

National Development Bank PLC

Debenture Issue

Prospectus



NATIONAL DEVELOPMENT BANK PLC



PROSPECTUS

**AN INITIAL ISSUE OF FIFTY MILLION (50,000,000) RATED UNSECURED
SUBORDINATED REDEEMABLE DEBENTURES AT THE FACE VALUE OF
LKR 100/- EACH TO RAISE SRI LANKA RUPEES FIVE BILLION
(LKR 5,000,000,000/-)**

**WITH AN OPTION TO ISSUE UP TO A FURTHER THIRTY MILLION
(30,000,000) OF SAID DEBENTURES TO RAISE UP TO SRI LANKA RUPEES
THREE BILLION (LKR 3,000,000,000/-) AND WITH A FURTHER OPTION OF
INCREASING THE ISSUE UP TO TWENTY MILLION (20,000,000) OF SAID
DEBENTURES TO RAISE UP TO SRI LANKA RUPEES TWO BILLION
(LKR 2,000,000,000/-),
AT THE DISCRETION OF THE BANK IN THE EVENT OF AN
OVERSUBSCRIPTION**

**TO BE LISTED ON THE MAIN BOARD OF THE
COLOMBO STOCK EXCHANGE**

Rated 'A+(lka)' by Fitch Ratings Lanka Limited

ISSUE OPENS ON

12th December 2013

Financial Advisors and Managers to the Issue



The delivery of this Prospectus will not under any circumstance constitute a representation or create any implication or suggestion that there has been no material change in the affairs of the Bank since the date of this Prospectus.

If you are in doubt regarding the contents of this document, you should consult your stockbroker, bank manager, lawyer or any other professional advisor.

Responsibility for the Content of the Prospectus

This Prospectus has been prepared from information provided by the National Development Bank PLC (hereinafter referred to as the "Bank", "NDB" or the "Issuer") and from publicly available sources.

The Directors of the Bank have seen and approved this Prospectus and collectively and individually, accept full responsibility for the accuracy of the information given and confirm that 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 NDB have been given in this Prospectus, such representations have been made after due and careful enquiry of the information available to NDB and making assumptions that are considered to be reasonable at the present point in time in their best judgment.

NDB accepts responsibility for the information contained in this Prospectus. While the Bank has taken reasonable care to ensure full and fair disclosure of information, prospective investors are advised to carefully read this Prospectus and rely on their own examination and assessment of the Bank including the risks involved prior to making any investment decision.

FOR ENQUIRIES, PLEASE CONTACT THE FINANCIAL ADVISORS AND MANAGERS TO THE ISSUE

Registration of the Prospectus

A copy of the Prospectus has been delivered to the Registrar of Companies for registration in compliance with the provisions of Section 40 of the Companies Act No. 7 of 2007. The following are the documents attached to the copy of the Prospectus delivered to the Registrar of Companies for registration pursuant to Section 40 (1) of the Companies Act.

- a) The written consent of the Auditor of the Bank for the inclusion of their name in the Prospectus as Auditor to the Bank.
- b) The written consent of the Lawyers to the Issue for the inclusion of their name in the Prospectus as Lawyers to the Issue.
- c) The written consent of the Trustee to the Issue for the inclusion of their name in the Prospectus as Trustee to the Issue.

- d) The written consent of the Bankers to the Issue for the inclusion of their name in the Prospectus as Bankers to the Issue.
- e) The written consent of the Company Secretary for the inclusion of her name in the Prospectus as Company Secretary to the Bank.
- f) The written consent of the Financial Advisors and Managers to the Issue for the inclusion of their name in the Prospectus as Financial Advisors and Managers to the Issue.
- g) The written consent of the Registrars to the Issue for the inclusion of their name in the Prospectus as Registrars to the Issue.
- h) The declaration made and subscribed to, by each of the Directors of the Bank herein named as a Director, jointly and severally confirming that each of them have read the provisions of the Companies Act and the CSE Listing Rules relating to the Issue of the Prospectus and that those provisions have been complied with.

The said Auditor to the Bank, Lawyers to the Issue, Trustee to the Issue, Bankers to the Issue, Company Secretary, Financial Advisors and Managers to the Issue, Registrars to the Issue have not, before the delivery of a copy of the Prospectus for registration with the Registrar General of Companies in Sri Lanka withdrawn such consent.

Registration of the Prospectus in Jurisdictions Outside of Sri Lanka

This Prospectus has not been registered with any authority outside of Sri Lanka. Non-Resident investors may be affected by the laws of the jurisdiction of their residence. Such investors are responsible to comply with the laws relevant to the country of residence and the laws of Sri Lanka, when making the investment.

Representation

The Debentures are issued solely on the basis of the information contained and representations made in this Prospectus. No dealer, sales person or any other person has been authorised to give any information or to make any representations in connection with the Issue other than the information and representations contained in this Prospectus, and if given or made, such information or representations must not be relied upon as having been authorised by the Bank.

Forward Looking Statements

Any statements included in this Prospectus that are not statements of historical fact constitute "Forward Looking Statements". These can be identified by the use of forward looking terms such as "expect", "anticipate", "intend", "may", "plan to", "believe", "could" and similar terms or variations of such terms. However, these words are not the exclusive means of identifying Forward Looking Statements. As such, all or any statements pertaining to expected financial position, business strategy, plans and prospects of the Bank are classified as Forward Looking Statements.

Such Forward Looking Statements involve known and unknown risks, uncertainties and other factors including but not limited to regulatory changes in the sectors in which the Bank operates and its ability to respond to them, the Bank's ability to successfully adapt to technological changes, exposure to market risks, general economic and fiscal policies of Sri Lanka, inflationary pressures, interest rate volatilities, the performance of financial markets both globally and locally, changes in domestic and foreign laws, regulation of taxes and changes in competition in the industry and further uncertainties that may or may not be in the control of the Bank.

Such factors may cause actual results, performance and achievements to materially differ from any future results, performance or achievements expressed or implied by Forward Looking Statements herein. Forward Looking Statements are also based on numerous assumptions regarding the Bank's present and future business strategies and the environment in which the Bank will operate in the future.

Given the risks and uncertainties that may cause the Bank's actual future results, performance or achievements to materially differ from that expected, expressed or implied by Forward Looking Statements in this Prospectus, investors are advised not to place sole reliance on such statements.

The Colombo Stock Exchange (CSE) has taken reasonable care to ensure full and fair disclosure of information in this Prospectus. However, the CSE assumes no responsibility for accuracy of the statements made, opinions expressed or reports included in this Prospectus. Moreover, the CSE does not regulate the pricing of Debentures which is decided solely by the Issuer.

Presentation of Currency Information and Other Numerical Data

The financial statements of the Bank and currency values of economic data or industry data in a local context will be expressed in Sri Lanka Rupees. References in the Prospectus to "LKR", "Rupees" or "Rs." are to the lawful currency of Sri Lanka.

Certain numerical figures in this Prospectus have been subject to rounding adjustments, accordingly numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

All Applicants should indicate in the Application for Debentures, their Central Depository Systems (Private) Limited (CDS) account number.

In the event the name, address or NIC number/passport number/company number of the Applicant mentioned in the Application Form differ from the name, address or NIC number/passport number/company number as per the CDS records, the name, address or NIC number/passport number/company number as per the CDS records will prevail and be considered as the name, address or NIC number/passport number/company number of such Applicant. Therefore Applicants are advised to ensure that the name, address or NIC number/passport number/company number mentioned in the Application Form tally with the name, address or NIC number/passport number/company number given in the CDS account as mentioned in the Application Form.

As per the directive of the Securities and Exchange Commission made under Circular No. 08/2010 dated 22nd November 2010 and Circular No. 13/2010 issued by the CDS dated 30th November 2010, all Debentures are required to be directly deposited in to the CDS. To facilitate compliance with this directive, all Applicants are required to indicate their CDS account number.

In line with this directive, THE DEBENTURES ALLOTTED TO AN APPLICANT WILL BE DIRECTLY DEPOSITED IN THE CDS ACCOUNT OF SUCH APPLICANT, the details of which is indicated in his/her Application Form.

PLEASE NOTE THAT DEBENTURE CERTIFICATES WILL NOT BE ISSUED.

Debentures will not be allotted to Applicants who have not indicated their CDS account details in the Application Form. Applications which do not specify a CDS account number will be rejected.

Applicants who wish to open a CDS account, may do so through a Member/Trading Member of the CSE as set out in Annexure II or through any Custodian Bank as set out in Annexure III of this Prospectus.

If the CDS account number indicated in the Application Form is found to be inaccurate/incorrect or there is no CDS number indicated, the Application will be rejected and no allotment will be made.

ISSUE AT A GLANCE

Issuer	National Development Bank PLC			
Instrument	Rated Unsecured Subordinated Redeemable Debentures			
Listing	The Debentures will be listed on the Main Board of the Colombo Stock Exchange			
Number of Debentures to be Issued	An initial Issue of Fifty Million (50,000,000) Rated Unsecured Subordinated Redeemable Debentures with an option to issue up to a further Thirty Million (30,000,000) of said Debentures and with a further option to issue up to Twenty Million (20,000,000) of said Debentures, at the discretion of the Bank, in the event of an Oversubscription of the Issue Oversubscription herein refers to the Oversubscription of Fifty Million (50,000,000) Rated Unsecured Subordinated Redeemable Debentures and in the event of subscriptions above Fifty Million (50,000,000) of said Debentures, the option to issue up to a further Thirty Million (30,000,000) of said Debentures and in the event of subscriptions above Eighty Million (80,000,000) of said Debentures, the option to issue up to a further Twenty Million (20,000,000) of said Debentures			
Amount to be Raised	Sri Lanka Rupees Five Billion (LKR 5,000,000,000/-) with an option to raise further up to Sri Lanka Rupees Three Billion (LKR 3,000,000,000/-) and with a further option to raise up to Sri Lanka Rupees Two Billion (LKR 2,000,000,000/-), at the discretion of the Bank in the event of an Oversubscription of the Issue Oversubscription herein refers to the Oversubscription of Sri Lanka Rupees Five Billion (LKR 5,000,000,000/-) and in the event of subscriptions above Sri Lanka Rupees Five Billion (LKR 5,000,000,000/-), the option to issue up to a further Sri Lanka Rupees Three Billion (LKR 3,000,000,000/-) and in the event of subscriptions above Sri Lanka Rupees Eight Billion (LKR 8,000,000,000/-), the option to issue up to a further Sri Lanka Rupees Two Billion (LKR 2,000,000,000/-)			
Rating of the Bank	"AA-(lka)" by Fitch Ratings Lanka Limited			
Issue Rating	"A+(lka)" by Fitch Ratings Lanka Limited			
Issue Price/Face Value	LKR 100/- per each Debenture			
Types of Debentures (Fixed Rate Debentures)	<i>Types of Debentures</i>	<i>Interest Rate (per annum)</i>	<i>Annual Effective Rate (per annum)</i>	<i>Redemption (from the Date of Allotment)</i>
	Type A	13.00% payable semi-annually	13.42%	60 Months (5 Years)
	Type B	13.40% payable annually	13.40%	60 Months (5 Years)
	Type C	13.90% payable annually	13.90%	120 Months (10 Years)
	Type D	14.00% payable annually	14.00%	144 Months (12 Years)

ISSUE AT A GLANCE

Number of Debentures to be Subscribed	Applicants may invest in any one or more of the below Types of Debentures; ▪ Debentures of Type A; and/or ▪ Debentures of Type B; and/or ▪ Debentures of Type C; and/or ▪ Debentures of Type D subject to the minimum subscription under each Type of Debentures as given below. A minimum of One Hundred (100) Debentures (LKR 10,000/-) and in multiples of One Hundred (100) Debentures (LKR 10,000/-) thereafter
Interest Payment Date(s)	<u>Debentures of Type A</u> 30th June and 31st December of each year from the Date of Allotment up to the Date of Redemption and includes the Date of Redemption <u>Debentures of Type B, Debentures of Type C and Debentures of Type D</u> 31st December of each year from the Date of Allotment up to the Date of Redemption and includes the Date of Redemption Interest would be paid not later than three (03) Working Days from each Interest Payment Date
Mode of Payment of Principal Sum and Interest	By cheque marked "Account Payee Only" or through an electronic fund transfer mechanism recognised by the banking system of Sri Lanka such as SLIPS and RTGS
Issue Opening Date	12 th December 2013
Closure Date of the Subscription List	02nd January 2014 or such earlier date on which; ▪ The maximum of 100,000,000 Debentures are fully subscribed; or ▪ The Board of Directors of the Bank decides to close the Issue upon the initial Issue of 50,000,000 Debentures becoming fully subscribed or such other higher amount less than the maximum amount referred to above becoming fully subscribed
Date of Allotment	The date on which the Debentures will be allotted by the Bank to Applicants subscribing thereto
Basis of Allotment	In the event of an Oversubscription, the Board of Directors of NDB will endeavor to decide the basis of allotment of the Debentures in a fair manner as soon as practicable The Board however shall reserve the right to allocate up to 60% of the Number of Debentures to be issued under this Prospectus on a preferential basis, to identified institutional investor/s of strategic importance with whom the Bank might have mutually beneficial relationships in the future

