



UNLOCKING OUR POTENTIAL TO UNLEASH YOURS



SCAN TO VIEW

<http://ndbbank2016.annualreports.lk>

Our foremost endeavour –

realizing more of us to help realize more of you ⌂

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



Excellence



Creativity



Accountability



Sincerity

CREDIT RATING

A+(lka)/Stable Outlook by Fitch Ratings Lanka Ltd.

Our Commitment. Your Success.
அதீத கௌரவம். இவ்வு சதயுதஸுதஸு.
எங்கள் அர்ப்பணிப்பு. உங்கள் வெற்றி.

This is our fourth integrated Annual Report, in helping you realize more of us, with greater clarity.

We intend this report to be a lucid communication of what we have achieved, where we stand in the industry and the road ahead. We intend to inform all our stakeholders on whatever aspects of our value creation process that most interest them.

REPORT STRUCTURE

In this Annual Report 2016 of National Development Bank PLC ('Bank'), we are continuing on the path we embarked on in 2013, that of integrated reporting.

In preparing this report, we drew mainly on the concepts, principles and guidelines enunciated in the following sources.

- Global Reporting Initiative Sustainability Reporting Guidelines – GRI Standards (www.globalreporting.org)
- International Integrated Reporting Framework (www.theiirc.org)
- Smart Integrated Reporting Methodology™

In addition, we also referenced 'A Preparer's Guide to Integrated Corporate Reporting', issued by the Institute of Chartered Accountants of Sri Lanka.

REPORT BOUNDARY

The overall boundary of this report comprises of National Development Bank PLC ('Bank') and its group companies, (collectively referred to as the 'Group'). Key financial aspects are discussed in the context of the Bank as well as the Group, while non-financial aspects are discussed in the context of the Bank.

COMPLIANCE

The Bank's Annual Report 2016 covers the 12 month period from 1 January to 31 December 2016 and is consistent with our usual annual reporting cycle for financial and sustainability reporting. The latter is in accordance with the core criteria of GRI Standards and is subject to independent assurance.

There are no significant changes in the organization type, structure, ownership or supply chain. The most recent previous Annual Report, dated 12 February 2016, covered the 12 month period ended 31 December 2015. It is available on our website <http://www.ndbbank.com/>.

There are no restatements of information provided in previous reports. The information contained in this Report, as in the past, is in compliance with all applicable laws, regulations and standards as well as guidelines for voluntary disclosures. Details are given in the Corporate Governance Report (pages 212 to 248), Chief Executive Officer's and the Group Chief Financial Officer's Responsibility Statement (page 278) as well as in the Independent Assurance Report (page 279) and Independent Auditors' Report (page 284).

QUERIES

We welcome your comments or questions on this Report. You may contact Faizan Ozman, the Group Chief Financial Officer of National Development Bank PLC (page 422).

06 ABOUT US

08 HIGHLIGHTS	Financial	08
	Operational	09

10 CHAIRMAN'S LETTER**13 CHIEF EXECUTIVE OFFICER'S REVIEW**

16 BUSINESS MODEL	Business Model	18
	Operating Environment	20
	Strategy and Resource Allocation	25
	Stakeholders	27
	Materiality	36
	Management Approach	37
	Outlook	39

40 MANAGEMENT DISCUSSION AND ANALYSIS	Financial Capital	42
	– Financial Review	
	– Performance of Business Units	
	– Performance of Group Companies	
	Intellectual Capital	74
	Manufactured Capital	83
	Human Capital	91
	Social and Relationship Capital	101
	Natural Capital	110
	Sustainability Assurance Report	114

116 EVENTS**125 RECOGNITION****128 INVESTOR RELATIONS**

151 RISK MANAGEMENT	Capital Adequacy	186

190 STEWARDSHIP

Board of Directors	192
The Leadership Team	204
Senior Management Team	207
Group Management Team	210
Corporate Governance	212
Annual Report of The Board of Directors on the Affairs of the National Development Bank PLC	249
Directors' Interests in Contracts with the National Development Bank PLC	260
Board Committee Reports	261
Statement of Directors' Responsibilities for Financial Reporting	274
Directors' Statement on Internal Control Over Financial Reporting	276
Chief Executive Officer's and Group Chief Financial Officer's Responsibility Statement	278
Independent Assurance Report	279

280 FINANCIAL REPORTS

Financial Calendar 2016 and 2017	282
Financial Statements Highlights	283
Independent Auditors' Report	284
Integrated Approach to Financial Reporting	286
Statement of Profit or Loss	287
Statement of Comprehensive Income	288
Statement of Financial Position	289
Statement of Changes in Equity	290
Statement of Cash Flow	294
Notes to the Financial Statements	296
Compliance with the Disclosure Requirements of the Central Bank of Sri Lanka	401

404 CORPORATE INFORMATION SUPPLEMENT

Branch Network of the Bank	406
Branch Network of Group Companies	412
Correspondent Relationships	413
GRI Content Index	414
Glossary of Financial and Banking Terms	417
Notice of Meeting	421
Corporate Information	422
Form of Proxy	Enclosed
Investor Feedback Form	Enclosed

We are a 'Financial Powerhouse'.

The strength of our Group in its multiple segments is matched by none.

THE BANK

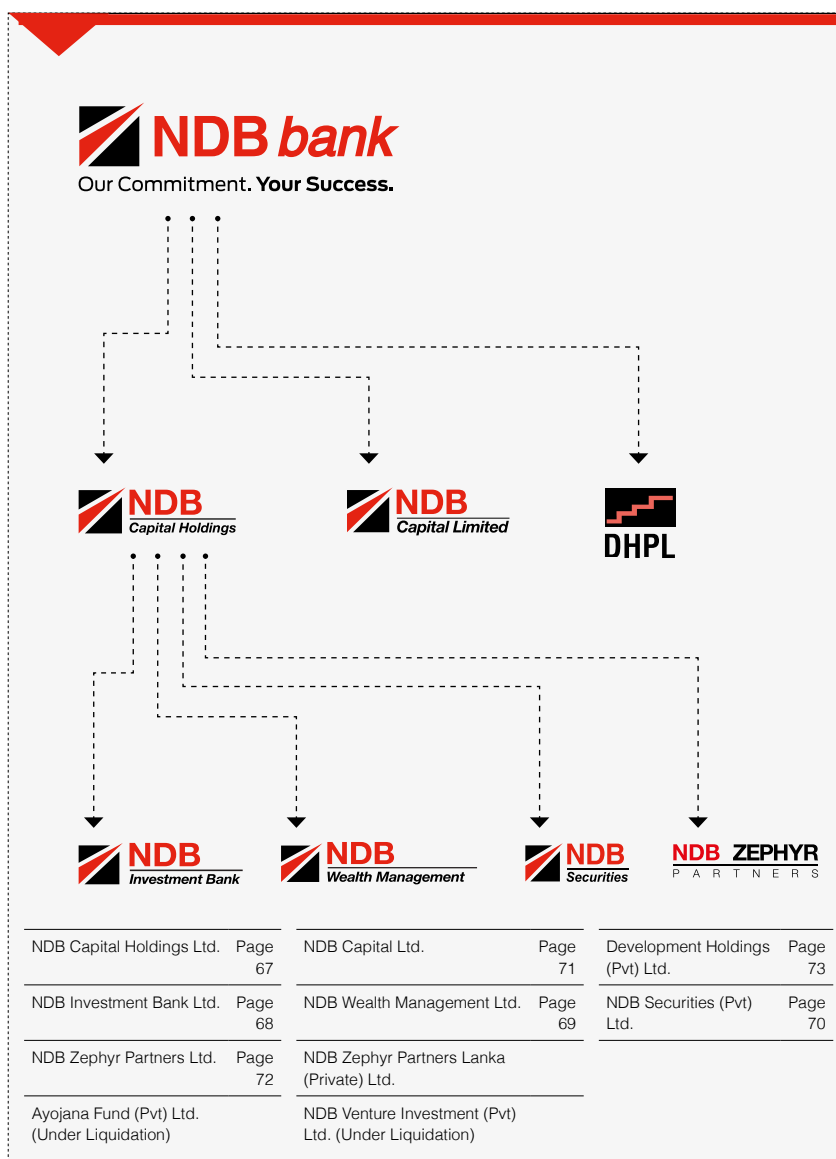
Commencing business in 1979 as a state-owned development bank, National Development Bank PLC ('Bank') today operates under the Companies Act No. 07 of 2007, and as a Licensed Commercial Bank, it is regulated under the Banking Act No. 30 of 1988, as amended from time to time. The Bank is listed on the Colombo Stock Exchange (stock code: NDB.N0000). The Bank holds a Credit Rating of A+(LKA)/Stable Outlook from Fitch Ratings Lanka Ltd.

While building on its original strengths the Bank has ventured into new products and services. Today, the Bank provides a full spectrum of financial solutions such as retail banking, small and medium enterprise (SME) banking, corporate banking, project and infrastructure financing, leasing, housing finance, cash management, correspondent banking, remittance services, margin trading, pawning, treasury and investment services, Bancassurance and card operations.

THE GROUP

The Bank together with its group companies are referred to as the 'Group'. The main activities of the group companies are depicted in the table given below.

GROUP STRUCTURE



MARKETS SERVED

The Group's significant operations are located within Sri Lanka, with services delivered through locally domiciled entities. The Group is also engaged in fee-based businesses in Bangladesh through NDB Capital Ltd., and private equity in Mauritius through NDB Zephyr Partners Ltd. which was set up in 2014 in partnership with the US-based Zephyr Management LP. The Bank operates a network of 104 branches (2015: 93) that are categorized into eight Regions. Our network covers 22 of the 25 administrative districts in the nine provinces of the country, and serves a broad spectrum of clientele ranging from individuals, micro enterprises, SMEs, emerging and large corporates to state-owned enterprises and multinational companies. In addition, the Bank continually increases its customer reach through automated distribution systems such as ATMs, internet banking, a virtual presence in a host of leading social interaction sites, telemarketing, a call centre and a unique sales force. More details are given under Social and Relationship Capital on pages 101 to 109.

SCALE OF OPERATIONS

The total operating income of the Group increased by 3% during FY 2016 to LKR 13,677 million. Profit attributable to shareholders for the FY 2016 was LKR 2,691 million. Total assets of the Group grew by 8% to LKR 341 billion during the year, largely driven by enhanced volume growth across all business segments. The Bank's market capitalization stood at LKR 25,769 million as at 31 December 2016, and ranked 25 (2015: 21) amongst the 295 listed companies on the Colombo bourse.

By end – 2016 the Sri Lankan banking industry comprised 25 licensed commercial banks and 7 licensed specialized banks, with 32 players in total (2015: 32 banks). In terms of market share within the industry, the Bank accounted for:

- 3.7% share of total assets (2015: 3.8%)
- 4.2% of loans and receivables (2015: 4.5%)
- 3.2% share of customer deposits (2015: 3.4%)

The Bank's staff strength increased by 7.6% to 2,109 persons by end 2016, driven by business growth, with 79% employed in the permanent cadre.

Company name	Domicile	Shareholding	Nature of business
NDB Capital Holdings Ltd.	Sri Lanka	99.9% Bank's holding, Direct	Full service investment banking
NDB Capital Ltd.	Bangladesh	77.8% Bank's holding, Direct	Investment banking
Development Holdings (Pvt) Ltd.	Sri Lanka	58.7% Bank's holding, Direct	Property management
NDB Investment Bank Ltd.	Sri Lanka	99.9% Bank's holding, Indirect	Investment banking
NDB Wealth Management Ltd.	Sri Lanka	99.9% Bank's holding, Indirect	Wealth management
NDB Securities (Pvt) Ltd.	Sri Lanka	99.9% Bank's holding, Indirect	Investment advisory and securities trading
NDB Zephyr Partners Ltd.	Mauritius	60.0% Bank's holding, Indirect	Management of private equity funds
NDB Zephyr Partners Lanka (Private) Ltd.	Sri Lanka	60.0% Bank's holding, Indirect	Management of private equity funds
NDB Venture Investment (Pvt) Ltd. (An associate Company under Liquidation)	Sri Lanka	50.0% Bank's holding, Direct	Venture capital
Ayojana Fund (Pvt) Ltd. (An associate Company under Liquidation)	Sri Lanka	50.0% Bank's holding, Direct	Venture capital

FINANCIAL HIGHLIGHTS

	Bank			Group		
	2016	2015	Change	2016	2015	Change
	LKR '000	LKR '000	%	LKR '000	LKR '000	%
Operating results for the year						
Gross income	33,281,736	25,855,311	29	33,776,905	26,915,863	25
Operating profit before tax on financial services	5,335,004	5,447,875	(2)	5,093,546	5,715,283	(11)
Taxation	2,164,733	1,936,444	12	2,278,587	2,123,006	7
Profit for the year	3,170,271	3,511,431	(10)	2,814,959	3,670,095	(23)
Profit attributable to equity holders of the parent	3,170,271	3,511,431	(10)	2,691,014	3,542,040	(24)
Gross dividends for the year	1,321,484	1,816,841	(27)	1,321,484	1,816,841	(27)
Revenue to government	2,219,013	2,572,872	(14)	2,416,656	2,862,048	(16)
Assets and liabilities						
Due to other customers	203,866,547	184,933,230	10	203,515,828	184,152,280	11
Loans and receivables	227,676,876	209,704,701	9	227,716,971	209,768,193	9
Total assets	334,544,735	309,157,605	8	340,731,768	315,353,733	8
Total liabilities	309,799,685	286,456,747	8	309,718,472	285,953,016	8
Total equity to equity holders of the Bank	24,745,050	22,700,858	9	29,936,587	28,382,204	5
Profitability (%)						
Net interest margin	2.64	2.63	0	2.70	2.67	1
Non-performing loans ratio	2.63	2.43	8	2.63	2.43	8
Return on assets	0.99	1.23	(20)	0.82	1.21	(32)
Return on equity	13.36	15.63	(15)	9.23	12.59	(27)
Total leverage (times)	13.52	13.62	(1)	11.38	11.11	2
Cost to income ratio	49.04	49.55	(1)	52.34	51.39	2
Investor Information (LKR)						
Net asset value per share	149.80	137.44	9	181.23	172.35	5
Market value per share – as at 31 December	156.00	194.10	(20)	NA	NA	–
Earnings per share – basic	19.19	21.26	(10)	16.29	21.51	(24)
Earnings per share – diluted	19.19	21.26	(10)	16.29	21.51	(24)
Price earnings (times)	8.13	9.13	(11)	NA	NA	–
Dividend per share	8.00	11.00	(27)	NA	NA	–
Dividend cover (times)	2.40	1.93	24	NA	NA	–
Dividend yield (%)	5.13	5.67	(10)	NA	NA	–
Market capitalisation (LKR' 000)	25,768,939	32,058,981	(20)	NA	NA	–
Regulatory ratios (%)						
Capital adequacy ratios:						
Tier I – (minimum ratio of 5%)	9.31	8.51	9	11.55	11.07	4
Tier I & II – (minimum ratio of 10%)	12.95	12.59	3	15.27	15.25	0
Statutory liquid assets ratio:						
DBU	21.50	22.24	(3)	N/A	N/A	–
FCBU	22.93	24.91	(8)	N/A	N/A	–

PROFITABILITY & GROWTH

- ROE of 13.36%
- Loans and receivables growth of 9%
- Due to other customers growth of 10%

INVESTOR INFORMATION

- Dividend per share of LKR 8/-
- Market capitalization rank of 25 in the CSE

REGULATORY RATIOS

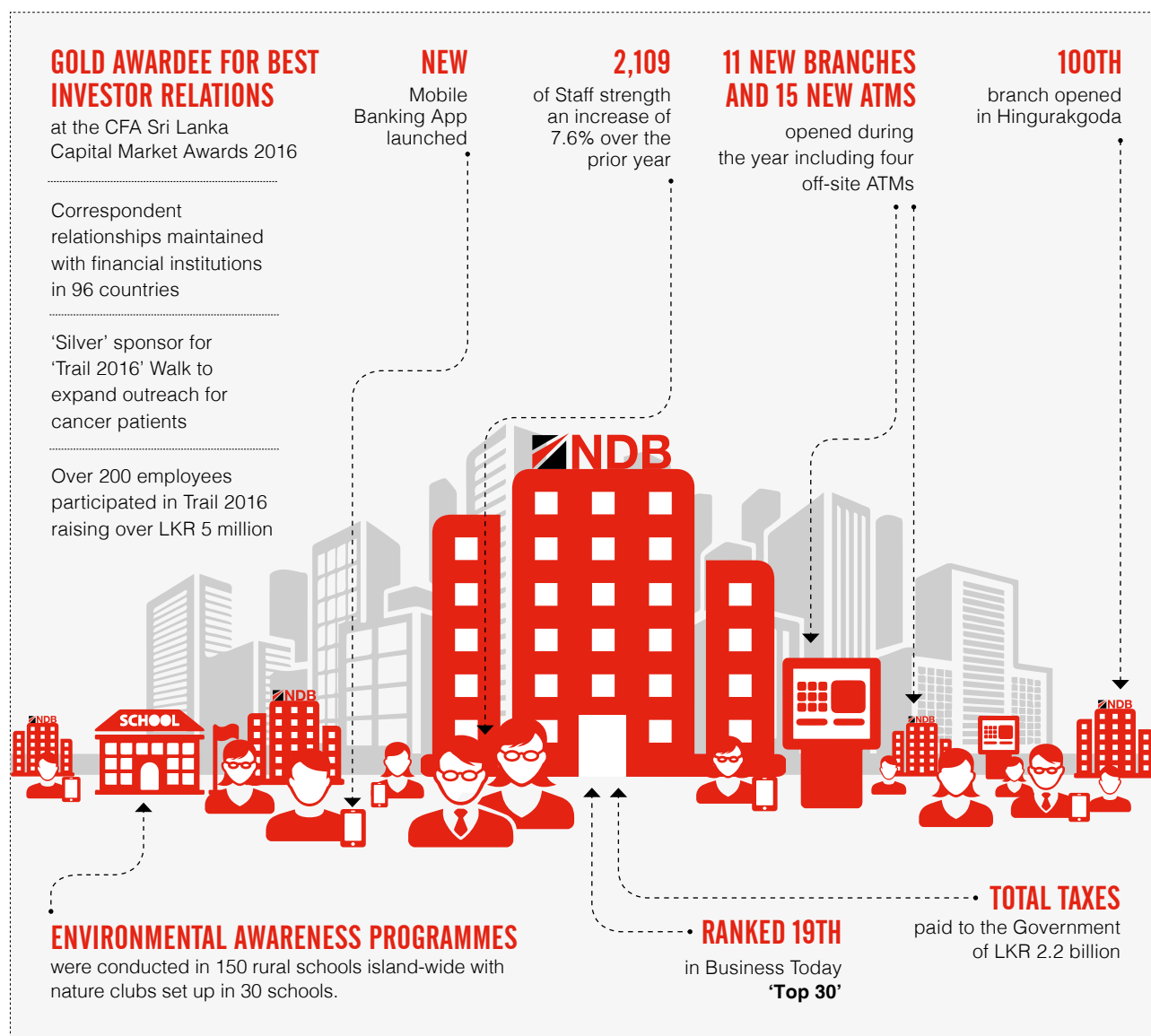
- CAR of 12.95%
- Liquidity levels above 20%

Financial Goals and Achievements

	Goals	Achievements				
		2016	2015	2014*	2013*	2012
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial indicators – Bank						
Return on assets (%)	Over 1.5%	0.99	1.23	1.47	1.14	1.94
Return on equity (%)	Over 17%	13.36	15.63	16.33	14.38	21.17
Growth in total operating income (%)	Over 20%	7.71	4.69	19.00	11.55	31.00
Growth in profit after taxation (%)	Over 20%	(9.72)	2.73	64.00	(29.00)	60.00
Growth in total assets (%)	Over 20%	8.21	17.67	31.00	23.00	18.00
Dividend per share (LKR)	Over 10	8.00	11.00	11.00	10.00	15.00
Capital adequacy ratios:						
Tier I (%) – Minimum requirement 5%	Over 8%	9.31	8.51	10.09	12.05	11.14
Tier I & II (%) – Minimum requirement (10%)	Over 13%	12.95	12.59	14.68	17.87	12.38

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

OPERATIONAL HIGHLIGHTS





The Bank strategically focuses on leveraging on the exclusive one stop shop business proposition offering a full spectrum of banking and capital market products.

Tempered by adversity and learning from experience, we can use our strengths and skills to serve our clientele better.

The year 2016 was indeed a challenging one for the Bank, and we ended the year with a less than aspired financial performance. Yet, convinced that challenges can sow the seeds of opportunity, we look forward to the future with optimism.

The global economy showed mixed performances during 2016, and was marked by key global events such as the UK's historic decision to leave the European Union and a new president being elected in the United States.

The Sri Lankan economy was expected to have grown by around 5% in 2016. The reducing margins trend in the industry created a challenging situation for the Bank especially in view of our high reliance on costly deposits. In this situation, we had to be selective about how we target and manage our growth.

During the past five years, the Bank has gone through a phase of rapid expansion with our branch network almost doubling over this period. We have ventured out boldly into every part of the country, both developed and less developed regions, and the resulting costs have been borne by the Bank. There is naturally a time lag before reaping the rewards, which can be anticipated over the coming years.

While we have been organically growing our branch network, we have also been extending our penetration by alternative methods such as online banking and our new mobile banking application. Going forward, we need to maintain a judicious mix of expansion through our brick and mortar network and through digital means.

The Group has an extremely wide range of business units, products and services, which has an exciting potential in being showcased as a unique business proposition within the industry. Our diverse strengths and competencies, once harnessed properly, can produce value for our extremely varied clientele, according to their needs.

We are strategically focusing on leveraging on the exclusive one stop shop business proposition that we enjoy. The Bank and its group companies together offer a full spectrum of banking and capital market products. We see tremendous potential within this model, in cross-selling opportunities and diversified fee income.

While we continue to derive returns from our traditional areas such as project financing, we are also aggressively expanding our reach in areas such as SME and micro financing. Through our micro financing programmes we are channelling the skills and knowledge we possess to empower the needy strata of our society and help narrow social and economic disparities.

While our capital in 2016 was adequate to meet both our requirements and that of the regulator, our planned expansion and the new Basel III rules will necessitate a fresh infusion of capital in 2017. In this context, it is imperative that our potential is compellingly communicated to the prospective investors.

This is the fourth year that we follow the integrated approach to reporting our corporate performance, which we initiated in 2013, and such reporting has undergone continuous improvement since. This Report encompasses both the financial and the non-financial aspects of value creation and strives to paint a holistic picture of how we engage our valued stakeholders in generating sustained mutual value.

We place great emphasis on the sustainability of our business from the view point of all our stakeholders. We place same importance in sustainability reporting within the annual reports, hence in this Report we have adopted the latest prescribed version of GRI Standards for sustainability reporting.

The Central Bank of Sri Lanka, in its Road Map for 2017 and beyond speaks of several new proposals which will augur well for the banking sector. I am confident that the Bank will forge ahead in 2017, overcoming any hurdles it may face, and continue to be in the vanguard of the country's economic and social progress.

I wish to express my thanks to my predecessor N G Wickremeratne and to the former Chief Executive Officer Rajendra Theagarajah who relinquished their positions during the year; for their services to the Group. I also wish to thank Buwaneka Perera, the Vice-President Corporate Banking, for steering the Bank with his leadership as the acting CEO in the interim period until a new CEO was appointed in January 2017. I welcome our new Chief Executive Officer Dimantha Seneviratne and wish him well on assuming duties in the Group. I also wish to welcome my fellow Board member N S Welikala who joined the Board during the course of the year.

I also wish to express my gratitude to the Central Bank of Sri Lanka for giving us direction in the capacity of the industry regulator. I will fail in my duty if I do not thank our valued shareholders, the customers who have placed their trust in us and also our energetic staff, who make NDB the great institution it is.

We assure all our stakeholders that our efforts in unlocking our true potential will explicitly impact our ability in unleashing yours, and thereby heralding prosperity in to your lives.



*A W Atukorala
Chairman*

21 February 2017



The Bank is nearing completion of its new strategic plan, which will be devised by brainstorming the inputs from all the divisions of the Bank as well as the group companies in order to set the Bank and the Group on an aggressive growth trajectory.

The Bank has what it takes to offer every Sri Lankan, whatever their social position, a unique banking proposition, to suit their every need.

At the outset, I would like to pay a tribute to my predecessor, veteran banker, Mr. Rajendra Theagarajah, who was the Chief Executive Officer of the Bank for the past three years. Under his stewardship, the Bank as well as the Group, attained many milestones and forged ahead in the financial sector in Sri Lanka and set a firm foundation to extend our business operations overseas. The Group derived the utmost from his broad experience and knowledge, and for this, we are indeed indebted to him.

Whilst I assumed duties in January 2017, I take this opportunity to reflect briefly on the fortunes of the Bank in 2016 and also outline the opportunities for the future, as we aim to set ourselves new objectives to reach greater heights.

The year under review was one that brought us mixed blessings, but above all, we should regard the past year as a learning experience and face the future with renewed vigour and expectations, armed with fresh strategies. The challenging circumstances that we were faced with, compelled us to change some of our traditional modes of operation. However, the experiences we have gained give us some pointers for shaping the future strategies.

Faced with narrowing margins, we responded by being more selective in our lending. Growth of the loan book was kept to around 10%. Certain high volume but low margin lending was curtailed. Instead, the Bank sought to actively grow trade and export finance, thus broad basing our income sources. Project financing, where we have built on the strengths derived from our origins in development banking, continued to be successful. The new sectors that we focused on included renewable energy, leisure and high end construction. The SME sector too, recorded an exceptional performance in both loans as well as deposits.

Given the back drop of rising interest rates and uncertainties in the leasing industry, retail banking witnessed a subdued portfolio growth. On the other hand, mortgage backed housing loans were boosted by a growth in real estate development, an area focused on actively. A creative niche has been the tri-partite arrangements, where project financing for upper middle class real estate projects are coupled with loans to buyers of apartments.

Though credit cards saw a less than expected growth, we are fully aware of the importance of a strong credit card offering in the retail banking space, and we have been constantly improving our presence in this sector. This will be one of our focal points in the coming year.

Despite the challenging environment, we continued to maintain a healthy asset book and a strong credit quality. Our credit underwriting standards remained robust as reflected by our non performing loan ratio which continued to be below the industry average.

We believe that there is tremendous entrepreneurial potential at the provincial and grass root levels. Through our SME and micro-finance programmes, we continue to leverage this potential and offer our competencies in order to empower the small scale entrepreneurs. We reach out to a diverse range of SME and micro-segments, including farmers venturing into organic paddy cultivation, floriculturists, and small scale street food vendors, to name a few. Through these endeavours, we continue to generate value for the society and also nurture the environment.

A hallmark event during the year was the launching of our new mobile banking application which brought great convenience to our customers. We believe that technological advancement in our offerings is a mandatory constituent for our future success. Moving in to digital channels will gain priority in our new strategy that is being drafted.

Considering our existing balance between fund and fee based income, we have some distance to go. Our future focus will be on products and services which give more value to the customer and where we can

enhance our revenues by way of fee income. Our ratio of deposits in current and savings accounts (CASA deposits) to total deposits, which is an indicator of the cost of funds, is relatively lower compared to the industry average. This is predominantly due to the development banking model that we have inherited and the comparatively shorter tenor of our existence as a fully-fledged commercial banking entity. However, a more focused approach, concentrating on harnessing low cost funding, opens up a window of opportunity to increase our profitability.

During the year, the Bank was recognized with several accolades and awards, including the CFA Sri Lanka Capital Market Awards – Gold Award for Best Investor Relations in the country. In the meantime, NDB Investment Bank Ltd. (NDBIB), a fully-owned subsidiary of the Bank retained its market leader position in raising listed debentures, to the tune of LKR. 31.5 billion in 2016. Furthermore, for its superior execution of transactions in the debt, equity and corporate advisory space, NDBIB was crowned as the 'Best Investment Bank for 2016' for the 5th consecutive year by Euromoney, the world's premier financial markets magazine.

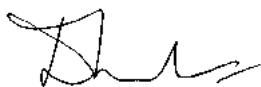
Over the years, the Bank has transformed from a development oriented specialized bank to a fully fledged commercial bank and is now expanding its horizons in the retail space. Our retail orientation is augmented by the rapidly increasing branch network. We have made considerable investments in our network of both branches and ATMs, which has brought us closer to the clientele that seek us out. Eleven new branches were added to our branch network, bringing the total number of branches to 104 as at end of 2016. We are confident that our investments in the network expansion will yield its full potential in the near future, particularly through our renewed focus.

Being the only local Bank that has group companies engaged in investment banking, wealth management and capital market operations, the Bank has a unique and dynamic proposition to offer our worthy customers. We will strongly strategize on this offering, as the one stop shop for this range of products. The cross selling opportunities and the synergies of Group integration present a vast scope for improving our performance and adding value to our customers, which will focus on our new strategy.

I look ahead with great enthusiasm to the challenge of leading the Bank to be one of the most sought after institutions in the industry. The Bank has all it takes to realize its fullest potential. At the same time, I greatly appreciate the opportunity to work with a highly professional and accomplished Senior Leadership Team. The dedication and the commitment of the staff at all levels make it possible to embark on a journey to take the Bank to the next level. The guidance of the Chairman and the Board of Directors add tremendous value in propelling the Bank on this journey.

We are now nearing completion of the Bank's new strategic plan, which we will be devising by brainstorming the inputs from all the divisions of the Bank as well as our group companies in order to set the Bank and the Group on an aggressive growth trajectory. We are excited about the future that lies ahead where we are determined to strive and reach our full potential. In reaching these goals, raising additional capital to meet the Basel III requirements and to support the growing franchise would be a key strategic priority.

I have no doubt that with the commitment from our highly skilled and trained staff, who work with great dedication and enthusiasm, we will be able to reach our new vision through our new strategy. The unleashing of the Group synergies will add tremendous value to our stakeholders, enabling them to prosper and achieve a mutually rewarding relationship. This is the vision that will drive us in the coming years.



P L D N Seneviratne
Chief Executive Officer

21 February 2017

BUSINESS MODEL



SCAN TO VIEW

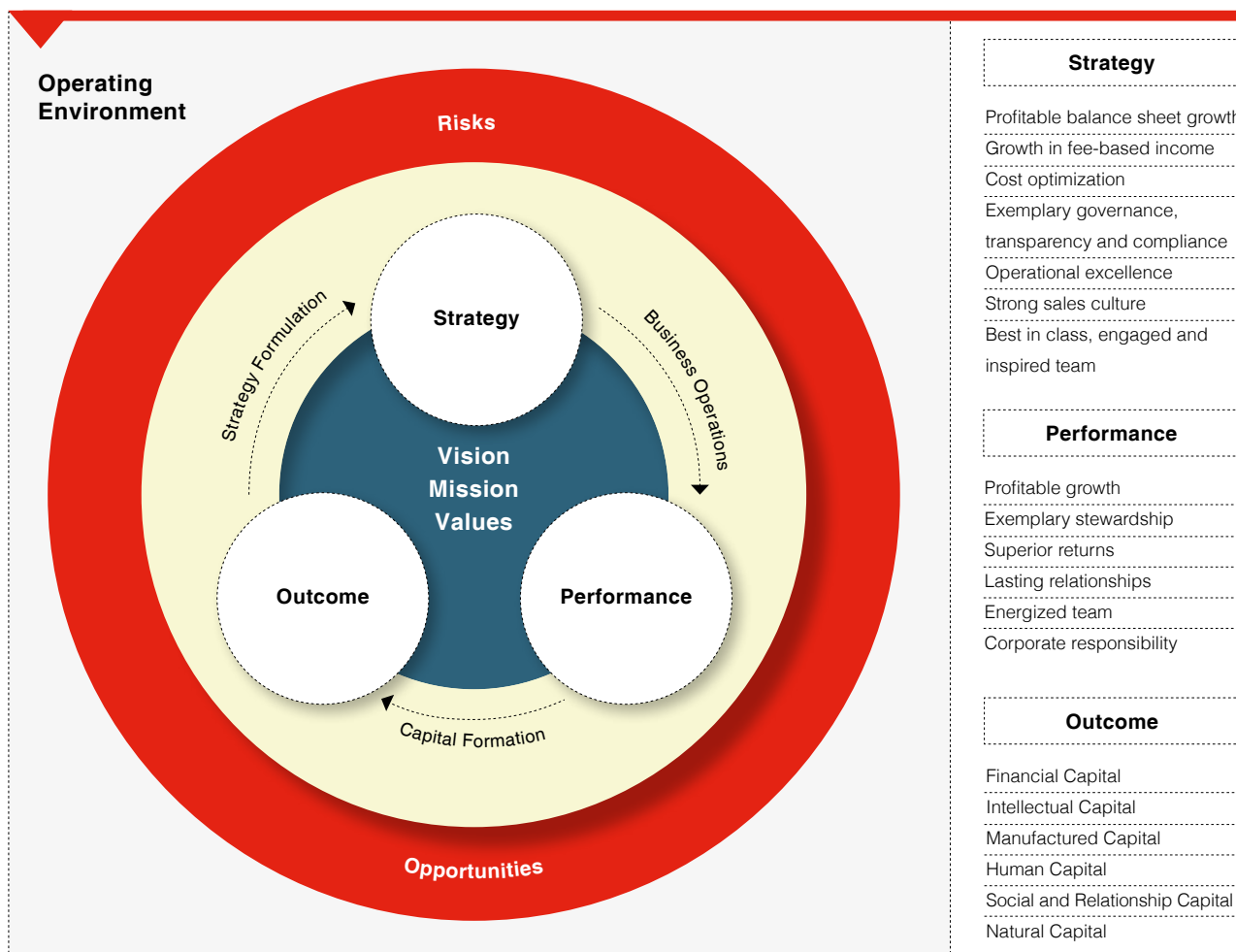
<http://ndbbank2016.annualreports.lk/business-model/>

18	20	25	27	36	37	39
BUSINESS MODEL	OPERATING ENVIRONMENT	STRATEGY AND RESOURCE ALLOCATION	STAKEHOLDERS	MATERIALITY	MANAGEMENT APPROACH	OUTLOOK

Banks, like all other organizations, utilize diverse stocks of value, herein referred to as 'capitals' to generate value over time. Through the business processes of the Bank the capitals that are used are increased, decreased and transformed into different forms of capitals.

The capitals as defined in the classification used by the Bank and the value creation process are depicted in the diagram below:

BUSINESS MODEL



Reference

Operating Environment	Page 20	Risks	Page 151	Opportunities	Pages 36 and 37	Strategy	Page 25
Performance	Page 25	Outcome	Page 26				

AN OUTLINE OF THE CAPITALS



FINANCIAL CAPITAL

- Obtained in the form of debt or equity or built up through retained earnings, this is the pool of funds that is available to the Bank for supporting growth and expansion in terms of funding manufactured capital and the surplus being available for lending and investing.

PAGE : 42



INTELLECTUAL CAPITAL

- Organizational knowledge based intangibles and organizational attributes such as brand, ethics, culture, tacit knowledge and systems and procedures.

PAGE : 74



MANUFACTURED CAPITAL

- Manufactured physical objects or other artifacts that are used in the provision of services by the Bank including buildings, vehicles, plant and machinery, IT equipment and software.

PAGE : 81



HUMAN CAPITAL

- The Bank's human resources including their knowledge, skills, capabilities and their commitment to and alignment with the organization's goals and strategies.

PAGE : 91



SOCIAL AND RELATIONSHIP CAPITAL

- Relationships with stakeholders; the extent the organization engages with them and their attitude towards and perception about the Bank.

PAGE : 101



NATURAL CAPITAL

- All renewable and non-renewable environmental resources, or products derived from such environmental resources which are used by the Bank in providing its services or affected by the Bank's activities.

PAGE : 110

Increasing one capital often involves, sacrifice of another capital at least in the short-term. For example when the Bank conducts training for its employees this involves use of financial capital to build human capital. However, use of capital does not always involve such trade-offs. In developing Islamic Finance products and Micro Finance products the Bank is building financial capital as well as social and relationship capital.

In the global frontier, China demonstrated satisfactory growth. The United Kingdom too, grew stronger than expected in the aftermath of the Brexit.

THE GLOBAL ECONOMY

Source: World Economic Outlook (January 2017) of the International Monetary Fund.

The global economy recorded a somewhat satisfactory performance in 2016, with an estimated growth of 3.1%. However, there were wide disparities in the performance between different country groups.

The advanced economies performed somewhat better than expected due to a reduced drag from inventories and recovery in manufacturing. The U.S. economy picked up strongly in the second half of the year, achieving near full employment. Japan too outperformed expectations. However several economies in the Euro area did not fare too well, with some exceptions such as Spain and the U.K. in the aftermath of Brexit.

The record of emerging economies was patchy. The Chinese economy, bolstered by policy stimulus, overcame some of the uncertainties of the past and showed satisfactory growth. Higher and more stable oil prices also propped up the Russian economy. However, some emerging economies such as Argentina, Brazil and Turkey did poorer than expected.

Agreements among major suppliers to curtail oil production resulted in higher prices in end December 2016 – early January 2017. With commodity prices reaching their trough, headline inflation rates have reduced in the last months of the year. Core inflation rates, however, have remained largely the same and generally below their targets.

Regarding financial markets, long-term real and nominal interest rates have shown an upward trend since August 2016. This was aggravated after the U.S. Presidential election in November, driven by expectations of a change in the U.S. policy mix. The US Dollar has also appreciated against key currencies since August 2016 by over 6%. Some of the other advanced economies, which are commodity exporters have also seen an appreciation in their currencies; on the other hand the Euro and Japanese Yen have weakened.

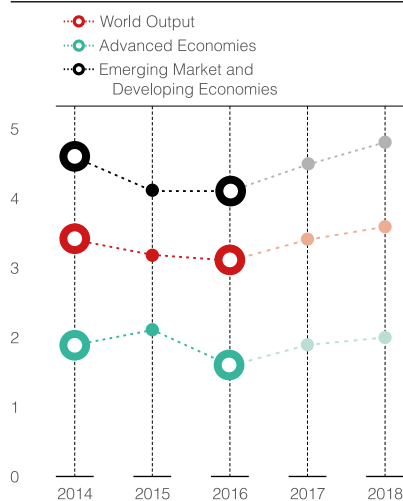
Looking forward to 2017, some acceleration is expected in advanced economies as well as in emerging/developing economies. The expected growth rates for 2017 and 2018 are 3.4% and 3.6% respectively.

Global Economic Growth Rates – Past and Future

%	2014	2015	Estimate	Projections	
			2016	2017	2018
World Output	3.4	3.2	3.1	3.4	3.6
Advanced Economies	1.9	2.1	1.6	1.9	2.0
United States	2.4	2.6	1.6	2.3	2.5
Euro Area	0.9	2.0	1.7	1.6	1.6
Japan	0.0	1.2	0.9	0.8	0.5
United Kingdom	3.1	2.2	2.0	1.5	1.4
Emerging Market and Developing Economies	4.6	4.1	4.1	4.5	4.8
China	7.3	6.9	6.7	6.5	6.0
India	7.2	7.6	6.6	7.2	7.7
ASEAN	4.6	4.8	4.8	4.9	5.2

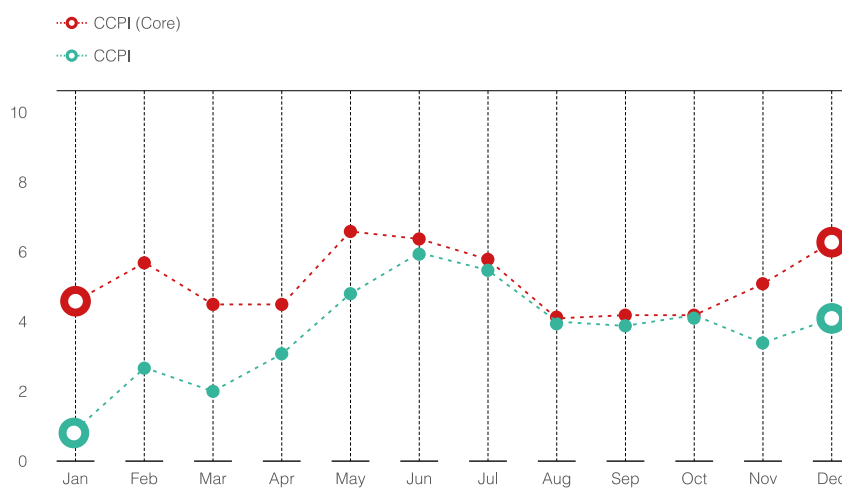
Global Economic Growth Rates

Index



Inflation during 2016 (Year on Year)

Index



THE SRI LANKAN ECONOMY

Source: Central Bank of Sri Lanka publications

The Sri Lankan economy showed moderate performance in the first nine months of 2016, with a growth rate of 4%, compared with 4.8% in 2015. However, it is noteworthy that this growth was recorded despite a contraction in the agricultural sector of 2.5% in the first half of the year. This however, was compensated by a growth in the industrial and service sectors of 5.2% and 4.9% respectively in the same period. The main contributor to the growth in services was the financial services sector. Unemployment during the first half of 2016 was 4.4%, a modest improvement over the 4.6% in the corresponding period the previous year.

Despite some upward pressures, inflation was moderate in 2016. Inflation was mainly driven by adverse weather (on the supply side) and Government tax policy. Relaxation in monetary policy and increases in wages contributed to demand pressure on inflation.

The overall impact was that headline inflation, as measured by the year on year change in the Colombo Consumers' Price Index (CCPI) was 4.1% in December 2016 (December 2015: 2.8%). Core inflation, based on CCPI, increased to 6.3% year on year, at end 2016 (2015: 4.5%). Overall inflation has been restrained, being in mid single digit figures of 4-6%.

The Central Bank of Sri Lanka (CBSL) tightened its monetary policy stance during the first nine months of the year. This was with the view to contain the possibilities of demand driven inflationary pressure which could result from high credit growth and excessive monetary expansion. Reflecting the effects of the tightened monetary policy, market interest rates moved upwards during the first nine months of the year, which appeared to have stabilized over the end of the year.

Credit granted to the private sector by the commercial banks decelerated towards the latter part of the year. The year-on-year growth in credit granted to the sector which was as high as 28.5% in July 2016 reduced to a growth rate of 21.1% in November 2016. In absolute terms, credit to the private sector increased by LKR 81.3 billion in November 2016 compared to LKR 79.0 billion in October 2016.

External Trade performance was modest during the year, with improved performance recorded towards the end of the year. During the first eleven months of 2016, earnings from exports declined by 2.7%, whereas expenditure on imports increased by 1.7%. The net result was an increase in the cumulative trade deficit up to USD 922 million by end November 2016.

The savings – investment gap was narrowed during the first nine months of 2016 by earnings from tourism and remittances from expatriate workers, which contributed to a lower current account deficit. The Government securities market showed a net outflow of foreign investment; conversely there was a net inflow of long term loans to the Government. The Government also entered into a three year Extended Fund Facility (EFF) of SDR 1.1 billion (approximately USD 1.5 billion) with the IMF. This is expected to strengthen the external position of the country and facilitate the broad economic policies of the Government. The gross official reserves were estimated to be around USD 6.0 billion by end 2016.

Notwithstanding considerable depreciation pressure on the Rupee during the first part of 2016, on the

whole it was relatively stable during the year. The Rupee depreciated by 3.8% against the US Dollar in 2016. Depreciation pressure on the Rupee was caused by import expenditure, debt service payments and unwinding of investments in the Government securities market during the first four months of 2016. The Central Bank intervened in the domestic foreign exchange market to counteract the depreciation pressure by supplying foreign currency liquidity.

Fiscal sector showed an improved performance during the first ten months of 2016. Total fiscal revenue increased to 10.8% of estimated GDP during the first ten months of 2016, from 9.7% during the same period in 2015. Total expenditure and net lending during the first ten months of 2016 increased to 15.3% of estimated GDP from 15.1% in the previous year. Overall budget deficit declined to 4.4% of estimated GDP during the first ten months of 2016 in comparison to 5.4% of GDP during the same period of 2015.

Looking Ahead

The Sri Lankan economic growth rate is forecast to be around 5.0%-5.5% for 2016. The growth rate is expected to increase to 6.3% in 2017, with the expectation for it to grow at an annual rate of 7% or above. Growth in the trade of merchandise goods and services; especially in the areas of tourism, transport, telecommunication, ports and financial services are expected to be major contributors towards this growth.

The medium term growth will be supported by the consolidation of the private and public sector investments. Larger inflows of foreign investment, especially in areas where Sri Lanka boasts of a comparative advantage such as information technology related services and logistics, are expected. Considerable investment is also expected from China in the proposed Special Economic Zone in Hambantota. Other key areas that are expected to drive growth in the medium-term are the establishment of the Colombo International Financial City and new opportunities under the Megapolis project. With the contribution from these

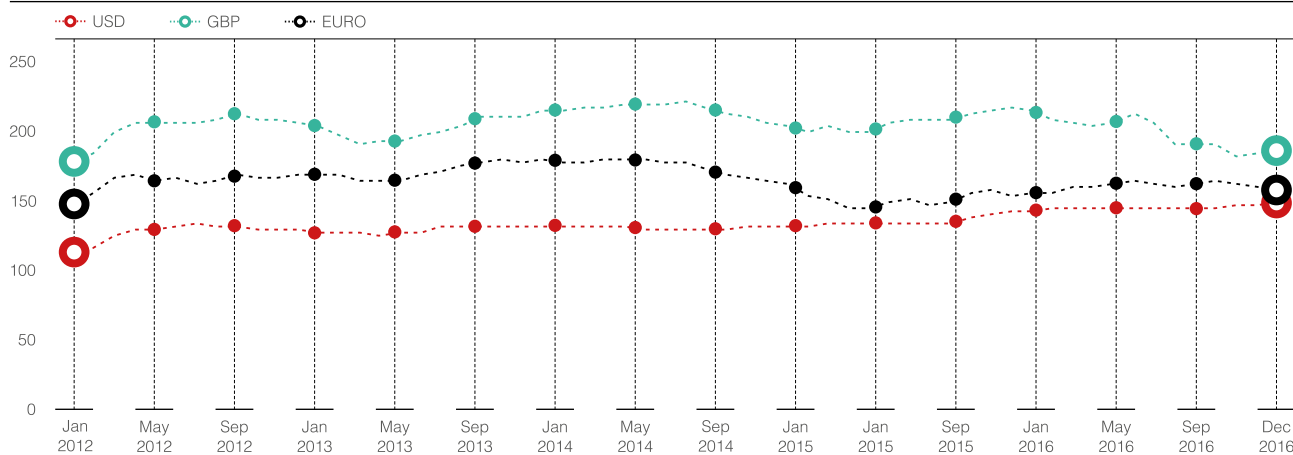
developments, encompassing all sectors of the economy, we can be optimistic about the country achieving upper middle income status with a per capita income of over USD 5,500 by 2020.

The Government expects to put in place the supporting structures for such growth, with the assistance of the Central Bank, by a three pronged macroeconomic strategy. The long standing deficiencies in the budgetary operations in the fiscal framework will be addressed, to strengthen fiscal sustainability in the medium-term. Second, a more flexible information targeting framework will be crafted through a more robust monetary policy. Finally, exchange rate management will be reformed through a well-designed and widely accepted framework, to move towards a market based exchange rate.

Under the CBSL's enhanced monetary policy framework, the CBSL would follow a dual strategy aimed at stabilising inflation in mid single digits over the medium-term, whilst facilitating growth objectives and flexibility in exchange rate management.

Average Exchange Rates for Key Currencies – Past 5 Years

LKR



SRI LANKAN BANKING SECTOR

Source: Central Bank of Sri Lanka publications

Despite impediments due to various domestic and international macro-economic developments, the Sri Lankan banking sector proved resilient and performed well during the year. The total assets base of the industry exceeded LKR nine trillion. Given below are some key highlights of the industry for 2016.

- 32 licensed banks, with a solid network of 3,614 branches
- Over LKR 700 billion in capital funds
- Over LKR 2.3 trillion in total investments
- Over LKR 100 billion in profits
- An employee strength of 55,257

Banking sector KPIs

	2016	2015	Movement
Return on assets (%)	1.4	1.3	↑
Return on equity (%)	17.3	16.2	↑
Capital adequacy ratio (%)	14.1*	15.4	↓
Risk-weighted assets (LKR billion)	4,900*	4,288	↑
Statutory liquid asset ratio (%)	30.0	33.9	↓
Non-performing loan ratio (%)	2.6	3.2	↑
Total provision coverage ratio (%)	70.2	62.3	↑
Net interest margin (%)	3.6	3.6	—
Operating efficiency ratio (%)	49.3	51.0	↑

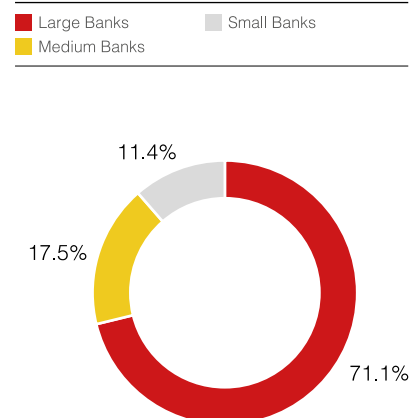
*As at 30 September 2016

Contribution within the Sector by Large, Medium and Small Banks

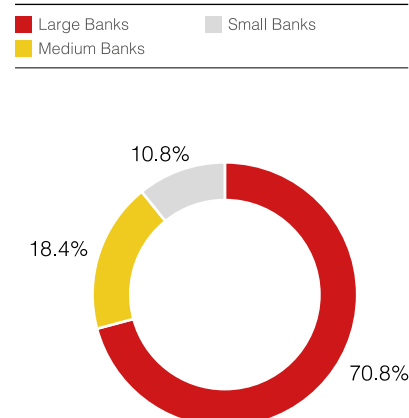
The 32 licensed banks of the country have been classified in to large, medium and small banks, based on the asset base of the banks by the Central Bank of Sri Lanka. Accordingly, the industry included six large banks, whose assets were in excess of LKR 500 billion. Five banks were classified as medium with assets in the range of LKR 200 – 500 billion. 21 banks were classified in the small banks category, with assets of less than LKR 200 billion.

Depicted in the graphs are how total assets, loans and advances, deposits and borrowings of the industry were shared amongst the three classifications of banks.

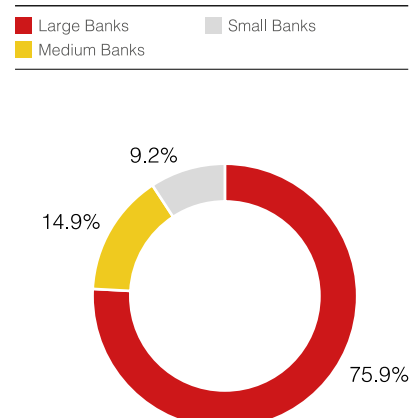
Assets



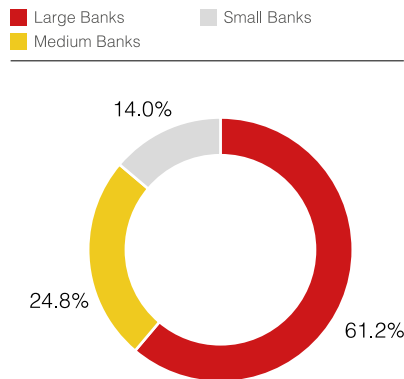
Loans and Advances



Deposits



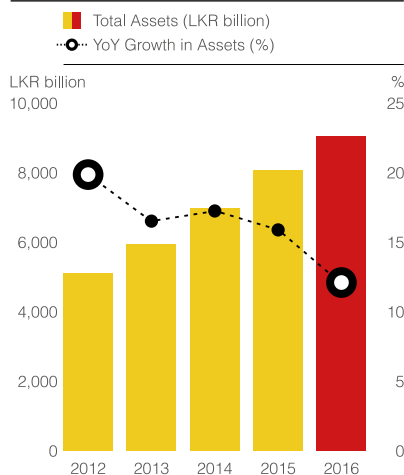
Borrowings



Banking Sector Performance

Total assets – As was mentioned before, the total assets of the banking sector grew by 12% and reached LKR 9,047 billion by end 2016. This was an increment of LKR 970 billion.

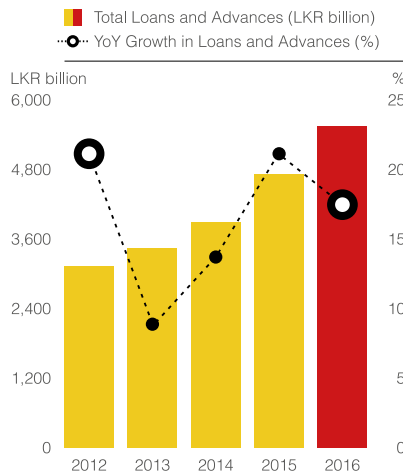
Total Assets



Loans and advances – Total loans of the banking sector was LKR 5,541 billion, as at end 2016 and this was a result of a 17.5% growth over the prior year. Loan growth in 2016 was lower than 2015 (21.1%), reflecting the economic conditions that prevailed in the country during the year. Consumption oriented lending was 20.7% of the total loans, followed by lending to the construction sector (17.8%) and trading (14.0%).

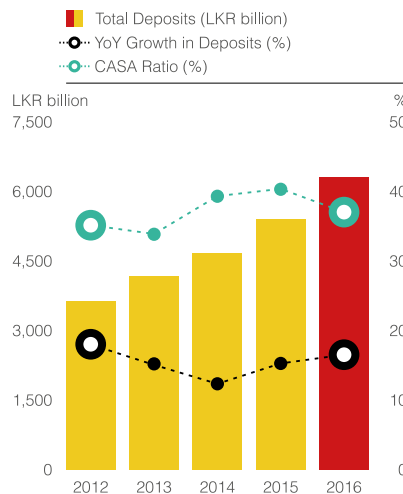
Loans granted to the SME sector as a percentage of total loans has increased from 15.1% in 2015 to 16.2% in 2016 (30 September 2016), affirming the banking industry's commitment to empowering this sector.

Total Loans and Advances



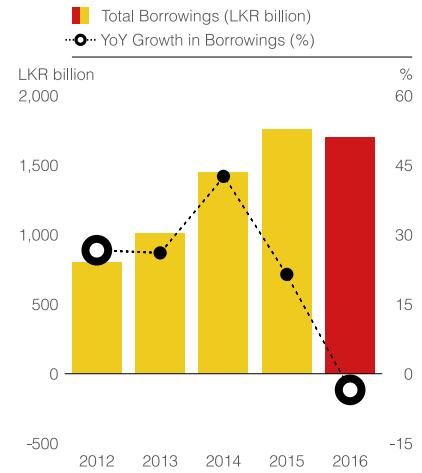
Deposits growth – Deposits grew faster than in 2015, with a growth rate of 16.5% in 2016 (2015:15.3%). Time deposits accounted for the bulk of total deposits (60.6%), continuing the historic trend of product-wise deposits composition. There was a notable decrease in the CASA ratio in the industry from 40.3% in 2015 to 37.1% in 2016.

Total Deposits



Banking sector borrowings – Banking sector borrowings, as at end 2016, was LKR 1,696 billion, which reflected a 3.5% reduction over the prior year. This reduction was a Rupee equivalent of LKR 62 billion. Within total borrowings, foreign currency borrowings decreased by USD 319 million (-4.4%). Rupee borrowings decreased by 2.1%, a Rupee equivalent of LKR 14.2 billion.

Total Borrowings



Way Forward

The CBSL has also put forward proposals to achieve increased soundness, efficiency and stability of the financial system. The supporting pillars for this are regulation and supervision of all major categories of financial institutions, ensuring sound and safe payment and settlement systems, robust risk management systems and instilling good corporate governance standards and practices in the financial sector, while promoting financial inclusion.

The CBSL also intends to strengthen the capital position of the banks in conformance with minimum requirements and BASEL III capital standards.

Amongst many other initiatives, the CBSL also envisages enhancing mandatory disclosures and transparency through the introduction of a new regulatory framework for the preparation, presentation and publication of the annual and quarterly financial publications.

