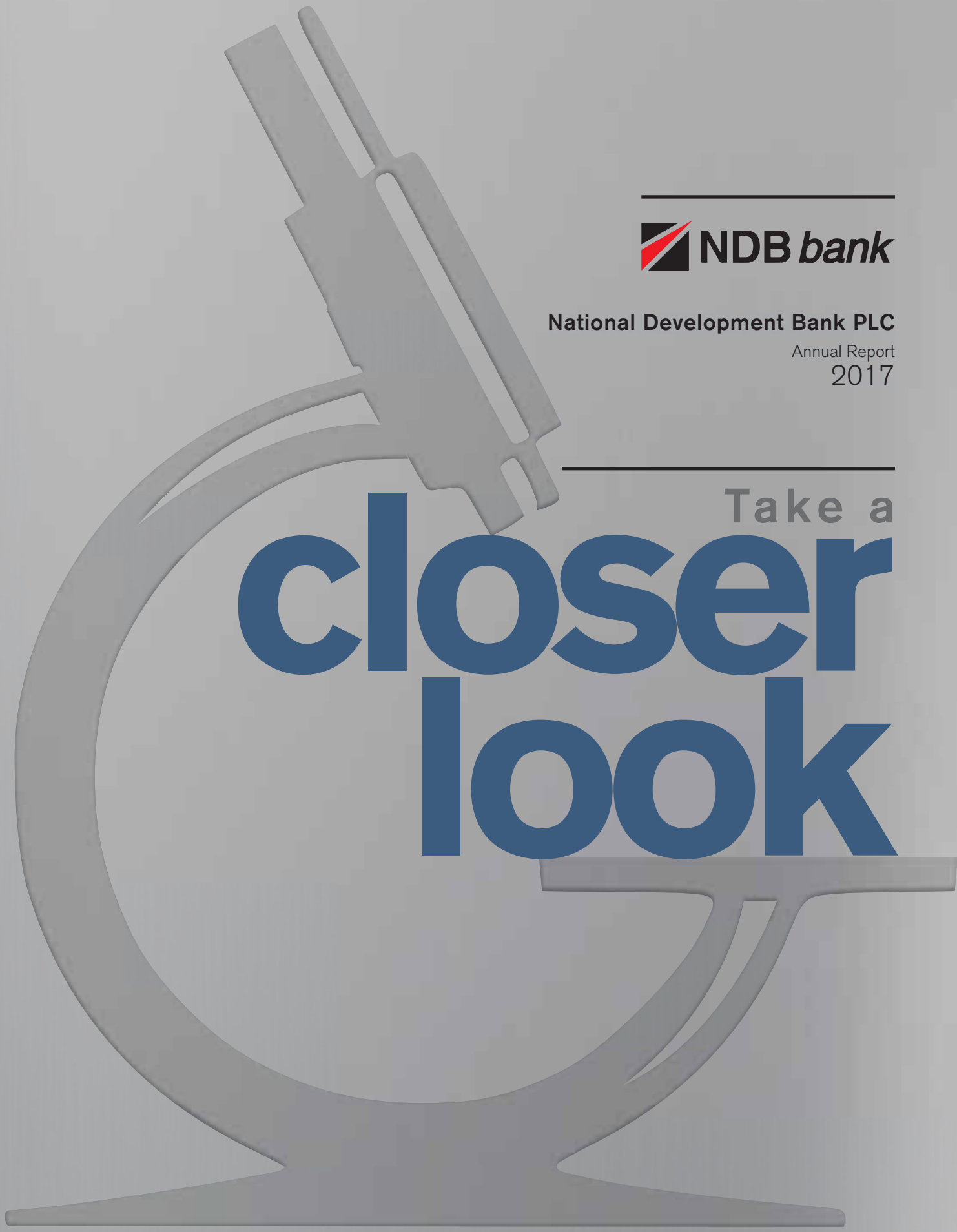

NDB bank

National Development Bank PLC

Annual Report
2017

Take a closer look

Take a closer look

NDB Bank has been serving Sri Lankans across the island for over 38 years, expanding and evolving our products, our presence and our capabilities to become the successful retail and commercial banking institution we are today. Since we outgrew our mandate as the nation's largest development bank, we have firmly established ourselves in the local financial sector through sound governance, forward thinking strategies and a portfolio of financial products and services that includes retail banking, SME and micro financing, commercial banking, cash management solutions, project & infrastructure financing and treasury & investment services. We are also proud to be one of the most awarded banks in the country, winning recognition for our products, processes and technological excellence.

This report is a review of an excellent year, for we have recorded an impressive increase in profitability and significant growth in Balance Sheet size - resulting in a remarkable performance overall. We are pleased to have generated such great value to our stakeholders, and pledge to continue to help grow the local economy through the important role we play in funding many large-scale development projects across our island nation.

Not everyone knows how impactful your Bank has now become in propelling the growth of the country and its people. That's why we invite you to take a closer look, at all that we have achieved in this most successful year and what we have planned for the future.

Looking at a remarkable year

Looking at a year in which we really pushed our boundaries will only be made possible for our valued stakeholders through a report of clarity, conciseness and transparency.

This is our 5th Integrated Annual Report and through it, we hope to provide a holistic and balanced view of our financial, social and environmental performance. As our primary publication to shareholders, content included in this Report has been prioritized and structured in a way that enables stakeholders to carry out an informed assessment of our ability to create sustainable value in the short, medium and long-term.

SCOPE AND BOUNDARY

The Report covers the operations of National Development Bank PLC ("Bank") and its group companies (collectively referred to as "Group") for the period from 1 January to 31 December 2017. The financial statements on pages 290 to 408 and the discussion of financial aspects present a consolidated view of the Bank and its group companies. However, given that the Bank accounts for the majority of the Group's revenue, profits and employees, the social and environmental information presented in the narrative reflect only those of the Bank unless otherwise referred to as Group.

We adopt an annual reporting cycle for financial and sustainability reporting. The most recent previous Annual Report covering the period from 1 January to 31 December 2016 and dated 21 February 2017 is available on our website www.ndbbank.com. There were no significant changes in the size, structure, ownership or supply chain of the organization compared to 2016. There are also no restatements of information provided in previous reports.

PRINCIPLES AND ASSURANCE

Our disclosures and reporting processes follow all applicable laws, regulations, standards and several voluntary reporting frameworks (listed below). We have also obtained external assurance on both the financial and non-financial information included in the Report.

	Narrative Report	Annual Financial Statements	Corporate Governance	Sustainability Reporting
Standards and Principles	▪ Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) ▪ "A Preparer's Guide to Integrated Corporate Reporting"-issued by the Institute of Chartered Accountants of Sri Lanka - 2017	▪ Sri Lanka Accounting Standards (SLFRS / LKAS) issued by the Institute of Chartered Accountants of Sri Lanka ▪ Companies Act No. 7 of 2007 ▪ Inland Revenue Act No 10 of 2006 and amendments thereto, and Inland Revenue Act. No. 24 of 2017 ▪ Banking Act No. 1 of 2016	▪ Banking Act Direction No. 11 of 2007 ▪ Listing Requirements of the Colombo Stock Exchange ▪ Code of Best Practice on Corporate Governance issued by the ICASL and SEC	▪ GRI Standards (Core) ▪ GRI Financial Services Sector Disclosures
Assurance		▪ Messrs. Ernst and Young, Chartered Accountants	▪ Assurance on the Director's Statement of Internal Controls provided by Messrs. Ernst and Young, Chartered Accountants	▪ Messrs. Ernst and Young, Chartered Accountants

REPORTING ENHANCEMENTS

We seek to continuously enhance the quality and readability of our Report, and this year features several key improvements. In determining material content to be included in this Report, we have gone beyond what is prescribed by GRI to include topics and matters that are relevant to our economic and industry landscape, strategic ambitions and value creation process. We have also increased the connectivity of information by using navigation icons across the Report. This has enabled us to clearly demonstrate how our strategy relates to the six capital inputs and addresses material concerns of stakeholders. This year's Report also places increased emphasis on the future orientation of the Bank and Group's strategic agenda and its performance outlook.

FEEDBACK

We understand that Integrated Reporting is a journey of continuous improvement and welcome your comments and suggestions on our Report. Please direct your feedback to,

Lalith T Fernando
Group Chief Financial Officer

or

Ms. Suvendrini Muthukumarana
Assistant Vice President - Finance and Planning of National Development Bank PLC
(Page 438)

NAVIGATION ICONS

- Financial Capital
- Human Capital
- Manufactured Capital
- Intellectual Capital
- Social & Relationship Capital
- Natural Capital

Scan the QR Code with your smart device to view this report online.

Our Commitment. **Your Success.**

අපේ කැපවීම. **ඔබේ ජයග්‍රහණයයි.**

எங்கள் அர்ப்பணிப்பு. **உங்கள் வெற்றி**

vision

To be the driving force for a financially empowered Sri Lanka.

mission

To be the catalyst in the financial services industry by creating superior shareholder value and contributing to the national development through the empowerment of individuals with innovative financial solutions delivered by an inspired and dedicated team committed to excellence.

values

Integrity

Creativity

Excellence

Sincerity

Accountability

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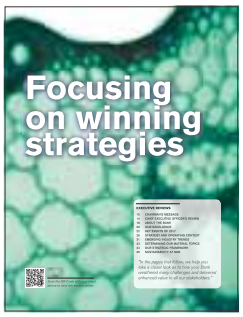

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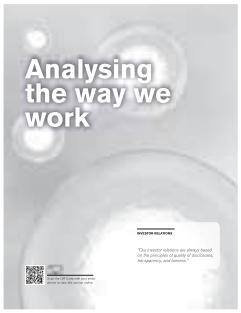

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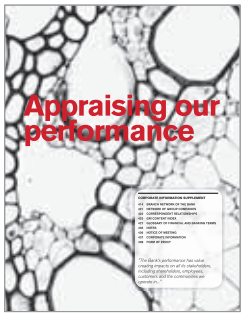

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FINANCIAL HIGHLIGHTS 2017

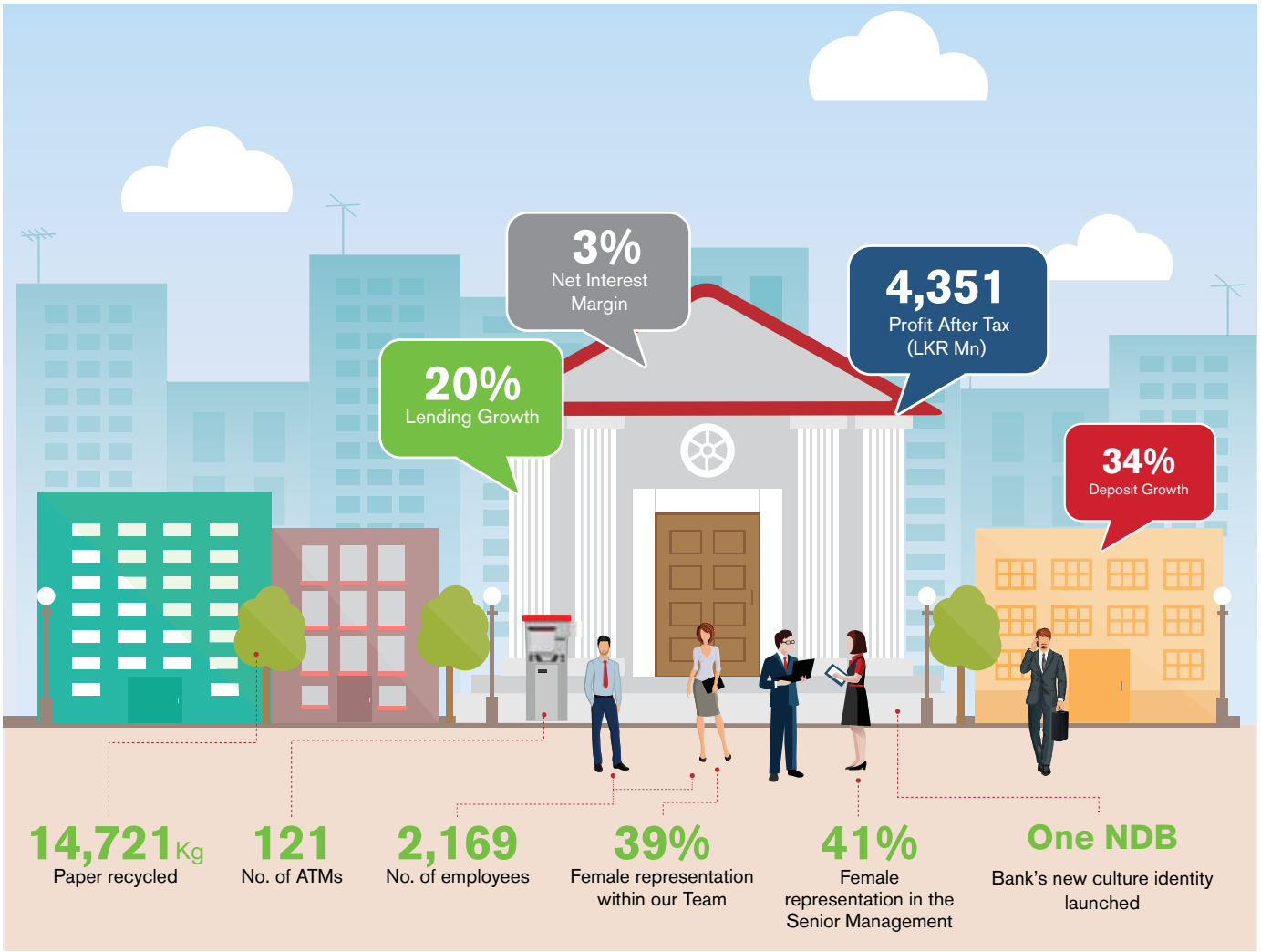
	Bank			Group		
	2017	2016	Change	2017	2016	Change
	LKR '000	LKR '000	%	LKR '000	LKR '000	%
Operating results for the year						
Gross income	42,520,594	33,281,736	28	43,017,759	33,776,905	27
Operating profit before tax on financial services	7,547,420	5,335,004	41	7,191,740	5,093,546	41
Taxation	3,195,791	2,164,733	48	3,759,437	2,278,587	65
Profit for the year	4,351,629	3,170,271	37	3,432,303	2,814,959	22
Profit attributable to equity holders of the parent	4,351,629	3,170,271	37	3,489,752	2,691,014	30
Gross dividends for the year	1,543,371	1,321,484	17	1,543,371	1,321,484	17
Revenue to government	3,145,376	2,081,000	51	3,264,294	2,233,854	46
Assets and liabilities						
Due to other Customers	273,369,023	203,866,547	34	273,041,417	203,515,828	34
Loans and receivables	274,029,448	227,676,876	20	274,078,788	227,716,971	20
Total assets	383,073,042	334,544,735	15	388,645,438	340,731,768	14
Total liabilities	354,335,207	309,799,685	14	354,667,465	309,718,472	15
Total equity to equity holders of the Bank	28,737,835	24,745,050	16	33,012,227	29,936,587	10
Profitability (%)						
Net interest margin	3.00	2.64	13	3.04	2.70	13
Non-performing loans ratio	1.83	2.63	(30)	1.83	2.63	(30)
Return on assets	1.21	0.99	23	0.96	0.82	17
Return on equity	16.27	13.36	22	11.09	9.23	20
Total leverage (times)	13.33	13.52	(1)	11.77	11.38	3
Cost to income ratio	45.48	49.04	(7)	49.16	52.34	(6)
Investor information (LKR)						
Net asset value per share	167.58	149.80	12	192.51	181.23	6
Market value per share - as at 31 December	136.40	156.00	(13)	NA	NA	-
Earnings per share - basic/diluted	25.38	18.49	37	20.35	15.69	30
Price earnings (times)	5.37	8.44	(36)	NA	NA	-
Dividend per share	9.00	8.00	13	NA	NA	-
Dividend cover (times)	2.82	2.31	22	NA	NA	-
Dividend yield (%)	6.60	5.13	29	NA	NA	-
Market capitalization (LKR' 000)	23,390,650	25,768,939	(9)	NA	NA	-
Regulatory ratios (%)						
Capital adequacy ratios*						
Common Equity Tier 1 Capital Ratio (Minimum Requirement -5.75%)	8.85	N/A	-	10.49	N/A	-
Tier 1 Capital Ratio (Minimum Requirement - 7.25%)	8.85	9.31	(5)	10.49	11.55	(9)
Total Capital Ratio (Minimum Requirement - 11.25%)	13.89	12.95	7	15.18	15.27	(1)
Statutory liquid assets ratio (%)						
DBU (Minimum Requirement - 20%)	22.13	21.50	3	N/A	N/A	-
FCBU (Minimum Requirement - 20%)	24.01	22.93	5	N/A	N/A	-
Liquidity coverage ratio (%)						
Rupee (Minimum Requirement - 80%)	214.35	142.53	50	N/A	N/A	-
All Currency (Minimum Requirement - 80%)	154.50	125.63	23	N/A	N/A	-

** Capital adequacy ratios for 2016 are stated in accordance with the Basel II guidelines.*

Financial Goals and Achievements

	Goals	Achievements				
		2017	2016	2015	2014*	2013*
Financial indicators - Bank						
Return on Assets (%)	Over 1.5%	1.21	0.99	1.23	1.47	1.14
Return on equity (%)	Over 17%	16.27	13.36	15.63	16.33	14.38
Growth in total operating income (%)	Over 20%	22.82	7.71	4.69	19.00	11.55
Growth in profit after taxation (%)	Over 20%	37.26	(9.72)	2.73	64.00	(29.00)
Growth in total assets (%)	Over 15%	14.51	8.21	17.67	31.00	23.00
Dividend per share (LKR)	LKR 8 Per Share	9.00	8.00	11.00	11.00	10.00
Capital adequacy ratios:						
Common Equity Tier 1 Capital Ratio - (Minimum Requirement - 5.75%)	Over 8%	8.85	NA	NA	NA	NA
Total Tier 1 Capital Ratio - (Minimum requirement - 7.25%)	Over 8%	8.85	9.31	8.51	10.09	12.05
Total Capital Ratio - (Minimum requirement - 11.25%)	Over 12%	13.89	12.95	12.59	14.68	17.87

** The above achievements are presented excluding the one-off equity income of LKR 6,031 million for the year 2013.*



PERFORMANCE HIGHLIGHTS 2017

		2017	2016	Change (%)
Human Capital	No. of employees	2,169	2,109	2.84
	New recruits	423	445	-5
	Turnover rate (%)	9.3	6.6	-
	Female representation-overall (%)	39	39	-
	Female representation-senior management (%)	41	41	-
	Payments to employees (LKR million)	3,611	3,435	5
	Workplace injuries	0	1	-
	Revenue per employee (LKR million)	7.45	6.24	19
	Profit before tax per employee (LKR million)	3.48	3.06	14
Social and Relationship Capital	Funds Disbursed to SME and Micro (LKR million)	44,470	39,850	11.5
	SME and Micro Finance lending outside the Western province (%)	48	48	-
	Correspondent Relationships	94	94	-
	Incidents of non-compliance with laws and regulations (No. of)	0	0	-
	Payments to suppliers (LKR million)	3,029	2,339	29
Manufactured Capital	Capital expenditure (LKR million)	588	871	-32
	No. of branches	107	104	-
	No. of ATMs	121	115	-
	New branches opened during the year	3	11	-
Natural Capital	Electricity consumption (kwH)	5,864,560	5,864,988	-
	Paper consumption (kg)	49,493	46,017	8
	Paper recycled (%)	30	48	-

Focusing on winning strategies

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"In the pages that follow, we help you take a closer look as to how your Bank weathered many challenges and delivered enhanced value to all our stakeholders."

Scan the QR Code with your smart device to view this section online.

A fine performance

It is my pleasure to set the stage for an in-depth analysis by sharing with you the macro-economic and industry specific developments which shaped the Bank's performance during the year.

Dear stakeholders,

Welcome to the 13th Annual General Meeting of the National Development Bank PLC. It is with much contentment that I reflect on the past year in which our Bank recorded an excellent performance on all fronts, and with enthusiasm that I look ahead to the future which is highly promising.

This Annual Report contains information and illustrations which will help you take a closer look at how well all the Departments of the Bank integrated in generating one of the most successful years of performance, together with our group companies. As you will see, the Bank recorded an impressive profit of LKR 4.4 billion, together with a Profit Attributable to Shareholders (PAS) of LKR 3.5 billion, which was a 37% and a 30% growth respectively, over 2016.

The PAS was partly affected by the accumulated deferred tax provision made on the revaluation gains from investment property. This cumulative deferred tax provision was made in compliance with the new Inland Revenue Act, which will come in to effect from 1 April 2018 and LKAS 12 : Income Taxes. If this deferred tax provision was excluded, the PAS would have been LKR 3.7 billion for the year, which is a growth of 38% over 2016. The Bank's total assets expanded by 15% to LKR 383 billion whilst customer loans and customer deposits all grew quite substantially, ahead of the industry growth rates.

The year also marked the launch of the Bank's new strategy spanning up to 2020 named as Transformation 2020, which has set a number of ambitious goals to be achieved within the next 3 years.

It is my pleasure to set the stage for an in-depth analysis which you will see in the Chief Executive Officer's Review and the Management Discussion and Analysis, by sharing with you the macro-economic and industry specific developments which shaped the Bank's performance during the year.

MACRO-ECONOMIC CONDITIONS THAT CHARACTERIZED THE YEAR

At the global economic frontier, economic growth picked up with broad based performance across the globe, however with more than anticipated growth in Europe and China. The global economic growth for 2017 is estimated to be at 3.7%. The Middle Eastern economy recorded moderation due to geopolitical uncertainties and persistently low oil prices. The former had a negative impact on the flow of remittances into the country. This impact however was negated by the latter, in combination with increased flows of foreign investments causing a BOP surplus as of September 2017.

World trade posted strong recovery, with a parallel impact on imports and exports at country level. The Bank saw a commendable increase in its business volumes in tandem, as it catered to the export and import clientele through the Bank's suite of corporate banking, cash management and trade financing solutions.

Meanwhile in Sri Lanka, the domestic economy faced adverse weather conditions including severe floods and prolonged droughts, which continued to impact the agriculture sector. Overall however, the country's economy grew by 3.9% in the first half of 2017 (compared to 3.7% in 2016) underpinned by expansion of the industrial and services sectors.

Expansion of the industry sector was supported by construction activities. NDB was a financial partner to a number of key construction projects that are underway, particularly within the Colombo city limits, thereby making a solid contribution to national development. The Bank's Project & Infrastructure Financing Unit catered to several of these projects through their innovative, tailor-made solutions, which are rapidly changing Colombo's skyline.

In response to the increase in inflation and with the aim of controlling the excessive expansion of money supply, the Central Bank of Sri Lanka continued a tightened monetary policy from 2017 March onwards by adjusting the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) at 7.25% and 8.75% respectively. A tightened monetary policy, coupled with efforts towards fiscal consolidation drove most of the market interest rates up. The Bank re-priced its loan book and deposits rates in response to market rate movements, which assisted in an improved net interest margin.

The Sri Lankan Rupee depreciated by 2% against the US Dollar in 2017. The country received the third tranche of USD167.2 million of the Extended Fund Facility from the International Monetary Fund (IMF) in July 2017. Whilst boosting investor confidence this inflow has also eased the pressure on the exchange rate, coupled with notable conversions by exporters.

Looking back on an exceptional year...

This Annual Report contains information and illustrations which will help you take a closer look at how well all the Departments of the Bank integrated in generating one of the most successful years of performance, together with our group companies. As you will see, the Bank recorded an impressive profit of LKR 4.4 billion, together with a Profit Attributable to Shareholders (PAS) of LKR 3.5 billion, which was a 37% and a 30% growth respectively, over 2016.

The Sri Lankan banking sector became compliant with the new Basel III guidelines with effect from 1 July 2017; they were implemented with the aim of strengthening the regulation, supervision and risk management of banks. There were several capital raising initiatives carried out by the banks to meet the enhanced mandatory capital levels of Basel III. It was encouraging to see the banking sector being well ahead of the Basel III mandated capital requirements, thereby affirming the stability of the banking system.

The fiscal budget for 2018 carried important proposals impacting the banking sector. The debt repayment levy to be imposed on banking transactions is proposed to be effective from 1 April 2018 and will have an impact on sector profitability.

OUR ENDEAVOURS IN EMPOWERING THE NATION'S GROWTH

Sri Lanka has embarked on an ambitious growth trajectory. The development plans laid out by the Government, as manifested in "Vision 2025 – A country enriched" has opened up opportunities across the entire country. NDB is proud to be a partner of this development journey, which is changing the vistas of our island nation. We have extended our financial support to a number of major development projects, including hotels and residencies, which will enhance the country's tourism industry. We have also closely

knitted our reach with the micro, small and medium entrepreneurs nestled deeper in the hinterlands. For example, the pottery makers in Kekirawa, the ornamental horticulturists in Siriketha, the street food vendors in the Galle Face Green, are all beneficiaries of our mission of contributing to national development through the empowerment of various stakeholder groups and equipping them with innovative and holistic financial solutions, fortified by non-financial services as well.

Women also form a core focus group in our customer reach. Empowering women customers through both financial and non-financial services as well as being a preferred choice of employer for females, form an important aspect of our new Transformation 2020 strategy.

The suite of comprehensive services offered by our group companies on capital market instruments further augment our efforts as a trusted all-round financier. The level of expertise and professionalism with which our group companies serve their clientele has made them the undisputed choice in capital market services.

A CAPITAL RICH BUSINESS MODEL AND HEALTHY RETURNS

Your Bank has grown exponentially over the recent past, as indicated in a 5 year compound annual growth rate of 19% in total assets. We have been gradually scaling our total capital base to facilitate this business growth.

A number of recent developments affecting the banking sector has placed greater demand on the capital levels for banks. As I explained earlier, the implementation of Basel III guidelines will have a phased escalation for minimum capital requirements for banks.

The impact stemming from the adoption of IFRS 9: Financial Instruments and the proposed debt repayment levy of the 2018 Fiscal Budget will also have a direct impact on the Bank's profitability levels and its capital base.

The impact of all of this, coupled with the envisaged business growth of the Bank calls for an impending infusion of fresh capital to strengthen the business.

Therefore, we are strategizing on how we can further enhance our capital base. A number of options are currently under consideration in our capital management plans and we expect to finalize the same within 2018.

We continue to reward our shareholders with healthy dividend payouts. We paid an interim dividend of LKR 2/- per share in November 2017. I am glad to announce that the Board approved a final dividend of LKR 7/- per share for 2017, comprising of a cash dividend of LKR 2/- per share and a scrip dividend of LKR 5/- per share, thereby making a total dividend of LKR 9/- per share for 2017.

A SOLID GOVERNANCE AND RISK MANAGEMENT STRUCTURE

The stability of your Bank is attributable to the very strong framework by which it is governed. Over the years, NDB has seen skilled and versatile individuals making their valued contributions as Board Directors. The Chairman of the Bank remains an independent director of the Board, along with a healthy balance of independent and non-independent directors. All of the directors have to their credit a proven track record, vast knowledge and expertise from diverse backgrounds. Together, they provide effective guidance to take the Bank from success to success.

The Bank has a clearly defined governance framework in place that promotes transparency, fairness and accountability. Our Board and its Committees play an important role in working with the management to ensure our business is financially strong, well-governed and that any risks are identified and mitigated.

The Bank's value creation is underpinned by a very robust risk management framework. The Bank's loan portfolio is diversified and the capital and liquidity positions are prudently managed. Furthermore, risk awareness has been nurtured in the Bank's organizational culture. "Risk Analyst", the bi-annual bulletin of the Risk Department compiled with the knowledge contribution of our own staff members makes considerable contribution towards this end.

NDB has come a long way from its inception as a development financing institution. With a tenure exceeding a decade as a commercial banking entity, NDB is competing with legacy commercial banks with equal level of expertise and competitiveness.

SUSTAINABILITY AND REPORTING CLARITY

Our resolve to make our existence worthwhile for the wider community through our sustainability projects, flourished during the year. The Bank and its group companies spent LKR 23.5 million as donations to various sustainability initiatives. We take a highly strategized approach to social and environmental well-being with all sustainability endeavors vetted by a Corporate Social Responsibility Committee.

We continued the integrated approach to annual reports which we commenced in 2013, in the 2017 Annual Report as well. We have continually sharpened and refined our reporting. Our sustainability reporting in this report is as per the Global Reporting Initiatives Standards. We were an early adopter of the new GRI reporting methodology of GRI Standards, having adopted the guidelines in the 2016 Annual Report.

We were the proud recipient of triple awards at the 53rd CA Sri Lanka Annual Report Awards for the Bank's 2016 Annual Report, namely the Gold award for best corporate governance disclosures across all categories, Silver award for the banking sector category and the Bronze award for sustainability reporting across all categories. This is the first instance that NDB emerged as a winner in the CA Sri Lanka Annual Report Awards since becoming a commercial banking entity. We were also awarded the joint second runner up award for best presented annual reports in the private sector banks category at the South Asian Federation of Accountants and SAARC Anniversary Awards 2016.

THE LIVELY FORCE THAT PROPELS THE BANK FORWARD

Our employees are the key executors of our strategy. Their motivation, capabilities and above all the unity amongst them have been and will be one of the key factors underpinning our success. Living up to this truism, we carried out a number of initiatives during the year for the benefit of NDBers. The HR training calendar was carefully formulated to ensure that all the NDBers were empowered with relevant knowledge and expertise. We also carried out a salary revision activity during the year through which we ensured that all of our staff are compensated within the industry median. A job grading process was also initiated during the year to further streamline the job profiles of the Bank.

The Bank also launched a new culture identity dubbed as One NDB which further unites the strengths of our team in achieving the mission set forth under Transformation 2020 and beyond.

A NOTE OF GRATITUDE

I take this opportunity to thank the Central Bank of Sri Lanka for their valuable guidance. I also wish to thank two of the directors who resigned from the NDB Board, Mrs. Anula Harasgama and Mr. Nihal Welikala for their contribution whilst in office. I am glad to welcome Mr. Ranasinghege Semasinghe who joined the Board during the year, who brings with him a wealth of experience from the public sector.

The Chief Executive Officer, Mr. Dimantha Seneviratne has directed the energetic and able NDB Team with precision and diligence, under the guidance of the Board of Directors, in achieving these wonderful results.

I also place on record, my gratitude to all our shareholders, customers and employees and all other stakeholders who connected with us in making our presence in the society a rewarding one for all of them.

A RENEWED RESOLVE FOR A PROSPEROUS FUTURE

The newly initiated strategy in professional assistance with the International Finance Corporation (IFC) which was launched in mid-2017 has placed the Bank on a strong platform in driving itself towards renewed goals. The Bank will closely integrate its activities around the knowledge-based, highly competitive and social market economy model that the Government as a whole is adopting in its Vision 2025 – A country enriched.

In doing so digitized banking solutions will form a cornerstone of our strategy. We will also strengthen our service offerings to the entire gamut of individuals and corporates, which will directly increase our penetration within the country. Retail and SME will be our core focus areas whereby, whilst growing the loan book across all segments including corporate banking and project financing, we will increase the relative significance of retail and SME.

The focus on retail and SME will serve the dual purposes of empowering the middle income earners towards an inclusive society, which is one of the approaches set out in the Government's Vision 2025, and improving the Bank's loan book composition to more sustained and profitable customer relationships. Our very strong retail branch network, presently comprising 107 branches will be a key catalyst in this retail-SME focused mission.

NDB has come a long way from its inception as a development financing institution. With a tenure exceeding a decade as a commercial banking entity, NDB is competing with legacy commercial banks with equal level of expertise and competitiveness. With the impetus provided by the aforementioned initiatives, the medium term goal of our new strategy is to shift leagues from the current mid-sized bank category to the systemically important banks category within the Sri Lankan banking industry.

With this resolve borne deep in every thought and action, we look forward to a prosperous future.

Wishing you all the best

Ananda W Atukorala
Chairman

20 February 2018

A most successful year

2017 saw NDB achieving many milestones, thereby making it an important year in the Bank's illustrious journey spanning nearly four decades. I invite you to take a closer look in to the pages that follow, and find out how we created sustained value to all our stakeholders in a distinctly successful year.

Dear friends,

It is with immense pleasure that I present to you, this review on the performance of the Bank for 2017. The year saw NDB achieving many milestones, thereby making it an important year in the Bank's illustrious journey spanning nearly four decades. My review which follows will help you take a closer look, as to how your Bank weathered many challenges and delivered enhanced value to all the stakeholders.

IMPRESSIVE FINANCIAL PERFORMANCE

In the aftermath of a subdued 2016 in terms of financial performance, NDB commenced 2017 with vigor and resolve to achieve resilient business growth and profitability. The team continued the energetic momentum throughout the year which resulted in the Bank and the group companies achieving highly impressing financial results for 2017.

The Bank's Profit after Tax (PAT) exceeded LKR 4 billion to LKR 4.4 billion which was an impressive growth of 37% compared to 2016. At the Group level, Profits Attributable to Shareholders (PAS) also grew quite impressively by 30% to LKR 3.5 billion. As explained in detail by the Chairman in his Message, the PAS was affected by the cumulative deferred tax provision on the revaluation gains from investment property in line with the new Inland Revenue Act which will come in to effect from 1 April 2018 and LKAS 12: Income Taxes. The PAS, excluding this tax impact would have been LKR 3.7 billion, an increase of 38%.

Net Interest Income (NII), the vital contributor within total operating income grew by 27%. The Bank's NII of LKR 10.8 billion drew strength from a combination of factors, such as the enhanced Net Interest Margin up to 3.0%, (from 2.6% in 2016), substantial volume growth in the loan book and the exponential growth in the deposits base, thereby reducing the reliance on high cost funding sources.

2017 saw marked improvements in the quality of the Bank's loan book which was reflected in reduced impairment charges and an NPL ratio. Total impairment charges for loans and other losses were LKR 1.3 billion, a reduction of 8% compared to 2016. Prudent risk management and credit underwriting standards, proactive credit follow ups and robust recovery efforts resulted in one of the best NPL ratios in the industry for the Bank in 2017, at 1.83%. This NPL ratio compares very well with the industry average of 2.5% for 2017 and NDB's own NPL of 2.63% for 2016.

Operating expenses was managed well within a 14% increase to LKR 7.3 billion. This increase in costs is highly justifiable considering the major business expansions, considerable investments made on the digital frontier and a number of innovative products which were launched during the year. The cost to income ratio improved to 45.5% compared to 49% in 2016 affirming the enhanced contribution these costs made in driving healthy income.

Your Bank recorded steady and stable growth during 2017. The Balance Sheet expanded by 15% to record a total assets base of LKR 383 billion at the end of the year. The loan book, after provisions made for impairment losses grew by an encouraging 20%, higher than the industry growth of 16% to reach LKR 274 billion. Customer deposits grew by 34%, an all-time high over the past five years in the Bank's history, and also well ahead of the industry deposits growth rate of 17.5%. The deposits base grew by an exceptional LKR 70 billion to close at LKR 273 billion at the end of the year.

Within the deposits growth we also grew our CASA base by 25% over 2016, which was a quantum increase of LKR 12 billion. Deposit growth was fueled by concentrated efforts to broad base our deposit customer base and the Bank's full suite of lifestyle savings products, which was invigorated with four new launches and one re-launch.

Investor ratios also improved in 2017, with a ROE of 16.27% at the Bank level.

All of the business units of the Bank made solid contribution in terms of Balance Sheet growth and profitability. The performance of the Group companies was below aspirations, due to the reduced capital market activities that were seen across the year. However, they too recorded sound growth and contributed to overall Group profitability as permitted by the prevalent market conditions.

I invite you to refer the Financial Review available in pages 43 to 52 to take an even closer look as to how well your Bank did in 2017.

Focusing on the future...

Transformation 2020, our new strategy for the medium term will focus on further enhancing the Bank's business model and streamlining it to be on a level playing field in terms of internal capabilities with the peer commercial banks.

2017 was an affirmation that your Bank can make great strides as a leading bank in the Sri Lankan banking industry. Your Bank aspires to shift leagues and be a systemically important bank in the country. The implementation of Transformation 2020 is the major strategic step taken towards this direction and we are confident that our resolve and skills will enable us to achieve this ambition.

A YEAR OF INTENSE STRATEGIC PLANNING

As I indicated in my Review of the 2016 Annual Report, during 2017, the Bank entered in to professional consultation with the International Finance Corporation (IFC) in devising a medium term strategic plan spanning up to year 2020. Dubbed as Transformation 2020, the strategy was launched in July 2017 and a large amount of ground work was carried out during the second half of 2017.

The organization underwent a strategic re-shaping where new functions were established to drive focused business across all segments. Segregation of retail banking under the umbrella of personal banking and network management, establishment of a separate function to focus on the amalgam of SME, middle markets and business banking, expansion of the marketing function to customer experience management and the establishment of a Digital Financial Services function are some key restructuring initiatives.

A number of key business areas as well as process improvements are under the scrutiny of Transformation 2020 to propel the Bank forward and reach our goals by year 2020. The execution of the strategy is being carried out in a timely manner and is monitored by a dedicated project management team.

With all these initiatives launched in stages, 2018 would mark the first full financial year which is shaped by the Transformation 2020 strategy.

THE STRENGTH OF ONE NDB

As mentioned in the Chairman's Review, One NDB is the newest culture identity of the Bank originated alongside Transformation 2020 strategy. The NDB team is rich in diversity of both in grown talents as well as talent acquired from outside. Their unity, commitment and perseverance have been the key enablers of all the exciting results that we see today.

Under the slogan of One NDB each one of the NDBers will engage themselves in the new strategic direction and make their valued contribution individually as well as a team to make the goals of the strategy a reality.

Our employees are our most valued resource. We spent a total of LKR 3.6 billion, including compensation and bonuses to them during 2017. We remain guided by one of the most transparent and employee friendly HR policies via which we ensure a highly conducive work environment for them. We encourage and facilitate a host of initiatives for our staff to take part in, such as sports, Toastmasters, aesthetics, quiz programs, etc. to ensure an enjoyable work experience at the Bank.

A FUTURE-PROOFED CONNECTIVITY

At NDB we are well aware of the changing customer demographics as well as the advancements in technology which have a direct impact on the business of banking. We are committed to ensure that we offer our customers the best banking solutions augmented by the convenience offered by digital capabilities.

Staying true to this commitment we made significant advancements in our digital offering during the year. Our mobile banking App underwent several improvements to create an enhanced experience to our clientele. The App saw a surge in on-boarding and activities, with the subscriber base increasing by over 90% and the total volume of transactions routed through the App exceeding LKR 4 billion during the year. We pursued five fintech partnerships during the year in devising futuristic banking solutions for our customers.

Our approach to customer connectivity is a precise fusion of digital offerings as well as the physical touch points. As such, we are driven on a more "phygital" approach. During the year, we expanded our branch network at a moderate pace, with three new branches added on to the network, along with 5 ATMs. We also relocated two of our existing branches to more spacious locations. From 2018 onwards, we plan to strengthen our ATM network with the installation of Cash Recycle Machines as well.

We also launched dial banking services during the year in the interest of our non-smart phone user customers, in a bid to make new age banking closer to all segments within the country.

OUR COMMITMENT TO SUSTAINABILITY

Sustainability is strategically embedded in the way we conduct our business. An important component of the Bank's sustainability agenda is the environment where the Bank ensures that its direct and indirect environmental impact is minimized or removed. The Bank's Environmental and Social Management System (ESMS) is an integral part of the Credit Policy and credit evaluation process of long term lending of NDB, where the Bank has taken prudent measures to minimize adverse effects of the services rendered by evaluating projects for environmental and social risks prior to lending.

The Bank also adds value by promoting environmentally and socially responsible products. Our Project & Infrastructure Financing Unit is a leader in financing renewable energy projects such as solar, wind, hydro and waste to energy generation plants both in Sri Lanka and overseas. We also have a personal loan scheme for domestic solar energy systems called NDB Solar Vantage.

The strategic focus of the Bank has been cascaded down to our community relations as well.

The Bank's strategic Corporate Social Responsibility (CSR) Initiatives were carried out under the core themes of Education, Environment, Entrepreneurship and Health during the year. Special projects were also carried out in response to the natural disaster experienced during the year. Your Bank stays committed to the well-being of all the stakeholders who are impacted by its existence and activities.

The organization underwent a strategic re-shaping where new functions were established to drive focused business across all segments. Segregation of retail banking under the umbrella of personal banking and network management; establishment of a separate function to focus on the amalgam of SME, middle markets and business banking; expansion of the marketing function to customer experience management; and the establishment of a Digital Financial Services function are some key restructuring initiatives.

COMMITTED TO EMPOWERING SRI LANKAN WOMEN

Whilst reaching out to the masses of customers from all strata of society, NDB has committed to the well-being of Sri Lankan women with added care and commitment. During 2017, we conducted a number of programs targeting small and micro scale women entrepreneurs via which we delivered a bundle of non-financial services to them which empowered them as individuals and businesswomen.

The launch of NDB Araliya women's savings account during 2017 with a medical insurance and life insurance cover for the account holder and her immediate family, was the Bank's newest financial assistance to female customers. The Bank has well identified the importance of women as a key catalyst in the economic development. Equality for women is demonstrated within the Bank itself, with healthy representation of women across the workforce, particularly at the senior and top management positions. Seven of the seventeen Leadership Team members of the Bank are females, whilst 41% of the Senior Management is also represented by females. The Bank is presently drawing strategic plans

via which more could be delivered to women both at a customer and employee level.

AN AWARDS STUDDED YEAR

We are excited by the large number of awards that the Bank and the Group won during the year, affirming excellence in numerous areas of performance. Whilst some awards were first time wins, certain others were titles that we defended for more than one year. Our team at both the Bank and the group companies are highly motivated by these external endorsements earned from both local and international awarding bodies, to push the envelope to deliver further enhanced results to our stakeholders.

A full list of all the awards we won during the year is found on pages 20 and 21.

THE LEGACY CONTINUES TO AN EXCITING FUTURE AHEAD

NDB enjoys a rich history as a development financier which was established as far back as 1979. We take pride in being the financial partner in some of the iconic development projects in the country such as the first ever wind power project, one of the first ever waste to energy projects and Sri Lanka's largest private sector mixed development project.

NDB became a fully-fledged commercial banking entity in 2005, hence its existence as a commercial bank is relatively young, compared to more mature peers in the industry. Furthermore, the Bank inherited a number of development financier attributes which were incompatible with a commercial banking model. Asset focus as opposed to liability focus; heavy dependence on credit line funds and institutional borrowings in asset book financing hence the high Loans to Deposits ratio; less focus on CASA deposits and relatively lower retail orientation are some such attributes which were challenging for NDB as a new commercial banking entity.

However, over the past decade, NDB has made tremendous structural improvements in its Balance Sheet and shifted to a more retail focused business model. Whilst evolving so, the Bank has preserved its developmental expertise, thereby augmenting the Bank's services to all its customer segments and the nation at large in their development journey.

Transformation 2020, our new strategy for the medium term, will focus on further enhancing the Bank's business model and streamlining it to be on a level playing field in terms of internal capabilities with the peer commercial banks.

2017 was an affirmation that your Bank can make great strides as a leading bank in the Sri Lankan banking industry. Your Bank aspires to shift leagues and be a systemically important bank in the country. The implementation of Transformation 2020 is the major strategic step taken towards this direction and we are confident that the future that lies ahead will deliver on this ambition.

Sustained business growth through affordable financial services offered to a larger segment of the retail masses, digitalization, focus on low cost funding, preserving the asset quality and strengthening the robust risk management environment and excellence in customer services will be the key enablers of the envisioned growth.

As our identity is made up of "development" we will continue our mission in helping the nation as well as its people to develop and prosper.

The Bank and the Group remain well capitalized with the Basel III capital adequacy ratios being well ahead of the minimum requirements. As mentioned by the Chairman in his Message, capital management is well underway to further fortify the Bank's business growth plan and to be compliant with the minimum capital levels under Basel III coming in to effect on a phased basis in the future.

A NOTE OF THANKS

A fruitful year would not have been possible if not for the contribution of many. My thanks on behalf of the Bank are extended to the Governor and staff of the Central Bank of Sri Lanka and other regulatory bodies. The guidance of the Chairman and the Board of directors has been invaluable in navigating the Bank through headwinds. I also wish to thank our shareholders, who have been our biggest strength having placed utmost confidence in us and our customers, who are our biggest inspiration in expanding our boundaries for better offerings every day.

My heartfelt gratitude goes to the senior management team and all NDBers spread across the island for their unity and unwavering commitment in creating success stories for the Bank. I also thank the management and the staff of all our group companies for the respective contributions made by them towards the overall performance of the Group.

I invite you to take a closer look in to the pages that follow, and find out how we created sustained value to all our stakeholders in a distinctly successful year.

Wishing you all the best

Dimantha Seneviratne
Director/ Chief Executive Officer

20 February 2018

An impactful bank

The NDB Group is uniquely positioned within Sri Lanka's financial sector as the only banking institution in the country offering the full spectrum of banking and capital market solutions. NDB is a licensed commercial bank and the largest entity within the Group as the parent company, contributing to the majority of consolidated earnings. Commencing operations in 1979 as a development bank, NDB gradually widened the scope of its operations to emerge as a fully-fledged commercial bank by venturing into retail, SME and corporate banking while sustaining its competitive edge in project and development financing. The Bank serves a large customer base comprising individuals and institutions through a network of 107 branches in 22 districts and is powered by a team of over 2,000 employees.

In addition to banking services, the Group provides an array of capital market solutions including investment banking, wealth management, stock broking and private equity among others through its capital market cluster. Whilst a substantial part of the Group's operations is in Sri Lanka, we also engage in fee-based business in Bangladesh through NDB Capital Limited and private equity in Mauritius through NDB Zephyr Partners Limited. The Bank, along with its capital market cluster companies is a frequent recipient of domestic, regional and international awards across a broad spectrum of performance aspects. The Bank also has a subsidiary company, engaged in property management.

NDB is listed on the Main Board of the Colombo Stock Exchange, with a recorded market capitalization of LKR 23.4 billion as of 31st December 2017. The Bank holds a credit rating of A+(LKA) with a Stable Outlook from Fitch Ratings Lanka Limited.

CREDIT RATING

A+ **(lka)/Stable Outlook by Fitch Ratings Lanka Limited**

As affirmed in December 2017

TOTAL ASSETS

383 **LKR billion**

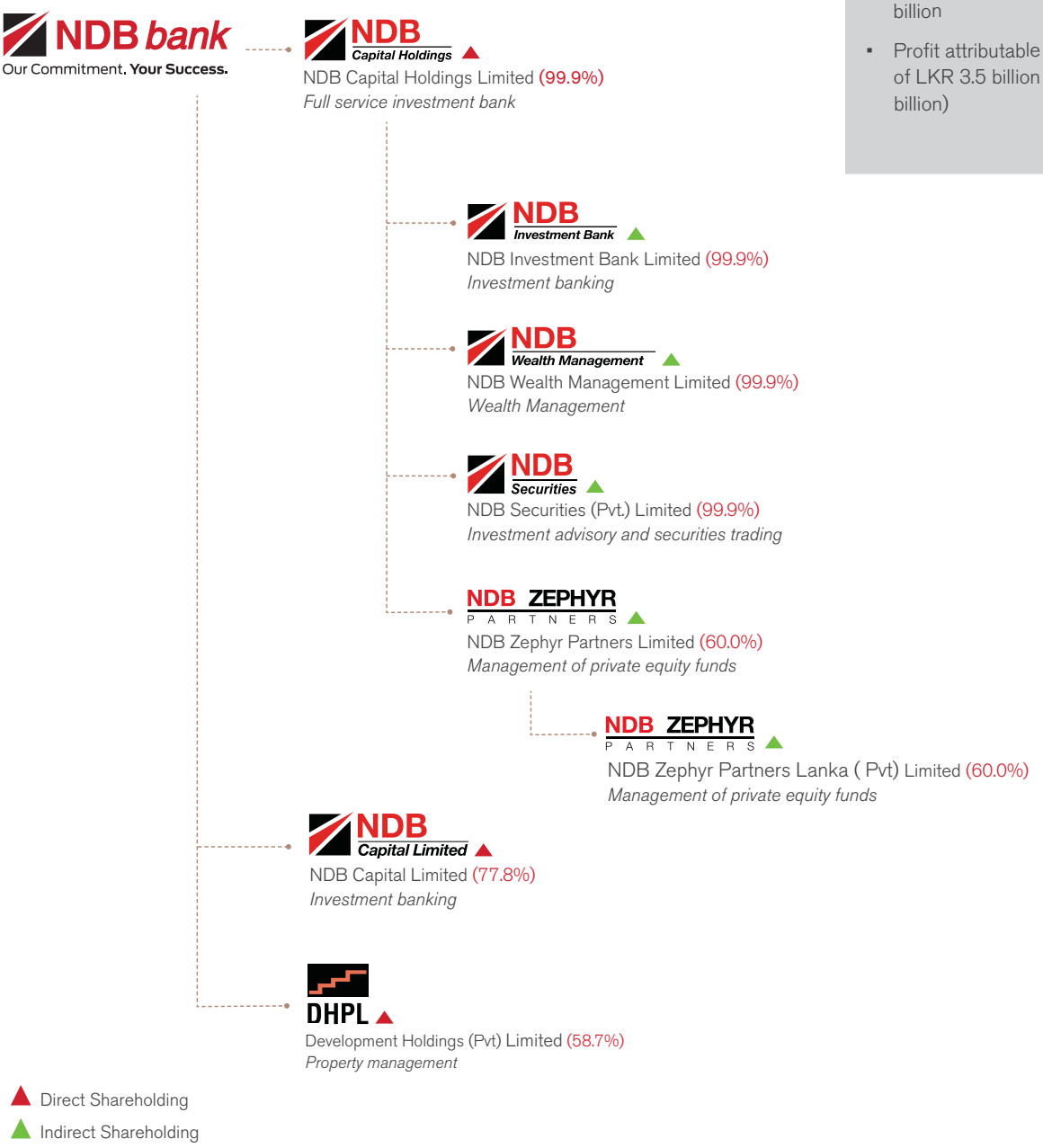
Solid growth recorded in the total Balance Sheet size ahead of the industry growth

Recipient of nearly 40 awards and titles, with several defended for consecutive years

A network of 107 branches supplemented by 122 ATMs, reaching out to a broad base of customers across the country

GROUP STRUCTURE

The Group's capital market solutions are offered through dedicated subsidiaries as illustrated below. NDB Capital Limited is domiciled in Bangladesh while NDB Zephyr Partners was set up in Mauritius in partnership with the US-based Zephyr Management LP.



SNAPSHOT OF NDB BANK AND GROUP

- A robust Group structure combining commercial banking, capital market services & property management
- A total Group asset base of LKR 389 billion
- Profit attributable to shareholders of LKR 3.5 billion (2016 : LKR 2.7 billion)

In addition to the above, the Bank also carries a direct holding of 50% in the form of associate companies, in NDB Venture Investment (Pvt) Limited and Ayojana Fund (Pvt) Limited, both of which are venture capital businesses. These companies are presently under liquidation.

OUR EXCELLENCE

The Group is a frequent recipient of local and international awards and accolades, attesting to its continuous commitment to strive for excellence in all aspects of its operations.

Such external recognition also serves to provide assurance to stakeholders regarding our processes, stability and customer service, enabling us to fortify our brand.

Overall Excellence

- National Business Excellence Awards 2017 - Runner Up under the Banking Category
- The Ceylon Chamber of Commerce - "Best Corporate Citizen Sustainability Award 2017" - Winner - Top Ten Corporate Citizen Category
- Asian Banking & Finance Magazine of Singapore

  Domestic Retail Bank Sri Lanka 2017 (Fifth consecutive year)

  SME Bank of the Year Sri Lanka 2017 (Fifth consecutive year)

  Domestic Project Finance Bank of the Year Sri Lanka 2017 (Third consecutive year)

  Domestic Cash Management Bank of the Year Sri Lanka 2017 (for the second year).
- Global Banking & Finance Review of UK – Best SME Bank 2017
- Best Local Bank in South Asia for Belt & Road Initiative (BRI) - Asiamoney New Silk Road Finance Awards 2017

Excellence in Transaction Banking

- US Dollar STP Excellence Award from HSBC New York (for the third consecutive year)
- US Dollar STP Excellence Gold Award from Deutsche Bank New York

Excellence in HR

- Best Training Partnership with External Vendors
- Best Employer Brand Award
- Most innovative use of Training & Development as an HR initiative for Organizational Development
- Award for Asia's Best Employer Brand Award

Excellence in Women friendly banking

- Women in Management organization in partnership with the International Finance Corporation - Best CSR Program Run by a Private Sector Entity for Women Empowerment

Excellence in Digital Banking

- LankaPay Technnovation Awards 2017

  Runner Up for the 'Best Mobile Payment Application of the Year'
- SLT Zero One Awards 2017

  'Best use of Mobile' under Financial Sector category
- Asian Banking & Finance Magazine of Singapore - Mobile Banking Initiative of the Year Sri Lanka 2017
- Global Banking & Finance Review of UK - Best Mobile Banking Application – Sri Lanka 2017

Excellence in Annual Report - NDB's 2016 Annual Report - Unlocking our Potential to Unleash Yours

- South Asian Federation of Accountant (SAFA) BPA Award & SAARC Anniversary Award 2016
  Joint 2nd runner up - Private Sector Banks (including Co-operative Banks)
- CA Sri Lanka – 53rd Annual Report Awards
  Gold award for Corporate Governance Disclosures across all categories
  Silver award for the best reports from the Banking Institutions category
  Bronze award for Corporate Social Responsibility Reporting across all categories
- CMA Excellence in Integrated Reporting Awards – 2017
  Award for the best integrated report in the banking sector
  Award for the best ten integrated reports – Across all categories

Excellence in Sound Investor Relations

- CFA Sri Lanka Capital Market Awards 2017 - Gold award -Best Investor Relations (2nd consecutive year)
- Global Banking & Finance Review of UK - Best Investor Relations Bank – Sri Lanka 2017

Excellence in Marketing

- Award for Brand Excellence within the Banking & Finance sector
- Award for Excellence in Social Media Marketing

AWARDS WON BY THE NDB GROUP IN 2017

NDB Investment Bank Limited

- Euromoney Awards 2017 - Sri Lanka's Best Investment Bank (Sixth consecutive year)
- Global Brands Magazine - Most Trusted Investment Banking Brand, Sri Lanka
- Asiamoney Banking Awards - Best Corporate and Investment Bank, Sri Lanka
- FinanceAsia's Annual Country Awards – 2017 - Best Investment Bank in Sri Lanka
- Global Banking & Finance Review Awards – 2017 - Best Investment Bank in Sri Lanka

NDB Capital Limited – Bangladesh

- Euromoney Awards 2017 - Best Investment Bank in Bangladesh (Third year)

NDB Securities Pvt Limited

- CFA Sri Lanka Capital Market Awards 2017 - Bronze award - Best Stockbroking Research Team

KEY EVENTS OF 2017

January

Katana Branch Opening

NDB opened its 105th branch in Katana in a bid to support the economic and livelihood development in the Gampaha District.

February

A CSR initiative to identify Chronic Kidney Disease (CKD) in Maha Oya, Sri Lanka

The Bank extended its support to make a meaningful change to the society at large by sponsoring a Mobile Screening Project to identify Chronic Kidney Disease initiated by the Renal Disease Prevention and Research Institute of the Ministry of Health, Nutrition and Indigenous Medicine, Colombo.

Wennappuwa Branch Relocation

NDB relocated its Wennappuwa branch to a more spacious and a conveniently accessible location to provide a better service experience to customers.

March

NDB Sponsored Motor Show 2017 at BMICH

NDB sponsored the Auto Vision - Motor Show 2017 exhibition which is renowned for bringing all motor related products and services under one roof.

NDB was the Official Banking Partner for Kedella at BMICH

NDB sponsored the Kedella Living in Style Exhibition 2017 held at BMICH for the second consecutive year.

Kiribathgoda Branch Relocation

NDB relocated its Kiribathgoda branch to a more spacious and a conveniently accessible location to provide a better service experience to its customers.

April

NDB Derana Avurudu Gama in Nittambuwa

NDB was the official banking sponsor for the Avurudu Celebrations of the Nittambuwa Ranpokunagama 'Avurudu Gama' organized by FM Derana at the Ranpokunagama Grounds.

May

NDB Opened its 106th Branch in Kottawa

NDB opened its 106th branch at 365/1 A, High Level Road, Kottawa.

CSR Initiative in Ampara for Dengue Prevention

NDB's Uva Sabaragamuwa Region carried out a 'Dengue Prevention Campaign' which included a walk to increase awareness on environment pollution and Dengue. The Bank also put up 5 sign boards on environment conservation in Ampara and donated mosquito nets to the Director Health of the region.

June

Donations for Flood Victims to the Rathmalana Airforce Base, Colombo

NDB staff members stepped in to help out the flood victims by collecting essential items through its Head Office and regional branches which were then dispatched to those who were severely affected by the floods, through Sri Lanka Air Force and regional collection centres.

July

Araliya Women's Savings Account Launch at Independence Arcade

NDB Araliya was launched amid a high level of customer engagement and attractive promotional activities.

NDB Partnered with Home & You Exhibition 2017

NDB partnered with Sri Lanka's premier lifestyle exhibition Home & You Lifestyle Fair 2017 as the event's Official Banking Partner.

August

NDB Holds Investor Forum at Galadari Hotel

NDB held an Investor Forum to present the Financial performance for 1H 2017 at Galadari Colombo. The Forum was well attended by a gathering of investors, investment advisors, stockbrokers, fund managers and media.

Opening Ceremony of NDB Group Companies

Four of NDB Group's capital market cluster companies were relocated at No 135, Bauddhaloka Mawatha , Colombo 4 in a bid to provide better service.

September

NDB Partnered with Future Minds Expo at BMICH

NDB reached out to a large number of attendees at the exhibition with the Bank's tailor-made education loans and other products.

October

NDB Children's Savings Account Celebrates Children's Day with Handaya

NDB re-launched its Children's Savings Account in line with the World Children's Day. NDB along with Hiru TV conducted a fun filled children's event at Viharamahadevi Park with the participation of many children.

November

Installation of an offsite ATM at Seeduwa

NDB set up a Stand-alone ATM in Seeduwa in a bid to expand its automated delivery channel. With this opening, NDB has grown its offsite ATMs to a total of 14.

Co-sponsored the Royal College Teacher's Talent Show

NDB co-sponsored the Royal College Teacher's Talent Show 2017, where the Royal College teachers showcased their talents.

December

Mobile Banking Promotion at Arpico Super Centre Hyde Park Corner

The Mobile Banking promotion took place at Arpico Hyde Park Corner where over 140 new customers walked away with Christmas Bonanza vouchers after opening a new NDB account and registering for NDB Mobile Banking. These customers registered for mobile banking with a deposit of LKR 1,000 and received LKR 2,000 worth of Arpico vouchers.

Santa Promo - Christmas Promotion with Santa Clause

NDB made home visits to over 500 children island wide, surprising them with gifts hand delivered by Santa Claus. During the NDB Santa Promotion, parents deposited LKR 50,000 or more to their children's NDB Children's Savings account and selected a gift to be delivered to their child. The response to the NDB Santa Promotion was immediate right across the island.

STRATEGY AND OPERATING CONTEXT

VALUE CREATION MODEL

CAPITAL INPUTS

Financial Capital
Capital and funding from investors and customers that is used to drive our strategy and operations.
(Page 42)

Human Capital
The skills, knowledge and experience of our talented team
(Page 80)

Manufactured Capital
Our physical and digital infrastructure that provides the required framework to conduct business
(Page 88)

Intellectual Capital
Our organizational values, tacit knowledge and innovation capacity
(Page 94)

Social and Relationship Capital
The relationships we have nurtured with our stakeholders and communities
(Page 98)

Natural Capital
Natural resources which are consumed in our value creation process and the healthy functioning of the ecosystem (Page 106)

Vision

To be the driving force for a financially empowered Sri Lanka

Values

Integrity, Creativity, Excellence, Sincerity, Accountability

Key Trends (Pg 31)

Macro economic trends	Technology and connectivity	Regulatory changes

Key Business Lines and Products

Banking Operations

- Commercial Banking (Page 53)
- Project and Infrastructure Financing (Page 56)
- Retail Banking (Page 58)
- SME Banking (Page 61)
- Refinance Operations (Page 66)
- Islamic Banking (Page 68)
- Treasury (Page 69)
- Micro Financing (Page 63)

Strategic Framework
TRANSFORMATION 2020

Governance & Risk Management

Business focus	Business processes & IT	Customer Experience

Technical Execution

Organizational Change Management

Stewardship (Page 187) and Risk Management (Page 135)

Mission

To be the catalyst in the financial services industry by creating superior shareholder value and contributing to the national development through the empowerment of individuals with innovative financial solutions delivered by an inspired and dedicated team committed to excellence.

Demographic changes

Environmental consciousness

Group Company Operations

- Investment Banking (Page 72, 74, 77)
- Wealth Management (Page 75)
- Securities Trading and Investment Advisory (Page 76)
- Private Equity (Page 78)
- Property Management (Page 79)

An Inspired Team

Group Synergy

OUTPUTS AND OUTCOMES

Shareholders

- ROE of 11.09%
- An EPS of LKR 20.35
- Dividend per share of LKR 9.00
- Maintained a healthy balance sheet, strong governance and proactive risk management practices.

Employees

- Increased total payments to employees by 5% to LKR 3.6 billion
- Provided opportunities for career progression in a dynamic and challenging environment.

Customers

- A 20% increase in loans & advances to customers
- Launched innovative solutions, enhanced customer convenience and maintained competitive pricing

Community

- Invested LKR 20.2 million in CSR initiatives.
- Maintained mutually beneficial and cordial relations with all communities in which we operate

Government and Regulators

- Total tax contributions to the government amounting to LKR 3,146 million.
- Complied with all relevant laws, regulations and other guidelines

Environmental Impacts

- Generated a carbon footprint of 2,624.4 million MT of CO_2 equivalents during the year under review.
- Recycled paper amounting to 30% (or 14,721Kg) of total paper used.
- Lending towards renewable energy, agriculture and other green initiatives

CAPITAL INTERDEPENDENCIES AND TRADE-OFFS

Limitations in the availability and affordability of capital inputs mean that inevitable trade-offs are made when delivering our strategic priorities.

FINANCIAL CAPITAL

Utilizing and applying financial capital allows us to sustain and grow our business with positive impacts on human, manufactured, intellectual and social and relationship capital. Our activities could however have a negative impact on natural capital.

Page > 42

MANUFACTURED CAPITAL

By expanding our branch reach and other infrastructure, we increase our manufactured capital and build social and relationship capital, but may adversely impact natural capital and financial capital over the short-term. However, a commitment to reduce environmental footprint across our network could benefit natural capital. Further, increase in scale of operations will lead to enhanced financial capital.

Page > 88

HUMAN CAPITAL

Increased human capital to support our growth aspirations could negatively impact the Bank's financial capital over the short-term. However, over the longer-term business expansions, operational efficiencies and employee relationships with customers will have a positive impact on both financial capital and social and relationship capital. By investing in the training of our employees, we support the growth of our intellectual capital.

Page > 80

SOCIAL AND RELATIONSHIP CAPITAL

Community engagement and Corporate Social Responsibility (CSR) activities reduce financial capital over the short-term, but in the longer-term build relationship capital, providing our social license to operate. By supporting enterprises, we support the growth of intellectual and financial capital. Our environmental awareness and literacy programmes help build both natural and relationship capital.

Page > 98

INTELLECTUAL CAPITAL

Investments in building intellectual capital can reduce financial capital in the short-term, but over the longer term the Bank's stock of tacit knowledge and organizational capital will benefit human capital, social and relationship capital and financial capital.

Page > 94

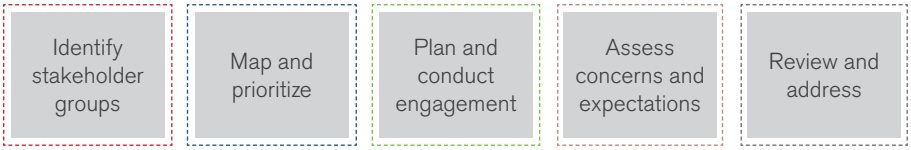
NATURAL CAPITAL

The use of natural resources in our operations and generation of emissions and waste impact natural capital negatively and could also adversely affect social and relationship capital. Considering the Bank's relatively low usage of natural resources as we are in the financial services industry, the impact on natural capital is relatively lesser.

Page > 106

LISTENING TO OUR STAKEHOLDERS

We engage pro-actively with our stakeholders to ensure that we balance their competing interests and strive towards a multi-stakeholder approach in addressing challenges. Feedback obtained from our stakeholder engagement is a vital input in strategy formulation, product development and improving our operations and processes. We have identified and prioritized stakeholders for targeted engagement based on how the Group's activities impact them and the relevance of our strategy in addressing their concerns. Our approach to engaging with our stakeholders is illustrated below;



The subsequent section demonstrates our key engagement platforms as well as stakeholder expectations and how we responded to these expectations during the year under review.

Investors

Investors are critical to our success as they provide the financial capital to sustain and grow our business. For the purpose of investor relations, the concept of investors are interpreted more broadly to include a wide range of stakeholders in addition to shareholders, as listed below.

Profile of our Investors

- 8,330 shareholders comprising state and private institutions and individuals
- Multi-lateral funding agencies
- Fund managers and stockbrokers
- Rating agencies
- Financial media

How we Engage

- Annual General Meeting which is held annually in March
- Quarterly investor webinars and fora on publication of quarter financial results
- Investor road shows when required
- Year-round meetings with investment analysts, stock brokers and media
- Numerous publications including the Annual Report, quarterly performance updates, ongoing investor presentations and announcements to the CSE.
- Dedicated investor relations page on our website www.ndbbank.com

Expectations and Topics of Interest

- Sustainable returns commensurate with the risk undertaken
- Group's strategic agenda
- Integrity and high standards of corporate conduct and governance
- Effective risk management practices
- Macroeconomic environment and potential impacts on the Group

Our Strategic Response

Our engagement with investors are based on the core principles of consistency, transparency, clarity and openness to scrutiny. We engage with them via well structured events and maintain an open door policy.

Employees

Employees are vital in delivering exceptional customer experiences and driving our strategic ambitions.

Profile of Employees

- 2,169 employees, with a 39% female representation
- 33% employees outside the Western Province
- 17% of our staff have a tenure of over 10 years

How we Engage

- Annual employee surveys including satisfaction, HR ISO and department surveys
- Periodic staff meetings (Town halls, weekly leadership team meetings, monthly regional manager and business review meetings, quarterly branch manager meetings)
- Quarterly induction programmes
- Year-round work life balance initiatives such as Recreation and Toastmasters' club
- Annual Retail Banking awards
- Employee recognition awards
- Ongoing employee volunteerism programmes

Expectations and Topics of Interest

- Effective performance management and attractive remuneration schemes
- Opportunities for talent and skill development
- Career progression opportunities
- Injury-free, safe working environment
- Simplification of processes to drive productivity
- Work-life balance
- Maintain open and two-way communication

Our Strategic Response

- We ensure our employees are treated fairly and with dignity, with numerous opportunities for talent and career development in a challenging and dynamic work environment.

(Please refer page 80 Human Capital Review and page 268 for HR and Remuneration Committee Report)

Customers

Understanding customer needs and providing innovative, value-for-money, convenient solutions with a high level of service excellence are essential for attracting and retaining customers.

Profile of our Customers

- We cater to individuals from entry-level to high net worth individuals, SMEs, corporates, public enterprises and micro businesses

How we Engage

- Periodic customer satisfaction surveys for branches
- Ongoing customer interaction at branches

- Ongoing online and social media interactions
- Print and electronic media publications as and when required
- Online and mobile banking portals
- Trade fairs and exhibitions (potential customers)

Expectations and Topics of Interest

- Competitive and transparent pricing
- Professional customer service at all contact points
- Innovative solutions
- Convenient access to banking and channel of choice
- Responsible banking practices
- Product knowledge and attitude of employees

Our Strategic Response

We continuously revisit our purpose and position our customers at the forefront of strategy to keep customer service alive as an ongoing agenda. Our ambition is to be the number one for customer service and advocacy in the Sri Lankan banking arena. NDB's customer-centric business model will endeavour to deliver great customer service experience across all customer touch points and channels.

Suppliers and Business Partners

Our suppliers and business partners are vital in ensuring uninterrupted and seamless services. Their social and environmental practices are also important to us from a sustainability and business ethics viewpoint.

Profile of Suppliers and Business Partners

- 35 correspondent banks that facilitate cross border transactions
- 357 registered suppliers who provide goods/services required to conduct our operations

How we Engage

- Periodic supplier reviews and assessments
- Periodic meetings and written communication
- Press releases, invitation for bids and tenders and information on the website

Expectations and Topics of Interest

- Fair and transparent pricing
- Ease of transacting
- Continuity of relationship
- For correspondent banks- secure and stable platform for transacting

Our Strategic Response

The Board approved procurement policy ensures that we maintain a continuous and open dialogue with all suppliers and business partners. We also propagate our sustainability practices to our suppliers through regular social and environmental screening.

Regulators

Regulators ensure a sound and efficient banking system in the interest of depositors and the economy as a whole.

Who are our Regulators?

- The Central Bank of Sri Lanka is responsible for banking regulations and supervision and is our primary regulator
- Other regulators/government authorities include the Securities and Exchange Commission, the Colombo Stock Exchange and the Inland Revenue Department.

How we Engage?

- Ongoing regulatory reporting
- On-site visits and audits when required
- Consultations and meetings when required
- Announcements to the CSE when required

Expectations and Topics of Interest

- Compliance to all relevant regulations, directions and guidelines
- Maintain regular and transparent communications
- Control direct and indirect impact on stakeholders, the society and the environment.

Our Strategic Response

The Bank maintains a close and transparent working relationship with its regulators, to ensure compliance and obtain clarification on issues if required. A dedicated Compliance Department independently monitors adherence to all relevant regulatory and statutory requirements.

The Bank contributes to the development of policy, legislation and regulation through submissions of comments and views on proposals and discussion papers. We also maintained resilient business continuity management processes.

Community and Environment

The sustainability of our business is inextricably linked to the community and environment in which we operate and our business prospects rely on a strong and thriving community.

Who are the Communities we Serve?

- The Sri Lankan communities we operate in
- The environment

How we Engage

- Meetings with beneficiaries of CSR initiatives and capacity building programmes as and when required
- Ongoing publications including the Bank's Sustainability reporting and other press releases
- Ongoing CSR projects, press releases and engagement on social media

Expectations and Topics of Interest

- To partner common social and environmental issues
- Employment creation within communities
- To develop products and provide guidance on achieving desired outcomes of individuals, families and businesses
- Minimizing adverse social and environmental impacts

Our Strategic Response

In line with our long-term approach towards sustainability we strive to create value for the communities we operate in, through strategic CSR projects, developing products and solutions facilitating socio-economic empowerment and delivering positive environmental impacts.

EMERGING INDUSTRY TRENDS

Our strategy formulation process follows an assessment of emerging trends in the operating landscape which could present opportunities for growth or adversely impact our ability to create value in the long-term. Accordingly, our strategy positions us to capitalize on these trends while ensuring that the requisite governance and risk management structures are in place to minimize the impacts of emerging risks.

KEY TRENDS

- Macro-economic conditions
- Increasing connectivity
- Increased regulations
- Demographic changes
- Social and environmental consciousness

MACRO-ECONOMIC CONDITIONS

Sri Lanka's economic growth was moderate in 2017, with GDP expanding by 3.7% in the 9 months to September. The agriculture sector was, affected by adverse weather conditions while the industry and services sectors expanded by 4.5% and 4.2% respectively. Services sector growth was supported by financial services, wholesale and retail trade activities and transportation (Refer to page 39 for further information).

The medium to long-term economic outlook for Sri Lanka remains positive as reforms targeted towards bridging the fiscal deficit, stabilizing macro-economic fundamentals and attracting foreign investment are expected to accelerate the pace of economic growth. It is encouraging that reforms required to place the economy on a higher trajectory of growth have commenced.

INCREASING CONNECTIVITY

Sri Lanka's internet subscribers have more than tripled over the past 3 years and mobile penetration is more than 100%, attesting to the increased connectivity and digital literacy in Sri Lankan households. The digital revolution and disruptive technologies in financial services is transforming the way banks interact with their customers. Banks which are well equipped to innovate and embrace the digital frontier are thus positioned to benefit from increasing connectivity by offering multi-channel solutions, more reliable back-end processes, an increasingly productive workforce and optimization of business and operational models. Digital capabilities will thus be crucial in establishing an agile customer interaction model which keeps pace with customer expectations and drives differentiated value.

Opportunities Presented by the Digital Transformation

CUSTOMER EXPERIENCE

- Multi-channel banking
- Sales and service transformation
- Enhanced accessibility

INNOVATION

- Information based businesses
- Mobile payments
- Virtual delivery

INTERNAL EFFICIENCIES

- Cost reduction
- Improve turnaround and processing times
- More effective risk management

EMPLOYEE PRODUCTIVITY

- Free employee time to pursue business expansion and enhance customer relations
- Offer flexible/virtual working solutions
- Support employee satisfaction and retention

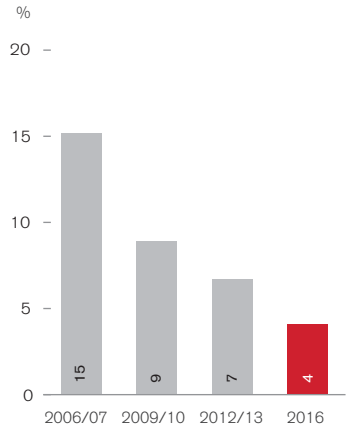
INCREASED REGULATORY DEMANDS ON GOVERNANCE AND RISK MANAGEMENT

Globally and domestically there has been an onset of increased financial sector regulation to ensure stability and soundness of banks and other financial institutions. The CBSL's approach has centered on establishing sound risk management systems, instilling good corporate governance practices, strengthening capital buffers and promoting financial inclusion. Increased regulation can at times result in greater complexity and higher compliance costs for financial institutions, some of which may impact customers through pass-on effects.

DEMOGRAPHIC CHANGES

Demographic changes such as a growing middle class and an ageing population have significant implications for the banking sector. Incidence of poverty in Sri Lanka has continued to decline and the expansion of the middle class has resulted in shifting consumption patterns, with higher spending towards white goods, education, housing and healthcare. These shifts present opportunities for financial institutions to develop innovative product offerings to cater to emerging prospects.

Sri Lanka's Poverty Headcount Ratio



Source: Dept. of Census and Statistics

EMPHASIS ON SOCIAL AND ENVIRONMENTAL SUSTAINABILITY

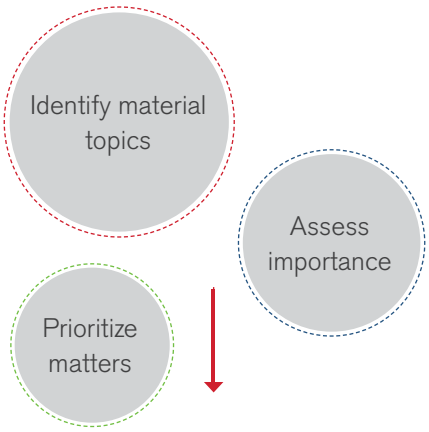
The rapid industrial and economic growth over the past two decades have come at a significant environmental cost and there is now mounting evidence to show that human consumption patterns could substantially affect the planet's sustainability. The impacts of climate change have been felt increasingly across the globe, with erratic weather patterns, rising temperature and energy constraints impacting economic growth in several regions. On the other hand, millions of citizens around the world still lack access to employment opportunities, affordable housing, transportation, education and healthcare. Addressing these issues of social and environmental sustainability have emerged as a global priority and all organizations including banks have a role to play in driving sustainable economic, social and environmental progress. In addition to minimizing their own environmental impacts, banks play a vital role in supporting environmentally and socially responsible initiatives through their lending practices; these include lending towards renewable energy, green technology, women empowerment and rural development, among others.

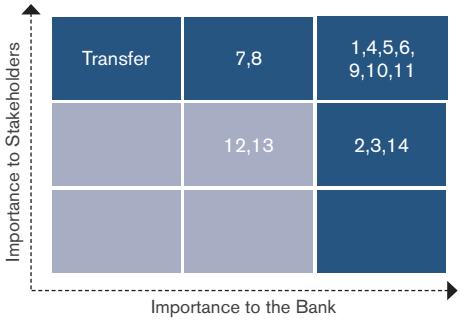
An important component of the Bank's sustainability agenda also includes the Bank's indirect environmental impact. As a Bank we ensure that our indirect impacts are minimized or removed. The Bank's sustainability policy ensures that the Bank's responsibilities also extend to the wider operations of the Bank. For example: refusing to lend to businesses whose actions cause unacceptable harm to the environment, or by insisting that key suppliers adhere to prescribed sustainability standards. Internal awareness raising is carried out regularly to educate and encourage employees to minimize waste and optimize resources. Furthermore, capacity building in environmentally sustainable behaviour and practices, is conducted for customers and potential customers of the Bank.

DETERMINING OUR MATERIAL TOPICS

Content to be included in this Integrated Report has been selected through a systematic materiality analysis, which reflects the topics that could materially affect the Bank's ability to create value over the short, medium and long-term. These issues and topics are directly or indirectly integrated into the daily management of our operations as part of our strategy or risk management practices.

This year, we have adopted a more holistic approach towards our reporting and broadened the scope of our material topics to include issues that are not specifically identified as material topics by GRI. In determining material content, we have taken into consideration potential impacts on the Bank's value creation process, strategy and capital inputs as well as emerging risks and opportunities in the operating landscape. Identified issues are then assessed based on the likelihood of occurrence and magnitude of the effect and prioritized through collective agreement. Where relevant, the topics identified have been mapped to those prescribed by the GRI Standards and the GRI G4-Financial Services Sector Disclosure.





	Material Topic	Corresponding GRI Topics	Topic-specific GRI Disclosure	Page Reference for Further Information
1	Profitable growth	-		Financial Capital (Page 42)
2	Operational efficiency	-		
3	New markets			Business Line Reviews (Page 53 to 79)
4	Talent attraction	Employment Diversity and equal opportunity	401-1, 401-2, 401-3 405-2	Human Capital (Page 80)
5	Employee satisfaction	Labour management relations	402-1	Human Capital (Page 80)
6	Employee skill development	Training and education	404-1, 404-2, 404-3	Human Capital (Page 80)
7	Facilitating financial inclusion	-		Social and Relationship Capital (Page 98)
8	Customer education and financial literacy	-		Social and Relationship Capital (Page 98)
9	Technology and digital channels	-		Manufactured Capital (Page 88)
10	Responsible lending	Marketing and labelling Product portfolio Audit	417-1, 417-2, 417-3 G4-FS6	Social and Relationship Capital (Page 98)
11	Customer privacy	Customer privacy	418-1	Social and Relationship Capital (Page 98)
12	Managing socio-economic impacts	Economic performance Market presence	201-1, 202-2, 201-3	Social and Relationship Capital (Page 98)
13	Minimizing environmental impacts	Material Energy Emissions	301-1 302-1, 305-1, 305-2, 305-4	Natural Capital (Page 106)
14	Community engagement	Local communities	413-1 G4-FS 13 G4-FS 14	Social and Relationship Capital (Page 98)

OUR STRATEGIC FRAMEWORK

The Bank's strategic agenda spanning up to year 2020 is articulated in "Transform 2020" - a cohesive and ambitious strategy designed to transform the Bank to a large, systemically important bank. The strategy was launched in mid 2017, with much of the groundwork carried out up to mid 2017, along with the professional input of the International Finance Corporation (IFC).The transformation involves a wide span of changes including the business focus, business processes, organizational structure, employee mindset and culture.

TRANSFORMATION 2020

Governance and Risk Management

Business Focus	Business Processes & IT	Customer Experience	An Inspired Team	Group Synergy

Technical Execution

Organizational Change Management

Prior to the implementation of Transformation 2020, the Bank was guided by a 5-year strategy which was initiated in 2013. Changes in the operating landscape and our own strategic aspirations compelled us to revisit this strategy in 2017.Transformation 2020 was developed and implemented to equip the Bank with a time validated and futuristic strategy, which was more in line with the Bank's revised ambitions and prevailing market conditions.

STRATEGY IMPLEMENTATION

The Bank aims to achieve a set of key financial targets by 2020, in order to achieve the overall goal of Transformation 2020. The execution of the strategy is structured in a number of key work streams in identified areas for improvement including business transformation, credit re-engineering, non-credit re-engineering, marketing and customer management, HR strategy and Group synergy. Seamless execution is identified as crucial for the success of the strategy. Two aspects of the execution are identified as follows;

Technical Execution

The first is the technical aspect of execution such as collaboration across various work streams, systems and processes, follow up mechanisms, status reviews, identification of risks and risk avoidance, remedial actions to minimize the impact of materialized risks, crisis management, etc. related to the strategy. A dedicated Project Management Office under the leadership of a senior Vice President of the Bank is in place, to provide administrative, operational, advisory, and strategic and governance support in implementing the transformation strategy from this technical aspect.

Organizational Change Management

The second aspect of successful execution is the human aspect. It is critical that employees of the organization are effectively guided through the change process. The Bank has established a dedicated function for Organizational Change Management (OCM) for this purpose.

OCM ensures that all the staff members of the Bank understand, adapt and support the change that the Bank is undergoing under the strategy. Employee engagement, raising awareness, focused communications, elimination of fear or resistance to change, and unifying the staff members as one team are priority initiatives of OCM. Employees are embedded in to the transformation that is taking place through a gradual process, by promoting some of the core aspects of successful change, namely, inspiration, co-creation, transparency, clarity, visual alignment, action and harmony.

There are continuous programmes carried out as well, to enhance the skill levels of the employees to embrace change and deliver results.

The Bank invigorated its culture dubbed as One NDB, in further unifying and aligning the Bank's employees towards the overall goals set under the Transformation 2020 strategy.

SUSTAINABILITY AT NDB

The Bank adopts a holistic approach towards sustainability and strives to pro-actively embed sustainability thinking and practices at every level of its business. The sustainability philosophy, strategy and objectives are clearly articulated in the Sustainability Policy and a dedicated Sustainability Manager is responsible for ensuring the organization-wide implementation of the same. The Bank's sustainability vision is to create sustainable shared value by delivering economic, environmental and social benefits while the Policy sets out clear objectives on integrating sustainability into every business decision, reducing the carbon footprint, implementing strategic CSR activities and nurturing a culture of sustainability through training and development. the key pillars of the Bank's sustainability strategy are listed below.

Economic Sustainability

- Ethical business
- Responsible lending
- Prudent risk management
- Customer relations
- Supplier relations
- Processes and systems
- Research and development

Environmental Sustainability

- Minimize carbon footprint
- Environmental literacy
- Promoting renewable energy
- Special CSR Projects

Social Sustainability

- Community relations (Strategic CSR)
- Employee relations

OUR COMMITMENT TO THE SUSTAINABLE DEVELOPMENT GOALS

In September 2015, world leaders committed to the UN Sustainable Development Goals (SDGs) providing universal agreement for development priorities. Comprising 17 goals and specific targets to be achieved over the next 15 years, the ultimate objectives of the SDG include ending poverty, protecting the planet and ensuring prosperity for all as part of a new sustainable development agenda. All governments are expected to take ownership and establish frameworks for the achievement of the goals in partnership with the private sector, civil society and all citizens. Sri Lanka too committed to the SDGs, and as an organization NDB is exploring the goals that are most relevant to our industry and ways in which we can contribute towards achievement of the goals, as illustrated below.

Examining how we serve our stakeholders

MANAGEMENT DISCUSSION AND ANALYSIS

38 ECONOMIC AND INDUSTRY ENVIRONMENT
42 FINANCIAL CAPITAL
80 HUMAN CAPITAL
88 MANUFACTURED CAPITAL
94 INTELLECTUAL CAPITAL
98 SOCIAL AND RELATIONSHIP CAPITAL
106 NATURAL CAPITAL
109 SUSTAINABILITY ASSURANCE REPORT

"We engage pro-actively with our stakeholders to ensure that we balance their competing interests and strive towards a multi-stakeholder approach in addressing challenges."

Scan the QR Code with your smart device to view this section online.

What we have achieved

GLOBAL ECONOMY

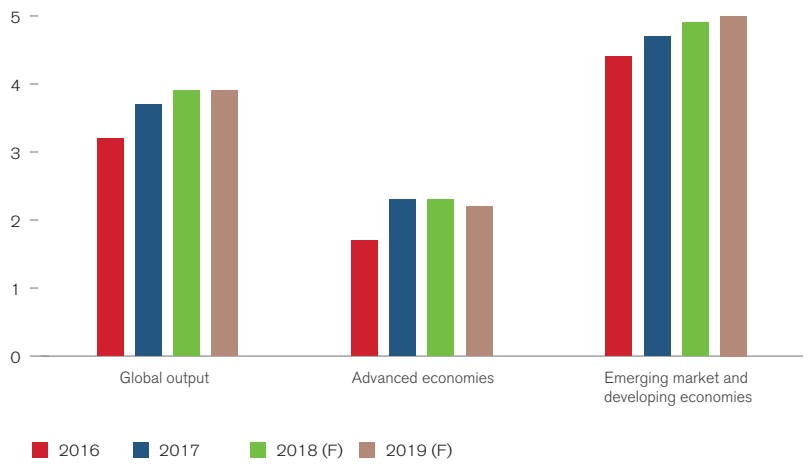
Global economic activity firmed up in 2017 with output estimated to have expanded by 3.7% during the year. World trade improved in the 3rd quarter supported by the better sentiments and investments in advanced economies and increased manufacturing in Asia. Crude oil prices rose to over USD 60 a barrel from around USD 54 at the beginning of the year, reflecting improving global demand and an OPEC agreement to limit production. This, in turn, resulted in an up-tick in inflation and increases in overall commodity prices. Capital inflows to emerging economies remained resilient supporting broad-based growth.

Global growth is expected to pick up pace to 3.9% in 2018 and 2019 with advanced economies growth exceeding 2% while Emerging & Developing Asia is expected to maintain its growth rate of 6.5%. Downside risks to this projection include the escalation of geopolitical tensions and adoption of nationalistic and inward looking policies.

ECONOMIC AND INDUSTRY HIGHLIGHTS

- Sri Lanka recorded moderate economic growth in 2017
- Interest rates increased during the first half of the year before tapering off towards the end of 2017
- CBSL adopted more flexible exchange rate determination
- Positive medium-term outlook supported by fiscal consolidation, economic reforms and stronger foreign investment
- Augmented minimal capital requirements

Global Economic Growth



Source: World Economic Outlook, IMF

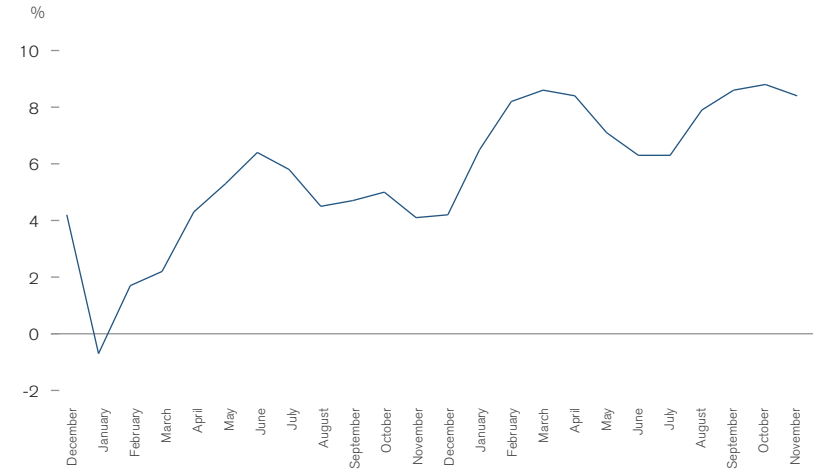
SRI LANKAN ECONOMY

Sri Lanka's economic growth was lower than anticipated in 2017, with unfavourable weather conditions, a tighter fiscal policy stance and global headwinds impacting overall growth. Despite these challenges, progress was made on the policy front with economic reforms targeted towards fiscal consolidation, attracting foreign direct investment and stabilizing macro-economic fundamentals expected to bear fruition over the medium to long term. During the first 9 months of 2017, the country's GDP grew at 3.7% supported by moderate expansion of the services and industry sectors while the agriculture sector had a negative impact. Inclement weather conditions primarily affected the agriculture sector (which contracted by 3.2% in the first 9 months) although spill-over effects were felt across other sectors of the economy. Industry sector grew by 4.5%, led by the continued expansion in construction, mining and quarry activities. The services sector grew by 4.2%, upheld by financial services, wholesale and retail trade activities and transportation.

The Central Bank of Sri Lanka maintained a relatively tight monetary policy stance during most part of the year with a view to addressing inflationary pressures. Accordingly, the policy rate was raised by 25 bps in March 2017, resulting in the Standing Deposit Facility Rate (SDFR) and the Standard Lending Facility Rate (SLFR) increasing to 7.25% and 8.75% respectively. Resultantly, market interest rates moved up during the first half of the year, with commercial banks' deposit and lending rates also increasing. However, liquidity improvements in the domestic money market during the second half of 2017 resulted in market interest rates tapering off towards the latter part of 2017.

Inflationary pressures were felt during most part of the year, stemming from tax revisions, rising international commodity prices as well as supply constraints of domestic produce amidst inclement weather conditions. Volatilities in food inflation were reflected in the Headline National Consumers' Price Index (NCPI) which fluctuated between 6.3% and 8.8% (y-o-y) during the year. The CBSL plans to move to a Flexible Inflation Targeting (FIT) regime, over the medium term enabling a low inflation environment to be sustained underpinned by a strong fiscal position, effective monetary policy and regulator credibility.

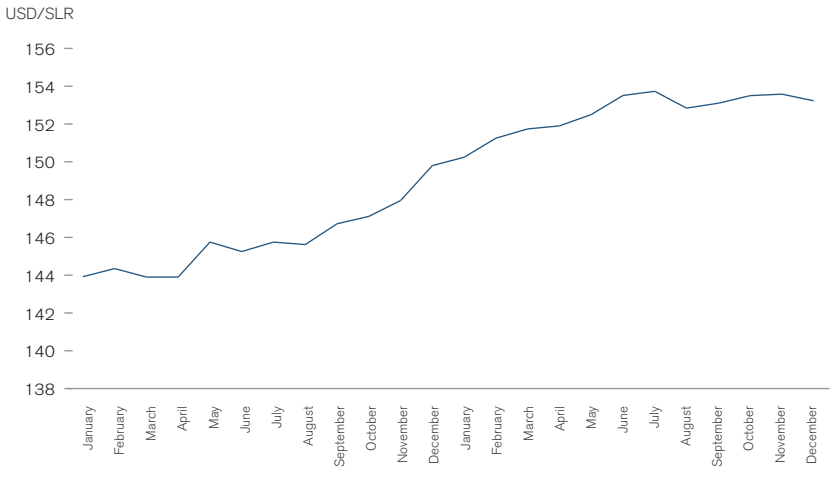
Inflation (Headline NCPI)



Source: Central Bank of Sri Lanka Publications

Export earnings strengthened in 2017 following the recovery in key export markets, increased commodity prices in international markets, the restoration of GSP+ concessions from the European Market as well as institutional support in encouraging exports. Imports also increased due to higher fuel imports and the Government being compelled to encourage the import of rice to bridge the prevalent supply shortfall. Overall, the trade deficit widened by 8% during the year. The CBSL sought to allow more flexibility in the exchange rate, with market forces being allowed to determine the rate. Emphasis was also placed on absorbing foreign exchange from the domestic interbank market to build up forex reserves and smoothen out rate fluctuations. The Rupee faced some downward pressure in the first quarter of the year, however conditions improved thereafter following foreign investments into the capital and government securities market. Sri Lanka also received the third and fourth tranches of the Extended Fund Facility from the IMF during the year, demonstrating the successful achievement of specific performance criteria. Overall, the Sri Lankan Rupee depreciated by 2.0% against the US Dollar during the year while gross official reserves increased to USD 8.0 billion from USD 6.0 billion as at end-2016.

Exchange rate (USD/LKR)



Source: Central Bank of Sri Lanka publications

Outlook

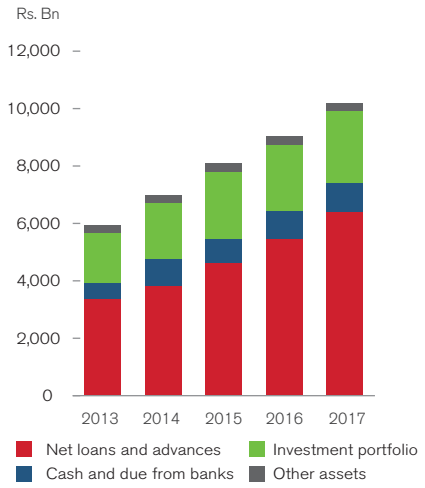
Although the country's tighter monetary and fiscal policy could affect headline growth over the short-term, it is expected to lay a firm foundation for sustainable and long-term economic development. Broad-based reforms targeted towards fiscal consolidation, development of a cohesive export strategy and a renewed drive to attract foreign investments has positioned the country for strong growth, although political will and commitment will be crucial in implementing reforms and achieving the country's growth potential.

THE BANKING SECTOR

Sri Lanka's banking sector consists of 13 local and 12 international licensed commercial banks (LCB) and 7 licensed specialized banks (LSB). These institutions have been classified as large, medium and small banks based on their asset base, with the top 6 banks (assets over LKR 500 billion) holding a dominant share of assets, loans and advances and deposits. The sector collectively operates a network of over 3,500 branches island-wide and plays a critical role in fostering economic growth, facilitating transactions and mobilizing deposits. With the Government's regional development agenda, the banking sector is expected to play an important role in enhancing financial inclusion and providing access to affordable financial solutions across the country.

Growth: The sector's asset base recorded a YoY growth of 13.8% in 2017 (compared to 15.4% in 2016) supported by credit and investment portfolio expansion. Despite the relatively higher interest rates, the advances portfolio expanded by 16.1% during the same period, supported by increased lending towards consumption, trading, manufacturing and tourism sectors. Portfolio growth was funded primarily through public deposits. The Sector's asset composition remained relatively unchanged with credits assets accounting for around 62% of the total asset base followed by Investments (25%) and other assets.

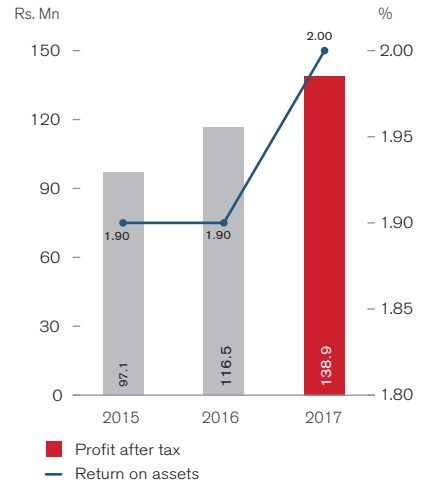
Asset Composition and Growth



Source: Central Bank of Sri Lanka Publications

Performance: The Sector achieved strong growth in profits with profit after tax increasing by 19% to LKR 138.9 billion in 2017. Performance was upheld by strong growth in net interest income, significant capital gains and better cost efficiencies. The Sector's Return on Assets (ROA) and Return on Equity (ROE) clocked in at 2.0% and 17.6% respectively during the reviewed period (compared to 1.9% and 17.3% in the corresponding period of 2016)

Sector Performance



Source: Central Bank of Sri Lanka Publications

Asset quality: The quality of the Sector's loan portfolio deteriorated marginally during the period under review with an influx of non-performing-loans from the agriculture, tourism and manufacturing sectors. Despite an increase in absolute NPLs, the gross NPL ratio declined to 2.5% in 2017, from 2.7% the year before. Total provision coverage amounted to 69.8% during the year.

Funding: Deposits continue to be the main funding source of the sector accounting for around 70% of total assets. The relatively high interest rates during the first half of the year resulted in an influx of deposits to the sector, with total deposits increasing by 17.4% during the year. The growth stemmed primarily from term deposits; meanwhile the sector's CASA ratio declined further to 34.2% in 2017, from 34.5% in 2016.

The sector's exposure to borrowings declined during the year. Total borrowings decelerated by 5.3% mainly due to a fall in rupee borrowings. Foreign currency borrowings however increased marginally mainly from domestic sources while borrowings from foreign sources declined during the period under review.

Capitalization: The Sector's capital cushioning remained adequate, although declining marginally in view of the strong loan expansion. The Tier 1 Risk Weighted Capital Adequacy Ratio (RWCAR) and Overall RWCAR declined to 12.3% and 15.2% respectively, compared to 12.6% and 15.6% in 2016.

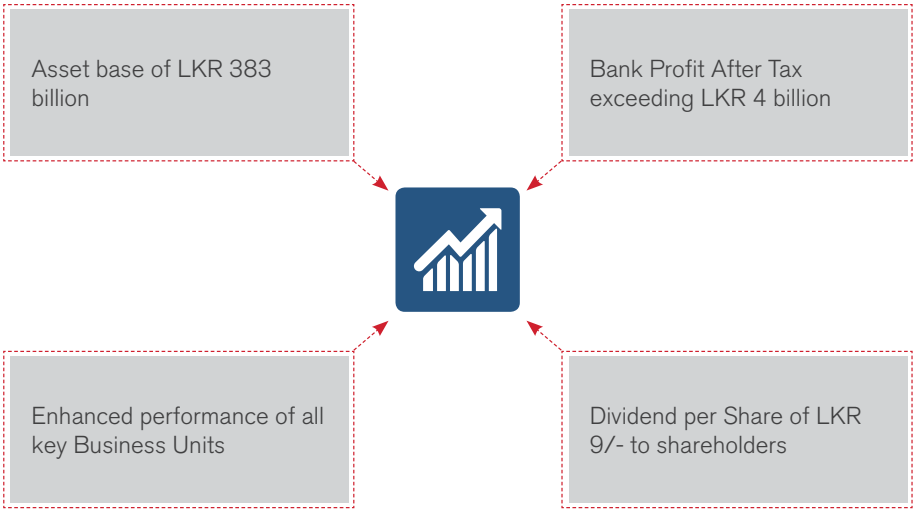
Outlook

The CBSL intends to introduce several policy reforms aimed at strengthening the regulatory and supervisory framework governing financial institutions. Key among these are the implementation of the Basel III minimum capital requirements, following which, banks are required to enhance their high-quality capital. Meanwhile, with the adoption of SLFRS 9- Financial Instruments banks will be required to recognise credit losses under the expected loss approach instead of the existing incurred loan loss approach. This will require banks to further enhance their capital buffers, improving the sector's ability to absorb shocks and contributing to the overall stability of the sector. With regards to performance, the current monetary policy stance is expected to result in the gradual deceleration of loan growth and banks will be compelled to strengthen their risk management practices to ensure that portfolio quality is maintained.

FINANCIAL CAPITAL

Our business is rich in financial capital predominantly comprising funds invested by our shareholders. Our capital base is also strengthened by other external fund sources such as subordinated term debts and funds received from credit lines and internal fund sources such as retained profits and revenue reserves. During 2017, we deployed these capitals effectively, in generating sound results to our shareholders, other stakeholders and the nation at large.

Highlights of 2017



Link to Strategy

The Bank's strategy is directly linked to enhanced financial capital through a number of key performance indicators with clearly set targets to be achieved over the medium term.

Challenges in 2017

- Competition posed by peers in the financial services sector
- Impact of new taxes introduced
- New regulations (Eg: Basel III guidelines)

Priorities for 2018

- Enhancing NIM
- Improving the CASA mix
- Cost management
- Improving market share

FINANCIAL REVIEW

2017 was yet another year of excellent financial performance for the Bank. The Bank recorded accelerated growth in its Balance Sheet supported by impressive growth in customer deposits and loans. Profit growth was higher in comparison to any other financial year, purely from organic and ordinary course of business. The Bank well preserves its asset quality and managed its costs amidst such business expansions.

All of the key business units of the Bank, as well as the group companies made enhanced contribution towards the overall profit attributable to shareholders of the Group.

Following is a full account of the Bank's overall financial performance as well as the key business units and group companies.

Extracts from the financial statements are presented alongside the discussion where applicable, for ease of reference. The full set of audited financial statements and notes to financial statements are presented on pages 289 to 408.

Key highlights of our performance for the year 2017 are depicted below.

PROFITABILITY GROWTH

37% LKR 4.4 billion for the year

NII GROWTH

27% with Improved NIM of 3%

COST TO INCOME RATIO

45.5% well below our targets and the industry

TOTAL ASSETS GROWTH

15% with loans and receivables of 20% growth and customer deposits of 34% growth

ROE IMPROVED

16.27% from 13.36% in 2016

REVENUE GROWTH

The Bank's total operating income was a commendable 23% growth over 2016, contributed by NII growth of 27% and non-interest income growth of 16%.

Given below is the total operating income analysis of the Bank and the Group for the year 2017, in comparison to the previous year.

Total Operating Income

	Bank				Group			
	2017 LKR'000	2016 LKR'000	Change LKR'000	Change %	2017 LKR'000	2016 LKR'000	Change LKR'000	Change %
Net interest income	10,750,114	8,487,312	2,262,802	27	11,086,327	8,860,769	2,225,558	25
Interest income	37,118,699	28,618,247	8,500,452	30	37,421,114	28,960,606	8,460,508	29
Interest expenses	26,368,585	20,130,935	6,237,650	31	26,334,787	20,099,837	6,234,950	31
Non interest income	5,401,895	4,663,489	738,406	16	5,596,645	4,816,299	780,346	16
Fee and commission income	2,520,532	2,253,226	267,306	12	3,416,002	3,046,132	369,870	12
Net gains / (losses) from trading	1,063,944	982,123	81,821	8	1,063,944	982,123	81,821	8
Net gains / (losses) from financial investments	569,557	211,370	358,187	169	733,679	440,748	292,931	66
Other operating income	1,247,862	1,216,770	31,092	3	383,020	347,296	35,724	10
Total operating income	16,152,009	13,150,801	3,001,208	23	16,682,972	13,677,068	3,005,904	22

Interest Income and interest expenses increased by 30% and 31% respectively, over the previous year, primarily due to significant increase in volumes of loans and receivables and customer deposits over the year 2016, coupled with an improved NIM by 36 basis points to reach 3% due to effective re-pricing of the assets and liability portfolios. As a result Net Interest Income for the year of LKR 10.75 billion was an increase of 27% over the previous year. At a Group level the Net Interest Income for the year was LKR 11.1 billion and was a 25% growth over 2016.

Fee and commission from core banking operations increased by 12% to reach LKR 2.5 billion, due to the focused approach in Retail and SME sectors whilst working on the accelerated growth in trade finance and remittance business along with the portfolio growth.

Net gains / (losses) from trading were LKR 1.1 billion for the year 2017 and was a growth of 8% over the previous year. Both forex trading and sales contributed for these gains as the Bank increased its market share in forex profits.

Net gains / (losses) from financial investments was LKR 569 million and have increased by LKR 358 million over the previous year due to the favorable movements in the interest rates experienced during the year and realized gains earned from equity shares classified as "Available for Sale". At a Group level, the Net gains / (losses) from financial investments was LKR 733 million and was a 66% growth over 2016.

Other Operating income was LKR 1.2 billion and was a modest growth of 3% over the previous year. Other Operating Income comprises of dividends received from group companies, revaluation gains from the Bank's foreign currency reserves and other miscellaneous income. The Bank received the same quantum of group dividends in the previous year as well. At a Group level, Other Operating Income was LKR 383 million and was a 10% growth over 2016.

IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES

The Bank has a comprehensive review process in evaluating the quality of the Bank's loans and receivables portfolio and the investments portfolio.

Given below are the impairment charges for loans and receivables and other investments during the year, in comparison to the previous year.

Impairment Charges for Loans and Receivables and Other Losses

	Bank				Group			
	2017 LKR'000	2016 LKR'000	Change LKR'000	Change %	2017 LKR'000	2016 LKR'000	Change LKR'000	Change %
Individual impairment	340,330	1,116,072	(775,742)	(70)	340,330	1,116,072	(775,742)	(70)
Collective impairment	662,238	277,097	385,141	139	662,238	277,097	385,141	139
Capital write offs / (recoveries)	246,157	(14,483)	260,640	1,800	246,157	(14,483)	260,640	1,800
Other losses - charges / (write backs)	9,829	(11,733)	21,562	184	41,572	45,887	(4,315)	(9)
Total impairment charges for loans and receivables to other customers	1,258,554	1,366,953	(108,399)	(8)	1,290,297	1,424,573	(134,276)	(9)

The Bank's individual impairment charges for its loans and receivables portfolio for the year was LKR 340 million and was a reduction of 70% over the year 2016, due to one time provisions made for few individually significant loans and receivables during the previous year.

The Bank's collective impairment charge of LKR 662 million for the year was an increase of LKR 385 million over the previous year. Whilst the quality of the loans and receivables portfolio increased during the year, the higher collective impairment charge was due to the increase in the loans and receivables portfolio by LKR 45 billion during the year.

Other losses include additional provisions made for an investment in a subsidiary company which is expected to reversed in the future with improved business performance.

LKR million	2017	2016
Impairment allowance for loans and receivables to other customers	4,787	6,039
Gross loans and receivables	278,801	233,679
Percentage of impairment allowance (%)	1.72	2.58

COST MANAGEMENT

Cost Management remains a primary focus in executing our business strategies both at the Bank and the Group level.

Given below is a summary of the operating expenses for the year 2017 in comparison to the previous year.

Total Operating Expenses

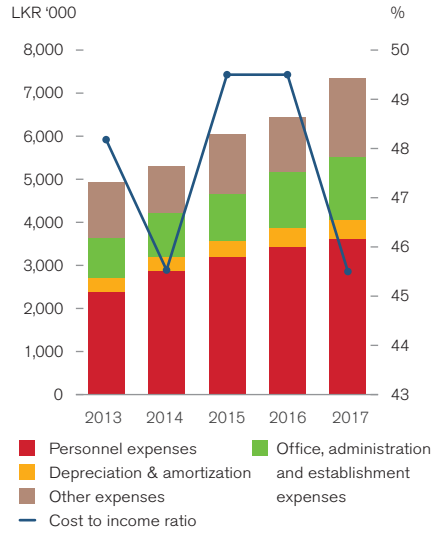
In LKR million	Bank				Group			
	2017 LKR'000	2016 LKR'000	Change LKR'000	Change %	2017 LKR'000	2016 LKR'000	Change LKR'000	Change %
Personnel expenses	3,611	3,435	176	5	4,025	3,793	232	6
Depreciation & amortization	423	434	(11)	(3)	478	491	(13)	(3)
Office, administration and establishment expenses	1,477	1,285	192	15	1,808	1,541	267	17
Others	1,835	1,295	540	42	1,890	1,334	556	42
Other expenses	3,735	3,014	721	24	4,176	3,366	810	24
Total expenses	7,346	6,449	897	14	8,201	7,159	1,042	15
Cost to income ratio (%)	45.48	49.04	-	(7)	49.16	52.34	-	(6)

Total operating expenses comprising of personnel expenses and other expenses for the Bank was LKR 7.3 billion and was a 14% increase compared to the previous year.

Personnel expenses for the year were LKR 3.6 billion and was a 5% increase over 2016. The increase is primarily due to the annual increments awarded to staff members and increase in head count in line with increase in business activities during the year. Other expenses too increased in tandem, which resulted in increased profitability to the Bank from core banking operations. The year saw 3 new branches and 5 ATMs added on to the network, 2 branch re-locations along with 4 new product launches and one product re-launch. The increase in expenses was well managed amidst such expansions with a largely improved cost to income ratio of 45.48% in 2017 compared to 49.04% for 2016.

At the Group level total operating expenses was LKR 8.2 billion and was an increase of 15% over 2016.

Operational Efficiency



PROFITABILITY

Given below is a summary of the profitability of the Bank and the Group for the year 2017 in comparison to the previous year.

	Bank				Group			
	2017 LKR'000	2016 LKR'000	Change LKR'000	Change %	2017 LKR'000	2016 LKR'000	Change LKR'000	Change %
Profit before tax on financial services	7,547,420	5,335,004	2,212,416	41	7,191,740	5,093,546	2,098,194	41
Tax on financial services	1,547,450	1,048,000	499,450	48	1,547,450	1,048,000	499,450	48
Taxation	1,648,341	1,116,733	531,608	48	2,211,987	1,230,587	981,400	80
Profit after tax	4,351,629	3,170,271	1,181,358	37	3,432,303	2,814,959	617,344	22
Profit attributable to shareholders	4,351,629	3,170,271	1,181,358	37	3,489,752	2,691,014	798,738	30

The Bank's Profit before tax on financial services was a growth of 41% in comparison to 2016. This commendable growth was primarily due to improvement in core banking revenue which is a combination of net interest income and non interest income, coupled with cost management initiatives and improved quality of the Bank's loans and receivables portfolio. Profit After Tax was a growth of 37% which was also due to the reasons enumerated above.

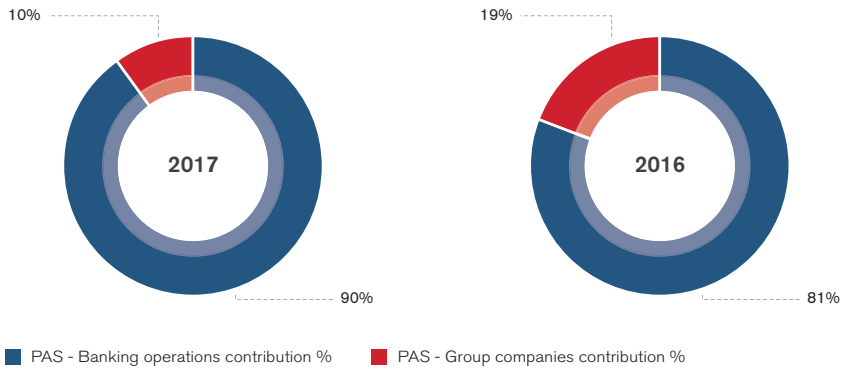
The Group Profit Attributable to its Shareholders (PAS) increased by 30% over 2016, with the contribution of increased core banking operations. However, the contribution from group companies was relatively lesser during the year due to subdued capital market activities.

The PAS was also affected by the cumulative deferred tax provisions made for revaluation gains on investment properties in line with LKAS 12: Income Taxes with the introduction of the New Inland Revenue Act which would be effective from 1 April 2018.

The PAS excluding the cumulative deferred tax provisions was LKR 3.7 billion and was an increase of 38% over 2016.

The overall contribution to PAS from the Bank and the group companies, on a collective basis is analyzed below.

Group PAS



Total Comprehensive Income for the Year

	Bank				Group			
	2017 LKR'000	2016 LKR'000	Change LKR'000	Change %	2017 LKR'000	2016 LKR'000	Change LKR'000	Change %
Profit after tax	4,351,629	3,170,271	1,181,358	37	3,432,303	2,814,959	617,344	22
Total other comprehensive income	355,545	(475,083)	830,628	175	300,431	(496,504)	796,935	161
Total comprehensive income for the year	4,707,174	2,695,188	2,011,986	75	3,732,734	2,318,455	1,414,279	61

Within Total Comprehensive Income, Other Comprehensive Income increased by LKR 831 million, due to the revaluation gains of from Property, Plant and Equipment and positive gains from mark to market valuation of the Bank's financial investments portfolio. As a result the Total Comprehensive Income for the year 2017 transferred to Equity was LKR 4.7 billion and was a 75% increase over the previous year. At the Group level the Total Comprehensive Income for the year 2017 was LKR 3.7 billion and was a 61% increase over the previous year.

ASSETS AND LIABILITY ANALYSIS

Given below is a summary of the Assets and Liability position of the Bank and the Group as at the reporting date in comparison to the previous year.

Statement of Financial Position

	Bank				Group			
	2017 LKR'000	2016 LKR'000	Change LKR'000	Change %	2017 LKR'000	2016 LKR'000	Change LKR'000	Change %
Total assets	383,073,042	334,544,735	48,528,307	15	388,645,438	340,731,768	47,913,670	14
Loans and receivables to other customers	274,013,970	227,639,844	46,374,126	20	274,063,310	227,679,939	46,383,371	20
Investments	80,657,129	80,597,224	59,905	0	83,062,299	84,436,804	(1,374,505)	(2)
Total liabilities	354,335,207	309,799,685	44,535,522	14	354,667,465	309,718,472	44,948,993	15
Customer deposits	273,369,023	203,866,547	69,502,476	34	273,041,417	203,515,828	69,525,589	34
Debt securities issued and other borrowed funds	28,107,045	59,233,264	(31,126,219)	(53)	28,107,045	59,233,264	(31,126,219)	(53)
Subordinated term debts	19,336,855	19,446,501	(109,646)	(1)	19,336,855	19,446,501	(109,646)	(1)
Shareholders' funds	28,737,836	24,745,050	3,992,786	16	33,012,227	29,936,587	3,075,640	10

TOTAL ASSETS

The Bank's Total Assets was LKR 383 billion as at 31 December 2017 and was a commendable growth of 15% over previous year. The Group Total Assets including the assets of the capital market cluster and the property management company was LKR 389 billion and was a growth of 14% over 2016.

The Total Assets were fortified by the highly satisfactory growth in the loan book by 20% to reach LKR 274 billion. The growth rate surpassed the growth recorded by the industry for 2017.

All of the business segments contributed to the loan book increase, bearing fruits of specific strategies which were rolled out during the year to increase respective market share and volumes. On the retail frontier, housing loans, personal loans, credit cards and leasing propelled the retail loan growth. Loans to the SME and Micro sector also increased. Corporate Banking comprising Commercial Banking and Project & Infrastructure Financing made valuable contribution to the loan growth through their customized corporate banking and cash management solutions.

Investments portfolio of the Bank includes investments maintained primarily for liquidity purposes and remained on par with the previous year, as total deposit mobilization during the year was used to fund the loan book of the Bank.

ASSET QUALITY

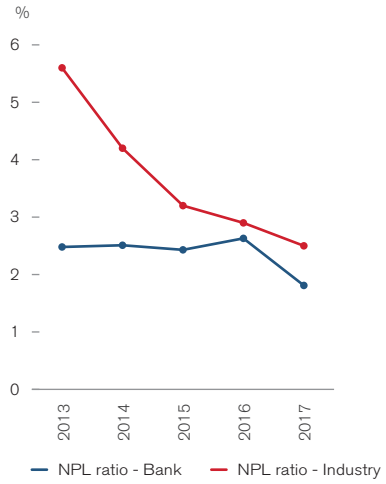
The non-performing loan (NPL) ratio of the Bank was 1.83% as of end 2017, a remarkable improvement from 2.63% from end of 2016 and was well below the industry average of 2.5%. The net NPL ratio also improved to 0.94% from 1.01% as at the previous year end. The overall provision coverage on a regulatory basis was 48.57% as compared to 56.85% as at 31 December 2017.

A comprehensive and prudent process is adopted by the Bank from loan origination, approval through disbursement up to timely recovery, which has helped maintain the NPL at below industry average. Precise

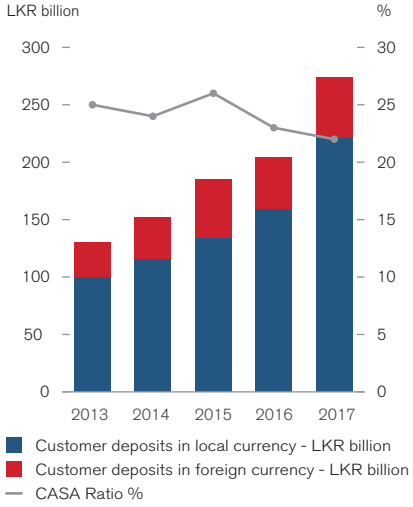
diversification of the portfolio and avoidance of over-concentration on any one sector have also helped maintain the quality of the loan portfolio.

Extensive marketing and promotional campaigns spread across the year helped to record balance sheet growth at both asset and liability fronts.

NPLs



Customer deposits and CASA ratio



CUSTOMER DEPOSITS

Customer deposits closed at LKR 273 billion, an impressive growth of 34% over the previous year, LKR 69.5 billion in terms of absolute value. Within the Customer deposits portfolio, it is noteworthy note the increase in the CASA base of the Bank by LKR 12 billion during the year, which is a 25% growth over the previous year. The Bank launched a savings planner account titled "NDB Saving Planner" and savings products dedicated to ladies as well as senior citizens, namely "NDB Araliya" and "NDB Achara" respectively. The Bank also re-launched its children's savings product and introduced a new business proposition dubbed as "NDB Business Class". All these products, along with the rest of the deposits product suite well contributed towards this deposits growth. As a result the Bank's funding composition further improved during the year with lesser reliance on institutional borrowings and credit line funding.

The Bank's CASA ratio was 21.2% and compares with 22.7% for the year 2016. The Bank has been able to defend its CASA ratio at these levels, despite a decline in the CASA ratio of the industry, given the current interest rate environment, which induces depositor's preference to be skewed towards term deposits.

DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS

Debt securities and other borrowed funds decreased by LKR 31 billion, as part of the restructuring of the funding composition that took place during the year with a view to manage the cost of funding of the Bank. The less reliance on credit lines and other institutional borrowings resulted in the Loans to Deposits ratio (LDR) vastly improving to 102% as at 31 December 2017 from 115% in 2016.

CAPITAL AND LIQUIDITY

The Bank's Capital Adequacy ratios as at 31 December 2017 are summarized below.

Capital Adequacy

	Bank		Group	
	2017	2016	2017	2016
Common Equity Tier 1 Capital - LKR million	24,425	NA	29,859	NA
Total Tier 1 Capital - LKR million	24,425	22,404	29,859	29,108
Total Capital - LKR million	38,305	31,153	43,189	38,484
Common Equity Tier 1 Capital ratio (%)	8.85	NA	10.49	NA
Total Tier 1 Capital ratio (%)	8.85	9.31	10.49	11.55
Total Capital ratio (%)	13.89	12.95	15.18	15.27

The Bank complied with Basel III regulations which were mandated by the Central Bank of Sri Lanka with effect from 1 July 2017. The Bank's ratios were well above the minimum regulatory ratios of 7.25% and 11.25% for Tier 1 ratio and Total Capital ratio respectively for the year 2017, with significant growth in the asset base of the Bank, coupled with a significant improvement in profitability.

With the expected growth in assets envisaged in order to achieve medium term plans to become a systemically important Bank, and the impact on impairment provisions expected across the industry with the adoption of SLFRS 9 during the year 2018, the need for capital infusion is a primary strategic focus of the Bank, in the medium term.

The Bank maintains a healthy liquid assets position at all times, whilst ensuring and managing the liquidity levels to support regular business needs. The regulatory Liquid Assets Ratio and the Liquidity Coverage Ratios are given below.

	Bank	
	2017	2016
Regulatory Liquidity		
Statutory Liquid Assets (LKR'000)	77,506,348	67,105,194
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)		
Domestic Banking Unit (%)	22.13	21.50
Off-Shore Banking Unit (%)	24.01	22.93
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 80%)	214.35	142.53
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 80%)	154.50	125.63

PERFORMANCE OF GROUP COMPANIES

The Bank has six subsidiaries (one in Bangladesh), out of which 5 subsidiaries are in the business of capital markets, stock broking, wealth management and investment banking and the other subsidiary company carrying out the business of property management. More details of these subsidiary companies are given on page 19.

The contribution to the Group from the subsidiary companies within the capital market cluster was constrained during the year due to the lower than expected capital market activities experienced during the year. The detailed performance analysis along with the future outlook is given on pages 71 to 79.

KEY PERFORMANCE INDICATORS

The Return on Equity of the Bank improved to 16.27% as at 31 December 2017 from 13.36% as at the previous year. The same ratio for the Group was 11.09% as compared with 9.23% for 2016. The increase in shareholder returns was primarily due to the significant increase in profitability due to improvement in core banking operations of the Bank, there by affirming the Bank's commitment to maximize profitability to its shareholders. The Earnings Per Share (EPS) also improved to LKR 25.38 for the year and compares with LKR 18.49 for 2016, whilst the Group EPS was LKR 20.35 and compares with LKR 15.69 for 2016.

The Return on Assets also improved to 1.21% as at 31 December 2017 from 0.99% as the previous year end, with improved profitability as a result of efficient leveraging of the Bank's Balance Sheet.

DIVIDENDS

The Bank paid an interim cash dividend of LKR 2/- per share in November 2017 and has approved a final dividend of LKR 7/- per share for the year 2017, comprising of a cash dividend of LKR 2/- per share and a scrip dividend of LKR 5/- per share. Accordingly the total Dividened Per Share was LKR 9/- for the year 2017. The resulting dividend payout ratio was 35%. The Bank paid a final dividend comprising total Dividend Per Share of LKR 8/- comprising a cash dividend of LKR 2/- per share and a scrip dividend of LKR 6/- per share for the year 2016.

SLFRS 9 IMPLEMENTATION PROGRESS

SLFRS 9 – Financial Instruments, is effective from 1 January 2018 and will replace LKAS 39 – Financial Instruments Recognition and Measurement.

The initial assessment, the gap analysis between the two standards and the revised accounting policy statements on financial assets and financial liabilities were completed during the year 2017 with the approval of the Board of Directors.

The Bank has also performed provisional SLFRS 9 impairment calculations for the first day impact on the adoption of this new standard and has an indication of the potential impact on Equity. Currently the risk modelling methodologies used for impairment computations are being further tested and fine-tuned by the Bank.

The Bank intends to perform a parallel run during the year 2018 to gain a better understanding of the potential effects of the new standard.

Although SLFRS 9 is effective from 1 January 2018, the Institute of Chartered Accountants of Sri Lanka has granted an exemption for the preparation of the interim Financial Statements for 2018 and provides the option to apply SLFRS 9 in the annual financial statements for 2018. Accordingly, the Bank will be in a better position to provide the required disclosures in the ensuing financial year, for which all required steps are being taken.

Please also refer accounting policies for more details on the progress on implementation of SLFRS-9, Financial instruments.

ECONOMIC VALUE ADDED

Economic Performance

The Bank's performance has value creating impacts on all its stakeholders, including shareholders, employees, customers and the communities we operate in. Our ability to manage the conflicting interests of these stakeholders underpins the sustainability of the Bank's business. Accordingly, we adopt a triple bottom line approach towards our performance, whereby financial performance is complemented by social sustainability considerations and environmental stewardship.

The Bank creates value through the banking and non-banking activities that it carries out. After the cost of services and impairment charges for loans and receivables, the remaining value is available for distribution to the key stakeholder groups that partner with the Bank. A portion of the value created is retained within the Bank to be invested for expansion and growth.

Economic Value Addition and Distribution

For the year ended December 31	2017	2016	2015	2014	2013
	LKR million	LKR million	LKR million	LKR million	LKR million
Direct Economic Value Generated	13,903	11,516	10,893	10,398	12,560
Economic Value Distributed					
Employees Wages and Benefits	3,611	3,435	3,204	2,873	2,389
Payments to providers of capital	3,920	2,909	3,655	3,356	3,317
Payments to Government	3,146	2,081	2,537	2,266	1,842
Community Investments	20	27	8	13	14
Economic Value Retained	3,206	3,065	1,488	1,890	4,998

FINANCIAL VALUE ADDED

Financial value defined: Financial Value Addition (FVA) is the excess value created over the required return of the Bank's investors who comprise shareholders and debenture holders. FVA is a measurement of profit distinct from that of financial profit.

Financial Value Added

For the year ended December 31	2017	2016	2015	2014	2013*
	LKR million	LKR million	LKR million	LKR million	LKR million
Invested equity					
Total equity	28,738	24,745	22,701	22,238	19,620
Add : Allowance for impairment charges for loans and receivables and other losses	4,892	6,134	5,517	5,121	4,379
Total	33,630	30,879	28,218	27,359	23,999
Earnings					
Profit after tax and dividend on preference shares	4,352	3,170	3,511	3,418	7,723
Add: Impairment for loans and receivables and other losses	1,259	1,367	712	566	1,238
Less: Loan losses written off	(246)	14	(34)	(64)	(76)
Total	5,365	4,551	4,189	3,920	8,885
Cost of equity (Based on 12 months weighted average T-bill rate plus 2% for risk premium)	12.07%	11.94%	8.63%	10.24%	12.63%
Cost of average equity	3,893	3,528	2,398	2,630	2,647
Economic value added	1,471	1,023	1,791	1,291	6,238

** The one-off equity income of LKR 6,031 million in 2013 is included*

COMMERCIAL BANKING

The Commercial Banking Unit's unique customer value proposition, characterized by innovative and tailor-made product offerings, seamless processes and exceptional relationship management, has enabled it to emerge as a key player in this competitive segment. The Unit specializes in the provision of working capital solutions to large and medium sized corporate entities and benefits from a diverse team of dynamic professionals, a large network of correspondent banks, advanced technological capabilities and efficient processes. The Commercial Banking Unit makes considerable contribution to the Bank's, profitability and asset base.

OPERATING ENVIRONMENT

The economic and political landscape presented mixed fortunes for the Unit in 2017; moderating economic growth against the backdrop of a weaker agriculture sector and severe competition on rates resulted in a relatively challenging year. The economy also presented opportunities for growth, particularly given the government's ambitions to transform Sri Lanka to a trading and commercial hub. NDB has always sought to align itself with national growth strategies and we are keen to capitalize on opportunities presented by growing international trade.

STRATEGIC FOCUS

During the year under review, the Unit's strategy centered on consolidating its portfolio, strengthening fee based income and overall profitability while maintaining portfolio quality. Emphasis was also placed on leveraging our strong relationships to retain customers given the intensely competitive operating landscape.

COMMERCIAL BANKING- HIGHLIGHTS - 2017

LKR million	2017	2016	Y-O-Y change (%)
Total Operating Income	3,546	3,047	16
Pre-tax profit	2,482	1,375	80
Profit after tax	1,365	812	68
Non-performing-loans ratio (%)	0.9	2.7	-
Cost to income ratio (%)	24.6	27.9	-
Loans and receivables (%)	92,497	74,483	24
Liabilities	54,005	40,153	34

- Focused lending towards growth sectors of the economy
- Increasing contributions from fee-based income
- Improved asset quality

Product map

- Working capital finance
- Trade services
- Cash management
- Tradecard services

Our growth strategy complements the country's national development agenda and we increased lending to sectors such as tourism, construction/property development, agriculture, manufacturing and business process outsourcing, which we believe are poised for strong medium-term growth. Our portfolio continues to be well diversified, with a balanced industry exposure as well as an equal mix of foreign and local currency loans. We also strengthened our presence in the rural sector, driving financial inclusion through Distributor and Supplier financing.

Ceylon Beverage Can (Pvt) Limited, is Sri Lanka's first and only Aluminium beverage cans manufacturer.

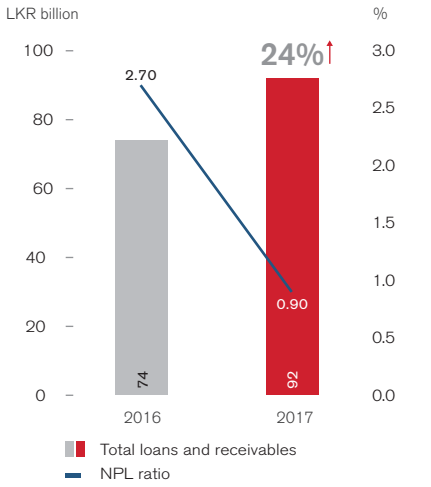
Sustaining the quality of the portfolio amidst challenging economic conditions was a key priority during the year and we focused on strengthening underwriting standards and collection mechanisms. Effective monitoring of watch listed customers and the assessment of recoverability on a continuous basis, enabled the Bank to identify early warning signals and take proactive action to address potential delays and delinquencies.

PERFORMANCE

Despite the challenging operating environment, the effective implementation of a focused strategy enabled the Commercial Banking Unit to achieve a profit-after-tax growth of 68% during the year. The Unit's assets grew by 24% in 2017 supported by the Unit's focus on the country's growth sectors, facilitating an operating income growth of 16%. The Unit maintained a fee income: NII ratio of 29 : 71 while astutely managing its net interest margins despite the pressure on funding costs. Ongoing focus on enhancing productivity and operational efficiency enabled the Unit to maintain its cost-to-income ratio as low as 24.6%. Meanwhile the Unit's liability base increased by 34% during the year. The CASA ratio was maintained at 27.8%, a remarkable achievement given the current economic backdrop and attesting to the strength of our customer relationships.

Credit quality improved during the year, despite stresses on the portfolio arising from the adverse climatic and economic factors. The Unit's non-performing-loans ratio declined to 0.9% (2016: 2.7%) during the year testament to the stringent credit origination and collection standards that allow the early identification of potential delinquencies.

Commercial Banking Loans & Receivables and NPLs



OUTLOOK

Our expansion strategy for 2018 will continue to reflect key growth sectors in the economy; we see significant potential in tourism, logistics, construction and agriculture-related sectors given government impetus and concessions granted to these sectors by the 2018 Budget. We also see immense potential in off-shore lending and the export sector particularly given the country's strengthening international relations. Enhancing contributions from non-borrowing fee based income will also be a key priority in 2018 and we hope to achieve this via strengthening our presence in Distributor and Supplier financing and invoice discounting. These services are also expected to enhance our value proposition to customers by providing end-to-end business solutions to customers.

The Bank's competitive edge lies in development banking and we hope to leverage on our reputation, in seeking client acquisition in commercial banking. Synergies with the project financing division is expected to support our client acquisition and allow us to service the entirety of customers' financing requirements.

The Bank's strategy articulates its medium-term objective of emerging as one of the country's most significant banks by 2020. The Commercial Banking Unit will be a growth driver in this strategic journey and is expected to play a vital role in the Bank's overall performance.

We are also encouraged by the opportunities presented by Sri Lanka's stabilizing macro-economic fundamentals and increased investor confidence and are well positioned to capitalize on such emerging opportunities.

Cash Management Unit

The Cash Management Unit operates within the Corporate Banking division and serves the transactional banking requirements of the Corporate and SME customers. Its services include, electronic banking, managing financial and institutional relationships, corporate liabilities, a Chinese Desk which caters to the Chinese Business community, and collection and payments of capital market transactions. The Unit's commitment for excellence was recognized at the Asian Banking & Finance Wholesale Banking Awards 2017, where it received the award for 'Cash Management Bank of the Year' for the second year.

The Unit pursued a strategy of customer acquisition during the year, carrying out aggressive marketing campaigns to penetrate the SME and large local corporate segment. In order to penetrate the latter, the Bank is currently evaluating a new platform which will better serve corporate business both in payment and trade finance. The existing platform will be further strengthened to service the SME business segment of the Bank whilst brick walling the existing transaction customer base.

Increasing customer sophistication and preference for electronic solutions resulted in a dramatic increase in online banking penetration with customer acquisition growing by 80% during the year. In 2016, the online banking platform was further upgraded to provide a better service to Corporate and SME clients. These efforts came to fruition in 2017 with the total online transaction volumes growing by 23% compared to 2016. Total transaction value amounted to LKR 76.5 billion for 2017 with an annual growth rate of 17%. Meanwhile the revenue from Escrow business also recorded strong growth in 2017.