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1.0 CORPORATE INFORMATION

The Bank/Issuer/NDB	National Development Bank PLC
Legal Status	Established under an Act of Parliament in January 1979 and converted to a Public Limited Liability Company under the Companies Act in 2005 and re-registered under the Companies Act No. 7 of 2007 and also regulated under the Banking Act No. 30 of 1988 as amended from time to time
Company Number	PQ 27
Place of Incorporation	Colombo, Sri Lanka
Registered Address	National Development Bank PLC No. 40, Navam Mawatha Colombo 02 Tel : +94 11 2 448 448 Fax : +94 11 2 341 044, +94 11 2 440 262
Company Secretary	Mrs. Shehani Ranasinghe (Attorney-at-Law) National Development Bank PLC No. 40, Navam Mawatha Colombo 02 Tel : +94 11 2 448 448 ext 3080 Fax : +94 11 2 341 050
Rating Agency	Fitch Ratings Lanka Limited No. 15-04, East Tower World Trade Centre Colombo 01 Tel: +94 11 2 541 900 Fax: +94 11 2 501 903
Auditor	Ernst & Young Chartered Accountants No. 201, De Saram Place Colombo 10 Tel : +94 11 2 463 500 Fax: +94 11 2 697 369
Board of Directors	Mr. Sunil Wijesinha (Chairman) Mr. Ashok Pathirage (Deputy Chairman) Mr. Rajendra Theagarajah (Chief Executive Officer) Mr. Trevine Jayasekara Mr. Sarath Wikramanayake Mrs. Kimarli Fernando Mr. Anura Siriwardena Ms. Chandra Ekanayake Mr. Sujeewa Rajapakse Mrs. Indrani Sugathadasa

2.0 RELEVANT PARTIES TO THE ISSUE

Financial Advisors and Managers to the Issue	NDB Investment Bank Limited No. 40, Navam Mawatha Colombo 02 Tel : +94 11 2 300 385 Fax: +94 11 2 300 393
Lawyers to the Issue	Nithya Partners No. 97A, Galle Road Colombo 03 Tel : +94 11 4 712 625 Fax: +94 11 2 328 817
Registrars to the Issue	S S P Corporate Services (Private) Limited No. 101, Inner Flower Road Colombo 03 Tel : +94 11 2 573 894 Fax: +94 11 2 573 609
Bankers to the Issue	National Development Bank PLC No. 40, Navam Mawatha Colombo 02 Tel : +94 11 2 448 448 Fax : +94 11 2 341 044, +94 11 2 440 262
Rating Agency to the Issue	Fitch Ratings Lanka Limited No. 15-04, East Tower World Trade Centre Colombo 01 Tel : +94 11 2 541 900 Fax: +94 11 2 501 903
Trustee to the Issue	Bank of Ceylon Investment Banking Division 23 rd Floor, Head Office “BOC Square” No. 1, Bank of Ceylon Mawatha Colombo 01 Tel: +94 11 2 448 348 Fax: +94 11 2 346 842

3.0 LIST OF ABBREVIATIONS

AER	Annual Effective Rate
ATS	Automated Trading System of the Colombo Stock Exchange
CBSL	Central Bank of Sri Lanka
CDS	Central Depository Systems (Private) Limited
CSE	Colombo Stock Exchange
GTB	Gross Treasury Bill Rate
NIC	National Identity Card
POA	Power of Attorney
RTGS	Real Time Gross Settlements
SEC	Securities and Exchange Commission of Sri Lanka
SIA	Securities Investment Account
SLIPS	Sri Lanka Inter Bank Payment System
SME	Small and Medium Enterprises

4.0 GLOSSARY OF TERMS RELATED TO THE ISSUE

Applicant	Any person who submits an Application Form under this Prospectus
Application Form/ Application	The application form that constitutes part of this Prospectus through which an Applicant may apply for the Debentures in Issue
Bank/NDB/ Issuer	National Development Bank PLC
Closure Date	02 nd January 2014 or such earlier date on which; ▪ The maximum of 100,000,000 Debentures are fully subscribed; or ▪ The Board of Directors of the Bank decides to close the Issue upon the initial Issue of 50,000,000 Debentures becoming fully subscribed or such other higher amount less than the maximum amount referred to above becoming fully subscribed
Date of Allotment	The date on which the Debentures will be allotted by the Bank to Applicants subscribing thereto
Date of Redemption	The date on which Redemption of the Debentures will take place as referred to in Section 5.6 of this Prospectus
Debentures	Rated Unsecured Subordinated Redeemable Debentures to be issued pursuant to this Prospectus
Debenture Holder(s)	Any person who is for the time being the holder of the Debentures and includes his/her respective successors in title
Face Value	LKR 100/- per each Debenture
Interest Payment Date(s)	<u>Debentures of Type A</u> 30th June and 31st December of each year from the Date of Allotment up to the Date of Redemption and includes the Date of Redemption <u>Debentures of Type B, Debentures of Type C and Debentures of Type D</u> 31st December of each year from the Date of Allotment up to the Date of Redemption and includes the Date of Redemption Interest would be paid not later than three (03) Working Days from each Interest Payment Date

GLOSSARY OF TERMS RELATED TO THE ISSUE

Interest Period	Debentures of Type A The six month period from the date immediately succeeding a particular Interest Payment Date and ending on the next Interest Payment Date (inclusive of the aforementioned commencement date and end date) and will include the period commencing from the Date of Allotment and ending on the first Interest Payment Date (inclusive of the aforementioned commencement date and end date) and the period from the date immediately succeeding the last Interest Payment Date before the Date of Redemption and ending on the date immediately preceding the Date of Redemption (inclusive of the aforementioned commencement date and end date) Debentures of Type B, Debentures of Type C and Debentures of Type D The twelve month period from the date immediately succeeding a particular Interest Payment Date and ending on the next Interest Payment Date (inclusive of the aforementioned commencement date and end date) and will include the period commencing from the Date of Allotment and ending on the first Interest Payment Date (inclusive of the aforementioned commencement date and end date) and the period from the date immediately succeeding the last Interest Payment Date before the Date of Redemption and ending on the date immediately preceding the Date of Redemption (inclusive of the aforementioned commencement date and end date)
Entitlement Date	The Market Day immediately preceding the respective Interest Payment Date or Date of Redemption on which a Debenture Holder would need to be recorded as being a Debenture Holder on the list of Debenture Holders provided by the CDS to the Bank in order to qualify for the payment of any interest or any Redemption proceeds
Issue	The offer of Debentures pursuant to this Prospectus
Issue Price	LKR 100/- per each Debenture
Market Day	A day on which trading takes place at the CSE
Non-Resident(s)	Foreign institutional investors, corporate bodies incorporated outside Sri Lanka, individuals resident outside Sri Lanka and Sri Lankans resident outside Sri Lanka

GLOSSARY OF TERMS RELATED TO THE ISSUE

Oversubscription	The oversubscription of Fifty Million (50,000,000) Debentures (i.e. LKR 5,000,000,000/-) and in the event of subscriptions above Fifty Million (50,000,000) of said Debentures (i.e. LKR 5,000,000,000/-), the option to issue up to a further Thirty Million (30,000,000) of said Debentures (i.e. LKR 3,000,000,000/-) and in the event of subscriptions above Eighty Million (80,000,000) of said Debentures (i.e. LKR 8,000,000,000/-), the option to issue up to a further Twenty Million (20,000,000) of said Debentures (i.e. LKR 2,000,000,000/-)
Principal Sum	The product of the Face Value and the number of Debentures allotted
Prospectus	This prospectus dated 03 rd December 2013 issued by NDB
Redemption	Repayment of the Face Value and unpaid and accrued interest (if any) with regard to a Debenture to a Debenture Holder by the Bank
Subordinated	The claims of the Debenture Holders shall in the event of a winding up of the Bank, rank after all the claims of secured and other unsecured creditors of the Bank and any preferential claims under any statutes governing the Bank but in priority to and over the claims and rights of the shareholders of the Bank
Trust Deed	Trust deed executed between NDB and Bank of Ceylon on 22 nd November 2013
Trustee	Bank of Ceylon
Unsecured	Repayment of the Principal Sum and payment of interest on the Debentures are not secured by a charge on any assets of NDB
Working Day	A day (other than a Saturday or Sunday or any statutory holiday) on which licensed commercial banks are open for business in Sri Lanka

5.0 PRINCIPAL FEATURES OF THE RATED UNSECURED SUBORDINATED REDEEMABLE DEBENTURES

5.1 INVITATION TO SUBSCRIBE

The Board of Directors of The National Development Bank PLC (hereinafter referred to as the "Board") by resolution dated 12th November 2013 resolved to raise a sum of up to Sri Lanka Rupees Five Billion (LKR 5,000,000,000/-) by an initial Issue of up to Fifty Million (50,000,000) Debentures each with a Face Value of LKR 100/-, with the option of increasing the sum raised up to a further Sri Lanka Rupees Three Billion (LKR 3,000,000,000/-) by an issue of up to a further Thirty Million (30,000,000) of said Debentures and with a further option of increasing the sum raised up to Sri Lanka Rupees Two Billion (LKR 2,000,000,000/-) by an issue of up to a further Twenty Million (20,000,000) of said Debentures, in the event of an Oversubscription of the Issue.

As such, a maximum amount of Sri Lanka Rupees Ten Billion (LKR 10,000,000,000/-) would be raised by the issue of a maximum of Hundred Million (100,000,000) Debentures each with a Face Value of LKR 100/-.

The rights of the Debenture Holders with respect to payment of the Principal Sum and accrued interest due thereon (if any) upon a winding-up of the Bank will rank after all the claims of secured and other unsecured creditors of the Bank and any preferential claims under any statutes governing the Bank, but in priority to and over the claims and rights of the shareholders of the Bank.

NDB invites Applications for Debentures of Type A and/or Debentures of Type B and/or Debentures of Type C and/or Debentures of Type D, which will rank equal and *pari passu* in all respects except for the rate of interest, the frequency at which the interest is paid and the Date of Redemption, as more fully described in Section 5.5 and Section 5.6 of this Prospectus respectively.

It is the intention of the Bank to list the Debentures on the Main Board of the Colombo Stock Exchange. The CSE has given its in-principle approval for the listing of the Debentures on the CSE.

5.2 SUBSCRIPTION LIST

Subject to the provisions contained below, the subscription list for the Debentures will open at 9.30 a.m. on 12th December 2013 and will remain open for fourteen (14) Market Days including the Issue opening date until closure at 4.30 p.m. on 02nd January 2014.

However, the subscription list will be closed on an earlier date at 4.30 p.m. with the notification to the CSE on the occurrence of the following:

- The maximum of 100,000,000 Debentures are fully subscribed; or
- The Board of Directors of the Bank decides to close the Issue upon the initial Issue of 50,000,000 Debentures becoming fully subscribed or such other higher amount less than the maximum amount referred to above becoming fully subscribed.

Applications can be made forthwith in the manner set out in Section 6.0 of this Prospectus and duly completed Application Forms will be accepted at any one of the collection points set out in Annexure II of this Prospectus.

5.3 OBJECTIVES OF THE ISSUE

- Strengthen the Tier II Capital Base of the Bank and maintain the Capital Adequacy requirements in line with the Bank's future expansion of operations and the asset base. The proposed Issue will facilitate future expansion of business activities of the Bank.
- The Issue will also facilitate mobilizing/raising medium term funds to match the medium and long term lending of the Bank.
- The Issue will also help to minimize the interest rate risk and manage the gap exposures of the Bank's assets and liabilities.