The Bank welcomes all these initiatives and will be congruent with them in the conduct of its business.

STRATEGY

The Bank's business model is underpinned by seven pillars of strategic execution. Our strategies focus on how we will seize opportunities and mitigate risks in our operating environment, and set out plans for resource allocation. The five-year strategic plan 2014-2018, prepared in-house, contains the following key elements:

1. Profitable balance sheet growth

Aggressive broadening of the asset base through new products; exploring untapped markets coupled with optimum management of net interest margins and share of fee income; efficient allocation of resources.

2. Growth in fee-based income

Seeking opportunities for cross selling within the Group and additional services such as consultancy, legal and custodial services through a linked platform across the Group.

3. Cost optimization

Balancing costs and benefits without compromising on the brand value of the Bank.

4. Exemplary governance, transparency and compliance

Identifying and managing the various types of risks faced; cultivating an ethical culture throughout the organization while ensuring compliance with all applicable laws, regulations and standards.

5. Operational excellence

Focusing on customers' needs; keeping employees energized and empowered; continuous improvement of systems and procedures to achieve greater efficiency and effectiveness.

6. Strong sales culture

Identifying and optimizing customer value creation; capitalizing on cross selling opportunities.

7. Best in class, engaged and inspired team

Focusing on delivering on business goals through people programmes, plans and initiatives; having an efficient and agile structure with an appropriate mix of skills, technical knowledge and analytical capability coupled with streamlined work processes to enable flawless administration and execution.

PERFORMANCE

The Bank's business processes as described below, mesh the capitals with the strategic pillars to generate value.

Profitable Growth

In the year under review, there was a 8% growth in total assets.

Please refer pages 42 to 73 of the Management Discussion and Analysis on the performance of the Bank, Business Units and the group companies .

Like all banking institutions, the Bank is constantly striving to increase the percentage of its fee-based income as a percentage of its total revenues to minimize risk and to optimize capital utilization. Our capital market subsidiaries, which offer a wide range of fee-based services such as full service investment banking, wealth management, securities trading and advisory, debt and equity raising and corporate advisory services to mergers and acquisitions, are the major source of fee-based revenue.

During the year, a number of initiatives were undertaken to reduce costs and improve efficiency without compromising on quality of service. These included streamlining of the inventory control process, renegotiation of courier services and space optimization initiatives.

Leveraging Tangible and Intangible Assets

The Bank continued to intensively pursue its brand-building exercises during the year under review driven

by the Bank's leadership to secure and strengthen our brand image in the market space. The message of 'Our Commitment, Your Success' was successfully projected by all types of media: print, electronic, social media, branch premises and outdoor locations. The brand was reinforced by the numerous products/brand name advertising conducted during the year.

The Bank ensured good governance, transparency and compliance by a rigorous process of system procedures, checks and controls supervised and administered by the leadership and numerous oversight committees. In this connection, an overarching role is played by the Group's audit function which independently evaluates and reports on all functions and processes of the Group.

To strengthen the management of credit risk, the Credit Review Division which was set up in October 2015, plays the role of an independent reviewer in the pre-credit approval stage. The division plays a key role at every stage of the credit process in mitigating risk and ensuring adequate return.

During 2016, the Bank expanded its reach by adding 11 new branches, the majority of which were located outside Western Province. A landmark event during the year was, the opening of the 100th Branch in Hingurakgoda. The total number of branches reached 104 by end of 2016.

The Bank constantly strives to leverage the power of information technology to add value to the services it provides to its customers. The mobile banking service, implemented by the Bank uses cutting-edge technology to enable customers to conduct transactions via a variety of devices. It also provides users with a portal to interact with merchant and utility providers.

Lasting Relationships

Customers are our lifeblood and this is the cornerstone of our thinking in all our product and marketing strategies.

Our clientele encompasses a vast range and we tailor our products and services to cater to their diverse needs and preferences. We facilitate customer contact with the Bank through our 24X7 customer service hotline and Online Banking mail box. In addition, our Telemarketing Division carries out a monthly Customers Feedback survey to gauge customer satisfaction. The division also helps to grow revenues by way of cross-selling and upselling.

The SME sector is one of the main facets in the development strategy of an emerging economy. Recognizing this fact, the Bank from its inception, has given great importance to meeting the credit needs of this sector. During the year under review, the Bank has extended credit to the key sectors of tourism, construction, agriculture, manufacturing and services. The Bank also provided financial assistance and assistance on technical knowledge to the export agriculture sector such as cinnamon, tea and pepper. The recent retail and SME integration at all branches drives aggressive cross selling.

The microfinance sector also continued to expand in 2016 with emphasis on credit quality and risk mitigation whilst empowering and building the capacity of the beneficiaries of our programmes. Our programmes in this sector while accounting for only a modest portfolio and profits make a very significant social contribution. Women continued to account for over 60% of microfinance clients. This programme continues to empower rural entrepreneurs and finances initiatives of great national significance such as organic seed paddy cultivation.

Apart from the above mentioned commercial activities by which we also make a social contribution, the Bank also conducts a large number of CSR activities, particularly those which benefit the local communities in proximity to our branches. Our training programme for English teachers in 2016 has completed training of 193 teachers at 10 Regional Support Centres islandwide. The CKD Mobile Screening Clinics programme, ongoing in rural villages in Anuradhapura, is focused on

early detection and diagnosis of kidney disease, thus contributing to addressing a major national problem. The Bank also contributed to flood and landslide relief through its branches.

Building the Strengths of Our People

The Bank constantly strives, through its HR function, to be an employer of choice. It strives, by motivation and training of employees, to inculcate the values and ethics of the Bank in them; also to align them with the goals and strategies of the Bank. Diversity has been promoted through recruitment and promotion policies with more than one-third of the staff being women, including at management levels. The workforce includes people from diverse social backgrounds, ethnicities and religions. As an equal opportunity employer the Bank firmly believes that this diversity is one of its strengths.

Mainly due to organic growth in its branches, the Bank recruited 476 new staff during the year. In filling vacancies the Bank follows a bottom-up process where the senior positions are filled as far as possible internally. Outside recruitment is mainly at two levels: school leavers and newly qualified graduates and professionals. The Bank maintained an attrition rate during the year of 6.6% of permanent employees, which is quite satisfactory considering the available opportunities both locally and overseas. The rate of staff returning after maternity leave was also commendable at 94.3%.

In line with the importance we give to developing the skills and capabilities of staff a considerable importance is given to training. During the year an average of 6.42 days was spent on training per staff member.

A monthly training calendar is drawn up with the participation of the employees. The Training and Development arm has entered into agreements with professional bodies to provide training of the highest quality.

A wide range of recreational and health-oriented programmes are being conducted to boost the health, safety,

morale and well-being of our people and their families. Employees also have an opportunity to participate in Bank CSR activities giving them the satisfaction of making a contribution to society.

Concern for the Environment

The Bank, which takes a holistic view of value creation, considers that contributing to safeguarding the planet is one of its responsibilities. Environmental considerations are inbuilt into all our activities, especially in lending and project financing. The Environmental and Social Management System (ESMS), which is approved by the Board, is integrated into the Bank's policy for term lending. Under ESMS, projects are screened for their environmental impacts from the inception, and mitigation strategies put in place. Buy-in of the project promoter is ensured by jointly formulating such strategies. Such mechanisms are formally included in loan covenants which make them legally binding. The Bank also undertakes many programmes of a CSR nature to promote environmental consciousness, particularly focused on students.

The above processes create value in its various forms. While they generate value for the Bank they also generate value for the stakeholders. Generating value for the stakeholders is a must for the Bank to create value for itself.

OUTCOME

Value creation leads to Capital Formation which can be internal or external to the Bank. Our internal capital is comprised of financial capital, manufactured capital and intellectual capital. The first two are what is reported in the Financial Statements while the last is comprised of intangibles such as brand, values, ethics, corporate culture, tacit knowledge, systems and procedures. The external capital comprises human capital, social and relationship capital and natural capital. Value is created by the dynamic interaction of the internal capital and the external capital over time.

STAKEHOLDER ENGAGEMENT PROCESS



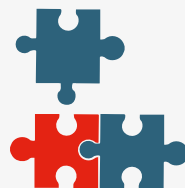
1. IDENTIFY



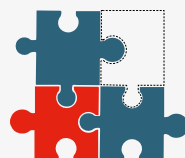
2. MAP AND PRIORITIZE



3. ENGAGE



4. ASSESS CONCERNS AND EXPECTATIONS



5. REVIEW AND ADDRESS

Stakeholders are individuals or entities who are significantly affected by the Bank's activities, products and services and whose actions, attitudes and perceptions have a significant impact on the ability of the Bank to carry on its activities and attain its goals.

The Bank's primary stakeholders are customers, investors, employees, suppliers, local communities where we operate, the general public as well as Government authorities and regulators. The Bank has a rigorous process to identify the key stakeholders with whom we need to engage.

OUR KEY STAKEHOLDERS



INVESTORS

PAGE : 28



CUSTOMERS

PAGE : 29



EMPLOYEES

PAGE : 30



SUPPLIERS AND BUSINESS PARTNERS

PAGE : 31



SOCIETY AND ENVIRONMENT

PAGE : 32



REGULATORS AND GOVERNMENT AUTHORITIES

PAGE : 33



INVESTORS

Definition of the Stakeholder Group:

Investors by definition are the stakeholders who have invested funds in the Bank with the expectation of returns on their investments. For the purpose of investor relations, the concept of investors has to be interpreted more broadly where a wider group of stakeholders are covered. Such other stakeholder groups are potential investors, investment and fund managers, stock brokers and analysts, multilateral funding agencies, rating institutions, media and the like.

Rationale for Engaging Investors as a Key Stakeholder Group:

Investors are the crucial stakeholder group that provides the strong foundation to the business via quality capital. Investment and fund managers, analysts, rating agencies, etc. are those groups who will carry out impartial analysis on the Bank and provide recommendations to the investor fraternity, which will also lead to an optimally priced share of the Bank in the Stock Market.

Strategic Objectives of Maintaining Sound Relationships with the Stakeholder Group:

To attract and maintain best in class relationships with investors and deliver superior and sustainable value to our shareholders.

Method of Engagement	Frequency of Engagement	Key Topics and Concerns Raised	How the Bank Responded to Such Topics and Concerns
Meetings			
• One-to-one on-site investor meetings	As and when required	The financial performance of the Bank.	Our investor relations endeavours are well-structured and scheduled. Schedules for routine investor activities are announced well in advance for the benefit of the stakeholders. We follow an open-door policy for all our investors on their requests for periodic meetings and reviews. We maintain a high level of accessibility to the Senior Management of the Bank in investor relations. Investor engagements are always hosted by the Chief Executive Officer or the Group Chief Financial Officer. Based on any specific investor needs, the meetings will be attended by relevant business heads.
• Investor webinars and fora on quarterly financial performance	Quarterly	Future strategies and possible directions for growth and profitability.	
• Annual General Meetings	Annually	The macroeconomic environment, regulatory stances taken, particularly any significant changes and their impact on the performance of the Bank.	
• Extra-Ordinary General Meetings	As and when required		
• International investor fora	As and when required		
• Investor road shows	As and when required		
Publications			
• Annual Reports	Annually	The political stability, consistency of economic policy, conduciveness for investments and the overall confidence levels on the country.	Our investor relations are driven on the principles of consistency, transparency, clarity and openness to scrutiny and executed by a dedicated investor relations team. We are consistently fair in our disclosures and at no times do we treat any party with preference.
• Interim Financial Statements released to the CSE	Quarterly		
• Press releases on financial performance	Quarterly	Expansion strategies of the Bank (local branch network and overseas presence).	
• Transcripts of investor webinars held	Quarterly	Corporate governance and risk management framework of the Bank.	
• Investor presentations on financial performance	As and when required		
• Announcements made to the Colombo Stock Exchange	As and when required		
• Prospectus	As and when required		
Special Features			
• Investor relations web page within the NDB corporate webpage	Continuously		
• SMS alert on the Annual Report release	Annually		
• Email notifications on results releases	Quarterly		
• Earnings calls on special requests	As and when required		



CUSTOMERS

Definition of the Stakeholder Group:

Individuals; micro and SME businesses and large corporates.

Rationale for Engaging Customers as a Key Stakeholder Group:

Building sustainable relationships with the customers through superior value creation and seamless communication.

Strategic Objectives of Maintaining Sound Relationships with the Stakeholder Group:

To understand the customer needs better and maintain long-term customer relationships by delivering superior value to our customers.

Method of Engagement	Frequency of Engagement	Key Topics and Concerns Raised	How the Bank Responded to Such Topics and Concerns
Customer feedback scores to measure customer satisfaction level across the branch network	Periodic	Types of products and services. Product pricing (interest rates, other fees and charges).	Our dedicated contact centre team provides around the clock full service including card activation, lost card deactivation, handling balance and transaction inquiries etc. In addition to routine query handling, contact centre also handles the Online Banking mail box and the <i>contact@ndbbank.com</i> mail ID. All queries received via these channels are actioned within 3 working days. The Customer Relationship Management Unit attends to customer queries and complaints Monday to Friday 8.30 a.m. – 5.00 p.m. However, customers can raise their feedback through the Branch Network (Branch Managers are the dedicated service ambassadors), 24-hour Contact Centre and via online messages/ by e-mailing at <i>contact@ndbbank.com</i> or by writing to The Manager – Customer Relationship Management, National Development Bank PLC., No. 42, Sagara Road, Marine Drive, Colombo 04.
Mystery customer survey to measure customer satisfaction level across the branch network	Periodic	Level of customer service and quality of customer interactions at key touch points.	
Customer interaction through visits, get-togethers and workshops	Periodic	Availability of branches, ATMs and other physical touch points.	
Extended banking hours at selected branches	24/7 x 365 days	Physical appearance of the Branch network.	
NDB corporate website	24/7 x 365 days	Level of interaction via social media.	
Online messages (NDB Bank Online)	24/7 x 365 days	Attitude, knowledge and skills of staff.	
<i>contact@ndbbank.com</i>	24/7 x 365 days		
Social media interactions	24/7 x 365 days		
Contact centre	24/7 x 365 days		
Print and electronic media	24/7 x 365 days		



EMPLOYEES

Definition of the Stakeholder Group:

Senior Management, Executives,
Non-Executives, Contract Staff

Rationale for Engaging Employees as a Key Stakeholder Group:

Employees are key to delivering superior and sustainable value to the shareholders.

Strategic Objectives of Maintaining Relationships with the Stakeholder Group:

To create an environment conducive for employees to deliver their best in creating a high performing workplace to be successful and remain in the forefront of the banking sector.

Method of Engagement	Frequency of Engagement	Key Topics and Concerns Raised	How the Bank Responded to Such Topics and Concerns
Employee Surveys			
• Employee Satisfaction Survey	Annually	Responsibility of retaining existing talent of the Bank.	On joining the Bank employees go through an induction process to make them feel comfortable with the job and the organization.
• HR ISO Survey	Annually		
• Internal Department Survey	Annually	In order to do so provide staff with correct blend of skills, competencies and knowledge.	
Induction Programmes			
• Employee Induction Programme	Quarterly		
• 'In Retrospect' programme	Quarterly	Ensure staff get value addition in personal capacity as well as professional capacity.	They are provided ongoing training in order to acquire required skills. They are also remunerated and rewarded for their performance both in monetary and non-monetary terms. Further, specific initiatives are introduced to facilitate work life balance and maintain a high degree of engagement within the organization.
Periodic Staff Meetings			
• Town Hall meetings	As and when required	Reward and recognize staff with monetary and non-monetary benefits.	
• The Leadership Team meetings	Weekly		
• Business Review meetings	Monthly		
• Network Management National Conference	Annually		
• Regional Managers' meetings	Monthly	Responsibility of simplifying processes in order to increase productivity in making best use of the human talent and delivering best value to external stakeholders.	
• Branch Managers' meetings	Quarterly		
• Department meetings	Ongoing		
Staff Societies			
• Recreation Club	Ongoing (Annual calendar of staff events)	Adopt staff to the Bank's values and culture.	
• Toastmasters Club	Ongoing (Annual calendar of staff events)	Attaining work – life balance across all levels.	
• Cross Functional Staff Committees	Ongoing	Regional engagement in a context of rapid expansion.	
Technologically Driven Platforms			
• Performance Development System	Ongoing	Maintain information flow within the organization.	
• Human Resource Information System (HRIS)	Ongoing		
Bank Policies			
• Whistle-blowing policy		Maximize emotional engagement of staff with the workplace.	
• Open door management policy			
• Diversity and Inclusion policy			
• Health and safety policy		Enhance the emotional engagement of the staff member beyond himself/herself to embrace the Company as a family.	
• Non-discrimination policy			
Recognition Schemes			
• Retail Banking Awards	Annually		
• Staff talent recognition programme	Ongoing	Ensure fairness to staff members and strengthen their voice at adversity.	
Welfare Agenda			
• Employee Volunteerism Programmes (Sustainability and CSR Agenda)	Ongoing	Ensure a healthy environment for staff to work in, which is physically and mentally conducive.	
• HR Welfare Programmes (covering staff and their family members)	Ongoing		



SUPPLIERS AND BUSINESS PARTNERS

Definition of the Stakeholder Group:

Suppliers are persons or organizations who are providers of goods and/or services required to carry out the Bank's operations including business partners such as correspondent banks that facilitate cross border transactions for our customers.

Rationale for Engaging Suppliers and Business Partners as a Key Stakeholder Group:

Suppliers and business partners are paramount in ensuring uninterrupted and seamless services at the Bank within Sri Lanka and overseas. Their practices and processes are also important to us from an ethical, labour and environmental viewpoint.

Strategic Objectives of Maintaining Sound Relationships with the Stakeholder Group:

To timely procure quality goods and services required to carry out the Bank's business at optimized costs, whilst aligning the suppliers and service providers in the Bank's value creation process through ethical business practices and global standards.

The strategic object encompassing our extensive correspondent banking network, is to closely engage with them, whilst continuously evaluating means to match our customer needs in this area, as correspondent banks are an essential component in the global payment system, especially for cross border payments to facilitate international trade.

Method of Engagement	Frequency of Engagement	Key Topics and Concerns Raised	How the Bank Responded to Such Topics and Concerns
Board approved Group Procurement Policy	Ongoing	Integration of the suppliers and the business partners in the Bank's value creation process.	The Bank maintains a continuous and healthy dialogue with suppliers and business partners at all times. All such relationships are guided by a Board approved Procurement Policy.
Periodic supplier reviews and assessments	As required	Ensuring fair pricing and equitable treatment for all suppliers.	The Bank focuses on fostering long-term relationships with its suppliers and making them an integral part of the Bank's success story, whilst helping them prosper in their businesses.
Meetings with suppliers	As required	Ethics, environmental implications, labour laws and procedural standards adopted by the suppliers.	With regard to our correspondent relationships, we engage with them to ensure the service levels agreed by them are maintained. Regular evaluation of existing correspondent relationships and selection of new international and local correspondent banks for establishing relationships is carried out to serve our customer needs better.
Press advertisements, information hosted on the Bank's corporate website	As required	Quality of the deliverables.	The strategic objective encompassing our extensive correspondent banking network is to closely engage with them whilst continuously evaluating means to match our customer needs in this area, as correspondent banks are an essential component in the global payment system especially for cross border payments to facilitate international trade.
Tenders, bids, requests for proposals, etc.	As required	(In relation to correspondent banks) – Maintaining a robust and dynamic AML CFT and KYC compliance programme in line with the specific laws and regulations.	We follow a comprehensive and dynamic legal and regulatory compliance programme covering AML CFT and KYC through a designated compliance officer who is responsible for co-ordinating and overseeing same on a day-to-day basis. We also review our correspondents annually to ensure they maintain a high level AML CFT and KYC programme in line with the laws and regulations in place.
Internally approved policy guidelines			



SOCIETY AND ENVIRONMENT

Definition of the Stakeholder Group:

An individual or group potentially affected by the activities of the Bank; including those affected by environmental or social factors such as suppliers, customers, local communities and the general public.

Rationale for Engaging Society and Environment as a Key Stakeholder Group:

Society and environment are very important stakeholders, directly contributing to the sustainability of the organization. Negative perceptions of the Bank, particularly from local communities can have a very adverse impact in the long term.

Strategic Objectives of Maintaining Relationships with the Stakeholder Group:

To add value to the stakeholders and identify any concerns and address them, whilst maintaining a relationship that will add value to both parties.

Method of Engagement	Frequency of Engagement	Key Topics and Concerns Raised	How the Bank Responded to Such Topics and Concerns
Meetings			
● Meetings with beneficiaries of community projects	As and when required	The cost of being environmentally and socially compliant amidst a competitive market.	The Bank offers a value added service and the stakeholders are advised at the outset. Concerns raised on cost vs. benefit are addressed during appraisal, clearly showing that there would be a long-term benefit in 'going green'. The Bank also held capacity building programmes to educate the stakeholders on these aspects. The banks in Sri Lanka are presently collaborating to level the playing field with respect to environmental and social appraisals. Giving employees an opportunity to participate in socially and environmentally beneficial programmes giving them the satisfaction of making a contribution to society
● Meetings with beneficiaries of environment projects	As and when required	The need to have a level playing field with regard to appraising the facilities for environmental and social aspects in addition to the general economic aspects.	
● Capacity building programmes for customers	Annually		
● One-to-one meetings with suppliers	As and when required		
● One-to-one customer meetings	At each stage of the process with follow-up as per post-lending requirements. Also as and when required		
Publications			
● Sustainability aspects covered in the Annual Report	Annually		
● Press releases on community and environmental projects	As and when required		
Special features			
● Community and Environment Projects	Ongoing		
● Sustainability web page within the NDB corporate webpage	Continuously		
● Regular updates on Social media	Continuously		



REGULATORS AND GOVERNMENT AUTHORITIES

Definition of the Stakeholder Group:

Entities which are empowered to exercise a regulatory or supervisory function over the Bank such as the Central Bank of Sri Lanka, the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange, the Inland Revenue Department, etc..

Rationale for Engaging Regulators as a Key Stakeholder Group:

Regulators play a pivotal role in ensuring the effective functioning of the Bank while maintaining the financial stability and sustainability.

Strategic Objectives of Maintaining Relationships with the Stakeholder Group:

To ensure compliance with all regulatory requirements applicable to the Bank.

Method of Engagement	Frequency of Engagement	Key Topics and Concerns Raised	How the Bank Responded to Such Topics and Concerns
Submission of returns/ information	Ongoing	Update on the regulatory requirements affecting the Bank.	A dedicated Compliance Department headed by a senior officer, independently monitors adherence to all applicable laws, regulations and statutory requirements and reports to the Integrated Risk Management Committee and the Corporate Governance and Legal Affairs Committee.
Directions, circulars and guidelines	As and when required	Adherence to the laws and acts relevant to the banking/financial sector.	The Bank prioritizes on maintaining the highest level of compliance with all legislations, regulations and rules applicable to its business on a risk based approach.
On-site visits	As and when required	Adherence and compliance to all applicable regulations of the Central Bank of Sri Lanka, The Colombo Stock Exchange and other regulatory bodies.	All regulatory changes are disseminated to the relevant business units together with an explanatory note to facilitate in understanding the regulations.
Consultations and meetings	As and when required	Awareness of developing regulatory and governance practices (E.g. Basel III).	Compliance Department reviews all policies and Product Programme Guides to ensure that they are in line with regulatory requirements.
Announcements to the Colombo Stock Exchange	As and when required	Adherence to provisions of the Inland Revenue Department.	Compliance programme covers reviews conducted on products and accuracy checks on certain returns to ensure that they are in compliance with regulatory requirements and are submitted on the due date.
		Meeting legislative requirements in respect of consumer protection and engaging with the Financial Ombudsman of Sri Lanka to resolve customer grievances.	Compliance training and awareness play a key role in sustaining a culture of compliance within the Bank and in mitigating compliance risk. Training and awareness initiatives provide useful sources of reference for our employees and enable us to entrench compliance and values-based behaviour at every level of the Bank. The employees (both front line and support services) are trained on an ongoing basis and all staff members are required to complete mandatory regulatory and compliance training. Training is delivered through various means, including staff induction programmes, e-learning, face-to-face training and focused activities such as e-flyers.
			The Bank contributes to the development of policy, legislation and regulation through submissions of our comments and views to technical committees and associations we are a part of within the banking industry as well as through regular engagement with regulators.
			The Bank has in place a comprehensive core-banking system which facilitates and ensures accurate and timely regulatory reporting.
			Furthermore, the Bank maintains open and continuous dialogue with the regulatory bodies on matters of concern.

MEMBERSHIPS

1	Association of Professional Bankers (APB)	–	Bank has obtained membership for Vice-Presidents and Assistant Vice-Presidents
2	Institute of Bankers of Sri Lanka (IBSL)	–	Bank has obtained corporate membership covering all staff
3	Employers' Federation of Ceylon Ltd. (EFC)	–	Bank has obtained corporate membership covering all staff

STRATEGIC EXTERNAL INITIATIVES

External Entity	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. The Vice-President – Corporate Banking currently acts in the capacity of the Treasurer of this Council.
Trade Finance Association of Bankers	All members 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 and 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 policies including aspects of technology, cyber security, payment systems, etc., as well as organizing events with world renowned speakers. The Bank's Vice-President – Information Technology is the Deputy Chairperson of the Forum.
Lanka SWIFT User Group	This is an entity representing all users of SWIFT within Sri Lanka and represents the country at the annual global SIBOS event. The Bank's VP – Information Technology is a member of the Executive Committee of the Group.
Employers' Federation of Ceylon Ltd. (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 related matters.
Institute of Bankers of Sri Lanka (IBSL)	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. The Institute facilitates and delivers 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 regarding VISA Intl., MasterCard Intl., 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.

External Entity	Bank's Level of Involvement
International Information System Security Certification Consortium (ISC)2 of the United States	An officer of the Group Risk Management Department is the current president of the (ISC)2 Colombo Chapter. (ISC)2 is the largest not-for-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. Two members of the IS Audit team are also members of the Colombo Chapter.
Association of Banking Sector Risk Professionals	The Bank's Vice-President – Group Risk was elected President of the Association in September 2016. Further, three members of the Risk Management Team continue to be members of the Association. The purpose of the Association is to promote fellowship, co-operation and knowledge, whilst undertaking studies and discussions in the area of Risk Management in Banking. They also collectively review regulatory directives and guidelines and co-ordinate 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 for discussions on 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.
American Chamber of Commerce (Amcham)	The Bank's Vice-President – Retail Banking and Transactional and Institutional Banking is represented in the CSR subcommittee of Amcham.
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 initiatives for the development in the industry as a whole. Further, the benefits of such initiatives 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 a membership of approximately 1,200. 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. Six 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.

The Bank identifies material aspects which impact the Bank and its stakeholders on a priority basis, with a practical approach to integrated value creation.

It is not practicable to address all possible issues that may have a bearing, on the Bank's activities. We therefore address only the aspects that are material. An aspect is deemed to be material if it substantively affects the Bank's ability to create value over the short, medium and long-term. Relevance and significance thus determine materiality, while

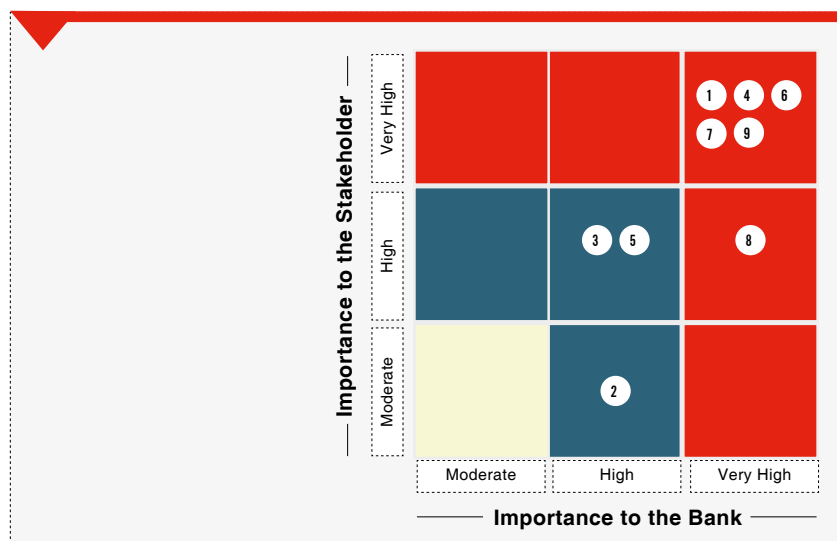
taking significant account of both the magnitude of the impact as well as its probability of occurrence. An aspect can be important from two different perspectives, namely, that of the Bank and its stakeholders. Through an effective stakeholder engagement process we identify the topics material to the Bank. This is depicted through a two-dimensional materiality matrix shown below:

Due to the materiality assessment done by the Bank, there are some changes in Material topics from the previous year.

All the Material Aspects are identified in the process for defining report content.

Topics	Topic – Specific Disclosure	The Importance to Bank	The Importance to Stakeholders
Economic			
1. Economic Performance	201-1	Very High	Very High
	201-3	Very High	Very High
2. Market Presence	202-2	High	Moderate
Environmental			
3. Energy	302-1	High	High
Social			
4. Employment	401-1	Very High	Very High
	401-2	Very High	Very High
	401-3	Very High	Moderate
5. Labour/Management Relations	402-1	High	High
6. Training and Education	404-1	Very High	Very High
	404-2	Very High	Very High
	404-3	High	Very High
7. Diversity and Equal Opportunity	405-1	High	High
	405-2	Very High	Very High
8. Marketing and Labelling	417-1	Very High	High
9. Customer Privacy	418-1	Very High	Very High

MATERIALITY MATRIX



Our Strategies are carefully articulated. We place the following aspects at core, when devising our Strategies.

The Senior Management of the Bank has to craft appropriate strategies to address the aspects described in page 36.

ECONOMIC PERFORMANCE

A satisfactory economic performance is essential if a business is to survive. It needs to be excellent if it is to truly grow and prosper in the long term. A healthy economic performance will lead to business growth, market expansion and capacity building. In an enterprise of the scale of the Bank a robust economic performance will also make a significant contribution to the economy as a whole. It is also interlinked with environmental stewardship and community development, all of which ultimately contribute to the sustainability of the business. Thus, a strong bottom line will extend to the triple bottom line; contribute to sustaining the environment and society.

The Bank has a four pronged approach in managing its economic performance, which includes strategic vision, goals, targets and monitoring. All the above are underpinned by innovation whereby the Bank strives to add value to the customer by introducing new and innovative products and services to the market. NDB enhances these aspects through world-class service and cutting-

edge delivery enhanced by the latest technology which gives the Bank a competitive edge.

MARKET PRESENCE

Market presence is one of the main determinants of business success. In an enterprise of the scale of the Bank, a broad geographical market becomes vital to provide growth opportunities; it will open up vistas for potential as well as existing employees to capitalize on these opportunities and increase their motivation and job satisfaction. Whilst contributing to national economic development, NDB has continuously expanded its market position through organic growth and is represented in every province.

ENERGY

Energy is that one universal resource that every business entity and indeed every organisation, utilises. The resulting impact on the environment has made climate change a global issue. Natural resources being limited, or not replaceable in the short-term at the pace they are being used, using them responsibly becomes imperative for the sustainability of a business and in the long term the planet as well. This imposes the onus on enterprises to minimize their energy consumption.

In this context, NDB has introduced a rigorous process for managing energy utilization, including daily monitoring and energy audits. The recommendations of the audit are implemented and a culture of responsibility towards energy usage is inculcated in the employees as well.

EMPLOYMENT

The Bank firmly believes our employees are the backbone of our organization and the competitive advantage that helps the Bank to forge ahead. Therefore, human resources are a key component of the Bank's strategy. NDB human resource policies and guidelines are tailored to a holistic view of how to retain and motivate employees. With the belief that a healthy body and mind will have a positive impact on their professional and personal, lives a number of recreational and health-oriented activities are provided to the employees. These include the comprehensive gymnasium, NDB Health Week, Work Life Balance Week, Aerobics and Social Dancing sessions etc. which have benefitted not only the employees but also their families. The training philosophy that has been adopted by the Bank is proactive and seeks to ensure that employees are fully equipped and resourced for the purpose of facing challenges and unforeseen changes in the industry/environment.

LABOUR/MANAGEMENT RELATIONS

Labour/Management relations are very important because this is the bedrock of the status of human resources in any business and poor relations can result in low productivity and high staff turnover. Two-way communication and transparency can also build long-term value for the business by making the staff feel valued. We give them an opportunity to contribute ideas and seriously consider their suggestions.

During 2016 principle acceptance was given for an employee association to represent certain categories of staff. The Association will be a complementary channel of communication that will strengthen employee relations.

TRAINING AND EDUCATION

The Bank's human resources need to be retained and nurtured and the training and development programme at NDB is geared towards this. This is taking into consideration the Bank's long-term objectives and ultimate goals. A culture of continuous learning and development is instilled into the staff with them being nominated for training programmes internally and externally to improve their knowledge and skills as well as enhance their career growth. Banking courses in association with the Institute of Bankers, Sri Lanka have been held at the Bank enabling staff to follow these programmes in-house.

DIVERSITY AND EQUAL OPPORTUNITY

The employees that come together to make up the NDB family come from diverse backgrounds, ethnicities, religions and ages. The Bank draws on this as a strength to source a diverse cross-section of talent, skills and education. Managing diversity at NDB focuses on maximizing the abilities of all employees to contribute towards the achievement of the Bank's goals.

Diversity and equal opportunity also include gender equality. At NDB, women form 40% of the Senior Management group and 63% of the managerial and supervisory staff. The senior management at the Bank comprises of six females and seven males. Working conditions for both males and females are identical with no discrimination shown towards the 39% female workforce.

Rewards and remuneration at NDB Bank are performance driven. The evaluation system includes performance development objectives and performance criteria that are drawn up in a participatory process, backed up with performance reviews. Compensation/remuneration offered by the Bank to all employees is based on competitive salary scales determined by salary surveys in the industry.

LOCAL COMMUNITIES

No business is an island and in order to sustain and grow the business it is imperative that the Bank focuses on the significant stakeholders, one of which is the local communities neighbouring where the Bank operates. The Bank has 104 branches island-wide located in rural as well as urban areas. For the long-term operation of these branches, especially those in rural areas, it is vital that the branches are interlinked with the community and the community has a positive perception of the Bank. The Bank also often depends on the community as a recruitment base. The Bank has a responsibility to create value for the local communities which goes beyond job opportunities and banking services; it needs to promote the well-being of the communities in other ways as well.

PRODUCT AND SERVICE LABELLING

Product information is directly linked to increased sales. In this technologically savvy, data-driven society, consumers are becoming more discerning and demand more information

and transparency before making a purchase. Social media and other online sources provide more outlets for dissatisfied customers to air their grievances which increases risks for the business. Furthermore, the fact that financial products and services are generally perceived to be complicated, is a barrier to marketing, which needs to be broken through. There is therefore a need for adequate transparent and relevant information to be provided to customers. Information related to the products and services of the Bank are available in all three languages and all relevant information is provided by the relevant staff to the customers. The Bank also educates customers and potential customers, providing information through various events conducted island-wide.

CUSTOMER PRIVACY

One of the most valuable services a bank can provide is the ability to protect its customers' privacy. The Bank recognizes this and gives extreme importance to keep customers' personal information accurate, confidential, private and secure. The Bank has deployed secure systems and procedures all throughout the Banking transactions and continuous effort is being made to develop them. Further, the bank has incorporated 'customer privacy' as an integral part of the employee code of conduct to ensure the value of protecting customers privacy.

We aspire to be a dominant player in the financial services industry in delivering superior returns to all our valued stakeholders whilst tapping our fullest potential.

We envisage a positive outlook for the Bank and the Group through revised strategies over the short, medium and long-term as follows:

- The Group's overall goal is to generate superior financial performance leading to wealth maximization, through growing both fund based and fee based income and by integrating the Bank with the group companies generating enhanced revenue via cross-selling and realising cost efficiencies from synergies.
- We will adopt a liability led strategy by leveraging on our strong sales culture and our diversified and customer centric product portfolio.
- Strategically, we will diversify commercial banking and combine capital market expertise to grow our market share and achieve above industry growth.
- We will proactively and cost effectively address the evolving customer aspirations, we will further leverage IT and digital channels and achieve a competitive edge. In the medium to long-term the Bank intends to provide more of its offerings online, which will provide a seamless digitized banking experience to our clientele.
- Leveraging capital, we will continue our organic growth by expanding our branch network and by developing alternative channels to increase our low cost fund base.
- We will craft our marketing communications to ensure a consistent message across all media and channels, positioning our brand for top of the mind recall.
- Being in a highly competitive and fast moving industry, it is imperative that we innovate new products and services to increase our share of the customers' wallet.
- We will seek to maximize opportunities while maintaining stringent risk management practices to optimize the risk/return trade-off.
- We consider 'human capital' as an important determinant of our

competitive advantage and hence, we intend to reiterate our commitment to strengthening the skills and competencies of our people.

- We will engage with the community through meaningful and sustainable CSR initiatives leading to creating value to the society.

The Central Bank Road Map for 2017 has laid down guidelines for good corporate governance and sound practices in the financial sector which will promote secure and reliable payment systems as well as financial inclusivity. Our strategies are aligned well with the CBSL's goals in the short, medium and long-term. Financial inclusion, giving emphasis to females is a priority for the Bank which we intend to pursue further in 2017.

Our plans include bringing the full range of products and services to all sectors, including agriculture, infrastructure, manufacturing and services; SMEs are also an important niche for us. Here again our strategy is in line with the Central Bank's thinking. The Bank already has offerings catering to these different sectors of the economy tailored to their specific needs. With the strengths derived from our history as a development bank, we are well positioned to assist the national development thrust through our commercial banking products. We will continue to refine our products and services to deliver more and more value to these subsectors.

Another requirement of the Road Map is the strengthening of the capital position of the industry in accordance with the minimum requirements, enhanced by the Basel III guidelines. In this respect too, compliance is no hurdle for the Bank. Further expansion of our capital base was already on the horizon. The Bank is well positioned to comply with the Basel III guidelines by the deadlines laid down by the regulator.

MANAGEMENT DISCUSSION AND ANALYSIS



SCAN TO VIEW

<http://ndbbank2016.annualreports.lk/mda/>

42	74	83	91	101	110	114
FINANCIAL CAPITAL	INTELLECTUAL CAPITAL	MANUFACTURED CAPITAL	HUMAN CAPITAL	SOCIAL AND RELATIONSHIP CAPITAL	NATURAL CAPITAL	SUSTAINABILITY ASSURANCE REPORT

STRATEGY — PROFITABLE GROWTH

Financial capital comprises the funds that are at the Group's disposal that enabled its establishment by acquiring physical and human resources at the inception and its perpetuation by acting as a cushion for absorbing unforeseen losses as a going concern. It plays the primary roles of providing loans and investment opportunities for individuals, corporates, etc., safeguarding depositors, create value to shareholders, help promote the society and environment and keep a buffer for unforeseen losses. Financial capital has been acquired from external sources such as share capital and subordinated term debt as well as generated from internal sources such as retained profits and other revenue reserves. The Bank, and the Group have an extremely diverse range of operations to generate funds from. While nurturing traditional products, it is constantly innovating new products to cater to emerging needs and changing circumstances. Fund-based operations are judiciously managed to maintain satisfactory net interest margins. Simultaneously, through its dynamic capital markets cluster, it is constantly seeking to grow its share of fee-based income as a strategy for diversifying sources of income and managing capital. Costs too are rigorously controlled to keep profit margins, whilst not compromising on brand value.

KEY ACHIEVEMENTS IN 2016

LKR
2.7
billion

IN GROUP
PAS

13%

OF NII
GROWTH

LKR
341
billion

OF TOTAL
ASSETS

LKR
200
billion

MARK
CROSSED IN
DEPOSITS

OBJECTIVES FOR 2017

- 1 To enhance Group ROE and generate higher investor value
- 2 To improve NIMs whilst increasing the fee income to NII ratio
- 3 To achieve a total asset base growth above the industry growth rate
- 4 To manage the overall cost of the Bank and the Group and maintain Cost to Income Ratios below 50%
- 5 To infuse fresh capital to support the Bank's growing franchise

FINANCIAL REVIEW

The year 2016 was marked by several monetary policy measures which impacted the banking and financial services industry. Liquidity, interest rates and demand for credit were the key variables which were impacted on by such policy measures which made performance during the year challenging for the banking industry.

Given below is a detailed analysis of how the Bank, its key business units and the group companies performed in generating and enhancing its financial capital.

The Financial Statements relevant to this discussion are available in the pages 282 to 402 of the Financial Reports section of this Report. Where applicable, extracts from the Financial Statements are presented alongside the discussion, and references are also made to Financial Notes, where further details of the items are given.

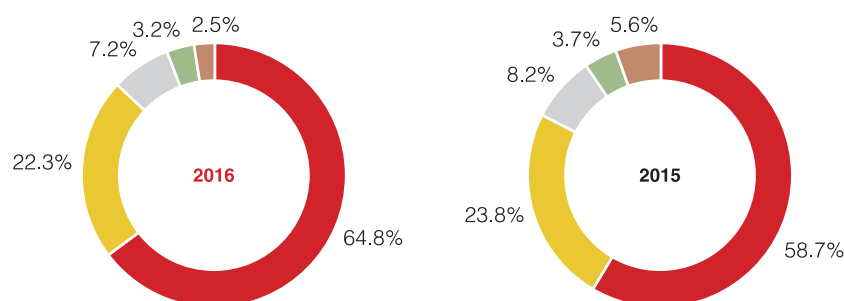
Total operating income for the Bank which comprised of net interest income and non-interest income increased by 8% in 2016 as compared to the previous year. Net interest income was the significant contributor towards this growth which highlights the growth recorded by the Bank in its core banking operations.

The total operating income for the Group was constrained to a growth of 3% due to the lower than expected performance of the group companies, as a result of the moderate capital markets activities experienced during the year.

The composition of Group total operating income for 2016 as compared with 2015 is depicted below.

Composition of Total Operating Income

■ Net Interest Income ■ Net Gains and Losses from Trading ■ Other Operating Income
■ Fee and Commission Income ■ Net Gains and Losses from Financial Investments



Profitability Analysis

Total Operating Income

	Bank				Group			
	2016	2015	Change	Change	2016	2015	Change	Change
	LKR '000	LKR '000	LKR '000	%	LKR '000	LKR '000	LKR '000	%
Net-interest income	8,487,312	7,521,823	965,489	13	8,860,769	7,807,377	1,053,392	13
Non-interest income	4,663,489	4,687,463	(23,974)	(1)	4,816,299	5,483,931	(667,632)	(12)
Total operating income	13,150,801	12,209,286	941,515	8	13,677,068	13,291,308	385,760	3

Net Interest Income

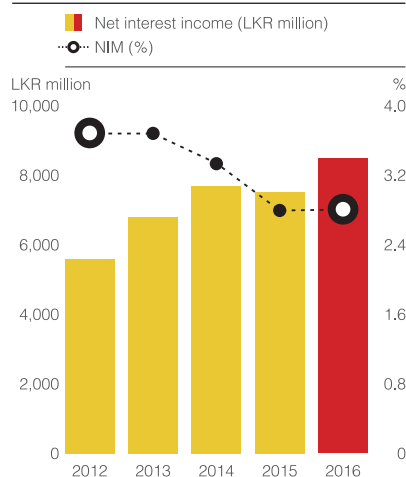
	Bank				Group			
	2016 LKR '000	2015 LKR '000	Change LKR '000	Change %	2016 LKR '000	2015 LKR '000	Change LKR '000	Change %
Interest income – loans and receivables	23,169,246	17,171,614	5,997,632	35	23,180,279	17,173,883	6,006,396	35
Interest income – Placements and other investments	5,449,001	3,996,234	1,452,767	36	5,780,327	4,258,049	1,522,278	36
Total Interest Income	28,618,247	21,167,848	7,450,399	35	28,960,606	21,431,932	7,528,674	35
Interest expenses – Customer deposits	12,362,362	8,157,526	4,204,836	52	12,331,264	8,137,635	4,193,629	52
Interest expenses – Other borrowings	7,768,573	5,488,499	2,280,074	42	7,768,573	5,486,920	2,281,653	42
Total Interest Expenses	20,130,935	13,646,025	6,484,910	48	20,099,837	13,624,555	6,475,282	48
Net Interest Income	8,487,312	7,521,823	965,489	13	8,860,769	7,807,377	1,053,392	13
Net Interest Margin as a percentage of average total assets	2.64%	2.63%	0.01%	0	2.70%	2.67%	0.03%	1

Net interest income (NII) of the Bank for 2016 was LKR 8,487 million and grew by 13% over the previous year. The growth in NII was supported by a 35% increase in interest income stemming from a gross loans and receivables base which stood at LKR 234 billion. The Bank largely benefited from the conscious asset re-pricing measures carried out during the year, with the upward movement in the interest rates. The Bank's NII growth levels continue to be challenged due to the low CASA base of the Bank compared to the industry CASA base, which results in relatively high cost of funds for the Bank.

In this back drop, the Bank was able to defend its net interest margin (NIM), which is based on total average assets

at 2.64% for the year, through effective management of the assets and liability portfolio.

Five Year Net Interest Income Analysis



Net fee and commission income, which forms a primary source of core banking income, grew by 12% over the previous year. This growth was mainly due to the increase in the volumes of the fee generating assets and liability portfolios of the Bank.

At a Group level, net fee and commission income was reduced by 4% over the year 2015. The Group's capital markets cluster, which is primarily fee based businesses, recorded a negative growth in performance due to lower than expected capital markets activity experienced in the country during the year.

Net gains from trading was a 10% decline over the prior year. This income category records income from foreign

Non-Interest Income

	Bank				Group			
	2016 LKR '000	2015 LKR '000	Change LKR '000	Change %	2016 LKR '000	2015 LKR '000	Change LKR '000	Change %
Net fee and commission income	2,253,226	2,016,260	236,966	12	3,046,132	3,156,841	(110,709)	(4)
Net gains from trading	982,123	1,088,464	(106,341)	(10)	982,123	1,088,464	(106,341)	(10)
Net gains from financial investments	211,370	262,048	(50,678)	(19)	440,748	493,739	(52,991)	(11)
Other operating income	1,216,770	1,320,691	(103,921)	(8)	347,296	744,887	(397,591)	(53)

exchange trading activities and was adversely affected by the low foreign exchange trading opportunities and restrictions that prevailed in the market during the year.

Net gains from financial investments which represent mark to market unrealized and realized gains and losses also recorded a negative growth of 19% over the prior year, primarily due to the increasing interest rate environment that prevailed during the year.

Please refer Note 08 of the Financial Reports section in page 307 for more details.

Other operating income of the Bank was LKR 1,217 million for the year and was a reduction of 8% over the previous year primarily due to the decreased exchange gains from revaluation of retained profits held in foreign currency during the year, as compared with the previous year. At a Group level the reduction in other operating income was 53%, which was due to capital gains realized by the Group on the divestment of its equity securities during the year 2015.

Please refer Note 09 of the Financial Reports section in page 307 for more details.

The Bank recorded an impairment charge of LKR 1,367 million for 2016. This compares with an impairment charge of LKR 712 million in 2015, an increase of 92%.

Impairment on individually significant loans increased by 112% whilst the impairment on collective loan portfolio increased by 84% to LKR 1,116 million and LKR 277 million respectively as compared with the prior year. The increase in the charge for impairment on individually significant loans during the year was mainly attributable to one-off specific provisions made for a few individually significant customers, based on sound judgment and objective evidence as per the Bank's impairment policy. The increase in the impairment on collective loan portfolio was mainly due to the increase in the lending portfolio of LKR 19 billion over the previous year.

Percentage of impairment allowance against gross loans and receivables of the Bank was 2.58% as compared with 2.52% as at 31 December 2015.

Improving the NII to net fee and commission income ratio is a key priority for the Bank, whilst harnessing the cross selling opportunities available through the Group companies.

LKR million	2016	2015
Impairment allowance for loans and receivables to other customers	6,039	5,410
Gross loans and receivables to other customers	233,679	215,012
Percentage of impairment allowance (%)	2.58	2.52

Impairment for Loans and Receivables and Other Losses

	Bank				Group			
	2016 LKR '000	2015 LKR '000	Change LKR '000	Change %	2016 LKR '000	2015 LKR '000	Change LKR '000	Change %
Impairment on individually significant loans	1,116,072	526,932	589,140	112	1,116,072	526,932	589,140	112
Impairment on collective loan portfolio	277,097	150,673	126,424	84	277,097	150,673	126,424	84
Capital write offs/ (recoveries)	(14,483)	34,228	(48,711)	(142)	(14,483)	34,228	(48,711)	(142)
Provisions/(reversals) of investments in subsidiaries	(11,733)	–	(11,733)	(100)	45,887	34,312	11,575	34
Total impairment for loans and receivables and other losses	1,366,953	711,833	655,120	92	1,424,573	746,145	678,428	91

Total Operating Expenses

	Bank				Group			
	2016 LKR '000	2015 LKR '000	Change LKR '000	Change %	2016 LKR '000	2015 LKR '000	Change LKR '000	Change %
Personnel expenses	3,434,550	3,204,228	230,322	7	3,792,590	3,633,627	158,963	4
Other expenses	3,014,294	2,845,350	168,944	6	3,366,359	3,196,253	170,106	5
Total operating expenses	6,448,844	6,049,578	399,266	7	7,158,949	6,829,880	329,069	5

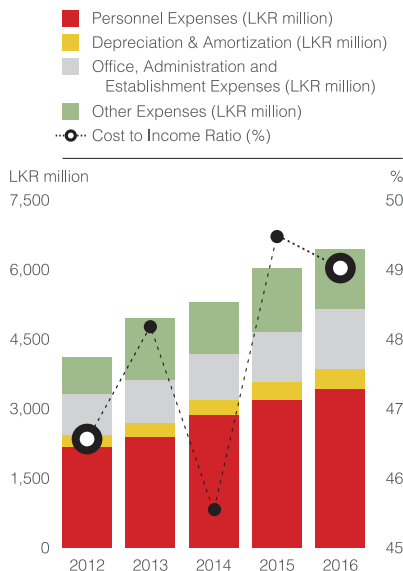
Total operating expenses of the Bank of LKR 6,449 million, grew by 7% whilst the Group total operating expenses of LKR 7,159 million grew by 5% over the prior year. Personnel expenses, which form the greater portion of total operating expenses, grew by 7% over the year. The increase in personnel expenses is due to the 7% increase in workforce of the Bank and the annual increments awarded to staff members. The Bank also increased its network by 11 branches during the year, which largely accounts for the increase in the workforce. At a Group level, the increase in operating expenses was only 5% due to the low scale of operations in the group companies compared to the previous year.

The reasonable growth levels in costs during the year 2016, affirms that 'operational efficiency and cost optimization', remain a key strategic focus of the Bank and the group companies in maximizing returns to shareholders.

Operating Efficiency

The cost to income ratio (CIR) of the Bank was 49.0% as compared to 49.6% for the year 2015. The Bank is still in an investment phase, targeting a higher market share. It is expected that the Bank's CIR would improve with the relatively new branches of the Bank improving their efficiency levels within the next few years. The average break-even duration for a new branch is approximately 18 months to 24 months. Depicted is a trend of the composition of key costs of the Bank and the CIR over the past five years.

Operational Efficiency Indicators



depicted below. The improvement in banking profits was a result of increase in scale of operations during the year coupled with sustained interest margins and effective cost management.

	2016	2015
PAS – Banking operations contribution	81%	74%
PAS – Group companies contribution	19%	26%

Group PAS

- PAS – Banking Operations Contribution
- PAS – Group Companies Contribution

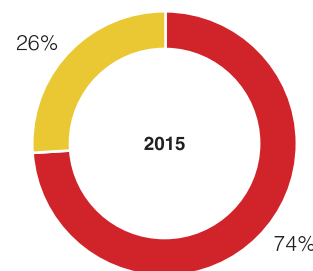
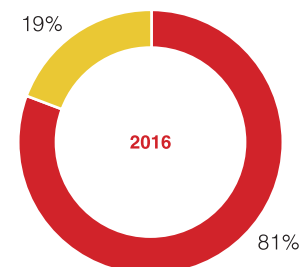
Profit Before Taxation

The Bank's profit before tax on financial services of LKR 5,335 million, declined by 2% over the prior year. The negative variance was primarily due to the higher impairment provisions made during the year compared to the prior year.

Higher impairment provisions, together with the less than anticipated performance of group companies resulted in the Group profit before tax on Financial Services of LKR 5,094 million declining by 11% over the prior year.

Profit Attributable to Shareholders (PAS)

Group PAS for the year was LKR 2,691 million, a reduction of 24% over the prior year due to the key reasons explained above. The composition of banking profits and the profits from group companies are



Total Comprehensive Income for the Year

	Bank				Group			
	2016 LKR '000	2015 LKR '000	Change LKR '000	Change %	2016 LKR '000	2015 LKR '000	Change LKR '000	Change %
Profit for the year	3,170,271	3,511,431	(341,160)	(10)	2,814,959	3,670,095	(855,136)	(23)
Total other comprehensive income	(475,083)	(513,191)	38,108	(7)	(496,504)	(385,936)	(110,568)	29
Total comprehensive income for the year	2,695,188	2,998,240	(303,052)	(10)	2,318,455	3,284,159	(965,704)	(29)

The total other comprehensive income was a loss of LKR 475 million as compared to a loss of LKR 513 million for the prior year. The losses are primarily due to the mark to market unrealized losses on the Bank's investment portfolio classified as 'Available-for-Sale'. These investments are maintained for liquidity purposes and have positively contributed to net interest income due to increasing interest rate environment experienced during the year.

Accordingly the total comprehensive income for the year for the Bank and the Group was LKR 2,695 million and LKR 2,318 million respectively.

Total Assets

Total assets of the Bank reached LKR 334 billion, an increase of LKR 25 billion (or 8%) over the prior year. Assets growth for the year was somewhat slower compared to prior years. However, moderated asset growth was anticipated for 2016 in the aftermath of an aggressive asset growth achieved by the Bank of 18% and 31% in 2015 and 2014 respectively.

Return on assets (ROA) of the Bank for 2016 was 1%. This in part reflects the deployment of the Bank's assets in generating returns to our shareholders. The Bank is focused on increasing its ROA to over 1.5% levels.

The Group total assets also grew by 8% to reach LKR 341 billion over the prior year, with total assets of the group companies contributing LKR 6 billion as at 31 December 2016.

Loans and Receivables

Loans and receivables of the Bank, after setting off impairment allowances as at end 2016, was LKR 228 billion, a 9% growth over the prior year. The growth in loans and receivables was also moderated during 2016 (compared to the 20% increase recorded in 2015 and 28% in 2014) partially due to the constrained liquidity position which the market faced during the year. On the other hand, the Bank has been managing its balance sheet structure and funding options, under which the loans and receivables growth is commensurate to the growth on deposits.

Balance Sheet Analysis

	Bank				Group			
	2016 LKR '000	2015 LKR '000	Change LKR '000	Change %	2016 LKR '000	2015 LKR '000	Change LKR '000	Change %
Total assets	334,544,735	309,157,605	25,387,130	8	340,731,768	315,353,733	25,378,035	8
Loans and receivables	227,639,844	209,602,069	18,037,775	9	227,679,939	209,665,561	18,014,378	9
Investments	80,597,224	73,876,707	6,720,517	9	84,436,804	77,257,188	7,179,616	9
Total liabilities	309,799,685	286,456,747	23,342,938	8	309,718,472	285,953,016	23,765,456	8
Customer deposits	203,866,547	184,933,230	18,933,317	10	203,515,828	184,152,280	19,363,548	11
Debt securities issued and other borrowed funds	59,233,264	60,527,844	(1,294,580)	(2)	59,233,264	60,497,844	(1,264,580)	(2)
Subordinated term debts	19,446,501	19,573,883	(127,382)	(1)	19,446,501	19,573,883	(127,382)	(1)
Total equity to equity holders of the Bank	24,745,050	22,700,858	2,044,192	9	29,936,587	28,382,204	1,554,383	5

The Bank continues to draw strength from its deep rooted competencies in project financing, as reflected in the growth in the PIF portfolio. The relatively low growth reported by the corporate banking portfolio is a reflection of the intended strategy of the Bank where the focus is shifted towards expanding the retail and SME portfolio.