The Bank's Cash Management services provide convenient solutions to its clients, augmented by technology.

NDB offers dedicated services to its Chinese clientele

The Chinese desk caters exclusively to the banking needs of the Chinese banking community and has positioned itself to capture opportunities in this growth segment. In 2017, The Chinese Desk of the Cash Management Unit was crowned as the 'Best Overall Local Bank in South Asia for BRI (Belt & Road Initiative) at the Asiamoney New Silk Road Finance Awards ceremony held in Beijing China in September 2017.

The liability arm of the Cash Management unit has grown by 24% in the year 2017, supporting the overall deposits and CASA base of the Bank.

PROJECT AND INFRASTRUCTURE FINANCING

As an organization with its roots in development banking, NDB's deep industry insights, expertise and long-standing customer relationships have enabled it to build a strong reputation and excellence in project and infrastructure financing. Our understanding of the dynamics of different industries and overseas markets as well as the holistic value proposition which includes provision of advisory services has made NDB's Project & Infrastructure Financing (PIF) Unit, a preferred financial partner for companies seeking long-term financing. The Unit is a frequent recipient of awards and accolades, the most recent being awarded "The Domestic Project Finance Bank of the Year" at the Asian Banking and Finance, Wholesale Banking Awards 2017.

PROJECT AND INFRASTRUCTURE FINANCING- HIGHLIGHTS - 2017

LKR million	2017	2016	Y-O-Y change (%)
Total operating income	1,040	815	28
Pre-tax profit	573	178	221
Profit after tax	338	136	148
Non-performing-loans ratio (%)	0.81	1.54	-
Cost to income ratio (%)	35	37	-
Loans and investments	63,866	55,905	14
Liabilities	1,739	1,348	29

- Significant lending to renewable energy and infrastructure sectors
- Strong performance backed by healthy loan growth
- Improved asset quality indicators
- Improved Net income

Product map

- Long Term Loans (in both LKR & Foreign Currencies)
- Offering Services as Arranger, Lead bank in Syndications
- Islamic Banking Long term Financing Products (in both LKR & Foreign Currencies)
- Lease Facilities for Corporates
- Securitization of Future Tea Sales
- Securitization of Lease & Hire Purchase Receivables
- Investments in Listed Rated Debentures
- Investments in Listed Preference Shares

OPERATING ENVIRONMENT IN 2017

The increase in interest rates during the year resulted in an escalation in cost of funds and inserted pressure on the Unit's Net Interest Margin's (NIM) during the year. However, PIF unit was able to overcome this pressure through pricing and structuring facilities which resulted in improved NIMs compared to previous year. On the other hand, the gradual recommencement of large scale construction and infrastructure projects augured well for the Unit, enabling it to achieve commendable loan growth during the year. The persistently increasing demand for energy and the global call towards reducing dependence on fossil fuels by switching to renewable energy sources have also presented numerous opportunities for environmentally conscious lending.

STRATEGIC FOCUS

In line with the Bank's 3-year strategic plan, the PIF Unit placed emphasis on achieving profitable balance sheet growth by diversifying into specific growth sectors such as construction, finance and power and energy. In 2017, focus was placed on supporting the renewable energy sector- a lucrative sector which will allow us to fulfil both our commercial and environmental sustainability objectives. The Bank strongly believes that it can contribute significantly to environmental sustainability through its lending decisions and during the year we provided funding for four types of renewable energy projects- hydro, solar, waste to energy and bio mass. It is estimated that through lending to renewable energy projects over the years, approximately 390,000 tonnes of CO_2 emissions are eliminated annually which is roughly equivalent to annual CO_2 emissions of 83,000 passenger vehicles. Renewable energy projects also eliminate harmful emissions of Sulphur dioxide (SO_2) and Nitrogen oxide (NO_X). In addition, the Bank also offered concessionary funding for environmentally sustainable initiatives such as effluent treatment facilities and small scale solar power projects. We have also approved a term loan facility to one of the country's first ever waste to energy projects and approved a diminishing Musharakah co-finance facility to fund a bio mass power project where NDB PIF played a key leading role. As an organization, we are deeply committed to greening our lending operations and as an initial step, we provided foreign training to our employees on green project financing during the year.

The year marked another important milestone for the Unit as it rendered its services as the lead arranger for a syndicated debt issuance with a consortium of four Sri Lankan banks for an off-shore project. The syndicate was

arranged to finance the development of a renewable energy project in the East African region promoted by Sri Lankan organizations. Our distinctive capabilities and expertise in offshore lending has afforded a strong platform to capture opportunities in financing Sri Lankan companies which are moving off-shore for energy projects. Overall, the overseas lending activities contributed to 8% of the PIF Unit's total assets during the year.

NDB's PIF Unit financed the country's first ever wind power project

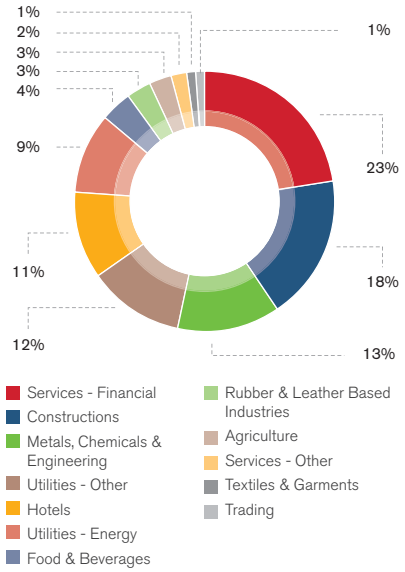
We continued to play a vital role in supporting the country's infrastructure development through disbursing the largest term loan facility in the Bank's history to National Water Supply and Drainage Board. The project is expected to facilitate 100,000 new water supply connections in the Southern Province directly contributing towards uplifting the standard of living for many citizens.

PERFORMANCE

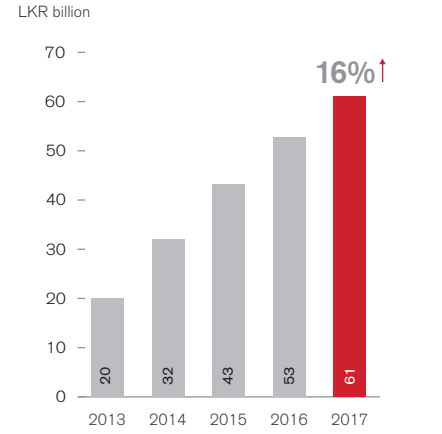
The PIF Unit turned in a year of strong performance, with total operating income and profit after tax increasing by 28% and 148% respectively in 2017, following healthy loan expansion and an overall improvement in credit quality which curtailed impairment losses. The Unit's loan portfolio grew by 16% during the year and has expanded at a compound annual growth rate of around 32% over the last 4 years which is significantly above the industry growth rate.

The Unit's lending exposures are well diversified allowing it to reduce concentration risks to a certain degree. The Unit also achieved a substantial improvement in portfolio quality, with a 40% decrease in gross NPLs resulting in gross NPL ratio falling to 0.8% from 1.5% in the year before. This was achieved through close monitoring and follow-up of stressed accounts, careful selection of projects and continued engagement with our customers. It is commendable that the decline in gross NPLs were achieved despite the strong growth in the loan portfolio during the year.

Sectorial Composition of PIF Loan Portfolio



PIF Loan Portfolio



OUTLOOK

The outlook for the Unit is positive in 2018, with the prevalent cost of funding expected to gradually reduce in view of stabilizing macro-economic fundamentals as well as the Bank's own initiatives to reduce its cost of funds. The Unit will pro-actively seek new sectors and business activities for expansion.

As a responsible financial partner, green lending initiatives including renewable energy will continue to be a key focus area for the Bank as it satisfies both our commercial and environmental objectives.

As the country's financial sector matures, we foresee the intensification of competitive pressures in project financing. We will endeavour to maintain our competitive edge by leveraging on our strong customer relationships, excellent customer service and technical capabilities in handling complex projects. Gathering momentum in providing other financial services such as "Lead Arranger/Lead Bank" which are directly associated with lending activities, we also endeavour to widen our products and services to Sri Lankan companies to carry out their local as well as offshore projects.

RETAIL BANKING, SME AND MICRO FINANCING

Since converting into a commercial banking entity in 2005 from a DFI, NDB has successfully captured market share in this competitive segment by offering innovative solutions through its extensive branch network. The Bank offers an array of deposit and lending products to suit the life style requirements of customers across different stages of their lives. The division together with SME and Micro Units play a vital role in mobilizing deposits required for the Bank's growth agenda, with retail deposits accounting for 72% of the Bank's total deposit base.

The total loans of these three Units together contribute to 40% of the Bank's total loans and receivables.

RETAIL BANKING, SME AND MICRO FINANCING HIGHLIGHTS - 2017

LKR million	2017	2016	Y-O-Y change (%)
Total Operating Income	7,620	5,688	34
Pre-tax profit	1,616	827	95
Profit after tax	889	469	90
Non-performing-loans ratio (%)	3.2	2.6	-
Cost to income ratio (%)	66.6	79.8	-
Loans and receivables	111,151	96,969	15
Deposits	196,764	149,489	32

- Launch of several innovative lending and investment products

Product Map

Lending Products

- Dream Maker Personal loans
- Housing Loans
- Education Loans
- NDB Leasing
- NDB Good Life Credit Card
- NDB Salary Max Advances
- NDB Achara Loans

Deposit Products

- Araliya Women's Savings Account
- NDB Children's Savings Account
- NDB Shilpa
- NDB Savings Planner
- NDB Salary Max Current and Savings Accounts
- NDB Achara Savings Accounts
- Current Accounts
- Foreign Currency Deposits
- Fixed Deposits

Other Products

- NDB Debit Cards
- NDB Travel Pal
- Privilege Select – Banking Services to High Network Clients
- Safe Deposit Lockers
- Remittances
- Bancassurance

RETAIL BANKING

OPERATING ENVIRONMENT IN 2017

The relatively tight monetary policy stance adopted by the regulator resulted in an increasing interest rate environment, particularly during the first half of the year. Despite this, private sector credit growth was strong in the first half of the year before decelerating in response to the tighter monetary policy conditions. Meanwhile competition for customer deposits intensified, with depositors seeking high-yielding solutions.

STRATEGIC FOCUS

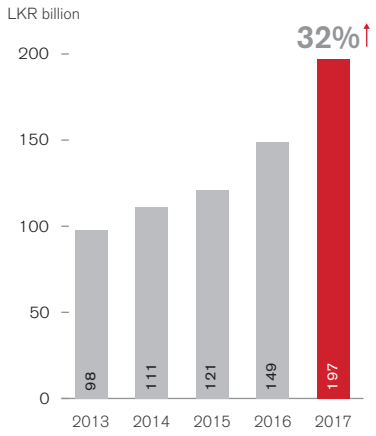
RETAIL DEPOSITS

New product development was a key priority during the year and we launched several innovative, high-yielding deposit products to increase our CASA base and capture market share. Details of these products are summarized below. We conducted a number of exciting competitions amongst staff members to induce sourcing CASA deposits. The Bank also relaunched its minor savings account during the year, offering attractive rewards and a suite of benefits to minor account holders. The response to these new products have been extremely encouraging and contributed towards strengthening the Bank's CASA base and comfortably meeting the Bank's deposit targets, along with existing deposit products.

New Retail CASA Deposits Launched During The Year

Product	Description
NDB Savings Planner (General/ Minor)	This product is a goal – oriented savings solution to encourage savings. It includes savings plans from 2 years to 10 years, ranging from LKR 250,000 to LKR 10 million. The NDB Children's Savings Planner has a guaranteed return up to 9.75% with plans starting from 2 – 10 years
NDB Araliya Savings Product	A savings product targeted towards women, NDB 'Araliya' offers a range of benefits including free life insurance and medical insurance for account holder and immediate family members, bonus interest, welcome gifts on the 21st birthday of the account holder and a free NDB Shilpa savings account upon the birth of a child.
NDB Achara	A lending and investment product for senior citizens (particularly pensioners), this product features longer repayment periods, unsecured lending, convenience, speedy service and life insurance cover for the loan repayment. The product also offers higher rates for fixed deposits to senior citizen account holders.
NDB Children's Savings Account (Re-launched)	This product offers attractive gifts to the account holders based on the account balance. A free life insurance premium and permanent disability cover for the parent / guardian, free hospitalization cover for the account holder and cash prizes awarded for excellence at Grade 5 scholarship & GCE O/L examinations are some of key features of this product.

Retail Banking Deposits *(Inclusive of SME & Micro Financing Units)*



We conducted a number of innovative deposit campaigns with our existing deposits products over the year. The Avurudu Promo to coincide with the Sinhala and Tamil New Year provided much impetus on improving the Bank's deposit base. We also rewarded our Shilpa account holders who excelled at the Grade 5 scholarship exams with cash prizes. The "Santa Promo" conducted during December 2017 was yet another iconic deposits promotion, which created much enthusiasm among parents and children across the country.

RETAIL ASSETS

The Retail lending portfolio consists of personal loans, housing loans, education loans, leasing facilities, credit cards and a host of other facilities. The Bank's personal loan product 'Dream Maker', was a game changer allowing customers to obtain financial support based on their needs at different stages of their lives, ranging from education and vehicle purchases to house renovations. A revolving loan facility was also introduced targeting existing customers.

The NDB Home Loan proposition continued to perform well despite the subdued economic conditions. We enhanced the efficiency of our documentation processes to ensure that housing loans are approved in 3 days, providing a source of competitive edge in the highly competitive housing loan segment. The product was further strengthened through the addition of a value-added-service which involves document support such as title search. The Bank also continued to reinforce its presence in the condominium market by entering into new tripartite agreements with developers of new properties in Colombo and its suburbs.

NDB's credit card offering, NDB Good Life had an eventful year in 2017 with a number of exciting credit card offers and promotions. The card offered attractive seasonal discounts at a host of retail outlets, restaurants, hotels and online purchases. Credit card balance transfer promotion was also another attractive initiative carried out during the year.

The hype created by all these activities led to significant increase in credit card volumes and the customer base.

OUR RETAIL FOOTPRINT

The branch network plays an integral role in delivering our retail banking offerings to a broad base of individuals at all stages of life. During the year we added 3 new branches to our network, taking the total reach to 107 (refer Manufactured Capital on page 88 for further information). The Bank persistently strives to partner customers in the achievement of their lifelong ambitions through providing a range of services that are accessible through the branch network.

Having identified customers' increasing demand for multi-channel banking and higher accessibility, we continued to drive our digital proposition- primarily through mobile and internet banking.

PRIVILEGE SELECT

NDB Privilege Select is the Bank's iconic private banking offering to its high net worth retail client base. Privilege Select is one of the leading and most popular private banking offerings within the Sri Lankan banking industry. This proposition is designed to provide exceptional individual attention to the high net worth clientele, and is complete with unique financial offerings that include a range of novel wealth management and wealth creation tools.

This proposition features a total financial services package along with exclusive benefits that complements the lifestyles of the high net worth clients. Our dedicated and versatile Privilege relationship managers extend customized services to our clientele in helping them make quality and timely decisions on their investments, augmented by privacy and convenience.

As of end 2017, we functioned three dedicated Privilege centres at Colombo 07, Havelock Town and Mount Lavinia. Furthermore, our Privilege services are offered to the clientele through our retail network spread across the country. As such, their needs are taken care of, wherever they may be. During the year, the Bank also hosted networking functions for Privilege clients in Colombo and the suburbs.

Privilege Select services are planned to expand their services to a wider range of clients through an expanded network of Privilege Select Centres in 2018, with enhanced offerings.

PERFORMANCE

Please refer page 65 for a full performance review of Retail, SME & Micro Financing Units.

OUTLOOK

We are optimistic about the opportunities presented by the anticipated stabilization of the country's macro-economic fundamentals and resultant improvements in customer sentiments. Our efforts to enhance customer convenience and offer a speedy service through re-engineering our lending processes and account opening processes will deliver greater results in 2018 and beyond. We will focus on increasing our CASA base through incentives given to our team members. We will also leverage the maximum benefits of the innovative and dynamic lifestyle products we have on offer to reach out to a broad base of retail clients through our robust branch network in helping them prosper and develop as individuals and families. In doing so, we intend to further affirm our footprint as a competitive retail oriented commercial banking entity in the country.

SME BANKING

Sri Lanka's SME sector has long-since been recognized as the backbone of the economy and its engine of growth. We believe that the expansion of the SME Sector can drive substantial socio-economic progress and we are committed towards facilitating this growth through a dedicated 'Business Banking' unit targeting the SME Sector. The Bank's inherent strengths in development banking has afforded it an ideal platform to support the country's SMEs and we offer a holistic value proposition featuring innovative and diverse products, an extensive branch reach, advisory services and a deep understanding of industry dynamics.

OPERATING ENVIRONMENT IN 2017

2017 was a challenging year for the country's SME Sector, primarily due to the adverse weather conditions which were experienced in forms of droughts as well as floods, having a direct impact on the agriculture sector. Spillover effects were also felt in related sub-sectors of the economy, which resulted in a moderation of overall economic growth. These trends inserted pressure on the repayment capacity of SME borrowers impacting the quality of the portfolio.

STRATEGIC FOCUS

In line with its strategic focus on emerging as a significant and systemically important bank by 2020, NDB set up a dedicated unit for SMEs and middle markets through which exclusive attention is given to the SME Sector with dedicated teams driving the small and middle market propositions. This restructuring has enabled the Bank to expand its reach, enhance customer service through efficient processes and optimize relationships through pursuing cross-sell opportunities. The SME unit has also been positioned to play an important role in enhancing the Bank's CASA base.

Product Map

Lending Products

- Long Term Loans
- Short Term Loans
- Supplier Finance
- Export Finance
- Post Import Finance
- Packing Credit
- Distributor Finance
- Revolving Working Capital Loans
- Tea Manufacture Working Capital Finance
- Current Account Based Products
- Cheque Warehousing
- Guarantee Facilities
- Letters of Credit

Deposit Products

- Savings Products
- Time Deposits
- NDB Business Class – Current Account

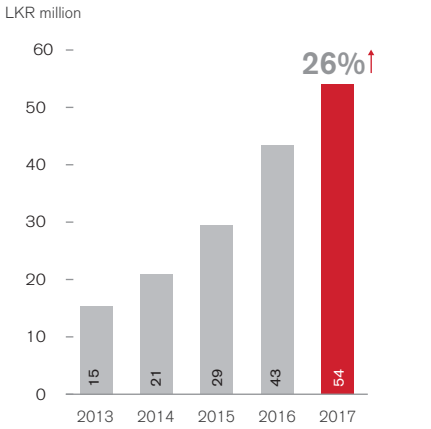
During 2017, the Bank also introduced a new current account proposition titled as NDB Business Class. The product features a bundle of benefits such as preferential rates on Letter of Credit, Collection Bills, Telegraphic Transfers, etc. and fee waive offs for services such as cheque books.

This proposition is augmented by dedicated relationship banking for SME and Middle market customers in supporting them to grow their business.

PERFORMANCE

In 2017, we widened the scope of our operations by providing seed capital for start-ups and the diversification of existing businesses, in addition to business expansion. The optimum use of several low-cost credit lines such as ADB's SMELoC and SMILE III enabled the Bank to disburse funds at attractive rates and we leveraged on our geographical reach to increase lending outside the Western Province. As a responsible financier, strategic focus was also placed on increasing our exposure to green financing initiatives. In line with the Bank's overall strategic agenda we have continued to focus on cash-flow based lending in growth sectors of the economy such as tourism, manufacturing, agriculture and services. The Bank adopted industry focused approach, enabling it to capture emerging opportunities in growth sectors.

SME Loan Portfolio

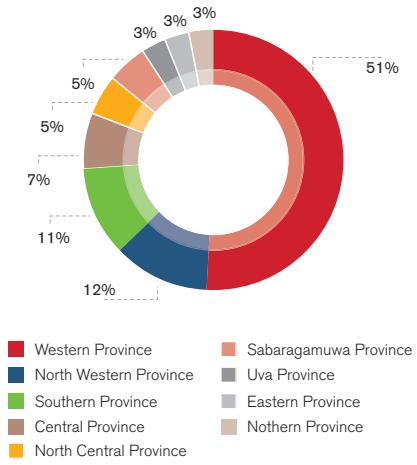


OUTLOOK

The SME Sector is anticipated to play a significant role in achieving the broader goals set under the Bank's strategic plan for 2020. The Sector's growth strategy will be underpinned by effective customer segmentation which will enable targeted marketing and customized solutions for individual segments. The anticipated improvement in investor sentiments coupled with stabilizing macro-economic fundamentals will augur well for the SME Sector and we are positioned to capitalize on these opportunities.

We will continue to empower this sector using our expertise across a broad spectrum of sectors which in turn will propel the country's economy ahead.

Province wise Composition of SME Loan Portfolio



We maintain a high level of customer engagement with our SME clientele, facilitated through business visits, customer forums and seminars. Engagement also occurs in collaboration with industry forums, chambers and other regional bodies which is an effective platform to pursue new business. We also focused on strengthening our delivery efficiency and customer service by upskilling our SME team through targeted training programmes.

We provide vital financial support to the tea industry, through our tailor-made tea manufacturer working capital financing solutions

Rice mills are also beneficiaries of our endeavours to strengthen the SME sector

MICRO FINANCING

Since commencing micro financing in 2010, the Bank has directly contributed towards the empowerment and socio-economic progress of thousands of needy individuals across the country. Our success in this segment is underpinned by a holistic value proposition extending beyond mere financial support to include customer education and training initiatives targeted towards nurturing financially disciplined customers. Micro finance has been an ideal platform via which we integrate our social sustainability objectives to our business operations.

Product Map

- Financing for Community Based Organizations
- Cluster-based lending
- Agriculture and Commercial Cultivation Loans
- Fisheries
- Animal Husbandry Loans
- Self Employment Loans
- Personal Loans for Factory Workers

OPERATING ENVIRONMENT IN 2017

Promoting financial inclusion through micro financing is a key thrust for the Government as it is an effective tool in alleviating poverty and empowering the economically and socially vulnerable. Accordingly, the Government has placed policy emphasis on strengthening the sector and enacted the Microfinance Act No. 6 of 2016 as a regulatory framework to govern micro finance institutions and set up a Department of Supervision of Microfinance Institutions in the CBSL. In 2017, the operating environment presented several challenges to the sector. Demand remained strong although the weakening of the agriculture sector and the increase in interest rates pressured repayment ability to a certain extent.

STRATEGIC FOCUS

In 2017, strategic focus was placed on identifying new avenues for lending, widening the scope and coverage of our financial literacy initiatives and maintaining the credit quality of the portfolio through effective risk mitigation mechanisms.

Financial Support: Through the Divi Aruna initiative, we fund numerous needs including business start-ups, expansions, asset building, working capital requirements and agriculture. A considerable number of our micro finance clientele comprise women, as the financial empowerment of women has been directly linked to the socio-economic progress of families. We disburse funding through community based organizations and cluster based lending targeting specific growth industries such as agriculture and exports.

Supporting the Cinnamon Industry: During the year, we engaged in an initiative aimed at supporting the country's cinnamon industry, which often lacks the capacity and technical knowledge to meet export standards. The cinnamon industry has substantial export potential and we sought to strengthen technical knowledge among cinnamon growers by conducting 4 programmes in partnership with the Export Agriculture Department. The programmes were open to both our customers and external cinnamon growers and provided comprehensive training on how to cultivate high quality cinnamon products, value added products and best practices in processing.

Cinnamon drink, a value added product made from raw cinnamon

Empowering Women: Conducted as an on-going initiative, these structured programmes are carried out with the objective of equipping female entrepreneurs with the basic business management skills and financial discipline required to successfully manage their ventures. The program is open to both existing women SME & Micro customers of the Bank and non-customer women entrepreneurs. The contents of the workshops are carefully structured to impart essential business knowledge while uplifting motivation and morale.

During the year, we conducted 4 such programmes in Colombo, Balangoda, Matale and Minuwangoda with a total participant base exceeding 400. These programmes have directly contributed towards ensuring the sustainability and long-term success of the participants' business ventures. It is generally believed that the financial empowerment of women results in socio-economic progress of the family, as women tend to save more and invest in avenues benefitting the family, such as education, health and housing. We are committed to facilitating this progress and intend to further widen the scope and coverage of this initiative going forward.

Divi Aruna : NDB's strength to start–up businesses

Financial Literacy: NDB's ongoing financial literacy programmes are aimed towards strengthening financial discipline among our clients by providing guidance on

investments, savings as well as basic training on accounting, book keeping and budgeting. Since our Micro Finance clientele primarily represent individuals who are new comers to the banking industry, these programmes have been vital in improving financial management and discipline.

In 2017, we organized 12 large scale financial literacy programmes with the participation of over 1,200 individuals. Of these, programmes conducted in Monaragala, Vavuniya and Kilinochchi were conducted in collaboration with the Export Development Board. We also conducted programmes for community leaders of the Homagama Secretariat Division in partnership with the Divisional Secretariat office. Over 50 community leaders participated in this programme and we hope to extend the training to end-users through these societies.

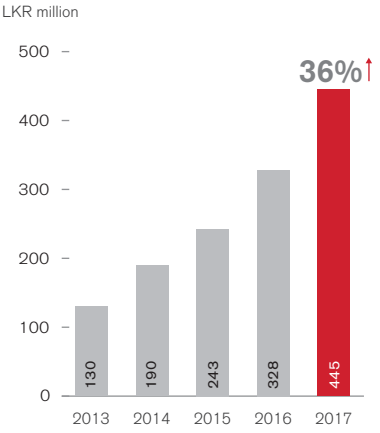
The Bank's endeavours in promoting financial literacy

PERFORMANCE

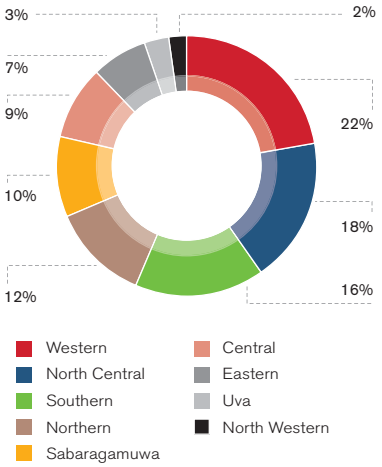
The Micro Financing Unit achieved strong portfolio growth with outstanding advances increasing by 36% during the year, to close at LKR 445 million. The Bank's Micro Finance portfolio is diverse in terms of its industry exposure, with agriculture and retail being the dominant sectors.

As Micro Financing by nature records relatively higher non performing loan levels, the Bank closely monitors its portfolio quality and takes proactive measures to manage the NPLs. The portfolio is also diversified in its regional exposure, with over 75% of the portfolio originating outside of the Western Province, attesting to our commitment to regional growth.

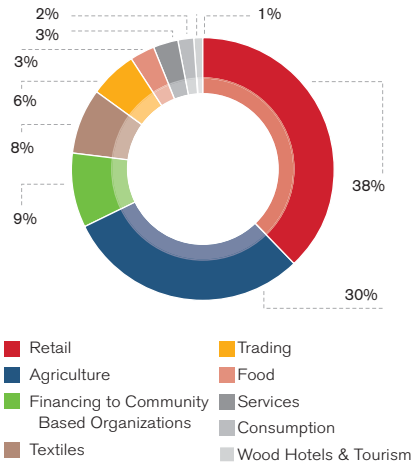
Micro Financing Loan Portfolio



Province wise Composition of Micro Finance Loan Portfolio



Sector wise Composition of Micro Finance Loan Portfolio



OUTLOOK

Having identified the strong potential for entrepreneurial activities at grass root level, the Bank intends to widen the scope of its micro financing operations to promote financial inclusivity. We hope to reach out to a diverse range of micro-segments, including farmers venturing into organic paddy cultivation, floriculturists, and small scale street food vendors, etc. We hope to further expand our value proposition beyond financial support through offering technical and entrepreneurial support, access to market linkages and guidance on improving product quality and productivity. These factors are anticipated to strengthen customer loyalty and increase customer retention while strengthening the Bank's brand name in this segment.

MICRO FINANCE CUSTOMER TESTIMONIALS

I started with very little, but I have come a long way with NDB's support

- Mr. Milan Perera

Mr. Milan Perera's inspiring story is one of hard work, determination and innovative thinking. Milan founded and manages Colombo's only sea turtle conservation project, the aim of which is to conserve the local nesting sites and care for disabled sea turtles. He operates a sanctuary through which eggs are rescued and hatched.

"I started with just two plastic tanks and after receiving the 1st loan from NDB, I built 3 large cement tanks. Every year I release around 10,000 turtles to the sea and care for around 20 disabled turtles."

I am the only licensed person to do so in the Colombo district. When my centre gained popularity, school and university students visited it for educational purposes. NDB supported me once again in the development of infrastructure facilities. Using a loan of LKR 1 million, I built a hut for visitors and 2 additional tanks; this loan was immensely valuable to me as it was at a time in which two tanks were destroyed due to sea erosion. From the start, NDB has partnered with me in my progress.

NDB partnered in my progress and I was able to expand my flag making business thanks to them.

- Mrs. Sandya Kahaduwa

Mrs. Kahaduwa ventured into textile business in a small scale. She obtained a Divi Aruna micro finance facility from NDB and subsequently expanded her operations to include flag making. This proved successful and she now employs 2 workers. With her 2nd loan of LKR 50,000/- she further expanded the flag business to emerge as a market leader in Colombo's wholesale market. Next she sought to set up a shop in Colombo and with her 3rd loan from NDB she acquired a textile shop and further expanded her business. She currently provides employment to 7 individuals.

Due to the support given by NDB, I was able to succeed in pineapple cultivation.

- Mr. Thilakasiri

After facing many difficulties in my rice mill, I was keen to start a pineapple cultivation. However, obtaining the initial capital was a huge challenge for me and I am immensely grateful that NDB placed their trust in me and provided a LKR 500,000/- loan to start my cultivation. The cultivation was successful and every year I expanded the quantity of production. With my 3rd loan of LKR 1 million I was able to expand my cultivation to 4 acres and currently I generate a monthly income of over LKR 400,000 /-.

PERFORMANCE (RETAIL, SME AND MICRO SEGMENTS)

The segment recorded exceptional growth during the year with combined profit after tax increasing by 95%. The introduction of several innovative products, both in the retail and SME lines allowed broad based expansion in the total loans and receivables portfolio by 15%.

The moderating economic conditions led to an influx of NPLs, although the segment's gross NPL ratio remained relatively healthy at 3.2%.

The retail sector's deposit portfolio inclusive of SME and micro segment deposits expanded by 32%, a reflection of the Bank's strong deposit franchise and ability to mobilize deposits amidst intensifying competition.

Ongoing focus on process efficiencies and productivity improvements enabled the segment to manage its operating costs during the year, despite 50% of the branch network being relatively new, having opened for business in the last five years.

REFINANCE OPERATIONS

Refinance schemes are a highly efficient way to inject funding to preferential economic activities that have been earmarked for growth. The country's financial sector is a catalyst in channelling funds towards these sectors due to their geographical reach, ground-level presence and industry expertise. NDB is proud to have been selected as a Participatory Financial Institution to partner the Government and multi-lateral agencies in disbursing funds towards selected sectors.

Name of the Scheme	Project Management Unit	Sponsor	Value of Loans Granted (LKR million)	No. of Loans
Saubhagya	Central Bank of Sri Lanka	Central Bank of Sri Lanka	121	92
Small & Medium Enterprises Line of Credit. (SMELOc)	Ministry of Finance & Planning	Asian Development Bank	1,271	105
SMILE 111 Revolving Fund	Ministry of Industry & Commerce	Japan International Corporation Agency	225	25
Swashakthi	Central Bank of Sri Lanka	GOSL	10	42

STRATEGIC FOCUS

NDB Refinance is an active partner to the Government in channelling credit lines from multilateral donor agencies to end-users. In 2017, NDB has disbursed funding from agencies such as Asian Development Bank (ADB) and Japan International Co operation Agency (JICA).

The Bank has also disbursed facilities from two credit schemes launched by the GOSL namely Swashakthi and Saubhagya with limited funding.

NDB continued to work with the GOSL and agencies in disbursing funds towards the micro, SME, Middle market and Corporate sectors. We placed our effort on stretching the benefits across as many beneficiaries as possible within the eligibility criteria framework stipulated by the conditions attached to the respective funding lines. Brief descriptions of the refinance schemes that we engaged in, are as follows;

SMILE 111 Revolving

This LKR 9.0 billion facility was extended by the Ministry of Industry & Commerce and NDB has withdrawn LKR1.6 billion to date, representing 17.% of the total facility. The Bank is the largest withdrawer of this line among the participating financial institutions. We granted approximately 200 number of facilities with these funds to date.

USD 100 million Small & Medium Enterprises Line of Credit (SMELoC)

The credit line is sponsored by the Asian Development Bank and was launched in 2016 by the Project Management Unit established under the Ministry of Finance & Planning. Funds are channelled towards Small & Medium Enterprises in Sri Lanka with special focus on boosting entrepreneurship ventures led by women and businesses start-ups with no previous business borrowing foot prints. The facility is also targeted towards strengthening financial inclusion in regions outside the Colombo District.

This credit line is partnered by 10 financial institutions including NDB, and we granted 68 new facilities comprising 22 facilities to women-led enterprises and 18 facilities to first time borrowers for start-up projects. NDB is the highest withdrawer from the USD 100 million Credit Line.

Swashakthi Loan Scheme.

CBSL launched the credit scheme following a cabinet decision to create 25,000 new employment opportunities. The objective of this scheme is to provide financial backing to youths with innovative business propositions who do not have the capital to fund their ventures.

Refinancing Loan Schemes to Encourage Environmental and Social Sustainability Objectives

Environmental sustainability has emerged as a key priority for governments and organizations around the world, as the impacts of climate change are felt increasing frequently. The Financial Sector has identified the crucial importance of aligning business practices and standards to environmental objectives and has sought to provide concessionary funding to encourage investments targeted towards meeting national environmental goals. During the year NDB continued to grant environmental loans at concessionary rates under the green financing scheme. The primary objective of the credit scheme is to assist industrial enterprises by providing financial assistance for investments to mitigate environmental pollution and ultimately ensure compliance to national environmental standards of the country.

NDB joined the E Friends Revolving II project sponsored by Japan Bank for International Corporation through the Ministry of Industry of Commerce in 2017

OUTLOOK

Strengthening the country's SME and micro enterprises is a key priority for the Government and concessionary funding lines has been identified as an effective and efficient mechanism to channel funding towards such entrepreneurs. Obtaining low-cost funding for investments plays a key role in ensuring the sustainability of these ventures and refinancing plays a pivotal role in supporting this requirement. In aligning itself with national development goals, The Bank is well positioned to enhance its contributions through tapping into more concessionary funding schemes in 2018. These include the following;

E-friends Revolving 11

The Bank recently executed a subsidiary loan agreement with the Ministry of Industries and Commerce to partner environmentally friendly loan schemes.

Asian Development Bank Roof Top Solar Loan Scheme

Open to both domestic and business sectors, this credit line would aid the installation of photovoltaic solar power generating solutions installed on existing permanent roof top structures.

Additional Funding Under Asian Development Bank Sponsored Small & Medium Enterprises Line of Credit.

This is an extension of the USD 100 million Credit Line completed in the year 2017. On the success of the USD 100 million credit line GOSL is negotiating with the ADB to further assist women-led business ventures and start-ups for entrepreneurs who have not tapped the formal banking sector.

ISLAMIC BANKING

The Bank ventured into Islamic Banking with the launch of 'Shareek' in August 2014. The Unit has seen impressive growth in recent years, underpinned by its competitive returns and highly experienced staff supervised by eminent Shariah scholars.

STRATEGIC FOCUS

The Bank offers a range of Shariah-compliant products including Ijarah, Murabahah, Diminishing Musharakah, Mudarabah and Wakala for the retail and business sectors. The Unit benefits from the Bank's extensive regional footprint and presence across all segments, allowing it to capitalize on emerging opportunities.

NDB Shareek's excellence was recognized at the Islamic Finance Forum of South Asia 2017 where it won the Bronze Award for the Islamic Banking Window/Unit of the year 2016 and the Silver Award for the Turnaround Entity of 2016. It is noteworthy that the Bank emerged victorious competing with established banks from Maldives, India, Pakistan, Bangladesh and Sri Lanka including leading Banks such as Meezan Bank – Pakistan and Standard Chartered Bank – Bangladesh. NDB "Shareek" is fully equipped and is led by a team that is both well trained as well as experienced in the area of Islamic banking which is supervised by eminent Sharia scholars.

PERFORMANCE

The Unit achieved a stellar performance during the year, with an asset and profit growth of 111% and 53% respectively. The deposits base grew by 62%. The Unit also maintains a high-quality portfolio, with a gross NPL ratio of below 0.08%. Asset growth was supported by continued engagement with the other business lines as well as customer awareness and marketing campaigns carried out in geographies with high potential for growth.

ISLAMIC FINANCE - HIGHLIGHTS - 2017

LKR million	2017	2016	Y-O-Y change (%)
Total operating income	426	218	95
Pre-tax profit	153	99	54
Profit after tax	100	65	53
Non-performing-loans ratio (%)	0.08	0.03	-
Cost to income ratio (%)	33.2	37.4	-
Assets	5,945	2,819	111
Deposits	3,276	2,028	62

- Achieved strong portfolio growth while maintaining asset quality
- Performed well at the at the Islamic Finance Forum of South Asia 2017

Product map

Lending Products

- Project financing
- Working capital financing
- Trade services
- Leasing
- Cash management

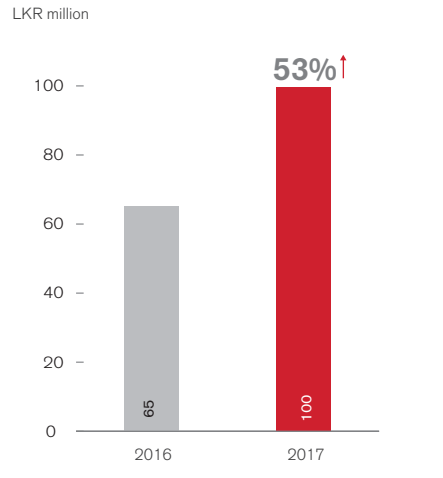
Deposit Products

- Mudarabah savings
- Mudarabah term investments
- Wakala investments

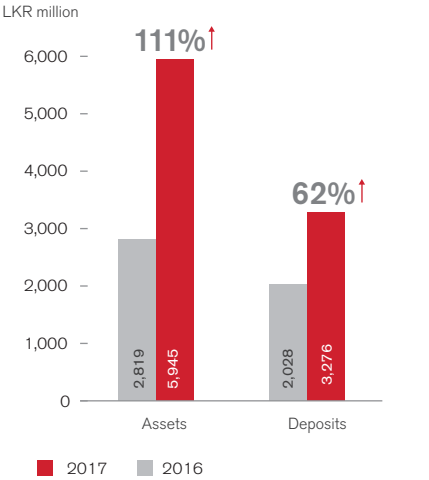
OUTLOOK

As a part of the Bank's growth strategy for 2020, NDB Shareek will continue to pursue synergies arising from NDB's extensive network of SME and middle market enterprises as well as large local corporates and projects. Over the long-term we also hope to set up regional officers, to expand our reach across the island and serve the growing demand by providing need-based solutions and Islamic Banking cells into selected customer centres.

Islamic Banking Profit after Tax



Islamic Banking Assets and Deposits



TREASURY

NDB's Treasury Unit is a market maker in the foreign exchange and debt markets and plays a vital role in managing the Bank's market risk aspects of interest rate and liquidity through the ALM desk. The Unit benefits from the most dynamic and experienced Treasury team and a multi-faceted product portfolio which is positioned to cater to the evolving needs of the current market.

TREASURY - HIGHLIGHTS - 2017

LKR million	2017	2016	Y-O-Y change (%)
Net Interest Income	1,173	881	33
Debt Trading and Other ALM Operations	579	246	135
Foreign Exchange Income	1,064	982	8

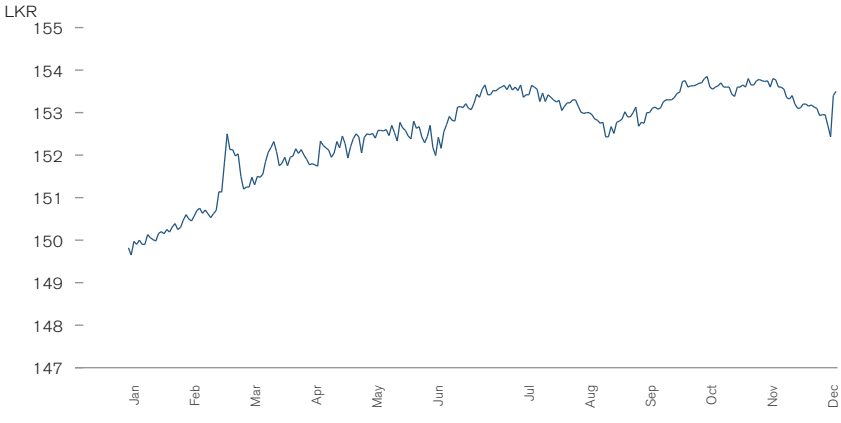
OPERATING ENVIRONMENT IN 2017

The Government demonstrated its commitment to economic reforms and fiscal consolidation in 2017, which were triggered with the granting of the Extended Fund Facility by IMF in 2016. Clear efforts for fiscal consolidation were demonstrated by passing of the new Inland Revenue bill which will be a vital contributor in fulfilling the pledges put forth to IMF during the EFF negotiation. Monetary policy was focused on curtailing credit growth as reflected by the 25 basis point policy rate hike administered in March 2017. Following the rate hike the LKR yield curve declined gradually during the year with moderate volatility while credit growth numbers which was under tight scrutiny by the CBSL displayed the necessary deceleration during the 2nd half of the year. The main external factor determining trends in the global economic landscape was the much anticipated and debated US Dollar Fed fund rate hikes and its repercussions.

Foreign interest in the debt and equity markets was quite pronounced with sizeable inflows witnessed throughout the entire year. The 1.5 billion US Dollar sovereign bonds issued in early May with a yield of 6.20%, FDI of approximately US Dollars 1.50 billion received during 2017 and an outlook revision by S&P in November from 'negative' to 'stable' proved confidence factors in the economic resurgence. A rising import bill mainly due to increasing oil prices in the second half, improved export sector performance and the above mentioned foreign inflows ensured a moderately volatile USD/LKR exchange rate for much of 2017. CBSL net purchases in excess of USD 1.20 billion from the market during 2017 was testimony to the level of foreign inflows seen during the year. In this backdrop, the USD/LKR exchange rate traded between 149.80 and 154 during the year and ended on 153.50 as at end 2017. The decline in the LKR yield curve was witnessed across all tenors and the 1 year Treasury Bill declined from 10.22% in the first week of January to 8.90% in the last week of December while hitting an intra-year high of 11.11% in mid-April. The longer tenure 10 year bonds dropped, from intra-year high of over 13.00% in the first quarter 2017 to 10.20% in December 2017.

Ten Year Bond Yield during 2017

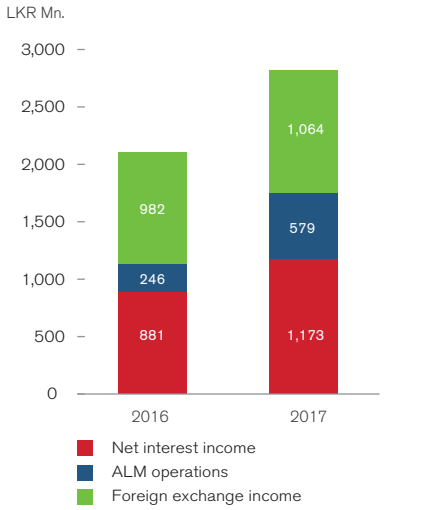
USD LKR Movement during 2017



STRATEGIC FOCUS AND PERFORMANCE

Treasury continued to focus on its key strengths as a market maker in both aspects of foreign exchange and debt markets whilst managing the market risk aspects of interest rate and liquidity through the balance sheet management (ALM) desk. In addition to the core business activities of the Treasury we placed emphasis on mitigating potential risks and balance sheet positioning in anticipation of the growth momentum expected in the next 3 years. A broad spectrum of products on the fronts of FX forwards, FX swaps, FX derivatives, dual currency deposits and FX options were offered to all the wholesale and retail client segments. Money market products and debt products which include repos, reverse repos and debt trading was offered in combinations to cater to the investment sector demand.

Treasury Highlights



FX Desk

Challenging conditions were experienced due to the evolving demands of the different client segments against a growing import/export market. Volatility prevalent in the exchange market provided the opportunities to capitalize on trading gains in exchange which resulted in LKR 704 million. The sales desk continued to focus on increasing the market share and recorded LKR 372 million as sales income in FX.

ALM Desk

Treasury was able to maximize the strategic gap income of the ALM operations by capitalizing on the planned balance sheet positioning engaged upon in the run up to 2017. Dynamic balance sheet management strategies were the key to success and ALM recorded LKR 1,173 million as interest income for 2017. The volatile yield curve provided ample trading opportunities and the debt trading aspect yielded rich dividends contributing LKR 579 as debt trading and other gains.

OUTLOOK

Continued efforts towards fiscal consolidation, improving international relationships and resultant attraction of the local markets as well as stabilizing macro-economic fundamentals are expected to bring in a multitude of opportunities. The Treasury unit is well positioned to capitalize on these opportunities supported by its multi-faceted product portfolio and highly-skilled team. The risk management and strategic gap income aspects will be driven with a dense drive to formulate a medium to long term strategy and thereby provide a sustainable revenue line complimenting the growing avenues of a diversified business model. We will also seek to strengthen our competitive edge in the FX market, which is seeing intensifying competitive pressures.

PERFORMANCE OF GROUP COMPANIES

The Group's capital market cluster comprises fund and fee-based operations in Sri Lanka, Bangladesh and Mauritius related to investment banking, stockbroking, wealth management and private equity management, carried out through six group companies. The cluster's dominant market position is underpinned by the wide range of services offered, strong technical capabilities, excellent customer service and innovative solutions catering to both corporate and individual customers.

Capital market cluster

NDB Capital Holdings Limited >Pg. 72

NDB Investment Bank Limited >Pg. 74

NDB Wealth Management Limited >Pg. 75

NDB Securities (Pvt) Limited >Pg. 76

NDB Capital Limited >Pg. 77

NDB Zephyr Partners Limited >Pg. 78

Property Management

Development Holdings (Pvt) Limited >Pg. 79

NDB Group relocated four of its capital markets cluster companies to an iconic one-stop shop location in Colombo 04 during the year

During the year NDB Capital Holdings Limited, along with its subsidiaries relocated its operations to a new, spacious and state of the art premise in Bauddhaloka Mawatha, Colombo 04. This new location houses NDB Capital Holdings Limited, NDB Investment Bank Limited, NDB Wealth Management Limited & NDB Securities (Pvt) Limited along with NDB's Private Wealth Centre Branch, making it a truly unique one stop shop for banking & capital market solutions.

NDB CAPITAL HOLDINGS LIMITED

The Capital Markets Cluster, led by NDB Capital Holdings Limited (NCAP) is uniquely positioned to be the leading full-service investment bank in the country and is involved in a wide range of activities including fund based and fee-based investment banking (both in Sri Lanka and Bangladesh), asset management, stock broking and private equity management. The wide array of services provided by the investment banking cluster has propelled the NDB Group to be the leading financial conglomerate in the country with a diversified product and service portfolio spanning both commercial banking and investment banking activities.

NCAP and its subsidiaries (collectively referred to as the Capital Markets Cluster or NCAP Group) are strategically positioned to facilitate the economic development and growth of the capital market of Sri Lanka. NCAP, while being the holding company of the Group, also functions as the fund based investment banking arm of the Group. While the main fee based operations of the company are carried out through its subsidiaries, NDB Investment Bank Limited (NDBIB), NDB Wealth Management Limited (NDBWM), NDB Securities (Pvt) Limited (NDBS) and NDB Zephyr Partners Limited (NDBZ), NCAP`s fund based operations include investments in listed equities, private equity, fixed income securities, structured debt, underwriting and acquisition funding amongst other balance sheet development activities.

NDB CAPITAL HOLDINGS LIMITED - HIGHLIGHTS - 2017

LKR million	2017	2016	Y-O-Y change (%)
Operating income	1,045	1,183	(12)
Profit after tax	327	532	(39)
Return on equity (%)	6	9	
Operating margin (%)	34	50	
Net profit margin (%)	31	45	

OPERATING ENVIRONMENT IN 2017

The Capital Markets experienced a year of mixed fortunes with varied expectation on interest rate hikes, uncertainty in the local policy direction and pressure on the exchange rate impacting investor sentiments. The CSE, a key component of the Country's Capital Market was somewhat volatile during the first half of the year, although slightly improving towards the latter part of the year following several key pro-liberalization reforms ; accordingly, the All Share Price Index (ASPI) and S&P SL20 Index increased by a respective 2.25% and 5% by December, compared to 2016. Market capitalization and daily average turnover also increased by 5.6% and 24.2% respectively during the year.

Further, as a result of the higher level of uncertainty brought forward by GOSL 2017 budget relating to withholding tax on debenture interest income, the corporate debt market too slowed down during the year. Only 4 listed debentures were issued to the debenture market in 2017, compared to 17 listed debentures being issued in 2016.

STRATEGIC FOCUS

Innovation is one of our key strengths and in April 2017, NCAP introduced the concept of cornerstone investments to Sri Lanka's IPO market. In this transaction, NCAP committed LKR 200 million to the IPO, providing a positive signal to the market which ultimately resulted in a successful oversubscription of the IPO. The Company, RIL Property PLC subsequently acquired a controlling stake in United Motors with a view of leveraging on a much larger land bank base which has now provided significant upside potential to our investment.

In June 2017, NCAP together with its subsidiaries relocated its office to a modern, state of the art, "Private Wealth Center" in Colombo 4 with the objective of providing a superior service to its high-end corporate and high net worth individual clientele. This relocation is also expected to facilitate the successful integration of our capital market and commercial banking solutions over the short-to-medium term.

The Company adopted a wait-and-see approach in the listed equity market due to the volatile market conditions. However, we continue to analyze investment opportunities in both the listed and unlisted markets and look forward to making new investments in 2018 while deriving value from the existing investments.

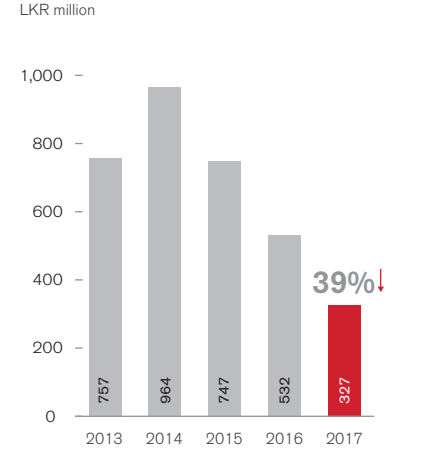
NCAP's subsidiaries continued to maintain their strong positions during the year. The fee-based investment banking arm NDBIB won the prestigious Euromoney Award as Best Investment Bank in Sri Lanka for the 6th consecutive time, an unmatched feat. NDBWM continued to be the largest private sector asset manager in the country despite uncertainties impacting the unit trust industry stemming from budget proposals for FY 2017. NDBS continued to be among the top stockbrokers in the country, although adversely impacted by the general declining trend in the stock market. NDBZ, NCAP`s private equity management arm successfully completed its 3rd investment in 2017 and is on track to make several more investments during 2018. NCAP continues to honour its USD 12 million commitment to the Emerald Fund managed by NDBZ. The achievements of each NCAP subsidiary during 2017 are discussed in detail under each respective subsidiary.

The cluster's social responsibility agenda is aligned to that of the NDB Group; the NDB Capital Scholarship Trust fund strives to support the educational aspirations of deserving undergraduates from the Engineering Faculty of University of Moratuwa, Law and Medical Faculties of University of Colombo and Management Faculty of University of Sri Jayewardenepura. Criteria for selection include financial needs, excellence in academic performance and extracurricular activities. In addition to financial assistance, recipients receive opportunities for leadership and soft skill development, career counselling and internship opportunities to ensure that they are equipped with the skills to succeed in their professional, personal and academic lives. In January 2017, NDB Capital Scholarship trust carried out such a training programme on public speaking and communication skills conducted by Mr. Dananjaya Hettiarachchi, an award winning key note speaker and an Executive Coach and the World Champion of Public Speaking in 2014. Since commencement in 2014, the Trust Fund has supported over 42 students, including 10 in 2017.

PERFORMANCE

The investment banking cluster's performance moderated during the year, reflecting the overall low growth in the economy. Accordingly total operating income and profit for the year declined by a respective 12% and 39% in 2017 to close the year at LKR 1,045 million and LKR 327 million.

NCAP - Consolidated PAT



OUTLOOK

The outlook for the sector remains positive, supported by the anticipated upturn of the capital market following macro-economic stability, better investor sentiments and foreign investments. NCAP will continue to be a responsible investor in the Sri Lanka`s capital market, adding value to its investments and providing strategic leadership to its fee-based businesses. NCAP will focus on maintaining leading positions in the investment banking, asset management, stock broking as well as the private equity management within the country. NCAP Group will focus on being a driving force for policy formulation on capital market development in Sri Lanka.

NDB INVESTMENT BANK LIMITED

NDBIB is the undisputed market leader in both debt and equity related investment banking solutions in Sri Lanka. The wide range of services it offers include raising debt and equity and corporate advisory services to mergers and acquisitions. NDBIB's market position is underpinned by its strong technical capabilities, ability to attract top talent and innovative solutions.

NDB INVESTMENT BANK - HIGHLIGHTS - 2017

	2017	2016	Y-O-Y change (%)
Funds raised (LKR billion)	**55.08**	44.76	23
Profit after tax (LKR million)	**85.78**	131.66	(35)
Operating profit margin (%)	**39**	57	-
Net profit margin (%)	**37**	46	-
Return on equity (%)	**12**	24	-

OPERATING ENVIRONMENT IN 2017

The pro-liberalization initiatives introduced by the Government and the new Inland Revenue Act has given the country much needed clarity on policy and direction. Renewed foreign interest which ignited during the middle part of the year saw the Colombo Stock Exchange recording its highest foreign purchases since 2014. This has provided exciting opportunities for business growth, which are expected to drive the vibrancy of the market in 2018.

STRATEGIC FOCUS

NDBIB had a successful year with the execution of several significant advisory transactions which strengthened the brand's visibility, particularly with regards to the deals carried out in the Maldives. Despite lacklustre market conditions during the first few months of the year, NDBIB maintained its position as the country's leading investment bank raising LKR 55 billion via equity, debentures, securitizations and commercial paper whilst executing numerous M&A transactions. Listed debentures issued during the year witnessed a significant slowdown in comparison to preceding years with uncertainty revolving around tax policy on the same.

Key transactions executed during the year include the following:

- NDBIB acted as the Lead Financial Advisor and Manager to the Initial Public Offering (IPO) of Ooredoo Maldives PLC becoming the first Sri Lankan Investment Bank to undertake an IPO on foreign soil. With the participation of over 8,000 local investors, NDBIB successfully concluded the landmark IPO raising MVR 420 million (USD 27 million) via the offer which was the largest amount to be placed through an IPO in the Maldives.
- NDBIB acted as Joint Financial Advisor and Manager to the IPO of RIL Property PLC. The LKR 960 million IPO was oversubscribed within minutes of opening amidst strong investor demand. The unique cornerstone investor tranche incorporated with the IPO was in line with best practices in regional markets and introduced for the first time on the Colombo Stock Exchange with a view to provide validation on the pricing and manage the success of the IPO.
- NDBIB acted as Financial Advisor to Dialog Axiata in its acquisition of Colombo Trust Finance, to facilitate the expansion of the scope of operations of the group into the sphere of mainstream digital financial services. The acquisition was structured by NDBIB who subsequently managed the mandatory offer by Dialog Axiata to the shareholders of Colombo Trust Finance.
- NDBIB has acted as Financial Advisor to the divestiture of a controlling stake in Unipower (Private) Limited to CIC Holdings PLC (CIC). NDBIB executed the transaction in a three-staged process carefully screening potential partners for a strategic fit with the founder's vision for UPL and its business operations.
- NDBIB successfully raised approximately LKR 14.0 billion in listed debentures, commercial paper and securitizations predominantly in the banking and finance sector which included Siyapatha Finance, Sampath Bank, People's Leasing and Finance, Pradeshiya Sanwardhana Bank and Associated Motor Finance Company along with Viddullanka and Softlogic Holdings.
- NDBIB acted as the Financial Advisor for a group restructuring of Hemas Holdings PLC and evaluated alternative restructuring mechanisms and executed the restructuring subsequent to a valuation of the respective companies belonging to the Travel, Aviation and Hotel Sector Property Investments.
- In addition, NDBIB also advised its discerning clientele on several other transactions which included; the Structuring of an Employee Share Option Scheme for Cargills (Ceylon) PLC, an Independent Opinion for Royal Ceramics Lanka PLC on the Repurchase Offer by Lanka Ceramic PLC and independent valuations of companies operating in sectors such as financial services, education, manufacturing and plantation sector.

PERFORMANCE

In 2017, NDBIB was crowned as "Sri Lanka's Best Investment Bank" for the sixth consecutive year by the prestigious Euromoney Magazine. The Company's total profit after tax during the year was down to LKR 86 million compared to the previous year.

OUTLOOK

Heightened foreign interest, listing of state owned entities and many other opportunities are expected to drive NDBIB's dominance in 2018. Successful completion of an IPO in the Maldives has also given NDBIB traction in the region which will enable them to secure more assignments on foreign soil. The competent and versatile staff at NDBIB remains a key competitive strength and is well geared to embrace the opportunities presented by a promising 2018.

NDB WEALTH MANAGEMENT LIMITED

NDB Wealth Management (NDBWM) is the market leader in Sri Lanka's wealth management sector, with over LKR 97 billion client funds under management and a portfolio of over 7500 clients by end-2017. The Company offers three distinct services; Discretionary Portfolio Management focused on large institutions such as insurance companies, provident funds and corporates, Private Wealth Management for high net worth individuals and a series of risk rated mutual funds to cater to the wealth planning needs of the retail mass affluent market.

NDB WEALTH MANAGEMENT LIMITED - HIGHLIGHTS - 2017

	2017	2016	Y-O-Y change (%)
Assets under management (LKR billion)	97.36	73.61	32
Profit after tax (LKR million)	74.57	111.31	(33)
Return on equity (%)	9	16	-

OPERATING ENVIRONMENT IN 2017

The year 2017 was a challenging one, for wealth managers, given the uncertainty in tax regime continuing from 2016. Moreover, the negative liquidity position in the money market, , pushed up interest rates leading to large redemptions by corporate clients.

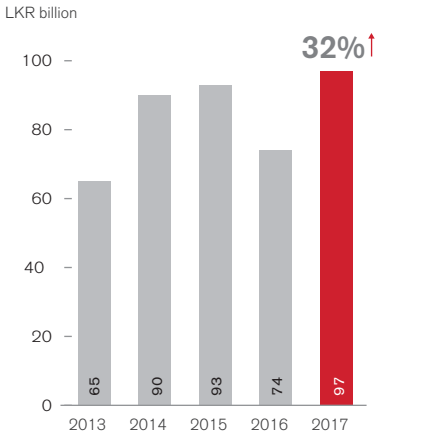
STRATEGIC FOCUS

Our approach towards wealth management is driven by a research driven investment philosophy which has enabled our retail clients to mitigate exposure to market volatility.

Given the market dynamics and demand, NDBWM focused on developing its retail proposition in 2017. To this end the launch of the "Private Wealth Center" at the new Banking and Investment banking hub at Bauddhaloka Mawatha is expected to usher in a new level of service to Private Wealth Management clients.

NDBWM also sponsored the "NDB Wealth Junior Masters Golf Tournament", an yearly event, encouraging kids to play golf. This event is probably the most sought after junior golf tournament in Sri Lanka, given the record number of participants it had both locally and internationally. The NDBWM has taken a further step in promoting junior golf by being the sponsor for the "Junior Golf Ranking System" conducted by the Sri Lanka Golf Union. To coincide with the Junior Golf Tournament, the company launched a series of wealth plans for kids, a savings plan – the "KIDS Saver" and an investment plan – the "KIDS Saver Plus".

NDBWM - Assets under Management



PERFORMANCE

Despite the challenging market conditions in year 2017, NDBWM posted a profit after tax of LKR 74.57 million for the period ended 31st December 2017. However, PAT reflects a decline of 33% in comparison to end December 2016 mainly due to the decrease in total fee-based income from unit trusts. This decline was somewhat countered by a 10% growth in investment income. Total assets under management (AUM) increased by 32% to LKR 97.36 billion owing to the investments made by institutional investors to discretionary portfolios during the year. Meanwhile, the Company's capital position remains healthy with a capital of LKR 820 million compared to the minimum capital requirement of LKR 25 million.

OUTLOOK

Going forward the changes in the tax regime may pose a challenge to the Unit Trust business. That said, we are investing time and effort in developing innovative product solutions to meet the evolving requirements of our customers and further enhancing service standards.

NDB SECURITIES (PVT) LIMITED

NDB Securities (NDBS) marked its 25th year of excellence in stockbroking and continues to partner with its strong institutional and retail client base to access the capital market space in Sri Lanka through its listed equity and debt trading platforms. NDBS's innovative offerings include value-added services including a state-of-the-art trading facility for prompt trade executions, margin trading and other credit facilities through its parent NDB along with award winning research capabilities.

NDB SECURITIES (PVT) LIMITED - HIGHLIGHTS - 2017

	2017	2016	Y-O-Y change (%)
Total Brokerage (LKR million)	95.47	85.04	12
Market share (%)	4.47	4.16	-

OPERATING ENVIRONMENT IN 2017

The Colombo Stock Exchange (CSE) experienced a year of mixed fortunes with expected policy rate hikes, uncertainty in the local policy direction and pressure on the exchange rate impacting investor sentiments. Although overall market turnover improved in 2017, this was driven primarily by strategic transactions and increased foreign activity, while retail activity continued to be subdued.

STRATEGIC FOCUS

In order to further strengthen the position of being a total financial service provider, NDBS along with its sister companies moved to its plush premises in June 2017. This investment in infrastructure, although expected to enhance the Company's customer value proposition over the medium to long-term has led to an increase in overheads in the short-term. The new premises, along with its upgraded office facilities include digital media devices in all client spaces ensuring access to high quality research and real time information on markets.

The Company also expanded its IT proposition by upgrading the trading and back office systems to the latest technology, accommodating regulatory requirements coupled with improved security. Moreover, NDBS presence in digital platforms was strengthened with the launch of NDBS social media channels to share industry research insights and market updates. NDBS risk measures were also further enhanced with NDBS compliance standards stemming from its 3-tier risk model, which is in adherence with NDB Bank, NDB Capital and NDB Securities compliance frameworks.

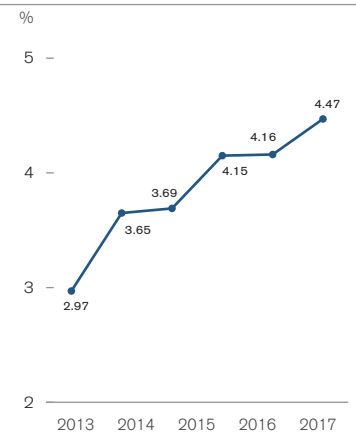
NDBS as a pioneer stockbroker in the country contributed in creating an informed and efficient capital market by taking various initiatives to share knowledge beyond boundaries. The research published was disseminated to the public through various platforms, including print and electronic media. Furthermore, the Company also collaborated with CSE and conducted over 20 seminars and workshops across the country in Sinhala, English and Tamil mediums. Moreover, NDBS Research expanded its horizons by initiating detailed initiation reports on companies listed overseas. NDBS was ranked among the top 3 research teams for the second consecutive year at the CFA Sri Lanka Capital Market Awards 2017.

PERFORMANCE

The Company's strong reputation enabled it to facilitate some of the significant strategic transactions during the year resulting in the Company's turnover to increase by 33.6% which led to a 12.4% increase in brokerage despite the sluggish retail activity witnessed during the year. Resultantly, the Company's market share increased to 4.47% in 2017 from 4.16% in 2016.

However, overall profitability was affected by the market conditions as well as the short-term increase in overhead costs resulting from the new center. During 2017, NDBS was able to maintain the risk-based capital at over 8 times of the required regulatory minimum due to its stringent practices and strong parent backing.

NDBS - Market Share



OUTLOOK

Going forward, the Company's main strategic focus is to increase its foreign clientele. The strengthening of group synergies by relocating Group subsidiaries to create a one-stop-shop is expected to enhance our ability to increase penetration of foreign clients. NDBS is well equipped with its advisory staff along with an efficient and secure IT platform, highest standards of compliance and a quality research arm. The Company is also currently developing strategies to promote Sri Lankan equities amongst foreign investors. We expect the improving economic conditions and policy reforms to increase investor confidence in the capital market over the medium to long-term. Considering the strong industry positioning of NDBS, we expect the growth momentum to continue to novel areas. We also expect to continue increasing cross selling of group products under the NDB brand. Moreover, NDBS benefits from being part of a holistic proposition for financial services across the Group, a key source of competitive edge that is not easily replicated across the industry.

NDB CAPITAL LIMITED (BANGLADESH)

NDB Capital Limited (Bangladesh) has continued to strengthen its market position through innovative solutions and strong relationships in the country. In 2017, the Company was once against crowned the "Best Investment Bank in Bangladesh" by the prestigious Euromoney Awards.

NDB CAPITAL LIMITED (BANGLADESH) - HIGHLIGHTS - 2017

	2017	2016	Y-O-Y change (%)
Revenue (BDT million)	81.1	31.3	159
Profit/(Loss) After Tax	26.9	(36.4)	174

OPERATING ENVIRONMENT IN 2017

Bangladesh economy demonstrated robust growth rates during the year, with GDP growth rate of 7.1%. Large, established corporates are keen to expand through organic and inorganic growth and most financial institutions are also increasing their capital base to have a larger share of the private sector credit growth while meeting Basel II requirements.

STRATEGIC FOCUS

NDB Capital engaged in a range of diverse transactions in 2017, successfully venturing into new areas and industry sectors. Key transactions during the year included the following;

- An M&A transaction for a pharmaceutical company where NDB Capital was mandated to act as Financial Advisor and Arranger (Sell-side). The transaction involved divesting 85% shares of the reputed pharmaceutical company to a strategic investor which is the 2nd largest player in the pharmaceutical sector. This was the first M&A deal in the pharmaceutical industry of Bangladesh.

- Widely considered as an innovative transaction in Bangladesh, NDB Capital ventured into Shariah-based financing by working as a Placement Agent for a Mudaraba Subordinated Bond issued by Social Islami Bank Limited- an Islami Shariah based bank in Bangladesh. It was a 6-year Redeemable Bond of the bank to boost up its Tier II capital and meet the capital requirements stipulated in Basel II.

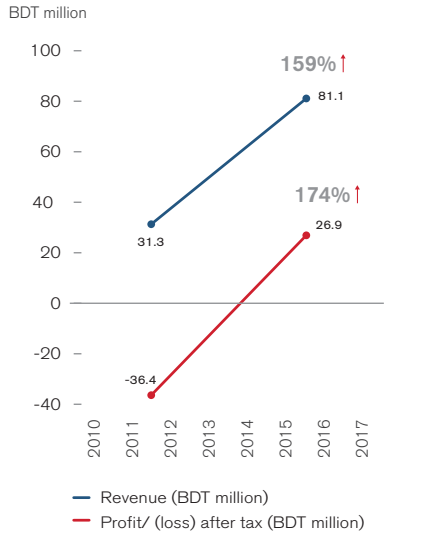
- NDB Capital is also mandated to raise BDT 2.0 billion through a Subordinated Bond for a renowned non-banking financial institution in Bangladesh raising Tier II capital to be compliant with Basel II. While until a year back foreign banks were taking the lead as issue managers of such bonds, recently NDB Capital has emerged as a reputed name in facilitating banks and financial institutions.

Apart from bank/FI bonds, NDB Capital is also in the process of arranging a Zero Coupon Bond worth BDT 1.50 billion for the leading denim manufacturer which boasts the first LEED Platinum Certified factory in Bangladesh to support its capacity expansion. In addition, the Company is also working on an IPO to raise equity under the fixed price method for prefab steel manufacturer, the market leader in design, fabrication and erection of pre-engineered steel buildings in Bangladesh. In addition to raising long term funds, NDB Capital also raised short term funds for the top corporates of the country through issuance of Commercial Papers. Commercial paper issues are usually completed within a short period of time at increased convenience compared to long term fundraising deals and ensure a constant flow of revenue throughout the year.

PERFORMANCE

This year, the Company turned in a commendable performance to exceed its revenue budget. NDB Capital obtained the highest number of mandates in quarter 1 and as a result, completion of these mandates and revenue realization is heavily inclined towards the year-end. The Company also won the prestigious Euromoney award as the Best Investment Bank in Bangladesh in 2017 as a recognition of its innovation and structuring of capital market products and its role in contributing towards the development of the country's capital market.

NDB Capital - Revenue & Profitability



OUTLOOK

The depreciation of the BDT against the USD has compelled importers to seek out higher credit to finance their imports. In addition, the recent increase in LIBOR makes foreign debts unattractive to Bangladeshi borrowers as these debts are usually tagged to LIBOR. On the other hand, increase in public sector investments, particularly in infrastructure and manufacturing, is exerting pressure on the financial sector which is pushing the interest rates upward. The tendency of interest rates to move upward will attract borrowers to raise funds through structured products to lower their cost of funds. The capital market is also gaining momentum and the DSEX Index which reflects the broad market performance, has increased over 30% over the one-year period from December 2016 to December 2017, providing an impetus for companies to seek public listings. Mergers and acquisitions are also expected to increase in the next few years. The Company is well positioned to capture these growth opportunities and already has a pipeline of transactions in place for 2018.

NDB ZEPHYR PARTNERS LIMITED (MAURITIUS)

NDB Zephyr Partners Limited (NDB Zephyr) is the Fund Manager of Emerald Sri Lanka Fund which engages in private equity investments in Sri Lankan-based small and mid-sized companies seeking capital for expansion. NDB Zephyr is jointly owned by NDB Capital Holdings Limited (NCAP) (60%) and Zephyr Management, LP (Zephyr) (40%), a New York-based global emerging markets investment firm.

NDB ZEPHYR PARTNERS LIMITED (MAURITIUS) - HIGHLIGHTS - 2017

USD	2017	2016	Y-O-Y change (%)
Turnover	850,000	850,000	0
Profit before tax	243,044	226,442	7.33
Profit after tax	235,563	220,793	6.69
Return on equity (%)	40	33	

OPERATING ENVIRONMENT IN 2017

Sri Lanka's SME sector can be recognized as the country's engine of growth and the current macro-economic landscape and labour force composition provides an environment that is extremely conducive for the growth of the sector. That said, the sector faces significant barriers for growth such as the lack of adequate documentation and collateral which limit its access to traditional bank finance thereby hindering its growth potential. Sri Lankan SMEs also have limited options for raising equity as small size, lack of management skills and robust governance practices limit their ability to seek funding through an IPO.

STRATEGIC FOCUS

Emerald Sri Lanka Fund is a Sri Lanka dedicated Private Equity Fund and the investors of the Fund include reputed institutions such as IFC, a member of the World Bank Group, DEG- German Development Finance Corporation, FMO (the Netherlands Development Finance Company) along with NCAP.

The Emerald investment team benefits from the expertise of Zephyr Management in the areas of deal evaluation, portfolio management, investment process and exit management. The team supports its portfolio companies through an array of services including strategic planning and management, effective financial management, corporate governance and efficiency improvements in addition to providing equity capital to support growth aspirations. The investment team will also help portfolio companies in accessing international markets and optimizing their capital structures through the wide network they have access to.

NDB Zephyr will draw on the capabilities and experience of the parent companies, NCAP and Zephyr. The Fund's investment team will benefit from NCAP's profound understanding and experience in the Sri Lankan market. NDB Zephyr analyses and carries out sector research for selective companies which have a unique value proposition and a sustainable growth potential, through a scrupulous due diligence process. Exits will be generated via IPOs or through trade sales to domestic or international buyers.

PERFORMANCE

Emerald Fund has three investments with the portfolio Cleanline Linen Management (Pvt) Limited (CLM), JAT Holdings (Pvt) Limited (JAT) and Idea Group Limited (IG). Cleanline Linen Management (Pvt) Limited is a centralized laundry services provider to star class hotels in Sri Lanka. CLM, as a part of its value proposition, adopts sustainable environmental practices by implementing energy and water conservation methods and efficient waste management systems.

JAT Holdings (Pvt) Limited (JAT) is the market leader in water-based wood coatings sector in Sri Lanka. JAT has exclusive rights to manufacture and distribute one of the world's leading wood coating brands, Sayerlack, across Sri Lanka, India, Bangladesh, Maldives, Pakistan and Seychelles. In 2014, JAT established a partnership with Crown Paints U.K. to manufacture and sell premium emulsion brands, Crown and Permoglaze. In addition to lacquers and paints, JAT also distributes many well-known brands of wood treatment solutions, wood fillers, sandpapers and abrasives, paint brushes, office furniture, flooring and ceiling products.

In 2017, Emerald fund invested in Idea Group Limited, a manufacturer and distributor of building products including PVC ceiling, roofing materials and architectural hardware in Sri Lanka.

OUTLOOK

NDB Zephyr is continuously seeking attractive companies to invest in, therefore, discussions are ongoing for more investments in the future. The team is currently having discussions with a range of companies in sectors such as financial services, leisure, healthcare, information technology and FMCG. Furthermore, the team's knowledge acquired through active participation in local and international transactions will benefit the Company in selecting attractive investments which will enhance shareholder returns.

DEVELOPMENT HOLDINGS (PVT) LIMITED

Development Holdings (Pvt) Limited (DHPL) is the property management entity within the Group and is co-owned by the Export Development Board. It owns and maintains the 16-storied building known as the NDB-EDB Tower located at Nawam Mawatha Colombo 02.

STRATEGIC FOCUS

Positioned within the financial hub of Colombo, the NDB-EDB Tower is located in close proximity to several leading financial institutions, the Prime Minister's office, several five star hotels and the upcoming Financial Centre. The Property which comprises cafeteria facilities to accommodate 200 people with a fully-fledged auditorium capable of many amenities and ample parking is a joint management of the Bank and the Sri Lanka Export Development Board (EDB). The building houses the Sri Lanka Export Development Board (EDB), several departments of the Bank including the Nawam Mawatha Branch and many other reputed global and local corporate and multi-lateral agencies such as International Finance Corporation (IFC), Sri Lanka Export Credit Insurance Corporation (SLECIC) and Microsoft Sri Lanka.

PERFORMANCE

DHPL is currently at its full occupancy and reported an operating income of LKR 177 million for the Financial Year 2017. This shows a 9% increase from the previous year and certainly reflects the level of the demand from tenants. The Profit Before Tax recorded a 6% growth over 2016, primarily due to increased revenue from tenants.

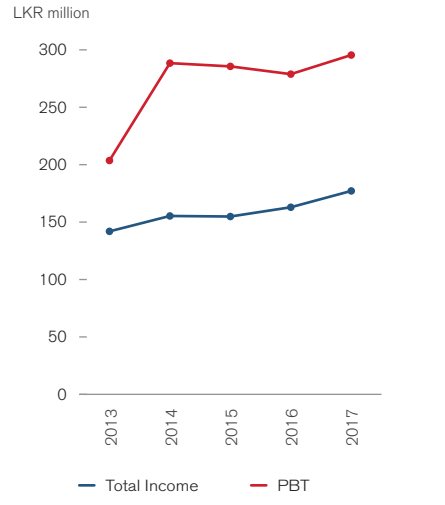
The Company also ensures that continuous maintenance of the building to facilitate a quality work environment and other related facilities to its tenants. However, Net Profit After Tax was affected by the cumulative deferred tax provisions made for the revaluation gains on Investment Property in line with LKAS 12, Income Taxes, and the new Inland Revenue Act being effective from 1 April 2018.

Going forward from year 2018 the Company will require only to provide for the additional deferred tax liability due in each respective accounting period. However, if this one-off accumulated deferred tax provision was excluded, the Profit After Tax would be LKR 280 million, a 5% Y-o-Y growth.

DHPL - HIGHLIGHTS - 2017

LKR million	2017	2016	Y-O-Y change (%)
Total Operating Income	177	162	9
Profit Before Tax	295	278	6
Total Assets	2,704	2,517	7

DHPL Highlights



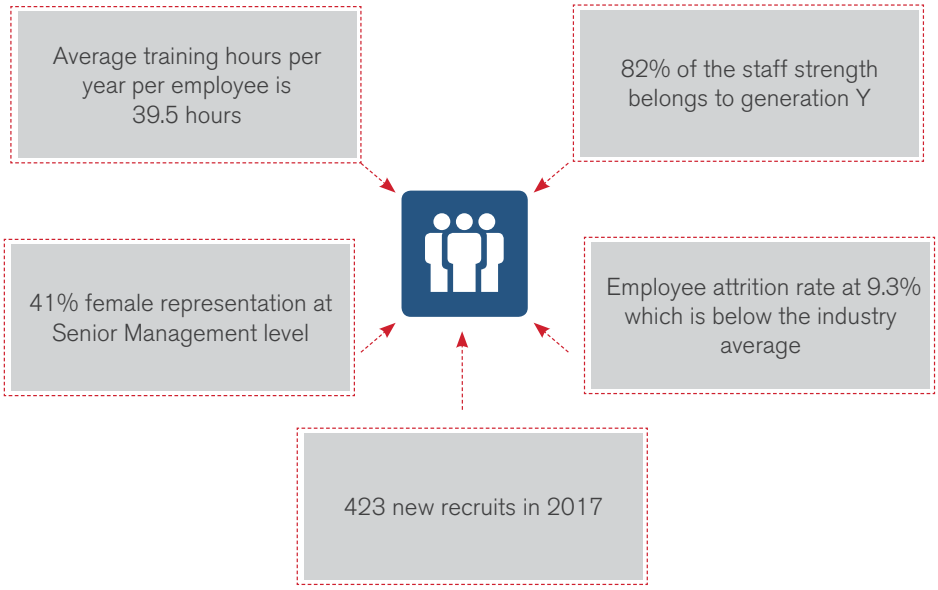
In year 2017, the fair value appreciation of the Investment Property was LKR 135 million. This was a 8% growth over 2016. This reflects the Management's continuous effort in developing the property to cater to its highly reputed tenants.

OUTLOOK

We will continue to invest in upgrading the property and the amenities offered by the Property, thereby strengthening our proposition to customers. The current occupancy levels are a reflection of the Tower's strategic local and we will continue to provide our tenants with superior property management solutions to ensure retention and satisfaction.

Underpinning our long-term success is a team of 2,169 highly skilled employees who drive our strategy and facilitate the customer experience. Their skills, attitudes and work ethic are a vital part of our value creation process and we have empowered our leaders to drive their teams to deliver results. As an employer of choice, the Bank's unique employee value proposition includes competitive remuneration and numerous opportunities for career and skill development in a dynamic and challenging environment. We draw strength from the diversity of our workforce which is characterized by relatively high female representation, a diverse set of skills and varied industry expertise.

Highlights of 2017



Link to Strategy

The Bank's strategy is clearly linked to the individuals' performance in achieving the Bank's strategic goals, and is evaluated via a robust performance management system using balanced scorecard.

Challenges in 2017

- A talent management programme that enables employees to unleash their full potential
- Automation of the HR function.
- Identifying the right training programme for the right person.

Priorities for 2018

- Aligning the HR function to support Banks' T20 strategy.
- Building a training academy with internal resources.
- Establishing internal equity via a job banding exercise.
- Maintaining external equity by monitoring market trends and making suitable pay arrangements

OUR APPROACH TO HUMAN CAPITAL MANAGEMENT

The Bank's HR processes are governed by a comprehensive suite of policies and standards which ensure the equitable treatment of all employees. The policies in place cover aspects such as recruitment, training and development, performance management, compensation and benefits, industrial relations, occupational health and safety and administration matters. Our HR practices extend beyond the legal requirements to embrace industry best practice. Employees are also governed by a Code of Conduct which outlines the professional and ethical conduct that is expected of employees including general conduct, competence, confidentiality, handling of material information and conflicts of interest among others.

The Human Resources Department is responsible for implementing the Board's HR strategy and strives to continuously improve the employee value proposition. Robust governance structures ensure judicious empowerment while an open culture is fostered through ongoing employee engagement mechanisms. The Bank's HR Governance Structure is as follows.

Team Profile

Our team comprises 2,169 employees who are diverse in their gender, age and ethnic representations. As an equal opportunity employer, we value people's diversity and recognize this as a vital asset in driving value creation. The Bank female representation is high, both at senior management level and on an overall basis. We are also diverse in terms of ethnic, religious, social backgrounds and age representation. More than half of our employees are located at the Bank's Head Office while the others operate in our island-wide branch network, categorized into 8 regions.

Permanent employees account for 78% of our cadre while contract employees who account for 18% of the pool are engaged primarily in sales oriented jobs and non-critical functions. We believe that these jobs are suited for younger employees who seek independent decision making and a solid foundation for a career in Banking. Staff turnover levels are relatively high in this category of employees but are in line with the market average. The Bank also provides employment opportunities for interns and trainees. All employees are engaged on a full-time basis.

Total Staff by Employment Contract and Gender

Category	F	M	Grand Total	F %	M %
Contract	141	266	407	7	12
Intern	12	5	17	1	0
Permanent	665	1,014	1,679	30	47
Trainee	22	44	66	1	2
Grand Total	**840**	**1,329**	**2,169**	**39**	**61**

Permanent Employees by Grade and Gender

Category	F	M	Grand Total	F %	M %
Senior Management Staff Total	16	23	39	41	59
Management Staff Total	74	158	232	32	68
Executive Staff Total	107	243	350	31	69
Non-Executive Staff Total	467	580	1,047	45	55
Specialized Sales Force Total	1	10	11	9	91
Grand Total	**665**	**1,014**	**1,679**	**41**	**59**

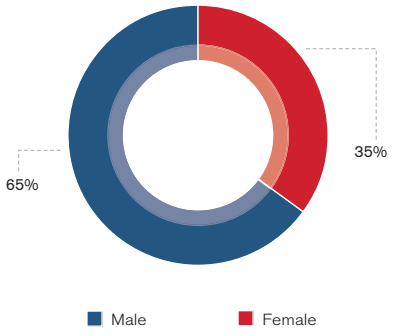
Senior Management by Gender

Designation	F	M	Grand Total	F (%)	M (%)
Chief Executive Officer	-	1	1	-	2
VP	5	6	11	12	15
AVP	12	17	29	29	42
Senior Management Staff Total	17	24	41	41	59

Recruitment

Our reputation as an employer of choice has enabled us to attract and retain top talent, despite the increasing competition for skills in the industry. During the year, we recruited 423 employees (excluding outsourced personnel) to support our ambitious growth aspirations. The Bank's recruitment processes are guided by a recruitment policy that is transparent and leaves no room for any form of discrimination. In order to nurture a strong pipeline of talent, and improve retention, employees are encouraged to apply for internal vacancies as much as possible. During the year we promoted 36 employees in this manner. External recruitments happen primarily at entry level and mainly comprise school leavers, newly qualified professionals and/or university graduates. The Bank has partnered with several universities to attract newly qualified graduates of selected disciplines. The statistics of the new recruits in 2017 are given below;

New Recruits by Gender



New Recruits by Location

Location	No of employees	%
HO - Colombo	338	80
Region 1 - Colombo	10	2
Region 2 - Greater Colombo	15	3
Region 3 - Southern	7	2
Region 4 - North Western	17	4
Region 5 - North Central	9	2
Region 6 - Central	7	2
Region 7 - Uva-Sabaragamuwa	11	3
Region 8 - North East	9	2
Grand Total	423	100

New Recruits by Age Group

Age Group	No of employees	%
18 - 20	51	12
21- 30	321	76
31- 40	36	9
41 - 50	6	1
51 - 60	6	1
61- 70	3	1
>70	0	0
Grand Total	423	100

New Recruits by Staff Category

Category	Total	%
Senior Management Staff	5	1
Management Staff	9	2
Executive Staff	22	5
Non-Executive Staff	177	42
Specialized Sales Force	177	42
Other Staff	33	8
Overall Staff	423	100

Gender Equality

The Bank is an equal opportunity employer and does not practice any form of gender-based discrimination in recruitment, promotions and/or when determining remuneration. The overall female representation rate amounts to 39%, while female employees form over 30% of the senior management group and of the managerial and supervisory categories. The Leadership Team comprises 7 female members. In 2017, 47 employees took maternity leave while 97.8% of them returned to work upon completion of their leave, demonstrating the Bank's commitment towards retaining females through flexible working arrangements that foster better work-life balance.

Average Basic Salary Ratio Designation wise – Female to Male

Designation	Average basic salary ratio, Female to Male	
	F	M
Senior Management Staff	1	1.47
Management Staff	1	0.94
Executive Staff Total	1	0.99
Non Executive Staff	1	1.04
Specialized Sales Force	1	0.96
Other Staff	1	1.42
Total	1	1.15

Average Basic Salary Ratio Region wise – Female to Male

Designation	Average basic salary ratio, Female to Male	
	F	M
HO- Colombo	1	1.16
Region 1 - Colombo	1	1.26
Region 2 - Greater Colombo	1	1.22
Region 3 - Southern	1	1.44
Region 4 - North Western	1	1.23
Region 5 - North Central	1	1.40
Region 6 - Central	1	1.44
Region 7 - Uva Sabaragamuwa	1	1.31
Region 8 - North East	1	1.40
Total	1	1.15

Engagement

We believe in fostering an open culture, where employees are encouraged to put forward their suggestions on improving the organization. Our open culture is reflected by the high level of engagement we maintain with employees, facilitated by numerous formal and informal mechanisms. These include, performance appraisals, multi-level staff meetings, cross-functional team engagement and a year-round calendar of sports and cultural events. All employees are encouraged to engage with senior management through regular Town Hall meetings and multi-level staff meetings. The CEO also communicates with employees through email and shares important news, achievements and strategic changes of the Bank. The Bank regularly conducts Q&A sessions, where employees are given the opportunity to voice any concerns regarding a process, policy or practice in place at the Bank.

Recreational events are organized by the NDB Staff Recreational Club (NDBSRC) and include multi-religion celebrations, staff trips including families, NDB kiddies party and the annual NDB dinner dance. The annual trip, NDB annual dinner dance and the NDB kiddies' party are open to family members of employees. This year, the NDBSRC went an extra mile and organized an overseas trip for the employees. Around 1800 – 2000 staff had the opportunity to select one destination out of 3 countries (Singapore, Malaysia and Thailand) to spend their weekend with their families. The annual dinner dance this year was organized in a grand scale at the Shangri – La hotel, Colombo accommodating a total of 700 employees and their spouses. During the year, the Human Resources Department also organized logistics for the staff to view the Nawam Maha Perahera of Gangaramaya Temple, within the comforts of the office premises.

To harness personal development which results in professional excellence, the Bank inaugurated the NDB Toastmasters club in 2013 and joined the Global Toastmasters fraternity. This has helped many to improve their oral communication while giving them confidence to participate in professional forums. The Bank shows recognition of employees for the special skills and commitment displayed in non – job related areas. Thus, annually a recognition programme is organized on a grand scale by the Human Resources Department to appreciate and reward the commitment shown by the NDBSRC members, NDB Toastmasters, our very own NDB "Skillart" music group and the talented photographers of the Bank. In the

same programme, employees who represented the Bank in the mercantile arena and brought glory to the Bank through their achievements were also recognized.

Performance Management

The Bank strives to nurture a performance-driven culture through holistic and equitable performance management practices. Remuneration structures are unbiased and comprise guaranteed pay and performance-based variable pay. Remuneration is determined following engagement with remuneration consultants and with reference to salary surveys. The annual performance appraisal serves as an effective tool in discussing self-evaluations, areas for improvement and training needs. The CEO directly communicates the principles of compensation, increments and variable pay details as well as aspects of the senior management's performance evaluation criteria to increase transparency regarding remuneration. The details of employees who received regular performance and career developments reviews is given below;

Designation	F	M	Total	F (%)	M (%)
Chief Executive Officer		1	1		
VP	5	6	11		
AVP	12	17	29		
Senior Management staff Total	**17**	**24**	**41**	**41**	**59**
Chief Manager	5	6	11		
Senior Manager	21	27	48		
Manager	19	54	73		
Deputy Manager	29	74	103		
Management Staff Total	**74**	**161**	**235**	**31**	**69**
Associate Manager	35	116	151		
Executive	72	127	199		
Executive Staff Total	**107**	**243**	**350**	**31**	**69**
Junior Executive	119	161	280		
Senior Banking Associate	199	215	414		
Banking Associate	243	299	542		
Regional Lawyers	2		2		
Non Executive Staff Total	**563**	**675**	**1,238**	**45**	**55**
Business Development Officer	1	10	11		
Senior Business Development Associate	2	18	20		
Business Development Associate	10	50	60		
Trainee Business Development Associate	26	93	119		
Specialized Sales Force	**39**	**171**	**210**	**19**	**81**
Senior Management on Contract		1	1		
Manager on Contract		1	1		
Deputy Manager on Contract	1	3	4		
Associate Manager on Contract	1		1		
Regional Lawyers on Contract	4		4		
Trainee Banking Assistant	22	44	66		
Intern	12	5	17		
Driver		1	1		
Other Staff Total	**40**	**55**	**95**	**42**	**58**
Grand Total	**840**	**1,329**	**2,169**	**39**	**61**

Excluding outsourced staff

Compensation and Benefits

In addition to guaranteed pay, the Bank provides an array of attractive monetary and non-monetary benefits to employees which include the following;

- Guaranteed cash and allowances: fuel/ travelling allowance, leave pay/holiday allowance, job specific allowances, accommodation assistance, weekend/ holiday banking allowance
- Variable pay- Performance bonus, sales incentives and overtime to eligible staff
- Reimbursable expenses: Professional and club subscriptions, education assistance for employees completing MBAs
- Other perquisites- Holiday bungalow/ annual trip, medical insurance schemes, parental leave, Toast Masters club, Recreation club, Disability and invalidity coverage
- Subsidised loan benefits- Housing, vehicles, sundry loans, share ownership plans and employee share ownership plan
- Retirement benefits- EPF/ETF/Gratuity

Of the benefits given above, holiday allowances, accommodation assistance, weekday/holiday banking allowance, performance bonus, subscriptions and educational assistance are not provided to contract employees while different schemes/ conditions are applicable for medical insurance, housing and vehicle loans and employee share option plans.

Training and Development

The training and development arm of the Bank has taken steps to enter into agreements with professional bodies in Sri Lanka such as the Institute of Bankers Sri Lanka (IBSL), apex banking body in Sri Lanka, Centre for Banking Studies (CBS) and CIMA Sri Lanka. The Institute of Bankers Sri Lanka facilitated in-house Diploma and Certificate courses to employees enabling them to obtain educational qualifications. E.g. Diploma in Credit Management, Certificate for Branch Banking Operations. The programs offered have been off-the-shelf programs as well as programs that have been customized in order to meet the requirements of the Bank. In no uncertain terms these qualifications have facilitated personal growth and development of the members of the NDB team. E.g Best practices for Bank Tellers, Branch Banking Operations for non-Branch Staff.

Training programs are not restricted to those offered by local institutions. Affiliations with foreign training bodies such as Euromoney, Marcus Evens, CRISIL, India and Singapore Institute of Management have been arrived at. E.g. SME Credit Risk programs, Optimizing and updating Assets & Liability Management. Methods such as evaluations, presentations are built into reinstating learning from foreign training.

Short evening presentations done by eminent speakers, pioneers of various industries including our customers and volunteer staff members are part of the annual training calendar in order to add variety and spice.

NDB E-Learning platform extends the opportunity to employees to learn at their own pace and convenience, irrespective of the geographical restrictions with no interference to their work responsibilities with real time evaluations. This empowers the employees to take control of their own development through training. The platform will have modules published in terms of soft skills to operational and technical related subject matter plus various other materials on newspaper articles, articles published by employees of NDB, local training programme contents on various subjects etc. The Bank is proud to have more than 34 e-learning modules where almost 100% of staff has met their learning needs by using these modules.

In terms of reinforcing learning, the Bank has taken some unique initiatives. All new team members to the Bank on a compulsory basis go through two value inculcating behavioural change programmes done at the Induction Programme and after serving the organization for one year, at the "In-retrospect" training programme. "In-retrospect" programme which is a programme to look back at the one year spent in the Bank is designed around "Living OUR Values". Team building activities of the training programme are also designed around these key elements of the values so as to reinforce them in the employees.

Previously, learning operated in silos where learning professionals had little interaction or input from other areas of the business. Breaking the mindset of people and bringing them out of their rigid environment was a challenging task for NDB during the recent past.

Post revamping the organizational values during the year 2016, NDB partnered with 361 Degrees, a reputed training institute and brought in a new value & activity based training programme "Catch her if you can". Through these sessions staff members are given an opportunity to express their views and provide feedback on what they think the management should do to make NDB a leading brand proposition in Sri Lanka.

In addition to the above, NDB also facilitates experiential learning sessions and outbound training programmes to bring in that mindset of working together as a team.

A comprehensive special Credit Officer workshop was conducted for credit staff reiterating the credit evaluation process in appraising the SME customer portfolio. This programme was moderated by a reputed industry professional.

NDB Bank's training initiatives were recognized by two awards at the awarding ceremonies conducted by the World Human Resources Congress in Colombo & Singapore. The training unit was awarded the "Best Employer Brand Award" and the Best "Training Partnership with External Vendors Awards" at the Sri Lanka Training & Development Awards 2017 and "Best Employer Brand Award" and "Most Innovative Training and Development Award" at the Asia Training and Development Leadership Awards 2017.

Average Training Hours per Year per Employee

Description	Average Training Hours
Total	39.5

Average Training Hours - Gender wise

Description	Average Training Hours
Male	58.6
Female	19.7

Average Training Hours - Designation wise

Description	Average Training Hours
VP	58.5
AVP	53.0
Senior Management staff Total	**111.4**
Chief Manager	40.4
Senior Manager	42.7
Manager	39.4
Management Staff Total	**122.5**
Deputy Manager	32.6
Associate Manager	26.2
Executive	37.5
Executive Staff Total	**96.3**
Junior Executive	32.3
Senior Banking Associate	32.5
Banking Associate	28.3
Non Executive staff	**93.1**
Trainee Banking Assistant	34.1
Trainee Banking Staff Total	**34.1**
Trainee BDA	77.0
BDA	38.1
Senior BDA	14.0
Business Development Officer	8.0
Total Sales Force	**137.1**

Type of Training	No. of Programmes Conducted
Part (a)	
Evening Meeting	4
Leadership	**2**
Operational Training	38
Soft Skill Training	30
Staff Orientation Programme	5
Technical Training	21
Part (b)	
Transition Programme	12

Health and Safety

The Bank recognizes the importance of providing a healthy work environment as well as the need to balance one's demands of work and family. Accordingly, Corporate Fitness Centre facilities continue to be offered to all employees.

In addition to the comprehensive gymnasium, NDB Bank also offers a number of recreational activities to help employees pursue their interests and find ways to unwind; Such as NDB Health Week, Work Life Balance Week, Aerobics, Yoga and Social Dancing sessions etc. These awareness sessions, health screening and check-ups have been truly beneficial to the employees as well as their family members.

Continuous first aid programmes and psychological first aid is provided to staff at all times, to assist them while on duty. First aid drills are conducted by the Human Resources Department to provide a practical experience for the employees on how to conduct basic first aid for common injuries in case of an accident during work. Each department has a first aider allocated and they will be the first responders in case of an emergency. In addition to the drill, a seminar on first aid is also conducted for the first aiders annually.

Seminars on life style management, how to prevent diabetes, blood pressure and heart attacks, parenting and other health related seminars are organized to enable the staff to take a break from the routine work and think about the wellbeing of their families and children.

Employee Relations

The bank endeavours to maintain harmonious relations with all levels of staff. The CEO and top management conduct regular meetings with staff, one prime initiative is “Coffee with CEO”. The Bank does not currently have collective agreements in place. Employees are given approximately two weeks of notice prior to significant operational changes, enabling us to maintain employee satisfaction and motivation while implementing changes.

Grievance Handling

Grievances among employees can be a major reason that could adversely affect employee morale. The Bank ensures to handle the grievances of the employees in a professional manner and resolve the grievance with minimum time.

There is a clearly laid down procedure, through a Grievance Handling Policy, for employees to have their grievances heard and resolved in a fair and methodical manner.

The purpose of the grievance policy of the Bank is to help employees maintain a positive work environment with respect and responsibility towards each other. While the Bank will endeavour to provide such an environment, the employees may raise specific grievances or complaints, be it real or perceived.

Retention

Succeeding in employee retention efforts requires thinking from the employees' point of view. All employees are different and each has unique desires and goals. However, it can be safely presumed that every employee expects to be paid at or above market rates and have good benefits. Employees expect recognition and rewards, both intrinsic and extrinsic for the effort put in to complete the tasks given in an orderly and timely manner. The Bank has identified these requirements and has addressed them accordingly.

Exit interviews are conducted by senior members of the Human Resources Department at the point of resignation, to identify the reason for resigning and also to retain the employee whenever possible. The exit interview is also used to further improve the HR climate of the Bank.

Resignations - Designation wise

	2017				
Category	F	M	Total	F %	M %
Chief Executive Officer	0	0	0	0.00	0.00
Chief Financial Officer	0	1	1	0.00	100.00
COO	0	0	0	0.00	0.00
VP	0	0	0	0.00	0.00
AVP	0	1	1	0.00	100.00
Senior Management Staff					
Chief Manager	0	0	0	0.00	0.00
Senior Manager	1	1	2	50.00	50.00
Manager	1	3	4	25.00	75.00
Deputy Manager	3	4	7	42.86	57.14
Management Staff					
Associate Manager	4	12	16	25.00	75.00
Executive	4	13	17	23.53	76.47
Executive Staff					
Junior Executive	12	25	37	32.43	67.57
Senior Associate	18	24	42	42.86	57.14
Banking Associate	11	17	28	39.29	60.71
Non Executive Staff					
Business Development Officer	1	0	1	100.00	0.00
Specialized Sales Force					
Grand Total	55	101	156	-	-

Resignations - Age wise

Age Group	No of employees	%
Below 30	68	44
30-50	84	54
Over 50	4	2
Grand Total	156	100

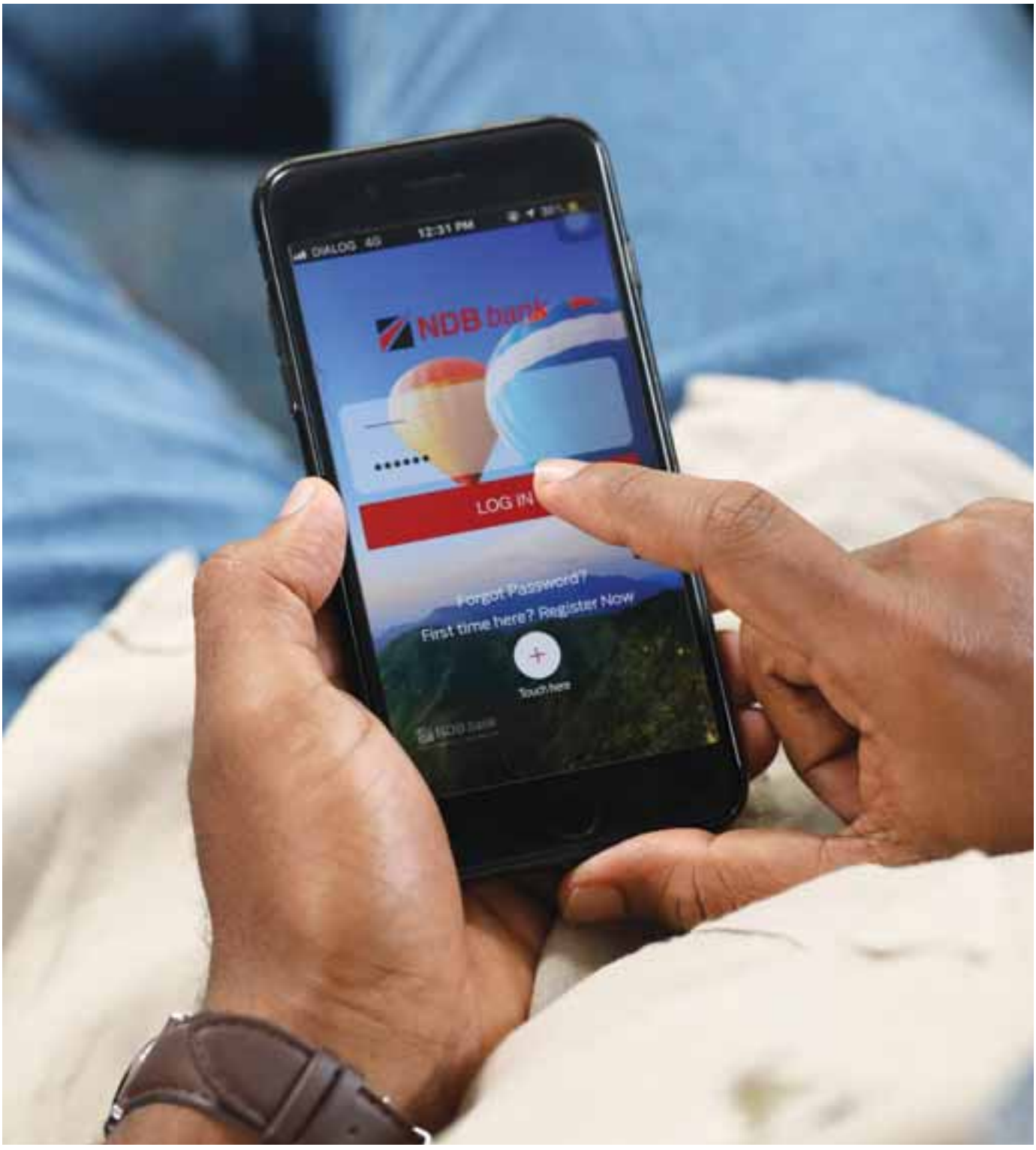
Resignations - Region wise

Region	No of employees	%
HO - Colombo	84	53.85
Colombo Region	13	8.33
Central Region	7	4.49
Uva-Sabaragamuwa Region	1	0.64
North Central	4	2.56
North East	14	8.97
Greater Colombo Region	11	7.05
Southern Region	9	5.77
North Western Region	13	8.33
Grand Total	156	100

CAPITAL INTERDEPENDENCIES AND TRADE-OFFS

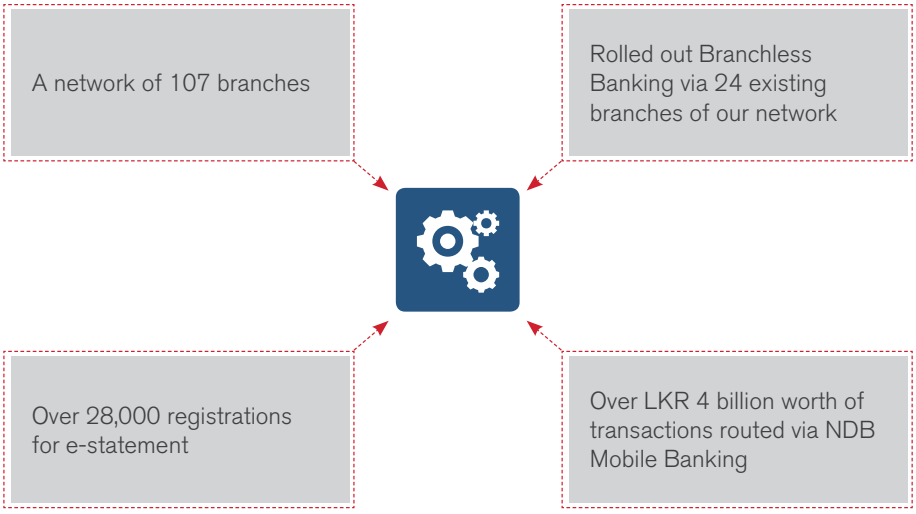
Financial Capital	The expansion in our workforce will impact the financial capital negatively over the short-term; over the longer-term, volume growth, scale efficiencies and better customer service will contribute towards enhancing financial capital.
Human Capital	Enhancing employee skills through continuous training and development initiatives has strengthened the Bank's intellectual capital.
Social & Relationship Capital (Customer)	Improvements in customer servicing skills and employee attitudes can support enhancement of social and relationship capital through nurturing meaningful stakeholder relationships.
Natural Capital	An increase in the head count results in higher usage of natural resources although responsible behaviour and awareness in preserving resources could benefit natural capital.

MANUFACTURED CAPITAL



The Bank's manufactured capital represents its physical infrastructure which includes the traditional brick and mortar customer contact points, vehicles, IT equipment and furniture as well as its digital infrastructure. The efficient use of manufactured capital enables the Bank to be flexible and responsive to customer needs, allowing it to deliver its products and services to customers effectively. Manufactured capital, particularly digital infrastructure plays a vital role in reducing resource use, allowing human resources to be directed towards strategic, creative and value generating activities. Having identified the crucial role played by manufactured capital in driving customer accessibility, satisfaction and process efficiency, NDB places strategic importance on optimizing and leveraging on its physical and digital infrastructure to drive stakeholder value.

Highlights of 2017



Link to Strategy

Aligned with Transformation 2020, the Bank seeks to strengthen its physical and digital reach, underpinned by the strategic pillars of sharpening business focus and enhancing customer experience.

Challenges in 2017

- Sourcing competitive locations to establish branches in chosen locations
- Rapid technological advancement in financial services sector
- Cyber threats and attacks effecting virtual banking

Priorities for 2018

- Focus on further strengthening our digital proposition
- Driving customer engagement through digital platforms
- Branchless banking to drive customer accessibility

BRANCH NETWORK OF THE BANK

Ampara
- Akkaraipattu
- Ampara
- Kalmunai

Anuradhapura
- Anuradhapura
- Kekirawa
- Thambuththegama

Badulla
- Bandarawela
- Badulla
- Mahiyanganaya

Batticaloa
- Batticaloa
- Chenkaladi

Colombo
- Athurugiriya
- Avissawella
- Battaramulla
- Boralesgamuwa
- Borella
- Colombo 07
- Havelock Town
- Head Office Branch
- Homagama
- Kaduwela
- Kohuwala
- Kollupitiya
- Kotahena
- Kottawa
- Maharagama
- Malabe
- Marine Drive
- Moratuwa
- Mount Lavinia
- Narahenpita
- Nugegoda
- Old Moor Street
- Pelawatte
- Pettah
- Piliyandala
- Pitakotte
- Private Wealth Center
- Rajagiriya
- Ratmalana
- Hanwella
- Wellawatte

Galle
- Ambalangoda
- Elpitiya
- Galle
- Uragasmanhandiya

Gampaha
- Gampaha
- Hendala
- Ja-Ela
- Kadawatha
- Kandana
- Katana
- Katunayake
- Kiribathgoda
- Kochchikade
- Minuwangoda
- Negombo
- Nittambuwa
- Wattala
- Yakkala

Hambantota
- Ambalantota
- Hambantota
- Tissamaharama

Jaffna
- Chavakachcheri
- Chunnakam
- Jaffna
- Manipai
- Nelliday
- Thirunelvely

Kalutara
- Aluthgama
- Horana
- Kalutara
- Mathugama
- Panadura

Kandy
- Gampola
- Kandy
- Kandy City Centre
- Nawalapitiya
- Pilimathalawa

Kegalle
- Kegalle
- Warakapola

Kurunegala
- Giriulla
- Kuliyapitiya
- Kurunegala
- Nikaweratiya
- Narammala
- Wariyapola

Matale
- Dambulla
- Matale

Matara
- Akuressa
- Matara

Moneragala
- Moneragala

Nuwara Eliya
- Nuwara-Eliya

Polonnaruwa
- Hingurakgoda
- Kaduruwela

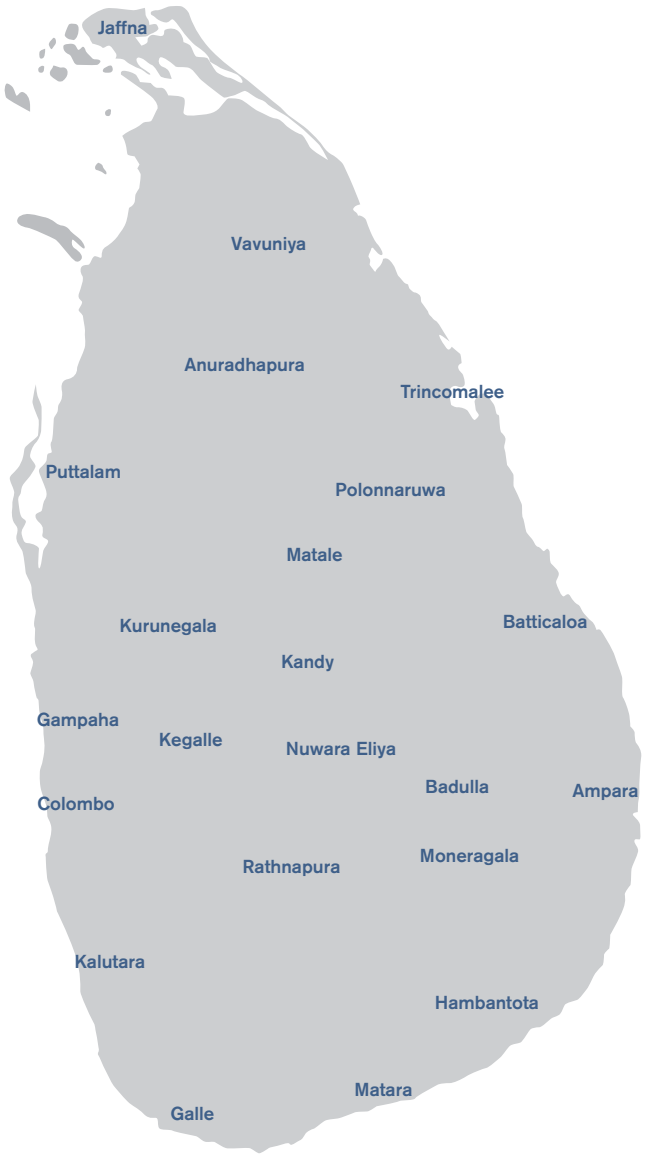
Puttalam
- Chilaw
- Puttalam
- Wennappuwa
- Mahawewa
- Natthandiya

Ratnapura
- Balangoda
- Eheliyagoda
- Embilipitiya
- Kahawatte
- Ratnapura

Trincomalee
- Trincomalee

Vavuniya
- Vavuniya

- Sunday Banking
- Regional Office
- 365 day Banking



3

New branches opened during the year
at Katana, Kottawa and Private Wealth Centre in Bauddhaloka Mawatha Colombo 04

121

ATMs spread across the country

14

Off-site ATMs at convenient locations

PHYSICAL INFRASTRUCTURE

Management Approach

NDB seeks to optimize its branch network with the objectives of enhancing customer accessibility and satisfaction, widening the geographical footprint and increasing its CASA deposit base. The branch reach also plays a vital role in driving the broader social sustainability goal of increasing financial inclusion in economically underserved regions and communities across the island.

Increasing Customer Accessibility

In 2017, NDB added 3 new branches to its network bringing the total count to 107. The new branches were opened in Katana, Kottawa and Colombo 04 in the Western Province. The Colombo 04 branch is NDB's all new iconic Private Wealth Centre branch located in Bauddhaloka Mawatha at the same premises which houses NDB's capital market cluster companies. We also operated 13 fully-fledged branches (12% of our total branch network) with ATMs, in economically disadvantaged areas*, demonstrating our commitment to inclusive banking. These branches are also an effective platform in driving our micro-financing solutions to the grassroots of the economy.

*Northern and Eastern provinces of the country are classified as "economically disadvantaged areas" for the purpose of GRI disclosures.

ATM Network

Our customers are able to perform a variety of transactions conveniently through an island-wide network of 121 ATMs; this represents 107 branch ATMs and 14 off-site ATMs. The offsite ATMs are positioned in strategic locations, helping us to drive our digital proposition in semi-urban and rural communities.

DIGITAL INFRASTRUCTURE

Management Approach

The digital revolution in financial services has presented myriad opportunities to transform the way we do business as well as the way we interact with our customers. Our approach is designed to capitalize on both these aspects as we continue to drive automation, process efficiencies, information security and customer convenience through IT and digital channels. The responsibility for implementing the Bank's digital strategy lies with the Digital Financial Services Unit which was set up in 2017.

IT-driven Internal Processes

We continued to invest in technology to drive more efficient products and secure processes and during the year the following projects were successfully completed;

- The introduction of a new balance confirmation system has drastically reduced the operational timelines and increased the service level of the Bank. The system is capable of providing a detailed Balance Confirmation Letter, which includes all banking products used by the respective customer within a minimal period of time.

- The planned implementation of a Workflow System has opened new avenues for the Bank to re-engineer the existing processes and provide a better customer service within a short span of time. The automation of the Account opening process has reduced a significant level of manual interference and reduced authorization timelines which has enabled the branches to process customer requests with increased productivity.

- We also streamlined operations by implementing perimeter security by introducing tools such as VMware NSX to accelerate digital transformation for evolving IT environments. It delivers micro-segmentation and granular security to facilitate banking systems and enable a more secure data centre.

Digital Financial Services Unit (DFS)

The DFS Unit was set up as a dedicated unit with the objective of strengthening our digital customer proposition to drive customer convenience, accessibility and increased penetration. The digital revolution in financial services has presented numerous opportunities for banks to transform the way they interact with their customers and NDB has taken a proactive and strategic approach towards increasing digital penetration.

The DFS Unit aspires to up lift the Bank in terms of digitization through introducing innovative fintech solutions for superior service delivery.

Mobile Banking

Customer uptake of our Mobile Banking solution has been impressive with the total subscribers increasing by 96% in 2017. During the year 2017, the Bank crossed LKR 4 billion worth of transactions processed through NDB Mobile Banking. We saw increased penetration through a number of highly successful promotional campaigns during the year which encouraged on-boarding as well as conducting transactions.

The solution which was launched in February 2016 has raised the bar for mobile banking applications in Sri Lanka by featuring a range of user-friendly payment modes and 'shake banking'. The solution has already received numerous international awards including the Best Mobile Banking App in Sri Lanka at the Global Banking & Finance Review UK, and the Award for the Best use of Mobile Technology in the Financial Sector at the SLT Zero One Awards for Digital Excellence (please refer pages 20 and 21 for a full list of awards).

Dial Banking

As an extension to the Mobile Banking service, the Bank launched its Dial Banking service, which operates on the USSD platform. This solution is open to customers having basic feature phones through any telco, thereby increasing the potential target customer base.

e-Statements

We continued to encourage migration to e-statements to fulfil the dual objectives of driving customer convenience and reducing paper consumption in line with our environmental objectives. During 2017, more than 28,000 customers were registered for e-statements an increase of 113% compared to the previous year. Several promotions were carried out by the branch and call centre staff to encourage migration to e-statements during the year.

In October 2017, the Call Center reached a milestone of 10,000 customer registrations for e-Statements.

Branchless Banking

The Bank also commenced "branchless banking" using tablets via 24 of our branches, delivering a unique door step service with enhanced convenience to our customers.

Digital Infrastructure in Enhancing the Customer Value Proposition

The effective use of technology and digital infrastructure has enabled us to adopt a multi-channel strategy, serving customers through both conventional brick-and-mortar branches as well as digital solutions such as mobile banking and online platforms. Key achievements in 2017 include,

- Integration to the Lanka Pay Online Payment Platform (LPOPP) which has enabled the Bank's customers to pay custom duties through a common portal, driving increased convenience and accessibility
- The Bank also took steps to connect with several more remittance partners during the year and enable global partners such as Instant Cash Global Money Transfer, WorldRemit Money Transfer and HomeSend.
- Introduced a global payment network that enables businesses and individuals to send and receive funds all around the world through one simple connection. The IT team implemented the remittance transaction though CEFTS (common electronic funds transfer system) which enables the customers to perform online and real-time remittance transactions.

INVESTMENTS IN MANUFACTURED CAPITAL

Value addition to manufactured capital amounted to LKR 588 million in 2017, representing investments in both physical and digital infrastructure. Investments were directed towards branch openings, enhancing IT systems, strengthening ICT security and digital solutions to customers.

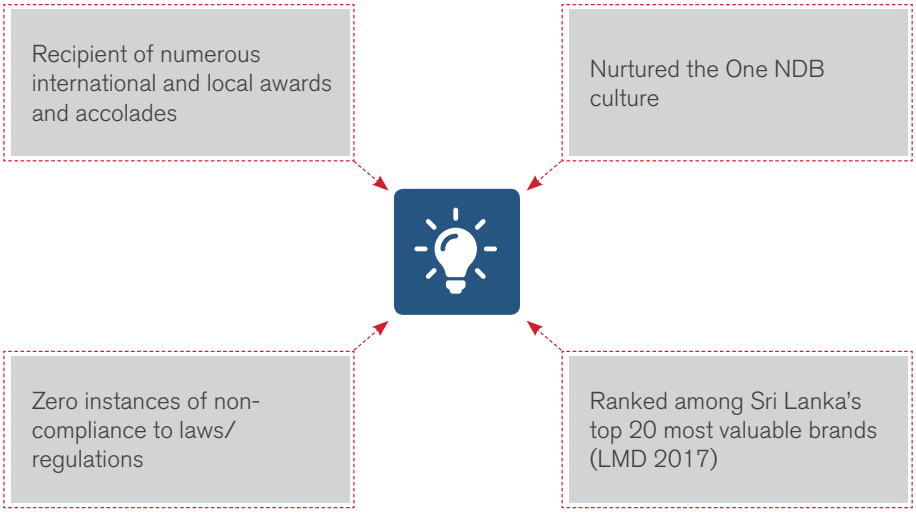
CAPITAL INTERDEPENDENCIES AND TRADE-OFFS

Increased investments in Manufactured Capital and the resultant expansion in customer contact points and stronger digital infrastructure leads to,	
Financial Capital	The initial investments and maintenance associated with manufactured capital will require increased financial resources. However, over the medium to long-term increased process efficiencies and productivity would result in cost savings, larger volumes and wider margins thereby impacting Financial Capital favourably.
Human Capital	Automation in routine operational processes can free up employee time for strategic business development efforts, creating a more dynamic and exciting work environment. Over the long-term however it could lead to reductions in headcount.
Social & Relationship Capital (Customer)	Improvements in physical and digital infrastructure have direct implications towards enhancing customer satisfaction, increasing accessibility and improving customer retention.
Natural Capital	Expansion of the physical network requires the increased use of natural resources, although this is complemented by a range of energy saving initiatives as well as solutions such as e-statements and mobile banking which contribute towards preserving natural capital.

INTELLECTUAL CAPITAL

Our intellectual capital consists of organizational tacit knowledge and systems, processes and protocols which define the way we engage with stakeholders and perform day-to-day operations. The Bank's unique intellectual capital has allowed it to sharpen its competitive edge through differentiating its customer value proposition and service standards. A host of awards, brand ratings and rankings attest to the strength of our intellectual capital.

Highlights of 2017



Link to Strategy

The Bank's intellectual capital plays a vital role in achieving the organizational change required under the Bank's Transformation 2020 strategy. Intellectual capital will continue to be strengthened by our ethics, integrity and the strong governance framework which form core components of our strategy.

Challenges in 2017

- Driving organizational change brought in by the Transformation 2020 strategy

Priorities for 2018

- Focus on nurturing the One NDB Culture in line with the Transformation 2020 strategy
- Increasing the brand equity of the NDB brand
- Further strengthening the Bank's governance and risk management framework

One NDB Culture

In line with the Bank's Transformation 2020 strategy, the Bank invigorated its culture identity as One NDB. This culture identity will further inspire our employees and foster a productive and effective work environment across the Bank. The NDB Team is rich with a diverse mix of experience joining us from various institutions as well as in-grown talent. Our diversity is also strengthened by an equitable mix of male and female employees representing various races and faiths.

The One NDB Culture will unify these diversities towards one goal. It is further defined by four Cs, namely Collaboration, Communication, Critical thinking and Creativity. These are the essential components of our culture identity which will foster a dynamic work culture, strengthening the fabric of trust and commitment to each other.

The cultural shift is expected to strengthen the Bank's intellectual capital over the long-term as it will facilitate the build-up of inimitable organizational knowledge.

CORPORATE VALUES

The Bank's five corporate values represent the philosophy and principles that guide our stakeholder relationships and internal conduct. These values are the essence of the Bank's identity and play a vital role in shaping our culture and employee behaviour. The values are instilled in all our employees during induction programmes after recruitment and reinforced through subsequent training initiatives and engagement mechanisms.

INTEGRITY	We are devoted to uphold honesty, truthfulness and sincerity while remaining fair and ethical at all times – even in the most challenging situations. We will inspire trust by saying what we mean, matching our behaviors to our words and taking responsibility for our actions.
CREATIVITY	We are driven by a desire to reach beyond the norm, challenge the status quo and shape new vistas for our stakeholders. We are creative in our thinking and futuristic in our approach– while working towards the end goal of delivering unsurpassed value to all our stakeholders.
EXCELLENCE	We have the right attitude to diligently deliver what we promise while adding value that goes beyond what is expected. We achieve excellence through innovation, expertise, thoroughness and experience in everything we do.
SINCERITY	We believe in building productive, long-term relationships based on sincerity with our clients and stakeholders. We regard our sincerity towards each other is just as valuable as what we collectively achieve.
ACCOUNTABILITY	We remain responsible, accountable and transparent in everything we do. Our corporate strategy is shaped by the willingness to take ownership for our actions that affect our stakeholders.

Ethics and Integrity

The Bank is committed to maintaining the highest degree of transparency, integrity and ethics when engaging and transacting with its stakeholders. In addition to regulatory, contractual and fiduciary responsibilities, employee behaviour is guided by the Bank's comprehensive Compliance Policy and the Code of Conduct which outlines how employees should interact with internal and external stakeholders. The Bank's responsibilities towards customers are outlined in the Customer Charter while a formal Supply Chain Management Process ensures integrity and transparency in all dealings with our business partners.

During the year, the Bank's Legal/Compliance Department has not been informed of any material non-compliances with laws and regulations relating to corruption, anti-competitive behaviour, anti-trust, monopoly practices or laws and regulations concerning the use of products and services. There were no fines or non-monetary sanctions for non-compliance with laws or regulations.

Systems and Processes

NDB has developed a comprehensive suite of structures, systems and processes which clearly set out responsibilities and outline the principles to guide decision making. Built over many years of activities and operations, these are continuously reviewed and updated to reflect changes in the Bank's internal and external operating landscape. The Bank's governance structures also play a vital role in preserving its reputation and risk profile as is discussed from page 135 to 186 of this Annual Report.

Procurement Policy: The Board-approved procurement policy ensures fairness, transparency and consistency in evaluating suppliers. The policy is implemented by an eight-member procurement committee appointed by the CEO and has demonstrated results in terms of cost efficiencies and quality of goods/service procured. The Bank procures stationary, computer equipment, software and other material from a pool of diverse suppliers comprising small enterprises and corporates. Our suppliers are primarily local in origin.

Outsourcing Policy: The Monetary Board of the Central Bank of Sri Lanka (CBSL), in exercise of the powers conferred by the Banking Act No.30 of 1988 as amended, issues directions to banks, on outsourcing business operations. The Banking Act Direction No.2 of 2012 deals on Outsourcing Business Operations of a Licensed Commercial Bank and a Licensed Specialized Bank and as amended from time to time.

The outsourcing policy of the Bank is formulated in line with the said Direction, to be followed, for outsourcing of any non-core functions that the Bank may find advantageous or necessary to outsource.

The outsourcing policy outlines the key factors of consideration when evaluating parties and striking an optimum balance between quality and cost concerns. The Outsourcing Policy is implemented by a committee of seven members.

Sustainability Policy: NDB's sustainability policy clearly sets out the Bank's strategy in ensuring the responsible creation of shared value while minimizing the adverse impacts on the society and the environment.

Brand

NDB among Sri Lanka's top 20 most valuable brands in 2017

The Bank successfully and passionately pursued its strategic brand building throughout the year 2017 with the support and commitment of the Bank's leadership. The Bank worked towards maintaining its brand as relevant and as discernible as possible in a highly competitive marketplace.

During the year under review, we took proactive efforts to strengthen our brand presence amongst relevant target audiences by advertising in key media such as selected television and radio networks, magazines, national newspapers, strategic outdoor locations, branch premises as well as via online and digital media. The key message across all media reiterated the message 'Our Commitment, Your Success' which reinstated the strength of the NDB Group – a diversified conglomerate with the ability to deliver multiple financial services under one roof. The advertising of numerous products/ brand names conducted throughout the year also contributed to the brand equity of the NDB brand while portraying the brand as a dynamic force within the industry. Having transformed from a development bank into a fully-fledged commercial bank, the NDB brand has evolved to become one of Sri Lanka's most established household names, within a short span.

Awards and Recognition

The Bank and the group companies are a frequent recipient of local and international awards and accolades. In 2017, they together won close to 40 international and national accolades and has been awarded for multiple aspects of its business activities such as technology, operations, investor relations and sustainability/corporate reporting. Please refer pages 20 and 21 for a full list of awards.

SOCIAL & RELATIONSHIP CAPITAL

The Bank has nurtured long-term and meaningful relationships with its customers and communities through inclusive lending and community engagement initiatives. These relationships are at the core of our social and relationship capital, providing us the social license to operate effectively. We seek to create sustainable value to these communities and contribute towards their socio-economic progress.

Highlights of 2017

- Target met on Customer Complaint Resolution Turn-around Time
- Substantial customer engagement through digital channels
- Numerous CSR Initiatives in Education, Health and Environment
- Conducted 12 large scale Financial Literacy Programmes during the year

Link to Strategy

Enhancing the customer experience through customer-centric solutions is a key focus in the Bank's strategy. Continued investments in enhancing the Bank's customer capital is key to achieving this strategic priority.

Challenges in 2017

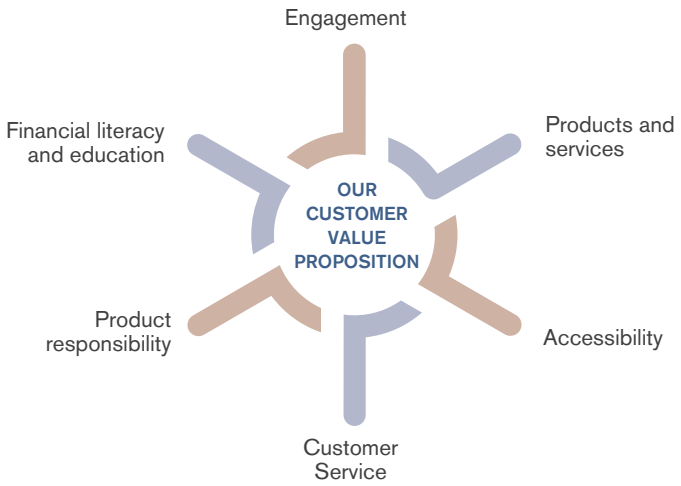
- Intensifying competition between banks render customer retention a challenge
- Changes in customer lifestyles and needs

Priorities for 2018

- Excellence in customer service
- Driving the growth of digital platforms to serve customers better
- Continued focus on driving financial literacy and customer education

Customer Capital

A customer-centric approach has enabled us to effectively engage with and understand the requirements of our clients and provide solutions to cater to these evolving needs. The Bank offers a gamut of lending and investment products to its island-wide network of customers. We offer a holistic value proposition to our customers comprising the following;



Customer Engagement

We maintain a high level of ongoing engagement with our customers which are facilitated through numerous channels including customer relationship officers, contact centres, operator services, telemarketing services and online platforms among others (Refer pages 29 and 30 for a full list of engagement mechanisms). The Bank's Communication Policy provides guidance on how we interact with all our stakeholders, including customers.

Engagement through Social Media: Having identified the increasing connectivity among customers, we have sought to strengthen our online presence. The Bank maintains a very active Facebook page which currently has a follower base close to 450,000. The page provides important information on product promotions, campaigns, branch openings etc. This platform enables effective engagement with our millennial customers. In addition, we maintain a LinkedIn page which currently has a follower base exceeding 8,000. The Bank's Linkedin page shares a host of information such as vacancies available in the Bank and other Corporate Publications and press releases.

The Bank also maintains an active NDB Twitter page which is used to communicate updates on Bank events, products, and insights from customer forums, notices and daily inspirational re-tweetable quotes. The NDB Corporate website is a one stop hub to collect information on Bank products, Branch network, investor details, NDB Careers etc. The Bank has now revamped the site with a whole new look making it easier for navigation. NDB YouTube channel consists of all videos published by NDB Bank . NDB Corporate announcements / media briefings, events and Commercials are updated to the YouTube channel.

Product Portfolio

The Bank offers a range of innovative and affordable solutions targeting the Retail, SME & Micro and corporate customers. A full list of products on offer under our key Business Units of Commercial Banking, Project & Infrastructure Financing, Retail, SME & Micro Financing, Islamic Banking and Treasury Department is found under the discussions of these respective Business Units on pages 53 to 70 under Management Discussion and Analysis.

Accessibility

In enhancing our customer proposition, we continue to drive customer accessibility, through both our branches and digital platforms. This has enabled us to effectively respond to customers' growing need for convenience. The NDB Mobile Banking App has proved extremely popular as was discussed previously. The Bank introduced its user friendly mobile banking facility with the objective of bringing convenience and creating a trusted platform for customers to conduct their daily banking needs. With the NDB Mobile Banking App, customers can bank at their convenience and access their accounts/ cards to carry out various secured transactions from any mobile device running iOS, Android or Windows.

Accessibility is also enhanced via our other virtual & digital channels of online banking, branchless branding and dial banking for non smartphone users.

Our branch network remains as the strong physical point of connectivity fortified by a network of on and offsite ATMs.

Our off-site ATM network stood at a total of 14 ATMs spread among 10 districts across the country as depicted below.

The off-site network provides enhanced convenience to our clientele in those localities as well as all other customers.