5.4 TYPES OF DEBENTURES

The Issue consists of four (04) Types of Debentures, namely Debentures of Type A, Debentures of Type B, Debentures of Type C and Debentures of Type D each with a Face Value of Rupees One Hundred (LKR 100/-).

The Applicants have the discretion of applying for Debentures issued under Debentures of Type A and/or Debentures of Type B and/or Debentures of Type C and/or Debentures of Type D.

5.5 INTEREST

The Debentures will carry fixed rates of interest as described in the table below.

Type A	Thirteen decimal zero <i>per centum</i> (13.00%) per annum, payable semi-annually on the Interest Payment Dates. <i>Annual Effective Rate of 13.42% per annum</i>
Type B	Thirteen decimal four zero <i>per centum</i> (13.40%) per annum, payable annually on the Interest Payment Dates. <i>Annual Effective Rate of 13.40% per annum</i>
Type C	Thirteen decimal nine zero <i>per centum</i> (13.90%) per annum, payable annually on the Interest Payment Dates. <i>Annual Effective Rate of 13.90% per annum</i>
Type D	Fourteen decimal zero <i>per centum</i> (14.00%) per annum, payable annually on the Interest Payment Dates. <i>Annual Effective Rate of 14.00% per annum</i>

With regard to Debentures of Type A, Interest on the Debentures accruing on a daily basis will be paid on 30th June and 31st December of each year from the Date of Allotment until the date immediately preceding the Date of Redemption on the outstanding Principal Sum.

With regard to Debentures of Type B, Debentures of Type C and Debentures of Type D, Interest on the Debentures accruing on a daily basis will be paid on 31st December of each year from the Date of Allotment until the date immediately preceding the Date of Redemption on the outstanding Principal Sum.

The interest due on the Debentures for a particular Interest Period will be calculated based on the actual number of days in such Interest Period and will be paid not later than three (03) Working Days from each Interest Payment Date.

In order to accommodate the debenture interest cycles in the ATS of the CSE, the payment of interest for a particular Interest Payment Date will include Debenture Holders holding Debentures in the CDS as of the Entitlement Date.

Payment of the interest on the Debentures will be made after deducting any taxes and charges thereon (if any) in Sri Lanka Rupees as per the applicable law prevalent at the time of interest payment to the Debenture Holders.

As per Section 9(o) of the Inland Revenue (Amendment) Act No. 18 of 2013, the interest income from any investment made on or after 01st January 2013 in corporate debt securities (i.e. debentures), quoted in any stock exchange licensed by the SEC is exempt from income tax. Furthermore, in terms of Section 13(xxxxxxx) of the same Act, the profits and income earned from any such investment has also been exempted from income tax.

5.6 REDEMPTION

- (a) Redemption of the Debentures will take place on the respective Date of Redemption in respect of each Type of Debentures as described in the table below and subject to Section 5.6(b) overleaf, in accordance with the provisions of the Trust Deed. The Principal Sum and unpaid and accrued interest (if any) payable on the Redemption of Debentures will be paid not later than three (03) Working Days from the Date of Redemption.

Redemption Schedule

Type of Debentures	Date of Redemption
Type A	The date on which a period of Sixty (60) months from the Date of Allotment expires or if such date on which a period of Sixty (60) months from the Date of Allotment expires is not a Market Day, the Market Day immediately succeeding such date.
Type B	The date on which a period of Sixty (60) months from the Date of Allotment expires or if such date on which a period of Sixty (60) months from the Date of Allotment expires is not a Market Day, the Market Day immediately succeeding such date.
Type C	The date on which a period of One Hundred and Twenty (120) months from the Date of Allotment expires or if such date on which a period of One Hundred and Twenty (120) months from the Date of Allotment expires is not a Market Day, the Market Day immediately succeeding such date.

Type of Debentures	Date of Redemption
Type D	The date on which a period of One Hundred and Forty Four (144) months from the Date of Allotment expires or if such date on which a period of One Hundred and Forty Four (144) months from the Date of Allotment expires is not a Market Day, the Market Day immediately succeeding such date.

- (b) Any voluntary Redemption of a particular Type of Debentures prior to the Date of Redemption in any circumstances will be done subject to the prior written consent of the Central Bank of Sri Lanka and the prior approval of the Debenture Holders of 3/4ths of the Face Value of such Type of Debentures outstanding at that time.

Each Type of Debentures can be voluntarily redeemed prior to the Date of Redemption only in its entirety and no part Redemption will be permitted.

The voluntary Redemption prior to the Date of Redemption of any Type of Debentures as set out above will not have any effect howsoever on any other Type of Debentures.

5.7 PAYMENT OF PRINCIPAL SUM AND INTEREST

The Bank will redeem the Debentures on the respective Date of Redemption as specified in Section 5.6 and the interest payments will be made as specified in Section 5.5.

The payment of Principal Sum and interest will be made either by cheque/s marked "Account Payee Only" dispatched to the address provided by the Debenture Holders to the CDS at the risk of the Debenture Holders or through an electronic fund transfer mechanism recognised by the banking system of Sri Lanka such as SLIPS and RTGS to a bank account provided to the CDS by the Debenture Holders.

However, in the event such payment is over the maximum amount that can be accommodated through an electronic fund transfer mechanism recognised by the banking system of Sri Lanka or if the Debenture Holder has not provided to the CDS accurate and correct details of his/her bank account for the payment of Principal Sum and interest, such payment to the Debenture Holder will be made by way of a cheque and sent by post at the risk of the Debenture Holder.

The payment of Principal Sum and interest will be made in Sri Lanka Rupees in favour of the Debenture Holders as of the Entitlement Date. In the case of joint Debenture Holders, the payment of Principal Sum and interest will be made to the one whose name stands first in the register of Debenture Holders.

5.8 TRUSTEE TO DEBENTURE HOLDERS

Bank of Ceylon has agreed to act as the Trustee to the Debenture Holders. NDB has entered into an agreement with the Trustee (hereinafter called the "Trust Deed"). Debenture Holders in their Application Forms for subscription will be required to authorise the Trustee to act as their agent in entering into such deeds, writings, and instruments with NDB and to act as the agent and Trustee for the Debenture Holders.

The rights and obligations of the Trustee are set out in the Trust Deed and the Debentures will be subject to the terms and conditions incorporated in the said Trust Deed.

The fee payable to the Trustee will be LKR 125,000 per semi-annual period plus statutory levies. There is no conflict of interest with NDB, except that the Trustee is one of the banks rendering banking related services to NDB.

5.9 RATING OF THE DEBENTURES

Fitch Ratings Lanka Limited has assigned a credit rating of "A+(lka)" to the Debentures.

'A' National Ratings denote expectations of low default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than is the case for financial commitments denoted by a higher rated category.

The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories.

Source: http://www.fitchratings.com/creditratings/public/ratings_definitions/index.cfm?rd_file=ltr#LTR

A copy of the rating certificate is given in Annexure I of this Prospectus.

5.10 RIGHTS AND OBLIGATIONS OF DEBENTURE HOLDERS

(a) Debenture Holders are entitled to the following rights.

- Receiving interest on Interest Payment Dates at the rate of interest set out in Section 5.5 of this Prospectus and the Principal Sum on the Date of Redemption as set out in Section 5.6 of this Prospectus.
- Ranking above the ordinary shareholders and preference shareholders of the Bank in the event of liquidation.
- Calling and attending meetings of Debenture Holders as set out in the Trust Deed.

In the event of the Bank winding up, the claims of the Debenture Holders will rank after all the claims of secured and other unsecured creditors of the Bank and any preferential claims under any statutes governing the Bank, but in priority to and over the claims and rights of the shareholders of the Bank.

(b) Debenture Holders do not have the following rights.

- Attending and voting at meetings of holders of shares and other debentures.
- Sharing in the profits of the Bank.
- Participating in any surplus in the event of liquidation.

(c) Each Debenture Holder must ensure that the information in respect of the securities account maintained with the CDS is up to date and accurate. Each Debenture Holder shall absolve the Bank from any responsibility or liability in respect of any error or inaccuracy or absence of necessary changes in the information recorded with the CDS.

Provided further that the Debenture Holders shall absolve the CSE and the CDS from any responsibility or liability in respect of any error or inaccuracy or absence of necessary changes in the information recorded with the CDS where such errors or inaccuracies or absence of changes are attributable to any act or omission of the Debenture Holders.

5.11 BENEFITS OF INVESTING IN DEBENTURES OFFERED BY THE BANK

- (a) Provides an opportunity to diversify the investment portfolio of the investor.
- (b) Provides the investor with a regular cash inflow of interest payments.
- (c) Provides the investor with an opportunity to invest in Debentures issued by a leading bank in Sri Lanka.
- (d) Being listed on the CSE, the Debentures will have a secondary market, thus providing the investor with an opportunity to exit at the market price prevailing at the time of divestiture.
- (e) The Debentures may be used as collateral to obtain credit facilities from other banks and financial institutions.
- (f) As per Section 9(o) of the Inland Revenue (Amendment) Act No. 18 of 2013, the interest income from any investment made on or after 01st January 2013 in corporate debt securities (i.e. debentures), quoted in any stock exchange licensed by the SEC is exempt from income tax. Furthermore, in terms of Section 13(xxxxxxx) of the same Act, the profits and income earned from any such investment has also been exempted from income tax.

5.12 RISKS INVOLVED IN INVESTING IN THE DEBENTURES

Subscribers to the Debentures could be exposed to the following risks.

(a) Interest Rate Risk

Provided all other factors are equal, the market price of the Debentures will generally fluctuate in the opposite direction to the fluctuation in market interest rates. Thus, the interest rate risk could be identified as the reduction in the market price of Debentures resulting from a rise in interest rates.

(b) Reinvestment Risk

Interest on Debentures are payable semi-annually in the case of Debentures of Type A and annually in the case of Debentures of Type B, Debentures of Type C and Debentures of Type D. An investor may decide to reinvest these interest payments and earn interest from that point onwards. Depending on the prevailing interest rates at the point of reinvestment, the risk of returns generated by Debenture Holders by reinvesting such interest received being higher or lower than the return offered by the Debentures is known as reinvestment risk.

(c) Call Risk

The uncertainty to the debenture investor is when the issuer has the option of redeeming the debentures before maturity, thus being called upon to terminate the investment early is known as "Call Risk". However, these Debentures do not carry this risk as call options are not available with these Debentures. These Debentures can be redeemed by the Bank prior to the Date of Redemption only with the consent of the Debenture Holders as mentioned hereinafter.

If any particular Type Debentures are redeemed prior to the Date of Redemption, it will be done subject to the prior written consent of the Central Bank of Sri Lanka and the prior approval of the Debenture Holders of 3/4ths of the Face Value of such Type of Debentures outstanding at that time.

(d) Credit Risk

Credit Risk is also referred to as default risk. This is the risk that the issuer of a debenture may default, i.e. the issuer will not be able to pay interest and principal payments on a timely basis. This risk is gauged in terms of rating assigned by different rating agencies. Fitch Ratings Lanka Limited has assigned a Long-term Rating of 'A+(lka)' to these Debentures and will be periodically reviewing the same.

(e) Liquidity Risk

Liquidity risk is associated with the ease in which an investment can be sold after the initial placement. In order to reduce the liquidity risk of the Debentures, the Bank has applied for a listing of these Debentures on the CSE and has received in-principle approval for such listing whereby Debenture Holders will be able to sell the Debentures through the CSE in order to convert the Debentures to cash and exit from the investment.

(f) Duration Risk

Duration is a measure of the price sensitivity of fixed income investments to a change in interest rates, based on the time to maturity of principal and coupon payments. The higher the duration, the greater the price volatility or duration risk, while a lower duration risk carries a lower risk.

5.13 TRANSFER OF DEBENTURES

The Debentures will be transferable and transmittable in the manner set out in the Trust Deed, which is reproduced below.

- (a) These Debentures shall be freely transferable and the registration of such transfer shall not be subject to any restriction, save and except to the extent required for compliance with statutory requirements.
- (b) The Debentures shall be transferable and transmittable as long as the Debentures are listed on the CSE. Subject to the provisions contained herein the Bank may register without assuming any liability any transfer of Debentures, which are in accordance with the statutory requirements and rules and regulations in force for the time being as laid down by the CSE, SEC and the CDS.
- (c) In the case of death of a Debenture Holder;
 - The survivor where the deceased was a joint holder; and
 - The executors or administrators of the deceased or where the administration of the estate of the deceased is in law not compulsory the heirs of the deceased where such Debenture Holder was the sole or only surviving holder;

shall be the only persons recognized by the Bank as having any title to his/her Debentures.