On a product base analysis of the loans and receivables, the key contributors for the portfolio growth was long-term loans, overdrafts, trade finance loans and housing loans.

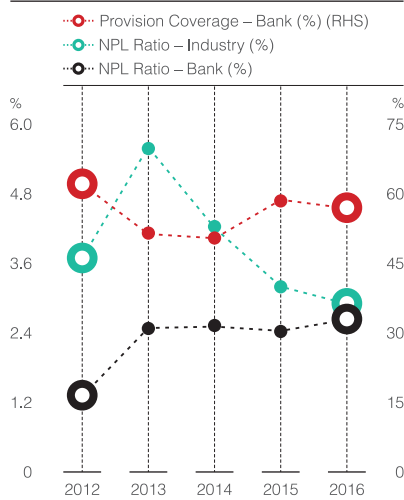
Further analysis on the loans and receivables can be found in Note 25 – Loans and Receivables to Other Customers in page 322 under Financial Reports and in Credit Risk Analytics in page 165 under the Risk Management Report.

Asset Quality

Asset quality as measured by the gross non-performing loan (NPL) ratio was 2.63% as at 31 December 2016. The well-maintained asset quality of the Bank is a result of the strong loan reviewing, monitoring and recovering process of the Bank, which the Bank has perfected over the years.

The NPL ratio of the Bank has historically been below that of the industry.

Non Performing Loans



Customer Deposits

The Bank's customer deposits grew by 10% over the prior year, reaching LKR 204 billion, and crossing the LKR 200 billion mark for the first time in the Bank's history. This landmark in customer deposits was achieved by the Bank in a gratifyingly short period of just over 10 years, since the Bank attained commercial banking status in 2005.

Within the total customer deposits, the rupee deposit base accounted for 78% and the foreign currency deposit base accounted for 22% as compared to 72% and 28% respectively as at 31 December 2015. The positive shift in the rupee deposit base is in line with the Bank's expanding branch network.

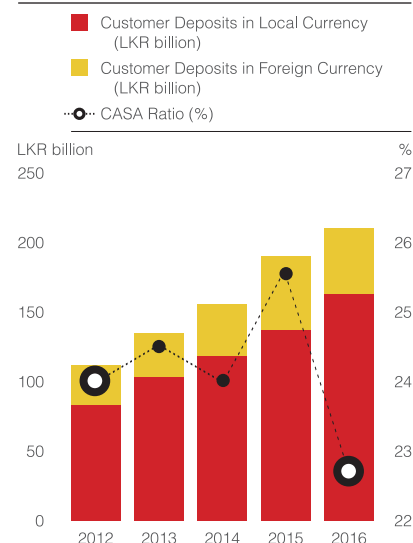
The CASA ratio for the Bank was 22.7% and is relatively low compared to the banking industry averages.

Increasing the Bank's CASA ratio from its current level is a key strategic priority for the Bank. Improving CASA remains a challenge to the Bank as well as the industry at large in an increasing interest rate environment, as depositors' preference largely skews towards time deposits. This skewness is

further augmented by the considerable interest rate gap that prevails between the savings and time deposits in the Sri Lankan banking and non-banking sphere, which will also pressurize the NIMs in the industry.

More details on customer deposits are available on Note 37 – Due to other customers in page 341 under Financial Reports section.

Customer Deposits and CASA Ratio



Capital Adequacy

	Bank		Group	
	2016	2015	2016	2015
Eligible Tier I capital – LKR million	22,404	20,018	29,108	27,154
Eligible Tier II capital – LKR million	8,749	9,596	9,376	10,262
Capital base (Tier I + Tier II) – LKR million	31,153	29,614	38,484	37,416
Tier I capital adequacy ratio (%)	9.31	8.51	11.55	11.07
Tier I & II capital adequacy ratio (%)	12.95	12.59	15.27	15.25

Bank's Tier I capital adequacy ratio for 2016 was 9.31% whilst its total capital adequacy ratio was 12.95%. The same ratios for the Group were 11.55% and 15.27% respectively and are well above the regulatory minimum levels of 5% and 10% respectively, as specified by the Central Bank of Sri Lanka. The Bank is preparing for the migration to the

BASEL III compliance requirement in July 2017. In this preparation process, infusion of fresh capital to support the Bank's growing franchise is a key strategic priority, which the Bank will pursue during 2017.

Currently, the Bank remains well within the new regulation requirement proposed by the Fiscal Budget of the Government for 2017 on the minimum capital of commercial banks of LKR 20 billion.

Please refer pages 186 to 189 under the Risk Management Report for a detailed calculation of the Bank's and Group's capital adequacy levels.

Liquidity

The Bank maintained its liquidity levels well above the statutory requirements during the year. In addition, the Bank maintains liquidity levels to meet the customers' demands for deposits at any given point of time. Liquid assets are deployed, taking into account the profitability implications as well.

The statutory liquid ratios for DBU and FCBU were 21.50% and 22.93% respectively as at 31 December 2016 and were well above the minimum regulatory requirement of 20%.

The Bank also maintains the Liquidity Coverage ratio stipulated under BASEL III guidelines which was, 125.63% for all currency liquidity and 142.53% for the rupee liquidity as at 31 December 2016. The ratios are well within the minimum stipulated ratio of 70% for the year 2016.

Total Shareholder Returns

Total shareholder equity comprising of capital, statutory reserve fund, retained earnings and other reserves as at end 2016 was LKR 24.7 billion at the Bank level and LKR 30.0 billion at the Group level. The Bank's shareholder equity recorded a 9% growth over the prior year. The movement in same can be further analyzed by referring the Statement of Changes in Equity available in the pages 290 to 293 of the Financial Reports section.

The Bank's return on average shareholders' funds (ROE) for the year ended 31 December 2016 was 13.36% with earnings per share (EPS) of LKR 19.19. The same measures for the Group were 9.23% and LKR 16.29 respectively.

Share Price and Market Capitalization

The NDB share closed trading at LKR 156.00 at the end of the year and the Market Capitalization was LKR 25.8 billion.

Please refer pages 128 to 150 under the Investor Relations for a detailed analysis of the performance of the Bank's share and other the key investor performance indicators during the year 2016.

Economic Value Added

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

For the year ended 31 December	2016	2015	2014	2013*	2012
	LKR million	LKR million	LKR million	LKR million	LKR million
Invested equity					
Total equity	24,745	22,701	22,238	19,620	14,942
Add: Allowance for impairment charges for loans and receivable and other losses	6,134	5,517	5,121	4,379	2,972
Total	30,879	28,218	27,359	23,999	17,914
Earnings					
Profit after tax and dividend on preference shares	3,170	3,511	3,418	7,723	2,924
Add: Impairment for loans and receivables and other losses	1,367	712	566	1,238	106
Less: Loan losses written off	14	(34)	(64)	(76)	(67)
Total	4,551	4,189	3,920	8,885	2,963
Cost of equity (Based on 12 months weighted average T-bill rate plus 2% for risk premium)	11.94%	8.63%	10.24%	12.63%	14.02%
Cost of average equity	3,528	2,398	2,630	2,647	2,357
Economic value added	1,023	1,791	1,291	6,238	607

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

Financial Value Added

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.

For the year ended 31 December	2016		2015		2014		2013		2012	
	LKR million	Change %	LKR million	Change %	LKR million	Change %	LKR million	Change %	LKR million	Change %
Value added										
Income from banking services	32,290		24,924		24,518		23,556		19,448	
Cost of services	(20,399)		(14,250)		(13,998)		(15,858)		(13,038)	
Value added by banking services	11,891		10,674		10,520		7,698		6,410	
Non-banking income	992		931		444		6,100		754	
Impairment for loans and receivables and other losses	(1,367)		(712)		(566)		(1,238)		(106)	
Total	11,516		10,893		10,398		12,560		7,058	
Distribution of value added										
To employees										
Salaries and other benefits	3,435	30	3,204	29	2,873	28	2,389	19	2,173	31
To providers of capital										
Dividends to equity holders	654		1,815		1,978		3,222		657	
Interest to debenture holders	2,255		1,840		1,378		95		–	
Total to providers of capital	2,909	25	3,655	34	3,356	32	3,317	26	657	9
To Government										
Income tax	1,003		872		1,213		854		1,023	
Financial Services VAT	904		770		882		911		622	
Nation Building Tax	144		140		147		–		–	
Corporate Insurance Levy	30		23		24		77		–	
Super gain tax	–		732		–		–		–	
Total Government	2,081	18	2,537	23	2,266	22	1,842	15	1,645	23
For expansion and growth										
Retained profit	2,516		964		1,440		4,501		2,267	
Depreciation/amortization	435		370		323		302		265	
Deferred taxation	113		154		127		194		38	
Total for expansion and growth	3,065	27	1,488	14	1,890	18	4,997	40	2,570	36
To community investments										
Donations	27		8		13		14		13	
Total to community	27	0	8	0	13	0	14	0	13	1
Total distributed	11,516	100	10,893	100	10,398	100	12,560	100	7,058	100

Our well diversified customer base is served through an amalgam of dedicated and specialized business units. The contribution of the business units to the overall performance of the Bank are discussed in the section that follows.

PERFORMANCE OF BUSINESS UNITS

OUR BUSINESS UNITS



COMMERCIAL BANKING

PAGE : 52



PROJECT AND INFRASTRUCTURE FINANCING

PAGE : 54



RETAIL BANKING

PAGE : 56



SME BANKING

PAGE : 58



MICROFINANCE

PAGE : 58



REFINANCE OPERATIONS

PAGE : 61



ISLAMIC BANKING

PAGE : 62



TREASURY

PAGE : 63



COMMERCIAL BANKING

The Corporate Banking Division, which contributes 55.4% of the Bank's asset base and 25.8% of its net revenue, encapsulates two main arms, development banking and commercial banking. The services offered, which include a wide range of products, are targeted to satisfy both the short and long-term needs of corporate customers. The focus of the development banking activities is mainly on project and infrastructure financing.

Strategic Focus

The commercial banking arm specializes in providing working capital solutions to the large and medium size corporate enterprises, and the Bank has evolved in a short span of time to become one of the major players in this domain. The expertise the Bank has built-up in commercial banking, project and infrastructure financing, cash management coupled with Islamic Banking has positioned it to offer a unique selling proposition in these lines of business. The unit has also supported Sri Lankan companies to venture overseas including countries such as Maldives, Cambodia, Bangladesh and Uganda.

The Bank always endeavours to align its policies with national growth strategies. Accordingly the Bank's commercial lending during the year was concentrated in sectors such as construction/property development, agriculture (including tea, paddy and related crops), Business Process Outsourcing (BPO) and tourism. However, we did not confine our lending to the large and medium sectors. By facilitating solutions down the entire value chain, through the Distributor Financing and Supplier Financing portfolio, our branch network was able to indirectly reach the rural sector.

Performance

In today's fast moving commercial environment the needs of customers are also dynamic. The Commercial Banking Unit, while maintaining traditional products, has to constantly innovate to keep pace. Products include import and export, guarantees, overdraft, short-term loans and advanced treasury products. During the year the Unit's highly qualified and professional management team, whose skills were topped up with our seamless processes, were able to consolidate the existing portfolio and selectively acquire new customers.

During the year the Bank had to contend with severe competition, not to mention the challenging economic and political environment. In this context, the strategic challenge for the division was to strengthen the relationships while adapting to the changes in the external environment. Despite the unfavourable milieu, the Division was able to consolidate the portfolio and improve profitability. The net interest margins remained stable and fee based income recorded 33% of net revenue which helped sustain overall profitability.

There is a fairly equitable balance in the Corporate Banking asset portfolio between foreign and local currency loans and advances. Declining exports in the apparel industry, the EU ban on Sri Lankan seafood and drop in tea production adversely affected exports. The Commercial Banking asset portfolio was rationalized during the year, whilst its own liability portfolio accounting for 54% of its funding requirement. The CASA ratio was maintained at a very commendable level of 28.2%. The Unit's revenue recorded modest growth of 8% in 2016.

KPI	2016 LKR million	2015 LKR million	YoY Change
Total operating income	3,047	2,816	8%
Profit before tax	1,375	968	42%
Profit after tax	812	581	40%
Non-performing loans	2,039	2,081	-2%
Cost to income ratio	27.9%	27.7%	–
Total loans and receivables	74,483	78,884	-6%

An unfortunate result of the adverse macroeconomic factors has been that our Commercial Banking non-performing loan (NPL) ratio marginally increased to 2.7% from 2.6% in 2015. However, despite this, the NPL percentage remains within acceptable industry standards. It is noteworthy that the NPL ratio of our Commercial Banking portfolio has shown a healthy average of below 3% for over five years. Excellent credit origination methods and proactive administration procedures have helped mitigate the impact of an adverse environment. Adaptation of LKAS 36 on 'Impairment of Assets' on a monthly basis has also helped in timely identification of vulnerable situations and taking remedial actions when required.

Outlook

Along with the overall financial services sector of the country the Bank seeks to adapt its business model to accommodate the changes that took place in the micro as well as the macro environment.

We wish to capitalize on the opportunities in growth sectors such as logistics, construction, tourism and agro business which have been

bolstered by concessions granted to these sectors in the 2017 Budget and Government Policy. Revised economic policies of the Government and the more favourable climate regarding international relations have opened up opportunities for off shore lending and attracting more foreign direct investments (FDI) into the country. The present trend of diminishing interest rates and net interest margins being squeezed as a result, makes it imperative to boost fee based income.

Geared by ISO 9001: 2008-Certified Corporate Banking and Trade Finance Departments, growing portfolio of Islamic Banking business, an electronic banking system leveraging cutting edge technology and an expanded correspondent banking network the Bank's Commercial Banking business looks forward to 2017 with optimism.

Cash Management Unit

Towards the end of year 2015, Cash Management unit was repositioned within the Corporate Banking unit in order to further strengthen the corporate transaction business, whilst continuing to provide its services to the Retail & SME and the Bank's subsidiaries for domestic and cross border payments.

The scope of the Cash Management unit covers the areas of corporate electronic banking, managing of Corporates, financial and institutional relationships, the Chinese Desk and the collection & payments of capital market transactions.

The online banking platform has been further upgraded to serve its Corporate and SME clients to better manage their payments and documentary credits electronically, during the year 2016. As a result of these efforts, during 2016

the Bank was successful in increasing its Corporate Electronic Banking network by over 42%, with a throughput increase in transactions by 36%. We anticipate this trend to continue and the electronic banking delivery will be a key element of our strategy in 'brick walling' our clients and attracting new clients.

Further the unit was able to execute many Escrow deals during the year 2016.

During the year, the Cash Management Unit successfully tied up with the EPF Department for straight through EPF settlement. This enabled the Corporates to settle their EPF payments online. EPF Settlement System (ESS) has been fully integrated with the online web services of the EPF department of the Central Bank of Sri Lanka; the Bank has achieved another milestone as the first bank in Sri Lanka to implement the fully online integrated system for EPF.

In the year 2016, the Cash Management Unit continued to serve as the banker for many capital market transactions.

Further, the unit has been able to strengthen its Chinese business arm and penetrate many of the large to small business entities of the Chinese business segment. The Chinese desk exclusively caters to multiple banking needs of the Chinese business community and has managed to create a unique value proposition in order to capture Chinese industry giants. Significant revenue growth has been recorded along with high customer acquisition.



PROJECT AND INFRASTRUCTURE FINANCING

Strategic Focus

The Project and Infrastructure Finance Division (PIF) executed some key strategic initiatives during 2016 and was able to reap the results during the year. Consolidating the path followed in 2015, the division focused on achieving a profitable balance sheet growth through off shore lending to overseas projects of both Sri Lankan companies and overseas companies. In addition it sought to diversify the portfolio into growth sectors such as construction and power and energy. The focus on domestically funded infrastructure projects was also continued.

Despite constraints arisen from restricted liquidity in the banking system resulting in increasing the cost of funds and stiff competition from other banks offering project financing, PIF achieved an impressive asset growth of 20% during the year. With the rising interest rates during the year, coupled with variable interest rates on assets, PIF division was able to achieve a higher revenue in 2016.

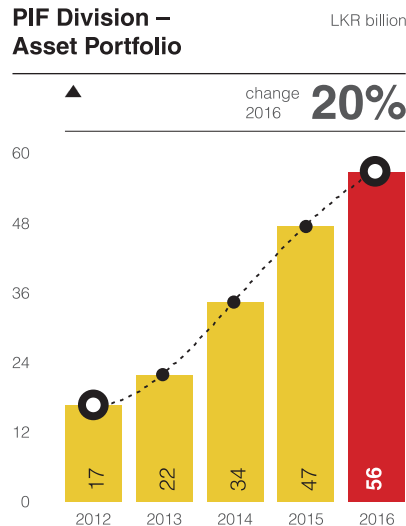
Key Strengths

From its inception, PIF has built trusting and long lasting relationships with its clients through a deep understanding of their business needs. The unit is driven by multi-disciplinary professionals who are well-qualified and experienced. Our organizational knowledge, built over the years through experience in various industries and overseas countries makes NDB PIF the financial partner of choice for companies who are looking for long-term financing. In addition to our core products, we also offer our customers advisory services in legal and certain technical aspects making the Bank's PIF unit, not a mere financier but a valued partner.

Performance

Key outcomes as at end December 2016 of the above strategic initiatives ensured that the unit achieved the following growth.

PIF Division – Asset Portfolio



PIF has sustained a healthy growth in asset portfolio in the last three consecutive years, recording a compounded annual growth rate of 37% which is remarkably above the industry growth rate.

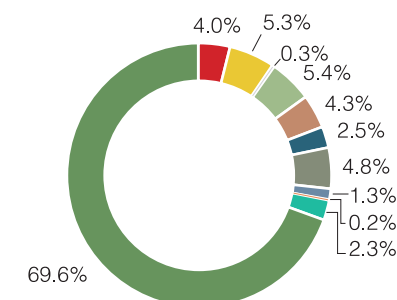
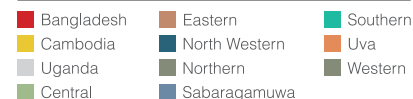
For the second consecutive year PIF has won the award for 'The Best Domestic Project Finance Bank of the Year' at Asian Banking and Finance, Wholesale Banking Awards ceremony. This is a tribute to the role the Bank has played in the Project and Infrastructure Financing arena and shows that it is well positioned to become a dominant player in the Sri Lankan long-term financial services market.

Products on Offer

The Bank's PIF division offers the following long-term financial solutions to its customers.

- Long-Term Loans (in both LKR and Foreign Currencies)
- Islamic Banking Long-term financing products (in both LKR and Foreign Currencies)
- Lease Facilities for Corporates
- Securitization of Future Tea Sales
- Securitization of Lease and Hire Purchase Receivables
- Investments in Listed Rated Debentures
- Investments in Listed Preference Shares
- Offering services as Arranger, Lead Bank in syndications

Geographical Sector Classification



Overseas lending activities have contributed to 9.6% of the total assets of the PIF as at 31 December 2016.

Sector Classification



NPL Situation weakened due to two instances of company specific issues.

Achievements in Year 2016

PIF's major achievements in the year 2016 were:

- Acted as the lead bank for a syndicated facility to finance the development of a major mixed development project, which will greatly enhance the skyline of Colombo in the years to come.
- Spearheaded financing Sri Lankan companies investing in overseas energy projects, particularly in the East African region, by approving a facility to a mini hydro power project in Uganda. This was also in line with the Bank's emphasis on renewable sources in power generation
- Approved facilities to Cambodian financial institutions

The Bank wishes to place emphasis on the alternative renewable sector in power generation and has been working closely with its customers on a number of renewable energy projects locally but importantly in the East African region.

Outlook

Low net interest margins have created a need to improve the percentage of fee based income and tight controlling of costs. Further there is a need to source funds to match long tenure accommodations. PIF recognizing these opportunities in adversity, proposes to face the challenge by exploring high yielding lending opportunities, enabling it to maintain the asset growth momentum of the past.

PIF will also continue to explore new avenues in the domestic market in order to grow the asset portfolio. In line with its environmental consciousness, PIF intends to continue financing power projects that utilize renewable sources, thereby minimizing carbon footprint.

PIF – KPIs

KPI	2016	2015	YoY Change %
	LKR million	LKR million	
Total operating income	815	719	13
Profit before tax	178**	642*	-72
Profit after tax	136	407	-67
Non-performing Assets	862	176	390
Cost to income ratio	37%	38%	–
Total loans and receivables (Including Investments)	55,909	46,709	20

*Includes a provision reversal of LKR 196 million

**Resultant of provisions of LKR 336 million



RETAIL BANKING

The Bank has evolved from being a predominantly development bank prior to 2005, to also being a robust retail bank which it is today. The Bank's personal loan product, 'Dream Maker', has been a major driver in this process, and has secured the leading position in the market. Overall, the Bank has also secured a commendable share of the retail banking market.

Strategic Focus

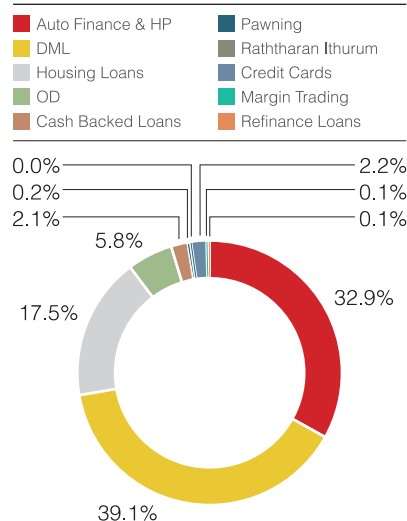
To increase the Bank's reach by the widening of the Branch Network, broad basing retail banking, increased cross selling and promoting products. To further push e-statement and mobile banking to keep the Bank abreast in this digital era.

Performance

During the year under review the retail banking assets remained flat at LKR 54 billion which is a marginal drop from LKR 55 billion in 2015. This has been achieved despite strong loan recoveries in excess of LKR 12 billion during the year. The overall assets were hampered by an increase in interest rates, and the consequent drop in lending. The personal loan product Dream Maker Loans (DML), accounted for 39% and the largest share of the Bank's retail asset portfolio and had a healthy NPL ratio of 1.56%. Leasing

accounted for 33% and had the second largest share with a NPL ratio of 2.31% while housing loans was in third place with 18% and 1.2% respectively.

Retail Asset Portfolio by Products



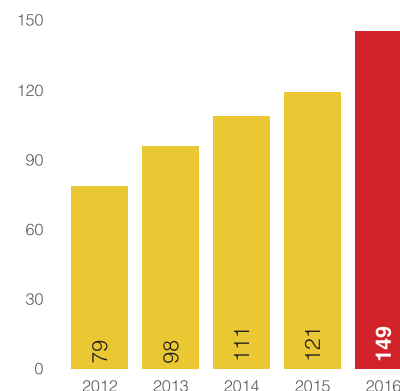
The Bank's deposit rates in the first half of the year were adversely affected by the low interest rates in the market. Even though the deposits picked up in the latter part of the year with the increase in term deposit rates the growth momentum that was hoped for could not be achieved. At the end of 2016 a growth of 23% has been recorded mainly through the term deposits.

Retail Banking – KPIs

KPI	2016	2015	YoY Change
	LKR million	LKR million	
Total operating income	4,293	3,574	20
Profit before tax	252	17	1,423
Profit after tax	145	10	1,363
Non-performing loans	978	991	-1
Cost to income ratio	91%	102%	-
Total loans and receivables	53,497	55,140	-3

Retail Banking Deposits Portfolio

LKR billion



The CASA numbers remain the same; however a drop in the ratio is attributable to the rapid increase in term deposits when compared to the last quarter of 2015.

Outlook

The retail banking outlook for the Bank remains strong with the Bank identifying growth opportunities in credit cards and mobile banking which will compliment the strong franchises in leasing, personal loans and housing. Consequently the Bank is expected to significantly improve its margins and fee income.

The Bank is also focussing in improving its deposit and CASA base using the branch network and new product developments.

RETAIL BANKING – ALTERNATE CHANNELS

Strategic Focus

The alternate channels team was established with a view to porting the conventional banking arena to a digital platform. This initiative has been very successful with the team driving the innovative products and penetrating the emerging market space of e-commerce.

Performance

Mobile Banking

The Bank has broken into the local e-commerce market with its innovative mobile banking solution. This revolutionary application features a multitude of user friendly payment modes and trailblazing features giving it a unique selling point in the financial services industry. The value addition the Bank has achieved by this application

is passed onto customers of varying social levels.

The mobile banking app is also referred to as 'shake banking', given various options it make available to the user, at the shake of the phone. This has become increasingly popular due to its convenience as well as its entertainment aspect. At the South Asian Excellence Awards where the Bank won awards for 'Best Use of Mobile Technology in the Banking Sector' and 'Best Use of Mobile Technology in Financial Services', the unique selling points of our mobile products were recognized. Further the app was bestowed 'The Most Admired Mobile App' by the Asia Pacific Customer engagement forum; endorsing the giant leap it has achieved in its digital journey.

E-statements

Routine banking procedures have also been upgraded through technology. Bank statements have been converted into the individual and corporate 'life style e-statements' which are smart interactive e-statements.

Off-Site ATMs

The Bank has increased customer accessibility by positioning ATMs at strategic locations in the suburbs, while delivering additional touch points to the existing customer base. In the midst of an emerging digital zone the traditional transaction modes are still lucrative in non-urban areas. The Bank's attempt to advance the rural community to the formal banking sector was put to action by installing ATMs at Nochchiyagama, Kurunegala and Mathugama this year enhancing the off-site ATMs to a total of 12.

OFF-SITE ATMS





SME BANKING

In Sri Lanka, as in many developing and emerging economies, small and medium enterprises are the backbone of the economy and their role is vital to jump-starting the economy. Recognizing this, the Bank has from its inception responded to the needs of the SME sector by giving adequate credit.

Strategic Focus

Strategic decisions have been taken to drive the SME banking with a mindset change. The recent retail and SME integration at all branches, promotes aggressive cross-selling. The changes combine wider distribution/delivery of SME products with centralized processing to reap the economies of scale – which are fundamentals to building a successful and sustainable SME business proposition in the Bank.

Performance

Aligned with national priorities, in the year under review the Bank has extended financial assistance to projects in the key growth sub sectors covering tourism, construction, agriculture, manufacturing and the service sector. Taking into account the anticipated growth levels in the tourism industry, the Bank has geared up to face the anticipated demand for infrastructure development. A large number of SME hotel projects in all regions of the country, including in the Northern and the Eastern provinces, have been assisted. Financing has included both capital expenditure and working capital needs.

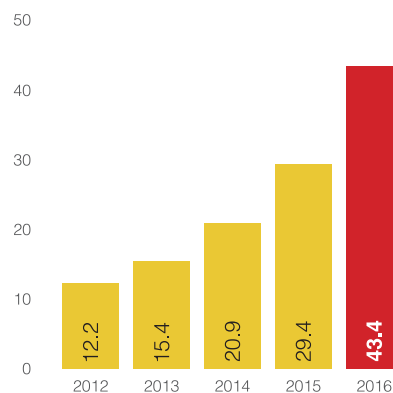
SME Asset Growth

SME – KPIs

KPI	2016	2015	YoY Change
	LKR million	LKR million	%
Total operating income	1,395	1,319	6
Profit before tax	576	640	-10
Profit after tax	324	384	-16
Non-performing loans	1,544	1,080	43
Cost to income ratio	46.2%	36.5%	–
Total loans and receivables	43,472	29,443	48

SME – Loans and Receivables Portfolio

LKR billion



Further the Bank has extensively disbursed the available Credit Lines (at concessionary rates) namely, SMILE III and ADB Funding lines mainly to meet the infrastructure development and working capital requirements of the SME sector.

Outlook

The Bank has well identified the dynamics of SME and involves in designing new and innovative approaches for reaching SMEs. Specially designing appropriate products for SMEs and training bank staff to respond to SME needs. The diversity of available financial products is the strength and understanding dynamics help the Bank to give right advice and the right plan at each stage of an SME's life cycle to supports the future success of any SME business.

The Bank will aggressively focus on the growth sectors specially construction, tourism, agriculture service sector and Manufacturing. Special focus will be given to extend the support to exporters of the country which is vital for the country economy.



MICRO FINANCE

Micro finance has emerged in recent times as a major strategy of grassroots development, in emerging and developing economies. The Bank continues to be supportive of micro finance not only for commercial benefit but also for the social value it can generate.

Strategic Focus

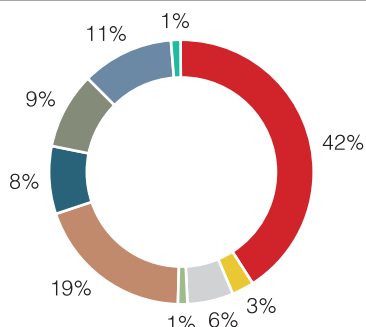
During the year micro finance continued its momentum with emphasis on credit quality and risk mitigation. Through the businesses generated by micro finance we empower women and youth, foster environment friendly businesses and otherwise contribute to the country's development goals. We also strengthened the marginalized section of the economy through non-financial services such as improving financial literacy, management and technical skills training and market linkages. Funding caters to numerous needs ranging from business start-ups, expansions, assets building, working capital requirements and agriculture.

Performance

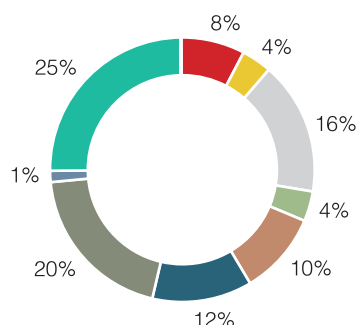
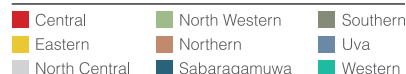
As at end December 2016, the portfolio stood at LKR 328.4 million. Covering 2,334 numbers of clients. Females continued to account for 60% of the micro finance clients. With the passion, commitment and hard work of the staff a YoY growth of 35.4% in the total outstanding loan book has been achieved.

Sector Dispersion and Geographic Dispersion of the portfolio are illustrated below.

Sector wise Portfolio as at 31 December 2016

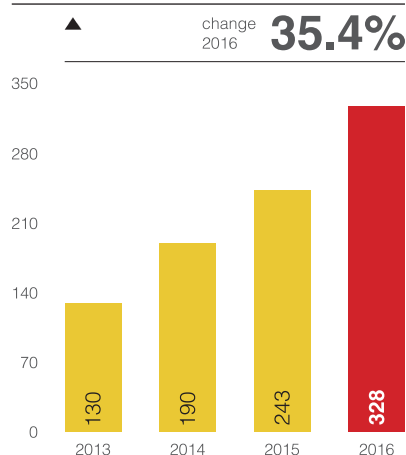


Province wise Portfolio as at 31 December 2016



Portfolio Growth

LKR million



The Bank's Micro finance is connected to rural and marginalized sector through various channels. During the year the Bank commenced the following new channels which recorded highest repayments.

01. Lending through Community Based Organizations

The Bank reaches the bottom of pyramid clients through their societies. The Bank lends in bulk to community based organizations which in turn provide credit facilities to their members.

02. Cluster Based Lending

The Bank has adopted the cluster based approach model which is currently being commonly used by micro finance practitioners. Comprehensive assessments and regular follow ups are conducted in order to ensure proper use of loan funds.

The following examples paint a broad picture of the social and economic impact we are creating through our micro finance lending:

a. The Garment Industry is one of the Largest Export Industries in Sri Lanka

The industry unfortunately largely conforms to the stereotypes associated with globalization in manufacturing: low wages and 'flexible' contracts. Most of the workers in this sector are vulnerable, being young, poor, unmarried and having low literacy levels. Many of them continue to be breadwinners of their natal household and send a significant percentage of their earnings back to their rural families. At financial literacy trainings, it has been unearthed that young female garment workers have a poor ability to manage money and exercise control over their own income. To help them surmount the obstacles that they face, the Bank has tailor-made financial literacy programmes; it also provides micro finance loans

at affordable fees and conditions to procure personal needs particularly for renovation of their rural homes.

b. Promote Export Agriculture

The export agricultural sector is also provided assistance by enabling them to add value to their products and acquire new technological innovations. The Bank is improving the capacity of growers to meet international food safety and hygiene standards and in the process is boosting the export capabilities of the country. This project is being done in collaboration with the Export Agriculture Department. Further, the Bank provides financial support at concessionary interest rates to adopt best practice and international standards of food handling.

c. Encouraging Organic Seed Paddy Cultivation

Another very socially beneficial micro finance initiative is encouraging organic seed paddy farming in Polonnaruwa through our financial services. The organic seeds provided have been highly praised and identified as a national requirement. The Department of Agriculture is collaborating the project and provides guidance for the cleaning and processing of seeds. Financial services were provided to purchase machinery and for cultivation.

d. Continuous Assistance to Empower Rural Entrepreneurs

Another initiative which has been implemented with Citi Bank and the Ceylon Chamber of Commerce as partners, seeks to promote entrepreneurship at the bottom of the pyramid by connecting with underdeveloped settlements in Dadayamkanda, Embilipitiya. This programme endeavours to bring a banking culture to communities which had no exposure to banking whatsoever hitherto.

Outlook

The micro finance initiative of the Bank has been two fold, i.e. Provision of credit and advances directly aimed at livelihood development under '*Divi Aruna*' and Empowerment and capacity building initiatives targeted at financial inclusion.

The '*Divi Aruna*' initiative is aimed at developing livelihood for prospective entrepreneurs who are not within the mainstream of banking. The philosophy also underlies the thinking that, in the economic resurgence that will generate many growth opportunities, with industries like fisheries, agriculture and infrastructure development poised to take off, the improvised and marginalized individuals in the rural sector would miss out, if not given a helping hand at inception. This scheme, which was initiated in June 2010 in the north and the east subsequently expanded to cover other parts of the country synonymous with branch openings and other expansion initiatives.

With the experience gained in engaging the micro finance sector since 2010 the Bank intends to leverage such experiences and systematically grow its business dealings with identified micro finance segments.

In addition, the Bank also aims to promote a savings culture, and to bring the marginalized and the forgotten into the banking stream. The scheme gives the option of saving a specified sum monthly, giving them the confidence to enter the mainstream of banking with value additions such as ATM cards thereby instilling in them a sense of belonging to the community.

SUCCESS STORY

“I started with very little, but I always try to build on what I know ...”

- S H Sri Jayantha, Badanagala.

S H Sri Jayantha is a man with 'success story' written all over him. His hard work and diverse innovative ideas in blacksmith industry have made him one of the most successful entrepreneurs in Polonnaruwa District. He is the pioneer in blacksmith industry in Polonnaruwa and farmers trust his agricultural tools. “Last year, in the Light Engineering division I was awarded the first place in the North Central Province and the third place all-island. As the manual process to heat the steel for forging is a difficult process I had a desire to manufacture an electrical machine for steel forging.

For this purpose I obtained a loan of LKR 500,000 from the NDB Branch office at Kaduruwela. Having repaid this loan, I was able to obtain a further loan of LKR 500,000 to enable me to manufacture forging machines.”

“ A Street Food Vendor at Galle Face Green became a Canteen owner who provides three meals per day for 135 workers.”

- Mrs. Ishari Maduwanthi

Ishari was a street food vendor who commenced her business with one mobile cart at Galle Face Green. A Diviaruna micro finance loan from NDB Bank enabled her to expand to a second mobile cart. With her second loan of LKR 30,000, she purchased yet another mobile cart and developed her finger food business. Ishari's next target was to own a small hotel and move from Galle Face Green. With her 3rd loan, in the year 2016, she was able to acquire the canteen of a multinational construction company, having 135 residential employees. Ishari is providing all three meals for them and her average sales turn over recorded LKR 1.6 million per month. Presently she has created employment opportunities for seven people. “The NDB bank is helping small entrepreneurs like us to build up our businesses. The Bank makes things easy for us, by enabling us to obtain loans quickly and without property bonds. We can also get loans using only two guarantors. I am sure that NDB Bank will continue to help me in the future.”



REFINANCE OPERATIONS

Strategic Focus

Source of finance is a pivotal capital decision when the investors embark on scaling up of their current operations and the concessionary funding schemes get prime attention in this context. The Bank's refinance operations claim a proud legacy and a strong reputation which has left its financial footprint over countless projects across the country creating millions of employment opportunities across its dual role as an apex body as well as a Participating Financial Institution (PFI) for Credit Lines.

During the year 2016, in the context of rising exchange rates, there was great eagerness across the entire range of borrowers to approach concessionary funding schemes. The Bank continued its financial assistance through its network, extending term loan facilities at concessionary rates under its refinancing window and operated the schemes shown below in its role as PFI.

SMILE III Revolving Fund

At present under the SMILE III Revolving Fund, ten Financial Institutions act as PFIs and the Bank granted 92 facilities during 2016. Total disbursements by NDB as at the end of the year was LKR 1.02 billion. This represents 10.4% market share of the SMILE III Revolving Fund which stands LKR 9.8 billion. Currently, NDB is ranked First place among all PFIs for the SMILE III Revolving Fund.

USD 100 Million Small & Medium Enterprises Line of Credit (SMELOC)

This credit line was sponsored by the Asian Development Bank to assist the small and medium enterprises in Sri Lanka and channelled through the Ministry of Finance & Planning. The credit line was officially launched in March 2016, and 10 financial institutions including the Bank, partnered the scheme as PFIs. Credit line introduced a novel concept to

Sri Lanka, where the PFIs are required to bid for the borrowing cost to win the fund at an online auction platform. The Bank emerged the winner of the first auction out of eight scheduled and was awarded USD 12.5 million (LKR 1,821 million). The Bank granted 160 facilities using the funds out of which 19 facilities were granted to women led enterprises and another 24 facilities were granted to first time borrowers on start up projects; these two segments illustrate the social and economic impact of the Bank through the credit line.

Tea Factories Loan Scheme

To mitigate the financial problems the Registered Tea Factories (RTF) were facing, the CBSL launched the loan scheme to help them meet their obligations in spite of the declining prices at the tea auctions during 2016. The Bank, which has long standing links with the tea industry made its contribution to this national effort by assisting 14 tea factories. The Bank released facilities up to LKR 802 million at concessionary rates jointly with the Central Bank of Sri Lanka.

Performance

Name of the Scheme	Project Management Unit	Sponsor	Value of Loans Disbursed (LKR million)	No. of Loans
<i>Saubhagya</i>	Central Bank of Sri Lanka	Central Bank of Sri Lanka	81	44
Small and Medium Enterprises Line of Credit (SMELOC)	Ministry of Finance & Planning	Asian Development Bank	1,821	160
Working capital loan for Registered Tea Factories	Central Bank of Sri Lanka	Ministry of Finance & Planning	802	14
New Comprehensive Rural Credit Scheme (NCRCS)	Central Bank of Sri Lanka	Ministry of Finance & Planning	26	101
SMILE II Revolving	Ministry of Industry & Commerce	Japan International Co-operation Agency (JICA)	911	92
			3,641	411

Outlook

Stemming from the strategic importance of increasing its customer base by granting concessionary loans, in 2016, the Bank increased its refinance portfolio approximately by three folds over the previous year and continues its focus to promote more concessionary funding schemes in 2017. The Bank wishes to partner 'Swashakthi' Micro Finance Credit scheme of the Government of Sri Lanka, an initiative to create 25,000 new self-employment projects by granting loan facilities worth LKR 200,000 and a grant of LKR 50,000 sponsored by the Finance Ministry. The Bank also wishes to partner



ISLAMIC BANKING

Ministry of Industry and Commerce in its E-Friends Revolving II Loan scheme to be launched this year sponsored by JICA. The Bank will also join 'Kapruka' loan scheme of the Coconut Development Board to promote coconut cultivation. Above schemes would back the growth of SME financing and widening of Micro Financing Operations of the Bank to reach its intended growth magnitude. Finally Refinance operations steer its best effort to enhance reputation as a best Participating Financial Institution among external institutional stake holders leading new Re-financing partnerships in achieving sustainable growth prospects of the Bank.

Strategic focus

Islamic banking also referred to as NDB - Shareek is an area that has contributed towards the Bank's bottom line while simultaneously building of social capital during its short tenure of engagement.

Offering of Sharia Compliant products such as Ijarah, Murabahah, Diminishing Musharakahah and Mudarabah for the retail sector have proved to be very popular resulting in 25% of the Islamic Banking portfolio being in the retail sector.

Performance

Despite the volatile markets in the conventional markets in the interest rates as well as the exchange rates NDB – Shareek achieved a commendable performance during the year recording positive growth in deposits and advances while maintaining an extremely low NPL position for the sector.

The success of our Islamic Banking facilities is demonstrated by an important accolade; NDB – Shareek was adjudged as the Best Emerging Islamic Finance Entity of the Year 2015, by Islamic Finance Forum of South Asia and received the Gold Award.

Given our extensive network covering all areas of the country and our comprehensive Islamic banking products and services, the portfolio was well-managed and was able to maintain a NPL ratio below 0.01%.

During the year, we have carried out many customer awareness programmes in areas where there is potential.

The motivated and dynamic team of the NDB – Shareek Unit ably carried out the Unit's vision and strategy to service the customers throughout the Bank's network who desire Shariah compliant products.

Outlook

Given the extensive network coverage in the country, the comprehensive Corporate, SME and Retail banking products on offer supported by the customer awareness programmes carried out in potential areas and by a committed and knowledgeable team NDB – Shareek possesses the capability of expanding in the years ahead.



TREASURY

Market Position

During the second half of 2016 the macroeconomic focus was on building economic momentum and bettering investor perceptions about the country. These hopes were bolstered by the USD 1.5 billion funding pledge from the IMF in June and a USD 1.5 billion dual tranche sovereign bond issue in July. The IMFs Extended Fund Facility (EFF) gave an impetus for increased foreign flows into the debt and equity markets so much so that the Central Bank of Sri Lanka decided not to re-issue two Sri Lanka Development Bond maturities during the second half of 2016. However, the EFF imposed conditions on the country to keep to a promised programme of fiscal reforms. In addition the slowing of economic growth in China, which has detrimental impact on exchange earnings and the lackluster global economic performance, were additional hurdles the country had to face. In mid-February, Fitch downgraded Sri Lanka's long-term foreign and local currency issuer default ratings to B(+) from BB(-) with a negative outlook, citing concerns over increased refinancing risks. However the Country continued its efforts to reach EFF compliance with efforts to broaden the tax base and increasing the value added tax from 11% to 15%, while bringing a broader range of items into the net. Two severe droughts during early and late 2016 and a devastating flood which affected much of the Western Province trading hub in Colombo had a very adverse impact on the economic growth.

With the objective of curtailing above average private sector credit growth the Central Bank of Sri Lanka moved to tighten credit, by raising benchmark rates by 50 basis points in February and July. Consequently, short-term rates

were adjusted upward, with money market rates and benchmark weighted prime lending rates rising throughout the year. The Dollar exchange rate which fluctuated between LKR 145 to 148 for most of 2016, ended the year at LKR 149.80 recording a depreciation of 3.80% for the year. The above mentioned factors contributed to the Rupee depreciation.

Performance

The fluctuations in exchange rates gave an opportunity, which if exploited judiciously, opened up opportunities for foreign exchange trading gains. Exporters and importers sought to gain advantage of the peaks and the troughs to book forward and minimize exposure. The Bank continued to capitalize on its strengths as a dominant market maker providing a range of foreign currency related products such as plain vanilla FX forwards, FX derivatives, dual currency deposits, FX options and FX swaps to the entire spectrum of corporate, retail and interbank clients. The Bank exploited all possible opportunities to reap the fruits of the dynamic market situation.

Buoyed by volatility in both the local USD/LKR as well as the international cross currency market, the FX desk achieved sizeable trading gains recording a trading profit of LKR 645 million, despite the restrictions imposed by the Central Bank of Sri Lanka. Through good customer orientation and building on new relationships the Sales desk also achieved a record revenue of LKR 333 million.

Asset & Liability Management

There was intense competition in the interbank market to accumulate

deposits to fuel above average credit growth. With the deposit rates continually rising throughout 2016, the Asset & Liability Management (ALM) desk focused on supporting the Bank's credit growth amidst a price war. Despite considerable fluctuations during the year in the Government security yield curve, the overall yields movement during the year was upwards. With this background, the ALM unit was able to achieve moderate trading gains, managing the market risk to optimize revenue.

Outlook

The budget proposal to remove the notional tax credit available on Government security investments and increasing the withholding tax from 10% to 14%, created uncertainty in the debt market. Lack of clarity on implementation of the proposals created hesitation among market participants. Federal Reserve raised interest rate by 25 basis points in December which raised the threat of a faster pace of tightening in 2017. Against this backdrop the LKR yield curve is expected to creep up during 2017. Emerging markets are expected to suffer Dollar outflows further exerting pressure on reserves and current accounts. The Sri Lanka Rupee is expected to depreciate moderately within the median witnessed over the past years.

The rising yield curve should have a propitious impact on the balance sheet. The gapping process has been optimized to earn maximum revenue in such a scenario. While a volatile environment can be expected in 2017, the FX desk will be capable of handling any adverse situations that may arise through innovative, dynamic and proactive product and pricing solutions.

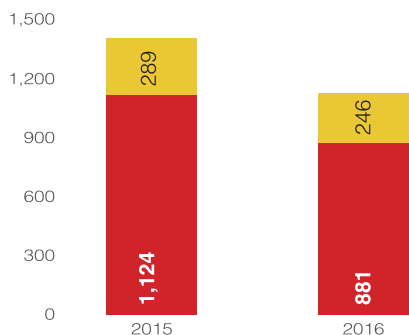
Optimising Synergies... Adding Value

Constant evaluation of our infrastructure allows us to optimize synergies that exist or arise as our business unfolds. A good case in point is our Wealth House where the Group Companies of the Capital Market Cluster with a retail branch were brought under one roof. This significantly enhances product and service experience for our corporate and premier clientele.

ALM Performance

LKR million

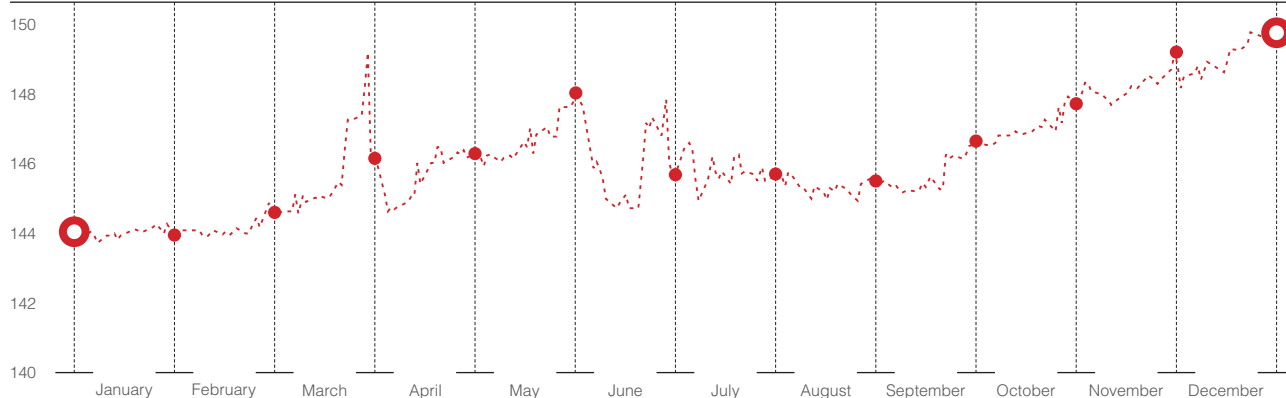
■ Net Interest Income ■ Other ALM Operations



	2016 LKR million	2015 LKR million	YoY Growth %
Other ALM operations	246	289	(15)
Net interest income	881	1,124	(22)
Foreign exchange income	982	1,088	(10)

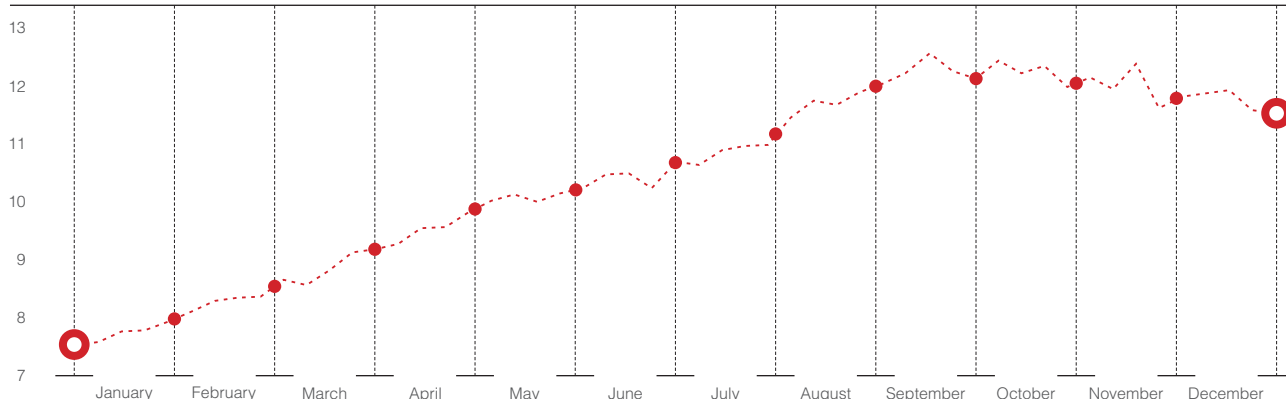
USD LKR Movement

LKR



AWPLR Movement

%





Our capital market cluster plays an industry leader role in the Sri Lankan investment banking sphere. The same is affirmed by the multiple awards which are conferred on our businesses within the cluster.

PERFORMANCE OF GROUP COMPANIES

The Group comprise of the capital market cluster and a company engaged in property management business.

The Capital Market Cluster

The focus of the capital market cluster of the Group consists of fund based and fee based operations related to investment banking, stock broking, wealth management and private equity management. The cluster endeavours to provide a comprehensive range of investment banking and related services to a wide range of clients, both corporate and individual. With a rapidly changing socio-economic environment and competition, constant innovation to keep abreast becomes imperative.

The investment banking cluster of the Group comprised of the following:

THE CAPITAL MARKET CLUSTER



PAGE : 67



PAGES : 68



PAGES : 69



PAGES : 70



PAGE : 71



PAGES : 72



NDB CAPITAL HOLDINGS LTD.

Strategic Focus

The unique strengths and skills of the investment banking cluster of the Bank position it well to be the leading full service investment bank in the country. The cluster 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 brokering and private equity management. The services provided by the Capital Market Cluster has facilitated the Group to be one of the leading integrated financial service providers in the country, with a diversified product and service portfolio spanning both commercial banking and investment banking spheres.

Performance

NDB Capital Holdings Ltd. formerly known as Capital Development and Investment Company PLC (CDIC), was formed in 1983 as a venture capital company. CDIC was subsequently listed on the Main Board of the Colombo Stock Exchange in 1996. Following a restructuring within the Group in mid-2012, CDIC was transformed into a full service investment bank and rebranded as NDB Capital Holdings Ltd. (NCAP).

NCAP and its subsidiaries (collectively referred to as the investment banking cluster or NCAP Group) are strategically positioned to play a key role in the economic development and growth of the capital market of Sri Lanka. NCAP is involved in both fee based operations as well as fund based operations. While the main fee based operations of the company are carried out through its subsidiaries, NDB Investment Bank Ltd. (NDBIB), NDB Wealth Management Ltd. (NWM), NDB Securities (Pvt) Ltd. (NDBS) and NDB Zephyr Partners Ltd. (NDBZ), NCAP directly participates in fund based operations including but not

limited to investments in listed equities, private equity, fixed income securities and structured products.

Business Line Performance

Despite an improvement over the uncertain political climate that prevailed in 2015, local market conditions remained lackluster in 2016. The average daily market turnover of the share market dropped from LKR 1,060 million by the end of 2015 to LKR 743 million by the end of 2016 marking a drop of approximately 30% over the period under review. While NDBS absorbed the direct impact of this drop in market activities, NCAP managed to minimize any losses from its short/medium-term equity portfolios owing to timely changes in the asset allocation decision.

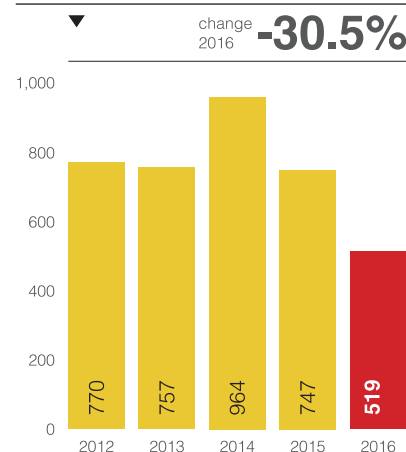
NCAP has not confined itself to commercial activities but has also ventured into CSR activities. An important initiative in this regard is the NDB Capital Scholarship Trust Fund which was launched in 2014. The recipients for this programme are selected through a transparent and conscious process. A number of criteria are considered including financial needs, academic prowess, extracurricular activities and leadership skills. Thus far, 32 scholarships have been awarded to students from local universities. A total service is offered to the students, including career counselling, career development opportunities and internships. 'Be the best you were born to be' by Dhammika Kalapuge is one of such training programmes conducted by the Trust for scholarship recipients in March 2016.

Financial Performance

The Capital Market cluster recorded a consolidated profit after tax of LKR 519 million by the end of 2016.

Consolidated PAT

LKR million



Note: The 2012 profit and net asset value have been adjusted for the one-off capital gain reported from divestiture of AIA Insurance, while that of 2013 is adjusted for the impact on profits due to investment income earned from the aforesaid capital gain due to the divestiture of AIA.

KPI	2016	2015	YoY Change %
Total operating income (LKR million)	1,182	1,513	(22)
Profit after tax (LKR million)	519	747	(31)
Return on equity (%)	9.0	11.8	(24)
Operating profit margin (%)	49.0	55.0	(11)
Net profit margin (%)	44.0	49.0	(10)

Outlook

The Capital Market cluster will concentrate on achieving and maintaining the leadership position in investment banking, asset management as well as private equity management and will focus on being the driving force for capital market development in Sri Lanka.



NDB INVESTMENT BANK LTD.

Strategic Focus

NDBIB is the investment banking arm of the Group offering fee based services ranging from debt and equity raising, corporate advisory services to mergers and acquisitions. Over the years, NDBIB has cemented its position as the market leader for both debt and equity transactions in Sri Lanka.

Performance

NDBIB reaffirmed its supremacy in the capital market by successfully raising LKR 47.6 billion primarily through a combination of debentures, securitizations, long-term debt facilities and equity. As in 2015, NDBIB once again retained its leadership position with a market share of 37.4% in the listed debenture space, outperforming its competition. Furthermore, NDBIB was crowned "Sri Lanka's Best Investment Bank" in 2016 for the fifth consecutive year by the prestigious Euromoney Magazine.