Anuradhapura
Courtaulds Clothing Rajanganaya (Pvt) Limited
- *Rajanganaya*

Colombo
EAM Maliban Textiles (Pvt) Limited - Head Office - *Colombo 01*
Garment Service Meegoda (Pvt) Limited
- *Homagama*

Gampaha
Global Star PVT Limited Global Park
- Seeduwa

Hambanthota
Shangri-La's Hambantota Resort & Spa

Kalutara
EAM Maliban Textiles (Pvt) Limited - *Ingiriya*
CKT Apparel (Private) Limited - *Agalawatta*

Kegalle
EAM Maliban Textiles (Pvt) Limited - *Daraniyagala*

Kurunegala
Trendywear (Pvt) Limited - Wellawa

Matale
EAM Maliban Textiles (Pvt) Limited - *Nalanda*

Nuwara Eliya
EAM Maliban Textiles (Pvt) Limited - *Ginigathhena*

Ratnapura
EAM Maliban Textiles (Pvt) Limited - *Opanayaka*
EAM Maliban Textiles (Pvt) Limited - *Balangoda*
EAM Maliban Textiles (Pvt) Limited - Pelmadulla

Customer Service

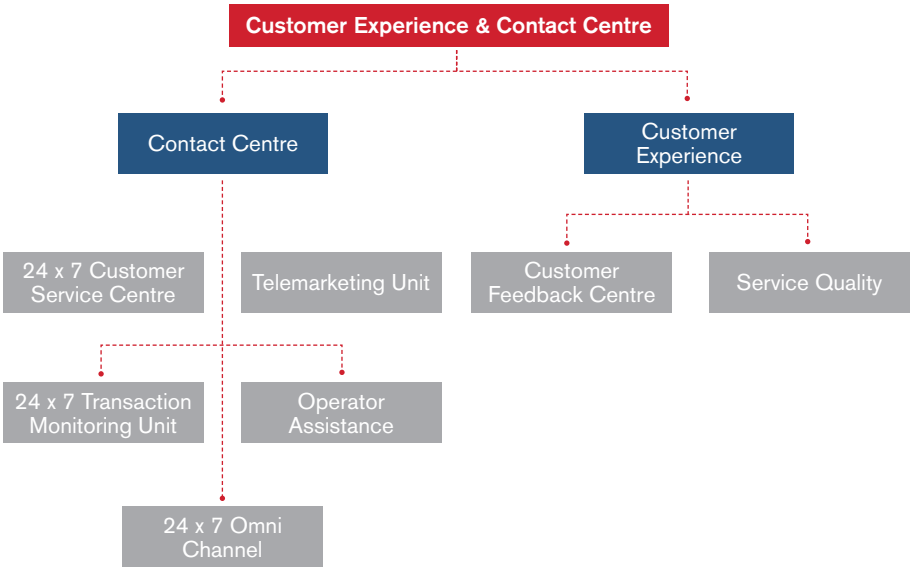
The Bank has placed strategic emphasis on strengthening its customer service levels. Customers are provided numerous platforms to present their grievances including the contact centre, online channels, branches and feedback scores. Targets have been assigned to these centres to ensure that service levels are in line with the customers' expectations. The Bank's documented process for handling customer complaints is available on the Bank's corporate website (www.ndbbank.com). The Customer Experience Team holds responsibility for managing all customer complaints across the Bank and reviews the overall service quality aspects in customer touch points.

The Bank's complaints handling procedure is laid down in line with the Customer Charter set out by the Central Bank of Sri Lanka (CBSL).

Focus areas for customer service in 2017 included,

- Developing staff competencies and capabilities
- Cross functional collaboration
- Combining digital platforms to serve our customers effectively
- Creating value by promoting value added services and cross sales
- Benchmarking service standards across the Banking industry

Contact Centre: The Bank operates a 24 x7 Customer Service Centre powered by a highly skilled team which is capable of handling all types of customer inquiries, card activation, and lost card deactivation. In addition to



routine query handling, the Contact Centre also handles the Online Banking mail box and the contact@ndbbank.com. All queries received via this mail ID are actioned within 3 working days with end to end follow up until the customer query is fully resolved. Further, this will be expanded to Omni channel operations in 2018.

The Telemarketing Unit: focuses on revenue generation through cross selling and up-selling. Customer feedback scores survey is also carried out by the telemarketing team on a monthly basis to measure the customer satisfaction level across the branch network.

The Transaction Monitoring Unit: is responsible for safeguarding card holders and account holders against any theft arising from electronic card misuse, account takeover etc. The team monitors transactions 24 x 7 to identify any unusual transaction patterns in order to ensure card holders are safe.

The Operator Services: handles direct calls received from the existing and potential customers between 8.30pm – 5pm. Customer calls seeking specific banking services are then routed to the respective personnel for further assistance.

Customer Experience

The team manages the Customer Feedback Centre and the Service Quality function of the Bank whilst actively sharing and giving recommendations to review Bank's internal processes to enhance Customer Experience and to maintain consistent service standards across all key customer touch points. Key aspects of this function include,

Service Quality Management: reviewing the overall service quality aspects of key customer touch points and carrying out various quality surveys to measure the customer satisfaction levels. Feedback obtained from this engagement is a key input in product development and process improvements among others.

Customer Feedback Centre: Planning, executing and managing customer references and customer advocacy initiatives. This includes setting the strategic direction for the function as well as serving as the internal champion for customer advocacy within the Bank.

Indicator	Target (MOM)	Achievement 2017
	Contact Centre	
Service levels of the incoming calls	To maintain 80% or more	Achieved
Abandon rate	To maintain below 5%	Achieved
Call quality effectiveness	To maintain at 80%	Achieved
Average call handling time	=< 3mins per call	Achieved
Online channels		
Online banking (NBO)and contact@ ndb mail box response time (TAT)	80% or more to be responded within 3 working days	Achieved
	Bank	
Complaints handling turnaround times (TAT)	70% or more to be resolved within 10 working days	Achieved
	Branch Network	
Complaints handling turnaround times (TAT)	70% or more to be resolved within 10 working days	Achieved
Customer feedback scores	To maintain at 8 or above	Achieved
Mystery customer survey (visit and caller)	To maintain 80% or above	Achieved
Service Quality related customer complaints	Less than 10% of overall customer complaints	Achieved

Product Responsibility

The Customer Charter has been formulated in line with the requirements of the Central Bank of Sri Lanka and ensures that the terms and conditions applicable to our products and services are clearly understood by all customers. Relevant information such as interest rates on deposits, loans and exchange rates are clearly communicated to customers. During the year under review, there were no instances of non-compliance to any relevant product and service labelling or marketing communication guidelines.

Customer Privacy

We understand the obligation we have towards preserving the financial and personal information of our customers. This is facilitated by our robust information security frameworks and IT systems. The Bank has also embedded "customer privacy" as an integral part of the employee code of conduct to ensure the value of protecting customers privacy is reinforced at all levels. There were no substantiated complaints pertaining to the breach of customer privacy or loss of customer data in 2017.

Financial Literacy and Customer Education

Our customer value proposition is a holistic one, extending beyond mere financial support to encompass customer education. NDB's ongoing financial literacy programmes are aimed towards strengthening financial discipline among our clients by providing guidance on investments, savings as well as basic training on accounting, book keeping and budgeting. Since our micro finance clientele primarily represent individuals who are new comers to the banking industry these programmes have been vital in improving financial management and discipline.

In 2017, we organized 12 large scale financial literacy programmes with the participation of over 1,200 individuals. We also conduct special programmes targeted at fostering female empowerment and during the year we conducted 4 such programmes in Colombo, Balangoda, Matale and Minuwangoda with a total participant base exceeding 400.

Industry Networks

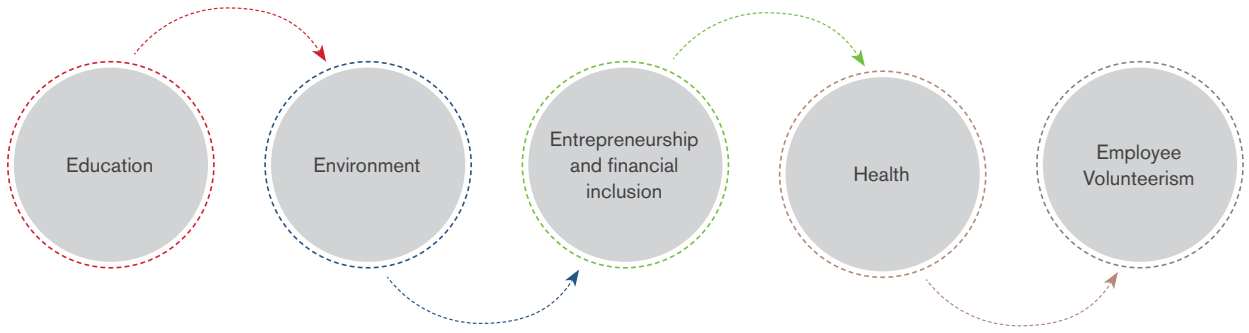
As one of the country's leading financial institutions with an extensive reach, we are cognizant of the role we can play in strengthening the entire industry through continuous engagement with peers and networks. Our employees are actively involved in numerous such forums and contribute their ideas and perceptions to the betterment of the overall industry.

External Entity/Forum	Bank's Level of Involvement
Sri Lanka Forex Association	Bank's Treasury staff members are active members of this Association.
Sri Lanka – China Business Council	The Bank has been a member of this Business Council since 2014 and has built close ties with the Chinese business community during this period, through the Bank's Cash Management Unit.
Trade Finance Association of Bankers	All staff of the Bank's Trade Finance team are members of this Association, whose primary objectives are to share expert knowledge and engage with authorities on matters of concern to seek solutions. A senior member of the Trade Finance team of the Bank gives leadership to this important association as the President while another senior member functions as the Editor of the official newsletter of the Association.
Banks' CIO Forum	This is a forum functioning under the Sri Lanka Banks' Association, tasked with uplifting the level of technology governance across the banking sector. This includes assisting the Central Bank of Sri Lanka (CBSL) with policy covering technology, cyber security, payment systems, etc., as well as organizing events with world renowned speakers. The Bank's Vice President – Information Technology is a member of the Forum.
Employers' Federation of Ceylon Limited (EFC)	As a member of the Federation, the Bank receives professional advice on legal and labour related matters when required. The Federation also appears on behalf of the Bank on Labour Department matters.
Institute of Bankers of Sri Lanka (IBSL)	The Bank obtains membership from IBSL for its staff and the Bank widely patronizes all IBSL hosted events/ seminars etc. The Bank also reimburses costs of IBSL conducted banking exams across all levels of staff. To facilitate and deliver customized and off-the-shelf programmes which include Certificate courses, Diploma courses and other subject specific seminars. These are conducted exclusively for the Bank's employees in-house and at IBSL as required.
Payment Cards Industry Association of Sri Lanka (PCIASL)	The Bank is a member of this Professional Industry Association. Its membership consists of all payment card acquiring and issuing financial institutions in the country. It is the industry voice dealing with industry issues with VISA Intl., MasterCard Int, CBSL, Inland Revenue, Exchange Control, SLBA and the Payment and Settlements Department. The PCIASL has quarterly meetings and regularly takes up important issues with the respective institutions on behalf of the industry.
International Information System Security Certification Consortium (ISC)2 of the United States	An officer of the Group Risk Management Department is the immediate past president and a member of the Board of the (ISC)2 Colombo Chapter. (ISC)2 is the largest non-profit membership body of certified information security professionals worldwide, with members in more than 135 countries engaged in developing information security awareness, education and introducing best practices in the country.

External Entity/Forum	Bank's Level of Involvement
Association of Banking Sector Risk Professionals	The Bank's Vice President - Group Risk is the Past President of the Association. Further 3 members of the Risk Management Team continue to be members of the Association. The purpose of the Association is to promote fellowship, cooperation and knowledge, whilst undertaking studies and discussions in the area of Risk Management in Banking. They also collectively review regulatory directives and guidelines and coordinate with the regulators where necessary.
Association of Compliance Officers of Banks Sri Lanka	The Compliance Officer of the Bank is a member of the Association, which is an effective forum to discuss issues commonly faced by Banks when interpreting relevant laws, regulations, procedures and best practices. Practical solutions are discussed within the regulatory framework in order to overcome the challenges faced.
Leasing Council of Bankers of Sri Lanka	The Bank holds membership of the Council and has representation in the executive Committee of the council. The Leasing Council of Bankers of Sri Lanka contributes towards the professional development of bankers engaged in leasing, while focusing on the new innovative initiations for the development in the industry as a whole. Further the benefits of such initiative cascade down to the SMEs and small industries around the country.
The Association of Professional Bankers - Sri Lanka (APB)	The APB functions with the vision of "The power of professionalism in banking in Sri Lanka" with approximately 1,200 members. There are approximately 60 members enrolled inclusive of the entire senior management of the Bank, above the grade of Assistant Vice President.
Inter Bank Association of Internal Auditors of Sri Lanka	The Inter Bank Association of Internal Auditors is a forum that consists of the Chief Internal Auditors of public and private commercial Banks of Sri Lanka, where emerging trends of the Industry and related practices are discussed. The Head of Group Audit serves as a member in the committee.
Institute of Internal Auditors of Sri Lanka. (IIASL)	The Institute of Internal Auditors Sri Lanka (IIASL) Chapter is affiliated to the Global Institute of Internal Auditors Inc. (IIA Inc.) The objective of the IIASL is to uplift the standards of the internal audit profession in Sri Lanka and to train internal audit professionals. Five members of the Group Audit team continue to be members of the IIASL.
Information Systems Audit and Control Association (ISACA)	ISACA is an international professional association focused on IT Governance. Three members of the IS audit team are members of ISACA ;while the title of the CISA Certification Director – Board of Sri Lankan Chapter is currently held by the Manager Internal Audit.
Association of Board/ Company Secretaries of Banks of Sri Lanka	This Association promotes knowledge sharing and professional development of Board/Company Secretaries across the country and the Bank's Company Secretary is the Assistant Secretary of the Association.
American Chamber of Commerce (Amcham)	The Bank continues to be a member of Amcham.
Banks Technical Advisory Committee	The Vice President - Corporate Banking is the Chairman of this Committee, which is a sub-unit of the Sri Lanka Banks' Association. The main focus of this Committee is to promote a forum to discuss various complex technical and operational aspects of banking and to promote and maintain a robust banking environment with the support of the Sri Lanka Banks' Association (SLBA).

Community Engagement

NDB's CSR initiatives are aligned not only with the Bank's values and objectives but also with national development objectives and the expectations and needs of our stakeholders. We therefore adopt a strategic approach towards CSR, which is also linked to our commercial objectives and are embedded in day-to-day business operations. It is with this understanding that the Bank's approach to CSR is categorized under five main pillars of Education, Environment, Entrepreneurship & Financial Inclusion, Health and Employee Volunteerism.



CSR activities carried out under these priorities are formulated in a manner that complements the business operations. Therefore these CSR activities are carried out with the win-win objectives of adding value to the business which could be in the form of attracting clientele, enhancing brand image etc., as well as uplifting the community and bringing about social change. As such, these initiatives have helped nurture long-term and meaningful relationships with the communities we operate in. The Bank also carries out promotional activities wherever appropriate in order to educate the people on the financial solutions that are available to them which would help them make educated decisions.

The Bank works closely with partners who have the expertise and the skill in implementing the CSR projects. Projects are selected as per national need and based on existing statistics from which the severity of the need is ascertained. Monitoring is ongoing where the Bank has linked its branch network to follow up and monitor the projects as well as look into any other needs/concerns that may arise.

NDB has selected the above mentioned strategic areas, under which the CSR Initiatives are carried out with the following objectives:

- As a Bank promoting national economic growth, education is of primary importance as it facilitates increasing economic activity.
- Health is another key area because a healthy society is essential to achieve sustained economic growth and prosperity.
- The Environment is a focus area given the increasingly serious implications of climate change
- Employee volunteerism is to inculcate responsible behaviour to all our employees so that sustainability would be a way of life.
- It is under the Special Projects category that special community development projects and projects for disaster relief etc., are carried out.

It is under this agenda that the Bank initiates its community projects, monitors and continues them. We conduct primary research on community requirements as well as consult with potential partners. Thereafter based on the Bank's criteria, the need and available resources and partners, the projects are selected. NDB selects the right partner who has the required expertise in the area. Furthermore, impact assessments are also carried out as per the requirement.

Results of Strategic CSR Initiatives in 2017

CSR Project	Quantitative Benefits	Qualitative Benefits
English Teacher Training Programme for Secondary School Teachers	Teaching skills of secondary school English language teachers enhanced under this Initiative In 2017, 192 teachers from 192 participating schools covering 7 Provinces were well equipped to teach students who were under their purview. All 192 trained teachers are linked with the British Council, and thus have access to assistance whenever required. The Bank has implemented this project since 2012 and to date over 800 teachers have been trained from over 600 schools in all Provinces of the nation with around 140,000 students benefitting from the project. Sustainable project that will benefit many batches of students	Improving the standard of English language teaching in Sri Lanka Increasing the English language proficiency of English language teachers Sustainable projects that will benefit many batches of students Building the confidence of English language teachers Empowering the teachers in the country to provide a higher quality of education Increasing student talking time in the classroom The content of the course combines teaching skills and language improvement. It covers the following teaching skills:- - Lesson planning - Teaching the 4 skills – reading, writing, listening, speaking - Teaching language – grammar and vocabulary - Classroom management - Using teaching and learning resources - Teacher language – giving instructions, eliciting, giving feedback It also systematically analyses grammatical patterns to both upgrade the teachers' existing language and to provide an understanding for teaching it.

CSR Project	Quantitative Benefits	Qualitative Benefits
Chronic Kidney Disease (CKD) Screening Programmes	Over 15,000 participants were screened in 87 rural villages in Anuradhapura in 2017. Overall approximately 25,000 participants screened since commencement of the project from 145 rural villagers. Over 900 individuals were detected with CKD and was referred to the Renal Unit for treatment in 2017. On a cumulative basis over 2,000 were detected. Further, public awareness was raised in 87 rural villages in Anuradhapura in 2017. On a cumulative basis 145 villages have been covered.	Addressing a national issue and improving health of the people Early detection of kidney disease thereby preventing loss of life Increasing public awareness about the disease, the need to get an early screening test done and general well-being. Educating villagers who are in the disease prone areas.
Environmental Literacy Project	Students of 100 schools island-wide educated in 2017 on environmental aspects including bio-diversity, climate change and conservation. Overall over 59,000 students were educated on environmental aspects in 445 schools, with 45 nature clubs set up.	Educating students on environmental aspects and encouraging them to be 'Green Leaders'. Increasing awareness on the following: The Environment we live in and Sri Lanka's Rich Biodiversity Present Status of the Environment Climate Change Conservation Being a Green Leader
Special Projects	Assistance provided for flood and landslide victims, which included immediate assistance as well as a sustainable initiatives to rebuild livelihoods for those affected.	Assisting in times of national need.
Employee Volunteerism	Employees from 3 Regions volunteered their time and effort to carry out Dengue Awareness campaigns in the Regions, with the involvement of Ministry of Health (MOH), environment circles, schools, environment committees, government offices, religious institutions, Police Department etc.	To educate the public on environment pollution and its connection towards the spread of Dengue. Participants distributed leaflets and created public awareness during the walk. The programmes concluded with a seminar carried out with the support of the MOH on Dengue prevention.

Job Creation

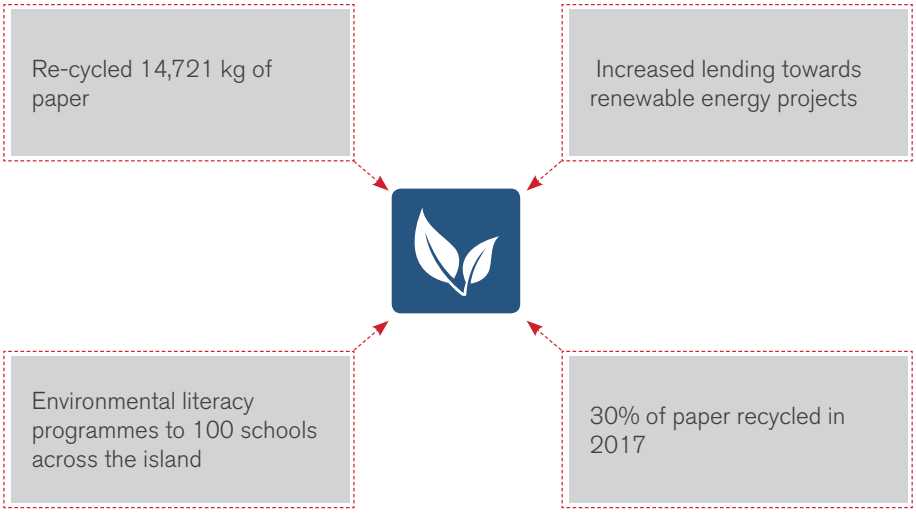
We strive to recruit individual from the local communities as much as possible; while enhancing regional income this has also enabled the Bank to nurture stronger relationships with its customers. Developing specialized regional knowledge will enable the Bank to sharpen its competitive focus by providing tailor-made solutions. The percentage of senior management hired form local communities in our key regions are given below;

Location	No	M (%)	F (%)
Region - 1	4	80	0
Region - 2	1	20	0
Total	5	100	0

NATURAL CAPITAL

The Bank's natural capital consists of the natural resources that are utilized in its value creation process, such as energy, water and materials as well as the healthy functioning of the ecological system. The emissions and waste material we generate from our activities also have an impact on our natural capital. As a financial services provider, the Bank's direct environmental impact is limited; however, we believe we are uniquely positioned to propagate environmental consciousness beyond our organizational boundaries to our customers and communities by engaging in responsible lending practices.

Highlights of 2017



Link to Strategy

- Lending toward sustainable/green financing is a key agenda of our growth strategy and we funded numerous renewable energy projects during the year

Challenges in 2017

- Implications of climate change and the resultant weakening of the agriculture sector
- Increasing business volumes give rise to increased pressure on natural resources

Priorities for 2018

- Environmental education
- Resources minimization
- Paperless banking

MANAGEMENT APPROACH

The Bank's environmental management framework clearly sets out the scope and key elements it focuses on when managing its impacts on the environment. We strive to maintain and enhance our natural capital by managing resources efficiently, lending towards green technologies, reducing dependence on fossil fuels and eliminating waste by reusing or recycling whenever possible.

Environmental Management at NDB					
Responsible banking practices at NDB		Managing our natural inputs		Managing our natural outputs	
Lending	Customer awareness	Energy	Paper	Waste	Carbon footprint

Implications of Climate Change

As an organization with exposure to a wide range of industry sectors, the Bank is inherently vulnerable to climate related risks. In recent years Sri Lanka's agriculture sector has been adversely affected by erratic weather conditions including prolonged droughts, floods and an overall increase in temperate levels. These factors unfavourably impacted the entire agricultural value chain, and banks with significant exposure to the sector are likely to see some repayment pressures. While we are yet to quantify the impact, such issues could have on our operations, we are cognizant of the potential deteriorations in portfolio quality which could stem from the implications of climate change.

Responsible Banking

The Bank strongly believes that it can contribute significantly to environmental sustainability through its lending decisions. In 2017, we placed strategic emphasis on lending towards the renewable energy sector- an industry which will allow us to fulfil our commercial and environmental sustainability objectives. Accordingly, we provided funding for four types of renewable energy projects- hydro, solar, waste to energy and bio mass which has been estimated to eliminate 390,000 tonnes of CO_2 emissions, roughly equal to the emissions of 83,000 passenger vehicles. We have also offered concessionary funding for environmentally sustainable initiatives such as effluent treatment facilities and small scale solar power projects and approved a term loan facility for one of the country's first ever waste to energy projects.

The Bank applies the precautionary principle when disbursing loans and developing new products. Due consideration is also given to environmental compliance and impacts when carrying out lending appraisals in accordance with a comprehensive Environmental and Social Management System (ESMS). For instance, we ensure that potential customers (particularly in the SME, corporate and PFI sectors) have obtained the requisite Central Environmental Authority (CEA) approval and that environmental impacts are measured and mitigated. Accordingly, funding is only extended to businesses and projects that are built and conducted in an environmentally responsible manner.

Energy

The Bank's energy requirements are fulfilled entirely by the national grid and organization-wide initiatives are in place to ensure that energy consumption is tracked and minimized. Energy efficient lighting and cooling solutions have been installed wherever possible and employees are encouraged to partner the Bank's energy management objectives by acting responsibly. The Bank's energy consumption in 2017 is given below;

	2017
Purchased electricity	5,864,560 Kwh
Fuel consumption	23,055 litres of petrol 9,049 litres of diesel
Diesel consumption in generators	30,988 litres

Paper Consumption and Recycling

As a service organization, our key material input is paper and organization-wide efforts are in place to minimize the use of paper and encourage re-use and recycling. Employees are encouraged to use electronic platforms for communication, thereby minimizing the need to print. During the year we used 49,493 kg of paper. We have also partnered with a CEA-approved third party to recycle the waste paper that is generated from our operations. In 2017, the Bank shredded and recycled 14,721 kg of paper, which translated to an estimated saving of 14,721 kg of GHG emissions.

We also encourage customers to pursue paperless banking by adopting digital platforms available to them for transacting with the Bank. This includes migration to e-mail statements, use of electronic payment cards, mobile banking and online banking. In 2017, our mobile banking subscribers increased by 96% while over 28,000 customers migrated to e-statements.

Carbon Footprint

Our efforts at enhancing the energy efficiency of our operations and are reflected in our carbon footprint. The Bank's total carbon footprint amounted to 2624.4 million MT of CO_2 equivalents during the year under review. Purchased electricity is the largest source of GHG emissions for the Bank.

We compute our green house gas emissions (GHG) using the most recent version of the WBCSD/WRI Greenhouse Gas Protocol Accounting and Reporting Standard (2004) and calculation tools (2015). The boundary of the computation is limited to the Bank and its core operations. Reporting under Scope 3 (which is optional) is limited to sources that are material and measurable.

		tCO2e
Scope 1	Combustion in mobile sources	86.21
	Stationary combustion	90.53
Scope 2	Purchased electricity	2,404.47
Scope 3	Employee business travel	43.17
	Total	2,624.38

Environmental Literacy Programmes

Raising environmental awareness to drive responsible behaviour is an important pillar of our CSR agenda and we conducted environmental literacy programmes on an ongoing basis. In 2017, we conducted structured awareness programmes to students of 100 schools on a wide range of environmental topics including bio-diversity, climate change and conservation.

Our recycling efforts in 2017 saved,

- 250 trees
- 25,835 litres of oil
- 58,884 kwh of electricity
- 467,833 litres of water
- 44 cubic meters of landfill

Nature walks for children at Thalawathugoda Biodiversity Study Park, also known as the "Diyasaru Wetland Park"

Building a better working world

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INDEPENDENT ASSURANCE REPORT TO NATIONAL DEVELOPMENT BANK PLC ON THE SUSTAINABILITY REPORTING CRITERIA PRESENTED IN THE INTEGRATED ANNUAL REPORT-2017

Introduction and scope of the engagement

The management of National Development Bank PLC ("the Bank") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2017 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 51 of the Report.
- Limited assurance on other information presented in the Report (General and Specific Disclosures), prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: 'In accordance' - Core guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("CASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI Standards 'In accordance' - Core guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Bank's responsibility for the Report

The management of the Bank is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustaining reporting process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: 'In accordance' - Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 26 January 2018. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant the Bank's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Bank on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Bank's audited financial statements for the year ended 31 December 2017.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: In accordance' - Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and considerations

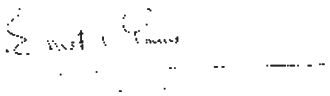
Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 51 of the Report are properly derived from the audited financial statements of the Bank for the year ended 31 December 2017.

- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.



Ernst & Young
Chartered Accountants

20 February 2018
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCMA FCCA

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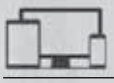
Analysing the way we work

INVESTOR RELATIONS

"Our investor relations are always based on the principles of quality of disclosures, transparency, and fairness."



Scan the QR Code with your smart device to view this section online.

INVESTOR RELATIONS

AN AWARD WINNING RELATIONSHIP

Investors are our strength and the key stakeholder group which has stood by us through all times. We nurture the relationship we maintain with them in such a manner, that they are well informed of their investment with us.

In recognition of our endeavours to carry out meaningful relations with investors as well as other related stakeholder groups, NDB was recognized as the Gold Award Winner for Best Investor Relations at the CFA Sri Lanka Capital Market Awards 2017, organized by the CFA Sri Lanka Society.

Our investor relations are always based on the principles of quality of disclosures, transparency, and fairness. Furthermore, we do not engage in selective disclosures at any instance and we maintain our relations with investors on a consistent basis irrespective of variations in financial performance.

INVESTOR SUPPORT

We conduct a host of initiatives in keeping the investor and the analyst community well informed of our activities. Given below are such initiatives carried out.

- Annual General Meeting
- One-to-one investor meetings
- Financial statements released to the CSE
- Press releases
- Investor presentations
- Investor transcripts
- Email notifications
- Local and foreign investor fora
- Online investor webinars
- Earnings calls
- Road shows
- Investor relations web page within the Bank's corporate website
- Dedicated communication methods to reach us
- Clearly defined Financial results calendars shared in advance for quarterly results releases

1979

Under and by virtue of the National Development Bank of Sri Lank Act No. 2 of 1979 a bank was established with an authorized capital of LKR 2,000 million comprising 20 million ordinary shares of LKR 100.00 each. (which was subsequently subdivided into 200 million ordinary shares of LKR 10.00 each)

1993

61% of the share capital of the National Development Bank of Sri Lanka (NDBSL) was transferred to private ownership through an IPO at LKR 50.00 per share.

1997

NDBSL was privatized further by the early conversion of its convertible debentures, reducing the Governments direct shareholding to 12.2%. A further 2.56% of the issued shares were purchased by NDBSL for an Employees Share Ownership Plan.

2000

A 1:2 bonus issue increased the number of shares in issue to 53,750,000.

2001

As part of its long term plans, NDBSL incorporated a commercial bank under the Companies Act No. 17 of 1982 under the name 'NDB Bank Limited' (NBL) to take over the business and operations of ABN Amro NV Colombo Branch.

2005

Pursuant to the provisions of the National Development Bank of Sri Lanka (Consequential Provisions) Act No. 1 of 2005 a company by the name of National Development Bank Limited (NDBL) was incorporated in terms of the Companies Act No. 17 of 1982 (and was accorded with the Registration No. N (PBS) 1252) for the purposes of taking over the business of NDBSL on 15 June 2005 and the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed except for certain provisions contained therein.

NDBL acquired the business and operations of NBL. In view of this, the shareholders of NBL were issued with shares of NDBL at the ratio of 1 NDBL share for every 5.6 shares of NBL held by them. This resulted in the increase of the issued capital of NDBL to 54,570,257 shares. In order to facilitate this transition, on the date of such acquisition, the Central Bank of Sri Lanka granted a commercial banking license to NDBL whilst withdrawing the specialized banking license that was held by it.

2006

A bonus issue of 1 new share for every 2 shares held increased the issued ordinary share capital of NDBL by 27,285,128 shares.

2007

NDBL was re-registered as National Development Bank PLC ('Bank') in terms of the new Companies Act No. 07 of 2007 and accorded with the Registration No. PQ 27.

2010

245,566 ordinary shares were issued to eligible employees as per the Equity Linked Compensation Plan (ELCP) of the Bank, bringing the total number of issued shares to 82,100,951.

2011

Existing ordinary shares were subdivided in the proportion of one new ordinary share for every ordinary share in issue resulting in a total of 164,201,902 ordinary shares in issue.

2013

491,132 ordinary shares were issued on account of share grants of eligible employees in terms of the ELCP to the trustee of ELCP, bringing the total number of issued ordinary shares to 164,693,034.

2014

400,888 shares were issued as share options to eligible employees as per the ELCP, bringing the total to 165,093,922 ordinary shares in issue.

2015

73,420 shares were issued as share options to eligible employees as per the ELCP, bringing the total to 165,167,342 ordinary shares in issue.

2016

18,164 shares were issued as share options to eligible employees as per the ELCP, bringing the total to 165,185,506 ordinary shares in issue.

2017

6,300,199 shares were issued, in a proportion of one scrip issue for every 26.219093 shares held, to the shareholders of the Bank as at 3rd March 2017 by way of a Scrip Dividend (on the basis of LKR 6.00 per share for the existing 165,185,506 issued shares at the time) bringing the total issued share capital to 171,485,705. The stated capital of the Bank as at 31 December 2017 was LKR 2,208,520,000/- The shares of the Bank continue to be quoted on the Colombo Stock Exchange.

SECURITIES IN ISSUE - NDB

- Ordinary shares
- Debentures
  - Listed rated unsecured subordinated redeemable debentures issued in December 2013
  - Listed rated unsecured subordinated redeemable debentures issued in June 2015

ORDINARY SHARES

1. Features of Ordinary Shares

Security type	Quoted ordinary shares
Listed exchange	Colombo Stock Exchange (CSE) – Main Board
Featured stock indices	All Share Price Index (ASPI) S&P (SL) 20 Index (Adjusted) Bank, Finance & Insurance Index (BFI)
CSE stock symbol	NDB.N0000
ISIN	LK0207N0007
Bloomberg newswire code	NDB SL
Reuters newswire code	NDB.CM

2. Analysis of Equity Market Performance and NDB Share Performance - 2017

2.1 Performance of Global Equity Markets

During the year, global equity market performed well amidst the revival in economic activities across the world. Morgan Stanley Capital International (MSCI) world index, a proxy for global equity markets, recorded a gain of 20.1% during 2017 in comparison to a 5.3% gain reported for the year 2016. Emerging market equities outperformed the U.S. broader market index S&P500, which represented one quarter of the global equity market capitalization as at December 2017, where both indices recorded a YoY gain of 34.0% and 19.4% respectively for the year.

The equity markets performances across the world were influenced mainly by a three-time rate hike by the Federal Reserve, tapering the Quantitative Easing (QE) program by the European Central Bank and the disputes witnessed in the Middle Eastern region. However, tax reforms proposed by President Trump's administration was passed in December 2017, which is expected to boost the performance of the U.S. stock market in 2018. Meanwhile, MSCI frontier index, in which Sri Lanka belongs to, performed exceptionally well with a yearly gain of 27.6% in comparison to a loss of 1.3% in 2016.

2.2 Performance of the Colombo Stock Exchange

The benchmark All Share Price Index (ASPI) recorded a 2.3% gain for the year 2017, compared to a loss of 9.6% in 2016. The tracker of blue chip companies' price movements, S&P SL 20 Index, also ended the year in a growth trajectory displaying a gain of 5.0% as opposed to 3.5% loss reported in year 2016. Along with the improvements in these indices, the market witnessed an improvement in turnover mainly driven by foreign investor participation. This resulted in a daily average turnover of LKR 915 million during the year, which is a 24.0% YoY increase. Year 2017 witnessed the largest transaction in the last five years' worth of LKR 10.9 billion on Singer PLC. Net foreign inflow to the Colombo bourse during 2017 surpassed LKR 17.6 billion in comparison to a bleak LKR 384 million recorded a year ago. Renewed foreigners interest in the CSE during the year 2017 was mainly due to IMF's extended fund facility programme and resulted macro-economic stability coupled with moderately strong local currency (during the year LKR depreciated 2.0% against the USD in comparison to 3.8% depreciation witnessed in year 2016).

Among these improved conditions, CSE raised a cumulative capital of LKR 3.2 billion via four Initial Public Offerings (IPO) during the year. Furthermore, 17 right issues took place raising LKR 45.0 billion compared to LKR 8.7 billion raised in 2016 through 4 right issues. CSE was trading at an attractive valuation amongst emerging markets, where PER and PBV ended at 10.6X and 1.3X respectively in 2017, which is a decline compared to 2016 where PER and PBV ended at 12.4X and 1.4X respectively.

2.3 Performance of the NDB Share

The NDB share price recorded subdued performance compared to the benchmark ASPI & S&P SL20. The share price declined by 9.3% during the year to close at LKR 136.40 by the end of 2017. During 2017, the share reached a high of LKR 152.40 (in May 2017) and a low of LKR 126.90 (in October 2017). A subdued level of activity was seen in NDB share with annual volumes traded during 2017 declining by 30%. During October, a significant level of foreign sales in NDB share was witnessed which resulted in foreigner shareholding of the share reducing to 14.4% at the end of 2017 from 16.5% at the end of 2016.

3 Analysis of Ordinary Shareholders as at 31 December 2017 as per Rule 7.6(x) of the Listing Rules of the CSE.

3.1 Distribution of Shareholders

Shareholding range	As at 31 December 2017				As at 31 December 2016			
	No. of shareholders	%	Number of shares	%	No. of shareholders	%	Number of shares	%
1-1,000	5,324	63.92	1,615,455	0.94	5362	66.64	1,734,576	1.05
1,001-10,000	2,461	29.54	7,503,420	4.38	2219	27.58	7,068,295	4.28
10,001-100,000	451	5.41	12,134,104	7.08	382	4.75	10,588,434	6.41
100,001-1,000,000	70	0.84	19,660,614	11.46	58	0.72	16,400,419	9.93
Over 1,000,000	24	0.29	130,572,112	76.14	25	0.31	129,393,782	78.33
Total	8,330	100.00	171,485,705	100.00	8,046	100.00	165,185,506	100.00

3.2 Resident/ Non-Resident Shareholding

Shareholding	As at 31 December 2017				As at 31 December 2016			
	No. of shareholders	%	Number of shares	%	No. of shareholders	%	Number of shares	%
Resident	8,192	98.34	146,805,272	85.61	7912	98.33	137,992,077	83.54
Non-resident	138	1.66	24,680,433	14.39	134	1.67	27,193,429	16.46
Total	8,330	100.00	171,485,705	100.00	8,046	100.00	165,185,506	100.00

3.3 Individual/ Institutional Shareholding

Shareholding	As at 31 December 2017				As at 31 December 2016			
	No. of shareholders	%	Number of shares	%	No. of shareholders	%	Number of shares	%
Individual	7,855	94.30	47,877,461	27.92	7600	94.46	44,772,715	27.10
Institutional	475	5.70	123,608,244	72.08	446	5.54	120,412,791	72.90
Total	8,330	100.00	171,485,705	100.00	8,046	100.00	165,185,506	100.00

4 20 Largest Registered Shareholders of the Bank as at 31 December 2017 as per Rule No/ 7.6(iii) of the Listing Rules of the Colombo Stock Exchange

	2017			2016		
	Name	No of Shares	%	Name	No of Shares	%
1	Bank of Ceylon No. 1 Account	16,995,471	9.91	Bank of Ceylon No. 1 Account	16,371,076	9.91%
2	Employees Provident Fund	16,620,881	9.69	Employees Provident Fund	16,010,248	9.69%
3	Mr. R. S. Captain	13,975,641	8.15	Mr. R. S. Captain	13,476,049	8.16%
4	Sri Lanka Insurance Corporation Limited-General Fund	9,746,566	5.68	Sri Lanka Insurance Corporation Limited-General Fund	9,388,488	5.68%
5	Dr. S. Yaddehige	8,876,393	5.18	Dr. S. Yaddehige	8,550,285	5.18%
6	Sri Lanka Insurance Corporation Limited-Life Fund	8,103,126	4.73	Sri Lanka Insurance Corporation Limited-Life Fund	7,805,426	4.73%
7	Perpetual Treasuries Limited	7,632,593	4.45	Perpetual Treasuries Limited	7,352,180	4.45%
8	Employees Trust Fund Board	5,932,549	3.46	Employees Trust Fund Board	5,714,594	3.46%
9	Softlogic Life Insurance PLC Account Number 03/Life Shareholders Fund	5,215,877	3.04	Softlogic Life Insurance PLC Account Number 03/Life Shareholders Fund	5,024,252	3.04%
10	SBI VEN Holdings Pte Limited	5,190,700	3.03	SBI VEN Holdings Pte Limited	5,000,000	3.03%
11	BNYMSANV RE-CF Ruffer Investment Funds : CF Ruffer Pacific Fund	5,034,979	2.94	BNYMSANV RE-CF Ruffer Investment Funds : CF Ruffer Pacific Fund	4,850,000	2.94%
12	Hatton National Bank PLC A/C No 1	4,445,523	2.59	Hatton National Bank PLC A/C No 1	4,282,200	2.59%
13	Mr. A. K. Pathirage	3,083,276	1.80	HSBC Intl Nom Limited-BBH-Matthews Emerging Asia Fund	3,374,293	2.04%
14	CIC Holdings PLC	2,556,829	1.49	Mr. A. K. Pathirage	2,970,000	1.80%
15	Perpetual Equities (Private) Limited	2,423,194	1.41	Perpetual Equities (Private) Limited	2,839,526	1.72%
16	Asiri Surgical Hospital PLC	2,415,219	1.41	CIC Holdings PLC	2,462,894	1.49%
17	Softlogic Life Insurance PLC-A/C No 02 (Life Fund)	2,242,119	1.31	Asiri Central Hospitals Limited	2,403,447	1.45%
18	DFCC Bank PLC A/C No 1	2,076,280	1.21	Softlogic Life Insurance PLC-A/C No 02 (Life Fund)	2,159,746	1.31%
19	Akbar Brothers Pvt Limited A/C No 1	1,931,177	1.13	DFCC Bank PLC A/C No 1	2,000,000	1.21%
20	HSBC Intl Nominees Limited-BP2S London-Aberdeen Asia Smaller Companies Investment Trust	1,747,189	1.02	HSBC Intl Nominees Limited-BP2S London-Aberdeen Asia Smaller Companies Investment Trust	1,683,000	1.02%
	Total	126,245,582	73.62	Total	123,717,704	74.90%

5 Public Holding

	As at 31 December 2017	As at 31 December 2016
Float adjusted Market Capitalization in LKR million	20,967	22,906
Percentage of the shares held by the public	89.64%	88.89%
Number of public shareholders	8,298	8,014
Option under which the Bank complies with the minimum Public Holding requirement	1*	1*

* As set out in the Listing Rules of the Colombo Stock Exchange

6 Director's Interest in Shares of the Bank

Name	As at 31 December 2017	As at 31 December 2016
	No. of shares	No. of shares
A W Atukorala	519	500
A K Pathirage	4,145,293*	3,993,000*
T L F Jayasekara	Nil	Nil
Mrs. Kimarli Fernando	Nil	Nil
D S P Wikramanayake	Nil	Nil
Mrs. Indrani Sugathadasa	Nil	Nil
D M R Phillips, PC	Nil	Nil
K D W Ratnayaka	Nil	Nil
R Semasinghe (appointed w.e.f. 26/09/2017)	Nil	N/A
P L D N Seneviratne (appointed w.e.f 01/01/2017)	Nil	N/A
Mrs. D M A Harasgama (resigned w.e.f 30/06/2017)	N/A	Nil
N S Welikala (retired w.e.f 30/04/2017)	N/A	Nil

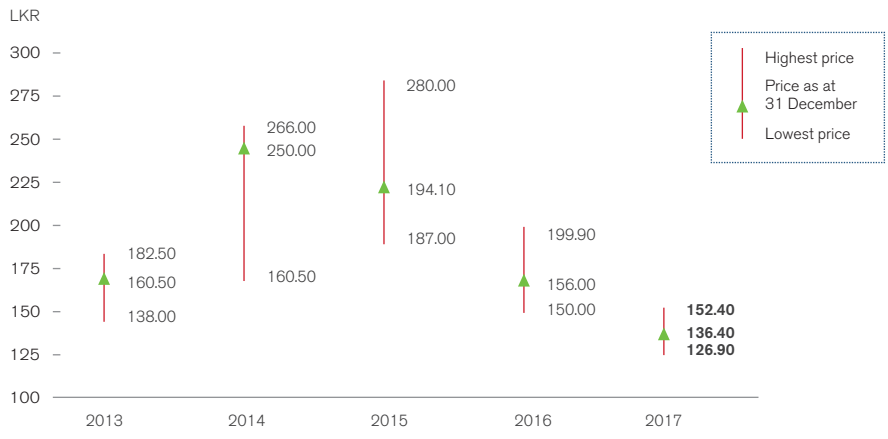
* includes shares held in the slash account

7 Information on Share Trading

7.1 Share Price Movement Trend Over the Past Five Years

Year	2017	2016	2015	2014	2013
Highest price (LKR)	152.4	199.9	280.0	266.0	182.5
Date/s highest price was recorded	15.05.2017	03.05.2016	23.07.2015 and 22.05.2015	03.10.2014	10.05.2013
Lowest price (LKR)	126.9	150.0	187.0	160.5	138.0
Date/s lowest price was recorded	02.10.2017	24.11.2016	28.12.2015	02.01.2014	02.01.2013
Price as at 31 December (LKR)	136.4	156.0	194.0	250.0	160.5
Total number of shares in issue	171,485,705	165,185,506	165,167,342	165,093,922	164,693,034

Share Price Movement Trend Over the Past Five Years



7.1.1 Share Price Movement Over the Year

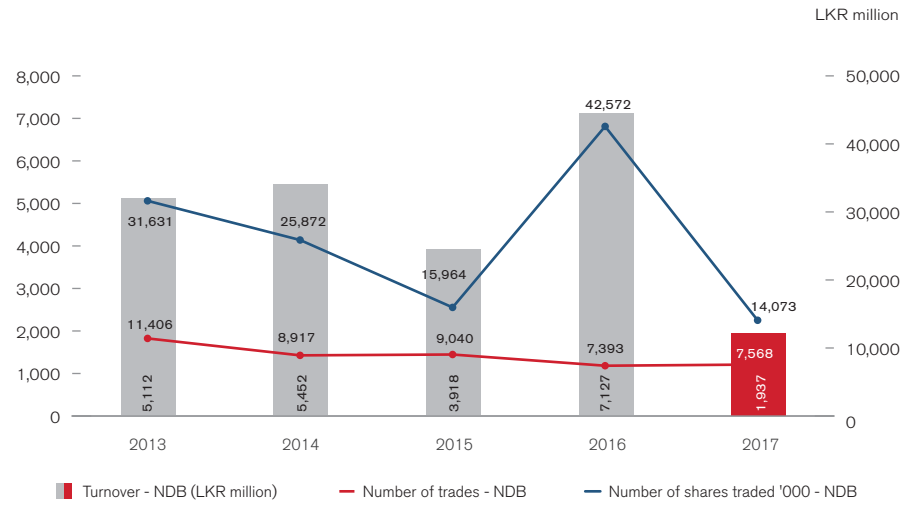
Year	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Highest price (LKR)	152.1	149.3	147.2	144.8	152.4	147.0	150.0	141.5	135.9	142.0	141.0	139.0
Lowest price (LKR)	139.5	136.3	126.9	130.0	141.5	142.5	140.1	131.5	127.0	126.9	133.0	133.0
Price as at month end (LKR)	139.7	141.7	139.6	142.0	146.3	144.0	140.9	132.7	127.5	137.9	137.0	136.4

7.2 Share Trading Details

Year	2017	Q4	Q3	Q2	Q1	2016*	2015	2014	2013
Number of trades - NDB	7,568	2,459	1,610	1,541	1,958	7,393	9,040	8,917	11,406
Percentage of total market trades	0.77%	0.96%	0.60%	0.52%	1.20%	0.70%	0.60%	0.45%	0.80%
Number of shares traded '000 - NDB	14,073	6,661	1,478	2,128	3,805	42,572	15,964	25,872	31,631
Percentage of total shares traded in the market	0.17%	0.40%	0.06%	0.08%	0.22%	0.59%	0.17%	0.15%	0.35%
Turnover - NDB (LKR million)	1,937	898	200	307	533	7,127	3,918	5,452	5,112
Average daily turnover (LKR million)	8	15	3	5	9	30	16	23	21
Percentage of total market turnover	0.88%	1.63%	0.36%	0.47%	1.17%	4.03%	1.55%	1.60%	2.55%

* As per the latest data available for the year end 31 December 2016 from the Colombo Stock Exchange.

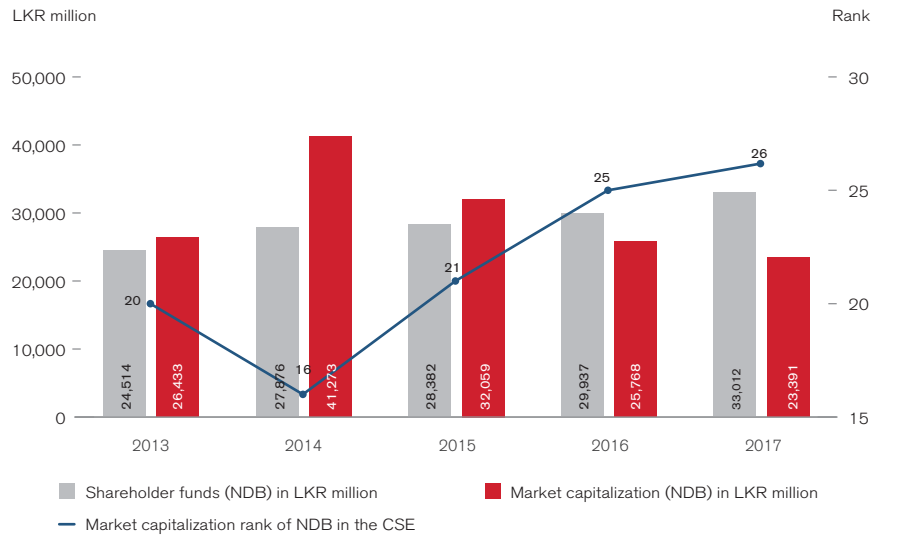
Share Trading Details



7.3 Shareholder Funds and Market Capitalization

Year	2017	2016	2015	2014	2013
Shareholder funds (NDB) in LKR million	33,012	29,937	28,382	27,876	24,514
Percentage increase/ decrease in shareholder funds over the prior year	10%	5%	2%	14%	(1%)
Market capitalization (NDB) in LKR million	23,391	25,769	32,059	41,273	26,433
Percentage increase/ decrease in NDB market capitalization over the prior year	(9%)	(20%)	(22%)	56%	17%
Market capitalization (CSE) in LKR million	2,899,291	2,745,406	2,937,998	3,104,864	2,459,897
Percentage increase/ decrease in CSE market capitalization over the prior year	5.61%	(6.56%)	(5.37%)	26.22%	13.49%
NDB's market capitalization as a percentage of CSE market capitalization	0.81%	0.94%	1.09%	1.33%	1.07%
Market capitalization rank of NDB in the CSE	26	25	21	16	20
Market capitalization (BFI sector within CSE) in LKR million	769,974.55	653,858.18	699,843.60	753,694.52	512,792
NDB's market capitalization as a percentage of BFI sector capitalization	3.04%	3.94%	4.58%	5.48%	5.15%
Beta value of NDB share against ASPI	1.99	1.36	1.37	1.11	0.82
Beta value of NDB share against S&P SL20	1.15	0.92	1.54	1.10	0.63

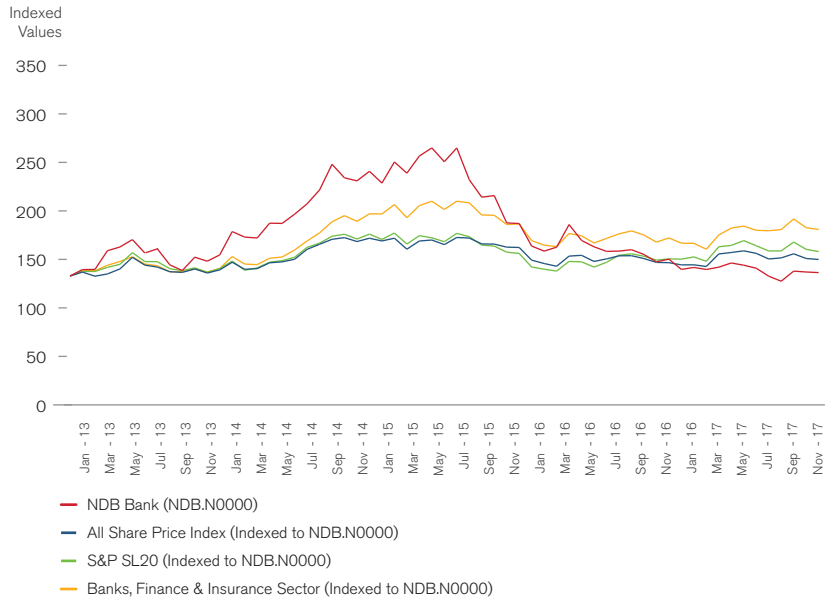
Shareholder Funds and Market Capitalization



The shareholders' funds at a Group level stood at LKR 33,012 million as at end 2017. Shareholders' funds increased by 10% over the prior year. Stated capital increased by LKR 962 million due to scrip dividend paid as a part of the final dividend for the financial year 2016. The scrip dividend resulted in the issuance of 6,300,199 shares. Statutory reserves increased by 7% to LKR 1,336 million, an increment of LKR 90 million. Retained earnings grew by 6% to reach LKR 28,581 million with the transfer of the retained profit portion for 2017. Other reserves recorded a sharp increase of 78% benefiting from mark to mark valuation of available for sale assets and revaluation gains from freehold land and building. In terms of market capitalization, NDB shares' market cap reduced for a third consecutive year, owing to the reduced share price. The share closed trading at LKR 136.40. The resultant market cap as of the year end was LKR 23,391 million.

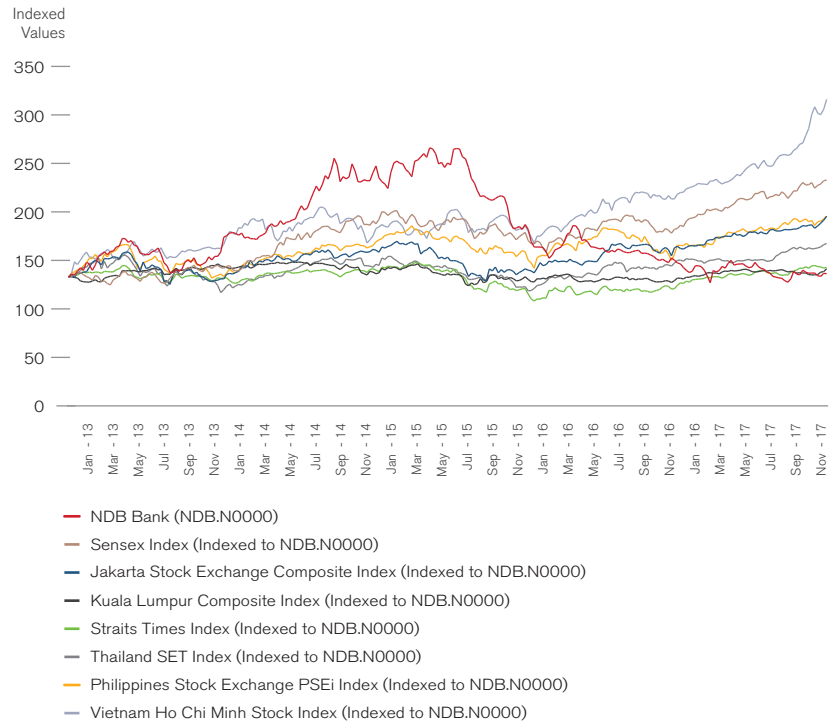
7.4 NDB Share Performance in Comparison to Selected Local Indices

NDB, BFI, S&P ASPI



7.5 NDB Share Performance in Comparison to Key Regional Indices

Against Regional peer indices



8. Key Shareholder Return Indicators – NDB Group

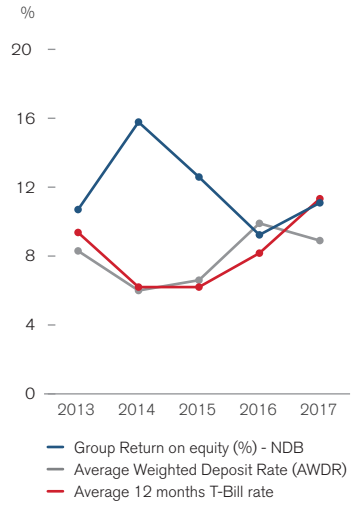
Year	2017	2016	2015	2014	2013
Return on equity (%)	11.09	9.23	12.59	15.78	10.70
Gross dividends paid during the year (LKR million)	1,664	661	1,815	1,978	3,222
Dividend per share (DPS) (LKR)	9.00	8.00	11.00	11.00	10.00
Dividend yield (%)	6.60	5.13	5.67	4.40	6.23
Dividend payout ratio (%) - Bank	35.47	41.68	51.74	53.10	21.33*
Earnings per share (EPS) (LKR)	20.35	15.69	21.51	25.14	16.48
Total shareholder return ratio (TSR) (%)	(6.15)	(17.57)	(17.96)	63.23	30.89
Price earnings ratio (PE ratio) (Times)	6.70	9.94	9.02	9.94	9.74
Net asset value per share (LKR)	192.51	181.23	172.35	169.35	148.85
Price to book value (Times)	0.71	0.86	1.13	1.48	1.08

Due to one-off equity income of LKR 6,031 million for the year 2013.

Return on Equity

The Return on Shareholder Funds (ROE) at the Bank level was 16.27%, up from 13.36% in 2016. The Bank ROE was closer to the industry average as of 2017. Group ROE was 11.09%, an increase from 9.23% in 2016.

ROE



Earnings per Share (EPS)

Earnings per share (EPS) increased in relation to ROE with the EPS at the Bank level being LKR 25.38 (2016: LKR 18.49) and EPS at the Group level being LKR 20.35 (2016: LKR 15.69). The increase in the EPS is noteworthy within the context of an increased share base during 2017 by 6,300,199 new shares issued as a result of the scrip dividend.

Dividends for the Year

The Bank declared an interim dividend of LKR 2.00 per share in November 2017 for the year ending 31 December 2017. In February 2018 the Bank declared a final dividend of LKR 7.00 per share (being a cash dividend of LKR 2.00 per share and scrip dividend of LKR 5.00 per share) for the year ended 31 December 2017. The dividend declared was in line with the internally set policy guidelines.

The Bank continues to be guided by its Board approved Dividend Policy which stipulates minimum requirements as set out below.

Ratio	Policy guidelines
Dividend payout ratio	>35%
Capital adequacy	>12%
Open loan position	<40%
Liquidity	>20%

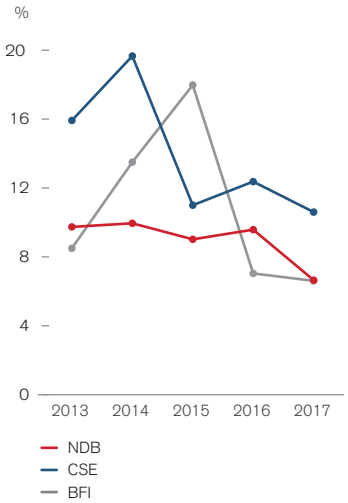
Total Shareholder Returns

Total shareholder returns (TSR), as measured with change in share price and dividends received during the year was a negative 6.15% for 2017. The main reason for the negative movement in the TSR was the drop in NDB's share price from LKR 156/- in end 2016 to LKR 136.40 by end 2017.

Price Earnings Ratio

The PE ratio of the Group for 2017 was 6.70 times as compared with a PE ratio of 9.94 times of the previous year. CSE and 6.61 times of the Banking, Finance and Insurance sector of the CSE.

Price Earning Ratio



Price to Book Value

The Price to Book Value (PBV) dropped below 1 for a second consecutive year due to the dual impact of a reduced share price over the year and an increase in the net assets value per share. Accordingly, the PBV ratio was 0.71 times and compares with a PBV of 0.86 times in 2016.

Net Asset Value per Share

Net asset value per share for 2017 at the Group level was LKR 192.51, an increase from LKR 181.23 from 2016. As with the case of EPS, the increase in the net asset value per share amidst the increase in the share base during 2017 by over 6 million shares is impressive.

9. Employee Share Ownership Schemes

Employee Share Option Scheme (ESOS) and Equity Linked Compensation Plan (ELCP)

An Employee Share Option Scheme (ESOS 2016) was approved by the shareholders of the Bank at an Extraordinary General Meeting (EGM) held in March 2016 in order to, enable the management staff in the rank of Senior Manager and above of the Bank and the respective Chief Executive Officers of NDB Capital Holdings Limited, NDB Wealth Management Limited, NDB Investment Bank Limited and NDB Securities (Private) Limited to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions.

As per the ESOS 2016, the Bank will offer Share Options relating to voting shares to the eligible employees up to a maximum of 5% of the total number of shares issued by the Bank. The shares under the said scheme shall be issued during a period of five years from the year 2017 (performance year 2016) subject to the performance criteria set out in the Circular to Shareholders dated 1st March 2016, and each year the Share Options will be limited to 1.25% of the total number of shares then issued by the Bank.

Although the scheme commenced in the year 2017, the Bank failed to meet the 'Qualifying Criteria' set out in the Circular to Shareholders dated 1st March 2016 and accordingly no shares were issued during the year 2017.

The ELCP previously approved by the shareholders at an EGM held in April 2010 (ELCP 2010), to enable the management staff in the rank of Assistant Vice President and above of the Bank to take part in the voting ordinary share capital of the Bank, was concluded in the year 2014. As per the said ELCP 2010, the eligible members of the staff were able to exercise share options until the year 2017. However no eligible staff members exercised share options during the year 2017, thus effectively concluding the Share Option component of the ELCP approved in the year 2010.

DEBENTURES OF NDB

10. NDB has two listed debentures in issue as follows

I – Rated unsecured subordinated redeemable debentures issued in June 2015
II - Rated unsecured subordinated redeemable debentures issued in December 2013

10 (I) Rated Unsecured Subordinated Redeemable Debentures – June 2015

10 (I) (A) Key Features of the Debentures

Types of debentures	Debenture Code	ISIN	Issue price	Par value	Interest rate per annum	Interest payment frequency	Annual Effective Rate per annum	Date of allotment	Redemption (from the date of allotment)	Interest payment dates
Type A	NDB-BD-24/06/20-C2309-9.4	LK0207D23091	LKR 100	LKR 100	9.40%	Annually	9.40%	24-June 2015	60 months (5 years)	31 December
Type B	NDB-BD-24/06/20-C2308-0	LK0207D23083	LKR 63.8136	LKR 100	9.40%	Annual compounding on the Issue Price payable on the Date of Redemption	9.40%	24-June 2015	60 months (5 years)	At the time of redemption

10 (I) (B) Trading Details for the Year Ended 31 December 2017

Type of Debenture	CSE Listing	Interest payable frequency	Balance as at 31 December 2017 LKR million	Market Value			Interest Rate		Interest rate of comparable Security %	Other ratios as at last trade	
				Highest LKR	Lowest LKR	Year end LKR	Coupon Rate %	Effective Annual Yield %		Interest Yield %	Yield To Maturity %
A - Jun 2015/Jun 2020	Listed	Annually	7,000	87	86	86	9.40	9.19	8.30	16.50	16.50
B - Jun 2015/Jun 2020	Listed	Payable on date of redemption	1,914	Not traded during the quarter			9.4 annual compounding on the Issue Price of LKR 63.8136	9.18	8.30	Not traded during the quarter	
Total Debentures			8,914								

10 (1) (C) Disclosures Regarding the Utilization of Funds as per the Objectives Stated in the Debenture Prospectus

Objective number	Objective as per Prospectus	Amount allocated* as per Prospectus in LKR	Proposed date of utilization as per Prospectus	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amount utilized in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilized including where the funds are invested
1	Strengthen the Tier II Capital Base of the Bank and maintain the Capital Adequacy requirements to facilitate future growth of the lending portfolio of the Bank	10,000,000,000	NA	10,000,000,000	100%	8,914,408,000	100%	-
2	To mobilize/ raise medium term funds to match medium term lending of the Bank	10,000,000,000	NA	10,000,000,000	100%	10,000,000,000	100%	-
3	To minimize the interest rate risk rate risk and manage the gap exposures of the Bank's assets and liabilities	10,000,000,000	NA	10,000,000,000	100%	10,000,000,000	100%	-

* The face value of the Debentures issued is LKR 10 billion of the total debentures issued, Type B debentures were issued as zero coupon bonds with a face value of LKR100/- per debenture and an issue price of LKR 63.8136. Hence the total proceeds of the debenture is LKR 8,914 million.

10 (II) (A) Key Features of the Debentures

Types of debentures	Debenture Code	ISIN	Issue price	Par value	Interest rate per annum	Interest payment frequency	Annual Effective Rate per annum	Date of allotment	Redemption (from the date of allotment)	Interest payment dates
Type A	NDB/BC/19/12/18A13	LK0207D20998	LKR 100	LKR 100	13.00%	Semi-Annually	13.42%	19 December 2013	60 months (5 years)	30 June & 31 December
Type B	NDB/BC/19/12/18B13.4	LK0207D21012	LKR 100	LKR 100	13.40%	Annually	13.40%	19 December 2013	60 months (5 years)	31 December
Type C	NDB/BC/19/12/23C13.9	LK0207D21038	LKR 100	LKR 100	13.90%	Annually	13.90%	19 December 2013	120 months (10 years)	31 December
Type D	NDB/BC/19/12/25D14	LK0207D21053	LKR 100	LKR 100	14.00%	Annually	14.00%	19 December 2013	144 months (12 years)	31 December

10 (II) (B) Trading Details for the Year Ended 31 December 2017

Type of Debenture	CSE Listing	Interest payable frequency	Balance as at 31 December 2017 LKR million	Market Value			Interest Rate		Interest rate of comparable Security %	Other ratios as at last trade	
				Highest LKR	Lowest LKR	Year end LKR	Coupon Rate %	Effective Annual Yield %		Interest Yield %	Yield To Maturity %
Fixed rate											
A - Dec 2013/Dec 2018	Listed	Semi annually	1,243	98.03	96.00	98.03	13.00	12.79	8.30	14.77	14.77
B - Dec 2013/Dec 2018	Listed	Annually	1,529	100.00	96.00	100.00	13.40	12.77	8.30	13.35	13.35
C - Dec 2013/Dec 2023	Listed	Annually	3,638	86.00	86.00	86.00	13.90	13.17	9.75	17.59	17.59
D - Dec 2013/Dec 2025	Listed	Annually	3,590	101.07	100.04	100.04	14.00	13.26	9.75	13.99	13.99
Total Debentures			10,000								

10 (II) (C) Disclosures Regarding the Utilization of Funds as per the Objectives Stated in the Debenture Prospectus

Objective number	Objective as per Prospectus	Amount allocated as per Prospectus in LKR	Proposed date of utilization as per Prospectus	Amount allocated from proceeds in LKR (A)	% of total proceeds	Amount utilized in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilized including where the funds are invested
1	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, and facilitate the future expansion of business activities.	10,000,000,000	NA	10,000,000,000	100%	10,000,000,000	100%	-
2	To mobilize/ raise medium term funds to match medium term lending of the Bank	10,000,000,000	NA	10,000,000,000	100%	10,000,000,000	100%	-
3	To minimize the interest rate risk rate risk and manage the gap exposures of the Bank's assets and liabilities	10,000,000,000	NA	10,000,000,000	100%	10,000,000,000	100%	-

11. Information on Debentures of the Bank (As per Rule No. 7.6 x (i) of the Listing Rules of the Colombo Stock Exchange

	2017	2016
Debt Equity Ratio (%)	11.87	12.19
Interest cover (Times)	1.41	1.55
Liquidity Assets Ratio (%) – Domestic Banking Unit (Minimum Requirement - 20%)	22.13	21.50
Liquidity Assets Ratio (%) – Foreign Currency Banking Unit (Minimum Requirement - 20%)	24.01	22.93
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 80%)	214.35	142.53
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 80%)	154.50	125.63

12. Director's Interest in Listed Debentures as at 31 December 2017

Name	Debentures issued in June 2015		Debentures issued in December 2013	
	As at 31 December 2017 No of Debentures	As at 31 December 2016 No of Debentures*	As at 31 December 2017 No of Debentures	As at 31 December 2016 No of Debentures
A W Atukorala	None	None	None	None
A K Pathirage	None	None	None	None
T L F Jayasekara	None	None	None	None
Mrs. Kimarli Fernando	None	None	None	None
D S P Wikramanayake	None	None	None	None
Mrs. Indrani Sugathadasa	None	None	None	None
D M R Phillips, PC	None	None	None	None
K D W Ratnayaka	None	None	None	None
R Semasinghe (appointed w.e.f. 26/09/2017)	None	N/A	None	N/A
P L D N Seneviratne (appointed w.e.f 01/01/2017)	None	N/A	None	N/A
Mrs. D M A Harasgama (resigned w.e.f 30/06/2017)	N/A	None	N/A	None
N S Welikala (retired w.e.f 30/04/2017)	N/A	None	N/A	None

CREDIT RATINGS OF NDB

13. NDB's Credit Ratings

The Bank at present engages the services of Fitch Ratings Lanka Limited for local credit ratings and the Bank's ratings are as follows.

As affirmed in December 2017
National long term rating: A+(lka); Stable outlook
Basel II compliant subordinated term debt: A(lka)

14. Full Rating Reports

Please refer our Investor Relations web page within the NDB corporate website on http://www.ndbbank.com/ to read the full rating reports.

OTHER INFORMATION

15. Financial Statements in United States Dollar (USD)

15.1 Statement of Profit or Loss

	BANK			GROUP		
	2017	2016	Change	2017	2016	Change
For the year ended 31 December	USD '000	USD '000	%	USD '000	USD '000	%
Gross income	278,481	226,689	23	281,737	230,062	22
Interest income	243,102	194,925	25	245,083	197,257	24
Less: Interest expenses	172,696	137,116	26	172,475	136,904	26
Net interest income	70,406	57,809	22	72,608	60,353	20
Fee and commission income	16,508	15,347	8	22,373	20,748	8
Net gains/(losses) from trading	6,968	6,689	4	6,968	6,689	4
Net gains/(losses) from financial investments	3,730	1,440	159	4,805	3,002	60
Other operating income	8,173	8,288	(1)	2,509	2,366	6
Total operating income	105,785	89,573	18	109,262	93,157	17
Less: Impairment for loans and receivables and other losses	8,243	9,311	(11)	8,451	9,703	(13)
Net operating income	97,542	80,262	22	100,812	83,454	21
Less: operating expenses						
Personnel expenses	23,652	23,393	1	26,360	25,832	2
Other expenses	24,460	20,531	19	27,351	22,929	19
Total operating expenses	48,112	43,924	10	53,711	48,761	10
Operating profit before tax on financial services	49,431	36,338	36	47,101	34,693	36
Less: Tax on financial services	10,135	7,138	42	10,135	7,138	42
Operating profit after tax on financial services	39,296	29,200	35	36,966	27,555	34
Share of associate companies' profits/(losses)	-	-	-	-	-	-
Profit before taxation	39,296	29,200	35	36,966	27,555	34
Less: Taxation	10,796	7,606	42	14,487	8,382	73
Profit for the year	28,500	21,593	32	22,479	19,173	17
Profit attributable to equity holders of the parent	28,500	21,593	32	22,856	18,329	25
Non-controlling interests	-	-	-	(376)	844	(145)
	28,500	21,593	32	22,479	19,173	17
Earnings per share basic/diluted (USD)	0.17	0.13	31	0.13	0.11	18
Dividend per share (USD)	0.06	0.05	20	-	-	-

15.2 Statement of Comprehensive Income

For the year ended 31 December	BANK			GROUP		
	2017 USD '000	2016 USD '000	Change %	2017 USD '000	2016 USD '000	Change %
Profit for the year	28,500	21,593	32	22,479	19,173	17
Other comprehensive income						
Other comprehensive income/ (expenses) to be reclassified to profit or loss in subsequent period						
Exchange differences on translation of foreign operations	-	-	-	(2)	51	(105)
Gains/(losses) on remeasuring of available-for-sale investments	4,249	(2,535)	268	3,959	(2,972)	233
Deferred tax effect on fair value adjustments of available-for-sale investments	(2,019)	94	(2,251)	(1,953)	227	(962)
Net gains/(losses) on available-for-sale investments	2,230	(2,442)	191	2,005	(2,745)	173
Gains/(losses) on cash flow hedges	(461)	(368)	(25)	(461)	(368)	(25)
Other comprehensive income/ (expenses) not to be reclassified to profit or loss in subsequent period						
Revaluation of freehold land and buildings	2,371	-	100	2,476	143	1,631
Deferred tax effect on revaluation gains/(losses)	(1,141)	-	(100)	(1,383)	-	(100)
Net gains/(losses) on revaluation of freehold land and buildings	1,230	-	100	1,093	143	664
Actuarial gains/(losses) on defined benefit plans	(651)	(498)	(31)	(649)	(542)	(20)
Deferred tax effect on actuarial gains/(losses)	(20)	72	(128)	(19)	79	(124)
Net actuarial gains/(losses) on defined benefit plans	(671)	(426)	(57)	(668)	(463)	(44)
Total other comprehensive income for the year, net of taxes	2,329	(3,236)	172	1,968	(3,382)	158
Total comprehensive income for the year	30,829	18,358	68	24,447	15,791	55
Attributable to:						
Equity holders of the parent	30,829	18,358	68	24,822	14,931	66
Non-controlling interests	-	-	-	(375)	861	(144)
	30,829	18,358	68	24,447	15,791	55

15.3 Statement of Financial Position

As at 31 December	BANK			GROUP		
	2017	2016	Change	2017	2016	Change
	USD '000	USD '000	%	USD '000	USD '000	%
Assets						
Cash and cash equivalents	34,451	33,501	3	34,901	34,308	2
Balances with the Central Bank of Sri Lanka	100,359	78,874	27	100,359	78,874	27
Placements with banks	5,491	22,011	(75)	5,491	22,011	(75)
Derivative financial instruments	16,144	10,311	57	16,144	10,311	57
Financial assets held-for-trading	7,945	5,559	43	17,374	24,443	(29)
Loans and receivables to banks	101	247	(59)	101	247	(59)
Loans and receivables to other customers	1,789,771	1,519,625	18	1,790,093	1,519,893	18
Financial investments - loans and receivables	138,285	280,324	(51)	152,295	293,035	(48)
Financial investments - available-for-sale	343,701	210,281	63	346,020	212,946	62
Financial investments - held-to-maturity	23,018	27,621	(17)	26,630	33,018	(19)
Investments held-for-sale	121	124	(2)	218	222	(2)
Investments in subsidiary companies	13,756	14,124	(3)	-	-	-
Investments in associate companies	-	-	-	-	-	-
Investment property	-	-	-	12,377	11,856	4
Intangible assets	2,511	2,457	2	2,593	2,568	1
Property, plant & equipment	15,393	13,876	11	19,053	16,878	13
Other assets	11,062	14,342	(23)	14,858	13,968	6
Total assets	2,502,110	2,233,276	12	2,538,507	2,274,578	12
Liabilities						
Due to banks	132,180	114,319	16	132,180	114,319	16
Derivative financial instruments	6,119	3,169	93	6,119	3,169	93
Due to other customers	1,785,559	1,360,925	31	1,783,419	1,358,584	31
Debt securities issued and other borrowed funds	183,586	395,416	(54)	183,586	395,416	(54)
Tax liabilities	10,310	5,645	83	10,288	5,691	81
Deferred tax liabilities	8,959	5,286	70	11,734	4,972	136
Employee benefit liabilities	2,372	2,211	7	3,005	2,635	14
Other liabilities	59,017	51,302	15	59,941	52,945	13
Subordinated term debts	126,302	129,816	(3)	126,302	129,816	(3)
Total liabilities	2,314,404	2,068,089	12	2,316,574	2,067,547	12
Equity						
Capital	14,425	8,321	73	14,425	8,321	73
Statutory reserve fund	8,729	8,321	5	8,729	8,321	5
Retained earnings	159,314	146,157	9	186,683	179,883	4
Other reserves	5,238	2,388	119	5,788	3,319	74
Total equity to equity holders of the Bank	187,706	165,187	14	215,625	199,844	8
Non-controlling interests	-	-	-	6,308	7,188	(12)
Total equity	187,706	165,187	14	221,933	207,031	7
Total liabilities and total equity	2,502,110	2,233,276	12	2,538,507	2,274,578	12
Commitments and contingencies	1,758,069	1,563,558	12	1,762,755	1,569,629	12
Net Asset Value per share (USD)	1.09	1.00	9	1.26	1.21	4

16. Interim Financial Performance

16.1 Statement of Profit or Loss

	2017				2016			
Bank LKR'000	Quarter 4 31/12/17	Quarter 3 30/09/17	Quarter 2 30/06/17	Quarter 1 31/03/17	Quarter 4 31/12/16	Quarter 3 30/09/16	Quarter 2 30/06/16	Quarter 1 31/03/16
Net interest income	3,094,516	2,909,985	2,411,292	2,334,329	2,243,419	2,204,438	2,060,538	1,978,917
Other operating income	1,034,884	1,374,445	1,562,003	1,430,562	1,568,275	881,682	809,701	1,403,833
Total operating income	4,129,400	4,284,430	3,973,295	3,764,891	3,811,694	3,086,120	2,870,239	3,382,750
Less: impairment charges for loans and other losses	386,621	290,683	447,220	134,030	384,229	153,456	292,076	537,193
Net operating income	3,742,779	3,993,747	3,526,075	3,630,861	3,427,465	2,932,664	2,578,163	2,845,557
Less: operating expenses	1,874,293	2,128,707	1,624,655	1,718,380	1,624,721	1,640,550	1,616,026	1,567,547
Profit from operations	1,868,486	1,865,040	1,901,420	1,912,481	1,802,744	1,292,114	962,137	1,278,010
Share of associate companies' profit	-	-	-	-	-	-	-	-
Profit before taxation	1,868,486	1,865,040	1,901,420	1,912,481	1,802,744	1,292,114	962,137	1,278,010
Less: taxation	(826,391)	(869,387)	(746,658)	(753,355)	(646,443)	(553,179)	(484,412)	(480,699)
Profit for the period	1,042,095	995,653	1,154,762	1,159,126	1,156,301	738,935	477,725	797,311
Profit attributable to:								
Equity holders of the parent	1,042,095	995,653	1,154,762	1,159,126	1,156,301	738,935	477,725	797,311
Non controlling interests							-	-
	1,042,095	995,653	1,154,762	1,159,126	1,156,301	738,935	477,725	797,311
Basic earnings per share of the quarter (LKR)	6.08	5.80	6.73	6.76	6.74	4.30	2.78	4.64

	2017				2016			
Group LKR'000	Quarter 4 31/12/17	Quarter 3 30/09/17	Quarter 2 30/06/17	Quarter 1 31/03/17	Quarter 4 31/12/16	Quarter 3 30/09/16	Quarter 2 30/06/16	Quarter 1 31/03/16
Net interest income	3,176,895	2,998,196	2,491,720	2,419,516	2,328,677	2,297,787	2,169,853	2,074,973
Other operating income	1,501,741	1,572,194	1,372,017	1,150,692	1,368,243	1,159,120	1,006,897	1,271,518
Total operating income	4,678,636	4,570,390	3,863,737	3,570,208	3,696,920	3,456,907	3,176,750	3,346,491
Less: impairment charges for loans and other losses	459,016	279,146	440,620	111,515	374,700	171,008	332,943	545,923
Net operating income	4,219,620	4,291,244	3,423,117	3,458,693	3,322,220	3,285,899	2,843,807	2,800,568
Less: operating expenses	2,108,896	2,358,296	1,831,595	1,902,148	1,831,290	1,826,287	1,778,713	1,722,660
Profit from operations	2,110,724	1,932,948	1,591,522	1,556,545	1,490,930	1,459,612	1,065,094	1,077,908
Share of associate companies' profit	-	-	-	-	-	-	-	-
Profit before taxation	2,110,724	1,932,948	1,591,522	1,556,545	1,490,930	1,459,612	1,065,094	1,077,908
Less: taxation	(1,235,276)	(887,046)	(830,409)	(806,706)	(699,300)	(561,999)	(509,539)	(507,749)
Profit for the period	875,448	1,045,902	761,113	749,839	791,630	897,613	555,555	570,159
Profit Attributable to:								
Equity holders of the parent	969,808	1,034,317	748,111	737,515	726,070	881,977	535,433	547,532
Non controlling interests	(94,360)	11,585	13,002	12,324	65,560	15,636	20,122	22,627
	875,448	1,045,902	761,113	749,839	791,630	897,613	555,555	570,159
Basic earnings per share of the quarter (LKR)	5.65	6.03	4.36	4.30	4.23	5.14	3.12	3.19

16.2 Statement of Financial Position

	2017				2016			
Bank	As at	As at	As at	As at	As at	As at	As at	As at
LKR'000	31/12/17	30/09/17	30/06/17	31/03/17	31/12/16	30/09/16	30/06/16	31/03/16
Cash and cash equivalents	21,480,070	20,130,977	19,754,135	25,833,342	20,130,977	26,723,081	19,647,159	23,008,322
Net loans and advances	274,029,448	227,676,876	252,500,263	241,443,635	227,676,876	222,241,637	220,464,118	215,736,673
Investments	80,657,129	80,597,224	85,529,329	73,541,811	80,597,222	72,632,950	67,942,445	66,224,434
Other assets	6,906,395	6,139,658	7,028,267	6,657,541	6,139,657	5,720,208	6,277,980	7,318,040
Total	383,073,042	334,544,735	364,811,994	347,476,329	334,544,732	327,317,876	314,331,702	312,287,469
Customer deposits	273,369,023	203,866,547	239,345,976	227,983,883	203,866,547	193,642,483	190,837,894	196,903,356
Borrowings	67,680,619	95,804,709	89,088,257	84,793,062	95,804,708	101,803,282	93,116,971	84,862,163
Other liabilities	13,285,564	10,128,429	9,019,907	9,088,423	10,128,428	7,404,401	7,192,736	8,136,007
Shareholders funds	28,737,837	24,745,050	27,357,855	25,610,961	24,745,049	24,467,710	23,184,101	22,385,943
Total	383,073,042	334,544,735	364,811,994	347,476,329	334,544,732	327,317,876	314,331,702	312,287,469
Net asset value (LKR)	167.58	144.30	159.53	149.35	149.80	148.12	140.35	135.52

	2017				2016			
Group	As at	As at	As at	As at	As at	As at	As at	As at
LKR'000	31/12/17	30/09/17	30/06/17	31/03/17	31/12/17	30/09/17	30/06/17	31/03/17
Cash and cash equivalents	21,548,918	20,251,928	19,807,734	25,861,744	20,251,928	26,851,379	19,651,235	23,200,706
Net loans and advances	274,078,788	227,716,971	252,465,613	241,377,654	227,716,971	222,268,482	220,490,633	215,737,783
Investments	83,062,299	84,436,804	88,461,297	76,376,914	84,436,802	76,359,458	71,976,538	70,162,269
Other assets	9,955,433	8,326,065	9,854,881	10,114,826	8,326,066	8,715,345	8,757,470	9,850,891
Total	388,645,438	340,731,768	370,589,525	353,731,138	340,731,767	334,194,664	320,875,876	318,951,650
Customer deposits	273,041,417	203,515,828	238,962,998	227,471,975	203,515,828	193,348,373	190,447,984	196,510,148
Borrowings	67,680,619	95,804,709	89,088,257	84,793,062	95,804,708	101,803,282	93,116,971	84,903,033
Other liabilities	13,945,429	10,397,935	9,768,787	10,070,605	10,397,934	7,931,796	7,629,975	8,698,974
Shareholders funds	33,012,228	29,936,587	31,707,581	30,346,717	29,936,588	30,083,207	28,659,549	27,796,707
Non controlling interests	965,745	1,076,709	1,061,902	1,048,779	1,076,709	1,028,006	1,021,397	1,042,789
Total	388,645,438	340,731,768	370,589,525	353,731,138	340,731,767	334,194,664	320,875,876	318,951,650
Net asset value (LKR)	192.51	174.57	184.90	176.96	181.23	182.12	173.50	168.27

17. Ten Years at a Glance

17.1 Statement of Profit or Loss - Group

LKR million	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Income											
Net interest income	3,522	3,787	4,233	4,163	4,910	5,896	7,012	7,913	7,807	8,861	11,086
Other operating income	1,474	1,662	2,560	2,785	3,012	9,042	4,537	5,053	5,484	4,816	5,597
Total operating income	4,997	5,449	6,793	6,948	7,922	14,938	11,549	12,966	13,291	13,677	16,683
Impairment for loans & receivables and other losses	65	116	373	(172)	(88)	51	1,261	529	746	1,425	1,290
Net operating income	4,932	5,333	6,420	7,119	8,010	14,887	10,288	12,437	12,545	12,252	15,393
Less operating expenses											
Personnel costs	949	1,151	1,300	1,567	2,118	2,333	2,660	3,172	3,634	3,793	4,025
Other operating costs	1,104	1,237	1,370	1,496	1,863	2,163	2,904	2,738	3,196	3,366	4,176
Total operating expenses	2,053	2,388	2,670	3,063	3,981	4,496	5,564	5,911	6,830	7,159	8,201
Operating Profit Before Share of Associate Co's Profit Before Tax	2,879	2,945	3,750	4,056	4,030	10,391	4,724	6,527	5,715	5,094	7,192
Share of associate co's profit	179	172	526	295	331	439	49	97	78	-	-
Profit before taxation	3,058	3,118	4,276	4,351	4,361	10,830	4,773	6,624	5,793	5,094	7,192
Taxation	(1,421)	(1,409)	(2,154)	(2,175)	(1,597)	(1,898)	(2,061)	(2,378)	(2,123)	(2,279)	(3,759)
Profit after taxation	1,637	1,708	2,121	2,176	2,764	8,932	2,712	4,246	3,670	2,815	3,432
Minority interest	(115)	(103)	(37)	(73)	(235)	(78)	(70)	(112)	(128)	(124)	57
Profit attributable to group	1,521	1,605	2,085	2,103	2,528	8,854	2,642	4,134	3,542	2,691	3,490

17.2 Statement of Financial Position - Group

LKR million	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Assets											
Liquid Assets	7,748	5,883	8,243	5,586	7,651	13,269	8,139	12,737	20,002	20,252	21,549
Investments	14,701	18,509	32,128	20,021	27,359	32,499	55,614	72,971	77,257	84,437	83,062
Loans & Advances	49,818	54,589	54,107	78,452	102,019	124,311	137,523	175,547	209,768	227,717	274,079
Investments in Associate Companies	1,210	1,393	1,724	1,763	1,797	33	77	-	-	-	-
Property & Equipment	804	781	806	918	1,504	1,541	1,473	2,550	2,730	2,913	3,314
Investment Property	1,200	1,200	1,200	1,200	1,296	1,296	1,384	1,546	1,672	1,776	1,895
Other Assets	661	925	1,075	691	962	1,154	2,608	3,780	3,925	3,637	4,747
Total Assets	76,143	83,280	99,286	108,635	142,588	174,103	206,818	269,130	315,354	340,732	388,645
Liabilities											
Borrowings	34,147	34,993	29,561	28,631	38,973	36,630	47,344	80,768	92,331	96,279	68,617
Deposits with Customers	25,624	31,091	49,948	60,533	82,094	107,394	129,423	151,485	184,152	203,516	273,041
Taxation	522	352	560	633	397	713	625	1,416	1,237	1,597	3,372
Other Liabilities	2,750	3,614	4,334	2,826	3,286	3,657	4,062	6,662	8,233	8,326	9,637
Total Liabilities	63,043	70,050	84,403	92,623	124,750	148,394	181,454	240,331	285,953	309,718	354,667
Shareholders' Funds											
Stated Capital	1,033	1,033	1,033	864	864	864	944	1,145	1,163	1,246	2,209
Statutory Reserves	819	819	819	879	879	879	959	1,011	1,243	1,246	1,336
Other Reserves	-	-	-	-	387	924	1,880	1,474	1,000	497	886
Retained Earnings	9,833	10,811	12,345	13,552	14,796	22,216	20,733	24,246	24,976	26,946	28,581
Total Shareholders' Funds	11,685	12,662	14,197	15,295	16,926	24,883	24,516	27,876	28,382	29,937	33,012
Minority Interest	1,415	568	687	717	913	826	848	923	1,019	1,077	966
Total Funds Employed	13,100	13,230	14,883	16,012	17,838	25,709	25,364	28,799	29,401	31,013	33,978
Total Liabilities & Funds Employed	76,143	83,280	99,286	108,635	142,588	174,103	206,818	269,130	315,354	340,732	388,645

17.3 Share Information - Group

LKR million	2007	2008	2009	2010	2011	2012	2013	2014	2,015	2,016	2,017
Share Information											
Market Price per Share (LKR)	170.00	86.00	206.00	174.50	138.10	138.10	161.50	250.00	194.10	156.00	136.40
Basic Earnings per Share (LKR) - Group	9.30	9.80	12.75	12.81	15.79	55.31	16.48	25.14	21.51	15.69	20.35
Interim Dividends per Share (LKR)	-	-	-	4.00	3.50	5.00	5.00	7.00	7.00	-	2.00
Final Dividends per Share (LKR)	6.00	6.75	8.00	4.50	4.00	10.00	5.00	4.00	4.00	8.00	7.00
Total Dividends per Share (LKR)	6.00	6.75	8.00	8.50	7.50	15.00	10.00	11.00	11.00	8.00	9.00
Dividend Cover (Times)	3.72	3.27	3.77	2.19	2.05	3.69	1.65	2.29	1.96	1.96	2.26
Price Earnings Ratio (Times)	9.14	4.39	8.08	13.63	8.97	2.56	9.74	9.94	9.02	9.94	6.70
Book Value per Share (LKR)	71.38	77.35	86.72	93.15	103.08	151.54	148.85	169.35	172.35	181.23	192.51

18. Compliance Report in Terms of Section 7.6 – Contents of the Annual Report in Terms of the Listing Rules of the Colombo Stock Exchange.

Tabulated below is how we complied with the Contents of the Annual Report as specified in Section 7.6 of the Listing Rules issued by the Colombo Stock Exchange. The table provides the disclosure requirements of Section 7.6, the compliance level of the Bank and where you will find the respective disclosures within this Annual Report.

Rule No:	Disclosure Requirement	Cross Reference/ within the Report (page/s)
7.6 (i)	Names of persons who during the financial year were directors of the Entity.	190-197
7.6 (ii)	Principal activities of the Entity and its subsidiaries during the year and any changes therein.	302
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held.	116
7.6 (iv)	The float adjusted market capitalization, public holding percentage (%), number of public shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement.	116
7.6 (v)	A statement of each director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of each financial year.	117
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	264
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity.	264
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties.	340 and 343
7.6 (ix)	Number of shares representing the Entity's stated capital.	260
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings in the following categories: No. of Holders, Holdings, Total Holdings % 1-1000 shares 1,001-10,000 shares 10,001-100,000 shares 100,001-1,000,000 shares Over 1,000,000 shares	115
7.6 (xi)	The following ratios and market price information: EQUITY 1. Dividend per share 2. Dividend pay out 3. Net asset value per share 4. Market value per share (highest and lowest values recorded during the financial year, value as at the end of financial year) DEBT (only if listed) 1. Interest rate of comparable government security 2. Debt/equity ratio 3. Interest cover 4. Quick asset ratio 5. The market prices & yield during the year (ex interest) (Highest Price, Lowest price, Last traded price (as at dd/mm/yy)) 6. Any changes in credit rating (for the Entity or any other instrument issued by the Entity), if applicable.	119 and 125
7.6 (xii)	Significant changes in the Entity's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value;	N/A

Rule No:	Disclosure Requirement	Cross Reference/ within the Report (page/s)
7.6 (xiii)	If during the year the Entity has raised funds either through a public issue, Rights Issue, and private placement; a. a statement as to the manner in which the proceeds of such issue has been utilized. b. if any shares or debentures have been issued, the number, class and consideration received and the reason for the issue; and, c. any material change in the use of funds raised through an issue of Securities.	N/A
7.6 (xiv)	a. Employee Share Option Schemes	122
	b. Employee Share Purchase Schemes	N/A
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules.	207 to 259
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	371 to 376

19. Shareholder Inquiries and Communications

Please refer Corporate Information on page 438.

Scrutinizing our policies and procedures to ensure resilience

Scan the QR Code with your smart device to view this section online.

RISK MANAGEMENT

"With evolving business complexity and needs, Group Risk keeps abreast with trends and challenges of risk management to better support the Bank and its Group companies in meeting its strategic and business objectives."

RISK MANAGEMENT

The environment, in which the Bank operates in, is changing at a faster rate than usual with changing global geopolitical, economic and technological landscape and is further complicated by ever evolving regulatory environment. This new norm requires banks to enhance risk management capabilities and insights to facilitate more robust and better risk decision making processes, to ensure that the Bank continues to create value to business partners, whilst ensuring resilience to weather the storm of change.

The Bank is currently going through an intense change program known as Transformation 2020 (T20), to become one of the largest banks in Sri Lanka by 2020, increasing balance sheet size and significantly growing stakeholder returns. With evolving business complexity and needs, Group Risk keeps abreast with trends and challenges of risk management to better support the Bank and its Group companies in meeting its strategic and business objectives.

THE RISK PROFILE OF THE BANK AT A GLANCE

Diversified Portfolio

- The Bank has a well-diversified portfolio of loans and receivables and income streams across geographies, industry sectors and products.
- The Bank holds a diverse mix of collateral, valued conservatively.
- The Bank's top corporate exposures are stable as a proportion of capital resources and highly diversified.
- The Bank's asset quality remains sound.

Prudent Capital & Liquidity Position

- The Bank remains adequately capitalized under Basel III requirements and the Bank's Statement of Financial Position remains liquid.
- The Bank's customer deposit base is diversified and is growing.
- The Bank has a substantial portfolio of high quality liquid assets that can be realized if a liquidity stress occurs which is reflected by maintenance of a Liquidity Coverage Ratio well above the regulatory requirements. The Bank maintains the Liquid Assets Ratio at prudent level.
- Apart from the regulatory limits, the Bank has set internal prudential Liquidity ratios and Position limits for proactive Liquidity Management.

Robust Risk Governance Structure & Experienced Team

- The Bank has a clear statement of risk appetite which is aligned to the Bank's strategy and is approved by the Board.
- The Bank continuously monitors its risk profile to ensure it remains within the risk appetite and regularly conducts stress tests.
- The Bank reviews and adjusts exposures, underwriting standards and limits in response to observed and anticipated changes in the environment and expectations.
- The Bank has a very experienced risk team.
- The Bank has a robust risk management framework which assigns accountability and responsibility for the management and control of risk.

2017 - KEY ACHIEVEMENTS

Establishment of a Board Credit Committee

- A Board Credit Committee was formed to further strengthen the credit approval process of the Bank.

Automation of Operational Risk Management Process

- Automation facilitates incident/loss event reporting, Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), Scenario Analysis etc.

Pricing to Reflect Additional Costs of Business

- RORAC model revisited in line with increase in Basel III capital requirements.

Risk Models to Support Decision Making

- New score card developed statistically based on Bank's own default experience for Personal Loans to support decision making.
- Independent third party validation of risk models carried out based on the Board approved Model Validation Policy.

Basel III Compliance

Group wide risk appetite framework put in place to define the boundaries and drivers of doing business

2018 – OUR PRIORITIES

- **SLFRS 9 Compliance**
- **Maximize capital utilization**
- **Risk profiling and Scenario based stress testing for Operational Risk**
- **Further strengthening of risk and compliance culture across the Group**
- **Continuing to develop risk talent across the Group Risk Management department**
- **Review and manage Risk Appetite in line with T20 strategy**

In the current operating environment, the key to a sustainable business and enduring growth hinges considerably on a bank's ability to spot and react swiftly to threats and opportunities ahead of other competitors. With this in mind, Group Risk is steadfast in playing a vital role through closer collaboration with business and other functions of the Bank and the Group to meet the shifts in expectations of the myriad of stakeholders (i.e. employees, customers, regulators, shareholders, business partners), while staying vigilant by having the necessary mitigating actions to pro-actively manage risks.

EXTERNAL DRIVERS - IMPACT & RESPONSE

Growth/Performance of World Economy & Local Economy

The Bank monitors these trends carefully to support decision making at operational and strategic levels.

Geo Political Events

The Bank actively monitors situations that could have an impact and conducts regular stress tests of the impact of such events on portfolios.

Monetary Policy, Market Conditions & Economic Climate

Monetary Policy changes and Market conditions will effect the Bank performance. Thus, these are monitored closely to manage risk and exploit opportunities through dynamic Asset and Liability Management.

Changes in Regulatory Environment

The Bank reviews key regulatory developments in order to anticipate changes and their potential impact on performance. The Bank responds both unilaterally and through participation in industry groups to consultation papers and discussions initiated by regulators. The focus of these activities is to develop the framework for a stable and sustainable financial sector and economy. The nature and impact of changes in economic policies, laws and regulations are monitored and considered in the way the Bank conducts business and manages capital and liquidity.

Cyber Threats

The Bank having understood the importance of managing the cyber risk has deployed technical controls to mitigate cyber risk such as multi-layer firewalls, network separation, implementation of intrusion prevention systems, gateway level content filtering, anti-malware solutions and updates to operating systems.

In addition to the above, Bank has subscribed to the services provided by Financial Sector Computer Security Incident Response Team (FINCSIRT), where latest threat intelligence to the Banking industry is provided to IT security team of the Bank to take proactive steps to address the potential exposures. The Bank's IT policies and procedures are aligned with Baseline Security Standards Guidelines issued by the Central Bank of Sri Lanka. The Bank has also conducted penetration testing exercise by employing an external service provider to test the resilience of systems.

RISK MANAGEMENT APPROACH

The Bank's risk management is underpinned by a comprehensive, Integrated Risk Management Framework, which is constantly evolving and enhancing to remain relevant and most effective. The framework which is approved by the Board spells out the Bank's approach to Risk Management. The framework sets out the process of identifying, measuring, monitoring and controlling the different types of risks and the risk governance structure in place. The main objectives of the framework are;

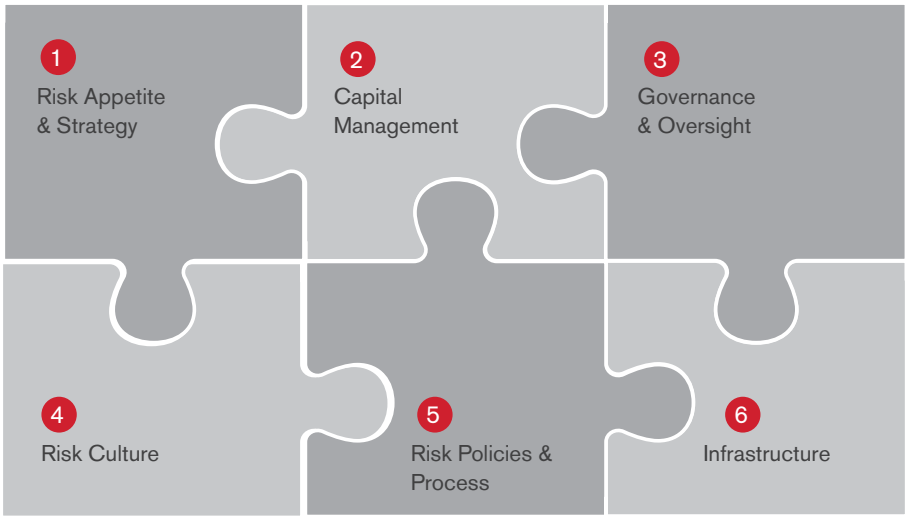
- To establish common principles, standards for the management and control of all risks and to inform behaviour across the Bank.
- Provide a shared framework and language to improve awareness of risk management processes among all stakeholders.
- To provide clear accountability and responsibility for Risk Management.
- To ensure consistency throughout the Bank in Risk Management.
- Define the Bank's risk appetite and align its portfolios and business strategy accordingly.
- Optimize risk return decisions.
- Maintain/manage the Bank's capital adequacy and liquidity position.
- Further strengthen governance, controls and accountability across the organization.

In addition to the main risks (viz. Credit Risk, Market Risk and Operational Risk), the Bank has considered several other risks which are material to it. These additional risk categories include, Liquidity Risk, Interest Rate Risk in the Banking Book, Underestimation of Credit Risk in Standardized Approach, Residual Credit Risk, Concentration Risk, Compliance Risk, Legal Risk, Strategic Risk, Governance Risk, Cross-border Risk, Settlement Risk, Reputational Risk, Model Risk and Group Risk.

The Bank's risk management framework is employed at all levels of the organization, and is instrumental in aligning the behaviour of individuals with the overall attitude to assuming and managing risk and ensuring that Bank's risk profile is aligned to its risk appetite.

Risk Management at the Bank is underpinned by a set of key principles which serves as the foundation of the Bank's risk management framework.

KEY BUILDING BLOCKS OF INTEGRATED RISK MANAGEMENT FRAMEWORK



1. Establishment of a risk appetite and strategy which articulates the nature, type and level of risk, the Bank is willing to assume and is approved by the Board.
2. Capital management driven by the Bank's strategic objectives and accounts for the relevant regulatory, economic and commercial environments in which the Bank operates.
3. Proper governance and oversight through a clear, effective and robust governance structure with well-defined, transparent and consistent lines of responsibility established.
4. Promotion of a strong risk culture that supports and provides appropriate standards and incentives for professional and responsible behavior.
5. Implementation of policies to ensure that risk management practices and processes are effective at all levels and execution of sound risk management processes to actively identify, measure, control, monitor and report risks inherent in all products, activities, processes, systems and exposures.
6. Ensure sufficient resources and systems infrastructure are in place to enable effective risk management.

RISK UNIVERSE

Credit Risk	Market Risk	Operational Risk	Liquidity Risk	IT Risk
Reputational Risk	Settlement Risk	Legal Risk	Compliance Risk	
Cross Border Risk	Governance Risk	Strategic Risk	Model Risk	Cyber Risk

Risk Appetite & Strategy

Risk Appetite is defined as the quantum of risk the Bank is willing to assume in different areas of business in achieving its strategic objectives and ensuring maintenance of desired risk profile. The Risk Appetite framework and Risk Tolerance limits have been defined by the Board in consultation with the Senior Management of the Bank in line with the Bank's overall business strategy, providing clear direction to the business units for on-going operations and risk management. The Risk Appetite framework and Risk Tolerance limits are reviewed and adjusted by the Board when required based on developments in the operating environment.

In the event the risk appetite threshold has been breached, risk management and business controls are implemented to bring the exposure level back within the accepted range. Risk appetite, thus, translates into operational measures such as limits or qualitative checkpoints for the dimensions of capital, earnings volatility and concentration risk etc. In order to effectively implement risk appetite, the Bank has defined quantitative indicators (e.g., capital adequacy level and risk limits) or qualitatively embedded same in the policies and procedures (e.g., underwriting criteria).

Capital Management

Effective capital management is fundamental to the sustainability of the Bank. As such, the Bank pro-actively manages its capital position, capital mix and capital allocation to meet the expectations of key stakeholders such as regulators, shareholders, investors and rating agencies. Capital helps protect individual banks from insolvency, thereby promoting safety and soundness in the overall banking system. The Bank's approach to capital management is driven by strategic objectives and guided by the Basel principles.

BASEL III Framework

The Central Bank of Sri Lanka (CBSL) issued guidelines this year on Capital Requirements Basel III requiring banks to comply with same from 1 July 2017. Basel III capital standards endeavour to strengthen the quantity and quality of capital in banks. The Bank is fully compliant with these requirements. Details of compliance under each pillar are discussed below.

Pillar I – Minimum Capital Requirement

The objective of minimum capital requirements under Pillar I of the Basel III framework is to ensure that banks hold sufficient capital for Credit, Market and Operational Risks. The Bank is currently using the Standardized Approach for minimum capital computation for Credit Risk, the Standardized Measurement Approach for minimum capital computation for Market Risk and Basic Indicator Approach for minimum capital computation for Operational Risk. The Bank continues to maintain capital well above the minimum requirement set by the CBSL.

Credit Risk - With the intention of eventually moving to Internal Rating Based approaches the Bank rolled out rating models with the assistance of CRISIL Risk and Infrastructure Solutions Limited, India in 2014. CBSL is yet to issue guidelines for banks on Advanced Approaches of capital computation under Credit Risk.

Market Risk - The Bank has already rolled out its VaR models and will consider moving to advanced approach of capital computation for Market Risk on receipt of guidelines from the regulator.

Operational Risk - The Bank had been computing capital requirements in parallel as per The Standardized Approach (TSA) and Alternative Standardized Approach (ASA). The Bank forwarded a formal application to the CBSL requesting to grant approval to move to ASA after analyzing both advanced approaches (TSA & ASA) in considering the cost saving against the currently used Basic Indicator Approach (BIA).

Pillar II – Supervisory Review Process

Minimum regulatory capital requirements under Pillar I establishes regulatory capital thresholds that banks should meet. The Pillar II (Supervisory Review Process - SRP) requires banks to implement an internal process, called the Internal Capital Adequacy Assessment Process (ICAAP), for assessing capital adequacy in relation to the risk profiles as well as a strategy for maintaining capital levels. The Pillar II also requires the supervisory authorities to subject all banks to an evaluation process/Supervisory Review Process (SRP), and to initiate such supervisory measures, as might be considered necessary. The Bank has in place an ICAAP and has adhered to same from January 2013. The ICAAP process has strengthened the risk management practices and capital planning process of the Bank.

The capital adequacy management framework serves to ensure that the Bank and its group entities are adequately capitalized in line with the risk profile, regulatory requirements and target ratios approved by the Board and to promote efficient use of capital to meet business requirements, strategic growth and shareholder return. The management framework further focuses on the financial ability of the Bank to absorb any potential losses that it might incur under varying market and economic conditions.

The Bank's capital management objectives can be summarized as follows:

- Maintain sufficient capital to meet minimum regulatory capital requirements
- Hold sufficient capital to support the Banks' risk appetite
- Allocate capital to businesses to support the Bank and its group companies strategic objectives
- Ensure that the Bank maintains capital in order to withstand the impact of potential stress events.

The Bank identified seventeen risks as material in line with the strategic plan. The choice is based on directions given by CBSL and self-assessment of most important risk categories which need a separate mention from an ICAAP perspective. The seventeen material risks identified are Credit Risk, Market Risk, Operational Risk, Concentration Risk, Interest Rate Risk in Banking Book, Liquidity Risk, Under-estimation of Credit Risk, Residual Risk, Strategic Risk, Reputational Risk, Legal Risk, Compliance Risk, Governance Risk, Model Risk, Settlement Risk, Group Risk and Cross-border Risk. These risk categories and their assessments are covered in detail in the ICAAP of the Bank.

The annual Capital Planning Process involves detailed planning of the strategic capital plan over at least a three-year horizon. The plan highlights the capital projections, capital requirements, levels of capital and capital mix to support the Bank's business plan and strategic objectives. The Bank manages its capital structure and adjusts it accordingly in line with changes in local and global economic and market conditions and its overall risk appetite. Notwithstanding same, the projected capital plan is prepared considering mainly the organic growth, which assures adequate capital for the Bank for the next 3 years. The Bank and the Group would have the option to raise capital under normal and stressed scenarios by way of equity / capital infusion, issue of innovative perpetual debt instrument, issue of subordinated bonds or Hybrid capital instruments.

The Bank will continue to be proactive in its efficient utilization of capital and will constantly monitor ongoing developments affecting regulatory capital requirements as well as related capital market developments. The Bank is also committed to ensure continuous healthy capital levels with an optimal capital mix to support the Bank's and the Group's strategic agenda and simultaneously maximizes value to shareholders.

The Bank has in place a comprehensive Stress Testing Policy and Framework in line with the regulatory guidelines as well as international best practices. The policy describes the purpose of stress testing and governance structure and the methodology for formulating stress tests whilst the framework specifies in detail the Stress Testing program including the stress tests, frequencies, assumptions, tolerance limits and remedial action.

Stress tests are conducted on standalone and consolidated basis at various frequencies in line with the Board approved framework and details of those are reported to Board IRMC. The outcome of the stress testing process is monitored carefully and remedial actions are taken in case of breaches. Further, stress testing is used by the Bank as a tool to supplement other risk management approaches.

The Stress Tests carried out as at 31.12.2017 are given below.

Credit Risk
Impact of increase in the Non-Performing Assets on Capital Adequacy Ratio (CAR)
Impact of change in Impairment on CAR
Impact of default of Large Borrowers on CAR
Credit Concentration Risk
Impact of default by the Largest Group on CAR
Impact of default in Specific Sector/Region on CAR
Interest Rate Risk
Impact of change in Interest Rates - Trading Book (Debt Securities)
Impact of change in Interest Rates on CAR for Banking Book
Exchange Rate Risk
Impact of Exchange Rate movements of the Bank's (DBU and FCBU) Net Open position on CAR
Impact of Exchange Rate movements of the Domestic Banking Unit (DBU) Net Open position on Profits
Liquidity Risk
Market Specific Stress Test - Adverse impact on Money Market & Institutional Borrowings/ Drop in Market Liquidity – DBU/FCBU on Liquid Asset Ratio (LAR)
Bank Specific - Run down on CASA & Time Deposits –DBU/FCBU on LAR
Market / Bank Specific - Adverse Impact on Total Liquid Liabilities – DBU/FCBU on LAR
Impact of loss of large depositors on LAR
Impact on CAR due to higher interest paid in a deposit run off scenario
Combined Stress Test

Pillar III – Disclosures

The Bank provides enhanced quantitative and qualitative disclosures in line with the Basel III requirements in the Annual Report, website and press to provide a meaningful picture of the extent and nature of various risks that the Bank is exposed to and the Banks' risk management practices.

Governance and Oversight

The Bank's Board of Directors has the overall responsibility for risk management and sets the tone at the top for the effective management of risks through its risk appetite. In discharging its governance responsibility, it operates through two key committees, namely the Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC) which have been formed in compliance with the CBSL Direction No. 11 of 2007 on Corporate Governance.

Governance Model

The governance model aims to place accountability and ownership, whilst facilitating an appropriate level of independence and segregation of duties. The structure is premised on the three lines of defense and defines the lines of authority, roles and responsibilities to efficiently manage risk across the Bank.

BOARD OF DIRECTORS

The ultimate governing body with overall risk oversight responsibility

BOARD SUB COMMITTEES

Integrated Risk Management Committee (IRMC)

Reviews the risk profile and policies of the Bank, its group companies and their application in the operations of the business in respect of the main risk categories viz. Credit Risk, Operational Risk, Liquidity Risk, Market Risk, Strategic Risk and Compliance, and ensures such risks are managed within the prudent levels decided by the Board of Directors.

Composition - Four Non-Executive Directors, CEO, CRO and Compliance Officer.

Board Audit Committee (BAC)

Assist the Board of Directors in its general oversight on financial reporting, internal controls and functions relating to internal and external audit.

Composition - Five members of the Board of Directors. The Vice President Group Audit functions as the Secretary to the Committee. The CEO, External Auditors and other members of the senior management attend meetings on invitation.

Board Credit Committee (BCC)

Reviews and approves Credit Proposals coming under the Committee's delegated lending authority.

Composition - Seven Non- Executive Directors and CEO.

MANAGEMENT LEVEL COMMITTEES

Credit and Market Risk Policy Committee (CMRPC)

Reviews the Bank's risk policy framework, overall performance and the potential risks faced by specific lines of business and support functions.

Composition - CEO, CRO, Head of Credit Review, Heads of Business Units, Head of Treasury , Head of Credit Risk and Head of Market Risk.

Asset & Liability Management Committee (ALCO)

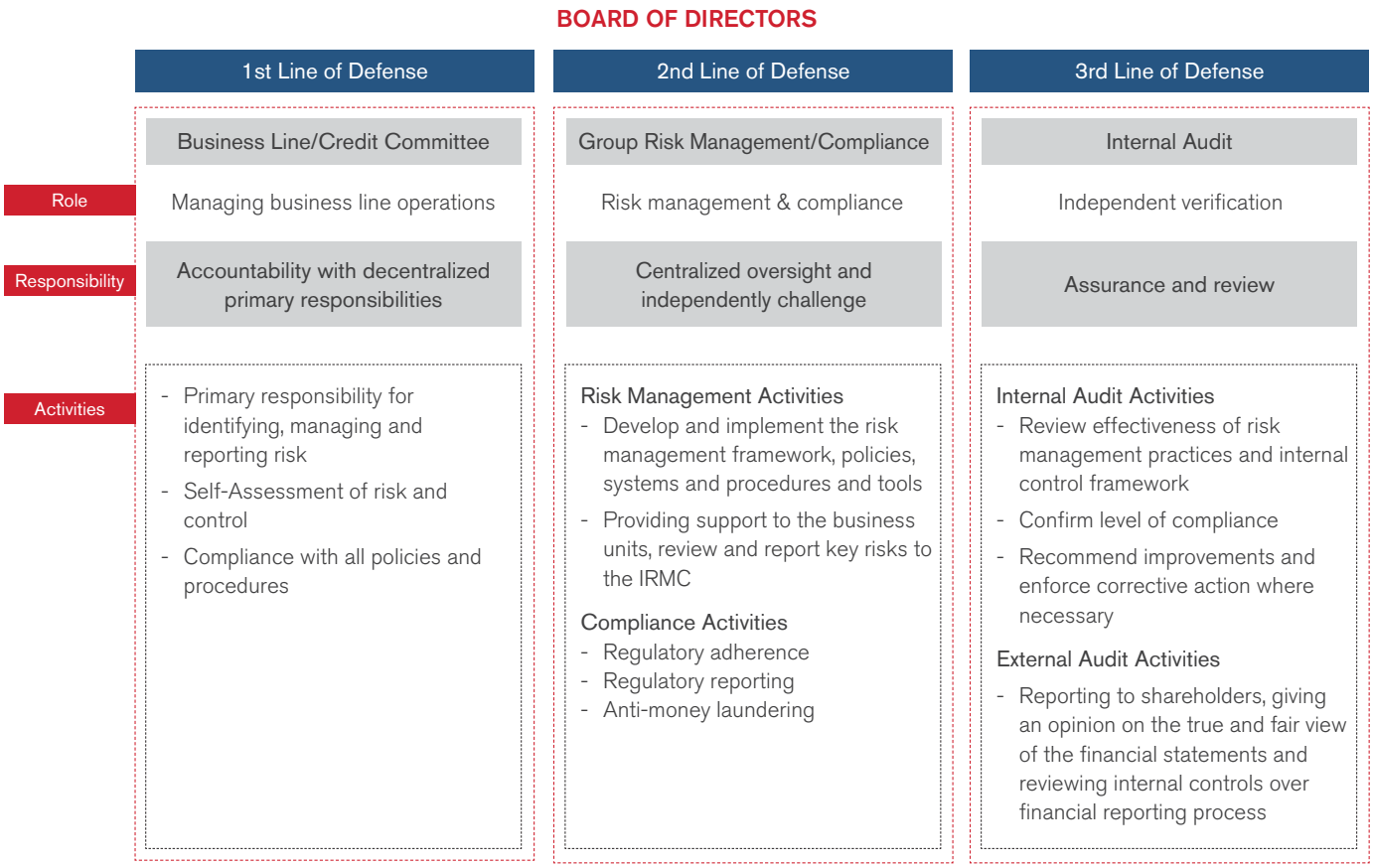
Reviews all Market and Liquidity related exposures on a monthly/more frequent basis and decisions are made to facilitate the business requirements and make pricing/ investment/policy decisions.

Composition - CEO, CRO, GCFO, Head of Treasury, Head of ALM and Heads of Business units.

Operational Risk Policy Committee (ORPC)

Monitors and ensures that an appropriate Operational Risk management framework is in place. Management of all aspects of operational risks and control lapses identified through the incident management process, internal audits and regulatory reviews whilst ensuring all significant issues raised are resolved within agreed timescales. Ensure full compliance of the local regulations. Raise awareness of new trends and developments in operational risk management techniques and migration to best practices. Assist the Bank in the management of Corporate Governance related to Operational Risk on an ongoing basis.

Composition - CEO, CRO, GCFO, Compliance Officer, Heads of Business Units, Heads of Support functions and Head of Operational Risk.



Group Risk Management

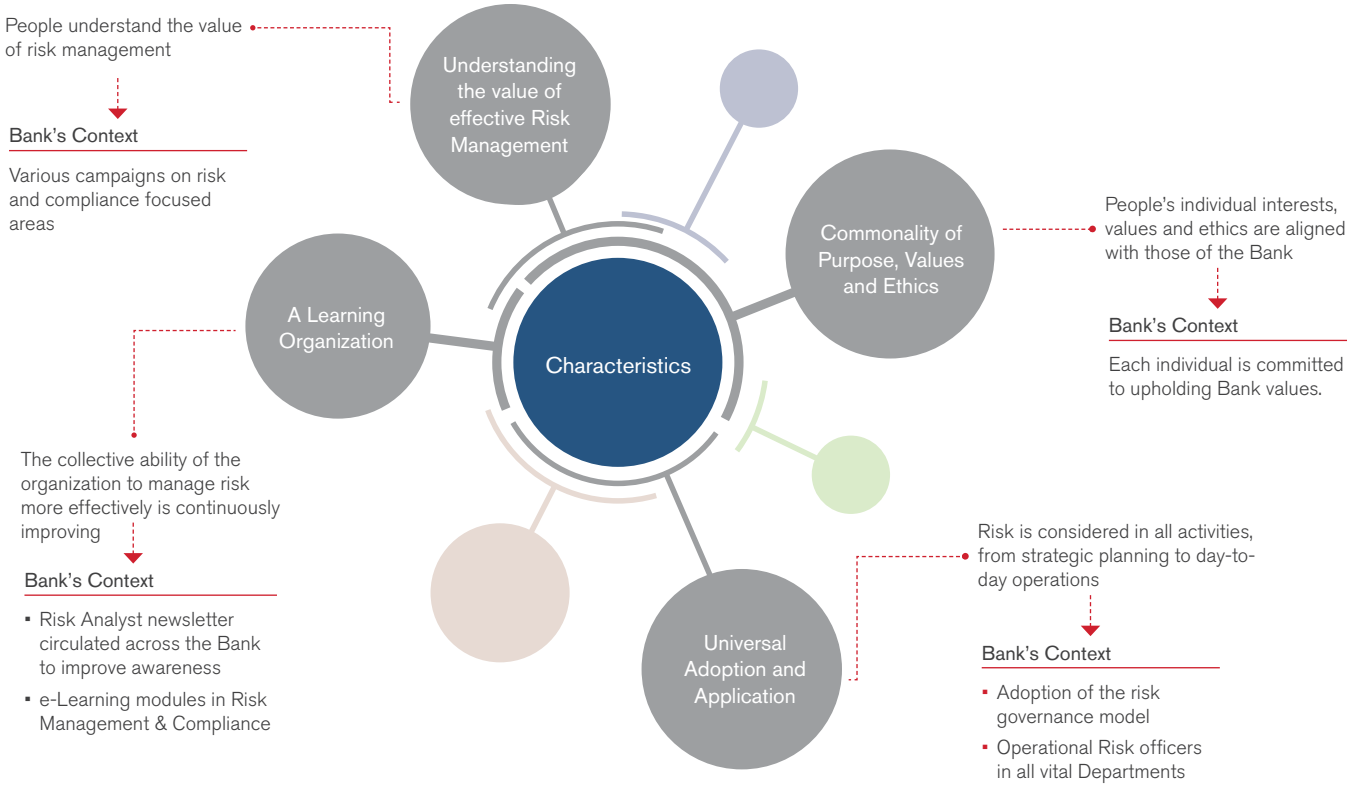
The Group Risk Management Division is independent of the business units and reports directly to the Integrated Risk Management Committee. Each unit within the Risk Management Division contributes to the management of risk and co-ordinates across the business functions to guarantee that risk management is impeccably integrated into the Bank's corporate culture.

Further a Loan Review unit was formed within the Group Risk Management Division to carry out Loan Review Mechanism (LRM) activities as prescribed by the regulator. Its responsibilities extend to identifying potential problematic loans/facilities (post approval/granting) and providing rational, objective and professional recommendations for remedial action for implementation by line management.

In order to make the pre-approval process independent and with a view to further strengthen same the Credit Review Division which handles the pre credit review/approvals beyond specific thresholds also came under the purview of the Group Risk Management Division.

RISK CULTURE

A strong risk culture is the fundamental tenet of Bank's risk management and serves as the foundation upon which a strong risk management structure is built. Within the Bank, the key characteristics of a strong risk culture are identified as follows:



In the Bank a compliance culture is instilled where the Board, Senior Management and every employee is committed to adhere to the requirement of relevant laws, rules and regulatory guidelines. The Bank's commitment is clearly demonstrated through the establishment of strong policies and guidelines and ensuring that non-compliance risks are effectively managed. Such measures not only ensure adherence to regulations, but also protect the Bank's integrity and reputation.

Risk Policies & Processes

CREDIT RISK

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, and also from off-balance sheet products such as letters of credit and guarantees. Credit Risk generates the largest regulatory capital requirement of the risks we incur. The Bank manages the Credit Risk in the entire portfolio as well as individual credits or transactions.

Objectives Of Credit Risk Management

The objectives of Credit Risk Management are:

- Ensure optimal risk-reward pay-off for the Bank and to maximize returns
- Maintain the quality of the portfolio by minimizing the non-performing loans and probable losses
- Maintain a well-diversified portfolio by prudently managing the risk in the asset portfolio to ensure that the risk of excessive concentration to any industry, sector or individual customer is minimized
- Ensure that exposures to any industry or customer are determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines
- Avoid all situations of conflict of interest and report all insider-related credits to appropriate bodies

CREDIT PROCESS

1 A Well-Defined Credit Policy approved by the Board of Directors

- Set the Credit culture of the Bank
- Specify target markets for lending
- Specify prohibited lending
- Set acceptable risk parameters
- Set remedial and recovery actions

2 Structured and Standardized Credit Approval

- Credit is extended only to suitable and well-identified customers
- Never to take a credit risk where ability of the customer to meet obligations is based on the most optimistic forecast of events
- Risk considerations shall have priority over business and profit considerations
- The primary source of repayment for each credit is from an identifiable cash flow from the counterparty's normal business operations or other financial arrangements
- Adopt a pricing mechanism that reflects variation in the risk profile of various exposures to ensure that higher risks are compensated by higher returns
- The financial performance of borrowers is to be continuously monitored and frequently reviewed

3 Delegation of Authority

- Two Credit Committees representing the Business Lines
- The delegated authority limits are reviewed periodically and the Bank follows the four-eyes principle
- Lending decisions are based on detailed credit evaluation

4 Risk Rating

- System driven obligor risk rating, facility risk rating and retail score cards to suit the diverse client portfolios of the Bank
- Incorporating both quantitative and qualitative parameters

5 Risk Pricing

- Pricing of credit risk using scientific methods

6 Post Sanction Review and Monitoring

- Warning signals are identified
- Watch listing process in place
- Non-performing assets are identified at an early stage

7 Prudential Limits

Maximum exposure limits on;

- Single Borrower/Group Exposure limits
- Prudential Group Exposure limits
- Substantial Exposure limits
- Industry/Economic Sector limits

8 Portfolio Management

- Evaluates exposures on the basis of industry concentration, rating quality, internally established pre specified early warning indicators
- Regular portfolio reviews, stress tests and scenario analysis
- The exposures in off balance sheet products are treated with utmost care

9 Credit Risk Mitigation

- Ways out analysis
- Comprehensive and legally enforceable documentation
- Obtaining of collateral in line with the Bank's policy and ensuring enforceability

10 Impairment

- Board approved policy
- Clearly defined process

Credit Policies

The Bank has a well-defined credit policy approved by the Board of Directors. It defines the

- Credit culture of the Bank
- Specify target markets for lending
- Specify prohibited lending which the Bank under no circumstances will entertain due to either the very high risks involved in such proposals and / or its negative social / ethical consideration
- Set acceptable risk parameters
- Set remedial and recovery actions

Structured and Standardized Credit Approval Process

Depending on the nature of the project / product standardized formats have been designed and evaluations are carried out by competent staff. There are clear guidelines set to ensure that;

- Credit is extended only to suitable and well-identified customers and never where there is any doubt as to their ethical standards and record, where the source of repayment is unknown or speculative nor where the purpose/destination of funds is undisclosed;
- Never to take a credit risk where ability of the customer to meet obligations is based on the most optimistic forecast of events;
- Risk considerations shall have priority over business and profit considerations;
- Ensure that the primary source of repayment for each credit is from an identifiable cash flow from the counterparty's normal business operations or other financial arrangements; the realization of security remains a fallback option;
- Adopt a pricing mechanism that reflects variation in the risk profile of various exposures to ensure that higher risks are compensated by higher returns;
- The financial performance of borrowers is to be continuously monitored and frequently reviewed, as is the manner in which the borrower operates his accounts.

Delegation of Authority

Final authority and responsibility for all activities that expose the Bank to credit risk rests with the Board of Directors and the Board of Directors has delegated approval authority to the CEO to re-delegate limits to the Credit Committees and the Business Lines. All approval limits are name specific and are based on the individual experience, facility type and collateral in order to ensure accountability and mitigate any judgmental errors.

- There are two Credit Committees representing the Business Lines and these Committees comprise senior officers of Business Lines and the Credit Review Division.
- The delegated authority limits are reviewed periodically and the Bank follows the 'four-eyes principle' (i.e. minimum of two officers signing a credit proposal).
- Lending decisions are based on detailed credit evaluation carried out by Relationship Managers/ Credit Officers and reviewed/ approved by designated approving authority.

Internal Risk Ratings of Obligors

The Bank has an Internal Risk Rating system which runs on sophisticated work flow based software and hosts obligor risk rating, facility risk rating and retail score cards to suit the diverse client portfolios of the Bank. This move facilitates accurate quantification of credit risk, and also complies with Central Bank Direction No. 07 of 2011 on Integrated Risk Management.

The Bank has deployed varying models to gauge the default risk associated with Large Corporate, Mid Corporate, SME and Non-Banking Financial Institutes. All of these models are structured in a manner incorporating both quantitative and qualitative parameters to reflect the underlying probabilities of default.

The risk rating model implemented facilitates both obligor and facility rating. Whilst obligor rating will indicate the expected probability of default (PD), the facility rating indicates the expected loss given default (LGD). Expected probability of default takes into account the characteristics of the obligor assessed via industry, business, management and financial risk silos, whilst facility rating takes into account the type of the facility, nature of the collateral and realizability. Using the expected probability of default and the loss given default calculated via obligor rating and facility rating models the system facilitates arriving at an expected loss for a specific credit.

Risk Scoring

The Bank deploys custom made scorecards to underwrite consumer assets. The scorecards take into account the customer demographics together with creditworthiness of individuals and disposable income in deciding the level of accommodation of credit. In addition to above, the Bank also carries out a pre-screening of employers of salaried employees who seek consumer credit from the Bank in order to ensure that their level of income generation will not get interrupted in the foreseeable future. In this way the Bank acts more responsibly as such an approach would negate possibility of overspending by consumers based on uncertain future income.

Risk Pricing

The Bank also views pricing for risk as fundamental to Credit Risk Management. Thus steps have been taken to price the credit risk using more scientific methods. A risk based pricing model has been rolled out across the Bank .

Post Sanction Review and Monitoring Mechanism

Post sanction review and monitoring is carried out to ensure quality of credit is not compromised. Any deteriorating credits with emphasis on internal and external early warning signals are identified and such accounts are "Watch Listed". The Watch Listed clients are monitored closely with quarterly reports submitted to the Credit Committees. Further, based on the Watch Lists the Bank assesses the Portfolio at Risk in the event, such accounts deteriorate further. Non-performing assets are identified at an early stage, enabling management to take action as appropriate.

Prudential Limits

The industry and portfolio limits are set by the Board of Directors on the recommendation of the Group Risk Management Department. Credit Risk Management monitors compliance with approved limits. Desired diversification is achieved by setting maximum exposure limits on

- Single / group obligor exposures - limits are more stringent than the limits set by the regulator and on a prudential basis, the off- balance sheet items are considered at face value instead of credit equivalent of such exposures

- Prudential Group exposures - considered based on the Bank's exposure to a 'Group of Related Parties' and is capped at 60% of the Bank's Capital Base
- Substantial exposures – this is in compliance with the Banking Act Direction No 07 of 2011 on Integrated Risk Management Framework for Licensed Banks and the Bank has introduced a substantial exposure limit of 500% of the capital base of the Bank
- Industry/economic sector exposures - limits are imposed for lending to different sub- sectors in the economy. This is a control mechanism introduced recognizing that during various economic cycles, different sectors of the economy could face difficulties. At present the limit for a sub sector is set at 15%.

Portfolio Management

Credit portfolio management is an important function within the overall credit risk management function. Need for such critical and objective portfolio management emanates from the need to optimize the benefits associated with diversification. It also helps the Bank to identify and address potential adverse impact of concentration of exposures. The Bank has a well-structured portfolio management mechanism which evaluates exposures on the basis of industry concentration, rating quality, internally established pre specified early warning indicators apart from regulator imposed quantitative ceiling on the single borrower and aggregate exposure. The Bank's internal single borrower and Group exposure limits are much stringent than those imposed by the regulator. Based on the feedback from the credit portfolio management, the credit origination criterion is amended prudently to insulate portfolios from further deterioration.

The portfolio management team also undertakes, apart from regular portfolio reviews, stress tests and scenario analysis when the external environment, both local and global, undergoes significant changes. Credit portfolio management envisages mitigating credit risks to a great extent by stipulating prudential risk limits on various risk parameters. As such, the Bank has established single borrower limit, limits for related party borrowings and aggregate limit for large exposures as prescribed by the regulators. Moreover the Bank has also established maximum limits to different industry segments. Such limits are clearly spelt out in the credit policy and the authority for permitting any deviations on an exceptional basis is also clearly documented. The Bank adopts a similar mechanism to assess the risks associated with off balance sheet exposures. As part of the credit portfolio management and monitoring procedures, the exposures in off balance sheet products such as FX Forwards, Guarantees and Letters of Credit are treated with utmost care.

KRIs supplement the overall portfolio management system, by providing a view of the credit risk of the portfolio as well as acting as an early warning system. Some of the KRIs monitored and reported to Board Integrated Risk Management Committee are given below;

Portfolio of the Bank Industry portfolio	To assess the trends in comparison with industry and measure performance against budgets/Risk Appetite
Market Share	
NPLs of the Bank Industry NPLs	
NPL Ratio of the Bank Industry Average NPL Ratio	
Impairment - Cumulative Charge - Individual Impairment % - Total Impairment against portfolio	
Provision Cover - % of the Bank Industry %	
Open Loan Position	
ROE %	
Tier I Capital Adequacy Ratio %	To assess compliance with Regulatory limits and the Bank's Risk Appetite
Tier I + Tier II Capital Adequacy Ratio %	

Credit Risk Mitigation

The Bank adopts various mechanisms to mitigate the credit risk of the loan book.

- Ways out analysis - the primary source is established through a conservative evaluation of whether the borrower's realistic projected cash flows will be sufficient to repay their debts. This is further mitigated by a second way out in the event of unforeseen adverse circumstances and availability of collateral alone does not make an unacceptable proposal viable. Exemptions on collateral are allowed in the event the borrower demonstrates strong and reliable financial performance.
- Documentation of credit transactions with adequate terms, conditions and covenants in a comprehensive and legally enforceable basis.
- Obtaining of collateral in line with the Bank's policy and ensuring it is supported by enforceable documentation. Collateral policy differs from business line to business line according to the products offered.

The main types of collateral taken by the Bank are

- immovable property mortgages,
- plant, machinery and equipment,
- cash deposits,
- mortgages on stocks and book debts and
- corporate and personal guarantees.

It is the Bank's policy to be on a pari passu status with other lenders in terms of collateral cover. A decision to the contrary may be acceptable only where a non pari passu position is accepted due to unavailability of security as a result of the Bank being a late entrant to the relationship and is supported by strong financial position of the entity financed. Facilities under Product Programmes are governed by guidelines given in such individual programmes.

In instances where facilities are granted without collateral, the Bank ensures that its position will not be subordinated to other creditors' interests. In such instances, the Bank generally requires either a negative

pledge agreement not to encumber any assets without permission of the Bank or a pari passu clause, whereby the debtor will treat the Bank equally with respect to collateral with all current and future lenders.

The Bank has a panel of valuers who have been selected based on the criteria set out by the Central Bank of Sri Lanka. The Bank ensures that the valuations are carried out and reviewed as following.