(d) Any person becoming entitled to any Debentures in consequence of bankruptcy or winding up of any Debenture Holder, upon producing proper evidence that he/she/it sustains the character in respect of which he/she/it proposes to act or his/her title as the Board of Directors of the Bank thinks sufficient may in the discretion of the Board be substituted and accordingly registered as a Debenture Holder in respect of such Debentures subject to the applicable laws, rules and regulations of the Bank, CDS, CSE and SEC.

(e) No change of ownership in contravention to these conditions will be recognized by the Bank.

5.14 LISTING

An application has been made to the CSE for permission to obtain a listing for the Debentures and the CSE has granted its approval in-principle for the same. It is the intention of the Bank to list the Debentures on the Main Board of the Colombo Stock Exchange upon the allotment thereof.

The CSE however, assumes no responsibility for the correctness of the statements made or opinions expressed or reports included in this Prospectus. Admission to the official list is not to be taken as an indication of the merits of the Bank or of its Debentures.

5.15 COST OF THE ISSUE

The Board estimates that the total cost of the Issue including fees to professionals, printing, advertising and other costs connected with the Issue will be approximately LKR 64.0 Million. Such costs will be financed by the internally generated funds of the Bank.

5.16 BROKERAGE FEE

Brokerage fee of 15 cents (LKR 0.15) per Debenture shall be paid in respect of the number of Debentures allotted on Applications bearing the original seal of any bank operating in Sri Lanka or a member/trading member of the CSE or Financial Advisors and Managers to the Issue or any other party identified by the Bank and/or Financial Advisors and Managers to the Issue as involved in the Issue.

5.17 UNDERWRITING

This Issue is not underwritten.

The offering is not conditional to any minimum amount to be raised through this Issue. In the event of an under subscription, the Bank is confident that any short fall in the funds required to meet the objectives of the Issue can be financed through internally generated funds and other credit facilities.

6.0 PROCEDURE FOR APPLICATION

6.1 INSPECTION OF DOCUMENTS

Articles of Association, the Trust Deed, Auditors' Reports and Audited Financial Statements for the five (05) financial years ended 31st December 2012 (i.e. the five (05) financial years immediately preceding the date of this Prospectus), Interim Financial Statement as at 30th September 2013 and all other documents referred to in Rule 3.2.16 (a) of the CSE Listing Rules, including material contracts and management agreements entered into by the Bank (if any) are available for inspection by the public during normal working hours, from seven (07) Market Days prior to the date of opening of the subscription list, at the registered office of the Bank at No. 40, Navam Mawatha, Colombo 02 until the Date of Redemption of the Debentures.

The Prospectus, Trust Deed and Articles of Association of the Bank are available on the website of CSE, www.cse.lk and the website of the Bank, www.ndbbank.com from seven (07) Market Days prior to the date of opening of the subscription list until the Date of Redemption of the Debentures as stipulated in Rule 3.2.16 (b) of the CSE Listing Rules.

Furthermore, copies of the Prospectus and Application Forms are available free of charge from the collection points set out in Annexure II of this Prospectus from seven (07) Market Days prior to the date of opening of the subscription list.

6.2 ELIGIBLE APPLICANTS

Applications are invited for the subscription of Debentures from the following categories of applicants.

- (a) Citizens of Sri Lanka, resident in Sri Lanka and above 18 years of age.
- (b) Corporate bodies and societies registered/incorporated/established in Sri Lanka and authorized to invest in Debentures.
- (c) Approved unit trusts licensed by SEC.
- (d) Approved provident funds and contributory pension schemes registered/incorporated/established in Sri Lanka and authorized to invest in Debentures. In the case of approved provident funds and approved contributory pension schemes, the Application should be in the name of the trustee/board of management.
- (e) Regional and country funds approved by SEC and authorized to invest in Debentures.
- (f) Non-Residents: foreign institutional investors, corporate bodies incorporated outside Sri Lanka, individuals' resident outside Sri Lanka and Sri Lankans resident outside Sri Lanka.

Applications will not be accepted from individuals and Sri Lankans residing outside Sri Lanka who are under the age of 18 years, or in the names of sole proprietorships, partnerships or unincorporated trusts.

"Individuals resident outside Sri Lanka" will have the same meaning as in the notice published under the Exchange Control Act in Gazette No. 15007 dated 21st April 1972.

When permitting Non-Residents to invest in the Debentures, the Bank will comply with the relevant Exchange Control Regulations including the conditions stipulated in the notice under the Exchange Control Act with regard to the issue and transfer of debentures of companies incorporated in Sri Lanka to foreign investors as published in the Government Gazette (Extraordinary) No. 1681/11 on 22nd November 2010 and Government Gazette (Extraordinary) No. 1733/19 on 22nd November 2011.

6.3 HOW TO APPLY

The terms and conditions applicable to the Applicants are as follows.

- (a) Applications should be made on the Application Forms, which accompany and constitute a part of this Prospectus (exact size photocopies of Application Forms will also be accepted). Care must be taken to follow the instructions given herein and in the Application Form. Applicants using photocopies are requested to inspect the Prospectus which is available for inspection with the Registrar to the Issue and also issued free of charge by the parties listed in Annexure II of this Prospectus.

The Application Form can also be downloaded from the website of CSE, www.cse.lk, the website of NDB, www.ndbbank.com and the website of the Financial Advisors and Managers to the Issue, www.ndbib.com until the Closure Date.

The Prospectus is available and can be downloaded from the website of CSE, www.cse.lk and the website of NDB, www.ndbbank.com until the Date of Redemption of the Debentures and from the website of the Financial Advisors and Managers to the Issue, www.ndbib.com until the Closure Date.

Applications which do not strictly conform to instructions and other conditions set out herein or which are incomplete or illegible may be rejected.

- (b) Applicants should apply only for one Type of Debentures (i.e. either Debentures of Type A or Debentures of Type B or Debentures of Type C or Debentures of Type D) under one Application Form.
- (c) In the event an Applicant wishes to apply for more than one Type of Debentures, separate Application Forms should be used. Once an Application Form has been submitted for a particular Type of Debentures, it will not be possible for an Applicant to switch between the Types of Debentures.
- (d) More than one Application submitted by an Applicant under the same Type of Debentures will not be accepted. If two or more Application Forms are submitted for one Type of Debentures from a single Applicant, those would be considered as multiple Applications and the Bank will not accept such multiple Applications or suspected multiple Applications.
- (e) If the ownership of the Debentures is desired in the name of one Applicant, full details should be given only under the heading SOLE/FIRST APPLICANT in the Application Form. In the case of joint Applicants, the signatures and particulars in respect of all Applicants must be given under the relevant headings in the Application Form.

- (f) An Applicant of a joint Application will not be eligible to apply for the same Type of Debenture through a separate Application Form either individually or jointly. Such Applicants are also deemed to have made multiple Applications and will be rejected.

In the case of joint Applications, the refunds (if any), interest payments and the Redemption will be remitted in favour of the first Applicant as identified in the Application Form.

The Bank shall not be bound to register more than three (03) natural persons as joint holders of any Debentures (except in the case of executors, administrators or heirs of a deceased member).

Joint Applicants should note that all parties should either be residents of Sri Lanka or Non-Residents.

- (g) Applications by companies, corporate bodies, societies, approved provident funds, trust funds and approved contributory pension schemes registered/incorporated/established in Sri Lanka should have obtained necessary internal approvals as provided by their internal approval procedures at the time of applying for the Debentures and should be made under their common seal or in any other manner as provided by their articles of association or such other constitutional documents of such Applicant or as per the statutes governing them. In the case of approved provident funds, trust funds and approved contributory pension schemes, the Applications should be in the name of the trustee/board of management.
- (h) All Applicants should indicate in the Application for Debentures, their CDS account number.

In the event the name, address or NIC number/passport number/company number of the Applicant mentioned in the Application Form differ from the name, address or NIC number/passport number/company number as per the CDS records, the name, address or NIC number/passport number/company number as per the CDS records will prevail and be considered as the name, address or NIC number/passport number/company number of such Applicant. Therefore, Applicants are advised to ensure that the name, address or NIC number/passport number/company number mentioned in the Application Form tally with the name, address or NIC number/passport number/company number given in the CDS account as mentioned in the Application Form.

In the case of joint Applicants, a joint CDS account in the name of the joint Applicants should be indicated.

Application Forms stating third party CDS accounts, instead of Applicants' own CDS account numbers, except in the case of margin trading, will be rejected.

- (i) Applicants who wish to apply through their margin trading accounts should submit the Application Forms in the name of the "Margin Provider/Applicant's name" signed by the margin provider, requesting a direct deposit of the Debentures to the Applicant's margin trading account in the CDS. The margin provider should indicate the relevant CDS account number relating to the margin trading account in the Application Form. A photocopy of the margin trading agreement must be submitted along with the Application.

Margin providers can apply under their own name and such Applications will not be construed as multiple Applications.

- (j) Application Forms may be signed by a third party on behalf of the Applicant(s) provided that such person holds the Power of Attorney (POA) of the Applicant(s). A copy of such POA certified by a Notary Public as "True Copy" should be attached with the Application Form. **Original of the POA should not be attached.**
- (k) Funds for the investment in Debentures and the payment for Debentures by Non-Residents should be made only out of funds received as inward remittances or available to the credit of "Securities Investment Account" (SIA) of the Non-Residents opened and maintained in a licensed commercial bank in Sri Lanka in accordance with directions given by the Controller of Exchange in that regard to licensed commercial banks.

An endorsement by way of a letter by the licensed commercial bank in Sri Lanka in which the Applicant maintains the SIA, should be attached to the Application Form to the effect that such payment through bank draft/bank guarantee/RTGS has been made out of the funds available in the SIA.

- (l) Non-Residents should have obtained necessary internal approvals as provided by their internal approval procedures at the time of applying for the Debentures and may be affected by the laws of the jurisdiction of their residence. If the Non-Resident Applicants wish to apply for the Debentures, it is their responsibility to comply with the laws relevant to the jurisdiction of their residence and of Sri Lanka.

Application Forms properly filled in accordance with the instructions thereof together with the remittance for the full amount payable on Application should be enclosed in an envelope marked "NATIONAL DEVELOPMENT BANK PLC - DEBENTURE ISSUE 2013" on the top left hand corner in capital letters and dispatched by post or courier or delivered by hand to the Registrars to the Issue or collection points mentioned in Annexure II of this Prospectus.

Applications sent by post or courier or delivered to any collection point set out in Annexure II of this Prospectus should reach the office of the Registrars to the Issue, S S P Corporate Services (Private) Limited, No. 101, Inner Flower Road, Colombo 03, at least by 4.30 p.m. on the following Working Day immediately upon the Closure Date. Applications received after the said period will be rejected even though they have been delivered to any of the said collection points prior to the Closure Date or carry a postmark dated prior to the Closure Date.

Applications delivered by hand to the Registrars to the Issue after the Closure Date of the Issue will also be rejected.

Please note that Applicant information such as full name, address, NIC number/passport number/company number and residency will be downloaded from the database of CDS, based on the CDS account number indicated in the Application Form. Such information will take precedence over information provided in the Application Form.

Care must be taken to follow the instructions on the reverse of the Application Form.

Applications that do not strictly conform to such instructions and additional conditions set out hereunder or which are illegible may be rejected.

PLEASE NOTE THAT ALLOTMENT OF DEBENTURES WILL ONLY BE MADE IF THE APPLICANT HAS A VALID CDS ACCOUNT AT THE TIME OF SUBMISSION OF THE APPLICATION.

Please note that upon the allotment of Debentures under this Issue, the allotted Debentures would be credited to the Applicant's CDS account so indicated.

Hence, **DEBENTURE CERTIFICATES WILL NOT BE ISSUED.**

6.4 NUMBER OF DEBENTURES TO BE SUBSCRIBED

Applicants may invest in any one or more of the below Types of Debentures;

- Debentures of Type A; and/or
- Debentures of Type B; and/or
- Debentures of Type C; and/or
- Debentures of Type D

subject to the minimum subscription under each Type of Debentures as given below.

A minimum of One Hundred (100) Debentures (LKR 10,000/-) and in multiples of One Hundred (100) Debentures (LKR 10,000/-) thereafter under each Type of Debentures.

An Applicant should apply only for one Type of Debentures under one Application Form.

