)	(490,247)	(632,338)	(490,247)
Tax effect of leasing/tax losses	38,023	118,428	38,032	48,195
Tax expenses for the period	1,022,667	791,744	1,237,367	1,111,152

Notes to the Financial Statements

(b) Deferred tax

The following table shows deferred tax recorded on the statement of financial position in other assets and other liabilities and changes recorded in the income tax expense:

	Deferred Tax Assets 2012	Deferred Tax Liabilities 2012	Income Statement 2012	Deferred Tax Assets 2011	Deferred Tax Liabilities 2011	Income Statement 2011
BANK						
Provisions	(6,991)	–	5,106	(12,097)	–	86,416
Other temporary differences	(208,706)	295,572	32,894	(158,946)	212,918	(103,799)
Total	(215,697)	295,572	38,000	(171,043)	212,918	(17,383)
GROUP						
Provisions	(6,991)	–	5,106	(12,097)	–	86,416
Other temporary differences	(209,783)	295,894	32,894	(160,878)	214,096	(105,051)
Total	(216,774)	295,894	38,000	(172,975)	214,096	(18,635)

12. Earnings Per Share

The basic earnings per share for 2012 and 2011 have been calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year as required by the Sri Lanka Accounting Standard No. 33 (LKAS. 33) on 'Earnings per Share'.

	BANK		GROUP	
	2012	2011	2012	2011
Amount used as the numerator				
Profit attributed to ordinary shareholders (Rs '000)	2,923,958	1,830,818	8,853,821	2,527,473
Amount used as the denominator				
Ordinary shares in issue for basic EPS calculation	164,201,902	164,201,902	160,068,176	160,068,176
Weighted average number of ordinary shares as at the Balance Sheet date for basic EPS calculation	164,201,902	164,201,902	160,068,176	160,068,176
Weighted average basic earnings per share (Rs)	17.81	11.15	55.31	15.79
Weighted average number of ordinary shares as at the Balance Sheet date for Basic EPS calculation	164,201,902	164,201,902	160,068,176	160,068,176
Effect of outstanding share option scheme	54,847	55,479	54,847	55,479
Number of ordinary shares including share option	164,256,749	164,257,381	160,123,023	160,123,655
Weighted average number of ordinary shares as at the Balance Sheet date for diluted EPS calculation	164,256,749	164,257,381	160,123,023	160,123,655
Weighted average diluted earnings per share (Rs)	17.80	11.15	55.29	15.78