- Facilities in NPL:
  - In respect of credit facilities granted against residential property which is occupied by the borrower for residential purposes – every 4 years
  - In respect of credit facilities granted for all other purposes – every 3 years
- Performing facilities:
  - Watch listed clients with working capital facilities - every 3 years
  - Other Clients with working capital facilities - every 5 years

No value is considered if valuations are not in line with the time frames set out as per the CBSL guidelines.

Impairment

The Bank has in place a detailed impairment policy which was approved by the Board of Directors. A credit risk provision for loan impairment is established if there is objective evidence that the Bank will be unable to collect all amounts due on loans and advances according to the original contractual terms.

Objective evidence that a loan is impaired includes observable data that comes to the attention of the Bank about the following loss events:

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

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis if there is any objective evidence of a loss based on the above. Items considered when determining allowance amounts include

- The sustainability of the counterparty's business plan/cash flows,
- Projected receipts and the expected payout should bankruptcy ensue,
- The realizable value of collateral and the timing of the expected cash flows.

A provision for impairment of loans is reported as a reduction of the carrying amount of loans on the balance sheet. Additions to provisions for loan impairment are made through impairment losses on loans and receivables in the income statement.

All exposures are assessed for impairment either individually or collectively. If there is objective evidence of incurred loss individually i.e. for exposures which are considered to be individually significant (exposures above LKR 50 million), the exposure should be measured for an impairment provision. If it is determined that no objective evidence of incurred loss exists for an individually assessed exposure, that exposure should be included in a group of exposures with similar credit risk characteristics that are collectively assessed for impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows discounted at

a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or
b) current effective interest rate, if the loan bears a variable interest rate.

The estimation of the recoverable amount of a collateralized exposure reflects the cash flows that may result from Liquidation of Collateral where foreclosure is considered the likely course of action. The time, costs and difficulties involved in obtaining repayment through collateral should be taken into account when determining the recoverable amount.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Corporate and SME loans are grouped based on product type, economic sector and on days in arrears. Retail Banking loans are grouped based on product type and number of days in arrears. Those characteristics are relevant to the estimation of historical loss experience for loans. Historical loss experience is adjusted on the basis of Probability of Default and Loss Given Default. The Bank also bases its analyses on economic factors and portfolio factors such as :-

- Macro Economic Factors such as
  - Interest rate stability
  - Unemployment rate
  - Inflation
  - GDP growth rate
  - Exchange Rate fluctuation
- Portfolio Factors such as
  - Rescheduled Loans as a % of total Loans
  - Average Age of the portfolio
  - Management's judgment on delinquencies of the borrowers
- Other Factors such as
  - Sovereign ratings assigned to Sri Lanka by local and international rating agencies
  - Global Economic Environment which has direct impact to the Sri Lankan economy
  - Borrower's ratings assigned by local and international rating agencies

The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances. Allowances are evaluated separately at each reporting date with each portfolio.

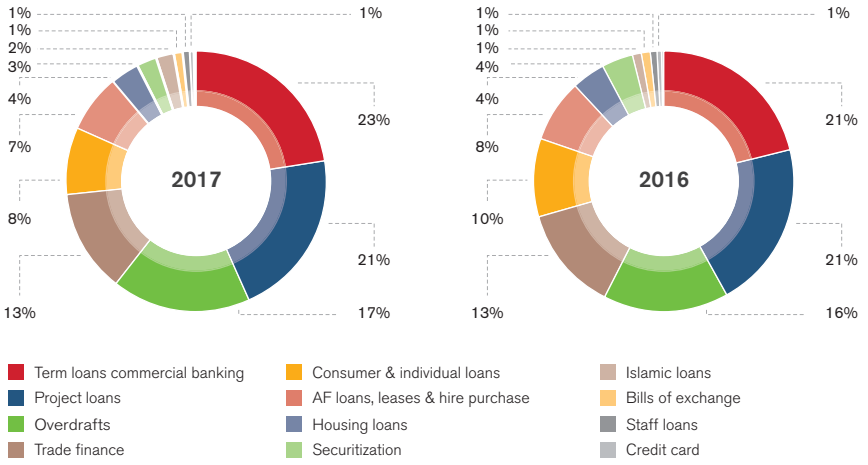
Credit Risk Analytics

Portfolio Mix

Product Concentration

The Bank's portfolio continues to be concentrated in working capital financing facilities and Project Loans.

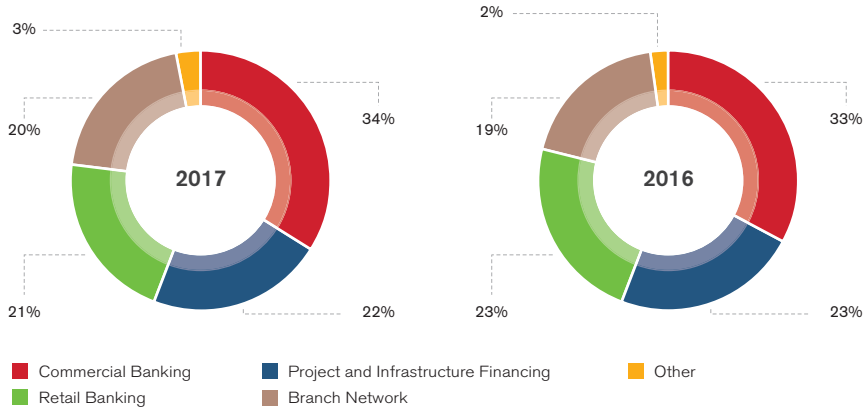
Product wise portfolio composition - 2016/2017



Business Line wise Composition

Business line wise composition of portfolio changed during the year in line with the long term strategy of the Bank.

Business line wise composition of portfolio - 2016/2017

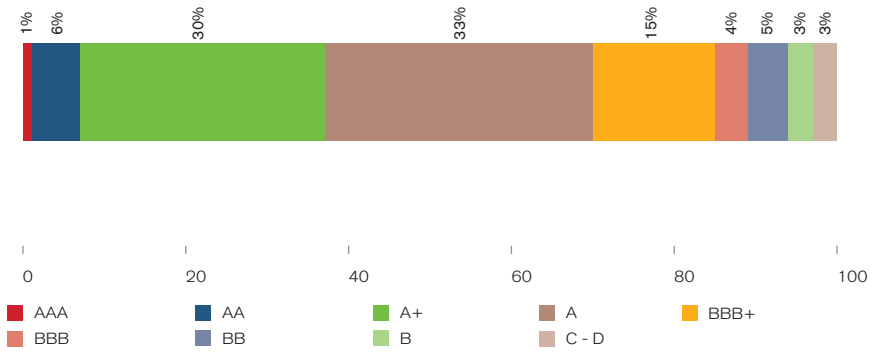


Portfolio Quality

Rated Portfolio Concentration

The Bank's rated portfolio continues to be concentrated on "A" rated clients based on the internal rating models used by the Bank to rate Corporate and SME clients and the composition was within the risk appetite of the Bank set by the Board.

Rated Portfolio Concentration



Credit Risk Concentrations

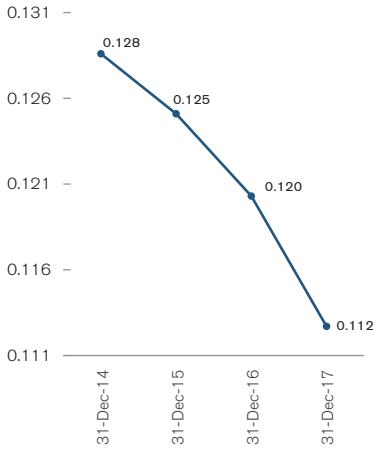
Single Name Concentration

- The Bank was in compliance with regulatory limits on Group and Single Borrower concentrations. The Bank was also in compliance with the internal limits set by the Board on Group and Single Borrower concentrations which are more stringent than those prescribed by the regulator.
- The substantial exposures of the Bank accounted for only 132% of the capital base and was well within the internal limit.
- The Bank's portfolio concentrations were well within the risk appetite of the Bank set by the Board.

Sector Concentration

The Bank maintained a well-diversified portfolio and the portfolio was not over concentrated on a particular sector. The Bank was also in compliance with the minimum lending requirement of 10% to Agricultural sector. Bank measures the sector wise concentration risk using the Herfindhal-Hirschman Index and the trend indicated a reduction in concentration risk.

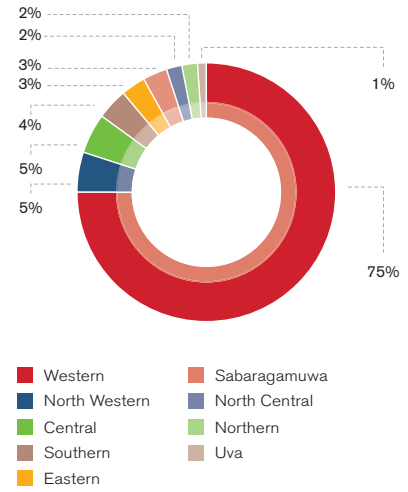
Concentration Measured Using HHI



Geographical Concentration

Based on the economic activity highest concentration of domestic portfolio was in Western Province though the branch network is spread throughout the country. In line with Bank's strategy 96% of portfolio was concentrated locally.

Geographical Concentration of Portfolio-31.12.2017

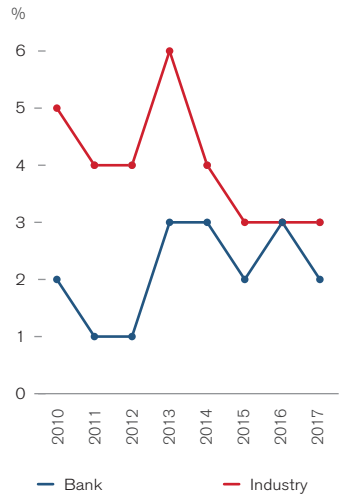


NPL Analysis

Non-Performing Loans

The Bank's NPL ratio was well below the industry ratio reflecting a better quality portfolio than most players in industry.

Gross NPL %



NPL and Regulatory (CBSL) Provisioning on Balance Sheet Exposures as at 31 December 2017

(LKR '000)	
General Provision	1,125,563.96
Non Performing - Specific Provisions	2,470,896.62
Charges	17,720.91
Total Specific Provision on NPLs	2,488,617.53
Performing - Judgmental-Specific Provisions	93,127.77
Total Loan Loss Provision	3,707,309.26

	NPL Amount LKR '000	Provisions as at 31 December 2017 LKR '000	Collateral Value considered for Provisioning purposes LKR '000	Net Exposure LKR '000
Pawning				
Special Mention	602.70	-	-	602.70
Substandard	131.60	26.32	-	105.28
Doubtful	17.00	8.50	-	8.50
Loss	989.96	989.96	-	-
Housing				
Special Mention	69,597.93	-	-	69,597.93
Substandard	24,733.60	4,946.72	-	19,786.88
Doubtful	3,645.01	1,822.50	-	1,822.50
Loss	73,985.90	43,188.64	30,797.26	30,797.26
Consumer Loans				
Special Mention	77,073.23	-	-	77,073.23
Substandard	24,157.88	4,831.58	-	19,326.31
Doubtful	35,040.61	17,520.31	-	17,520.31
Loss	203,355.81	203,355.81	-	-
Leases and Hire Purchase				
Special Mention	368,048.67	-	-	368,048.67
Substandard	82,964.49	16,592.90	-	66,371.59
Doubtful	16,197.76	8,098.88	-	8,098.88
Loss	96,224.43	96,224.43	-	-
Credit Card				
Special Mention	5,970.36	-	-	5,970.36
Substandard	33,261.71	8,315.43	-	24,946.29
Doubtful	25,816.66	12,908.33	-	12,908.33
Loss	97,860.18	97,860.18	-	-

	NPL Amount LKR '000	Provisions as at 31 December 2017 LKR '000	Collateral Value considered for Provisioning purposes LKR '000	Net Exposure LKR '000
Working Capital Facilities				
Special Mention	282,125.16	-	-	282,125.16
Substandard	26,241.57	5,248.31	-	20,993.25
Doubtful	34,166.01	17,083.00	-	17,083.00
Loss	501,143.42	501,143.42	-	-
Term Loans				
Special Mention	345,157.43	-	148,156.22	345,157.43
Substandard	262,946.48	16,195.52	54,459.67	246,750.95
Doubtful	373,897.11	48,904.39	276,022.70	324,992.72
Loss	880,931.33	799,754.97	57,539.22	81,176.37
Overdraft Facilities				
Special Mention	241,360.13	-	1,014.50	241,360.13
Substandard	287,377.46	43,870.58	56,272.56	243,506.87
Doubtful	144,060.49	62,827.70	18,940.65	81,232.79
Loss	357,921.82	349,636.57	53,167.73	8,285.25
Other				
Special Mention	1,097.23	-	-	1,097.23
Substandard	-	-	-	-
Loss	109,541.65	109,541.65	-	-
	5,087,642.81	2,470,896.62	696,370.51	2,616,746.19

MARKET RISK

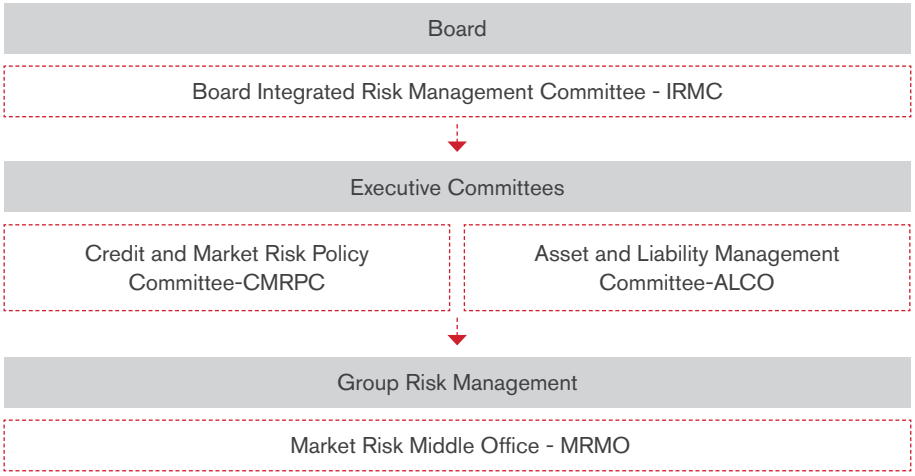
Market risk is the potential loss in both 'On' and 'Off'-balance sheet positions arising from the movements in foreign exchange rates, interest rates, equity and commodity prices.

Objectives of Market Risk Management

The primary objective of Market Risk Management (MRM) is to ensure that Business units of the Bank optimize the risk-reward relationship within the Bank's pre-defined risk appetite and avoid exposing the Bank to unacceptable losses.

Under a well-defined risk governance structure, the risks are identified, assessed, controlled and reported to ensure that the Bank operates within the allocated risk appetite levels. The Treasury activities are the key elements of Market Risk in the Bank, whilst other banking activities like deposit taking and lending activities forms a significant contribution over the same. The Treasury functions are segregated into three areas namely; Treasury Front Office, Market Risk Middle Office (MRMO) and Treasury Back Office where each unit has separate reporting lines to maintain independency. Treasury front office staff is guided by the Board approved Market and liquidity risk policies / limit framework and the Treasury Front Office Procedure guidelines. The procedure guideline provides the code of conduct for dealing room staff including the course of action to be taken in case of a violation of the rules and regulations stipulated therein.

Market Risk Governance Structure



Policies

Risk monitoring is guided by a well-defined policy framework and limit structure designed to suit the business model and the balance sheet structure reflecting the risk appetite of the Bank. The Board supported by Integrated Risk Management Committee (IRMC) approves the risk parameters as recommended by the Asset and Liability Committee (ALCO) and Market Risk Middle Office (MRMO)to facilitate the business needs.

The risk management policy framework covers the Market, Liquidity, Asset and Liability risk management guidelines on the procedure and techniques for assessing, managing, monitoring and reporting of risks related therein. The policy framework consists of the roles and responsibilities, procedures, risk measurement framework, risk monitoring, reporting and controls taking into account the rules and regulations and the best industry practice.

Processes

The key functions of Market Risk Management include Policy formulation, Risk Measurement methodologies, systems, control, reporting and communication. This will provide guidance on procedure for Market risk Management within the overall risk appetite of the Bank.

Policy Formulation

Policy formulation/ renewal are carried out considering the regulatory guidelines, best practice in the market and material changes in Market Risk Management/ Limit monitoring process

Risk Measurement Methodologies

Limits are assessed and recommended to ALCO / Board approval. All limits in force will be independently monitored by MRMO on pre-defined time bands

Systems and Controls

Support in implementation of management reporting systems to accurately reflect the risks taken by the Bank. Develop, implement, and review the controls that enforce the adherence to established risk limits.

Risk Reporting and Communication

MRMO risk activities are identified and monitored on a timely manner against the risk parameters and where necessary the exposures are reported for senior management/ Board for necessary action.

The Market Risk reports are circulated at a number of frequencies - daily, weekly, monthly and quarterly basis to Treasury, Senior Management, ALCO, IRMC and Board for decision making.

ALCO as the key Management Committee that regularly monitors the Market Risk exposures initiates appropriate actions to optimize the Risk exposures within the Risk appetite of the Bank.

The implementation of the Bank's Market Risk Management policies, procedures and systems are delegated to the Head of Market Risk Management/Middle Office who reports to the Chief Risk Officer. Market and liquidity risks are addressed at ALCO on a monthly basis and at the IRMC level on a monthly/ quarterly basis.

Analytics

MRMO uses a range of techniques to measure the risk exposures arising from Treasury/general banking activities. In accordance with the economic and regulatory requirements, we measure, monitor and control the Bank's exposures to market risk, given the size, complexity and risk profile of the Bank.

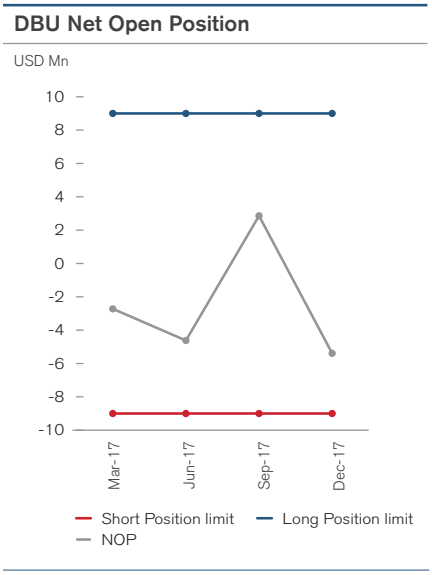
Prudential internal limits have been defined for exchange rate risks, interest rate risk and Price risks for close monitoring of exposures including various techniques such as Mark to Market, sensitivity analysis, Value at Risk (VaR) calculations and Stress testing. The exposure limits are linked to the Bank's capital base/ balance sheet size/profitability as appropriate to ensure adequate and efficient capital allocation and planning.

Foreign Exchange Risk

Foreign exchange risk is the risk of losses arising through holding of assets and liabilities in foreign currency and due to the movements in foreign exchange rates against the base currency. The Bank is exposed to foreign exchange risk when it's on and off balance sheet assets and liabilities are not equal in a given currency or when the timing and certainty of the inflows and outflows differ.

The Bank monitors the daily foreign exchange (FX) open positions to ensure that the Bank is operating within the regulatory limit on Net Open Position as depicted in the graph. Apart from the regulatory limit, the Bank has set internal prudential forex limits consisting of daily forex turnover limit, daylight position limit, forex gap limits, stress testing limits, sensitivity analysis, Swap funding limit and stop loss limits to closely monitor and mitigate foreign exchange risk.

DBU Net Open Position (NOP) during the year



The below table shows the Bank's consolidated Foreign Exchange position and the exposure held against the Bank's capital base which is managed well within the regulatory limit of 30%.

Foreign Exchange Position (DBU & FCBU) as at 31.12.2017 '000								
Currency	Net AL Position	Net Spot Position	Net Forward Position	Net Open Position	Net Position in other Exchange Contracts	Overall Exposure in Respective Foreign Currency	Absolute Positions in USD Equivalent	Overall Exposure in LKR
US Dollars	94,522.15	(2,348.64)	(97,658.92)	(5,485.42)	0.00	(5,485.42)	5,485.42	839,817.13
Pound Sterling	(16,299.60)	0.00	16,303.66	4.06	0.00	4.06	5.46	835.84
Euro	(18,134.79)	(12.27)	18,100.45	(46.61)	0.00	(46.61)	55.68	8,524.43
Japanese Yen	(31,144.03)	0.00	28,306.24	(2,837.79)	0.00	(2,837.79)	25.17	3,852.77
Australian Dollar	(18,613.30)	0.00	18,620.92	7.63	0.00	7.63	5.94	910.09
Canadian Dollar	(13.23)	0.06	0.00	(13.18)	0.00	(13.18)	10.49	1,605.57
Other currencies	(3,533.53)	(475.00)	4,818.67	810.14	0.00	810.14	248.48	38,042.35
Total Exposure								893,588.19
Total capital funds as per the latest audited financial statements								28,737,835
Total exposure as a % of total capital funds (should not exceed 30%)								3.11%

CBSL Disclosure

Value at Risk (VaR)

VaR is a quantitative measure of the potential loss in value due to market movements which is expected for a defined period of time and a confidence level. The Bank's Foreign exchange trading portfolio is subject to VaR measurement under historical simulation method on a daily basis. As prescribed by the Basel guidelines we calculate the VaR, using 99% confidence level for a one day holding period.

Value at Risk (VaR) on Forex Trading Portfolio

VaR - (at 99%)	as at 31.12.2017 LKR million	as at 31.12.2016 LKR million
Forex Trading	2.24	4.37

Historical approach, 1 day holding period

Stress Testing on DBU Net Open Position

Stress testing on Forex NOP under different magnitudes of shocks are performed to assess the impact on profitability as given below.

The Bank's Foreign Currency DBU Net Open Position and Stress Test Results as at 31.12.2017.

USD/LKR

	Net Position	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Magnitude of Shock (adverse)		5%	10%	15%	25%
Spot Rate movement	153.40	145.73	138.06	130.39	115.05
Net Open Position -DBU, Profit/loss (LKR)	(5,396,107)	41,388,143	82,776,285	124,164,428	206,940,713

Sensitivity Analysis

Daily sensitivity analysis is carried out on major foreign currency Net Open Positions (NOP) giving positive and negative shocks to the spot rates to determine the impact of exchange rate movements by way of profit or loss to the Bank's income statement.

Exchange Rate Sensitivity of Major Foreign Currency Net Open Positions as at 31 December 2017.

Spot Rate Shocks		LKR depreciate				LKR appreciate		
Currency	Net Open Position	-5%	-2.5%	-1%	Spot rate	1%	2.50%	5%
USD	(5,485,416)	(42,073,138)	(21,036,569)	(8,414,628)	153.40	8,414,628	21,036,569	42,073,138
GBP	4,056	42,069	21,035	8,414	207.42	(8,414)	(21,035)	(42,069)
EUR	(46,614)	(429,654)	(214,827)	(85,931)	184.34	85,931	214,827	429,654
JPY	(2,837,788)	(193,153)	(96,577)	(38,631)	1.36	38,631	96,577	193,153
AUD	7,626	45,808	22,904	9,162	120.14	(9,162)	(22,904)	(45,808)
Total (LKR)		(42,608,068)	(21,304,034)	(8,521,614)		8,521,614	21,304,034	42,608,068

Interest Rate Risk (IRR)

Interest Rate Risk (IRR) is the exposure of an institution's financial condition to adverse movements in interest rates. Changes in interest rates also affect the underlying value of the banking institution's assets, liabilities and off-balance sheet instruments, as the present value of future cash flows (and in some cases the cash flows themselves) change when interest rates change. Interest rate risk inherits various components; Re-pricing risk, basis risk, yield curve risk, option risk and price risk.

In order to manage the IRR, Bank has separated the balance sheet into trading and banking books. While the assets in the trading book (held for trading) are held primarily for generating profit through short term differences in prices/yields, the banking book (available for sale: AFS, held to maturity and loans and receivables) comprises assets and liabilities, which are contracted basically for steady income generation and are generally held till maturity. Thus, while the price risk is the prime concern of banks in the trading book, earnings or economic value changes are the main focus of the banking book.

The Bank's trading portfolio mainly comprises securities (Treasury Bills/Bonds), and is monitored daily against the portfolio size limit, duration limit, maturity mismatch limit and mark to market limits. Portfolios are subject to VaR (Value at Risk) and PVBP analysis to analyze the impact on fluctuations in interest rates which are being closely monitored to take advantage of the market movements.

Key Indicators	Limit	Position as at 31.12.2017
Mark to Market of Debt Trading Portfolio	LKR (60) million	LKR 4.57 million
Duration of Debt securities - HFT	2 Years	0.44
Duration of Debt securities - AFS	5 Years	1.09

Value at Risk (VaR) on Treasury Bills/Bonds Trading and Available for Sale (AFS) Portfolio

VaR - (at 99%)	as at 31.12.2017 LKR million	as at 31.12.2016 LKR million
Debt Securities - HFT	0.36	0.28
Debt Securities - AFS	29.79	25.33

Historical approach, 1 day holding period

Interest Rate Risk in the Banking Book (IRRBB)

The IRRBB arises mainly through non-trading asset and liabilities such as loans and advances, which is measured and managed through price sensitivity /duration/ NII and variance analysis, and the interest rate sensitivity gap analysis.

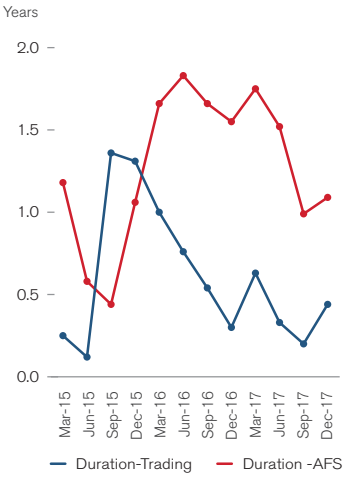
Interest Rate Sensitivity Gap Analysis

The Bank monitors the interest rate sensitivity of assets and liabilities using re-pricing gap report (Disclosure note No. 56.2 (C)).

The price sensitivity (Economic value perspective) of the Balance Sheet is managed within the risk parameters whilst maximizing the market potential on interest sensitive assets and liabilities.

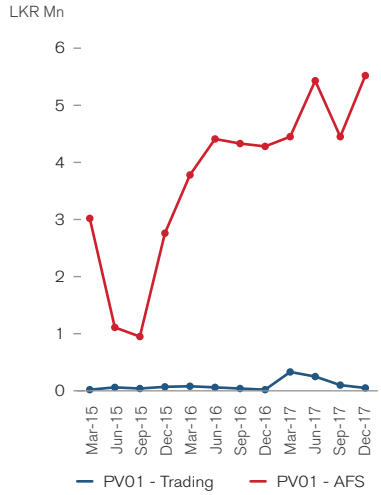
Duration Analysis

Weighted Duration of Debt Securities Portfolio



PV01 Analysis

PV01 of Debt Securities Portfolios



Modified Duration & Price Sensitivity of Local Currency Assets and Liabilities

As at 31 December 2017

	Duration	Total Balance	Price Sensitivity
		LKR million	
Assets:			
Overdrafts - LKR	2.65	42,563.23	1,126.32
Credit Cards	2.65	1,611.35	42.64
Margin Trading	2.65	31.05	0.82
Term Loans - LKR	0.31	23,245.09	72.13
Project Loans Fixed	1.44	27,439.68	394.33
Project Loans Adjustable	0.07	30,795.01	20.64
Refinance loans	0.87	15.48	0.14
Securitization Loans	0.73	8,267.57	60.55
Post Import Finance - LKR	0.12	13,536.81	16.65
Packing Credit - LKR	0.10	35.10	0.04
Trade Bills - LKR	0.13	55.79	0.07
DM Loans - Fixed	1.69	18,074.89	305.18
DM Loans - Variable	0.06	2,355.39	1.38
Vishmitha/Cash Back	1.48	2,182.42	32.32
Housing Loans - Fixed	2.78	6,460.92	179.57
Housing Loans - Variable	0.07	3,588.09	2.47
Staff loans	2.08	2,420.59	50.39
Pawning	0.52	171.24	0.88
AF Lease	1.25	15,043.09	188.31
AF Loans	1.76	3,390.24	59.52
Hire Purchase	0.61	291.32	1.77
IB Loans - LKR	1.23	3,566.30	43.80
Deposits Placed - LKR	0.00	75.00	0.00
Investments in T Bills HTM	0.00	-	-
Investments in T Bonds HTM	1.85	721.60	13.33
Investments in T Bills Trading	0.09	746.14	0.70
Investments in T Bonds Trading	0.94	454.58	4.26
Investments in Bills & Bonds AFS	1.02	50,814.17	520.67
Investment in Debentures	0.31	2,675.61	8.31
Reverse Repos	0.00	-	-
Total Assets		260,627.72	3,147.19
Liabilities:			
Demand Deposits - LKR	1.51	17,370.81	261.79
Savings Deposits - LKR	3.05	26,367.80	804.99
Call Deposits - LKR	2.94	1,297.64	38.16
Term Deposits - LKR	0.38	169,204.70	642.55
Margin Deposits - LKR	3.09	585.00	18.09
Repurchase Agreements	0.09	8,637.23	7.53
Money Market - LKR	0.00	75.70	0.00
Institutional Borrowing - LKR	0.00	-	-
Credit Lines - Fixed	3.29	5,513.85	181.47

	Duration	Total Balance	Price Sensitivity
		LKR million	
Credit Lines - Variable	0.06	2,686.45	1.48
Debentures	3.28	19,410.50	636.49
Equity & Other Liabilities	2.65	9,478.04	251.17
Total Liabilities		260,627.72	2,843.73
Price Sensitivity			303.46
Limit			1,000

Modified Duration - measurement of the portfolio to a 1% change in interest rates

Price Sensitivity - Sum of value change in each portfolio due to a 1% change in interest rates

Source - Fiserve ALM System

Equity Risk

The Equity price risk arises due to adverse movement in the value of the individual stock price or of the corresponding equity index. Bank does not engage in equity trading at present but the investments held in the AFS portfolio are subject to mark to market valuation.

Equity Position Risk Measurements

	Held for Trading LKR .000	Available for sale LKR.000
	Impact on statement of Profit or Loss	Impact on Other Comprehensive Income
Shock of 15% on Equity price		204,977

LKR 000'

TYPE	Carrying Value	Fair Value	Realized gains/ losses	Unrealized gains/ losses	Amount included in capital adequacy calculation	
					Amount adjusted from CET 1 capital	Amount considered for Market Risk
Available for sale -AFS	1,659,702	1,381,658	-	(278,044)	1,122,016	259,642

Commodity Risk

Commodity price risk arises due to volatilities in the commodity exposure of the Bank. The Bank was exposed to the Gold Buffer stock of the underlying product "Raththaran Ithurum" which was fully disposed during the year 2017.

Counterparty Risk

When undertaking foreign exchange dealing and trading with interbank counterparties and corporates, two general types of risks arise.

- Pre-settlement Risk - Refers to the counterpart becoming insolvent prior to the settlement date of transaction. The exposure comes by way of banks' inability to find an alternate party to deal on same rates (interest or exchange) due to market changes.
- Settlement Risk - Relates to the event where the counterpart to the deal is unable to honour settlement obligations (either in local currency or foreign currency) to the bank after having taken possession of funds paid by the bank in settlement.

The Bank set individual counterpart limits to mitigate such risk. These limits are set through critically assessing the financial standing, balance sheet size and other risk parameters of such counterparts.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner without incurring unacceptable losses. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of securities borrowings and repurchase transactions, lending and investment commitments.

Effective liquidity risk management is essential to maintain the confidence of depositors and counterparties as well as to ensure that the Bank's core businesses continue to generate revenue, even under stressed conditions.

Objective of Liquidity Risk Management

The objective of our liquidity framework is to ensure that all anticipated funding commitments can be met when due and allow us to withstand liquidity stresses whilst maintaining our business profile. It is designed to be adaptable to changing business models, markets and regulations. The Bank continues to focus on liability generation, which will be a necessary pre-condition for significant asset growth.

Policy Framework

The Bank maintains well-articulated liquidity risk management policies and procedures, which drive the level of liquidity risk exposures and determine the business size and maturities which ensure that it has at all times sufficient liquidity to meet its financial obligations at a fair market price.

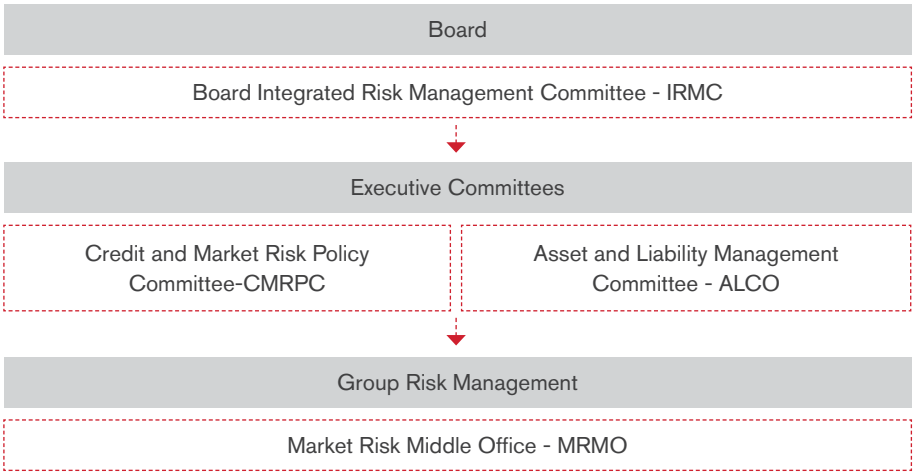
Also the Bank monitors key liquidity metrics on a regular basis, both on local currency and foreign currency balance sheets and prudential limits are set to better manage the liquidity profile of the Bank.

Process

The responsibility for the Liquidity risk management of the Bank rests with the ALCO. Bank's Treasury/ALM units are responsible for executing the day-to-day liquidity management of the Bank within the parameters set by ALCO. Key liquidity measures are managed and monitored on a daily, weekly or monthly basis to ensure that the Bank meets the regulatory (Liquid Asset Ratio, Statutory Reserve Requirement and Liquidity Coverage Ratio) as well as the internal limits whilst meeting the customer demands without incurring unacceptable losses.

In this context, MRMO circulates Reports on Open exposure levels, Liquidity risk exposures, ALM and liquidity risk assessment to the Management/Board on a regular basis.

Liquidity Risk Governance structure



The Bank is equipped with a comprehensive Liquidity Contingency Funding Plan (LCFP) linked to the Business Continuity Plan, which is in line with the regulatory guidelines. The LCFP clearly defines the responsibilities of the Liquidity Management Team, Internal/external liquidity risk trigger points, stage for plan invocation/de-activation and the action plans to be exercised to ensure that all stakeholders of the Bank are safeguarded. We have also entered into reciprocal liquidity funding agreements with identified counterpart banks to ensure stability.

Liquidity Risk Analytics

Liquidity measurement could be measured through Stock approach or Flow approach. Under the stock approach liquidity is measured in terms of key ratios which portray the liquidity stored in the balance sheet. In the flow approach a statement of maturities of assets and liabilities is prepared placing all cash flows in time bands according to the residual time to maturity. Separate gap limits are set for the local currency and foreign currency maturity mismatch reports based on the size and the nature of the Bank's balance sheet.

Bank uses several internal prudential measures to manage its liquidity position, whilst meeting the regulatory limit. Certain limits are set for key liquidity measures, above the regulatory limit to give early warnings signals of tightening liquidity positions of the Bank. Factors such as market liquidity, exposure to interbank market, movement on loans and advances, deposit mix will be regularly monitored to identify any impending liquidity strain on the Bank.

Key Risk Metrics

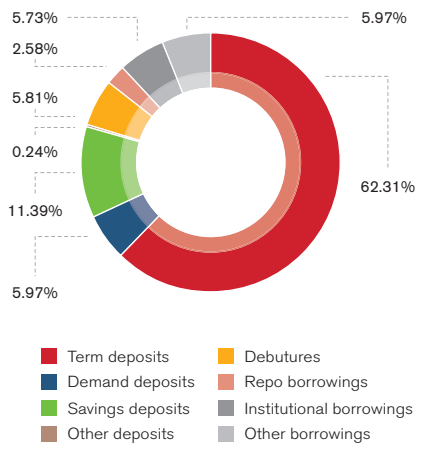
Selected KRIs are highlighted below which provide a view of the Liquidity Risk indicators where regulatory/internal limits are set and monitored at pre-defined intervals, which provide early warning signals on liquidity position of the Bank. The bank has set more stringent internal limits for statutory Liquid Asset Ratio and Liquidity Coverage Ratio as an early warning signal to monitor impending liquidity stress situations.

Key Indicators	Limit	Position as at 31.12.2017
Statutory Liquid Asset Ratio % - DBU	20	22.13
Statutory Liquid Asset Ratio % - FCBU	20	24.01
Liquidity Coverage Ratio (LCR) % - LKR Currency	80	214.35
Liquidity Coverage Ratio (LCR) % - All Currency	80	154.50
Advances to Deposit Ratio %	106	102.0
Medium Term Funding Ratio %	60	68.3
Concentration Ratio % of Top 20 Depositors	25	19.95
Commitment Limit - LKR billion	125	114.36

Funding Diversification by Product

The Bank's funding diversification depicts the optimum level of sources of funds by primarily depending on customer deposits whilst maintaining the sensitivity towards the top depositors.

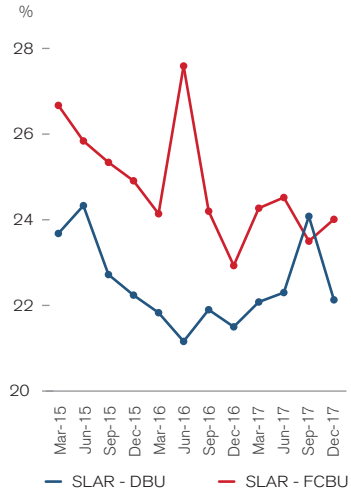
Funding Diversification by Product



Ratios Under Stock Approach

The key ratios under the stock approach which are regulatory requirements include the Statutory Liquid Asset Ratio and Liquidity Coverage Ratio.

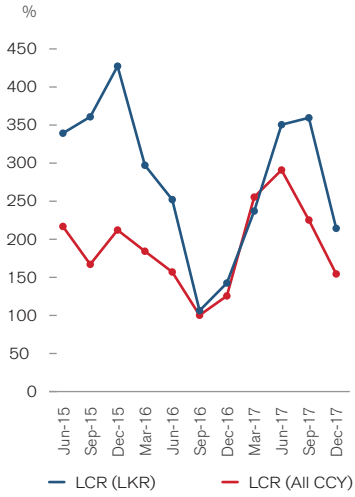
Statutory Liquid Asset Ratio



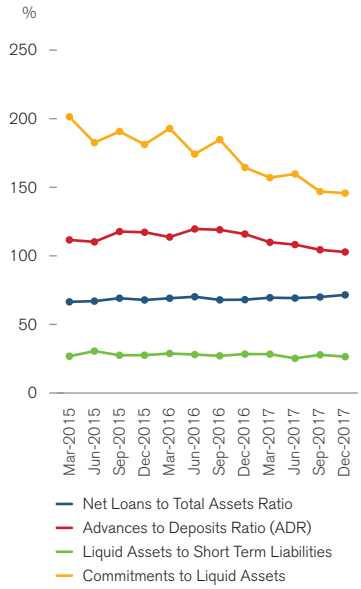
Liquidity Coverage Ratio - LCR

The LCR intends to promote short-term resilience of banks in ensuring that it has an adequate stock of high-quality liquid assets that can be converted easily into cash to meet their liquidity needs for a period of 30 calendar days under a liquidity stress scenario; thus reducing the risk of spill-over from the financial sector to the real economy.

Liquidity Coverage Ratio



The position of Net Loans to Total Assets Ratio, Advances to Deposit Ratio, Liquid Assets to short term liabilities and Commitments to Liquid Assets Ratio which are used to measure the liquidity position in the Bank is depicted below.



Flow Approach

A statement of Maturities of Assets and Liabilities (MAL) is prepared by the Bank placing all cash inflows and outflow in the time bands according to the residual time to maturity and non-maturity items as per CBSL recommended and Bank specific behavioural assumptions.

Maturity Gap Analysis for Local Currency Denominated Assets and Liabilities - as at 31.12.2017

LKR '000

	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Assets:								
Overdrafts - LKR	3,229,590	3,229,590	3,229,590	6,459,180	8,971,084	8,971,084	8,473,110	42,563,228
Credit Cards	120,460	120,460	120,460	240,920	334,612	334,612	339,825	1,611,349
Margin Trading	2,328	2,328	2,328	4,657	6,468	6,468	6,468	31,046
Term Loans - LKR	11,934,947	6,744,719	2,609,302	1,082,762	1,143,871	821,880	(1,092,394)	23,245,088
Project Loans Fixed	779,277	1,253,697	2,202,679	3,332,140	11,438,961	5,402,730	3,030,199	27,439,683
Project Loans Adjustable	282,136	479,810	1,194,059	2,370,007	8,669,558	6,080,878	11,718,562	30,795,010
Refinance loans	-	389	-	4,730	9,369	-	990	15,478
Securitization Loans	182,635	541,820	1,216,400	2,486,070	2,428,480	-	1,412,163	8,267,568
Post Import Finance - LKR	5,265,882	5,868,854	2,344,757	102,002	-	-	(44,689)	13,536,806
Packing Credit - LKR	81,250	87,700	41,000	-	-	-	(174,855)	35,095
Trade Bills - LKR	25,866	-	12,285	-	-	-	17,641	55,792
DM Loans - Fixed	428,425	709,014	1,065,362	2,148,388	8,118,890	4,925,140	679,667	18,074,886
DM Loans - Variable	80,017	73,982	107,872	185,590	692,461	744,089	471,377	2,355,388
Vishmitha/Cash Back	87,658	157,936	219,762	317,875	788,111	452,216	158,865	2,182,425
Housing Loans - Fixed	60,393	121,338	166,187	334,570	1,380,523	1,156,657	3,241,253	6,460,922
Housing Loans - Variable	25,203	50,470	77,397	162,930	588,856	617,033	2,066,198	3,588,087
Staff loans	48,419	96,838	145,257	290,513	1,162,053	677,864	(358)	2,420,585
Pawning	9,605	14,147	33,114	103,413	-	-	10,959	171,238
AF Lease	489,494	774,159	1,165,107	2,277,696	7,383,377	2,767,395	185,867	15,043,094
AF Loans	91,076	181,616	268,945	518,598	1,620,829	626,766	82,409	3,390,239
Hire Purchase	19,506	36,863	51,215	84,851	97,191	31	1,659	291,317
IB Loans - LKR	1,573,002	830,452	214,894	11,378	215,720	599,216	121,640	3,566,302
Non Performing Loans & Advances	-	-	-	327,327	-	-	981,980	1,309,307
Cash	3,035,905	-	-	-	-	-	-	3,035,905
Deposits Placed - LKR	75,000	-	-	-	-	-	-	75,000
Nostro - Central Bank	769,143	769,143	769,143	1,538,286	3,845,715	3,845,715	3,827,777	15,364,921
Investments in T Bills HTM	-	-	-	-	-	-	-	-
Investments in T Bonds HTM	-	-	-	-	624,821	96,776	-	721,597
Investments in T Bills Trading	498,500	243,782	-	-	-	-	3,861	746,143
Investments in T Bonds Trading	-	9,704	98,934	-	345,941	-	-	454,578
Investments in T Bills AFS	4,970,513	978,902	7,960,699	21,593,513	-	-	274,964	35,778,591
Investments in T Bonds AFS	-	199,661	1,087,414	1,335,641	2,329,920	8,602,308	1,480,633	15,035,576
Investment in Shares	-	-	-	-	-	-	1,400,184	1,400,184
Investment in Debentures	-	-	348,100	613,090	1,714,420	-	-	2,675,610
Reverse Repos	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	9,162,827	9,162,827
Total Assets	34,166,231	23,577,374	26,752,263	47,926,130	63,911,230	46,728,857	47,838,781	290,900,865

	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Liabilities:								
Demand Deposits - LKR	3,305,799	3,305,799	2,479,349	3,305,799	-	-	4,974,066	17,370,811
Savings Deposits - LKR	1,322,229	1,322,229	1,322,229	2,644,457	6,611,143	6,611,143	6,534,375	26,367,804
Call Deposits - LKR	64,985	64,985	64,985	129,971	324,927	324,927	322,857	1,297,638
Margin Deposits - LKR	28,716	28,716	28,716	57,433	143,582	143,582	154,256	585,001
Term Deposits - LKR	36,128,904	48,819,265	36,595,293	38,464,599	5,476,784	3,719,848	3	169,204,697
Repurchase Agreements	6,197,690	1,573,365	622,641	243,529		-	-	8,637,226
Money Market - LKR	75,700	-	-	-	-	-	-	75,700
Institutional Borrowing - LKR	-	-	-	-	-	-	-	-
Credit Lines - Fixed	-	40,708	100,754	260,133	1,607,229	405,447	3,099,580	5,513,852
Credit Lines - Variable	-	90,367	54,801	262,058	570,930	331,670	1,376,624	2,686,451
Debentures	-	-	-	2,771,590	10,000,000	-	6,638,913	19,410,503
Other Liabilities	-	-	-	-	-	-	14,895,268	14,895,268
Equity	-	-	-	-	-	-	24,855,740	24,855,740
Total Liabilities	47,124,023	55,245,435	41,268,770	48,139,569	24,734,596	11,536,618	62,851,680	290,900,691
Period Gap	(12,957,793)	(31,668,061)	(14,516,507)	(213,439)	39,176,635	35,192,238	(15,012,899)	174
Cumulative Gap	(12,957,793)	(44,625,853)	(59,142,360)	(59,355,800)	(20,179,165)	15,013,074	174	
Cumulative Liabilities	47,124,023	102,369,458	143,638,228	191,777,797	216,512,392	228,049,010	290,900,691	
Cumulative Gap as a % of cumulative liabilities	(27.50%)	(43.59%)	(41.17%)	(30.95%)	(9.32%)	6.58%	0.00%	

Liquidity Gap Analysis of Foreign Currency Denominated Assets and Liabilities

The Gap Analysis of Foreign Currency denominated assets and liabilities provides the cash flow obligations which assist in managing the foreign exchange liquidity in a prudential manner.

Maturity Gap Analysis for Foreign Currency Denominated Assets and Liabilities - as at 31.12.2017

USD '000

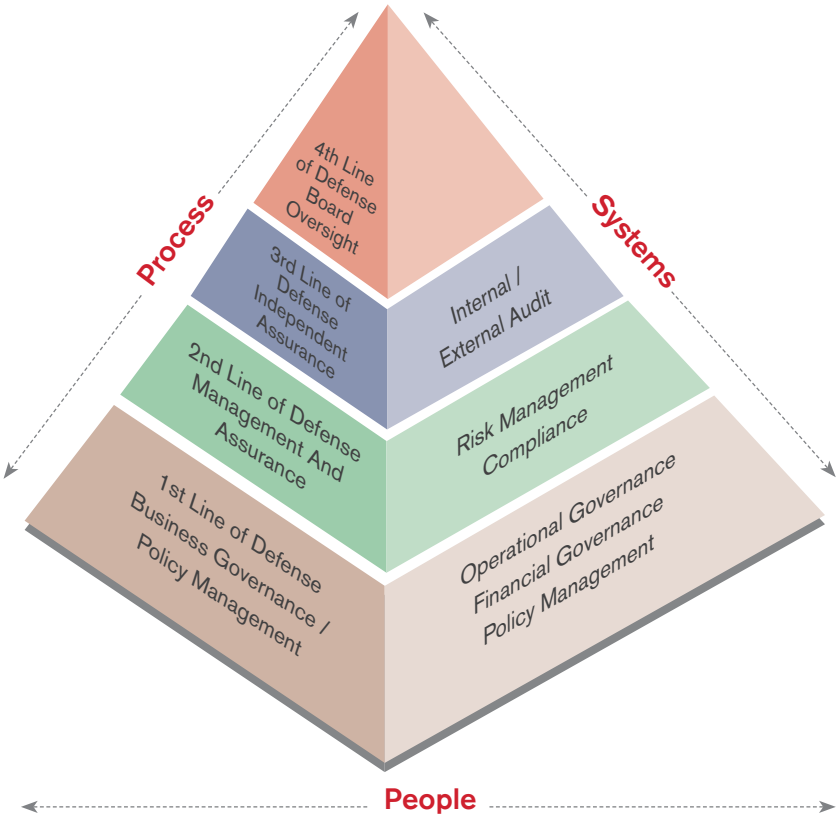
	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5Years	Total
Assets:								
Overdrafts - USD	1,496	1,496	1,496	2,992	4,155	4,155	4,155	19,945
Overdrafts - EUR	8	8	8	15	21	21	21	101
Overdrafts - GBP	-	-	-	-	-	-	-	-
Overdrafts - Other	-	-	-	-	-	-	-	-
Short Term Loans - USD	69,263	16,816	18,945	6,459	30,412	53,550	50,923	246,367
Short Term Loans - EUR	324	149	7	1,130	389	-	-	1,999
Post Import Finance - USD	5,781	7,051	1,082	-	-	-	15	13,930
Post Import Finance - EUR	-	19	-	-	-	-	-	19
Post Import Finance - Other	-	-	-	-	-	-	-	-
Packing Credit - USD	44,322	60,229	19,361	9	-	-	1,174	125,094
Packing Credit - EUR	813	242	-	-	-	-	-	1,056
Trade Bills - USD	7,705	8,927	1,247	-	-	-	(69)	17,811
Trade Bills - EUR	64	41	42	-	-	-	-	147
IB Loans - USD	5,865	9,622	-	-	-	-	(69)	15,419
Non Performing Loans & Advances	-	-	-	116	-	-	348	464

	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5Years	Total
Nostro - USD	14,622	-	-	-	-	-	-	14,622
Deposits Placed - USD	5,000	-	-	-	-	-	-	5,000
SLDBs	19,000	40,000	14,000	23,000	15,000	25,000	-	136,000
Other Assets	-	-	-	-	-	-	-	-
Total Assets	174,262	144,601	56,189	33,720	49,976	82,726	56,498	597,972
Liabilities:								
Demand Deposits - USD	2,959	2,959	2,219	2,959	-	-	4,202	15,298
Demand Deposits - EUR	214	214	160	214	-	-	268	1,069
Demand Deposits - GBP	2	2	1	2	-	-	2	9
Demand Deposits - Other	105	105	78	105	-	-	131	523
Savings Deposits - USD	3,148	3,148	3,148	6,296	15,739	15,739	16,839	64,057
Savings Deposits - EUR	209	209	209	418	1,046	1,046	1,052	4,190
Savings Deposits - GBP	233	233	233	466	1,164	1,164	1,167	4,659
Savings Deposits - Other	189	189	189	378	946	946	946	3,784
Call Deposits - USD	625	625	625	1,250	3,124	3,124	3,154	12,526
Call Deposits - EUR	116	116	116	232	579	579	830	2,566
Call Deposits - GBP	38	38	38	75	189	189	189	754
Call Deposits - Other	97	97	97	193	483	483	483	1,933
Margin Deposits - USD	50	50	50	99	248	248	673	1,418
Term Deposits - USD	68,090	22,218	43,669	47,756	271	537	-	182,539
Term Deposits - EUR	2,298	2,073	6,806	6,361	18	-	-	17,556
Term Deposits - GBP	3,748	5,374	2,530	4,767	-	-	-	16,420
Term Deposits - Other	1,695	2,890	4,208	4,287	2	3	-	13,085
Money Market - USD	20,000	5,400	25,000	7,000	-	-	(12)	57,388
Money Market - EUR	-	-	-	-	-	-	-	-
Money Market - GBP	101	-	-	4	-	-	-	105
Institutional Borrowings - USD	52,500	10,000	10,000	-	-	-	-	72,500
IFC Borrowing	-	1,500	-	1,500	6,000	6,000	(148)	14,852
Proparco Borrowing	-	-	5,769	5,769	23,077	23,077	(833)	56,859
Other Liabilities	-	-	-	-	-	-	28,504	28,504
Equity	-	-	-	-	-	-	25,377	25,377
Total Liabilities	156,414	57,438	105,145	90,130	52,887	53,135	82,823	597,972
Period Gap	17,848	87,163	(48,957)	(56,409)	(2,911)	29,591	(26,324)	0
Cumulative Gap	17,848	105,011	56,054	(356)	(3,266)	26,324	0	
Cumulative Liabilities	156,414	213,852	318,997	409,127	462,014	515,149	597,972	
Cumulative Gap as a % of Cumulative Liabilities	11.41%	49.10%	17.57%	-0.09%	-0.71%	5.11%	0.00%	

OPERATIONAL RISK

Objectives of Operational Risk Management

Operational risk arises due to inadequate or lack of controls over critical activities, failure of systems and procedures or due to external factors. It is no longer appropriate to permit the management of operational risks only to the individual departments as it is likely to occur in all activities of business and may lead to both financial and non-financial losses. There must be a systematic approach in institutions to successfully embed operational risk management within a robust governance framework in order to reap benefits ranging from easier compliance and reporting to stronger financial performance.



Operational Risk is managed through a consistent framework Group-wide as defined in the operational risk policies, enabling to determine the operational risk profile for the Bank and the Group.

Policies

The objectives of development and implementation of Operational Risk policies include:

Reduce Impact and Probability of Events	Enable the Bank to reduce the probability and potential impact of losses through the introduction of "good practices"
Improve Controls and Mitigate Risks	Enable business and functional areas to improve controls and mitigation of significant operational risks throughout the organization.
Awareness	Develop a common understanding of operational risk across the Bank involving every employee at all levels for proactive management of operational risks
Risk Ownership	Ensure that there is a clear ownership for each element of operational risk and assign clear responsibility for related day to day risk management and mitigation.

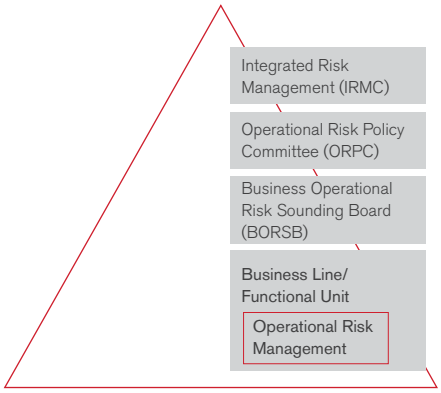
Operational Risk Framework

Risk Policy and Strategy: The Board is responsible for ensuring that senior management takes steps to identify measure, monitor and control all risks encountered by the Bank according to the laid down policies/ Operational risk framework. The Bank's policy on treating Operational Risk and the Risk Framework are approved by the Board of Directors and reviewed annually.

Risk Identification: Risks that have the potential to impact the Bank are identified through analysis of internal factors, such as key control lapses and external factors such as environmental threats.

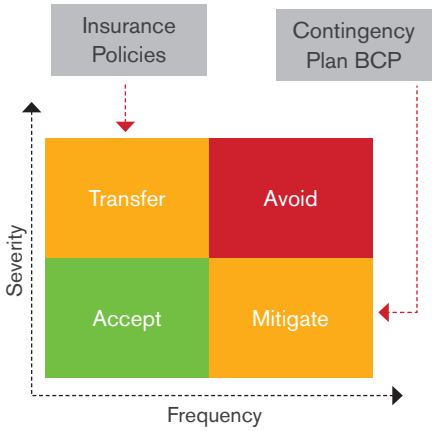
Risk Assessment: Once identified, the potential impact of the risks to the Bank is quantified using the operational risk grading matrix as defined in the policy. Risks are assigned risk grades (High, Medium and Low) based on the assessment of the likelihood and impact of the risks.

Risk Reporting: Periodic reports are prepared detailing out the risks faced by the Bank ensuring timely escalation mechanisms.



Business Operational Risk Sounding Boards have been set up at key Business and Support function levels to discuss operational risk matters on a monthly basis encompassing responsibilities. The unresolved or risks that require attention of Senior Management is brought to the notice of the Senior Management representatives at the **Operational Risk Policy Committee** meeting, once in every two months.

Risk Management and Monitoring: Actions to mitigate or control identified risks are prioritized based on the assessed impact. Appropriate action plans are established to mitigate, avoid, accept or transfer the risks to fall within the Bank's risk appetite as decided by the Senior Management. This involves periodic re-assessment of risk grades to capture changes in environment that may increase or decrease potential impact of the risks.



Transfer Strategies

Insurance Policies – Comprehensive policies have been obtained to cover operational lapses which may occur as a result of events such as errors and omissions, physical loss of securities, frauds and natural disasters.

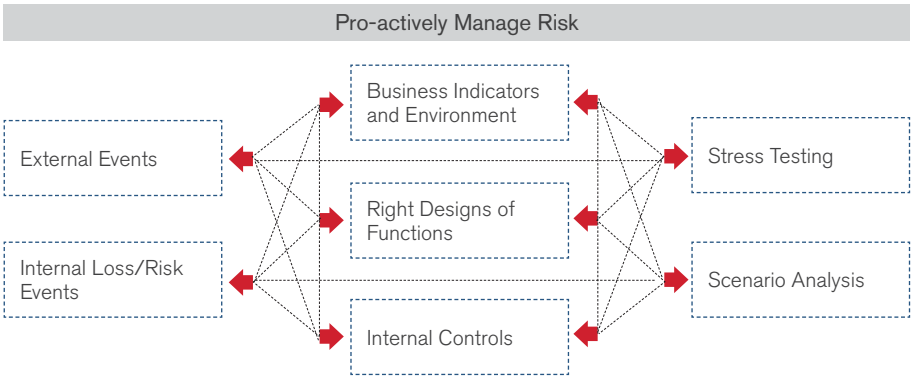
Outsourcing - The Bank is concerned and committed to ensuring that the outsourced parties continue to uphold and extend a high standard of customer care and service excellence. Hence, due diligence tests are routinely carried out to assess the performance of these outsourced parties through a sub-committee established to monitor outsource activities for the Bank.

Mitigate Strategies

Contingency Plan - In order to cover the risks of crisis that threaten the safety of staff, customers and service providers, the security of assets, the continuity of operations and confidence in the Bank's reputation, the Bank's Business Continuity Management Policy requires that a full set of up to date and exercised plans be in place encompassing a minimum of Crisis Management Plan (CMP), Business Continuity Plan (BCP) and IT Disaster Recovery Plan (IT DRP) amongst other relevant plans.

Operation Risk Management Process

Operational risk management practices have been automated with the implementation of the NDB Operational Risk Management System (NORMS). The users report incidents instantaneously assigning owners for mitigation with defined target dates, carryout Risk and Control Self Assessments, and monitoring of Key Risk Indicators.



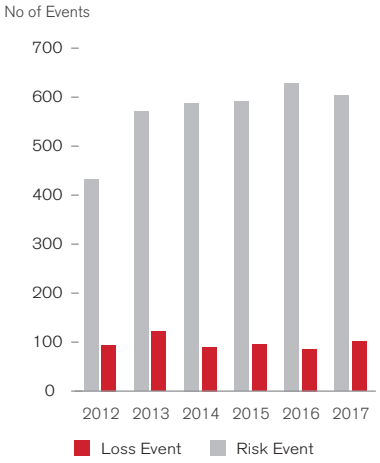
Operational Risk Management is an integral part of the Bank's daily activities and managed with the oversight of Board and Senior Management. This end to end process ensures operational risks are effectively managed from the time they are identified to the time the risks are mitigated to fall within the risk appetite of the Bank. It is the responsibility of everyone in the Bank. As a consequence, measures aimed at controlling operational risk are introduced throughout the organization in the following distinguished levels:

- Individual level
- Management control
- Assessments carried out by specialist units such as Internal/Group Audit or Compliance
- Assessments carried out by external parties (External Auditors and Supervisory Authorities)

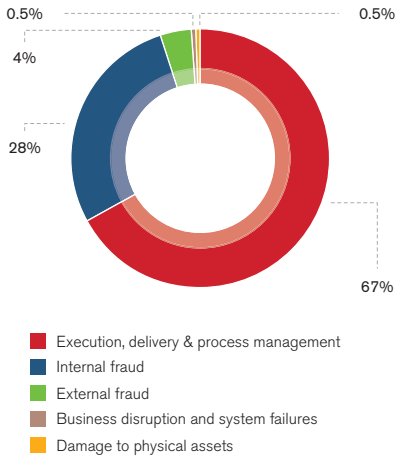
Risks and Loss Data Collection

Self-reporting of incidents, risks and losses is encouraged within the Bank. All self-identified and assessed risks that have been reported to Operational Risk will not qualify as an audit finding. This arrangement has resulted in an increase of event reporting over the years.

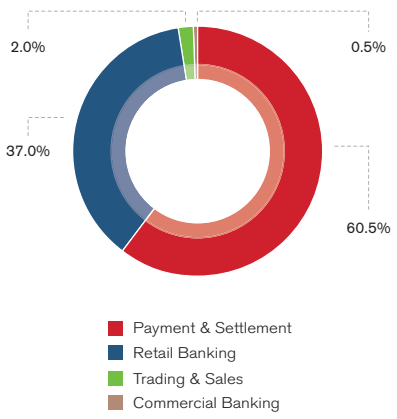
Risk & Loss Events



Operational Risk Losses - 2017
Basel Level I



Operational Risk Losses - 2017
Business Lines



Key Risk Indicators (KRI)

The function of KRI is to allow the early detection of operational risks before actual failure occurs. It is an early warning indicator of risks, and not losses.

Regular KRI monitoring assist business line managers by providing them;

- A quantitative, verifiable risk measurement
- A regular assessment of the improvements or deteriorations in the risk profile and the control and the prevention environment which require particular attention or action plan.

Self-Assessment (RCSA)

The annual RCSA exercise is typically undertaken to comply with risk assessments which requires a firm-wide, self-analysis of operational risks. RCSA requires the documentation of risks, identifying the levels of risk (derived from an estimate of frequency and impact), and controls associated with each process conducted by the organization. Controls and mitigants that adequately counteract the risks are introduced thereby minimizing the impact and incidence of losses.

Cyber Risk

In an increasingly complex digital society where interconnected systems and innovative digital services define the operating standards for organizations, effectively managing cyber risks is proving to be a complex challenge. The fast paced adoption of technology, associated risks and the constant probing of financially motivated cyber adversaries to find weaknesses to exploit and gain a foothold within the digital infrastructure of financial institutions has become the new norm.

Understanding this challenge, the Bank strives to invest in updating its digital defenses to meet the challenges of the evolving cyber threat landscape. The Bank has continued to collaborate with financial sector threat intelligence provider and engage third parties to review information technology implementations and IT operational practices to identify improvements.

Business Continuity Management

The Banks' Business Continuity Management (BCM) Policy requires that a full set of up to date and exercised plans be in place encompassing a minimum of a Crisis Management Plan (CMP), Business Continuity Plan (BCP) and IT Disaster Recovery Plan (IT DRP). This BCM Framework is designed to comply with the requirements of the Central Bank of Sri Lanka and is approved by the Board of Directors.

These plans are drawn upon integrating Enterprise Risk Management (ERM) Framework with effective Business Impact Analysis (BIA) processes and methodologies which anticipate all forms of threats, crisis and disasters that are inherent in the ever changing Business Environment.

These plans are tested biannually at the Banks' fully equipped Disaster Recovery Site to ensure capability and resilience to business disruption.

The Governance of Business Continuity Management is steered through the Crisis Management Team comprising of senior management and coordinated by the Bank's Business Continuity Manager.

Insurance Cover in Operational Risk Management

The Bank has a comprehensive insurance policy as a key measure to mitigate aspects of operational risks. This falls within the framework of risk mitigation and control which in turn is an integral component of the risk management framework of the Bank. This Policy will be reviewed and further enhanced on an on-going basis. The Bank has engaged an insurance broker to source terms, evaluate and add value using their expertise.

Description of Coverage

General Risks

Buildings and their contents, including IT equipment, are insured at their replacement value. Liability policies are arranged separately which includes Professional Indemnity, Directors & Officers Liability & Public Liability which are covered by respective insurance policies where levels of cover are insured for having assessed the likely exposure of the bank to such areas of risks.

Theft/Fraud

These risks are included in the "Bankers' Indemnity Insurance Policy" that insures all the Bank's financial activities around the country. Fraudulent actions by an employee or by a third party acting on its own or with the aid of an employee with the intent to obtain illicit personal gain or through malice are covered.

Professional Liability

The consequences of any legal action against staff or managers as a result of their professional activity are insured under the Bank's Professional Indemnity Policy.

Computer Crime

The adverse consequences surfacing while using computer systems and software are covered by the Banks Computer Crime Insurance Policy. The policy covers fraudulent input and modification via computer systems, electronic computer programs, electronic data and media, computer viruses, electronic and telefacsimile communications, electronic transmissions, electronic securities and voice incinerated transfers.

Operational Losses

The Bank's operational losses relating to low frequency, high severity events such as physical loss, fraud, natural disasters, liabilities to third parties, errors and omissions etc are covered by a comprehensive portfolio of insurance policies.

OTHER RISKS

Strategic Risk

Strategic Risk is the most fundamental of business risks and at its very basic, can be defined as the current and prospective risk to earnings and viability arising from,

- Adverse changes in business environment with respect to the economy, political landscape, regulations, technology, actions of competitors
- Adverse business decisions
- Improper implementation of decisions
- Lack of responsiveness to changes in the business environment

Strategic risk for a bank can manifest itself through lack of well-defined long-term strategy but more importantly because of failure to appropriately communicate and implement the strategy or due to unforeseen changes in the socio-political, economic or business environment. Drawing of appropriate response plans to tweak the strategy to suit the changes in the business environment is essential to management of strategic risk.

This year a new strategic plan was formulated by the Board for the Bank to become one of the largest Banks in Sri Lanka by 2020. The strategic plans are drawn at various level of granularity e.g. a branch level strategy will detail the growth targets at branch level whereas a department level strategy will feature the achievement metrics at that level. The implementation of strategy is checked through monthly meetings where variances from the growth targets are analyzed and corrective actions recommended.

The Strategic Plan is also linked to individual employee performance through a goal setting process and periodic performance reviews are carried out to motivate employees and create a performance culture to ensure that business goals and objectives are achieved, thus mitigating strategic risk.

Cross-Border Risk

Cross-border risk is the risk that the Bank will be unable to obtain payments from its customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, mainly relating to convertibility and transferability of foreign currency and geo-political factors.

Correspondent Banking Unit is responsible for Bank's cross-border exposures and management of exposure limits. Cross-border assets comprise loans and advances, interest-bearing deposits with other banks, trade and other bills, acceptances, Foreign Exchange contracts, investment securities and formal commitments where the counterparty is resident in a country other than where the assets are recorded. Cross-border exposure also includes the assets owned by the Bank/ Group that are held in a given country.

The Bank has a Board approved policy/ limits based on external ratings of countries for routine banking transactions with tenors less than one year. In the event the Bank decides to make any long term investments/ lending (tenor over 1 year) off shore, the Bank undertakes a detailed due diligence covering the following key areas:-

- Country Ratings
- Economic Indicators and Outlook
- Political Risk
- Exchange Rate Risk (convertibility/ transferability)
- Banking/Financial sector

The business lines and back offices manage the exposures within these limits and policies. Countries designated as higher risk are subject to increased central monitoring. Cross-border exposure limits are allocated to countries in which the Bank does have an acceptable risk appetite and one-off limits may be allocated based on business needs, with ultimate recourse to the borrower.

Legal Risk

Legal risk is understood more from its consequences, which is incurrence of penalties, fines and sometimes loss of reputation due to the institution being on the other side of law. Legal risk may vary from institution to institution depending on the manner in which it conducts its business and the documentation it follows and is closely related to compliance and regulatory risk.

Legal risk in the Bank can manifest itself through,

- Business not being conducted in accordance with applicable laws
- Inadequate legal documentation of securities and collateral accepted for credit risk mitigation
- Legal repercussions of lacuna in documents, forms, advertisements
- Other modes of conduct and communication adopted by the Bank
- Intellectual property not being adequately protected.

Legal risk is owned and managed by the Legal Department and the Legal Department is assisted by third party lawyers as and when necessary to obtain an independent opinion. Specific risks relating to legal risk are reported on a monthly basis to the Board.

Compliance Risk

Very closely related with reputational and legal/regulatory risk, compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation and integrity an institution may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organizational standards, and codes of conduct applicable to its business activities. Bank is compliant with all CBSL regulations.

The Bank has a well laid out Board approved Compliance Charter, which defines the fundamental principles, roles and responsibilities of the compliance function within the organization as well as its relationship with the business and operational functions, senior management and the Board of Directors.

Model Risk

Board has put in place a risk model validation policy to mitigate model risk of the Bank. Bank completed third party validation of risk models during the year in line with the Board approved policy.

Settlement Risk

Settlement Risk refers to the risk arising on account of failed trades with counterparty banks in the foreign currency transactions. Settlement Risk arises from possible losses when the Bank is in a foreign exchange transaction pays the currency it sold but does not receive the currency it bought. Forward Contract settlement failures can arise from counterparty default, operational problems, and other factors. Settlement risk exists for any traded product. Currently, the Bank has a procedure for regular monitoring of limit utilization, failed trades & excess monitoring. Settlement Risk is currently controlled by way of prudent allocation and monitoring of counterparty limits including Maximum Daily Delivery Risks (MDDR) limits for counterparts.

Governance Risk

Corporate governance is understood as the system by which the Bank is directed and controlled. The Board of Directors is responsible for the governance of the Bank. The responsibilities of the Board include setting out the Bank's strategic aims, providing leadership to operationalize same, supervising the management of the business and reporting to shareholders on their stewardship.

Bank's Corporate Governance framework has been developed with the objective of balancing the attainment of corporate objectives of the Bank whilst at the same time aligning corporate behaviours with the expectations of society and being accountable to its shareholders.

Please refer the Corporate Governance Report found in this annual report for more details on the Bank's Corporate Governance framework.

Reputational Risk

Reputational risk is risk of indirect loss (current or prospective) arising from one or multiple stakeholders' adverse experience while dealing with the institution or which resulted in an adverse perception of the institution. It can also be understood as the potential that negative publicity regarding the Bank's business practices, whether true or not, will cause a decline in customer base, costly litigation or revenue reduction. The Bank is of the view that reputational risk can be triggered by a risk event in any or all of the above risk categories hitherto described.

Reputational risk management and mitigation aspects are embedded in the Bank's policies and procedures, training programs, the Business Continuity Plan and through the Audit and Board Risk Management Committees.

The Bank monitors its reputational risk profile through a set of early warning indicators based on the reputational risk drivers and the factors within the reputational risk scorecard ensure that the overall reputational risk profile remains acceptable. The risk mitigation and control processes for reputational risk are designed to consider appropriate response actions to address the risks identified. A Customer Complaint Handling Process has been established under which the customers have a range of options through which they can forward their grievances to the Bank, by way of letters, using our public help line that is manned on a 24 hour basis, through the Bank web-site or social media.

Group Risk

The Bank together with its subsidiaries, in the process of financial intermediation are confronted with various kinds of financial and non-financial risks such as credit, interest rate, foreign exchange rate, liquidity, equity price, commodity price, legal, regulatory, reputational, operational, etc. These risks are highly interdependent and events that affect one area of risk can have consequences on a range of other risk categories. Thus, considerable importance is given to improve the ability to identify, measure, monitor and control the overall level of risks undertaken.

Aggregating the risks of Group Companies remains a challenge due to their diverse business models and risk profiles. The Group Companies are engaged in investment banking, capital market activities, unit trust management and property management activities. However, the Bank believes the 'Group Risk' is greatly mitigated as;

- NDB's capital at risk is limited to the amount invested in these companies in the form of equity, at the time the companies were incorporated.
- There is representation by NDB's Directors/Key Management Personnel on the Boards of Directors/Board Audit, Risk and Compliance Committees of its subsidiaries, thereby ensuring full and sufficient knowledge of subsidiaries' operations and risk profiles.
- Due to the governance structure mandated by the laws governing banking and limited liability companies, all inter-company transactions are at arms-length and full disclosure of such transactions is made.
- Natural mitigation from the fact that the Bank is the holding company and owns the largest balance sheet in the group.
- NDB Securities Limited and NDB Wealth Management Limited being licensed stock brokers and Unit Trust Managers are regulated by the SEC.
- Risk Reporting framework by group companies to Centralized Group Risk Management of NDB/IRMC/Board for review/corrective action.

Each Group Company remains responsible for the management of risks, including associated controls and on-going monitoring processes. Risks identified by Group companies are reported to Group Risk Management department on a monthly basis through appropriate risk indicators (using a Risk Dashboard) and management information for review and escalation. Top risks and associated mitigants are also highlighted. The main risk categories being reviewed are as follows:-

- Investment/Credit Risk
- Operational Risk
- Market Risk
- Liquidity Risk
- Interest Rate Risk
- Concentration Risk
- Regulatory/Compliance Risk
- Legal/Reputational Risk
- Strategic Risk
- Any other risks relevant to the specific line of business of the Group Company

All Group Companies are required to have relevant policies and limits for monitoring purposes and to ensure that risks are within acceptable levels/ in line with risk appetite. All risk related policies of the Group companies are vetted by Group Risk Management department to ensure compliance with the Regulatory requirements and internal policies applicable to the Bank. Furthermore, the Operational Risk Management Unit within the Group Risk Management department conducts Risk and Control Self Assessments for the Group companies and this process facilitates informed decision-making by providing management with an overall view of operational risks within a business process.

FUTURE OF RISK MANAGEMENT

The Bank's risk management capabilities have progressed encouragingly towards best in class, and will continue to be strengthened and enhanced to create value and be a competitive advantage to support the Group's aspirations.

BASEL III - PILLAR III MARKET DISCIPLINE DISCLOSURES

Commencing from 01 July 2017, all Licensed banks are required to compute capital ratios based on the Basel III guidelines issued by the Central Bank of Sri Lanka. As per the Basel III guidelines, it is required to disclose Pillar III Market discipline disclosure requirements laid out in the Banking Act Direction No. 01 of 2016.

Pillar III Market Discipline disclosures of the Bank and the Group for the year ended 31 December 2017 are given below.

1. Regulatory Requirements on Capital and Liquidity

1.(a) Key Regulatory Ratios - Capital and Liquidity

	As at 31 December 2017		As at 31 December 2016	
	BASEL III		BASEL II	
Item	BANK	GROUP	BANK	GROUP
Regulatory Capital (LKR '000)				
Common Equity Tier 1 Capital	24,424,734	29,859,223	N/A	N/A
Tier 1 Capital	24,424,734	29,859,223	22,403,746	29,107,947
Total Capital	38,304,758	43,189,555	31,153,003	38,483,861
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 5.75%)	8.85	10.49	N/A	N/A
Tier 1 Capital Ratio (Minimum Requirement - 7.25%)	8.85	10.49	9.31	11.55
Total Capital Ratio (Minimum Requirement - 11.25%)	13.89	15.18	12.95	15.27
Regulatory Liquidity				
Statutory Liquid Assets (LKR '000)	77,506,348	NA	67,105,194	N/A
Statutory Liquid Assets Ratio (Minimum Requirement - 20%)				
Domestic Banking Unit (%)	22.13	NA	21,50	N/A
Off-Shore Banking Unit (%)	24.01	NA	22.93	N/A
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement - 80%)	214.35	NA	142.53	N/A
Liquidity Coverage Ratio (%) – All Currency (Minimum Requirement - 80%)	154.50	NA	125.63	N/A

As per the above reported ratios for Capital, the Bank and the Group comply with the minimum requirements for capital ratios as of 01 January 2018.

1.(b) Basel III Computation of Capital Ratios

	As at 31 December 2017	
Item	BANK LKR '000	GROUP LKR '000
Common Equity Tier 1 (CET1) Capital after Adjustments	**24,424,734**	**29,859,223**
Common Equity Tier 1 (CET1) Capital	**27,696,573**	**31,875,573**
Equity Capital (Stated Capital)/Assigned Capital	2,208,520	2,208,520
Reserve Fund	1,336,479	1,336,479
Published Retained Earnings/(Accumulated Retained Losses)	18,585,254	22,775,440
Published Accumulated Other Comprehensive Income (OCI)	(239,387)	(250,573)
General and other Disclosed Reserves	5,805,707	5,805,707
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to CET1 Capital	**3,271,839**	**2,016,350**
Goodwill (net)	-	-
Intangible Assets (net)	384,369	397,053

Item	As at 31 December 2017	
	BANK LKR '000	GROUP LKR '000
Defined benefit pension fund assets	129,662	129,662
Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	1,122,016	1,489,635
Significant investments in the capital of financial institutions where the bank owns more than 10 per cent of the issued ordinary share capital of the entity	1,635,792	-
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (AT1) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
Tier 2 Capital after Adjustments	13,880,024	13,330,332
Tier 2 Capital	13,880,024	13,880,024
Qualifying Tier 2 Capital Instruments	12,212,368	12,212,368
Revaluation Gains	542,092	542,092
Loan Loss Provisions	1,125,564	1,125,564
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2	-	549,692
Investment in Own Shares	-	-
Others- Investments in the capital of financial institutions and where the bank does not own more than 10 per cent of the issued capital carrying voting rights of the issuing entity	-	549,692
CET1 Capital	24,424,734	29,859,223
Total Tier 1 Capital	24,424,734	29,859,223
Total Capital	38,304,758	43,189,555
Total Risk Weighted Assets (RWA)	275,852,129	284,519,116
RWAs for Credit Risk	248,519,093	253,454,095
RWAs for Market Risk	9,195,023	12,072,722
RWAs for Operational Risk	18,138,013	18,992,299
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	8.85	10.49
of which: Capital Conservation Buffer (%)	1.25	1.25
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio (%)	8.85	10.49
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	13.89	15.18
of which: Capital Conservation Buffer (%)	1.25	1.25
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-

1.(c) Basel III Computation of Liquidity Coverage Ratio - All Currency Liquidity Requirement

Item	BANK			
	Amount (LKR'000)			
	As at 31 December 2017		As at 31 December 2016	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	52,654,215	51,901,650	16,900,369	16,194,497
Total Adjusted Level 1A Assets	51,497,371	51,497,371	15,039,239	15,039,239
Level 1 Assets	51,149,085	51,149,085	15,039,239	15,039,239
Total Adjusted Level 2A Assets	-	-	641,980	545,683
Level 2A Assets	-	-	641,980	545,683
Total Adjusted Level 2B Assets	1,505,130	752,565	1,219,150	609,575
Level 2B Assets	1,505,130	752,565	1,219,150	609,575
Total Cash Outflows	415,875,076	79,306,701	370,806,114	51,562,903
Deposits	169,266,672	12,024,091	162,486,320	4,557,534
Unsecured Wholesale Funding	121,018,123	64,833,008	74,434,844	38,464,565
Secured Funding Transactions	3,629,320	-	18,107,059	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	121,960,961	2,449,602	115,777,891	8,540,804
Additional Requirements	-	-	-	-
Total Cash Inflows	73,685,468	45,713,580	89,924,107	42,376,618
Maturing Secured Lending Transactions Backed by Collateral	29,206,561	21,340,667	56,044,699	23,115,806
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	42,115,292	24,372,913	31,525,509	19,260,812
Operational Deposits	2,363,615	-	2,353,899	-
Other Cash Inflows	-	-	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		154.50%		125.63%

1.(d) Main Features of Regulatory Capital Instruments - Bank and Group

Description of the Capital Instrument	CET 1 Capital	Tier 2 Instruments	
	Stated Capital	Debenture Issue 1 (2013)	Debenture Issue 2 (2015)
Issuer	National Development Bank PLC	National Development Bank PLC	National Development Bank PLC
Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private Placement)	NDB. N0000 ISIN -LK0207N00007	Type A - LK0207D20998 Type B - LK0207D21012 Type C - LK0207D21038 Type D - LK0207D21053	Type A - LK0207D23091 Type B - LK0207D23083
Governing Law(s) of the Instrument	Companies Act No. 07 of 2007, Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act	Companies Act No. 07 of 2007, Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act	Companies Act No. 07 of 2007, Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act
Original Date of Issuance	Date listed 26-Apr-1993	19-Dec-2013	24-Jun-2015
Par Value of Instrument	NA	LKR 100/-	LKR 100/-
Perpetual or Dated	Perpetual	Dated	Dated
Original Maturity Date, if Applicable	NA	Type A - 19 Dec 2018 Type B - 19 Dec 2018 Type C - 19 Dec 2023 Type D - 19 Dec 2025	Type A - 24 Jun 2020 Type B - 24 Jun 2020
Amount Recognised in Regulatory Capital (in LKR '000 as at 31 Dec 2017)	2,208,520	7,782,728	4,429,640
Accounting Classification (Equity/Liability)	Equity	Liability	Liability
Issuer Call subject to Prior Supervisory Approval			
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	NA	NA	NA
Subsequent Call Dates, if Applicable	NA	NA	NA
Coupons/Dividends			
Fixed or Floating Dividend/ Coupon	Dividend declared as decided by the Board	Fixed coupon	Fixed coupon
Coupon Rate and any Related Index	NA	Type A - 13.0% p.a Type B - 13.4% p.a Type C - 13.9% p.a Type D - 14.0% p.a	Type A - 9.4% p.a Type B - Zero coupon bonds
Non-Cumulative or Cumulative	NA	Non-cumulative	Non-cumulative
Convertible or Non-Convertible			
If Convertible, Conversion Trigger (s)	NA	NA	NA
If Convertible, Fully or Partially	NA	NA	NA
If Convertible, Mandatory or Optional	NA	NA	NA
If Convertible, Conversion Rate	NA	NA	NA

2. Risk Weighted Assets (RWA)

2.(a) Summary discussion on adequacy/meeting current and future capital requirements.

Please refer page 138 for the Capital Management section.

2.(b) Credit Risk under Standardized Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	BANK					
	Amount (LKR'000) as at 31 December 2017					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
Claims on Central Government and Central Bank of Sri Lanka	37,823,561	7,272,250	37,823,561	1,485,312	-	-
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	14,259,805	2,587,874	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	4,708,600	70,725,699	4,708,600	4,163,901	4,296,192	48.42%
Claims on Financial Institutions	18,823,256	25,447,396	18,823,256	433,713	10,416,661	54.09%
Claims on Corporates	141,859,060	139,784,926	134,757,649	27,165,784	158,434,016	97.85%
Retail Claims	87,347,816	16,423,542	75,330,691	1,641,962	59,278,058	77.01%
Claims Secured by Residential Property	11,596,012	268,322	11,587,274	89,778	6,325,724	54.17%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	2,959,435	-	2,616,746	-	3,624,952	138.53%
Higher-risk Categories	260,605	-	260,605	-	651,513	250.00%
Cash Items and Other Assets	8,459,976	-	8,459,976	-	5,491,977	64.92%
Total	328,098,126	262,510,009	294,368,358	34,980,450	248,519,093	

2.(b) Credit Risk under Standardized Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects (Contd.)

Asset Class	GROUP					
	Amount (LKR'000) as at 31 December 2017					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
Claims on Central Government and Central Bank of Sri Lanka	37,823,561	7,272,250	37,823,561	1,485,312	-	-
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	14,259,805	2,587,874	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	5,124,798	70,725,699	5,124,798	4,163,901	4,506,399	48.51%
Claims on Financial Institutions	19,398,219	25,447,396	19,398,219	433,713	10,756,158	54.24%
Claims on Corporates	142,518,282	139,219,922	135,416,871	27,119,833	158,807,831	97.71%
Retail Claims	87,347,816	16,423,542	75,330,691	1,641,962	59,278,058	77.01%
Claims Secured by Residential Property	11,596,012	268,322	11,587,274	89,778	6,325,724	54.17%
Claims Secured by Commercial Real Estate	-	-	-	-	-	-
Non-Performing Assets (NPAs)(i)	2,959,435	-	2,616,746	-	3,624,952	138.53%
Higher-risk Categories	420,996	1,282,454	420,996	641,227	1,626,638	153.14%
Cash Items and Other Assets	11,496,459	-	11,496,459	-	8,528,335	74.18%
Total	**332,945,383**	**263,227,459**	**299,215,615**	**35,575,726**	**253,454,095**	

Note -

(i) NPAs - As per Banking Act Direction on classification of loans and advances, income recognition and provisioning.

(ii) RWA Density - Total RWA / Exposures post CCF and CRM

2.(c) Credit Risk under Standardized Approach: Exposures by Asset Classes and Risk Weights

BANK

Description	Amount (LKR'000) as at 31 December 2017 (Post CCF & CRM)							
Risk Weight / Asset Classes	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	39,308,873	-	-	-	-	-	-	39,308,873
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	3,576,374	3,518,586	-	1,689,373	88,168	-	8,872,501
Claims on Financial Institutions	-	3,922,288	11,404,955	-	3,929,726	-	-	19,256,969
Claims on Corporates	-	1,926,448	3,998,008	-	155,897,484	101,492	-	161,923,432
Retail Claims	97,184	74,064	-	70,152,638	6,648,767	-	-	76,972,653
Claims Secured by Residential Property	-	-	10,702,657	-	974,396	-	-	11,677,053
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	18,493	-	563,348	2,034,905	-	2,616,746
Higher-risk Categories	-	-	-	-	-	-	260,605	260,605
Cash Items and Other Assets	2,801,793	207,758	-	-	5,450,425	-	-	8,459,976
Total	42,207,850	9,706,932	29,642,699	70,152,638	175,153,519	2,224,565	260,605	329,348,808

GROUP

Description	Amount (LKR'000) as at 31 December 2017 (Post CCF & CRM)							
Risk Weight / Asset Classes	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	39,308,873	-	-	-	-	-	-	39,308,873
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	3,569,346	3,941,812	-	1,689,373	88,168	-	9,288,699
Claims on Financial Institutions	-	3,950,613	11,830,567	-	4,050,752	-	-	19,831,932
Claims on Corporates	-	1,926,448	4,476,920	-	156,031,843	101,492	-	162,536,703
Retail Claims	97,184	74,064	-	70,152,638	6,648,767	-	-	76,972,653
Claims Secured by Residential Property	-	-	10,702,657	-	974,396	-	-	11,677,053
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	-
Non-Performing Assets (NPAs)	-	-	18,493	-	563,348	2,034,905	-	2,616,746
Higher-risk Categories	-	-	-	-		1,028,919	33,304	1,062,223
Cash Items and Other Assets	2,801,888	207,796	-	-	8,486,775	-	-	11,496,459
Total	42,207,945	9,728,267	30,970,449	70,152,638	178,445,254	3,253,484	33,304	334,791,341

2.(d) Market Risk under Standardized Measurement Method

Item	RWA Amount as at 31 December 2017	
	BANK LKR '000	GROUP LKR '000
(a) RWA for Interest Rate Risk	889,920	889,920
General Interest Rate Risk	889,920	889,920
(i) Net Long or Short Position	889,920	889,920
(ii) Horizontal Disallowance		
(iii) Vertical Disallowance		
(iv) Options		
Specific Interest Rate Risk		
(b) RWA for Equity	48,282	372,024
(i) General Equity Risk	29,210	190,191
(ii) Specific Equity Risk	19,072	181,833
(c) RWA for Foreign Exchange & Gold	96,238	96,238
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	9,195,023	12,072,722

2.(e) Operational Risk under Basic Indicator Approach

Business Lines	Capital Charge Factor	Fixed Factor	BANK Gross Income (LKR'000) as at 31 December 2017		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		12,109,053	13,079,433	15,622,043
The Standardized Approach			-	-	-
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%				
Commercial Banking	15%				
The Alternative Standardized Approach			-	-	-
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%	0.035			
Commercial Banking	15%	0.035			

Capital Charges for Operational Risk (LKR '000)	
The Basic Indicator Approach	2,040,526
The Standardized Approach	-
The Alternative Standardized Approach	-
Risk Weighted Amount for Operational Risk (LKR'000)	
The Basic Indicator Approach	18,138,013
The Standardized Approach	-
The Alternative Standardized Approach	-

2.(e) Operational Risk under Basic Indicator Approach (Contd.)

			GROUP		
Business Lines	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31 December 2017		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		12,979,474	13,602,927	16,150,264
The Standardized Approach			-	-	-
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%				
Commercial Banking	15%				
The Alternative Standardized Approach			-	-	-
Corporate Finance	18%				
Trading and Sales	18%				
Payment and Settlement	18%				
Agency Services	15%				
Asset Management	12%				
Retail Brokerage	12%				
Retail Banking	12%	0.035			
Commercial Banking	15%	0.035			

Capital Charges for Operational Risk (LKR'000)	
The Basic Indicator Approach	2,136,633
The Standardized Approach	-
The Alternative Standardized Approach	-
Risk Weighted Amount for Operational Risk (LKR'000)	
The Basic Indicator Approach	18,992,299
The Standardized Approach	-
The Alternative Standardized Approach	-

3. Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – BANK

Amount (LKR '000) as at 31 December 2017				
	a	b	c	d
Item	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework
Assets	**383,073,042**	**382,518,932**	**294,368,358**	**52,274,531**
Cash and Cash Equivalents	5,274,466	5,373,153	5,373,153	-
Balances with the Central Bank of Sri Lanka	15,364,920	15,364,920	15,364,920	-
Placements with Banks	840,684	840,500	840,500	-
Derivative Financial Instruments	2,471,706	-	-	-
Financial Assets Held-For-Trading	1,216,439	53,396,547	-	52,274,531
Loans and Receivables to Banks	15,478	15,478	15,478	-
Loans and Receivables to Other Customers	274,013,970	274,195,817	241,591,613	-
Financial Investments - Available-For-Sale	52,620,584	-	-	-
Financial Investments - Held-To-Maturity	3,524,051	24,218,807	24,218,807	-
Financial Investments - Loans and receivables	21,171,508	-	-	-
Investments in Subsidiaries	2,106,021	2,106,021	488,755	-
Investments in Associates and Joint Ventures -Held for Sale	18,526	18,526	-	-
Property, Plant and Equipment	2,356,679	2,356,679	2,356,679	-
Investment Properties	-	-	-	-
Intangible Assets	384,369	384,369	-	-
Other Assets	1,693,641	4,248,115	4,118,453	-
Liabilities	**354,335,206**	**354,181,400**	-	-
Due to Banks	20,236,719	-	-	-
Derivative Financial Instruments	936,754	-	-	-

e		
Not subject to Capital Requirements or Subject to Deduction from Capital	Explanation on significant differences on (a) and (b)	Measurement techniques/valuation basis
35,876,043		
-		
-		
-		
-	Derivative Financial Instruments are separately disclosed in the published financial statements as per the LKAS 39 disclosure requirements. This amount is classified under the other assets category in regulatory reporting.	
1,122,016	Financial Investments - Available-For-Sale are classified as Trading Portfolio under regulatory reporting and accrued interest classified under other assets category.	
-		
32,604,204	Carrying value of regulatory reporting is as per the Banking Act Direction No. 3 of 2008 Classification of Loans and Advances, Income Recognition and Provisioning. The carrying value of loans and advances in the published financial statements has been subject to impairment provisions as per LKAS 39.	Measurement techniques and valuation basis of allowance for impairment as per LKAS 39 is explained in detail in note 25.5 to the Financial statements.
-	Financial Investments - Available-For-Sale are classified as Trading portfolio under regulatory reporting.	
-	Financial Investments - Loans and receivables are classified as Held to maturity investments (Banking Book)under regulatory reporting and accrued interest classified under other assets category.	
-		
1,617,266		
18,526		
-		
-		
384,369		
129,662	Derivative Financial instruments and the interest receivables on financial assets are included under other assets in regulatory reporting. Unamortized staff costs are included under other assets in the published financial statements.	Measurement techniques and valuation basis of staff loans are explained in detail under note 35 to the Financial statements.
-		
	Due to Banks are classified under other borrowings in regulatory reporting.	
-	Derivative Financial Instruments are separately disclosed in the published financial statements as per the LKAS 39 disclosure requirements. This amount is classified in other liabilities category in regulatory reporting.	

3. Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – BANK (Contd.)

Amount (LKR '000) as at 31 December 2017				
	a	b	c	d
Item	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework
Due to Other Customers	273,369,023	267,245,575		
Debt Securities Issued and Other Borrowed funds	28,107,045	47,794,000		
Tax Liabilities	1,578,447	1,527,312		
Deferred Tax Liabilities	1,371,658	1,221,789		
Employee Benefit Liabilities and Other Liabilities	9,398,705	16,982,221		
Subordinated Term Debts	19,336,855	19,410,503	-	
Off-Balance Sheet Liabilities	**269,160,399**	**227,080,344**	**262,219,785**	-
Guarantees	24,121,887	24,121,887	21,932,717	-
Performance Bonds	8,342,200	8,342,200	8,273,044	-
Letters of Credit	13,222,730	13,222,730	13,212,926	-
Other Contingent Items	6,768,126	6,768,126	6,768,126	-
Undrawn Commitments	114,360,796	114,360,796	114,360,796	-
Other Commitments	102,344,660	60,264,605	97,672,176	-
Shareholders' Equity				
Equity Capital (Stated Capital)/Assigned Capital	2,208,520	2,208,520		
of which Amount Eligible for CET1	2,208,520	2,208,520		
of which Amount Eligible for AT1	-	-		
Retained Earnings	18,585,255	17,945,565		
Accumulated Other Comprehensive Income	801,874	-		
Other Reserves	7,142,186	8,183,447		
Total Shareholders' Equity	**28,737,835**	**28,337,532**		

e		
Not subject to Capital Requirements or Subject to Deduction from Capital	Explanation on significant differences on (a) and (b)	Measurement techniques/valuation basis
	Due to other customers are at Effective Interest Rate (EIR) method in published financial statements. Accrued interest classified under other liabilities in regulatory reporting.	Measurement techniques and valuation basis of deposits are at Effective Interest Rate (EIR) method in published financial statements.
	Due to Banks balances are classified separately in the published financial statements and interest accrued are classified under other liabilities in the regulatory reporting.	
	The change in the carrying value is due to tax effects on unrealized gains/losses of available-for-sale investments being accounted in other comprehensive income in the reported published financial statements.	
	Derivative Financial instruments and the interest payables on financial liabilities are included under other liabilities in regulatory reporting.	
	Subordinated Term Debts are at Effective Interest Rate (EIR) method in published financial statements.	Measurement techniques and valuation basis of subordinated term debts are at Effective Interest Rate (EIR) method in published financial statements.
211,263		
69,156		
9,804		
-		
-		
-		

BASEL II CAPITAL ADEQUACY COMPUTATION

The Bank and Group capital adequacy ratios were computed based on Basel II - Pillar I requirements up to the period ended 30 June 2017. Given below are the ratios for the Bank and Group for the year ended 31 December 2016.

The composition of the capital and risk weights assigned to the On and Off Balance Sheet assets, are as prescribed by the Central Bank of Sri Lanka. The Tier I capital of the Bank consists of the stated capital, retained earnings and other reserves after deducting the intangible assets , 50 % of the investments in unconsolidated banking & financial subsidiaries and 50% investments in capital of other banks and financial institutions. The Tier II capital of the Bank includes CBSL approved subordinated term debts, approved revaluation reserve and the general loan loss provision after deducting 50% of the investments in unconsolidated banking & financial subsidiaries and 50% investments in capital of other banks and financial institutions. In arriving the Risk-Weighted Assets (RWA), the Standardized Approach for credit risk , Standardized Measurement Method for market risk and the Basic Indicator Approach for operational risk has been used as per the Basel II guidelines.

Capital Base as at 31 December 2016	BANK	GROUP
	LKR' 000	LKR' 000
Tier I : Core Capital		
Capital	1,246,479	1,246,479
Statutory reserve fund	1,246,479	1,246,479
Published retained profits	16,219,170	21,246,563
General and other reserves	5,819,548	5,819,548
Minority interests	-	1,066,810
Total equity considered for Tier I capital	24,531,676	30,625,879
Deductions - Tier I		
Intangible assets	368,083	384,742
50% Investments in unconsolidated banking and financial subsidiaries	943,850	-
50% Investments in capital of other banks and financial institutions	815,997	1,133,190
	2,127,930	1,517,932
Eligible Tier I Capital	22,403,746	29,107,947
Tier II : Supplementary Capital		
General loan loss provision	957,043	957,043
Approved revaluation reserve	542,092	542,092
Approved subordinated term debts	9,009,969	9,009,969
	10,509,104	10,509,104
Deductions - Tier II		
50% Investments in unconsolidated banking and financial subsidiaries	943,850	-
50% Investments in capital of other banks and financial institutions	815,997	1,133,190
	1,759,847	1,133,190
Eligible Tier II Capital	8,749,257	9,375,914
Capital Base (Tier I +Tier II)	31,153,003	38,483,861

Risk Weighted On and Off-Balance Sheet Exposure as at 31 December 2016

	Assets for Credit risk		Risk weights	Risk weighted Assets	
	BANK	GROUP	%	BANK	GROUP
	LKR' 000	LKR' 000		LKR' 000	LKR' 000
Cash and claims on Central Government and Central Bank of Sri Lanka	58,647,311	58,649,716	0 - 20	21,026	21,026
Claims secured by cash deposits, gold and guarantees	27,339,087	27,339,087	0	-	-
Claims on Banks	9,640,933	10,166,189	20 - 150	4,747,626	4,995,479
Claims on Financial Institutions	18,711,007	19,630,437	20 - 150	10,938,851	11,359,196
Loans secured by residential property	10,544,601	10,544,601	50 - 100	5,866,613	5,866,613
Past due loans	2,640,758	2,640,758	50 - 150	3,660,446	3,660,446
Retail claims and corporate claims	200,783,449	202,589,047	20 - 150	184,402,403	186,048,902
Property, plant and equipment	2,078,569	4,304,255	100	2,078,569	4,304,255
Other assets	2,844,721	2,788,786	100	2,844,721	2,788,786
Total Assets considered for Credit Risk	**333,230,436**	**338,652,876**		**214,560,255**	**219,044,703**

Credit Equivalent of Off Balance Sheet Items

	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit equivalent Off Balance Sheet Items	
	BANK	GROUP	%	BANK	GROUP
	LKR' 000	LKR' 000		LKR' 000	LKR' 000
General guarantees of indebtedness	16,823,830	16,823,830	100	16,823,830	16,823,830
Stand by letters of credit relating to particular transactions	67,410	67,410	50	33,705	33,705
Performance bonds and bid bonds	10,022,804	10,022,804	50	5,011,402	5,011,402
Trade related acceptances and advance documents endorsed	7,958,256	7,958,256	20	1,591,651	1,591,651
Shipping guarantees	744,055	744,055	20	148,811	148,811
Documentary letters of credit	8,338,710	8,338,710	20	1,667,742	1,667,742
Undrawn term loans	10,799,521	10,799,521	0, 20 & 50	5,398,971	5,398,971
Foreign Exchange contracts	74,289,101	74,289,101	2 ,5 & 8	2,038,616	2,038,616
Undrawn overdrafts and credit lines	12,913,230	12,847,706	0	-	-
Other unutilized facilities	87,123,064	88,098,013	0, 20 & 50	71,937	809,412
Total	**229,079,981**	**229,989,406**		**32,786,665**	**33,524,140**

As at 31 December 2016	BANK	GROUP
	LKR' 000	LKR' 000
Capital Charge for Market Risk		
Capital Charge for interest rate risk	611,745	611,745
Capital Charge for equity securities and unit trusts	23,038	573,135
Capital Charge for Foreign Exchange and gold	98,554	98,554
Total capital charge for market risk	733,337	1,283,433
Total risk-weighted assets equivalent for market risk	7,333,367	12,834,331
Capital Charge for Operational Risk		
Gross Income		
Year 1	11,901,793	13,588,231
Year 2	12,237,313	13,226,127
Year 3	13,137,571	13,600,034
Average gross income	12,425,559	13,471,464
Total capital charge for operational risk at 15%	1,863,834	2,020,720
Total risk weighted assets equivalent for operational risk	18,638,339	20,207,196
Total Risk Weighted Assets	240,531,961	252,086,230
Capital Adequacy Ratios as per Basel II requirements		
Tier I (Required statutory minimum ratio was 5%)	9.31%	11.55%
Tier I & Tier II (Required statutory minimum ratio was 10%)	12.95%	15.27%

Evaluating our rules and regulations

STEWARDSHIP

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"We pride ourselves on upholding the spirit of Corporate Governance regulations and best practices beyond merely ticking the boxes. "

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BOARD OF DIRECTORS

Left to Right: Mrs. Kimarli Fernando > D M R Phillips, PC > T L F Jayasekara > R Semasinghe > Dimantha Seneviratne (*Director/Chief Executive Officer)*

Left to Right: A W Atukorala *(Chairman)* > Mrs. Shehani Ranasinghe *(Company Secretary)*
> A K Pathirage *(Deputy Chairman)* > D S P Wikramanayake > Mrs. Indrani Sugathadasa > K D W Ratnayaka

BOARD OF DIRECTORS

Name of the Director	Date of Appointment to the Board	Date of Last Re-election as a Director	Length of Service as a Director	Membership in Board Sub Committees	Skills/Experiences/Qualifications
A W Atukorala *Chairman* *Non-Executive/ Independent Director*	31 August 2016	30 March 2017	1 year & 4 months	Strategic Issues Committee Nominations Committee Related Party Transactions Review Committee Credit Committee	BSc (Univ. of Leeds, UK) MTT (North Carolina State Univ., USA) MBA
A K Pathirage *Deputy Chairman* *Non-Executive Non-Independent Director*	18 February 2011	30 March 2017	6 years & 10 months	Strategic Issues Committee Nominations Committee Credit Committee Human Resources & Remuneration Committee	G. C. E. Advanced Level He has over 29 years of experience in senior managerial capacity in the Information Technology industry and in the business world

Present Directorships with other Companies/ Positions	Past Directorships/Positions Held	Other Information	Number of Shares Held in the Bank as at 31 December 2017
United Motors Lanka PLC – Director Unimo Enterprises Limited – Director TVS Lanka Limited – Director Arni Holdings & Investments (Pvt) Limited – Director Unawatuna Boutique Resort (Pvt) Limited – Director U B Finance Company Limited – Deputy Chairman Orient Finance PLC –(formerly – Bartleet Finance PLC) – Director Colombo City Holdings PLC – Director Development Holdings (Private) Limited – Chairman NDB Securities (Pvt) Limited - Director	ANZ Grindlays Bank, Colombo Branch (with ANZ Grindlays Group in Sri Lanka & Overseas) – Deputy General Manager (at the time of leaving the bank) ANZ Banking Group in London and ANZ Bank in Vietnam – Corporate Banking & Audit in UK and Deputy GM in Ho Chi Minh City & in Hanoi Mashreq Bank PSC. – Country Manager, Sri Lanka Union Bank of Colombo PLC – Director DFCC Bank PLC – Director DFCC Vardhana Bank PLC – Director		519
Softlogic Holdings PLC – Chairman/Managing Director Asiri Hospital Holdings PLC – Chairman/ Managing Director Asiri Surgical Hospital PLC – Chairman/ Managing Director Central Hospital Limited - Chairman/Managing Director Asiri Hospital Kandy (Private) Limited - Chairman /Managing Director Softlogic Retail (Private) Limited – Chairman/ Managing Director Ceysand Resorts Limited - Chairman/Managing Director Softlogic Finance PLC – Chairman Softlogic Capital PLC – Chairman Softlogic Life Insurance PLC (formerly known as Asian Alliance Insurance PLC) – Chairman NDB Capital Holdings Limited– Chairman Softlogic Properties (Private) Limited – Chairman Softlogic Australia (Pty) Limited – Chairman (Incorporated in Australia) Softlogic City Hotels (Private) Limited – Chairman Softlogic Supermarkets (Private) Limited – Chairman Odel PLC – Chairman Odel Properties One (Private) Limited – Director Asiri A O I Cancer Centre (Private) Limited – Director Suzuki Motors Lanka Limited – Director	Fairfirst Insurance Limited - Chairman Softlogic Information Technologies (Pvt) Limited - Chairman Softlogic Credit Limited - Chairman Softlogic Brands (Pvt) Limited (Formerly known as Softlogic Distributors (Pvt) Limited & Uni Walker Distributors (Pvt) Limited) - Chairman Softlogic International (Pvt) Limited - Chairman Softlogic Communications (Pvt) Limited - Chairman Softlogic Information Systems (Pvt) Limited (Now amalgamated with Softlogic Information Technologies (Pvt) Limited - Chairman Asiri Hospital Matara (Pvt) Limited – Chairman/ Managing Director Matara Medi House (Pvt) Limited (which was amalgamated with Asiri Hospital Matara (Pvt) Limited – Chairman/Managing Director Future Automobiles (Pvt) Limited – Chairman/ Managing Director Ominga International (Pvt) Limited - Director Dai-Nishi Securities (Pvt) Limited - Chairman Asiri Diagnostics Services (Pvt) Limited - Chairman/Managing Director Softlogic Communication Services (Pvt) Limited - Chairman Softlogic Computers (Pvt) Limited - Chairman Softlogic Corporate Services (Pvt) Limited - Director Gerry's Softlogic (Pvt) Limited - Director Softlogic Solar (Pvt) Limited - Director Softlogic Restaurants (Pvt) Limited – Director Sabre Travel Network Lanka (Pvt) Limited – Director Asiri Central Hospitals Limited – Chairman/ Managing Director		4,145,293

Name of the Director	Date of Appointment to the Board	Date of Last Re-election as a Director	Length of Service as a Director	Membership in Board Sub Committees	Skills/Experiences/Qualifications
Dimantha Seneviratne *Director/Chief Executive Officer* *Executive Non-Independent Director*	01 January 2017	N/A	1 year	Integrated Risk Management Committee Credit Committee	Associate Member of the Institute of Bankers, Sri Lanka (AIB) Fellow of the Institute of Bankers, Sri Lanka (FIB) Bachelor of Science, University of Sri Jayewardenepura (BSc) Diploma in Computer System Design with Distinction pass, National Institute of Business Management (NIBM) Master of Business Administration, Postgraduate Institute of Management, University of Sri Jayewardenepura (MBA- PIM) Has successfully completed the High Potential Leadership Programme at the Harvard Business School, Boston USA
T L F Jayasekara *Non-Executive Independent Director*	10 February 2010	30 March 2015	7 years & 10 months	Strategic Issues Committee Audit Committee Human Resources & Remuneration Committee Nominations Committee Related Party Transactions Review Committee	FCA ACMA
D S P Wikramanayake *Non-Executive/Non-Independent*	04 June 2010	30 March 2016	7 years & 6 months	Integrated Risk Management Committee Strategic Issues Committee Audit Committee Related Party Transactions Review Committee	Chartered Accountant (FCA) 26 years in the banking industry and 16 years in the insurance industry

	Present Directorships with other Companies/ Positions	Past Directorships/Positions Held	Other Information	Number of Shares Held in the Bank as at 31 December 2017
	NDB Capital Holdings Limited - Director NDB Wealth Management Limited - Director NDB Investment Bank Limited - Director Credit Information Bureau of Sri Lanka - Director NDB Capital Limited (Bangladesh) - Director	Lanka Clear (Pvt) Limited - Director Pan Asia Banking Corporation PLC – Director/ Chief Executive Officer HSBC Thailand – Chief Risk Officer HSBC Sri Lanka- Chief Risk Officer, Sri Lanka and Maldives HSBC Sri Lanka – Head of Credit Risk Management HSBC Sri Lanka – Manager Credit Control HSBC Sri Lanka – Account Relationship Manager Saudi British Bank, Kingdom of Saudi Arabia - Credit Analyst/Account Manager, Corporate Banking Overseas Trust Bank, Sri Lanka Branch - Senior Corporate Relationship Manager Sampath Bank PLC - Staff Officer - Finance/ Account Relationship Manager, Corporate Banking		-
	Brandix Apparel India (Private) Limited - Director Brandix Apparel Solutions Limited - Director Brandix Lanka Limited - Director Brandix Management Services (Private) Limited - Director Brandix Asia Limited - Director Kuruwita Textile Mills Limited - Director Nirbitha Adventures (Private) Limited - Director John Keells Hotels PLC -Non-Executive - Director Phoenix Industries Limited - Director Phoenix Ventures (Private) Limited - Director Inqube Global (Pvt) Limited – Director Quantum Clothing Lanka (Private) Limited – Director Quantum Apparel (Cambodia) Limited - Director Quantum Clothing Group Limited - Director Phoenix Retail (Private) Limited - Director Fortude Inc. - Director Fortude (Private) Limited - Director Fortude Australia Pty. Limited - Director	Hayleys PLC - Non-executive Director Lanka Ventures Limited- Non-executive Director Ceylease Financial Services Limited - Director Sri Lanka Auditing and Accounting Standards Monitoring Board - Board Member Aitken Spence & Company Limited, Colombo - Group Finance Director Deutsche Bank, Colombo - General Manager & Financial Controller Arab Bank Limited, Bahrain - Internal Auditor Coopers & Lybrand, Zambia - Audit/Senior Supervisor		-
	NDB Capital Holdings Limited-Director NDB Capital Limited (Bangladesh)-Chairman NDB Wealth Management Limited-Chairman NDB Investment Bank Limited-Chairman AIA Insurance Lanka PLC-Director NDB Zephyr Partners Lanka (Pvt) Limited-Chairman	Orient Finance PLC-Director Bartleets Finance PLC-Director Aviva NDB Insurance PLC-Director P C House PLC-Director Greenwich Lanka (Pvt) Limited-Chairman Procifinity Limited- Director Rainbow Trust Management (Pvt) Limited-Director NDB Securities (Pvt) Limited-Director Infoserve (Pvt) Limited- Aviva NDB Holdings Lanka (Pvt) Limited-Director Power World Gyms Limited-Director		-

BOARD OF DIRECTORS

Name of the Director	Date of Appointment to the Board	Date of Last Re-election as a Director	Length of Service as a Director	Membership in Board Sub Committees	Skills/Experiences/Qualifications
Mrs. Kimarli Fernando *Non-Executive/ Independent Director*	04 June 2010	30 March 2015	7 years & 6 months	Strategic Issues Committee Audit Committee Human Resources & Remuneration Committee Nominations Committee Related Party Transactions Review Committee Credit Committee	Barrister – at – Law Attorney-at-Law LLB - London School of Economics, UK Human Resources Management, PIM
Mrs. Indrani Sugathadasa *Non-Executive Independent Director*	04 October 2013	30 March 2017	4 years & 2 months	Audit Committee Human Resources & Remuneration Committee Related Party Transactions Review Committee Credit Committee	BA degree (Social Sciences) – University of Colombo Masters degree (MBA/MPA) – Monash University, Australia Hubert H Humphry Fellow (Fulbright)
D M R Phillips, PC *Non-Executive / Independent Director*	22 April 2015	30 March 2016	2 years & 8 months	Integrated Risk Management Committee Human Resources & Remuneration Committee Credit Committee	Attorney at Law President's Counsel Solicitor England and Wales Diploma Intellectual Property - University of London

Present Directorships with other Companies/ Positions	Past Directorships/Positions Held	Other Information	Number of Shares Held in the Bank as at 31 December 2017
Vallibel One PLC - Director Delmege Limited - Director Richard Pieris Distributors Limited- Director	LB Finance PLC – Director/Acting Chairperson Pan Asia Banking Corporation PLC - CEO/ Director Waters Edge - Director Deutsche Bank AG - Head-Corporate Banking/ Global Cash Management Standard Chartered Bank - Head-Client Relationships/Corporate Banking/Wholesale Banking Lanka Clear (Pvt) Limited - Director Sri Lanka Bankers Association - Board member		-
Insurance Board of Sri Lanka - Chairperson Kalubovitiyana Tea Factory Limited - Director	Securities and Exchange Commission of Sri Lanka - Chairperson Ministry of Plantation Industries - Permanent Secretary Ministry of Child Development & Women's Affairs - Permanent Secretary Board of Investment of Sri Lanka - Director Sri Lanka Export Development Board - Member Environmental Council - Member Sri Lanka Bureau of Foreign Employment - Director Sri Lanka Tea Board - Member Sri Lanka Administrative Service - Rtd. Member		-
Gestetner of Ceylon PLC - Director Vauxhuall Beira Properties (Private) Limited - Director	Intellectual Property Advisory - Chairman		-

Name of the Director	Date of Appointment to the Board	Date of Last Re-election as a Director	Length of Service as a Director	Membership in Board Sub Committees	Skills/Experiences/Qualifications
K D W Ratnayaka *Non- Executive/ Independent Director*	13 May 2015	30 March 2016	2 years & 7 months	Integrated Risk Management Committee Human Resources & Remuneration Committee	Bachelor of Science (Physics) from the University of California
R Semasinghe *Non-Executive/Non-Independent Director as Nominee of the Ministry of Finance (in terms of the Articles of Association)*	26 September 2017	N/A	03 months	Integrated Risk Management Committee Audit Committee Related Party Transactions Review Committee	B. (Development Studies) Special Degree, University of Sri Jayawardanapura MSc, Agricultural University of Norway Diploma in Information Technology, SLIDA 34 years' of experience in the public service holding middle and senior level positions.
Mrs. Shehani Ranasinghe *Assistant Vice President/ Company Secretary*	N/A - (Appointed as the Company Secretary in April 2012)	N/A	N/A – (Length of service at the Bank - 24 Years)	N/A	Attorney-at-Law (Hons.) Bachelor of Arts (Hons.) Degree - University of Colombo Commissioner for Oaths Registered Company Secretary

Present Directorships with other Companies/ Positions	Past Directorships/Positions Held	Other Information	Number of Shares Held in the Bank as at 31 December 2017
Sri Lanka Tourism Development Authority - Chairman Sri Lanka Business Development Centre (SLBDC) - Director KBSL (Pvt) Limited - Director	The Associated Newspapers of Ceylon Limited - Chairman & Managing Director Iagora Solution SDN BHD - Director Cargills Ceylon PLC - Group Chief Corporate Officer Dialog Axiata PLC - Group Chief Corporate Officer Dialog Broadband Networks - Chief Executive Officer IBM's Country General Manager - Sri Lanka/ Maldives Employer's Federation of Ceylon (EFC) - Council Member Arthur C Clarke Institute for Modern Technologies - Director Sri Lanka Institute of Information Technology (SLIIT) - Director John Keels PLC - Director Amcham, Sri Lanka - Past President Sri Lanka Institute of Directors (SLID) - Director Independent Television Network (ITN) - Director		-
Ministry of Finance and Mass Media - Additional Secretary Represents Boards of Management as Board Member/Treasury Representative of Ceylon Electricity Board (CEB), Sri Jayawardanapura General Hospital, Central Environmental Authority, Police Academy, Katana and Academy of Financial Studies (MILODA)	Ministry of Finance - Director General Sri Lanka Customs - Director General (Actg.) Trade and Investment Policy Department - Director General Public Enterprises Department - Director General		-
		Mrs. Ranasinghe was formerly attached to the Legal Department of the Bank where she gained experience in Corporate and Banking law. She has also functioned as the Company Secretary of several subsidiary companies of the Bank prior to her appointment as the Company Secretary of the Bank.	N/A

THE LEADERSHIP TEAM

Dimantha Seneviratne
Director/Chief Executive Officer

Please refer pages 192 and 193 for profile

Buwanekabahu Perera
Vice-President – Corporate Banking

Total working experience with length of service at NDB (as at 31.12.2017): Over 38 years of experience including 19 years with NDB
Experience prior to joining NDB: Banque Indosuez„ Sampath Bank PLC and Deutsche Bank.
Exposure areas: Corporate Banking, Project Finance and International Trade
Professional qualifications: Bachelor's Degree in Financial Services - University of Manchester, UK
Postgraduate Diploma in Bank Financial Management - University of Sri Jayewardenepura
Associate Member - Chartered Institute of Bankers, UK
Other Information: Past president of the Association of Professional Bankers of Sri Lanka (APB).
Current Chairman of the Bankers' Technical Advisory Committee under Sri Lanka Banks' Association [SLBA]
Director – NDB Investment Bank Limited Colombo

Sanjaya Perera
Vice-President – Personal Banking & Branch Network Management

Total working experience with length of service at NDB (as at 31.12.2017): Over 27 years of experience including 02 years with NDB
Experience prior to joining NDB: Nations Trust Bank PLC, Sampath Bank PLC
Exposure areas: Retail banking , SME Banking , Auditing
Professional qualifications: MBA from the Post Graduate Institute of Management of University of Sri Jayewardenepura
Fellow of the Institute of Bankers of Sri Lanka
Passed finalist of the Association of Accounting Technicians (UK)

Niran Mahawatte
Vice-President – Treasury

Total working experience with length of service at NDB (as at 31.12.2017): Over 25 years of banking experience of which 16 years is with NDB.
Experience prior to joining NDB: Deutsche Bank and the Commercial Bank of Ceylon
Exposure areas: Treasury, Assets & Liability Management, Market Risk
Professional qualifications: B.Sc. from the University of Colombo
Other Information: Fellow Member of the Chartered Institute of Management Accountants, (FCMA) UK

Lalith T Fernando
Group Chief Financial Officer

Total working experience with length of service at NDB (as at 31.12.2017): Over 27 years of experience with a 2 years stint at the Bank, prior to rejoining as the GCFO on 01 February 2018
Experience prior to joining NDB: GCFO - Sri Lanka Telecom PLC
Several leadership positions at Dialog Axiata PLC, Robi Axiata (Bangladesh), Virtusa Incorporation, Male, Water & Sewerage Co (Pvt) Limited, Nations Trust Bank, Hutchison Telecom , National Development Bank and Ernst & Young Chartered Accountants.
Exposure areas: Finance, project management, business operations and internal audit related exposure in diversified fields including banking and finance, software development, telecommunications etc.
Professional qualifications: Fellow Member of the Institute of Chartered Accountants Sri Lanka (FCA), Fellow member of Certified Management Accountants (FCMA), Fellow Member and the Immediate Past President of the Association of Accounting Technicians of Sri Lanka (FMAAT), MBA - Postgraduate Institute of Management (PIM) -University of Sri Jayewardenepura, Masters in Financial Economics - University of Colombo.
Other information: Visiting Lecturer in 'Monetary and Financial Systems' at Bankers College from 2006 - 2012

Ms. Nirmala Rayen
Vice-President – Group Risk Management

Total working experience with length of service at NDB (as at 31.12.2017): Over 36 years of experience with over 17 years with NDB
Experience prior to joining NDB: ABN AMRO Bank N.V. , ABN Bank N.V, Citibank N.A.
Exposure areas: Operations, corporate banking and risk management
Professional qualifications: Associate Member of the Institute of Bankers of Sri Lanka
Other Information: Immediate Past President of the Association of Banking Sector Risk Professionals of Sri Lanka

Sujeewa Dissanayake
Vice-President – Information Technology

Total working experience with length of service at NDB (as at 31.12.2017): Over 32 years' experience in IT & Banking with over 11 years with NDB
Experience prior to joining NDB: Pan Asia Bank Banking Corporation PLC
Union Bank of Colombo as the Head of IT.
IBM World Trade Corporation - Finance Industry specialist
Exposure areas: Overall exposure in IT and strategy
Professional qualifications: Master's Degree in Business Administration from the University of Lincoln, UK.
Chartered Member of the British Computer Society
Other Information: Past Chairman of the British Computer Society, Sri Lanka Section
Author of two IBM Red Books for IBM Research labs, USA.

Ms. Shanti Gnanapragasam
Vice-President – Shared Services

Total working experience with length of service at NDB (as at 31.12.2017): Over 36 years of experience in banking with over 2 years with NDB
Experience prior to joining NDB: Chief Risk Officer and Head of Treasury and Global Markets at Hatton National Bank
Group Treasurer at Hayleys PLC
Deputy Head of Treasury at People's Bank
Director Global Markets and Treasury at American Express Bank
Exposure areas: Risk management, Treasury, Operations, Credit
Professional qualifications: B.Sc. degree from the University of Madras
Fellow Member of the Chartered Institute of Management Accountants, UK (FCMA)
Chartered Global Management Accountant (CGMA)
Other Information: Certified by ACI as a professional foreign exchange dealer
Certified by Omega Institute USA as a Credit Professional
CISI Diploma holder for Risk in Financial Services

Indika Ranaweera
Vice-President – SME, Middle Market and Business Banking

Total working experience with length of service at NDB (as at 31.12.2017): Over 22 years of overall experience with 19 years with NDB
Experience prior to joining NDB: Sampath Bank PLC, Central Engineering Consultancy Bureau
Exposure areas: SME Banking, Retail Banking, Network Management, Product Development
Professional qualifications: B.Sc. Engineering (Hons.) from University of Moratuwa
PGDBM from University of Colombo, Master's Degree in Business Administration from the University of Colombo (Merit), Master's Degree in Financial Economics from the, University of Colombo (Merit)

Chandrasiri Hewapattini
Vice-President – Human Resources

Total working experience with length of service at NDB (as at 31.12.2017): Over 40 years of experience in HR, local as well as overseas. Joined NDB in August 2017.
Experience prior to joining NDB: Unilever Sri Lanka, Nestle Lanka, HSBC Sri Lanka, Nations Trust Bank PLC and Saudi Investment Bank, KSA
Exposure areas: All aspects of Human Resource Management
Professional qualifications: Fellow of Institute of Personnel Management, Sri Lanka (FIPM)
Diploma in Personnel Management by NIBM Sri Lanka
Other information: Council Member, Institute of Personnel Management (IPM) Sri Lanka.

Ms. Melody Wickramanayake
Vice-President – Legal

Total working experience with length of service at NDB (as at 31.12.2017): Over 26 years of overall experience with over 24 years of experience with NDB
Experience prior to joining NDB: Ms. Wickramanayake has worked in the Middle East for a period of 2 years during the period 2008 to 2010
Exposure areas: Legal affairs, company secretarial affairs and compliance
Professional qualifications: Attorney-at-law (Hons.) of the Supreme Court of Sri Lanka
Notary Public
Commissioner for Oaths
Qualified Company Secretary

Ms. Ruwani de Silva
Vice-President – Group Audit

Total working experience with length of service at NDB (as at 31.12.2017): Over 22 years of experience including 16 years with NDB
Experience prior to joining NDB: Head of Audit at the ABN Amro – Colombo Branch, Exposure at the Tax & Audits Departments of Ernst & Young
Exposure areas: Audit, Finance & Compliance
Professional qualifications: Fellow Member of the Institute of Chartered Accountants of Sri Lanka (FCA) and Fellow Member of the Chartered Institute of Management Accountants UK (FCMA)

Ms. Ishani Senaweera
Vice-President – Organizational Change Management and Development

Total working experience with length of service at NDB (as at 31.12.2017): Over 23 years of experience with NDB
Experience prior to joining NDB: Ms. Senaweera joined NDB as a Management Trainee in 1995 as her first job after graduating, and has been with the Bank since.
Exposure areas: All round exposure in Human Resources and talent management, organizational change management, corporate banking and project financing
Professional qualifications: Master's Degree in Business Administration from the University of Wales
B.Sc. in Economics and Management from the University of London

Sanjaya Senarath
Assistant Vice-President – Marketing & Customer Experience

Total working experience with length of service at NDB (as at 31.12.2017): Over 28 years of building brands and overall marketing experience with over 5 years in NDB
Experience prior to joining NDB: General Manager Marketing – Hutchison Telecommunications Pvt Limited
Head of Marketing at Sri Lanka Insurance, Asian Alliance Insurance
Product Manager - Eagle Insurance Limited
Delmege Forsyth & Co Limited – FMCG Marketing
Began Career at John Keells Holdings working at Keells Food Products Marketing
Exposure areas: Field of marketing in a number of diverse environments spanning the areas of marketing strategy, brand management, product management, distribution, marketing communications and customer service in FMCG, retail, insurance & mobile telecommunication industries and Banking
Professional qualifications: B.Sc. in Financial Management from California State University, Long Beach, USA
Associate Degree from Santa Monica College, California, USA
Associate member – CIM – UK

Ms. Shehani Ranasinghe
Assistant Vice-President/Company Secretary

Please refer pages 196 and 197 for the profile.

Ms. Manique Kiriella Bandara
Assistant Vice-President - Compliance Officer

Total working experience with length of service at NDB (as at 31.12.2017): Over 21 years of experience with NDB
Experience prior to joining NDB: Immediately after taking oaths as an Attorney at Law she joined National Development Bank of Sri Lanka as a management trainee in December 1997 and has been with the Bank since.
Exposure areas: Legal counsel and support in the areas of lending, investment banking, structuring transactions, fund raising , labour related investigations
Advisory on banking regulation and exchange control related matters.
Secretary to the Boards of several subsidiaries at NDB during the period 2009-2013.
Active involvement in developing the corporate governance framework in place at the Bank.
AML and regulatory risk of the Bank.
Professional qualifications: LLB (University of Colombo)
Attorney-at- law (Hons.) of the Supreme Court of Sri Lanka
Other Information: A member of the Training Committee of the Association of Compliance Officer of Banks

Damitha Silva
Assistant Vice-President – Digital Financial Services

Total working experience with length of service at NDB (as at 31.12.2017): Over 19 years of experience including 4 months with NDB
Experience prior to joining NDB: Commercial Bank of Ceylon PLC, Nations Trust Bank PLC
Exposure areas: International Trade, Consumer Banking, Digital Banking, Remittances and International Operations
Professional qualifications: MBA with merit from the Postgraduate Institute of Management, University of Sri Jayewardenepura, Associate Member of the Institute Bankers of Sri Lanka, Reading for Mphil / Phd from University of Colombo
Other information: Participant of the Advanced Management Program conducted by the Cornell University – USA

SENIOR MANAGEMENT TEAM

Ms. Ishani Palliyaguru
Assistant Vice President-Project Finance

B.Sc Bio Science (University of Colombo)- First Class, MBA (PIM Sri J'pura)- Merit, FCMA(UK),CGMA, ACMA(Sri Lanka), Associate Member of the Association of Bankers of Sri Lanka

21 years experience with 19 years in banking

Amal Yapa
Assistant Vice President-Corporate Banking

Bachelor's Degree In Business Administration. (University of Houston, Texas)

24 years of experience in banking

Ms. Camy Somasunderam
Assistant Vice President-Cash Management

MBA -(University of Wales-UK), CIM Dip. (UK)

23 years of experience in banking

Ajith Senadheera
Assistant Vice President-Leasing

B.Sc. Business Administration (University of Sri J'pura), MBA (University of Colombo)

30 years of experience in banking

Ms. Shera Hassen
Assistant Vice President-Privilege Select Banking

MBA (Australian Institute of Business), Certified in Wealth & Investment Management-CISI UK, Associate Member of the Association of Bankers of Sri Lanka

23 years of experience in banking

K V Vinoj
Assistant Vice President-Network Management, Product Development & Institutional Banking.

MFE (University of Colombo), MBA (University of Southern Queensland), PGDBF(Cranfield University School of Management UK/CA Sri Lanka), NDHRM (IPM Sri Lanka), CMA (Australia), ACSI (UK)

25 years experience in banking

Priyantha Gamage
Assistant Vice President-Branch Operations

MBA (University of Southern Queensland), CISA (ISACA-USA), CISSP(ISC2-USA)

23 years of experience in banking

Zeyan Hameed
Assistant Vice President - Cards Business

ACMA (UK), CGMA

24 years of banking experience with 10 years of overseas experience

Kumar Gunawardana
Assistant Vice President-Administration and Services

38 years of experience in banking

Sunil Karunaratne
Assistant Vice President-Treasury

MBA(University of Western Sydney)

32 years of experience in banking

Damitha Samaranayake
Assistant Vice President-Treasury

Associate Member of the Association of Bankers of Sri Lanka , ACI Dealing Certificate - Paris

23 years of experience in banking

Gehan Biyanwila
Assistant Vice President-Asset and Liability Management

CFA charter holder, ACI Diploma, ACI Dealing Certificate- Paris

21 years experience with 20 years in banking

Ms. Suvendrini Muthukumarana
Assistant Vice President-Finance and Planning

B.Sc Physical Science (University of Colombo), FCA (Sri Lanka)

23 years of experience with 17 years in banking

Chandana Guniyangoda
Assistant Vice President-Finance, Strategic Planning and Business Support

B.Sc. Management (Sp) (University of Sri J'pura), MBA B&F (PIM Sri J'pura), MAFE(University of Colombo), FCA(Sri Lanka), ACMA(SL), ACBF (IBSL)

20 years of experience with 17 years in banking

Ms. Shareen Jayasuriya
Assistant Vice President-Credit

FCMA(UK), CGMA, CIM Dip. (UK), ACSI

24 years of experience with 23 years in banking

Sumith Peiris
Assistant Vice President-Centralized Recoveries

B.Sc. Engineering(Hons.) (University of Moratuwa), CIMA Passed Finalist, Graduate of Engineering Council of UK

31 years of experience with 28 years in banking

Ms. Anushca Saranapala
Assistant Vice President-Group Risk Management

35 years of experience in banking

Ms. Harshini Satharasinghe
Assistant Vice President-Credit

B.Sc. Agriculture (Sp) (University of Peradeniya), MBA (University of Sri J'pura), Award in Risk in Financial Services - Chartered Institute for Securities and Investments (CISI)- UK

21 years experience with 19 years in banking

SENIOR MANAGEMENT TEAM

Lalith Fernando
Assistant Vice President-Information Technology

MBCS - CITP, MBA(University of Moratuwa)

31 years of experience with 21 years in banking

Nishantha Hettiarachchi
Assistant Vice President-Information Technology

B. Sc. Industrial Management (Hons.) (University of Kelaniya), M.Sc(Information System Management) (University of Colombo), BCS (UK), Diploma in Business Administration (ICFAI, India)

19 years of experience in banking

Rivindu Nanayakkara
Assistant Vice President-Operations-Trade Services, Payments & Settlements

37 years of experience in banking

Ms Ganga Wanigaratne
Assistant Vice President-Operations-Account Services & Credit Administration

32 years of experience in banking

Ms Dayani Algama
Assistant Vice President-Human Resources

BA (Hons) (University of New Delhi), Masters in Development Studies, University of Colombo

26 years of experience with 20 years in banking

Ms Vidisha Jayawardena
Assistant Vice President-Legal

Attorney at Law (Hons)

25 years of experience in banking

Sanjeev Kulendran
Assistant Vice President-Internal Audit

B.Sc (University of Madras), Associate Member-Financial Services Institute of Australasia, Associate Member of the Association of Bankers of Sri Lanka

25 years of experience in banking

GROUP MANAGEMENT TEAM

Dimantha Seneviratne
Director/Chief Executive Officer
National Development Bank PLC

Please refer pages 192 and 193 for the profile.

Vajira Kulatilaka
Chief Executive Officer
NDB Capital Holdings Limited

Total working experience with length of service at NDB (as at 31.12.2017): Over 33 years of experience including 27 years with the NDB Group
Experience prior to joining NDB: Sampath Bank PLC and USAID
Exposure areas: Banking and Finance, Capital Market Operations
Professional qualifications: B.Sc. in Civil Engineering (First Class Honors) - University of Moratuwa, M.Sc. in Industrial Engineering & Management - Asian Institute of Technology, Thailand, Chartered Financial Analyst (CFA), Fellow Member Chartered Institute of Management Accountants – FCMA (UK)
Other information: Immediate pass Chairman of the Colombo Stock Exchange (CSE) and , Chairman of the South Asian Federation of Exchanges (SAFE), CEO of the Investment Banking cluster of the NDB Group and is a Director of NDB Investment Bank Limited, NDB Securities (Pvt) Limited, NDB Wealth Management Limited, NDB Zephyr Partners Limited, NDB Capital Limited and Resus Energy PLC, Member of the Governing Council of the University of Moratuwa, Has been instrumental in introducing a number of innovative financial products to the country.