6.5 MODE OF PAYMENT OF THE INVESTMENT BY THE APPLICANTS

- (a) Payment in full for the total value of Debentures applied for should be made separately in respect of each Application either by cheque/s, bank draft/s, bank guarantee drawn upon any licensed commercial bank operating in Sri Lanka or RTGS transfer directed through any licensed commercial bank operating in Sri Lanka, as the case may be, subject to (b) below.
- (b) Payments for Application values below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) should be supported by either a;
 - Bank draft/cheque drawn upon any licensed commercial bank operating in Sri Lanka; or
 - RTGS transfer with value on the Issue opening date.

Payments for Application values above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-) should be supported by either a;

- Bank guarantee issued by a licensed commercial bank; or
- Multiple bank drafts/cheques drawn upon any licensed commercial bank operating in Sri Lanka, each of which should be for a value less than LKR 100,000,000/-; or
- RTGS transfer with value on the Issue opening date.

Multiple cheques will not be accepted for Application values below Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-).

- (c) Cheques or bank drafts should be made payable to **"NATIONAL DEVELOPMENT BANK PLC - DEBENTURE ISSUE 2013"** and crossed **"Account Payee Only"**, and must be honoured on the first presentation.
- (d) In case of bank guarantees, such bank guarantees should be issued by any licensed commercial bank in Sri Lanka in favour of **"NATIONAL DEVELOPMENT BANK PLC - DEBENTURE ISSUE 2013"** in a manner acceptable to the Bank, and be valid for a minimum of one (01) month from the Issue opening date (i.e. 12th December 2013).

Applicants are advised to ensure that sufficient funds are available in order to honour the bank guarantees, inclusive of charges when called upon to do so by the Registrars to the Issue. It is advisable that the Applicants discuss with their respective bankers the matters with regard to the issuance of bank guarantees and all charges involved. All expenses with regard to such bank guarantees should be borne by the Applicants.

- (e) In case of RTGS transfers, such transfers should be made to the credit of **"NATIONAL DEVELOPMENT BANK PLC - DEBENTURE ISSUE 2013"** bearing the account number **101000299805** at **National Development Bank PLC** with value on the Issue opening date (i.e. the funds to be made available to the above account on the Issue opening date).

The Applicant should obtain a confirmation from the Applicant's bank, to the effect that arrangements have been made to transfer payment in full for the total value of Debentures applied for to the credit of **"NATIONAL DEVELOPMENT BANK PLC - DEBENTURE ISSUE 2013"** bearing the account number **101000299805** at **National Development Bank PLC** with value on the Issue opening date (i.e. the funds to be made available to the above account on the Issue opening date) and should be attached with the Application Form.

For RTGS transfers above and inclusive of Sri Lanka Rupees One Hundred Million (LKR 100,000,000/-), the Applicants are entitled to an interest at the rate of Seven decimal zero per centum (7.00%) per annum from the date of such transfers up to the Date of Allotment. However, no interest will be paid if the RTGS transfers are not realised before the end of the Closure Date. Furthermore, even if such RTGS transfers are effected prior to the Issue opening date, no interest will be paid for the period prior to the Issue opening date.

- (f) Cash will not be accepted.

- (g) Payment for the Debentures by Non-Residents should be made only out of funds received as inward remittances or available to the credit of "Securities Investment Account" (SIA) maintained with any licensed commercial bank in Sri Lanka in accordance with directions given by the Controller of Exchange in that regard to licensed commercial banks.

An endorsement by way of a letter by the licensed commercial bank in Sri Lanka in which the Applicant maintains the SIA, should be attached to the Application Form to the effect that such payment through bank draft/bank guarantee/RTGS has been made out of the funds available in the SIA.

- (h) The amount payable should be calculated by multiplying the number of Debentures applied for under a particular Type of Debentures by the Face Value (LKR 100/-). If there is a discrepancy in the amount payable and the amount specified in the cheque/bank draft or bank guarantee, the Application will be rejected.
- (i) In the event that cheques are not realised prior to the date of deciding the basis of allotment, the monies will be refunded and no allotment of Debentures will be made. Cheques must be honoured on first presentation for the Application to be valid.
- (j) All cheques/bank drafts received in respect of the Applications for Debentures will be banked commencing from the Working Day immediately following the Closure Date.

6.6 REJECTION OF APPLICATIONS

Application Forms and the accompanying cheques/bank drafts/bank guarantee or RTGS transfers, which are illegible or incomplete in any way and/or not in accordance with the terms, conditions and instructions, set out in this Prospectus and in the Application Form will be rejected at the sole discretion of NDB.

Applications from individuals and Sri Lankans residing outside of Sri Lanka who are under the age of 18 years or in the names of sole proprietorships, partnerships and unincorporated trusts will also be rejected.

Any Application Form, which does not state a valid CDS account number will be rejected.

Any Application, where the Applicant has applied for more than one Type of Debentures under a single Application Form will be rejected.

More than one Application submitted by an Applicant under the same Type of Debentures will not be accepted. If two or more Application Forms are submitted for one Type of Debentures by a single Applicant, those would be considered as multiple Applications and the Bank will not accept such multiple Applications or suspected multiple Applications.

Any Application Form with more than three (03) natural persons as joint Applicants for any Type of Debentures will be rejected.

Applications delivered by hand to the Registrars to the Issue after the subscription list is closed will be rejected. Applications received by post or courier after 4.30 p.m. on the Working Day immediately following the Closure Date, will also be rejected even if they carry a post mark dated prior to the Closure Date.

Applications delivered to any place mentioned in Annexure II should also reach the office of the Registrars to the Issue at least by 4.30 p.m. on the Working Day immediately following the Closure Date. Applications received after the said duration will be rejected even though they have been delivered to any of the said collection points prior to the Closure Date.

In the event that cheques are not realised prior to the date of deciding the basis of allotment and realised after such date, the monies will be refunded and no allotment of Debentures will be made. Cheques must be honoured on first presentation for the Application to be valid. In the event cheques are dishonoured/returned on first presentation, such Applications will be rejected.

6.7 BANKING OF PAYMENTS

All cheques or bank drafts or bank guarantees received in respect of Applications will not be banked or called on until the Working Day immediately after the Closure Date as set out in Section 5.2 of this Prospectus, in terms of the CSE Listing Rules.

6.8 BASIS OF ALLOTMENT OF DEBENTURES

In the event of an Oversubscription, the Board of NDB will endeavor to decide the basis of allotment in a fair manner as soon as practicable so as to ensure compliance with the CSE Listing Rules. Upon the allotments being decided, an announcement will be made to the CSE.

The Board however shall reserve the right to allocate up to 60% of the Number of Debentures to be issued under this Prospectus on a preferential basis, to identified institutional investor/s of strategic importance with whom the Bank might have mutually beneficial relationships in the future.

The number of Debentures to be issued under Debentures of Type A, Debentures of Type B, Debentures of Type C and Debentures of Type D will be in accordance with the basis of allotment which will be decided at the discretion of the Board of NDB in a fair manner in the event of an Oversubscription.

The Bank reserves the right to reject any Application or to accept any Application in part only, without assigning any reason thereto.

A written confirmation informing successful Applicants on their allotment of Debentures will be dispatched within ten (10) Market Days from the Closure Date as required by the CSE.

6.9 REFUNDS

Monies will be refunded where;

- an Application is rejected for reasons given in Section 6.6 of this Prospectus; or
- the Application is accepted only in part

The Applicants may indicate the preferred mode of refund payments in the Application Form (i.e. direct transfer via SLIPS or cheque)

If the Applicant has provided accurate and complete details of his/her bank account in the Application, the Bankers to the Issue will make refund payments upto and inclusive of Rupees Five Million (LKR 5,000,000/-) to the bank account specified by the Applicant, through SLIPS and a payment advice will be sent.

In the event the refunds are over Rupees Five Million (LKR 5,000,000/-) or if the Applicant has not provided accurate and correct details of his/her bank account in the Application Form or if the Applicant has not provided details of the bank account in the Application Form, the Bank will make such refund payments to the Applicant by way of a cheque and sent by post at the risk of the Applicant.

In the case of joint Applications, the cheques will be drawn in favour of the Applicant's name appearing first in the Application Form.

Applicants can obtain details on bank and branch codes required for providing instructions on SLIP transfers at the following website;

http://www.lankaclear.com/products_and_services/sl_interbank_payment_system_guideline.php

Refunds on Applications rejected or partly allotted Debentures would be made within ten (10) Market Days excluding the Closure Date. Applicants would be entitled to receive interest at the rate of the last quoted Average Weighted Prime Lending Rate (AWPLR) published in the immediately preceding week by the Central Bank of Sri Lanka or any other authority (in the event that the Central Bank of Sri Lanka ceases to publish the AWPLR) plus Five *per centum* (5.00%) for the delayed period on any refunds not made within this period.

6.10 CDS ACCOUNTS AND SECONDARY MARKET TRADING

Debentures allotted will be directly deposited to the respective CDS accounts given in the Application Forms before the expiry of eighteen (18) Market Days, from the Closure Date. A written confirmation of the credit will be sent to the Applicants within two (02) Market Days of crediting the CDS account, by ordinary post to the address provided by each Applicant.

The Bank will submit to the CSE a 'Declaration' on direct upload to CDS on the Market Day immediately following the day on which the Applicants' CDS accounts are credited with the Debentures.

Trading of Debentures on the secondary market will commence on or before the third (3rd) Market Day from the receipt of the Declaration by the CSE as per the CSE Listing Rules.

7.0 THE BANK

7.1 BACKGROUND AND NATURE OF BUSINESS

National Development Bank PLC has its origins in 1979 as a development financial institution when its predecessor, the National Development Bank of Sri Lanka, was established as a wholly state-owned institution under the National Development Bank of Sri Lanka Act No. 2 of 1979. In 2001, NDB entered the commercial banking market by incorporating a new company under the name NDB Bank Limited, which was issued with a commercial banking license by the CBSL for the sole purpose of acquiring the Sri Lankan operations of ABN Amro NV ("ABN Amro"). ABN Amro had been operating in Sri Lanka since the early 1980s, principally providing commercial banking services to multi-nationals and some Sri Lankan corporate entities. After a period of increasing privatisation, in 2005, through the provisions of another Act of Parliament, a company by the name of National Development Bank Ltd was incorporated under the Companies Act No. 17 of 1982 for the purpose of taking over the business of National Development Bank of Sri Lanka. The businesses of National Development Bank Limited and NDB Bank Limited merged in 2005 with National Development Bank Limited being the surviving entity. The shares of National Development Bank of Sri Lanka have been listed on the CSE since 1993 and the shares of NDB Bank Limited were also listed from its inception. On 4th July 2007, under the new Companies Act No. 7 of 2007, National Development Bank Ltd was re-registered as National Development Bank PLC, bearing registration No. PQ 27.

Today NDB, together with its subsidiaries and associate companies (hereinafter referred to as the "NDB Group") has emerged as a unique financial conglomerate harnessing the collective strengths of the diversified service and product offerings. NDB Group's capital base supplemented by a prudential credit culture and entrenched business ethics has propelled NDB Group as a forerunner in the national economic resurgence.

NDB Group consists of the following companies:

- National Development Bank PLC;
- NDB Capital Holdings PLC;
- NDB Investment Bank Limited;
- NDB Securities (Pvt) Limited;
- Development Holdings (Pvt) Limited;
- NDB Capital Limited (Bangladesh);
- NDB Wealth Management Limited; and
- Maldives Finance Leasing Company (Pvt) Limited.

NDB's product portfolio is channeled through four main areas of enterprise: SME banking, retail banking, corporate banking and project financing.

NDB Group provides diversified banking services including commercial banking, development financing, merchant banking, investment banking, leasing, housing finance, venture capital, stock-broking, wealth management and property investment. Within these diverse banking services, NDB Group's principal activities consist of infrastructure finance, project finance, commercial banking, SME banking, retail banking, treasury, bancassurance, investment banking, stock-broking, wealth management and private equity.

The product offering of NDB Group has been innovative and client-centric to cater to all segments of the Sri Lankan society. NDB Group's financial solutions vary from simple minor savings accounts to capture national infrastructure projects. The clientele of NDB Group which spreads beyond the shores of Sri Lanka in the Maldives and Bangladesh indicate NDB Group's growing significance in the region.

A description of each of NDB Group's principal activities are outlined below.