Some of the key transactions executed during the year include the following:

- NDBIB successfully raised LKR 31.5 billion in listed debentures. The debentures raised were predominantly in the banking and finance sector which included Hatton National Bank PLC, Sampath Bank PLC, Siyapatha Finance PLC, People's Leasing and Finance PLC and Singer (Sri Lanka) PLC
- NDBIB acted as the financial advisor for a group restructuring of the Silvermill Group of Companies, enabling the group to segregate its overall strategy and investment decisions from that of operational and tactical levels
- As financial advisor, NDBIB carried out a group valuation exercise and recommended suitable mechanisms for a proposed restructuring within

the Citrus Group, with the aim of unlocking shareholder value

- NDBIB acted as financial advisor to Mobitel in its acquisition of E-Channelling, its maiden acquisition and entry in to the fast growing e-healthcare space. The acquisition was structured by NDBIB who subsequently managed the voluntary offer by Mobitel to the shareholders of E-Channelling
- NDBIB's expertise was sought once again by Sanasa Development Bank PLC on a fund raising that comprised equity, convertible debt and senior debt. Two multi-lateral agencies and a foreign fund have committed to participate in the fund raising of approximately USD 20 million. NDBIB also acted as the financial advisor for a scrip dividend issue of the Bank
- NDBIB was mandated to carry out several independent valuations of companies operating in sectors such as financial services, education, leisure, healthcare etc.
- NDBIB acted as financial advisor and arranger to the structured loan facility of LKR 4.0 billion raised for the LAUGFS Group with the participation of NDB. The facility was for a total tenure of eight years and was raised via different tranches
- NDBIB advised and acted as manager to the Share Repurchases to be carried out by four companies belonging to the Carson Cumberbatch Group, namely, Goodhope PLC, Selinsing PLC, Shalimar PLC and Indo-Malay PLC which amounted to a total of over LKR 13 billion
- NDBIB acted as financial advisor for the de-listing of Equity One PLC and subsequently acted as the manager to the exit offer made by Carsons Cumberbatch PLC to the shareholders of the company

NDBIB – Key Performance Indicators

KPI	2016	2015	YoY Change (%)
Funds raised (LKR billion)	47.60	59.37	-19.82
Profit after tax (LKR million)	122.84	123.81	-0.01
Operating profit margin (%)	53.38	48.85	
Net profit margin (%)	43.31	39.90	
Return on equity (%)	18.98	22.01	

Outlook

With the unveiling of the country's strategic direction, we expect the political stability envisioned in 2016 to materialise in the forthcoming year. The Government's implementation of the Megapolis Master Plan, envisaged listing of state-owned entities and possible raising of debt with various instruments will provide an opportunity for NDBIB to venture into transactions that have the potential to attract larger foreign investors. The heightened interest by foreign investors is expected to create the much needed momentum in the local debt and equity capital market which would enable NDBIB to continue its dominance. NDBIB also expects to leverage on its expertise both in equity and debt space and secure assignments in the region, especially in the Maldives and Bangladesh, in a bid to further enhance its footprint outside Sri Lanka. The core competence of NDBIB remains with its dedicated and innovative staff who are geared to accept the upcoming challenges in 2017.



NDB WEALTH MANAGEMENT LTD.

NDB Wealth Management maintained its leadership position in the wealth management business, in Sri Lanka, in 2016. The true testament of leadership in the business of asset management is the number of clients and the funds under management. At the end of 2016, NDB Wealth had over 6,000 clients and LKR 73.6 billion client funds under management. The capital of LKR 758 million versus the regulatory minimum capital of LKR 25 million indicates the strength of the company and the Group's commitment to the business of wealth management.

The year 2016 was a difficult year, for wealth managers, given the uncertain policy and tax regime. The volatility in the capital and the money market locally was further exacerbated by global factors such as the slowdown in the growth of China, perception of increased credit risks in emerging markets, the Brexit, and the speculation of an interest rate hike in the U.S.A. Moreover, the negative liquidity position in the money market, in Sri Lanka, pushed up interest rates leading to large redemptions by corporate clients. The reduction in the liquidity position in the Sri Lanka Money Market from around a positive LKR 300 billion to a negative of around LKR 50 billion is an indication of the severity of the problem and its systemic impact.

However, NDB Wealth's research driven investment philosophy has helped our retail clients to broadly steer clear of the volatility.

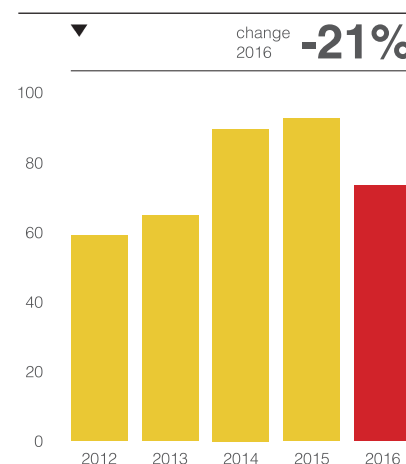
mutual funds to meet the wealth planning needs of the retail mass affluent market. Given the market dynamics and demand, NDB Wealth focused on developing its retail business in 2016. To this end the launch of a new mutual fund, the 'NDB Wealth Income Plus' was a success and helped clients lock in their funds with a target rate set for a year.

Also, NDB Wealth sponsored the 'NDB Wealth Junior Masters Golf Tournament', a 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 local and international. The NDB Wealth 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 NDB Wealth launched a series of wealth plans for kids, a savings plan – the 'KIDS Saver' and an investment plan – the 'KIDS Saver Plus'. Further, the Group introduced a unique financial product to the Sri Lanka market, the 'ONE Account' which combines a current account, a credit card and a Money Market investment account, which converges banking and capital markets. We believe the 'ONE Account' will be a trend setter in Sri Lanka as a product and with new and exciting features being continuously added to provide our clients truly cutting edge banking and wealth management.

Despite the challenging market conditions in year 2016, NDB Wealth posted a profit after tax of LKR 111.3 million for the year ended 31 December 2016. However, PAT has exhibited a decline of 29% in comparison to 2015 mainly due to the decrease in total fee based income from corporates. There was a healthy growth of 52% in investment income over the comparative period due to the increase in the interest rates which compensated the decline in the fee income.

Total assets under management (AUM) declined by 21% to LKR 73.6 billion owing to the withdrawal of funds by institutional investors from the mutual funds during the year; the reasons for which are explained in the preceding section.

Assets Under Management LKR billion



Outlook

Going forward the uncertainty in the tax regime, the low level of liquidity in the money markets, and inconsistent policy may pose challenges in acquiring corporate clients. However, the low level of liquidity and increasing rate of inflation is expected to keep interest rates high which will afford attractive returns to new and existing investors in the fixed income funds managed by NDB Wealth.

Strategic Focus

NDB Wealth continued to offer three distinct services: Discretionary Portfolio Management focused on large institutions such as insurance companies, provident funds and corporates, private wealth management catering to high net worth individuals coupled with a series of risk rated

Performance

KPI	2016	2015	YoY Change (%)
Assets under management (LKR billion)	73.61	92.84	-21
Profit after tax (LKR million)	111.31	157.27	-29
Return on equity (%)	16	26	



NDB SECURITIES (PVT) LTD.

Our investment advisory and securities tradings entity, NDB Securities (Pvt) Ltd., emerged as the Best Stockbroker Research Team in 2016, at the CFA Sri Lanka Capital Market Awards.

Strategic Focus

NDB Securities (NDBS) main business objective is to provide a platform to its strong institutional and retail client base to access the capital market space in Sri Lanka through its listed equity and debt trading platform. NDBS's offerings in this space are topped up with a number of related value added services including state-of-the-art online trading facilities for speedy trade executions, margin trading and other credit facilities through its parent NDB and comprehensive coverage of research to support trading activities. As a short-term objective, the company whilst providing other fee based services has the goal of becoming the premier stock broking company in the country. Further, NDBS is currently working on setting up the platform to embrace the strong integration of Sri Lanka and global investment giants.

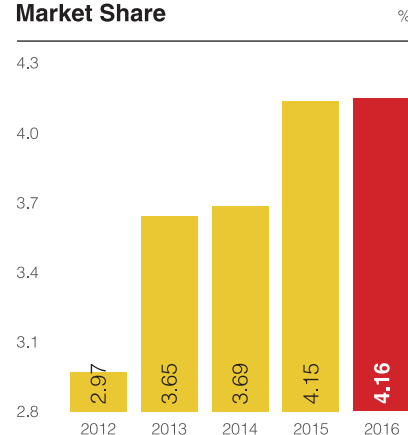
Performance

2016 has been a dismal year for the Sri Lankan stock market. The average daily turnover of CSE plummeted 30.4% from LKR 1.06 billion in 2015 to LKR 0.74 billion in 2016. This has had an adverse impact on NDBS performance with the company recording a marginal loss. However, NDBS was successful in maintaining its equity market share at 4.16%. The company's strong capitalization and stringent risk management strategy aided towards successfully driving the company forward amidst the downturn in the sector.

Despite adverse circumstances, NDBS continued its expansion by continuing to recruit staff as well as not stinting on further training and development of staff. NDBS systems have been continuously updated and evolved enabling it to differentiate itself from the competition. The company further expanded their IT Department by upgrading their servers and systems to the latest technology. Further, the

research arm expanded its services and grew at a rapid pace. Their extensive research reports are read and used by many industry experts both locally and internationally. They were awarded the Gold as the Best Stock broking Research Team at the CFA Sri Lanka Capital Market Awards 2016.

Market Share



Outlook

NDBS takes pride in its business model as a total financial services provider through the group strength which positions it to stand out among the competition. Further, the company is in the process of finalizing strategic partnerships that will further enhance its growth by creating synergies with leading multinationals globally. Towards the first half of 2017, NDB Securities, NDB Investment Bank and NDB Wealth Management will come under one roof which will additionally increase the ease for their clients to do business.

Moreover, we expect the capital market to become more broad based and vibrant in the future to support Sri Lanka's expected sustainable economic growth. NDBS is fully equipped to enter the next phase of growth in the capital markets of Sri Lanka whilst achieving the goal of becoming the leading brokerage house in the country.



NDB CAPITAL LTD. (BANGLADESH)

Strategic Focus

The main thrust of NDB Capital Ltd. (NDB Capital), the investment banking arm of the Group in Bangladesh, in 2016 was infrastructure. Bangladesh has been showing strong growth performance with a GDP growth rate of 6%-7%. The economy, however, has to overcome a number of economic bottlenecks to achieve higher GDP growth rate. The inadequacy in infrastructure, which is currently insufficient to keep pace with the growing economy, is one of these major challenges. The Government, realizing this need, has come up with several infrastructure and LNG projects to lay the foundation for the sustainable economic welfare that the country aspires to.

Keeping in mind the country's vision of reaching middle income status by 2021, NDB Capital took mandates predominantly for infrastructural projects (power, port, etc.) and was instrumental in introducing new products to the nascent capital market. Despite a challenging regulatory environment, NDB Capital successfully raised BDT 1 billion through issuance of Redeemable Preference Shares for Summit Barisal Power Ltd. and Summit Narayanganj Power Unit II Ltd., two new power plants of the country's largest private sector power producer, Summit Group. The Company is also mandated to raise debt & equity of BDT 2 billion for a private sector container terminal port in Chittagong, the country's port city. NDB Capital was also successful in arranging a strategic equity partner from Sri Lanka to set up a JV NBFI in Bangladesh for the reputed corporates of Bangladesh. This venture helped to bring FDI of about USD 10 million into the country this year. Furthermore, NDB Capital is working to raise equity through an initial public offering for a leading pre-fab steel structure manufacturer. NDB Capital for the first

time secured a mandate for raising mid-term funds for a superstore chain through securitization of credit card receivables which will be the first transaction of this kind in Bangladesh.

In addition to raising long-term funds for different projects, NDB Capital raised short-term funds for the top corporates of the country through issuance of commercial papers and more than BDT 12 billion has so far been raised in 2016, though this is a relatively new money market instrument. Since the completion time for such deals is less, a constant flow of revenue was ensured in the first half of the year. In addition, NDB Capital also earned foreign currency revenue in this year too through its overseas corporate advisory services.

Performance

While NDB Capital won quite a number of mandates, unfortunately the high yielding ones could not be completed within the year due to the depressed overall private sector investment mood in the second half of the year. As a result, the company managed to record a revenue of slightly over BDT 30 million only. The company incurred a loss of BDT 18 million. The KPIs are graphically represented.

It should be noted here that NDB Capital has won the prestigious Euromoney award as the Best Investment Bank in Bangladesh in 2016 in recognition of its innovation and structuring of capital market products, which is making a significant contribution to the development of the country's capital market.

Outlook

It is expected that the present excess liquidity in the banking system will last for a few more years, which will pave the way for increased investment

especially in the public sector along with the stable capital market condition. With the huge financial commitments from the neighbouring countries mainly in the infrastructure and energy projects in the public sectors, strong macroeconomic fundamentals and political stability, the near term prospects seem to be encouraging. Having secured mandates for innovative deals and boasting a robust pipeline, NDB Capital is expected to build on the synergies with its parent in order to contribute to the Group's profitability in the coming years.

NDB ZEPHYR

PARTNERS

NDB ZEPHYR PARTNERS LTD. (MAURITIUS)

Strategic Focus

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

The current socio-economic, demographic and political climate as well as the composition of the labour force in Sri Lanka provides an environment conducive for the growth of small and medium-sized companies. NDB Zephyr has identified certain barriers that SMEs face, such as lack of collaterals which limit its access to traditional bank finance and hence hinder the growth after a certain point of evolution. Furthermore, Sri Lankan SMEs currently have limited equity raising options until an IPO, and many SMEs are not ready for an IPO, due to their small size, deficiency in management and lack of best practices of corporate governance.

The Emerald investment team draws on expertise from Zephyr Management regarding the investment process, including deal evaluation, portfolio management and exit management. The Emerald team assists its portfolio of companies in several dimensions such as strategic planning, management

development, effective financial management, corporate governance and improving efficiencies in addition to providing equity capital which would lead to realization of anticipated growth potential. The investment team will also help the 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, NDB Capital Holdings Ltd. and Zephyr. The Fund's investment team will benefit from NDB Capital's profound understanding and experience in the Sri Lankan market.

NDB Zephyr analyses and carries out sector research to select 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

During 2016, Emerald Sri Lanka Fund invested LKR 158 million in Cleanline Linen Management (Pvt) Ltd. (CLM), 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.

The Emerald Sri Lanka Fund also invested LKR 580 million in JAT Holdings (Pvt) Ltd. (JAT), 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.

Financial performance of the company during the year ended 31 December 2016: (in USD 000's) is as given below:

	2016
Turnover	850
PBT	226
PAT	221
ROE (%)	33

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 the 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.

Property Management



DEVELOPMENT HOLDINGS (PVT) LTD.

Strategic Focus

Development Holdings (Pvt) Ltd. (DHPL) is the property management entity of the Group with a co-ownership with the Export Development Board (EDB). DHPL owns and maintains the 16 storied high-rise building situated in Navam Mawatha, Colombo 2, popularly known as the NDB-EDB Tower. The strategic focus of DHPL for the year was to enhance its financial performance whilst maintaining high standards/qualities of office premises given the unique locational value of the building.

NDB-EDB Tower is built with ample car park facilities, a fully-fledged auditorium which can host up to 250 people and a cafeteria. All floors of the building are fully occupied. The tenants are reputed global and local entities which make the Tower a miniature business hub of its own. Some of the occupants are the Bank and the Export Development Board themselves, the International Finance Corporation (IFC), Sri Lanka Export Credit Insurance Corporation (SLECIC) and Microsoft Sri Lanka.

Performance

DHPL reported a revenue of LKR 163 million for the financial year 2016, which was a 5% increase over the previous year. DHPL recorded a net profit of LKR 268 million which was a negative 4% growth over 2015.

DHPL is considered as an investment property as per the current accounting standards and the changes to the fair value is accounted for as revenue. Accordingly, the appreciation in the fair value of the building is a clear reflection of the maintenance and operational expenses incurred for the upkeep of the premises. What is noteworthy of DHPL is that, it has managed to exceed the budgets set for income and profit for the year 2016.

KPI	2016	2015	YoY Change
Revenue (LKR million)	163	155	5%
Net profit (LKR million)	268	277	-4%
Contribution to Group PAS	5%	3.7%	NA

Outlook

DHPL has been in service as a commercial property since 1997, for over 20 years. The recognition it has earned as a strategically important commercial property is demonstrated by the caliber of the corporates who have occupied the property.

DHPL's future orientation lies in further upgrading the property and the amenities offered thereby providing its tenants a strategically advantageous and convenient location for their businesses. DHPL is also geared to upgrade the facilities offered by the auditorium and enhancing revenue via renting out the auditorium around the year.

STRATEGY - EXEMPLARY STEWARDSHIP

To ensure the sustainability of the Bank, it is necessary to practice good governance and build its brand image. Good governance is built on a bedrock of ethics, values and transparency. For this, systems and procedures have to be built, implemented and monitored to ensure that the interests of all the relevant stakeholders are respected and protected. Risks have to be effectively monitored to protect the interests of shareholders and customers. Brand image is nurtured by transparency, ethical conduct and excellence of service. It needs to be disseminated by judicious use of all possible media, and through customer experience.

KEY ACHIEVEMENTS IN 2016

*Ranked 19th
in Business
Today 'Top 30'*

– SRI LANKA'S BEST PERFORMING
PUBLIC LISTED CORPORATE
ENTITIES IN 2015-16

*Won
the Gold
award*

FOR BEST INVESTOR
RELATIONS AT THE CFA SRI
LANKA CAPITAL MARKET
AWARDS 2016

LAUNCHED AN
EXTENSIVE BRAND
REFRESHING CAMPAIGN

OBJECTIVES FOR 2017

1 To enliven our values
in all what we do,
everyday

2 To refresh and enhance NDB
brand value through a novel
marketing campaign

3 To further strengthen
our transparent and fair
procurement policies

VALUES THAT DRIVE BUSINESS

Five core values underpin all our business activities. The values are inculcated into all staff during recruitment, training, performance management and other people

related activities. The milieu in which we operate, including changes in the regulatory environment, investor confidence and society's expectations of banks, constantly bring out the

relevance of our values and the need for our employees to be mindful of them in the execution of their duties in the following ways:

VALUES THAT DRIVE BUSINESS



1. 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 behaviours to our words and taking responsibility for our actions.



2. 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.



3. 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.



4. 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.



5. 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.

CORPORATE GOVERNANCE

Corporate governance is a process used to manage the business and affairs of the Bank and its group companies in order to balance attainment of corporate objectives and the alignment of corporate behaviours with the expectations of society, while being accountable to its shareholders.

Corporate governance includes all systems, processes and procedures of the Bank and its group companies and all oversight committees and other bodies charged with ensuring compliance with such. Managing risk, while ensuring a satisfactory return, is an important facet of corporate governance.

A mindset of good corporate governance permeates the Bank and its group companies at all levels and is extended to business partners.



NDB bank



A Premium Blend... People, Relationships, Ethics

In marrying core values of integrity, excellence, creativity and accountability with people of prime calibre and adding excellence in governance, the Bank builds solid relationships across the stakeholder spectrum.

MANAGING RISK

Group Audit

Strategic Focus

All functions and processes of the Bank and its group companies are independently evaluated by Group Audit, which is a risk-based function governed by the Bank's Board Audit Committee (BAC) Charter and reporting directly to the BAC. Group Audit reports functionally to the BAC and administratively to the Group CEO. The Head of Group Audit has the authority to communicate directly and separately with the members of the BAC and the Management.

All auditable areas/processes are audited annually, based on a risk based plan approved by the BAC. Group Audit provides reasonable assurance to the BAC on the design and effectiveness of the internal controls.

Performance

There is an ongoing process of reviewing the status of Group Audit activities by the BAC.

The audit reports are tabled at BAC meetings, where the Committee discusses the issues raised and action plans given to address the issues and the implementation status. The Committee also reviews coverage of the approved audit plan on a quarterly basis.

Group audit has implemented in December 2016 an Audit Management workflow system to support the Group audit function in line with the risk based methodology.

Continuous Training and Development of Audit Staff

A high priority is given to training of audit staff to ensure that they have the necessary skills and competencies to carry out their duties and are kept up-to-date with new developments. Training is usually carried out on a planned basis; however, when special needs or opportunities arise to acquire additional skills or knowledge, it is carried out on an ad hoc basis as well. In addition, Group Audit encourages and supports staff members to acquire professional certifications to enhance their professional credibility.

Challenges and Future Outlook

It is a continuous challenge for Group Audit to recruit, train and retain specialized and experienced audit staff, while keeping abreast with the new developments and changes in the business model.

Credit Review Division

Strategic Focus

The largest regulatory capital requirement of the Bank is driven by the credit risk and therefore, it needs

to be monitored closely. Two distinct processes are applied at the Bank for pre-credit and post-credit reviews.

The Credit Review Division, which was set up in October 2015, handles two broad areas – Corporate Credit and Branch Credit. There are separate committees dealing with each, manned by senior staff from Credit Review Division and the relevant business lines, and chaired by the Head of Credit Review. Approval limits are assigned as per the Board approved delegated authority limits and representation from Credit Review Division is mandatory on all proposals, whose values fall within committee approval limits.

The Retail Credit Centre, which handles all retail product reviews according to the approved Product Programme Guidelines, also reports to the Head of Credit Review.

Throughout the credit approval process, the Credit Review Division, though organisationally separate from the Business Lines, works closely with them. The contribution made by the Credit Review Division, includes minimising risk and ensuring adequate returns. In the process, the following principles are adhered to:

- Ensure credit is extended only to suitable identified customers who maintain strong standards of ethics and integrity, where source of repayment is known and specific, and the use of funds is well established.

- Review lending proposals according to the risk profile of borrowers and ensuring an optimal risk-return payoff for the Bank
- Ensure identified cash flow sources for repayments either from borrowers' normal operations or other financial arrangements. Recoverability of security value as a fallback option
- Continuously monitoring the overdue position of clients, actions taken for recovery, adequacy of impairment provisions, quarterly review of watchlisted facilities and annual review of revolving facilities
- Risk considerations shall have priority over business and profit considerations.

Key Strengths

The Credit Review Division has a staff strength of 12, subdivided into two teams: one focussed on approval process and the other on monitoring and reporting. All team members of Credit Review Division and Retail Credit Centre have received job-specific as well as personal development training during the year and are well equipped to carry out their duties in a responsible manner.

The Head of Credit Review, who reports directly to the CEO, brings with her 34 years experience in Credit, Treasury and Risk Management which, ensures that a holistic approach is taken in the credit review process. The approval team has a strength of five, all of whom are Assistant Vice Presidents or Senior Managers, with considerable credit and general banking experience.

The Retail Credit Team is headed by a Chief Manager with nearly 20 years experience in diverse fields of banking. Product verticals, such as personal loans, home loans and credit cards are handled by team leaders at Deputy Managers and Associate Manager levels; there is also a post credit approval team for credit administration. Manned by 56 staff members, the Retail Credit Division functions as a centralized processing hub for retail

credit products and accordingly is a strong support function to the Retail Credit Business Line.

Performance

During the year, the following initiatives were taken by the division.

- Introduction of a Risk-Based Pricing methodology across Corporate and SME Business Lines
- Revision of Credit Appraisal formats and alignment of formats across business lines for ease of credit origination
- Training of branch staff on the delegated authority limits in force, management of excesses, credit evaluation and impairment
- Joining Relationship & Branch Managers on-site visits to obtain a better understanding of projects and also to assist in structuring appropriate facilities
- Review of Product Programme Guides (PPG) with necessary amendments based on portfolio reviews, learnings, business line requirements and best practices in the market.
- Integration of Corporate Master (Pre cleared list of Employers for retail products) in order to facilitate all retail products as opposed to product wise clearance and streamlining the company clearance and review process

Challenges and Future Outlook

Adherence to risk based pricing poses a major challenge to the unit in view of the intense competition in the current environment. Expansion in the network and the number of clients impose a need for streamlining the processes. To cope with this, an automated Loan Origination Platform is to be considered to improve efficiency; further training for the staff will also be undertaken.

BUILDING THE BRAND

Having transformed from a development bank to a fully-fledged commercial bank, the Bank has built up a secure niche in the business and financial landscape of Sri Lanka. Its brand is well established both in the corporate sector and in households throughout the country. As recorded by the Brand Finance Lanka's 'Brands Annual 2016' ratings, the Bank's brand was ranked at 19 position within the diverse target audiences of the Bank.

The Bank's leadership remained steadfast in its support and commitment towards the strategic building of the brand Image and keeping it visible, relevant and discernible and possible in a highly competitive market place.

During the year under review, the Bank continued to strengthen its brand presence among relevant target audiences through various channels such as selected television and radio networks, magazines, national newspapers, strategic outdoor locations, branch premises, online and digital media. All advertising, whatever, the media disseminated the unique message of ' Our Commitment, Your Success' which reiterated the strength of the Group – a diversified conglomerate with the ability to deliver multiple financial services under one roof. The numerous product/brand name advertising 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.

An extensive brand refreshing campaign was carried out during the year. A TV commercial highlighting the strength of the NDB brand was developed and the second commercial was developed featuring NDB Brand Ambassador Angelo Mathews and his own father. The latter was created to highlight the element of commitment towards achieving success.



The Bank carried out an extensive brand refreshing campaign during the year, based on the Bank's tagline 'Our Commitment Your Success'.

BUSINESS ETHICS AND INTEGRITY

Our activities are governed by several frameworks, codes and control mechanisms that shape our business ethics and integrity. Our employees are guided by the Bank's Compliance Policy and Code of Conduct; which outlines how they should interact with customers both internal and external.

We deliver the highest standards of service to all customers, integrating respect, efficiency, integrity and suitable protection in all our interactions with them, while bearing always in mind, the appropriate regulatory, contractual and fiduciary responsibilities.

A formal Supply Chain Management Process, which takes into account assessment of suppliers in the context of labour, environmental and social factors, ensures ethics and integrity in relationships with business partners.

SYSTEMS AND PROCESSES

Administration Department

In 2016, the Administration Department of the Bank specially focused on reducing costs by embarking on various initiatives. For this purpose, a four-pronged drive was undertaken, targeting optimizing costs, staff productivity, streamlining of processes and space utilization.

Key contributors were:

1. Cost optimization initiatives: Courier costs were renegotiated with the vendors through the procurement committee and the courier companies were assigned to geographical locations. Further, significant savings were achieved relating to mobile bills, printing costs, paper costs and security costs etc.
2. Productivity optimization initiatives: Reduce delays in posting statements and advices and adhering to internal Service Level Agreements, accordingly,

reducing costs involved and the number of complaints received. The service quality standard of the outsourced security company personnel was improved by providing training internally.

3. Streamlining of Processes: A versatile Inventory Control System was implemented, which brought in cost controls, accurate order placing, and timely deliveries to the users, as well as eliminating stock shortages and write-offs. Further, the process pertaining to fixed asset purchases was streamlined, which resulted in timely processing and delivery of assets. Improvements made to the payment processing system has also resulted in timely payments to vendors as well as ease of reconciliations and maintenance of records.
4. Space Optimization Initiatives: Documents archived at Kadawatha Yard and Kadawatha Branch, were brought in to the common Archiving Service Provider's Location, so ensuring the safety and easy access of such documents.

The staff at the Administration Department, bring with them many years of skill, experience and dedicated service and always strive to maintain highest professional standards in carrying out their function.

Procurement Policy

In order to continue its business activities effectively and efficiently, the Bank and its group companies needs to ensure the provision of quality goods and services at the lowest possible cost in a timely manner. Our procurement procedures are drawn up to ensure transparency and a level playing field for all qualified suppliers to participate in the Bank's procurement process. While ensuring fairness, transparency and consistency in the evaluation process, the Bank also respects the suppliers concerns by maintaining confidentiality of information provided by bidders.

The Bank's Board-approved procurement policy was further developed and revised during 2016 to effectively streamline the overall procurement process of the Bank.

This Board-approved procurement policy, is guided by an eight member procurement committee appointed by the CEO. The procurement process is centralized across the Group, except for Bangladesh operations. The Group procurement process has brought results in terms of cost and quality of goods and services sourced, thereby contributing to two important strategic objectives of the Bank, cost optimization and operational excellence. With the exception of Bangladesh operations, 100% of requirements are sourced from local suppliers.

Outsourcing Policy

The Bank outsources certain professional services, leaving it to concentrate on its core business while the non-core activities are taken care of by external experts. In its outsourcing policy, which has been approved by the Board, the Bank endeavours to

maintain an optimum balance between the quality of human resources utilised and the costs for same. Outsourcing activities are directed by an outsourcing committee.

There are trade-offs involved in outsourcing; while there are advantages, there are also issues of confidentiality, business continuity, quality of work and timeliness. In this respect, the Bank is in full compliance with the Banking Act Direction No. 2 of 2012.

Compliance

The Bank's Legal/Compliance Department has not been informed or pursued any actions where fines were levied in relation to non-compliance 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 and related matters during the year. There were no fines charged or non-monetary sanctions for non-compliance with laws and regulations.

Finance and Planning Department

Strategic Focus

The Finance & Planning Department of the Bank is led by the Group Chief Financial Officer. The Department's expertise spans a number of finance fields including financial accountancy, management accountancy and financial analysis with a number of professionals qualified in these disciplines. The strategic focus of the Department for the year was to make an invaluable contribution to the overall performance of the Bank through a host of support services carried out by the Department.

The Department's scope of engagement extends to the group companies (excluding Bangladeshi operations) since several key finance related functions are centralized at the Department. therefore, the focus of the Department is extended to the group companies, facilitating seamless finance related processes.

Key Strengths

The key strength of the Finance & Planning Department is its qualified, competent and dedicated members. The Department promotes a cross procedural learning culture thereby making its members well versed with all the processes taking place within the Department.

Furthermore, all finance functions are documented in operating and procedure manuals, which ensure continuity of processes.

Performance

The Department completed another successful year, during which it carried out the following key initiatives amongst other things.

1. Performing all regulatory and financial reporting of the Bank in a timely manner
2. Conducting and improving investor relations activities
3. Implementation and execution of the Bank's five year strategy as applicable for 2016
4. Preparation of the Bank's budget for the financial year 2017
5. Facilitating the annual credit rating reviews of the Bank
6. Completion of the centralization of the Group finance function

The Department takes proactive action in ensuring compliance with internal controls relating to financial and regulatory reporting. The internal controls are well monitored to avoid any deviations. These high standards were affirmed in the high audit ratings and low audit queries raised for the Department in internal, external and regulatory audits.

Another highlight of the year was the continuous improvements that were done to the Finance Management Information System (MIS), through which quality analytical information was provided to the Management for timely and efficient decision-making.

Challenges and Future Outlook

The key challenge faced by the Department, is in the area of financial reporting and regulatory reporting guidelines, which keep evolving at a national and international level. The new International Financial Reporting Standards (IFRS) introduced (e.g.: IFRS 9 Financial Instruments) brought demands on the Department's accountants to continuously keep abreast with such developments and their applications. Regulatory reporting is also subject to such developments, especially in the areas of liquidity coverage and BASEL guidelines.

The Department members are continually updating themselves on such developments in reporting, through continuing professional developments by way of trainings, seminars, etc. The Department constantly strives to provide enhanced services, whilst achieving cost efficiencies.

Legal Department

The Legal Department of the Bank provides an important and an integral service to the Bank in its operations, its key functions, being the provision of advice and support on legal matters and legal documentation for the Bank's main functions of retail banking and lending in the areas of corporate finance, project finance, SME and housing.

Key Strengths

The Legal Department is located at the head office and consists of 21 in-house Lawyers. The average experience of a Lawyer is 13.52 years. Legal matters pertaining to branches, except for Colombo and Greater Colombo areas, are handled by external Lawyers retained by the Bank who report to the Legal Department. In certain areas of the country, the Bank has appointed Panel of Lawyers to handle the legal documentation of the Bank.

Performance

The matters handled by the Legal Department include title evaluation of

lands, loan/security documentation of SME, project financing, corporate banking, housing loans, personal loans and leases, drafting, negotiating and execution of all types of agreements, including IT agreements, drafting formats of various banking products and providing legal advice to the Bank and to the branch network on day-to-day legal issues. The Lawyers also assist in structuring of products offered by the Bank.

One of the key areas of focus of the Legal Department, is the function of securing and safeguarding the Bank against legal risks in complex credit financing transactions, particularly in project financing. The Department has developed internal service levels for the security documentation pertaining to project finance, corporate banking and SME and maintains the said service levels with diligence and commitment. All litigation other than litigation relating to personal loans and credit cards are also handled by in-house Lawyers as instructing attorneys whilst external counsel are appointed for litigating matters in courts.

The Department advises, assists and guides the Management of the Bank on compliance with legal aspects in formulation of processes and guidelines, both internal and external.

The Lawyers ensure that they are abreast with new legislation and constantly update themselves with such matters. The Lawyers also ensure that information on new legislation is shared in order to maintain the highest professional standards. Further, the Legal Department apprises and updates the Management with the latest laws and regulations applicable to banking, as well as extending advisory services to the Board when consulted.

The Legal Department also acts as the custodian for a substantial portion of the legal documentation of the Bank. This function includes scanning of documents preparing making inventories and maintaining legal documentation, facilitating timely releases of documentation and

providing copies of the documents at the request of the internal and external customers.

Its tasks include selecting, training, coordinating, supervising and monitoring the new recruits to the Legal Department, as well as retaining external lawyers. The senior lawyers also assist the HR department by conducting training sessions for the new recruits of the Bank.

Challenges and Future Outlook

In 2016, despite the challenge posed by the increased volumes, the departmental staff made every effort to work in sync with the rest of the business units to achieve the goals of the Bank by streamlining the processes which included the revision of the Title Policy of the Bank. All members of the Legal Department strive to maintain the highest professional standards and corporate governance in carrying out their functions.

Centralized Recoveries Department (CRD)

Strategic Focus

In April 2014, the Bank took a strategic decision to set up the Centralized Recoveries Department in order to have special focus/emphasis on the collection/recoveries efforts of the Bank and especially, to proactively manage the Bank's NPLs and NPL Ratios.

Performance

The above move has proved to be an undoubted success across many of the business segments with the NPL ratio ending up at 2.63% by end December 2016.

Key contributors to reduce NPL Ratio are given below:

1. Approximately 1.5% NPL Ratio in the Retail segment, which is far below industry levels.
2. Around 2% NPL ratio has been maintained in Auto Finance products, in spite of the decrease in portfolios especially in recent times.

The Bank continues to improve its recovery processes proactively which has resulted in an NPL ratio which has remained below the industry average.

3. Near total reduction of Pawning related NPLs, despite the declining gold prices.
4. Significant sales of acquired assets during the year.
5. Sound preventive measures taken to ensure the quality of the credit portfolio, curtailing new NPLs, proactively initiating forced watch listing and blacklisting by CRD.

The performance of the above sectors has jointly contributed to mitigate some NPL increases in the Corporate Banking Division (CBD), Project and Infrastructure Finance (PIF) and SME sector.

Key Strengths

The recovery process of the Bank is divided in to six main areas (as given below) under CRD.

1. **Retail Recoveries** – Retail Recoveries Unit is directly involved in recovery of Dream Maker Loans, Housing Loans and Credit Cards of the entire Bank. Retail recovery team accounts for a wealth of experience in the industry and their management team holds over 15 years of experience on average, offering leadership to a dynamic team while maintaining one of the lowest NPAs in the business.
2. **Leasing Recoveries** – Leasing Recoveries Unit is responsible for the collections and recoveries of auto loans, auto leases and hire purchase facilities. The unit has achieved significant success in the last two years in spite of difficult market conditions. The number of acquired vehicles pending disposal has been kept at minimal levels.
3. **SME Recoveries** – SME Recoveries Unit mainly undertakes a co-ordinating and continuous follow up role, among the branches and regional offices in the network. The unit circulates pertinent and timely management information on a regular basis to ensure a quality SME portfolio. The unit takes leadership in striking workable win-win solutions/ deals with delinquent clients.

4. **Pawning** – Pawning Auctions are held at branch locations, where items from several branches are sold in one weekend in one branch.
5. **Corporate and Other Recoveries** – Three members handle the recoveries of the Corporate and Other Recoveries portfolio, comprising mainly of long-overdue facilities transferred from CBD and PIF.
6. **Corporate Banking Department (CBO) and Project and Infrastructure Financing Recoveries** – CBD recoveries are mainly through CBD Relationship Managers in the respective units with co-ordination, follow up and provision of relevant and timely MIS by CRD.

Challenges and Future Outlook

The key challenge for the Bank's NPLs in 2017 will be to regularize a significant portion of the existing portfolio especially the new (2016) NPLs of the corporate sector and that of the SME segment. Sound proactive measures, notably tightening of the granting of credit, will also be taken in respect of the probable NPLs. Further, lending to clients in arrears or in NPL will be critically reviewed as well as the granting of facilities on a clean basis. Legal action, wherever deemed appropriate, will also be expedited up in the case of wilful defaulters.

While the Bank does possess intangible assets, the traditional ‘bricks and mortar’ continue to be important and need to be leveraged to produce value to stakeholders. Manufactured capital includes physical objects or other artefacts that are used in the provision of services by the Bank including buildings, vehicles, plant and machinery, IT equipment and software. These assets are those that are usually directly utilised in servicing customers. The expansion strategy of the Bank, such as opening new branches, naturally creates a need for additions to manufactured capital such as buildings, furniture, IT equipment, and other services directly affecting the customers. Today software is a key component of any service organisation’s competitive edge. The Bank gives utmost importance to continuously leveraging the power of IT to provide more and more value to its customers.

KEY ACHIEVEMENTS IN 2016

11 new
branches

ADDED TO THE
NETWORK

15 new
ATMs

EXPANDED THE ATM
NETWORK WITH 15 NEW
ATMS INCLUDING 4
OFF-SITE ATMS

UPGRADED
E-STATEMENTS
INTEGRATING THE
EXPOSURE WITH GROUP
COMPANIES AS WELL

OBJECTIVES FOR 2017

- 1 To further expand branch and ATM networks
- 2 To further expand the off-site ATM network
- 3 To upgrade the mobile banking platform

We are growing our network sustainably and strategically. In doing so, we are reaching into localities within the country that needs us the most with a bid to empower and enrich the lives of the people in these localities.

BRANCH EXPANSION

Branch Network of the Bank

The Bank added 11 new branches to its growing network, which reached a total of 104 fully-fledged branches. Majority of the branches were opened outside the Western Province, which increased the presence of the Bank in rural areas and across the country. The 100th branch was ceremonially opened at Hingurakgoda, with all branch managers and the senior management team of the Bank gracing the occasion. We expect this aggressive business expansion through our branch network, to continue in the coming year, coupled with our focus to enhance service delivery through cutting edge technology.

The Bank remains dedicated to bringing its customers one step closer to realising their aspirations in life and uplifting their standards of living through the range of services that is accessible by means of its growing branch network. By bringing a gamut of retail banking products including current/savings accounts, fixed deposits, housing loans, pawning services, vehicle leasing, mobile banking as well

as insurance services to the residents of each of these locations, the Bank will help them grow and secure their wealth, while enjoying easy access and convenience of banking with automated facilities such as Visa Debit Cards, Internet Banking and Western Union Money Transfer Services.

Branch Openings

As part of a strategy of growth and expansion, during the year, the Bank extended its geographic reach by further widening its branch network across the island. Opening of new branches was carried out in Hanwella, Narammala, Manipay, Thirunelveli, Chavakachcheri, Mahawewa, Marine Drive, Hingurakgoda, Warakapola, Thambuththegama and Nattandiya during this financial year.

New branch openings were supported by advertising in press and radio, that created NDB brand and product awareness. News broadcasting on national television stations and media coverage on newspapers also built up further publicity for the new outlets, while strengthening the Bank's position as a fast growing financial institution.

New Branches Opened During the Year

Branch Name	District	Province
Hingurakgoda	Polonnaruwa	North Central Province
Thambuththegama	Anuradhapura	North Central Province
Narammala	Kurunegala	North Western Province
Natthandiya	Puttalam	North Western Province
Mahawewa	Puttalam	North Western Province
Manipai	Jaffna	Northern Province
Chavakachcheri	Jaffna	Northern Province
Thirunelveli	Jaffna	Northern Province
Warakapola	Kegalle	Sabaragamuwa Province
Hanwella	Colombo	Western Province
Marine Drive	Colombo	Western Province

BRANCH NETWORK OF THE BANK

104

NO. OF BRANCHES

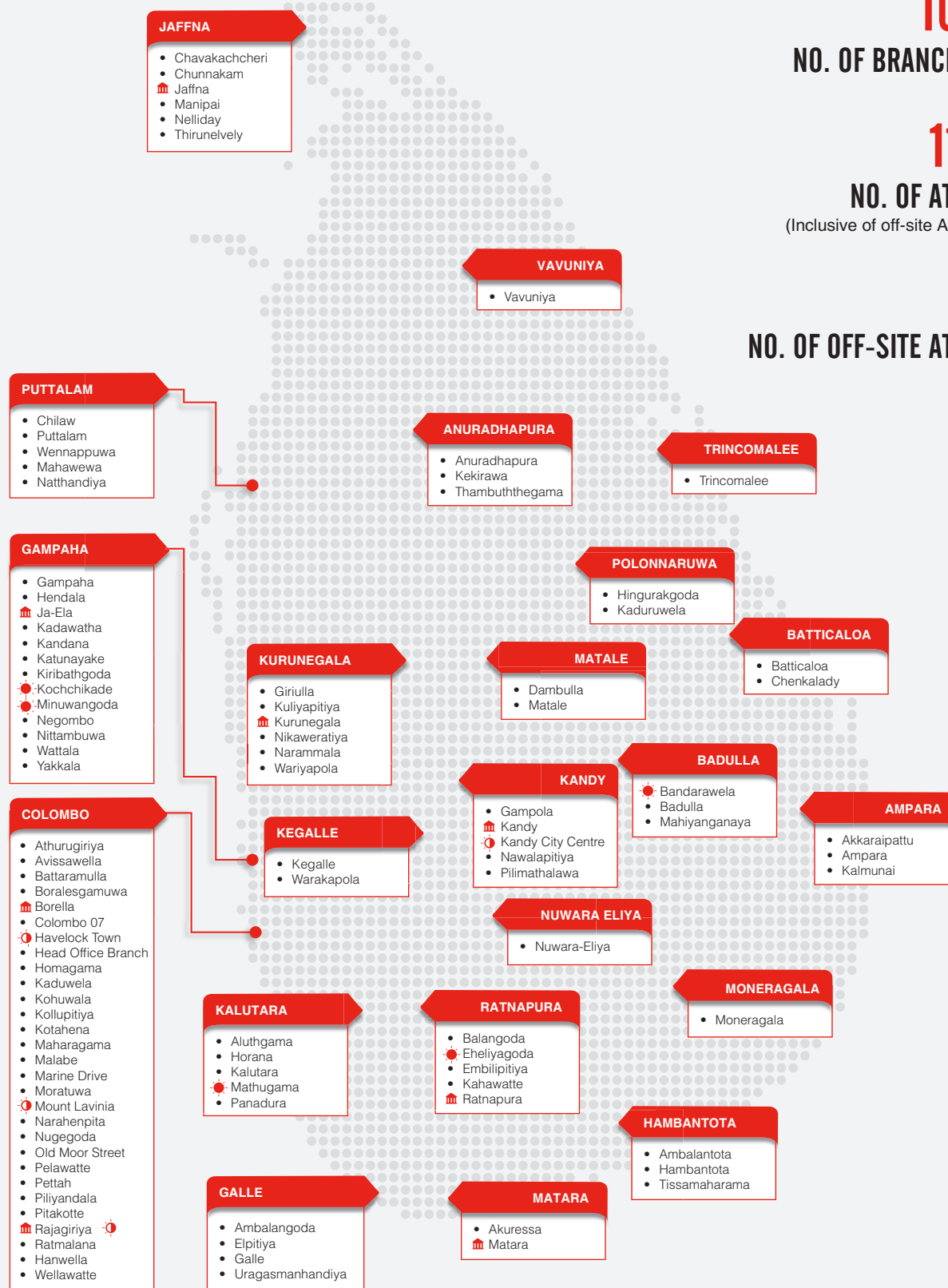
115

NO. OF ATMS

(Inclusive of off-site ATMs)

11

NO. OF OFF-SITE ATMS



Sunday Banking

Regional Office

365 day Banking

GROUP NETWORK

NDB Wealth Management Ltd.

No. 42, Ground Floor, NDB EDB Tower
Navam Mawatha, Colombo 02

NDB Investment Bank Ltd.

No. 40, Navam Mawatha, Colombo 02

NDB Capital Holdings Ltd.

No. 40, Navam Mawatha, Colombo 02

Development Holdings (Pvt) Ltd.

No. 42, NDB EDB Tower (2nd Floor)
Navam Mawatha, Colombo 02

NDB Zephyr Partners Lanka (Pvt) Ltd.

No. 97, Dharmapala Mawatha
Colombo 07

NDB Securities (Pvt) Ltd.

Head Office
5th Floor, NDB Building,
No. 40, Navam Mawatha,
Colombo 02

CSE

04-01, West Tower,
Echelon Square, Colombo 01

NETWORK OF NDB GROUP COMPANIES

NDB ZEPHYR PARTNERS LTD.

173 Court, Bank Street,
TwentyEight, Cybercity,
Ebene, Mauritius
Ms Mateshwaree Mulloo
Tel: +2304673208
+2304674000
E-mail: mmulloo@ifismauritius.com

NDB CAPITAL LTD. BANGLADESH

Bilquis Tower
(5th floor), Plot - 06
Gulshan 2, Dhaka 1212,
Bangladesh

Mr Kanti Kumar Saha
Tel: +880 1755645460/
+880 29888626
E-mail: kanti@ndbcapital.com



NDB Wealth Management Ltd.



NDB Investment Bank Ltd.



NDB Zephyr Partners Ltd.



Development Holdings (Pvt) Ltd.



NDB Capital Ltd.



NDB Securities (Pvt) Ltd.

INFORMATION TECHNOLOGY

Strategic Focus

Technological innovations have opened the door for the banking industry to provide efficient delivery channels. Our banking sector has embraced the use of technology to serve our clients. The progress of technology, the development of worldwide networks and mobile banking solutions are continually driving down the cost of global fund transfers. The global business environment is constantly evolving and information technology has facilitated the banking industry to deal with the challenges the new economy poses. Information Technology systems continue to play a leading role in reinforcing the competitive edge enjoyed by the Bank in Sri Lanka's highly competitive banking environment.

Banks in Sri Lanka are rapidly moving towards introducing mobile banking services in order to cater to customers who perform their banking transactions while on the move. The mobile banking solution implemented by the Bank, will enable it to move forward ahead of the curve, while providing convenient, cutting edge technology enabled banking services to customers. The mobile banking solution runs on any device (smart-phone, feature phones or tablet devices), seamlessly integrating devices through all channels. It provides customers a portal to execute transactions with merchant and utility services providers. The implemented solution is locally based, ensuring that customers can conveniently access the best offers and deals. With the introduction of the Prevention of Money Laundering Act No. 5 of 2006, Convention on the Suppression of Financial Terrorism Act No. 25 of 2005 and Financial Transactions Reporting Act No. 6 of 2006 it is mandatory for the financial institutions in Sri Lanka to comply with requests for information from the Financial Intelligence unit from time to time. Therefore, the Bank has implemented the Anti-Money

Laundering (AML) system to facilitate compliance. It is the paramount duty and responsibility of the Bank to verify the identity and activities of our customers to facilitate establishing the correctness/genuineness of the credentials for extending better customer service.

As part of the infrastructure upgrade and the Business Continuity Plan (BCP), the IT department has successfully implemented the latest Data Domain for a total backup solution. In the process, the traditional tape backup solution has been moved to a disk based backup solution, featuring advanced integration with a leading Backup Enterprise Application. The latest Data Domain has reduced the operational overheads by minimizing human involvement and human error. With the expansion of the branch network, there are demands on the systems to cater to increased volumes, while providing efficient customer service. To cater to this need, the Bank upgraded the wide area network. The implementation of Voice Over IP (VOIP) solution by the Network Management Division, enabled calls received at a branch, to be transferred automatically to the next available extension to provide best customer service through one location. In 2016, the Multifunction ATM has been introduced to improve better customer service by providing the facility of cash deposits and utility payments through the Multifunction ATM.

The role of IT Shared Services (ITSS) at the Bank is threefold, encompassing Project Management, Software Development & Support and Software Quality Assurance. ITSS has completed more than 15 successful projects during the year 2016 and provides seamless support for smooth banking operation.

Performance

The award winning mobile banking system which was launched in February 2016 is strategically aligned with the Bank's objective of providing a great customer experience and promoting environment sustainability. 'Shake and

Bank', the mobile banking system has opened doors to a new era of digital banking, by enabling customers to execute transactions, within a fully secured environment, without being physically present at a Branch.

The products such as Wakala offered through Islamic Banking and HomeSend Remittance Systems, have facilitated opening up new business ventures and opportunities. ITSS considers it the mission of the team, to develop sophisticated and secure solutions to enhance the business capabilities of the Bank and to provide value to customers by supporting new business innovations with determination and enthusiasm.

IT implementations such as EMV, which enable the Bank to secure International Card transactions with high competence and integrity, keep the Bank on par with global standards of banking operations.

Key Strengths

The team is staffed by experienced developers with a thorough knowledge of new technologies and industry best practices, a well-established QA team possessing high analytical skills and in-depth knowledge about all banking processes, a highly enthusiastic support team to address and resolve the system issues in the minimum possible time period without compromising the quality of deliverables, a strong Project Management office (PMO) consisting of qualified Project Managers (PMs) who guide the projects, keeping to internationally approved project management standards.

Challenges and Future Outlook

The Bank is currently enhancing the capabilities of ITSS through strategic and technical training, standardization and quality assurance, in order to face the future technical challenges; it is embracing the opportunities through technical advancement and supporting the Bank's objective of enhancing digital banking capabilities.



Expanding Reach... Promoting Financial Inclusivity

In proliferating our branch network, particularly to rural areas as well as the North and the East, Bank is actively promoting financial inclusivity. In reaching out to the grassroots we are empowering more people across the land.

SHARED SERVICES

Shared Services came into being during the latter part of the year where the processing of transactions under a centralized operations on behalf of business units was consolidated as one hub. The strategic focus is to operate a transaction processing hub with internationally recognized processing standards to handle business related operations and transactions with emphasis on uniformity, quality, efficiency, minimizing rework, timely delivery, duly measuring performance of individuals and teams on a regular basis and fine-tuning to attract a growth in volumes contributing towards non-interest income. The synergies and skills of the existing human resources were utilized to create the human capital for Shared Services.

During the year, in pursuit of the aforesaid goals, the Bank joined the Common Electronic Fund Transfer Switch to facilitate on line real time Sri Lanka Rupee fund transfers between banks in Sri Lanka. In addition, it acquired and implemented a new Cheque Imaging & Truncation System for clearing of cheques and introduced the concept of work-flow to facilitate communications and links between business units and Shared Services related to transaction processing.

It was also decided to deploy a team under Business Process Re-engineering, to review and

recommend operational processes to ensure secure, reliable and robust processing. The results of this initiative are expected in the year ahead.

Work is in progress to engage in the new on line Domestic USD Clearing process, which is expected to replace the current manual clearing procedure and on the online real time payment system for Sri Lanka Customs to effect payment of Customs Duty, Demurrage and other fees on behalf of Import/Export Customers.

With the new tools and monitoring mechanisms in place, it is envisaged that with the data extracted from Shared Services the focus would be to effect changes and introduce new processes to improve outcomes, whereby on the long-term, Shared Services may attract third party requests, both locally and internationally for such services on their behalf.

TRADE SERVICES

Our Trade Finance Department, which is ISO 9001:2008 certified, is staffed with a team of well trained and highly motivated individuals. It continues to provide a high level service for trade related transactions. The team has ventured outside the Western Province, to educate customers and staff on international trade through familiarisation seminars and training programmes. By these

sessions, it is intended to give customers the confidence to initiate trade transactions by themselves instead of relying on middlemen.

Thus, the Trade Services programmes have been linked to the retail and SME sectors, in addition to the corporates. In recognition of the value generated to customers by the Trade Finance Department, the Bank was conferred the award ' Best Partner Bank in Sri Lanka' for the second consecutive year by Asian Development Bank, better known as ADB TFP Award.

SMS OPERATIONS

Strategic Focus

To provide an appropriate level of authorized access to IT applications used by the Bank, ensuring compliance with the Bank's information security policy and facilitating efficient transaction processing, whilst minimizing the possible risk arising from unauthorized access to applications.

Performance

During the year under review the following activities were carried out by the Unit to support the Bank's business:

SMS helped to implement 14 new systems during the year, in addition to existing 33 systems which contains 7,197 user access profiles across the Bank. Further, the user profile

reviewing process was upgraded to enhance and strengthen the application access mechanism.

Key Strengths

The key strength of the Unit is team work, which helps to achieve our expected targets with limited human resources to meet the organization's deadline of 'go live date' of all the implemented banking applications.

Challenges and Future Outlook

With vibrant technological changes, expansion of reach and rapid changes in needs of stakeholders who come from different regions, ethnicities and walks of life and as a result, have different perceptions, cultures, languages etc., we face difficulties with managing access to the banking application; this becomes a critical challenge for all members of the unit.

TRANSACTIONAL AND INSTITUTIONAL BANKING

Institutional Banking

Institutional Banking performs an important role for the Bank by providing the expertise to manage the Bank's relationships with all correspondent banks and remittance partners.

Traditionally, the Bank has maintained broad networks of relationships with correspondent banks. Through the extensive correspondent banking network, the Bank can access financial services in different jurisdictions and facilitate cross-border payment services to their customers, supporting international trade.

However there are growing indications that some international banks providing these services are reducing the number of relationships they maintain and are establishing few new ones. This creates a possibility that cross-border payment networks might fragment and that the range of available options for these transactions could narrow, making this function a more important one than ever.

Despite these challenges, through a focused approach, the Institutional Banking team was able to significantly enhance its global coverage in 2016 to serve its customers better.

Further, the Institutional Banking Team has created a strong reputation for itself among its correspondent banking fraternity, as a reliable local bank for guarantee issuances resulting in higher fee based revenue to the Bank. Looking ahead, the Institutional Banking team will not only look at engaging closely with its correspondent banking partners to improve benefits to the Bank by negotiating better terms with fee based income and cost optimization, but also will establish the Bank as the most reliable local partner for their operations in Sri Lanka.

The Bank also marked an important development during the year as a principal agent for Western Union operations. For the first time, the Bank introduced a daily gift program through its network of branches to reward all recipients of inward remittances, accordingly, increasing customer loyalty and footfall.

Recognizing the value of our Western Union sub-agent network, which continues to play an important role in increasing our coverage, supplementing the branch network, we added a further 286 outlets by tying up with M/s SoftLogic Retail (Pvt) Ltd. and Sarvodya Development Finance Ltd., bringing our current network to a total of 1,158. We also take this opportunity to thank our current partners Singer Sri Lanka PLC, Rural Development Bank, Vision Care Optical Services (Pvt) Ltd. and Union Chemist (Pvt) Ltd.

Adding value to our e – Remittance platform in the current year, the Bank also announced its partnership with HomeSend, a joint venture between Mastercard, eServGlobal and BICS, to offer greater security and convenience to the millions of Sri Lankans resident overseas, who remit money to the country. Connecting the Bank's state-of-the-art e-remittance service to the HomeSend Hub, this arrangement will

allow consumers to credit funds directly to a beneficiary's bank account through a wide network of remittance services around the world.

In line with our vision of being a driving force in the remittance market, we also actively pursue other partnerships to add to our existing network, to offer greater security and convenience to millions of Sri Lankans sending money home from abroad.

STRATEGY - BUILDING THE STRENGTHS OF OUR PEOPLE

The human resources practices of the Bank strive to align the attitudes, skills and competencies of its human resources with the values and corporate strategy and thereby ensure achieving the Bank's goals and objectives. We draw strength from the diversity of our workforce, and provide equal opportunities irrespective of ethnicity, religion, gender and age. Our values of integrity, excellence, creativity, sincerity and accountability are inculcated into all our employees and enable us to deliver value to all our stakeholders.

KEY ACHIEVEMENTS IN 2016

FACILITATED
TRAINING DAYS
PER EMPLOYEE
HIGHER THAN
THE INDUSTRY
LEVEL

MAINTAINED
AN ATTRITION
RATE BETTER
THAN THE
INDUSTRY
RATE

REMARKABLE
ACHIEVEMENTS IN
TERMS OF STAFF
WELFARE

E.G. TOASTMASTERS
CLUB

OBJECTIVES FOR 2017

- 1

To re-validate the Organization Structure to be in line with the revised strategy of the Bank
- 2

To review and implement cost management initiatives
- 3

Enhance employee engagement with new initiatives
- 4

To up-skill and re-skill staff for current jobs and alternate jobs measured through training with a target of 32 hours per person
- 5

To increase operational efficiencies of HR function through automation

STAFF STRENGTH

The HR function strives to make the Bank an employer of choice, creating value for the existing employees by developing their skills and also adequately compensating and rewarding them. The function also aspires to increase productivity and efficiency through simplified HR processes and drive employee engagement through the framework of corporate values. HR vehemently believes that at the heart of the success of the Bank, lie its people and they have to be motivated through a common vision towards achieving the Bank's goals. Accordingly, our HR policy strives to make our people the driving force behind the Bank, in its mission to spread financial empowerment throughout Sri Lanka.