Lalith T Fernando
Group Chief Financial Officer
National Development Bank PLC

Please refer page 199 for the profile.

Darshan Perera
Chief Executive Officer
NDB Investment Bank Limited

Total working experience with length of service at NDB (as at 31.12.2017): Nearly 25 years of experience including 16 years with NDB Group
Experience prior to joining NDB: Vanik Incorporation Limited - (January 1996 – June 2001), Informatics (Private) Limited - (August 1995 – December 1995), Commercial Bank of Ceylon PLC - (October 1988 – March 1991)
Exposure areas: Banking and Finance, Capital Market Operations
Professional qualifications: BSc. in Physical Science (Second Class Upper), University of Colombo, MBA, Merit Pass, University of Colombo, Associate Member, Institute of Bankers, Sri Lanka, Passed Finalist, Chartered Institute of Management Accountants UK (CIMA), Passed Level 2 of Chartered Financial Analyst (CFA) Examination, conducted by the CFA Institute, USA, Associate Member, Chartered Institute of Marketing, UK (CIM)
Other information: Director - NDB Capital Limited (Bangladesh)

GROUP MANAGEMENT TEAM

Prabodha Samarasekera
Chief Executive Officer
NDB Wealth Management Limited

Total working experience with length of service at NDB (as at 31.12.2017): Over 28 years of experience including 9 years with NDB Group
Experience prior to joining NDB: HSBC - Colombo and Hong Kong, National Asset Management Limited (JV : Capital International, Singapore)
Exposure areas: Banking and Finance, Capital Markets
Professional qualifications: B.S in Management Information Systems – Louisiana State University, USA, MBA in International Finance – University of Southern California, USA
Other information: Secretary, Sri Lanka Association of Securities & Investment Analysts

Ms. Prasansani Mendis
Chief Executive Officer
NDB Securities (Pvt.) Limited

Total working experience with length of service at NDB (as at 31.12.2017): 31 years of experience including 27 years with the NDB Group (18 years of experience in the NDB Bank)
Experience prior to joining NDB: Ceylon Tea Services, Maharaja Group
Exposure areas: Banking and Finance - Accounting and Finance, Corporate Banking, Merchant Banking and Consulting, Housing, Leasing, Restructuring and Recoveries, Capital Market operations
Professional qualifications: B. Com. Special Degree from the University of Kelaniya, CIMA Passed Finalist
Other information: Treasurer of The Colombo Stockbrokers Association (Current), Past Designations Held - Head of Special Projects Department of NDB Bank, Head of Leasing Department of NDB Bank

Senaka Kakiriwaragodage
Managing Director
NDB Zephyr Partners Lanka (Pvt.) Limited

Total working experience with length of service at NDB (as at 31.12.2017): Over 14 years of experience including 12 years with the NDB Group.
Experience prior to joining NDB: Senior Software Engineer – Virtusa (Pvt) Limited.
Exposure areas: Investment Banking, Equity Management, Financial Analysis and Modeling, Project Financing, Advisory Services, Capital Market Operations, Portfolio Management
Professional qualifications: B.Sc. (First Class) in Computer Science and Engineering - University of Moratuwa., Master of Business Administration (MBA) - University of Manchester, Chartered Financial Analyst (CFA), Fellow Member Chartered Institute of Management Accountants – UK.
Other information: Managing Director of NDB Zephyr Partners Lanka (Private) Limited, Director of JAT Holdings (Pvt) Limited, Director of Cleanline Linen Management Limited, Director of Idea Group Limited.

Kanti Kumar Saha
Managing Director and Chief Executive Officer
NDB Capital Limited - Bangladesh

Total working experience with length of service at NDB (as at 31.12.2017): Over 25 years of banking experience including 3 years with NDB Capital
Experience prior to joining NDB: Deputy Managing Director and Chief Business Officer of Prime Bank Limited., Director & Head of Global Corporate Bank in Citibank N.A., Bangladesh
Exposure areas: Banking and Capital Markets
Professional qualifications: Bachelor and Masters in Economics from University of Dhaka, Postgraduate Management Degree from The Nottingham Trent University, UK.
Other information: Member of the Board of Directors of NDB Capital Limited.

CORPORATE GOVERNANCE

The Board sets strategy and provides oversight and control, acting as an independent check and balance to the Senior Management Team, whose responsibility it is to run the business

Our Role is to:

Set NDB's strategy

Provide the right leadership to achieve strategy, creating a culture that will ultimately deliver sustainable success

Ensure consistent execution by monitoring performance

Ensure that risk is managed appropriately and the business is well controlled

Dear Stakeholder,

I am pleased to present our Corporate Governance Report for 2017.

The Bank aspires to the highest standards of corporate governance and ethical conduct. Doing what we say, reporting results with accuracy and transparency, and maintaining full compliance with the laws, rules and regulations is integral to the way we govern the Bank's business operations.

The Corporate Governance Report illustrates the important areas of the governance framework of the Bank. This report covers the "Factual Finding Report" submitted by the External Auditors in relation to compliance with the Corporate Governance Directions issued by the Central Bank of Sri Lanka (CBSL).

As required by the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka in 2013, we hereby confirm that, we are not aware of any material violations of any of the provisions of the Code of Business Conduct and Ethics (as embodied in the internal Code of Corporate Governance applicable to directors and key management personnel of the Bank as the case may be) by any director or key management personnel of the Bank.

We pride ourselves on upholding the spirit of Corporate Governance regulations and best practices beyond merely ticking the boxes. Please find a detailed description of our compliance with these regulations and best practices on pages 220 to 254 of this Report.

Our key priority as a Board is to build a sustainable business that generates good returns for our stakeholders over the long-term. Our role is to set NDB's strategy, provide leadership and create a culture that helps achieve our strategy, ensure effective execution by monitoring performance and above all, make sure that risk is managed appropriately.

Strategic Direction

As Chairman, I ensure that sufficient time is set aside at Board meetings for open and constructive discussion of significant issues, most importantly, strategy. In 2017, critical progress was made in setting the foundation for sustainable long term success with the launch of the Bank's new strategic initiative called "Transformation 2020". The Board provided oversight of senior management in developing this strategy and will continue to provide support in ensuring that the key strategies are delivered in a timely manner.

Further in 2017, a Board Credit Committee was established to ensure that more time of the Board can be spent on the discussion of strategy, performance, business opportunities and the management of key risks.

Right Culture

How we do things is just as important as what we do. The Board plays an important role in setting the tone and creating a culture that will ultimately deliver sustainable success. Effective governance is therefore not simply about having a framework or processes in place, it is about people and how they interact. In this transformational journey we are focusing not only on what we do but on how we do it, and are committed to embedding a values-driven culture at NDB, one where we are expecting every member of the NDB family to demonstrate the values of Integrity, Excellence, Creativity, Accountability and Sincerity when interacting with our colleagues, customers, suppliers, shareholders and society.

Monitoring Performance

A dedicated project management office and project steering committee consisting of members of the Board, senior management and senior representatives of the IFC advisory team was established to provide the vital leadership to monitor and track the strategic transformation initiative. The Board's focus is now on execution and supporting the senior management team to achieve its strategic goals and is regularly updated on progress made.

Management of Risk and Control

Our Board subcommittees play a vital role in providing oversight of risk management and ensuring that our risk appetite and risk profile are consistent with and support our strategy to deliver long-term, sustainable success. Our internal controls cover financial, operational, compliance, technology controls, as well as risk management policies and systems.

In 2017, the Bank achieved a new milestone in our corporate governance journey when our Corporate Governance Report in the 2016 Annual Report won the Gold Award at the Chartered Accountants Annual Reports Awards 2016 thereby recognizing our goal to transparency and reporting on a wide range of financial and non-financial obligations to ensure our accountability.

Our commitment to strong and effective governance continues and we believe that this will help create value for multiple stakeholders, including our shareholders. We invite you to take a closer look at our governance initiatives and practices during the year 2017!

A W Atukorala
Chairman

CORPORATE GOVERNANCE INITIATIVES FOR THE YEAR 2017

In order to ensure that all governance related matters receive the focused attention of the full Board, the Corporate Governance and Legal Affairs (CGLA) Committee was dissolved and such matters were brought under the purview of the Board. Further, matters relating to legal risk and conduct risk which came within the scope of the CGLA was incorporated into the TOR of the Integrated Risk Management Committee which provides oversight on risk management.	A Credit Committee was established to review credit and approve credit proposals coming under the Committee's Delegated Level of Authority and recommend (when required) proposals to the Board. By doing so the Board has more time to focus on areas such as strategy, corporate governance, performance, business opportunities, management of key risks etc.
In order to ensure smooth and effective execution of the Bank's strategic initiative "Transformation 2020", a Project Steering Committee and a dedicated Project Management Office (PMO) was established to monitor and manage the Bank's strategy program.	A T20 website was launched to share progress made on achieving the objectives set out in the Bank's strategic plan and to ensure that all employees are kept informed of progress made under this initiative.
A series of outreach and organizational change management workshops were held across all regions to drive and entrench the Bank's Corporate values and the "One NDB" culture with each member of the NDB Family.	All TORs, Policies, Procedures and Product Program Guides are tracked on a monthly basis to ensure that they are reviewed in a timely manner and are updated in line with new regulations and best practices.
A share trading black out period was introduced on the NDB Share for all directors and all employees of the Bank. This ensures that directors and employees do not trade based on any price sensitive information they may possess. Further, to ensure that there is no speculative trading on the NDB Share, a minimum holding requirement was also introduced. All share trades carried out by employees of the Bank are monitored to ensure compliance.	All documents pertaining to Board and subcommittee meetings were made available in electronic format on the tablets provided to all directors. Further, to support directors to keep abreast with the changing regulatory landscape, all laws and regulations relating to banking business are uploaded in electronic format on their tablets.
Training Programs on "Anti-Money Laundering Regulations, AML trends and industry best practices" and "IFRS 9 and the implications to the Bank" were conducted for the entire Board during 2017. This is in addition to directors training programs attended by individual Board members.	A new E Learning Module on Anti Money Laundering and Terrorist Financing in line with new regulations issued by the regulator was launched in 2017. Completion of the training and passing the assessment was mandatory for all employees of the Bank. 1950 employees of the Bank have completed the training and passed the assessment in 2017.
A Fraud Risk Management Policy was approved by the Board in 2017 establishing a framework within which the fraud risk of the Bank is to be managed. The policy details the tools and techniques that are to be implemented to manage fraud risk within the Bank in a standardized manner.	The Board, all subcommittees and management committees carried out self-assessments to critically evaluate the effectiveness of the Board and each of the committees. The results of the self-evaluations were discussed and areas for improvement together with an action plan was mandated.

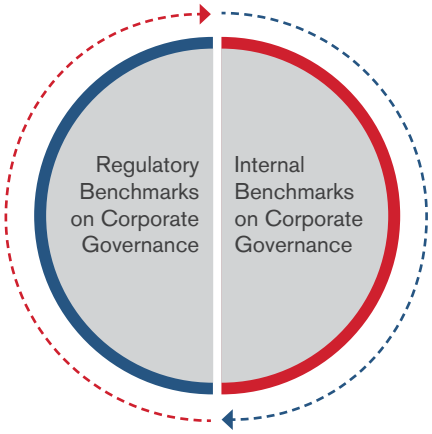
OUR GOVERNANCE FRAMEWORK

We have a clearly defined governance framework that promotes transparency, fairness and accountability.

Our governance framework is anchored on (a) competent leadership, (b) creating the right culture and values, (c) effective risk management and controls and (d) regular engagement with our stakeholders.

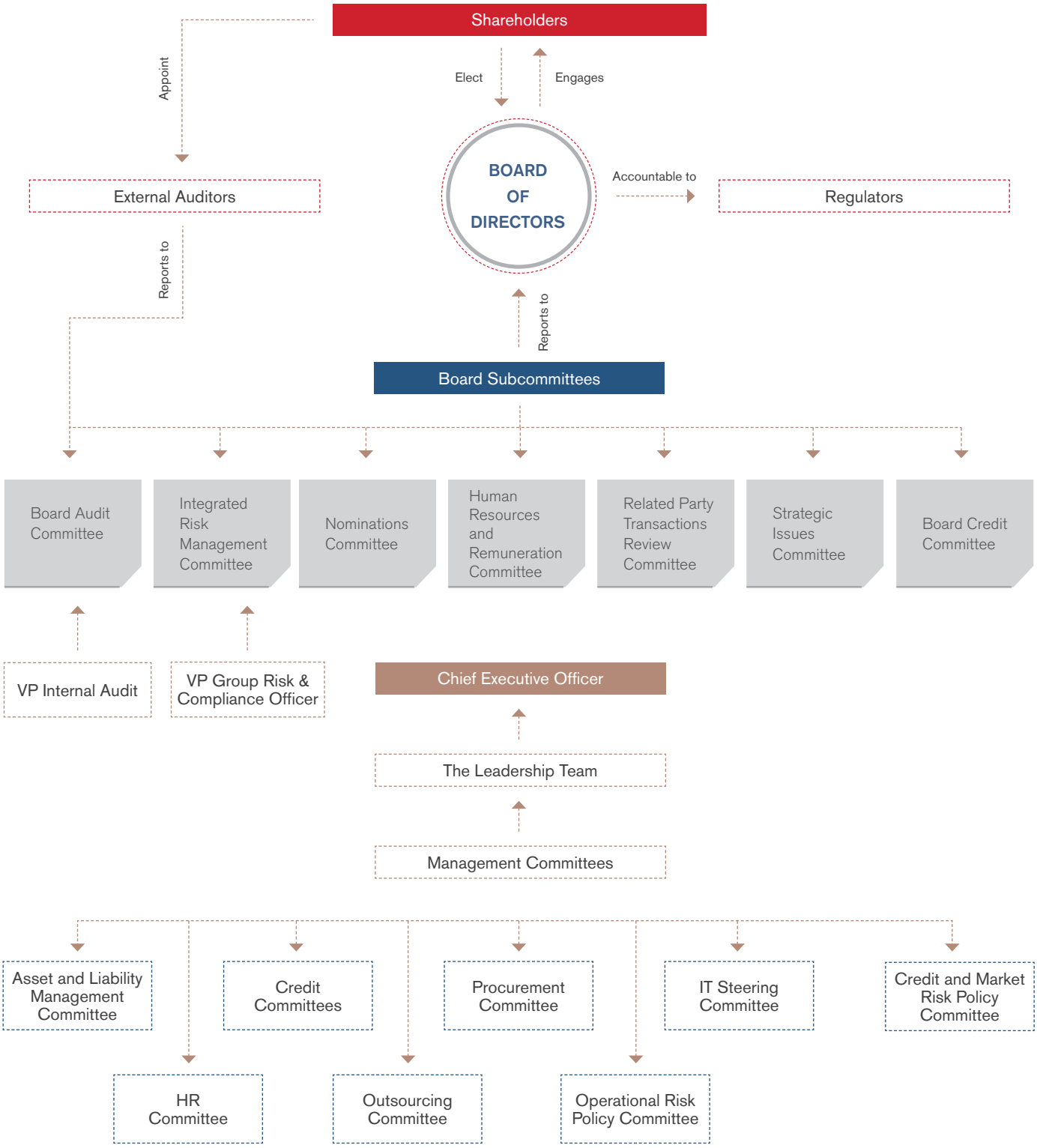
The internal and external regulations that strengthen the Bank's Corporate Governance Framework are as follows:

- Companies Act No. 07 of 2007
  Mandatory compliance
- Banking Act No. 30 of 1988 (as amended) and all Directions/ Guidelines issued thereunder
  Mandatory compliance
- Corporate Governance Direction No. 11 of 2007 (as amended), issued by the Central Bank of Sri Lanka
  Mandatory compliance
- Listing Rules of the Colombo Stock Exchange (CSE)
  Mandatory compliance
- The Code of Best Practices on Corporate Governance as published by the Securities and Exchange Commission and The Institute of Chartered Accountants of Sri Lanka
  Voluntary compliance
- Related Party Transactions Section 09 of the Listing Rules of the CSE
  Mandatory compliance
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended)
  Mandatory compliance



- Articles of Association
- Internal Code of Corporate Governance for Board and Key Management Personnel
- Charters/Terms of Reference of Board Subcommittees and Management Committees
- Compliance Policy and Code of Conduct
- Group Securities Trading Policy
- Group Anti-Bribery and Corruption Policy
- Human Resources Policy and Manual
- Whistleblowing Policy
- Communication Policy
- Procurement Policy
- Outsourcing Policy
- Disclosure Policy
- Complaint Handling Policy
- Related Party Transactions Policy
- Integrated Risk Management Policies
- IT related Policies
- Finance related Policies
- Document Retention and Destruction Policy
- Anti-Money Laundering and Suppression of Terrorist Financing Policy
- Fraud Risk Management Policy
- Product Program Guides
- All Board approved Policies on operational areas

THE BANK'S GOVERNANCE FRAMEWORK



COMPETENT LEADERSHIP

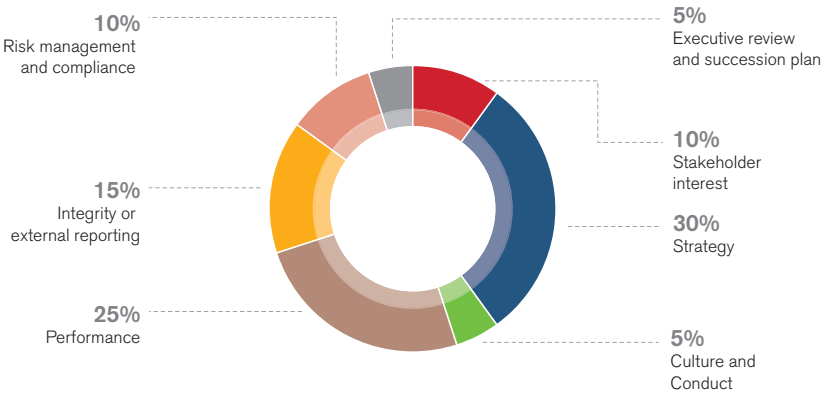
The Board provides challenge, oversight and advice to ensure that we are doing the right things in the right way.

The Board requires the right balance of expertise, skills, experience and perspectives to be effective. It also needs to have the right information, at the right time, so that it can engage deeply on how the business is operating, how the Senior Management Team is performing and fully understand the risks and major challenges the business is facing.

The performance of the Board, the Board subcommittees and the directors is evaluated each year with the Board Performance Evaluation Process.

Board's Key Areas of Focus	
Stakeholder Interest	The Board functions as a custodian of the Bank's performance and behavior and sets the vision, strategic aims and values which enhances long term shareholder returns.
Strategy	The Board plays an active role in approving the Bank's strategy which is then enforced throughout the Bank through clear lines of responsibility.
Culture and Conduct	The Board sets the tone at the top by promoting professional standards and corporate values that cascade to senior management and other employees of the Bank.
Performance	The Board reviews the business results and monitors budgets
Integrity or External Reporting	The Board reviews and monitors the process controls, and procedures in place to maintain the integrity of accounting and financial records and statements of the Bank.
Risk Management and Compliance	The Board reviews and monitors (with the guidance of the Integrated Risk Management Committee) the Bank's Risk Management Framework and the risk appetite of the Bank and ensures compliance with laws and regulations.
Executive Review and Succession Plan	The Board reviews and approves the Succession Plan of the Bank

How the Board Spent its Time in 2017



BOARD COMPOSITION

Our Board members have a broad range of expertise and brings skills and experience from a diverse range of backgrounds, including sufficient skills and experience appropriate to the Bank. The tenure of our directors demonstrates a good balance between continuity and fresh perspectives. The size and composition of the Board is appropriate given the current size and footprint of the Group's operations. The make-up of our Board reflects diversity of gender. The CEO is the only executive director on the Board. The independence of non-executive directors is reviewed on an annual basis as part of the directors' evaluation process, taking into account length of tenure and any relationships that might be considered as factors when determining independence. The proportion of independent non-executive directors on the Board (six out of ten) is high thereby bringing unbiased judgment in decision making.

WHO IS ON OUR BOARD

1

Non-Executive and Independent Chairman

- Mr. A W Atukorala

5

Non-Executive and Independent Directors

- Mr. T L F Jayasekara
- Mrs. Kimarli Fernando
- Mrs. Indrani Sugathadasa
- Mr. D M R Phillips PC
- Mr. K D W Ratnayaka

3

Non-Executive and Non-Independent Directors

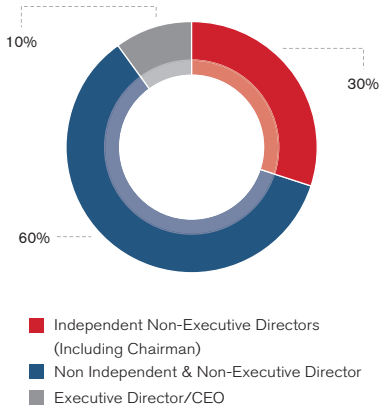
- Mr. A K Pathirage
- Mr. D S P Wikramanayake
- Mr. R Semasinghe

1

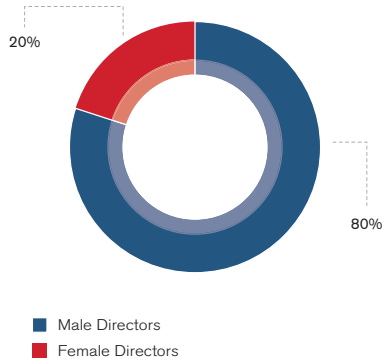
Executive Non Independent Director/CEO

- Mr. P L D N Seneviratne

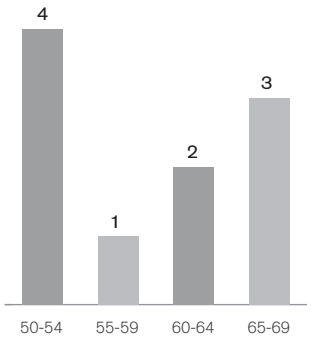
Independence



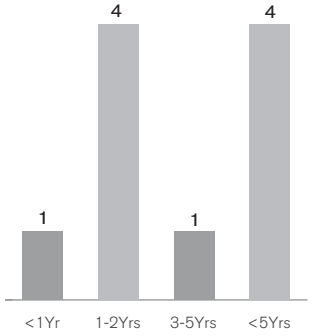
Gender



Age Group of our Directors



Director's Length of Service



BOARD OF DIRECTORS' INDUSTRY/BACKGROUND EXPERIENCE

Industry Experience	No of Directors
Banking	5
Finance	3
Entrepreneurship	1
Insurance	3
Law	2
Public Policy & Public Administration	2
IT	1
Investment Banking	1
Media	2

WHERE TO FIND INFORMATION ON EACH DIRECTOR?

Information on the Director's profiles can be found on pages 188 to 197 The gender balance, age balance, expertise and length of service are depicted in graphical form on page 212. The information on independence status, date of appointment, length of service and Board meeting attendance is detailed in the table below. Information relating to directors' appointments in Board subcommittees and attendance at subcommittee meetings is found on page 216.

THE STRUCTURE, COMPOSITION AND ATTENDANCE OF THE BOARD AS AT 31 DECEMBER 2017

Name of Director	Areas of Expertise	Independent / Non Independent under CBSL Direction	Independent / Non Independent under ICASL/ SEC Code Direction	Date of Appointment	No of Meetings Eligible to Attend	No of Meetings Attended
Mr. A W Atukorala (Chairman)	Management and Banking	Independent	Independent	31.08.2016	14	14
Mr. A. K Pathirage (Deputy Chairman)	Retail Trade, Insurance and Entrepreneurship	Non Independent	Non Independent	18.02.2011	14	14
Mr. P L D N Seneviratne	Banking, Finance and Management	Non Independent	Non Independent	01.01.2017	14	14
Mr. T L F Jayasekara	Accounting, Banking and Textile Industries	Independent	Independent	10.02.2010	14	13
Mr. D S P Wikramanayake	Accounting, Banking, Insurance and Investment Banking	Non Independent	Non Independent	04.06.2010	14	14
Mrs. Kimarli Fernando	Law, Banking and Management	Independent	Independent	04.06.2010	14	13
Mrs. Indrani Sugathadasa	Management, Insurance, Public Administration, Plantations and HR	Independent	Independent	04.10.2013	14	14
Mrs. D M A Harasgama (resigned w.e.f 30th June 2017)	Finance, Public Policy and Management	Non Independent	Independent	22.04.2015	8	8
Mr. D M R Phillips PC	Law	Independent	Independent	22.04.2015	14	14
Mr. K D W Ratnayaka	Management, IT and Media	Independent	Independent	13.05.2015	14	13
Mr. N S Welikala (Resigned w.e.f. 30th April 2017)	Banking, Finance and Management	Independent	Independent	11.10.2016	6	6
Mr. R. Semasinghe (appointed w.e.f 26th September 2017)	Public Policy, Media and Management	Non Independent	Independent	26.09.2017	3	3

BOARD MEETINGS	
Prior to Board Meetings	During Board Meetings
▪ All Board meetings are scheduled and informed to the Board at the beginning of each calendar year to provide directors an opportunity to attend	▪ The Chairman encourages and facilitates constructive dialogue during Board meetings
▪ All directors are given an opportunity to include matters and proposals in the agenda for Board meetings if required	▪ Board members come well prepared and engage in robust discussions on key matters pertaining to the Bank
▪ The Chairman draws up the agenda in consultation with the Chief Executive Officer and Company Secretary to ensure that there is sufficient information and time to address all agenda items	▪ The Chairpersons of Board subcommittees provide detailed updates to the Board on key decisions taken at subcommittee meetings and any areas of concern
▪ Formal notice of meetings, the agenda and Board papers related to each Board meeting are circulated at least 7 days in advance of the Board meeting. These documents are uploaded through a secure connection to the tablets of all directors in order to ensure that Board members have access to complete information prior to Board meetings	▪ CEO prepares complete and accurate financial statements and disclosures in accordance with the financial reporting standards which illustrates a fair view of the Bank's performance
▪ Directors can participate by telephone or video conference	▪ If a director of the Bank has a conflict of interest in a matter to be considered by the Board, such matters are disclosed and discussed at the Board meetings, where independent non-executive directors who have no material interest in the transaction, are present. The relevant director excuses himself from the meeting when such matter is being considered by the Board and does not participate in the discussion and decision
▪ Directors have the discretion to engage external advisers	▪ The Board minutes contain adequate details appropriate to the matters dealt with during Board meetings. All directors bring their independent judgment to matters discussed at Board meetings. Dissenting views are also duly recorded in the Board minutes in detail

Effective Engagement with the Board

- The Board is regularly updated on Board performance, progress against strategy, key risks and control lapses that have been identified.
- Directors have access to Senior Management and request for additional information whenever required to make informed decisions.
- Senior Management make regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their respective areas.
- Directors had the opportunity to interact with The Leadership Team at a specially hosted evening cocktail.
- Directors have independent access to the Company Secretary at all times. The Company Secretary attends all Board meetings and generally assists directors in the discharge of their duties.
- As some directors sit on the Boards of subsidiaries in the Group this arrangement gives the Board access to first hand insight on the activities of the subsidiaries.
- All laws and regulations issued that relate to banking business are uploaded to the tablets provided to directors together with an explanatory note to support directors to keep abreast with the changing regulatory landscape.

BOARD SUBCOMMITTEES

To discharge its stewardship and fiduciary responsibilities effectively, the Board delegates authority to Board subcommittees to enable directors forming part of respective committees to focus on their designated areas of responsibility and impart knowledge in areas where they have expertise. This empowers the Board to provide effective oversight and leadership and focus on key issues and prioritize its time and resources.

Board of Directors

This diagram highlights certain key areas of oversight of each Board subcommittee and is not an exhaustive list of responsibilities

BOARD AUDIT COMMITTEE (BAC)

- Five members. All non-executive directors.
- Three out of the five members are independent non-executive including the Chairman of the BAC.

Provides effective governance and oversight over the Bank's financial reporting, performance of the internal audit function, external audit function and management of the Bank's internal controls and related activities.

INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC)

- Seven members.
- Two non independent non executive directors (including the Chairman of IRMC) two independent non executive directors, executive director (CEO) , VP Group Risk and Compliance Officer.

Responsible to design, implement and monitor an effective risk management programme for the Bank.

NOMINATIONS COMMITTEE (NC)

- Four members. All non-executive directors.
- Three out of the four members are independent non-executive including the Chairman of the NC.

To ensure that the Board and the Key Management Personnel comprises of individuals with necessary skills, knowledge and experience to enable effective discharge of their duties.

HUMAN RESOURCES AND REMUNERATION COMMITTEE (HRRC)

- Six members. All non-executive directors.
- Five out of the six members are independent non-executive including the Chairman of the HRRC.

To assess and make recommendations to the Board on the Policy on recruitment, remuneration, benefits and talent management of the Bank's employees.

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE (RPTR)

- Five members. All non-executive directors.
- Four out of the five members are independent non-executive including the Chairman of the RPTR.

To ensure on behalf of the Board that all related party transactions of the Bank and it's subsidiaries are consistent with the regulatory provisions laid out under LKAS 24, the Corporate Governance Directions and Listing Rules issued by the Colombo Stock Exchange.

STRATEGIC ISSUES COMMITTEE (SIC)

- Five members. All non-executive directors.
- Three out of the five members are independent non-executive including the Chairman of the SIC.

Examines and evaluates strategic issues and recommends any action required to be taken by the Board.

BOARD CREDIT COMMITTEE (BCC)

- Six members . Out of the six members ,five members are non executive directors and the CEO is the only executive director.
- Four out of the six directors are independent including the Chairperson.

Reviews credit and approves credit proposals coming under the Committee's Delegated Level of Authority and where required recommends proposals to the Board.

DETAILS OF MEMBERS OF THE BOARD SUBCOMMITTEES AS AT 31 DECEMBER 2017

Name of Subcommittee	Human Resources and Remuneration Committee		Integrated Risk Management Committee		Nominations Committee		Board Audit Committee		Related Party Transactions Review Committee		Strategic Issues Committee		Board Credit Committee	
Name of Director	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA
Mr. A W Atukorala					C	06.09.2016			C	06.09.2016	C	06.09.2016	M	01.06.2017
Mr. A K Pathirage	M	01.01.2014			M	11.08.2011					M	18.02.2011	M	01.06.2017
Mr. P L D N Seneviratne			M	01.01.2017									M	01.06.2017
Mr. T L F Jayasekara	M	10.02.2010			M	10.02.2010	C	10.02.2010	M	19.12.2014	M	11.08.2011		
Mr. D S P Wikramanayake			C	22.06.2010			M	22.06.2010	M	19.12.2014	M	22.06.2010		
Mrs. Kimarli Fernando	M	22.06.2010			M	30.03.2015	M	11.08.2011	M	19.12.2014	M	04.06.2010	C	01.06.2017
Mrs. Indrani Sugathadasa	C	01.01.2014					M	01.01.2014	M	19.12.2014			M	01.06.2017
Mrs. D M A Harasgama*			M	22.04.2015			M	22.04.2015	M	22.04.2015			M	01.06.2017
Mr. D M R Phillips**	M	01.01.2017	M	01.06.2017									M	01.06.2017
Mr. K D W Ratnayaka	M	15.03.2016	M	13.05.2015										
Mr. N S Welikala***			M	11.11.2016			M	11.11.2016	M	11.11.2016	M	11.11.2016		
Mr. R Semasinghe****			M	01.12.2017			M	01.12.2017	M	01.12.2017				

DOA - Date of Appointment **Status -** C - Chairman / M - Member

NUMBER OF MEETINGS HELD AND ATTENDANCE OF THE BOARD SUBCOMMITTEES AS AT 31 DECEMBER 2017

Name of Committee	Human Resources and Remuneration Committee		Integrated Risk Management Committee		Nominations Committee		Board Audit Committee		Related Party Transactions Review Committee		Strategic Issues Committee		Board Credit Committee	
Name of Director	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr A W Atukorala					7	7			4	4	3	3	5	5
Mr. A K Pathirage	4	4			7	7					3	0	5	3
Mr. P L D N Seneviratne			6	6									5	5
Mr. T L F Jayasekara	4	4			7	7	7	7	4	3	3	3		
Mr. D S P Wikramanayake			6	6			7	7	4	4	3	2		
Mrs. Kimarli Fernando	4	4			7	7	7	6	4	4	3	3	5	5
Mrs. Indrani Sugathadasa	4	4					7	6	4	4			5	5
Mrs. D M A Harasgama*			4	4			4	1	2	2			1	1
Mr. D M R Phillips**	4	4	3	3									5	3
Mr. K D W Ratnayaka	4	4	6	6										
Mr. N S Welikala***			2	2			2	1	1	1	2	2		
Mr. R Semasinghe****			-	-			-	-	-	-				

* Mrs. D M A Harasgama (Resigned w.e.f 30th June 2017)

** Mr. D M R Phillips (Reappointed to Integrated Risk Management Committee w.e.f 01st June 2017)

*** Mr. N S Welikala (Resigned w.e.f. 30th April 2017)

**** Mr. R Semasinghe (Appointed to Board Audit Committee, Related Party Transactions Review Committee and Integrated Risk Management Committee w.e.f 01st December 2017)

BOARD PERFORMANCE AND EVALUATION

The annual self-evaluation process is used to determine weaknesses in the Board's own governance practices. The Board annually assesses the effectiveness of the directors' own governance practices by way of a self-assessment to be undertaken by each director, and maintains records of such assessments.

The Chairman and Deputy Chairman reviews the responses of the directors to the self assessment questionnaire and reports to the Board any identified weaknesses and lapses and where necessary recommends, an action plan for approval to the Board. The Board periodically reviews the progress made on the action plan (if any).

DIRECTORS' REMUNERATION AND DIRECTORS' INTEREST IN SHARES

Please refer the Directors Report on pages 257 and 263 for information on Directors' Remuneration and Directors' Interest in Shares.

CREATING THE RIGHT CULTURE AND VALUES

In 2017, under the Transformation 2020 program, we launched a series of organizational change management and outreach workshops across all regions and Senior Management of the Bank met and engaged every member of the NDB Family to share the Bank's vision, strategy and values. We believe that to embed cultural change we have to change how our people behave, including challenging established mindsets and attitudes. We launched the OneNDB initiative through which we hope to create a dynamic work culture by integrating the 4 C's of Communication, Collaboration, Critical thinking and Creativity and strengthening the fabric of trust and commitment within the NDB Family.

INTEGRITY

We are devoted to uphold honesty, truthfulness and sincerity. We will inspire Trust.

EXCELLENCE

We will deliver what we promise. We will go beyond what is expected.

CREATIVITY

We are driven by a desire to reach beyond the norm, challenge the status quo and shape new vistas for our stakeholders

ACCOUNTABILITY

We remain responsible, accountable and transparent in everything we do

SINCERITY

We regard our sincerity towards each other just as valuable as what we collectively achieve

Our Five Values : Integrity, Excellence, Creativity, Accountability and Sincerity and our governance related policies are our essential guiding principle that would cut across the way we do business, all our business transactions, products and services, notably in situations where the rule book provides no answers.

NDB's culture and values are driven through the following governance related policies:

- The Internal Code of Governance provides guidance to directors and key management personnel for promoting the highest standards of corporate governance at NDB. It sets out our practices for implementing the corporate governance provisions required by law, regulation and best practice. It serves as the Code of Conduct for the Board of Directors.
- The Compliance Policy and Code of Conduct themed "Living our Values" constitutes a reference point covering all aspects of employees' working relationships, specifically (but not exclusively) with other NDB employees, customers, regulators, service providers, suppliers, competitors and the broader community. It also covers the standards of personal integrity that employees of NDB Group are required to exercise in conducting their own private and financial affairs. The Code is a referral point for all governance related policies of the Bank.
- The Group Securities Trading Policy restricts directors, and employees from trading in NDB securities during certain specified blackout periods. The Policy also prohibits speculative trading in NDB Securities and to support compliance with this requirement a minimum hold requirement was introduced. All employee trades are monitored by the Compliance Department to ensure compliance with this policy.
- The Group Anti-Bribery & Corruption Policy sets out minimum standards and describes NDB Group's stance on bribery and corruption. It complements NDB Group's core values of integrity and the standard of behavior expected from all directors and employees of NDB Group. The Gifts and Entertainment Policy of the Group also forms part of this Policy.

NDB's culture and values are driven through the following governance related policies:

- The Related Party Transactions Policy of the Group lays done the process to identify, approve, monitor and disclose all related party transactions of the Bank. The Bank takes every endeavour to ensure that it does not grant more favorable treatment when entering into a transaction with a related party of the Bank. The Board appointed Related Party Transactions Review Committee in line with the Related Party Policy assesses and considers transactions with related parties of the Bank in order to ensure that related parties are treated on par with other shareholders and constituents of the Bank. The Policy incorporates legal and regulatory requirements on related party transactions.
- The Whistleblowing Policy of the Bank provides clear procedures for the escalation of complaints and notification of incidents to management and the Board. The Bank encourages employees to report alleged acts of malpractice or misconduct and ensures that all allegations are considered for investigation and suitable action taken where necessary. The whistle-blowing employee is protected against adverse action (discharge, demotion, suspension, harassment, or other forms of discrimination) for raising allegations of misconduct or malpractice. The policy lists down the contact details of the officials of the Bank that employees could escalate their concerns to.

EFFECTIVE RISK MANAGEMENT AND CONTROL

Our internal controls cover financial, operational, compliance, technology controls, as well as risk management policies and systems.

RISK GOVERNANCE

Maintaining an active focus on risk and compliance underpins how we run our business. We identify and actively manage risks as part of a Group-wide "Risk Management Framework" for which the Board is ultimately responsible. The Integrated Risk Management Committee of the Board supports the Board to carry out certain responsibilities within the risk governance framework.

Risk accountability across the three lines of defense are as detailed on page 142 of this report.

For more on our risk governance framework see the Risk Management Report on page 135 to 186.

STRONG COMPLIANCE CULTURE

Our compliance culture is anchored on transparency, awareness and an emphasis on respecting both the letter and spirit of the law.

We ensure that regulations are disseminated in a timely manner to relevant stakeholders, employees are trained and aware of the changing regulatory environment and applicable laws and regulations are integrated with the Bank's processes and procedures.

In order to protect its reputation as a responsible corporate citizen, and to meet its legal, regulatory and social obligations, the Bank believes that it is essential to minimizes the risk of its services and operations being used by terrorists, money launderers or other criminals. The Bank has in place a robust Anti Money Laundering Program and framework to support this requirement.

We work closely with our regulators to ensure that our internal governance standards meet their increasing expectations and have frequent interactions with them allowing us to hear any supervisory concerns they may have whilst at the same time keeping them updated on the Bank's key strategies.

IT GOVERNANCE

IT Governance forms an essential part of the Bank's Governance framework. Alignment to business objectives, prudent expenditure, compliance, risk management, security, and responsible allocation of resources are core principles of NDB's IT Governance.

The Bank has in place an IT Steering Committee constituted of senior members of the management team representing areas such as Risk, Internal Audit, Operations, IT and Business. In order to ensure business objectives are achieved in a timely manner the IT Steering Committee leverages the experience, expertise and knowledge of individuals within the committee. The committee leads and facilitates roll-out, uptake and on-boarding of IT platforms and technology enabled products and services, resource allocation, monitors the progress and intervene where required to ensure project scope, cost and time objectives are met.

Further, the Risk Department independently assesses technology risk on an ongoing basis. Periodic internal and external audits ensure regular verification of the degree of compliance to policies, procedures, and standards.

The IT Governance disciplines at NDB ensure technology investments made by the Bank are appropriate, and result in customer convenience, competitive advantage, and business growth.

The Bank's Information Security conforms to the Baseline Security Standard of the Central Bank of Sri Lanka.

GOVERNANCE IN OUR SUBSIDIARIES

The governance framework in our Subsidiaries has been aligned to the governance framework of the Bank in order to achieve consistent standards across the Group. Corporate Governance developments in the subsidiaries of the Bank are monitored regularly in order to ensure that legal and regulatory requirements are up to date. The Bank works closely with its group companies in order to entrench and improve their corporate governance framework.

REGULAR ENGAGEMENT WITH STAKEHOLDERS

The Bank values open and transparent communication with our stakeholders, including shareholders. The Bank regularly communicates information in a range of ways including:

- Publication of financial reports, announcements, circulars and press releases
- The Bank's website which includes a dedicated investor relations helpline
- Shareholder meetings
- Investor relations communication
- Quarterly investor forums
- Teleconferences and webcasts for analysts and media briefings

Channels used by the Bank to strengthen its communication with stakeholders are as follows:

Transparent, Timely and Accurate Disclosures

- The Bank aims at providing timely, accurate and balanced disclosures to the public of all material information about the Group.
- The above requirement is supported by the Bank's Disclosure Policy which reflects the regulatory disclosures that are required based on applicable laws and regulations.

Investor Relations

- The Bank has a dedicated investor relations team that promotes open, transparent, efficient and consistent communication of information to investors in a timely manner
- The Bank's engagement with shareholders has been disclosed in detail in the Investor Relations Report on pages 111 to 134.

External and Internal Communications

- The Bank has a Communication Policy aimed at encouraging effective internal and external communications of corporate information in relation to the Bank on its behalf covering all stakeholders.

Complaints Management

- The Bank's complaint handling procedure is laid down in line with the Customer Charter set out by the Central Bank of Sri Lanka.
- The Bank ensures that the customer complaints received through all touch points are recorded and resolved through the Bank's complaint tracking system.
- The Bank has built a common service language across the Bank to enhance the customer experience at all key stakeholder touch points.

Corporate Social Responsibility

- The Bank takes its Corporate Social Responsibility very seriously.
- Engagement with the community through meaningful and sustainable CSR initiatives leading to creating value for society is a key objective of the Bank. Please refer on pages 104 to 105 on the initiatives for 2017.

Statement of Compliance - Direction No. 11 of 2007 (as amended) on Corporate Governance issued by the Monetary Board of the Central Bank of Sri Lanka (the Corporate Governance Direction)

The Corporate Governance Direction provides processes and practices deemed to be the framework that facilitates the conduct of the banking business in a responsible and accountable manner so as to promote the safety and soundness of the Bank, thereby leading to the stability of the overall banking sector. The disclosures below reflect the Bank's compliance with the Corporate Governance Direction under the following key principles:

1. The responsibilities of the Board;
2. The Board's composition;
3. Criteria for the assessment of the fitness and propriety of Directors;
4. Management functions delegated by the Board;
5. The Chairman and Chief Executive Officer;
6. Board appointed subcommittees;
7. Related Party Transactions; and
8. Disclosures;

Rule No.	Corporate Governance Principles	Compliance Status
3 (1)	Responsibilities of the Board	
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:	
	(a) Approve and oversee the bank's strategic objectives and corporate values and ensure that these are communicated throughout the bank;	Complied. The Bank's strategic plan for 2017 - 2020 which launched the Transformation 2020 Program was formally approved by the Board in June 2017. In 2017, the Chief Executive Officer (CEO) and the Senior Management Team personally met with each member of the NDB Team to ensure that the Bank's new strategic objectives, values and culture was known and understood by all of them. A website dedicated to share progress made on achieving the objectives set out in the Bank's strategic plan in a clear, transparent and timely manner was also launched in September 2017.
	(b) Approve the overall business strategy of the bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years;	Complied. The Bank's overall business strategy for 2017-2020 was approved by the Board in June 2017 after detailed discussions held with the Leadership Team of the Bank. The Bank has established an Integrated Risk Management Framework approved by the Board covering all risks. There are separate risk policies and risk management procedures with regard to credit, operational and market risk segments. The Bank has established an Integrated Risk Management Framework covering all risks approved by the Board. This has been further reviewed by the Integrated Risk Management Committee (IRMC) during the year 2017 to ensure that the risk management of the Bank is at acceptable levels. The Bank has a Board approved Strategic Plan for the next 3 years (until 2020) with measurable Key Performance Indicators.

Rule No.	Corporate Governance Principles	Compliance Status
	(c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Complied. The Board is responsible for the overall risk framework of the Bank. The IRMC appointed by the Board, reviews and recommends to the Board, the Bank's risk policies and procedures defining the Bank's risk appetite, identifying principal risks, setting governance structures and implementing policies and systems in line with the Integrated Risk Management Framework to measure, monitor and manage the principal risks of the Bank. The Board has approved risk management policies and procedures as reviewed and recommended by the IRMC, based on these parameters and as required by this Direction. The following reports provide further insight in this regard: ▪ Risk Management Report on pages 135 to 186 ▪ The Board Integrated Risk Management Committee Report on pages 273 to 274.
	(d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied. The Bank has in place a Board approved Communication Policy aimed to encourage effective communication of corporate information relating to the Bank on its behalf covering all stakeholders including employees, customers, creditors, shareholders, general public and the regulators. This policy is reviewed annually in order to reflect the best practices in communications.
	(e) Review the adequacy and the integrity of the bank's internal control systems and management information systems;	Complied. The Board is assisted by the Board Audit Committee (BAC), who evaluates the adequacy and effectiveness of the internal control systems, and reviews internal control issues identified by the Bank's Group Audit, External Auditor, regulatory authorities and the Management. The Bank has in place a Management Information Systems (MIS) Policy, approved by the Board. The MIS process of the Bank is reviewed by the Bank's Group Audit and was discussed with the BAC. The Board also reviews the adequacy of the Bank's Management Information Systems, based on the monthly MIS pack submitted to the Board each month.
	(f) Identify and designate key management personnel, as defined in Banking Act Determination No.3 of 2010 on the Assessment of fitness and propriety of officers performing executive functions in LCBs	Complied. Key Management Personnel (KMPs) of the Bank have been identified by the Board having considered the Banking Act Determination No 3 of 2010 on officers performing executive functions of the Bank, and presently include the following: 1. The Leadership Team whose names are detailed on pages 198 to 201 of this Report; and 2. Chandana Guniyangoda in view of the fact that he holds a directorship in one of the Bank's subsidiaries.
	(g) Define the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel;	Complied. There is a clear division of authority and responsibilities between the directors and the KMPs which is set out in the Bank's internal Code of Corporate Governance. The directors were set goals and targets for the year 2017. The duties and responsibilities of KMPs are documented in their respective job descriptions. The Board evaluated the performance review objectives of the KMPs .

Rule No.	Corporate Governance Principles	Compliance Status
	(h) Ensure that there is appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy;	Complied. The Board regularly interacts with the Bank's KMPs through reports tabled at both Board and subcommittee meetings. KMPs make presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas. Banking operations carried out in line with the Banks' strategic objectives including any issues faced by the Bank are discussed on an ongoing basis at Board meetings. The CEO at weekly meetings held with The Leadership Team updates them on key decision points taken by the Board.
	(i) Periodically assess the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	Complied. The Nominations Committee (NC) has been delegated the function of selection, nomination and election of directors and KMPs to the Board. The Bank and director's interests are disclosed to the Board and directors who have a particular interest have abstained from voting in such a situation and he/she is not counted in the quorum. Determination of weaknesses in the Board of Directors own governance practices and implementation of changes are addressed through the annual self-evaluation process among the Board members. Self-evaluations for the year 2017 have been collected and summarized by the Company Secretary and submitted to the Chairman & Deputy Chairman for their review .The Chairman then discusses areas of weaknesses and recommend changes where necessary at a Board meeting.
	(j) Ensure that the bank has an appropriate succession plan for key management personnel;	Complied. The Succession Plan of the Bank was approved by the Board at its meeting held in September 2017.
	(k) Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives	Complied. The KMPs are regularly present or are called in for discussions at the meetings of the Board and its subcommittees on policy and other matters relating to their areas. Progress made towards corporate objectives is a regular agenda item for the Board and KMPs are regularly involved in Board level discussions on same.
	(l) Understand the regulatory environment and ensure that the bank maintains an effective relationship with regulators;	Complied. Circulars, directions and guidelines issued by the regulators are circulated to the directors on a quarterly basis for their information. In 2017 all new laws and regulations that were issued and relevant to banking business were made available on the BoardPac together with an explanatory note which detailed the key areas of impact. The CEO meets with Central Bank officials at the monthly CEO's meeting. The Chairman of the Bank and the Chairpersons of the Board subcommittees also meet with the CBSL officials. Further directors, the CEO and KMPs of the Bank maintains dialog with the regulators on an ongoing basis.

Rule No.	Corporate Governance Principles	Compliance Status
	(m) Exercise due diligence in the hiring and oversight of external auditors.	Complied. The Board Audit Committee Charter includes the functions of hiring and overseeing of External Auditors. The BAC carries out the necessary due diligence regarding the hiring/evaluation of the External Auditor and makes recommendations to the Board. The appointment/re-appointment of the External Auditor is made at the Annual General Meeting. Oversight of the External Auditor is carried out by the BAC and the Board is briefed of any concerns in this regard (if required). A formal evaluation of the External Auditors' performance is completed annually by the BAC and conclusions together with any recommendations are discussed at Board level.
3(1) (ii)	The board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with Direction 3(5) of these Directions.	Complied. The Board has appointed the Chairman and CEO and has approved their functions. There is a clear division of responsibilities between the Chairman and the CEO. Functions and responsibilities of the Chairman and the CEO are documented in the Board approved internal Code of Corporate Governance and is in line with this Direction.
3(1) (iii)	The board shall meet regularly and board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular board meetings shall normally involve active participation in person of a majority of directors entitled to be present. Obtaining the board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied. Regular monthly Board meetings are held and special Board meetings are scheduled as and when the need arises. There have been 14 Board meetings during 2017 which included 2 special meetings. In addition, the subcommittees of the Board meet as and when necessary. 5 Circular resolutions have been passed during 2017. Circulation of Board papers to obtain Board's consent is minimized and resorted to only when absolutely necessary. These decisions are in any event later confirmed/ ratified by the Board at the immediately succeeding Board meeting.
3(1) (iv)	The board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	Complied. All directors are entitled to include matters and proposals in the agenda for Board meetings and this right has been entrenched in the Bank's internal Code of Corporate Governance. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to enable submission of proposals in the agenda for regular meetings. This process supports the requirement detailed in this Direction and a director may include a proposal (if required) in the agenda of a Board meeting.
3(1) (v)	The board procedures shall ensure that notice of at least 7 days is given of a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice may be given.	Complied. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to provide directors an opportunity to attend. Formal notice of meetings, the agenda and Board papers related to each Board meeting are circulated at least 7 days in advance of the Board meeting. These documents are uploaded through a secure connection to the tablets of all directors.

Rule No.	Corporate Governance Principles	Compliance Status
3(1) (vi)	The board procedures shall ensure that a director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.	Complied. The Company Secretary monitors the attendance register to ensure compliance. All directors have attended at least two thirds of the meetings held during the years 2017 and no director has been absent from three consecutive meetings during 2017. Attendance of Directors at Board meetings is detailed on page 213.
3(1) (vii)	The board shall appoint a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied. Company secretary appointed by the Board is an Attorney at Law who satisfies the provision of Section 43 of the Banking Act. The internal Code of Corporate Governance includes the responsibilities of the Company Secretary as specified in the statutes and other regulations.
3(1) (viii)	All directors shall have access to advice and services of the company secretary with a view to ensuring that board procedures and all applicable rules and regulations are followed.	Complied. The internal Code of Corporate Governance of the Bank includes a provision to enable all directors to have access to the advice and services of the Company Secretary. For the year 2017, the Company Secretary has provided assistance to the directors when requested.
3(1) (ix)	The company secretary shall maintain the minutes of board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Complied. The Company Secretary maintains detailed Board minutes and circulates minutes to all directors. The minutes are approved at the subsequent Board meetings. The Bank's internal Code of Corporate Governance also provides that minutes are open for inspection at any reasonable time, upon reasonable notice given by any director. Additionally, copies have been provided of previous meetings to directors when requested.
3(1) (x)	Minutes of board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the board meetings. Therefore, the minutes of a board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the board in its deliberations; (b) the matters considered by the board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence; (d) the testimonies and confirmations of relevant executives which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; (e) the board's knowledge and understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and board resolutions.	Complied. A Board approved procedure is in place for recording the Board minutes by the Company Secretary. The minutes contain adequate details appropriate to the matters dealt with. The minutes are read together with the corresponding Board papers, which supplement information in the minutes. All matters required to be minuted in terms 3(1) (x) (a) – (f) are recorded in the minutes.

Rule No.	Corporate Governance Principles	Compliance Status
3(1) (xi)	There shall be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense. The board shall resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/her/their duties to the bank.	Complied. As per the Bank's internal Code of Corporate Governance there is a process for Board members to obtain Independent professional advice at the expense of the Bank. The Board has obtained professional advice during the year.
3(1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organizations or related parties. If a director has a conflict of interest in a matter to be considered by the board, which the board has determined to be material, the matter should be dealt with at a board meeting, where independent non-executive directors [refer to Direction 3(2)(iv) of these Directions] who have no material interest in the transaction, are present. Further, a director shall abstain from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the board meeting.	Complied. The directors are conscious of their obligations to deal with situations where there is a conflict of interest in accordance with the Articles of Association of the Bank and the Corporate Governance Direction No 11 of 2007 (as amended) The internal Code of Corporate Governance adopted by the Board, requires each Board member to determine whether he/ she has a potential or actual conflict of interest. If a director of the Bank has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, such matters are disclosed and discussed at the Board meetings, where independent Non Executive directors who have no material interest in the transaction, are present. Further directors abstain from voting on Board resolutions in relation to which such directors or any of their close relation/s or a concern in which such directors have substantial interest, and/or are interested in. Further their votes are not counted in the quorum for the relevant agenda item at the Board meeting.
3(1) (xiii)	The board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the bank is firmly under it's authority.	Complied. Board has a formal schedule of matters specifically reserved to it for decision to ensure that direction and control of the Bank is firmly under its authority.
3(1) (xiv)	The board shall, if it considers that the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the director of Bank Supervision of the situation of the bank prior to taking any decision or action.	Complied. The Bank is aware of the requirement but the situation has not arisen within the year. A Solvency Statement is prepared quarterly and tabled at the IRMC and the Board. The Bank also has an IRMC approved Liquidity Contingency Funding Plan in place.
3(1) (xv)	The board shall ensure that the bank is capitalized at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied. Monthly and quarterly compliance reports have been submitted to the Board which contains the Capital Adequacy Ratio (CAR). The Bank is fully compliant with the Capital Adequacy requirements stipulated by the Central Bank of Sri Lanka. Also the ICAAP covers capital planning over the next 3 years.
3(1) (xvi)	The board shall publish in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied. This requirement is met through the presentation of this Report.
3(1) (xvii)	The board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	Complied. The Board has a scheme of annual self-assessment and records are maintained by the Company Secretary.

Rule No.	Corporate Governance Principles	Compliance Status
3(2)	The Board's Composition	
3(2) (i)	The number of directors on the board shall not be less than 7 and not more than 13.	Complied. The number of Board directors during the year 2017 was in compliance with the thresholds detailed in this direction. As at 31st December 2017, the Board comprised of ten (10) directors.
3(2) (ii)	The total period of service of a director other than a director who holds the position of chief executive officer shall not exceed nine years.	Complied. None of the directors have exceeded 9 years of service during the year 2017.The Company Secretary monitors this requirement.
3(2) (iii)	An employee of a bank may be appointed, elected or nominated as a director of the bank (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-third of the number of directors of the board. In such an event, one of the executive directors shall be the chief executive officer of the bank.	Complied. The CEO of the Bank is the only executive director and thus the Bank complies with this requirement.
3(2) (iv)	The board shall have at least three independent non-executive directors or one third of the total number of directors, whichever is higher. A non-executive director shall not be considered independent if he/she: a) has direct and indirect shareholdings of more than 1 per cent of the bank; b) currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank. c) has been employed by the bank during the two year period immediately preceding the appointment as director; d) has a close relation who is a director or chief executive officer or a member of key management personnel or a material shareholder of the bank or another bank. For this purpose, a "close relation" shall mean the spouse or a financially dependent child; e) represents a specific stakeholder of the bank; f) is an employee or a director or a material shareholder in a company or business organization: I. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or III. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank;	Complied. The Board assesses the independence or non-independence of each non-executive director based on a declaration made by each director to the Company Secretary each year. During 2017, the number of independent non-executive directors exceeded one - third of the total number of directors on the Board. As at 31st December 2017 there were 6 independent non-executive directors on the Board. The non-executive directors are detailed on page 212 of this report.

Rule No.	Corporate Governance Principles	Compliance Status
3(2) (v)	In the event an alternate director is appointed to represent an independent director, the person so appointed shall also meet the criteria that applies to the independent director.	Complied. Directors appoint alternate directors in line with the Articles of the Bank as and when required for a particular meeting. During the year 2017, alternate directors appointed for a particular meeting met the criteria that applies to an independent director.
3(2) (vi)	Non-executive directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Complied. A Board approved procedure to select and appoint Non Executive directors is in place. The non-executive directors of the Bank are persons with credible track records and have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance, risks and resources. Please refer the profiles of non-executive directors on pages 188 to 197 of this Report.
3(2) (vii)	A meeting of the board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless more than one half of the number of directors present at such meeting are non-executive directors.	Complied. The attendance of directors is monitored by the Company Secretary. All Board meetings have met this requirement as 90% of the Board comprises of non-executive directors.
3(2) (viii)	The independent non-executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the bank. The bank shall disclose the composition of the board, by category of Directors, including the names of the chairman, executive Directors, non-executive Directors and independent non-executive Directors in the annual corporate governance report.	Complied. The Independent non-executive directors are expressly identified as such in all corporate communications that disclose the names of directors of the Bank. The composition of the Board, by category of directors, including the names of the Chairman, executive director, non-executive directors and independent non-executive directors are given on pages 212 to 213 of this Report.
3(2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the board. There shall also be procedures in place for the orderly succession of appointments to the board.	Complied. There is in place a formal, considered and transparent procedure for the appointment of new directors to the Board. In practice, directors are appointed based on recommendations made by the NC.
3(2) (x)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied. Appointment to fill a casual vacancy is made by the Board on the recommendations of the NC. A person so appointed would stand for re-election at the next Annual General Meeting in accordance with the Articles of Association. No directors were appointed in 2017 to fill causal vacancies.

Rule No.	Corporate Governance Principles	Compliance Status
3(2) (xi)	(a) If a director resigns or is removed from office, the board shall: (a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied. Mrs. D M A Harasgama and Mr. N S Welikala resigned from the Bank in 2017. The Bank informed the regulatory authorities and shareholders as per CSE requirements of such resignation stating the reasons for such resignation and confirming that there were no matters that needed to be brought to the attention of shareholders.
3(2) (xii)	A director or an employee of a bank shall not be appointed, elected or nominated as a director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Complied. The NC takes into account this requirement in their deliberations when considering the appointments of directors. The Banks "Compliance Policy and Code of Conduct" further incorporates this requirement for Employees. No directors or Employees of the Bank is a director of another Bank.
3(3)	CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS	
3(3) (i)	The age of a person who serves as director shall not exceed 70 years.	Complied. There are no directors who are over 70 years of age.
3(3) (ii)	A person shall not hold office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.	Complied. No director holds directorships of more than 20 companies. The other directorships of each of the directors is disclosed in pages 190 to 197 of the annual report
3(3)	MANAGEMENT FUNCTION DELEGATED BY THE BOARD	
3(4) (i)	The directors shall carefully study and clearly understand the delegation arrangements in place.	Complied. The Board periodically reviews and approves the delegation arrangements in place to ensure they are relevant and addresses the needs of the Bank. Delegation papers are prepared in detail and recommended by the IRMC to the Board. Terms of Reference (TOR) of each of the Board subcommittees which are incorporated in the respective charters of each Board subcommittee are approved by the Board. In addition it is to be noted that by delegating, the Board does not lose the authority to deal with matters that have been delegated when necessary.
3(4) (ii)	The board shall not delegate any matters to a board committee, chief executive officer, executive directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the board as a whole to discharge its functions.	
3(4) (iii)	The board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	
3(5)	THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER	
3(5) (i)	The roles of chairman and chief executive officer shall be separate and shall not be performed by the same individual.	Complied. The roles of Chairman and CEO of the Bank are held by separate individuals. In addition, there is a clear division of responsibilities between the Chairman and the CEO thereby maintaining the balance of power between the two roles.
3(5) (ii)	The chairman shall be a non-executive director and preferably an independent director as well. In the case where the chairman is not an independent director, the board shall designate an independent director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the bank's Annual Report.	Complied. The Chairman Mr. A W Atukorala is an independent non-executive director of the Bank. Therefore, the appointment of an independent director as the Senior director does not arise.

Rule No.	Corporate Governance Principles	Compliance Status
3(5) (iii)	The board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the identity of the chairman and the chief executive officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the chief executive officer and the relationships among members of the board.	Complied. The Company Secretary obtains a declarations from each director to identify the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the CEO and the relationships among members of the Board in accordance with this direction. Based on the said declarations there are no material relationships between the Chairman and the CEO and among the Board members.
3(5) (iv)	The chairman shall: (a) provide leadership to the board; (b) ensure that the board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the board in a timely manner.	Complied. The Chairman is responsible for the running of the Board, preserving order and ensuring that proceedings at meetings are conducted in a proper manner. Further, he ascertains the views of the directors on the issues being discussed before decisions are taken. The self- evaluation process carried out by the members of the Board each year assists the Chairman to effectively carry out his responsibilities by providing him the required feedback.
3(5) (v)	The chairman shall be primarily responsible for drawing up and approving the agenda for each board meeting, taking into account where appropriate, any matters proposed by the other directors for inclusion in the agenda. The chairman may delegate the drawing up of the agenda to the company secretary.	Complied. The Chairman draws up the agenda in consultation with the CEO and Company Secretary. The Bank's internal Code of Corporate Governance also casts this responsibility with the Chairman.
3(5) (vi)	The chairman shall ensure that all directors are properly briefed on issues arising at board meetings and also ensure that directors receive adequate information in a timely manner.	Complied. The directors are adequately briefed in the course of discussions by the Chairman, CEO and officers of management in respect of matters that are taken up by the Board. The following procedures are in place to ensure this: ▪ Board papers are circulated in advance among the directors. ▪ Management information is provided on a regular basis to enable directors to assess the performance and stability of the Bank. ▪ Relevant KMPs are on hand for explanations and clarifications. ▪ Directors are able to seek independent professional advice on a needs basis at the Bank's expense.
3(5) (vii)	The chairman shall encourage all directors to make a full and active contribution to the board's affairs and take the lead to ensure that the board acts in the best interests of the bank.	Complied. The Chairman ensures that all members effectively participate as a team in Board decisions and directors concerns and comments are duly recorded in the minutes.
3(5) (viii)	The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors.	Complied. All directors of the Board except the CEO are non-executive directors which encourages active participation. Further, non-executive directors participate in Board appointed subcommittees providing further opportunity for active participation. In addition, the feedback received from the self-evaluation process carried out by the Board supports the Chairman in improving contributions of non-executive directors.
3(5) (ix)	The chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied. Chairman is a non-executive director and he does not directly get involved in the supervision of KMPs or any other executive duties. "Role of the Chairman" is included in the Bank's internal Code of Corporate Governance.

Rule No.	Corporate Governance Principles	Compliance Status
3(5) (x)	The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Complied. Shareholders are encouraged to provide their feedback to the Company Secretary using feedback forms made available with the Annual Report. In addition, there is an e-mail address dedicated for investor relations and the link is available on the Bank's website. The Bank also has a dedicated Investor Relations Team. The Chairman together with the CEO ensures effective communication with shareholders through investor's forums held each quarter and through continuous engagements with our institutional investors. Members of the Board are apprised of the views of major investors and other key stakeholders pursuant to these meetings.
3(5) (xi)	The chief executive officer shall function as the apex executive-in-charge of the day-to-day-management of the bank's operations and business.	Complied. The CEO is responsible for providing the leadership, expertise and professional environment within the Bank for the implementation of the Board's policies and the achievement of the Bank's goals and objectives. The operations of the Bank are carried out in conformity to this requirement.
3(6)	BOARD APPOINTED COMMITTEES	
3(6) (i)	Each bank shall have at least four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions. Each committee shall report directly to the board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the chairman of the committee. The board shall present a report of the performance on each committee, on their duties and roles at the annual general meeting.	Complied. The Board has established a Strategic Issues Committee, Credit Committee and a Related Party Transactions Review Committee in addition to the four Board subcommittees required in terms of the Direction, namely the Board Audit Committee, Human Resources and Remuneration Committee, Nominations Committee and Integrated Risk Management Committee. The TOR of the Corporate Governance and Legal Affairs Committee was amalgamated and included into the TOR of the IRMC. Recommendations of such committees are addressed directly to the Board and minutes of the same are discussed and noted at the main Board Meeting. This Annual report includes individual reports of each such subcommittee on pages 268 to 280 which reports include a summary of duties, roles and performance of each subcommittee.
3(6) (ii)	The following rules shall apply in relation to the Audit Committee:	
	(a) The chairman of the committee shall be an independent non-executive director who possesses qualifications and experience in accountancy and/or audit.	Complied. Mr. T L F Jayasekara, the Chairman of the BAC is an independent non-executive director and a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and an Associate Member of the Chartered Institute of Management Accountants, UK.
	(b) All members of the committee shall be non-executive directors.	Complied. All members of the BAC are non-executive directors.

Rule No.	Corporate Governance Principles	Compliance Status
	(C) The committee shall make recommendations on matters in connection with: (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied. The matters referred to in the Direction are reviewed and appropriate recommendations are made by the BAC; (i) Re-appointment of the external auditor for audit services has been recommended to the Board by the BAC, after reviewing the performance of the external auditor. The BAC has discussed the audit plan and methodology with the external auditors. (ii) – (iii) BAC has discussed the implementation of the Central Bank guidelines issued to auditors from time to time and the application of the relevant accounting standards; (iv) The external Audit Partner was rotated during 2013 as per the five-year rotation requirement, in order to ensure the independence of the auditor to comply with the requirements of this Direction. The BAC evaluates and makes recommendations to the Board with regard to the audit fee. Refer the 'Report of the Board Audit Committee' given on pages 275 to 277.
	(d) The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied. The BAC obtains representations from the external auditor on their independence and that the audit is carried out in accordance with the Sri Lanka Accounting Standards.
	(e) The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider: (i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor.	Complied. A Policy for 'Engaging the external auditor for non-audit services' is in place which covers all aspects stated in this Direction. This Policy was reviewed and updated by the BAC and Board in October 2017.

Rule No.	Corporate Governance Principles	Compliance Status
	(f) The Committee shall, before the audit commences, discuss and finalize with the External Auditors the nature and scope of the audit, including: (i) an assessment of the Bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between firms where more than one audit firm is involved.	Complied. The BAC Charter requires the BAC to discuss and finalize with the external auditor the nature and scope of the audit. In order to comply, the external auditors make a presentation at the BAC meeting detailing the proposed audit plan and scope. The Committee discussed and finalized the audit plan, methodology and scope with the external auditor to ensure that it includes: An assessment of the Bank's compliance with the relevant Directions in relation to corporate governance and internal controls over financial reporting; The preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations. All audits within the Group other than NDB Capital Bangladesh are carried out by the same external auditor. In respect of NDB Capital Bangladesh, the NDB external auditor coordinates directly and if there are any issues, they are discussed with the BAC.
	(g) The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied. Quarterly financial statements as well as year end financial statements are reviewed and discussed at BAC meetings. Once the members of the BAC have obtained required clarifications in respect of all aspects included in the financial statements, such financial statements are recommended for approval of the Board of Directors.
	(h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Complied. The Committee met the external auditors in February and October 2017, without the presence of the Executive Management, to discuss issues, concerns and reservations arising from their audits.
	(i) The Committee shall review the External Auditor's Management Letter and the management's response thereto.	Complied. BAC reviewed the External Auditor's Management Letter for the year ended 2016 and the Management's response thereto.

Rule No.	Corporate Governance Principles	Compliance Status
	(j) The Committee shall take the following steps with regard to the internal audit function of the Bank: (i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	Complied. The BAC has oversight of the Group Audit Department (GAD) of the Bank and carries out the following duties: Reviews and discusses with the Head of Group Audit (HGA) the annual Audit Plan covering the Group, the adequacy of the scope and functions and the resources of GAD. The Audit Plan for the year is approved by the BAC and the progress is tabled at the BAC meetings. The BAC reviews the internal audit reports and discusses the Management Action Plans to resolve the issues raised by GAD. Further, BAC Chairman is kept informed of "Critical" and "Significant" issues arising from ongoing audits, as a "Heads up". All audit findings are sent to Operational Risk Department for inclusion in the Risk Grid and for necessary follow up. The BAC reviews the performance of the HGA, based on the feedback given by the CEO and BAC Chairman. Further the senior team members' performances are discussed with the BAC. Senior appointments made to GAD are informed to the BAC. (There were no senior level appointments during 2017). BAC is appraised of any resignations of senior level staff members of GAD and are provided an opportunity to submit reasons for resignation. Ensures that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. The GAD staff reports directly to the HGA who in turn reports directly to the BAC.
	(k) The Committee shall consider the major findings of internal investigations and management's responses thereto.	Complied. Major findings of internal investigations and Management's responses thereto are reviewed by the BAC.
	(l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board Members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive directors being present.	Complied. HGA and the Bank's external auditors, Messrs.' Ernst & Young attended all meetings as a permanent invitee. The CEO attended meetings as well on invitation and other members of the Senior Management were invited to attend meetings on a need basis. CFO/AVP Finance and Planning also attended all meetings on invitation. The Chairman of the Bank as an optional invitee attended two meetings during the year. The BAC met the external auditors twice during the year (i.e. in February and October 2017) without the presence of KMPs.

Rule No.	Corporate Governance Principles	Compliance Status
	(m) The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied. The Charter of the BAC clearly defines the authority and terms of reference of the Committee, which is in compliance with this guideline.
	(n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied. The BAC has scheduled regular meetings and met seven times during 2017. Members of the BAC are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by HGA who functions as the Secretary to the BAC.
	(o) The Board shall disclose in an informative way; (i) details of the activities of the Audit Committee; (ii) the number of Audit Committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings.	Complied. Please refer 'Board Audit Committee Report' on pages 275 to 277 for the details of the activities of the Audit Committee. Attendance of the Committee members at each of these meetings is given in the table on page 216 of the Annual Report.
	(p) The Secretary of the Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the committee meetings.	Complied. The HGA functions as the Secretary to the BAC and maintains detailed minutes of all meetings. Copies of these approved minutes have been tabled at Board Meetings.
	(q) The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	Complied. The Bank has in place a Board approved Whistle-Blowing Policy, which was revised and updated in March 2017. The employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. A process has been established to track such whistle-blowing and take necessary action. The BAC is the key representative body for overseeing the Banks' relations with the external auditor.
3(6) (iii)	Human Resources and Remuneration Committee (HRRC) - Composition & Responsibilities	Complied. Please refer page 268 for the composition and responsibilities of the Human Resources and Remuneration Committee (HRRC).
	(a) Determine the remuneration policy relating to directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank	Complied. The HRRC makes recommendations on remuneration payable to directors and KMPs of the Bank. There is in place a Board approved Remuneration Policy and process for directors, CEO and KMPs.
	(b) Set goals and targets for the directors, CEO and the Key Management Personnel.	Complied. The goals and targets set for the CEO ad KMPs were reviewed and approved by the HRRC and noted/ approved by the Board. The goals and targets for the directors for the year 2017 have been deliberated in detail and approved at HRRC and Board level.

Rule No.	Corporate Governance Principles	Compliance Status
	(c) Evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance based incentives.	Complied. The performance of KMPs against set goals and targets are evaluated by the HRRC in March of every year and recommendations are then discussed and approved by the full Board. The CEO's performance will be evaluated by the full Board. The above process was compiled with in 2017 for the year 2016.
	(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied. The CEO was present at all meetings and stepped out when matters relating to the CEO were discussed.
3(6) (iv)	Nomination Committee (NC) -Composition & Responsibilities	Complied. Please refer page 270 for the composition and responsibilities of the NC.
	(a) The Committee shall implement a procedure to select/appoint new directors, CEO and Key Management Personnel.	Complied. The NC has in place a procedure to select new directors. A Board approved procedure to select CEO and KMPs has been in place since December 2008 and further revised in 2014.
	(b) The Committee shall consider and recommend (or not recommend) the re-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.	Complied. This is a requirement of the Nominations Committee Charter. The NC determines the directors who will be re-elected every year pursuant to taking into account the performance and contribution made by the director concerned towards the overall discharge of the Board's responsibilities. The Committee has considered and recommended the re-election and re-appointment of Mr. T L F Jayasekara and Mrs K Fernando.
	(c) The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	Complied. The NC has set a procedure to assess eligibility including criteria such as qualifications, experience and key attributes, for appointment or promotion to Key Management Positions including the position of the CEO. The committee is guided by applicable statutes in considering the suitable criteria for each appointment/promotion.
	(d) The Committee shall ensure that directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes.	Complied. The annual declarations from directors are submitted to the NC to ensure that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the statutes. The Company Secretary has obtained the declaration for the year 2017 from the directors through the NC and submitted same to CBSL. Declarations are obtained from KMPs at the time of appointment.
	(e) The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and Key Management Personnel.	Complied. The NC considers board vacancies based on the expertise required by the Bank and recommends suitable candidates when necessary in accordance with the Board approved procedure for selection and appointment of directors. The NC also approves the Succession Plan for KMPs. A Succession Plan for KMPs was approved by the NC and the Board in 2017.

Rule No.	Corporate Governance Principles	Compliance Status
	(f) The Committee shall be chaired by an Independent director and preferably be constituted with a majority of Independent directors. The CEO may be present at meetings by invitation.	Complied. The NC is chaired by the Chairman of the Bank who is an independent director and is constituted by a majority of independent directors. The CEO is present only if invited.
3(6) (v)	Integrated Risk Management Committee (IRMC) - Composition & Responsibilities	Complied. Please refer page 273 for the composition and responsibilities of the IRMC. The Terms of Reference of the IRMC was reviewed and updated in 2017.
	(a) The Committee shall consist of at least three non-executive directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories - i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied. In 2017 the Committee was reconstituted to align itself more closely with this requirement. Please see detailed Report on page 273 of this report.
	(b) The Committee shall assess all risks - i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on a Bank basis and Group basis.	Complied. The IRMC assesses all risks of the Bank and Group on a monthly basis through key risk indicators, risk dashboards and through quarterly risk assessment reports done for the Bank and Group. The Bank has formed management committees to assess risks on a monthly/ quarterly basis and their findings are submitted to the IRMC and a summary of the minutes of the IRMC and quarterly risk assessment reports are submitted to the main Board.
	(c) The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied. The adequacy and effectiveness of all management level Committees against the respective TORs based on an independent assessment was reviewed at IRMC meeting and the result was satisfactory. Further all members carried out self-assessments for the year 2017 and the findings were at a satisfactory level.
	(d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied. The IRMC takes prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by IRMC on the basis of the Bank's policies and regulatory and supervisory requirements. The risk appetite of the Bank decided through the ICAAP was approved by the Board.
	(e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied. The Committee has met 6 times in the year 2017.
	(f) The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the director of Bank Supervision.	Complied. The IRMC shall if the need arises take action appropriate to the relevance of the situation as per the Bank's Human Resources Policy.
	(g) The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific Directions.	Complied. A detailed report is submitted to the Board subsequent to the IRMC meeting seeking the Board's views, concurrence and/or specific directions.

Rule No.	Corporate Governance Principles	Compliance Status
	(h) The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied. The Bank has appointed a dedicated Compliance Officer who is a KMP to head the compliance function of the Bank. The compliance function is an independent function of the Bank that supports the Board of Directors and Senior Management of the Bank to manage compliance risks by supporting the Bank to embed a culture of compliance within the Bank, disseminate new laws and regulations to business in a timely manner, provide guidance on the interpretation of regulatory requirements, support business with the creation and implementation of regulatory compliant policies and procedures, undertake independent compliance monitoring of business with relevant laws and regulations and all measures taken to mitigate compliance risks. The Compliance Officer submits to the IRMC and the Board a detailed report on the Compliance status of the Bank each quarter.
3(7)	RELATED PARTY TRANSACTION	
3(7) (i)	The board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: a) Any of the bank's subsidiary companies; b) Any of the bank's associate companies; c) Any of the Directors of the bank; d) Any of the bank's key management personnel; e) A close relation of any of the bank's Directors or key management personnel; f) A shareholder owning a material interest in the bank; g) A concern in which any of the bank's Directors or a close relation of any of the bank's Directors or any of its material shareholders has a substantial interest.	Complied. The Bank has is in place a Board approved Related Party Policy (RPT Policy) which has set out the procedure to be followed when transacting with related parties. The RPT Policy was adopted by the Bank to identify, approve, disclose and monitor transactions with related parties of the Bank. The Bank has in place a list of related parties which is updated as and when changes occur and reviewed on a quarterly basis to ensure all related parties are listed accurately. The list of related parties is circulated to all relationships managers of business units and branch managers together with an internal circular which describes the regulations that would apply when dealing with related parties. Further every quarter a sign off is obtained from the business lines confirming that they have complied with the related party policy when entering into a transaction with a related party. These processes are in place to remind business lines of the regulatory requirements in relation to related party transactions thereby ensuring that the Bank avoid conflicts of interest with related parties of the Bank. The Bank has obtained the Annual declarations in 2017 from the individual directors confirming that they have avoided conflicts of interest.
3(7)(ii)	The type of transactions with related parties that shall be covered by this Direction shall include the following: a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation, b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments, c) The provision of any services of a financial or non-financial nature provided to the bank or received from the bank, d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	Complied. Related Party Transactions Policy of the Bank covers all transactions that come within the scope of this Direction.

Rule No.	Corporate Governance Principles	Compliance Status
3(7)(iii)	The board shall ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the bank carrying on the same business. In this context, "more favourable treatment" shall mean and include treatment, including the: a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purposes of this sub-direction: I. "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation. II. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank's share capital and debt instruments with a maturity of 5 years or more. b) Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty; c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties; d) Providing services to or receiving services from a related-party without an evaluation procedure; e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	Complied. A list identifying Related Parties of the Bank in line with this Direction is shared with business lines on a quarterly basis. The regulations and process that needs to be complied with is explained in an internal circular which accompanies the related party list. Business lines are requested to ensure compliance with the required regulation and to refrain from granting related parties of the Bank "more favorable treatment". Further the Compliance Department reviews transactions with related parties on an ongoing basis to determine if "more favorable treatment" have been offered to them. Any deviations are required to be reported to the Related Party Transactions Review Committee.
3(7) (iv)	A bank shall not grant any accommodation to any of its directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied. This requirement has been included in the Bank's Related Party Policy. The Company Secretary upon being informed of a transaction with a related party shall ensure compliance with this requirement.

Rule No.	Corporate Governance Principles	Compliance Status
3(7) (v)	a) Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, steps shall be taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a director. b) Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, the bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier. c) Any director who fails to comply with the above sub-directions shall be deemed to have vacated the office of director and the bank shall disclose such fact to the public. d) This sub-direction, however, shall not apply to a director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank.	Complied. Prior to the appointment of a director, the Bank is required to submit an affidavit disclosing all their interest with the Bank. The Company Secretary is aware of the requirement in this direction and will take necessary action to inform the relevant director and the business unit in this regard. Such a situation has not arisen during the year 2017.
3(7) (vi)	A bank shall not grant any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above.	Complied. No favourable treatment / accommodation is provided to Bank employees other than staff benefits. Employees of the Bank are informed through operational circulars to refrain from granting favourable treatment to other employees or their close relations or to any concern in which an employee or close relation has a substantial interest.

Rule No.	Corporate Governance Principles	Compliance Status
3(7) (vii)	No accommodation granted by a bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied. Such a situation has not arisen in the Bank to date.
3(8)	DISCLOSURES	
3(8) (i)	The board shall ensure that: (a) annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied. The financial statement for the year ended 31st December 2017 and quarterly financial statements are in conformity with all rules and regulations. These statements have been published in the newspaper in all three languages.
3(8) (ii)	The board shall ensure that the following minimum disclosures are made in the Annual Report:	
	a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied. Compliance with applicable accounting standards and regulatory requirements has been reported under the 'Directors Responsibility for Financial Report' on page 281. The CEO's and CFO's responsibility statement on page 285 and Note 02 (Statement of Compliance) to the Financial Statements on page 303.
	b) A report by the board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied. The Directors Report on the effectiveness of the internal control system over Financial Reporting is given under the "Statement of Internal Control" on, pages 283 and 284.
	c) The Assurance Report issued by the Auditors under "Sri Lanka Standard on Assurance Engagements on SLSAE 3050 – Assurance Reports for Banks on Directors' Statement on Internal Control'.	Complied. The Assurance Report issued by the External Auditor on the internal control over Financial Reporting based on the auditing framework issued by ICASL, is detailed on page 286 of this report.
	d) Details of Directors, including names, fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	Complied. Please refer "Board Directors" on pages 188 - 197 "Directors Interest in Contracts with the Bank" on pages 263 and pages 257 for Directors remuneration. Details of Directors' transactions with the Bank are given below:

Transactions	Outstanding balance as at 31.12.2017 LKR'000
Accommodation	1,000
Deposits	3,682
Investments	-

<table>
<tr><th>Rule No.</th><th>Corporate Governance Principles</th><th>Compliance Status</th></tr>
<tr><td></td><td>e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.</td><td>Complied.

Total Net Accommodation granted to related parties as a percentage of the Bank's regulatory capital are given below:

<table>
<tr><th>Category of Related Parties</th><th>Net Accommodation as at 31.12.2017 LKR'000</th><th>% of Regulatory Capital</th></tr>
<tr><td>Directors/Close Family Members/Substantial Interest concerns</td><td>1,000</td><td>0.00%</td></tr>
<tr><td>Key Management Personnel/ Close Family members/ Substantial Interest concerns</td><td>12,043</td><td>0.03%</td></tr>
<tr><td>The Bank's subsidiaries and associate companies</td><td>600,000</td><td>1.57%</td></tr>
</table></td></tr>
<tr><td></td><td>f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.</td><td>Complied.

Aggregate values of remuneration paid by the Bank and transactions of the Bank with its KMPs

<table>
<tr><th>Transaction Type</th><th>Aggregate values/Outstanding balances as at 31.12.2107 in LKR '000</th></tr>
<tr><td>Remuneration Paid</td><td>249,820</td></tr>
<tr><td>Accommodation</td><td>12,043</td></tr>
<tr><td>Deposits</td><td>270,731</td></tr>
<tr><td>Investments</td><td>7,000</td></tr>
</table></td></tr>
<tr><td></td><td>g) A confirmation by the Board of Directors in its Annual Corporate Governance Report that all the findings of the 'Factual Findings Reports' of Auditors issued under 'Sri Lanka Related Services Practice Statement 4750' have been incorporated in the Annual Corporate Governance Report.</td><td>Complied by this Report.</td></tr>
<tr><td></td><td>h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.</td><td>Complied.

There are no material non compliance to prudential requirements regulations, laws and internal controls affecting the Bank</td></tr>
<tr><td></td><td>i) A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the bank to address such concerns.</td><td>Complied.

There were no supervisory concerns on lapses in the Bank's Risk Management System or non-compliance with this Direction, that have been pointed out by the Director of the Bank Supervision Department of the CBSL and requiring disclosure to the public.</td></tr>
</table>

Statement of Compliance - Code of Best Practices on Corporate Governance (the Code) issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka.

The Code is intended to provide a corporate governance framework that supports strong business ethics, sound policies and procedures and an effective monitoring system which is in line with international best practices. The Code is broadly divided into two areas, namely the Company and Shareholders.

I. The Company

Key Principles are detailed under the following broad areas viz. Directors, Director's Remuneration, Relations with Shareholders, Accountability and Audit.

Ii Shareholders

Key Principles are detailed under the following broad areas viz. Institutional Investors, Other Investors and Sustainability Reporting

The Bank's adherence with the Code is detailed below with explanatory comments as follows:

Corporate Governance Principle	Compliance Status
A. 1 THE BOARD – As at 31st December 2017 the Board comprised of ten directors, nine of whom, including the Chairman, function in a non-executive capacity. The members of the Board consists of professionals in the fields of banking, finance, insurance, management, IT and law and possess the skills, experience and leadership required to direct, lead and control the Bank . The Chief Executive Officer (CEO) is the only executive director. The Board has appointed several Board subcommittees to assist in the discharge of their collective responsibilities. The Bank is mindful of the need to maintain an appropriate mix of skills and experience in the Board through a regular review of its composition in ensuring that the skill representation is in alignment with current and future needs of the Bank. Additionally, individual directors are encouraged to seek expert opinion and/or professional advice on matters where they may not have full knowledge or expertise.	
A.1.1. Board meetings	Complied. The Board usually meets on monthly intervals, but meets more frequently whenever it is necessary. The Board met fourteen (14) times during the year which included two special meetings. Scheduled Board and Board subcommittee meetings are arranged at the beginning of each calendar year. Attendance at Board and subcommittee meetings are provided on pages 213 and 216.
A.1.2. Role of the Board - Provide entrepreneurial leadership of the Bank within a framework of prudent and effective controls risks to be assessed and managed. ▪ Formulation and implementation of a sound business strategy;.	Complied. The Board is responsible to stakeholders for creating and delivering sustainable shareholder value through the management of the Bank and Group's businesses. It determines the strategic objectives and policies of the Bank and Group to deliver such long-term value, providing overall strategic direction within a framework of rewards, incentives and controls. The Bank's overall business strategy for 2017-2020 was approved by the Board in June 2017 as detailed under Section 3(1)(i)(b) of the CBSL table on page 220 of this report.
▪ The CEO and management team possess the skills, experience and knowledge to implement the strategy	Complied. The Human Resources and Remuneration Committee (HRRC) and the Nominations Committee (NC) ensures that the CEO and Key Management Personnel (KMP) have the required skills, experience and knowledge to implement strategy. The CEO and the Leadership Team consist of senior bankers with an average experience of 25 years in the field of banking and finance. The profiles of The Leadership Team are available on the pages 198 to 201 of this report
▪ The adoption of an effective CEO and KMP succession strategy;	Complied. The Succession Plan of the Bank was approved by the Board at its meeting held in September 2017

Corporate Governance Principle	Compliance Status
▪ An effective system to secure integrity of information, internal controls, business continuity and risk management;	Complied. The Board is responsible for the overall risk framework of the Bank. The IRMC appointed by the Board, reviews and recommends to the Board, the Bank's risk policies and procedures defining the Bank's risk appetite, identifying principal risks, setting governance structures and implementing policies and systems in line with the Integrated Risk Management Framework to measure, monitor and manage the principal risks of the Bank. The Board has approved risk management policies and procedures as reviewed and recommended by the IRMC, based on these parameters and as required by this Direction. There is in place an adequate system of internal controls. Policies relating to securing Information, business continuity and risk management have been approved by the Board. These policies have been reviewed by either the Integrated Risk Management Committee (IRMC) or Board Audit Committee (BAC). Board Audit Committee reviews Internal Audit reports submitted by the Internal Audit Department and monitors follow up action. Further, based on the assessment of Internal Control Over Financial Reporting (ICOFR), Directors concluded that the Bank's Internal Control Over Financial Reporting is effective. Our Business Continuity Plan/ Disaster Recovery Drill was rehearsed twice during the year. The following reports provide further insight in this regard: ▪ Risk Management Report on pages 135 to 186 ▪ The Board Integrated Risk Management Committee Report on pages 273 to 274 ▪ Refer Director's Statement on Internal Control (pages 283 to 284) ▪ BAC Subcommittee Report report (pages 275 to 277)
▪ Compliance with laws, regulations and ethical standards;	Complied. The Bank has appointed a dedicated Compliance Officer who is a Key Management Personnel to head the compliance function of the Bank. The compliance function is an independent function of the Bank that supports the Board of Directors and Senior Management of the Bank to manage compliance risks by supporting the Bank to embed a culture of compliance within the Bank, disseminate new laws and regulations to business in a timely manner, provide guidance on the interpretation of regulatory requirements, support business with the creation and implementation of regulatory compliant policies and procedures, undertake independent compliance monitoring of business with relevant laws and regulations and all measures taken to mitigate compliance risks. The Compliance Officer submits to the IRMC and the Board a detailed report on the Compliance status of the Bank each quarter.
▪ All stakeholder interests are considered in corporate decisions	Complied. The Board of Directors considers the views/impact on all stakeholders of the Bank when decisions are made at Board meetings.
▪ Recognizing sustainable business development in Corporate Strategy, decisions and activities;	Complied. Sustainable business development is one of the key areas of focus considered by the Board when taking decisions. Please refer to the Bank's Sustainability Report on page 35 for more details.
▪ Board approved accounting and compliance with financial regulations;	Complied. BAC and Board review accounting policies annually to ensure that they are in line with the business model of the Bank and evolving international and local accounting standards and industry best practice. The Board ensures that the approved accounting standards and financial regulations are complied with when Financial Statements are being prepared.

Corporate Governance Principle	Compliance Status
▪ Fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned	Complied. The Board makes every endeavour to fulfill its stewardship obligations on behalf of all stakeholders. The Board is committed to fulfilling their functions in line with laws, regulations and good governance practices adopted by the Bank.
A.1.3. The Board collectively and the Directors individually need to act in accordance with laws of the Country relevant to the organization. A procedure for Directors to obtain independent professional advice where necessary, at the Bank's expense.	Complied. There is significant emphasis across the Bank to ensure compliance with applicable laws and regulations. In order to preserve the independence of the Board and to strengthen the decision making, the Board seeks independent professional advice when deemed necessary. The Board approved internal Code of Corporate Governance contains the procedure to be followed when a Director or the Board wishes to obtain independent professional advice on any matter.
A.1.4. All directors of the Board to have access to the Advice and Services of the Company Secretary	Complied. The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. All Directors have access to the Company Secretary and she possesses the required qualifications as set out in the Companies Act and the Banking Act. For the year 2017 the Company Secretary has provided assistance to the Directors when requested.
A.1.5. All Directors to bring independent judgment to matters submitted to the Board for its decision.	Complied. All Directors bring their independent judgment to matters discussed at Board meetings. Details of Directors deliberation are contained in the minutes maintained by the Company Secretary.
A.1.6. Every Director to dedicate adequate time and effort to matters of the Board	Complied. Every member of the Board has dedicated adequate time and effort for the affairs of the Bank by attending Board meetings, Board Subcommittee meetings and by making decisions via circular resolutions. In addition, the Board members have meetings and discussions with management when required. Board papers are circulated to the Board at least seven days prior to each Board meeting. Any request for additional information is made to the Company Secretary. The relevant member of staff is informed by the Company Secretary and the requisite information is forwarded. All matters that require follow up are discussed at the immediately succeeding board meeting under 'Matters Arising'. Business heads regularly update the Board on the status & development in their respective fields. The CEO on a regular basis updates the Board on business changes, operational risks and controls relevant to the Bank. Please refer Page 211 which illustrates how the Board spent its time in 2017
A.1.7. Training for New and Existing Directors	Complied. The Board policy on Directors' training is to provide adequate opportunities for continuous development, appropriate for each Director. The Chairman is responsible for ensuring that the Directors continually update their skills, knowledge and awareness of the Bank's policies and procedures as required to fulfill their roles both on the Board and on Committees appointed by the Board. There were several knowledge sharing initiatives to inform the Board on the latest trends and issues facing the Bank, the industry and the economy in general. During 2017 Training Programs on "Anti-Money Laundering Regulations, AML trends and industry best practices" and "IFRS 9 and the implications to the Bank" were conducted for the entire Board. This is in addition to Directors training programs attended to by individual board members. New directors are provided with a comprehensive induction pack on appointment to the Board.

Corporate Governance Principle	Compliance Status
PRINCIPLE A .2 CHAIRMAN AND CEO - There is a clear division of responsibilities between the Chairman and the CEO thereby ensuring a balance of power and authority, such that no one individual has unfettered powers of decision.	
A.2.1. Divisions of Responsibilities between the Chairman and CEO	Complied. The posts of Chairman and CEO of the Bank are held by two separate persons and there is a clear division of responsibilities between them thereby maintaining the balance of power between the two roles.
PRINCIPLE A.3. CHAIRMAN - The Chairman is responsible for leading the Board and for its effectiveness. In practice, this means taking responsibility for the Board's composition, appraisal and development, ensuring that the Board focuses on its key tasks and supporting the CEO in managing the day to day running of the Bank. The Chairman is also the ultimate point of contact for shareholders, particularly on corporate governance issues.	
A. 3.1 Preserving order and facilitating the effective discharge of Board functions and Conducting Board proceedings in a proper manner	Complied. The Board approved internal Code of Corporate Governance formally details the role of the Chairman. The Chairman ensures that the affairs of the Board are conducted in an effective manner. He encourages directors to share their views on matters discussed and ensures the participation of both executive and non-executive directors thereby maintaining a balance of power between executive and non-executive directors. The Chairman approved the agenda for each meeting in consultation with the CEO and the Company Secretary and ensured that all Board proceedings were conducted in a proper manner.
PRINCIPLE A.4. FINANCIAL ACUMEN: The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	
A.4.1. Financial Acumen and Knowledge	Complied. 6 of the 10 Directors of the Board have a finance background and as such there is sufficient financial acumen and knowledge on the Board.
PRINCIPLE A.5: BOARD BALANCE: It is preferable for the Board to have a balance of executive and non-executive directors such that no individual or small group of individuals can dominate the Board's decision-making.	
A.5.1. Non-executive directors – The Board should include at least two non-executive directors or such number of non-executive directors equivalent to one third of total number of Directors, whichever is higher.	Complied. 9 of the 10 Directors on the Board are non-executive directors. The CEO is the only Executive Director.
A.5.2 - A.5.5 Independent non-executive directors - Two or one third of non-executive directors appointed to the Board of Directors whichever is higher should be 'independent'. Criteria for Independence is defined in the Code.	Complied. Annual declarations of independence or non-independence have been obtained from the Directors for 2017. Based on the annual declarations, there are 9 non-executive directors on the Board as at 31st December 2017. Of them 7 are Independent non-executive directors in terms of the criteria set out in this code. The details of non-executive directors are detailed in page 212 of this report. Accordingly, the number of Independent non-executive directors exceeds one - third of the total number of Directors on the Board.
A.5.6 Alternate Directors – Executives of the Bank shall not be appointed as Alternate Directors of non-executive directors of the Bank. Any alternate of an independent Director should also meet the criteria of independence. The minimum number of independent Directors should be complied with	Complied. No formal alternate Directors have been appointed. Directors appoint alternate directors within the rules and Articles of the Bank and the Banking Act as and when required for a particular meeting. An Alternate Director of an Independent Director is also Independent.

Corporate Governance Principle	Compliance Status
A.5.7 - A.5.8 The Appointment of a Senior Independent Director (SID) – A SID is required to be appointed where CEO and Chairman are one and the same person. Such a SID should make himself available for discussions with other directors	Complied. The CEO and Chairman are not one and the same person. As such there is no requirement to appoint a SID.
A.5.9. Chairman to meet only with non-executive directors as necessary and at least once each year	Complied. The Chairman discusses matters relevant to the Board with only non-executive directors as and when the need arises.
A.5.10. Recording of a dissenting view – Any dissenting view to be minuted where a matter is not resolved unanimously.	Complied. Dissenting views are recorded in the Board Minutes in detail.
PRINCIPLE A.6 SUPPLY OF INFORMATION – The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.	
A.6.1 – A.6.2 The Board to be provided appropriate and timely information by management. Agenda, Board Papers and Minutes of previous meetings to be circulated 7 days in advance of a meeting	Complied. The management provides comprehensive information including both quantitative and qualitative information for the monthly Board Meetings generally 7 days prior to the Board meetings. Members of The Leadership Team make presentations to Directors on important issues relating to financial performance, strategy, risk management, investment proposals, systems and procedures, where necessary. The Directors also have access to management to obtain further information or clarify any concerns they may have. As described above, they also have the right to seek independent professional advice at the Bank's expense.
PRINCIPLE A.7 APPOINTMENTS TO THE BOARD - There should be a formal and transparent procedure for the appointment of new Directors to the Board.	
A.7.1 and A.7.2 A Nominations Committee to be established to make recommendations on new appointments	Complied. The Board has established a Nominations Committee to make recommendations on new appointments to the Board. There is in place a Board approved policy and process for appointments of Directors to the Board. Please refer Page 270 for the report of the Nominations Committee.
A.7.3 Disclosure to Shareholders on new appointments to the Board	Complied. Disclosures are made to Shareholders in terms of the Listing Rules issued by the Colombo Stock Exchange (CSE).

Corporate Governance Principle	Compliance Status
PRINCIPLE A.8. RE-ELECTION - All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.	
A. 8.1. Non-executive directors should be appointed for specified terms and re-election should not be automatic.	Complied. Directors to retire at the Annual General Meeting (AGM) : As per the Articles of the Bank, 1/3rd of the Directors (except the CEO, any Director appointed to fill a casual vacancy and any Nominee Director of the Ministry of Finance) should retire at each AGM and be subject to re-election. Such Directors who retire are those who held office for the longest time period since the election/ re-appointment. In accordance with this provision, Mr. T L F Jayasekara and Mrs. Kimarli Fernando retired and has offered themselves for re-election by the Shareholders at the AGM
A.8.2. Re-election of non-executive directors	Re-appointment of Directors appointed to fill casual vacancies during the year under review: No Directors were appointed in 2017 to fill causal vacancies. Prior to recommending the above re-election/re-appointment of Directors the Nominations Committee considered the fitness and proprietary of each Director and made recommendations for re-election.
PRINCIPLE A.9 APPRAISAL OF BOARD PERFORMANCE Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.	
A.9 The Board should annually appraise itself on its performance and that of its Subcommittees	Complied. The Board carried out its self evaluation process in respect of the year 2017. The process is led by the Chairman. All Directors are required to complete a detailed questionnaire. The processes adopted is detailed on page 217 of this report All Subcommittees too carried out a self-evaluation process in 2017 to determine the effectiveness of their performance in 2017 and to identify areas for improvement.
A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS PRINCIPLE A.10: Shareholders should be kept advised of relevant details in respect of Directors.	
A.10.1 Shareholders to be advised of relevant details in respect of Directors	Complied.

Information Required	Page Reference
Name, qualification and brief profile	Refer profile on Pages 188 to 197
Nature of his/ her expertise in the relevant function	Refer profile on Pages 190 to 197
Immediate family and/or material business relationships with other Directors of the Bank	Please refer the disclosure under section 3 (5) (iii) of the CBSL table on page 229.
Whether executive non executive and or independent Director	Please refer Board composition on page 212 to 213
Names of listed companies or companies in which the Director concerned serves as a Director	Please refer Pages 188 to 197
Names of other companies or companies in a group in Sri Lanka in which the Director concerned serves as a Director	Please refer Pages 188 to 197
Board meeting attendance	Please refer Page 213.
The total number of Board seats held by each Director	Please refer Pages 188 to 197
Board committee served as chairman / member	Please refer Page 216
Committee meetings attendance	Please refer page 216 for subcommittee attendance.

Corporate Governance Principle	Compliance Status
A.11 APPRAISAL OF CHIEF EXECUTIVE OFFICER (CEO)	
PRINCIPLE A.11 The Board should be required, at least annually to assess the performance of the CEO.	
A. 11.1-A.11.2 Setting Annual Targets and the appraisal of performance of the CEO	Complied. The Board discussed and set financial and non-financial targets to be achieved during the year by the CEO with reference to the short, medium and long term objectives of the Bank at the beginning of 2017. The HRRC/ Board will evaluate the performance of the CEO against the goals and targets set for 2017 at the Board meeting scheduled to be held in March 2018.
B. DIRECTORS REMUNERATION	
B.1 REMUNERATION PROCEDURE - The Code requires that the Bank establish a formal and transparent procedure for developing policy on both Executive and non-executive directors remuneration	
B1.1 Establishment of a Remuneration Committee	Complied. The Board has established a Human Resources and Remuneration Committee (HRRC) to develop policy and determine remuneration for the Directors and KMPs. No Director is involved in deciding his / her own remuneration.
B1.2 – B1.3 Composition of the Committee	Complied. The HRRC consists exclusively of non-executive directors. The Chairperson of the HRRC is Ms Indrani Sugathadasa an Independent Non-Executive Director. Please refer page 268 for the report of the HRRC for more details on the activities carried out by the HRRC for the year 2017
B1.4 Determination of remuneration for Non- Executive Directors	Complied. There is in place a Board approved Remuneration Policy for Directors and KMP. Non- Executive Directors are remunerated in line with market practices and approvals obtained from the Shareholders at the AGM.
B1.5 Ability to consult the Chairman and/ or CEO and to seek professional advice by the Committee	Complied. The HRRC has access to professional advice from within and external consultants. During the year, the HRRC reviewed the information provided by the Bank's Human Resources Department to determine market and industry trends with regard to remuneration and perquisites for its Senior Management team.
B.2. Level and make-up of remuneration – The Bank ensures that the remuneration of executive and non-executive directors is at a satisfactory level to attract and retain the services of Directors.	
B.2.1 Remuneration for Executive Directors	Complied. The Executive Director is an ex-officio Director on account of being the CEO of the Bank and as such is not paid any additional remuneration or benefits by virtue of him being an Executive Director. The CEO's remuneration is linked to the Bank's performance as well as his individual performance. The Executive Director does not participate in the HRRC when matters pertaining to his remuneration are discussed.
B.2.2 Positioning the Bank's remuneration levels relative to other companies in the industry	Complied. The HRRC reviews information relating to remuneration and prerequisites of CEO and Senior Management of the Bank and due care is taken to ensure that remuneration is commensurate with industry standards and both the Bank's and individual performance. Regular salary surveys are carried out and the HRRC is informed of the results of the survey. The last salary survey was carried out in 2017.
B.2.3 Comparison of Remuneration levels with other Companies in the Group	Not Applicable. Size and scale of the Bank are not comparable with Group Companies.
B.2.4 Performance related elements of remuneration for Executive Directors	Complied. The Goals and Targets of the CEO are set at the beginning of the year and cascaded to the rest of the Bank. Executive remuneration and performance bonuses are decided based on achievement of the Goals and Targets agreed upon.

Corporate Governance Principle	Compliance Status
B.2.5. Employee Share Options	Complied An employee share scheme was established in 2016 which was approved by the shareholders in line with the listing rules of the CSE. However no shares were issued under this scheme in 2017 as the "qualifying criteria" were not met . Details are given in the Director's Report on page 263 and notes to the Financial Statements on page 360.
B.2.6. Designing schemes of performance related remuneration	Complied. No remuneration or benefits are paid to the only Executive Director who is the CEO on account of his executive directorship. Please refer page 268 for the report of the HRRC for more details.
B.2.7 - B.2.8 Early termination of Executive Director	Complied. Termination of service of the Executive Director will be in accordance with his contract of employment.
B.2.9 Levels of Remuneration of non-executive directors	Complied Non-executive directors are remunerated in line with market practices. However they are not entitled to receive any performance based remuneration which includes shares under the existing Share Option Scheme of the Bank.
B.3 DISCLOSURE OF REMUNERATION - Code requires that the Bank's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.	
B.3.1 Disclosure of Remuneration	Complied. Please refer page 257 of the Annual Report for Directors Remuneration. Also refer Note 12 of the Financial Statements for aggregate remuneration paid to Executive and non-executive directors.
C. RELATIONS WITH SHAREHOLDERS	
C.1 CONSTRUCTIVE USE OF SHAREHOLDER MEETINGS The Code requires constructive use of the AGM and conduct of general meetings to communicate with shareholders.	
C.1.1. Use of Proxy Votes	Complied. The Bank has in place an effective mechanism to record all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against each resolution. As a matter of practice, proxy votes together with the votes of Shareholders present at the AGM are considered for each resolution and duly recorded in the minutes
C.1.2. Separate resolutions to be obtained for substantially separate issues and adoption of Annual Report and Accounts	Complied. Separate resolutions are obtained for substantially separate issue to provide Shareholders with an opportunity to deal with each significant matter separately. The Annual Report of the Board of Directors and Accounts are laid before the Shareholders of the Bank for their consideration as a separate item on the Agenda at the AGM.
C.1.3. Chairpersons of all Board Subcommittees to be available to respond to questions of any Shareholder at AGM	Complied. The Chairman of the Board functions as the Chairman of the Nominations Committee, Strategic Issues Committee and the Related Party Review Committee. He ensures that the Chairpersons of the other Board Committees are present at the AGM to answer all queries that may be raised. The chairpersons of the Board committees were present at the AGM held in 2016. No queries were raised by Shareholders to the Chairpersons of the committees.

Corporate Governance Principle	Compliance Status
C.1.4 - C.1.5 Adequate notice of all meetings to Shareholders together with the summary of the procedure to be adopted by Shareholders	Complied. The notice of meeting and related documents is circulated to the Shareholders 15 working days prior to the AGM. Summary of the procedures governing voting at the AGM is provided in the proxy form, which is circulated to Shareholders together with the notice of meeting 15 working days prior to the AGM. The Board encourages all Shareholders to attend and actively participate in the AGM. The Shareholders may raise any queries they have with the Directors.
PRINCIPLE C.2 COMMUNICATION WITH SHAREHOLDERS The Code requires that Board should implement effective communication with Shareholders.	
C.2.1 Communication channel to reach Shareholders	Complied. The Bank has many channels to reach all Shareholders of the Bank in order to disseminate timely information. Please refer pages 111 to 134 on "Investor Relations" for more details on communication with our Shareholders.
C.2.2 - C.2.3 Disclosure on communication channel to reach Shareholders and communication policy and methodology	Complied. There is in place a Board approved Disclosure Policy and Communications Policy that deals with communications with Shareholders. Please refer write up on "Investor Relations" on page 111 to 134 for details of the policy and methodology adopted for communication.
C.2.4.- C2.7 The Bank to disclose to Shareholders the contact person for communication with Shareholders.	Complied. Shareholder correspondence on major issues is handled by the Chairman who will communicate to the Board of Directors as an when necessary Details of the contact personnel are provided in the "Investor Relations" section on page 440 of this Report. In addition, Shareholders are encouraged to provide their feedback to the Chairman and/ or the Board Secretary. The Bank's website's Investor Relations page also carries contact details of the Board Secretary and a dedicated e-mail for investor relations is also provided.
PRINCIPLE C.3. MAJOR AND MATERIAL TRANSACTIONS The coder requires the Directors to disclose to Shareholders all proposed material transactions which would materially alter the net asset position of the Bank and Group if entered into	
C.3. 1 Disclosure of major and material transactions	Not Applicable. During 2017 there were no major transactions as defined by Section 185 of the Companies Act No 07 of 2007 which materially affected the Bank's net asset base. Further all material transactions will be disclosed in the quarterly / annual financial statements as well as the disclosure made to the CSE.
D. ACCOUNTABILITY AND AUDIT	
PRINCIPLE D.1 FINANCIAL REPORTING -The Board is required to present a balanced and understandable assessment of the Bank's financial position, performance and prospects.	
D.1.1. The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.	Complied. The Board is aware of its responsibility to present regulatory and statutory reports in a balanced and understandable manner. A statement to this effect is provided on 281 of this report. The Interim Accounts and Annual Financial Statements were published on a timely basis in 2017. Regulatory reports were filed by the Bank on or before the due dates in 2017. Price sensitive information is disclosed to the Colombo Stock Exchange on a timely basis in accordance with the Bank's Board approved Disclosure Policy. The Bank makes every effort to provide a detailed and transparent analysis of strategies, performance and future strategies to support investors in making an informed decision. In addition to the information provided in the reports mentioned above, a summary of the Interim Accounts and a section on "Understanding our Financials" is provided in the annual report. Please refer pages 42 to 52 and 129 to 130 of this Report.

<table>
<tr><th>Corporate Governance Principle</th><th>Compliance Status</th></tr>
<tr><td>D.1.2. Declarations by the Directors' in the Directors' Report,</td><td>Complied.

Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are provided on page 265 in the 'Annual report of the Board of Directors on the affairs of the Bank'.</td></tr>
<tr><td>D.1.3. Responsibilities of the Board for preparation of financial statements and reporting responsibilities of auditors</td><td>Complied.

The Statement of Directors' Responsibility, Statement on Internal Controls and Report of the Auditors are provided on pages 283 to 284 respectively in the annual report.</td></tr>
<tr><td>D. 1.4. Inclusion of a "Management Discussion and Analysis" report in the Annual Report.</td><td>Complied.

The Annual Report contains a "Management Discussion and Analysis" report

The required information in the Management Discussion and Analysis is provided in this annual report as follows:

<table>
<tr><th>Information required</th><th>Pages</th></tr>
<tr><td>Industry structure and developments</td><td>38 - 41</td></tr>
<tr><td>Opportunities and threats, risks and concerns</td><td>38 - 41</td></tr>
<tr><td>Internal control systems and their adequacy</td><td>38 - 97</td></tr>
<tr><td>Social and environmental protection activities carried out by the Bank</td><td>98 - 105</td></tr>
<tr><td>Financial performance</td><td>42 - 52</td></tr>
<tr><td>Material developments in human resources /industrial relations</td><td>80 - 87</td></tr>
<tr><td>Prospects for the future</td><td>48 - 97</td></tr>
</table>
</td></tr>
<tr><td>D.1.5. The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.</td><td>Complied.

This information is provided in the 'Annual report of the Board of Directors on the affairs of the Bank' on pages 255 to 266.</td></tr>
<tr><td>D.1.6 Requirement to summon an Extraordinary General Meeting(EGM) to notify serious loss in Net Assets</td><td>This situation has not arisen</td></tr>
<tr><td>D.1.7. Disclosure of Related Party Transactions</td><td>Complied.

A detailed Board approved documented process is available and has been circulated to all staff through the NDB Cloud for compliance.

Accordingly, each related party has submitted signed and dated quarterly declarations in 2017 mentioning whether they have related party transactions with the Bank as required under regulations applicable to the Bank to comply with the disclosure requirements;

The Company Secretary keeps a record of related party transactions and makes necessary disclosures accordingly;

A record on related party and related party transactions is maintained by the Bank to captures information to comply with the respective related party disclosure requirements imposed by SEC / Accounting Standards / Auditing Standards and similar regulations.

Please refer section 3(7) (i) - 3(7) (vii) of the CBSL table on pages 237 to 239 for more details on the process adopted.</td></tr>
</table>

Corporate Governance Principle	Compliance Status
PRINCIPLE D.2 – INTERNAL CONTROL The Code requires the Bank to have a process of risk management and a sound system of internal control to safeguard Shareholders' investments and the Bank's assets.	
D2.1 Directors to conduct an annual review of Internal Controls through the Board Audit Committee (BAC)	Complied. The Board's Statement on the effectiveness of Bank's Internal Control Mechanism as reviewed by the BAC is presented under the caption "Directors' Statement on Internal Control" in this Annual Report on pages 283 to 284. The Board also reviewed the External Auditor's assurance report in this regard, pursuant to the independent audit conducted by them in accordance with Sri Lanka Standards on Assurance Engagement SLSAE 3050-Assurance Report for Banks on Directors' Statement on Internal Control as given in the Annual report on page 286.
D2.2 The Bank should have an internal audit function	Complied. Bank has a fully-fledged Internal Audit Department which reports to the BAC.
D2.3 The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls, and to document to the Board.	Complied. The BAC reviewed the internal controls and procedures at all meetings held during 2017. The minutes of the BAC meetings are tabled at the meetings of the Board. The Group Audit department carries out regular reviews on the internal control system including internal control over financial reporting. The BAC reviews and evaluates the effectiveness of the internal control system including the internal controls over financial reporting. The IRMC reviews processes relating to the risk management framework of the Bank. The BAC Report and the IRMC Report are detailed on pages 275 to 277 and 273 to 274 of this Annual Report.
D2.4 The Schedule K to this Code contains guidance on the responsibilities of Directors in maintaining a sound system of internal control and the contents of the Statement of Internal Control.	Complied. Please refer pages 275 to 277 for the BAC Report and refer pages 283 to 284 for Directors Statement of Compliance on Internal Controls in relation to compliance with this requirement.
PRINCIPLE D.3. AUDIT COMMITTEE Board to establish formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles	
D3.1 Composition of Audit Committee	Complied. The Board Audit Committee consists of non-executive directors and is chaired by an Independent Non-Executive Director. Members are selected to provide a broad set of financial, commercial and other relevant experience to meet the Committee's objectives. Please refer page 275 for the BAC Report which details the composition of the BAC.
D3.2 The duties of the Audit Committee	Complied. As stated in the Report of the BAC on pages 275 to 277 of the Annual Report, the BAC regularly reviews the scope, results and effectiveness of the audits carried out. It also ensures the balance amongst objectivity, independence and value for money of the services provided by the Bank's External Auditors, with special attention to provision of non-audit services by the External Auditors.
D3.3 Terms of Reference of the Audit Committee	Complied. Terms of Reference of the BAC is clearly defined in the Charter of the Board Audit Committee approved by the Board of Directors, which was last revised and updated in third quarter of 2016. This clearly explains the purpose of the Committee, its duties and responsibilities together with the scope and functions of the Committee. The Committee mainly deals with matters pertaining to statutory and regulatory compliance in financial reporting and matters with regard to the External Auditors and Internal Audit.
D3.4 Disclosures regarding Audit Committee.	Complied. Please refer page 275 for the BAC report.

Corporate Governance Principle	Compliance Status
PRINCIPLE D4. CODE OF BUSINESS CONDUCT AND ETHICS Companies must adopt a Code of Business Conduct & Ethics for Directors and KMP and must promptly disclose any waivers of the Code for Directors or others.	
D4.1. Code of Conduct to be developed for Directors and Senior Management	Complied. The Bank has in place an internally developed Board approved Internal Code of Corporate Governance applicable to the Board and Key Management Personnel setting out best practices relating to their business conduct and ethics. In addition the Board approved Compliance Policy and Code of Conduct ensures that the Bank stays ahead of the best practices related to business conduct and ethics. Please refer pages 207 to 254 of the Corporate Governance Report on this aspect
D4.2. Affirmative declaration by Chairman of compliance with Code of Business Conduct & Ethics	Complied. There have been no violations of the Internal Code of Corporate Governance during 2017 by any of the Directors or any member of the Leadership Team.
PRINCIPLE D5. CORPORATE GOVERNANCE DISCLOSURES - Disclose the extent to which the Bank adheres to established principles and practices of good Corporate Governance.	
D.5.1. Disclosure of Corporate Governance	Complied. The Bank's Corporate Governance practices are in accordance with the Banking Act Direction No. 11 of 2007 (as amended) issued by CBSL, the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC as well as the Corporate Governance Rules for Listed Companies issued by the CSE. The requirement is met with the presentation of this Corporate Governance Report from pages 207 to 254 of the Annual Report
SECTION 2: SHAREHOLDERS	
E. INSTITUTIONAL INVESTORS	
PRINCIPLE E.1- SHAREHOLDER VOTING - Institutional Shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.	
E. 1.1 Regular and structured dialogue with Shareholders	Complied. All Shareholders are encouraged to participate at General meetings and cast their votes. The AGM is used as an effective channel to create a dialogue between the Shareholders and the Board of Directors. Also The Chairman and CEO have regular structured meetings with institutional Shareholders. Board members are briefed about the matters discussed at such meetings.
PRINCIPLE E.2 - EVALUATING OF GOVERNANCE DISCLOSURES -When evaluating the Bank's governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.	
E.2 Evaluating the corporate governance initiatives of the Bank	Complied. Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition

Corporate Governance Principle	Compliance Status
F. OTHER INVESTORS	
PRINCIPLE F.1 INVESTING / DIVESTING DECISIONS	
F.1.1 - Individual Shareholders, investing directly in shares of the Bank should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.	Complied. The Annual Report contains sufficient information for a potential investor to carry out his/her own analysis. The following reports aim to provide a balanced overall assessment of the Bank's activities, performance and prospects. Chairman's Message on pages 10 to 13 CEO's Review on pages 14 to 17 .Management Discussion and Analysis on pages 37 to 108 .Annual financial statements on pages 287 to 408 Further, Interim Financial Statements provided each quarter, provide sufficient information to enable the Retail Investors to make informed judgments regarding the performance of the Bank. Additionally, there is a separate part of the Bank's website dedicated to Investor Relations which provides this information online to all investors/Shareholders.
PRINCIPLE F. 2. SHAREHOLDER VOTING	
F.2 Encourage Voting by Individual Shareholders	Complied. Individual shareholders are encouraged to participate at the General meetings of the Bank and exercise their voting rights.
G. SUSTAINABILITY REPORTING	
PRINCIPLE G.1.- Principles of Sustainability Reporting: The principle of economic sustainability governance recognizes how organizations take responsibility for impacts of their strategies, decisions and activities on economic performance and corporate citizenship in their sphere of influence (including geographic) and how this is integrated throughout the organization.	
G.1.1. Reporting of Economic sustainability	Complied. Please refer pages 43 - 52 for details
G.1.2. Reporting on the Environment	Complied. Please refer page 108 for details
G.1.3. Reporting on the Labour Practice	Complied. Please refer page 80 for details
G.1.4 Reporting on society	Complied. Please refer page 98 for details
G.1.5. Reporting on product responsibility	Complied. Please refer page 59 for details
G.1.6. Reporting on stakeholder identification, engagement and effective communication	Complied. Please refer page 98 for details
G1.7. Sustainable reporting and disclosure reporting to be formalized as part of the Bank's reporting processes and take place on a regular basis	Complied. Please refer page 12 for details

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE NATIONAL DEVELOPMENT BANK PLC

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY AND STATEMENT OF COMPLIANCE OF THE CONTENTS OF THE ANNUAL REPORT AS REQUIRED BY SECTION 168 OF THE COMPANIES ACT NO. 07 OF 2007

1. GENERAL

The Directors of National Development Bank PLC ('Bank') have pleasure in presenting to the shareholders this Report together with the Audited Financial Statements and the Audited Consolidated Financial Statements for the year ended 31 December 2017 of the Bank and the Group and the Auditors' Report on those Financial Statements, conforming to the requirements of the Companies Act No. 07 of 2007, Banking Act No. 30 of 1988 and amendments thereto and the Directions issued thereunder, the Listing Rules of the Colombo Stock Exchange and the recommended best practices.

The Report was approved by the Board of Directors on 20 February 2018. The requisite number of copies of the Annual Report will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

The Bank, originally established by an Act of Parliament in 1979 as the National Development Bank of Sri Lanka, was incorporated under the Companies Act No. 17 of 1982 as National Development Bank Limited in 2005 pursuant to the provisions of the National Development Bank of Sri Lanka (Consequential Provision) Act No. 01 of 2005. National Development Bank Limited was thereafter re-registered under the Companies Act No. 07 of 2007 as National Development Bank PLC and was accorded with the registration No. PQ 27. The registered office of the Bank is at No. 40, Navam Mawatha, Colombo 02.

The ordinary shares of the Bank are quoted on the Main Board of the Colombo Stock Exchange since 1993.

The Rated, unsecured, subordinated, redeemable debentures issued by the Bank are listed on the Colombo Stock Exchange.

The Bank's national long term rating which was affirmed as A+ (lka)/ Stable Outlook by Fitch Ratings Lanka Limited in January 2017 was once again affirmed at the same level in December 2017, reflecting the stability maintained by the Bank over the year. The Bank's listed debentures were assigned a rating of A(lka).

As required by Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Annual Report prepared for the year ended 31 December 2017.

	Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Extent of Compliance by the Bank
i.	The nature of the business of the Group and the Bank together with any change thereof during the accounting period.	Section 168 (1) (a)	Refer page 302
ii.	Signed Financial Statements of the Group and the Bank for the accounting period completed	Section 168 (1) (b)	Refer pages 293 to 408
iii.	Auditor's Report on Financial Statements of the Group and the Bank	Section 168 (1) l	Refer page 289
iv.	Accounting Policies and any changes therein (Group also included)	Section 168 (1) (d)	Refer pages 302 to 408
v.	Particulars of the entries made in the Interest Registers of the Bank and it's Subsidiaries during the accounting period.	Section 168 (1) l	Refer page 257
vi.	Remuneration and other benefits paid to Directors of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (f)	Refer page 257
vii.	Total amount of donations made by the Bank its Subsidiaries during the accounting period.	Section 168 (1) (g)	Refer page 257
viii.	Information on Directorate of the Bank and its Subsidiaries during and at the end of the accounting period.	Section 168 (1) (h)	Refer pages 260 to 263 and 437 and 438
ix.	Separate disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Bank and its Subsidiaries.	Section 168 (1) (i)	Refer page 264
x.	Auditor's relationship or any interest with the Bank and its Subsidiaries	Section 168 (1) (j)	Refer page 264
xi.	Acknowledgment of the Contents of this Report/Signatures on behalf of the Board	Section 168 (1) (k)	Refer pages 265 to 266

2. REVIEW OF BUSINESS

2.1 Vision, Mission and Corporate Conduct

The vision, mission and values of the Bank are given on page 4 of this Report.

The Bank and the Group practices high ethical standards in carrying out their business activities in line with the vision of the Bank.

All employees of the Bank abide by the Bank's Code of Conduct and the directors and the Key Management Personnel of the Bank additionally abide by the Code of Corporate Governance of the Bank.

2.2 Review on Operations of the Group and the Bank

A review of the operations of the Bank and the Group as required by Section 168(1) (a) of the Companies Act are discussed in the Chairman's Message, Chief Executive Officer's Review (pages 10 to 17) and the Management Discussion and Analysis (pages 37 to 108). These reports form an integral part of the Annual Report of the Board of Directors.

2.2.1 Principal Business Activities of the Bank and its Group Companies

As required by Section 168 (1) (a), the principal activities of the Bank and Group are described in the Business Model on pages 18 to 19 and pages 26 to 27 of our Annual Report.

2.2.2 Future Developments and Current Standing

The Bank opened 3 new branches during the year and 5 ATMs including 2 off-site ATMs during the year affirming the Bank's continuous focus on improving its reach across the country as part of its business strategy.

The Bank introduced four new deposits products during the year, namely NDB Savings Planner, NDB Araliya (for female customers), NDB Achara (for senior citizens) and NDB Business Class (for business customers). The Bank also relaunched its Children's Savings product during the year. With these new additions to its deposit product suite, the Bank caters to the financial needs of an individual in any stage in life.

In enhancing the convenience of banking services offered to our customers through both the physical branch network and digital banking services, we adopted a combination of these two in" phygital banking". Our mobile banking app was the fore-runner in the digital sphere. We also commenced branchless banking supported with tablet devices during the year.

Our credit card product took an invigorated approach offering a set of best deals to our customers.

The Bank's full suite of products along with the capital market products offered by the Group companies rendered a one-stop shop solution to our customers during the year.

Further as required by Section 168 (1) (a), an overview of the future developments of the Bank and the Group are discussed in the Chairman's Message, Chief Executive Officer's Review (pages 10 to 17) and the Integrated Management Discussion and Analysis (pages 37 to 108). These reports form an integral part of the Annual Report of the Board of Directors

2.3 Financial Statements of the Group and the Bank

The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) and is given in detail on pages 293 to 408 of this Annual Report.

The Financial Statements of the Bank and the Group for the year ended 31 December 2017 are duly signed by the Assistant Vice-President – Finance and Planning, the Group Chief Financial Officer, two Directors and the Company Secretary in accordance with Section 168 (1) (b) of the Companies Act No. 07 of 2007 and are given on page 295.

2.4 Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended), the Listing Rules of the Colombo Stock Exchange and the Mandatory Code of Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

The Directors are satisfied that the Financial Statements, presented on pages 293 to 408 give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2017 as well as the profit for the year then ended.

The Statement of Directors' Responsibility for Financial Reporting is given on pages 281 and 282. And forms an integral part of the Annual Report of the Board of Directors.

2.5 Directors Statement of Internal Control

The Board has issued a report on the internal control mechanism of the Bank as per Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 on Corporate Governance. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report which forms an integral part of the Report of the Board of Directors is given on pages 283 and 284 of the Annual Report.

The Board has obtained an Assurance Report from the External Auditors on the Directors' Statement on Internal Control which is given on page 286 of this Annual report.

2.6 Auditors' Report

The Bank's Auditors, Messrs Ernst and Young, carried out an audit on the Financial Statements of the Bank and the Consolidated Financial Statements of the Group for the year ended 31 December 2017 and their report on those Financial Statements are given on page 289 of the Annual Report.

2.7 Significant Accounting Policies and Changes during the Year

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 302 to 408. The significant changes to accounting policies adopted if any, in the preparation of the Financial Statements are given on pages 302 to 408.

2.8 Entries in the Interest Register

As required by Section 168 (1) l of the Companies Act No. 07 of 2007, the Bank and all its subsidiaries maintain Interest Registers. We wish to confirm that all Directors have made declarations as required by Section 192 (1) and (2) of the Companies Act aforesaid and all related entries were made in the Interest Register during the year under review. The share ownership of Directors is disclosed on page 117. The Interest Register is available for inspection by shareholders or their authorized representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007.

2.9 Directors' Remuneration and Other Benefits

As required by Section 168 (1) (f) of the Companies Act No. 07 of 2007, the Directors' remuneration and other benefits in respect of the Bank and the Group for the financial year ended 31 December 2017, are disclosed in Note 12 of the Financial Statements on pages 315 and 316.

2.10 Corporate Donations by the Bank

The Bank and the Group made Donations amounting to LKR 20 million and LKR 23.5 million respectively, for the year 2017 (2016 – LKR 26.7 million and LKR 29.7 million respectively), in terms of the Resolution passed at the last Annual General Meeting. The information given above forms an integral part of the Annual Report of the Board of Directors in terms of Section 168 (1) (g) of the Companies Act No. 07 of 2007.

The Bank's Corporate Social Responsibility Unit initiates most of the CSR activities together with the participation of employees from all departments. The primary responsibility of the CSR Unit is to ensure that CSR activities are conducted in a manner to ensure sustainable business development.

3. GROSS INCOME

The gross income of the Group for 2017 was LKR 43,018 million (2016- LKR 33,777 million) of which the Bank's gross income was LKR 42,521 million (2016- LKR 33,282 million)

The sources of external operating income, net operating profit and asset allocation of the Group among different business segments together with their proportions are given in Note 51 to the Financial Statements on page 369 and 370.

4. TOTAL OPERATING INCOME

The total operating income of the Group for 2017 was LKR 16,683 million (as compared with LKR 13,677 million for 2016), while the Bank's total operating income was LKR 16,152 million (as compared with LKR 13,151 million for 2016). An analysis of the income is given on pages 310 to 314 to the Financial Statements.

5. RESULTS AND APPROPRIATIONS

5.1 Performance of the Bank and the Group and Transfers to Reserves

The Group's Operating Profit Before Value Added Tax on Financial Services and Taxation including that of its subsidiaries and its share of profit from associate companies amounted to LKR 7,192 million (compared to LKR 5,094 million in 2016). After deducting LKR 3,759 million (compared to LKR 2,279 million in 2016) for Valued Added Tax on Financial Services and Taxation, the Profit After Tax for the year amounted to LKR 3,432 million (compared to LKR 2,815 million in 2016). The Group profit attributable to shareholders amounted to LKR 3,490 million (compared to LKR 2,691 million in 2016).

The Bank's Profit Before Value Added Tax on Financial Services and Taxation amounted to LKR 7,547 million (compared to LKR 5,335 million in 2016). After deducting LKR 3,196. million (compared to LKR 2,165 million in 2016) for taxation, the Profit After Tax for the year amounted to LKR 4,352. million (compared to LKR 3,170 million in 2016).

Details are given in the Statement of Profit or Loss on page 293.

Details of appropriation of the Profit of the Bank are given below;

LKR'000	2017	2016
Profit for the year after charging all operating expenses, depreciation and amortization	7,547,420	5,335,004
Less; Taxation	(3,195,791)	(2,164,733)
Net Profit for the year	4,351,629	3,170,271
Other Comprehensive Income (OCI)		
Other Comprehensive Income before tax	(99,429)	(73,151)
Less, tax on other comprehensive income	(3,037)	10,544
Total other comprehensive income for the year, net of taxes	(102,466)	(62,607)
Total comprehensive income for the year	4,249,163	3,107,664
Add: Unappropriated balance Brought forward from previous year	16,088,681	13,638,678
Total retained profits available for appropriations	20,337,844	16,746,342
Appropriations		
Transfer to statutory reserve fund	(90,000)	(3,707)
Dividends		
Final cash dividends for the year 2015	-	(660,669)
Final cash dividends for the year 2016	(330,371)	-
Final scrip dividends for the year 2016	(991,113)	
Interim cash dividends for the year 2017	(342,971)	-
Reversal of dividends declared in prior years	1,866	6,715
Unappropriated balance carried forward	18,585,255	16,088,681

5.2 Dividends on Ordinary Shares

An interim dividend of LKR 2.00 per share was paid on 10th November 2017 to the shareholders of the Bank for the financial year 2017. The Directors on 20th February 2018 authorized and approved a final dividend of LKR 7.00 per share to be paid in the form of a cash dividend amounting to LKR 2.00 per share and scrip dividend of LKR 5.00 for the financial year ended 31 December 2017. The total dividend paid to the shareholders for the financial year ended 31 December 2017 was LKR 9.00 (2016-LKR 8.00).

In declaring the dividends the Directors ensured due compliance by the Bank of the solvency provisions contained in Section 56 (3) of the Companies Act No. 07 of 2007 and the listing rules of CSE. The Board provided the Statement of Solvency to the auditors and obtained Certificates of Solvency from the auditors in respect of the said dividend payments conforming to the statutory provisions.

These dividends were partly paid out of dividend income received and partly out of operational profits, the latter being subject to withholding tax.

5.3 Reserves

A summary of the Banks and Group's reserves is given below;

	Bank		Group	
LKR' 000	2017	2016	2017	2016
Capital	2,208,520	1,246,479	2,208,520	1,246,479
Statutory Reserve Fund	1,336,479	1,246,479	1,336,479	1,246,479
Available-for-Sale Reserve	(225,196)	(565,741)	(236,382)	(542,587)
Revaluation Reserve	1,041,261	853,456	1,136,654	969,795
General Reserve	5,805,707	5,805,707	5,805,707	5,805,707
Share Based Payment Reserve	-	13,841	-	13,841
Cash Flow Hedge Reserve	(14,191)	56,148	(14,191)	56,148
Retained Earnings	18,585,255	16,088,681	22,775,440	21,140,725
Total	28,737,835	24,745,051	33,012,227	29,936,587

5.4 Provision for Taxation

The income tax rate applicable on the Bank's domestic operations and FCBU on-shore and off-shore banking operations was 28% (2016 – 28 %.). The Bank's profit was also liable for Value Added Tax on Financial Services and Nation Building Tax and the regulatory tax rate for the year are as follows.

- Value added tax on Financial Services – 15% (2016- 15% for the period from 2 May 2016 to 11 July 2016 and from 1 November 2016 to 31 December 2016. The rate for the balance period of 2016 was 11%).
- Nation Building Tax at the rate of 2% (2016 – 2%).