Commercial Banking

NDB's commercial banking activities predominantly involve trade financing (imports and exports) and providing short term working capital facilities for Sri Lanka's garments, tea, pharmaceuticals, agriculture, construction, rubber based products and non-traditional export sectors. Since taking on a commercial banking model, the commercial banking operations of NDB have contributed substantially to the bottom line of the Bank.

NDB's commercial banking operation has also received ISO 9001-2008 certification, making it the only corporate banking unit in the Sri Lankan financial sector with this certification.

Infrastructure and Project Finance

Project financing has been part of NDB's product offering since its inception in 1979, and NDB continues to provide project financing as an integral part of its development banking role covering almost all sectors of the Sri Lankan economy.

NDB plans to explore and capitalise on opportunities for geographical diversification locally and overseas for project financing. In the energy and plantation sectors, the project financing division has fulfilled a dual role as project partner and financier to Sri Lankan companies establishing businesses overseas. Locally, the division recently financed two hotel projects in the Eastern Province, becoming a pioneer to assist such projects in the Eastern Province of Sri Lanka.

Retail Banking

NDB acquired ABN Amro's retail branch through its acquisition of ABN Amro's Sri Lankan business in 2001. NDB's retail banking activities consist of differentiated product offerings including personal loans, home loans, deposit products, vehicle loans, bancassurance, leasing and, since 2012, hire purchase lending.

NDB provides a wide range of financial solutions to the Sri Lankan consumer and caters to a variety of personal financial needs of a diverse clientele. For example, in 2012, the retail banking division introduced pre-approved loans, six-year leases, new savings schemes such as "Savings Star Plus" and "NDB's Real Saver" and set up a 365-day leasing desk.

In recognition of the success of its Retail Banking operation, NDB was awarded the "Domestic Retail Bank of the Year - Sri Lanka" in 2013 by the Asian Banking and Finance Magazine.

NDB's branch network currently includes 78 branches and 75 Automated Teller Machines (ATMs) spread across all provinces of the country to reach a total customer base of approximately 500,000. NDB will continue to increase the branch network in the coming years as part of its expansion plans.

The expansion of NDB's branch network and product offering in recent years has been coupled with the establishment of a 24x7 call centre and "9 to 6 Full Service Banking" through all its branches, a first of its kind in the local banking space. NDB's telemarketing team continues routine and specialised promotional activities in addition to conducting surveys of strategic importance based on the needs of NDB.

Bancassurance

NDB entered into a bancassurance agreement with Aviva NDB Insurance PLC in 2006, which has proven to be a successful bancassurance operational model for NDB and the insurer. Subsequent to a strategic divestment during the last quarter of 2012, Aviva NDB Insurance PLC was reconstituted as AIA Insurance Lanka PLC ("AIA"). Despite the change of ownership and name, NDB was successful in securing a twenty year agreement with AIA for the distribution of bancassurance services in Sri Lanka reaffirming its long-term commitment towards the insurance sector.

Privilege Banking

NDB Privilege Banking and NDB Privilege Select provide a personalised wealth-management proposition to an affluent personal-banking clientele. Given the importance of high net worth individuals to the economy, NDB has devised a range of wealth management and wealth creation tools to help them grow their wealth and maximise on the emerging opportunities in the financial and capital markets. Privilege banking provides comprehensive, universal financial packages which include investments in derivatives and structured products as well as equity investments and private placements, enabled by the combined synergies of the NDB Group companies.

NDB undertakes various promotional initiatives, and NDB's value proposition in this respect has attracted many offshore clients. For example, in 2012, NDB was a platinum sponsor of the Annual American Chamber of Commerce Golf Tournament. Through such initiatives, NDB Privilege banking gains recognition within the targeted market segment.

SME Banking

SME banking is one of NDB's priority sectors. NDB provides facilities to a wide array of industries including agriculture, trading, exports, imports, fisheries and tourism.

NDB has established five SME centres with state-of-the-art facilities to support SME entrepreneurs. In 2012, these SME centres became fully operational, with dedicated staff to provide entrepreneurs with required advisory and financial support. The centres also enable computer access for personal browsing providing a wide array of information including training modules. International Finance Corporation ("IFC") works in close collaboration with NDB in providing access to important sources of information and development banking sites through these IT facilities.

NDB also provides regional technical advisory training to SMEs. In 2012, 16 technical advisory programmes with the participation of over 1,000 entrepreneurs were held across Sri Lanka, drawing resource personnel from the CBSL, from local universities and from NDB. These programmes were financed by NDB in collaboration with IFC and the World Bank.

NDB was awarded 'SME Bank of the Year' in 2013 by the Asian Banking and Finance Magazine.

Treasury

NDB's treasury has continued to meet NDB's funding needs and revenue targets and has also managed volatility in terms of interest and exchange rate changes. NDB's treasury is one of the market-leaders in the inter-bank spot and forward markets, which confers on NDB a pricing advantage in rates for both export and import customers. The revenue recorded in trading activities in both foreign exchange and debt trading has contributed to NDB's overall profitability. Supplementing its routine business, the treasury also provides advisory services to clients on market movements thereby improving business volumes through competitive pricing. It is important for NDB's treasury to source local and foreign funds through financial institutions to keep pace with the asset growth of NDB, and in October 2013, NDB's treasury successfully raised US\$ 24 million for ten (10) years at a very competitive interest rate from IFC.

Capital Markets

NDB offers a full range of investment banking services through its "Capital Markets Cluster" under NDB Capital Holdings PLC ("NCAP"). Capital Markets is one of the four (04) integrated businesses of NDB along with commercial banking, retail operations and bancassurance.

NCAP's fee based operations are carried out through its fully owned subsidiaries, NDB Investment Bank Limited ("NDBIB"), NDB Wealth Management Limited ("NWM") and NDB Securities (Pvt) Limited ("NDBS"). NDBIB, the flagship company of the Investment Banking Cluster, is the market leader in both debt and equity structuring and placements. NDBIB's gamut of product offerings include IPOs, right issues, private placements, debentures, securitizations, commercial papers and syndications. In addition, the firm provides corporate advisory services such as mergers and acquisitions, corporate restructuring and diagnostic studies. NCAP provides wealth management services to clients through NWM, the largest private sector wealth management company in Sri Lanka. NWM offers discretionary portfolio management services to both high net worth individuals and institutional investors. Under the institutional investor category it manages insurance funds, endowment funds and provident/retirement funds. In addition, it offers unit trusts to the mass market. NCAP's stock broking operations are through NDBS, a member firm of the Colombo Stock Exchange ("CSE") which offers high-end research and brokerage services to both Sri Lankan and foreign investors in the Colombo Bourse.

In addition to the fee based services offered through NCAP's subsidiaries, the company is involved in fund based activities such as private equity investments, proprietary trading, fixed income investments and underwriting.

NDB Capital Limited, Bangladesh, NDB Group's investment banking arm in Bangladesh provides a full range of fee based services to Bangladesh clients. The Capital Markets Cluster works seamlessly with other business units of the Bank to provide integrated financial solutions for clients.

As a testimony to banking excellence, NDB Group has received the following awards and accolades in recent years:

Awarded by	Description of Award / Accolade	Year
World Finance Magazine, UK	"Best Banking Group - Sri Lanka"	2013
Asian Banking and Finance Magazine	"SME Bank of the Year"	2013
Asian Banking and Finance Magazine	"Domestic Retail Bank of the Year - Sri Lanka"	2013
International Finance Magazine, UK	"Best Commercial Bank, Sri Lanka"	2013
Business Today, Sri Lanka	Ranked 08 th among 'Sri Lanka's Top 25' corporates	2013
Euromoney	"Best Investment Bank in Sri Lanka" awarded to NDBIB	2013
Global Banking and Finance Review	"Best Investment Bank in Sri Lanka" awarded to NDBIB	2013
Global Banking and Finance Review	"Most Innovative Investment Bank in Sri Lanka" awarded to NDBIB	2013
Global Banking and Finance Review	"Most Innovative Asset Backed Securitization" awarded to NDBIB	2013
International Finance Magazine, UK	"Best Investment Bank in Sri Lanka 2013" awarded to NDBIB	2013
World Finance, UK	"Best Investment Bank in Sri Lanka 2013" awarded to NDBIB	2013
World HRD Congress, India	"Global HR Excellence Award" and "Recruiting and Staffing Best in Class Award"	2013
CMO Asia, Dubai	"Best Training Partnership with External Vendors" and "Most Innovative use of Training and Development as an HR Initiative for Organizational Development"	2013
World Finance, UK	"Best Commercial Bank in Sri Lanka"	2012
Euromoney	"Best Investment Bank in Sri Lanka" awarded to NDBIB - the first time Euromoney has ever recognised an investment bank in Sri Lanka for any award, and the first time an investment bank in Sri Lanka has received an international accolade for excellence	2012
Brand Finance Lanka	"Top Eighteen Brands" of the Top 100 National Brands in Sri Lanka	2012
ASIAN HR Leadership Awards	Award for the organisation with the most innovation HR practices	2012
Association of Human Resource Professionals in Sri Lanka	HR Masters Silver Award presented at the HRM Awards	2012

Awarded by	Description of Award / Accolade	Year
Ceylon Chamber of Commerce	Award for the Best Corporate Citizen in the category of corporates with a turnover below Rs. 15 billion; Special Merit Award for the "Jeevana Livelihood Development Scheme" in the Best CSR Projects category	2012
Institute of Personnel Management (IPM)'s Great HR Debate	Winner of IPM's Great HR Debate	2012
CMO Asia Awards	Award for Brand Excellence in Banking, Financial Services and Insurance (BFSI)	2011 and 2012
League of American Communications Professionals	Ranked 32 nd among "World's Top 100" annual reports; Ranked 6 th among "Asia's Top 50" annual reports; Platinum Award for "Best Annual Report" in the commercial bank category; Platinum Award for "Most Improved Annual Report" across all categories in the Asia-Pacific region; Gold Award for "Most Improved Annual Report" across all categories worldwide	2011

7.2 VISION

"To be a world-class Sri Lankan Bank"

7.3 VALUES

"Integrity, care, passion, teamwork and service guide us in our vision to be a world-class Sri Lankan Bank"

7.4 STATED CAPITAL

The stated capital of NDB represents ordinary voting shares as given in the table below.

Stated Capital	As at 31 st December 2012	As at 30 th September 2013
Balance (Rs.)	1,093,094,670	1,172,903,620
Number of Shares	164,201,902	164,693,034

The Bank does not have non-voting, preference or any other classes of shares in issue. NDB also does not have any outstanding convertible debt securities.

Details of all classes of shares issued during the last two (02) years are given in the table below.

Type of Shares Issued	Consideration/Issue Price (Rs.)	Date of Allotment	Number of Shares Issued
Ordinary	Rs. 79,808,950.00 Rs. 162.50 per share	12/07/2013	491,132

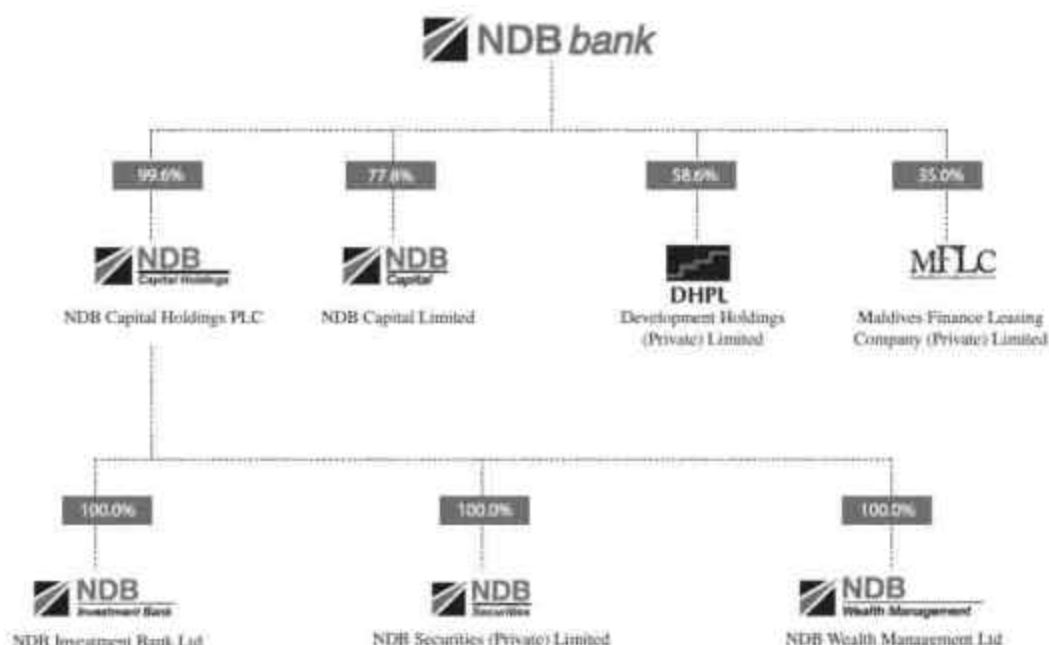
7.5 MAJOR SHAREHOLDERS

The twenty (20) largest shareholders of NDB as at 31st October 2013 are given in the table below.