The Bank, has a total staff strength of 2,109, an increase of 7.6% over the previous year's total of 1,960 persons. In terms of locations, this growth is balanced when centre and regional growth is compared. The centre has adequately grown to support the eight regional centres that have been set up. Further, when considering the gender balance, women form well over one third of the workforce, including in management grades. The Bank is proud to state that it comprises of people from diverse social backgrounds, ethnicities, religions and age groups and draws on this diversity as a strength.

As an equal opportunity employer, the Bank recognizes that diversity in terms of ethnicity, gender, religion and age is an asset to strengthen the collective human talent of the Bank.

While they serve to enrich the human capital, diversity arising from hiring locally, helps the Bank to better align its business model to effectively meet the needs of local communities.

Employees in the permanent cadre accounted for 79% of the total workforce by December 2016. The contract staff, who account for less than 25% of the total, have filled only specialized functions. In the last few years, they have manned incentivized jobs with specific reasons. These are mainly sales oriented jobs where Y generation employees who aspire for quick and independent decision-making and concomitant quick gains are recruited. Overall, the contract nature of employment facilitates exits of employees who need not be retained in the jobs continuously.

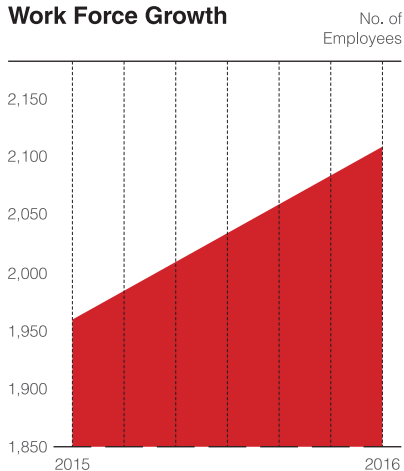
Total Staff by Employment Type and Gender

Category	Number			Composition (%)	
	F	M	Grand Total	F (%)	M (%)
Contract	106	230	336	5	11
Intern	8	4	12	0	0
Permanent	668	1,005	1,673	32	48
Trainee	31	57	88	1	3
Grand Total	813	1,296	2,109	39	61

Total Staff by Grade and Gender

Designation	Number			Composition (%)	
	F	M	Grand Total	F (%)	M (%)
Senior Management	17	24	41	41	59
Management	76	152	228	33	67
Executive	99	227	326	30	70
Non-Executive	553	641	1,194	46	54
Specialized Sales Force	26	180	206	13	87
Other	42	72	114	37	63
Grand Total	813	1,296	2,109	39	61

Work Force Growth



Senior Management by Gender

Category	F	M	Grand Total	F (%)	M (%)
Chief Executive Officer		1	1	0	2
Group Chief Financial Officer		1	1	0	2
VP	6	5	11	14	12
Senior Management on contract		1	1	0	2
AVP	11	17	28	39	61
Senior Management Staff Total	17	25	42	40	60

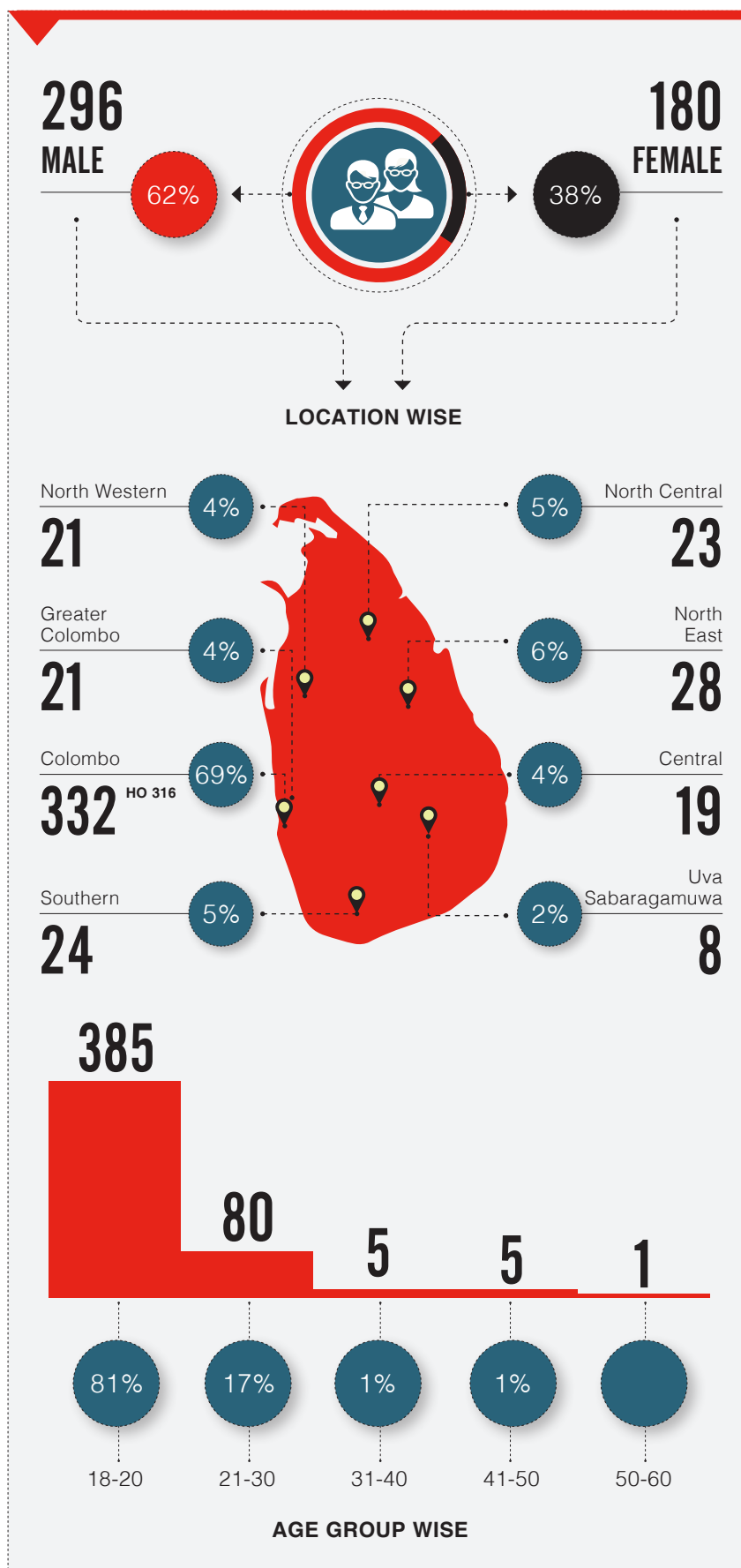
RECRUITMENT

During the year, the Bank continued to grow organically by expanding its Branch network; 11 new branches were added during the year. In addition, 476 new people joined the Bank's cadre. The HR professionals face a continuous challenge to recruit staff of the right calibre, in the numbers needed, in an environment where the industry in general is expanding and there is intense competition for the cream of talent. However, the Bank has overcome this challenge and has succeeded in attracting the right talent for the right jobs in a transparent manner.

The Bank generally follows a policy of filling senior positions by internal promotions as far as possible. Through this process, talent pools of staff are built up at various levels, so that suitable candidates are in place when a vacancy arises and external candidates are recruited only when necessary.

When external recruitment is necessary, the type of personnel sourced are usually school leavers or newly qualified professionals or university graduates. In order to recruit incentivized contract staff, recruitment drives are conducted to recruit Y generation youngsters. The participants are exposed to state of the art assessment methods, which give them insights which will be of great value in their future career development. Recruitment drives are also conducted in academic bodies such as universities and leading professional bodies in Sri Lanka. The Bank has come to an understanding with universities to recruit newly qualified graduates of certain disciplines.

NEW RECRUITMENTS





A Fulfilled Employee... a Fulfilled Customer

As a fair and transparent employer, the Bank takes a holistic view of people development. We look beyond the imparting of skills and knowhow to the moulding of a well rounded personality. Invariably, a happy and fulfilled employee leads to a happy and fulfilled customer.

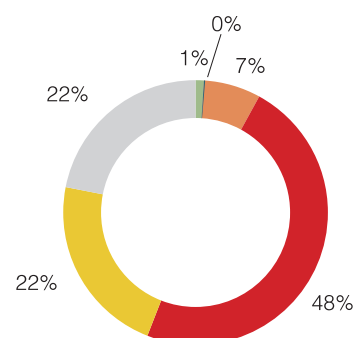
EMPLOYEE TURNOVER

The Bank maintained a very satisfactory rate of staff retention during the year. The overall employee attrition rate during the year, as a percentage of permanent staff, was 6.6. The main reasons for attrition were job opportunities both locally and overseas, migration and personal reasons.

During the year, the Bank lost the services of 110 employees through resignations; of these males accounted for 63% and the age group 31 to 40 years accounted for 48%. It should be noted that of those who took maternity leave, 94.3% of staff returned to work on completion of leave, indicating that nurturing children has not been a significant reason for attrition at NDB.

Recruitments 2016 – By Category

■ Non Executive Staff ■ Management Staff
■ Specialized Sales Force ■ Senior Management Staff
■ Other Staff ■ Executive Staff

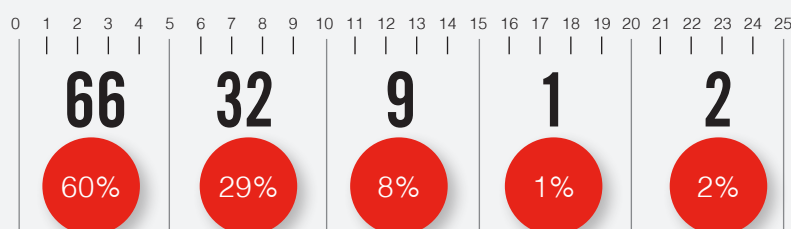


Category	2016					2015					2014					2013				
	F	M	Total	F %	M %	F	M	Total	F %	M %	F	M	Total	F %	M %	F	M	Total	F %	M %
Senior Management	0	2	2	0	100	0	0	0			0	4	4	0	100	1	0	1	100	0
Management	3	8	11	27	73	1	18	19	5	95	5	7	12	42	58	3	4	7	43	57
Executive	7	17	24	29	71	6	11	17	35	65	7	12	19	37	63	4	8	12	33	67
Non-Executive	31	41	72	43	57	17	27	44	39	61	27	29	56	48	52	21	23	44	48	52
Specialized Sales Force	0	1	1			1		1	100	0										
Grand Total	41	69	110	37	63	25	56	81	31	69	39	52	91	43	57	29	35	64	45	55

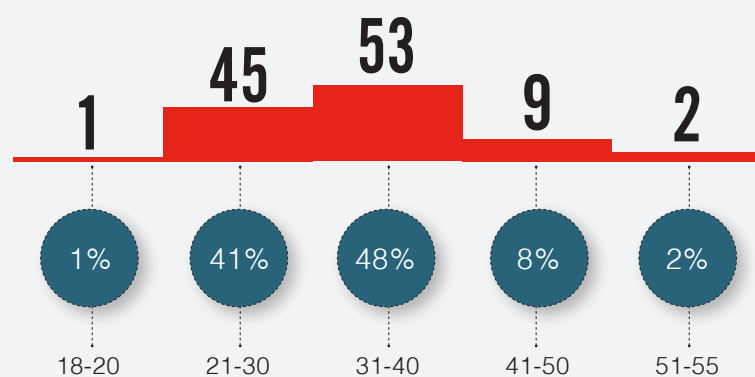
RESIGNATIONS



SERVICE PERIOD WISE



Reason	No of Employees	%
Job opportunity Local	61	55
Migration	13	11
Not Disclosed	17	15
Family responsibilities	5	5
Limited Career advancement opportunities	4	4
Inadequate pay and benefits	3	3
Unhappy with employment conditions	2	2
Higher Studies	2	2
Job Opportunity - Foreign	1	1
Personal reasons	1	1
Pursuing New Opportunities	1	1
Grand Total	110	100



AGE GROUP WISE

Parental Leave

Total number of employees who were entitled to parental leave, by gender.

813 female employees

Total number of employees who took parental leave, by gender.

53

Total number of employees who returned to work after parental leave ended, by gender.

50

Total number of employees who returned to work after parental leave ended, who were still employed 12 months after their return to work, by gender.

50

BENEFITS MANAGEMENT

With rapid staff expansion, benefit management is a challenge. HR policies have to be crafted to minimize attrition. Compensation policies have to be tailored to be competitive with the rest of the industry, to maintain parity and fairness within the organization, not to mention controlling costs. During the year, the staff received several benefits of a monetary nature. These included increase in the subsidized staff loan entitlement and benefits in terms of allowances for certain categories of staff.

Benefits	Permanent Employees	Contract Employees
Guaranteed Cash & Allowances		
Fuel/Travelling Allowance	Applicable	Applicable
Accommodation Assistance, Cashiers Risk, Weekend/ Holiday Banking Allowance	Applicable	Not Applicable
Leave Pay/Holiday Allowance	Applicable	Not Applicable
Job Specific Allowances	Applicable	Not Applicable
Variable Pay		
Performance Bonus	Applicable	Not Applicable
Sales Incentives	Applicable	Applicable
Overtime	Applicable	Applicable
Reimbursable Expenses		
Subscriptions (professional & club)	Applicable	Not Applicable
Educational Assistance (MBAs)	Applicable	Not Applicable
Other Perquisites		
Holiday Bungalow/Annual Trip	Applicable	Applicable
Medical Insurance Scheme (OPD, In-house, Life, Personal Accident Cover)	Applicable	Different scheme applicable
Leave	Applicable	Applicable
Parental Leave (Maternity)	Applicable	Applicable
Cafeteria, Gymnasium, Library	Applicable	Applicable
Toast Masters Club	Applicable	Applicable
Recreation Club	Applicable	Applicable
Disability and invalidity coverage	Applicable	Applicable
Subsidized Loan Benefits		
Housing, Vehicle, Sundry Loans	Applicable	Applicable with conditions
Share Ownership plans		
Employee Share Ownership Plan	Applicable	Applicable with conditions
Retirals		
EPF/ETF/Gratuity	Applicable	Applicable

TRAINING AND DEVELOPMENT

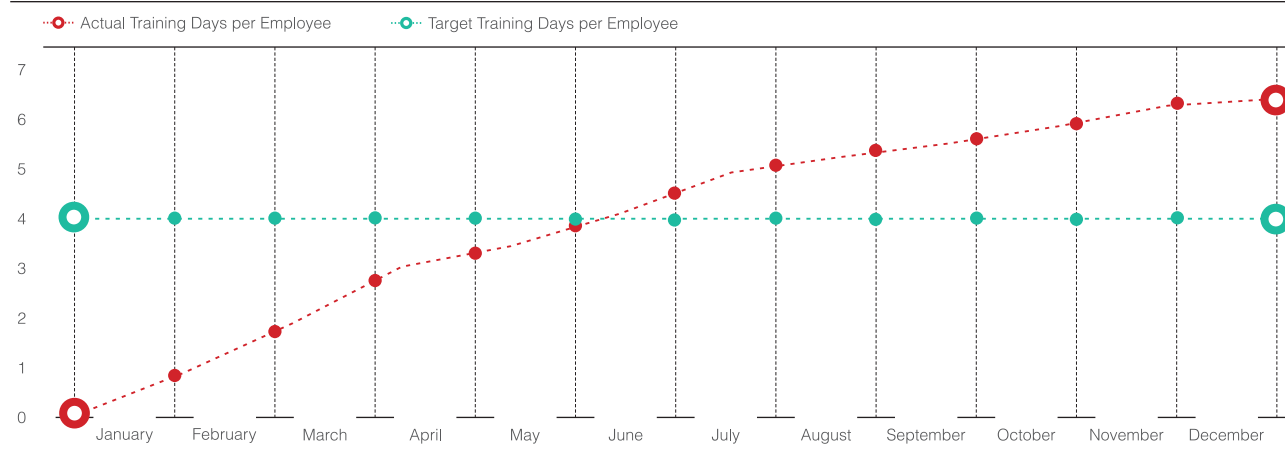
A monthly training calendar is shared with staff members at the beginning of the month, encouraging them to give feedback and participate in the development process. During the year under review, 353 training programmes were conducted for staff, with an employee receiving 6.42 training days on average. This average does not include hours spent on E-learning training, the Bank's inhouse electronic learning platform.

Training Days for each Employee

The Bank has acquired a strong reputation for its stress on education and training of employees. Since it is not practical for the Bank to provide all training needs from internal resources, where appropriate, the Bank has entered into partnership agreements with other organizations to facilitate in-house training. The partnership organisations include the Institute of Bankers of Sri Lanka (IBSL), the 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, providing them an opportunity to obtain professional qualifications. E.g. Diploma in Credit Management, Certificate for

Average Training Days 2016

Days



Branch Banking Operations. Depending on need, the programmes may be off-the-shelf or customised to suit the needs of the Bank. There is no doubt that these qualifications have facilitated personal growth and development of the members of the NDB team, as well as uplifting their morale and strengthening their commitment to the organization.

The Bank has drawn up a systematic process to identify training needs and draw up training programmes. Information obtained from annual performance review appraisals, training needs assessments at the beginning of each year and regular discussions with line managers are the inputs to identify training needs. Training programmes are prioritized, taking into account operational urgencies or the need to mitigate competency gaps. The thinking behind the Bank's training policy is to be proactive, and ensure that employees are capable of facing up to any challenges and unforeseen changes in the industry/environment. Some examples of such programmes are Best Practices for Bank Tellers, Special Branch Banking Operations for non-branch staff.

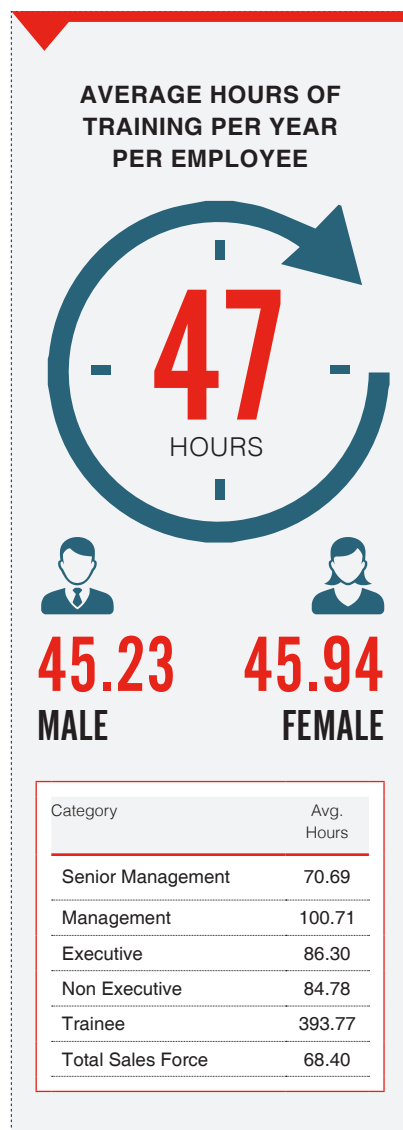
In terms of reinforcing learnings, the Bank has embarked on some unique initiatives. It is mandatory for all new hires to go through two behavioural change programmes aimed at inculcating the values of the Bank ; one done at the Induction Programme and the second after serving the organisation for one year at the 'In retrospect' Training Programme. The 'In retrospect' programme endeavours to give the employees who have served for one year an opportunity to reflect on their experience and is designed around the theme 'Living OUR Values'. The team building activity of the training programme is also designed to instil these key elements of our values in staff.

Training programmes are not restricted to those offered by local institutions but include those conducted through affiliations with foreign training bodies

such as Euromoney, Marcus Evens, CRISIL, India and Singapore Institute of Management. Methods such as evaluations, presentations are built into re-instating learnings from foreign training. We conduct a diversity of programmes to give exposure and disseminate knowledge to our staff. Short evening presentations, done by eminent speakers who are pioneers of various industries, including those drawn from our customers, and also by volunteer staff members, are included in the annual training calendar in order to add variety and interest.

During the year, the Bank invested LKR 45.2 million to provide a total of 98,970 person hours of training across all categories of staff.

TRAINING HOURS



Self-Learning

NDB e-Learning platform provides the opportunity for employees to educate themselves, learn at their own pace and convenience irrespective of geographical locations, with no interference to their work responsibilities and with real time evaluations. This enables the employee to take ownership of his own training and development. The platform will not be restricted to operational and technical subjects but will cover soft skills as well. In addition, various other materials from newspaper articles, articles published by employees of the Bank, local training programme contents on various subjects etc are included. The e-learning platform boasts more than 34 modules, where almost 100% of staff have satisfied their learning needs by using these modules.

The study policy framework at the Bank is designed to equip personnel with the knowledge and skills to cope satisfactorily with present and future duties, by giving them the opportunity to develop themselves through a structured methodology, based on identified knowledge requirements of the Bank. The Bank supports the continuous development of its employees who take an initiative to develop themselves. Any employee who wishes to undertake a study course towards obtaining a work related qualification, a degree or equivalent qualification, is given an opportunity to do so on the basis of experience, service period and the level of responsibility in the organisation.

DIVERSITY AND EQUAL OPPORTUNITY

We take pride in the fact that our workforce is extremely diverse in terms of ethnicity, religion, social background and gender. We practise a strict policy of non-discrimination on any of the above criteria. This applies to all aspects of our human resources policies including recruitment, appraisals and promotions. We strongly believe that our policies of equity of treatment have contributed to a high

To ensure we are on the cutting edge of customer service, we need our staff not only to have all required technical skills but also to be passionate, accountable, professional and ethical.

degree of staff retention. Further, our practise of recruitment from local communities throughout our network, whenever suitable persons can be found, have contributed to leveraging our business practices with local knowledge.

Gender Equity

Approximately 40% of our workforce are women, including at senior management levels. This confirms the fact that we walk the talk when it comes to gender equity. As with the other criteria mentioned above, there is no gender bias in performance reviews and rewards. The fact that around 94.3% of staff who availed themselves of maternity leave returned on completion of their leave, and practically all of them remain at the Bank after another one year is clear evidence of the fact that our women employees consider themselves fairly treated.

Designation	Average basic salary ratio, Female to Male	
	F	M
Senior Management	1	1.08
Management	1	0.91
Executive	1	0.98
Non-Executive	1	1.07
Specialized Sales Force	1	1.03
Other	1	1.83
Total	1	1.06

Region	Average basic salary ratio, Female to Male	
	F	M
HO – Colombo	1	1.00
Region 1 – Colombo	1	1.34
Region 2 – Greater Colombo	1	1.21
Region 3 – Southern	1	1.49
Region 4 – North Western	1	1.25
Region 5 – North Central	1	1.60
Region 6 – Central	1	1.50
Region 7 – Uva Sabaragamuwa	1	1.46
Region 8 – North East	1	1.59
Total	1	1.06

REWARDING PERFORMANCE

Compensation and rewards at senior management levels need to be tailored to their roles and how their contribution can be judged. A new Employee Share Option Scheme was introduced in 2016, for the employees ranking at and above Senior Manager and the Chief Executive Officers of the Group. Persons in these categories will be entitled to share awards based on the performance of the Bank, the Group and the designation and performance of the individual.

Employees Receiving Regular Performance Reviews

Designation	F	M	Grand Total	F (%)	M (%)
Senior Management	17	24	41	41	59
Management	76	152	228	33	67
Executive	99	227	326	30	70
Non-Executive	553	641	1194	46	54
Specialized Sales Force	26	180	206	13	87
Other	42	72	114	37	63
Grand Total	813	1,296	2,109	39	61

Collective Bargaining

Although the Bank does not have formal collective bargaining agreements, it follows an open door policy and has mechanisms through which, any employee may voice his or her grievances and receive a fair hearing. Any employee may follow this procedure without any fear of reprisals.

When any major operational changes are in the offing, employees are given adequate notice of the changes and their impacts. This will contribute to reducing any adverse impact on staff morale as a result of such changes. The Bank offers approximately two weeks notice prior to such changes.

Occupational Health and Safety

The Bank takes a holistic view of the employees well being. We believe that a healthy body and a healthy mind will have a positive impact on their professional and personal lives. A number of initiatives are in place to improve the health, safety and well-being of the staff. The Bank offers a diverse range of recreational activities and programmes to help employees pursue their interests, find ways to unwind and achieve work-life balance. These include the comprehensive gymnasium, aerobics, yoga, social dancing sessions, NDB Health Week and Work-Life Balance Week. These awareness sessions, health screening and check-ups have been truly beneficial to the employees as well as their family members.

The HR Department of the Bank also provides counselling services which are conducted very confidentially and are structured appropriately. Counselling is conducted by specially trained counsellors who are on the staff of the HR Department. However, they are supported by an external professional psychiatrist and are also assisted by other external experts. Depending on the context and employee preference, the staff members are directed to an appropriate counsellor.

Employee Engagement

The Bank has many mechanisms for employee engagement and communication. Constant communication from senior management to wider staff is vital to keep employees motivated. Town Hall meetings, where the CEO addresses the staff members regularly, are aimed at keeping the staff aligned with the strategic goals and making them focused through direct and clear communication. The CEO also communicates with staff through email and shares important news, achievements and strategic changes of the Bank, to increase awareness of the workforce. In addition, the CEO of the Bank has commenced a process whereby he communicates to all staff the principles pertaining to compensation and increments and variable pay details. He also discloses

the senior management's performance evaluation principles to bring about more accountability and responsibility. Thus constant communication between employees of the Bank is a clear channel of strengthening employee engagement at the workplace.

In order to provide employees a wider range of cross-functional exposure, open up wider future career options as well as help them appreciate each other's functions, the Bank has created cross functional teams at various levels. At the strategic level each function is supported by a cross functional team. Further, for special projects, team members are selected across the organization from various units and are given specific tasks. An example was the revamping and re-launch of the Bank's vision, mission and values. The Bank has also initiated the practice of having open 'Q & A' sessions, where staff members may voice any concerns they have regarding an existing laid down process and/or Bank policy. The concerns will be heard and answered by the senior management team. Such sessions are held concurrently with the Branch Managers' meetings.

In-line with the Bank's belief that personal development strengthens employee engagement, in turn leading to professional excellence, the Bank initiated the NDB Toastmasters Club in 2013 and joined the Global Toastmasters fraternity. This has helped many to improve their oral communications, while placing them on a better footing to participate in professional forums. The Club has acquired strength through wider participation; many branch members also participate in addition to Head Office staff. The strength of the Club is demonstrated by the fact that it has won many accolades, including three international Awards.

Camaraderie, togetherness and team spirit are fostered through the events organized by the Staff Recreation Club (NDBSRC). The calendar of events organized during 2016 by the NDBSRC included sports days, celebrating religious events of all religions such as Vesak, Ramadhan, Thai Pongal, Christmas and staff trips to which families are also invited. The Bank

strongly encourages the participation not only of the employee but the family of the employee as well. It is strongly believed that positive sentiments about the Bank among the families will contribute towards producing a happy and engaged employee.

'Skillart' music group is an internally formed group of employees, where music and singing is used to help our team members relax and motivate them. It is this internal group that entertains at the Bank's internal events and customer gatherings as well.

Grievance Handling

Good labour practices and proper grievance mechanisms are essential to maintain healthy labour relations and improve productivity. Effective Human Resource practices, which are embedded into the HR Policy, as well as specific job descriptions which spell out to each staff member his duties and responsibilities clearly, are implemented through a structured approach.

Staff grievances are a major potential cause of reduced morale. Therefore we endeavour to address staff grievances promptly. There is a clearly laid down procedure, through a Grievance Handling Policy, for employees to have their grievances heard and resolved in a prompt, methodical and fair 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 and make them feel they have been fairly treated. While the Bank will endeavour to provide such an environment, the employee may raise specific grievances or complaints, where there is a cause.

The newly formed Employees' Association is another channel through which individual and collective staff grievances are escalated.

During the year under review, grievances have not been reported through external sources.

Good communication is vital and the Bank has an open door policy where employees can communicate even with the CEO.

The fact that customers are our lifeblood is the cornerstone of our product development and marketing strategy. We are in an industry that is fast changing and evolving, and there is a constant need to stay abreast of developments and surpass competition. We have a vast customer range; including micro-entrepreneurs, middle class individuals, SMEs, high-net-worth clients and large corporates. Our products and services have to be tailored and customised to cater to this tremendous diversity. As our core philosophy is based on sustainability, we have to be constantly conscious of social impacts; those of our own actions and those of our clients.

KEY ACHIEVEMENTS IN 2016	Customer Capital	Social Capital	Suppliers and Business Partner Capital
	100% COMPLAINT RESOLUTION LAUNCHED A NEW MOBILE BANKING APPLICATION WITH EXCLUSIVE FEATURES	A TOTAL OF 193 SECONDARY ENGLISH LANGUAGE TEACHERS TRAINED; IMPROVING THEIR KNOWLEDGE AND TEACHING SKILLS CKD SCREENING PROGRAMMES CONDUCTED IN 30 RURAL VILLAGES IN ANURADHAPURA	A CORRESPONDENT BANKS NETWORK COVERING 96 COUNTRIES
OBJECTIVES FOR 2017	Customer Capital	Social Capital	Suppliers and Business Partner Capital
	To augment the cross selling of our value added services of the Bank and the Group To promote digital channels to effectively manage the call volumes and to increase overall efficiency levels	To train 200 teachers island-wide To screen 5,000 villagers through CKD Screening programmes	To further strengthen the transparent and impartial process of selecting suppliers To enter in to mutually beneficial tie-ups to ensure attractive offerings to customers

The Bank aspires to carve out a special niche for itself among banks in Sri Lanka in its reputation for customer service. Our highly trained staff, our innovative marketing and our leveraging of the potential of information technology all contribute synergistically to this end.

CUSTOMER CAPITAL

CUSTOMER SERVICE PROCESS

The Bank aspires to be the leading Bank in Sri Lanka for customer service and advocacy. Value creation is a dual process; while delighting our customers by giving value to them, we in turn derive value for the Bank and the Group. Customer centricity drives our strategy and business processes. We strive to deliver unparalleled quality in customer service and reap the benefits in the form of utmost customer satisfaction and loyalty.

In 2017, we have several initiatives in view to further enhance our customer service.

The Bank is confident that with our stress on training and development of our staff, we will further upgrade their competencies and capabilities. We intend to further expand cross-functional collaboration, supported by information technology by way of combined digital platforms, to render a more effective customer service. Synergies generated by cross-selling and value added sales will enable us

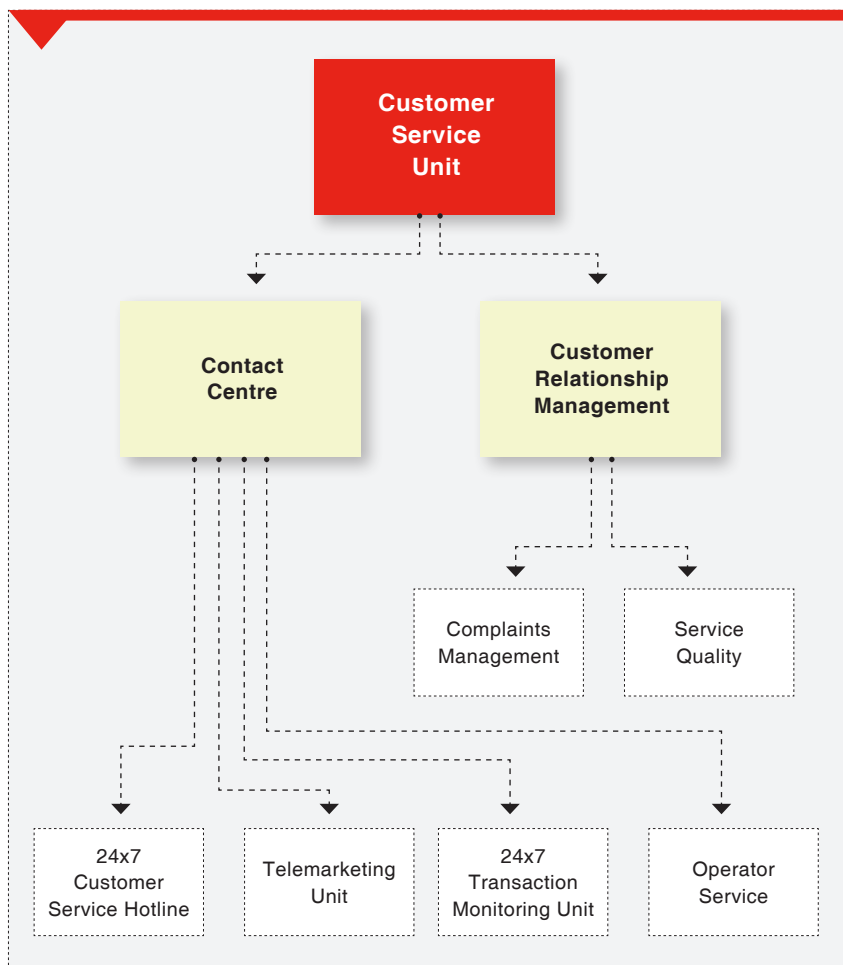
to grow our sales volume. Furthermore, benchmarking our service standards across the banking industry will enable us attain the pinnacle of customer satisfaction.

Key Performance Measures

Indicator	Target (MOM)	Achievement 2016
Contact Centre		
Service levels of the incoming calls	To maintain 80% or more	82%
Abandon Rate	To maintain below 5%	4%
Call quality effectiveness	To maintain at 80%	84%
Average Call Handling Time	=< 3mins per call	Achieved
Online Channels		
Online Banking (NBO) and contact@ndbbank.com mail box response time Turnaround times (TAT)	80% or more to be responded within 3 working days	86%
Bank		
Complaints Handling Turnaround times (TAT)	70% or more to be resolved within 10 working days	70% achieved
Branch Network		
Complaints Handling Turnaround times (TAT)	70% or more to be resolved within 10 working days	70% achieved
Customer Feedback Scores	To maintain at 8 or above	Achieved (94% of branches have scored 8 or more)
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

FEEDBACK AND FEEDFORWARD

CUSTOMER SERVICE UNIT



Contact Centre

We fervently believe that giving customers constant and easy access to the Bank and its services are key to good customer relations. We maintain a 24x7 hotline which handles card activation, lost card deactivation and the online banking mailbox, in addition to routine customer inquiries. We maintain a maximum response time of three days for all queries received via mailbox and ensure seamless follow up until an issue is resolved.

Operator Services

Between the hours of 8.30 a.m.-5 p.m., the operator services handles direct calls received from existing and potential customers. Customers who require specific banking services are then routed to the respective personnel for further assistance.

Telemarketing

Cross-selling and upselling, which are carried out by the Telemarketing unit, are a major facet of the Bank's marketing strategy. Several cross-selling projects were carried out during the year, the rewards of which were reaped by the Bank by way of increased revenues. The Bank also monitors the customer satisfaction at the branch level through Customer Feedback Score Surveys conducted by the telemarketing team on a monthly basis.

Transaction Monitoring

The Transaction Monitoring unit of the Bank, does its utmost to ensure the security of the customers' assets and their transactions and prevent any unauthorised access. Any unusual transaction patterns can be identified by the unit, which carries out 24x7

monitoring to identify any suspicious patterns. There were no complaints regarding unauthorised access to or loss of customer data, which were found to be justified.

Customer Relationship Management

The unit's key responsibility would be to manage all customer complaints received via internal and external channels across the Bank. The Bank's complaint handling procedure is laid down in line with the Customer Charter set out by the Central Bank of Sri Lanka (CBSL). The Customer Relationship Management team ensures that the customer complaints received through all touch points are recorded in the Bank's complaint tracking system and are resolved within 10 working days.

The Bank has published its complaints handling procedure, service levels and the complaints redress process through the Financial Ombudsman on the corporate website (www.ndbbank.com) and the same is displayed at all branches in line with the CBSL guidelines.

The unit also reviews the overall service quality aspects of key customer touch points, carrying out various quality surveys to measure the customer satisfaction levels. Further, the feedback received from customers through various channels are shared with the respective Business lines and are taken in to consideration when simplifying the Bank's processes and developing new products and services.

COMMUNICATION POLICY

The Bank's communication policy aims to foster effective communication, both internal and external, between the Bank and all its stakeholders: customers, investors, suppliers, business partners, employees, regulators, local communities and the general public.

The policy has been reviewed and made available to all staff members to read and comply.

OUR PRODUCT PORTFOLIO

Commercial Banking

- Short-term loans and overdraft facilities
- Trade finance
- Cash management
- Treasury products and services
- Distributor financing
- Receivable financing
- Guarantees

Project and Infrastructure Financing

- Term loans including syndicated and co-financing facilities
- Securitizations (Future Tea Sales, Lease and Hire Purchase Receivables)
- Investments in Debentures
- Preference share investments
- Guarantees related to project financing
- Long-term Islamic Banking solutions
- Lease facilities for Corporates
- Arranger and Lead bank services
- Project financing related legal services

Retail Banking

- Current accounts
- Privilege Select, Privilege banking
- Savings accounts, Children's savings accounts
- NDB Salary Max
- NRFC/RFC accounts
- Fixed deposits
- Housing loans
- Education loans
- Personal loans
- Solar Loans
- Leasing and hire purchase facilities
- NDB credit cards, debit cards
- Pawning
- Remittances, money transfer services
- Internet banking
- Mobile banking
- Bancassurance
- Safe deposit lockers
- E-statement
- Margin trading
- Travel card

SME and Micro Financing

- Long-term loans
- Short-term working capital loans
- Distributor finance facilities
- Supplier banking products
- Funding for importers and exporters

Islamic banking

- Current accounts
- Mudarabah – Savings in LKR and other currencies
- Mudarabah – Short and Long-term investment
- Murabahah – Short term Facilities for trading and working capital
- Wakala Financing – Short-term facilities for Trading and working capital
- Wakala Deposits – Short and long-term investment.
- Ijarah – Leasing
- Diminishing Musharakah – Project financing, Long-term financing for working capital, vehicle financing and housing finance.

Key highlights of our product portfolio during the year is discussed below:



PRIVILEGE
S E L E C T

 NDB bank

'Privilege Select'

The 'Privilege Select' package gives our high-end clients, residing both locally and overseas, the opportunity to grow their net worth by availing themselves of highly professional portfolio management advisory services. Privilege select membership is granted to clients who maintain deposits or investments of more than LKR 20 million or an equivalent amount in foreign currency.

The expertise of the entire Group is leveraged to maximize the returns on investments, keeping in mind the client's risk appetite. The services provided encompass relationship banking, investment banking, share trading, wealth management, insurance protection, foreign currency derivatives, banking products and wealth creation tools. A dedicated relationship manager services each of our clients and accordingly, convenient and seamless conduct of all business activities of the Bank is facilitated. The 'Privilege Select' customers also have the advantages of 24- hour access and preferential tariffs for all banking products and services. Our clientele includes high-net-worth individuals based in Sri Lanka and overseas. Looking forward, we see ourselves delighting our customers by fulfilling their investment ambitions with a world-class banking environment and services.

The Group pays special attention to its high-net-worth customers by providing all the possible services in the most convenient manner, giving individual attention, understanding their special needs and as speedily as possible. Our 'Privilege Select' package is a beacon of excellence to private banking in Sri Lanka, and provides portfolio management services to a selective clientele.

A significant event during the year was the partnership with GVR Lanka (Pvt.) Ltd., one of its premier customers in the Central Province to promote Dynasty Residence, the luxury apartment project in Kandy. The Bank hosted an event at the Earl's Regency, Kandy, which was attended by the Chief Executive Officer, Chief Operating Officer, Senior Staff members along with Regional & Branch Managers and many distinguished guests. The opportunity was taken, to announce special housing loan finance packages, carrying very attractive terms, to premier customers, enabling them to invest in Dynasty Residence.

For the third consecutive year, the Bank sponsored the NDB-RCGC Interschool Golf tournament, which was held on 22 October 2016. The event was organized by the past pupils of Ananda College and there were about 200 participants. The Bank also hosted the Privilege Select Customers for the political comedy 'Arsik Meediya Part 2 – BOGG' by Stage Light & Magic Inc at Water's Edge – Grand Ballroom.

NDB Leasing

During the year under review, most of the players in the industry, inclusive of banks, finance companies and leasing companies, sought to exploit the favourable market conditions by actively advertising their leasing products. The Bank aligned itself with the trend by aggressive advertising through press advertising, PR and online media campaigns as well as tie-ups with key vehicle dealers and agents in the country including Dima, United Motors and AMW. The diverse forms of communication maintained, grew the customer awareness and positive perception of the brand.

SME

The small and medium sector, which plays a vital role in the country, both economically and socially, is given high priority by policy makers and is also one of the priorities of the Bank and the Group. The Bank continued with its programmes on social and management processes,

which are carried out at a regional level, to educate small and medium entrepreneurs.

The Bank continued to carry out its regional SME programmes to educate small and medium entrepreneurs (SME) on environment and social management processes. In-line with its commitment to sustainability, the Bank follows an Environmental and Social Management System (ESMS) which envisages identifying environmental and social impacts as well as risks involved in the projects it finances. This system, which is embedded into the Bank's credit policy and process, advises clients on how to guard against such risks at an early stage of the credit evaluation process.

The Bank is firmly convinced that educating customers on these aspects will generate long-term value by way of sustainability, both to the Bank and the customer.

eStatements

Another initiative taken by the Bank, with both sustainability and customer service in view, is the innovative eStatement, which has now been upgraded into a fully integrated 'Life Style Statement'; this gives account holders a complete review of their finances. The statement is secure, instant, readily accessible and can be conveniently saved for future reference. The statement can consolidate across products and/or across the Group and give the customer a bird's eye view of his/her finances in total. It also gives the Bank an opportunity to communicate with its clients in a personalised and focussed manner, rather than through the traditional statements, and gives a more personalised service. The eStatement provides extensive and detailed information, with donut graphs to display credit card usages and bar graphs to display saving trends over six months.

Mobile Banking

A major breakthrough by the Bank was the pioneering Mobile Banking App, which drew worldwide interest and was a complete shift from the traditional

modes of banking. It has been of great value to customers in enabling them to access services and perform transactions while on the move. With the NDB Mobile Banking App, customers can bank at their convenience and access their accounts/cards to carry out various transactions while being assured of complete security from any mobile device running iOS, Android or Windows. The solution is flexible enough to be availed by a user, on any mobile network and to perform whatever transaction with the greatest ease and convenience.



NDB Shilpa

As part of its corporate social responsibility role, the Bank continues to assist talented students through its 'NDB Shilpa' scheme, through which cash rewards are bestowed on those who excelled at the Grade 5 scholarship exam. This year, the top five island rankers received a token of LKR 100,000, the next five LKR 50,000 and any student who gained more than 180 points LKR 5,000. 'NDB Shilpa' also contributed to motivate and build the morale of the younger generation by sponsoring a series of educational programmes initiated by Sirasa FM and Imashi Publications. Both programmes were carried out by an eminent panel of lecturers possessing a wealth of experience and expertise in the field of education. Further, the Bank also sponsored 10 mega programmes with Sirasa FM and 50 programmes with Imashi Publications. They were held in a wide geographical spread, covering most regions of the country and targeted all scholarship students with informative sessions including study tips and preparation guidelines. The seminars catered separately to children and parents, and the seminars for children comprised of 500 – 700 students.



Social Empowerment... Mutual Prosperity

Whether it be a mobile banking app in the hands of a millennial or a micro financing initiative working on the ground for a paddy farmer in Polonnaruwa, the mutual prosperity that flows from such social empowerment is a desire that lies at the core of the Bank.

MICRO AND SME DEVELOPMENT

The Bank had its origins as a development bank. It still retains this focus; however, today our view of development is that it is not confined to large-scale enterprises but extends to the small and medium-scale rural or urban entrepreneur. Our far flung network ensures wide penetration of our micro and SME programmes at grass root level. We assist them not only by the provision of finance, but in other aspects of business as well. This includes training/capacity building workshops to build up their skills and competencies.

Since a majority of our microfinance clientele are women, by lending and other services to such entrepreneurs, we make our contribution to the empowerment of women. An outstanding example of the contribution we have made is the micro loans to female workers in the apparel industry.

A MILESTONE IN OUR NETWORK

The Bank added 11 new Branches during the year, most of which were outside the Western Province. A major milestone was the opening of the 100th branch in Hingurakgoda. To mark the event, a number of socially oriented programmes were carried out concurrently, mainly to benefit the local community. All 100 Branch Managers country wide and Regional Managers participated in a tree planting project, where they planted 100 seedlings at the Vidyloka Primary School and along the Hingurakgoda – Polonnaruwa Road. To educate the local business community, a workshop was conducted where the Bank's SME and leasing products were explained in detail. The Bank also granted 100 micro loans to 100 new customers at the new branch premises. The Bank's officers also toured the Hingurakgoda town to educate prospective clients about SME financing facilities. To encourage the younger generation to aspire to a career in the banking industry, a recruitment drive was conducted at the Central College, Anuradhapura in June 2016. A number of other social

activities were carried out, including a programme to inculcate the savings habit in primary school children and library book donation at the Vidyloka Primary School Hingurakgoda.

REDEFINING THE ONLINE PRESENCE

To project its image and promote its brand, particularly among millennials, the Bank sought to augment its online presence with its corporate website and social media engagement.

Social Media Presence

The Bank maintains a dynamic and interactive Facebook page which greatly enhances its online presence with a fanbase above 377,000. The page continues to build high interactivity by hosting many campaigns and games. One important campaign was to mark the opening of the Bank's 100th Branch. Good wishes, which were sent by the fans in advance were printed and put up on a wishing wall at the opening. A best wish was selected and rewarded.



www.facebook.com/ndbbankplc



www.twitter.com/NDBBank



www.linkedin.com/company/ndbbank



www.youtube.com/user/NDBBankSL



instagram.com/ndbbank

Another important event was the cricket match fever, an interactive competition, which ran concurrently with the Sri Lanka vs. Australian cricket tournament. Questions were asked at the beginning of the matches and fans who gave the correct answer were gifted a miniature cricket bat signed by NDB Brand Ambassador Angelo Mathews.

The Bank also conducted various games and giveaways on the occasions of festival days, including Sinhala and Tamil New Year and Christmas. Special campaigns were also conducted to commemorate special events such as Mother's Day, Father's Day and Children's Day.

The Bank also maintains a page named 'Shilpa', separate from its corporate page, which is aimed at educating parents, prospective parents and young adults on the saving habits for children and general tips on upbringing children. The *Shilpa* Facebook page maintains a fan base above 68,000.

The Bank also maintains a LinkedIn page which has a growing base of followers. With a follower base of 5,287, it is ranked at 2 place in the Financial Services Industry in terms of the follower base. The most popular postings on the page with high interactions are vacancy announcements which draw applications through the careers portal as well as comments, followers likes and sharing. A recent addition to the Linked In page has been sharing valuable career and personal advice extracted from internal training programmes. Corporate PR, events and announcements along with other useful business/motivational articles for professionals are also posted on the page. The Bank also sends out regular tweets through its Twitter page, which also has a large and enthusiastic group of followers. Updates include Bank events, products, insights from customer forums, notices; daily inspirational retweetable quotes are shared on the page, which create a good impression and drive lively interactions.

The Bank also has a YouTube channel which consists of all videos published by the Bank. Corporate announcements/media briefings, events and commercials are updated to the YouTube channel. The novel mobile app is catching on in popularity and the YouTube channel assists users to become familiarized with the application by way of a unique set of product demos. These Videos have been composed in-house. Another highlight on the YouTube page that gained a high viewership this year was the TV Music Video/Commercial on NDB Mobile Banking.

Corporate Website

The Bank's Corporate website serves as a one stop hub, which is very informative on Bank's products, branch network, investor details, NDB Careers etc. The Bank is currently in the process of revamping the website and the new website will be available towards the end of 1 quarter 2017.

The Bank also hosts a separate website akin to a lifestyle site, NDB Digital. The site contains useful material for its visitors such as 'Home & You', 'Goals & Plans', 'Save & Invest', 'Wheels & Dreams', 'Kids & Money' and 'Cards & Offers'. The articles are also archived monthly so that visitors can view them whenever they wish.

An opt out eNewsletter named 'eDigest' is being sent to subscribers and customers based on these write-ups and they are also shared on the Bank's Facebook page.

SOCIAL CAPITAL

MARKET PRESENCE

The percentages of senior management at different levels, for the eight regions are shown in the table below. The fact that there is a very substantial percentage at the Assistant Vice President level demonstrates our commitment to making appointments from within the communities wherever possible. This will bring payoffs by way of their knowledge of local communities and opportunities.

Percentage of senior management at significant locations of operation that are hired from the local community is 100%.

Location Wise	F (%)	M (%)
HO – Colombo	43	57
Region 1 – Colombo	39	61
Region 2 – Greater Colombo	42	58
Region 3 – Southern	26	74
Region 4 – North Western	38	62
Region 5 – North Central	26	74
Region 6 – Central	37	63
Region 7 – Uva Sabaragamuwa	17	83
Region 8 – North East	35	65
Grand Total	39	61

STRATEGIC CSR

The CSR programmes implemented, with their degree of local community engagement, capacity building and impact assessment are given below. The information given demonstrates our commitment to creating sustainable social value. The Corporate Sustainability Committee of the Bank is responsible for decision-making of sustainability related economic, environment and social topics.

Strategic Focus	Project	Progress
1 Education	NDB English for Teaching Plus (EfT+) Project	- Project implemented through 10 Regional English Support Centres (RESCs) in Matale, Moneragala, Ampara, Jaffna, Anuradapura, Balapitiya, Kurunegala, Bolawalana, Eheliyagoda & Vavuniya. - Project addresses two aspects of the Teachers – language improvement and teaching ability. - Training is more activity based with new and innovative training methods introduced so that teachers are equipped to teach as well as manage their students in a more holistic manner. - The Bank has implemented this project since 2012 and to date 679 teachers have been trained from 456 schools in all Provinces of the nation with over 130,000 students benefiting from the project. - As a value addition the Bank also conducted a 1 hour session on 'Financial Health' for the beneficiaries.
2 Environment	Environment Literacy for Schools	- Awareness programmes conducted in 150 schools in diverse parts of the country; sensitising, creating awareness and training on environmental conservation. - Nature Clubs were set up in 30 Schools with assistance given to conduct environmental projects within their school. - Project focuses on 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
3 Health	CKD Screening Programmes	- Project commenced in 2014 to address this National issue. - NDB carried out this project in collaboration with the Kidney Protection Foundation Anuradhapura, where Screening is conducted in the rural villages in Anuradhapura. - From 2014 – 2015 a total of 5571 persons from 23 rural villages in Anuradhapura. 405 persons detected with CKD and referred for treatment. Public awareness raised in 23 villages. - Impact for 2016 30 Screening Programmes conducted in rural villages in Anuradhapura 3,553 persons screened 554 detected with CKD and referred for treatment
4 Employee Volunteerism	Trail 2016 – Walk for Cancer Relief	217 staff members from NDB volunteered to walk completing different segments of the Walk from Point Pedro to Dondra from 06th October to 02nd November 2016. - NDB's 'Silver' sponsorship together with the sponsorship for the walkers contributed towards the expansion of the Cancer Treatment Centre at the Karapitiya Teaching Hospital in Galle.

STRATEGY - CONCERN FOR THE ENVIRONMENT

Today, when the world is beset with problems such as global warming, the environment is something we cannot afford to ignore. The Bank takes a holistic view of value creation and incorporates environmental considerations into all its activities. Projects we fund are screened for their environmental impacts and how they can be mitigated.

KEY ACHIEVEMENTS IN 2016

CONDUCTED ENVIRONMENT
AWARENESS PROGRAMMES
IN 150 RURAL SCHOOLS
ISLAND-WIDE

IMPLEMENTED NATURE
CLUBS IN 30 SCHOOLS

OBJECTIVES FOR 2017

1 To promote Environment
Literacy Programmes for 100
schools in all main regions

2 To conduct Field Programmes
for students of Nature Clubs in
30 schools

We are highly conscious of the impact we leave on the environment. We strive to minimize waste and reduce resource consumption in all manners possible.

OUR CARBON FOOTPRINT

We take pride in the fact that as an environmentally-conscious organization, we carefully track the impact of our internal activities. As we have done in the previous years, we are reporting our greenhouse gas emissions (GHG), using the most recent version of WBCSD/WRI Greenhouse Gas Protocol Accounting and Reporting Standard (2004) and Calculation Tools (2015).

In keeping with the matters elaborated on in this section of the Annual Report the boundary is limited to the Bank and its core business. Hence we have restated the figure for Scope 2 electricity for 2015 to enable comparison. Our reporting of GHG emissions under Scope 3, which is optional is limited to sources that are material and measurable.

GHG Emissions of the Bank

Scope	Source	2016		2015	
		tCO ₂ e	%	tCO ₂ e	%
1	Combustion in stationary sources	4.4	0.1	4.4	0.2
1	Combustion in mobile sources	149.2	4.5	55.4	1.8
1	Fugitive emissions from air conditioning equipment	101.2	3.1	101.2	3.4
Subtotal, Scope 1		254.8	7.7	161.0	5.4
2	Purchased electricity	1,340.7	40.4	1,297.9	43.1
Subtotal, Scopes 1 and 2		1,595.4	48.0	1,459.0	48.4
3	Combustion in stationary sources	83.4	2.5	55.5	1.8
3	Purchased electricity	1,590.6	47.9	1,444.9	48.0
3	Employee air travel	52.2	1.6	52.7	1.8
Subtotal, Scope 3		1,726.2	52.0	1,553.1	51.6
Total, all Scopes		3,321.6	100.0	3,012.1	100.0

Note: Totals may not tally exactly due to rounding

A Valued Inheritance... An Invaluable Legacy

The Bank firmly believes that just as we inherited a world of great resource and beauty we must do all in our power to bequeath a world of even greater beauty and resource to our children. We strive every day to honour and respect 'the natural order of things' in strategy and action.

The total carbon footprint of the Bank amounted to 3,322 tonnes carbon dioxide equivalent (tCO₂e), which was an increase of 10.3 % over 2015. The primary cause of the increase is the fuel consumption in vehicles owned by the Bank in branches owned by the Bank, a scope 1 item. The branch network expanded during the year, by the addition of 11 new branches, to widen the Bank's reach.

Purchased electricity by far was the largest source of GHG emissions. Of this, our own premises (banking business only) contributed 40.4% and another 47.9% was generated by premises rented by the Bank. This high proportion is natural considering the nature of the business.

GHG Emissions Intensity

When emissions are considered related to activity levels, our overall GHG emissions intensity in 2016 was 253 kg tCO₂e per LKR million of the Bank's total operating income (2015: 247kg tCO₂e per LKR million). Taking into account only scopes 1 and 2, which is a more appropriate figure for benchmarking, the Bank's GHG emissions intensity in 2016 was 212 kg tCO₂e per LKR million (2015: 119kg tCO₂e per LKR million).

Looking into the future, we highlight the importance of closely managing electricity consumption through steps such as increasing energy efficiency in plant equipment and

buildings augmented by internal power generation through solar PV. Thereby we will enhance the Bank's environmental record while also being more cost effective by effective and efficient resource consumption.

PAPER CONSUMPTION

The Bank in collaboration with an accredited recycler makes every effort to maximize the recycling of waste paper generated by its day-to-day operations. The waste reduction and recycling programme of the Bank resulted in waste paper amounting to 22,276 kgs being recycled; this in turn means that there was an estimated reduction in GHG emissions of 22,276 kgs of carbon equivalent and saved:

- 379 trees
- 39,094 litres of oil
- 89,104 kwh of electricity
- 707,931 litres of water
- 67 cubic metres of land fill

Environmental Friendly Initiatives

The Bank also reinforced its commitment to the environment during the year by the Environment Literacy for Schools programme. This programme covered a total of 150 rural schools and also resulted in the formation of nature clubs in 30 schools. Further details are given on pages 101 to 109 under Social and Relationship Capital.