Deferred Tax is provided for all known temporary differences based on the Liability Method in accordance with Sri Lanka Accounting Standard (LKAS 12) – Income Taxes. The Bank and the Group made accumulated deferred tax provisions during the year, arising on revaluation of freehold land and investment property, in line with LKAS 12, Income Taxes, and the new Inland Revenue Act which would be effective from 1 April 2018.

6 PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND LEASEHOLD PROPERTY

The details of Property, Plant & Equipment are given in Notes 33 and 34 to the Financial Statements.

Total Capital expenditure incurred by the Bank and the Group on acquisition of property, plant & equipment and intangible assets amounted to LKR 588 million and LKR 740 million, respectively (2016- Bank - LKR 871. million and Group - LKR 907 million).

7. INVESTMENT PROPERTY

Investment properties of any group companies when significantly occupied by other companies in the group are classified under Property, Plant and equipment in the Consolidated Financial Statements in accordance with LKAS 40 on "Investment Property". There were no acquisitions of Investment Properties during the year as well as the previous year.

The details of Investment Property are given in Note 32 to the Financial Statements.

8. ISSUE OF SHARES AND DEBENTURES

8.1 Issue of Shares and Debentures by the Bank

Details of the shares issued by the Bank in the years 2016 and 2017 are given in the table below;

Reason for the Issue	Number of shares issued	
	2017	2016
Exercise of options by employees under the Employee Share Option Plan	N/A	18,164
Issued by way of a Scrip Dividend	6,300,199	N/A

Year of Issue	Reasons for the Issue of debentures	Type of Debenture	Number of debentures issued	Aggregate face value (LKR)
2013	Utilized to support the Bank's Tier II Capital	Rated, unsecured, subordinated, redeemable debentures	100,000,000	10,000,000,000/-
2015	Utilized to support the Bank's long term and short term funding requirements and the Bank's Tier II Capital	Rated, unsecured, subordinated, redeemable debentures	100,000,000	10,000,000,000/-

8.2 Issue of Shares and Debentures by the Subsidiaries and Associates during the year 2017

No shares or debentures have been issued by any subsidiaries or associates of the Bank during the financial year 2017.

8.3 Stated Capital and Debentures

The stated capital of the Bank at the beginning of the year was LKR 1,246,479,177/- and at the end of the year was LKR 2,208,519,564/- and comprised of 165,185,506 ordinary shares at the beginning of the year and 171,485,705 ordinary shares at the end of the year. The details of the Stated Capital are given in Note 43 on page 360.

During the period of January 2017 to December 2017 a total number of 6,300,199 shares were issued by the Bank to the shareholders of the Bank as at 3rd March 2017, by way of a Scrip Dividend.

The details of the debentures issued by the Bank in 2013 and 2015 are disclosed under Note 42 on pages 358 and 359.

9. SHARE INFORMATION

9.1 Distribution Schedule of Shareholdings

Information on the distribution of the number of holders in each class of equity securities and the percentage of their holdings as per the CSE listing rules are given in Investor information on pages 115 to 117 of the Annual Report.

9.2 Information on Earnings, Dividend, Net Assets and Market Value

The information relating to earnings, dividends, net assets and market price per share is given in the financial highlights on page 6 of the Annual Report.

The ratios relating to dividends, net asset value, market value per share and ratios relevant to debt Securities are disclosed in Investor information on pages 119 to 122 of this Annual Report.

10. SUBSTANTIAL SHAREHOLDINGS

The Bank had 8,330 registered shareholders as at 31 December 2017. The distribution, public holding, 20 largest shareholders and the share price during 2017 are set out in page 116 of this Annual Report.

11. DIRECTORS

11.1 Information on Directors of the Bank and the Group

11.1.1 List of Directors

In terms of the provisions of the Articles of Association of the Bank, the Board of Directors, as at 31 December 2017, consisted of ten (10) Directors, including the Chairman and was made-up as follows:

- Eight (08) Directors have been appointed by the shareholders;
- One Director has been appointed as a representative of the Ministry of Finance in terms of the Articles of Association of the Bank; and
- The Chief Executive Officer is an ex-officio Director

Compliance by the Board of Directors of the Banking Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka is set out in pages 207 to 254 of the Annual Report. In terms thereof the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2017 is as follows:

Name of Director	Independent/ Non-Independent	Executive/ Non-Executive
A W Atukorala	Independent	Chairman - Non-Executive
A K Pathirage	Non Independent	Deputy Chairman - Non Executive
T L F Jayasekara	Independent	Non-Executive
Mrs. Kimarli Fernando	Independent	Non-Executive
D S P Wikramanayake	Non Independent	Non-Executive
D M R Phillips	Independent	Non-Executive
Mrs. Indrani Sugathadasa	Independent	Non-Executive
K D W Ratnayaka	Independent	Non-Executive
R Semasinghe	Non Independent	Non-Executive
P L D N Seneviratne	Non Independent	CEO – Executive

In terms of an approval received from the Board of Directors of the Colombo Stock Exchange on 30 March 2010, Licensed Commercial Banks have been granted a total exemption from the requirement to comply with Section 7.10 (Corporate Governance) of the Continuing Listing Requirements under the CSE Listing Rules with effect from 1 January 2010.

Compliance by the Board of Directors of the Code of Best Practice on Corporate Governance 2013 issued by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka is set out in pages 220 to 254 of the Annual Report. In terms thereof, the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2017 is given below:

Name of Director	Independent/ Non-Independent	Executive/ Non-Executive
A W Atukorala	Independent	Non-Executive
A K Pathirage	Non Independent	Non-Executive
T L F Jayasekara	Independent	Non-Executive
Mrs. Kimarli Fernando	Independent	Non-Executive
D S P Wikramanayake	Non Independent	Non-Executive
D M R Phillips	Independent	Non-Executive
Mrs. Indrani Sugathadasa	Independent	Non-Executive
K D W Ratnayaka	Independent	Non-Executive
R Semasinghe	Independent	Non-Executive
P L D N Seneviratne	Non Independent	CEO – Executive

11.1.2 New Appointments and Resignations

The new Appointment to the Board of Directors of the Bank during the year 2017 were as follows;

I. P L D N Seneviratne (appointed w.e.f 1 January 2017)

II. R Semasinghe (appointed w.e.f 26 September 2017)

Resignations during the year 2017;

I. N S Welikala (retired w.e.f 30 April 2017)

II. Mrs. D M A Harasgama (resigned w.e.f 30 June 2017)

11.1.3 List of Directors of Subsidiaries and Associates of the Bank

The Directors of the Group companies are set out on pages 437 and 438 of the Annual Report.

11.1.4 Recommendations for Re-election

In terms of the provisions of the Articles of Association of the Bank, one-third of the elected Directors (i.e. - excluding the representative of the Ministry of Finance and the ex-officio executive Director) and directors appointed during the year to fill casual vacancies shall retire from office and such directors shall be eligible for re-election by the shareholders at each Annual General Meeting of the Bank.

Directors to Retire by Rotation

The Directors to retire by rotation at an Annual General Meeting shall be those who (being subject to retirement by rotation) have been longest in office since their last election or appointment. If one third of the Directors eligible for retirement by rotation is not a multiple of three, the nearest to but not greater than one third shall retire. Accordingly, the Nominations Committee and the Board have recommended that T L F Jayasekara and Mrs. Kimarli Fernando be considered for re-election by the shareholders at the Annual General Meeting of the Bank.

Directors who served on the Board for a period exceeding 9 years;

As per the Banking Act Direction No. 11 of 2007 the total period of service of a Director (excluding the executive director) shall not exceed 9 years. The Bank has no directors who have served the Bank for over 9 years.

11.1.5 Directors' Meetings

Details of Director's meetings which comprised of Board Meetings and all Board Sub-Committee meetings are presented on page 216.

11.1.6 Board Sub-Committees

There are seven permanent committees of the Board as at 31st December 2017, namely, Integrated Risk Management Committee, Audit

Committee, Strategic Issues Committee, Human Resources and Remuneration Committee, Nomination Committee, Related Party Transactions Review Committee and the Credit Committee. Details of the members of these committees are given on page 437.

The Corporate Governance and Legal Affairs Committee of the Board was dissolved and the oversight on legal issues and control related matters have been delegated by the Board to be overseen by the Integrated Risk Management Committee. A Credit Committee was formed by the Board of Directors of the Bank during 2017, having considered the current needs and focused attention of the Board. As such the Credit Committee focuses on in- depth evaluation and guidance on significant credit proposals, thus enabling the entire Board to focus more time on matters such as corporate governance, strategy, impact of macro-economic changes etc. This change was made after significant deliberation by the Board with regard to several matters such as focused/in-depth attention, better use of the expertise of directors, time management, the need for all the directors to deliberate on Corporate Governance related matters etc.

The seven committees include four mandatory Committees (Nominations Committee, Human Resources and Remuneration Committee, Board Audit Committee, Integrated Risk Management Committee) formed by the Board in compliance with the Banking Act Direction No.11 of 2007 issued by the Monetary Board on Corporate Governance for Licensed Commercial Banks in Sri Lanka, one Committee (Related Party Transactions Review Committee) formed in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange as well as two other committees formed by the Board taking into account the needs of the Bank. The Committees ensure and assist the Board in ensuring that the activities of the Bank are conducted, conforming to the required laws, rules and regulations, the highest ethical standards and in the best interest of all the Stakeholders.

11.1.7 Appraisal of Board Performance

The Bank has in place a robust scheme whereby the Directors perform a self-assessment of the Board's conduct annually by answering a Self-assessment Questionnaire. The responses to the Self-assessment Questionnaire are evaluated by the Chairman and Deputy Chairman and any action, recommendations and/ or concerns are discussed with the Board and accordingly noted and action taken where deemed appropriate. This self-assessment process has been extended to Board subcommittees as well to ensure due review, evaluation, focus etc. of the said Subcommittees.

12. OTHER DIRECTORSHIPS OF DIRECTORS

Information of the other Directorship of the Directors of the Bank as at 31 December 2017 is given below:

A W Atukorala

- United Motors Lanka PLC – Director
- Unimo Enterprises Limited – Director
- TVS Lanka Limited – Director
- Arni Holdings & Investments (Pvt) Limited – Director
- Unawatuna Boutique Resort (Pvt) Limited – Director
- U B Finance Company Limited – Deputy Chairman
- Orient Finance PLC –(formerly – Bartleet Finance PLC) – Director
- Colombo City Holdings PLC – Director
- Development Holdings (Private) Limited – Chairman
- NDB Securities (Pvt) Limited - Director

A K Pathirage

- Sofltogic Holdings PLC – Chairman / Managing Director
- Asiri Hospital Holdings PLC – Chairman / Managing Director
- Asiri Surgical Hospital PLC – Chairman / Managing Director
- Central Hospital Limited - Chairman / Managing Director
- Asiri Hospital Kandy (Private) Limited - Chairman / Managing Director
- Softlogic Retail (Private) Limited – Chairman / Managing Director
- Ceysand Resorts Limited - Chairman / Managing Director
- Softlogic Finance PLC – Chairman
- Softlogic Capital PLC – Chairman
- Softlogic Life Insurance PLC (formerly known as Asian Alliance Insurance PLC) – Chairman
- NDB Capital Holdings Limited– Chairman
- Softlogic Properties (Private) Limited – Chairman
- Softlogic Australia (Pty) Limited – Chairman (Incorporated in Australia)
- Softlogic City Hotels (Private) Limited – Chairman
- Softlogic Supermarkets (Private) Limited – Chairman
- Odel PLC – Chairman
- Odel Properties One (Private) Limited – Director
- Asiri A O I Cancer Centre (Private) Limited – Director
- Suzuki Motors Lanka Limited – Director

T L F Jayasekara

- Brandix Apparel India (Private) Limited - Director
- Brandix Apparel Solutions Limited - Director
- Brandix Lanka Limited - Director
- Brandix Management Services (Private) Limited - Director
- Brandix Asia Limited - Director
- Kuruwita Textile Mills Limited - Director
- Nirbitha Adventures (Private) Limited - Director
- John Keells Hotels PLC -Non-Executive - Director
- Phoenix Industries Limited - Director
- Phoenix Ventures (Private) Limited - Director
- Inqube Global (Pvt) Limited – Director
- Quantum Clothing Lanka (Private) Limited – Director

- Quantum Apparel (Cambodia) Limited - Director
- Quantum Clothing Group Limited - Director
- Phoenix Retail (Private) Limited - Director
- Fortude Inc. - Director
- Fortude (Private) Limited - Director
- Fortude Australia Pty. Limited - Director

Mrs. Kimarli Fernando

- Vallibel One PLC – Director
- Delmege Limited – Director
- Richard Pieris Distributors Limited - Director

D S P Wikramanayake

- NDB Capital Holdings Limited- Director
- NDB Capital Limited (Bangladesh)- Chairman
- NDB Wealth Management Limited- Chairman
- NDB Investment Bank Limited- Chairman
- AIA Insurance Lanka PLC-Director

  NDB Zephyr Partners Lanka (Pvt) Limited-Chairman

Mrs. Indrani Sugathadasa

- Insurance Board of Sri Lanka – Chairperson
- Kalubovitiyana Tea Factory Limited – Director

D M R Phillips- President's Counsel

- Gestetner of Ceylon PLC - Director
- Vauxhuall Beira Properties (Private) Limited - Director

K D W Ratnayaka

- Sri Lanka Tourism Development Authority – Chairman
- Sri Lanka Business Development Centre (SLBDC) – Director
- KBSL (Pvt) Limited – Director
- i Context - Director

R Semasinghe

- Additional Secretary, Ministry of Finance and Mass Media
- Represents Boards of Management as Board Member/Treasury Representative of Ceylon Electricity Board (CEB), Sri Jayawardanapura General Hospital, Central Environmental Authority, Police Academy, Katana and Academy of Financial Studies (MILODA)

P L D N Seneviratne

- NDB Capital Holdings Limited - Director
- NDB Wealth Management Limited - Director
- NDB Investment Bank Limited - Director
- Credit Information Bureau of Sri Lanka - Director
- NDB Capital Limited (Bangladesh) - Director

13. DISCLOSURE OF DIRECTOR'S DEALING IN SHARES AND DEBENTURES

Shareholdings of the Directors in the Bank as at the year-end and their corresponding holdings as at the end of the previous year are as shown on page 117 of this Annual Report.

Directors holdings in Debentures of the Bank as at 31 December 2017 are set out on page 125 of this Annual Report.

14. EMPLOYEE SHARE OPTION SCHEME (ESOS) AND EQUITY LINKED COMPENSATION PLAN (ELCP)

An Employee Share Option Scheme (ESOS 2016) was approved by the shareholders of the Bank at an Extraordinary General Meeting (EGM) held in March 2016 in order to, enable the management staff in the rank of Senior Manager and above of the Bank and the respective Chief Executive Officers of NDB Capital Holdings Limited, NDB Wealth Management Limited, NDB Investment Bank (Private) Limited and NDB Securities (Private) Limited to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions.

As per the ESOS 2016, the Bank will offer Share Options relating to voting shares to the eligible employees up to a maximum of 5% of the total number of shares issued by the Bank. The shares under the said scheme shall be issued during a period of five years from the year 2017 (performance year 2016) subject to the performance criteria set out in the Circular to Shareholders dated 1st March 2016, and each year the Share Options will be limited to 1.25% of the total number of shares then issued by the Bank.

Although the scheme commenced in the year 2017, the Bank failed to meet the 'Qualifying Criteria' set out in the Circular to Shareholders dated 1st March 2016 and accordingly no shares were issued during the year 2017.

The ELCP previously approved by the shareholders at an EGM held in April 2010 (ELCP 2010), to enable the management staff in the rank of Assistant Vice President and above of the Bank to take part in the voting ordinary share capital of the Bank, was concluded in the year 2014. As per the said ELCP 2010, the eligible members of the staff were able to exercise share option until the year 2017. However no eligible staff member exercised share options during the year 2017, thus effectively concluding the Share Option component of the ELCP approved in the year 2010.

The Bank does not have in place any profit sharing plans other than the Variable bonus Scheme.

15. DIRECTORS' INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS

Directors' interest in contracts or proposed contracts with the Company, both direct and indirect are disclosed on page 267 of this Annual Report. These interests have been declared at Directors' meetings. As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

16. INSURANCE AND INDEMNITY

Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' liability. The Bank has accordingly paid an insurance premium in respect of the said insurance policy for the benefit of the Bank and the Directors and certain employees of the Bank and related body corporates as defined in the insurance policy.

17. ENVIRONMENTAL PROTECTION

The Bank and the Group have not engaged in any activity that is detrimental to the environment, and have complied with the environmental laws and regulations at all times. Specific activities carried out during the year to protect the environment are detailed in the Management Discussion and Analysis on pages 106 to108.

18. STATUTORY PAYMENTS

The Directors to the best of their knowledge and belief are satisfied that all statutory payments in relation to the Government and the employees have been made-up to date.

19. EVENTS OCCURRING AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

There have been no events that require adjustment to the Financial Statements or disclosure in the Financial Statements that has occurred subsequent to the date of the Statement of the Financial Position of the Bank.

20. GOING CONCERN

The Board of Directors is satisfied that the Bank has adequate resources to continue the business activities in the foreseeable future. Therefore, the Bank has adopted a 'going concern' basis in preparing these Financial Statements.

21. RELATED PARTY TRANSACTIONS

A Board approved Related Party Transactions Policy has been adopted and a Related Party Transactions Review Committee formed by the Board of Directors in compliance with the provisions contained in Section 9 of the Listing Rules of the Colombo Stock Exchange, and in line with the Sri Lanka Accounting Standards (LKAS 24, Related Party Disclosures) and the Directions issued by the Central Bank of Sri Lanka.

The Directors and Key Management Personnel of the Bank have disclosed transactions, if any, that could be classified as related party transactions in terms of LKAS 24 - 'Related Party Disclosures' which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 52 to the Financial Statements on pages 371 to 376.

22. MATERIAL FORESEEABLE RISK FACTORS (AS PER RULE NO. 7.6 (VI) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE)

Information pertaining to the material foreseeable risk factors, that require disclosures as per the Rule No. 7.6 (vi) of the Listing Rules of the Colombo Stock Exchange are discussed in the Risk Management Review on pages 135 to 186.

23. MATERIAL ISSUES PERTAINING TO EMPLOYEES AND INDUSTRIAL RELATIONS PERTAINING TO THE BANK (AS PER RULE NO. 7.6 (VII) OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE)

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be disclosed.

24. INTEGRATED ANNUAL REPORT

The Bank's Annual Report for the year ended 31 December 2017 is presented in line with the integrated reporting guidelines issued by the Institute of Chartered Accountants of Sri Lanka. Integrated reporting brings together material information about the Bank's strategy, governance, performance and prospects in a way that reflect the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how the Bank demonstrates stewardship and how it creates and sustains value.

25. APPOINTMENT OF AUDITORS AND INDEPENDENCE DECLARATION

The Financial Statements of the Bank for the year ended 31 December 2017 have been audited by Messrs Ernst & Young, Chartered Accountants. They also function as the auditors of the Bank's subsidiary companies namely, NDB Capital Holdings Limited, NDB Wealth Management Limited, NDB Securities (Private) Limited, NDB Investment Bank Limited, Development Holdings (Private) Limited and NDB Zephyr Lanka (Private) Limited.

Based on the declaration provided by Messrs Ernst & Young, Chartered Accountants, and as far as the directors are aware, the Auditors do not have any relationship with or interest in the Bank that in our judgment may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka, applicable on the date of this report.

The Auditors have indicated their willingness to offer themselves for reappointment. The Board Audit Committee and the Board of Directors have recommended the reappointment of the Auditors.

A resolution appointing Messrs Ernst & Young as Auditors and authorizing the Directors to fix their remuneration will be proposed at the Annual General Meeting.

26. AUDITOR'S REMUNERATION AND INTERESTS IN CONTRACTS WITH THE BANK

The expenses incurred in respect of auditors remuneration, fees for other audit services and non-audit fees to auditors during the year for the Bank and the Group are given in Note 12 to the Financial statements on pages 315 and 316.

27. INFORMATION ON RATIOS, MARKET PRICES OF SHARES AND CREDIT RATINGS

Information that require disclosures as per Rule 7.6 (xi) of the listing Rules of the Colombo Stock Exchange are given in the Section on "Investor Relations" on page 133.

28. RISK MANAGEMENT

The Bank has an ongoing process to identify, evaluate and manage the risks. The Board of Directors continuously monitors and reviews this process through the Board Integrated Risk Management Committee. The process adopted by the Bank to manage risks for banking and non-banking activities are discussed in detail in the Bank's Risk Management review on pages 135 to 186 of this Annual Report.

29. CORPORATE GOVERNANCE

The Directors are responsible for the governance of the Bank including the establishment and maintenance of the Bank's systems of internal financial control. Internal control systems are designed to meet the particular needs of the organization concerned, and the risks to which it is exposed and by their nature they can provide reasonable but not absolute assurance against material misstatement or loss. The Directors are satisfied that a strong control environment is prevalent within the Bank and that the internal control systems referred to above are effective.

The Directors declared that-

I. the Bank complied with all applicable laws and regulations in conducting its business and has not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provision in various laws and regulations confirm compliance in each quarter to the Board Integrated Risk Management Committee.

II. the Directors have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested.

III. all endeavours have been made to ensure that shareholders have been treated equitably;

IV. the business is a Going Concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's Corporate / Business plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank, its Subsidiaries and Associates are prepared based on the Going Concern concept; and

V. they have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence.

A description of the Bank's Corporate Governance Practices is set out on pages 207 to 254.

30. HUMAN RESOURCES

One of the key strategic objectives of the NDB Group is to develop and nurture a Best in Class Engaged and Inspired Team. Execution of this strategic objective is done by continuously investing in the development of the Human Capital and by implementing effective Human Resources policies to ensure efficiency, productivity, whilst maintaining a work life balance. The Human Resources activities carried during the year to focus on the strategic objective are detailed in the Human Resources and Remuneration Committee report on pages 268 and 269 and the discussion on Employee Capital Formation in the Management Discussion and Analysis on pages 80 to 87.

31. OPERATIONAL EXCELLENCE

Operational Excellence is also a key Strategic Objective of the Bank and focuses on increasing efficiency and managing operational costs. The Bank has on going initiatives to drive policy and process standardization and to optimize the use of existing technology platforms.

32. OUTSTANDING LITIGATIONS

In the opinion of the Directors and the Bank's lawyers, pending litigations against the Bank disclosed in Note 48.3 to the Financial Statements on page 365 will not have a material impact on the financial position of the Bank or its future operations.

33. ANNUAL GENERAL MEETING

In complying with the good governance practices, the Annual Report of the Bank is dispatched as soon as possible after the end of the financial year and completion of the audit.

In compliance with the Colombo Stock Exchange Listing Rules, the Annual Reports have been distributed in the form of a CD-ROM (a Soft copy) as well as in the form of a Printed Report as and when required by shareholders.

34. NOTICE OF MEETING

The Thirteenth Annual General Meeting will be held at the Auditorium of NDB EDB Tower, 3rd Floor, No 42, Navam Mawatha, Colombo 2 on 28 March 2018 at 10.00 am. The notice of meeting is given on page 436 of this Annual Report.

35. ACKNOWLEDGMENT OF THE CONTENTS OF THIS REPORT

As required in terms of Section 168 (k) of the Companies act No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of the Annual Report.

Signed in accordance with a resolution adopted by the Directors.

A W Atukorala
Chairman

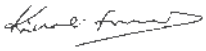
A K Pathirage
Deputy Chairman

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE NATIONAL DEVELOPMENT BANK PLC

P L D N Seneviratne
Director/Chief Executive Officer

T L F Jayasekara
Director

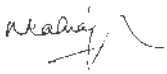
D S P Wikramanayake
Director



Mrs Kimarli Fernando
Director

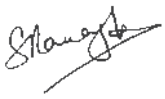
Mrs Indrani Sugathadasa
Director

D M R Phillips
Director



K D W Ratnayaka
Director

R Semasinghe
Director



Mrs. Shehani Ranasinghe
Company Secretary

Colombo
20 February 2018

DIRECTORS' INTERESTS IN CONTRACTS WITH THE NATIONAL DEVELOPMENT BANK PLC

	Relationship	Accommodation Granted, Deposits & Investments	Balance Outstanding as at 31.12.2017 LKR '000	Balance Outstanding as at 31.12.2016 LKR '000
A W Atukorala				
United Motor Lanka PLC	Director	Deposits & Investments	26,879	31,996
		Off - Balance sheet Accommodations	158,097	99,533
		Loans/Advances	1	15
Unimo Enterprises Limited	Director	Deposits & Investments	2,790	18,727
		Off - Balance sheet Accommodations	105,000	433,067
Unawatuna Boutique Resort (Pvt) Limited	Director	Deposits & Investments	9,423	8,559
Colombo City Holdings PLC	Director	Deposits & Investments	38,113	2,266
Orient Finance PLC	Director	Loans/Advances	251,874	1,034,209
Development Holdings (Private) Limited	Chairman	Deposits & Investments	310,236	
		Loans/Advances	0.500	
TVS Lanka Limited	Director	Deposits & Investments	249.554	
A K Pathirage				
NDB Capital Holdings Limited	Chairman	Deposits & Investments		3,316
Softlogic Capital PLC	Chairman	Deposits & Investments		1
Softlogic Retail (Pvt) Limited	Chairman / Managing Director	Deposits & Investments	1,287	1,324
Softlogic Life Insurance PLC (Formerly known as Asian Alliance Insurance PLC)	Chairman	Deposits & Investments	1,283	13
P L D N Seneviratne				
Credit Information Bureau of Sri Lanka	Director	Deposits & Investments		3
NDB Wealth Management Limited	Director	Deposits & Investments	3,101	4,309
NDB Investment Bank Limited	Director	Deposits & Investments	2,860	4,020
T L F Jayasekara				
Brandix Apparel Solutions Limited	Director	Deposits & Investments	104	103
Brandix Apparel Limited	Director	Deposits & Investments		4,249
		Loans/Advances		408
D S P Wikramanayake				
NDB Wealth Management Limited	Director	Deposits & Investments	3,101	4,309
NDB Investment Bank Limited	Director	Deposits & Investments	2,860	4,020
		Loans/Advances		0.35
NDB Capital Holdings Limited	Director	Deposits & Investments		3,316
AIA Insurance Lanka PLC	Director	Deposits & Investments		4,552,272
		Off -Balance Sheet Accommodations		83,823
		Loans/Advances		0.0016
NDB Zephyr Partners Lanka (Pvt) Limited	Chairman	Deposits & Investments	4,150	9,387
Mrs. K Fernando				
Richard Pieris Distributors Limited	Director	Deposits & Investments	1,755,066	
		Off -Balance Sheet Accommodations	127,518	
		Loans/Advances	39,912	
K D W Ratnayaka				
Sri Lanka Business Development Centre (SLBDC)	Director	Deposits & Investments	4.17	
R Semasinghe				
Ceylon Electricity Board (CEB)	Director	Deposits & Investments	2,327	

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

COMPOSITION OF THE HUMAN RESOURCES & REMUNERATION COMMITTEE

The Board appointed Human Resources & Remuneration Committee comprised of 6 non-executive directors inclusive of the Chairman who is an Independent Director as set out below. The Chief Executive Officer (CEO) has been present at meetings subsequent to being invited by the Committee, other than in instances where matters relating to the CEO have been discussed. The Chairman of the Bank has also been present at meetings by invitation.

As at 31st December 2017 the Committee comprised of the following;

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mrs Indrani Sugathadasa	Independent	C
A K Pathirage	Non Independent	M
T L F Jayasekara	Independent	M
Mrs. Kimarli Fernando	Independent	M
K D W Ratnayaka	Independent	M
D M R Phillips, PC	Independent	M
A W Atukorala	Independent	I
P L D N Seneviratne	Non Independent	I

C – Chairperson, M – Member, I – by invitation

CHARTER OF THE HUMAN RESOURCES & REMUNERATION COMMITTEE

The Human Resources & Remuneration Committee was formed in compliance with Section 3 (6) of Direction No. 11 of 2007, on the subject "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction.

The Charter of the Human Resources & Remuneration Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the charter in September 2017 with amendments being made with regard to circulation of papers, minutes and recommendations of the Committee. As per the Charter, the scope of work includes the following;

- Determining and periodically reviewing the Remuneration Policy (salaries, allowances and other financial payments and perquisites) and remuneration payable relating to executive and/or non-executive directors, the CEO and Key Management Personnel (KMPs) of the Bank in terms of the Remuneration Policy/ Bank's Articles etc.
- Recommending to the Board the apportionment of the remuneration perquisites and benefits of the non-executive Directors including the Chairman out of total sum determined for the purpose by the shareholders in terms of the Bank's articles.
- Reviewing and recommending to the Board in consultation with the Nominations Committee, personnel considered fit and proper for appointment to KMP positions of the Bank.
- Responsibility of setting and reviewing goals and targets for Directors, CEO and KMPs and determining their periodic revision.
- Evaluating the performance of the CEO and KMPs against the set goals and targets periodically, and determining the basis for revising remuneration, benefits and other payments of performance based incentives.
- Considering the succession plans and proposals recommended by the Senior Management of the Bank for all existing KMP positions of the Bank and making necessary recommendations for the approval of the Board.
- Discussing and assessing with the Management the overall remuneration expenditure on all staff and their distribution among different categories and obtaining information on the remuneration and benefits paid/given to consultants engaged by the Bank.
- Receiving information on the role and activities of the Human Resources Department and making recommendations for the strengthening of the role of the said department if necessary.
- Reviewing the recommendations made by the Senior Management on appropriate incentives/awards to achieve objectives such as rewarding performance and retaining KMPs, including the review/ recommendation of share option schemes for employees of the Bank.
- Reviewing and recommending to the Board any termination payments that are proposed to be paid to directors, the CEO and/or KMPs in the event the same are deemed necessary and ensuring that such payments are in terms of the Remuneration Policy of the Bank and are approved in accordance with applicable statutes, rules and regulations.

COMMITTEE GUIDING PRINCIPLES

The overall focus of the Committee:

- Setting guidelines and policies to formulate compensation packages, which are attractive, motivating and capable of retaining qualified and experienced employees in the Bank. In this regard, the Committee sets the criteria such as qualifications, experience, skills and competencies required which are to be considered for appointment or promotion to the post of CEO and to KMPs.
- Setting guidelines and policies to ensure that the Bank upholds and adheres to the provisions of the Laws of the Land, particularly those provisions of the Banking Act No. 30 of 1988, including the Directions issued by the Monetary Board/ Director of Bank Supervision in accordance with the provisions of such Act.
- Providing guidance and policy direction for relevant matters connected to general areas of Human Resources Management of the Bank.
- Ensuring that the performance related element of remuneration is designed and tailored to align employee interests

with those of the Bank and its main stakeholders which ensure sustainable growth.

- Structuring remuneration packages of KMPs to ensure that a significant portion of the remuneration is linked to performance which builds a pay for performance culture.
- Promoting a culture of regular performance reviews to enable staff to obtain feedback from their superiors in furtherance of achieving their objectives and development goals.
- To develop a robust pipeline of rising talent capable and available to fill key positions in the Bank.

COMMITTEE MEETINGS

The Committee held four (4) meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 216. The quorum for a meeting is three (3) members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

METHODOLOGY USED BY THE COMMITTEE

The Committee acknowledges rewards as one of the essential components in influencing employee behaviour, thus impacting business results. Therefore, the reward programmes are designed to attract, retain and to motivate employees to deliver results by linking performance to demonstrable performance based criteria. In this regard, the Committee evaluates the performance of the CEO and KMPs against the pre-agreed targets and goals that balance short and long term financial and strategic objectives.

The Bank's variable (bonus) pay plan is determined according to the overall achievements of the Bank and pre-agreed individual targets, which are based on various performance parameters. The level of variable pay is set to ensure that individual rewards reflect the overall performance of the Bank, the particular business unit and individual performance. The Committee makes appropriate adjustments to the bonus pool in the event of over or under achievement against pre-determined targets (in this regard, the Committee can seek external independent professional advice on matters falling within its purview).

The Committee has as a practice ensured that the Bank organizes and takes part in compensation surveys every 2-3 years and has utilized such feedback to ascertain that compensation practices are benchmarked to the "best practices" and are relevant and current as far as possible in line with its Remuneration Policy. During the year 2017 the Committee noted the findings of a salary survey conducted by Messrs Ernst & Young and further made appropriate recommendations based on the same.

SUMMARY OF ACTIVITIES

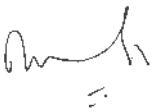
During the year, the Committee, comprehensively reviewed the performance of the KMPs of the Bank for the year 2016 against the set goals and targets and recommended to the Board of Directors of the Bank the increments, bonuses and promotions for the staff members including the KMPs in 2017. The fees paid to the Board of Directors too was renewed in 2017 vis a vis the market etc. The remuneration paid to the Board of Directors is detailed in page 257 in the Annual Report of the Board of Directors. The Committee further noted and agreed on goals and targets of the Board of directors and KMPs for the year 2017.

During the year 2017, the Committee also deliberated on disciplinary matters of staff, and other requests made by staff members and further recommended the promotions of staff/KMPs to positions of Assistant Vice President/Vice President of the Bank.

The Committee and the Nominations Committee, with a view to strengthening the organizational structure of the Bank, also reviewed the expertise, skills and talents of potential candidates both internally and externally in line with internal policies and applicable rules and regulations, in order to fill several senior managerial positions of the Bank. The Committee also carried out the appointment /designation of several KMPs of the Bank in line with the new strategic vision and direction of the Bank and further considered the salient terms and conditions pertaining to all such appointments/ designations of senior management personnel during the year in line with the existing policies and procedures of the Bank.

Additionally, recognizing the need to align the organizational structure of the Bank with the strategy of the Bank, the Committee together with the Nominations Committee of the Bank reviewed and revised the organizational structure and revised the goals and targets of the KMPs of NDB in 2017. Further together with the Nominations Committee as aforesaid the Committee also deliberated in depth the succession needs of the Bank vis a vis each position in the new organizational structure and identified suitable candidates for succession to KMP positions.

The Committee also recommended for approval to the Board of Directors of the Bank the effecting of market adjustments for non-Key Management Personnel of the Bank, based on the findings of a salary survey carried out by Messrs Ernst & Young.



Mrs Indrani Sugathadasa
Chairperson
Human Resources & Remuneration Committee

20 February 2018
Colombo

NOMINATIONS COMMITTEE REPORT

COMPOSITION OF THE NOMINATIONS COMMITTEE

The Board appointed Nominations Committee is comprised of 4 Board members including a Chairman of the Committee who is an Independent Director as set out below. The Chief Executive Officer (CEO) and other directors have been present at meetings only if invited by the Committee.

As at 31st December 2017 the Committee comprised of the following;

Name of the Board Subcommittee Member	Directorship Status	Membership Status
A W Atukorala	Independent	C
A K Pathirage	Non Independent	M
T L F Jayasekara	Independent	M
Mrs. Kimarli Fernando	Independent	M

C – Chairman, M – Member

CHARTER OF THE NOMINATIONS COMMITTEE

The Nominations Committee was formed in compliance with Section 3 (6) of Direction No. 11 of 2007, "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction.

The Charter of the Nominations Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the charter in September 2017 with amendments being made with regard to circulation of papers, minutes and recommendations of the Committee.

The Committee carries out the following duties and responsibilities:-

1. Implements procedures to select/appoint new directors, CEO and Key Management Personnel (KMPs).

2. Considers and recommends the re-election of current directors, taking into account the performance and contribution made by the director/s concerned towards the overall discharge of the board's responsibilities.

3. Sets out the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the KMPs.

4. Ensures that directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks.

5. Sets the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment to select/appoint fit and proper persons as the Nominee Directors to the Boards of the Bank's Group Companies.

6. Considers and recommends from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring directors and KMPs.

COMMITTEE GUIDING PRINCIPLES

The Committee is tasked with identifying appropriate individuals who may become members of the Boards of National Development Bank PLC and its group companies. For this purpose, the Committee assesses the experience, skills, expertise and competencies of the individuals being considered to be nominated as Directors through the Board approved procedure for selection and appointment of directors. Such procedure envisages the Board carrying out an assessment of the identified candidates against the needs of the Board/s, and the relevant regulatory requirements and applicable statutes so as to determine the fit and proper nature of the directors to be so appointed, if and when a vacancy exists and at such times the Committee considers appropriate.

The Committee also has in place an agreed procedure through the Committee and with the concurrence of the Human Resources and Remuneration Committee of the Board pertaining to the selection/appointment of KMPs internally through promotions and externally through recruitment to ensure that the organizational structure supports the strategic plan and direction of the Bank and that such identified KMPs are 'fit and proper' to be promoted/recruited to such positions of the Bank.

COMMITTEE MEETINGS

The Committee met seven (07) times during the year under review, and the attendance of committee members at meetings is stated in the table on page 216 of the Annual Report. The quorum for a meeting is three (3) members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

METHODOLOGY USED BY THE COMMITTEE

The Committee meets as and when necessary in order to assess the suitability of individuals for appointment as directors and KMPs in the manner aforementioned as well as to conduct such other affairs which the Charter of the Committee mandates the Committee to carry out.

SUMMARY OF ACTIVITIES

During the year, the Committee reviewed the appointment of one Director to the Board of Directors of the Bank and further reviewed the appointment of several directors to the Boards of several subsidiary companies of the Bank and also recommended to the Board the re-election of directors retiring by rotation and offering themselves for re-election at the Annual General Meeting in line with the applicable regulations and having reviewed the fitness and propriety of the directors. In the process, the Committee was conscious of board compositions and striking the ideal balance in terms of expertise and experience on boards.

The Committee, with a view to strengthening the organizational structure of the Bank, also reviewed the expertise, skills and talents of potential candidates both internally and externally in line with internal policies and applicable rules and regulations, in order to fill several senior managerial positions of the Bank and further carried out the appointment /designation of several KMPs of the Bank in line with the new strategic vision and direction of the Bank. Additionally, recognizing the need to align the organizational structure of the Bank with the strategy of the Bank, the Committee together with the Human Resources and Remuneration Committee of the Bank reviewed and revised the organizational structure and revised the goals and targets of the KMPs of NDB in 2017.

The Committee further deliberated in depth the succession needs of the Bank vis a vis each position in the new organizational structure and identified suitable candidates for succession to KMP positions. In the process, the Committee also identified certain gaps and vacancies which it has and is in the process of pro-actively filling. The Succession Plan of the Bank which was recommended by the Committee, has been submitted to and approved by the Board.

A W Atukorala
Chairman
Nominations Committee

20 February 2018
Colombo

STRATEGIC ISSUES COMMITTEE REPORT

The Board appointed Strategic Issues Committee is comprised of 5 Board members including a Chairman of the committee who is an Independent Director as set out below. Other directors and members of the management team attend meetings upon invitation by the Committee.

COMPOSITION AS AT 31ST DECEMBER 2017

Name of the Board Subcommittee Member	Directorship Status	Membership Status
A W Atukorala	Independent	C
A K Pathirage	Non Independent	M
T L F Jayasekara	Independent	M
Mrs. Kimarli Fernando	Independent	M
D S P Wikramanayake	Non Independent	M
N S Welikala (retired w.e.f 30th April 2017)	Independent	M

C – Chairman, M – Member

CHARTER OF THE COMMITTEE

With the formation of the Strategic Issues Committee as a Board sub-committee, its Charter has been approved by the Board and is reviewed annually. Accordingly, the Committee reviewed the charter in December 2017 with amendments being made to the Charter with regard to Minutes and Recommendations.

The Committee carries out the following duties and responsibilities:-

1. Providing the strategic direction and strategic thinking of the Board to the management in the development and implementation of the Bank's strategic plan.
2. Developing the Bank's strategy and its implementation together with the management.
3. Reviewing and assessing the formulation and implementation of strategic plans developed by the management and approved by the Board.
4. Guiding and assisting the management in implementing strategic decisions taken by the Board.
5. Reviewing and evaluating strategic issues and plans of subsidiary companies of the NDB Group to ensure that the same are in line with the strategic initiatives and strategic direction of the Bank.

The Committee is responsible for determining the following decisions:

1. Approving of all strategic investments and divestments and recommending the same to the Board.
2. Approving the periodical strategic plan (covering 3-5 years or more) and recommending the same to the Board.
3. Approving any significant amendments to the existing strategic plan and recommending the same to the Board.

COMMITTEE GUIDING PRINCIPLES

The primary purposes of the Committee comprise of the examination and broad evaluation of strategic issues of a regular as well as of an ad hoc nature whilst also recommending any action required to be taken by the Board of Directors of the Bank.

The Committee serves as a catalyst as well as an observer of the development and implementation of the Bank's business strategies and additionally assists the Board in maintaining a close nexus with the management in the strategic planning process which comprises reviewing and assessing of the business strategy plans developed by the management and subsequently approved by the Board.

COMMITTEE MEETINGS

The Committee held three (03) meetings during the year under review whilst several discussions of strategic nature were also conducted during Board meetings with the attendance of the full Board, taking into consideration the urgency and importance of the matters discussed.

The attendance of committee members at meetings is stated in the table on page 216. The quorum for a meeting is four (04) members.

The proceedings of the Committee meetings have been reported to the Board of Directors.

METHODOLOGY USED BY THE COMMITTEE

The Committee meets as and when necessary in order to inter alia; deliberate in detail on matters of strategic importance to the Bank and the NDB Group so as to advise the Board in a timely manner. The Committee meets to examine and evaluate any strategic issues that may arise and further to evaluate any changes to strategic plans/decisions already in place, as well as to conduct such other affairs which the Charter of the Committee mandates the Committee to carry out.

SUMMARY OF ACTIVITIES IN 2017

At the meetings held during the year under review the Committee engaged in detailed deliberations on the Strategic Review carried out by the management with expert advice from the International Finance Corporation in early 2017. The Committee thereafter recommended the Strategic Plan for 2017-2020 for the approval of the Board. In line with the revised strategy of the Bank for the period 2017-2020, the Committee also recommended the Budget of the Bank for the year 2017. The Committee further reviewed and amended the charter of the Committee.

APPRECIATION

The Committee wishes to convey its sincere gratitude to former member N S Welikala for his valuable contribution to the Committee during his tenure.

A W Atukorala
Chairman
Strategic Issues Committee

20 February 2018
Colombo

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

COMPOSITION OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

The Board appointed Integrated Risk Management Committee comprised of 4 Board members including the Chairman of the Committee who is a Non-Independent Director as set out below. The Chief Executive Officer, Vice President – Group Risk and the Compliance Officer are also members of this Committee.

COMPOSITION AS AT 31ST DECEMBER 2017

Name of the Board Subcommittee Member	Directorship Status	Membership Status
D S P Wikramanayake	Non Independent	C
D M R Phillips, PC	Independent	M
K D W Ratnayaka	Independent	M
R Semasinghe (appointed w.e.f. 01st Dec 2017)	Independent	M
D Seneviratne	Non Independent	M
Ms. N Rayen (Vice President - Group Risk Management),	Non Director	M
Ms. M Bandara Nanayakkara (Compliance Officer)	Non Director	M

C – Chairman, M – Member

CHARTER OF THE COMMITTEE

The Integrated Risk Management Committee was formed in June 2008 replacing the Risk & 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", issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction.

The Charter of the IRMC was approved by the Board of Directors and is reviewed annually. As part of the annual review process, Committee reviewed the charter in February 2017. The charter was reviewed again in November 2017 in order to incorporate some of the functions pertaining to Compliance and Legal Affairs with the dissolution of the Corporate Governance and Legal Affairs Committee. As per the Charter, the scope of work includes the following;

- Work closely with key management personnel and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee
- Assess all risks of the Bank and Group on a monthly basis through appropriate risk indicators and management information.
- Submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.
- Review the adequacy and effectiveness of all management level committees such as the Credit Committees, Credit and Market Risk Policy Committee, Operational Risk Policy Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee/ Board
- Take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee/ Board on the basis of the bank's policies and regulatory and supervisory requirements.
- Take appropriate action against the officers who fail to identify specific risks, and/ or take prompt corrective actions as recommended by the Committee, and / or as directed by the Director of Bank Supervision. The course of action to be taken against staff would be governed by the HR disciplinary action procedure in force.
- Review and discuss the scope of work of the Group Risk Management Department.
- Receive copies of regulatory examination reports pertaining to matters that are within the purview of the Committee and Management's responses thereto.

COMMITTEE GUIDING PRINCIPLES

- Responsible to the Board of Directors and the Committee's role is one of oversight
- Management is responsible for designing, implementing and monitoring an effective risk program.
- Line business managers are responsible for managing risks in the areas for which they are responsible.
- Each member of the Committee shall be entitled to rely in good faith on the integrity of those persons from whom he or she receives information.

COMMITTEE MEETINGS

The Committee held five meetings, during the year under review to discuss the normal scope of work and one additional meeting to discuss the ICAAP Framework of the Bank. Attendance of Committee Meetings is given on page 216 The proceedings of the Committee meeting have been reported to the Board of Directors. Key members of the staff participate at the meetings as appropriate.

METHODOLOGY USED BY THE COMMITTEE

- Assess all risks faced by the Bank, its subsidiaries and associate companies, through appropriate risk indicators, dash boards and management information.
- Specify Risk Appetite and recommend prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the Committee on the basis of Bank's/ Group's policies and regulatory and supervisory requirements.

SUMMARY OF ACTIVITIES IN 2017

Credit Risk

- Reviewed and approved policies and operating guidelines related to Risk Management Policy on Bank's Exposure to Stock Market Activities, Policy on Cross Border Exposure, Impairment Policy and Loan Review Policy
- Reviewed portfolio quality covering
  - The amount, characteristics, concentrations and quality of the Bank's loan portfolio, large credit exposures, sector and geographical distribution of portfolio, NPL analysis based on business lines, product category, sector wise
  - Exposure to Stock Market Activities / Margin Trading Exposure Reports
  - Collections and Recoveries
  - Portfolio Value at Risk
  - Country Risk Exposures
  - Rapid risk reviews on stressed sectors
- Reviewed work carried out by the Credit Committees, Credit and Market Risk Policy Committee by reviewing the decisions taken by each committee

Operational Risk

- Reviewed and approved policies related to Operational Risk, namely Operational Risk Policy, Operational Risk Data Collection paper, Risk and Control Self-Assessment paper, Key Risk Indicators Methodology paper and Business Continuity Framework.
- Reviewed operational risk issues, including but not limited to:
  - Significant Operational Risks and Losses.
  - Key Risk Indicators related to HR, Information Technology, Account Reconciliations, Audit points and Compliance related incidents.
  - The adequacy of the Bank's Business Continuity and Disaster Recovery planning including the review of results of Business Continuity Plan (BCP) / Disaster Recovery (DR) drills.
- Reviewed work carried out by the Operational Risk Policy Committee including the decisions taken by the Committee

Liquidity and Market Risk

- Reviewed and approved the Bank's policy framework, procedure guidelines, terms of references (TOR's) for the management of Market and Liquidity Risk, to ensure the same is designed to facilitate the identification and assessment of the above risks and adequacy of controls.
- Reviewed and approved the Market and Liquidity Risk limit framework based on the Bank's risk appetite to optimize business potential
- Reviewed exposures/information and monitor the effectiveness of the management of Market and Asset Liability Risk Management, including
  - Strategies and other relevant issues related to financial market activities and business environment.
  - Financial position, forecasts and business performance.
  - Market risk analysis & stress testing.
  - Analysis of Asset Liability Committee (ALCO) reports and decisions taken by each committee and assess effectiveness of the committees in line with TOR.
  - Liquidity risk analysis & stress testing
  - Treasury Dealing Room positions, limits, exposures and limit compliance
  - Counterparty exposures.

Compliance

- Monitors and assesses the Bank's compliance with laws, regulations and regulatory obligations based on the Quarterly Compliance Report submitted to the Committee
- Ensures that the compliance framework, policies and processes are designed to manage, monitor and report compliance and to minimize potential for breaches, fines or penalties and to ensure that appropriate remedial action is taken to address instances of non-compliance.
- Keeps abreast of any emerging regulatory developments
- Reviewed and approved the Anti-Money Laundering and Suppression of Terrorist Financing framework, procedures, guidelines to ensure that is Risk Based and the same is designed to facilitate the identification and assessment of the above risks and adequacy of controls in this area.
- Reviewed and approved the Annual Compliance Program work carried out.
- Track progress of action to be taken for supervisory concerns identified by CBSL and ensure timely completion of same.
- Ensure effective implementation of governance related policies at the Bank which included the Compliance Policy and Code of Conduct, the Securities Trading Policy and the Anti-Bribery and Corruption Policy and Related Party Transaction monitoring.

Others

- The Committee reviewed the Key Risk Indicators of the Group Companies on a monthly basis through the monthly KRI statements and quarterly Risk Assessment Report. Group Companies covered are NDB Investment Bank, NDB Capital Holdings, NDB Wealth Management, NDB Securities, NDB Capital Bangladesh, NDB Zephyr and Development Holdings
- Reviewed and approved Annual Review of Internal Capital Adequacy Assessment Process (ICAAP) Document for 2017
- Reviewed performance against Risk Appetite
- Reviewed/approved the Integrated Risk Management Framework, Stress Testing Policy and Framework, Model Validation Policy, Valuation Policy and Title Policy of the Bank

Appreciation

The Committee wishes to convey its sincere gratitude to its former members, Ms. Anula Harasgama and Mr. Nihal Welikala for their valuable contribution to the Committee during the year.

D S P Wikramanayake
Chairman
Integrated Risk Management Committee

20 February 2018
Colombo

BOARD AUDIT COMMITTEE REPORT

COMPOSITION

The board appointed Audit Committee comprised of 5 Board members. During the year 2017 the Committee comprised of the following;

Name of the Board Subcommittee Member	Directorship Status	Membership Status
T L F Jayasekara	Independent	C
D S P Wikramanayake	Non Independent	M
Mrs. Indrani Sugathadasa	Independent	M
Mrs. Kimarli Fernando	Independent	M
R Semasinghe (Appointed w.e.f 1st December 2017)	Non Independent	M
N S Welikala (Resigned w.e.f 30th April 2017)	Independent	M
Mrs. D M A Harasgama (Resigned w.e.f 30th June 2017)	Non Independent	M

C – Chairman, M – Member

The Chairman of the Committee, Mr. T L F Jayasekara who is an Independent Non-Executive Director, is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and counts many years of experience in the Financial Services industry. The Vice President Group Audit functions as the Secretary to the Committee.

CHARTER OF THE COMMITTEE

The Charter of the Committee approved by the Board, clearly defines the Terms of Reference of the Committee and is periodically reviewed and revised with the concurrence of the Board of Directors. This process ensures that new developments relating to the Committee's functions and concerns are adequately addressed. The Audit Committee Charter was last reviewed and approved by the Board of Directors in the third quarter of 2016.

The Audit Committee is responsible to the Board of Directors and reports on its activities regularly. The functions of the Audit Committee are geared to assist the Board of Directors in its general oversight on financial reporting, internal controls and functions relating to internal and external audit.

GUIDING PRINCIPLES

The Committee functions are structured and regulated in accordance with the guidelines issued in the Banking Act Direction No.11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and its subsequent amendments (hereinafter referred to as the "Direction"), 'Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange' and 'Code of Best Practice on Corporate Governance' issued jointly by The Institute of Chartered Accountants of Sri Lanka (CASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

COMMITTEE MEETINGS

The Committee held seven meetings during the year to discuss the matters coming under their preview. Attendance of the Committee members are given on page 216. The formalized Minutes of the Committee meetings with details of matters discussed are regularly tabled at Board meetings.

Vice President Group Audit, Chief Executive Officer and the Bank's External Auditors attended all meetings. The Committee also invited members of the Senior Management of the Bank to participate in the meetings from time to time on a need basis.

The Chairman of the Bank as an optional invitee also attended two meetings during the year.

The Audit Committee met the External Auditors twice during the year, without the presence of CEO and the Corporate Management, to ensure that the Auditors had the independence to discuss any concerns and express their opinions on any matter and also for the Committee to have the assurance that the management has fully provided all information and explanations requested by the Auditors.

METHODOLOGY USED BY THE COMMITTEE

- Review the Interim Financial statements and the Bank's annual Financial Statements in order to monitor the integrity of such statements prepared for disclosure, prior to submission to the Board of Directors.
- Examine any matter relating to the financial and other connected affairs of the Bank.
- Ensure that efficient and sound financial reporting systems are in place and are well managed in order to provide accurate, appropriate and timely information to the Board of Directors, Regulatory Authorities, the Management and Other Stakeholders.
- Ensure the Bank has adopted and adhere to policies which firmly commits the Bank to achieve the highest standards of good corporate governance practice.
- Review the quality and the appropriateness of Accounting policies and their adherence to statutory and regulatory compliance requirements and applicable Accounting Standards.
- Review the outcome of the annual Risk Assessment Process and Internal audit plan assessing independence and performance of the Internal Audit function.
- Review internal audit reports and liaising with Management in taking precautionary measures to minimize control weaknesses, procedure violations, frauds and errors.
- Review External Audit Management Letter and Statutory inspection reports in relation to matters under Board Audit Committee (BAC) purview and follow up on their findings and recommendations.

SUMMARY OF ACTIVITIES IN 2017

Reporting of Financial Position and Performance

The Committee assists the Board to discharge their responsibility in the preparation of Financial Statements that evidence a true and fair view on the financial position and performance in accordance with the Bank's accounting records and as per the stipulated requirements of the Sri Lanka Accounting Standards. The Committee reviews;

- The adequacy and effectiveness of the Internal Controls, Systems and Procedures over Financial Reporting.

- The effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders.
- The Bank's Financial Statements, Accounting Policies and practices and reasonableness of the underlying assumptions for estimates and judgments made in preparing the Financial Statements.
- The processes by which compliance with Sri Lanka Accounting Standards (SLFRS/ LKAS) and other regulatory provisions relating to financial reporting and disclosures are ensured.
- The Annual Report and Accounts, and the Interim Financial Statements prepared for publication together with the press releases prior to submission to the Board.

Compliance with the Revised Sri Lanka Accounting Standards

The adoption of the revised Sri Lanka Accounting Standards (SLFRS/LKAS) and the impact of the same on the Bank's Financial Statements have been independently validated by the External Auditors during their year-end audit and the process was continuously reviewed by the Committee.

The Committee also has taken into consideration the requirements of the Accounting Standard- SLFRS 9 on "Financial Instruments" that has been issued with the effective date of January 01 2018, approved the Product Policy Paper on Classification of Financial Instruments.

Mechanism of Internal Controls

During the year, the Committee reviewed the effectiveness of the Bank's Internal Control System and the CEO's quarterly confirmation on the internal control environment. Additionally, the Committee assessed the effectiveness of the Bank's internal controls over financial reporting as of 31st December 2017, as required by the Banking Act Direction No.11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka, Subsection 3(8) (ii) (b), based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by The Institute of Chartered Accountants of Sri Lanka. The result of the assessment is given on pages 283 and 284 in the "Directors' Statement on Internal Control" in the Annual Report. The External Auditors have also issued an Assurance Report on the Directors' Statement on Internal Controls. The report is given on page 286 of the Annual Report.

The Committee also regularly reviews the Internal Control Procedures in place to ensure that necessary control and mitigating measures are available in respect of newly identified risks.

Group Audit

The Committee ensures that the Internal Audit Function is independent of the activities it audit and that the audits are performed with impartiality, proficiency and due professional care.

The Vice President Group Audit reports directly to the Board Audit Committee.

The Bank has adopted a risk- based audit methodology and audit approach. The Audit universe consists of all Auditable Areas/ processes of the banking group, which are audited annually based on a risk based audit plan approved by the BAC.

A risk grading matrix has been adopted for assessing and measuring the risks identified during audit assignments carried out by the Group Audit.

The Audit Committee reviewed the findings along with the management action plans of the audits completed and their evaluation of the Bank's internal control systems. The Committee also reviewed the coverage including the action plans given to address the issues and the implementation status.

Major findings of internal investigations with recommendations of the management were discussed by the Committee in detail.

The Audit Committee reviewed the independence, objectivity & performance of the Group Audit function and the adequacy of its resources. The Audit Committee also evaluated the performance of Vice President Group Audit and reviewed the performance of the senior staff members of the Group Audit function.

Group Audit Charter and Audit Manual

The Group Audit function is governed by the Group Audit Charter which defines the mission, authority, responsibility, independence, reporting, commitment and access in order to assist Group Audit to discharge its function independently. The Group Audit Charter and the Audit Manual were revised and approved in June 2017 by the Board.

External Audit

The Audit Committee undertook the annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process.

During the audit, the External Auditor presented to the Committee their audit approach and procedures, including matters relating to the scope of the audit and Auditor's independence.

The Committee reviewed the audited Financial Statements with the External Auditor responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.

The Committee also reviewed the Management Letter issued by the External Auditor and the management responses thereto.

The Audit Committee was of the view that the Non-Audit Services provided by the External Auditor were not within the category of services identified as prohibited under:

1. The guidelines issued by the Central Bank of Sri Lanka for External Auditors, relating to their statutory duties in terms of Section 39 of Banking Act No.30 of 1988 and amendments thereto.

2. The guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.

In carrying out the overseeing responsibilities, the Committee adopted the overview principles of the Basel Committee on Banking Supervision on External Audits of the Banks, issued in March 2014.

Re-appointment of External Auditor

The Audit Committee performed an evaluation of the External Auditor based on certain defined criteria and recommended to the Board of Directors that Messrs. Ernst and Young, Chartered Accountants, to be re-appointed for the financial year ending 31st December 2018 subject to the approval of the shareholders at the next Annual General Meeting.

Oversight on Regulatory Compliance

The Group Audit performed verifications covering mandatory banking and other statutory requirements during their process audits ensuring that systems and procedures are in place to ensure compliance with such requirements. The Group Audit also conducted a special audit assignment on Exchange Control requirements, as a further monitoring measure.

Good Governance and Whistle Blowing

The Bank's Whistle Blowing Policy was also revised in March 2017. The Policy is intended to serve as a channel of corporate fraud risk management. The policy will educate and encourage any team member who has a legitimate concern on an existing or potential "wrong doing", done by any person within the Bank, to come forward voluntarily, and bring such concern to the notice of an independent designated authority. All appropriate procedures were in place to conduct independent investigations into incidents reported through whistle-blowing. The Whistle Blowing Policy guarantees the maintenance of strict confidentiality of the identity of the whistle- blowers.

Evaluation of the Audit Committee

The Audit Committee carried out a formal self-evaluation/appraisal on the effectiveness of the Committee and reported the results of the same to the other members of the Board. The Board concurred that the Committee had carried out its responsibilities in an effective and satisfactory manner.

APPRECIATION

The Committee wishes to convey its gratitude to former members N S Welikala and Mrs. D M A Harasgama for their valuable contribution.

T L F Jayasekara
Chairman
Audit Committee

20 February 2018
Colombo

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Board appointed Related Party Transactions Review Committee is comprised of 6 Board members including a Chairman of the Committee who is an Independent Director.

The Chief Executive Officer (CEO) attends meetings upon invitation by the Committee.

COMPOSITION AS AT 31ST DECEMBER 2017

Name of the Board Subcommittee Member	Directorship Status	Membership Status
A W Atukorala	Independent	C
T L F Jayasekara	Independent	M
D S P Wikramanayake	Non Independent	M
Mrs. Kimarli Fernando	Independent	M
Mrs. Indrani Sugathadasa	Independent	M
Mr. R Semasinghe	Non Independent	M
N S Welikala (Retired w.e.f 30th April 2017)	Independent	M
Mrs. D M A Harasgama (Resigned w.e.f 30th June 2017)	Non Independent	M

C – Chairman, M – Member

CHARTER OF THE COMMITTEE

The Board of Directors of the Bank constituted a Related Party Transactions Review Committee voluntarily in December 2014 further to the provisions contained in Section 9 of the Listing Rules of the Colombo Stock Exchange (CSE) so as to ensure compliance with the Rules pertaining to Related Party Transactions as set out in the Listing Rules of the CSE, which required mandatory compliance from 1 January 2016. The composition and the scope of work of the Committee are in conformity with the provisions of the said Section in the Listing Rules.

The Terms of Reference (TOR) of the Related Party Transactions Review Committee was approved by the Board of Directors and is reviewed annually. As part of the annual review process, the Committee reviewed the TOR in November 2017 with amendments being made with regard to Minutes and Recommendations.

The primary objective of the Committee is to assess and consider all transactions with related parties of the Bank in order to ensure that related parties are treated on par with other shareholders and constituents of the Bank.

The Committee carries out the following duties and responsibilities;

1. Reviewing to evaluate and to determine the advisability of any Related Party Transactions except for transactions set out in Rule 9.5 of the CSE Listing Rules, that require consideration by the Committee under the Related Party Policy of the Bank;

2. Approving or rejecting Related Party Transactions upon the required internal approvals being obtained.

3. Determining whether the relevant Related Party Transaction is fair to, and in the best interests of, the Bank and its stakeholders; and

4. Recommending to the full Board what action, if any, should be taken by the Board with respect to any Related Party Transaction.

5. Recommending to the full Board where necessary that the approval of the shareholders of the Bank be obtained by way of a Special Resolution prior to the concerned transaction being entered into as specified in Section 9.1 and 9.4 of the Listing Rules, where necessary.

COMMITTEE GUIDING PRINCIPLES

The Committee is entrusted with evaluating and considering all transactions with related parties of the Bank except the exempted transactions as per the Listing Rules of the CSE, in order to ensure that related parties are treated on par with other shareholders and constituents of the Bank and related party transactions are evaluated according to the applicable rules and regulations. To this end the Committee shall ensure that necessary processes are in place to identify, approve, disclose and monitor related party transactions according to the provisions contained in the Board approved Related Party Transaction Policy pertaining to the Bank and its subsidiaries.

The Committee is required to carry out the aforementioned approval of the related parties and related party transactions in line with the regulations issued by the Central Bank of Sri Lanka, the Colombo Stock Exchange and/ or Securities and Exchange Commission of Sri Lanka, the Banking Act Directions, the Companies Act requirements and the Sri Lanka Accounting Standards.

COMMITTEE MEETINGS

The Committee met four (04) times during the year under review, and the attendance of committee members at meetings is stated in the table on page 216 of the Annual Report. The quorum for a meeting is four (04) members.

The proceedings of the Committee meetings are formally documented and have been regularly reported to the Board of Directors. The Board of Directors take due consideration of the comments/observations made by the Committee and the approvals granted by the Committee for Related Party Transactions.

METHODOLOGY USED BY THE COMMITTEE

In carrying out the duties of the Committee the Committee avoids 'conflicts of interest' which may arise from any transaction of the Bank with any person particularly with related parties, ensure arm's length dealings with related parties whilst also ensuring adherence to the Corporate Governance Directions which requires the Bank to avoid engaging in transactions with related parties in a manner that would grant such parties 'more favourable treatment' than accorded to other constituents of the Bank carrying on the same business, in

line with the security requirements as stated in the Banking Act Directions and in compliance with the approval procedure set out in the Banking Act.

The Committee is also guided by the Listing Rules of the CSE pertaining to Related Party Transactions, the Board approved Related Party Transaction Policy and the Terms of Reference of the Committee and when reviewing the transactions, takes into consideration the Related Party's relationship to the Listed Entity and interest in the transaction, the material facts of the proposed transaction including the aggregate value of the same, the benefits to the Listed Entity of the proposed transaction, the availability of other sources of comparable products or services and further carries out an assessment of whether the proposed Related Party Transaction is on terms generally available to an unaffiliated third party under the same or similar circumstances.

SUMMARY OF ACTIVITIES IN 2017

During the preceding year the Committee approved/ratified transactions relating to the procurement of goods and services carried out by the Bank/its subsidiaries with various related parties on an 'arms-length' basis. The Committee also considered and approved the entering into lease agreements with related parties of the Bank and renewed the Terms of Reference of the Committee.

The Committee noted that the Bank has not entered into any transactions as contemplated in Section 9.1.1 and 9.1.2 of the Listing Rules of the CSE and that accordingly there are no disclosures to be made in this regard in accordance with Section 9.3.2 (a) and 9.3.2 (b) of the Listing Rules of the CSE.

The Committee has reviewed the Related Party Transactions of the Bank during the period of 1 January 2017 to 31 December 2017 and has thus complied with the rules pertaining to Related Party Transactions as set out in Section 9 of the Listing Rules of the CSE.

APPRECIATION

The Committee wishes to convey its sincere gratitude to former members Mrs. D M A Harasgama and N S Welikala for their valuable contribution to the Committee.

A W Atukorala
Chairman
Related Party Transactions Review Committee

20 February 2018
Colombo

BOARD CREDIT COMMITTEE REPORT

The Board appointed Credit Committee comprised of six Board members. During the year 2017 the Committee comprised of the following

COMPOSITION AS AT 31ST DECEMBER 2017

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Mrs. Kimarli Fernando	Independent	C
A W Atukorala	Independent	M
A K Pathirage –	Non Independent	M
D M R Phillips, PC	Independent	M
Mrs. W A I Sugathadasa	Independent	M
D Seneviratne (CEO)	Non Independent	M
Mrs. D M A Harasgama (resigned w.e.f. 30th June)	Non Independent	M

C – Chairman, M – Member

CHARTER OF THE COMMITTEE

The Board Credit Committee (BCC) was formed in June 2017 and the Charter of the BCC was approved by the Board of Directors in July 2017 and is to be reviewed annually. As per the Charter, the scope of work includes the following,

- Review and approve credit proposals coming under the Committee's Delegated Level of Authority
- Review and approve facilities of Retail Banking (under Product Program Guide) which currently require Board approval
- Review and approve any material changes in respect of credits approved by the Committee (including changes in security/ facility terms and conditions/ interest margins/ pricing and waivers)
- Pre-clearances of proposals (if Business Lines deem necessary) of any Board level approvals
- Approve all Counterparty (Bank) limits falling within the policy guidelines approved by Board
- Review and recommend to IRMC on any changes to the credit policy

COMMITTEE GUIDING PRINCIPLES

- Responsible to the Board of Directors
- Business Lines and the Management Level Credit Committees are responsible for managing the risks in the areas for which they are responsible.
- Each Member of the Committee shall be entitled to rely in good faith on the integrity of those persons from whom he or she receives information.

COMMITTEE MEETINGS

The Committee held four meetings, during the year under review to discuss the normal scope of work and one initial meeting to agree on the Terms of Reference. The proceedings of the Committee meetings have been reported to the Board of Directors. The attendance of details of the meetings held is stated in the table on page 216.

METHODOLOGY USED BY THE COMMITTEE

Review the Credit Proposals submitted by the Business Line, its risks and adequacy of pricing or covenants to mitigate the identified risks. Key staff members are required to present the proposals and answer any queries as and when required.

SUMMARY OF ACTIVITIES IN 2017

During the meetings held in 2017 the Committee carried out the following activities

- Agreed on the Terms of Reference of the Committee and propose for approval of the Board of Directors
- Reviewed Delegated Authority Limits of Committee as well as the management level credit committees and recommended changes to be incorporated in the final proposal for the approval of Board of Directors
- Reviewed and recommended eight credit proposals for the approval of the Board of Directors
- Reviewed and approved twelve credit proposals comprising of new facilities, annual review of revolving facilities, changes to terms and conditions of facilities already approved. In three instances requests were declined / deferred.
- Reviewed and approved six proposals related to renewal of Bank Counter Party limits.

Mrs. Kimarli Fernando
Chairperson
Board Credit Committee

20 February 2018
Colombo

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

This statement sets out the responsibility of the directors in relation to the Financial Statements of National Development Bank PLC (the Bank) and the Consolidated Financial Statements of the Bank and its subsidiaries (the Group). The Directors are required by relevant statutory provisions to prepare and table at a General Meeting of the Bank, such Financial Statements as may be necessary, which give a true and fair view of the state of affairs of the Bank and the Group.

It is also the responsibility of the Directors to ensure that the Bank maintains proper accounting records and to take reasonable steps as far as practical to ensure the accuracy and reliability of accounting records and to prepare Financial Statements using appropriate Accounting Policies applied consistently and supported by reasonable and prudent judgment and estimates in compliance with the Sri Lanka Accounting Standards, the Banking Act No. 30 of 1988 (as amended), the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange. Changes in the Accounting Policies where applicable and the rationale for the changes have been disclosed in the 'Notes to the Financial Statements'.

Accordingly the Directors confirm that the Financial Statements of the Bank and the Group give a true and fair view of:

(a) the financial position of the Bank and the Group as at the Reporting date; and

(b) the financial performance of the Bank and the Group for the financial year ended on the Reporting date.

The Financial Statements of the Bank and the Group have been certified by the Group Chief Financial Officer and Assistant Vice President - Finance and Planning of the Bank, the officers responsible for their preparation, as required by the Companies Act. In addition, the Financial Statements of the Bank and the Group have been signed by two Directors and the Company Secretary of the Bank on 20 February 2018 as required by the Companies Act and other regulatory requirements. The Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Bank's transactions are maintained and that the Bank's financial position, with reasonable accuracy, at any point of time is determined by the Bank, enabling preparation of the Financial Statements, in accordance with the Act to facilitate proper audit of the Financial Statements.

The Financial Statements for the year 2017, prepared and presented in this Annual Report have been prepared based on Sri Lanka Accounting Standards (SLFRS) and LKAS's issued by the Institute of Chartered Accountants of Sri Lanka and are in agreement with the underlying books of account and are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

In addition, these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual Financial Statements of Licensed Commercial Banks.

The Directors have been responsible for taking reasonable measures and care to safeguard the assets of the Bank and the NDB Group and to prevent and detect frauds and other irregularities. The Directors have instituted an effective and comprehensive system of internal controls and an effective system of monitoring its effectiveness, internal audit being one of them. The Directors' Statement on Internal Control over financial reporting is given on pages 283 and 284 of this Annual Report. The Board has been provided additional assurance on the reliability of the Financial Statements through a process of independent and objective review performed by the Audit Committee. Please refer the Board Audit Committee Report on pages 275 to 277 of this Report.

Messrs Ernst & Young, Chartered Accountants, who were appointed in terms of the Companies Act and in accordance with a resolution passed at the last Annual General Meeting, have been made available with all records of the Bank including the Financial Statements by the Board of Directors and provided every opportunity to undertake the inspections they considered appropriate all of which they have examined and have expressed their opinion which appears as reported by them on page 289 of this Report.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report. The Directors confirm that in preparing the Financial Statements exhibited on pages 290 to 408 including, appropriate Accounting Policies selected and applied based on the new financial reporting framework on a consistent basis, while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

The Board of Directors wishes to confirm that, as required by the Section 56 (2) of the Companies Act No. 07 of 2007, they have authorized distribution of the dividends paid upon being satisfied that the Bank would satisfy the solvency test after such distributions are made in accordance with the Section 57 of the Companies Act No. 07 of 2007 and have obtained in respect of dividends paid, necessary certificates of solvency from the External Auditors.

The Board of Directors also wishes to confirm that, as required by the Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Bank, who have expressed desire to receive a printed copy or to other shareholders a soft copy each in a CD ROM containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) of Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange. The Directors also wish to confirm that all shareholders have been treated equitably in accordance with the original terms of issue.

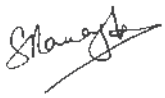
Further, the Board of Directors wishes to confirm that the Bank has met all the requirements under the Section 07 on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange, where applicable.

The Bank has also complied with the prudential requirements, regulations, laws and internal controls and there were no material non-compliances.

COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Bank and the Group, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group, and all other known statutory dues as were due and payable by the Bank and the Group as at the Reporting date have been paid or, where relevant, provided for, except as specified in Note 48.3 to the Financial Statements on 'Litigation against the Bank' on page 365. The Directors further confirm that after considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the 'Code on Corporate Governance' issued jointly by the CA Sri Lanka and the SEC, the Directors have a reasonable expectation that the Bank and the Group possesses adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the Going Concern basis in preparing the Financial Statements. The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,



Ms. Shehani Ranasinghe
Company Secretary

20 February 2018
Colombo

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RESPONSIBILITY

In line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (ii) (b), the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the internal control mechanism in place at National Development Bank PLC ('the Bank'). In considering such adequacy and effectiveness, the Board recognizes that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and the Group and this process includes enhancing the system of internal controls over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board in line with the 'Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control over financial reporting taking in to account principles for the assessment of the internal control system as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key Features of the Process Adopted in Applying and Reviewing the Design and Effectiveness of the Internal Control System over Financial Reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various Committees are established by the Board to assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

- Internal Audit department checks compliance with policies and procedures and the effectiveness of internal control systems on an ongoing basis during their process audits. The Internal Audit department uses a top down risk based auditing approach enhancing the Risk Based Auditing Process. The entire audit universe is audited annually, at determined intensities based on the risk assessment covering the entire group. The Audit Committee reviews the findings of the internal audits completed and their evaluation of the Bank's internal control systems. The Committee also reviews updates on audit activities and the scope and adequacy of coverage of the approved audit plan and any improvements thereto, and has detailed discussions on any unsatisfactory audits, reviewing the action plans to address these areas and the implementation status.

- The Board Audit Committee of the Bank also reviews internal control issues identified by the External Auditor, regulatory authorities and the management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. The Committee also reviews the internal audit functions with particular emphasis on risk assessment, scope of audits and quality of internal audit. The minutes of the Board Audit Committee meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. . Further details of the activities undertaken by the Audit Committee of the Bank are set out in the 'Board Audit Committee Report' on pages 275 to 277.

- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. The assessment did not include subsidiaries of the Bank. The comments/recommendations made by the External Auditors in connection with the internal control system over financial reporting during the year will be taken into consideration to further strengthen the internal control system over financial reporting process.

- Further to the adoption of new Sri Lanka Accounting Standards comprising SLFRS and LKAS, the Bank further strengthened the processes and procedures initially applied to adopt the aforementioned accounting standards during the years based on the feedback received from the External Auditors, Internal Audit Department, Regulators and the Board Audit Committee. The Bank will continue to further strengthen the processes such as impairment of Loans & Advances and Financial Statement Disclosures related to risk management based on the feedback received from Internal and External Auditors and as per best practices. The Bank has also recognized the need to introduce an automated financial reporting process in order to comply with the requirements of recognition, measurement, classification and disclosure of the financial instruments more effectively and efficiently. The Management is currently reviewing options available to automate the financial reporting process.

- The Board also has taken into consideration the requirements of the Sri Lanka Accounting Standard – SLFRS 9 on 'Financial Instruments' that has been issued with effective date being January 01, 2018, as it is expected to have a significant impact on the calculation of impairment of financial instruments on an 'expected credit loss model' compared to the 'incurred credit loss model' currently being applied under the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. The Bank is currently working with an external consultant and

based on the feedback received from them, the Board will continue to implement and strengthen the processes required to comply with SLFRS 9.

CONFIRMATION

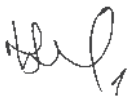
Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, Messrs. Ernst & Young have reviewed the above Directors' Statement on internal control over financial reporting included in the Annual Report of the Bank for the year ended 31 December 2017 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank. Their Independent Assurance Report on the Directors' Statement on Internal Control is given on the page 286 of this Annual Report.

By order of the Board,

A W Atukorala
Chairman



T L F Jayasekara
Chairman Audit Committee

P L D N Seneviratne
Chief Executive Officer

20 February 2018
Colombo

CHIEF EXECUTIVE OFFICER'S AND GROUP CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of the National Development Bank PLC (the Bank) and the Consolidated Financial Statements of the Bank and its Group Companies (the Group) as at 31 December 2017 are prepared and presented in compliance with the following regulatory requirements:

i. Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka

ii. Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995

iii. Companies Act No. 07 of 2007

iv. Banking Act No. 30 of 1988 and amendments thereto

v. Directions, circulars and guidelines issued to licensed commercial banks by the Central Bank of Sri Lanka including but not limited to Banking Act Direction No. 11 of 2007 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka on corporate governance

vi. Listing Rules of the Colombo Stock Exchange

vii. The Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (2013)

The formats used in the presentation of the Financial Statements and disclosures are in compliance with the specified formats for the preparation of Annual Financial Statements of Licensed Commercial Banks, issued by the Central Bank of Sri Lanka.

The Accounting Policies of the Bank and the Group are in compliance with Sri Lanka Accounting Standards (SLFR's and LKAS's) issued by The Institute of Chartered Accountants of Sri Lanka. The Accounting Policies are consistently applied by the Group. Significant Accounting Policies and estimates that involve a high degree of judgment and complexity were discussed with the Board Audit Committee and the External Auditors. Comparative information has been reclassified wherever necessary to comply with the current year's presentation. All significant items have been disclosed and explained by way of Notes to the Financial Statements. We confirm to the best of our knowledge, that the Financial Statements presented herewith give a true and fair view of the financial position, Statement of Profit or Loss and the cash flows of the Bank and the Group for the year. We also believe that the Bank and the Group have adequate resources to continue its operations in the foreseeable future and accordingly adopt the going concern basis for the preparation of the Financial Statements.

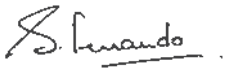
The Board of Directors and the management of the Bank and the Group accept responsibility for the integrity and the objectivity of the Financial Statements. The estimates and judgments relating to the Financial Statements were made on a reasonable and prudent basis; in order that the Financial Statements reflect a true and fair view; the form and the substance of transactions and that the state of affairs of the Bank and the Group is reasonably presented. To ensure this, the Bank and the Group have taken proper and sufficient care in implementing internal control systems, with the use of a comprehensive core banking system, for safeguarding assets and for preventing and detecting fraud as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. The Internal Auditor of the Bank and the Group has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank and the Group are consistently followed. However, there are inherent limitations that should be recognized in weighing the assurance provided by any system of internal control and accounting.

The Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its group companies were audited by Messrs Ernst & Young, Chartered Accountants. The Report issued by them is available on page 289 of this Report. The audit and non-audit services provided by Messrs Ernst & Young are approved by the Board Audit Committee, to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka or impair Messrs Ernst & Young's independence.

The Board Audit Committee reviews the adequacy and effectiveness of the Internal Control Systems including the effectiveness of the internal controls over financial reporting to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account and the processes by which compliance with Sri Lanka Accounting Standards including SLFRS/LKAS and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on pages 275 to 277. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance.

We confirm to the best of our knowledge that -

- The Bank and the Group have complied with all applicable laws, rules, regulations and guidelines;
- There is no material non-compliance;
- There is no material litigation against the Bank and the Group other than those disclosed in Note 48.3 on page 265 of the Financial Statements section of this Report;
- All taxes, duties, levies and all statutory payments by the Bank and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group as at the reporting date have been paid, or where relevant provided for.



Ms. Suvendrini Muthukumarana
Assistant Vice President – Finance & Planning

Lalith T Fernando
Group Chief Financial Officer

P L D N Senevirathne
Chief Executive Officer

20 February 2018
Colombo

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HMAJ/DLH/SSG/TW

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF NATIONAL DEVELOPMENT BANK PLC

Introduction

We were engaged by the Board of Directors of National Development Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2017.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our responsibilities and compliance with SLSAE 3050

Our responsibility is to issue a report to the board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

20 February 2018
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCMA FCCA

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Concentrating on increasing value creation

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"During the year the Bank displayed an excellent performance on all fronts, recording an accelerated growth in its balance sheet supported by impressive growth in customer deposits and loans..."

Scan the QR Code with your smart device to view this section online.

FINANCIAL CALENDAR 2017/2018

Annual General Meetings	Date
13th Annual General Meeting	28 March 2018
12th Annual General Meeting	30 March 2017

Dividend Payments	Amount	Date dividends announced	Date dividends paid / to be paid
Final dividend payment for 2017	LKR 2/- (Cash) LKR 5/- (Scrip)	21 February 2018	05 March 2018 (Cash) 14 March 2018 (Scrip)
First interim dividend payment for 2017	LKR 2/- (Cash)	31 October 2017	10 November 2017
Final dividend payment for 2016	LKR 2/- (Cash) LKR 6/- (Scrip)	22 February 2017	06 March 2017 (Cash) 15 March 2017 (Scrip)

Financial Statements

Interim Financial Statements	Date released to the CSE	Date published / to be published in newspapers (in Sinhala, English & Tamil)
Q4/For the twelve months ended 31.12.2017	01 February 2018	20 March 2018
Q3/For the nine months ended 30.09.2017	31 October 2017	16 November 2017
Q2/For the six months ended 30.06.2017	25 July 2017	11 August 2017
Q1/For the three months ended 31.03.2017	03 May 2017	18 May 2017
Q4/For the twelve months ended 31.12.2016	21 February 2017	10 March 2017

Annual Financial Statements	Date released / to be released the CSE	Date published in newspapers (in Sinhala, English & Tamil)
Annual financial statements for 2017	05 March 2018	20 March 2018
Annual financial statements for 2016	06 March 2017	10 March 2017

Investor engagements on quarterly financial results	Forum	On-line Webinar
Q4 2017	March 2018	02 February 2018
Q3 2017	Not hosted	01 November 2017
Q2 2017	01 August 2017	27 July 2017
Q1 2017	Not hosted	05 May 2017
Q4 2016	14 March 2017	22 February 2017

Proposed Financial Calendar 2018/2019 (Tentative)

Interim Financial Statements	Date released to the CSE	Investor Webinar	Date published in newspapers (in Sinhala, English & Tamil)
Q1/For the three months ended 31.03.2018	14 May 2018	15 May 2018	Not to be hosted
Q2/For the six months ended 30.06.2018	14 August 2018	15 August 2018	3rd week of August 2018
Q3/For the nine months ended 30.09.2018	13 November 2018	14 November 2018	Not to be hosted
Q4/For the twelve months ended 31.12.2018	February 2019	February 2019	March 2019

Annual Financial Statements	Date released to the CSE	Date published in newspapers (in Sinhala, English & Tamil)
Annual financial statements for 2018	March 2019	March 2019

As per Rule 7.4 of the Listing Rules of the Colombo Stock Exchange (CSE), quarterly financial statements (un-audited) for the first three quarters should be released to the CSE as soon as the said statements are approved by the Board of Directors and in any event not later than 45 days from the end of each quarter and in respect of the final quarter, within two months from the end of the final quarter. According to Rule 7.5 of the Listing Rules of the CSE, the audited financial statements should be published in accordance with the Sri Lanka Accounting Standards and the annual report should be sent to the shareholders and the CSE within five months from the close of the financial year.

As per the Banking Act Direction No 11 of 2007 - Corporate Governance for Licensed Commercial Banks, the annual audited financial statements and quarterly financial statements should be prepared and published in accordance with the requirements of supervisory and regulatory authorities and applicable accounting standards and such statements must be published in the newspapers in an abridged form in Sinhala, Tamil and English.

All of the dates above are/ will be updated in the Events Calendar in the Events section of the Investor Relations page of the Bank's corporate web site on www.ndbbank.com.

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HMAJ/DLH/SSG/TW

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF NATIONAL DEVELOPMENT BANK PLC

Report on the Financial Statements

We have audited the accompanying financial statements of National Development Bank PLC, (the "Bank"), and the consolidated financial statements of the Bank and its subsidiaries ("Group"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on other legal and regulatory requirements

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

a) The basis of opinion, scope and limitations of the audit are as stated above.

b) In our opinion:

- we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank,
- the financial statements of the Bank give a true and fair view of the financial position as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
- the financial statements of the Bank and the Group comply with the requirements of Section 151 and 153 of the Companies Act No.07 of 2007.

20 February 2018
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
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Principal T P M Ruberu FCMA FCCA

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INTEGRATED APPROACH TO FINANCIAL REPORTING

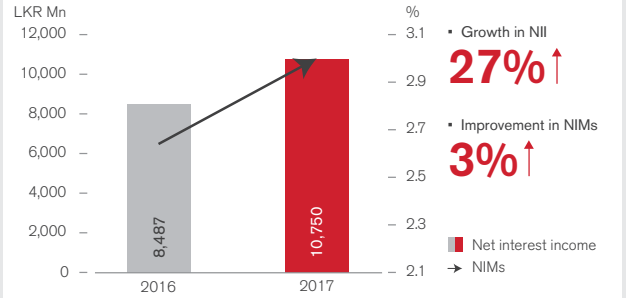
Staying true to the concepts of integrated reporting, this year too, we have presented our Financial Statements, including the relevant Notes to Financial Statements in a comprehensive and integrated manner.

In presenting our 5th Integrated Annual Report, our Financial Statements section has undergone continuous improvement. This year too, we have improved our presentation, based on self-initiatives as well as externally prescribed best practices. Accordingly, whilst adhering to all applicable regulator specified guidelines, we have presented each Note to the Financial Statements, duly preceded by the applicable accounting policy. This presentation method provides greater integration of related and relevant information. Furthermore, the user-friendliness of the Financial Statements has led to improved efficiency in the usage of the Financial Statements.

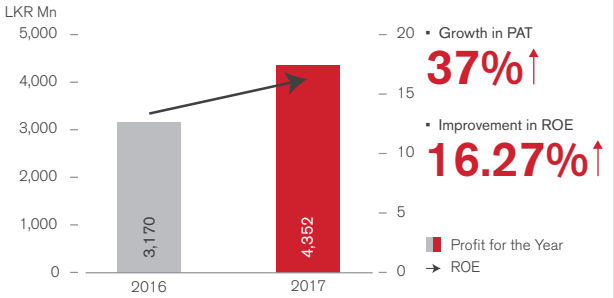
FINANCIAL STATEMENTS HIGHLIGHTS

STATEMENT OF PROFIT OR LOSS

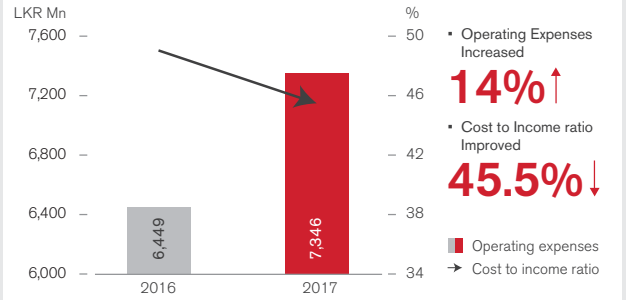
Net Interest Income (NII)



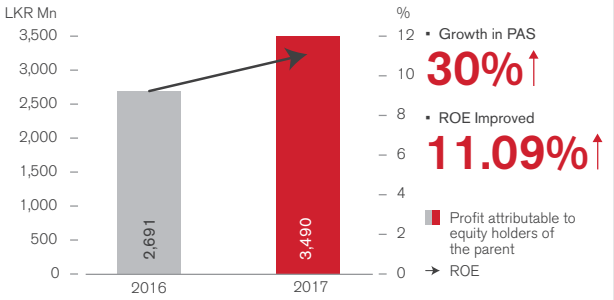
Profit for the Year - Bank



Total Operating Expenses

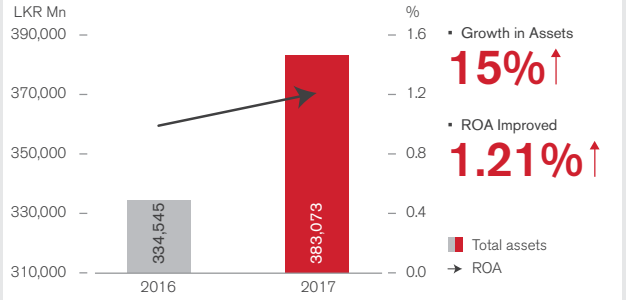


Profit Attributable to Equity Holders of the Parent

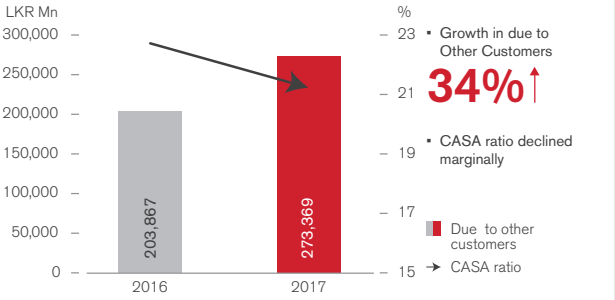


STATEMENT OF FINANCIAL POSITION

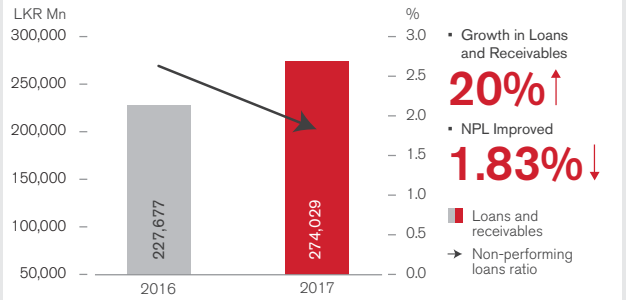
Total Assets



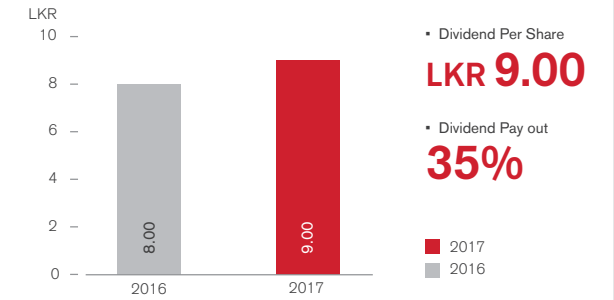
Due to Other Customers



Loans and Receivables to Other Customers



Dividend Per Share



STATEMENT OF PROFIT OR LOSS

For the year ended 31 December	Note	Page	BANK			GROUP		
			2017	2016	Change	2017	2016	Change
		No.	LKR '000	LKR '000	%	LKR '000	LKR '000	%
Gross income	4	310	42,520,594	33,281,736	28	43,017,759	33,776,905	27
Interest income	5.1	310	37,118,699	28,618,247	30	37,421,114	28,960,606	29
Less: Interest expenses	5.2	311	26,368,585	20,130,935	31	26,334,787	20,099,837	31
Net interest income	5	311	10,750,114	8,487,312	27	11,086,327	8,860,769	25
Fee and commission income	6	311	2,520,532	2,253,226	12	3,416,002	3,046,132	12
Net gains/(losses) from trading	7	312	1,063,944	982,123	8	1,063,944	982,123	8
Net gains/(losses) from financial investments	8	313	569,557	211,370	169	733,679	440,748	66
Other operating income	9	313	1,247,862	1,216,770	3	383,020	347,296	10
Total operating income			16,152,009	13,150,801	23	16,682,972	13,677,068	22
Less: Impairment for loans and receivables and other losses	10	314	1,258,554	1,366,953	(8)	1,290,297	1,424,573	(9)
Net operating income			14,893,455	11,783,848	26	15,392,675	12,252,495	26
Less: Operating expenses								
Personnel expenses	11	314	3,611,339	3,434,550	5	4,024,851	3,792,590	6
Other expenses	12	315	3,734,696	3,014,294	24	4,176,084	3,366,359	24
Total operating expenses			7,346,035	6,448,844	14	8,200,935	7,158,949	15
Operating profit before tax on financial services			7,547,420	5,335,004	41	7,191,740	5,093,546	41
Less: Tax on financial services	13	316	1,547,450	1,048,000	48	1,547,450	1,048,000	48
Operating profit after tax on financial services			5,999,970	4,287,004	40	5,644,290	4,045,546	40
Share of associate companies' profits/(losses)	14	316	-	-	-	-	-	-
Profit before taxation			5,999,970	4,287,004	40	5,644,290	4,045,546	40
Less: Taxation	15	317	1,648,341	1,116,733	48	2,211,987	1,230,587	80
Profit for the year			4,351,629	3,170,271	37	3,432,303	2,814,959	22
Profit attributable to equity holders of the parent			4,351,629	3,170,271	37	3,489,752	2,691,014	30
Non-controlling interests			-	-	-	(57,449)	123,945	(146)
			4,351,629	3,170,271	37	3,432,303	2,814,959	22
Earnings per share Basic/Diluted (LKR)	16	319	25.38	18.49	37	20.35	15.69	30
Dividend per share (LKR)	17	319	9.00	8.00	13	-	-	-

The Notes to the Financial Statements disclosed from pages 302 to 408 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	Page No.	BANK 2017 LKR '000	BANK 2016 LKR '000	BANK Change %	GROUP 2017 LKR '000	GROUP 2016 LKR '000	GROUP Change %
Profit for the year			4,351,629	3,170,271	37	3,432,303	2,814,959	22
Other comprehensive income								
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods								
Exchange differences on translation of foreign operations			-	-	-	(371)	7,537	(105)
Gains/(losses) on remeasuring of available-for-sale investments			648,763	(372,240)	274	604,471	(436,305)	239
Deferred tax effect on fair value adjustments of available-for-sale investments			(308,218)	13,776	(2,337)	(298,266)	33,277	(996)
Net gains/(losses) on available-for-sale investments	46.2	363	340,545	(358,464)	195	306,205	(403,028)	176
Gains/(losses) on cash flow hedges	22.1 (b)		(70,339)	(54,012)	(30)	(70,339)	(54,012)	(30)
Other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods								
Revaluation of freehold land and buildings			361,948	-	100	378,100	21,000	1,700
Deferred tax effect on revaluation gains/(losses)			(174,143)	-	(100)	(211,241)	-	(100)
Net gains/(losses) on revaluation of freehold land and buildings	46.1	362	187,805	-	100	166,859	21,000	695
Actuarial gains/(losses) on defined benefit plans	40.2 (f)	357	(99,429)	(73,151)	(36)	(99,021)	(79,530)	(25)
Deferred tax effect on actuarial gains/(losses)			(3,037)	10,544	(129)	(2,902)	11,529	(125)
Net actuarial gains/(losses) on defined benefit plans			(102,466)	(62,607)	(64)	(101,923)	(68,001)	(50)
Total other comprehensive income for the year, net of taxes			355,545	(475,083)	175	300,431	(496,504)	161
Total comprehensive income for the year			4,707,174	2,695,188	75	3,732,734	2,318,455	61
Attributable to:								
Equity holders of the parent			4,707,174	2,695,188	75	3,790,029	2,192,078	73
Non-controlling interests			-	-	-	(57,295)	126,377	(145)
			4,707,174	2,695,188	75	3,732,734	2,318,455	61

The Notes to the Financial Statements disclosed from pages 302 to 408 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page No.	BANK			GROUP		
			2017	2016	Change	2017	2016	Change
			LKR '000	LKR '000	%	LKR '000	LKR '000	%
Assets								
Cash and cash equivalents	19	323	5,274,466	5,018,438	5	5,343,314	5,139,389	4
Balances with the Central Bank of Sri Lanka	20	323	15,364,920	11,815,277	30	15,364,920	11,815,277	30
Placements with banks	21	323	840,684	3,297,262	(75)	840,684	3,297,262	(75)
Derivative financial instruments	22	324	2,471,706	1,544,621	60	2,471,706	1,544,621	60
Financial assets held-for-trading	23	326	1,216,439	832,694	46	2,659,883	3,661,530	(27)
Loans and receivables to banks	24	327	15,478	37,032	(58)	15,478	37,032	(58)
Loans and receivables to other customers	25	327	274,013,970	227,639,844	20	274,063,310	227,679,939	20
Financial investments - loans and receivables	26	334	21,171,508	41,992,533	(50)	23,316,328	43,896,593	(47)
Financial investments - available-for-sale	27	334	52,620,584	31,500,020	67	52,975,690	31,899,259	66
Financial investments - held-to-maturity	28	336	3,524,051	4,137,601	(15)	4,077,096	4,946,120	(18)
Investments held-for-sale	29	336	18,526	18,526	-	33,302	33,302	-
Investments in subsidiary companies	30	337	2,106,021	2,115,850	-	-	-	-
Investments in associate companies	31	338	-	-	-	-	-	-
Investment property	32	339	-	-	-	1,894,848	1,776,000	7
Intangible assets	33	340	384,369	368,083	4	397,053	384,742	3
Property, plant & equipment	34	341	2,356,679	2,078,570	13	2,917,017	2,528,258	15
Other assets	35	345	1,693,641	2,148,384	(21)	2,274,809	2,092,444	9
Total assets			383,073,042	334,544,735	15	388,645,438	340,731,768	14
Liabilities								
Due to banks	36	346	20,236,719	17,124,944	18	20,236,719	17,124,944	18
Derivative financial instruments	22	324	936,754	474,770	97	936,754	474,770	97
Due to other customers	37	347	273,369,023	203,866,547	34	273,041,417	203,515,828	34
Debt securities issued and other borrowed funds	38	349	28,107,045	59,233,264	(53)	28,107,045	59,233,264	(53)
Tax liabilities			1,578,447	845,660	87	1,575,091	852,454	85
Deferred tax liabilities	39	350	1,371,659	791,791	73	1,796,492	744,880	141
Employee benefit liabilities	40	352	363,138	331,211	10	460,080	394,666	17
Other liabilities	41	357	9,035,567	7,684,997	18	9,177,012	7,931,165	16
Subordinated term debts	42	358	19,336,855	19,446,501	(1)	19,336,855	19,446,501	(1)
Total liabilities			354,335,207	309,799,685	14	354,667,465	309,718,472	15
Equity								
Capital	43	360	2,208,520	1,246,479	77	2,208,520	1,246,479	77
Statutory reserve fund	44	361	1,336,479	1,246,479	7	1,336,479	1,246,479	7
Retained earnings	45	361	24,390,962	21,894,388	11	28,581,147	26,946,432	6
Other reserves	46	362	801,874	357,704	124	886,081	497,197	78
Total equity to equity holders of the Bank			28,737,835	24,745,050	16	33,012,227	29,936,587	10
Non-controlling interests	47	363	-	-	-	965,746	1,076,709	(10)
Total equity			28,737,835	24,745,050	16	33,977,973	31,013,296	10
Total liabilities and total equity			383,073,042	334,544,735	15	388,645,438	340,731,768	14
Commitments and contingencies	48	364	269,160,399	234,221,049	15	269,877,849	235,130,473	15
Net Asset Value per share (LKR)	49	366	167.58	149.80	12	192.51	181.23	6

We certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Ms. Suvendrini Muthukumarana
Assistant Vice-President - Finance & Planning

Lalith T Fernando
Group Chief Financial Officer

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

A W Atukorala
Director/Chairman

P L D N Seneviratne
Director/Chief Executive Officer

Ms. Shehani Ranasinghe
Company Secretary

20 February 2018

The Notes to the Financial Statements disclosed from pages 302 to 408 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December	Capital	Statutory Reserve Fund	Available-for-Sale Reserve
	LKR '000	LKR '000	LKR '000
BANK			
Balance as at 1 January 2016	1,242,772	1,242,772	(207,277)
Total comprehensive income for the year			
Profit for the year	-	-	
Other comprehensive income before tax	-	-	(372,240)
Tax on other comprehensive income	-	-	13,776
Total comprehensive income for the year	-	-	(358,464)
Transactions with equity holders, recognized directly in equity			
Issue of shares (Note 43 and 46.3)	3,707	-	-
Transfer to the statutory reserve fund (Note 44)	-	3,707	-
Dividends to equity holders (Note 17.1)	-	-	-
Balance as at 31 December 2016	1,246,479	1,246,479	(565,741)
Balance as at 1 January 2017	1,246,479	1,246,479	(565,741)
Total comprehensive income for the year			
Profit for the year	-	-	
Other comprehensive income before tax	-	-	648,763
Tax on other comprehensive income	-	-	(308,218)
Total comprehensive income for the year	-	-	340,545
Transactions with equity holders, recognized directly in equity			
Issue of shares (Note 43)	962,041	-	-
Transfer to the statutory reserve fund (Note 44)	-	90,000	-
Expiry of the ELCP option exercise period	-	-	-
Dividends to equity holders (Note 17.1)	-	-	-
Balance as at 31 December 2017	2,208,520	1,336,479	(225,196)

	Other Reserves					
	Revaluation Reserve	Share Based Payment Reserve	Cash Flow Hedge Reserve	General Reserve	Retained Earnings	Total Equity
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
	853,456	14,590	110,160	5,805,707	13,638,678	22,700,858
	-	-	-	-	3,170,271	3,170,271
	-	-	(54,012)	-	(73,151)	(499,403)
	-	-	-	-	10,544	24,320
	-	-	(54,012)	-	3,107,664	2,695,188
	-	(749)	-	-	-	2,958
	-	-	-	-	(3,707)	-
	-	-	-	-	(653,954)	(653,954)
	853,456	13,841	56,148	5,805,707	16,088,681	24,745,050
	853,456	13,841	56,148	5,805,707	16,088,681	24,745,050
	-	-	-	-	4,351,629	4,351,629
	361,948	-	(70,339)	-	(99,429)	840,943
	(174,143)	-	-	-	(3,037)	(485,398)
	187,805	-	(70,339)	-	4,249,163	4,707,174
	-	-	-	-	-	962,041
	-	-	-	-	(90,000)	-
	-	(13,841)	-	-	-	(13,841)
	-	-	-	-	(1,662,589)	(1,662,589)
	1,041,261	-	(14,191)	5,805,707	18,585,255	28,737,835

For the year ended 31 December	Capital	Statutory Reserve Fund	Available-for-Sale Reserve
	LKR '000	LKR '000	LKR '000
GROUP			
Balance as at 1 January 2016	1,162,963	1,242,772	(139,559)
Total comprehensive income for the year			
Profit for the year	-	-	-
Other comprehensive income before tax	-	-	(436,305)
Tax on other comprehensive income	-	-	33,277
Total comprehensive income for the year	-	-	(403,028)
Transactions with equity holders, recognized directly in equity			
Issue of shares (Note 43 and 46.3)	3,707	-	
Adjustment to share based payment reserve (Note 43 and 46.3)	79,809		
Adjustment due to changes in group companies			-
Transfer to the statutory reserve fund (Note 44)	-	3,707	
Dividends to equity holders (Note 17.1)			
Balance as at 31 December 2016	1,246,479	1,246,479	(542,587)
Balance as at 1 January 2017	1,246,479	1,246,479	(542,587)
Total comprehensive income for the year			
Profit for the year	-	-	-
Other comprehensive income before tax	-	-	604,471
Tax on other comprehensive income	-	-	(298,266)
Total comprehensive income for the year	-	-	306,205
Transactions with equity holders, recognized directly in equity			
Issue of shares (Note 43)	962,041	-	
Transfer to the statutory reserve fund (Note 44)	-	90,000	
Expiry of the ELCP option exercise period	-	-	-
Dividends to equity holders (Note 17.1)	-	-	-
Balance as at 31 December 2017	2,208,520	1,336,479	(236,382)

Other Reserves							
Revaluation Reserve	Share Based Payment Reserve	Cash Flow Hedge Reserve	General Reserve	Retained Earnings	Total	Non Controlling Interest	Total Equity
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
948,795	81,098	110,160	5,805,707	19,170,268	28,382,204	1,018,513	29,400,717
-	-	-	-	2,691,014	2,691,014	123,945	2,814,959
21,000	-	(54,012)	-	(74,425)	(543,742)	2,432	(541,310)
-	-	-	-	11,529	44,806	-	44,806
21,000	-	(54,012)	-	2,628,118	2,192,078	126,377	2,318,455
-	(749)	-	-	-	2,958	-	2,958
-	(66,508)	-	-	-	13,301	-	13,301
-	-	-	-	-	-	(17,976)	(17,976)
-	-	-	-	(3,707)	-	-	-
-	-	-	-	(653,954)	(653,954)	(50,205)	(704,159)
969,795	13,841	56,148	5,805,707	21,140,725	29,936,587	1,076,709	31,013,296
969,795	13,841	56,148	5,805,707	21,140,725	29,936,587	1,076,709	31,013,296
-	-	-	-	3,489,752	3,489,752	(57,449)	3,432,303
378,100	-	(70,339)	-	(99,546)	812,686	154	812,840
(211,241)	-	-	-	(2,902)	(512,409)	-	(512,409)
166,859	-	(70,339)	-	3,387,304	3,790,029	(57,295)	3,732,734
-	-	-	-	-	962,041	-	962,041
-	-	-	-	(90,000)	-	-	-
-	(13,841)	-	-	-	(13,841)	-	(13,841)
-	-	-	-	(1,662,589)	(1,662,589)	(53,668)	(1,716,257)
1,136,654	-	(14,191)	5,805,707	22,775,440	33,012,227	965,746	33,977,973

STATEMENT OF CASH FLOWS

ACCOUNTING POLICY

The Statement of Cash Flows has been prepared by using 'The Direct Method', whereby gross cash receipts and gross cash payments of operating, investing and financing activities have been recognized. For the purpose of the preparation of the Statement of Cash Flows, cash and cash equivalents include cash and cash equivalents, balances with the Central Bank of Sri Lanka and placements with banks net of unfavourable nostro account balances, as presented in the Statement of Financial Position.

For the year ended 31 December	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Cash flows from operating activities				
Interest received	37,419,186	26,492,391	37,731,389	26,770,059
Fee and commission income received	2,520,532	2,253,226	3,260,952	3,273,243
Dividend income received	1,098,879	481,457	119,119	81,208
Other operating income received	1,606,826	1,370,942	1,626,502	1,377,172
Interest paid	(24,292,670)	(19,700,090)	(24,300,757)	(19,705,603)
Personnel costs paid	(3,519,150)	(3,387,278)	(3,747,676)	(3,488,904)
Other expenses paid	(3,193,194)	(2,574,442)	(3,603,669)	(3,121,736)
Operating profit before changes in operating assets and liabilities (a)	11,640,409	4,936,206	11,085,860	5,185,439
Net increase in loans and receivables to other customers	(47,719,008)	(17,564,396)	(47,727,740)	(17,568,625)
Net increase due to other customers	66,892,475	18,271,867	66,892,475	18,271,867
Net (increase)/decrease in other operating assets	(328,380)	130,036	(364,477)	174,537
Net increase/(decrease) in other operating liabilities	(16,578,994)	3,360,318	(16,575,923)	3,338,970
Net cash inflow/(outflow) from operating activities before taxation	13,906,502	9,134,031	13,310,195	9,402,188
Tax on financial services paid	(1,631,150)	(985,188)	(1,631,150)	(985,188)
Income taxes paid	(821,084)	(643,843)	(994,077)	(732,167)
Net cash provided by/(used in) operating activities	11,454,268	7,505,000	10,684,968	7,684,833
Cash flows from investing activities				
Net changes in financial investments	545,200	(6,741,637)	1,509,406	(6,740,814)
Expenditure on property, plant & equipment	(588,010)	(612,468)	(736,476)	(654,471)
Proceeds from sale of property, plant & equipment	21,027	10,556	22,224	11,759
Net cash provided by/(used in) investing activities	(21,783)	(7,343,549)	795,154	(7,383,526)
Cash flows from financing activities				
Issue of shares	-	2,958	-	2,958
Repayment of subordinated debts	(326,700)	(326,700)	(326,700)	(326,700)
Interest paid on subordinated debts	(2,061,507)	(2,092,505)	(2,061,507)	(2,092,505)
Repayment of other borrowings	(26,459,112)	(4,800,670)	(26,459,112)	(4,800,670)
Proceeds from other borrowings	19,413,133	7,892,343	19,413,133	7,892,343
Dividends paid to non-controlling interests	-	-	(99,740)	(45,977)
Dividends paid to shareholders of the Bank	(649,206)	(664,029)	(649,206)	(664,029)
Net cash provided by/(used in) financing activities	(10,083,392)	11,397	(10,183,132)	(34,580)
Net increase in cash and cash equivalents	1,349,093	172,848	1,296,990	266,727
Cash and cash equivalents at the beginning of the year	20,130,977	19,958,129	20,251,928	19,985,201
Cash and cash equivalents at the end of the year	21,480,070	20,130,977	21,548,918	20,251,928

For the year ended 31 December	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	5,274,466	5,018,438	5,343,314	5,139,389
Balances with the Central Bank of Sri Lanka	15,364,920	11,815,277	15,364,920	11,815,277
Placements with banks	840,684	3,297,262	840,684	3,297,262
	21,480,070	20,130,977	21,548,918	20,251,928

The balances with the Central Bank of Sri Lanka represent the reserve maintained for the rupee deposit liabilities of the Bank and it is not available to finance the Bank's day-to-day operations.

(a) Reconciliation of Operating Profit before Changes in Operating Assets and Liabilities

For the year ended 31 December	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Operating profit before tax on financial services	7,547,420	5,335,004	7,191,740	5,093,546
Gains on sale of property, plant & equipment	(19,810)	(9,109)	(22,502)	(11,883)
Accrual for interest / other income	300,486	(2,125,855)	110,442	(2,206,395)
Accrual for interest expenses	2,075,915	430,845	2,093,915	436,358
Accrual for general expenses	214,693	35,406	225,941	45,555
Contribution to the pension fund	9,592	16,927	9,592	16,927
Depreciation of property, plant & equipment	326,169	329,327	373,203	364,909
Amortization of intangible assets	97,079	105,464	104,496	126,077
Gains on disposal of investments	(172,416)	(260)	(172,416)	(228)
Impairment for loans and receivables and other losses	1,258,554	1,366,953	1,290,297	1,424,573
Accrued dividend income	16,568	(548,496)	-	-
Fair value adjustments on investment property	-	-	(118,848)	(104,000)
Share based payments	(13,841)	-	-	-
Operating profit before changes in operating assets and liabilities	11,640,409	4,936,206	11,085,860	5,185,439

(b) Changes in Liabilities Arising from Financing Activities

		Cash Flows			
	1-Jan-17	Net of Proceeds and Repayments	Foreign Exchange Movement	Other	31-Dec-17
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Bank					
Current interest bearing loans and borrowings	26,949,293	(7,359,666)	(368,117)	-	19,221,510
Non-current interest-bearing loans and borrowings	32,421,972	(1,706,403)	-	-	30,715,569
Dividends payable	49,933	(649,206)	-	671,476	72,203
Total liabilities from financing activities	59,421,198	(9,715,275)	(368,117)	671,476	50,009,282
Group					
Current interest bearing loans and borrowings	26,949,293	(7,359,666)	(368,117)	-	19,221,510
Non-current interest-bearing loans and borrowings	32,421,972	(1,706,403)	-	-	30,715,569
Dividends payable	49,933	(649,206)	-	671,476	72,203
Dividend paid to non-controlling Interests	-	(99,740)	-	-	(99,740)
Total liabilities from financing activities	59,421,198	(9,815,015)	(368,117)	671,476	49,909,542

1. CORPORATE INFORMATION

1.1 Reporting Entity

The National Development Bank of Sri Lanka was incorporated under the National Development Bank of Sri Lanka Act No. 2 of 1979. In 2005, pursuant to the provisions of the National Development Bank of Sri Lanka (consequential provisions) Act No. 1 of 2005, a company by the name of 'National Development Bank Ltd.' was incorporated for the purposes of taking over the business of National Development Bank of Sri Lanka. Accordingly, on 15 June 2005, the National Development Bank Ltd. was incorporated and with effect from that date, the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed except for certain provisions contained therein.

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

The Bank is listed on the Colombo Stock Exchange. The Registered Office of the Bank and its principal place of business are situated at No. 40, Nawam Mawatha, Colombo 2.

The number of branches of the Bank as at 31 December 2017 was 107 (2016 - 104) and the number of staff employed as at 31 December 2017 was 2,169 (2016 - 2,108).

1.2 Principal Activities of the Bank and the Group

Bank

The principal activities of the Bank consist of retail banking, small and medium enterprise (SME) banking, corporate banking, project and infrastructure financing, investment banking, leasing, housing finance, cash management, correspondent banking, remittance services, margin trading, pawning, treasury and investment services, bancassurance and card operations.

Group

The principal activities of the Group companies comprising of the subsidiaries and the associate companies are summarised below:

Entity	Country of Incorporation	Principal Activities	Holding % - 2017		Holding % - 2016	
			Direct	Indirect	Direct	Indirect
Subsidiaries						
NDB Capital Holdings Ltd	Sri Lanka	Full service investment banking	99.9		99.9	
NDB Investment Bank Ltd.	Sri Lanka	Investment banking	-	99.9	-	99.9
NDB Wealth Management Ltd.	Sri Lanka	Wealth management	-	99.9	-	99.9
NDB Securities (Pvt) Ltd.	Sri Lanka	Investment advisory and securities trading	-	99.9	-	99.9
Development Holdings (Pvt) Ltd.	Sri Lanka	Property management	58.7	-	58.7	-
NDB Capital Ltd.	Bangladesh	Investment banking	77.8	-	77.8	-
NDB Zephyr Partners Ltd.	Mauritius	Management of private equity funds	-	60.0	-	60.0
NDB Zephyr Partners Lanka (Pvt) Ltd	Sri Lanka	Management of private equity funds	-	60.0	-	60.0
Associate Companies						
Ayojana Fund (Pvt) Ltd. (under liquidation)	Sri Lanka	Venture capital	50.0	-	50.0	-
NDB Venture Investments (Pvt) Ltd. (under liquidation)	Sri Lanka	Venture capital	50.0	-	50.0	-

1.3 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2017 comprise of the Bank (parent company) and the subsidiaries and associate companies.

The Bank does not have an identifiable parent company and is the ultimate parent of the NDB Group.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank as at 31 December 2017 which comprise the Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow, Accounting Policies and Notes, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRs and LKASs, hereinafter referred to as 'SLFRSs') issued by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007. The presentation of Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the listing rules of the Colombo Stock Exchange.

2.2 Functional and Presentation Currency

The Financial Statements of the Bank and the Group are presented in Sri Lankan Rupees which is the currency of the primary economic environment in which the Bank and the Group operates. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

2.3 Responsibility for the Financial Statements

The Board of Directors is responsible for these Financial Statements of the Bank and the Group, in compliance with the provisions of the Companies Act No. 07 of 2007 and SLFRSs.

The Board of Directors acknowledge their responsibility as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibilities on Financial Reporting' and the certification given on the 'Statement of Financial Position' on pages 255 to 266, pages 281 to 282 and page 295 respectively.

These Financial Statements include -

- The Statement of Profit or Loss and a Statement of Comprehensive Income providing information on the performance for the year under review (Refer pages 293 and 294).
- Statement of Financial Position providing the information on the financial position of the Bank and the Group as at the year end (Refer page 295).
- Statement of Changes in Equity providing the movement in the shareholders' funds during the year ended under review for the Bank and the Group.
- Statement of Cash Flow providing the information to the users, on the ability of the Bank and the Group to generate cash and cash equivalents and the needs for entities to utilize those cash flows (refer pages 300 and 301); and Financial Statements, which comprise of the Accounting Policies and other explanatory notes and information (Refer pages 302 to 408).

2.4 Approval of the Financial Statements

The Financial Statements of the Bank and the Group for the year ended 31 December 2017 (including the comparative figures) have been approved and authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 20 February 2018.

2.5 Basis of measurement

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

Item	Basis of Measurement	Note Numbers	Pages
Derivative Financial instruments	Fair value	22	324
Financial Assets and Liabilities - Held for Trading	Fair value	23	326
Financial Investments - Available for Sale	Fair value	27	334
Investment Property	Fair value	32	339
Freehold land and buildings	Measured at cost at the time of acquisition and subsequently measured at revalued amounts ,which represented the fair value at the date of revaluation .	34	341
Employee Benefit Liabilities	Recognized at the present value of the defined benefit obligations less the fair value of the assets of the plan.	40	352

2.6 Presentation of Financial Statements

The Bank and the Group present their Statement of Financial Position broadly in order of liquidity. An analysis regarding the recoveries and settlements within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 50 to the Financial Statements.

2.6.1 Rounding

The amounts in the Financial Statements have been round off to the nearest Rupees thousand, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 1 on "Presentation of Financial Statements".

2.6.2 Offsetting of Financial Assets and Liabilities

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

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group or similar transactions such as in the Group's trading activity.

2.7 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standards - LKAS 01 on 'Presentation of Financial Statements', each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

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

Income and expenses are not offset in the Statement of Profit or Loss of the Bank and the Group unless it is required or permitted by any accounting standard or interpretation, and as specifically disclosed in the Notes to the Financial Statements of the Bank and the Group.

2.8 Comparative Information

The comparative information is reclassified wherever necessary to conform to the current year's presentation the details of which are given in Note 54 to the Financial Statements.

2.9 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries and associates for the year ended 31 December 2017. The Financial Statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank, using consistent Accounting Policies.

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

Subsidiaries are fully-consolidated from the date on which, control is transferred to the Bank.

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

Non-controlling interests are presented separately in the Consolidated Statement of Profit or Loss and within equity in the Consolidated Statement of Financial Position, but separate from Parent shareholders' equity.

2.10 Foreign Currency Translation

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates, the transactions were affected.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the middle exchange rate of the functional currency ruling, at the date of the Statement of Financial Position. The resulting gains and losses are accounted for in the Statement of Profit or Loss.

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

(b) Transactions of the Foreign Currency Banking Unit have been recorded in accordance with Note (a) above. Net gains and losses are dealt within the Statement of Profit or Loss.

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

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

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

3. GENERAL ACCOUNTING POLICIES

Given below are the general accounting policies adopted in the presentation of financial statements. The specific accounting policies and the basis of measurement adopted by the Bank for each item in the Statement of Profit or Loss and each class of assets and liabilities in the Statement of Financial position are presented along with the notes to the Financial Statements.

3.1 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Bank and the Group the management is required to make judgments, which may have significant effects on the amounts recognized in the Financial Statements. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation of uncertainty at the date of the Statement of the Financial Position that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

The key significant accounting judgments, estimates and assumptions involving uncertainty for each type of assets, liabilities, income and expenses along with the respective carrying amounts of such items are given in the Notes to the Financial Statements, on pages 302 to 408.

3.2 Going Concern

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

3.3 Financial Instruments

Initial Recognition Date

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

Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Classification and Subsequent Measurement of Financial Assets

At inception, a financial asset is classified into one of the following categories:

- At Fair Value Through Profit or Loss
  - Held-for-trading; or
  - Designated at Fair Value Through Profit or Loss
- Loans and Receivables
- Available-for-Sale or
- Held-to-Maturity

The subsequent measurement of the financial assets depends on their classifications.

Classification and Subsequent Measurement of Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition at fair value though profit or loss. Financial liabilities are classified as 'Held-for-Trading' if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category includes derivative financial instruments entered into by the Bank and the Group that are not designated as hedging instruments in hedge relationships as defined in LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Gains or losses on liabilities held-for-trading are recognized in the Statement of Comprehensive Income.

The Bank and the Group has not designated any financial liability upon recognition, at fair value though profit or loss.

Classification and Subsequent Measurement of Other Financial Liabilities

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

Other financial liabilities include, amounts due to banks, due to other customers, debt securities and other borrowed funds and subordinated term debts. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the Effective Interest Rate (EIR).

EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation of EIR takes into account all contractual terms of the financial instruments (for example – prepayment options) and includes any fees or incremental costs that are directly attributable to the instruments and are an integral part of the EIR, but not future credit losses.

Derecognition of Financial Assets and Financial Liabilities

(a) Financial Assets

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

The Bank and the Group have transferred their rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either,

3.3 Financial Instruments (Contd.)

- The Bank and the Group have transferred substantially all the risks and rewards of the asset, or
- The Bank and the Group have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

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

(b) Financial Liabilities

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

Re-classification of Financial Assets and Liabilities

The Bank and the Group reclassify non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Bank and the Group are permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset with a fixed maturity, which has been reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognized in Equity is amortized to the Statement of Profit or Loss over the remaining life of the asset using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. In the case of a financial asset that does not have a fixed maturity, the gain or loss is recognized in the Statement of Profit or Loss when such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Statement of Comprehensive Income.

The Bank and the Group may reclassify a non-derivative trading asset out of the 'held-for-trading' category and in to the 'loans and receivables' category, if it meets the definition of loans and receivables and the Bank and the Group have the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank and the Group subsequently increase their estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate. Reclassification is at the discretion of the management, and is determined on an instrument-by-instrument basis.

The Bank and the Group do not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the Bank and the Group do not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

Offsetting of Financial Assets and Liabilities

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

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group or similar transactions such as in the Group's trading activity.

3.4 Impairment of Non-Financial Assets Other than Goodwill

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

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have

decreased. If such indication exists, the Bank and the Group estimate the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Statement of Profit or Loss.

3.5 Business Combinations and Goodwill

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

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

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

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

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

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

3.6 Standards Issued but not yet Effective as at 31 December 2017

The following Sri Lanka Accounting Standards have been issued by The Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2017.

SLFRS 9 – Financial Instruments: Classification and Measurement

Introduction

SLFRS 9 – Financial Instruments, the standard that will replace LKAS 39 – Financial Instruments Recognition and Measurement for annual period on or after 1 January 2018, with early adoption permitted. In 2016 the Bank has set up an implementation team with members from Risk, Finance and Operations teams to prepare for SLFRS 9.

The initial assessment, the gap analysis between the two standards and policy statements on financial assets and financial liabilities were completed with the approval of the Board in the year 2017.

Classification and Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The LKAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) and amortized cost. SLFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortized cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistently.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirement of LKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at PVPL. Such movements will be presented in OCI with no subsequent reclassification to the Statement of Profit or Loss, unless an accounting mismatch in profit or loss would arise.

Having completed its initial assessment, the Bank has concluded that:

1. The majority of loans and receivables to banks, loans and receivables to other customers and securities purchased under resale agreements that are classified as loans and receivables under LKAS 39 are expected to be measured at amortized cost under SLFRS 9.
2. Financial assets held-for-trading are expected to be continued to be measured at FVPL.
3. The majority of the debt securities classified as available-for-sale under LKAS 39 are expected to be measured at FVOCI.
4. Debt securities classified as held-to- maturity are expected to continue to be measured at amortized cost.

3.6 Standards Issued but not yet Effective as at 31 December 2017 (Contd.)

Hedge accounting

SLFRS 9 allows entities to continue with the hedge accounting under LKAS 39 even when other elements of SLFRS become mandatory on 1 January 2018. Based on its analysis, the Bank has decided to continue to apply hedge accounting under LKAS 39.

Impairment of Financial Assets

Overview

SLFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace

LKAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

- To calculate ECL, the Bank will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between:
  - the contractual cash flows that are due to the Bank under the contract, and
  - the cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan.

In comparison to LKAS 39, the Bank expects the impairment charge under SLFRS 9 to be more volatile than under LKAS 39 and to result in an increase in the total level of current impairment allowances.

The Bank groups its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are first recognized, the Bank recognizes an allowance based on 12-month expected credit losses.
- Stage 2 – Underperforming loans: when a loan shows a significant increase in credit risk, the Bank records an allowance for the lifetime expected credit loss.
- Stage 3 – Impaired loans: the Bank recognizes the lifetime expected credit losses for these loans. In addition, in Stage 3 the Bank accrues interest income on the amortized cost of the loan net of allowances.

The Bank considers whether there has been a significant increase in credit risk of an asset by comparing the lifetime probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment that takes into account a number of economic scenarios, in order to recognize the probability of higher losses associated with more negative economic outlooks. In addition, a significant increase in credit risk is assumed if the borrower falls more than 30 days past due in making its contractual payments, counterparties/facilities reflected coded any elevated risk industries as per the assessment performed by the Credit Risk Management Team, re-structured facilities or secondary qualitative indicators triggering a significant increase in credit risk for an asset, such as moving a customer/facility to watch list.

Individually Significant Assessment and Not Impaired Individually

Individual assessment will be performed for all the customers with objective evidence of incurred losses (under Stage 3) above the Bank's set threshold. Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there have been significant credit deterioration since origination.

Grouping financial assets measured on a collective basis

The Bank calculates ECL either on a collective or individual basis. Asset classes where Bank calculates ECL on an Individual basis includes all individually significant assets which are belong to stage 3. All assets which belong stage 1 & 2 will be assessed collectively for Impairment.

The Calculation of ECL

The Bank calculates ECL based on three probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows:

- PD : The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
- EAD : Exposure At Default is the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities.
- LGD : Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realization of any collateral. It is usually expressed as a % of the EAD.

Forward looking information

The Bank will incorporate forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs.

The Bank considers forward-looking information such as macroeconomic factors - Quantitative - GDP Growth, Inflation, Unemployment, Interest Rates, Exchange Rates, - Qualitative - Government Policies, Status of the Industry Business, Regulatory Impact and economic forecasts. To evaluate a range of possible outcomes, the Bank intends to formulate three scenarios: a base case, a worse case and a better case.

The base case scenario represents the more likely outcome resulting from the Bank's normal financial planning and budgeting process, while the better and worse case scenarios represent more optimistic or pessimistic outcomes. For each scenario, the Bank will derive an ECL and apply a probability weighted approach to determine the impairment allowance.

The Bank has performed a provisional calculation for SLFRS 9 to identify the day 1 impact and has a fair view of the potential impact of SLFRS 9. Currently the risk modelling methodologies used for impairment computations are being further reviewed and fine-tuned in line with the standard and the industry norms.

The Bank has planned to carry out a parallel run during the year 2018 to further understand the potential effect of the new standard to gain experience. Even though this standard is effective from 01 January 2018, the Institute of Chartered Accountants of Sri Lanka has granted an exemption from preparation of the interim Financial Statements for 2018. Accordingly, the Bank will be in a better position to provide the required disclosures in the ensuring financial year, for which all necessary steps are being taken.

SLFRS 16 - Leases

This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of Financial Statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. The impact on the implementation of the above Standard has not been quantified yet .

SLFRS 2 - Classification and Measurement of Share-based Payment Transactions - Amendments to SLFRS 2

The ICASL issued amendments to SLFRS 2 – Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share- based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. This Standard will become applicable if the Bank implements a new share-based plan in the future.

SLFRS - 15 Revenue from Contracts with Customers

SLFRS 15 - Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. SLFRS 15 defines principles for recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of SLFRS 15 and will be regulated by the other applicable standards (e.g., SLFRS 9 Financial Instruments: Classification and Measurement , and SLFRS 16 Leases).

Revenue under IFRS 15 will need to be recognized as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Bank is currently evaluating its impact.

4. GROSS INCOME

ACCOUNTING POLICY

The Gross Income represents the Interest Income and the Non-Interest Income earned by the Bank and the Group during the year.

Gross income is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the Group and the revenue can be reliably measured. The specific recognition criteria, for each type of Gross Income are given under the respective notes.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Interest income	37,118,699	28,618,247	37,421,114	28,960,606
Fee and commission income	2,520,532	2,253,226	3,416,002	3,046,132
Net gains/(losses) from trading	1,063,944	982,123	1,063,944	982,123
Net gains/(losses) from financial investments	569,557	211,370	733,679	440,748
Other operating income	1,247,862	1,216,770	383,020	347,296
Total	42,520,594	33,281,736	43,017,759	33,776,905

5. NET INTEREST INCOME

ACCOUNTING POLICY

The Net Interest Income represents the Gross Interest Income earned from financial assets, after setting off of interest expenses incurred on financial liabilities by the Bank and the Group during the year.

The Bank and the Group use the Effective Interest Rate (EIR) for Financial Assets and Financial Liabilities that are measured at amortized cost, held for trading or classified as available-for-sale.

Effective Interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or the financial liability.

The carrying amount of financial assets or financial liabilities are adjusted if the Bank and the Group revise their estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR. The amortized cost is calculated by taking into account any discount or premium on an acquisition, fees and costs that are an integral part of the EIR. The change in the carrying amount is recorded as 'interest income' for financial assets and 'Interest expenses' for financial liabilities.

5.1 Interest Income

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Loans and receivables - to banks	4,131	4,261	4,131	4,261
Loans and receivables - to other customers	29,648,021	23,208,511	29,658,165	23,219,544
Placements with banks	203,995	220,582	217,664	279,962
Financial investments - held-to-maturity	437,020	505,339	559,663	505,355
Financial investments - available-for-sale	4,035,110	2,499,865	4,035,110	2,499,865
Financial investments - loans and receivables	2,250,185	2,092,620	2,406,628	2,338,402
Other interest income	1,713	1,160	1,713	1,160
Sub Total	36,580,175	28,532,338	36,883,074	28,848,549
Financial assets - held-for-trading	538,524	85,909	538,040	112,057
Total Interest Income (a)	37,118,699	28,618,247	37,421,114	28,960,606

5.2 Interest Expenses

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Due to banks	889,768	1,226,752	889,768	1,226,752
Due to other customers	19,513,347	12,362,362	19,479,549	12,331,264
Debt securities issued and other borrowed funds	3,686,909	4,250,672	3,686,909	4,250,672
Subordinated term debts	2,278,561	2,291,149	2,278,561	2,291,149
Total Interest Expenses (b)	26,368,585	20,130,935	26,334,787	20,099,837
Net Interest Income (a) - (b)	10,750,114	8,487,312	11,086,327	8,860,769

5.3 Interest Income from Sri Lanka Government Securities

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Interest income	5,845,341	3,784,009	5,845,341	3,784,009

5.4 Interest Income on Impaired Financial Assets

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Interest income on impaired loans and receivables to other customers	254,934	267,141	254,934	267,141

Notional Tax Credit on Secondary Market Transactions

Any company which derives income from secondary market transactions involving any security or Treasury Bonds or Treasury Bills, on which the income tax has been deducted at the rate of 10% at the time of issue of such security, is entitled to a notional tax credit at 10% of the grossed up amount of net interest income from such secondary market transactions, to an amount of one ninth of the same. Accordingly, the net interest income earned by the Bank and the Group from such transactions has been grossed up in the Financial Statements for the year ended 31 December 2017 and the notional tax credit amounted to LKR 511.1 million (2016 - LKR 279.4 million).

6. FEE AND COMMISSION INCOME

ACCOUNTING POLICY

Income from Fee-based Activities

Fees and commission income that are earned from financial assets and financial liabilities, are recognized at the EIR and is accounted in the Statement of Profit or Loss over the life of the instrument.

Other fees and commission income on account servicing fees, investment management, fees for underwriting, advisory work, loan syndication and all other fees and commissions earned during the normal course of the business of the Bank and Group, are recognized as the related services are performed on an accrual basis. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Income from Financial Guarantees

The Bank and Group issue financial guarantees, consisting of letters of credit, guarantees and acceptances, in the normal course of its business activities. Financial guarantees are initially recognized in the Statement of Financial Position as a contingent liability at the guarantee value.

The premium received is recognized in the Statement of Profit or Loss on a straight-line basis over the life time of the guarantee and the balance amount to be amortized to the Statement of Profit or Loss after the reporting date, is recognized in the Statement of Financial Position, as Other Liabilities.

Rental Income

The rental income earned by renting out premises is recognized on an accrual basis.

6. FEE AND COMMISSION INCOME (CONTD.)

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Fees and commission income on				
Loans and receivables to other customers	600,391	580,959	600,391	580,959
Trade finance	533,207	548,065	533,207	548,065
Credit and debit cards	305,853	185,861	305,853	185,861
Due to other customers	307,074	211,466	307,074	211,466
Guarantees	356,326	347,499	356,326	347,499
Remittances	228,553	203,795	228,553	203,795
Bancassuarance	82,184	81,838	82,184	81,838
Investment banking and wealth management	-	-	505,851	521,000
Brokerage	-	-	90,642	82,495
Other financial services	98,984	82,168	247,278	140,023
Rental income	7,960	11,575	158,643	143,131
Total	2,520,532	2,253,226	3,416,002	3,046,132

7. NET GAINS/(LOSSES) FROM TRADING

ACCOUNTING POLICY

Net gains/(losses) from trading represent income from foreign exchange and include gains and losses from spot and forward contracts and other currency derivatives.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Income from foreign exchange				
- With Banks	725,700	643,878	725,700	643,878
- With Customers	338,244	338,245	338,244	338,245
Total	1,063,944	982,123	1,063,944	982,123

8. NET GAINS/(LOSSES) FROM FINANCIAL INVESTMENTS

ACCOUNTING POLICY

All gains and losses from changes in fair value and dividend income from financial investments 'held-for-trading' or as 'available-for-sale' are included under Net Gains/(Losses) from Financial Investments.