	Name of the Shareholder	Number of Shares	% Holding
1	Bank of Ceylon No. 1 Account	16,371,076	9.94%
2	Employees Provident Fund	15,810,248	9.60%
3	Sri Lanka Insurance Corporation Ltd – General Fund	9,388,488	5.70%
4	Dr. S. Yaddhige	8,669,000	5.26%
5	HSBC Intl Nom Ltd – SNFE – NT Asian Discovery Master Fund	8,432,154	5.12%
6	Sri Lanka Insurance Corporation Ltd – Life Fund	7,805,426	4.74%
7	HSBC Intl Nom Ltd – BPSS Lux – Aberdeen Global Asia Pacific Equity Fund	5,715,450	3.47%
8	Employees Trust Fund Board	5,303,700	3.22%
9	HSBC International Nominees Limited – MSNY – Bay Pond Partners L.P.	4,501,200	2.73%
10	HSBC Intl Nom Ltd – BPSS LDN – Aberdeen Asia Pacific Fund	4,294,800	2.61%
11	Hatton National Bank PLC a/c No 1	4,282,200	2.60%
12	National Development Bank PLC – ESOP a/c No 5	4,133,726	2.51%
13	Asian Alliance Insurance PLC Account Number 3/Life Shareholders Fund	3,450,977	2.10%
14	BNY-CF Ruffer Investment Funds : CF Ruffer Pacific Fund	3,000,000	1.82%
15	Mr. A. K. Pathirage	2,970,000	1.80%
16	Asian Alliance Insurance PLC – General Fund Account Number 1	2,540,977	1.54%
17	Asiri Hospital Holdings PLC	2,411,583	1.46%
18	Asian Alliance Insurance PLC – A/C 02 (Life Fund)	2,159,746	1.31%
19	HSBC International Nominees Limited – MSNY – Bay Pond Investors (Bermuda) LP	2,045,200	1.24%
20	United Motors Lanka PLC	2,000,000	1.21%
		115,285,951	70.00%

7.6 SUBSIDIARY COMPANIES AND THEIR PRINCIPAL ACTIVITIES

The subsidiaries and associate companies of NDB together with NDB's shareholding in each subsidiary/associate are given in the chart below.



The following table sets out the principal activities of each of NDB's subsidiaries and associate companies. The companies listed below are incorporated in Sri Lanka, other than NDB Capital Limited (Bangladesh), which is incorporated under the laws of Bangladesh and Maldives Finance Leasing Company (Private) Limited which is incorporated under the laws of the Republic of Maldives.

Name of Subsidiary/Associate Company	Principal Activity
NDB Capital Holdings PLC	Full service integrated capital market operations
NDB Capital Limited (Bangladesh)	Fee based investment banking services
Development Holdings (Private) Limited	Property development
NDB Investment Bank Limited	Fee based investment banking services
NDB Securities Limited	Stock broking and investment advisory services
NDB Wealth Management Limited	Unit trust and portfolio management
Maldives Finance Leasing Company (Private) Limited	Leasing

7.7 FUTURE STRATEGIES, RISKS AND ASSUMPTIONS

7.7.1 FUTURE STRATEGIES

In the face of a dynamic banking landscape, NDB Group will remain steadfast in its quest to partner Sri Lanka's future growth and prosperity. Testament to this stance is the Bank's 78 branches that form its rapidly expanding network offering superior service and convenience. Leveraging on a strong balance sheet and overall stability, the Bank envisions to expand its network by the end of 2018 including "windows" and service centres that improve accessibility; while providing a full range of banking services to an enhanced customer base. Empowerment of rural communities through financial inclusion will remain as a priority for NDB. Hence through its network expansion initiatives, NDB will reach out to cottage industries island wide, introducing them to a micro financing proposition that not only promote livelihood development but also inculcates the savings habit among such recipients. NDB envisions that focusing on the development of rural masses will be a successful initiative with limited risk accompanied by high customer loyalty; that will pave the way for diversifying the Bank's customer base while expanding its market scope.

In addition to the envisaged growth in commercial banking activities, the strong capital base forming the foundation for balance sheet growth will enable NDB to continue to expand its business in project and infrastructure financing over the next few years; leveraging on its vast experience in the sector.

As a result of the growing prosperity of the rural and suburban sectors, the economic potential of the SME sector is also increasing, particularly in the newly identified economic areas. The Bank has considerable experience in this market through its initiatives towards SMEs and expects to increase its support to the SME sector. NDB is optimistic that SMEs will form the backbone of the future economic growth of Sri Lanka, in line with the Government's commitment to support this sector.

NDB Group also intends to provide Islamic financing, including Mudharbha (deposits), Murabaha (trade finance), Musharaba (term loans), and Ijarah (leasing), through a Sharia compliant Islamic Banking window and intends to formalise its Islamic financing operations by early 2014. NDB estimates that the market potential for Islamic Banking in Sri Lanka is over Sri Lankan Rupees One Hundred and Fifty Billion (LKR 150 Billion), whereas less than 10% of this market has been captured by the competitors of the NDB Group.

7.7.2 ASSUMPTIONS RELATED TO FUTURE STRATEGIES

The interest rates are expected to be stabilized at the current levels with the GDP growth rate remaining above six *per centum* (6.00%) for the next few years. The future direction of the Bank is based on the Government drive to improve infrastructure throughout the country resulting in a more than proportionate growth in rural economies. The future strategies also assumes that the Government would continue to provide support for SMEs in the country. The investment climate in the country is expected to improve resulting in a stable exchange rate.

7.7.3 RISKS ATTACHED TO FUTURE STRATEGIES

The branch expansion drive contemplated by the Bank will be subject to various risks, such as credit risk, operational risk and market risk, which are inherent to the banking business. The Bank's internal risk management system will be geared to address these risks to mitigate them to reasonable levels. In addition to funding, the expansion drive will also create new demand on resources such as manpower with required skill levels, infrastructure development and regulatory capital. NDB has already developed necessary plans to address these issues and provide the necessary resources to the optimum level.

The increased lending for the corporate and SME sectors will also increase NDB's exposure to various risks inherent to these sectors. However, considering NDB's experience in lending to these sectors, the risks involved are manageable.

7.8 HUMAN RESOURCES

The human resources strength of NDB was 1,541 employees as at 31st October 2013, the breakdown of which is given in the table below.

Category	Number of Employees
Senior Management Staff	49
Management Staff	195
Executive Staff	249
Non-Executive Staff	818
Specialised Sales Force	156
Other Staff	74
Total *	1,541

* Personnel providing services under outsourced agreements are not included in the breakdown of human resources given above.

The employees of NDB are not attached to any labour unions.

NDB aims to attract and retain high-quality and professional staff at all levels. NDB has invested substantially in both internal and external training and development programmes for staff at all levels to enhance and upgrade their skills.

7.9 PARTICULARS OF LONG TERM LOANS AND OTHER BORROWINGS

As at 30th September 2013, the outstanding balance of NDB's long term borrowings is given in the table below.

Long Term Borrowings	Rs.'000
Balance as at 31 st December 2012	32,612,523
New Borrowings/(Settlements)	(2,397,656)
Balance as at 30th September 2013	30,214,867

Long term loans of NDB as at 30th September 2013 comprise of the following categories of borrowings.

Category	Rs.'000
Government of Sri Lanka Loans	7,189,059
Foreign Borrowings	3,514,201
Local Borrowings	17,180,388
Debentures	400,000
Subordinated Term Debts	1,931,219
Total	30,214,867

Public deposits of NDB as at 30th September 2013 are given in the table below.

Category	Rs.'000
Demand Deposits	6,925,320
Savings Deposits	18,361,959
Fixed Deposits	92,898,552
Other Deposits	303,271
Total	118,489,102

7.10 DETAILS OF OTHER DEBENTURES IN ISSUE

The details of debentures issued by NDB and outstanding as at 30th September 2013 are given in the table below.

Floating Rate Debentures	Interest Payable Frequency	Issue Date	Maturity Date	Balance Rs '000
Rated Unlisted Unsecured Redeemable Debentures 2011-2016				
3 month GTB+1.00% p.a.	Quarterly	30.06.2011	30.06.2016	110,000
Rated Unlisted Unsecured Redeemable Debentures 2011-2016				
3 month GTB+1.00% p.a.	Quarterly	18.07.2011	30.06.2016	50,000
Rated Unlisted Unsecured Redeemable Debentures 2011-2016				
3 month GTB+1.00% p.a.	Quarterly	19.07.2011	30.06.2016	40,000
Rated Unlisted Unsecured Redeemable Debentures 2011-2016				
3 month GTB+1.00% p.a.	Quarterly	21.07.2011	30.06.2016	200,000
Total				400,000

7.11 DETAILS OF CONVERTIBLE DEBT SECURITIES

NDB does not have any convertible debt securities in issue.

7.12 FINANCIAL RATIOS

Financial Ratios	As at 31 st December 2012	As at 30 th September 2013
Capital Adequacy Ratios		
Tier I (%)	11.16	14.15
Tier II (%)	12.41	15.18
Interest Cover Ratio (Times)*	1.5	1.5
Net Debt/EBITDA (Times)**	33.60	44.92

* Interest expense includes total interest expense of the Bank

** Net Debt includes total debt and deposits less cash and cash equivalents

7.13 CONTINGENT LIABILITIES AND LITIGATION

The details of contingent liabilities and commitments of NDB as at 30th September 2013 are given in the table below.

Category	Rs.'000
Undisbursed Financing Commitments	64,655,076
Guarantees	15,646,185
Commitments on Account of Letters of Credit	8,282,969
Foreign Exchange Contracts and Options Outstanding	82,030,881
Acceptances	6,910,011
Total	177,525,122

There are no legal, arbitration or mediation proceedings, which will have a material impact on the Bank's financial position or future operations.

7.14 DETAILS OF PENALTIES IMPOSED BY REGULATORY AND STATE AUTHORITIES

There were no material penalties imposed by Regulatory and State Authorities on the Bank.

7.15 DETAILS OF MATERIAL CONTRACTS

NDB has not entered into any material contracts as at the date of this Prospectus other than contracts entered into in the ordinary course of business.

7.16 DEGREE OF DEPENDENCE ON KEY CUSTOMERS AND SUPPLIERS

NDB is prudent in its lending and adheres to all requirements set out by the CBSL. NDB strictly adheres to the single borrower limit and, as such, is not dependent on any one customer or sector of the economy for its income at any one given time nor is NDB dependent on any one supplier for its requirements. NDB will continue to focus on quality of lending rather than on quantitative lending.

7.17 DETAILS OF COMMISSIONS PAID

No commission has been paid in the two (02) years preceding the Issue or payable for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions, for any shares in or debentures of the Bank.

7.18 MANAGEMENT AGREEMENTS

There are no management agreements entered into by the Bank and in force as at the date of this Prospectus other than contracts entered into in the ordinary course of business.

7.19 TRANSACTIONS RELATING TO THE PROPERTY

There is no transaction relating to the property completed within the two (02) preceding years in which any vendor of the property to the Bank or any person who is or was at the time of the transaction, a promoter or a director or proposed director of the Bank who had any interest, direct or indirect.

7.20 DETAILS OF BENEFITS PAID TO PROMOTERS

No benefit has been paid or given by the Bank within the two (02) years preceding the Issue and there are no benefits intended to be paid or given to any promoter.

7.21 DIVIDEND POLICY

The Board has adopted a policy of paying out dividends to the shareholders based on factors including but not limited to the Bank's earnings, capital requirements and the overall macro financial conditions.

Details of dividends paid during the three (03) financial years preceding the date of this Prospectus is given under Section 11.1 of this Prospectus.

7.22 TAXATION

The details of the tax exemptions enjoyed by NDB as at the date of this Prospectus are given below.