**Building a better
working world**

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

Independent Assurance Report to National Development Bank PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report- 2016

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- 2016 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 49 of the Report.
- Limited assurance on other information presented in the Report, 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 18 January 2016. 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 2016.
- 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.

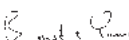
Limitations and considerations

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 49 of the Report are properly derived from the audited financial statements of the Bank for the year ended 31 December 2016.
- 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 GRI Standards 'In accordance' Core Sustainability Reporting Guidelines.



Chartered Accountants

21 February 2017
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 Fernando FCA FCMA
Ms. K R M Fernando FCA FCMA 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 Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCCA

A member firm of Ernst & Young Global Limited

EVENTS



SCAN TO VIEW

<http://ndbbank2016.annualreports.lk/events/>

Event Title	Brief Description

January

Hanwella branch opening

The Bank entered the Hanwella city with the opening of its 94th branch offering a wide range of financial services to a rapidly growing commercial city.



Narammala branch opening

The Bank opened its 95th branch in Narammala in a bid to support the economic and livelihood development in the Kurunegala District.



Relocated branch opening in Mount Lavinia

The Bank relocated its Mount Lavinia branch to a more spacious and a conveniently accessible location at No. 431/433, Galle Road, Mount Lavinia in a bid to provide a better service experience to people in the area.



Manipai, Thirunelveli, Chavakachcheri branch openings

The Bank extended its footprint in the Northern region of the country with the opening of its 96th branch in Manipai, 97th branch in Thirunelveli and 98th branch in Chavakachcheri. These branch openings reinstated the Bank's continued commitment towards the rapid post-conflict economic development taking place in the region.



Recruitment drive in Jaffna

The recruitment drive consisted of a series of walk-in-interviews conducted with the aim of providing opportunities for school leavers, graduates and professionals to pursue careers in the banking industry.

The recruitment drive took place on the 28 January 2016 at St. John's College, Jaffna. The Bank's initiative received an overwhelming response with a participation of 1,500 plus candidates.



Event Title

Brief Description

Dynasty cocktail

The Bank joined hands with GVR Lanka (Pvt) Ltd., to promote Dynasty Residence, the luxury apartment project in Kandy, among its premier customers in the Central Province. GVR Lanka (PVT) Ltd. and the Bank hosted an exclusive event for key customers of the Bank at the Earls Regent, Kandy.



February

The Bank holds its Investor Forum for the financial year 2015

The Bank held an 'Investor Forum' to discuss the financial performance of the Bank and the Group for the financial year 2015. The forum was well-attended by a large gathering of investors, investment advisors, stockbrokers, fund managers and media.



Retail Banking Awards 2015

The Bank proudly held its annual Banking Awards at *Nelum Pokuna* to recognize exceptional performance of its branch network with the Bank's ambitious objectives under the theme 'Committed to be Number One' while helping to realize NDB's vision to be the driving force for a financially empowered Sri Lanka.



March

NDB Pettah branch celebrates 5 years

Senior officials of the Bank together with the existing and potential customers from Pettah joined together in celebration of the Fifth year anniversary of the NDB Pettah Branch at the Kingsbury, Colombo.



Arsik Media – Stage Drama

The Bank hosted the Privileged Select Customers for a Stage Drama organized by StageLight&Magic Inc. which staged the new political comedy series 'Arsik Meediya Part 2 – BOGG' at Water's Edge – Grand Ballroom.



Event Title

Brief Description

CBD cocktail

The Corporate Business Development unit held a cocktail for the corporate clientele at the Kingsbury Hotel.



April

The Bank enables Online EPF and ETF payments for corporates

The Bank together with the Employees' Provident Fund (EPF) launched secure and convenient Online EPF payments for corporates.

With this arrangement corporates can make EPF payments 365 days a year with ease, eliminating the necessity to deliver cheques and manually fill forms.



NDB official banking partner at the Colombo Shopping Festival

NDB was the official banking partner at the Colombo Shopping Festival – NDB Credit Cards held a stall at the exhibition.



Launch of the TV commercial with NDB brand ambassador

The Bank aired a special TV commercial during the Cricket World Cup featuring Sri Lanka Cricket Captain Angelo Mathews and his father.



May

Exclusive Banking Sponsor at Build Sri Lanka 2016

The Bank proudly joined hands with Build Sri Lanka 2016 – Housing & Construction Expo organized by the Chamber of Construction Industry Sri Lanka (CCI) as the Exclusive Banking Partner.



Event Title

Brief Description

Western Union – *Samada Thagi* promotion

The Bank introduced a gift scheme for every Western Union transaction.



The Bank's debit card promotion

The Bank gifted iPhone 6s for four winners and 250 cashback prizes worth LKR 2,000/- per person.



The Bank's Pettah branch relocation

The Bank's Pettah Branch was relocated to Nos.137,133/1 Main Street, Colombo 11



June

Recruitment drive in Anuradhapura

The Bank's HR Team conducted a recruitment drive in Anuradhapura at the Central Collage Anuradhapura on 11 June to coincide with the 100th branch opening.



Official Banking Sponsor for – *Kadella* Living in Style – exhibition

NDB was the official Banking sponsor at this exhibition.



Event Title	Brief Description	
The Bank opens its 100th branch	The Bank's landmark, 100th branch was opened in Hingurakgoda at No.10, Airport Road, Hingurakgoda.	
The Bank opens its Warakapola branch	The Bank opened its 101st branch in Warakapola at No. 96, & 98, Main Street, Warakapola.	
The Bank opens its Thambuttegama branch	The Bank opened its 102nd branch in Thambuttegama at No. 255 A, Main Street, Thambuttegama.	
NDB <i>Shilpa Shalika</i>	10 mega programmes with Sirasa FM and 50 programmes with Imashi Publications were held covering most regions across the country and approached the masses targeting all year 5 scholarship students with informative sessions including study tips and preparation guidelines. The seminars comprised segments focused for children and parents separately. Each seminar comprised 500 – 700 students. It was held alongside the <i>Shilpa peya</i> and <i>Pancha mama</i> promotion.	
The Banks' Wellawatte branch is newly refurbished	NDB's Wellawatte Branch was refurbished to be spacious and customer friendly.	

Event Title

Brief Description

July

The Bank opens Nattandiya branch

NDB opened its 103rd branch in Nattandiya No. 82, Marawila Road, Nattandiya.

**August**

NDB HR conducts recruitment drive in Hambantota

The Bank carried out a recruitment drive on 5th and 6th of August at the Hambanthota District Chamber of Commerce.



Investor Forum for H1 2016

The Bank hosted its investor forum to discuss the Bank's and Group's financial performance for the first half of 2016.



33rd Mercantile Athletics

The Bank bagged 17 medals including seven Golds, two Silver and eight Bronze at the 33rd Mercantile Athletics Championships.

**September**

NDB Bell ringing at CSE

The Bank rang the Opening Bell to commence trading at the Colombo Stock Exchange (CSE) for the month of September 2016.



Event Title	Brief Description	
The Bank's recruitment drive in Galle with Angelo Mathews	NDB HR conducted a series of walk-in-interviews at Hall de Galle with the presence of the NDB Brand Ambassador Angelo Mathews.	
The Bank relocates the Vavuniya branch	The branch was relocated to Nos.188,190,192 & 190/1 Kandy Road, Vavuniya.	

October

#NDBforTrail	The Bank was a proud sponsor of Trail, an initiative of the Colours of Courage Trust, a charity walk that carried a message of unity and understanding along the length of Sri Lanka while raising funds in aid of cancer treatment.	
The Bank wins at Mercantile Services Basketball Association League Tournament 2016	NDB Women's Basketball team emerged as Champions: Division – B and Men's Basketball team emerged as Runners-up: Division – C at the Mercantile Services Basketball Association League Tournament 2016.	
Amazing gifts promotion in Wellawatte and Marine Drive branches	The promotion was carried out in celebration of Deepavali.	

Event Title

Brief Description

NDB – RCGC Interschool Golf Championship 2016

The Bank together with the Royal Colombo Golf Club (RCGC) hosted the Interschool Golf Championship for the 3rd consecutive year.



November

Sponsorship for the 40-year celebration of the Field Ornithology Group of Sri Lanka

The Bank extended its support to the Department of Zoology of the University of Colombo by being a sponsor for the 40-year celebration of the Field Ornithology Group of Sri Lanka.



December

Mahawewa branch opening

The Bank opened its 104th branch in Mahawewa – Puttalam District at Chilaw Road, Mahawewa.



NDB Christmas Carols 2016

The Bank held their Annual Christmas Carols with much glitz and glamour at the DHPL Auditorium. The Bank's choristers were professionally trained by Ms Soundarie David Rodrigo. The event was graced by Rev. Fr. Tony Martin and senior officials of the Bank.



NDB Good Life credit card – LKR 5,000,000 bill Wipe out promotion

Customers were able to shop for anything, anywhere with their NDB Good Life Credit Card from 6th – 31st December for LKR 25,000 or more to be one of 200 winners to get a bill wipeout of LKR 25,000.



RECOGNITION



SCAN TO VIEW

<http://ndbbank2016.annualreports.lk/recognition/>



Awarding Body/Institution	Award Title	Brief Description of Award/Awarding Body
Asian Banking and Finance – Singapore Retail Banking Awards 2016 & Wholesale Banking Awards 2016	Domestic Retail Bank of the Year – Sri Lanka	NDB was awarded the first three titles under the Retail Banking Awards and the fourth title under the Wholesale Banking Awards of Asian Banking and Finance, two awards events which are broadly hailed by the banking fraternity in Asia.
	SME Bank of the Year – Sri Lanka	
	Social Media Initiative of the Year – Sri Lanka	The panel of judges who selected the winners comprised of representations from reputed corporates such as Deloitte, Ernst and Young Advisory LLP, KPMG and PricewaterhouseCoopers.
	Domestic Project Finance Bank of the Year – Sri Lanka	The awards saw a number of leading and high performing banks in the region being awarded under various categories. NDB clinched the titles Domestic Retail Bank of the Year and SME Bank of the Year Awards for the fourth consecutive year in 2016.
CMO Asia Awards 2016	Brand Excellence in Banking and Finance Sector	The Bank reaffirmed its brand identity by winning the award for Brand Excellence in the Banking, Financial and Insurance Sector at the Global Brand Excellence Awards presented by the World Brand Congress (Asia Edition) in Kuala Lumpur, Malaysia. The award was endorsed by the CMO Council, CMO Asia, World Federation of Marketing Professionals, Asian Confederation of Businesses and World CSR Day.
Asian Development Bank (ADB) Trade Finance Award	'The Leading Partner Bank in Sri Lanka for Asian Development Bank under their Trade Finance Programme'	The Bank won the Award The Leading Partner Bank in Sri Lanka for Asian Development Bank, under their Trade Finance Programme for the second consecutive year. This year's TFP Awards ceremony was held at the Global Trade Review's Annual September Conference – GTR Asia Trade and Treasury Week 2016 – which is one of the best attended trade finance conferences in Asia. The award acknowledges NDB's significant efforts in contributing to the promotion of Trade Finance within Sri Lanka and in the region.
CFA Sri Lanka Capital Market Awards 2016	Best Investor Relations Gold Award	The Bank's investor relations were recognized with a Gold Award at the CFA Sri Lanka Capital Market Awards 2016, conducted by the CFA Sri Lanka Society. This was the pinnacle in the awards for the Bank, where it was the bronze awardee in 2014 and the silver awardee in 2015 in the same space, which affirmed by the gradual improvements the Bank recorded over the years, in conducting best in class investor relations.

Awarding Body/Institution	Award Title	Brief Description of Award/Awarding Body
CFA Sri Lanka Capital Market Awards 2016	Best Stockbroker Research Team Gold Award	NDB Securities was recognized with top honours at the CFA Sri Lanka Capital Market Awards 2016, taking home the Gold Award for Best Stockbroker Research Team. Every year, the CFA Awards honour the top capital market professionals in the country, setting the benchmark for those working in the field.
Asia Pacific Customer Engagement Forum	Runner-Up NDB <i>Shilpa</i>	The Bank marked yet another milestone by winning the 'Runner-Up' Award for Effectiveness in the Retail Touchpoints and Merchandizing Category for 'NDB <i>Shilpa</i> ', at the recently held ACEF Awards in Mumbai, India. ACEF helps promote the best brands, organization/agencies and individuals for their outstanding achievements in brand excellence.
	Winner NDB Mobile Banking App	The Bank was felicitated for its recently introduced NDB Mobile App as the 'Most Admired Mobile App', at the Asian Customer Engagement Forum (ACEF) Awards in Mumbai. ACEF helps promote the best brands, organization/agencies and individuals for their outstanding achievements in brand excellence.
NCE Export Awards 2016	Special Award	The Bank was recognized by the National Chamber of Commerce for making an invaluable contribution to the economic development of Sri Lanka related to the field of exports.
South Asian Business Excellence Awards ceremony organized by the South Asian Partnership Summit and the World HRD Congress	Best Use of Mobile Technology (Banking Industry)	The Bank was felicitated with awards for its newly introduced NDB Mobile Banking App at the recently held South Asian Business Excellence Awards ceremony organized by the South Asian Partnership Summit (SAPS) and the World HRD Congress. The South Asian Business Excellence Awards is designed to recognize and celebrate outstanding companies, organizations and leaders in the South Asian Region, contributing towards strengthening economic opportunities.
	Best Use of Mobile Technology in Financial Services	
National Business Excellence Awards 2016	Merit Award – Banking Sector	The Bank won the merit award for Banking Sector at the NBEA Awards 2016 organized by the National Chamber of Commerce of Sri Lanka (NCCSL) with a view to recognizing business enterprises, which have demonstrated excellence in business, whilst contributing to the economic progress of the country.
Euromoney Magazine	Best Investment Bank in Sri Lanka	Reaffirming the dominance in the investment banking sphere, NDB Investment Bank won the 'Best Investment Bank in Sri Lanka' award for the fifth consecutive year at the Awards for Excellence 2016 by Euromoney, the world's premier financial markets magazine.
Euromoney Magazine	Best Investment Bank in Bangladesh	Being the premier merchant bank in Bangladesh providing the full range of investment banking services, NDB Capital Limited won the Euromoney Awards for Excellence as the 'Best Investment Bank in Bangladesh' in 2016. This was the second time that NDB Capital received this prestigious award.
Islamic Finance Forum of South Asia (IFFSA)	Gold	NDB Islamic Banking won the Emerging Entity award at the Islamic Finance Forum of South Asia (IFFSA).
Business Today 'Top 30'	Ranked 19th	NDB was ranked 19th in the Business Today 'Top 30' awards. This award ranked Sri Lanka's best performing public listed corporate entities in 2015-16.
Best Corporate Citizen Sustainability Award 2016	Winner Category Award for Governance	NDB won the Category Award for Governance for the 2nd consecutive year at the 'Best Corporate Citizen Sustainability Award 2016', presented by the Ceylon Chamber of Commerce, the country's premier business chamber to recognize the sustainable champions of the local corporate world.

INVESTOR RELATIONS



SCAN TO VIEW

<http://ndbbank2016.annualreports.lk/investor-relations/>

OUR REACH TO INVESTORS

As was discussed in the Stakeholder Analysis section, investors are one of our prime stakeholder groups. The confidence, our investors have placed on us has been a key ingredient in our formula for success. At NDB, we are dedicated to maintaining a sound and regular dialogue with our investors.

As such, we conduct a series of investor relationship activities all year round. All investor activities are carried out based on the principles of quality of disclosures, transparency, and fairness. Furthermore, we do not engage in selective disclosures in any instance and we maintain our relations with investors on a consistent basis irrespective of variations in financial performance. We also maintain an open-door policy regarding investor engagements where we are easily accessible to them.

Investor meetings are always attended by the Chief Executive Officer (CEO) and the Group Chief Financial Officer of the Bank, facilitating the connectivity with the top management of the Bank.

RECOGNITION FOR NDB INVESTOR RELATIONS

NDB was selected as the Gold Award winner at the CFA Sri Lanka Capital Market Awards 2016. This accolade recognizes listed companies carrying out best practices in investor relations. NDB was the Silver Award winner in 2015 and the Bronze Award winner 2014 at the same event.

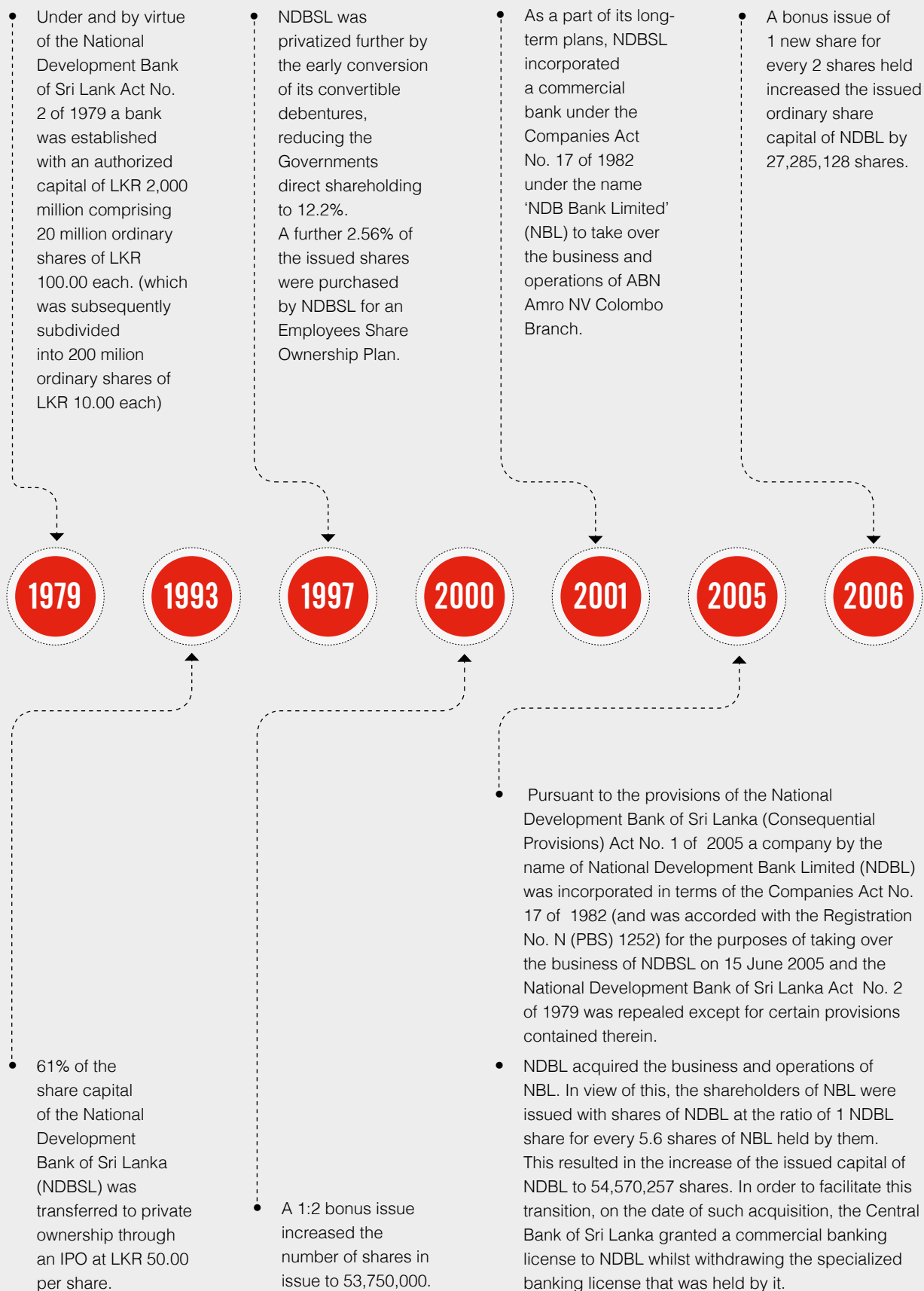
The gradual progression of NDB in this coveted award reflects the efforts we have made in ensuring best in class engagement with our valued investors.

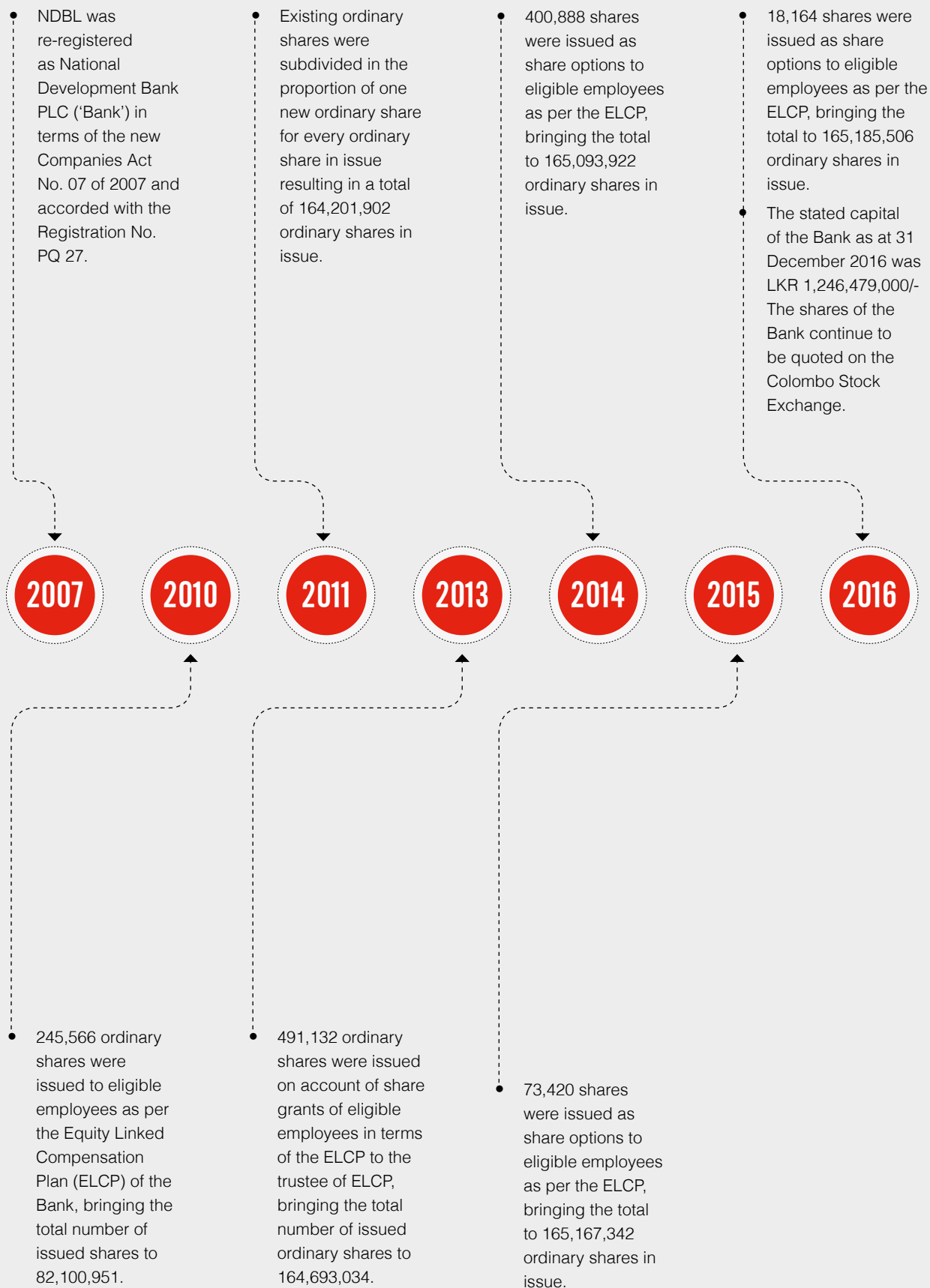
INVESTOR RELATIONS AT NDB

- Investor relations team – established under the Group CFO, with an ultimate reporting line to the CEO
- Objective of Investor Relations – to maintain a best in class relationship with existing and potential, local and international investors and other relevant stakeholders to leverage their contribution to the Bank's thriving momentum in the industry.
- Stakeholder groups/Scope of investor relations
 - Current shareholders
 - Prospective investors
 - Regulators [Colombo Stock Exchange (CSE), Securities and Exchange Commission (SEC), Central Bank of Sri Lanka (CBSL), and any other regulatory body as required]
 - Stock market and investment analysts
 - Fund Managers
 - Rating agencies
 - Development Financing Institutions (DFIs)
 - Media
 - Any other relevant party
- Perceived benefits of best in class investor relations
 - Help deliver a fair valuation of the Bank's equity
 - Reduce funding cost
 - Save valuable management time
 - Provide a resilient and well-informed shareholder base with enhanced investment decision-making capabilities

- Investor relations activities
 - 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

Evolution of NDB's Ownership and Share Base – 1979 – 2016





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 SL20 Index Bank, Finance and 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 – 2016

2.1 Performance of Global Equity Markets

2016 was a comparatively better year than 2015 for the main global equity markets, amidst the significant events that occurred changing the global political, social and economic landscape. Britain's referendum to leave the EU and Donald Trump's presidential election victory were two main political surprises that shook the investment markets. On the monetary policy front, the US Federal Reserve's decision to raise rates after 12 months in December 2016 was received with mixed sentiments by the capital markets. The MSCI World index recorded a gain of 4.5% for 2016 recovering from the shocks of the major events that took place. The main global equity markets performed well recording gains in several key indices such as S&P 500-USA (+9.5%),

FTSE 100-UK (+14.4%) and S&P ASX 200-Australia (+7.0%). Meanwhile, the Shanghai Shenzhen CSI 300 index-China recorded a loss of 12.31%.

2.2 Performance of the Colombo Stock Exchange

During 2016, the All Share Price Index (ASPI) dropped 9.7% whilst S&P SL20 index also declined by 3.6%. The equity market activity remained subdued throughout the year recording an average daily turnover of LKR 737 million (LKR 1,060 million in 2015). A significant drop in ASPI as well as S&P SL20 was witnessed in the first quarter of 2016 due to tax proposals taking a toll on investor confidence coupled with the fed rate hike initiated almost after a decade in December 2015. A short-lived upward trajectory in indices was witnessed in the month of April with the confirmation of the IMF Extended Fund Facility (IMF EFF) to Sri Lanka. Although a net foreign outflow of LKR 6.3 billion was recorded for the first half of 2016, renewed interest from foreign investors was observed in the backdrop of the

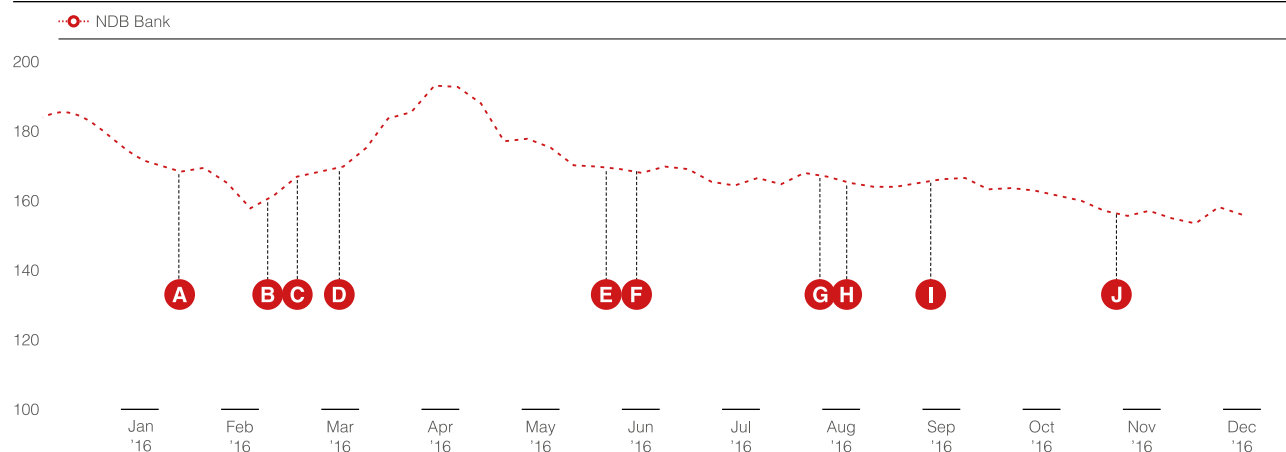
receipt of IMF EFF that led to net foreign inflow of LKR 6.7 billion in the second half of 2016.

2.3 Performance of the NDB Share

The NDB share price declined by 19.6% to close at LKR 156.00 by end of 2016. During the year, the share reached a high of LKR 199.90 (in May 2016) and a low of LKR 150.00 (in November 2016). The NDB share performance was mainly impacted from the Fitch Rating downgrade from AA-(lka) to A+(lka) and the resignation of the CEO coupled with fiscal tightening measures which adversely affected the counters across the Board especially, the banking sector.

NDB Share Price Movement Over the Year

LKR



A	12 February 2016	Final dividend announcement (FY 2015) LKR 4.00 per share.
B	1 March 2016	Approval of the Employee Share Option Scheme (ESOS) by the BOD.
C	4 March 2016	Announcement of an Extraordinary General Meeting (EGM) to be held on 30 March 2016 for the purpose of approving the ESOS 2016.
D	30 March 2016	The EGM was held and resolutions regarding the establishment of the ESOS and the issuance of shares mentioned on 1 March 2016 were adopted by shareholders as special resolutions.
E	24 June 2016	Fitch Ratings downgraded NDB's National Long Term Rating to 'A+(lka)' from 'AA-(lka)'.
F	27 June 2016	Announcement of an EGM to be held on 27 July 2016 to amend the Articles of Association of NDB.
G	26 August 2016	Announcement of the retirement of N G Wickremaratne from the office of Chairman and Non-Executive Director of NDB. Appointment of A W Atukorala as an Independent Non-Executive director and Chairman of NDB subject to receiving approval from CBSL.
		Announcement of resignation of R Theagarajah from the office of Director/Chief Executive Officer.
H	31 August 2016	Approval of the appointment of A W Atukorala as Chairman of the Board of Directors of NDB by the CBSL.
I	27 September 2016	Appointment of N S Welikala as an Independent Non-Executive director of NDB subject to receiving the approval of the CBSL.
J	24 November 2016	Appointment of P L D N Seneviratne as Chief Executive Officer.

3. Analysis of Ordinary Shareholders as at 31 December 2016 as per Rule 7.6 (x) of the Listing Rules of the CSE

3.1 Distribution of Shareholders

Shareholding Range	As at 31 December 2016				As at 31 December 2015			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1 – 1,000	5,362	66.64	1,734,576	1.05	5,245	66.30	1,728,113	1.04
1,001 – 10,000	2,219	27.58	7,068,295	4.28	2,236	28.27	7,110,788	4.31
10,001 – 100,000	382	4.75	10,588,434	6.41	346	4.37	9,317,220	5.65
100,001 – 1,000,000	58	0.72	16,400,419	9.93	56	0.71	18,440,324	11.16
Over 1,000,000	25	0.31	129,393,782	78.33	28	0.35	128,570,897	77.84
Total	8,046	100.00	165,185,506	100.00	7,911	100.00	165,167,342	100.00

3.2 Resident/Non-Resident Shareholding

Shareholding	As at 31 December 2016				As at 31 December 2015			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Resident	7,912	98.33	137,992,077	83.54	7,759	98.08	114,170,880	69.12
Non-Resident	134	1.67	27,193,429	16.46	152	1.92	50,996,462	30.88
Total	8,046	100.00	165,185,506	100.00	7,911	100.00	165,167,342	100.00

3.3 Individual/Institutional Shareholding

Shareholding	As at 31 December 2016				As at 31 December 2015			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Individual	7,600	94.46	44,772,715	27.10	7,479	94.54	37,048,619	22.40
Institutional	446	5.54	120,412,791	72.90	432	5.46	128,118,723	77.60
Total	8,046	100.00	165,185,506	100.00	7,911	100.00	165,167,342	100.00

4. Twenty Largest Registered Shareholders of the Bank as at 31 December 2016 as per Rule No. 7.6 (iii) of the Listing Rules of the Colombo Stock Exchange

2016			2015		
Name	No. of Shares	%	Name	No. of Shares	%
1 Bank of Ceylon No. 1 Account	16,371,076	9.91	Bank of Ceylon No. 1 Account	16,371,076	9.91
2 Employees' Provident Fund	16,010,248	9.69	Employees' Provident Fund	16,010,248	9.69
3 R S Captain	13,476,049	8.16	Sri Lanka Insurance Corporation Ltd. – General Fund	9,388,488	5.68
4 Sri Lanka Insurance Corporation Ltd. – General Fund	9,388,488	5.68	HSBC International Nominees Ltd. – SNFE – NTAsian Discovery Master Fund	8,973,856	5.43
5 Dr. S Yaddehige	8,550,285	5.18	Dr. S Yaddehige	8,669,000	5.25
6 Sri Lanka Insurance Corporation Ltd. – Life Fund	7,805,426	4.73	Sri Lanka Insurance Corporation Ltd. – Life Fund	7,805,426	4.73
7 Perpetual Treasuries Ltd.	7,352,180	4.45	HSBC International Nominees Ltd. – BPSS LUX – Aberdeen Global Asia Pacific Equity Fund	5,715,450	3.46
8 Employees Trust Fund Board	5,714,594	3.46	Employees' Trust Fund Board	5,592,897	3.39
9 Softlogic Life Insurance PLC Account Number 03/Life Shareholders Fund	5,024,252	3.04	R S Captain	5,326,985	3.23
10 SBI Ven Holdings Pte Ltd.	5,000,000	3.03	BNY-CF Ruffer Investment Funds: CF Ruffer Pacific Fund	4,850,000	2.94
11 BNYMSANY Re-CF Ruffer Investment Funds: CF Ruffer Pacific Fund	4,850,000	2.94	HSBC International Nominees Ltd. – BP2S London – Aberdeen Asia Pacific Equity Fund	4,294,800	2.60
12 Hatton National Bank PLC A/C No 1	4,282,200	2.59	Hatton National Bank PLC – A/C No. 1	4,282,200	2.59
13 HSBC International Nominees Ltd.-BBH-Matthews Emerging Asia Fund	3,374,293	2.04	HSBC International Nominees Ltd. – MSNY-Bay Pond Partners L.P.	3,464,876	2.10
14 A K Pathirage	2,970,000	1.80	Asian Alliance Insurance PLC – A/C No.03 (Life Shareholders' Fund)	3,450,977	2.09
15 Perpetual Equities (Pvt) Ltd.	2,839,526	1.72	A K Pathirage	2,970,000	1.80
16 CIC Holdings PLC	2,462,894	1.49	HSBC International Nominees Ltd. – BBH-Matthews Emerging Asia Fund	2,515,196	1.52
17 Asiri Central Hospitals Ltd.	2,403,447	1.45	Asiri Central Hospitals Ltd.	2,403,447	1.46
18 Softlogic Life Insurance PLC-A/C 02 (Life Fund)	2,159,746	1.31	Asian Alliance Insurance PLC – A/C No.02 (Life Fund)	2,159,746	1.31
19 DFCC Bank PLC A/C 1	2,000,000	1.21	DFCC Bank PLC A/C No.01	2,000,000	1.21
20 HSBC International Nominees Ltd.-BP2S London-Aberdeen Asia Smaller Companies Investment Trust	1,683,000	1.02	HSBC International Nominees Ltd. – BP2S London-Aberdeen Asia Smaller Companies Investment Trust	1,683,000	1.02
Total	123,717,704	74.90		117,927,668	71.40

5. Public Shareholding

	2016	2015
Percentage of the shares held by the public	88.89%	90.30%
Number of public shareholders	8,014	7,881

6. Directors' Interest in Shares of the Bank

	As at 31 December 2016	As at 31 December 2015
	No. of Shares	No. of Shares
A W Atukorala	500	N/A
A K Pathirage	3,993,000*	3,993,000*
T L F Jayasekera	Nil	Nil
Mrs. K Fernando	Nil	Nil
D S P Wikramanayake	Nil	Nil
Mrs. W A I Sugathadasa	Nil	Nil
Mrs. D M A Harasgama	Nil	Nil
D M R Phillips	Nil	Nil
K D W Ratnayaka	Nil	Nil
N S Welikala	Nil	N/A
P L D N Seneviratne (appointed w.e.f. 01/01/2017)	N/A	N/A

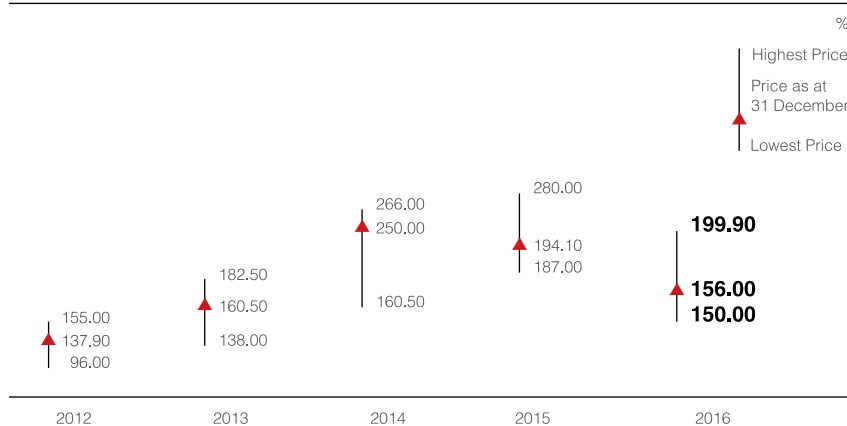
* Includes shares held in the slash account.

7. Information on Share Trading

7.1 Share Price Movement Trend Over the Past Five Years

Year	2016	2015	2014	2013	2012
Highest price	199.9	280	266	182.50	155
Date/s highest price was recorded	03.05.2016	23.07.2015 22.05.2015	03.10.2014	10.05.2013	26.09.2012
Lowest price	150.00	187.00	160.50	138.00	96.00
Date/s lowest price was recorded	24.11.2016	28.12.2015	02.01.2014	02.01.2013	05.06.2012
Price as at 31 December	156.00	194.10	250.00	160.50	137.90
Total number of shares in issue	165,185,506	165,167,342	165,093,922	164,693,034	164,201,902

Share Price Movement Trend Over the Past Five Years



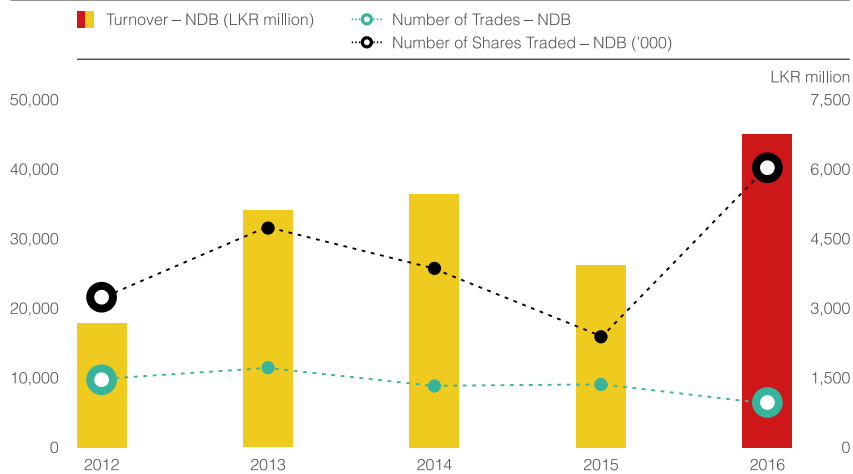
7.1.1 Share Price Movement Over the Year

2016	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Highest price	195.00	174.00	170.00	193.00	199.90	176.50	170.00	174.00	168.00	168.90	164.00	165.00
Lowest price	165.20	164.60	150.00	170.00	175.00	168.00	164.00	163.90	163.20	161.00	150.00	152.00
Price as at month end	170.00	164.60	168.80	193.00	176.00	169.20	164.30	164.60	166.10	161.00	153.10	156.00

7.2 Share Trading Details

Year	2016	Q4	Q3	Q2	Q1	2015	2014	2013	2012
Number of trades – NDB	6,356	322	2,471	1,645	1,918	9,040	8,917	11,406	9,854
Percentage of total market trades	0.60%	0.74%	0.71%	0.55%	0.81%	0.60%	0.45%	0.80%	0.53%
Number of shares traded ('000) – NDB	40,295	201	24,483	11,323	4,288	15,964	25,872	31,631	21,406
Percentage of total shares traded in the market	0.56%	0.05%	1.07%	0.70%	0.20%	0.17%	0.15%	0.22%	0.22%
Turnover – NDB (LKR million)	6,760	32	4,052	1,961	715	3,918	5,452	5,112	2,676
Average daily turnover – NDB	28	1	66	33	12	16	23	21	11
Percentage of total market turnover	3.82%	0.14%	8.44%	4.61%	1.59%	0.60%	1.60%	2.55%	1.25%

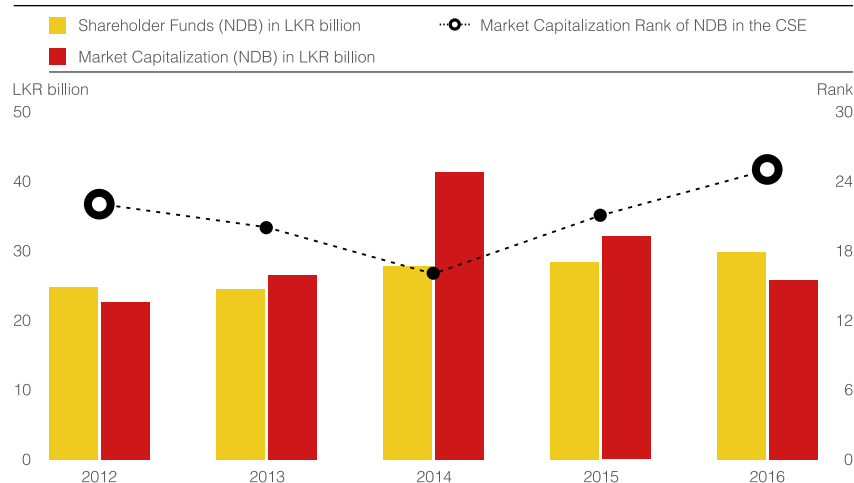
Share Trading Details



7.3 Shareholder Funds and Market Capitalization

Year	2016	2015	2014	2013	2012
Shareholder funds (NDB) in LKR million	29,937	28,382	27,876	24,514	24,883
Percentage increase/decrease in shareholder funds over the prior year	5%	2%	14%	-1%	47%
Market capitalization (NDB) in LKR million	25,769	32,059	41,273	26,433	22,643
Percentage increase/decrease in NDB market capitalization over the prior year	-20%	-22%	56%	17%	0%
Market capitalization (CSE) in LKR million	2,745,406	2,937,998	3,104,864	2,459,897	2,167,581
Percentage increase/decrease in CSE market capitalization over the prior year	-6.56%	-5.37%	26.22%	13.49%	-2.09%
NDB's market capitalizaion as a percentage of CSE market capitalization	0.94%	1.09%	1.33%	1.07%	1.04%
Market capitalization rank of NDB in the CSE	25	21	16	20	22
Market capitalization (BFI sector within CSE) in LKR million	653,858	699,844	753,695	512,792	490,561
NDB's market capitalizaion as a percentage of BFI sector capitalization	3.94%	4.58%	5.48%	5.15%	4.62%
Beta value of NDB share against ASPI	1.36	1.37	1.11	0.82	1.17
Beta value of NDB share against S&P SL20	0.92	1.54	1.10	0.63	1.28

Shareholder Funds and Market Capitalization



NDB Group's shareholder's funds increased by 5% in 2016 and reached LKR 29,937 million. Within shareholder funds, capital and retained earnings increased by 7% and 8% respectively. Other reserves recorded a decline of 50% over 2015 due to Available-for-sale revenues recording losses due to mark to mark valuation, which are deemed to be temporary in a rising interest rate environment.

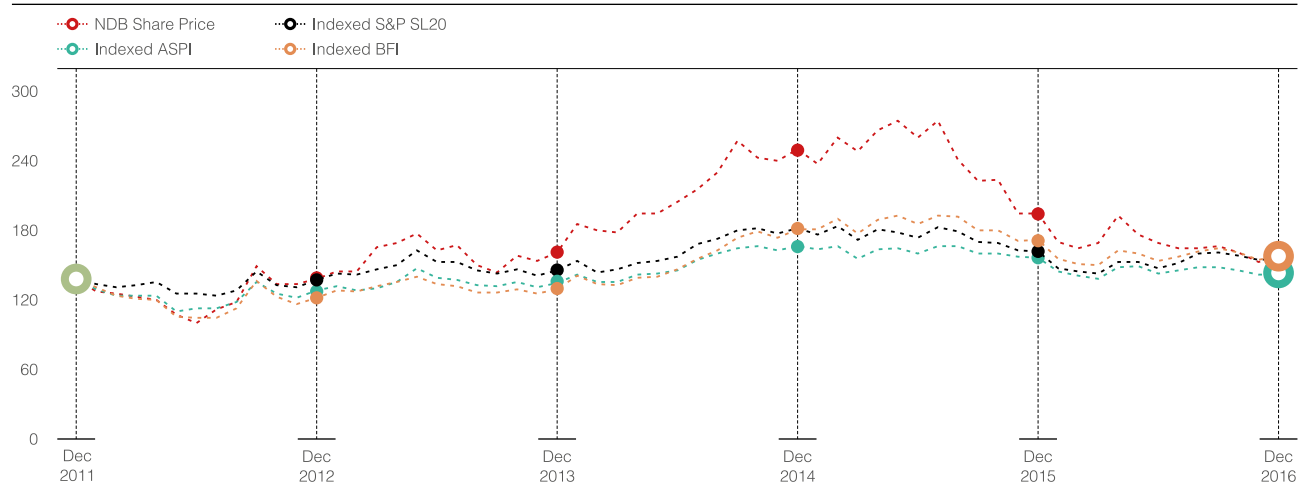
On a five-year compound annual growth rate spanning end 2011 to end 2016, the shareholder funds have grown at a rate of 12%.

NDB's market capitalization dropped by 20% and stood at LKR 25,769 million by end 2016, the primary reason for the drop being, the movement of the closing share price of LKR 156.00 in 2016 from LKR 194.10 in 2015.

7.4 NDB Share Performance in Comparison to Selected Indices

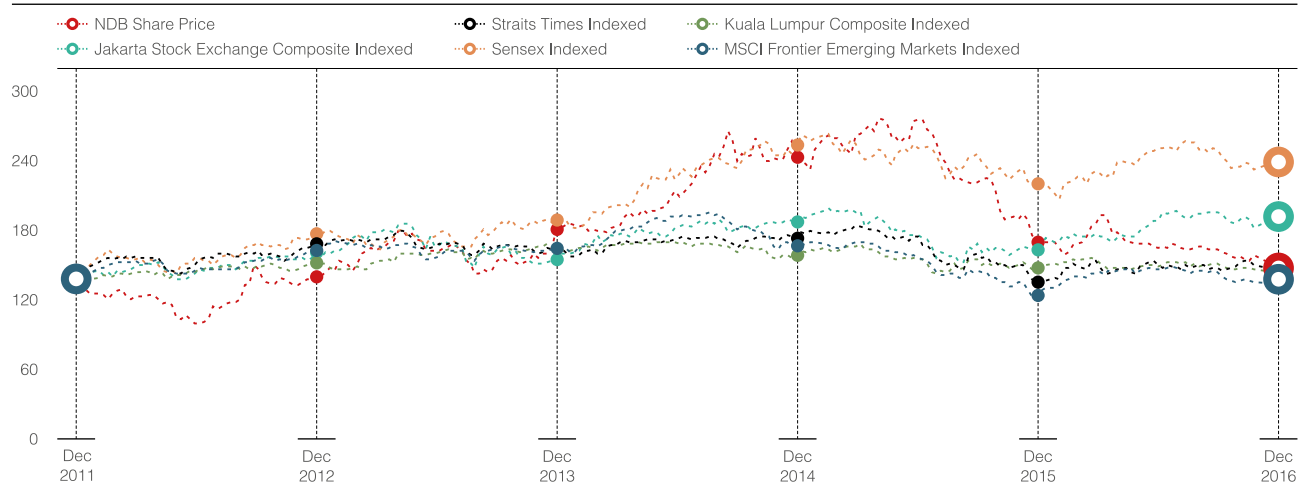
NDB Share Performance in Comparison to Local Indices Featured in the CSI

Index/LKR



NDB Share Performance in Comparison to Key Regional Indices

Index/LKR



8. Key Shareholder Return Indicators – NDB Group

Discussion of Each Key Ratio with Graphical Analysis

Year	2016	2015	2014	2013	2012
Return on equity (%)	9.23	12.59	15.78	10.7	42.35
Gross dividends paid during the year (LKR million)	654	1,815	1,987	3,222	657
Dividend per share (DPS) (LKR)	8.00	11.00	11.00	10.00	15.00
Dividend yield (%)	5.13	5.67	4.40	6.23	10.88
Dividend payout ratio (%)	49.11	51.00	43.90	62.37	79.00
Earnings per share (EPS) (LKR)	16.29	21.51	25.14	16.48	55.31
Total shareholder return ratio (TSR) (%)	-17.57	-17.96	63.23	30.89	2.75
Price earnings ratio (PE ratio) (Times)	9.58	9.02	9.94	9.74	2.49
Net asset value per share (LKR)	181.23	172.35	169.35	148.85	151.54
Price to book value (Times)	0.86	1.13	1.48	1.08	0.91

Return on Equity and Earnings per Share

The Bank's return on average shareholders' funds (ROE) for the year ended 31 December 2016 was 13.36%. The same measures for the NDB Group were 9.23%. The earnings per share (EPS) of the Bank and the Group were LKR 19.19 and LKR 16.29 respectively.

The reduction in the ROE as well as the EPS over the prior year was due to the reduction in profit attributable to shareholders, which was discussed in length under the Financial Review in pages 42 to 50.

Dividends Policy of the Bank

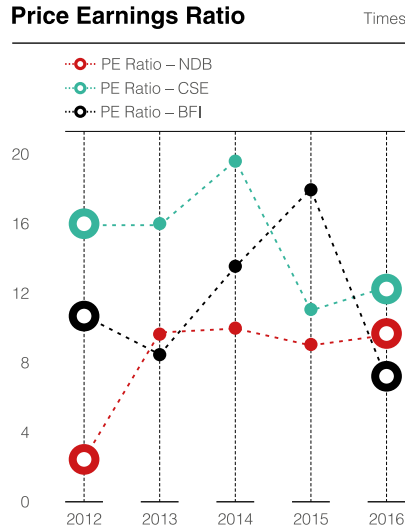
The Bank's dividends are governed by a Board approved dividend policy. The policy sets four key conditions in ensuring adequate returns to our shareholders, capital adequacy and sufficient liquidity when declaring dividends to shareholders.

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

Dividends for the Year

The Bank declared a final and total dividend of LKR 8.00 comprising a cash dividend of LKR 2.00 and a scrip dividend of LKR 6.00 per share for 2016. The dividend declared well met the internally set policy guidelines as was mentioned above.

Price Earnings Ratio



Total Shareholder Returns

Total shareholder returns (TSR) for the year was a negative 17.57%. The reduction of the share price and lower dividends per share compared to 2015 were the primary causes of the reduced TSR.

Price Earnings Ratio

The price earnings ratio (PE ratio) of 9.58 (times) compared with PE ratios of 12.37 (times) and 7.04 (times) of the CSE and the banking, finance and insurance sector of the CSE.

Price to Book Value

The price to book value (PBV) was 0.86 times (2015: 1.13 times). The reduction in the share price and the increase in the book value per share compared to 2015 led to the lesser than 1 PBV ratio.

Net Assets Value Per Share

This indicator improved from LKR 172.35 in 2015 to LKR 181.23 by end 2016, predominantly due to the 5% increase in the shareholder funds combined with a marginal increase in the share base of the Bank.

9. Employee Share Ownership Schemes

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

The Bank obtained approval of the shareholders at an Extraordinary General Meeting held in March 2016, 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 Ltd., NDB Wealth Management Ltd., NDB Investment Bank Ltd. and NDB Securities (Private) Limited to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions, thereby forming an Equity Linked Compensation Plan 2016 (ESOS 2016).

Accordingly, under 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 Scheme shall commence in the year 2017 and would be issued during a period of five years. In each year, the Share Options will be limited to 1.25% of the total number of shares then issued by the Bank.

The ELCP previously approved by the shareholders at an Extraordinary General Meeting 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 2014.

However, as per the ELCP 2010, the eligible members of the staff can exercise share options until 2017, and accordingly eligible staff members have exercised share options amounting to 18,164 shares during the year ended 31 December 2016.

The said issue of 18,164 shares resulted in the increase of the stated capital of the Bank from LKR 1,243 million to LKR 1,246 million as at 31 December 2016. The number of shares in issue increased from 165,167,342 to 165,185,506 as at 31 December 2016.

Additionally, the shares issued under Award 4 of the aforementioned ELCP Share Grant component and the balance un-allocated shares remaining from the issue of shares under Award 1 of the ELCP Share Grant component, were transferred to the respective eligible employees during the year 2016, subsequent to the completion of the vesting period and subsequent to obtaining the approval of the Securities and Exchange Commission of Sri Lanka (SEC) for such private transfers. Accordingly, a total number of 573,018 shares were transferred to eligible employees, thus effectively concluding the Share Grant component of the ELCP approved in the year 2010.

More details on the share options and share grants schemes are given on Note 43 on pages 352 and 353 to the Financial Statements.