Dividend income is recognized when the Bank and the Group's right to receive the payment is established.

Income from Equities – includes the results of buying and selling and changes in the fair value of equity securities.

Income from Debt Securities – includes the realized and unrealized gains of debt securities.

Income from Unit Trusts – includes the dividend income and changes in the fair value of unit trust investments.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Financial Investments – Held-for-Trading				
Debt Securities	35,957	14,696	35,957	14,696
Equities	-	-	1,550	58,008
Unit Trusts	-	96,263	166,948	271,596
Sub total	35,957	110,959	204,455	344,300
Financial Investments – Available-for-Sale				
Debt Securities	337,741	61,998	337,741	61,998
Equities	195,859	38,413	191,483	34,450
Sub total	533,600	100,411	529,224	96,448
Total	569,557	211,370	733,679	440,748

9. OTHER OPERATING INCOME

ACCOUNTING POLICY

Other Operating income includes capital gains/(losses), dividend income, foreign exchange gains, gains from property, plant & equipment and gains from investment properties.

Dividend Income

Dividend income from group investments in subsidiary companies and associate companies and other investments in shares held for other than trading purposes, are recognized when the Bank's and the Group's right to receive the payment, is established.

Capital Gains/(Losses)

Capital gains/(losses) from the sale of securities and from the sale of Group investments represent the difference between the sales proceeds from sale of such investments and the carrying value of such investments at the time of disposal. This is recognized as an item of other income in the year, in which significant risks and rewards of the ownership are transferred to the buyer.

Foreign Exchange Gains

The change in exchange rate differences arising from the valuation of the retained profits held in foreign currency is included under 'foreign exchange gains'.

Gains on Sale of Property, Plant & Equipment

Gains on sale of property, plant & equipment represent the difference between the sales proceeds and the net book value of property, plant & equipment that are disposed during the year.

Gains on Investment Properties

Gains from investment properties arise from the changes in the fair values of investment properties and are included in the Statement of Profit or Loss, in the year in which they arise.

9. OTHER OPERATING INCOME (CONTD.)

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Dividend income from securities				
- Non-quoted investments	28,697	9,646	45,869	15,025
Dividend income from group investments				
- Non-quoted investments	1,006,702	981,893	-	-
Capital gains from sale of securities	23,470	260	23,470	228
Foreign exchange gains	148,081	203,242	148,235	203,242
Gains on sale of property, plant & equipment	19,810	9,109	22,502	11,883
Gains on investment properties	-	-	118,848	104,000
Others	21,102	12,620	24,096	12,918
Total	1,247,862	1,216,770	383,020	347,296

10. IMPAIRMENT FOR LOANS AND RECEIVABLES AND OTHER LOSSES

ACCOUNTING POLICY

The Bank and the Group recognize the changes in the impairment provisions for loans and receivables to banks and other customers, which are assessed as per the LKAS 39 – Financial Instruments: Recognition and Measurement. The methodology adopted by the Bank and the Group is explained in Note 25.5 to these Financial Statements. The Bank and the Group also makes provisions / write-backs for impairment of investments in subsidiaries and associate companies and other financial assets, when there is a permanent diminution in the carrying value of these investments.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Loans and receivables - To other customers				
Charge/(write-back) to the Statement of Profit or Loss				
- Impairment on individually significant loans [Note 25.5 (b)]	340,330	1,116,072	340,330	1,116,072
- Impairment on collective loan portfolio [Note 25.5 (b)]	662,238	277,097	662,238	277,097
- Write-offs/(recoveries)	246,157	(14,483)	246,157	(14,483)
	1,248,725	1,378,686	1,248,725	1,378,686
Investments				
Charge/(write-back) to the Statement of Profit or Loss	9,829	(11,733)	41,572	45,887
Total	1,258,554	1,366,953	1,290,297	1,424,573

11. PERSONNEL EXPENSES

ACCOUNTING POLICY

Personnel expenses include salaries and bonus, terminal benefit charges, share-based payments and other related expenses. The provisions for bonus is recognized when it is probable that an outflow of resources, embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

Defined Contribution Plans

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods, as defined in the Sri Lanka Accounting Standard – LKAS 19 (Employee Benefits).

Employees' Provident Fund and Employees' Trust Fund

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

The above expenses are identified as contributions to 'Defined Contribution Plans' as defined in the Sri Lanka Accounting Standard – LKAS 19.

Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Accordingly, the pension fund and staff gratuity were considered as defined benefit plans as per Sri Lanka Accounting Standard – LKAS 19 (Employee Benefits).

The contributions to the defined benefit plans are recognized in the Statement of Profit or Loss, based on an actuarial valuation carried out for the gratuity liability and the pension fund of the Bank and the Group in accordance with LKAS 19.

The basis of measurement, assumptions used in actuarial valuations are given in detail in Note 40 to these Financial Statements.

Share Based Payments

Share-based payments represent the Bank's cost on the Equity Linked Compensation Plan (ELCP) which is more fully described in Note 43.3 and 46.3 to these Financial Statements.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Salary and bonus	2,852,441	2,695,598	3,206,779	3,008,876
Contribution to Employees' Provident Fund	264,683	253,722	276,838	263,190
Contribution to Employees' Trust Fund	52,937	50,744	55,564	52,365
Contribution to defined benefit plan				
- Pension Fund [Note 40.2 (a)]	9,592	16,927	9,592	16,927
- Gratuity [Note 40.1 (a)]	82,596	62,754	117,456	77,927
Share-based payments [Note 43.3 (b)]	(13,841)	13,505	(13,841)	13,505
Others	362,931	341,300	372,463	359,800
Total	3,611,339	3,434,550	4,024,851	3,792,590

12. OTHER EXPENSES

ACCOUNTING POLICY

Other expenses include operating expenses of the Bank and the Group which are recognized in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to the Statement of Profit or Loss in arriving at the profit for the year. Other expenses excluding depreciation of property, plant & equipment and amortization of intangible assets are recognized on an accrual basis.

Depreciation of property plant equipment and amortization of Intangible Assets are based on their useful economic lifetime. The basis of measurement and useful economic lifetime of intangible assets and Property Plant and Equipment are given in Notes 33 and 34 to these financial statements.

12. OTHER EXPENSES (CONTD.)

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Directors' emoluments	31,401	29,330	35,212	33,572
Auditors' remuneration	8,391	7,770	11,084	10,133
Fees for other audit services	2,858	2,945	2,858	2,945
Non-audit fees to auditors	9,509	6,886	13,283	9,049
Professional and legal expenses	81,722	46,768	97,702	60,561
Office administration and establishment expenses	1,476,559	1,284,654	1,807,730	1,540,979
Depreciation of property, plant & equipment	326,169	329,327	373,203	364,909
Amortization of intangible assets	97,079	105,464	104,496	126,077
Deposit insurance expenses	251,231	211,492	251,231	211,492
Others	1,449,777	989,658	1,479,285	1,006,642
Total	3,734,696	3,014,294	4,176,084	3,366,359

Directors' emoluments include fees paid to Non-Executive Directors. Remunerations paid to Executive Directors are included under salary and bonus in Note 11.

13. TAX ON FINANCIAL SERVICES

ACCOUNTING POLICY

Tax on Financial Services include Value Added Tax and Nation Building Tax on Financial Services.

Value Added Tax on Financial Services

The base for the computation of Value Added Tax on Financial Services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation of property, plant and equipment computed at the prescribed rates. The regulatory tax rate for the current year is 15%. (The regulatory tax rate for the periods from 02 May 2016 to 11 July 2016 and from 01 November 2016 to 31 December 2016 was 15%. The rate for the balance period was 11%).

Nation Building Tax on Financial Services

The base applicable for Value Added Tax on Financial Services is also applied for the computation of the Nation Building Tax on Financial Services and the regulatory tax rate was 2% (2016 – 2%).

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Value Added Tax on financial services	1,364,409	903,500
Nation Building Tax on financial services	183,041	144,500
Total	1,547,450	1,048,000

14. SHARE OF ASSOCIATE COMPANIES' PROFITS/(LOSSES)

The Group's share of profit/(loss) of an investment in an associate company which is recognized as per the equity method, is shown on the face of the Statement of Profit or Loss. This is the profit/(loss) attributable to equity holders of the associate company and therefore, is profit/(loss) after tax and non-controlling interests of the subsidiary companies and the associates, if any.

The Bank has not recognized profits/(losses) from its associate company, Ayojana Fund (Pvt) Ltd, as the company is under liquidation. Please refer Note 31 to these Financial Statements.

15. TAXATION

ACCOUNTING POLICY

As per Sri Lanka Accounting Standard – LKAS 12 – 'Income Taxes', the tax expense/tax income is the aggregate amount included in the determination of profit or loss for the year in respect of income tax and deferred tax. The tax expense/income is recorded in the Statement of Profit or Loss except to the extent that it relates to items recognized directly in Equity in which case it is recognized in the Other Comprehensive Income.

The tax rates and laws used to compute the tax expense are those that are enacted or substantively enacted by the reporting date.

The components of the income tax expense for the years ended 31 December 2017 and 2016 are:

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Current Tax Expense				
Taxation based on the profit for the year	1,333,766	781,128	1,432,720	911,851
Adjustment in respect of current income tax of the prior years	220,106	221,872	240,070	241,872
Total current tax expense	1,553,872	1,003,000	1,672,790	1,153,723
Deferred Tax Expense				
Origination and reversal of temporary differences (Note 15.3 and 39)	94,469	113,733	539,197	76,864
Total income tax charged to the Statement of Profit or Loss (Note 15.1)	1,648,341	1,116,733	2,211,987	1,230,587
Effective tax rate (including deferred tax) (%)	22	21	31	24
Effective tax rate (excluding deferred tax) (%)	21	19	23	23

15.1 Reconciliation of the Accounting Profit to Income Tax Expense

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Operating profit before tax on financial services	7,547,420	5,335,004	7,191,740	5,093,546
Income tax for the year (accounting profit @ applicable tax rate)	2,112,940	1,492,965	2,316,083	1,660,292
Tax effect on				
Disallowable expenses	2,261,142	2,182,186	2,265,734	2,300,656
Tax deductible expenses	(2,343,427)	(2,098,799)	(2,349,791)	(2,111,318)
Exempt income	(750,497)	(697,178)	(856,427)	(839,733)
Tax effect of leasing / tax losses	53,608	(98,046)	57,121	(98,046)
Taxation based on the profits for the year	1,333,766	781,128	1,432,720	911,851
Adjustment in respect of current income tax of the prior years	220,106	221,872	240,070	241,872
Total current tax expense	1,553,872	1,003,000	1,672,790	1,153,723
Deferred tax expense (Note 15.3 and 39)	94,469	113,733	539,197	76,864
Total income tax charged to the Statement of Profit or Loss	1,648,341	1,116,733	2,211,987	1,230,587

15.2 Applicable Income Tax rates

The applicable income tax rates of the Bank and the subsidiary companies for the years 2017 and 2016 are as follows:

		2017	2016
		%	%
National Development Bank PLC		28	28
NDB Capital Holdings Ltd.		28	28
Development Holdings (Pvt) Ltd.	On rental income	2 on turnover	2 on turnover
	On other income	28	28
NDB Investment Bank Ltd.		28	28
NDB Securities (Pvt) Ltd.		28	28
NDB Wealth Management Ltd.	On unit trust income	10	10
	On other income	28	28
NDB Zephyr Partners Lanka (Pvt) Ltd.	Tax exempted	–	–
NDB Zephyr Partners Ltd.* (Mauritius)		15	15
NDB Capital Ltd. (Bangladesh)		0.3	0.3

* The Company is, however, entitled to a tax credit equivalent to the higher of actual foreign tax suffered or 80% of the Mauritius tax chargeable on its foreign source income.

15.3 Deferred Tax

The following table shows the deferred tax expense recorded in the Statement of Profit or Loss and the Other Comprehensive Income due to the changes in the deferred tax assets and liabilities:

	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Other Comprehensive Income	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Other Comprehensive Income
	2017	2017	2017	2017	2016	2016	2016	2016
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
BANK								
Provisions	-	-	-	-	-	-	298	-
Revaluation of financial investments available-for-sale	-	223,474	-	308,218	84,744	-	-	(13,776)
Revaluation gains on freehold land and buildings [Note 15.3 (a)]	-	404,873	-	174,143	-	230,729	-	-
Other temporary differences	155,287	898,599	94,469	3,037	121,906	767,712	113,435	(10,544)
Total	155,287	1,526,946	94,469	485,398	206,650	998,441	113,733	(24,320)
GROUP								
Provisions	-	-	-	-	-	-	298	-
Revaluation of financial investments available-for-sale	12,357	223,474	-	298,266	87,156	-	-	(33,277)
Revaluation gains on investment property [Note 15.3 (a)]	-	412,597	412,597	-	-	-	-	-
Revaluation gains on freehold land and buildings [Note 15.3 (a)]	-	441,970	-	211,241	-	230,729	-	-
Other temporary differences	174,987	905,795	126,600	2,902	172,647	773,954	76,566	(11,529)
Total	187,344	1,983,836	539,197	512,409	259,803	1,004,683	76,864	(44,806)

15.3 (a) Deferred tax arising on revaluation gains on freehold land and investment property

With the introduction of the new Inland Revenue Act, No 24 of 2017 which will be effective from 01 April 2018, the Bank and the Group have recorded the deferred tax liability on the cumulative revaluation gains on freehold land and investment property respectively in accordance with the LKAS 12, Income Taxes.

Accordingly, the deferred tax liability arising on revaluation gains on investment property has been recorded in the Statement of Profit or Loss and the amount of deferred tax liability on the revaluation gains on freehold land has been recorded in equity through Other Comprehensive Income during the reporting period.

16. EARNINGS PER SHARE

ACCOUNTING POLICY

The Bank and the Group present the Basic and Diluted Earnings per Share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting both the profit or loss attributable to the equity holders of the parent and the weighted average number of ordinary shares outstanding for the effects of the total shares issued under the ELCP and the shares issued as scrip dividends, as required by the Sri Lanka Accounting Standard 'Earnings per Share' (LKAS 33):

16.1 Earnings per share: Basic / Diluted

	BANK		GROUP	
	2017	2016	2017	2016
Amount Used as the Numerator				
Profit attributable to equity holders of the parent (LKR '000)	4,351,629	3,170,271	3,489,752	2,691,014
Amount Used as the Denominator				
Weighted average number of ordinary shares [Note 16.1 (a)]	171,485,705	171,473,612	171,485,705	171,473,612
Basic / Diluted Earnings per Share (LKR)	25.38	18.49	20.35	15.69

The Earning Per Share for the comparative year has been restated to reduce the effect of scrip dividends paid for the year 2016; The reported Earnings Per Share in the Annual Report of the year 2016 was LKR 19.19 and LKR 16.29 for the Bank and the Group respectively.

16.1 (a) Weighted Average Number of Ordinary Shares for Basic / Diluted EPS

	BANK & GROUP	
	2017	2016
Number of shares held as at 1 January	165,185,506	165,167,342
Add : Weighted average effect of number of shares issued due to ELCP Option [Note 43]	-	6,071
	165,185,506	165,173,413
Add: Number of shares issued due to final scrip dividends for the year 2016 [Note 43]	6,300,199	6,300,199
Number of shares held as at 31 December	171,485,705	171,473,612

17. DIVIDEND PER SHARE

ACCOUNTING POLICY

Interim and final dividends are recognized and accrued when the dividends are recommended and declared by the Board of Directors in accordance with the Companies Act No. 07 of 2007.

The Bank paid an interim cash dividend of LKR 2.00 per share in November 2017 and has approved a final dividend of LKR 7.00 per share for the year 2017, comprising of a cash dividend of LKR 2.00 per share and a scrip dividend of LKR 5.00 per share. Accordingly, the total dividend per share for the year 2017 was LKR 9.00. The Bank paid a total dividend of LKR 8.00 per share comprising of a cash dividend of LKR 2.00 per share and a scrip dividend of LKR 6.00 share for the year 2016.

	BANK	
	2017	2016
	LKR	LKR
Interim dividend per share - Cash	2.00	-
Final dividend per share - Cash	2.00	2.00
- Scrip	5.00	6.00
Total dividend per share	9.00	8.00

17. DIVIDEND PER SHARE (CONTD.)

17.1 Dividends to Equity Holders

	BANK & GROUP			
	Dividend per Share	2017	Dividend per Share	2016
	LKR	LKR '000	LKR	LKR '000
Final scrip dividend paid for the prior year	6.00	991,113	-	-
Final cash dividend paid for the prior year	2.00	330,371	4.00	660,669
Interim cash dividend paid for the current year	2.00	342,971	-	-
Gross dividends paid during the year	10.00	1,664,455	4.00	660,669
Reversal of dividends declared in prior years	–	(1,866)	-	(6,715)
Dividends to equity holders		1,662,589		653,954

18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial instruments in the Statement of Financial Position are measured on an ongoing basis either at fair value or at amortized cost. The Accounting Policies describe how each category of financial instrument is measured and how income and expenses, including fair value gains and losses are recognized. The following tables analyze the carrying amount of the financial instruments by category as defined in Sri Lanka Accounting Standard – LKAS 39 – 'Financial Instruments: Recognition and Measurement' under headings of the Statement of Financial Position:

As at 31 December 2017	BANK				
	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets					
Cash and cash equivalents	-	-	5,274,466	-	5,274,466
Balances with the Central Bank of Sri Lanka	-	-	15,364,920	-	15,364,920
Placements with banks	-	-	840,684	-	840,684
Derivative financial instruments	2,471,706	-	-	-	2,471,706
Financial assets held-for-trading	1,216,439	-	-	-	1,216,439
Loans and receivables to banks	-	-	15,478	-	15,478
Loans and receivables to other customers	-	-	274,013,970	-	274,013,970
Financial investments - loans and receivables	-	-	21,171,508	-	21,171,508
Financial investments - available-for-sale	-	-	-	52,620,584	52,620,584
Financial investments - held-to-maturity	-	3,524,051	-	-	3,524,051
Other financial assets	-	-	19,565	-	19,565
Total financial assets	3,688,145	3,524,051	316,700,591	52,620,584	376,533,371

	Held-for-Trading	Amortized Cost	Total
	LKR '000	LKR '000	LKR '000
Liabilities			
Due to banks	-	20,236,719	20,236,719
Derivative financial instruments	936,754	-	936,754
Due to other customers	-	273,369,023	273,369,023
Debt securities issued and other borrowed funds	-	28,107,045	28,107,045
Subordinated term debts	-	19,336,855	19,336,855
Other financial liabilities	-	3,053,299	3,053,299
Total financial liabilities	936,754	344,102,941	345,039,695

As at 31 December 2017	GROUP				
	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets					
Cash and cash equivalents	-	-	5,343,314	-	5,343,314
Balances with the Central Bank of Sri Lanka	-	-	15,364,920	-	15,364,920
Placements with banks	-	-	840,684	-	840,684
Derivative financial instruments	2,471,706	-	-	-	2,471,706
Financial assets held-for-trading	2,659,883	-	-	-	2,659,883
Loans and receivables to banks	-	-	15,478	-	15,478
Loans and receivables to other customers	-	-	274,063,310	-	274,063,310
Financial investments - loans and receivables	-	-	23,316,328	-	23,316,328
Financial investments - available-for-sale	-	-	-	52,975,690	52,975,690
Financial investments - held-to-maturity	-	4,077,096	-	-	4,077,096
Other financial assets	-	-	446,909	-	446,909
Total financial assets	5,131,589	4,077,096	319,390,943	52,975,690	381,575,318

	Held-for-Trading	Amortized Cost	Total
	LKR '000	LKR '000	LKR '000
Liabilities			
Due to banks	-	20,236,719	20,236,719
Derivative financial instruments	936,754	-	936,754
Due to other customers	-	273,041,417	273,041,417
Debt securities issued and other borrowed funds	-	28,107,045	28,107,045
Subordinated term debts	-	19,336,855	19,336,855
Other financial liabilities	-	3,085,308	3,085,308
Total financial liabilities	936,754	343,807,344	344,744,098

As at 31 December 2016	BANK				
	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets					
Cash and cash equivalents	-	-	5,018,438	-	5,018,438
Balances with the Central Bank of Sri Lanka	-	-	11,815,277	-	11,815,277
Placements with banks	-	-	3,297,262	-	3,297,262
Derivative financial instruments	1,544,621	-	-	-	1,544,621
Financial assets held-for-trading	832,694	-	-	-	832,694
Loans and receivables to banks	-	-	37,032	-	37,032
Loans and receivables to other customers	-	-	227,639,844	-	227,639,844
Financial investments - loans and receivables	-	-	41,992,533	-	41,992,533
Financial investments - available-for-sale	-	-	-	31,500,020	31,500,020
Financial investments - held-to-maturity	-	4,137,601	-	-	4,137,601
Other financial assets	-	-	570,115	-	570,115
Total financial assets	2,377,315	4,137,601	290,370,501	31,500,020	328,385,437

18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

	Held-for-Trading	Amortized Cost	Total
	LKR '000	LKR '000	LKR '000
Liabilities			
Due to banks	-	17,124,944	17,124,944
Derivative financial instruments	474,770	-	474,770
Due to other customers	-	203,866,547	203,866,547
Debt securities issued and other borrowed funds	-	59,233,264	59,233,264
Subordinated term debts	-	19,446,501	19,446,501
Other financial liabilities	-	2,777,519	2,777,519
Total financial liabilities	474,770	302,448,775	302,923,545

As at 31 December 2016	GROUP				
	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets					
Cash and cash equivalents	-	-	5,139,389	-	5,139,389
Balances with the Central Bank of Sri Lanka	-	-	11,815,277	-	11,815,277
Placements with banks	-	-	3,297,262	-	3,297,262
Derivative financial instruments	1,544,621	-	-	-	1,544,621
Financial assets held-for-trading	3,661,530	-	-	-	3,661,530
Loans and receivables to banks	-	-	37,032	-	37,032
Loans and receivables to other customers	-	-	227,679,939	-	227,679,939
Financial investments - loans and receivables	-	-	43,896,593	-	43,896,593
Financial investments - available-for-sale	-	-	-	31,899,259	31,899,259
Financial investments - held-to-maturity	-	4,946,120	-	-	4,946,120
Other financial assets	-	-	418,456	-	418,456
Total financial assets	5,206,151	4,946,120	292,283,948	31,899,259	334,335,478

	Held-for-Trading	Amortized Cost	Total
	LKR '000	LKR '000	LKR '000
Liabilities			
Due to banks	-	17,124,944	17,124,944
Derivative financial instruments	474,770	-	474,770
Due to other customers	-	203,515,828	203,515,828
Debt securities issued and other borrowed funds	-	59,233,264	59,233,264
Subordinated term debts	-	19,446,501	19,446,501
Other financial liabilities	-	2,842,867	2,842,867
Total Financial Liabilities	474,770	302,163,404	302,638,174

19. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

For the purpose of reporting in the Statement of Financial Position, cash and cash equivalents comprise of cash in hand and balances with banks. The cash in hand comprises of both local currency and foreign currency.

The balances of cash in hand are recorded at book value and the balances with banks are carried at amortized cost in the Statement of Financial Position. For the purpose of the Statement of Cash Flow, cash and cash equivalents consist of cash and short-term deposits as defined above, net of unfavourable Nostro balances.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Local currency in hand	2,801,793	2,543,219	2,801,888	2,543,306
Foreign currency in hand	109,071	121,320	109,111	121,339
Balances with banks	2,363,602	2,353,899	2,432,315	2,474,744
Total	5,274,466	5,018,438	5,343,314	5,139,389

20. BALANCES WITH THE CENTRAL BANK OF SRI LANKA

Balances with the Central Bank of Sri Lanka includes the cash balance that is required to be maintained with the Central Bank of Sri Lanka as per the provisions of Section 93 of the Monetary Law Act.

The minimum cash reserve requirement was 7.5% of the Rupee deposit liabilities as at 31 December 2017 (7.5% as at 31 December 2016). This reserve requirement is not applicable for the foreign currency deposit liabilities of the Domestic Banking Unit and the Foreign Currency Banking Unit.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Statutory balances with the Central Bank of Sri Lanka	15,364,920	11,815,277	15,364,920	11,815,277
Total	15,364,920	11,815,277	15,364,920	11,815,277

21. PLACEMENTS WITH BANKS

ACCOUNTING POLICY

Placements with Banks include short-term deposits placed in banks and are subjected to insignificant risk of changes in fair value, and are used by the Bank and the Group in the management of its short-term commitments. They are recorded in the Financial Statements at their face values or the gross values, where appropriate.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Placements – in Sri Lanka	840,684	3,297,262	840,684	3,297,262
Total	840,684	3,297,262	840,684	3,297,262

22. DERIVATIVE FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

Derivatives are financial instruments that derive their values in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorized as 'trading' unless they are designated as hedging instruments.

The Bank and the Group use derivatives such as currency SWAPs, forward foreign exchange contracts and currency options. Derivatives are recorded at fair value and are recorded as assets when their fair value is positive and as liabilities when their fair value is negative. The derivatives are valued using valuation techniques which consider current market interest rates, forward interest rates and spot and forward exchange rates. Where the initially recognized fair value of a derivative contract is based on a valuation model that uses inputs that are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities.

The changes in the fair value of derivatives are included in 'Net Gains/(Losses) from trading except the currency SWAP entered with the Central Bank of Sri Lanka. It is assumed that the SWAP arrangement that the Bank has, with Central Bank of Sri Lanka, would be renewed annually. All derivatives are initially recognized and subsequently measured at fair value with all revaluation gains recognized in the Statement of Profit or Loss (except where cash flow of the net investment hedging has been achieved in which case the effective portion of changes in fair value is recognized within Other Comprehensive Income).

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Bank only has hedges of highly probable future cash flows attributable to a recognized asset or liability or a forecast transaction (cash flow hedge).

Hedge Accounting

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception, the Bank and the Group document the transaction, the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank and the Group also document their assessment, both at the inception of the hedge and on an ongoing basis, if the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash Flow Hedge

The effective portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the Statement of Profit or Loss.

The amounts accumulated in Equity are reclassified to the Statement of Profit or Loss in the periods in which the hedged items, affect, profit or loss. When a hedging instrument is expired or is sold, or when a hedge no longer meets the criteria for hedge accounting. Any cumulative gain or loss existing in Equity at that time remains in Equity and is recognized when the forecast transaction is ultimately recognized in the Statement of Profit or Loss. When a forecast transaction is no longer expected to occur, the cumulative gains or losses that were reported in Equity are immediately transferred to the Statement of Profit or Loss.

The changes in the fair value of any derivative instrument which do not qualify for hedge accounting are recognized immediately in the Statement of Profit or Loss.

	BANK & GROUP			
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
	2017	2017	2016	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Currency options	-	-	331	331
Forward exchange contracts	1,125,844	936,754	401,670	474,439
Currency SWAP	1,345,862	-	1,142,620	-
Total	2,471,706	936,754	1,544,621	474,770

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amounts indicate the volume of transactions outstanding as at 31 December 2017 and are indicative of neither the market risk nor the credit risk:

		BANK & GROUP					
		Financial Assets	Financial Liabilities	Notional Amount	Financial Assets	Financial Liabilities	Notional Amount
		2017	2017	2017	2016	2016	2016
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Currency options	– Sales	-	-	-	-	331	55,623
	– Purchases	-	-	-	331	-	55,623
Forward exchange contracts	– Sales	968,875	95,914	96,607,160	212,632	117,551	72,365,808
	– Purchases	156,969	840,840	97,197,548	189,038	356,888	72,388,358
Currency SWAP	– Sales	-	-	-	-	-	-
	– Purchases	1,345,862	-	5,741,250	1,142,620	-	5,617,500
Total		2,471,706	936,754	199,545,958	1,544,621	474,770	150,482,912

22.1 Currency SWAP

The Bank raised USD 75 million during the year through foreign borrowings for a period of eight years, against which a SWAP arrangement was entered into with the Central Bank of Sri Lanka for 50 per cent of the borrowings value. The SWAP arrangement will be renewed annually over the tenor of the borrowings.

As per Sri Lanka Accounting Standard – LKAS 39 – Financial Instruments: Recognition and Measurement, the Bank identified this particular transaction as a 'Cash Flow Hedge' after documenting the hedge relationship.

The objective of the hedge was to reduce the variability of the capital portion of cash flows of a foreign currency denominated borrowings attributable to changes in LKR/USD exchange rate.

A brief description of the cash flow hedge is given below:

22.1 (a) Cash Flow Hedge

Details	Description of the Hedge
Hedged instrument	SWAP contract – Renewable every year
	Counterparty – Central Bank of Sri Lanka
	Notional Amount – USD 37.5 million. 50% of the total borrowing that is hedged.
Hedged item	USD denominated borrowing – USD 75 million with a tenor of 8 years and grace period of 2 years. Repayment periods commenced from October 2016 and equal instalments are paid semi-annually. The Balance as at 31 December 2017 was USD 57 million. The hedge item represent the six instalments payable after 1 January 2019.
The periods when the cash flows are expected to occur	As given above
The amount recognized in Other Comprehensive Income during the year	LKR 70 million debit to the cash flow hedge reserve
Fair Value of the Hedged item as at 31 December 2017	LKR 5,741 million
Fair Value of the Hedged instrument as at 31 December 2017	LKR 1,346 million
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur	None
The amount that was reclassified from equity to profit or loss as a reclassification adjustment	None

22.1 (b) Total Amount Recognized in the Statement of Comprehensive Income Relating to the Cash Flow Hedge

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Gains/(losses) on adjustment of fair value [Note 55(b)]	203,242	301,207
Amortization adjustment of day one difference on the SWAP transaction	(273,581)	(355,219)
Gains/(losses) on cash flow hedges	(70,339)	(54,012)

22.1 (c) The Expected Impact to the Statement of Financial Position on the Cash Flow Hedge is as follows:

	Less than One Year	More than One Year
	LKR million	LKR million
Forecast receivable cash flow	5,741	-
Forecast payable cash flow	(5,738)	(5,741)
	3	(5,741)

The expected impact to the Statement of Financial Position is forecasted with the assumption that the currency SWAP with Central Bank of Sri Lanka is renewed annually.

23. FINANCIAL ASSETS HELD-FOR-TRADING

ACCOUNTING POLICY

Financial assets held-for-trading consist of quoted equity securities, Unit Trust Investments and Sri Lanka Government Debt Securities, that have been acquired principally for the purpose of selling or repurchasing in the near term, and are recorded at fair values using assumptions that a market participant would make, when valuing such instruments. The quoted equity securities and the Unit Trust Investments are valued using the market prices published by the Colombo Stock Exchange. Sri Lanka Government Debt Securities are valued using discounted cash flow techniques which incorporate market interest rates for investments in Government Securities.

The changes in the fair value during the year are recognized in "Net gains/(losses) from financial investments" in the Statement of Profit or Loss. Dividend income is recorded in "Net gains/(losses) from financial investments" according to the terms of the contract, or when the right to receive the payment has been established.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Government Securities - treasury bills	743,752	-	743,752	-
Sri Lanka Government Securities - treasury bonds	472,687	832,694	472,687	832,694
Equity Securities	-	-	496,269	392,944
Investments in Unit Trusts	-	-	947,175	2,435,892
Total	1,216,439	832,694	2,659,883	3,661,530

24. LOANS AND RECEIVABLES TO BANKS

ACCOUNTING POLICY

Loans and receivables to Banks include refinance lending to other banks with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables to banks are subsequently measured at amortized cost using the EIR, less allowance for impairment. The amortization is included in 'interest income' in the Statement of Profit or Loss. The losses arising from impairment are recognized in the Statement of Profit or Loss as 'impairment for loans and receivables and other losses'.

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Gross loans and receivables - Refinance loans in local currency	15,478	37,032
Less: Allowance for impairment charges for loans and receivables to banks	-	-
Net loans and receivables - Refinance loans in local currency	15,478	37,032

25. LOANS AND RECEIVABLES TO OTHER CUSTOMERS

ACCOUNTING POLICY

Loans and receivables to other customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

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

After initial measurement, 'loans and receivables to other customers' are subsequently measured at amortized cost using the EIR, less allowance for impairment. The amortization is included in 'interest income' in the Statement of Profit or Loss. The losses arising from impairment are recognized in the Statement of Profit or Loss as 'impairment for loans and receivables and other losses'.

Write-off of Loans and Receivables to Other Customers

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

Rescheduled Loan Facilities

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

Collateral Valuation

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

To the extent possible, the Bank and the Group use active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

25. LOANS AND RECEIVABLES TO OTHER CUSTOMERS (CONTD.)

Leasing and Hire Purchases

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

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Gross loans and receivables to other customers	278,801,068	233,679,116	278,850,408	233,719,211
Less: Allowance for impairment charges for loans and receivables to other customers [Note 25.5 (a)]	4,787,098	6,039,272	4,787,098	6,039,272
Net loans and receivables to other customers	274,013,970	227,639,844	274,063,310	227,679,939

25.1 Loans and Receivables to Other Customers – By Product

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Long-term loans	71,927,856	61,889,700	71,927,856	61,889,700
Medium and short-term loans	62,482,588	49,899,671	62,482,588	49,899,671
Overdrafts	46,975,860	35,871,840	46,928,035	35,826,356
Trade finance loans	38,211,361	32,678,627	38,211,361	32,678,627
Consumer loans	23,280,985	22,459,289	23,280,985	22,459,289
Leasing and hire purchases (Note 25.6)	16,037,265	15,834,304	16,037,265	15,834,304
Housing loans	10,256,059	9,460,115	10,256,059	9,460,115
Credit Cards	1,910,923	1,189,488	1,910,923	1,189,488
Pawning	185,402	122,755	185,402	122,755
Staff loans	1,588,628	1,453,984	1,685,793	1,539,563
Islamic loans	5,944,141	2,819,343	5,944,141	2,819,343
Total	278,801,068	233,679,116	278,850,408	233,719,211

25.2 Loans and Receivables to Other Customers – By Currency

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Rupee	211,791,178	180,001,419	211,840,518	180,041,514
United States Dollar	66,792,035	53,340,765	66,792,035	53,340,765
Great Britain Pound	31,991	4,522	31,991	4,522
Euro	173,121	327,975	173,121	327,975
Others	12,743	4,435	12,743	4,435
Total	278,801,068	233,679,116	278,850,408	233,719,211

25.3 Loans and Receivables to Other Customers – By Industry

	BANK			
	2017		2016	
	LKR '000	%	LKR '000	%
Food, beverages and tobacco	14,001,050	5	11,371,240	5
Agriculture, agro-business and fisheries	32,629,800	11	25,325,854	11
Textiles and garments	18,969,889	7	19,120,305	8
Wood and paper products	5,020,287	2	2,390,848	1
Leather and plastic products	5,053,344	2	4,614,673	2
Metals, chemicals and engineering	25,207,149	9	23,765,894	10
Hotels and tourism	15,493,771	6	12,101,861	5
Utilities	18,821,031	7	10,907,963	5
Constructions and housing finance	29,547,101	10	24,178,744	10
Services	51,585,253	18	49,222,685	21
Transport	7,165,192	3	5,704,590	2
Consumer	21,427,910	8	17,667,666	8
Trading	33,836,643	12	27,276,542	12
Others	42,648	-	30,251	–
Total	278,801,068	100	233,679,116	100

25.4 Loans and Receivables to Other Customers – By Province

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Western Province	235,734,987	196,837,459	235,784,327	196,877,554
Southern Province	9,415,339	8,480,695	9,415,339	8,480,695
North-Western Province	10,103,699	7,217,048	10,103,699	7,217,048
Central Province	7,916,888	7,010,183	7,916,888	7,010,183
Northern Province	2,121,447	2,113,306	2,121,447	2,113,306
Sabaragamuwa Province	4,703,422	4,172,942	4,703,422	4,172,942
North-Central Province	3,858,322	3,184,195	3,858,322	3,184,195
Eastern Province	2,157,425	2,324,920	2,157,425	2,324,920
Uva Province	2,789,539	2,338,368	2,789,539	2,338,368
Total	278,801,068	233,679,116	278,850,408	233,719,211

The province-wise disclosure is made based on the location of the branch from which the facilities have been disbursed.

25.5 Allowance for Impairment Charges for Loans and Receivables to Other Customers

ACCOUNTING POLICY

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

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

Loans and receivables to other customers that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes into account data from the loan portfolio such as, loan ownership types, levels of arrears, industries etc. and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation rate, interest rates, and exchange rates).

Individually Assessed Loans and Receivables to Other Customers

The criteria used to determine that there is such objective evidence includes:

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

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

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

Collectively Assessed Loans and Receivables to Other Customers

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the credit risk characteristics such as asset type, industry, past-due status and other relevant factors.

Impairment is assessed on a collective basis in two circumstances:

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

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

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

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

25.5 (a) Allowance for Impairment Charges for Loans and Receivables to Other Customers

	BANK & GROUP											
	Long-term Loans	Medium and Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Leasing & Hire Purchases	Housing Loans	Credit Cards	Pawning	Islamic Banking Loans	Staff Loans	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January 2017	1,134,339	2,694,590	1,019,074	436,110	429,708	195,614	47,980	72,876	4,626	846	3,509	6,039,272
Charges/(reversals) for the Year	29,822	256,688	547,564	(79,408)	119,658	(10,181)	(221)	138,197	(392)	937	(96)	1,002,568
Amounts written off	(60,233)	(1,621,652)	(82,967)	(107,359)	(331,249)	(32,639)	-	(18,643)	-	-	-	(2,254,742)
As at 31 December 2017	1,103,928	1,329,626	1,483,671	249,343	218,117	152,794	47,759	192,430	4,234	1,783	3,413	4,787,098
Individual impairment	332,448	859,448	268,182	67,525	-	22,811	-	-	3,879	-	2,686	1,556,979
Collective impairment	771,480	470,178	1,215,489	181,818	218,117	129,983	47,759	192,430	355	1,783	727	3,230,119
Total	1,103,928	1,329,626	1,483,671	249,343	218,117	152,794	47,759	192,430	4,234	1,783	3,413	4,787,098
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	4,774,468	10,273,352	4,949,395	10,910,528	-	335,960	88,287	-	10,489	-	2,686	31,345,165
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	2,092,929	1,782,612	1,216,215	251,952	-	68,089	-	-	9,771	-	2,686	5,424,254
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	1,760,481	923,164	948,033	184,427	-	45,278	-	-	5,892	-	-	3,867,275

	BANK & GROUP											
	Long-term Loans	Medium and Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Leasing & Hire Purchases	Housing Loans	Credit Cards	Pawning	Islamic Banking Loans	Staff Loans	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January 2016	1,241,396	1,999,755	1,017,957	468,632	338,304	242,760	45,224	36,673	14,729	691	4,259	5,410,380
Charges/(reversals) for the year	64,903	899,963	231,045	70,422	91,404	7,171	2,756	36,203	(10,103)	155	(750)	1,393,169
Amounts written off	(171,960)	(205,128)	(229,928)	(102,944)	–	(54,317)	–	-	–	–	–	(764,277)
As at 31 December 2016	1,134,339	2,694,590	1,019,074	436,110	429,708	195,614	47,980	72,876	4,626	846	3,509	6,039,272
Individual impairment	332,349	2,166,540	303,449	208,561	–	10,944	–	-	4,225	–	2,866	3,028,934
Collective impairment	801,990	528,050	715,625	227,549	429,708	184,670	47,980	72,876	401	846	643	3,010,338
Total	1,134,339	2,694,590	1,019,074	436,110	429,708	195,614	47,980	72,876	4,626	846	3,509	6,039,272
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	4,004,540	9,221,455	3,891,346	9,401,745	–	195,571	–	-	16,669	–	2,866	26,734,192
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	1,300,588	3,063,481	458,315	308,572	–	16,472	–	-	16,669	–	2,866	5,166,963
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	968,239	896,941	154,866	100,011	–	5,528	–	-	12,444	–	–	2,138,029

25.5 (b) Movements in the Allowances for Individual and Collective Impairment Charges during the year for Loans and Receivables to Other Customers

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Individual Impairment		
As at 1 January	3,028,934	2,621,343
Charges/(reversals) for the year	340,330	1,116,072
Amounts written off	(1,812,285)	(708,481)
As at 31 December	1,556,979	3,028,934
Collective Impairment		
As at 1 January	3,010,338	2,789,037
Charges/(reversals) for the year	662,238	277,097
Amounts written off	(442,457)	(55,796)
As at 31 December	3,230,119	3,010,338
Total	4,787,098	6,039,272

25.6 Leasing and Hire Purchases

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Gross lease and hire purchase rental receivables	16,230,335	16,486,219
Less: Unearned income	193,070	651,915
Total lease and hire purchase rental receivables	16,037,265	15,834,304
Less: Allowance for impairment charges [Note 25.6.(a)]	152,794	195,614
Total	15,884,471	15,638,690

25.6 (a) Allowance for Impairment Charges

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
As at 1 January	195,614	242,760
Charges/(reversals) for the year	(10,181)	7,171
Amounts written off	(32,639)	(54,317)
As at 31 December [Note 25.6 (b)]	152,794	195,614
Individual impairment	22,811	10,944
Collective impairment	129,983	184,670
Total	152,794	195,614
Gross amount of loans individually determined to be impaired, before deduction of the individually assessed impairment allowance	335,960	195,571
Gross amount of loans individually impaired, before deduction of the individually assessed impairment allowance	68,089	16,472
Gross amount of loans individually impaired, after deduction of the individually assessed impairment allowance	45,278	5,528

25.6 (b) Movements in Individual and Collective Impairment Provision during the year for Lease & Hire Purchase Rentals Receivables

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Individual Impairment		
As at 1 January	10,944	15,676
Charges/(reversals) for the year	11,867	(4,732)
As at 31 December	22,811	10,944
Collective Impairment		
As at 1 January	184,670	227,084
Charges/(reversals) for the year	(22,048)	11,903
Amounts written off	(32,639)	(54,317)
As at 31 December	129,983	184,670
Total	152,794	195,614

25.7 Maturity of Leasing and Hire Purchases

	BANK & GROUP			
	2017			
	Less than 1 Year	1-5 Years	More than 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Gross Lease and Hire Purchase Rentals Receivables				
Total rental receivables	825,295	15,230,402	293,586	16,349,283
Less: Allowance for impairment charges	56,370	94,822	1,602	152,794
Interest in suspense	116,690	2,258	-	118,948
Unearned income	18,396	171,757	2,917	193,070
Net rentals receivables	633,839	14,961,565	289,067	15,884,471

	BANK & GROUP			
	2016			
	Less than 1 Year	1-5 Years	More than 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Gross Lease and Hire Purchase Rentals Receivables				
Total rental receivables	812,781	15,544,044	242,025	16,598,850
Less: Allowance for impairment charges	83,394	111,731	489	195,614
Interest in suspense	95,331	17,300	-	112,631
Unearned income	25,533	624,906	1,476	651,915
Net rentals receivables	608,523	14,790,107	240,060	15,638,690

26. FINANCIAL INVESTMENTS – LOANS AND RECEIVABLES

ACCOUNTING POLICY

Financial investments – Loans and receivables include Government Securities, unquoted Debt Instruments and Securities purchased under resale agreements and quoted Debentures. After initial measurement, these are subsequently measured at amortized cost using the EIR, less provision for impairment. The amortization is included in interest income in the Statement of Profit or Loss. The losses arising from impairment are recognized in the Statement of Profit or Loss as impairment charges for loans and receivables and other losses.

Securities Purchased Under Resale Agreements

The Bank and the Group purchase a financial asset and simultaneously enter into an agreement to resell the asset (or similar asset) at a fixed price at a future date. The arrangement is accounted for as a financial asset in the Financial Statements of the Bank and the Group, reflecting the transactions' economic substance as a loan granted by the Bank and the Group. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method with the corresponding interest receivable being recognized in the Statement of Profit or Loss.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Development Bonds	21,171,508	22,183,671	21,171,508	22,183,671
Quoted debentures	-	-	1,757,128	1,689,506
Securities purchased under resale agreements	-	19,808,862	-	19,808,863
Investment in private equity fund	-	-	527,110	311,170
Less: Allowance for impairment of investments	-	-	139,418	96,617
Total	21,171,508	41,992,533	23,316,328	43,896,593

27. FINANCIAL INVESTMENTS – AVAILABLE-FOR-SALE

ACCOUNTING POLICY

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

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

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

Unrealized gains and losses are recognized directly in equity (Other Comprehensive Income) in the 'Available-for-Sale Reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the Statement of Profit or Loss in 'Net gain/(loss) from financial investments'. Where the Bank and the Group hold more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate (EIR).

Dividends earned whilst holding available-for-sale financial investments are recognized in the Statement of Profit or Loss as 'other operating income' when the right to receive has been established.

Impairment of Financial Investments – Available-for-Sale

The Bank and the Group review their debt securities classified as available-for-sale investments to assess whether they are impaired by performing a counter party risk assessment at each reporting date.

The Bank and the Group also record impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank and the Group identify facilities which have been impaired for more than six months and considers impairment adjustments if the impairment is more than 20% of the carrying value of the investment. The losses arising from impairment of such investments are recognized in the Statement of Profit or Loss in 'impairment for loans and receivables and other losses' and is removed from the 'Available-for-Sale Reserve'.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Government Securities - treasury bills	35,644,195	7,865,451	35,644,195	7,865,451
Sri Lanka Government Securities - treasury bonds	15,594,731	22,122,396	15,594,731	22,122,394
Quoted ordinary shares [Note 27.1]	1,366,515	1,497,030	1,571,621	1,746,271
Non-quoted ordinary shares [Note 27.2]	15,143	15,143	165,143	165,143
Total	52,620,584	31,500,020	52,975,690	31,899,259

27.1 Quoted ordinary shares

	BANK			
	2017		2016	
	No of Ordinary Shares	LKR '000	No of Ordinary Shares	LKR '000
Cost of the Investments as at 1 January	15,363,640	1,698,683	15,363,640	1,698,683
Scrip dividend received during the year	317,259	31,091	-	-
Disposal of the investment	(9,856)	(85,215)	-	-
Cost of the investments as at 31 December		1,644,559		1,698,683
Gains / (Losses) from Mark to Market valuation as at 1 January		(201,653)		(130,010)
Realized gains / (losses) recognized to Statement of Profit or Loss		(63,731)		-
Movement during the year		(12,660)		(71,643)
Gains / (Losses) from Mark to Market valuation as at 31 December		(278,044)		(201,653)
Total Market Value		1,366,515		1,497,030

	GROUP			
	2017		2016	
	No of Ordinary Shares	LKR '000	No of Ordinary Shares	LKR '000
Cost of the Investments as at 1 January	26,127,860	1,947,336	15,363,640	1,947,336
Scrip dividend received during the year	317,259	31,091	-	-
Disposal of the investment	(9,856)	(85,215)	-	-
Cost of the Investments as at 31 December		1,893,212		1,947,336
Gains / (Losses) from Mark to Market valuation as at 1 January		(201,065)		(109,558)
Realized gains / (losses) recognized to Statement of Profit or Loss		(63,731)		-
Movement during the year		(56,795)		(91,507)
Gains / (Losses) from Mark to Market valuation as at 31 December		(321,591)		(201,065)
Total Market Value		1,571,621		1,746,271

27.2 The majority of non-quoted ordinary shares of the Bank include share investments that have been made primarily for regulatory purposes. Such investments are recorded at cost due to unavailability of information to value such investments at fair value.

28. FINANCIAL INVESTMENTS – HELD-TO-MATURITY

ACCOUNTING POLICY

Financial investments – held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank and the Group have the intention and ability to hold to maturity. After initial measurement, financial investments – held-to-maturity are subsequently recorded at amortized cost using the EIR, less impairment. The amortization is included in 'interest income' in the Statement of Profit or Loss.

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

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Government Securities - treasury bonds	739,361	891,918	739,361	891,918
Quoted debentures	2,784,690	3,245,683	3,337,735	4,054,202
Total	3,524,051	4,137,601	4,077,096	4,946,120

29. INVESTMENTS – HELD-FOR-SALE

ACCOUNTING POLICY

Non-current assets and disposal groups (including both the assets and liabilities of the disposal groups) are classified as Investments – 'held-for-sale' when their carrying amounts will be recovered principally through sale, they are available-for-sale in their present condition and their sale is highly probable. Non-current assets held-for-sale and disposal groups are measured at the lower of their carrying amount and fair value less cost to sell, except for those assets and liabilities that are not within the scope of the measurement requirements of SLFRS 5 – 'Non-current Assets Held-for-Sale and Discontinued Operations' such as deferred taxes, financial instruments, investment properties, insurance contracts and assets and liabilities arising from employee benefits.

These are measured in accordance with the accounting policies described above. Immediately before the initial classification as 'held-for-sale', the carrying amounts of the asset (or assets and liabilities in the disposal group) are measured in accordance with applicable SLFRSs. On subsequent remeasurement of a disposal group, the carrying amounts of the assets and liabilities noted above that are not within the scope of the measurement requirements of SLFRS 5 are remeasured in accordance with applicable SLFRSs before the fair value less costs to sell of the disposal group is determined.

Investments – Held-for-Sale includes the investment in NDB Venture Investment (Pvt) Ltd., an associate company, which is under liquidation. A special resolution was passed by the Board of Directors of the Company to wind up the affairs voluntarily and appointed the liquidator, for the distribution of the assets.

The amount shown in the Statement of Financial Position is the cost of the investment which the Bank will receive at the time of concluding the liquidation process and an impairment provision has not been made as sufficient liquid assets are available in the Financial Statements of the Company based on the liquidation Financial Statements prepared as at 31 December 2017.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
NDB Venture Investments (Pvt) Ltd.	18,526	18,526	33,302	33,302
Total	18,526	18,526	33,302	33,302

30. INVESTMENTS IN SUBSIDIARY COMPANIES

ACCOUNTING POLICY

Investments in subsidiary companies are accounted at cost less allowance for impairment in the Financial Statements of the Bank. The net assets of each subsidiary company are reviewed at each Reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognized to the extent of its loss in net assets.

		BANK			
		2017		2016	
	Corporate Status	Percentage Holding	Cost	Percentage Holding	Cost
		%	LKR '000	%	LKR '000
NDB Capital Holdings Ltd.	Non-quoted	99.9	1,802,089	99.9	1,802,089
Development Holdings (Pvt) Ltd.	Non-quoted	58.7	228,150	58.7	228,150
NDB Capital Ltd. (Bangladesh)	Non-quoted	77.8	180,552	77.8	180,552
Less: Allowance for impairment of investments (Note 30.1)			104,770		94,941
Total			2,106,021		2,115,850

30.1 Movement in the Allowance for Impairment of Investments

	2017	2016
	LKR '000	LKR '000
As at 1 January	94,941	106,674
Charge/(reversal) to Statement of Profit or Loss (Note 30.2)	9,829	(11,733)
As at 31 December	104,770	94,941

30.2 During the annual review of impairment of investment in subsidiary companies, it was noted that the net assets position of NDB Capital Ltd as at 31 December 2017 has decreased from LKR 110 million to LKR 98.2 million as disclosed in the note number 30.3 summarized Financial Information of the Group's Investments in Subsidiaries. Accordingly, an allowance for impairment of LKR 9.8 million was made during the year 2017 to reflect the Bank's share of the net assets position of the Company as at 31 December 2017.

30.3 Summarized Financial Information of the NDB Group's Investments in Subsidiaries

	Total	NDB Zephyr Partners Ltd. (Group) (Held through NCAP)	NDB Investment Bank Ltd. (Held through NCAP)	NDB Capital Ltd.	NDB Capital Holdings Ltd. (NCAP)	NDB Securities (Pvt) Ltd. (Held through NCAP)	Development Holdings (Pvt) Ltd.	NDB Wealth Management Ltd. (Held through NCAP)
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
2017								
Total assets	9,134,648	105,511	823,117	157,195	4,100,450	402,148	2,704,143	842,084
Total liabilities	788,885	13,106	38,492	63,825	35,698	103,629	511,827	22,308
Net assets	8,332,708	92,405	784,624	93,370	4,064,751	298,520	2,179,262	819,776
Gross income	1,602,619	129,838	233,627	153,908	305,656	138,809	345,476	295,305
Profits / (Losses)	256,547	35,968	88,080	50,854	209,066	(31,852)	(169,593)	74,024
2016								
Total assets	10,262,685	95,501	756,345	129,987	5,569,606	410,843	2,517,599	782,804
Total liabilities	890,849	11,704	53,587	19,603	623,139	84,970	71,434	26,412
Net assets	9,371,836	83,797	702,758	110,384	4,946,467	325,872	2,446,165	756,393
Gross income	1,618,161	124,797	283,667	60,669	381,858	136,580	316,695	313,895
Profits / (Losses)	824,917	32,417	122,840	(4,622)	302,072	(4,691)	267,534	109,367

Development Holdings (Pvt) Ltd. made a cumulative provision for deferred tax amounting to LKR 450 million on revaluation gains on investment property in line with LKAS 12, income tax which was included in profit for the year 2017. [Note 15.3 (a)]

31. INVESTMENTS IN ASSOCIATE COMPANIES

ACCOUNTING POLICY

An associate is an entity in which the Group has significant influence, but not control, over the variable returns through its power over the investee. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

The Group's investments in its associate companies are accounted for by using the equity method. Under the equity method, the investment in the associate is carried in the Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Group determines at each Reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of associate companies profits/(losses)' in the Statement of Profit or Loss.

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

		BANK			
		2017		2016	
	Corporate Status	Percentage Holding	Cost	Percentage Holding	Cost
		%	LKR '000	%	LKR '000
Ayojana Fund (Pvt) Ltd.	Under liquidation	50	100	50	100
Less: Allowance for impairment of investments			100		100
Total			-		-

32. INVESTMENT PROPERTY

ACCOUNTING POLICY

Distinction Between Investment Properties and Owner-Occupied Properties

The Bank and the Group determine whether a property qualifies as an investment property by considering whether the property generates cash flows largely independently of the other assets held by the entity. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Bank and the Group account for the portions separately. If the portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. The Bank and the Group consider each property separately in making its judgment.

Valuation of Investment Properties

The Land and Building of Development Holdings (Pvt) Ltd., which is held to earn rental income and for capital appreciation has been classified as an 'investment property', and is reflected at fair value in accordance with LKAS 40.

Investment properties are initially recognized at cost. Subsequent to the initial recognition, the investment properties are stated at fair values. In estimating the fair values, the Independent Valuer considers current market prices of similar assets, so as to reflect market conditions at the reporting date. Gains or losses arising from changes in the fair values are included in the Statement of Profit or Loss, in the year in which they arise.

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

Owner-occupied portion of an Investment property is recognized and measured in line with the accounting policy used for property, plant & equipment of the Bank and the Group and are presented under property, plant & equipment in the Financial Statements.

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

Basis of Valuation

As at 31 December 2017, the fair value of the property is based on the valuation performed by Independent Professional Valuer, A A M Fathihu, B.Sc. (Hons.) EMV, FIV Sri Lanka who is having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, to determine the fair value of land and buildings.

The income approach using the current market rent including passing rents has been used as the methodology by the valuer to value the investment property as recommended by SLFRS 13 – 'Fair Value Measurements'.

Significant Assumptions Used for the Valuation

- Outgoing at 40% of estimated rent (2016 – 40%)
- Capitalize YP at 16% (2016 – 16%)

32. INVESTMENT PROPERTY (CONTD.)

	GROUP	
	2017	2016
	LKR '000	LKR '000
As at 1 January	1,776,000	1,672,000
Change in the fair value during the year	135,000	125,000
Less: Fair value of the owner-occupied portion	16,152	21,000
As at 31 December	1,894,848	1,776,000

Statement of Income and Expenditure of the Investment Property

	2017	2016
	LKR '000	LKR '000
Rental income derived from investment properties	177,163	162,932
Direct operating expenses (including repair and maintenance) generating rental income	(36,765)	(28,857)
Direct operating expenses (including repair and maintenance) that did not generate rental income	(25,672)	(18,068)
Profit arising from investment properties carried at fair value	114,726	116,007

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancement.

Fair value hierarchy disclosures for investment properties are given in Note 55 (a), to these Financial Statements.

33. INTANGIBLE ASSETS

ACCOUNTING POLICY

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

Intangible assets acquired separately are measured on initial recognition at cost. Following the initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the years ended 31 December 2017 and 2016 are given below:

	Period	% per Annum
Computer software	5 years	20

33.1 Computer Software

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Cost				
As at 1 January	816,223	600,038	912,379	696,691
Additions during the year	192,213	217,525	195,655	220,285
Disposals during the year	-	-	-	(3,257)
Transfers/adjustments	(1,991)	(1,340)	(1,991)	(1,340)
As at 31 December	1,006,445	816,223	1,106,043	912,379
Depreciation/Amortization				
As at 1 January	556,489	451,025	635,986	513,166
Charge for the year	97,079	105,464	104,496	126,077
Disposals during the year	-	-	-	(3,257)
As at 31 December	653,568	556,489	740,482	635,986
Net book value as at 31 December (a)	352,877	259,734	365,561	276,393

33.2 Software Under Development

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Cost				
As at 1 January	108,349	91,221	108,349	91,221
Additions during the year	102,880	159,257	102,880	159,257
Transfers/adjustments	(179,737)	(142,129)	(179,737)	(142,129)
As at 31 December (b)	31,492	108,349	31,492	108,349
Net book value of total intangible assets (a) + (b)	384,369	368,083	397,053	384,742

34. PROPERTY, PLANT & EQUIPMENT

ACCOUNTING POLICY

Revaluation of Freehold Land and Buildings

The Bank and the Group reassessed their accounting policy for property, plant & equipment with respect to measurement of certain classes of property, plant & equipment after initial recognition. The Bank and Group have previously measured all property, plant & equipment using the 'cost model' as set out in LKAS 16, whereby after initial recognition of the asset classified as property, plant & equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

However, during 2014, the Bank and the Group elected to change the method of accounting for freehold land and buildings classified under property, plant & equipment to the 'revaluation model', since the Bank and Group believe that the revaluation model, more effectively demonstrates the financial position of freehold land and buildings.

After the initial recognition, the Bank and the Group use the revaluation model, whereby, freehold land and buildings will be measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Bank and the Group applied the exemptions in LKAS 8 – 'Accounting Policies and Changes in Accounting Estimates and Errors', which exempts this change in accounting policy from retrospective application and extensive disclosure requirements.

Basis of Recognition

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

34. PROPERTY, PLANT & EQUIPMENT (CONTD.)

Basis of Measurement

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

Cost Model

The Bank and the Group apply the 'Cost Model' to all property, plant & equipment other than freehold land and buildings and record at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Bank and the Group adopted the revaluation model for the entire class of freehold land and buildings for measurement during the year 2017. Such properties are carried at revalued amounts, being their fair value at the Reporting date, less any subsequent accumulated depreciation on land and buildings and any accumulated impairment losses charged subsequent to the date of the valuation.

Freehold land and buildings of the Bank and the Group are revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the Reporting date.

The Bank and the Group engaged an Independent Professional Valuer, A A M Fathihu, B.Sc. (Hons.) EMV, FIV Sri Lanka to determine the fair value of freehold land and buildings. In estimating the fair values, the Independent Valuer considered current market prices of similar assets.

Subsequent Cost

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

Ongoing repairs and maintenance are expensed as incurred.

Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, waiting capitalization. These are stated in the Statement of Financial Position at cost. Capital work-in-progress is transferred to the relevant asset when it is completed and converted into a usable condition as expected by the Management of the Bank and the Group.

Derecognition

An item of property, plant & equipment is derecognized upon disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss in the year, in which the asset is derecognized.

Useful Life Time of Property, Plant & Equipment and Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from the date when the assets are available for use, since this method closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. No depreciation is charged in the month of disposal of the asset and the Bank and the Group do not charge depreciation on freehold land. The depreciation rates are determined separately for each significant part of the assets.

The Bank and the Group review the residual values, useful lives and methods of depreciation of property, plant & equipment at each Reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

The estimated useful lives of the assets for the year ended 31 December 2017 and 2016, are as follows:

Class of Assets	Period (Years)	% per Annum
Freehold buildings	50	2
Leasehold buildings	5	20
Motor vehicles	4	25
Office equipment and furniture	5	20
Computer equipment	5	20
Mobile Phones	2	50
Sundry fittings	4	25

34.1 The Movement in Property, Plant & Equipment – Bank

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work- in-Progress	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
(a) Cost or Valuation								
As at 1 January 2016	431,500	962,390	307,953	832,616	253,317	688,041	10,150	3,485,967
Additions during the year	-	29,301	53,179	159,482	26,800	110,370	115,101	494,233
Disposals during the year	-	-	(423)	(17,299)	(33,793)	(7,625)	-	(59,140)
Transfers/adjustments	-	740	(2,016)	-	-	(466)	(113,149)	(114,891)
As at 31 December 2016	431,500	992,431	358,693	974,799	246,324	790,320	12,102	3,806,169
Additions during the year	-	22,332	26,169	88,286	33,300	79,778	42,929	292,794
Disposals during the year	-	(1,244)	(34)	(78,759)	(79,500)	(4,284)	-	(163,821)
Revaluation adjustment during the year	305,500	56,448	-	-	-	-	-	361,948
Transfers/adjustments	-	(1,352)	1,481	2,947	-	(1,366)	(51,048)	(49,338)
As at 31 December 2017	737,000	1,068,615	386,309	987,273	200,124	864,448	3,983	4,247,752
(b) Depreciation/Amortization								
As at 1 January 2016	-	49,159	223,496	544,117	148,501	490,689	-	1,455,962
Charge for the year	-	42,409	36,765	115,221	46,266	88,666	-	329,327
On disposals	-	-	(268)	(17,051)	(33,792)	(6,579)	-	(57,690)
As at 31 December 2016	-	91,568	259,993	642,287	160,975	572,776	-	1,727,599
Charge for the year	-	43,816	35,639	118,592	38,012	90,110	-	326,169
On disposals	-	(269)	(34)	(78,745)	(79,500)	(4,147)	-	(162,695)
As at 31 December 2017	-	135,115	295,598	682,134	119,487	658,739	-	1,891,073
Net book value as at 31 December 2017	737,000	933,500	90,711	305,139	80,637	205,709	3,983	2,356,679
Net book value as at 31 December 2016	431,500	900,863	98,700	332,512	85,349	217,544	12,102	2,078,570

34.2 Details of Revalued Freehold Land and Buildings – Bank

Date of valuation - 31 December 2017

Location - Freehold Land	Extent	Revaluation of Land	Book Value before Revaluation	Revaluation Gains/ (Losses) Recognized on Land
	(Perches)	LKR '000	LKR '000	LKR '000
Head Office No. 103A, Dharmapala Mawatha, Colombo 7	20.00	720,000	420,000	300,000
Head Office No. 40, Nawam Mawatha, Colombo 02	1.43	17,000	11,500	5,500
Sub Total (a)	21.43	737,000	431,500	305,500

Location - Freehold Buildings	Buildings	Revaluation of Buildings	Net Book Value before Revaluation	Revaluation Gains/ (Losses) Recognized on Buildings
	(Square Feet)	LKR '000	LKR '000	LKR '000
Head Office No. 103A, Dharmapala Mawatha, Colombo 7	41,143	327,500	305,435	22,065
Head Office No. 40, Nawam Mawatha, Colombo 02	95,343	606,000	571,617	34,383
Sub Total (b)	136,486	933,500	877,052	56,448
Total (a)+(b)		1,670,500	1,308,552	361,948

34.3 Freehold Land and Buildings on Cost Basis – Bank

The carrying amount of Bank's revalued freehold land and buildings that would have been included in the Financial Statements and the assets being carried at cost less depreciation is as follows:

	2017			2016		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Class of assets						
Freehold land	165,016	-	165,016	165,016	-	165,016
Freehold buildings	495,683	407,992	87,691	475,946	397,872	78,074
Total	660,699	407,992	252,707	640,962	397,872	243,090

34.4 The Movement in Property, Plant & Equipment – Group

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work- in-Progress	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
(a) Cost or Valuation								
As at 1 January 2016	431,500	1,362,036	307,953	887,963	348,285	795,835	10,150	4,143,722
Additions during the year	-	29,301	53,179	160,810	32,603	136,092	116,009	527,994
Disposals during the year	-	-	(423)	(18,537)	(38,826)	(15,084)	-	(72,870)
Revaluation of owner occupied portion of freehold buildings	-	21,000	-	-	-	-	-	21,000
Transfers/adjustments	-	740	(2,016)	-	-	5,534	(113,149)	(108,891)
As at 31 December 2016	431,500	1,413,077	358,693	1,030,236	342,062	922,377	13,010	4,510,955
Additions during the year	-	53,113	26,169	97,284	33,300	186,167	44,908	440,941
Disposals during the year	-	(1,244)	(34)	(86,902)	(79,500)	(34,679)	-	(202,359)
Revaluation adjustment during the year	305,500	72,600	-	-	-	-	-	378,100
Transfers/adjustments	-	(1,352)	1,481	2,947	-	(1,366)	(51,049)	(49,339)
As at 31 December 2017	737,000	1,536,194	386,309	1,043,565	295,862	1,072,499	6,869	5,078,298
(b) Depreciation/Amortization								
As at 1 January 2016	-	69,374	223,496	584,171	191,342	620,456	-	1,688,839
Charge for the year	-	48,194	36,765	121,556	59,269	99,125	-	364,909
On disposals	-	-	(268)	(18,159)	(38,825)	(13,799)	-	(71,051)
As at 31 December 2016	-	117,568	259,993	687,568	211,786	705,782	-	1,982,697
Charge for the year	-	45,542	35,639	126,611	54,884	110,527	-	373,203
On disposals	-	(269)	(34)	(86,888)	(79,500)	(27,928)	-	(194,619)
As at 31 December 2017	-	162,841	295,598	727,291	187,170	788,381	-	2,161,281
Net book value as at 31 December 2017	737,000	1,373,353	90,711	316,274	108,692	284,118	6,869	2,917,017
Net book value as at 31 December 2016	431,500	1,295,509	98,700	342,668	130,276	216,595	13,010	2,528,258

34.5 Cost of Fully Depreciated Property, Plant & Equipment and Intangible Assets

The initial cost of fully depreciated property, plant & equipment and intangible assets as at 31 December 2017, which are still in use as at 31 December 2017 are as follows:

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Freehold buildings	625	492	625	492
Leasehold building	211,916	179,360	211,916	179,360
Motor vehicles	55,376	93,036	64,775	93,535
Office equipment and furniture	453,381	381,587	492,953	432,842
Computer equipment	424,643	434,833	449,468	478,183
Computer software	474,933	394,591	538,551	457,033
Total	1,620,874	1,483,899	1,758,288	1,641,445

35 OTHER ASSETS

ACCOUNTING POLICY

The Bank and the Group classify all their other assets as 'other financial assets' and 'other non-financial assets'. Other assets mainly comprise of deposits and prepayments, unamortized staff costs and sundry receivables. Deposits are carried at historical cost less provision for impairment. Prepayments are amortized during the period in which they are utilized and are carried at historical cost less provision for impairment.

As all staff loans granted at below market interest rates, are recognized at fair value, the difference between the fair value and the amount disbursed was treated as a Day 1 difference. The Day 1 difference is classified as 'unamortized staff cost' and is amortized over the loan period by using the EIR. The staff loans are subsequently measured at amortized costs.

Other financial assets and other non-financial assets included under other assets are summarised below:

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Other financial assets (Note 35.1)	19,565	570,115	446,909	418,456
Other non-financial assets (Note 35.2)	1,674,076	1,578,269	1,827,900	1,673,988
Total	1,693,641	2,148,384	2,274,809	2,092,444

35.1 Other Financial Assets

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Dividend receivable from group companies	-	548,496	-	-
Others	19,565	21,619	446,909	418,456
	19,565	570,115	446,909	418,456

35.2 Other Non-Financial Assets

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Sundry receivables	600,527	630,236	634,343	626,902
Deposits and prepayments	238,906	257,968	331,128	333,238
Unamortized staff cost (Note 35.3)	834,643	690,065	862,429	713,848
Total	1,674,076	1,578,269	1,827,900	1,673,988

35.3 Unamortized Staff Cost

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January	690,065	596,381	713,848	618,439
Add: Adjustment for new grants and settlements	238,313	175,162	249,766	177,255
Charged to personnel expenses	(93,735)	(81,478)	(101,185)	(81,846)
As at 31 December	834,643	690,065	862,429	713,848

36. DUE TO BANKS

ACCOUNTING POLICY

Due to banks, include call money borrowings and credit balances in Nostro accounts. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on these dues are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Borrowings from local banks	7,902,542	11,331,625	7,902,542	11,331,625
Borrowings from foreign banks	12,334,177	5,793,319	12,334,177	5,793,319
Total	20,236,719	17,124,944	20,236,719	17,124,944

36.1 Due to Banks – By Currency

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Local currency	75,751	8,291,077	75,751	8,291,077
Foreign currency	20,160,968	8,833,867	20,160,968	8,833,867
Total	20,236,719	17,124,944	20,236,719	17,124,944

37. DUE TO OTHER CUSTOMERS

ACCOUNTING POLICY

Due to other customers include non-interest bearing deposits, savings deposits, term deposits, margins and other deposits. Subsequent to initial recognition, deposits are measured at their amortized cost using the EIR method. Interest paid/payable on deposits are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

37.1 Due to Other Customers – By Product

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Savings deposits	38,111,637	30,477,137	38,107,013	30,474,472
Time deposits	214,497,185	157,124,992	214,179,380	156,787,035
Demand deposits	19,921,249	15,838,949	19,916,072	15,828,852
Margin deposits	635,444	307,529	635,444	307,529
Other deposits	203,508	117,940	203,508	117,940
Total	273,369,023	203,866,547	273,041,417	203,515,828

37.2 Due to Other Customers – Deposit Composition

	BANK				GROUP			
	2017		2016		2017		2016	
	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000	%
Local Currency Deposits								
Savings deposits	26,369,749	10	21,810,521	11	26,365,125	10	21,807,856	11
Time deposits	176,174,612	64	124,893,885	61	175,856,807	64	124,555,927	61
Demand deposits	17,334,004	6	12,170,167	6	17,328,827	6	12,160,071	6
Margin deposits	559,155	1	263,284	-	559,155	1	263,284	-
Other deposits	62,631	-	32,622	-	62,631	-	32,622	-
Sub total	220,500,151	81	159,170,479	78	220,172,545	81	158,819,760	78
Foreign Currency Deposits								
Savings deposits	11,741,888	4	8,666,616	4	11,741,888	4	8,666,616	4
Time deposits	38,322,573	14	32,231,107	16	38,322,573	14	32,231,107	16
Demand deposits	2,587,245	1	3,668,781	2	2,587,245	1	3,668,781	2
Margin deposits	76,289	-	44,245	-	76,289	-	44,245	-
Other deposits	140,877	-	85,319	-	140,877	-	85,319	-
Sub total	52,868,872	19	44,696,068	22	52,868,872	19	44,696,068	22
Total	273,369,023	100	203,866,547	100	273,041,417	100	203,515,828	100

37.3 Analysis of Due to Other Customers

(a) By currency

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lankan Rupee	220,500,151	159,170,479	220,172,545	158,819,760
United States Dollar	42,547,497	34,392,652	42,547,497	34,392,652
Great Britain Pound	3,399,815	4,026,473	3,399,815	4,026,473
Euro	3,928,943	3,359,249	3,928,943	3,359,249
Australian Dollar	2,285,385	2,423,513	2,285,385	2,423,513
Other currencies	707,232	494,181	707,232	494,181
Total	273,369,023	203,866,547	273,041,417	203,515,828

(b) By institution/customers

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Deposits from banks	15,736,011	7,636,980	15,736,011	7,636,980
Deposits from finance companies	8,021,388	1,137,747	8,021,388	1,137,747
Deposits from other customers	249,611,624	195,091,820	249,284,018	194,741,101
Total	273,369,023	203,866,547	273,041,417	203,515,828

(c) By Province

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Western Province	236,655,029	179,760,166	236,327,423	179,409,447
North-Western Province	9,713,935	5,597,539	9,713,935	5,597,539
Southern Province	4,760,432	4,030,982	4,760,432	4,030,982
Central Province	9,522,747	4,877,216	9,522,747	4,877,216
Sabaragamuwa Province	4,828,548	3,416,804	4,828,548	3,416,804
Northern Province	2,284,404	1,952,309	2,284,404	1,952,309
Eastern Province	1,613,141	1,518,806	1,613,141	1,518,806
North-Central Province	2,337,528	1,360,680	2,337,528	1,360,680
Uva Province	1,653,259	1,352,045	1,653,259	1,352,045
Total	273,369,023	203,866,547	273,041,417	203,515,828

38. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS

ACCOUNTING POLICY

Debt Securities issued and other borrowed funds represent the funds borrowed by the Bank and the Group for long-term and short-term liquidity funding requirements and include borrowings from concessionary credit lines, institutional borrowings, securities sold under repurchase agreements and non-quoted debentures. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on debt securities and other borrowed funds are recognized in the Statement of Profit or Loss, under 'Interest Expenses'.

Securities Sold Under Repurchase Agreements

The Bank and the Group sell a financial asset and simultaneously enter into an agreement to repurchase the asset (or similar asset) at a fixed price at a future date. Such an arrangement is accounted for as a financial liability and the underlying asset continues to be recognized in the Financial Statements of the Bank and the Group, as the Bank and the Group retain substantially all risks and rewards of ownership. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method with the corresponding interest paid/ payable being recognized in the Statement of Profit or Loss, under 'Interest Expenses'.

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Concessionary credit lines	4,138,956	3,531,478
Refinance borrowings	4,107,155	3,618,396
Foreign borrowings	11,141,691	27,611,833
Securities sold under repurchase agreements	8,719,243	24,471,557
Total	28,107,045	59,233,264

38.1 By Maturity

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Payable within 12 Months		
Concessionary credit lines	337,259	132,162
Refinance borrowings	2,616,816	501,592
Foreign borrowings	2,357,072	2,750,740
Securities sold under repurchase agreements	8,719,243	42,603,553
Sub total	14,030,390	45,988,047
Payable after 12 Months		
Concessionary credit lines	3,801,697	3,399,316
Refinance borrowings	1,490,339	3,116,804
Foreign borrowings	8,784,619	6,729,097
Sub total	14,076,655	13,245,217
Total	28,107,045	59,233,264

39. DEFERRED TAX LIABILITIES

ACCOUNTING POLICY

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

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

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

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

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

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

Significant Accounting Estimates and Assumptions

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Deferred Tax Liabilities/Assets recorded in the Statement of Financial Position

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Deferred Tax Liabilities				
Accelerated depreciation for tax purposes	72,703	55,858	79,899	62,100
Revaluation gains on freehold land and buildings [Note 15.3 (a)]	404,873	230,729	441,970	230,729
Revaluation gains on investment property [Note 15.3 (a)]	-	-	412,597	-
Finance leases	825,896	711,854	825,896	711,854
Gains on financial investments - available-for-sale	223,474	-	223,474	-
Total (a)	1,526,946	998,441	1,983,836	1,004,683
Deferred Tax Assets				
Defined benefit plans	101,679	92,739	115,373	107,667
Carry forward losses on leasing business	53,608	29,167	53,608	29,167
Losses on other operations	-	-	6,006	35,813
Losses on financial investments - available-for-sale	-	84,744	12,357	87,156
Total (b)	155,287	206,650	187,344	259,803
Net deferred tax liability (a)-(b)	1,371,659	791,791	1,796,492	744,880

Deferred Tax Charge/(Reversal) to the Statement of Profit or Loss and Other Comprehensive Income

	Statement of Profit or Loss				Other Comprehensive Income			
	BANK		GROUP		BANK		GROUP	
	2017	2016	2017	2016	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Deferred Tax Liabilities								
Accelerated depreciation for tax purposes	16,846	(18,895)	17,799	(21,946)	-	-	-	-
Revaluation gains on freehold land and buildings [Note 15.3 (a)]	-	-	-	-	174,143	-	211,241	-
Revaluation gains on investment property [Note 15.3 (a)]	-	-	412,597	-	-	-	-	-
Finance leases	114,042	9,419	114,042	9,419	-	-	-	-
Gains on financial investments – available-for-sale	-	-	-	-	223,474	-	223,474	(17,090)
Total	130,888	(9,476)	544,438	(12,527)	397,617	-	434,715	(17,090)
Deferred Tax Assets								
Defined benefit plans	(11,978)	(11,404)	(10,607)	(13,243)	3,037	(10,544)	2,902	(11,529)
Carry forward losses on leasing business	(24,441)	122,275	(24,441)	122,275	-	-	-	-
Losses on other operations	-	-	29,807	(31,979)	-	-	-	-
Deferred expenses to be claimed in income tax liability of future years	-	12,040	-	12,040	-	-	-	-
Losses on financial investments – available-for-sale	-	-	-	-	84,744	(13,776)	74,792	(16,187)
Allowance for impairment charges	-	298	-	298	-	-	-	-
Total	(36,419)	123,209	(5,241)	89,391	87,781	(24,320)	77,694	(27,716)
Net impact	94,469	113,733	539,197	76,864	485,398	(24,320)	512,409	(44,806)

40. EMPLOYEE BENEFIT LIABILITIES

ACCOUNTING POLICY

Employee benefit liabilities include the provisions made for retirement gratuity and the pension fund.

Retirement Gratuity

In compliance with Gratuity Act No.12 of 1983, provisions are made on behalf of the employees from the first year of service for employees who joined the Bank on or after 1999, as they are not in pensionable service of the Bank.

The costs of retirement gratuities are determined by a qualified Actuary using the projected unit credit method. Actuarial gains and losses are recognized as income or expense in the Statement of Comprehensive Income, during the financial year in which it arose.

Pension Fund

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

Basis of Measurement

The cost of the defined benefit plans (retirement gratuity and pension fund) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions, which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the Long-term nature of these plans, such estimates are subject to significant uncertainties. All assumptions are reviewed at each reporting date. The assumptions used to arrive at the value of defined benefit obligation is given in Note 40.1 (b) and 40.2 (d).

In determining the appropriate discount rate, the Management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities, corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and the policy on salary revisions, of the Bank and the Group.

40.1 Provision for Retirement Gratuity

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January	331,211	252,825	394,666	297,152
Provision made during the year				
Statement of Profit or Loss [Note 40.1 (a)]	82,596	62,754	117,456	77,927
Other Comprehensive Income [Note 40.1 (a)]	(10,847)	37,658	(11,255)	44,037
Contribution made for retirement gratuity	71,749	100,412	106,201	121,964
Benefits paid by the plan	(39,822)	(22,026)	(40,787)	(24,450)
As at 31 December	363,138	331,211	460,080	394,666

40.1 (a) Contribution made for Retirement Gratuity

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Current service cost	42,850	35,575	72,566	50,256
Interest cost	39,746	27,179	44,890	27,671
Amount recognized in the Statement of Profit or Loss	82,596	62,754	117,456	77,927
Liability experience loss/(gain)	5,265	16,143	6,307	22,700
Liability loss/(gain) due to changes in assumptions	(16,112)	21,515	(17,562)	21,337
Amount recognized in the Other Comprehensive Income	(10,847)	37,658	(11,255)	44,037

40.1 (b) Assumptions and the Sensitivity of the Assumptions used for the Provision of Retirement Gratuity

The actuarial valuations of the retirement gratuity liability were carried out as at 31 December 2017 and 31 December 2016 by Messrs. Piyal S Goonetilleke and Associates, a professional Actuary.

The valuation method used by the Actuary to value the liability is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 – 'Employee Benefits'.

	BANK & GROUP	
	2017	2016
Actuarial Assumptions		
Discount rate	10.49%	12.00%
Salary increment rate	8%	10%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age or age on valuation date, if greater	Normal retirement age or age on valuation date, if greater

The above assumptions have been used by the Bank and its group companies other than NDB Capital Ltd (Bangladesh). NDB Capital Ltd (Bangladesh) has used discount rate of 7.6% (6% in 2016), salary increment rate of 10% (10% in 2016) and GA 1983 Mortality Table to arrive at the value of defined benefit obligation.

Sensitivity of Assumptions used in the Actuarial Valuation

Reasonably possible changes at the reporting date to one of the significant actuarial assumptions, holding other assumptions constant, would have affected the provision for retirement gratuity and Other Comprehensive Income by the amounts shown below.

		BANK			
		2017		2016	
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability
%	%	LKR million	LKR million	LKR million	LKR million
1		31.04	(31.04)	28.51	(28.51)
(-1)		(35.77)	35.77	(32.93)	32.93
	1	(35.18)	35.18	(32.27)	32.27
	(-1)	31.09	(31.09)	28.45	(28.45)

		GROUP			
		2017		2016	
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability
%	%	LKR million	LKR million	LKR million	LKR million
1		34.72	(34.72)	31.87	(31.87)
(-1)		(40.00)	40.00	(36.78)	36.78
	1	(39.39)	39.39	(36.07)	36.07
	(-1)	34.81	(34.81)	31.81	(31.81)

40.1 (c) The expected Benefit Payout in the future years for Retirement Gratuity

	BANK	
	2017	2016
	LKR '000	LKR '000
Within next 12 months	39,596	35,320
Between 2 and 5 years	229,702	206,889
Beyond 5 years	641,278	660,562

The expected benefits are estimated, based on the same assumptions used to measure the benefit obligation of the Bank at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation is 12.5 years (2016 – 12.5 years).

40.2 Pension Fund

The amount recognized in the Statement of Financial Position is as follow:

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Present value of the funded obligation as at 31 December [Note 40.2 (b)]	830,579	678,741
Fair value of plan assets as at 31 December [Note 40.2 (c)]	(960,241)	(803,919)
Retirement Benefit (Asset)/Liability*	(129,662)	(125,178)

* The over payment is recognized as prepaid expenses in Other Assets.

40.2 (a) Contribution made to the Pension Fund

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Current service cost	21,577	20,604
Interest cost	(11,985)	(9,860)
Immediate recognition of loss arising during the year	-	6,183
Amount recognized in the Statement of Profit or Loss	9,592	16,927
Assets loss/(gain) arising during the year	9,004	17,149
Liability experience loss	4,073	22,698
Actuarial loss/(gain) due to changes in assumptions	97,199	(14,708)
Effect of net assets recognition in the pension fund	-	10,354
Amount recognized in the Other Comprehensive Income	110,276	35,493

40.2 (b) Defined Benefit Obligation Reconciliation

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Defined Benefit Obligation as at 1 January	678,741	616,578
Current service cost	21,577	20,604
Increase in pension for current retirees	-	6,183
Interest cost	86,540	72,756
Actual benefits paid from plan	(57,551)	(45,370)
Actuarial (gain)/loss due to changes in assumptions	97,199	(14,708)
Actuarial (gain)/loss due to experience adjustments	4,073	22,698
Defined Benefit Obligation as at 31 December	830,579	678,741

40.2 (c) Fair Value of Plan Assets Reconciliation

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Fair value of plan assets as at 1 January	803,919	724,713
Expected return on assets	98,525	82,616
Actual employer contributions	124,352	59,109
Actual benefit paid from plan	(57,551)	(45,370)
Actuarial (loss)/gain from plan assets	(9,004)	(17,149)
Fair Value of plan assets as at 31 December	960,241	803,919

40.2 (d) Assumptions and the sensitivity of the assumptions used for the Pension Fund

An actuarial valuation of the Pension Fund was carried out as at 31 December 2017 and 31 December 2016 by Messrs Piyal S Goonetilleke Associates, a professional Actuary.

The valuation method used by the Actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 – 'Employee Benefits'.

	BANK & GROUP	
	2017	2016
Actuarial Assumptions		
Discount rate	10.63%	12.75%
Salary increment	8%	10%
Annual return on assets rate	9.84%	8.45%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age	Normal retirement age

40.2 (d) Assumptions and the sensitivity of the assumptions used for the Pension Fund (Contd.)

Sensitivity of Assumptions used in the Actuarial Valuation

Reasonably possible changes at the reporting date to one of the significant actuarial assumptions, holding other assumptions constant, would have affected the pension liability and Other Comprehensive Income by the amounts shown below:

		BANK & GROUP			
		2017		2016	
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability
%	%	LKR million	LKR million	LKR million	LKR million
1		69.13	(69.13)	51.81	(51.81)
(-1)		(80.19)	80.19	(59.59)	59.59
	1	(23.99)	23.99	(20.30)	20.30
	(-1)	22.76	(22.76)	19.14	(19.14)

	BANK & GROUP			
	2017		2016	
Increase/ (Decrease) in Life expectancy	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability
	LKR million	LKR million	LKR million	LKR million
+1 Year	(10.19)	10.19	(6.94)	6.94
- 1 Year	10.59	(10.59)	7.25	(7.25)

The fair value of the total plan assets are as follows:

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Investments in Government Securities	810,745	659,630
Investment in Time Deposits	149,496	144,289
	960,241	803,919

40.2 (e) The Expected Benefit Payout from the Pension Fund in Future Years

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
Within next 12 months	52,721	55,262
Between 2 and 5 years	296,151	231,692
Beyond 5 years	699,514	567,112

The expected benefits are based on the same assumptions used to measure the Bank's benefit obligation at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation is 21 years as at 31 December 2017 (2016 – 24 years).

40.2 (f) The total amount recognized in the Other Comprehensive Income relating to Employee Benefit liabilities

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Retirement Gratuity [Note 40.1 (a)]	(10,847)	37,658	(11,255)	44,037
Pension Fund [Note 40.2 (a)]	110,276	35,493	110,276	35,493
Total	99,429	73,151	99,021	79,530

41. OTHER LIABILITIES

ACCOUNTING POLICY

Other liabilities include other financial liabilities and other non-financial liabilities. Other non-financial liabilities include fees, expenses and other amounts payable for deposit insurance, dividend payable and other provisions. These liabilities are recorded at amounts expected to be payable at the reporting date.

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

Dividends on ordinary shares are recognized as a liability and deducted from equity, when they are approved by the Board of Directors. Other financial liabilities and other non-financial liabilities included under other liabilities are summarised below:

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Other financial liabilities (Note 41.1)	3,053,299	2,777,519	3,085,308	2,842,867
Other non-financial liabilities (Note 41.2)	5,982,268	4,907,478	6,091,704	5,088,298
Total	9,035,567	7,684,997	9,177,012	7,931,165

41.1 Other Financial Liabilities

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Unpresented cheques/pay orders	2,979,186	2,702,988	2,979,556	2,702,988
Unpresented cheques – Dividend Payable (Note 41.3)	72,203	49,933	72,203	49,933
Others	1,910	24,598	33,549	89,946
Total	3,053,299	2,777,519	3,085,308	2,842,867

41.2 Other Non-Financial Liabilities

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Accrued expenses	792,820	602,040	824,021	644,054
Provision for deposit insurance	68,675	55,269	68,675	55,269
Other liabilities	5,120,773	4,250,169	5,199,008	4,388,975
Total	5,982,268	4,907,478	6,091,704	5,088,298

41.3 Dividend Payable

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
As at 1 January	49,933	60,014
Final dividend declared for the prior year	330,371	660,669
Interim dividend declared for the current year	342,971	-
Reversal of dividends declared in prior years [Note 41.3 (a)]	(1,866)	(6,715)
Dividends paid	(649,206)	(664,035)
As at 31 December	72,203	49,933

41.3 (a) Reversal of Dividends declared in Prior Years

Reversal of dividends declared in previous years represents unclaimed dividends which are written back to equity after six years.

42. SUBORDINATED TERM DEBTS

ACCOUNTING POLICY

Subordinated term debts represent the funds borrowed by the Bank and the Group for long-term and short-term funding requirements and include foreign institutional borrowings and quoted debentures. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on subordinated debts are recognized in the Statement of Profit or Loss. The direct costs attributable to these term debts are amortized over the term of the loan and are offset, in the presentation of the subordinated term debts in the Statement of Financial Position.

	BANK & GROUP	
	2017	2016
	LKR '000	LKR '000
As at 1 January	19,446,501	19,573,883
Redemptions during the year	(326,700)	(326,700)
Balance before adjusting for amortized interest	19,119,801	19,247,183
Net effect on amortized interest payable	217,054	199,318
As at 31 December (Note 42.1)	19,336,855	19,446,501

42.1 Subordinated Term Debts – by Products

42.1 (a) Term Loans

	Repayment Terms	Issued Date	Maturity Date	Rate of Interest %	BANK & GROUP 2017 LKR '000	BANK & GROUP 2016 LKR '000
Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden N.V. (FMO) - FMO Loan	Semi-Annually	18 December 2007	15 October 2017	Avg. (6 months AWDR, 6 months T Bill rate) + 3%	-	334,432
Total (a)					-	334,432

42.1 (b) Debentures

	Interest Payable Frequency	Issued Date	Maturity Date	Effective Annual Yield %	BANK & GROUP 2017 LKR '000	BANK & GROUP 2016 LKR '000
Fixed Rate Debenture Issuance - December 2013						
Type A -13.00% - (60 Months)	Semi-Annually	19 December 2013	19 December 2018	12.79	1,241,119	1,239,726
Type B -13.40% - (60 Months)	Annually	19 December 2013	19 December 2018	12.77	1,526,873	1,525,097
Type C -13.90% - (120 Months)	Annually	19 December 2013	19 December 2023	13.17	3,624,548	3,623,167
Type D -14.00% - (144 Months)	Annually	19 December 2013	19 December 2025	13.26	3,574,913	3,573,890
Total (b)					9,967,453	9,961,880
Fixed Rate Debenture Issuance - June 2015						
Type A - 9.40% - (60 Months)	Annually	24 June 2015	24 June 2020	9.19	6,977,687	6,967,467
Type B - Zero coupon - (60 Months)	9.40% Annual compounding on the Issue Price of LKR. 63.8136 payable on the Date of Redemption	24 June 2015	24 June 2020	9.18	2,391,715	2,182,722
Total (c)					9,369,402	9,150,189
Total subordinated term debts (a)+(b)+(c)					19,336,855	19,446,501
The maturity of the subordinated term debts are given below:						
Due within one year					2,697,942	334,432
Due after one year					16,638,913	19,112,069
					19,336,855	19,446,501

43. CAPITAL

	BANK				GROUP			
	2017		2016		2017		2016	
	Number of Shares	LKR '000	Number of Shares	LKR '000	Number of Shares	LKR '000	Number of Shares	LKR '000
Issued and fully paid	165,185,506	1,246,479	165,167,342	1,242,772	165,185,506	1,246,479	164,676,210	1,162,963
Adjustment on Equity Linked Compensation Plan	-	-	-	-	-	-	491,132	79,809
Shares issued due to scrip dividend (Note 43.2)	6,300,199	962,041			6,300,199	962,041		
Issue of shares under the Equity Linked Compensation Plan [Note 43.3]	-	-	18,164	3,707	-	-	18,164	3,707
Total	171,485,705	2,208,520	165,185,506	1,246,479	171,485,705	2,208,520	165,185,506	1,246,479

	BANK & GROUP			
	2017		2016	
	Number of Shares	LKR '000	Number of Shares	LKR '000
43.1 Stated Capital	171,485,705	2,208,520	165,185,506	1,246,479

43.2 On 21 February 2017, the Bank declared a final dividend of LKR 8.00 per share comprising of a cash dividend of LKR 2.00 per share and a scrip dividend of LKR 6.00 per share (one share for every 6 shares) for the financial year ended 31 December 2016 . Accordingly, the no of shares of the Bank increased by 6,300,199 and Stated Capital increased to LKR 2,209 million as at 31 December 2017 (LKR 1,246 million as at 31 December 2016), as a result of the scrip dividends declared for the year ended 31 December 2016.

43.3 Issue of Shares under the Equity Linked Compensation Plan (ELCP)

The Bank had a shareholder approved Equity Linked Compensation Plan (ELCP) in 2010 which enabled the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. Accordingly, the ELCP created a maximum of 3% of the ordinary voting shares, half of such shares are to be awarded as share options and the other half as share grants in equal proportions. Each of the five tranches would amount to a maximum of 0.6% of the voting shares. This plan expired on 30 June 2017.

43.3 (a) The details of the share grant and the share options made available to the relevant staff members are given below:

	BANK & GROUP	
	2017	2016
Share Grant		
Award 04 - (1 July 2013) - to be vested on 30 June 2016		
Number of ordinary shares awarded and vested	-	491,132
Share Option		
Award 04 - (1 July 2013) - exercisable from 1 July 2014 to 30 June 2017		
Number of ordinary shares exercisable as at 01 January	335,806	353,970
Number of ordinary shares exercised at a price of LKR 162.86	-	(18,164)
Number of ordinary shares cancelled due to the expiration of the plan	(335,806)	-
Number of ordinary shares to be exercised	-	335,806

		2017	2016
43.3	(b) Expense arising from ELCP recognized in the Statement of Profit or Loss	-	13,505
	Reversal made to Statement of Profit or Loss during the year due to expiry of the ELCP option exercise period	(13,841)	-

43.3 (c) The following tables list the inputs to the models used for the award 4 (option plan):

Expected volatility (%)	2.00
Risk-free interest rate (%)	7.50
Expected life of share options (years)	3.00
Exercise share price	162.86

43.3 (d) Number of shares issued to the eligible staff members during the year as per the ELCP is given below:

	BANK & GROUP			
	2017		2016	
	Number of Shares	LKR '000	Number of Shares	LKR '000
Award 04 – (1 July 2014)	-	-	18,164	3,707
	-	-	18,164	3,707

44. STATUTORY RESERVE FUND

The Statutory Reverse Fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of said reserve fund is equal to the stated capital of the Bank.

The balance in the Statutory Reserve Fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January	1,246,479	1,242,772	1,246,479	1,242,772
Transferred from retained earnings (Note 45)	90,000	3,707	90,000	3,707
As at 31 December	1,336,479	1,246,479	1,336,479	1,246,479

45. RETAINED EARNINGS

	BANK					
	2017			2016		
	General Reserve	Retained Earnings	Total	General Reserve	Retained Earnings	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	5,805,707	16,088,681	21,894,388	5,805,707	13,638,678	19,444,385
Total comprehensive income for the year	-	4,249,163	4,249,163	-	3,107,664	3,107,664
Transferred to the Statutory Reserve Fund	-	(90,000)	(90,000)	-	(3,707)	(3,707)
Dividends to equity holders	-	(1,662,589)	(1,662,589)	-	(653,954)	(653,954)
As at 31 December	5,805,707	18,585,255	24,390,962	5,805,707	16,088,681	21,894,388

45. RETAINED EARNINGS (CONTD.)

	GROUP					
	2017			2016		
	General Reserve	Retained Earnings	Total	General Reserve	Retained Earnings	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	5,805,707	21,140,725	26,946,432	5,805,707	19,170,268	24,975,975
Total comprehensive income for the year	-	3,387,304	3,387,304	-	2,628,118	2,628,118
Transferred to Statutory Reserve Fund	-	(90,000)	(90,000)	-	(3,707)	(3,707)
Dividends paid to equity holders	-	(1,662,589)	(1,662,589)	-	(653,954)	(653,954)
As at 31 December	5,805,707	22,775,440	28,581,147	5,805,707	21,140,725	26,946,432

46. OTHER RESERVES

Current Year 2017	BANK			GROUP		
	Opening Balance	Movement/ Transfers	Closing Balance	Opening Balance	Movement/ Transfers	Closing Balance
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Revaluation reserve (Note 46.1)	853,456	187,805	1,041,261	969,795	166,859	1,136,654
Available-for-sale reserve (Note 46.2)	(565,741)	340,545	(225,196)	(542,587)	306,205	(236,382)
Share based payment reserve (Note 46.3)	13,841	(13,841)	-	13,841	(13,841)	-
Cash flow hedge reserve [Note 22.1 (b)]	56,148	(70,339)	(14,191)	56,148	(70,339)	(14,191)
Total	357,704	444,170	801,874	497,197	388,884	886,081

Previous Year 2016	BANK			GROUP		
	Opening Balance	Movement/ Transfers	Closing Balance	Opening Balance	Movement/ Transfers	Closing Balance
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Revaluation reserve (Note 46.1)	853,456	-	853,456	948,795	21,000	969,795
Available-for-sale reserve (Note 46.2)	(207,277)	(358,464)	(565,741)	(139,559)	(403,028)	(542,587)
Share based payment reserve (Note 46.3)	14,590	(749)	13,841	81,098	(67,257)	13,841
Cash flow hedge reserve [Note 22.1 (b)]	110,160	(54,012)	56,148	110,160	(54,012)	56,148
Total	770,929	(413,225)	357,704	1,000,494	(503,297)	497,197

46.1 Revaluation Reserve

Revaluation reserve represents the fair value changes of freehold land and buildings net of deferred tax effect on revaluation surplus as at the date of revaluation.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January	853,456	853,456	969,795	948,795
Revaluation of freehold land and buildings	361,948	-	361,948	-
Adjustment for revaluation of owner occupied portion of Investment Property	-	-	16,152	21,000
Deferred tax effect on revaluation gains/(losses)	(174,143)	-	(211,241)	-
Net gains/(losses) on revaluation of freehold land and buildings	187,805	-	166,859	21,000
As at 31 December	1,041,261	853,456	1,136,654	969,795

46.2 Available-for-Sale Reserve

The available-for-sale reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until they are derecognized or impaired.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January	(565,741)	(207,277)	(542,587)	(139,559)
Net gains/(losses) on re-measuring financial investments – available-for-sale	229,905	(597,874)	185,613	(661,939)
Fair value gains/(losses) realized and reclassified to the Statement of Profit or Loss during the year	418,858	225,634	418,858	225,634
Deferred tax effect on fair value adjustment of available-for-sale investments	(308,218)	13,776	(298,266)	33,277
Net gains/(losses) on available for sale investments	340,545	(358,464)	306,205	(403,028)
As at 31 December	(225,196)	(565,741)	(236,382)	(542,587)

46.3 Share-Based Payment Reserve

The share-based payment reserve represents the fair value of the options available as per the Equity-Linked Compensation Plan.

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	13,841	14,590	13,841	81,098
Adjustments	-	-	-	(66,508)
Capitalization of the fair value of the options exercised	-	(749)	-	(749)
Cancellation due to the expiry of the ELCP option plan (Note 43.3)	(13,841)	-	(13,841)	-
As at 31 December	-	13,841	-	13,841

47. NON-CONTROLLING INTERESTS

ACCOUNTING POLICY

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if it is a deficit balance. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of net assets acquired is recognized as equity. Therefore no goodwill is recognized as a result of such transactions.

	GROUP	
	2017	2016
	LKR '000	LKR '000
As at 1 January	1,076,709	1,018,513
Profit for the year	(57,449)	123,945
Other comprehensive income, net of tax	154	2,432
Adjustment due to changes in group companies	-	(17,976)
Dividends to equity holders	(53,668)	(50,205)
As at 31 December	965,746	1,076,709

48. COMMITMENTS AND CONTINGENCIES

ACCOUNTING POLICY

All discernible risks are accounted for in determining the amount of all known liabilities. Commitments and contingencies represent possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured, as defined in the Sri Lanka Accounting Standard – LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

To meet the financial needs of customers, the Bank and the Group enter into various irrevocable commitments and contingent liabilities. These consist of the financial guarantees, letters of credit and forward foreign exchange contracts and other undrawn commitments to lend. The letters of credit and guarantees commit the Bank and the Group to make payments on behalf of customers in the event of a specific act, generally related to import or export of goods. The guarantees and standby letters of credit carry a similar credit risk of that loans/contingent liabilities and are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

48.1 Business Commitments

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Contingencies				
Guarantees	24,121,887	21,407,186	24,075,936	21,407,186
Performance Bonds	8,342,200	8,309,225	8,342,200	8,309,225
Documentary Credits	13,222,730	8,406,120	13,222,730	8,406,120
Other Contingencies [Note 48 .1 (a)]	109,112,786	85,262,702	109,112,786	85,262,702
Commitments				
Undrawn commitments	114,360,796	110,835,816	115,124,197	111,745,240
Total	269,160,399	234,221,049	269,877,849	235,130,473

48.1 (a) Other Contingencies

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Forward Exchange Contracts	96,607,160	72,365,808	96,607,160	72,365,808
Currency Swap	5,737,500	5,576,250	5,737,500	5,576,250
Acceptances	6,768,126	7,320,644	6,768,126	7,320,644
Sub total	109,112,786	85,262,702	109,112,786	85,262,702

48.2 Capital Commitments

The capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements is as follows:

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Commitments in relation to Property, Plant & Equipment				
Approved and contracted for	-	-	-	-
Approved and not contracted for	-	105,160	-	105,160
Sub total	-	105,160	-	105,160
Commitments in relation to intangible assets				
Approved and contracted for	22,400	127,570	22,400	127,570
Total	22,400	232,730	22,400	232,730

48.3 Litigation Against the Bank

In the normal course of business, the Bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their loan agreements. As of the date of the Statement of Financial Position, twenty-eight clients have filed cases against the Bank. The Bank's legal counsel is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or the future operations of the Bank.

48.4 Tax Assessments Against the Bank/Group Companies

The following tax assessments are outstanding, against which the Bank and Group Companies have been duly appealed.

1. The income tax assessments received by the Bank for the Years of Assessment 2010/2011 and 2011/2012 amounting to LKR 461 million and the assessments on VAT on Financial Services for the years of 2012 and 2013 amounting to LKR 302.6 million, which were determined by the Commissioner General of Inland Revenue as payable have been forwarded to the Tax Appeals Commission for their determinations.
2. The assessment on Income Tax received by the Bank for the Year of Assessment 2013/2014 amounting to LKR 487.8 million is to be determined by the Commissioner General of Inland Revenue. The Income Tax assessment for the Year of Assessment 2014/2015 amounting to LKR 497.5 million and VAT and NBT on Financial Services assessments amounting to LKR 29.5 million for the year of 2014 are pending hearings by the Appeal Branch of the Department of Inland Revenue.
3. The assessments on Value Added Tax for the year 2014 amounting to LKR 12.8 million is also pending hearings by the Appeal Branch of the Department of Inland Revenue.
4. The assessments on VAT on Financial Services issued to NDB Capital Holdings Ltd for the years 2012 and 2013 amounting to LKR 183.8 million which were determined by the Commissioner General of Inland Revenue as payable have been forwarded to the Tax Appeals Commission for their determinations. The Company has taken up the position that it is not in the business of provision of loans, as charged in the assessments/ determinations.
5. The income tax assessment received by NDB Capital Holdings Ltd for the Year of Assessment 2014/2015 amounting to LKR 24.2 million is pending hearing by the Appeal Branch of the Department of Inland Revenue.

The Bank and the Group companies are of the view that the above assessments will not have any material adverse impact on the financial statements.

49. NET ASSETS VALUE PER ORDINARY SHARE

	BANK		GROUP	
	2017	2016	2017	2016
Amount used as the Numerator:				
Total equity attributable to equity holders of the Bank (LKR '000)	28,737,835	24,745,050	33,012,227	29,936,587
Number of Ordinary Shares used as the Denominator:				
Total number of shares	171,485,705	165,185,506	171,485,705	165,185,506
Net Assets value per share (LKR)	167.58	149.80	192.51	181.23

50. MATURITY ANALYSIS

An analysis of the assets and liabilities, based on the remaining period as at the date of the Statement of Financial Position to the respective contractual maturity dates, are as follows:

As at 31 December 2017	BANK		
	Within 12 Months	After 12 Months	Total
	LKR '000	LKR '000	LKR '000
Assets			
Cash and cash equivalents	5,274,466	-	5,274,466
Balances with the Central Bank of Sri Lanka	14,733,500	631,420	15,364,920
Placements with banks	840,684	-	840,684
Derivative financial instruments	2,471,706	-	2,471,706
Financial assets held-for-trading	1,216,439	-	1,216,439
Loans and receivables to banks	13,625	1,853	15,478
Loans and receivables to other customers	170,371,674	103,642,296	274,013,970
Financial investments - loans and receivables	15,047,508	6,124,000	21,171,508
Financial investments - available-for-sale	52,620,584	-	52,620,584
Financial investments - held-to-maturity	1,088,034	2,436,017	3,524,051
Investments - held-for-sale	18,526	-	18,526
Investments in subsidiary companies	-	2,106,021	2,106,021
Intangible assets	-	384,369	384,369
Property, plant & equipment	-	2,356,679	2,356,679
Other assets	731,978	961,663	1,693,641
Total Assets	264,428,724	118,644,318	383,073,042
Liabilities			
Due to banks	20,236,719	-	20,236,719
Derivative financial instruments	936,754	-	936,754
Due to other customers	262,134,954	11,234,069	273,369,023
Debt securities issued and other borrowed funds	14,030,390	14,076,655	28,107,045
Tax liabilities	686,599	891,848	1,578,447
Deferred tax liabilities	-	1,371,659	1,371,659
Employee benefit liabilities	39,596	323,542	363,138
Other liabilities	5,507,176	3,528,391	9,035,567
Subordinated term debts	2,697,942	16,638,913	19,336,855
Total Liabilities	306,270,130	48,065,077	354,335,207
Net	(41,841,406)	70,579,241	28,737,835

As at 31 December 2016	BANK		
	Within 12 Months	After 12 Months	Total
	LKR '000	LKR '000	LKR '000
Assets			
Cash and cash equivalents	5,018,438	-	5,018,438
Balances with the Central Bank of Sri Lanka	11,176,909	638,368	11,815,277
Placements with banks	3,297,262	-	3,297,262
Derivative financial instruments	1,544,621	-	1,544,621
Financial assets held-for-trading	832,694	-	832,694
Loans and receivables to banks	21,030	16,002	37,032
Loans and receivables to other customers	129,915,745	97,724,099	227,639,844
Financial investments - loans and receivables	25,364,733	16,627,800	41,992,533
Financial investments - available-for-sale	31,500,020	-	31,500,020
Financial investments - held-to-maturity	750,460	3,387,141	4,137,601
Investments - held-for-sale	18,526	-	18,526
Investments in subsidiary companies	-	2,115,850	2,115,850
Intangible assets	-	368,083	368,083
Property, plant & equipment	-	2,078,570	2,078,570
Other assets	1,248,029	900,355	2,148,384
Total assets	210,688,467	123,856,268	334,544,735
Liabilities			
Due to banks	17,124,944	-	17,124,944
Derivative financial instruments	474,770	-	474,770
Due to other customers	192,851,838	11,014,709	203,866,547
Debt securities issued and other borrowed funds	45,988,047	13,245,217	59,233,264
Tax liabilities	417,023	428,637	845,660
Deferred tax liabilities	-	791,791	791,791
Employee benefit liabilities	35,320	295,891	331,211
Other liabilities	4,660,833	3,024,164	7,684,997
Subordinated term debts	334,432	19,112,069	19,446,501
Total liabilities	261,887,207	47,912,478	309,799,685
Net	(51,198,740)	75,943,790	24,745,050

50. MATURITY ANALYSIS (CONTD.)

As at 31 December 2017	GROUP		
	Within 12 Months	After 12 Months	Total
	LKR '000	LKR '000	LKR '000
Assets			
Cash and cash equivalents	5,343,314	-	5,343,314
Balances with the Central Bank of Sri Lanka	14,733,500	631,420	15,364,920
Placements with banks	840,684	-	840,684
Derivative financial instruments	2,471,706	-	2,471,706
Financial assets held-for-trading	2,659,883	-	2,659,883
Loans and receivables to banks	13,625	1,853	15,478
Loans and receivables to other customers	170,338,480	103,724,830	274,063,310
Financial investments - loans and receivables	15,417,777	7,898,551	23,316,328
Financial investments - available-for-sale	52,975,690	-	52,975,690
Financial investments - held-to-maturity	1,435,168	2,641,928	4,077,096
Investments - held-for-sale	33,302	-	33,302
Investment property	-	1,894,848	1,894,848
Intangible assets	-	397,053	397,053
Property, plant & equipment	-	2,917,017	2,917,017
Other assets	1,313,146	961,663	2,274,809
Total assets	267,576,275	121,069,163	388,645,438
Liabilities			
Due to banks	20,236,719	-	20,236,719
Derivative financial instruments	936,754	-	936,754
Due to other customers	261,807,348	11,234,069	273,041,417
Debt securities issued and other borrowed funds	14,030,390	14,076,655	28,107,045
Tax liabilities	700,198	874,893	1,575,091
Deferred tax liabilities	-	1,796,492	1,796,492
Employee benefit liabilities	39,596	420,484	460,080
Other liabilities	5,648,621	3,528,391	9,177,012
Subordinated term debts	2,697,942	16,638,913	19,336,855
Total liabilities	306,097,568	48,569,897	354,667,465
Net	(38,521,293)	72,499,266	33,977,973

The Bank classified LKR 2.31 billion of its total debt securities and other borrowed funds within 12 months in the maturity disclosure as there were few financial covenants that were not met during the period in relation to three debt agreements. The Bank is in the process of obtaining formal waivers for these three credit facilities.

As at 31 December 2016	GROUP		
	Within 12 Months	After 12 Months	Total
	LKR '000	LKR '000	LKR '000
Assets			
Cash and cash equivalents	5,139,389	-	5,139,389
Balances with the Central Bank of Sri Lanka	11,176,909	638,368	11,815,277
Placements with banks	3,297,262	-	3,297,262
Derivative financial instruments	1,544,621	-	1,544,621
Financial assets held-for-trading	3,661,530	-	3,661,530
Loans and receivables to banks	21,030	16,002	37,032
Loans and receivables to other customers	129,869,121	97,810,818	227,679,939
Financial investments - loans and receivables	25,480,892	18,415,701	43,896,593
Financial investments - available-for-sale	31,899,259	-	31,899,259
Financial investments - held-to-maturity	1,045,989	3,900,131	4,946,120
Investments - held-for-sale	33,302	-	33,302
Investment property	-	1,776,000	1,776,000
Intangible assets	-	384,742	384,742
Property, plant & equipment	-	2,528,258	2,528,258
Other assets	1,192,090	900,354	2,092,444
Total assets	214,361,394	126,370,374	340,731,768
Liabilities			
Due to banks	17,124,944	-	17,124,944
Derivative financial instruments	474,770	-	474,770
Due to other customers	192,501,119	11,014,709	203,515,828
Debt securities issued and other borrowed funds	45,988,047	13,245,217	59,233,264
Tax liabilities	403,817	448,637	852,454
Deferred tax liabilities	-	744,880	744,880
Employee benefit liabilities	35,320	359,346	394,666
Other liabilities	4,907,003	3,024,162	7,931,165
Subordinated term debts	334,432	19,112,069	19,446,501
Total liabilities	261,769,452	47,949,020	309,718,472
Net	(47,408,058)	78,421,354	31,013,296

51. SEGMENTAL ANALYSIS - GROUP

ACCOUNTING POLICY

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Senior Management to make decisions on resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Group has identified four operating segments based on products and services, as follows:

- Banking
- Capital Markets
- Property Investment
- Private Equity

Income taxes are managed on a group basis and are not allocated to operating segments. Segment performance is analyzed based on operating revenue and expenses, and in certain instances are measured and presented differently from the operating profits or losses presented in the Statement of Profit or Loss. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2017 or 2016.

51. SEGMENTAL ANALYSIS - GROUP (CONTD.)

For the period ended 31 December	Banking		Capital Markets		Property Investment		Private Equity		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Revenue										
Interest income	37,118,699	28,618,247	268,617	311,260	-	-	-	-	37,387,316	28,929,507
Fee and commission income	2,520,532	2,253,226	460,569	388,337	143,700	131,377	129,784	124,797	3,254,585	2,897,737
Net gains/(losses) from trading	1,063,944	982,123	-	-	-	-	-	-	1,063,944	982,123
Net gains/(losses) from financial investments	569,557	211,370	164,122	229,378	-	-	-	-	733,679	440,748
Other operating income	241,160	234,877	141,860	112,419	118,848	104,000	-	-	501,868	451,296
Total revenue from external customers	41,513,892	32,299,843	1,035,168	1,041,394	262,548	235,377	129,784	124,797	42,941,392	33,701,411
Inter-segment revenue	-	-	9,590	15,176	66,777	60,318	-	-	76,367	75,494
Total revenue	41,513,892	32,299,843	1,044,758	1,056,570	329,325	295,695	129,784	124,797	43,017,759	33,776,905
Impairment for loans & receivables & other losses	(1,248,726)	(1,378,686)	(41,571)	(45,887)	-	-	-	-	(1,290,297)	(1,424,573)
Segment expenses	(33,680,819)	(26,548,680)	(748,448)	(608,339)	(15,252)	(11,834)	(91,203)	(89,933)	(34,535,722)	(27,258,786)
Total segment expenses	(34,929,545)	(27,927,366)	(790,019)	(654,226)	(15,252)	(11,834)	(91,203)	(89,933)	(35,826,019)	(28,683,359)
Segment results	6,584,347	4,372,477	254,739	402,344	314,073	283,861	38,581	34,864	7,191,740	5,093,546
Share of associate companies' profit before taxation	-	-	-	-	-	-	-	-	-	-
Taxation									2,211,987	1,230,587
Tax on financial services									1,547,450	1,048,000
Profit after taxation									3,432,303	2,814,959
Other information										
Segment assets	383,068,679	333,992,991	3,319,579	4,688,678	2,146,142	1,953,451	77,736	63,346	388,612,136	340,698,466
Investments-held for sale	-	-	-	-	-	-	33,302	33,302	33,302	33,302
Consolidated total assets									388,645,438	340,731,768
Segment liabilities	354,000,010	309,441,098	149,119	205,827	510,249	69,243	8,087	2,304	354,667,465	309,718,472
Consolidated total liabilities									354,667,465	309,718,472
Segmental cash flows										
Cash flows from operating activities	11,454,246	7,505,000	(834,301)	572,629	70,653	66,436	(5,630)	95,576	10,684,968	7,684,833
Cash flows from investing activities	(21,783)	(7,343,549)	825,597	(48,941)	(8,666)	(13,445)	-	22,410	795,154	(7,383,526)
Cash flows from financing activities	(10,083,392)	11,397	(47,258)	8,760	(40,292)	(45,977)	(12,190)	(8,760)	(10,183,132)	(34,580)

52. RELATED PARTY DISCLOSURES

52.1 Parent and ultimate controlling party

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

52.2 Terms and Conditions

The Bank carries out transactions with Key Management Personnel and their related concerns and other related entities in the ordinary course of its business on an arms length basis at commercial rates as per the Sri Lanka Accounting Standard LKAS 24 - 'Related Party Disclosures' except, the loans that the key management have availed under the loan schemes which are uniformly applicable to all the staff.

52.3 Key Management Personnel (KMP) of the Bank and the Group

KMP of the Bank

Related parties include Key Management Personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Key Management Personnel include the members of the Board of Directors of the Bank (including the Executive and Non-Executive), Chief Operating Officer and the Group Chief Financial Officer.

KMP of the Group

The Bank is the ultimate parent of the subsidiaries listed out on page 302. The KMP of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank (including the Executive and Non-Executive), Chief Operating Officer and the Group Chief Financial Officer represent the KMP of the Group.

52.3. (a) Compensation to KMP

	BANK		GROUP	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Short-term employee benefits	41,927	81,714	41,927	81,714
Directors' emoluments	31,401	29,330	34,660	30,770
Post-employment benefits (defined benefit plans)	30,092	32,099	30,092	32,099
Share-based payments (Note 52.3.(b))	-	10,041	-	10,041
	103,420	153,184	106,679	154,624

The amounts disclosed above are the amounts recognized as expenses during the reporting period relating to KMP.

In addition to the remuneration, the Bank has also provided non cash benefits to eligible KMP in line with the approved benefit plan of the Bank.

52.3 (b) Share Based Payments to KMP

	Number of shares	
	2017	2016
Share Grant		
Award 04 - (01 July 2013), with a vesting period of three years from the award date		
Shares awarded and vested	-	64,363

52.3 (b) Share Based Payments to KMP (Contd.)

Share Option

Share options eligible for KMP under the Equity Linked Compensation Plan (ELCP) to purchase ordinary shares have the following expiry date and exercise price.

				Number of shares	
	Issue date	Expiry date	Exercise price	2017	2016
Award 04					
Shares allocated and outstanding	01.07.2013	30.06.2017	162.86	-	46,424

52.3. (c) KMP and their Close Family Members had the following related party transactions during the year.

	Limit		Outstanding Balance		Average Balance	
	2017	2016	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Items in the Statement of Financial Position						
Assets						
Loans and receivables to other customers	1,200	9,890	12	9,280	1,586	10,394
	1,200	9,890	12	9,280	1,586	10,394
Liabilities						
Due to other customers			3,682	35,620	9,378	270,548
Debt securities issued and other borrowed funds			-	-	-	34,099
			3,682	35,620	9,378	304,647

	During the year	
	2017	2016
	LKR '000	LKR '000
Items in the Statement of Profit or Loss excluding compensation to KMP		
Interest income	41	284
Interest expenses	3,064	26,055
Fee and commission income	30	77

Share investments in the Bank and dividend paid to the KMP and their Close Family Members are given below.

	2017	2016
Investments in ordinary shares including the shares held in the slash account (Number of shares)	4,146,248	4,037,862
Scrip dividends paid (Number of shares) during the year	154,003	-
Cash dividends paid (LKR '000)	16,368	16,020

52.3. (d) Transactions involving entities which are controlled/ jointly controlled by the KMP and their Close Family Members.

	Outstanding Balance		Average Balance	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Items in the Statement of Financial Position				
Assets				
Loans and receivables to other customers	-	1	136	1,357
	-	1	136	1,357
Liabilities				
Due to other customers	8,466	8,339	11,645	13,070
Debt securities issued and other borrowed funds	-	8,004	8,000	25,381
	8,466	16,343	19,645	38,451

	During the year	
	2017	2016
	LKR '000	LKR '000
Items in the Statement of Profit or Loss		
Interest income	16	349
Interest expenses	159	1,886
Fee and commission income	286	254
Other expenses	3,361	74,154

Share investments in the Bank and dividend paid to the entities which are controlled/ jointly controlled by the KMP and their Close Family Members are given below.

	2017	2016
Investments in ordinary shares (Number of shares)	11,982,782	11,109,898
Scrip dividends paid (Number of Shares) during the year	424,039	-
Cash dividends paid (LKR '000)	46,202	44,179

52.4 Transactions with the Government of Sri Lanka and its Related Entities

The Bank enter into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities.

52.4 (a) The transactions entered with the Government of Sri Lanka and its related entities on a collective basis as follows.

	Outstanding Balance		Average Balance	
	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000
Items in the Statement of Financial Position				
Assets				
Loans and receivables to other customers	20,449,298	16,052,553	18,194,656	13,897,517
Financial investments - available-for-sale	4,175	4,175	4,175	4,175
	20,453,473	16,056,728	18,198,831	13,901,692
Liabilities				
Due to other customers	19,728,906	2,452,554	11,971,878	6,561,402
Debt securities issued and other borrowed funds	17,381,622	16,179,664	18,232,062	17,369,838
	37,110,528	18,632,218	30,203,940	23,931,240
Commitments and contingencies				
Forward exchange contracts	4,061,464	3,264,944	3,922,093	2,498,491
Other contingencies	-	126,269	14,277	97,605
Undrawn commitments	3,796,905	3,063,581	2,452,072	5,215,423
	7,858,369	6,454,794	6,388,442	7,811,519

	During the year	
	2017	2016
	LKR '000	LKR '000
Items in the Statement of Profit or Loss		
Interest income	2,255,700	2,562,714
Interest expenses	2,704,813	1,975,966
Fee and commission income	2,032	108,268
Net gains/ (losses) from trading	6,932	814
Scrip dividends paid (Number of Shares) during the year	2,145,973	-
Cash dividends paid (LKR '000)	229,354	225,062

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

- Statutory balances with the Central Bank of Sri Lanka
- Investments in Treasury Bills, Treasury Bonds, Development Bonds and money market placements
- Payment of statutory rates and taxes
- Payment for utilities mainly comprising of telephone, electricity and water
- Payment for employment retirement benefits - ETF

52.4 (c) Individually Significant Transactions

The Bank uses an internal assessment methodology in order to identify significant transactions with the Government of Sri Lanka and Government related entities in accordance with the disclosure requirements of LKAS 24. Accordingly the Bank has entered in to a currency SWAP arrangement with the Central Bank of Sri Lanka for USD 37.5 million, for 50% of the foreign borrowings. The SWAP arrangement will be renewed annually over the tenor of the borrowings.

52.5 Transactions with Related Entities

52.5 (a) The transactions entered by the Bank with the Subsidiaries and Associates.

	Subsidiaries of the Bank *						Associates of the Bank*			
	Limit		Outstanding Balance		Average Balance		Outstanding Balance		Average Balance	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Items in the Statement of Financial Position										
Assets										
Loans and receivables to other customers	100,000	100,000	34,997	30,405	30,112	27,702	-	-	-	-
Financial assets held-for-trading			-	-	-	1,179,336	-	-	-	-
Other assets			3,510	551,952	260,397	183,925	-	-	-	-
Investments in subsidiary and associate companies**			2,106,021	2,115,850	2,076,538	2,119,447	-	-	-	-
Investments held-for-sale			-	-	-	-	18,526	18,526	18,526	18,526
Liabilities										
Due to other customers			333,428	335,458	351,647	381,292	-	-	-	-
Debt securities issued and other borrowed funds			-	2,301	-	4,325	-	-	-	-
Other liabilities			15	17	283	17	-	-	-	-
Commitments and Contingencies										
Guarantees	500,000	500,000	45,951	-	71,102	192,857	-	-	-	-

	During the year	
	2017	2016
	LKR '000	LKR '000
Items in the Statement of Profit or Loss in relation to transactions with Subsidiaries of the Bank		
Interest income	4,013	2,210
Interest expense	35,062	32,469
Fee and commission income	15,350	21,371
Net gains/(losses) from trading	283	619
Other expenses	27,567	28,503
Other operating income	1,006,702	981,893
Charge/(release) on impairment	9,829	(11,733)

In addition to the above, the Bank purchased property, plant and equipment from subsidiaries amounting to LKR 9.2 million during the year.

* Refer Note 29, 30 and note 31 for details of subsidiary and associate companies.

**Investments in subsidiary and associate companies are stated net of allowance for impairment amounting to LKR 104.8 million for the year ended 31 December 2017 and LKR 94.9 million for the year ended 31 December 2016.

52.5 (b) The contribution made by the Bank and the employees, for EPF is managed as a separate fund by the Bank.

The Bank had the under-mentioned financial dealings during the year with the NDB Provident Fund.

	2017	2016
	LKR '000	LKR '000
Due to other customers	33,692	18,864
Interest paid	4,759	8,609
Contribution by the Bank	264,130	253,713

52.5 (c) NDB Wealth Management Limited, a subsidiary of the Bank, had the under-mentioned financial dealings with the NDB Provident Fund.

	2017	2016
	LKR '000	LKR '000
Portfolio under management	2,035,284	1,847,828

52.5 (d) The Bank had the under-mentioned financial dealings with the NDB Pension Fund during the year.

	2017	2016
	LKR '000	LKR '000
Due to other customers	140,490	130,275
Interest paid	26,037	20,345
Contribution by the Bank	124,352	59,109

53. EVENTS OCCURRING AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Non - Adjusting Events

(a) On 20 February 2017, the Bank declared a final dividend of LKR 7.00 per share comprising of a cash dividend of LKR 2.00 per share and a scrip dividend of LKR 5.00 per share, for the financial year 2017 (2016 - Cash dividend of LKR 2.00 per share and a scrip dividend of LKR 6.00 per share).

Out of the final dividend, LKR 2.70 per share will be liable to the dividend tax at 10% and the balance LKR 4.30 per share will be paid out of dividend income, exempt from tax.

Accordingly, the stated capital of the Bank will be increased to LKR 3,020 million (LKR 2,209 million as at 31 December 2017), as a result of the scrip dividends declared for the year ended 31 December 2017.

54. COMPARATIVE INFORMATION

The classification of the following items in the Statement of Profit or Loss and the Statement of Financial Position were amended to ensure proper presentation in the Financial Statements:

As reported Previously	Current Presentation		BANK		GROUP	
			2017	2016	2017	2016
			LKR '000	LKR '000	LKR '000	LKR '000
Liabilities						
Other Financial Liabilities	Other Non-Financial Liabilities	(Note 41)	-	-	-	673,206

55. FAIR VALUE OF FINANCIAL INSTRUMENTS AND NON FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

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

Significant Accounting Estimates and Assumptions

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

FINANCIAL INSTRUMENTS

Derivatives - Assets and Liabilities

Derivative products are foreign exchange contracts and foreign exchange options which are valued using market observable inputs.

Financial Assets - Held-for-Trading

Financial assets - held-for-trading are measured at fair value and include Sri Lanka Government securities, equity securities and investments in unit trusts. The Sri Lanka Government securities are valued based on the market rates published by the money brokers. For equity securities, the Bank uses quoted market prices in active markets as at the reporting date. The unit trust investments are valued at unit prices published in active markets.

Financial Investments - Available-for-sale

Financial investments - Available-for-sale, consist of non-quoted ordinary shares, quoted ordinary shares and Sri Lanka Government Securities. The Sri Lanka Government securities are valued based on the market rates of the money brokers as at the reporting date and non-quoted ordinary shares are valued using Internal valuation techniques.

NON-FINANCIAL INSTRUMENTS

Property, Plant & Equipment

Valuation Model

The fair value of the freehold land and buildings presented in the Financial Statements are provided by an independent valuer based on the valuations carried out at the reporting date.

Freehold land - valuations performed by the valuer are based on the market approach (direct comparison method), for similar properties in the same location and conditions. (Note 34)

Freehold buildings - valuations are performed by an independent valuer based on the cost approach (current replacement cost - Note 34).

Investment Property - valuations are performed based on the income approach using the current market rent by the valuer to value the Investment Property (Income approach - Note 32).

Valuation Framework

Fair Values of Financial Instruments and Non-Financial Instruments are determined according to the following hierarchy:

Level 1 - quoted market price (unadjusted): financial instruments with quoted prices in active markets

Level 2 - valuation techniques using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.

Level 3 - valuation techniques with significant unobservable inputs: This category includes all instruments valued using valuation techniques where one or more significant inputs are unobservable.

The free hold land & buildings of the Bank and the Group are revalued every three years to ensure that the carrying amount does not differ materially from the fair value at the reporting date.

55.(a) Determination of Fair Value of Financial Instruments and Non Financial Instruments by Hierarchy

The following table shows the analysis of financial instruments and non financial instruments recorded at fair value in the Statement of Financial Position by the level of the fair value hierarchy in accordance with disclosure requirements as per LKAS 13, Fair Value Measurements.

31 December 2017	BANK			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets				
Derivative Financial Instruments				
Currency options	-	-	-	-
Forward exchange contracts	-	1,125,844	-	1,125,844
Currency SWAP	-	-	1,345,862	1,345,862
Financial Assets - Held-for-Trading				
Sri Lanka Government Securities - Treasury bills	743,752	-	-	743,752
Sri Lanka Government Securities - Treasury bonds	472,687	-	-	472,687
Financial Investments - Available-for-Sale				
Sri Lanka Government Securities - Treasury bills	35,644,195	-	-	35,644,195
Sri Lanka Government Securities - Treasury bonds	15,594,731	-	-	15,594,731
Quoted ordinary shares	1,366,515	-	-	1,366,515
Total Financial Assets	53,821,880	1,125,844	1,345,862	56,293,586
Non-Financial Assets				
Freehold land	-	-	737,000	737,000
Freehold buildings	-	-	933,500	933,500
Total Non-Financial Assets	-	-	1,670,500	1,670,500
Financial Liabilities				
Derivative Financial Instruments				
Currency options	-	-	-	-
Forward exchange contracts	-	936,754	-	936,754
Total Financial Liabilities	-	936,754	-	936,754

31 December 2016	BANK			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets				
Derivative Financial Instruments				
Currency options	-	331	-	331
Forward exchange contracts	-	401,670	-	401,670
Currency SWAPs	-	-	1,142,620	1,142,620
Financial Assets - Held-for-Trading				
Sri Lanka Government Securities - Treasury bills	-	-	-	-
Sri Lanka Government Securities - Treasury bonds	832,694	-	-	832,694
Investment in unit trusts	-	-	-	-
Financial Investments - Available-for-Sale				
Sri Lanka Government Securities - Treasury bills	7,865,451	-	-	7,865,451
Sri Lanka Government Securities - Treasury bonds	22,122,394	-	-	22,122,394
Quoted ordinary shares	1,497,030	-	-	1,497,030
Total Financial Assets	32,317,569	402,001	1,142,620	33,862,190
Non-Financial Assets				
Freehold land	-	-	431,500	431,500
Freehold buildings	-	-	900,863	900,863
Total Non-Financial Assets	-	-	1,332,363	1,332,363
Financial Liabilities				
Derivative Financial Instruments				
Currency options	-	331	-	331
Forward exchange contracts	-	474,439	-	474,439
Total Financial Liabilities	-	474,770	-	474,770

55.(a) Determination of Fair Value of Financial Instruments and Non Financial Instruments by Hierarchy (Contd.)

31 December 2017	GROUP			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets				
Derivative Financial Instruments				
Currency options	-	-	-	-
Forward exchange contracts	-	1,125,844	-	1,125,844
Currency SWAPs	-	-	1,345,862	1,345,862
Financial Assets - Held-for-Trading				
Sri Lanka Government Securities - Treasury bills	743,752	-	-	743,752
Sri Lanka Government Securities - Treasury bonds	472,687	-	-	472,687
Equity securities	496,269	-	-	496,269
Investment in unit trusts	947,175	-	-	947,175
Financial Investments - Available-for-Sale				
Sri Lanka Government Securities - Treasury bills	35,644,195	-	-	35,644,195
Sri Lanka Government Securities - Treasury bonds	15,594,731	-	-	15,594,731
Quoted ordinary shares	1,571,621	-	-	1,571,621
Non-quoted ordinary shares	-	-	150,000	150,000
Total Financial Assets	55,470,430	1,125,844	1,495,862	58,092,136
Non-Financial Assets				
Freehold land	-	-	737,000	737,000
Freehold buildings	-	-	1,373,353	1,373,353
Investment Property	-	-	1,894,848	1,894,848
Total Non-Financial Assets	-	-	4,005,201	4,005,201
Financial Liabilities				
Derivative Financial Instruments				
Currency options	-	-	-	-
Forward exchange contracts	-	936,754	-	936,754
Total Financial Liabilities	-	936,754	-	936,754

31 December 2016	GROUP			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets				
Derivative Financial Instruments				
Currency options	-	331	-	331
Forward exchange contracts	-	401,670	-	401,670
Currency SWAPs	-	-	1,142,620	1,142,620
Financial Assets - Held-for-Trading				
Sri Lanka Government Securities - Treasury bills	-	-	-	-
Sri Lanka Government Securities - Treasury bonds	832,694	-	-	832,694
Equity securities	392,944	-	-	392,944
Investment in unit trusts	2,435,892	-	-	2,435,892
Financial Investments - Available-for-Sale				
Sri Lanka Government Securities - Treasury bills	7,865,451	-	-	7,865,451
Sri Lanka Government Securities - Treasury bonds	22,122,394	-	-	22,122,394
Quoted ordinary shares	1,746,271	-	-	1,746,271
Non-quoted ordinary shares	-		150,000	150,000
Total Financial Assets	35,395,646	402,001	1,292,620	37,090,267
Non-Financial Assets				
Freehold land	-	-	431,500	431,500
Freehold buildings	-	-	1,295,509	1,295,509
Investment Property	-	-	1,776,000	1,776,000
Total Non-Financial Assets	-	-	3,503,009	3,503,009
Financial Liabilities				
Derivative Financial Instruments				
Currency options	-	331	-	331
Forward exchange contracts	-	474,439	-	474,439
Total Financial Liabilities	-	474,770	-	474,770

55.(b) Movements in Level 3 Financial Instruments and Non-Financial Instruments Measured at Fair Value

The level of the fair value hierarchy of financial instruments and non-financial instruments is determined at the beginning of each reporting period. The following table shows the reconciliation of the opening and closing amounts of Level 3 financial instruments and non-financial instruments which are recorded at fair value.