- Interest on loans under 300 Enterprise Program of Mahinda Chinthanaya under Section 21 of the Inland Revenue Act No. 10 of 2006
- Interest on loans under IFA under Section 13(xxxxxx) of the Inland Revenue (Amendment) Act No. 22 of 2011
- Profit on listed debentures under Section 13(xxxxxxx) of the Inland Revenue (Amendment) Act No. 18 of 2013
- Interest on investments in US\$ bonds under Section 9 (f) of the Inland Revenue Act No. 10 of 2006 and the Section 13(xxxx) of the Inland Revenue (Amendment) Act No. 19 of 2009

- Interest on investments in sovereign bonds under Section 13(xxx) of the Inland Revenue (Amendment) Act No. 19 of 2009
- Dividend income under Section 10 of the Inland Revenue Act No. 10 of 2006
- Capital gains on sale of shares under Section 3 of the Inland Revenue Act No. 10 of 2006

7.23 CORPORATE GOVERNANCE PRACTICES

Under its governance structure, the Board of Directors has appointed six (06) committees to oversee specific areas. The Chairman of each Board Sub-Committee is a Non-Executive Director and reports to the Board on the activities of the committees.

Each Board Sub-Committee has been given "Terms of Reference" by the Board, terms of which are reviewed as per the terms of reference.

Appointment of the members to Board Sub-Committees is decided by the Board.

7.23.1 AUDIT COMMITTEE

The Audit Committee is entrusted with the task of monitoring the internal controls, systems and processes of NDB. It also serves as an effective forum for the Board of Directors in discharging their responsibilities and is empowered to review and monitor the financial reporting process of NDB and to provide additional assurance on the reliability of financial statements through a process of independent and objective reviews.

As at the date of this Prospectus, the Audit Committee comprises of five Non-Executive Board members and the composition is in accordance with the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'. Members of the Audit committee are namely Mr. T. L. F. W. Jayasekara, Mr. D. S. P. Wikramanayake, Mr. S. Rajapakse, Ms. G. D. C. Ekanayake and Mrs. K. Fernando. The Chairman of the Audit Committee is an Independent Non-Executive director as per the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'.

Amongst its other functions, the Audit Committee Charter empowers the Audit Committee to examine any matters relating to the financial affairs of NDB and to review the adequacy of internal control procedures, coverage of internal and external audit plans, disclosure of accounting policies etc.

NDB has an effective and independent Internal Audit function, covering operational, financial, credit and Information Security Audits. The Head of Internal Audit reports to the Chairman of the Audit Committee. The Audit Committee shall annually review the performance appraisal of the Head of Internal Audit.

The Audit Committee ensures that the audit function is independent of the activities it audits and that impartiality is maintained with due professional care being exercised when carrying out its duties. The internal audit plan and results of the internal audit process is reviewed by the committee and where necessary, it is ensured that appropriate actions are taken on the recommendations of the Internal Audit Department.

The Audit Committee also provides a forum for the impartial review of the regular internal audit reports and investigation reports and takes into consideration the major findings and recommendations stated therein, relating to significant business risks and control issues suggesting appropriate remedial measures where necessary.

The Audit Committee also reviews and monitors the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with the applicable standards and best practices. Before the audit commences, the nature and scope of the external audit is discussed including an assessment of NDB's compliance with the relevant directions in relation to Corporate Governance, the management's internal controls over financial reporting and the preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations. The committee also reviews the External Auditor's management letter and management's response thereto.

The Audit Committee reviews the financial statements of NDB, its annual report, accounts and disclosures and significant financial reporting judgements contained therein, before submission to the Board, focusing particularly on major judgemental areas, any changes in accounting policies and practices, significant adjustments arising from the audit, going concern assumption and compliance with the relevant accounting standards and other legal requirements.

In 2013, up to the date of this Prospectus, eight Audit Committee meetings were held with due notice of issues to be discussed, recording its conclusions in discharging its duties and responsibilities. The minutes of the Committee meetings were formalised and made available to the Board of Directors for their information.

7.23.2 INTEGRATED RISK MANAGEMENT COMMITTEE

The Integrated Risk Management Committee (IRMC) was formed in June 2008 replacing the Risk and Credit Committee of the Board, in compliance with the Section 3(6) of Direction No. 11 of 2007, on the subject "Corporate Governance for Licensed Commercial Banks in Sri Lanka". The committee consists of two Non-Executive Directors, the CEO, Head of Group Risk, Head of Operational Risk, Head of Market Risk and Head of Strategic Risk (CFO).

As at the date of this Prospectus, the IRMC comprises of Mr. D. S. P. Wikramanayake, Ms. G. D. C. Ekanayake, Mr. R. Theagarajah (CEO), Mr. F. Ozman (CFO), Ms. Nirmala Rayen (Head of Group Risk Management), Ms. C. Chandrapala (Head of Market Risk) and Priyantha Gamage (Head of Operational Risk). In addition, key members of the staff participate at the meetings as appropriate.

IRMC Meetings

The committee holds four meetings on a quarterly basis during the year to discuss the normal scope of work. The minutes of the committee meetings are made available to the Board of Directors for their information and necessary action.

Scope of Duties

The main responsibility of the committee is to assess risks faced by NDB covering mainly credit, market, liquidity, operational and strategy. In fulfilling its duties, the committee covers the following areas:

- Reviewing the quality of the portfolio on a business line basis, product, groups, sectors, trends in NPL, capital adequacy and stress tests on capital adequacy.
- Reviewing adequacy of provisions and approving the charge/release for the period.
- Reviewing liquidity position, impact on market volatility, performance of equity portfolio and country exposures.
- Reviewing progress on operational risk roll-out throughout the organization.
- Reviewing of Business Continuity Plans.
- Assessing adequacy and effectiveness of all Executive Credit Committees, Policy Committees on Credit, Market and Operational Risk and ALCO.
- Compliance with the local laws and regulations etc.
- Proposing appropriate corrective action to mitigate specific risks in case such risks are beyond prudent levels agreed upon based on internal and regulatory requirements.
- Reviewing and approving the new products developed prior to roll out.
- Reviewing and approving policies relating to the risk categories.

A risk assessment report is submitted to the Board of Directors on a quarterly basis, within one week of the committee meeting.

7.23.3 STRATEGIC ISSUES COMMITTEE

The Strategic Issues Committee was formed in 2005. The committee was set-up to examine and evaluate strategic issues of a regular as well as an ad hoc nature and recommend any action the Board should take. The committee was set up to serve as a catalyst as well as to monitor the development and implementation of NDB's business strategies. The committee consists of six Non-Executive Directors. As at the date of this Prospectus, the Strategic Issues Committee comprises of Mr. A. K. Pathirage, Mrs. K. Fernando, Mr. T. L. F. W. Jayasekara, Mr. S. Rajapakse, Mr. H. A. Siriwardena and Mr. D. S. P. Wikramanayake. The committee assists the Board in maintaining an interactive strategic planning process with the management. This includes review and assessment of business strategy plans developed by the management and approved by the Board. The committee has held one meeting in 2013 up to the date of this Prospectus.

Scope of Duties

The main responsibilities of the committee are:

- To provide strategic direction and strategic thinking of the Board to the management in the development and implementation of NDB's strategic plan;
- Together with the management to develop NDB's strategy and its implementation;
- To review and assess the formulation and the implementation of strategic plans developed by the management and approved by the Board; and
- To review and evaluate strategic issues and plans of subsidiary companies of the Group to ensure that the same are in line with the strategic initiatives and strategic direction of NDB.

7.23.4 HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Human Resources and Remuneration Committee of NDB was formed in 2003. The committee consists of five Non-Executive Directors. As at the date of this Prospectus, this committee comprises of Mr. A. K. Pathirage, Mrs. K. Fernando, Mr. T. L. F. W. Jayasekara, Mr. S. Rajapakse and Mr. H. A. Siriwardena. The committee was set up to determine the human resources and remuneration policies (salaries, allowances and other financial payments) relating to Directors, the CEO and Key Management Personnel ("KMP"). The Committee also evaluates the performance of the CEO and the KMP against the set targets and goals periodically and determines the basis for revising remuneration benefits and other payments of performance based incentives.

The committee held four meetings in 2012 and has held four meetings up to the date of this Prospectus in 2013. The minutes of the committee meetings are made available to the Board of Directors for their information and necessary action.

The main responsibilities of the committee are to recommend to the Board the apportionment of the remuneration, perquisites and benefits of Non-Executive Directors including the Chairman out of a total sum determined for the purpose by the shareholders in terms of NDB's Articles and to recommend to the Board the remuneration payable to the Executive Directors and the CEO of NDB in terms of NDB's Articles.

The committee has documented the goals and targets for Directors and has formulated the remuneration policy for Directors and KMPs which have also been approved by the Board of Directors.

7.23.5 NOMINATIONS COMMITTEE

The Nominations Committee of NDB was formed in 2007. This committee consists of four Non-Executive Directors. As at the date of this Prospectus, the committee comprises of Mr. A. K. Pathirage, Mr. T. L. F. W. Jayasekara, Mr. S. Rajapakse and Mr. H. A. Siriwardena.

The committee was set up to identify individuals qualified to become members of the Board and to recommend to the Board the nominees for the next Annual General Meeting.

The committee held four meetings during 2012 and has held seven meetings up to the date of this Prospectus in 2013. The minutes of the committee meetings are made available to the Board of Directors for their information and necessary action.

The main responsibilities of the committee are:

- To implement a procedure to select/appoint Directors, the CEO and KMPs;
- To consider and recommend (or not recommend) the election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities; and
- To set up the criteria such as qualifications, experience, key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the Key Management positions.

7.23.6 CORPORATE GOVERNANCE AND LEGAL AFFAIRS COMMITTEE

NDB has continuously emphasized the need for good business practices and governance structures. The importance of structures and processes have been a key factor in the success of business as it brings in better risk management practices through enhanced accountability and transparency. The Corporate Governance and Legal Affairs Committee ("CGLA") was formed in the year 2007. The principal purposes of the committee are to assist the Board of Directors of NDB in defining the Governance Role, improving Board processes and ensuring effective governance. In addition to the powers and responsibilities expressly delegated to the committee, the committee may also exercise any other powers and carry out any other responsibilities delegated to it by the Board from time to time consistent with NDB's Articles of Association (Constitution) and applicable laws and regulations.

This committee consists of three Non-Executive Directors and the CEO. As at the date of this Prospectus, the committee comprises of Mrs. K. Fernando, Ms. G. D. C. Ekanayake, Mr. H. A. Siriwardena and Mr. R. Theagarajah. In addition, key members of the staff participate at the meetings as appropriate. In 2013, the committee held two meetings.

Scope of Duties

The committee is mandated with the task of assisting the Board in ensuring compliance with the Companies Act No. 07 of 2007, the Banking Act Directions on Corporate Governance, NDB's internal Code of Corporate Governance and all rules, regulations and guidelines issued by regulatory authorities relating to Corporate Governance for licensed commercial banks and reviewing, on a regular basis, the overall Corporate Governance of NDB including its Constitution, the CGLA Charter and the internal Code of Corporate Governance and recommending improvements as appropriate.

8.0 BOARD OF DIRECTORS

8.1 DETAILS OF THE DIRECTORS

The Board comprise of ten (10) Directors as at the date of this Prospectus, nine (09) of whom, including the Chairman, are Non-Executive Directors. Out of the nine (09) Non-Executive Directors, five (05) are independent as defined under the Banking Act Direction No 11 of 2007. The CEO of NDB, functions as the only ex-officio Director.

The details of the Board of Directors of NDB as at the date of this Prospectus are given below.

Name	Position	Independent/ Non-Independent
Mr. Sunil Wijesinha	Chairman, Non-Executive Director	Independent
Mr. Ashok Pathirage	Deputy Chairman, Non-Executive Director	Non-Independent
Mr. Rajendra Theagarajah	Chief Executive Officer, Executive Director	Non-Independent
Mr. Trevine Jayasekara	Non-Executive Director	Independent
Mr. Sarath Wikramanayake	Non-Executive Director	Non-Independent
Mrs. Kimarli Fernando	Non-Executive Director	Independent
Mr. Anura Siriwardena	Non-Executive Director	Independent
Ms. Chandra Ekanayake	Non-Executive Director	Non-Independent
Mr. Sujeewa Rajapakse	Non-Executive Director	Non-Independent
Mrs. Indrani Sugathadasa	Non-Executive Director	Independent