DEBENTURES

10. NDB has Two Debentures in Issue as follows:

- i Listed rated unsecured subordinated redeemable debentures – June 2015
- ii Listed rated unsecured subordinated redeemable debentures – December 2013

10.1 Rated Unsecured Subordinated Redeemable Debentures – June 2015

10.1 (A) Key Features of the Debentures

Types of Debentures	Debenture Code	ISIN	Issue Price LKR	Par Value LKR	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-20.24.06-C2309-9.4	LK0207D23091	100	100	9.40	Annually	9.40%	24.06.2015	60 months (5 years)	31 December
Type B	NDB-BD-20.24.06-C2308-0	LK0207D23083	63.8136	100	9.40	Annual compounding on the Issue Price payable on the Date of Redemption	9.40%	24.06.2015	60 months (5 years)	At the time of redemption

10.1 (B) Trading Details for the Year Ended 31 December 2016

Type of Debenture	CSE Listing	Interest Payable Frequency	Balance as at 31 December 2016 LKR million	Market Value		Interest Rate		Interest Rate of Comparable Security %	Other Ratios as at Last Trade	
				Highest LKR	Lowest LKR	Quarter End LKR	Coupon Rate %		Effective Annual Yield %	Interest Yield %
Fixed Rate										
A – June 2015/ June 2020	Listed	Annually	7,000	Not traded during the year			9.40	9.19	8.30	Not traded during the year
B – June 2015/ June 2020	Listed	Payable on date of redemption	1,914	Not traded during the year			9.4 annual compounding on the Issue Price of Rs. 63.8136	9.18	8.30	Not traded during the year
Total Debentures			8,914							

10.2 Rated Unsecured Subordinated Redeemable Debentures – December 2013

10.2 (A) Key Features of the Debentures

Types of Debentures	Debenture Code	ISIN	Issue Price LKR	Par Value LKR	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	100	100	13.00	Semi-Annually	13.42	19.12.2013	60 months (5 years)	30 June & 31 December
Type B	NDB/BC/19/12/ 18B13.4	LK0207D21012	100	100	13.40	Annually	13.40	19.12.2013	60 months (5 years)	31 December
Type C	NDB/BC/19/12/ 23C13.9	LK0207D21038	100	100	13.90	Annually	13.90	19.12.2013	120 months (10 years)	31 December
Type D	NDB/BC/19/12/ 25D14	LK0207D21053	100	100	14.00	Annually	14.00	19.12.2013	144 months (12 years)	31 December

10.2 (B) Trading Details for the Year Ended 31 December 2016

Type of Debenture	CSE Listing	Interest Payable Frequency	Balance as at 31 December 2016 LKR Million	Market Value			Interest Rate		Interest Rate of Comparable Security %	Other Ratios as at Last Trade	
				Highest LKR	Lowest LKR	Quarter End LKR	Coupon Rate %	Effective Annual Yield %		Interest Yield %	Yield to Maturity %
Fixed rate											
A – Dec. 2013/Dec. 2018	Listed	Semi annually	1,243	100.10	99.00	99.00	13.00	12.79	8.30	13.60	13.60
B – Dec. 2013/Dec. 2018	Listed	Annually	1,529	98.50	98.50	98.50	13.40	12.77	8.30	14.15	14.15
C – Dec. 2013 Dec. 2023	Listed	Annually	3,638	Not traded during the year			13.90	13.17	9.75	Not traded during the year	
D – Dec. 2013/Dec. 2025	Listed	Annually	3,590	100.36	100.36	100.36	14.00	13.26	9.75	13.93	13.93
Total Debentures			10,000								

11. Information on debentures of the Bank (As per Rule No. 7.6 x (i) of the Listing Rules of the Colombo Stock Exchange (Bank))

	2016	2015
Debt Equity Ratio (%)	12.11	12.19
Interest Cover (Times)	1.42	1.55
Liquidity Assets Ratio (%) – Domestic Banking Unit	21.50	22.24
Liquidity Assets Ratio (%) – Foreign Currency Banking Unit	22.93	24.91

12. Directors' Interests in listed Debentures as at 31 December 2016

Name	Debenture June 2016		Debenture December 2015	
	As at 31 December 2016	As at 31 December 2015	As at 31 December 2016	As at 31 December 2015
	No. of Debentures	No. of Debentures	No. of Debentures	No. of Debentures
A W Atukorala	None	N/A**	None	N/A**
A K Pathirage	None	None	None	None
T L F Jayasekera	None	None	None	None
Mrs. K Fernando	None	None	None	None
D S P Wikramanayake	None	None	None	None
Mrs. W A I Sugathadasa	None	None	None	None
Mrs. D M A Harasgama	None	None	None	None
D M R Phillips	None	None	None	None
K D W Ratnayaka	None	None	None	None
N S Welikala	None	N/A**	None	N/A**
P L D N Seneviratne	N/A**	N/A**	N/A**	N/A**

** Not Directors as at 31 December 2015/16

CREDIT RATINGS OF NDB

13. NDB's Credit Ratings

NDB at present engages the services of Fitch Ratings Lanka Ltd. for local credit ratings and the Bank's ratings are as follows:

Revised in June 2016 and affirmed in January 2017

National long-term rating : A+(lka);
Stable outlook

Basel compliant subordinated term debt: A(lka)

Rating history – June 2015

National long-term rating : AA-(lka);
Stable outlook

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 USD

15.1 Statement of Profit or Loss

For the year ended 31 December	BANK			GROUP		
	2016	2015	Change	2016	2015	Change
	USD '000	USD '000	%	USD '000	USD '000	%
Gross income	226,689	189,161	20	230,062	196,921	17
Interest income	194,925	154,868	26	197,257	156,800	26
Less: Interest expenses	137,116	99,837	37	136,904	99,680	37
Net interest income	57,809	55,031	5	60,353	57,120	6
Fee and commission income	15,347	14,751	4	20,748	23,096	(10)
Net gains/(losses) from trading	6,689	7,963	(16)	6,689	7,963	(16)
Net gains/(losses) from financial investments	1,440	1,917	(25)	3,002	3,612	(17)
Other operating income	8,288	9,662	(14)	2,366	5,450	(57)
Total operating income	89,573	89,324	0	93,158	97,241	(4)
Less: Impairment for loans and receivables other losses	9,311	5,208	79	9,703	5,459	78
Net operating income	80,262	84,116	(5)	83,455	91,782	(9)
Less: Operating Expenses						
Personnel expenses	23,393	23,443	(0)	25,832	26,584	(3)
Other expenses	20,531	20,817	(1)	22,929	23,384	(2)
Total operating expenses	43,924	44,260	(1)	48,761	49,968	(2)
Operating profit before tax on financial services	36,338	39,856	(9)	34,694	41,814	(17)
Less: Tax on financial services	7,138	6,661	7	7,138	6,661	7
Operating profit after tax on financial services	29,200	33,195	(12)	27,556	35,153	(22)
Share of associate companies' profits/(losses)	–	–	–	–	569	(100)
Profit before taxation	29,200	33,195	(12)	27,556	35,722	(23)
Less: Taxation	7,606	7,506	1	8,382	8,871	(6)
Profit for the year	21,594	25,689	(16)	19,174	26,851	(29)
Profit attributable to equity holders of the parent	21,594	25,689	(16)	18,330	25,914	(29)
Non Controlling Interests	–	–	–	844	937	(10)
	21,594	25,689	(16)	19,174	26,851	(29)
Earnings Per Share on Profit						
Basic Earnings per share (in LKR)	0.13	0.16	(9)	0.11	0.16	(31)
Diluted Earnings per share (in LKR)	0.13	0.16	(9)	0.11	0.16	(31)

15.2 Statement of Comprehensive Income

As at 31 December	BANK			GROUP		
	2016	2015	Change	2016	2015	Change
	USD '000	USD '000	%	USD '000	USD '000	%
Profit for the year	21,594	25,689	(16)	19,174	26,851	(29)
Other comprehensive income/(expenses)						
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent period						
Exchange differences on translation of foreign operations	–	–	–	51	119	(57)
Gains/(losses) from available-for-sale Investments	(2,535)	(2,863)	11	(2,972)	(2,785)	(7)
Deferred tax effect on fair value adjustment of available-for-sale investment	94	576	(84)	227	576	(61)
Net gains/(losses) on available-for-sale investments	(2,441)	(2,287)	(7)	(2,745)	(2,209)	(24)
Gains /(losses) on cash flow hedges	(368)	(2,105)	83	(368)	(2,105)	83
Other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent period						
Revaluation of owner occupied portion of freehold buildings	–	–	–	143	698	(80)
Actuarial gains/(losses) on defined benefit plans	(498)	690	(172)	(542)	727	(175)
Deferred tax effect on actuarial gains/(losses)	72	(54)	233	79	(54)	246
Net actuarial gains/(losses) on defined benefit plans	(426)	636	(167)	(463)	673	(169)
Total other comprehensive income for the year, net of taxes	(3,235)	(3,756)	14	(3,382)	(2,824)	(20)
Total Comprehensive Income for the year	18,359	21,933	(16)	15,792	24,027	(34)
Attributable to:						
Equity holders of the parent	18,359	21,933	(16)	14,931	23,049	(35)
Non-Controlling Interests	–	–	–	861	978	(12)
	18,359	21,933	(16)	15,792	24,027	(34)

15.3 Statement of Financial Position

As at 31 December	BANK			GROUP		
	2016	2015	Change	2016	2015	Change
	USD '000	USD '000	%	USD '000	USD '000	%
Assets						
Cash and cash equivalents	33,501	82,094	(59)	34,308	82,282	(58)
Balances with the Central Bank of Sri Lanka	78,874	48,610	62	78,874	48,610	62
Placements with banks	22,011	8,011	175	22,011	8,011	175
Derivative financial instruments	10,311	13,219	(22)	10,311	13,219	(22)
Financial Assets – held-for-trading	5,559	20,731	(73)	24,443	36,316	(33)
Loans and Receivables to banks	247	713	(65)	247	713	(65)
Loans and Receivables to other customers	1,519,625	1,455,570	4	1,519,893	1,456,011	4
Financial investments – loans and receivables	280,324	248,822	13	293,035	259,505	13
Financial investments – available-for-sale	210,281	197,927	6	212,946	201,145	6
Financial investments – held-to-maturity	27,621	30,812	(10)	33,018	39,312	(16)
Investments – held-for-sale	124	129	(4)	222	231	(4)
Investments in subsidiary companies	14,124	14,612	(3)	–	–	–
Investments in associate companies	–	–	–	–	–	–
Investment property	–	–	–	11,856	11,611	2
Intangible assets	2,457	1,668	47	2,568	1,908	35
Property, plant & equipment	13,876	14,097	(2)	16,878	17,048	(1)
Other assets	14,341	9,912	45	13,968	14,034	(0)
Total assets	2,233,276	2,146,927	4	2,274,578	2,189,956	4
Liabilities						
Due to banks	114,319	80,694	42	114,319	80,694	42
Derivative financial instruments	3,169	4,439	(29)	3,169	4,439	(29)
Due to other customers	1,360,925	1,284,259	6	1,358,584	1,278,835	6
Debt Securities issued and other borrowed funds	395,416	420,332	(6)	395,416	420,124	(6)
Tax liabilities	5,645	3,378	67	5,691	3,639	56
Deferred tax liabilities	5,286	4,878	8	4,972	4,950	0
Employee benefit liabilities	2,211	1,756	26	2,635	2,064	28
Other liabilities	51,302	53,617	(4)	52,944	55,110	(4)
Subordinated term debts	129,816	135,930	(4)	129,816	135,930	(4)
Total liabilities	2,068,089	1,989,283	4	2,067,546	1,985,785	4
Equity						
Capital	8,321	8,630	(4)	8,321	8,076	3
Statutory reserve fund	8,321	8,630	(4)	8,321	8,630	(4)
Retained earnings	146,157	135,030	8	179,883	173,444	4
Other reserves	2,388	5,354	(55)	3,319	6,948	(52)
Total equity to equity holders of the Bank	165,187	157,644	5	199,844	197,098	1
Non-controlling interests	–	–	–	7,188	7,073	2
Total equity	165,187	157,644	5	207,032	204,171	1
Total liabilities and total equity	2,233,276	2,146,927	4	2,274,578	2,189,956	4
Commitments and contingencies	1,563,558	1,651,031	(5)	1,569,629	1,656,872	(5)

16. Interim Financial Performance

16.1 Statement of Profit or Loss

BANK LKR '000	2016				2015			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Net Interest Income	2,243,419	2,204,438	2,060,538	1,978,917	2,015,765	1,843,930	1,741,914	1,920,215
Other operating income	1,568,275	881,682	809,701	1,403,833	966,482	1,141,910	868,296	1,710,776
Total Operating Income	3,811,694	3,086,120	2,870,239	3,382,750	2,982,247	2,985,840	2,610,210	3,630,991
Less: Impairment for loans receivables and other losses	384,229	153,456	292,076	537,193	194,664	318,872	261,799	(63,502)
Net operating income	3,427,465	2,932,664	2,578,163	2,845,557	2,787,583	2,666,968	2,348,411	3,694,493
Less: Operating expenses	1,624,721	1,640,550	1,616,026	1,567,547	1,544,024	1,556,793	1,543,338	1,405,424
Profit Before Taxation	1,802,744	1,292,114	962,137	1,278,010	1,243,559	1,110,175	805,073	2,289,069
Less: Taxation	646,443	553,179	484,412	480,699	395,004	450,310	359,636	731,494
Profit for the period	1,156,301	738,935	477,725	797,311	848,555	659,865	445,437	1,557,575
Profit Attributable to:								
Equity Holders of the parent	1,156,301	738,935	477,725	797,311	848,555	659,865	445,437	1,557,575
Non-Controlling Interests	–	–	–	–	–	–	–	–
	1,156,301	738,935	477,725	797,311	848,555	659,865	445,437	1,557,575
Basic Earnings per share (in LKR)	7.00	4.47	2.89	4.83	5.14	4.00	2.70	9.43
Effective Tax rate (%)	35.86	42.81	50.35	37.61	31.76	40.56	44.67	31.96

GROUP LKR '000	2016				2015			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Net Interest Income	2,328,677	2,297,787	2,169,853	2,064,449	2,102,096	1,902,158	1,819,330	1,983,792
Other operating income	1,368,243	1,159,120	1,006,897	1,282,041	1,576,221	1,574,655	1,175,198	1,157,857
Total Operating Income	3,696,920	3,456,907	3,176,750	3,346,490	3,678,317	3,476,813	2,994,528	3,141,649
Less: Impairment for loans receivables and other losses	374,700	171,008	332,943	545,923	201,187	327,339	281,121	(63,502)
Net operating income	3,322,220	3,285,899	2,843,807	2,800,567	3,477,130	3,149,474	2,713,407	3,205,151
Less: Operating expenses	1,831,290	1,826,287	1,778,713	1,722,663	1,803,152	1,746,450	1,718,962	1,561,316
Profit from Operations	1,490,930	1,459,612	1,065,094	1,077,904	1,673,978	1,403,024	994,445	1,643,835
Share of associate companies' profit/(losses)	–	–	–	–	–	14,898	15,957	46,963
Profit Before Taxation	1,490,930	1,459,612	1,065,094	1,077,904	1,673,978	1,417,922	1,010,402	1,690,798
Less: Taxation	699,300	561,999	509,539	507,748	332,582	562,332	426,887	801,204
Profit for the period	791,630	897,613	555,555	570,156	1,341,396	855,590	583,515	889,594
Profit Attributable to:								
Equity Holders of the parent	726,070	881,977	535,433	547,528	1,254,438	843,797	574,531	869,275
Non-Controlling Interests	65,560	15,636	20,122	22,628	86,958	11,792	8,985	20,319
	791,630	897,613	555,555	570,156	1,341,396	855,589	583,516	889,595
Basic Earnings per share (in LKR)	4.40	5.34	3.24	3.33	7.62	5.13	3.49	5.28
Effective Tax rate (%)	46.90	38.50	47.84	47.11	19.87	39.66	42.25	47.39

16.2 Statement of Financial Position

BANK LKR '000	As at 31/12/2016	As at 30/9/2016	As at 30/6/2016	As at 31/3/2016	As at 31/12/2015	As at 30/9/2015	As at 30/6/2015	As at 31/3/2015
Cash and cash equivalents	20,130,977	26,723,081	19,647,159	23,008,322	19,975,020	17,543,429	22,411,605	23,582,507
Net Loans and Advances	227,676,876	222,241,637	220,464,118	215,736,673	209,704,701	192,527,763	181,435,628	175,633,823
Investments	80,597,222	72,632,950	67,942,445	66,224,434	73,876,706	62,113,872	61,414,034	58,134,409
Other Assets	6,139,657	5,720,208	6,277,980	7,318,040	5,601,178	6,384,483	5,667,489	6,822,165
Total	334,544,732	327,317,876	314,331,702	312,287,469	309,157,605	278,569,547	270,928,756	264,172,904
Customer Deposits	203,866,547	193,642,483	190,837,894	196,903,356	184,933,230	169,341,944	170,094,950	162,760,544
Borrowings	95,804,708	101,803,282	93,116,971	84,862,163	91,721,730	75,767,555	69,648,348	70,632,546
Other Liabilities	10,128,428	7,404,401	7,192,736	8,136,007	9,801,788	9,616,638	7,575,200	7,604,820
Shareholders' Funds	24,745,049	24,467,710	23,184,101	22,385,943	22,700,857	23,843,410	23,610,258	23,174,994
Total	334,544,732	327,317,876	314,331,702	312,287,469	309,157,605	278,569,547	270,928,756	264,172,904
Net Asset Value	149.80	137.44	140.24	135.54	137.44	144.36	142.95	140.37

GROUP LKR '000	As at 31/12/2016	As at 30/9/2016	As at 30/6/2016	As at 31/3/2016	As at 31/12/2015	As at 30/9/2015	As at 30/6/2015	As at 31/3/2015
Cash and cash equivalents	20,251,928	26,851,379	19,651,235	23,200,708	20,002,092	17,719,697	22,603,704	23,791,534
Net Loans and Advances	227,716,971	222,268,482	220,490,633	215,737,783	209,768,193	192,528,547	181,469,407	175,659,497
Investments	84,436,802	76,359,458	71,976,538	70,162,269	77,257,188	66,234,659	64,452,825	61,380,473
Other Assets	8,326,066	8,715,345	8,757,470	9,850,891	8,326,260	8,227,970	8,315,231	9,164,418
Total	340,731,767	334,194,664	320,875,876	318,951,651	315,353,733	284,710,873	276,841,167	269,995,922
Customer Deposits	203,515,828	193,348,373	190,447,984	196,510,148	184,152,280	169,039,614	169,721,436	162,427,534
Borrowings	95,804,708	101,803,282	93,116,971	84,903,033	91,691,730	75,737,556	69,618,348	70,602,547
Other Liabilities	10,397,934	7,931,796	7,629,975	8,698,974	10,109,006	9,877,556	7,889,172	7,912,640
Shareholders' Funds	29,936,588	30,083,207	28,659,549	27,796,707	28,382,204	29,113,108	28,684,521	28,098,021
Non-Controlling Interests	1,076,709	1,028,006	1,021,397	1,042,789	1,018,513	943,039	927,690	955,180
Total	340,731,767	334,194,664	320,875,876	318,951,651	315,353,733	284,710,873	276,841,167	269,995,922
Net Asset Value	181.23	172.45	173.40	168.80	172.35	176.79	174.19	170.70

17. Ten Years at a Glance (Group Performance)

17.1 Statement of Profit or Loss

LKR million	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Income											
Net Interest Income	2,853	3,522	3,787	4,233	4,163	4,910	5,896	7,012	7,913	7,807	8,861
Other Income	2,133	1,474	1,662	2,560	2,785	3,012	9,042	4,537	5,053	5,484	4,816
Total Operating Income	4,986	4,996	5,449	6,793	6,948	7,922	14,938	11,549	12,966	13,291	13,677
Less: Impairment for loans and receivables and other losses	13	65	116	373	(172)	(88)	51	1,261	529	746	1,425
Net Operating Income	4,973	4,932	5,333	6,420	7,120	8,010	14,887	10,288	12,437	12,545	12,252
Less Operating Expenses											
Personnel Expenses	830	949	1,151	1,300	1,567	2,118	2,333	2,660	3,172	3,634	3,793
Other Expenses	929	1,104	1,237	1,370	1,496	1,863	2,163	2,904	2,738	3,196	3,366
Total Operating Expenses	1,759	2,053	2,388	2,670	3,063	3,981	4,496	5,564	5,910	6,830	7,159
Operating Profit Before Share of Associate Companies, Profit Before Tax	3,213	2,879	2,945	3,750	4,056	4,030	10,391	4,724	6,527	5,715	5,094
Share of Associate Company's Profit/(Losses)	214	179	172	526	295	331	439	49	97	78	–
Profit Before Taxation	3,427	3,058	3,117	4,276	4,351	4,361	10,830	4,773	6,624	5,793	5,094
Less: Taxation	1,220	1,421	1,409	2,154	2,175	1,597	1,898	2,061	2,378	2,123	2,279
Profit for the Year	2,207	1,637	1,708	2,122	2,176	2,764	8,932	2,712	4,246	3,670	2,815
Non controlling Interest	(176)	(115)	(103)	(37)	(73)	(235)	(78)	(70)	(112)	(128)	(124)
Profit Attributable to equity holders of the parent	2,031	1,522	1,605	2,085	2,103	2,529	8,854	2,642	4,134	3,542	2,691

17.2 Group – Statement of Financial Position

LKR million	2006	2007	2008	2009	2010	2011	2012	2013	2014	2,015	2016
Assets											
Liquid assets	6,042	7,748	5,883	8,243	5,586	7,651	13,269	8,139	12,737	20,002	20,252
Investments	12,170	14,701	18,509	32,128	20,021	27,359	32,499	55,614	72,971	77,257	84,437
Loans and Receivables	42,418	49,818	54,589	54,107	78,452	102,019	124,311	137,523	175,547	209,768	227,717
Investments in Associate Companies	1,179	1,210	1,393	1,724	1,763	1,797	33	77	–	–	–
Property, Plant & Equipment	691	804	781	806	918	1,504	1,541	1,473	2,550	2,730	2,913
Investment Property	1,200	1,200	1,200	1,200	1,200	1,296	1,296	1,384	1,546	1,672	1,776
Other Assets	1,277	662	925	1,075	691	962	1,154	2,608	3,780	3,925	3,637
Goodwill	–	–	–	4	4	–	–	–	–	–	–
Total Assets	64,977	76,143	83,281	99,287	108,635	142,588	174,103	206,818	269,130	315,354	340,732
Liabilities											
Borrowings	29,204	34,147	34,993	29,561	28,631	38,973	36,630	47,344	80,768	92,331	96,279
Deposits with customers	21,161	25,624	31,091	49,948	60,533	82,094	107,394	129,423	151,485	184,152	203,516
Taxation	640	522	352	560	633	397	713	625	1,416	1,237	1,597
Other Liabilities	2,091	2,750	3,614	4,334	2,826	3,286	3,657	4,062	6,662	8,233	8,326
Total Liabilities	53,096	63,043	70,050	84,403	92,623	124,750	148,394	181,454	240,331	285,953	309,718
Shareholders' Funds											
Capital	1,033	1,033	1,033	1,033	864	864	864	944	1,145	1,163	1,246
Statutory Reserve Fund	819	819	819	819	879	879	879	959	1,011	1,243	1,246
Other Reserves	–	–	–	–	–	387	924	1,880	1,474	1,000	497
Retained Earnings	8,715	9,833	10,811	12,345	13,552	14,796	2,221	20,733	24,246	24,976	26,947
Total equity attributable to equity holders of the Bank	10,567	11,685	12,663	14,197	15,295	16,926	24,883	24,516	27,876	28,382	29,936
Minority non-controlling Interest	1,314	1,415	568	687	717	913	826	848	923	1,019	1,077
Total Equity	11,881	13,100	13,231	14,884	16,012	17,839	25,709	25,364	28,799	29,401	31,013
Total Liabilities & Equity	64,977	76,143	83,281	99,287	108,635	142,588	174,103	206,818	269,130	315,354	340,732

17.3 Share Information

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2,015	2016
Share Information											
Market price per share (LKR)	201.00	170.00	86.00	206.00	174.50	138.10	138.10	161.50	250.00	194.10	156.00
Basic Earnings per share (LKR)	12.40	9.30	9.80	12.75	12.81	15.79	55.31	16.48	25.14	21.51	16.29
Interim Dividends per share (LKR)	–	–	–	–	4.00	3.50	5.00	5.00	7.00	7.00	–
Final Dividends per share (LKR)	4.00	6.00	6.75	8.00	4.50	4.00	10.00	5.00	4.00	4.00	8.00
Total Dividends per share (LKR)	4.00	6.00	6.75	8.00	8.50	7.50	15.00	10.00	11.00	11.00	8.00
Dividend cover (Times)	6.20	3.72	3.27	3.77	2.19	2.05	3.69	1.65	2.29	1.93	2.40
Price earnings ratio (Times)	8.10	9.14	4.39	8.08	13.63	8.97	2.56	9.74	9.94	9.02	9.58
Book value per share (LKR)	64.54	71.38	77.35	86.72	93.15	103.08	151.54	148.85	169.35	172.35	181.23

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	192 to 203
7.6 (ii)	Principal activities of the Entity and its subsidiaries during the year and any changes therein	296
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	134
7.6 (iv)	The Public Holding percentage	135
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 the financial year	135
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	151 to 185
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity	257
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Note 32 to 34 on pages 333 to 339
7.6 (ix)	Number of shares representing the Entity's stated capital	Note 43 on page 352
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)	133 and 134
7.6 (xi)	Ratios and Market Price Information - Equity: Dividend per share, Dividend payout, Net asset value per share, Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year) - Debt: Interest rate of comparable Government Security, debt/equity ratio, Interest cover, quick assets ratio, market prices and yield during the year (ex-interest) – Highest Price/Lowest Price/Last traded price - Any changes in the credit rating (for the entity or any other instruments issued by the entity), if applicable	128 to 142 128 to 142 142
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	Note 32 to 34 on pages 333 to 339
7.6 (xiii)	Details of the funds raised either through a public issue, Rights Issue or private placement: - A statement as to the manner in which the proceeds of such issue has been utilized. - If any shares or debentures have been issued, the number, class and consideration received, and the reason for the issue, and - Any material change in the use of funds raised through an issue of Securities	254 254 254
7.6 (xiv)	Employee share option scheme details	Note 43 to pages 352 and 353
	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	The Bank is exempted from section 7.10 of the CSE Listing Rules thus N/A
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	N/A

19. Shareholder Enquiries and Communications

Investor Relations Team

Mrs. Suvendrini Muthukumarana

Assistant Vice-President –

Finance and Planning

Tel.: + 94 112 448 448 / Ext. 3817

Fax: + 94 112 341 047

Email: investor.relations@ndbbank.com

Company Secretarial Division

Mrs. Shehani Ranasinghe

Company Secretary

Tel.: + 94 112 448 448 / Ext. 33000

Fax: + 94 112 341 050

Email: shehani.ranasinghe@ndbbank.com

Address:

National Development Bank PLC,
No. 40, Navam Mawatha,
Colombo 02,
Sri Lanka.

RISK MANAGEMENT

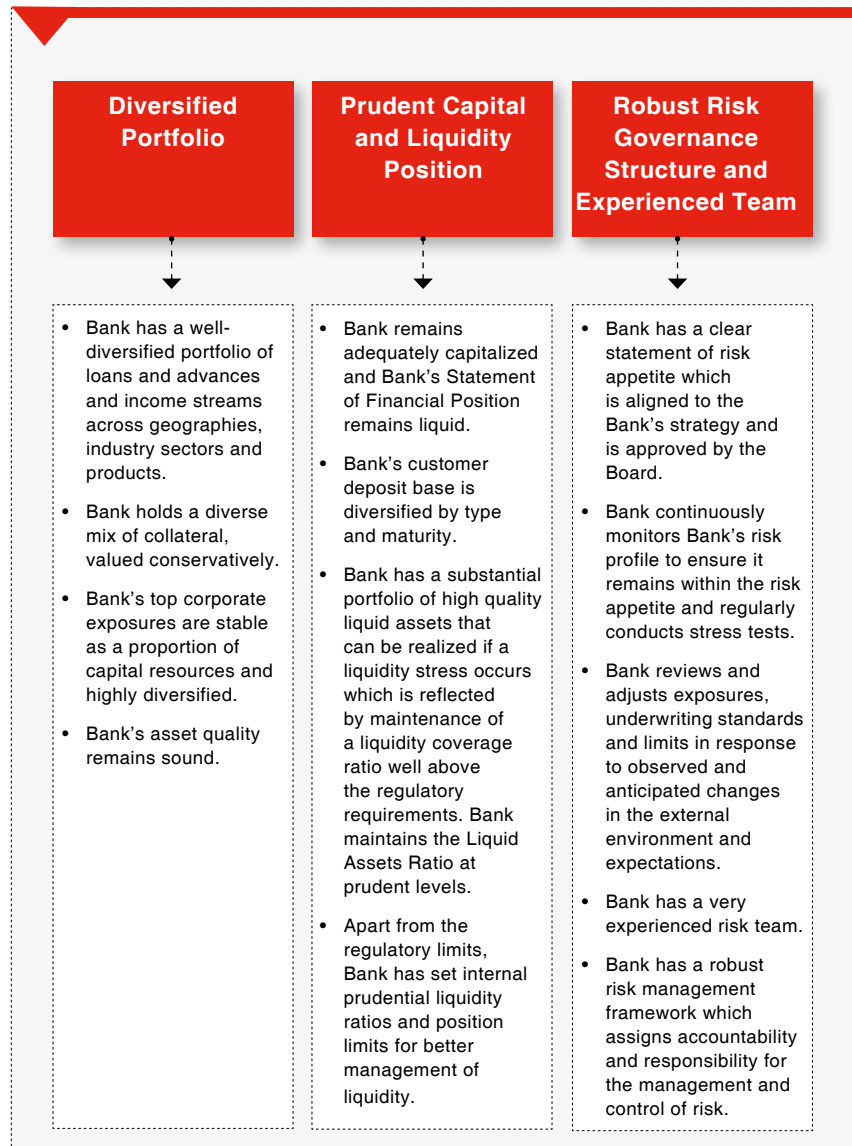


SCAN TO VIEW

<http://ndbbank2016.annualreports.lk/risk-management/>

Risk management has evolved over time from being relatively simple to complex in nature. Today, Banks need to plan on managing 'known unknowns' risks and prepare for the 'unknown unknowns' risks. 'Known unknowns' are the risks one is aware of whilst 'unknown unknowns' are unexpected or unforeseeable conditions, which pose a potentially greater risk simply because they cannot be anticipated based on past experience or investigation. Therefore, robust risk management frameworks built on sound risk principles are essential for resilience and to ensure that the interests of all stakeholders are safeguarded not only from 'known unknowns' but also from 'unknown unknowns'.

THE RISK PROFILE OF THE BANK AT A GLANCE



2016 KEY ACHIEVEMENTS

FURTHER STRENGTHENING OF EXISTING RISK MANAGEMENT POLICY FRAMEWORK

Credit Policy reviewed and sub policies amalgamated to one main policy for ease of reference.

AUTOMATION OF CAPITAL COMPUTATION FOR CREDIT RISK UNDER PILLAR I

VALIDATION OF RISK MODELS

Independent third party validation of risk models commenced based on the Board approved Model Validation Policy

FURTHER STRENGTHENING RISK AND COMPLIANCE CULTURE ACROSS THE GROUP

Developing Risk Policies, Procedure Manuals and Risk Dashboards across the Group. Operational Risk Framework being rolled out across the Group

FURTHER STRENGTHENING OF STRESS TESTING FRAMEWORK

Review of Stress Testing Policy and Framework and incorporation of regional best practices based on EY suggestions.

Building capacity across the Bank by training a team from Risk, Finance, Business Lines and Audit. Increase of stress testing scope based on Bank's risk profile.

2017 OUR PRIORITIES

- **MAXIMIZE CAPITAL UTILIZATION**
- **Moving to advanced approaches in terms of capital computation**
- **IMPLEMENTATION OF IFRS 9**
- **FULL AUTOMATION OF OPERATIONAL RISK MANAGEMENT PROCESS**
- **GROUP WIDE RISK APPETITE FRAMEWORK TO BE PUT IN PLACE TO DEFINE THE BOUNDARIES AND DRIVERS OF DOING BUSINESS**
- **BASEL III COMPLIANCE**
- **CONTINUING TO DEVELOP RISK TALENT ACROSS THE GROUP RISK MANAGEMENT DEPARTMENT**
- **FURTHER STRENGTHENING OF RISK AND COMPLIANCE CULTURE ACROSS THE GROUP**

KEY EXTERNAL DRIVERS THAT WILL AFFECT THE BANK



GROWTH OF WORLD ECONOMY AND LOCAL ECONOMY

- Bank monitors these trends carefully to support decision making at operational and strategic levels.



GEOPOLITICAL EVENTS INCLUDING ECONOMIC AND POLITICAL INSTABILITY IN MIDDLE EAST AND EUROPE

- Bank actively monitors situations that could have an impact and conducts regular stress tests of the impact of such events on portfolios.



CHANGES IN REGULATORY ENVIRONMENT

- Bank reviews key regulatory developments in order to anticipate changes and their potential impact on performance. 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 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, updates to operating systems, vulnerability re-mediation and control of privileged accounts.
- 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 comply with Baseline Security Standards Guidelines issued by the Central Bank of Sri Lanka. The Bank also conducts both internal and external penetration tests by employing external service providers from time to time to ensure the systems are resilient to such attacks.



MONETARY POLICY, MARKET CONDITIONS AND ECONOMIC CLIMATE

- Low market liquidity can affect a bank's ability to borrow money and increase cost of funds. Bank has adequate processes in place to sense the early warning signals of probable liquidity constraints and planned action to be taken in case of a stressed situation including reciprocal funding agreements.

INTEGRATED RISK MANAGEMENT FRAMEWORK

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;

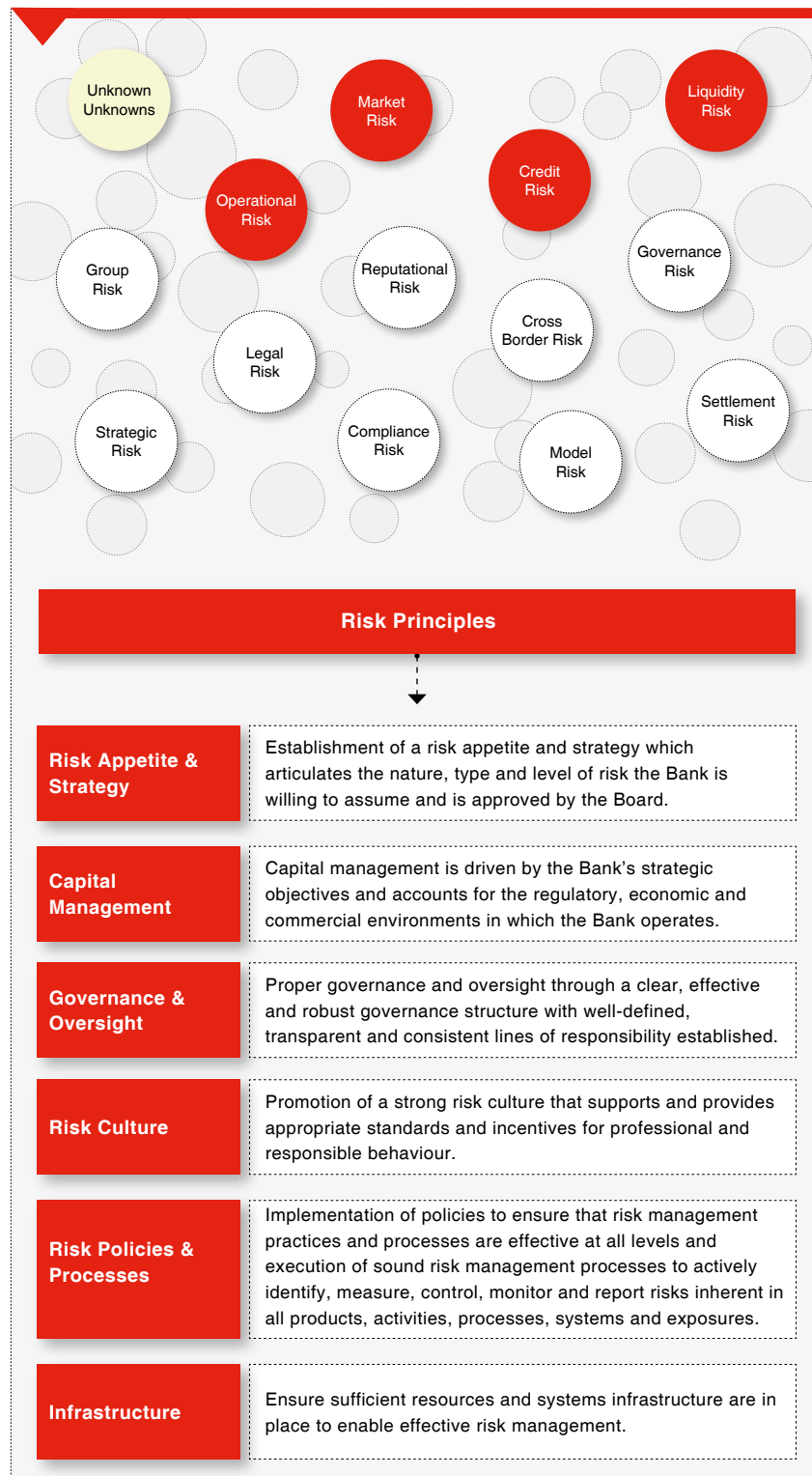
- To establish common principles, standards for management and control of all risks and to inform behaviour across the Bank
- Provide a shared framework and language to improve awareness of risk management processes among all stakeholders
- To provide clear accountability and responsibility for risk management
- To ensure consistency throughout the Bank in risk management
- Define the Bank's risk appetite and align the Bank's portfolios and business strategy accordingly
- Optimize risk return decisions
- Maintain 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 risks 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 the 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.

RISK UNIVERSE



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 ongoing 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, therefore, 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

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 II Framework

The Bank is fully compliant with BASEL II regulatory requirements. Details of compliance under each pillar are discussed below.

Pillar I – Minimum Capital Requirement

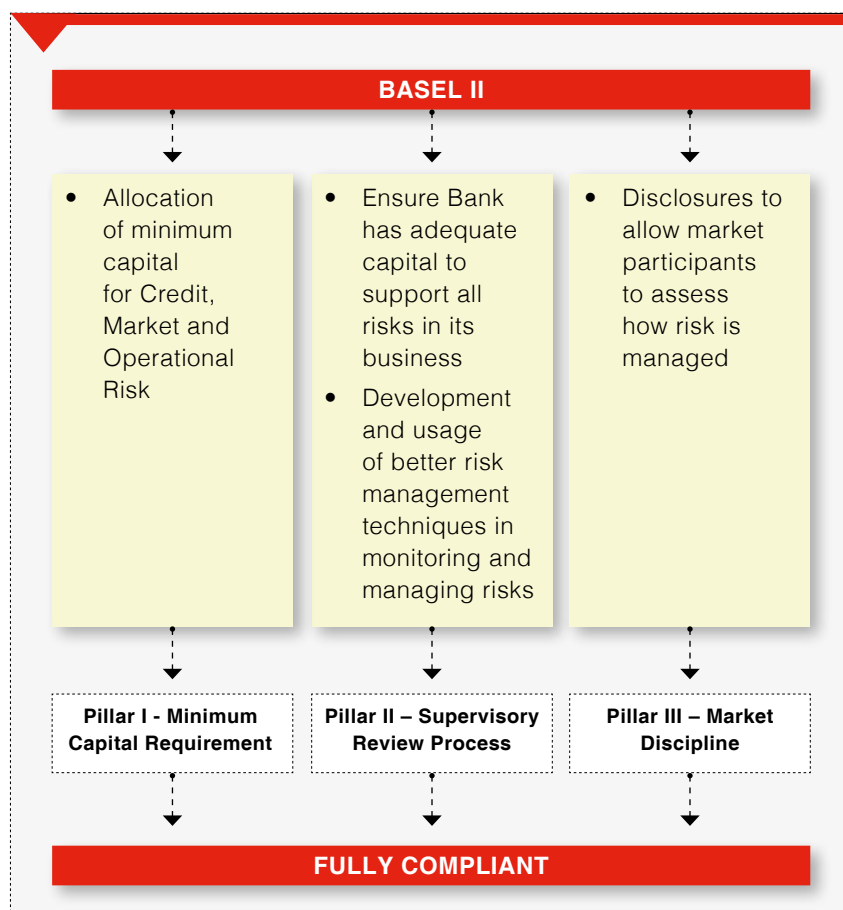
The objective of minimum capital requirements under Pillar I of the BASEL II framework is to ensure that banks hold sufficient capital for Credit, Market and Operational Risks. The Bank is currently using the Standardized Approach for minimum capital computation for Credit Risk, the Standardized Measurement Approach for 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 Central Bank of Sri Lanka. The Bank automated its minimum capital computation process in terms of Credit and Market Risks during the year. The automation of manual process will ensure accuracy and better conformance to guidelines.

Credit Risk – With the intention of moving to Internal Rating Based approaches, the Bank rolled out rating models with the assistance of CRISIL Risk and Infrastructure Solutions Ltd. India in 2014. The Bank is awaiting issuance of guidelines on advanced approaches of capital computation under Credit Risk.

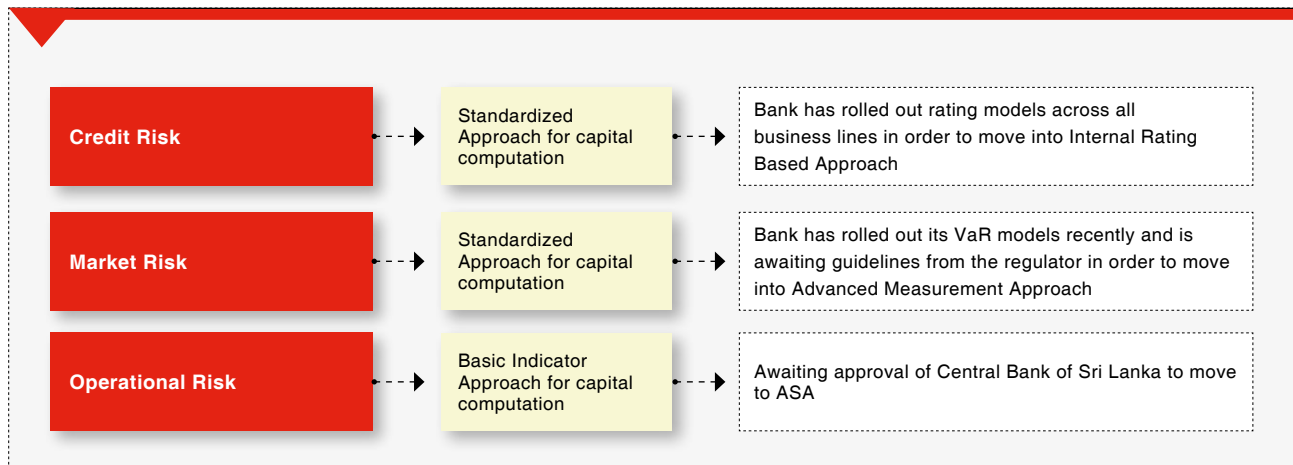
Market Risk – The Bank has already rolled out its VaR models and will consider moving to advanced approach of capital computation for Market Risk on receipt of guidelines from the regulator.

Operational Risk – The Bank had been computing capital requirements in parallel according to The Standardized Approach (TSA) and Alternative Standardized Approach (ASA). The Bank forwarded a formal application to the Central Bank of Sri Lanka, requesting to grant approval to move to ASA after analyzing both advance approaches (TSA & ASA) in considering the cost saving against the currently used Basic Indicator Approach (BIA).

BASEL II FRAMEWORK



ADVANCED APPROACHES OF PILLAR I



Pillar II – Supervisory Review Process

Minimum regulatory capital requirements under Pillar I, establish a threshold which a sound bank's regulatory capital must not fall below. 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 and to initiate such supervisory measures on that basis, as might be considered necessary. 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.

The Bank has in place, a comprehensive Stress Testing Policy and Framework which is 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 at various frequencies in-line with the Board approved framework and details of those are reported to Board. The outcome of stress testing process is monitored carefully and remedial actions taken in case of breaches. Further stress testing is used by the Bank as a tool to supplement other risk management approaches.

The details of Stress Tests carried out by the Bank as at 31 December 2016 are given below:

Stand-alone Stress Tests

Credit Risk

Impact of increase in the Non-Performing Assets (NPAs)

Impact of change in Impairment

Credit Concentration Risk

Impact of default of Large Borrowers

Impact of default by the largest Group

Impact of default in specific sector/region

Interest Rate Risk

Stress testing on Interest rate risk in the trading book (Debt Securities)

Stress testing on Interest rate risk in the banking book

Exchange Rate Risk

Impact of exchange rate movements on the Bank's Net Open position

Impact of exchange rate movements on Domestic Banking Unit (DBU) Net Open position

Equity Price Risk

Bank did not hold equity portfolio in the trading book as at date

Liquidity Risk

Market Specific – Adverse impact on Money Market/Institutional Borrowings – DBU

Market Specific – Adverse impact on Money Market/Institutional Borrowings – Foreign Currency Banking Unit (FCBU)

Bank Specific – Run down on Current and Savings Accounts (CASA)/Time deposits – DBU

Bank Specific – Run down on CASA/Time deposits – FCBU

Market/Bank Specific – Adverse impact on total liquid liabilities – DBU

Market/Bank Specific – Adverse impact on total liquid liabilities – FCBU

Impact of large deposits run off on liquidity

Impact of a deposit run off scenario on capital

Multi Factor Stress Testing

Combined Stress test

Pillar III – Disclosures

The Bank provides quantitative and qualitative disclosures in-line with the Central Bank of Sri Lanka guidelines to provide a meaningful picture of the extent and nature of various risks that the Bank is exposed to and the efficiency of the Banks' risk management practices.

BASEL III Framework

BASEL III is the new global regulatory standard on managing capital and liquidity of banks.

With the introduction of BASEL III, the capital requirements of banks have increased with an aim to raise the quality, quantity, consistency and transparency of capital base and

improve the loss absorbing capacity. The Bank has commenced parallel computations of capital according to BASEL III requirements, based on the guidelines and is confident of meeting requirements when the requirements comes into force from 1 July 2017.

The Bank computes the Liquidity Coverage Ratio (LCR) as prescribed by the regulator and is well within the regulatory limits. LCR is one of the Basel Committee's key reforms to strengthen global liquidity regulations with the goal of promoting a more resilient banking sector.

Governance and Oversight

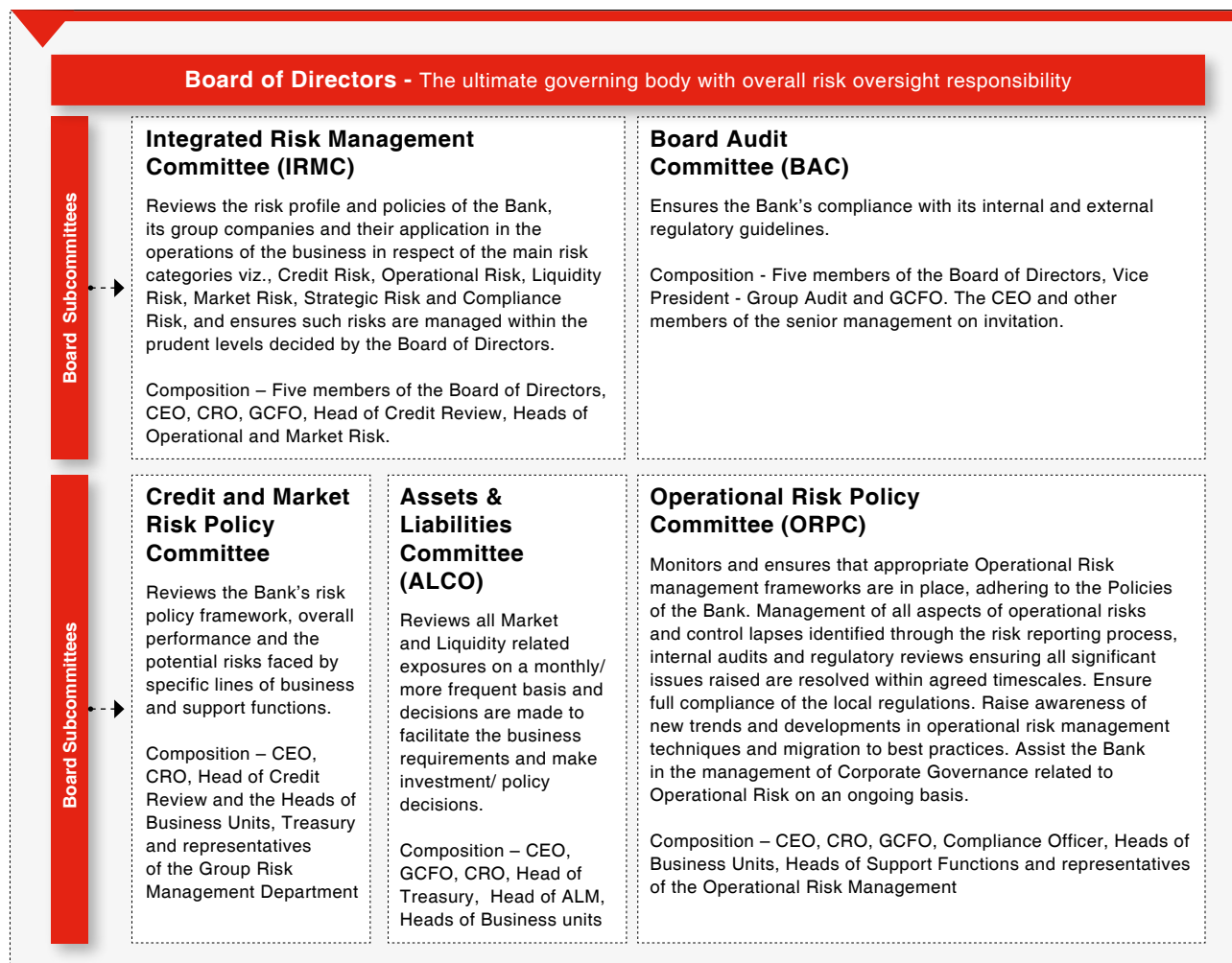
The Bank's Board of Directors has the overall responsibility for risk management and sets the tone at

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.

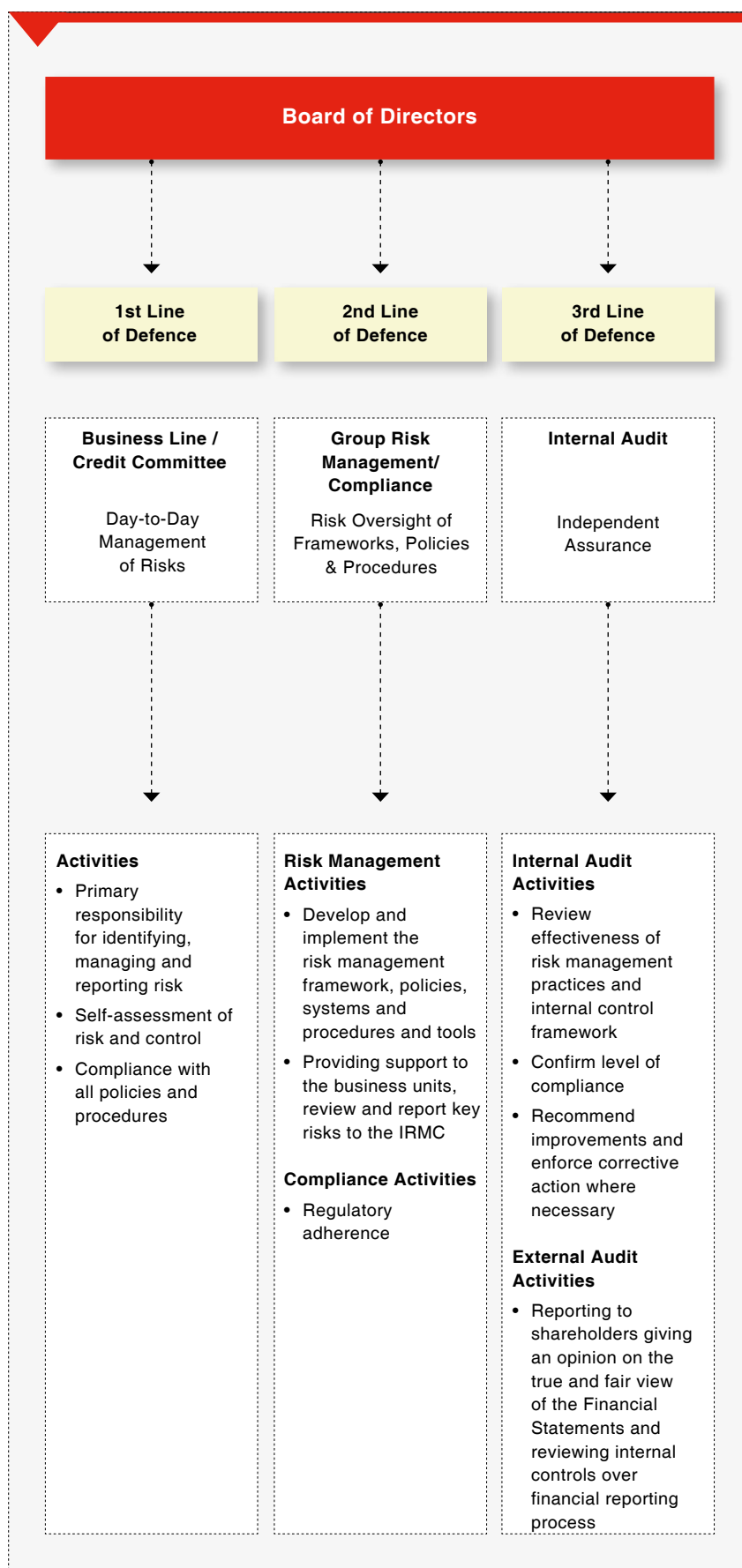
Governance Model

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 defence and defines the lines of authority, roles and responsibilities to efficiently manage risk across the Bank.

RISK GOVERNANCE MODEL



RISK GOVERNANCE MODEL



Group Risk Management

The Bank's Risk Management Division is independent of the business units and reports directly to the Integrated Risk Management Committee. Each unit within the Risk 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's Risk Management department to carry out Loan Review Mechanism (LRM) activities as prescribed by the Central Bank of Sri Lanka. 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.

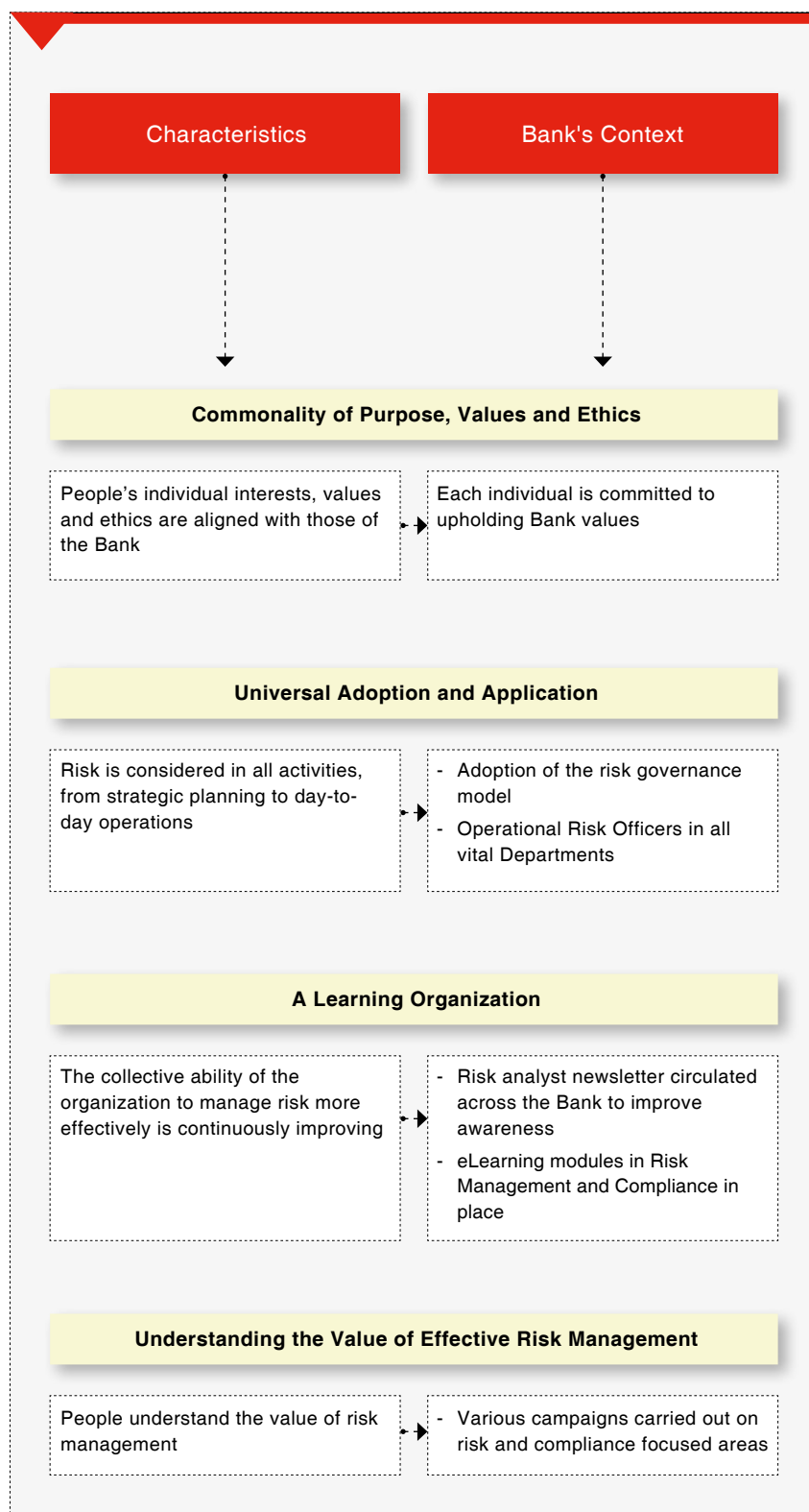
Credit Review

In the current regulatory context, it has become necessary to make a clear distinction between pre credit review/approval and post credit review functions in the Bank. Earlier both these functions were combined within the Group Risk Management department. An independent pre credit review division was established to strengthen the pre-approval process and make it independent from post credit review function in the Bank.