		BANK				
31 December 2017	Included in	As at 1 January 2017	Additions/ Disposals during the year	Total gains/ (Losses) and Charges Recorded in Statement of Profit or Loss	Total gains/ (losses) Recorded in Other Comprehensive Income	As at 31 December 2017
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAPs [Note 22.1 (b)]	Derivative financial instruments	1,142,620	-	-	203,242	1,345,862
Non-Financial Assets						
Freehold land	Property, plant & equipment	431,500	-	-	305,500	737,000
Freehold buildings (Note 34)	Property, plant & equipment	900,863	19,737	(43,547)	56,448	933,501
		2,474,983	19,737	(43,547)	565,190	3,016,363

		GROUP				
31 December 2017	Included in	As at 1 January 2017	Additions/ Disposals during the year	Total gains/ (Losses) and Charges Recorded in Statement of Profit or Loss	Total gains/ (losses) Recorded in Other Comprehensive Income	As at 31 December 2017
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAPs [Note 22.1 (b)]	Derivative financial instruments	1,142,620	-	-	203,242	1,345,862
Non-Financial Assets						
Freehold land	Property, plant & equipment	431,500	-	-	305,500	737,000
Freehold buildings (Note 34)	Property, plant & equipment	1,295,509	50,517	(45,273)	72,600	1,373,353
Investment property	Investment property	1,776,000	-	118,848		1,894,848
Financial Assets						
Non-quoted ordinary shares	Financial investments - available-for-sale	150,000	-	-	-	150,000
		4,795,629	50,517	73,575	581,342	5,501,063

31 December 2016	Included in	BANK				
		As at 1 January 2016	Additions/ Disposals during the year	Total gains/ (Losses) and Charges Recorded in Statement of Profit or Loss	Total gains/ (losses) Recorded in Other Comprehensive Income	As at 31 December 2016
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAPs [Note 22.1 (c)]	Derivative financial instruments	841,413	-	-	301,207	1,142,620
Non-Financial Assets						
Freehold land	Property, plant & equipment	431,500	-	-	-	431,500
Freehold buildings (Note 34)	Property, plant & equipment	913,231	30,041	(42,409)	-	900,863
		2,186,144	30,041	(42,409)	301,207	2,474,983

31 December 2016	Included in	GROUP				
		As at 1 January 2016	Additions/ Disposals during the year	Total gains/ (Losses) and Charges Recorded in Statement of Profit or Loss	Total gains/ (losses) Recorded in Other Comprehensive Income	As at 31 December 2016
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAPs [Note 22.1 (c)]	Derivative financial instruments	841,413	-	-	301,207	1,142,620
Non-Financial Assets						
Freehold land	Property, plant & equipment	431,500	-	-	-	431,500
Freehold buildings (Note 34)	Property, plant & equipment	1,292,662	30,041	(48,194)	21,000	1,295,509
Investment property	Investment property	1,672,000	-	104,000	-	1,776,000
Financial Assets						
Non-quoted ordinary shares	Financial investments - available-for-sale	150,000	-	-	-	150,000
		4,387,575	30,041	55,806	322,207	4,795,629

55.(c) Unobservable Inputs Used in Measuring the Fair Value of financial and non financial instruments

The tables below sets out information about significant unobservable inputs used as at 31 December 2017 and as at 31 December 2016 in measuring non-financial instruments categorized as Level 3 in the fair value hierarchy:

As at 31 December 2017

Financial Assets - Bank

Type of Instrument	Fair Values as at the 31 December 2017	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Derivative Financial Assets					
Currency SWAP	LKR 1,345 Million	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR-10.625	Positive impact to the fair value

Non Financial Assets - Bank

Type of Instrument	Fair Values as at the Valuation Date	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	LKR 17 million	Direct comparison method	Per perch value	Per perch - LKR 12 million	Positive impact to the fair value
Building	LKR 606 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 15,000 per square feet and discount factor - 0.42	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	LKR 720 million	Direct comparison method	Per perch value	Per perch - LKR 12 million	Positive impact to the fair value
Building	LKR 327.5 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 14,000 per square feet and discount factor - 0.56	Positive impact to the fair value from both factors

Financial Assets - Group

Type of Instrument	Fair Values as at the 31 December 2017	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Derivative Financial Assets					
Currency SWAP	LKR 1,345 Million	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR-10.625	Positive impact to the fair value

Non Financial Assets - Group

Type of Instrument	Fair Values as at the Valuation Date	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	LKR 17 million	Direct comparison method	Per perch value	Per perch - LKR 12 million	Positive impact to the fair value
Building	LKR 606 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 15,000 per square feet and discount factor - 0.42	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	LKR 720 million	Direct comparison method	Per perch value	Per perch - LKR 12 million	Positive impact to the fair value
Building	LKR 327.5 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 14,000 per square feet and discount factor - 0.56	Positive impact to the fair value from both factors
Nawam Mawatha					
Investment Property	LKR 2,260 million (Including the fair value of owner occupied portion of LKR 277 million	Income approach	Rent per square feet	Rentable area at LKR 180/- Non-rentable area at LKR 106/-	Positive Impact to the fair value from both factors

As at 31 December 2016

Financial Assets - Bank

Type of Instrument	Fair Values as at the 31 December 2016	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Investment Property					
Currency SWAP	LKR 1,143 million	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR-9.8875	Positive impact to the fair value

Non Financial Assets - Bank

Type of Instrument	Fair Values as at the Valuation Date	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	LKR 11.5 million	Direct comparison method	Per perch value	Per perch - LKR 8 million	Positive impact to the fair value
Building	LKR 621.5 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 13,500 per square feet and discount factor - 0.48	Positive impact to the fair value from both factors

55.(c) Unobservable Inputs Used in Measuring the Fair Value of financial and non financial instruments (Contd.)

Non Financial Assets - Bank

Type of Instrument	Fair Values as at the Valuation Date	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Dharmapala Mawatha					
Land	LKR 420 million	Direct comparison method	Per perch value	Per perch - LKR 7 million	Positive impact to the fair value
Building	LKR 320 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 12,500 per square feet and discount factor - 0.62	Positive impact to the fair value from both factors

Financial Assets - Group

Type of Instrument	Fair Values as at the 31 December 2016	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Derivative Financial Assets					
Currency SWAP	LKR 1,143 million	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR-9.8875	Positive impact to the fair value

Non Financial Assets - Group

Type of Instrument	Fair Values as at the Valuation Date	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Nawam Mawatha					
Land	LKR 11.5 million	Direct comparison method	Per perch value	Per perch - LKR 8 million	Positive impact to the fair value
Building	LKR 621.5 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 13,500 per square feet and discount factor - 0.48	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	LKR 420 million	Direct comparison method	Per perch value	Per perch - LKR 7 million	Positive impact to the fair value
Building	LKR 320 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 12,500 per square feet and discount factor - 0.62	Positive impact to the fair value from both factors
Nawam Mawatha					
Investment Property	LKR 2,125 million (Including the fair value of owner occupied portion of LKR 349 million)	Income approach	Rent per square feet	Rentable area at LKR 170/- Non-rentable area at LKR 100	Positive impact to the fair value from both factors

55. (d) Fair Value of the Financial Assets and Financial Liabilities that are Not Carried at Fair Value in the financial statements

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank & the Group financial assets and financial liabilities that are not carried at fair value in the Statement of Financial Position. The table does not include the fair values of non-financial assets and non-financial liabilities.

		BANK			
		2017		2016	
	Fair Value Classification	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets					
Cash and cash equivalents	Note 55. (e)	5,274,466	5,274,466	5,018,438	5,018,438
Balances with the Central Bank of Sri Lanka	Note 55. (e)	15,364,920	15,364,920	11,815,277	11,815,277
Placements with banks	Note 55. (e)	840,684	840,684	3,297,262	3,297,262
Loans and receivables to banks	Level 2	15,478	15,481	37,032	37,057
Loans and receivables to other customers	Level 2	274,013,970	271,371,924	227,639,844	220,811,236
Financial investments - loans and receivables	Level 2	21,171,508	21,612,652	41,992,533	40,387,126
Financial investments - held-to-maturity	Level 1	3,524,051	3,570,696	4,137,601	4,023,336
Other financial assets		19,565	19,565	570,115	570,115
Total Financial Assets		320,224,642	318,070,388	294,508,102	285,959,847
Financial Liabilities					
Due to banks	Note 55. (e)	20,236,719	20,236,719	17,124,944	17,124,944
Due to other customers	Level 2	273,369,023	272,986,679	203,866,547	203,956,688
Debt securities issued and other borrowed funds	Level 2	28,107,045	28,107,045	59,233,264	59,233,264
Subordinated term debts	Level 2	19,336,855	18,695,319	19,446,501	20,246,623
Other financial liabilities	Note 55. (e)	3,053,299	3,053,299	2,777,519	2,777,519
Total Financial Liabilities		344,102,941	343,079,061	302,448,775	303,339,038

		GROUP			
		2017		2016	
	Fair Value Classification	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets					
Cash and cash equivalents	Note 55. (e)	5,343,314	5,343,314	5,139,389	5,139,389
Balances with the Central Bank of Sri Lanka	Note 55. (e)	15,364,920	15,364,920	11,815,277	11,815,277
Placements with banks	Note 55. (e)	840,684	840,684	3,297,262	3,297,262
Loans and receivables to banks	Level 2	15,478	15,481	37,032	37,057
Loans and receivables to other customers	Level 2	274,063,310	271,413,242	227,679,939	220,842,442
Financial investments - loans and receivables	Level 2	23,316,328	24,077,021	43,896,593	41,823,570
Financial investments - held-to-maturity	Level 1	4,077,096	4,305,619	4,946,120	4,677,816
Other financial assets		446,909	446,909	418,456	418,456
Total Financial Assets		323,468,039	321,807,190	297,230,068	288,051,269
Financial Liabilities					
Due to banks	Note 55. (e)	20,236,719	20,236,719	17,124,944	17,124,944
Due to other customers	Level 2	273,041,417	272,658,832	203,515,828	203,612,311
Debt securities issued and other borrowed funds	Level 2	28,107,045	28,107,045	59,233,264	59,233,264
Subordinated term debts	Level 2	19,336,855	18,695,319	19,446,501	20,246,623
Other financial liabilities	Note 55. (e)	3,085,308	3,085,308	2,842,867	2,842,867
Total Financial Liabilities		343,807,344	342,783,223	302,163,404	303,060,009

55.(e) Basis of Measurement for the Fair Value of Financial Assets and Financial Liabilities Not Carried at Fair Value

Given below are the methodologies and assumptions used to determine the fair values for financial instruments which are not already recorded at fair value in the Financial Statements:

Assets for which Fair Value Approximates Carrying Value

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

Fixed Rate Financial Instruments

The fixed rate financial instruments include the Loans and receivables to banks and other customers, Financial Investments - loans and receivables and Financial investments - held-to-maturity, Due to other customers, Due to banks, Debt securities issued and other borrowed funds and Subordinated term debts.

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

Financial Investments Held-to-Maturity

The fair value of financial investments held-to-maturity is estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments.

56. RISK MANAGEMENT DISCLOSURES

Introduction

The following disclosures are made in accordance with the SLFRS 7 - Financial Instruments : Disclosures.

Taking risks is inherent in any bank's strategic plan but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Bank's risk strategy focuses on managing principal risks faced by the Bank while striking a fair balance between the risk return trade-off and the efficient capital allocation across the risk exposures.

The Bank is mainly exposed to credit risk, liquidity risk, market risk and operational risk. Market risk could be further subdivided into trading and non-trading risks. Exposure to country risk and any risks due to changes in environment, technology and industry is managed through the Bank's strategic planning process.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's Risk Management Framework. The Board has delegated its authority to the Integrated Risk Management Committee (IRMC) for the overall Risk Management approach and for approving the risk management strategies and principles. IRMC meets quarterly to review and assess the Bank's overall risks and to focus on policy recommendations and strategies in an integrated manner and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank/Group to set appropriate risk limits and controls and to monitor adherence to established limits.

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

The Credit and Market Risk Policy Committee and Operational Risk Policy Committee are in operation to formulate policies and to focus more clearly on defined risk areas. The membership of these committees comprises the CEO, GCFO, the Heads of Business Units, Treasury and representatives of the Group Risk Management.

The Committees meet regularly to review the Bank's risk policy framework, overall performance and the potential risks faced by specific lines of business and support functions.

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

Risk Measurement and Reporting

Monitoring and controlling risks is primarily performed based on limits established by the Bank which reflects the business strategy and market environment of the Bank as well as the Bank's risk appetite.

Information compiled is examined and processed in order to analyze, control and identify risks on a timely basis. The compiled information is presented to the IRMC, Credit and Market Risk Policy Committee, and the Board of Directors receives a risk report once a quarter which covers all necessary information to assess and conclude on the risks of the Bank.

Risk Mitigation

As part of its overall risk management, the Bank obtains various types of collateral and establishes maximum prudential limits.

56.1 Credit Risk

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

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

Credit risk management verifies and manages the credit process from origination to collection. The Bank has a credit policy approved by the Board of Directors. It defines the;

- credit culture of the Bank
- specifies prohibited lending which the Bank under no circumstances will entertain
- sets acceptable risk parameters
- sets remedial and recovery actions

Impairment Assessment

Impairment of Financial Assets

The Bank has in place a detailed impairment policy which was approved by the Board of Directors.

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. At each reporting date the Bank/Group assesses whether there is objective evidence of a specific loss event.

Individually Assessed Impairment Allowances

The Bank determines the allowances appropriate for each individually significant loans or receivables on an individual basis if there is any objective evidence of a loss based on the above. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy arise, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows.

Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively Assessed Impairment Allowances

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

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

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

56.1 Credit Risk (Contd.)

Credit Related Commitment Risks

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

Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the accessibility and valuation of each type of collateral.

The main types of collateral obtained, are as follow:

- for commercial lending - mortgages over immovable and movable fixed assets, inventory, trade receivables, corporate and personal guarantees
- for retail lending- mortgage over residential property, gold stocks, personal guarantees

Credit Quality

56.1 (a) Analysis of Gross Exposure on Credit Risk and Impairment

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

The Bank considers that any amount uncollected one day or more beyond their contractual due date is 'past due'.

As at 31 December 2017	BANK								
	Neither Past Due nor Impaired or individually impaired	Past Due but not Impaired						Individually Impaired	Total
		Less than1 Month	1-3 Months	3-6 Months	6-12 Months	12-18 Months	More than 18 Months		
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Products									
Cash and cash equivalents	5,274,466								5,274,466
Balances with the Central Bank of Sri Lanka	15,364,920								15,364,920
Placements with banks	840,684								840,684
Derivative financial instruments	2,471,706								2,471,706
Financial assets - held for trading	1,216,439								1,216,439
Loans and receivables to banks	15,478								15,478
Loans and receivables to other Customers	166,896,166	49,657,227	44,078,492	1,394,099	503,515	223,715	7,393,481	3,867,275	274,013,970
Financial investments - loans and receivables	21,171,508								21,171,508
Financial investments - available for sale	52,620,584								52,620,584
Financial investments - held to maturity	3,524,051								3,524,051
Other financial assets	19,565								19,565

As at 31 December 2016	Neither Past Due nor Impaired or individually impaired	BANK							
		Past Due but not Impaired						Individually Impaired	Total
		Less than1 Month	1-3 Months	3-6 Months	6-12 Months	12-18 Months	More than 18 Months		
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Products									
Cash and cash equivalents	5,018,438	-	-	-	-	-	-	-	5,018,438
Balances with the Central Bank of Sri Lanka	11,815,277	-	-	-	-	-	-	-	11,815,277
Placements with banks	3,297,262	-	-	-	-	-	-	-	3,297,262
Derivative financial instruments	1,544,621	-	-	-	-	-	-	-	1,544,621
Financial assets - held for trading	832,694	-	-	-	-	-	-	-	832,694
Loans and receivables to banks	37,032	-	-	-	-	-	-	-	37,032
Loans and receivables to other customers	137,031,536	41,542,901	26,263,340	2,513,990	1,671,385	8,242,716	8,235,947	2,138,029	227,639,844
Financial investments - loans and receivables	41,992,533	-	-	-	-	-	-	-	41,992,533
Financial investments - available for sale	31,500,020	-	-	-	-	-	-	-	31,500,020
Financial investments - held to maturity	4,137,601	-	-	-	-	-	-	-	4,137,601
Other financial assets	570,115	-	-	-	-	-	-	-	570,115

As at 31 December 2017	Neither Past Due nor Impaired or individually impaired	GROUP							
		Past Due but not Impaired						Individually Impaired	Total
		Less than1 Month	1-3 Months	3-6 Months	6-12 Months	12-18 Months	More than 18 Months		
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Products									
Cash and cash equivalents	5,343,314								5,343,314
Balances with the Central Bank of Sri Lanka	15,364,920								15,364,920
Placements with banks	840,684								840,684
Derivative financial instruments	2,471,706								2,471,706
Financial assets - held for trading	2,659,883								2,659,883
Loans and receivables to banks	15,478								15,478
Loans and receivables to other customers	166,945,506	49,657,227	44,078,492	1,394,099	503,515	223,715	7,393,481	3,867,275	274,063,310
Financial investments - loans and receivables	23,316,328								23,316,328
Financial investments - available for sale	52,975,690								52,975,690
Financial investments - held to maturity	4,077,096								4,077,096
Other financial assets	446,909								446,909

56.1 Credit Risk (Contd.)

As at 31 December 2016	Neither Past Due nor Impaired or individually impaired	GROUP							
		Past Due but not Impaired						Individually Impaired	Total
		Less than1 Month	1-3 Months	3-6 Months	6-12 Months	12-18 Months	More than 18 Months		
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Products									
Cash and cash equivalents	5,139,389	-	-	-	-	-	-	-	5,139,389
Balances with the Central Bank of Sri Lanka	11,815,277	-	-	-	-	-	-	-	11,815,277
Placements with banks	3,297,262	-	-	-	-	-	-	-	3,297,262
Derivative financial instruments	1,544,621	-	-	-	-	-	-	-	1,544,621
Financial assets - held for trading	3,661,530	-	-	-	-	-	-	-	3,661,530
Loans and receivables to banks	37,032	-	-	-	-	-	-	-	37,032
Loans and receivables to other customers	137,071,631	41,542,901	26,263,340	2,513,990	1,671,385	8,242,716	8,235,947	2,138,029	227,679,939
Financial investments - loans and receivables	43,896,593	-	-	-	-	-	-	-	43,896,593
Financial investments - available for sale	31,899,259	-	-	-	-	-	-	-	31,899,259
Financial investments - held to maturity	4,946,120	-	-	-	-	-	-	-	4,946,120
Other financial assets	418,456	-	-	-	-	-	-	-	418,456

56.1 (b) Maximum Exposure to Credit Risk

The following table shows the maximum exposure to credit risk and net exposure to credit risk by the class of financial assets.

31 December 2017	BANK	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	LKR '000	LKR '000
Balances with the Central Bank of Sri Lanka	15,364,920	15,364,920
Placements with banks	840,684	840,684
Derivative financial instruments	2,471,706	2,471,706
Financial assets held-for-trading	1,216,439	1,216,439
Loans and receivables to banks	15,478	15,478
Loans and Receivables to other customers (Net)		
Corporate lending	57,768,115	18,806,370
Branch lending	47,971,327	28,451,457
Consumer lending	155,769,498	80,529,583
Residential mortgages	1,393,491	1,191,110
Others	11,111,539	-
	274,013,970	128,978,520
Financial investments - loans and receivables	21,171,508	21,171,508
Financial investments - available for sale	52,620,584	52,620,584
Financial investments - held to maturity	3,524,051	3,524,051
Other financial assets	19,565	19,565

As at 31 December 2016	BANK	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	LKR '000	LKR '000
Balances with the Central Bank of Sri Lanka	11,815,277	11,815,277
Placements with banks	3,297,262	3,297,262
Derivative financial instruments	1,544,621	1,544,621
Financial assets held-for-trading	832,694	832,694
Loans and receivables to banks	37,032	37,032
Loans and Receivables to other customers (Net)		
Corporate lending	123,992,250	59,620,898
Branch lending	44,305,110	12,425,190
Consumer lending	46,965,546	27,765,579
Residential mortgages	10,144,178	-
Others	2,232,760	1,840,360
	227,639,844	101,652,027
Financial investments - loans and receivables	41,992,533	22,183,671
Financial investments available-for-sale	31,500,020	31,500,020
Financial investments held-to-maturity	4,137,601	4,137,601
Other financial assets	570,115	570,115

31 December 2017	GROUP	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	LKR '000	LKR '000
Balances with the Central Bank of Sri Lanka	15,364,920	15,364,920
Placements with banks	840,684	840,684
Derivative financial instruments	2,471,706	2,471,706
Financial assets held-for-trading	2,659,883	2,659,883
Loans and receivables to banks	15,478	15,478
Loans and Receivables to other customers (Net)		
Corporate lending	57,768,115	18,806,370
Branch lending	47,971,327	28,451,457
Consumer lending	155,769,498	80,529,583
Residential mortgages	1,442,831	1,240,450
Others	11,111,539	-
	274,063,310	129,027,860
Financial investments - loans and receivables	23,316,328	23,316,328
Financial investments available-for-sale	52,975,690	52,975,690
Financial investments held-to-maturity	4,077,096	4,077,096
Other financial assets	446,909	446,909

56.1 (b) Maximum Exposure to Credit Risk (Contd.)

31 December 2016	GROUP	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	LKR '000	LKR '000
Balances with the Central Bank of Sri Lanka	11,815,277	11,815,277
Placements with banks	3,297,262	3,297,262
Derivative financial instruments	1,544,621	1,544,621
Financial assets held-for-trading	3,661,530	3,661,530
Loans and receivables to banks	37,032	37,032
Loans and Receivables to other customers (Net)		
Corporate lending	123,992,250	59,620,898
Branch lending	44,305,110	12,425,190
Consumer lending	46,965,546	27,765,579
Residential mortgages	10,144,178	-
Others	2,272,855	1,880,455
	227,679,939	101,692,122
Financial investments - loans and receivables	43,896,593	24,087,730
Financial investments available-for-sale	31,899,259	31,899,259
Financial investments held-to-maturity	4,946,120	4,946,120
Other financial assets	418,456	418,456

56.1 (c) Concentrations of Credit Risk

Concentration by Sector

The Bank and the Group monitors concentration of credit risk by sector. An analysis of risk concentration by industry for the financial assets is given below.

As at 31 December 2017	BANK									
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Bank										
Cash and cash equivalents	-	-	-	-	-	5,274,466	-	-	-	5,274,466
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	15,364,920	-	15,364,920
Placements with banks	-	-	-	-	-	840,684	-	-	-	840,684
Derivative financial instruments	-	-	-	-	-	2,471,706	-	-	-	2,471,706
Financial assets - held-for-trading	-	-	-	-	-	-	-	1,216,439	-	1,216,439
Loans and receivables to banks	-	-	-	-	-	15,478	-	-	-	15,478
Loans and receivables to other customers (Net)	32,166,054	13,680,139	32,813,429	24,904,291	20,013,706	53,765,526	18,705,727	20,396,066	57,569,032	274,013,970
Financial investments - loans and receivables	-	-	-	-	-	-	-	21,171,508	-	21,171,508
Financial investments - available-for-sale	-	-	-	-	-	1,366,515	-	51,238,925	15,144	52,620,584
Financial investments - held-to-maturity	-	485,980	-	-	-	1,239,630	-	739,361	1,059,080	3,524,051
Other financial assets	-	-	-	-	-	-	-	-	19,565	19,565

*Government refers to the investments held with the Central Bank of Sri Lanka

As at 31 December 2016	BANK									
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Bank										
Cash and cash equivalents	-	-	-	-	-	5,018,438	-	-	-	5,018,438
Balances with the Central Bank of Sri Lanka	-	-	-	-	-		-	11,815,277	-	11,815,277
Placements with banks	-	-	-	-	-	3,297,262	-		-	3,297,262
Derivative financial instruments	-	-	-	-	-	1,544,621	-		-	1,544,621
Financial assets - held-for-trading	-	-	-	-	-		-	832,694	-	832,694
Loans and receivables to banks	-	-	-	-	-	37,032	-	-	-	37,032
Loans and receivables to other customers (Net)	24,748,916	11,078,304	26,391,465	23,433,465	17,154,581	49,144,848	17,632,148	16,032,125	42,023,992	227,639,844
Financial investments - loans and receivables	-	-	-	-	-	-	-	41,992,533	-	41,992,533
Financial investments - available-for-sale	-	-	-	-	-	1,497,030	-	29,987,845	15,145	31,500,020
Financial investments - held-to-maturity	-	641,980	-	-	-	1,509,350	-	891,918	1,094,353	4,137,601
Other financial assets	-	-	-	-	-	548,496	-	-	21,619	570,115

*Government refers to the investments held with the Central Bank of Sri Lanka

As at 31 December 2017	GROUP									
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Group										
Cash and cash equivalents	-	-	-	-	-	5,343,314	-	-	-	5,343,314
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	15,364,920	-	15,364,920
Placements with banks	-	-	-	-	-	840,684	-	-	-	840,684
Derivative financial instruments	-	-	-	-	-	2,471,706	-	-	-	2,471,706
Financial assets - held-for-trading	-	-	47,128	-	-	341,141	-	1,216,439	1,055,175	2,659,883
Loans and receivables to banks	-	-	-	-		15,478	-	-	-	15,478
Loans and receivables to other customers (Net)	32,166,054	13,680,139	32,813,429	24,904,291	20,013,706	53,765,526	18,705,727	20,396,066	57,618,372	274,063,310
Financial investments - loans and receivables	-	-	-	-	-	1,246,196	-	21,171,508	898,624	23,316,328
Financial investments - available-for-sale	-	-	-	-	-	1,366,516	-	51,238,925	370,249	52,975,690
Financial investments - held-to-maturity	-	485,980	-	-	-	1,691,440	-	739,361	1,160,315	4,077,096
Other financial assets	-	-	-	-	-	-	-	-	446,909	446,909

*Government refers to the investments held with Central Bank of Sri Lanka

56.1 (c) Concentrations of Credit Risk (Contd)

As at 31 December 2016	GROUP									
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
GROUP										
Cash and cash equivalents	-	-	-	-	-	5,139,389	-	-	-	5,139,389
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	11,815,277	-	11,815,277
Placements with banks	-	-	-	-	-	3,297,262	-	-	-	3,297,262
Derivative financial instruments	-	-	-	-	-	1,544,621	-	-	-	1,544,621
Financial assets - held-for -trading	-	4,271	51,962	5,977	-	327,593	-	832,694	2,439,033	3,661,530
Loans and receivables to banks	-	-	-	-	-	37,032	-	-	-	37,032
Loans and receivables to other customers (Net)	24,748,916	11,078,304	26,391,465	23,433,465	17,154,581	49,144,848	17,632,148	16,032,125	42,064,087	227,679,939
Financial investments - loans and receivables	-	-	-	-	-	1,178,821	-	41,992,533	725,239	43,896,593
Financial investments - available-for-sale	-	-	-	-	-	1,497,032	-	29,987,845	414,382	31,899,259
Financial investments - held-to-maturity	-	641,980	-	-	-	2,217,869	-	891,918	1,194,353	4,946,120
Other financial assets	-	-	-	-	-	-	-	-	418,456	418,456

*Government refers to the investments held with Central Bank of Sri Lanka

56.1 (d) Commitments and Contingencies

The table below shows the maximum credit risk exposure for the Bank and the Group on commitments and contingencies.

The maximum exposure to credit risk relating to a financial commitments and contingencies is the maximum amount the Bank has to pay if the commitments and contingencies are called upon.

	BANK	
	2017	2016
	LKR '000	LKR '000
Guarantees and bonds	28,484,599	26,846,635
Shipping guarantees	2,966,859	2,232,165
Advance documents endorsed	1,012,629	637,612
Letters of credit	13,222,730	8,406,120
Acceptances	6,768,126	7,320,644
Undrawn overdrafts and credit cards	15,652,291	12,913,230
Commitments	98,708,505	97,922,585
Forward exchange contracts	102,344,660	77,942,058
Total	269,160,399	234,221,049

	GROUP	
	2017	2016
	LKR '000	LKR '000
Guarantees and bonds	28,438,648	26,846,634
Shipping guarantees	2,966,859	2,232,165
Advance documents endorsed	1,012,629	637,612
Letters of credit	13,222,730	8,406,120
Acceptances	6,768,126	7,320,644
Undrawn overdrafts and credit cards	15,587,288	12,847,706
Commitments	99,536,909	98,897,534
Forward exchange contracts	102,344,660	77,942,058
Total	269,877,849	235,130,473

56.1 (e) Offsetting of Financial Assets & Liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the Statement of Financial Position when the Bank and the Group have a right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial Assets & Liabilities that are not subject to offsetting

Amounts that do not qualify for offsetting in the Statements of Financial Position include netting arrangements that only permit outstanding transactions with the same counterparty to be offset in an event of default or occurrence of the predetermined events. Such netting arrangements include repurchase agreements and other similar secured lending and borrowing arrangements.

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed below.

As at 31 December	BANK & GROUP					
	2017			2016		
	Gross Amounts	Amount Subject to Netting but do not qualify for Offsetting	Net Amount	Gross Amounts	Amount Subject to Netting but do not qualify for Offsetting	Net Amount
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Loans and receivables to other customers	70,045,386	35,936,661	34,108,725	53,503,255	27,658,204	25,845,051
Financial Liabilities						
Securities sold under repurchase agreements	8,719,244	9,403,745	-	24,471,554	25,842,248	-

56.2 Market Risk

Market Risk function is attached to the Group Risk Management Unit and operates within a well-defined Policy framework which ensures that the Bank operates within the pre-defined risk appetite of the Bank through portfolio analysis, stress testing and close monitoring. Guided by these policies and Regulatory directions; Bank has set internal prudential limits, taking in to account the balance sheet size, structure and the business model; thereby business units optimize the risk and reward relationship without exposing the Bank to unexpected losses.

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices. The Bank's market risk exposures are classified into trading and non-trading portfolios and are managed separately. Sensitivity analysis of portfolios are carried out together with mark to market valuations and duration analysis that reflects the portfolio sensitivity to the market volatility. Whilst the Trading portfolios are fair valued through the Statement of Profit or Loss; AFS (available for sale) portfolios are fair valued through equity of which realized capital gains/losses are recognized in the Statement of Profit or Loss.

56.2 (a) Interest Rate Risk

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of Fixed Income Securities (Treasury Bills & Bonds), with all other variables held constant of the Bank's Statement of profit or loss.

56.2 (b) Sensitivity of the Financial Assets Held-for-Trading (HFT) - Sri Lanka Government Securities

	2017			
	Portfolio size	Increase/Decrease in Basis Points	Sensitivity of Profit or Loss Bank	Sensitivity of Profit or Loss Group
	LKR '000		LKR '000	LKR '000
Held for trading portfolio	1,202,034	+100/(100)	(5,207)/5,286	(5,207)/5,286

	2016			
	Portfolio size	Increase/Decrease in Basis Points	Sensitivity of Profit or Loss Bank	Sensitivity of Profit or Loss Group
	LKR '000		LKR '000	LKR '000
Held for trading portfolio	814,034	+100/(100)	(2,293)/2,336	(2,293)/2,336

Fair value of the AFS portfolio is recognized in the Other Comprehensive Income – OCI (Equity) until the asset is derecognized in which case the price sensitivity does not have a direct impact to the Bank's Statement of Profit or Loss.

Sensitivity of the Financial Investments Available-for-Sale of Fixed Income Securities

	2017			
	Portfolio size	Increase/Decrease in Basis Points	Sensitivity on Bank	Sensitivity on Group
	LKR '000		LKR '000	LKR '000
Available for sale portfolio	52,123,248	+100/(100)	(541,531)/559,105	(541,531)/559,105

	2016			
	Portfolio size	Increase/Decrease in Basis Points	Sensitivity on Bank	Sensitivity on Group
	LKR '000		LKR '000	LKR '000
Available for sale portfolio	30,528,207	+100/(100)	(416,841)/439,301	(416,841)/439,301

The sensitivity of the Statement of Profit or Loss is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the interest rate sensitive assets and liabilities as at 31.12.2017.

56.2 (c) Interest Rates Sensitivity Analysis

The tables below analyzes the Bank's and the Group's interest rate risk exposure on financial assets and liabilities as at 31 December 2017.

As at 31 December 2017	BANK						
	On Demand	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Non-Interest Bearing	Carrying Amount
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and cash equivalents	-	-	-	-	-	5,274,466	5,274,466
Balances with Central Bank	-	-	-	-		15,364,920	15,364,920
Placements with banks	184	840,500	-	-	-	-	840,684
Financial assets held-for-trading	1,216,439	-	-	-	-	-	1,216,439
Loans and receivables to banks	991	3,801	8,833	1,853	-	-	15,478
Loans and receivables to other customers	62,551,804	67,804,527	40,015,343	80,036,096	23,606,200	-	274,013,970
Financial investments - loans and receivables	349,908	9,032,900	5,664,700	6,124,000	-	-	21,171,508
Financial investments - available-for-sale	51,238,926	-	-	-	-	1,381,658	52,620,584
Financial investments - held-to-maturity	126,844	-	961,190	2,436,017	-	-	3,524,051
Other financial assets	19,565	-	-	-	-	-	19,565
Total financial assets	115,504,661	77,681,728	46,650,066	88,597,966	23,606,200	22,021,044	374,061,665
Liabilities							
Due to Banks	259,166	13,548,644	6,428,909	-	-	-	20,236,719
Due to other customers	45,776,816	102,421,804	93,176,133	9,799,997	1,434,072	20,760,201	273,369,023
Debt securities issued and other borrowed funds	2,599,353	8,055,701	3,375,335	10,705,024	3,371,632	-	28,107,045
Subordinated term debts	-	-	2,697,942	9,435,129	7,203,784	-	19,336,855
Other financial liabilities	3,053,299	-	-	-	-	-	3,053,299
Total financial liabilities	51,688,634	124,026,149	105,678,319	29,940,150	12,009,488	20,760,201	344,102,941
Total interest sensitivity gap	63,816,027	(46,344,421)	(59,028,253)	58,657,816	11,596,712	1,260,843	29,958,724

As at 31 December 2016	BANK						
	On Demand	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Non-Interest Bearing	Carrying Amount
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and cash equivalents	-	-	-	-	-	5,018,438	5,018,438
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	11,815,277	11,815,277
Placements with banks	1,662	3,295,600	-	-	-	-	3,297,262
Financial assets held-for-trading	832,694	-	-	-	-	-	832,694
Loans and receivables to banks	655	5,643	14,731	16,003	-	-	37,032
Loans and receivables to other customers	47,786,678	53,355,472	28,773,596	76,960,484	20,763,614	-	227,639,844
Financial assets - loans and receivables	312,871	22,804,862	2,247,000	16,627,800	-	-	41,992,533
Financial assets available-for-sale	29,987,847	-	-	-	-	1,512,173	31,500,020
Financial assets held-to-maturity	166,538	-	583,923	3,387,140	-	-	4,137,601
Other financial assets	570,115	-	-	-	-	-	570,115
Total financial assets	79,659,060	79,461,577	31,619,250	96,991,427	20,763,614	18,345,888	326,840,816
Liabilities							
Due to banks	246,724	13,204,706	3,673,514	-	-	-	17,124,944
Due to other customers	38,255,684	79,044,505	59,287,231	9,766,441	1,248,268	16,264,418	203,866,547
Debt securities issued and other borrowed funds	19,555,178	23,560,412	2,872,456	9,061,723	4,183,495	-	59,233,264
Subordinated term debts	7,732	-	326,700	11,914,211	7,197,858	-	19,446,501
Other financial liabilities	2,777,519	-	-	-	-	-	2,777,519
Total financial liabilities	60,842,837	115,809,623	66,159,901	30,742,375	12,629,621	16,264,418	302,448,775
Total interest sensitivity gap	18,816,223	(36,348,046)	(34,540,651)	66,249,052	8,133,993	2,081,470	24,392,041

56.2 (c) Interest Rates Sensitivity Analysis (Contd.)

As at 31 December 2017	GROUP						
	On Demand	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Non-Interest Bearing	Carrying Amount
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and cash equivalents	-	-	-	-	-	5,343,314	5,343,314
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	15,364,920	15,364,920
Placements with banks	184	840,500	-	-	-	-	840,684
Financial assets held-for-trading	2,659,883	-	-	-	-	-	2,659,883
Loans and receivables to banks	991	3,801	8,833	1,853	-	-	15,478
Loans and receivables to other customers	62,498,964	67,810,590	40,028,925	80,094,366	23,630,465	-	274,063,310
Financial assets - loans and receivables	405,005	9,034,923	5,977,849	7,898,551	-	-	23,316,328
Financial assets available-for-sale	51,238,926	-	-	-	-	1,736,764	52,975,690
Financial assets held-to-maturity	194,808	-	1,240,360	2,641,928	-	-	4,077,096
Other financial assets	446,909	-	-	-	-	-	446,909
Total financial assets	117,445,670	77,689,814	47,255,967	90,636,698	23,630,465	22,444,998	379,103,612
Liabilities							
Due to banks	259,166	13,548,644	6,428,909	-	-	-	20,236,719
Due to other customers	45,754,077	102,122,114	93,176,133	9,799,997	1,434,072	20,755,024	273,041,417
Debt securities issued and other borrowed funds	2,599,352	8,055,701	3,375,335	10,705,024	3,371,633	-	28,107,045
Subordinated term debts	-	-	2,697,942	9,435,129	7,203,784	-	19,336,855
Other financial liabilities	3,085,308	-	-	-	-	-	3,085,308
Total financial liabilities	51,697,903	123,726,459	105,678,319	29,940,150	12,009,489	20,755,024	343,807,344
Total interest sensitivity gap	65,747,767	(46,036,645)	(58,422,352)	60,696,548	11,620,976	1,689,974	35,296,268

As at 31 December 2016	GROUP						
	On Demand	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Non-Interest Bearing	Carrying Amount
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and cash equivalents	-	-	-	-	-	5,139,389	5,139,389
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	11,815,277	11,815,277
Placements with banks	1,662	3,295,600	-	-	-	-	3,297,262
Financial assets held-for-trading	3,661,530	-	-	-	-	-	3,661,530
Loans and receivables to banks	655	5,643	14,731	16,003	-	-	37,032
Loans and receivables to other customers	47,720,571	53,361,105	28,787,444	77,017,857	20,792,962	-	227,679,939
Financial assets - loans and receivables	364,908	22,804,862	2,311,122	18,415,701	-	-	43,896,593
Financial assets available-for-sale	29,987,845	-	-	-	-	1,911,414	31,899,259
Financial assets held-to-maturity	207,474	-	838,515	3,900,131	-	-	4,946,120
Other financial assets	418,456	-	-	-	-	-	418,456
Total financial assets	82,363,101	79,467,210	31,951,812	99,349,692	20,792,962	18,866,080	332,790,857
Liabilities							
Due to banks	246,724	13,204,706	3,673,514	-	-	-	17,124,944
Due to other customers	38,208,665	78,750,902	59,287,231	9,766,441	1,248,268	16,254,321	203,515,828
Debt securities issued and other borrowed funds	19,555,178	23,560,412	2,872,456	9,061,723	4,183,495	-	59,233,264
Subordinated term debts	7,732	-	326,700	11,914,211	7,197,858	-	19,446,501
Other financial liabilities	2,842,867	-	-	-	-	-	2,842,867
Total financial liabilities	60,861,166	115,516,020	66,159,901	30,742,375	12,629,621	16,254,321	302,163,404
Total interest sensitivity gap	21,501,935	(36,048,810)	(34,208,089)	68,607,317	8,163,341	2,611,759	30,627,453

56.2 (d) Mark to Market Valuation

The Sri Lanka Government Securities portfolio classified as Financial assets - Held for Trading and Financial Investments - Available for sale and Foreign Exchange positions are subject to mark to market valuation on a daily basis to derive the economic value of positions.

Mark to Market results are being monitored against the Board approved stop-loss limits on a daily basis and reviewed at monthly ALCO and at the IRMC on a quarterly basis to assess the portfolio performance and investment decisions.

56.2 (e) Currency Risk

Currency risk is the risk that the value of a financial instrument denominated in foreign currency will fluctuate due to changes in exchange rates other than the functional currency in which they are measured. Board approved limits are in place on currency positions and are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The table below indicate the currencies to which the Bank had significant exposure as at 31st December 2017 and 31 December 2016 on its currency exposures. The analysis calculates the sensitivity of each currency position to the increase in exchange rates against the Sri Lankan Rupee (functional currency) with all other variables held constant in the Statement of Profit or Loss and Equity. A negative amount in the table reflects a potential net reduction in Statement of Profit or Loss or Equity, while a positive amount reflects a net potential increase depending on the side of the currency position.

With regard to the Group companies, there are no direct open exposures in foreign currency other than the functional currency. An equivalent decrease in below currencies against the Sri Lankan Rupee would have resulted in an equivalent but opposite impact.

Change in Currency Rates in %

		2017		2016	
	Spot Rate Shock	Effect on Profit	Effect on Equity	Effect on Profit	Effect on Equity
Currency	%	LKR '000	LKR '000	LKR '000	LKR '000
United State Dollar (USD)	2.50	(21,037)	(21,037)	21,916	21,916
Great British Pound (GBP)	2.50	21	21	(180)	(180)
Euro (EUR)	2.50	(215)	(215)	47	47
Japanese Yen (JPY)	2.50	(97)	(97)	(43)	(43)
Australian Dollar (AUD)	2.50	23	23	91	91

56.2 (f) Price Risk

Equity Price Risk

Equity price risk is the risk that the fair value of equities decrease as a result of changes in the level of equity indices and individual stocks. The Bank did not hold an equity trading portfolio for the year concerned. The non-trading equity price risk exposure arises from equity securities classified as available for sale.

The following table demonstrates the sensitivity to a reasonably possible change in Quoted equity indices, with all other variables held constant of the Bank's and the Group's Statement of Profit or Loss.

	2017			
	Magnitude of Shock and the Fall in Value of Equities - LKR '000			
Entity	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	1,366,515	68,326	136,651	204,977
Group	2,067,890	102,935	205,869	308,804

56.2 (f) Price Risk (Contd.)

Entity	2016 Magnitude of Shock and the Fall in Value of Equities - LKR '000			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	1,381,841	69,092	138,184	207,276
Group	2,024,024	100,741	201,483	302,224

Sensitivity of the Unit Trust Investments

The Bank was insensitive for the investments under Unit trust fund; however the sensitivity of the Group could have the following impact due to an adverse impact in the Unit trust prices. The impact is monitored under three scenarios mid moderate & adverse conditions

Entity	2017 Magnitude of Shock and the Fall in Value of Units - LKR '000			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	-	-	-	-
Group	947,175	47,359	94,718	142,076

Entity	2016 Magnitude of Shock and the Fall in Value of Units - LKR '000			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	-	-	-	-
Group	2,435,891	121,795	243,589	365,384

Commodity Price Risk

The Bank did not hold a Commodity position as at 31 December 2017, hence the Bank was insensitive for Commodity price risk.

56.2 (g) Country Risk

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

Concentration by Country

Geographical Analysis

31 December 2017	BANK							
	Sri Lanka	Europe	America	Asia	Middle East	Australia-New Zealand	Africa	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	3,035,894	318,211	1,300,686	518,168	27,222	74,285	-	5,274,466
Balances with the Central Bank of Sri Lanka	15,364,920	-	-	-	-	-	-	15,364,920
Placements with banks	840,684	-	-	-	-	-	-	840,684
Derivative financial instruments	2,471,706	-	-	-	-	-	-	2,471,706
Financial assets - held for trading	1,216,439	-	-	-	-	-	-	1,216,439
Loans and receivables to banks	15,478	-	-	-	-	-	-	15,478
Loans and receivables to other customers	263,493,339	-	-	7,209,956	636,548	-	2,674,127	274,013,970
Financial investments - loans and receivables	21,171,508	-	-	-	-	-	-	21,171,508
Financial investments - available for sale	52,620,584	-	-	-	-		-	52,620,584
Financial investments - held to maturity	3,524,051	-	-	-	-	-	-	3,524,051
Other financial assets	19,565	-	-	-	-	-	-	19,565
Total financial assets	363,774,168	318,211	1,300,686	7,728,124	663,770	74,285	2,674,127	376,533,371

31 December 2016	BANK							
	Sri Lanka	Europe	America	Asia	Middle East	Australia-New Zealand	Africa	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	2,797,771	314,630	1,284,609	398,597	67,269	155,562	-	5,018,438
Balances with the Central Bank of Sri Lanka	11,815,277	-	-	-	-	-	-	11,815,277
Placements with banks	3,297,262	-	-	-	-	-	-	3,297,262
Derivative financial instruments	1,544,621	-	-	-	-	-	-	1,544,621
Financial assets - held for trading	832,694	-	-	-	-	-	-	832,694
Loans and receivables to banks	37,032	-	-	-	-	-	-	37,032
Loans and receivables to other customers	218,358,823	-	-	7,662,827	130,856	-	1,487,338	227,639,844
Financial investments - loans and receivables	41,992,533	-	-	-	-	-	-	41,992,533
Financial investments - available for sale	31,500,020	-	-	-	-		-	31,500,020
Financial investments - held to maturity	4,137,601	-	-	-	-	-	-	4,137,601
Other financial assets	570,115	-	-	-	-	-	-	570,115
Total financial assets	316,883,749	314,630	1,284,609	8,061,424	198,125	155,562	1,487,338	328,385,437

56.2 (g) Country Risk (Contd.)

31 December 2017	GROUP							
	Sri Lanka	Europe	America	Asia	Middle East	Australia-New Zealand	Africa	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	3,104,742	318,211	1,300,686	518,168	27,222	74,285	-	5,343,314
Balances with the Central Bank of Sri Lanka	15,364,920	-	-	-	-	-	-	15,364,920
Placements with banks	840,684	-	-	-	-	-	-	840,684
Derivative financial instruments	2,471,706	-	-	-	-	-	-	2,471,706
Financial assets - held for trading	2,659,883	-	-	-	-	-	-	2,659,883
Loans and receivables to banks	15,478	-	-	-	-	-	-	15,478
Loans and receivables to other customers	263,542,679	-	-	7,209,956	636,548	-	2,674,127	274,063,310
Financial investments - loans and receivables	23,316,328	-	-	-	-	-	-	23,316,328
Financial investments - available for sale	52,975,690	-	-	-	-	-	-	52,975,690
Financial investments - held to maturity	4,077,096	-	-	-	-	-	-	4,077,096
Other financial assets	446,909	-	-	-	-	-	-	446,909
Total financial assets	368,816,115	318,211	1,300,686	7,728,124	663,771	74,285	2,674,127	381,575,318

31 December 2016	GROUP							
	Sri Lanka	Europe	America	Asia	Middle East	Australia-New Zealand	Africa	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	2,918,722	314,630	1,284,609	398,597	67,269	155,562	-	5,139,389
Balances with the Central Bank of Sri Lanka	11,815,277	-	-	-	-	-	-	11,815,277
Placements with banks	3,297,262	-	-	-	-	-	-	3,297,262
Derivative financial instruments	1,544,621	-	-	-	-	-	-	1,544,621
Financial assets - held for trading	3,661,530	-	-	-	-	-	-	3,661,530
Loans and receivables to banks	37,032	-	-	-	-	-	-	37,032
Loans and receivables to other customers	218,398,918	-	-	7,662,827	130,856	-	1,487,338	227,679,939
Financial investments - loans and receivables	43,896,593	-	-	-	-	-	-	43,896,593
Financial investments - available for sale	31,899,259	-	-	-	-	-	-	31,899,259
Financial investments - held to maturity	4,946,120	-	-	-	-	-	-	4,946,120
Other financial assets	418,456	-	-	-	-	-	-	418,456
Total financial assets	322,833,789	314,630	1,284,609	8,061,424	198,125	155,562	1,487,338	334,335,478

56.3 Liquidity Risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

The Bank has set forth policies on Liquidity Risk Management and Liquidity Contingency Funding Plan approved by the Board for effective management of liquidity. In addition to the Regulatory limits on liquidity, the Bank's internal prudential limit framework ensures that the exposures are managed and monitored at prudent levels.

In accordance with the Bank's risk management policy, the liquidity position is assessed /stressed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market and specific to the Bank. This ensures the maintenance of the liquid asset ratio at required levels. Liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale. The Bank is in possession of reciprocal Liquidity Contingency Funding agreements signed up with Licensed commercial Banks to deal in crisis situations.

The table below summarizes the maturity profile of the undiscounted cash flows of the financial assets and the financial liabilities of the Bank and the Group as at 31 December 2017 and 31 December 2016.

31 December 2017	BANK						
	On Demand	Trading Derivatives	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets							
Cash and cash equivalents	5,274,466	-	-	-	-	-	5,274,466
Balances with the Central Bank of Sri Lanka	15,364,920	-	-	-	-	-	15,364,920
Less: Restricted balance	(15,364,920)	-	-	-	-	-	(15,364,920)
Placements with banks	-	-	840,743	-	-	-	840,743
Derivative financial instruments	-	2,471,706	-	-	-	-	2,471,706
Financial assets held-for-trading	1,216,439	-	-	-	-	-	1,216,439
Loans and receivables to banks	990	-	3,994	9,104	1,964	-	16,052
Loans and receivables to other customers	62,460,799	-	69,865,017	44,496,442	104,281,565	38,749,504	319,853,327
Financial Investments - loans and receivables	-	-	9,461,076	6,063,309	6,759,936	322,119	22,606,440
Financial assets - available-for-sale	52,620,584	-	-	-	-	-	52,620,584
Financial assets - held-to-maturity	-	-	61,753	1,231,222	2,852,081	-	4,145,056
Other financial assets	19,565	-	-	-	-	-	19,565
Total undiscounted financial assets	121,592,843	2,471,706	80,232,583	51,800,077	113,895,546	39,071,623	409,064,378
Financial Liabilities							
Due to banks	-	-	13,759,399	6,578,277	-	-	20,337,676
Derivative financial instruments	-	936,754	-	-	-	-	936,754
Due to other customers	60,413,569	-	106,685,731	101,918,182	14,123,458	1,897,349	285,038,289
Debt securities issued and other borrowed funds	2,308,755	-	8,266,155	4,376,089	13,252,218	4,096,907	32,300,124
Subordinated term debts	-	-	-	4,804,351	15,007,773	9,242,070	29,054,194
Other financial liabilities	3,053,299	-	-	-	-	-	3,053,299
Total undiscounted financial liabilities	65,775,623	936,754	128,711,285	117,676,899	42,383,449	15,236,326	370,720,336
Net undiscounted financial assets and liabilities	55,817,220	1,534,952	(48,478,702)	(65,876,822)	71,512,097	23,835,297	38,344,042

56.3 Liquidity Risk (Contd.)

As at 31 December 2016	BANK						
	On Demand	Trading Derivatives	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets							
Cash and cash equivalents	5,018,438	-	-	-	-	-	5,018,438
Balances with the Central Bank of Sri Lanka	11,815,277	-	-	-	-	-	11,815,277
Less: Restricted balance	(11,815,277)	-	-	-	-	-	(11,815,277)
Placements with banks	-	-	3,300,061	-	-	-	3,300,061
Derivative financial instruments	-	1,544,621	-	-	-	-	1,544,621
Financial assets held-for-trading	832,694	-	-	-	-	-	832,694
Loans and receivables to banks	655	-	6,151	15,778	16,962	-	39,546
Loans and receivables to other customers	48,049,756	-	55,053,160	33,080,205	101,247,154	29,213,078	266,643,353
Financial Investments - loans and receivables	-	-	22,795,687	2,302,217	17,064,286	-	42,162,190
Financial assets - available-for-sale	31,500,020	-	-	-	-	-	31,500,020
Financial assets - held-to-maturity	-	-	74,848	934,048	4,145,056	-	5,153,952
Other financial assets	570,115	-	-	-	-	-	570,115
Total undiscounted financial assets	85,971,678	1,544,621	81,229,907	36,332,248	122,473,458	29,213,078	356,764,990
Financial Liabilities							
Due to banks	-	-	13,494,578	3,828,974	-	-	17,323,552
Derivative financial instruments	-	474,770	-	-	-	-	474,770
Due to other customers	50,949,027	-	81,822,557	64,423,653	13,357,965	1,499,064	212,052,266
Debt securities issued and other borrowed funds	18,726,154	-	23,816,568	3,848,034	11,527,355	4,875,116	62,793,227
Subordinated term debts	-	-	-	2,386,417	18,803,785	10,250,409	31,440,611
Other financial liabilities	2,777,519	-	-	-	-	-	2,777,519
Total undiscounted financial liabilities	72,452,700	474,770	119,133,703	74,487,078	43,689,105	16,624,589	326,861,945
Net undiscounted financial assets and liabilities	13,518,978	1,069,851	(37,903,796)	(38,154,830)	78,784,353	12,588,489	29,903,045

31 December 2017	GROUP						
	On Demand	Trading Derivatives	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets							
Cash and cash equivalents	5,343,314	-	-	-	-	-	5,343,314
Balances with the Central Bank of Sri Lanka	15,364,920	-	-	-	-	-	15,364,920
Less: Restricted balance	(15,364,920)	-	-	-	-	-	(15,364,920)
Placements with banks	-	-	840,743	-	-	-	840,743
Derivative financial instruments	-	2,471,706	-	-	-	-	2,471,706
Financial assets held-for-trading	2,659,883	-	-	-	-	-	2,659,883
Loans and receivables to banks	990	-	3,994	9,104	1,964	-	16,052
Loans and receivables to other customers	62,407,959	-	69,871,109	44,510,225	104,344,200	38,776,325	319,909,818
Financial Investments - loans and receivables	203	-	9,463,653	6,478,570	9,331,634	322,119	25,596,179
Financial assets - available-for-sale	52,975,690	-	-	-	-	-	52,975,690
Financial assets - held-to-maturity	56,373	-	61,753	1,692,230	3,157,012	-	4,967,368
Other financial assets	446,909	-	-	-	-	-	446,909
Total undiscounted financial assets	123,891,321	2,471,706	80,241,252	52,690,129	116,834,810	39,098,444	415,227,662
Financial Liabilities							
Due to banks	-	-	13,759,399	6,578,277	-	-	20,337,676
Derivative financial instruments	-	936,754	-	-	-	-	936,754
Due to other customers	60,388,229	-	106,378,076	101,918,182	14,123,458	1,897,349	284,705,294
Debt securities issued and other borrowed funds	2,308,755	-	8,266,155	4,376,089	13,252,218	4,096,907	32,300,124
Subordinated term debts	-	-	-	4,804,351	15,007,773	9,242,070	29,054,194
Other financial liabilities	3,085,308	-	-	-	-	-	3,085,308
Total undiscounted financial liabilities	65,782,292	936,754	128,403,630	117,676,899	42,383,449	15,236,326	370,419,350
Net undiscounted financial assets and liabilities	58,109,029	1,534,952	(48,162,378)	(64,986,770)	74,451,361	23,862,118	44,808,312

As at 31 December 2016	GROUP						
	On Demand	Trading Derivatives	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets							
Cash and cash equivalents	5,139,389	-	-	-	-	-	5,139,389
Balances with the Central Bank of Sri Lanka	11,815,277	-	-	-	-	-	11,815,277
Less: Restricted balance	(11,815,277)	-	-	-	-	-	(11,815,277)
Placements with banks	-	-	3,300,061	-	-	-	3,300,061
Derivative financial instruments	-	1,544,621	-	-	-	-	1,544,621
Financial assets held-for-trading	3,661,530	-	-	-	-	-	3,661,530
Loans and receivables to banks	655	-	6,151	15,778	16,962	-	39,546
Loans and receivables to other customers	47,983,649	-	55,058,822	33,094,253	101,308,680	29,245,758	266,691,162
Financial Investments - loans and receivables	-	-	22,795,687	2,373,115	18,877,781	-	44,046,583
Financial assets - available-for-sale	31,899,259	-	-	-	-	-	31,899,259
Financial assets - held-to-maturity	-	-	74,848	1,189,969	4,672,923	-	5,937,740
Other financial assets	418,456	-	-	-	-	-	418,456
Total undiscounted financial assets	89,102,938	1,544,621	81,235,569	36,673,115	124,876,346	29,245,758	362,678,347
Financial Liabilities							
Due to banks	-	-	13,494,578	3,828,974	-	-	17,323,552
Derivative financial instruments	-	474,770	-	-	-	-	474,770
Due to other customers	50,893,811	-	81,528,864	64,423,653	13,357,965	1,499,064	211,703,357
Debt securities issued and other borrowed funds	18,726,154	-	23,816,568	3,848,034	11,527,355	4,875,116	62,793,227
Subordinated term debts	-	-	-	2,386,417	18,803,785	10,250,409	31,440,611
Other financial liabilities	2,842,867	-	-	-	-	-	2,842,867
Total undiscounted financial liabilities	72,462,832	474,770	118,840,010	74,487,078	43,689,105	16,624,589	326,578,384
Net undiscounted financial assets and liabilities	16,640,106	1,069,851	(37,604,441)	(37,813,963)	81,187,241	12,621,169	36,099,963

Contractual Maturities for Commitments and Contingencies

The table below summarises the maturity profile of the commitments and contingencies for the Bank and the Group as at 31 December 2017 and 31 December 2016.

As at 31 December 2017	BANK					
	On Demand	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Undisbursed financing commitments	114,360,796	-	-	-	-	114,360,796
Performance Bonds	-	6,351,028	12,936,873	9,153,133	4,023,053	32,464,087
Documentary Credits	-	5,866,792	6,541,184	814,754	-	13,222,730
Forward exchange contracts	-	44,770,383	56,776,527	797,750	-	102,344,660
Acceptances	-	5,256,178	1,511,948	-	-	6,768,126
	114,360,796	62,244,381	77,766,532	10,765,637	4,023,053	269,160,399

As at 31 December 2016	BANK					
	On Demand	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Undisbursed financing commitments	110,835,816	-	-	-	-	110,835,816
Performance Bonds	-	6,069,353	11,853,491	8,876,679	2,916,888	29,716,411
Documentary Credits	-	5,542,101	2,407,902	456,117	-	8,406,120
Forward exchange contracts	-	46,728,313	31,165,835	47,910	-	77,942,058
Acceptances	-	5,671,190	1,638,219	11,235	-	7,320,644
	110,835,816	64,010,957	47,065,447	9,391,941	2,916,888	234,221,049

56.3 Liquidity Risk (Contd.)

As at 31 December 2017	GROUP					
	On Demand	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Undisbursed financing commitments	115,124,197	-	-	-	-	115,124,197
Performance Bonds	-	6,351,029	12,890,922	9,153,133	4,023,053	32,418,137
Documentary Credits	-	5,866,792	6,541,184	814,754	-	13,222,730
Forward exchange contracts	-	44,770,383	56,776,527	797,750	-	102,344,660
Acceptances	-	5,256,177	1,511,948	-	-	6,768,126
	115,124,197	62,244,381	77,720,581	10,765,637	4,023,053	269,877,849

As at 31 December 2016	GROUP					
	On Demand	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Undisbursed financing commitments	111,745,240	-	-	-	-	111,745,240
Performance Bonds	-	6,069,354	11,853,490	8,876,679	2,916,888	29,716,411
Documentary Credits	-	5,542,102	2,407,901	456,117	-	8,406,120
Forward exchange contracts	-	46,728,313	31,165,835	47,910	-	77,942,058
Acceptances	-	5,671,190	1,638,219	11,235	-	7,320,644
	111,745,240	64,010,959	47,065,445	9,391,941	2,916,888	235,130,473

56.4 Capital Management

The Group realizes the importance of managing capital as it restricts the business growth unlike any other commercial organizations. All large credit proposals are evaluated with the capital charge and lending decisions are taken on the basis of sufficient return on capital. Even the expansion projects in terms of new buildings and software purchases are evaluated against sufficient return on capital. The Bank always maintains a relatively higher level of free capital which will be utilized for lending activities thereby improving the net interest income of the Group. Further, the Group also maintains an effective balance between dividend payment and retention of profits ensuring sufficient plough back of profits.

The detailed capital adequacy computations and the Basel III - Pillar III disclosures for the Bank and the Group as at 31 December 2017 and 31 December 2016 is given on page 170 to 186.

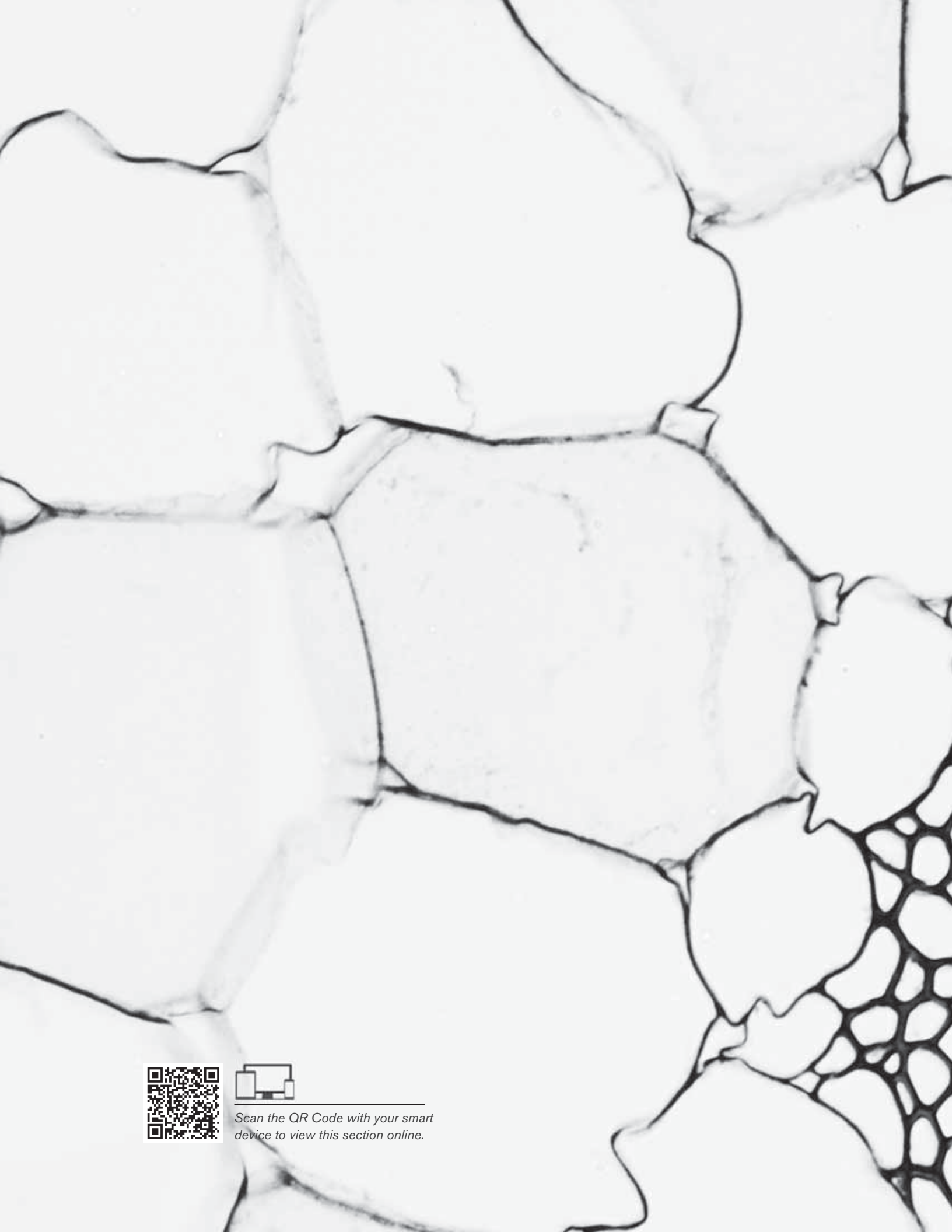
COMPLIANCE WITH DISCLOSURE REQUIREMENTS OF THE CENTRAL BANK OF SRI LANKA

Compliance with the Disclosure Requirements Specified by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks.

1	Information about the significance of financial instruments for the financial position and performance	
1.1	Statement of Financial Position	Reference
1.1.1	Disclosures on categories of financial assets and financial liabilities	Note 18 to the Financial Statements
1.1.2	Other disclosures	
	i Special disclosures about the financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Note 55 - Fair value of financial instruments
	ii Reclassifications of financial instruments from one category to another.	Not Applicable
	iii Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note 56.1 to the Financial Statements
	iv Reconciliation of the allowance account for credit losses by class of financial assets.	Note 25.5(a) to the Financial Statements
	v Information about derivative financial instruments.	Note 22 to the Financial Statements
	vi Information about compound financial instruments with multiple embedded derivatives.	Not Applicable
	vii Breaches of terms of loan agreements.	Note 50 to the Financial Statements
1.2	Statement of Comprehensive Income	
1.2.1	Disclosures on items of income, expense, gains and losses	Note 4 to 14 of the Financial Statements
1.2.2	Other disclosures:	
	i Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.	Note 5.1 and 5.2 to the Financial Statements
	ii Fee income and expense.	Note 6 to the Financial Statements
	iii Amount of impairment losses by class of financial assets.	Note 10 to the Financial Statements
	iv Interest income on impaired financial assets.	Note 5.4 to the Financial Statements
1.3	Other Disclosures	
1.3.1	Accounting policies for financial instruments	Accounting Policies for each type of Financial Instrument presented in the Statement of Financial Position is disclosed under the respective notes. Pages 302 to 408.
1.3.2	Information on hedge accounting	Note 22 to the Financial Statements
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:	
	i Comparable carrying amounts.	Note 55 - Fair value of financial instruments
	ii Description of how fair value was determined.	Note 55 - Fair value of financial instruments
	iii The level of inputs used in determining fair value.	Note 55 - Fair value of financial instruments
	iv Reconciliations of movements between levels of fair value measurement hierarchy, additional disclosures for financial instruments that fair value is determined using level 3 inputs.	Note 55(b) - Fair value of financial instruments
	v Information if fair value cannot be reliably measured.	Not Applicable

2	Information about the nature and extent of risks arising from financial instruments	
2.1	Qualitative disclosures	Reference
2.1.1	Risk exposures for each type of financial instrument	Note 56 - Risk Management of the Financial Statements
2.1.2	Management's objectives, policies, and processes for managing those risks	Note 56 - Risk Management of the Financial Statements
2.1.3	Changes from the prior period	Not Applicable
2.2	Quantitative disclosures	
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	Note 56 - Risk Management of the Financial Statements
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.	Note 56 - Risk Management of the Financial Statements
	i Credit Risk a. Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets. b. For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset. c. Information about collateral or other credit enhancements obtained or called. d. For other disclosures, refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No.01 of 2016 on Capital Requirements under Basel III for Licensed Banks	Note 56.1 - Risk Management of the Financial Statements
	ii Liquidity Risk a. A maturity analysis of financial liabilities. b. Description of approach to risk management. c. For other disclosures, refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No.01 of 2016 on Capital Requirements under Basel III for Licensed Banks	Note 56.3 - Liquidity Risk and funding management of the Financial Statements
	iii Market Risk a. A sensitivity analysis of each type of market risk to which the entity is exposed. b. Additional information, if the sensitivity analysis is not representative of the entity's risk exposure. c. For other disclosures, refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No.01 of 2016 on Capital Requirements under Basel III for Licensed Banks	Note 56.2 - Market Risk of the Financial Statements
	iv Operational Risk Refer Basel III Minimum Disclosure Requirement under Pillar III as per the Banking Act Direction No.01 of 2016 on Capital Requirements under Basel III for Licensed Banks	Pages from136 to 186 - Operational Risk of the Financial Statements
	v Equity risk in the Banking Book a. Qualitative disclosures ▪ Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. ▪ Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. b. Quantitative disclosures ▪ Value disclosed in the Statement of Financial Position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. ▪ The types and nature of investments ▪ The cumulative realized gains/ (losses) arising from sales and liquidations in the reporting period.	Note 56.2(f) - Equity Price Risk of the Financial Statements
	vi Interest rate risk in the Banking Book a. Qualitative disclosures ▪ Nature of interest rate risk in the Banking Book (IRRBB) and key assumptions b. Quantitative disclosures ▪ The increase/ (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	Note 56.2(a) - Interest Rate Risk of the Financial Statements
2.2.3	Information on concentration of risk	Note 56.1 - Risk Management of the Financial Statements

3	Other Disclosures	
3.1	Regulatory requirements on Capital and Liquidity	Reference
3.1.1	Key Regulatory Ratios – Capital and Liquidity	Page 170 on Risk Management
3.1.2	Basel III Computation of Capital Ratios	Page 170 on Risk Management
3.1.3	Basel III Computation of Leverage Ratio	Not Applicable
3.14	Basel III Computation of Liquidity Coverage Ratio	Page 172 on Risk Management
3.1.5	Main Features of Regulatory Capital Instruments	Page 173 on Risk Management
3.2	Risk Weighted Assets (RWA)	
3.2.1	Summary discussion on adequacy /meeting current and future capital requirements	Page 138 on Risk Management
3.2.2	Credit Risk under Standardised Approach : Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects	Pages 174 to 179 on Risk Management
3.2.3	Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights	
3.2.4	Market Risk under Standardised Measurement Method	
3.2.5	Operational Risk under Basic Indicator Approach	
3.3	Linkage between Financial Statements and Regulatory Exposures	
3.3.1	Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories	Pages 180 to 183 on Risk Management
3.3.2	Explanations of differences between accounting and regulatory exposure amounts	
3.4	Risk Management	
3.4.1	Bank Risk Management Approach	Pages 136 to 186 on Risk Management
3.4.2	Risk Management related to Key Risk Exposures	



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Appraising our performance

CORPORATE INFORMATION SUPPLEMENT

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"The Bank's performance has value creating impacts on all its stakeholders, including shareholders, employees, customers and the communities we operate in..."

BRANCH NETWORK OF THE BANK

No	Region	Branch Name	Abbreviations	Branch Code	Address	District
CENTRAL PROVINCE						
1	R 5	Dambulla	DMB	064	No. 42, Kurunegala road, Dambulla	Matale
2	R 6	Gampola	GPL	050	No. 75, Nuwara Eliya Road, Gampola	Kandy
3	R 6	Kandy	KDY	002	No. 133, Kotugodella Veediya, Kandy	Kandy
4	R 6	Kandy City Centre	KCC	080	L 1 - 3, Level 1, Kandy City Centre, No. 05, Dalada Veediya, Kandy	Kandy
5	R 6	Matale	MTL	046	No. 144, Main Street, Matale	Matale
6	R 6	Nawalapitiya	NWP	061	No. 70B, Gampola Road, Nawalapitiya	Kandy
7	R 6	Nuwara Eliya	NEW	076	No. 50/2 ,Siva Complex, Block C, Lawson Street, Nuwara Eliya	Nuwara Eliya
8	R 6	Pilimathalawa	PLM	049	No. 239, Colombo Road, Pilimathalawa	Kandy
NORTH CENTRAL PROVINCE						
1	R 5	Anuradhapura	ANP	019	522/C, Maithreepala Senanayake Mw, New Town, Anuradhapura	Anuradhapura
2	R 5	Hingurakgoda	HRG	102	No. 10, Airport Road, Hingurakgoda	Polonnaruwa
3	R 5	Kaduruwela	KRW	060	No. 300/2, Sawmill Junction, Kaduruwela, Polonnaruwa	Polonnaruwa
4	R 5	Kekirawa	KKR	083	No. 61, Opposite Government Hospital, Main Street, Kekirawa	Anuradhapura
5	R 5	Thambuttegama	TBG	104	No. 255A, Main Street, Thambuttegama	Anuradhapura
NORTHERN PROVINCE						
1	R 8	Chavakachcheri	CVK	099	No. 1,3,5, Kandy Road, Chavakachcheri	Jaffna
2	R 8	Chunnakam	CNK	062	No. 30, K.K.S. Road, Chunnakam	Jaffna
3	R 8	Jaffna	JAF	037	No. 62/6, Stanley Road, Jaffna	Jaffna
4	R 8	Manipay	MPY	097	No. 260, Manipay Road, Manipay	Jaffna
5	R 8	Nelliady	NDY	066	No. 109, Jaffna Road, Nelliady	Jaffna
6	R 8	Thirunelveli	TNV	098	No. M102 , Palaly Road, Jaffna	Jaffna
7	R 8	Vavuniya	VAV	041	No. 188, 190, 192 & 190/1, Kandy Road, Vavuniya	Vavuniya
EASTERN PROVINCE						
1	R 8	Akkaraipattu	AKP	094	No. 487, Main Street, Akkaraipattu	Ampara
2	R 7	Ampara	AMP	040	No. 103F, D S Senanayake Street, Ampara	Ampara
3	R 8	Batticaloa	BAT	039	No. 42/1, Trinco Road, Batticaloa	Batticaloa
4	R 8	Chenkalady	CDY	093	Trincomalee Road, Chenkalady.	Batticaloa
5	R 8	Kalmunai	KLM	053	No. 165, Batticaloa Road, Kalmunai	Ampara
6	R 8	Trincomalee	TRI	038	No. 91& 93, North Coast Road, Trincomalee	Trincomalee
NORTH WESTERN PROVINCE						
1	R 4	Chilaw	CHI	010	No. 50-52, Skyline Building, Colombo Road, Chilaw	Puttalam
2	R 5	Giriulla	GRU	086	No. 86, Negombo Road Giriulla.	Kurunegala
3	R 5	Kuliyapitiya	KUL	042	No. 133, Main Street, Kuliyapitiya	Kurunegala
4	R 5	Kurunegala	KUR	007	No. 6, Rajapihilla Mw, Kurunegala	Kurunegala
5	R 4	Mahawewa	MHW	105	Chilaw Road, Mahawewa	Puttalam
6	R 5	Narammala	NRM	091	No. 144, Kurunegala Road, Narammala	Kurunegala
7	R 4	Nattandiya	NTD	095	No. 82, Marawila Road, Nattandiya.	Puttalam
8	R 5	Nikaweratiya	NKW	069	No. 65, Puttalam Road, Nikaweratiya	Kurunegala
9	R 5	Puttalam	PUT	033	No. 104, Kurunegala Road, Puttalam	Puttalam
10	R 5	Wariyapola	WPL	056	Navinna Bldg, Puttalam Road, Wariyapola	Kurunegala
11	R 4	Wennappuwa	WEN	036	No. 204, Chilaw Road, Wennappuwa	Puttalam

Telephone : General	Telephone : Manager's Direct	Fax	ATM	Business Hours	Saturday / Sunday / 365 days Banking
066 2285502/3	066 2285501	066 2285500	Yes	Monday to Friday 9.00am to 4.00pm	
081 2354400/60	081 2351370	081 2354388	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
081 2202776/7	081 2202779	081 2202778	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
081 2202893/4	081 2202892	081 2202895	Yes	365 Day Banking Monday to Friday (9.00am to 7.00pm)	365 Day Banking / Saturday Banking (9.00 am to 3.00pm) / Sunday & Holiday Banking (9.00 am to 1.00pm)
066 2224405/6	066 2224403	066 2224407	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
054 2223933/49	054 2223858	054 2223696	Yes	Monday to Friday 9.00am to 4.00pm	
052 2235212/3	052 2235210	052 2235214	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
0812579665/6	081 2579660	0812579899	Yes	Monday to Friday 9.00am to 4.00pm	
025 4581142/3	025 2234820	025 4581144	Yes	Monday to Friday 9.00am to 4.00pm	
027 2245385/6	027 2245416	027 2245417	Yes	Monday to Friday 9.00am to 4.00pm	
027 2225193/3	027 2225243	027 2224483	Yes	Monday to Friday 9.00am to 4.00pm	
025 2263061/2	025 2263064	025 2263070	Yes	Monday to Friday 9.00am to 4.00pm	
025 2276872/3	025 2276871	025 2276807	Yes	Monday to Friday 9.00am to 4.00pm	
021 2271361/2	021 2271360	021 2271363	Yes	Monday to Friday 9.00am to 4.00pm	
021 2242093/4	021 2242092	021 2242095	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
021 2221180/1	021 2221182	021 2221183	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
021 2256721/2	021 2256720	021 2256723	Yes	Monday to Friday 9.00am to 4.00pm	
021 2263402/3	021 2263400	021 2263399	Yes	Monday to Friday 9.00am to 4.00pm	
021 2216441/2	021 2216440	021 2216443	Yes	Monday to Friday 9.00am to 4.00pm	
024 2225780/1	024 2225782	024 2225783	Yes	Monday to Friday 9.00am to 4.00pm	
067 2057612/3	067 2057611	067 2057614	Yes	Monday to Friday 9.00am to 4.00pm	
063 2223209	063 2223191	063 2223216	Yes	Monday to Friday 9.00am to 4.00pm	
065 2227944/5	065 2227946	065 2227947	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
065 2054344/5	065 2054343	065 2054346	Yes	Monday to Friday 9.00am to 4.00pm	
067 2225781/2	067 2225780	067 2225783	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
026 2226771/2	0262226773	026 2226774	Yes	Monday to Friday 9.00am to 4.00pm	
032 2220107/8	032 2222227	032 2220109	Yes	Monday to Friday 9.00am to 4.00pm	
037 2288583	037 2288581	037 2288584	Yes	Monday to Friday 9.00am to 4.00pm	
037 2281255/6	037 2281260	037 2281264	Yes	Monday to Friday 9.00am to 4.00pm	
037 2231952/3	037 2231955	037 2231954	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
032 2054402/3	032 2054401	032 2054404	Yes	Monday to Friday 9.00am to 4.00pm	
037 2249756	037 2249746	037 2249757	Yes	Monday to Friday 9.00am to 4.00pm	
032 2059441/2	032 2059440	032 2059443	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
037 2260192/3	037 2260191	037 2260196	Yes	Monday to Friday 9.00am to 4.00pm	
032 2265529	032 2266031	032 2266030	Yes	Monday to Friday 9.00am to 4.00pm	
037 2267838/39	037 2267837	037 2267840	Yes	Monday to Friday 9.00am to 4.00pm	
031 2245431/2	031 2245433	031 2245434	Yes	Monday to Friday 9.00am to 4.00pm	

BRANCH NETWORK OF THE BANK

No	Region	Branch Name	Abbreviations	Branch Code	Address	District
SOUTHERN PROVINCE						
1	R 3	Akuressa	AKU	065	No. 21, Main Street, Akuressa	Matara
2	R 3	Ambalangoda	AMB	047	No. 333, Galle Road, Ambalangoda	Galle
3	R 3	Ambalantota	AMT	048	No. 127, Main Street, Ambalantota	Hambanthota
4	R 3	Elpitiya	ELP	067	No. 23, Ambalangoda Road, Elpitiya	Galle
5	R 3	Galle	GLE	021	No. 1/A, Abeysekara Building, Wakwella Road, Galle	Galle
6	R 3	Hambanthota	HMT	057	No. 34, Wilmot Street, Hambanthota	Hambanthota
7	R 3	Matara	MAT	006	No. 60, Uyanwatte Road, Matara	Matara
8	R 3	Tissamaharama	TSM	092	No. 133 E, New Town, Tissamaharama	Hambanthota
9	R 3	Uragasmanhandiya	UGM	081	No. 131, Main Street, Uragasmanhandiya	Galle
UVA PROVINCE						
1	R 6	Badulla	BAD	018	No. 242, Lower Street, Badulla	Badulla
2	R 6	Bandarawela	BDW	051	No. 317, Main Street, Bandarawela	Badulla
3	R 6	Mahiyanganaya	MGN	075	No. 02, New Town, Mahiyanganaya	Badulla
4	R 7	Monaragala	MNR	070	No. 29, Pothuwil Road, Monaragala	Monaragala
SABARAGAMUWA PROVINCE						
1	R 7	Balangoda	BLG	077	No. 24 A, Barns Ratwatte Mawatha, Balangoda	Ratnapura
2	R 7	Eheliyagoda	ELG	078	No. 153, Main Street, Eheliyagoda.	Ratnapura
3	R 7	Embilipitiya	EBP	058	No. 67, Pallegama, Embilipitiya	Ratnapura
4	R 7	Kahawatte	KHW	084	No. 149, Main Street, Kahawatte	Ratnapura
5	R 6	Kegalle	KEG	017	No. 261/1, Kandy Road, Kegalle	Kegalle
6	R 7	Ratnapura	RAT	013	No. 211, Main Street, Ratnapura	Ratnapura
7	R 6	Warakapola	WKP	101	No. 96 & 98, Main Street, Warakapola	Kegalle
WESTERN PROVINCE						
1	R 3	Aluthgama	ALG	059	No. 267, Galle Road, Aluthgama	Kalutara
2	R 2	Athurugiriya	ATU / ATG	071	No. 70/15A, Borella Road, Athurugiriya	Colombo
3	R 7	Avissawella	AWL	034	No. 93, Ratnapura Road, Avissawella	Colombo
4	R 2	Battaramulla	BTM	090	No. 245, Main Street, Battaramulla.	Colombo
5	R 2	Boralesgamuwa	BOR / BRG	072	No. 39, Kesbawa Road, Boralesgamuwa	Colombo
6	R 1	Borella	BRL	052	No. 31/5, Dr. N M Perera Mawatha, Borella	Colombo
7	R 1	Colombo 7	HOB	100	No. 103A, Dharmapala Mawatha, Colombo 07	Colombo
8	R 4	Gampaha	GAM	029	No. 153, Colombo Road, Gampaha	Gampaha
9	R 7	Hanwella	HWL	096	No. 138 A, Colombo Road, Hanwella	Colombo
10	R 1	Havelock Town	HVL	003	No. 117, Havelock Road, Colombo 05	Colombo
11	R 4	Hendala	HND	088	No. 46A Hendala Road, Hendala	Gampaha
12	R 2	Homagama	HOM	030	No. 64A, High Level Road, Homagama	Colombo
13	R 1	Horana	HOR	027	No. 135, Panadura Road, Horana	Kalutara
14	R 4	Ja-Ela	JLA	044	No.121, Colombo Road, Ja-Ela	Gampaha
15	R 4	Kadawatha	KDW	026	No. 147, Kandy Road, Kadawatha	Gampaha
16	R 4	Kaduwela	KWL	055	No. 501/2, Awissawella Road, Kaduwela	Colombo

Telephone : General	Telephone : Manager's Direct	Fax	ATM	Business Hours	Saturday / Sunday / 365 days Banking
041 2284 541/2	041 2284540	041 2284 543	Yes	Monday to Friday 9.00am to 4.00pm	
091 2256562/3	091 2256561	091 2256517	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
047 2225552/3	047 2225551	047 2225554	Yes	Monday to Friday 9.00am to 4.00pm	
091 2290481/2	091 2290480	091 2290483	Yes	Monday to Friday 9.00am to 4.00pm	
091 2224136/ 091 4380787	091 2233752	091 2233751	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
047 2222178/9	047 2222177	047 2222180	Yes	Monday to Friday 9.00am to 4.00pm	
041 2231542/3	041 2231544	041 2231545	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
047 2 238184 /5	047 2 238183	047 2 238186	Yes	Monday to Friday 9.00am to 4.00pm	
091 2264195 /6	091 2264019	091 2264016	Yes	Monday to Thursday 9.00am to 4.00pm / Friday 9.00am to 6.00pm	
055 2231419/20	055 2224573	055 2224627	Yes	Monday to Friday 9.00am to 4.00pm	
057 2233690/1	057 2233689	057 2233688	Yes	Monday to Friday 9.00am to 4.00pm	Sunday Banking from 9.00am to 1.00pm
055 2051671/2	055 2051670	055 2051673	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
055 2277327/8	055 2277326	055 2277329	Yes	Monday to Friday 9.00am to 4.00pm	
045 2289487/8	045 2289486	045 2289489	Yes	Monday to Friday 9.00am to 4.00pm	
036 2257321/2	036 2257320	036 2257323	Yes	Monday to Friday 9.00am to 4.00pm	Sunday Banking from 9.00am to 1.00pm
047 2261752/3	047 2261751	047 2261754	Yes	Monday to Friday 9.00am to 4.00pm	
045 2271538/48	045 2271528	045 2271558	Yes	Monday to Friday 9.00am to 4.00pm	
035 2232536/7	035 2232532	035 2232571	Yes	Monday to Friday 9.00am to 4.00pm	
045 2230910/11	045 2226022	045 2226042	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
035 2269106/7	035 2269105	035 2269108	Yes	Monday to Friday 9.00am to 4.00pm	
034 2275625/ 034 2275626	034 2275624	034 2275627	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2563325/ 011 2073244	011 2073243	011 2563326	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
036 2233610/1	036 2233612	036 2233613	Yes	Monday to Friday 9.00am to 4.00pm	
011 2885928/ 011 2885929	011 2885298	0112 885299	Yes	Monday to Friday 9.00am to 4.00pm	
011 2509701/ 011 2150798	011 2150797	011 2509702	Yes	Monday to Friday 9.00am to 4.00pm	
011 2694484/5	011 2694438	011 2694439	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2448448/ 011 4796262	011 2446995	011 4796278	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
033 2225051/2/3	033 2234350	033 2234351	Yes	Monday to Friday 9.00am to 6.00pm	
036 2252078/ 036 2252085	036 2255519	036 2255926	Yes	Monday to Friday 9.00am to 4.00pm	
011 2591140/1	011 2591144	011 2591142	Yes	365 Day Banking Monday to Friday (9.00am to 6.00pm)	365 Day Banking / Saturday Banking (9.00 am to 3.00pm) / Sunday & Holiday Banking (9.00 am to 1.00pm)
011 2945981/2	011 2945983	011 2945984	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2894880/1	011 2894882	011 2894883	Yes	Monday to Friday 9.00am to 4.00pm	
034 2265171/72	034 2265173	034 2265174	Yes	Monday to Friday 9.00am to 4.00pm	
011 2248982/3	011 2248981	011 2248984	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2926453/4	011 2926456	011 2926455	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2548571/2	011 2548569	011 2548573	Yes	Monday to Friday 9.00am to 4.00pm	

No	Region	Branch Name	Abbreviations	Branch Code	Address	District
17	R 3	Kalutara	KAL	016	No. 290, Galle Road, Kalutara South	Kalutara
18	R 4	Kandana	KDN	028	No. 54, Negombo Road, Kandana	Gampaha
19	R 4	Katana	KAT	109	No. 05, Koongashandiya, Katana	Gampaha
20	R 4	Katunayake	KTN	082	No. 745, Baseline Road, Aweriwatta, Katunayaka	Gampaha
21	R 4	Kiribathgoda	KBG	025	No. 540, New Hunupitiya Road, Dalugama, Kelaniya	Gampaha
22	R 4	Kochchikade	KCH	089	No. 96, Chilaw Road, Kochchikade.	Gampaha
23	R 2	Kohuwela	KOH	032	No. 118, S De S Jayasinghe Mawatha, Kohuwela	Colombo
24	R 1	Kollupitiya	KPY	014	No. 712, Galle Road, Colombo 03	Colombo
25	R 1	Kotahena	KOT	024	No. 295, George R De Silva Mw, Co -13	Colombo
26	R 2	Kottawa	KTW	111	No. 365/1 A, High Level Road, Kottawa	Colombo
27	R 2	Maharagama	MHG	012	No. 108 A, High Level Road, Maharagama	Colombo
28	R 2	Malabe	MLB	031	No. 760, New Kandy Road, Malabe	Colombo
29	R 1	Marine Drive	MRD	103	No. 42, Sagara Road, Marine Drive, Colombo 04	Colombo
30	R 3	Mathugama	MGM	045	No. 98, Agalawatta Road, Mathugama	Kalutara
31	R 4	Minuwangoda	MNG	063	No. 49, Negombo Road, Minuwangoda	Gampaha
32	R 1	Moratuwa	MOR	015	No. 255, Galle Road, Idama, Moratuwa	Colombo
33	R 1	Mount Lavinia	MLV	020	No. 431/433, Galle Road, Mount Lavinia	Colombo
34	R 1	Narahenpita	NAR	074	No. 193, Kirula Road, Narahenpita, Colombo 05	Colombo
35	R 1	Nawam Mawatha	NMB	001	No. 42 DHPL Bldg, Nawam Mw, Colombo 02	Colombo
36	R 4	Negombo	NEG	009	No. 121, St. Joseph Street, Negombo	Gampaha
37	R 4	Nittambuwa	NTB	054	No. 496, Kandy Road, Nittambuwa	Gampaha
38	R 2	Nugegoda	NUG	004	No. 152, Nawala Rd, Nugegoda	Colombo
39	R 1	Old Moor Street	OMS	079	No. 311, Old Moor Street, Colombo 12	Colombo
40	R 1	Panadura	PAN	035	No. 319, Galle Road, Panadura	Kalutara
41	R 2	Pelawatte	PEL	022	No. 730A, Pannipitiya Road, Pelawatte, Battaramulla	Colombo
42	R 1	Pettah	PET	043	No. 137,133/1, Main Street, Colombo 11	Colombo
43	R 2	Piliyandala	PIL	023	No. 21,Second Cross Street, Piliyandala	Colombo
44	R 2	Pitakotte	PTK	087	No. 322B, Kotte Road, Pitakotte	Colombo
45	R 1	Private Wealth Centre	BMB	112	No. 135, Rainbow Business Centre, Bauddhaloka Mawatha, Colombo 04	Colombo
46	R 2	Rajagiriya	RAJ	005	No. 505, Sri Jayawardenapura Etul Kotte, Kotte	Colombo
47	R 1	Ratmalana	RML	073	No. 151, Galle Road, Ratmalana	Colombo
48	R 4	Wattala	WTL	011	No. 378A, Negombo Road, Wattala	Gampaha
49	R 1	Wellawatte	WEL	008	No. 302, Galle Road, Colombo 06	Colombo
50	R 4	Yakkala	YAK	068	No. 65/5 B, Kandy Road, Yakkala	Gampaha

Regional Head Office Details

Region	Region code	Regional Head	Regional Office located in	Address
Colombo Region	1	Sydney Downall	Borella Branch	No. 31/5, Dr. N M Perera Mawatha, Borella
Greater Colombo Region	2	Suresh Weerasinghe	Narahenpita Branch	No. 193, Kirula Road, Narahenpita
Southern Region	3	Chandima Alwis	Matara Branch	No. 60, Uyanwatte Road,Matara
North Western Region	4	Romesh Tissera	Ja-Ela Branch	No. 121, Colombo Road, Ja-Ela
North Central Region	5	Sisira Herath	Kurunegala Branch	No. 6, Rajapihilla Mw, Kurunegala
Central Region	6	Nalin Abeyratne	Kandy Branch	No. 133, Kotugodella Veediya, Kandy
Uva - Sabaragamuwa Region	7	Vinjaya Jayasinghe	Ratnapura Branch	No. 211, Main Street, Ratnapura.
North East Region	8	Brinthapan Selvanayakam	Jaffna Branch	No. 62/6, Stanley Road, Jaffna.

Telephone : General	Telephone : Manager's Direct	Fax	ATM	Business Hours	Saturday / Sunday / 365 days Banking
034 2229680/2	034 2236577	034 2236579	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2228601/2	011 2228603	011 2228604	Yes	Monday to Friday 9.00am to 6.00pm	
031 2242957/8	031 2242956	031 2242964	Yes	Monday to Friday 9.00am to 4.00pm	
011 2254960/70	011 2254950	011 2254930	Yes	Monday to Friday 9.00am to 6.00pm	
011 2907511/2	011 2907514	011 2907513	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
031 2272193/4	0312272192	031 2272195	Yes	Monday to Friday 9.00am to 4.00pm	Sunday Banking from 9.00am to 1.00pm
011 2814224/5	011 2814226	011 2814227	Yes	Monday to Friday 9.00am to 6.00pm	
011 2504961/2	011 2504964	011 2504963	Yes	Monday to Friday 9.00am to 4.00pm	
011 2436169/70	011 2436171	011 2436199	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2089676/7	011 2089675	011 2089680	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2745091/2	011 2745093	011 2745094	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2762345/6	011 2762347	011 2762348	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2055238/ 011 2055264	011 2055184	011 2055132	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
034 2249509/510	034 2249513	034 2249379	Yes	Monday to Friday 9.00am to 4.00pm	Sunday Banking from 9.00am to 1.00pm
011 2280970/ 011 2280971	011 2280969	011 2280995	Yes	Monday to Friday 9.00am to 4.00pm	Sunday Banking from 9.00am to 1.00pm
011 2642021/2	011 2642025	011 2642023	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2739717/ 011 2737144	011 2739176	011 2721249	Yes	365 Day Banking Monday to Friday (9.00am to 6.00pm)	365 Day Banking / Saturday Banking (9.00 am to 3.00pm) / Sunday & Holiday Banking (9.00 am to 1.00pm)
011 2369580/07	011 2369508	011 2369581	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2 314640/1	011 2314643	011 2314642	Yes	Monday to Friday 9.00am to 6.00pm	
031 2220246/7	031 2220249	031 2220248	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
033 229 4931/2	033 2294945	033 2294947	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2820885/7	011 2820879	011 2820893	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2 339902/3	011 2 339901	011 2 339904	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
038 2241893/4	038 2241895	038 2241896	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2786708/9	011 2786710	011 2786711	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2331204/5	011 2331285	011 2331286	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2604600	011 2604685	011 2604800	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2856503/34	011 2856491	011 2856479	Yes	Monday to Friday 9.00am to 4.00pm	
011 2556757/66	011 2556711	011 2556788	Yes	Monday to Friday 9.00am to 6.00pm	
011 2885790/92	011 2885794	011 2885793	Yes	365 Day Banking Monday to Friday (9.00am to 7.00pm)	365 Day Banking / Saturday Banking (9.00 am to 3.00pm) / Sunday & Holiday Banking (9.00 am to 1.00pm)
011 2716684/ 011 2719361	0112 716685	011 2719377	Yes	Monday to Friday 9.00am to 4.00pm	
011 2981519/20	011 2981522	011 2981521	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2361903/4	011 2361906	011 2361905	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
033 2239395/6	033 2239394	033 2239397	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm

Telephone : General	Telephone : Regional Head's Direct	Fax
+94 11 2 685 712	+94 11 2 685711	+94 11 2 685713
+94 11 2 369 323/5	+94 11 2 369 321	+94 11 2 369322
+94 41 2 227 161/3	+94 41 2 227164	+94 41 2 222406
+94 11 2 071491/2	+94 11 2 071493	+94 11 2 341049
+94 37 4 692421	+94 37 2 225341	+94 37 2 231954
+94 81 2 228633/5	+94 81 2 238786	+94 81 2 202778
+94 45 2 230912	+94 45 2 223839	+94 45 2 226042
+94 21 2 217396	+94 21 2 217395	+94 21 2 217397

BRANCH NETWORK OF THE BANK

Summary dispersion of the branches - Province wise

Province	Number of branches	Number of ATMs
Central	8	10
Eastern	6	6
North Central	5	6
North Western	11	12
Northern	7	7
Sabaragamuwa	7	11
Southern	9	10
Uva	4	4
Western	50	55
	107	121

Off-site ATM details

1	EAM Maliban Textiles (Pvt) Ltd - Head Office
2	EAM Maliban Textiles (Pvt) Ltd - Ingiriya
3	EAM Maliban Textiles (Pvt) Ltd - Nalanda
4	EAM Maliban Textiles (Pvt) Ltd - Pelmadulla
5	EAM Maliban Textiles (Pvt) Ltd - Opernayaka
6	EAM Maliban Textiles (Pvt) Ltd - Balangoda
7	EAM Maliban Textiles (Pvt) Ltd - Ginigathhena
8	EAM Maliban Textiles (Pvt) Ltd - Daraniyagala
9	Courtaulds Clothing Rajanganaya (Pvt) Ltd
10	CKT Apparel (Private) Limited, Agalawatta
11	Trendywear (Pvt) Limited, Wellawa
12	Shangri-La's Hambantota Resort & Spa
13	Garment Service Meegoda (Pvt) Ltd
14	Global Star PVT LTD Global Park, Seeduwa

NETWORK OF GROUP COMPANIES

Head office / branches	Postal address	Contact person	Telephone	Fax	Email address
NDB Capital Holdings Limited	Level 1, NDB Capital Building No. 135, Bauddhaloka Mawatha Colombo 4	Vajira Kulatilaka	011-2300385-90	011-2300393	vajira@ndbib.com
NDB Investment Bank Limited	Level 1, NDB Capital Building No. 135, Bauddhaloka Mawatha, Colombo 4	Darshan Perera	0112300385	0112300393	darshan@ndbib.com
NDB Wealth Management Limited	Level G, NDB Capital Building, No. 135, Bauddhaloka Mawatha, Colombo 4, Sri Lanka	Prabodha Samarasekera	001 230 32 32	94 2 230 32 37	contact@ndbinvestors.com
NDB Securities (Pvt) Limited					
Head Office	Level 2, NDB Capital Building, No. 135, Bauddhaloka Mw, Colombo 04	Ms. Prasansani Mendis	2131000/2131005	2314181	prasansini@ndbs.lk
Colombo Stock Exchange	No. 04-01, West Block, World Trade Centre, Echelon Square, Colombo 01	Aroos Faleel	2131000/2131012	2314181	aroosfaleel@ndbs.lk
NDB Capital Limited (Bangladesh)	Bilquis Tower (5th Floor), Plot - 6, Gulshan - 2, Dhaka - 1212, Bangladesh	Kanti Kumar Saha	+880-2-9888626	+880-2-9888906	info@ndbcapital.com
NDB Zephyr Partners Limited	IFS Court, Bank Street, Twenty Eight, Cybercity, Ebene, Mauritius	Dinesh Samuel Louvin Chimajee	(+230) 467 3000	+230 467 4000	DChimajee@ifsmauritius.com
NDB Zephyr Partners Lanka (Pvt) Limited	No. 97, Dharmapala Mawatha, Colombo 07	Senaka Kakiriwaragodage	0112-303810	0112-307155	sk@emeraldfundsl.com
Development Holdings (Pvt.) Limited	No. 42, NDB EDB Tower (2nd floor) Nawam Mawatha, Colombo 02	D.M.Janitha Dissanayake	011-2300174	011-2300174	mgrdhpl@gmail.com

CORRESPONDENT RELATIONSHIPS

ASIA

- Bahrain
- Bangladesh
- Cambodia
- China
- Hong Kong
- India
- Indonesia
- Israel
- Japan
- Jordan
- Kazakhstan
- Kuwait
- Lebanon
- Macao
- Malaysia
- Maldives
- Nepal
- Oman
- Pakistan
- Philippines
- Qatar
- Russian Federation
- Saudi Arabia
- Singapore
- South Korea
- Sri Lanka
- Taiwan
- Thailand
- Turkey
- Vietnam
- United Arab Emirates

AFRICA

- Algeria
- Cameroon
- Congo
- Egypt
- Cote Divoire
- Gabon
- Kenya
- Madagascar
- Mauritania
- Mauritius
- Morocco
- Nigeria
- Senegal
- Seychelles
- South Africa
- Tanzania
- Tunisia
- Zambia
- Zimbabwe

SOUTH AMERICA

- Argentina
- Bolivia
- Brazil
- Chile
- Colombia
- Peru
- Uruguay

NORTH AMERICA

- Bahamas
- Canada
- Mexico
- United States

EUROPE

- Austria
- Belgium
- Bulgaria
- Cyprus
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Guernsey CI
- Hungary
- Ireland
- Italy
- Latvia
- Luxembourg
- Moldova
- Monaco
- Netherlands
- Norway
- Poland
- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- Ukraine
- United Kingdom

AUSTRALIA

- Australia

OCEANIA

- New Zealand

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Topic boundaries for material topics

GRI Topic	Topic boundary
Employment	While the impacts of this topic are essentially internal to the organization, the Bank's ability to effectively compensate, develop and retail its workforce would have implications for broader socio-economic progress
Diversity and opportunity	The impacts are primarily internal as it leads to better retention, diversity of views and depth of decision making
Labour management relations	Topic boundary is internal to the organization
Training and education	Topic boundary is internal to the organization
Marketing and labelling	The impacts of this topic extend beyond the internal implications to external considerations such as customer product responsibility and regulatory compliance
Customer privacy	Topic boundary is limited to the Bank's customers
Economic performance	Both internal and external, as strong performance on the Bank's part has implications for external stakeholder value creation including employment generation, tax contribution and socio-economic progress
Market presence	Internal and external boundary as accessibility to the Bank's services and a wide market presence could have positive community impacts
Energy	Topic boundary is primarily internal
Emissions	Emissions arise from our internal operations as well as outside the Bank's boundary; such as during employee commute and foreign business travel
Local Communities	Impacts will be felt in the communities the Bank operates in.

GLOSSARY OF FINANCIAL AND BANKING TERMS

A

ACCEPTANCES
Promise to pay, created when the drawee of a time draft, stamps or writes the word 'accepted' above his signature and a designated payment date.

ACCOUNTING POLICIES
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

ACCRUAL BASIS
Recognizing the effects of transaction and other events when they occur without waiting for receipt or payment of cash or its equivalent.

ACTUARIAL GAIN/LOSS
Gains or loss arising from the difference between estimates and actual experience in the entity's pension plan.

ACTUARIAL ASSUMPTIONS
An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

AMORTIZATION
The systematic allocation of the depreciable amount of an intangible asset over its useful life.

AMORTIZED COST
The amount at which the financial asset or financial liability is measured at initial recognition minus principal prepayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

AMOUNTS DUE TO CUSTOMERS
Money deposited by account holders. Such funds are recorded as liabilities.

ASSET AND LIABILITY COMMITTEE (ALCO)
A risk-management committee in a bank that generally comprises the senior management of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Bank's forecast and strategic balance sheet allocations.

ASSOCIATE
An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

AVAILABLE-FOR-SALE FINANCIAL ASSETS
A debt or equity security that is purchased with the intent of selling before it reaches maturity, or selling prior to a lengthy time period in the event the security does not have a maturity.

AVERAGE WEIGHTED DEPOSIT RATE (AWDR)
AWDR is calculated by the Central Bank weekly, based on Commercial bank's lending rates offered to their prime customers during the week.

B

BASEL II
The capital adequacy framework issued by the Basel Committee on Banking Supervision in the form of the "international convergence of capital measurements and capital standards".

BASEL III
The Basel Committee on Banking Supervision's details of strengthened global regulatory standards on Bank capital adequacy and liquidity.

BASIS POINT (BP)
One hundredth of a percentage point, i.e. 100bp equals 1%, used in quoting movements in interest rates, security yields, etc.

BILLS FOR COLLECTION
A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

C

CAPITAL ADEQUACY RATIOS
The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

CAPITAL GAIN (CAPITAL PROFIT)
The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

CAPITAL RESERVES
Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve fund set aside for specific purposes defined under the Banking Act No.30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

CAPITALS
Refer to any stock of value such as customer base, staff strength, relationships with the community etc. that will increase, decrease or transform through the activities of an organization and that will help it generate earnings in future.

CASH EQUIVALENTS
Short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CASH FLOWS
Cash flows are inflows and outflows of cash and cash equivalents.

CASH GENERATING UNIT (CGU)
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

COLLECTIVELY ASSESSED LOAN IMPAIRMENT PROVISIONS
Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the Retail Banking business (Housing, personal, vehicle loans etc.) are assessed on a portfolio basis.

COMMITMENTS
Credit facilities approved but not yet utilized by the clients at the date of the Statement of Financial Position.

CONTRACT
An agreement between two or more parties that creates enforceable rights and obligations.

CONSOLIDATED FINANCIAL STATEMENTS
Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic activity.

CONTINGENCIES
A condition or situation existing at the date of the Statement of Financial Position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

CONTRACTUAL MATURITY
Contractual Maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

CONTROL
Control is the power over an investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its powers over the investee to affect the amount of the investor's returns.

CORPORATE GOVERNANCE
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

CORRESPONDENT BANK
A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

COST METHOD
A method of accounting whereby the investment is recorded at cost. The Statement of Profit or Loss reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

COST TO INCOME RATIO
Operating expenses excluding impairment for loans and receivables and other losses as a percentage of total operating income.

COUNTRY RISK
The risk that a foreign government will not fulfil its obligations or obstructs the remittance of funds by debtors, either for financial reasons (transfer risk) or for other reasons (political risk)

CREDIT RATINGS
An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

CREDIT RISK MITIGATION
A technique to reduce the credit risk associated with an exposure by application of credit risk mitigates such as collateral, guarantee and credit protection.

CREDIT RISK
Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

CURRENCY SWAPS
The simultaneous purchase of an amount of currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

CURRENCY RISK
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

CUSTOMERS DEPOSITS
Money deposited by account holders. Such funds are recorded as liabilities.

D

DEBT RESTRUCTURING/ RESCHEDULING
This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedules as well as debt or interest charge reduction.

DEFERRED TAXATION
Sum set aside for tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

DELINQUENCY
A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and receivables are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

DEPRECIATION
The systematic allocation of the depreciable amount of an asset over its useful life.

DERECOGNITION
Removal of a previously recognized financial asset or financial liability from an entity's Statement of Financial Position.

DERIVATIVES
A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., an interest rate).

DISCOUNT RATE
A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

DIVIDEND COVER
Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.

DIVIDEND YIELD
Dividend earned per share as a percentage of its market value.

DOCUMENTARY CREDITS
Commercial letters of credit provided for payment by a bank to the named beneficiary usually the seller of merchandise, against delivery of documents specified in the credit.

E

EARNINGS PER ORDINARY SHARE (EPS)
Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

ECONOMIC VALUE ADDED (EVA)
A measure of productivity which takes into consideration cost of total invested equity.

EFFECTIVE INTEREST RATE (EIR)
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

EFFECTIVE TAX RATE
Provision for taxation including deferred tax divided by the profit before taxation.

EMBEDDED DERIVATIVES
An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand- alone derivative.

EMPLOYEE SHARE OWNERSHIP PLAN (ESOP)
A method of giving employees shares in the business for which they work.

EQUITY METHOD
This is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

EQUITY RISK
The risk arising from positions, either long or short, in equities or equity-based instruments, which create exposure to a change in the market price of the equities or equity instruments.

EQUITY INSTRUMENT
Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

EVENTS AFTER THE REPORTING PERIOD
Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

EX- DIVIDEND DATE
A classification of trading shares when a declared dividend belongs to the seller rather than the buyer. A stock will be give ex-dividend status if a person has been confirmed by the company to receive the dividend payment. The date on or after which a security is traded without a previously declared dividend or distribution.

EXPECTED LOSS (EL)
A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure as Default (an amount) and Loss Given Default (a percentage).

EXPECTED CREDIT LOSSES
The weighted average of credit losses with the respective risks of a default occurring as the weights

EXPOSURE
A claim, contingent or position which carries a risk of financial loss.

F

FAIR VALUE
The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FAIR VALUE ADJUSTMENT
An adjustment to the fair value of a financial instrument which is determined using a valuation technique (level 2 and level 3) to include additional factors that would be considered by a market participant that are not incorporated within the valuation model.

FAIR VALUE THROUGH PROFIT OR LOSS
A financial asset/liability: Acquired/ incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of a short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract).

FINANCE LEASE
A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

FINANCIAL ASSETS
Any assets that is cash, equity instrument of another entity, a contractual right to receive cash or contractual right to receive another financial asset from another entity.

FINANCIAL INSTRUMENTS
A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

FINANCIAL LIABILITIES
A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

FINANCIAL RISK
The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates or credit rating or credit index or other variable that the variable is not specific to the party to the contract.

FOREIGN EXCHANGE INCOME
The realized gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan rates which differ from those rates in force at inception or on the previous reporting date. Foreign exchange income also arises from trading in foreign currencies.

FOREIGN EXCHANGE PROFIT
Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last date of the Statement of Financial Position and the settlement/date of the Statement of Financial Position. Also arises from trading in foreign currencies.

FORWARD EXCHANGE CONTRACT
Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

GAIN/ LOSS
Gain or loss arising from the difference between estimates and actual experience in a company's pension plans and gratuity funds.

GLOBAL REPORTING INITIATIVE (GRI)
GRI is a leading organization in the sustainability field. GRI promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development.

GOING CONCERN
The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

GOODWILL
An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

GROSS DIVIDEND
The portion of profits distributed to the shareholders including the tax withheld.

GROUP
A Group is a parent and all its subsidiaries and associates.

GUARANTEES
Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

H

HEDGING
A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest rate, Prices and Commodities, etc.).

HELD-FOR-TRADING
Debt and equity investments that are purchased with the intent of selling them within a short period of time (usually less than one year).

HELD-TO-MATURITY
Investments and debt securities that a Company has the ability and intent to hold until maturity.

HIGH QUALITY LIQUID ASSETS (HQLA)
HQLA are assets that can be easily and immediately converted into cash at little or no loss of value that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e. without legal, regulatory or operational impediments.

HISTORICAL COST
Historical cost is the original nominal value of an economic item.

I

IMPAIRED LOANS
Loans where identified impairment provisions have been raised and also include loans which are collateralized or where indebtedness has already been written down to the expected realizable value. The impaired loan category may include loans, which, while impaired, are still performing.

IMPAIRMENT CHARGES FOR LOAN LOSSES
Amounts set aside against possible losses on loans, receivables and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

IMPAIRMENT ALLOWANCES
Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio) respectively.

IMPAIRMENT
This occurs when recoverable amount of an asset is less than its carrying amount.

INDIVIDUALLY SIGNIFICANT LOANS
Exposures which are above a certain threshold decided by the Bank's management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

INTANGIBLE ASSET
An intangible asset is an identifiable non-monetary asset without physical substance.

INTEGRATED REPORTING
A methodology of reporting an organization's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long term in its economic, social and environmental context.

INTEREST COVER
A ratio showing the number of times interest charges is covered by earnings before interest and tax.

INTEREST MARGIN
Net interest income expressed as a percentage of average interest earning assets.

INTEREST RATE RISK
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

INTEREST RATE SWAP
An agreement between two parties where one stream of future interest payments is exchanged for another stream of future interest payments based on a specified principal amount.

INTEREST SPREAD
This represents the difference between the average interest rate earned and the average interest rate paid on funds.

INVESTMENT BANKING
A specific division of banking related to the creation of capital for other companies. Investment banks underwrite new debt and equity securities for all types of corporations. Investment banks also provide guidance to issuers regarding the issue and placement of stock.

INVESTMENT PROPERTY
A real estate property that has been purchased with the intention of earning a return on the investment (purchase), either through rent (income), the future resale of the property, or both.

J

JOINT CONTROL
Joint control is the contractually agreed sharing of the control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

JOINT VENTURE
A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

K

KEY MANAGEMENT PERSONNEL
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity and key employees who are holding directorships in subsidiary companies and other key employees who meet the criteria mentioned above.

L

LCR DEFINITION
With the introduction of Basel III rules on liquidity Risk Management LCR has been identified as a key policy measure to further strengthen the liquidity risk management to promote a more resilient banking sector. LCR is expected to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus, reducing the risk of spillover from the financial sector to the real economy.

LCR represents the Ratio of Stock of high quality liquid assets available to Total net cash outflows over next 30 calendar days.

LETTER OF CREDIT (L/C)
Written undertakings by a Bank on behalf of its customers (typically an importer), authorizing a third party (e.g. an exporter) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

LIQUID ASSETS
Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills and Bonds.

LIQUIDITY COVERAGE RATIO
Ratio of Stock of high quality liquid assets available to Total net cash outflows over next 30 calendar days. LCR is expected to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus, reducing the risk of spillover from the financial sector to the real economy.

LIQUIDITY RISK
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

LOANS AND RECEIVABLE
Conventional loan assets that are unquoted (originated or acquired).

LOAN-TO-VALUE RATIO
The loan-to-value (LTV) ratio is a financial term used by lenders to express the ratio of a loan to the value of an asset purchased. The term is commonly used to represent the ratio of the first mortgage lien as a percentage of the total appraised value of real property.

LOSS GIVEN DEFAULT (LGD)
The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

M

MARKET CAPITALIZATION
Number of ordinary shares in issue multiplied by the market value of a share as at a date.

MARKET RISK
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

MATERIALITY
The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

MINORITY INTEREST
The interest of individual shareholders, in a company more than 50% of which is owned by a holding company.

N

NET ASSETS VALUE PER ORDINARY SHARE
Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

NET INTEREST INCOME (NII)
The difference between the amounts a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

NET INTEREST MARGINS (NIM)
Net interest income expressed as a percentage of average interest earning assets.

NET STABLE FUNDING RATIO (NSFR)
The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. Available stable funding would include items such as equity capital, preferred stock with a maturity of over one year and liabilities with an assessed maturity of over one year. The Basel III rules require this ratio to be over 100% with effect from 2018. The NSFR is still subject to an observation period and review to address any unintended consequences.

NON-CONTROLLING INTEREST
Equity in a subsidiary not attributable, directly or indirectly, to a Parent.

NON-PERFORMING LOANS (NPLS)
A loan or a receivable placed on cash basis (i.e. Interest income is only recognized when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest.

NON-PERFORMING LOANS COVER (NPL COVER)
Cumulative loan provision as a percentage of total non-performing Loans (net of interest in suspense).

NOSTRO ACCOUNT
A bank account held in a foreign country by a domestic bank, denominated in the currency of that country. Nostro accounts are used to facilitate the settlement of foreign exchange trade transactions.

NPL RATIO
Total non-performing loans and receivables (net of interest in suspense) divided by total loans and receivables portfolio (net of interest in suspense).

O

OPEN CREDIT EXPOSURE RATIO
Total net non-performing loans and advances expressed as a percentage of shareholders' fund.

OPERATIONAL RISK
This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

PARENT
A parent is an entity that has one or more subsidiaries.

PAST DUE
A financial asset is past due when a counterparty has failed to make a payment when contractually due.

POWER
The power is the existing rights that give the current ability to direct the relevant activities.

PRICE EARNINGS RATIO (P/E RATIO)
Market price of a share divided by earnings per share.

PROBABILITY OF DEFAULT (PD)
The probability that an obligor will default on an obligation within a given period of time.

PROVISION COVER
Total provisions for loan losses expressed as a percentage of net non-performing loans and receivables before discounting for provisions on non-performing loans and receivables.

PROJECTED UNIT CREDIT METHOD (PUC)
An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (Sometimes known as the accrued benefit method pro-rated on service or as the benefit/ years of service method). Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

PRUDENCE
Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R

RELATED PARTIES
Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

RELATED PARTY TRANSACTIONS (RTP)
RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

REMITTANCES
A remittance is a transfer of money by a foreign worker to an individual in his or her home country.

REPURCHASE AGREEMENT
Contract to sell and subsequently repurchase securities at a specified date and price.

RETAINED EARNINGS
Reserves that are set aside for future distribution and investments.

RETURN ON AVERAGE ASSETS (ROA)
Profit after tax divided by the average assets.

RETURN ON AVERAGE EQUITY (ROE)
Net profit for the year, less preference share dividends, if any, expressed as a percentage of average ordinary shareholders' equity.

REVALUATION RESERVE
Part of the shareholders' equity that arises from changes in the current value of property, plant and equipment.

REVENUE RESERVE
Reserves set aside for future distribution and investment.

RISK-WEIGHTED ASSETS
Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in commitment & contingencies is also recognized, first by adjusting notional values to Statement of Financial Position (or credit) equivalents and then by applying appropriate risk weighting factors.

RIGHTS ISSUE
Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

S

SEGMENT REPORTING
Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealing, property and insurance.

SEGMENTAL ANALYSIS
Analysis of financial information by segments of an entity specifically, the different industries and the different geographical areas in which it operates.

SHAREHOLDERS' FUNDS
Total of stated capital and capital & revenue reserves.

SIGNIFICANT INFLUENCE
If an entity holds, directly or indirectly (e.g. through subsidiaries), 20 percent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated otherwise.

SINGLE BORROWER LIMIT (SBL)
33% of the regulatory capital base.

SPECIFIC IMPAIRMENT PROVISIONS
Impairment is measured individually for loans that are individually significant to the Bank

STATUTORY RESERVE FUND
A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

SUBSIDIARY
An entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the Parent).

SUBSTANCE OVER FORM
The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

SWAPS
The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

T

TIER I CAPITAL
Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

TIER II CAPITAL
Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

TOTAL CAPITAL
Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

TRANSACTION COSTS
Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

TRANSFER PRICING ARRANGEMENT
Transfer pricing involves the terms and prices at which related parties sell (or should sell) goods or services to each other. When the parties are located in different taxing jurisdictions, opportunities exist for the movement of income to a lower-taxing jurisdiction. A transfer pricing arrangement is developed to combat potential losses of income tax revenue.

U

UNIT TRUST
An undertaking formed to invest in securities under the terms of a trust deed.

USEFUL LIFE
Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

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

VALUE-AT-RISK (VAR)
A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

VOSTRO ACCOUNT
A local currency account maintained by a local bank for a foreign (correspondent) bank. For the foreign bank, it is a nostro account. The domestic bank acts as custodian or manages the account of a foreign counterpart.

Y

YIELD-TO-MATURITY
The discount rate at which a security's present value of future cash flows will be equal to the security's current price.

NOTES

NOTICE OF MEETING

Notice is hereby given that the Thirteenth (13th) Annual General Meeting of National Development Bank PLC (the Bank) will be held at the Auditorium of the NDB-EDB Tower, 3rd Floor, No. 42, Nawam Mawatha, Colombo 2 at 10.00 a.m. on Wednesday, the Twenty Eighth (28th) day of March, Two Thousand and Eighteen (2018) and the business to be brought before the meeting will be:

1. To lay before the shareholders for consideration, the Annual Report for the year ended 31 December 2017.

2. To re-elect Mrs. Kimarli Fernando, as a Director in terms of Article 42 of the Articles of Association of the Bank.

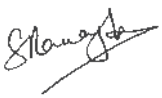
3. To re-elect T L F Jayasekara, as a Director in terms of Article 42 of the Articles of Association of the Bank.

4. To reappoint Messrs Ernst & Young, Chartered Accountants, as Auditors of the Bank as set out in Section 154 of the Companies Act No. 07 of 2007 and Section 39 of the Banking Act No. 30 of 1988 (as amended) and to fix the fees and expenses of such Auditors.

5. To determine the aggregate remuneration payable to Non-Executive Directors including the Chairman in terms of Article 58 of the Articles of Association of the Bank and to authorize the Board of Directors to approve other remuneration and benefits to the Directors (including the remuneration of the Executive Director/s) in terms of Section 216 of the Companies Act No. 07 of 2007.

6. To authorize the Board of Directors to determine donations for the financial year 2018 under the Companies Donations Act No. 26 of 1951.

By Order of the Board,



Shehani Ranasinghe
Company Secretary

22 January 2018
Colombo

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a Proxy holder to attend and vote in his/her stead.

2. A Proxy holder need not be a shareholder of the Bank.

3. The Form of Proxy is sent herewith. The completed Form of Proxy must be deposited at the Head Office of the Bank, at No. 40, Nawam Mawatha, Colombo 2 not later than 24 hours prior to the time appointed for the holding of the meeting in accordance with Article 29 of the Articles of Association of the Bank.

4. Shareholders/Proxy holders attending the meeting are requested to bring their National Identity Cards.

5. Voting shall be by any one of the following methods as determined by the Chairman of the meeting unless a poll is demanded;
   I. voting by voice
   II. voting by show of hands (every member who is present in person or is represented by a proxy or attorney or an authorized representative shall have one (01) vote).

A declaration by the Chairman of the meeting that a resolution is carried by the requisite majority or lost is conclusive evidence of that fact.

At a meeting of shareholders, a poll may be demanded on a particular question as provided for in the Act.

If a poll is taken, votes must be counted according to the votes attached to the shares of each shareholder present and voting. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting shall be entitled to a second or casting vote.

CORPORATE INFORMATION

NAME
National Development Bank PLC

COMPANY REGISTRATION NUMBER
PQ 27

REGISTERED LOGO
NDB bank

LEGAL FORM
Established under the National Development Bank of Sri Lanka Act No 02 of 1979 and incorporated as a company under the Companies Act No 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 and also licensed as a Licensed Commercial Bank in terms of the Banking Act No. 30 of 1988 as amended from time to time.

STOCK EXCHANGE LISTING:
The shares, and the rated unsecured subordinated redeemable debentures issued in December 2013 and June 2015, are listed on the Colombo Stock Exchange.

HEAD OFFICE/ REGISTERED OFFICE
Address : No, 40, Nawam Mawatha, Colombo 02
Tel : + 94 112 44 88 88
Fax : + 94 112 34 10 49
Swift Code : NDBSLKLX
Web page : www.ndbbank.com
E-mail : contact@ndbbank.com

Accounting Year End : 31 December

VAT Registration Number : 409000266-7000

Credit Ratings: National long-term rating: A+(lka)/ Stable Outlook – Fitch Ratings Lanka Limited

Basel II compliant subordinated debentures: A (lka) – Fitch Ratings Lanka Limited

BOARD OF DIRECTORS AND BOARD SUB COMMITTEES
Board of directors as at 31st December 2017
A W Atukorala - Chairman- Independent
A K Pathirage - Deputy Chairman-Non-Independent
T L F Jayasekara - Independent
Mrs. Kimarli Fernando - Independent
D S P Wikramanayake - Non-Independent
Mrs. Indrani Sugathadasa - Independent
D M R Phillips, PC - Independent
K D W Ratnayaka - Independent
R Semasinghe - Non-Independent
P L D N Seneviratne - Chief Executive Officer/Director-Non-Independent
Mrs. D M A Harasgama (resigned w.e.f 30th June 2017)
N S Weikala (retired w.e.f 30th April 2017)

Board sub committees as at 31st December 2017
INTEGRATED RISK MANAGEMENT COMMITTEE
D S P Wikramanayake (Chairman)
K D W Ratnayaka
D M R Phillips, PC
R Semasinghe
P L D N Seneviratne
Ms. Nirmala Rayen – VP – Group Risk Management
Ms. Manique Kiriella Bandara – Compliance Officer
Ananda Atukorala (Invitee/Observer)

STRATEGIC ISSUES COMMITTEE
A W Atukorala (Chairman)
A K Pathirage
T L F Jayasekara
Mrs. Kimarli Fernando
D S P Wikramanayake

AUDIT COMMITTEE
T L F Jayasekara (Chairman)
D S P Wikramanayake
Mrs. Kimarli Fernando
Mrs. Indrani Sugathadasa
R Semasinghe
A W Atukorala (Invitee/Observer)

HUMAN RESOURCES & REMUNERATION COMMITTEE
Mrs. Indrani Sugathadasa (Chairperson)
A K Pathirage
Mrs. Kimarli Fernando
T L F Jayasekara
K D W Ratnayaka
D M R Phillips, PC
A W Atukorala (Invitee/Observer)
P L D N Seneviratne (Invitee/Observer)

NOMINATIONS COMMITTEE
A W Atukorala (Chairman)
A K Pathirage
T L F Jayasekara
Mrs. Kimarli Fernando

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE
A W Atukorala (Chairman)
T L F Jayasekara
D S P Wikramanayake
Mrs. Kimarli Fernando
Mrs. Indrani Sugathadasa
R Semasinghe

CREDIT COMMITTEE
Mrs. Kimarli Fernando (Chairperson)
A W Atukorala
A K Pathirage
Mrs. Indrani Sugathadasa
D M R Phillips
P L D N Seneviratne/CEO

SUBSIDIARIES AND ASSOCIATE COMPANIES
Subsidiary companies as at 31st December 2017
NDB Capital Holding Ltd - 99.8%
Directors
A K Pathirage - Chairman
D S P Wikramanayake, N S Welikala, P L D N Seneviratne, A R Fernando, C V Kulatilaka

NDB Wealth Management Ltd - 99.8%
Directors
D S P Wikramanayake - Chairman
P L D N Seneviratne, C V Kulatilaka, N S Welikala

NDB Investment Bank Ltd - 99.8%
Directors
D S P Wikramanayake - Chairman
C V Kulatilaka, N S Welikala, P L D N Seneviratne, P E A B Perera, D G Perera

NDB Securities (Private) Limited - 99.8%
Directors
C V Kulatilaka - Chairman
A W Atukorala

NDB Capital Ltd (Bangladesh) - 77.8%
Directors
D S P Wikramanayake - Chairman
A M Khan, C M Alam, C V Kulatilaka, Ms. Z Chowdhury, H F Choudhury, K K Saha, P L D N Seneviratne, D G Perera

NDB Zephyr Partners Limited (Mauritius) - 60%
Directors
T C Barry, C V Kulatilaka, M Gulati, Ms. D Rajabalee, Ms. R B Mandary

NDB Zephyr Partners Lanka (Private) Limited - 60%
D S P Wikramanayake - Chairman
T C Barry, M Gulati, C V Kulatilaka,

Development Holdings (Private) Ltd - 58.7%
Directors
A W Atukorala - Chairman
Ms. I Malwatte, Ms. P K Sumithrarachchi, Ms. D T Wijayaratne, C S Guniyangoda,

Associate companies as at 31st December 2017

NDB Venture Investments (Private) Ltd - 50% (Under liquidation)
Ayojana Fund (Private) Limited - 50% (Under liquidation)

OTHER INFORMATION

Company Secretary : Ms. Shehani Ranasinghe (Attorney-at-Law)

Compliance officer : Ms. Manique Kiriella Bandara

Auditors : Ernst & Young, 201, De Saram Place, Colombo 10

Registrar to the rated unsecured subordinated redeemable debentures issued in December 2013 and June 2015 : S S P Corporate Services (Pvt) Ltd. No. 101, Inner Flower Road, Colombo 03.

Trustees to the rated unsecured subordinated redeemable debentures issued in December 2013 and June 2015 : Bank of Ceylon, No.1, BOC Square, Bank of Ceylon Mawatha, Colombo 01.

QUERIES

ON THE 2017 NDB ANNUAL REPORT

Lalith T Fernando
Group Chief Financial Officer
Email : lalitht.fernando@ndbbank.com
Tel : +94(0)112448 448 (Extn: 35300)

Ms. Suvendrini Muthukumarana
Assistant Vice President – Finance & Planning
Email : suvendrini.muthukumarana@ndbbank.com
Tel : +94(0)112 448 448 (Extn: 35301)

ON INVESTOR RELATIONS

Company Secretarial Unit

Ms. Shehani Ranasinghe
Company Secretary/Assistant Vice President
Email : shehani.ranasinghe@ndbbank.com
Tele : +94(0)112448448 (Extn: 33000)

Investor Relations Team

Ms. Suvendrini Muthukumarana
Assistant Vice President – Finance & Planning
Email : suvendrini.muthukumarana@ndbbank.com
Tele : +94(0)112 448 448 (Extn: 35301)

National Development Bank PLC, No. 40, Nawam Mawatha, Colombo 02

FORM OF PROXY

I/We .....

.....) of .....

.....

..... being a member/members of National Development Bank PLC ('the Bank') hereby appoint,

1. .....

..... holder of NIC No. .....

..... or failing him/her

2. A W Atukorala (Chairman of the Bank) of Colombo or failing him,
   A K Pathirage (Deputy Chairman of the Bank) of Colombo or failing him,
   T L F Jayasekara of Colombo or failing him,
   D S P Wikramanayake of Colombo or failing him,
   Mrs. Kimarli Fernando of Colombo or failing her,
   Mrs. Indrani Sugathadasa of Colombo or failing her
   D M R Phillips, PC of Colombo or failing him,
   K D W Ratnayaka of Colombo or failing him
   R Semasinghe of Colombo or failing him,
   P L D N Seneviratne (CEO/Director) of Colombo

as my/our Proxy to represent me/us and to vote for me/us and on my/our behalf at the Thirteenth Annual General Meeting of the Bank to be held on Wednesday the Twenty Eighth (28th) day of March 2018 and at any adjournment thereof and at every poll which may be taken in consequence thereof. I/We the undersigned hereby authorise my/our Proxy to vote on my/our behalf in accordance with the preferences indicated below:

		For	Against
1	To re-elect Mrs. Kimarli Fernando, as a Director in terms of Article 42 of the Articles of Association of the Bank.		
2	To re-elect T L F Jayasekara, as a Director in terms of Article 42 of the Articles of Association of the Bank.		
3.	To reappoint Messrs Ernst & Young, Chartered Accountants, as Auditors of the Bank as set out in Section 154 of the Companies Act No. 07 of 2007 and Section 39 of the Banking Act No. 30 of 1988 (as amended) and to fix the fees and expenses of such Auditors.		
4.	To determine the aggregate remuneration payable to Non-Executive Directors including the Chairman in terms of Article 58 of the Articles of Association of the Bank and to authorize the Board of Directors to approve other remuneration and benefits to the Directors (including the remuneration of the Executive Director/s) in terms of Section 216 of the Companies Act No. 07 of 2007.		
5.	To authorize the Board of Directors to determine donations for the financial year 2018 under the Companies Donations Act No. 26 of 1951.		

As witness I/We have set my/our hand/s hereunto this ..... day of ..... Two Thousand and Eighteen (2018).

.....

Signature of the Member/Members

Instructions for completion of the Form of Proxy

1. In order to appoint a Proxy holder, kindly complete the Form of Proxy. The full name and the registered address of the member appointing the Proxy should be legibly entered in the Form of Proxy and should be signed and dated by the member. The duly completed Form of Proxy must be deposited at the Registered Office of the Bank, at No. 40, Nawam Mawatha, Colombo 2.

2. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy if the Power of Attorney has not already been registered with the Bank.

3. If you wish to appoint a person other than the Chairman, Deputy Chairman or a Director of the Bank as your Proxy, please insert the relevant information in the Form of Proxy.

4. The Proxy holder appointed need not be a shareholder of the Bank.

5. In case of a corporate member, the Proxy must be executed under its common seal (if applicable) or in such other manner prescribed by the Articles of Association or other constitutional documents.

6. The first joint holder shall have the power to sign the Form of Proxy without the concurrence of the other joint holder/s.

7. Please indicate an “X” in the cages provided on how your Proxy should vote on each Resolution. If no indication is given, or if there is, in the view of the Proxy holder, any doubt (by reason of the manner in which the instructions contained in the Proxy have been completed) as to the way in which the Proxy holder should vote, the Proxy holder in his/her discretion may vote as he/she thinks fit.

Designed & produced by

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Photography by Dimitri Crusz and Wildlight (Pvt) Ltd

The models appearing in the thematic photographs of this Annual Report are the Bank's own employees and customers

Our Commitment. **Your Success.**

No, 40, Nawam Mawatha,
Colombo 02, Sri Lanka.

www.ndbbank.com