Risk Culture

A strong risk culture is the fundamental tenet of the 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:

RISK CULTURE



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, regulations and regulatory guidelines. The Bank's commitment is clearly demonstrated through the establishment of strong compliance policies and guidelines to ensure that non-compliance risks are effectively managed. Such measures not only ensure adherence to regulations, but also protect the Bank's integrity and reputation.

Precautionary Principle

The Bank applies a precautionary principle across the Group with regard to social and environmental sustainability. We take care to be cognizant of social and environmental impacts when conducting all our activities. Before embarking upon new ventures and initiatives we take necessary steps to assess any impacts through adequate risk management processes.

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 Documentary Credits 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 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

- Sets 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

- Price the credit risk using more scientific methods

6

POST SANCTION REVIEW AND MONITORING

- Warning signals are identified
- Watch listing process
- Non-performing assets are identified at an early stage

7

PRUDENTIAL LIMITS

- Maximum exposure limits on:
 - Single Borrower/Group exposures
 - Prudential Group exposure limits
 - Substantial exposures
 - 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 such as FX Forwards and Documentary Credits are treated with utmost care

9

CREDIT RISK MITIGATION

- Ways out analysis
- Comprehensive and legally enforceable documentation for credit transactions
- Obtaining of collateral in line with the Bank's policy and ensuring enforceability

10

IMPAIRMENT

- Board approved policy
- Clearly defined process

1. 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 considerations
- Set acceptable risk parameters
- Set remedial and recovery actions

2. 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.

3. 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 evaluations carried out by Relationship Managers/Credit Officers and reviewed/approved by designated approving authority.

4. Internal Risk Ratings of Obligors

The credit portfolio of the Bank is risk-rated, using an internally-developed system that takes into account quantitative as well as qualitative factors. The rating scale ranges from AAA to B4 and the ratings of every obligor is reviewed at least annually or more frequently if required.

The Bank has rolled out the new Internal Risk Rating system which runs on sophisticated workflow 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's 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 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 in to account the characteristics of the obligor assessed through industry, business, management and financial risk silos, whilst facility rating takes in to account the type of the facility, nature of the collateral and realisability. Using the expected probability of default and the loss given default calculated through 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. These scorecards were developed using Bank's own data and reweighted to align them for more recent economic conditions. Such scorecards take in to 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 prescreening 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.

5. Risk Pricing

The Bank also views pricing for risk as fundamental to credit risk management. As such, steps have been taken to price the credit risk using more scientific methods. A risk based pricing model was rolled out across the Bank during the year.

6. 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 'Watchlisted'. The Watch listed clients are monitored closely with quarterly reports submitted to the Credit Committees. Further, based on the Watchlists, the Bank assesses the Portfolio at Risk, in the event, such accounts deteriorate further. Non-performing assets are identified at an early stage, enabling the Management to take action as appropriate.

7. Prudential Limits

The industry and portfolio limits are set by the Board of Directors on the recommendation of the Group's Risk Management department. Credit Risk Management monitors compliance with approved limits. Desired diversification is achieved by setting maximum exposure limits on

- Single/group obligor limits – 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 Exposure Limit – 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 Exposure limits – 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 of the Bank

- Industry/economic sector limits – 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 maximum exposure to a sub-sector is 15% of the Bank's total exposure.

8. 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 single borrower and aggregate exposure. The Bank's internal single borrower and Group exposure limits are much stringent than those imposed by 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 swift 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 exposure 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 mechanisms 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.

Key Risk Indicators (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	
Market Share	
NPL of the Bank/Industry NPLs	To assess the trends in comparison with industry and measure performance against budgets/Risk Appetite
NPL Ratio of the Bank/Industry Average NPL Ratio	
Provision Cover – % – 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 & II Capital Adequacy Ratio %	

9. 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 and movable property mortgages,
- plant, machinery & equipment
- cash deposits,
- mortgages on stocks and book debts and Corporate and personal guarantees.

It is the Bank's policy to be on a equal footing status with other lenders in terms of collateral cover. A decision to the contrary may be acceptable only where a non equal footing 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 equal footing 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 three years
 - Other Clients with working capital facilities: every five years
 - No value is considered if valuations are not in-line with the time frames set out according to the CBSL guidelines.

10. 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 loan impairment is reported as a reduction of the carrying amount of a loan on the balance sheet. Additions to provisions for loan impairment are made through impairment losses on loans and advances 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 100 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 no. 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 analysis on economic factors and portfolio factors such as:

- Macroeconomic 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

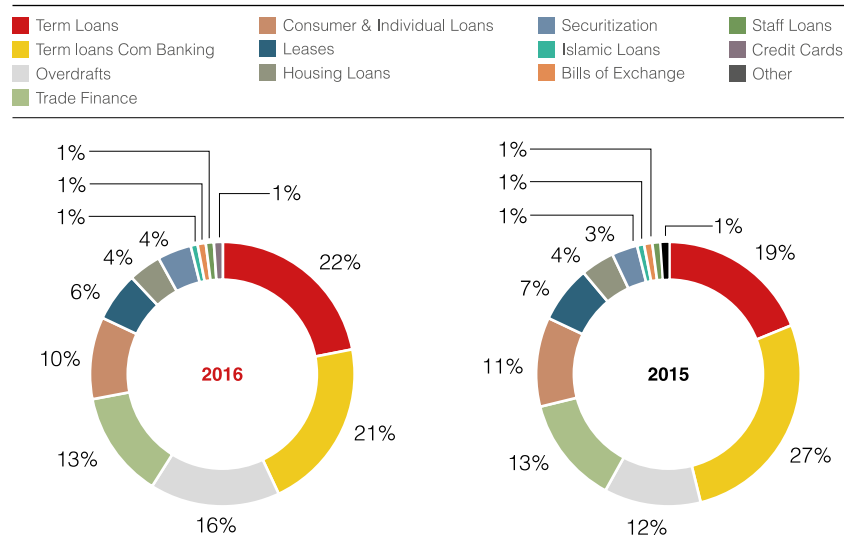
The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances. Allowances are evaluated separately at each reporting date with each portfolio.

Credit Risk Analytics

Product Concentration

22% of Bank's portfolio was concentrated in term loans.

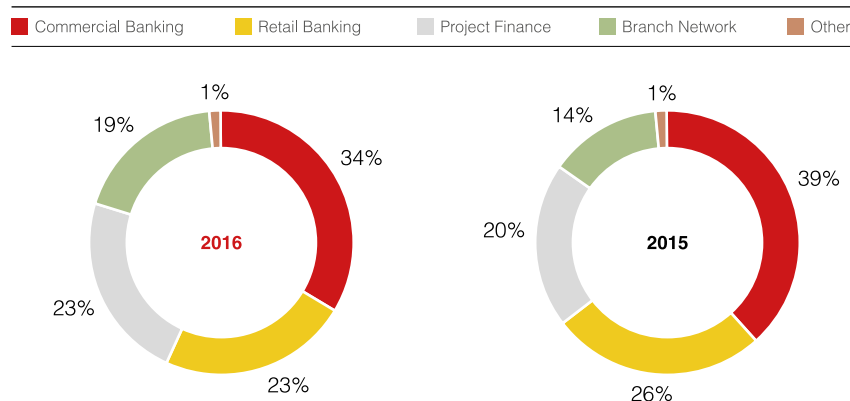
Product wise Portfolio Composition – 2015/16



Business line wise Composition

42% of portfolio was concentrated in Retail Banking and Branch Network.

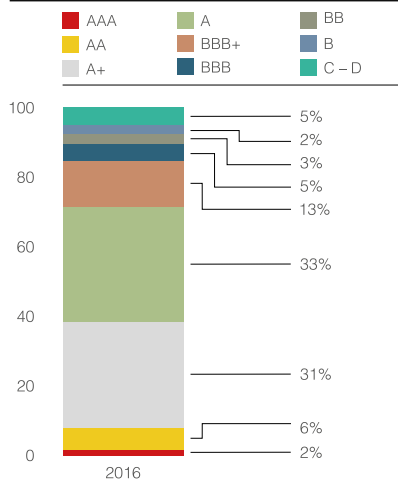
Business Line wise Composition of Portfolio – 2015/16



Rated portfolio Concentration

The Bank's portfolio continues to be concentrated on 'A' rated clients based on the internal rating model used by the Bank indicating investment grade adequate safety and the composition was within the risk appetite of the Bank set by the Board.

Rated Portfolio Concentration %



Credit Risk Concentrations

Single Name Concentration

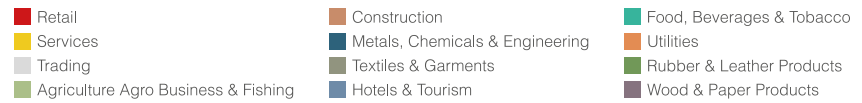
- The Bank was in compliance with regulatory limits on Group and Single Borrower concentrations. The Bank was also in compliance with the internal limits set by the Board on Group and Single Borrower concentrations, which are more stringent than those prescribed by the regulator.
- The substantial exposures of the Bank accounted for only 94.6% of the capital base and was well within the internal limit. The top 20 clients accounted for 20% of the portfolio and the concentrations were within the risk appetite set by the Board.
- The Bank's portfolio was not concentrated on a particular client or a Group.

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

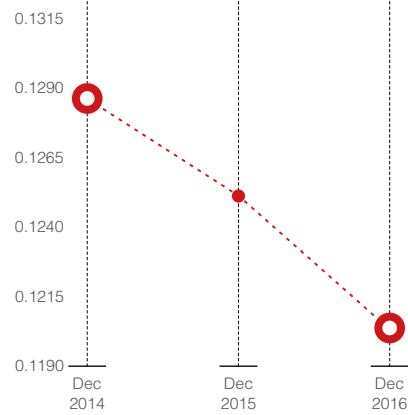
Agricultural sector with 10.9% of portfolio concentrated on same as at 31 December 2016.

Sector Concentration 2015/16



The Sector concentration risk is measured by Bank using Herfindahl-Hirschman Index (HHI). The HHI of the portfolio declined over the years indicating reduction in sector concentration risk.

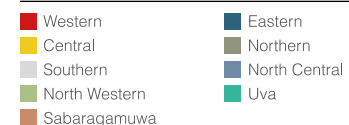
Sector Concentration Risk Measured using HHI



Geographical Concentration

Based on the economic activity, the highest concentration is in the Western Province though the branch network is spread throughout the country. The Bank also funded some cross border exposures resulting in further diversification of the portfolio.

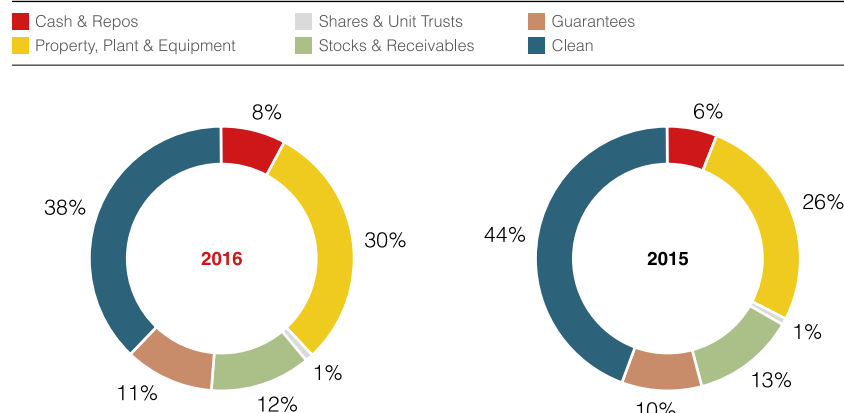
Geographical Concentration of Portfolio



Collateral Concentration

Clean portion of portfolio declined from 44% to 38% during the year.

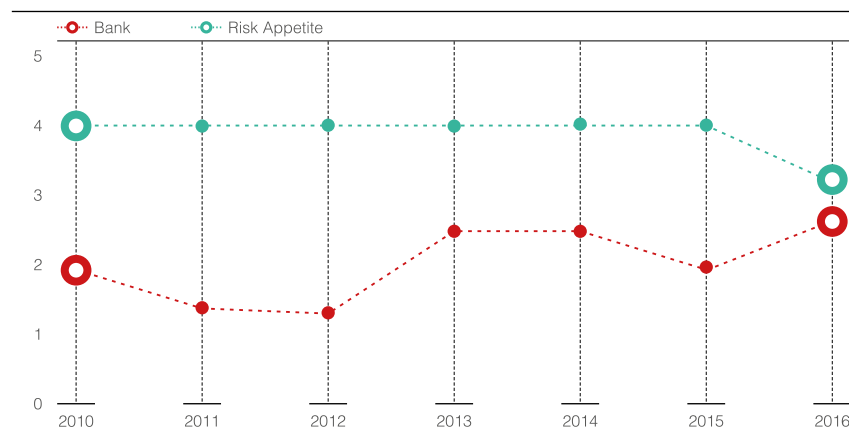
Collateral Concentration – 2015/16



Non-Performing Loans

The Bank's NPL ratio was well within the risk appetite set by the Board.

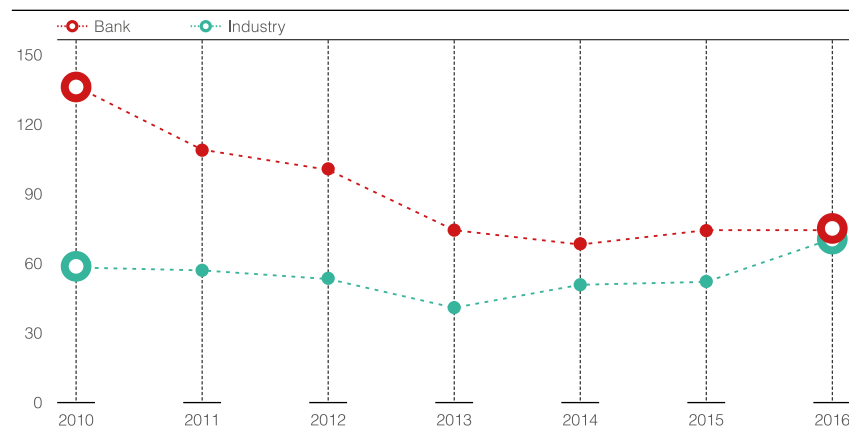
Gross NPL



Provisioning and Impairment

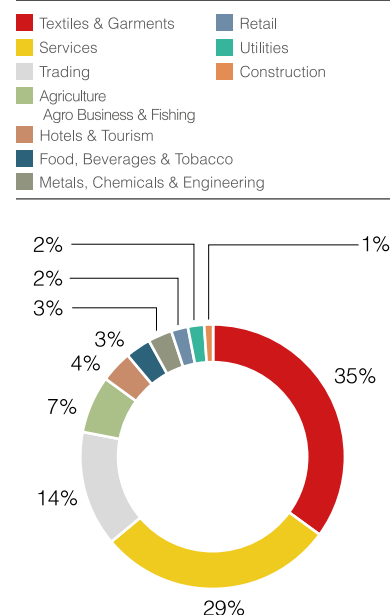
The Bank continues to maintain provision covers above the industry.

Total Provision Cover



Sector wise breakdown of individual impairment is illustrated below

Sector wise Individual Impairment – 31.12.2016



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 is to ensure that Business units of the Bank optimize the risk-reward relationship within the Bank's predefined 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.

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 Assets and Liabilities Committee (ALCO) and Market Risk Management (MRM) 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 in to account the rules and regulations and the best industry practices.

Processes

The Key Functions of MRM includes policy formulation, risk measurement methodologies, systems, controls,

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 MRM/Limit monitoring process.
- Risk Measurement methodologies – Limits are assessed and recommended to ALCO/Board approval. All limits in force will be independently monitored by the MRM Unit on predefined 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 – MRM 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 reports circulated at a number of frequencies – daily, weekly, monthly or quarterly basis are as follows.
 - Daily market risk Report on foreign exchange/Debt securities to Treasury, Finance, CEO and GRM
 - Limit exception report to Treasury and GRM
 - Monthly market risk reports on foreign exchange, commodity and debt securities.
 - Quarterly Market risk reports to Credit and Market Risk Policy Committee (CMRPC) and IRMC
 - Quarterly risk assessment report to the Board

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. In this regard, key functions carried out by ALCO includes;

- Review and recommend MRM/ALM policies, limits and guidelines for IRMC/Board approval
- Management of the balance sheet and the risks associated with it
- Setting key balance sheet ratios/targets
- Planning strategies for funding, buffer investments, hedging and trading etc.
- Setting internal investment policies
- Approve investments
- Setting pricing policies (internal transfer and external products)
- Evaluation of risks involved in launching new products

The implementation of the Bank's risk management policies, procedures and systems are delegated to the Head of MRM who reports to the Vice-President Group Risk Management. Market and liquidity risks are addressed at ALCO on a monthly basis and at the Board IRMC level on a monthly/quarterly basis.

Analytics

MRM Unit 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 risk, Interest rate risk and Price risk for close monitoring of exposures. 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.

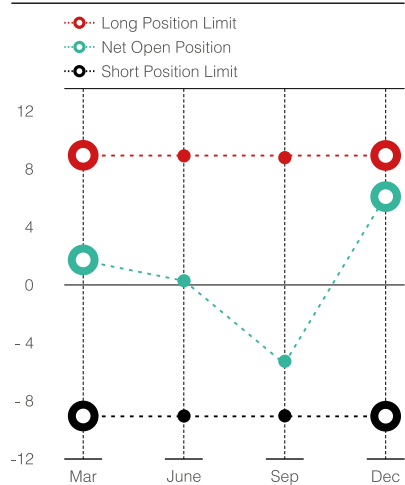
Foreign Exchange Risk

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 its 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.

Bank monitors the daily foreign exchange (FX) open positions to ensure that the Bank is operating within the regulatory limit on net open position. 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 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%.

Currency	AL Position	Foreign Exchange Position		DBU & FCBU Overall Exposure in Respective Foreign Currency	As at 31.12.2016	
		Spot Position	Forward Position		Absolute Positions in USD equivalent	Absolute Exposure in LKR
US Dollars	55,281	440	(49,876)	5,844	5,844	875,472
Pound Sterling	(21,664)	–	21,626	(39)	48	7,152
Euro	(16,372)	(500)	16,883	12	12	1,867
Japanese Yen	11,918	–	(13,265)	(1,347)	12	1,729
Australian Dollar	(21,376)	–	21,409	33	24	3,625
Canadian Dollar	31	–	–	31	23	3,417
Other currencies	(7,792)	–	8,252	460	134	20,114
Total exposure					6,097	913,376
Total capital Base according to the audited Financial Statements as at 31.12.2016						31,153,003
Total exposure as a percentage of total capital Base						2.93%

Stress testing on DBU net open position –

As at 31 December 2016	Net Position	Scenario 1	Scenario 2	Scenario 3	USD/LKR Scenario 4
Magnitude of shock (adverse)		5%	10%	15%	25%
Spot rate movement	150.00	142.50	135.00	127.50	112.50
Net open position – DBU, Profit/loss (LKR)	6,138,595	(46,039,464)	(92,078,928)	(138,118,391)	(230,197,319)

Sensitivity Analysis

Daily sensitivity analysis is carried out on major foreign currency Net Open Position (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 2016

Spot Rate Shocks Currency	Net Open Position	LKR depreciate			Spot Rate	LKR appreciate		
		-5%	-2.5%	-1%		1%	2.50%	5%
USD	5,844,273	43,832,049	21,916,025	8,766,410	150.00	(8,766,410)	(21,916,025)	(43,832,049)
GBP	(38,875)	(360,151)	(180,076)	(72,030)	185.29	72,030	180,076	360,151
EUR	11,841	93,404	46,702	18,681	157.77	(18,681)	(46,702)	(93,404)
JPY	(1,347,181)	(86,492)	(43,246)	(17,298)	1.28	17,298	43,246	86,492
AUD	33,466	181,102	90,551	36,220	108.23	(36,220)	(90,551)	(181,102)
Total		43,659,913	21,829,956	8,731,983		(8,731,983)	(21,829,956)	(43,659,913)

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 (in some cases, the cash flows themselves) change when interest rates change.

In order to manage the IRR, the 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. Accordingly while the price risk is the prime concern of banks in the trading book, earnings or economic value changes are the main focuses 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

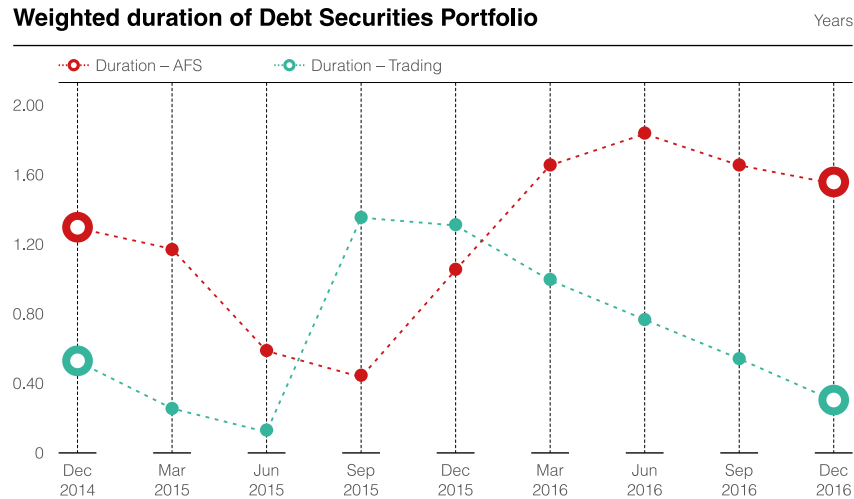
market limits. Portfolios are subject to VaR (Value at Risk) and PV 01 analysis to analyse the impact on fluctuations in interest rates which are being closely monitored to take advantage of the market movements.

Interest Rate Risk in Trading Book

Key Indicators	Limit	Position as at 31.12.2016
Mark to market of debt trading portfolio	(LKR 60 million)	(LKR 4.37 million)
Duration of debt securities – HFT	2 Years	0.3
Duration of debt securities – AFS	5 Years	1.55

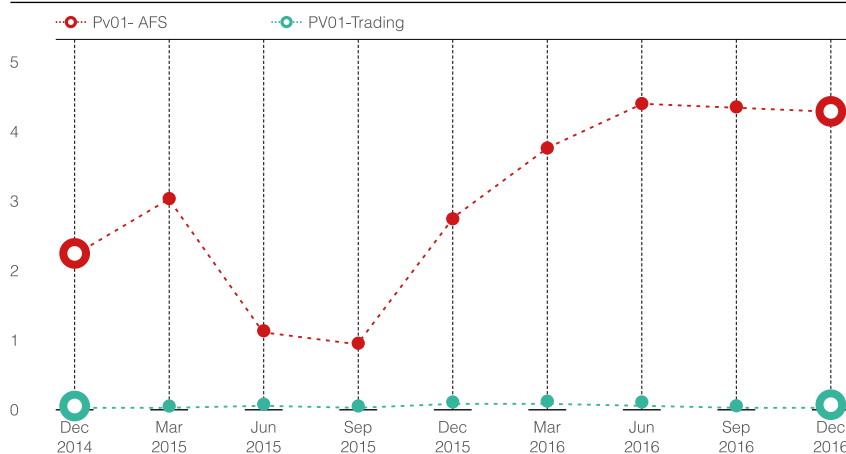
Trends in duration analysis

Weighted duration of Debt Securities Portfolio



PV 01 of Debt Securities Portfolios

LKR million



VaR – (at 99%) as at 31.12.2016 LKR million

Debt securities – HFT	0.28
Debt securities – AFS	25.33
Forex trading	4.37

*Historical approach, 1 day holding period

The interest rate risk in the banking book is measured and managed through price sensitivity/duration/NII, Variance analysis and the interest rate gap analysis.

Interest Rate Sensitivity of the Balance Sheet as at 31 December 2016

The Bank monitors the interest rate sensitivity of assets and liabilities using the re-pricing gap report. (Disclosure Note No. 56.2.(C) of page number 391).

The price sensitivity of the Balance Sheet was managed within the risk parameters whilst maximizing the market potential on interest sensitive assets and liabilities.

Interest Rate Risk in Banking Book

Key Indicators	Limit	Position as at 31.12.2016
	LKR million	LKR million
Price sensitivity of balance sheet (P/L impact for a 1% change in interest rate)	(1,000)	704

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.

	Held-for-Trading LKR '000 Impact on Income Statement	Available-for-Sale LKR '000 Impact on OCI
Shock of 15% on equity price	–	207,276

Commodity Risk

Commodity price risk arises due to volatilities in the commodity exposure of the Bank. The Bank's exposure to the Gold Buffer stock of the underlying product 'Raththaran Ithurum' is negligible when compared to the Bank's balance sheet size. However, a mark to market calculation is being performed to assess the impact on Income Statement with the price movement.

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 sets individual counterpart limits to mitigate such risks. These limits are set through critically assessing the financial standing, Balance Sheet size and other risk parameters of such counterparts.

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

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, market and regulations. The Bank continues to focus on liability generation, which will be a necessary precondition for significant asset growth.

Policy Framework

The Bank maintains well-articulated liquidity risk management policies and procedures, which drives 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, the list of reports circulated by MRM Unit includes;

- Daily report on open exposure risk limits to Treasury and GRM
- Limit exception report to Treasury and ALCO
- Weekly/Monthly Liquidity Risk Report on internal/external liquidity trends/analysis and stress test results to ALCO and IRMC
- Monthly ALM Reports to ALCO
- Quarterly ALM and Liquidity Reports to CMRPC and IRMC
- Quarterly Risk Assessment Report to the Board.

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,

liquidity risk trigger points 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 warning signals of tightening liquidity positions of the Bank. Factors such as shrinking market liquidity, exposure to interbank market movement on loans and advances will be regularly monitored to identify any impending liquidity strain on the Bank.

Statutory Liquid Asset Ratio (LAR)

As at 31 December

	2016	2015
Domestic banking unit (%)	21.50	22.24
Foreign currency banking unit (%)	22.93	24.91

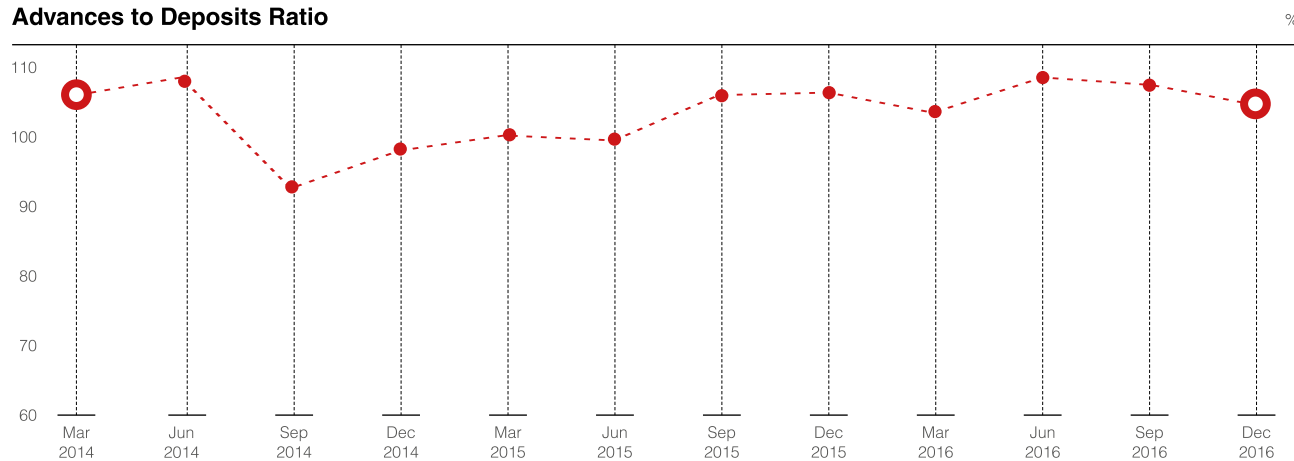
Key Risk Indicators (KRI)

Selected KRIs are highlighted below which provide a view of the liquidity risk indicators where regulatory/internal limits are set and monitored at predefined intervals, which provides early warning signals on the liquidity position of the Bank.

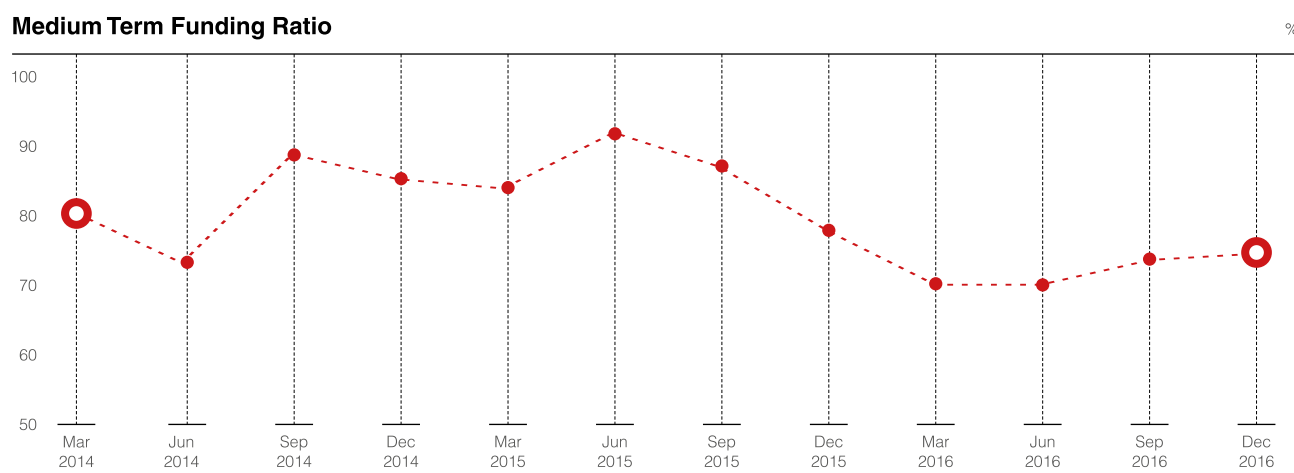
Key Indicators	Limit	Position as at 31.12.2016
Statutory liquid asset ratio % – DBU	20	21.50
Statutory liquid asset ratio % – FCBU	20	22.93
Advances to deposits ratio %	111	104.70
Medium term funding ratio %	110	74.20
Commitment limit – LKR billion	118	110.84
Liquidity coverage ratio (LCR) % – LKR currency	70	142.53
Liquidity coverage ratio (LCR) % – all currency	70	125.63

Ratios Under Stock Approach

Advances to Deposits Ratio

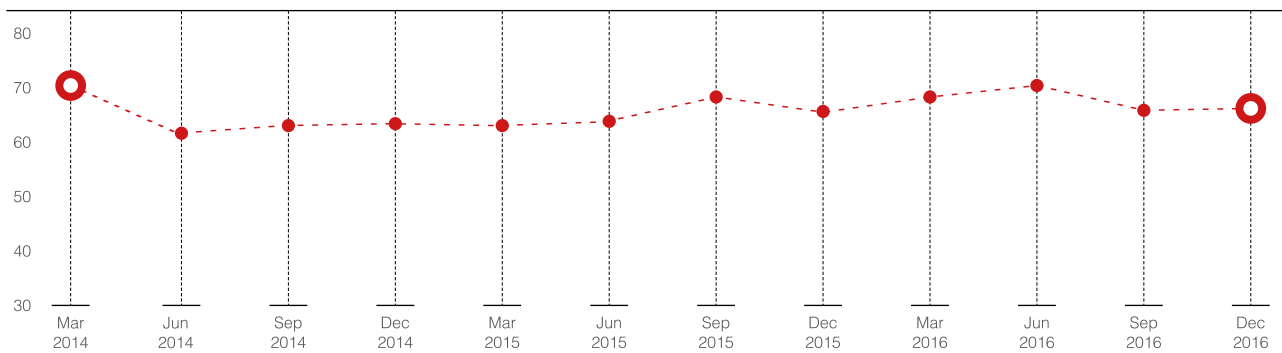


Medium Term Funding Ratio

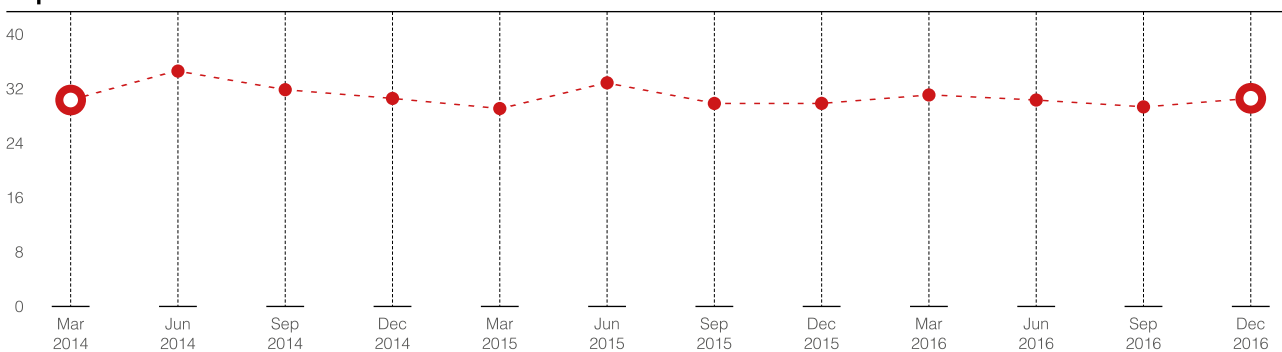


Net Loans to Total Assets Ratio

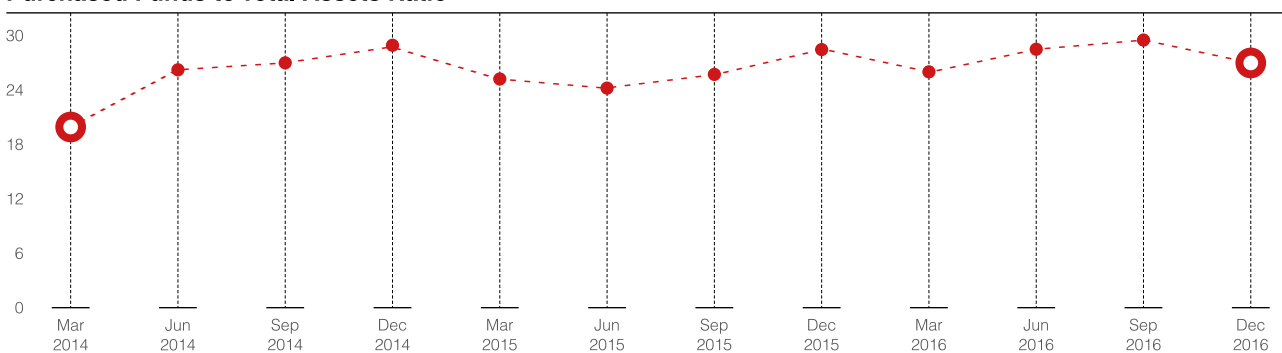
%

**Liquid Assets to Short-Term Liabilities**

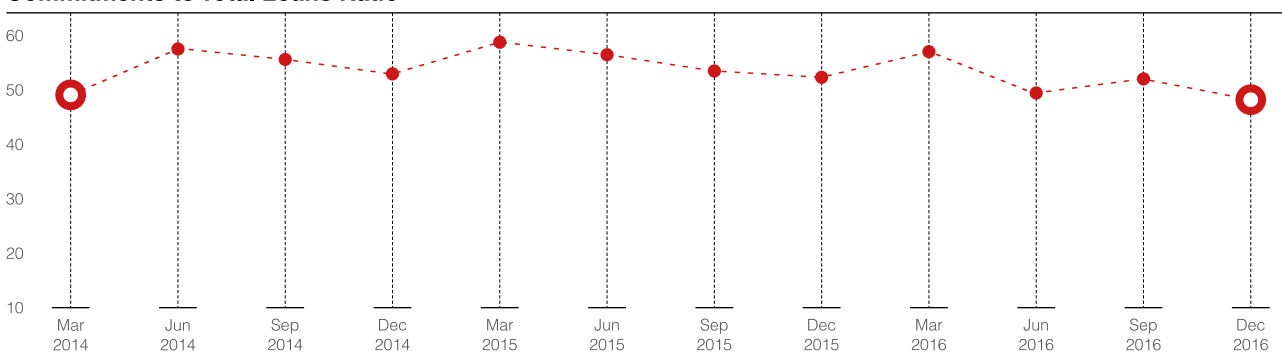
%

**Purchased Funds to Total Assets Ratio**

%

**Commitments to Total Loans Ratio**

%



Flow Approach

A Statement of Maturities of Assets and Liabilities (MAL) is prepared by the Bank placing all cash inflows and outflows in the time bands according to the residual time to maturity and non-maturity items as per CBSL recommended and the Bank specific behavioural assumptions.

Maturity Gap Analysis of Local Currency denominated Assets and Liabilities

The gap analysis of local currency denominated assets and liabilities provide the cash flow mismatches which assist in managing the local currency liquidity obligations in a prudential manner.

Maturity Gap Analysis for Local Currency denominated Assets and liabilities – As at 31.12.2016

	Up to 1 Month LKR '000	1-3 Months LKR '000	3-6 Months LKR '000	6-12 Months LKR '000	1-3 Years LKR '000	3-5 Years LKR '000	Over 5Years LKR '000	Total LKR '000
Total assets	48,590,439	20,797,190	16,616,131	26,844,211	61,598,993	36,968,679	40,480,672	251,896,314
Total liabilities	60,773,390	42,457,656	23,946,619	31,246,367	18,033,023	19,486,047	55,953,148	251,896,249
Net liquidity period gap	(12,182,952)	(21,660,466)	(7,330,487)	(4,402,155)	43,565,970	17,482,631	(15,472,476)	65

Maturity Gap Analysis of Foreign Currency denominated Assets and Liabilities

The gap analysis of foreign currency denominated assets and liabilities provide 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 31.12.2016

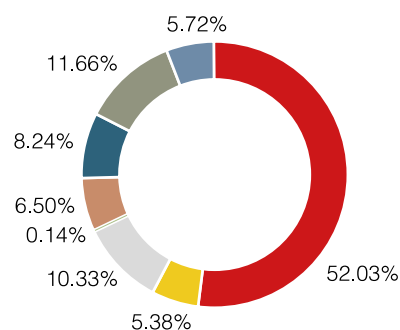
	Up to 1 Month USD '000	1-3 Months USD '000	3-6 Months USD '000	6-12 Months USD '000	1-3 Years USD '000	3-5 Years USD '000	Over 5 Years USD '000	Total USD '000
Total assets	154,120	95,796	41,247	3,723	116,060	73,703	64,163	548,812
Total liabilities	55,761	86,136	70,690	193,265	44,789	44,642	53,530	548,812
Net liquidity period gap	98,360	9,660	(29,444)	(189,541)	71,271	29,061	10,633	0

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

Term Deposits	Debtentures
Demand Deposits	Repo Borrowing
Savings Deposits	Institutional Borrowings
Other Deposits	Other Borrowings



OPERATIONAL RISK

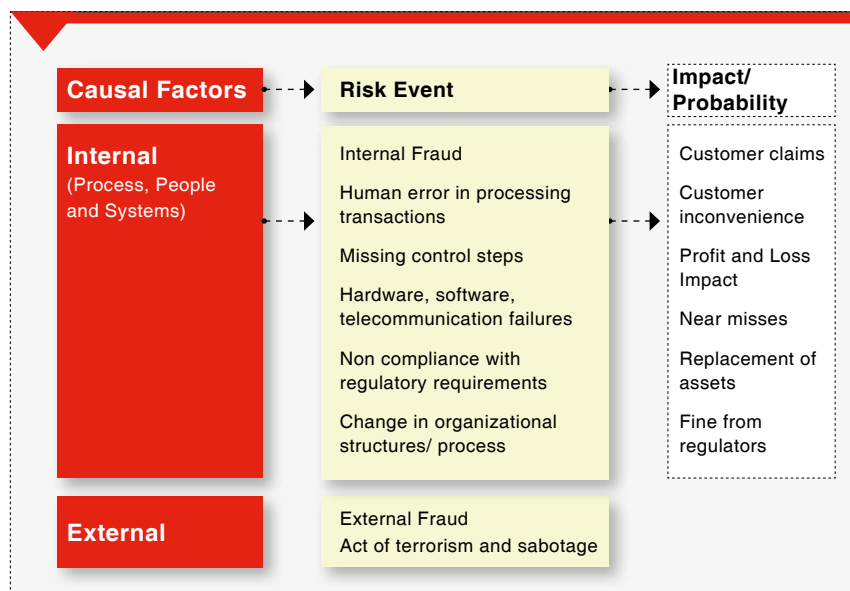
Objectives of Operational Risk Management

As banks have become competitive and the business lines are competing to capture and retain their customer base, it is important that operations departments focus on managing operational risks to manage the Bank's risk profiles.

Operational risk is managed in a Group-wide consistent framework that enables to determine the Bank's/Group's operational risk profile.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk but excludes strategic and reputational risk.

OPERATIONAL RISK



The objectives of the development and implementation of operational risk are to –

- reduce losses from operational failure and in particular avoid potentially large or catastrophic risk losses;
- provide early warning signals of deterioration in the Bank's internal control system;
- raise awareness of operational risk in the Bank from top to bottom through the implementation of an enterprise-wide operational risk approach; and
- ensure better control over operations.

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.

Upon detection of any risk event which triggers a possible business impact, it should be addressed as early as possible. Few of the key risk monitoring that is carried out by the Bank is based on:

- Failure of internal controls resulting in customer claims
- Breaches of Key Risk Indicators
E.g. system downtime, staff turnover
- External losses
- Change of business environment
- Changes in regulatory requirements
- Internal/external audit findings due to process lapses
- New product development/project launches
- Scenario analysis

Risk Assessment

Once identified, the potential impact of the risks to the Bank is quantified using the operational risk grading matrix. Risks are assigned risk grades (Very High, High, Moderate and Low) based on the assessment of the likelihood and impact to the Bank.

The operational risk function assesses the risk exposure both in qualitative and quantitative terms.

Risk Reporting

To enhance senior management awareness of operational risk, periodic reports are prepared detailing out the risks faced by the Bank. Timely escalation mechanisms are set up with predefined thresholds that define how the issue could be escalated through the chain of command.

Staff at all levels is accountable for directing and controlling the operational risks in his/her area of responsibility. All risk events are discussed at Business Operational Risk Sounding Board (BORSB) along with the business line VP after proper root cause analysis to avoid repetition.

ESCALATION OF RISKS, LOSSES AND INCIDENTS



Business Operational Risk Sounding Board

Business Operational Risk Sounding Boards (BORSB) have been set up at key business functions and support function levels to discuss operational risk matters on a monthly basis encompassing responsibilities such as –

- Provide a forum for the identification, assessment, mitigation and subsequent monitoring of business level operational risk trends and issues.
- Ensure that there is full compliance with internal policies and relevant

regulations, as well as the Bank's Operational Risk Management Framework.

- Promote and sustain a high level of operational risk management discipline culture within the business or support function.
- Review the business or support functions operational risks and ensure appropriate ownership, actions for closure within the agreed target date and progress for all risks.
- Review outstanding/overdue audit findings.

BUSINESS OPERATIONAL RISK SOUNDING BOARD



Risk Management and Monitoring

All risks must have mitigation plans established to reduce the residual risks to fall within the risk appetite of the Bank. The root cause is identified and actions to mitigate the risks are prioritized based on the criticality of the impact.

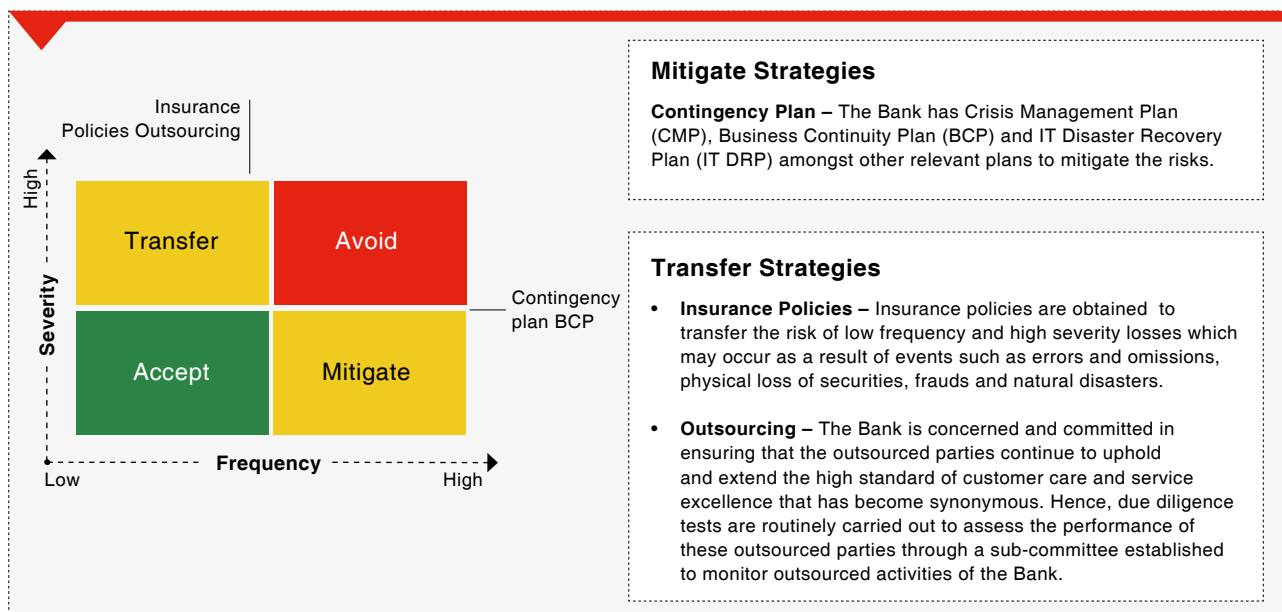
Risk monitoring at the Bank is done through operational risk framework:

- Focus on operational performance measures such as volume, turnover, delays and errors.
- Monitor operational loss directly with an analysis of each occurrence and description of the nature and causes of the loss.
- Integrate internal controls into the Bank's operations and produce regular reports to the Senior Management.
- Undertake compliance reviews by the internal audit and the risk management processes separately.

Based on the above, the Management makes decisions on whether to transfer, avoid, accept or mitigate the risks.

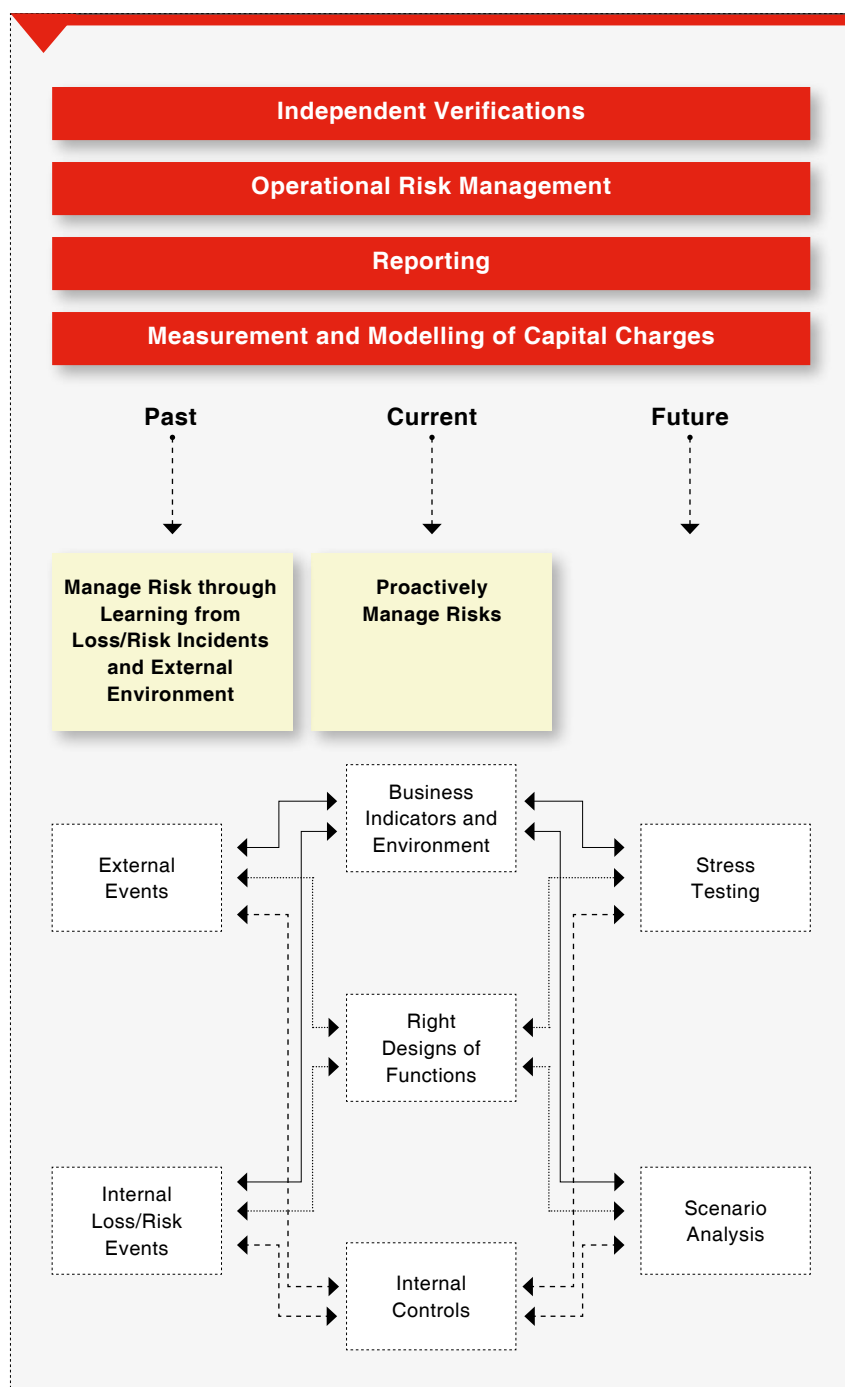
The unresolved risks or risks that require attention is brought to senior management notice at Operational Risk Policy Committee meeting which is scheduled once in every two months.

RISK MANAGEMENT AND MONITORING



Operational Risk Management Process

The Operational Risk Management Unit (ORMU) lies as the second line of defence and is notably responsible for identifying, measuring, managing and monitoring of operational risks in co-operation with the business units and support functions at Group level. The past, current and future environment is assessed using the operational risk tools in order to identify the impact to the Bank.

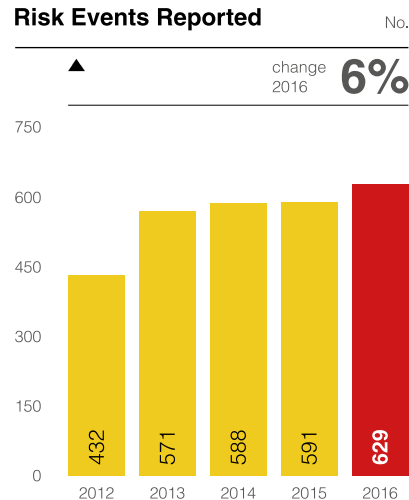


Analytics

Risk Event Reporting

Self-reporting of losses/risks and incidents is encouraged within the Bank. All self-identified and assessed risks that have been reported to operational risk which have already been addressed and closed will not qualify as an audit exception. This arrangement has supported in resulting in an increase of event reporting over the years.

Risk Events Reported



BASEL LOSS CATEGORIZATION

Internal Fraud

Losses due to act of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party.

External Fraud

Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party (theft, hacking damage, etc.).

Employment Practices and Workplace Safety

Losses arising from acts of inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events.

Clients, Products and Business Practices

Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.

Damage to Physical Assets

Losses arising from loss or damage to physical assets from natural disaster or other events (terrorism, vandalism).

Business Disruption and System Failures

Losses arising from disruption of business or system failures (hardware, software, telecommunications).

Execution, Delivery and Process Management

Losses from failed transaction processing or process management, from relations with trade counterparties and vendors (miscommunication, wrong data entry/handling, delivery failures, negligent loss of client assets, etc.)

Loss Data Collection

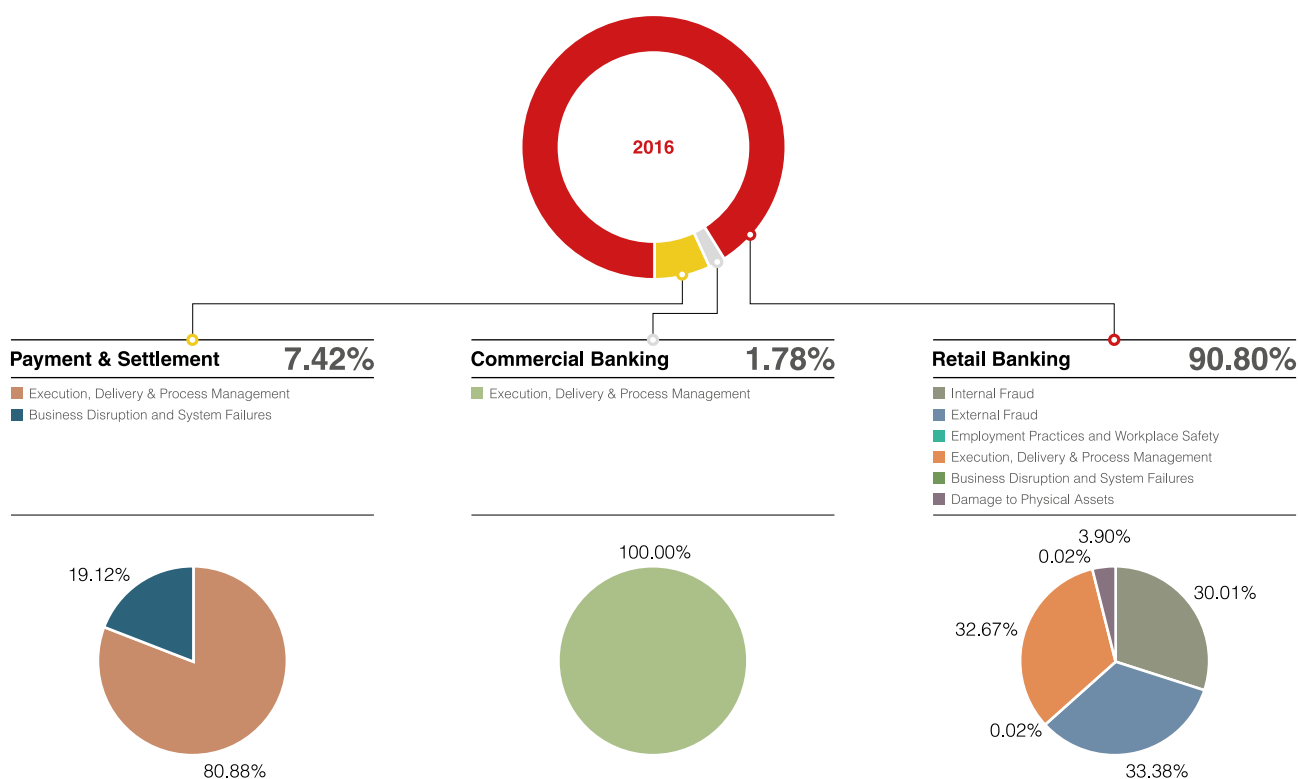
Internal loss data has been collated across the Bank and held in a database since 2010 enabling operational staff to define and implement the appropriate corrective actions.

The losses are categorized as per the Basel guidelines. All losses are recorded and losses above LKR 100,000/- are reported to the Board Integrated Risk Management Committee on a monthly basis and losses over LKR 500,000/- are reported to the regulator on a quarterly basis.

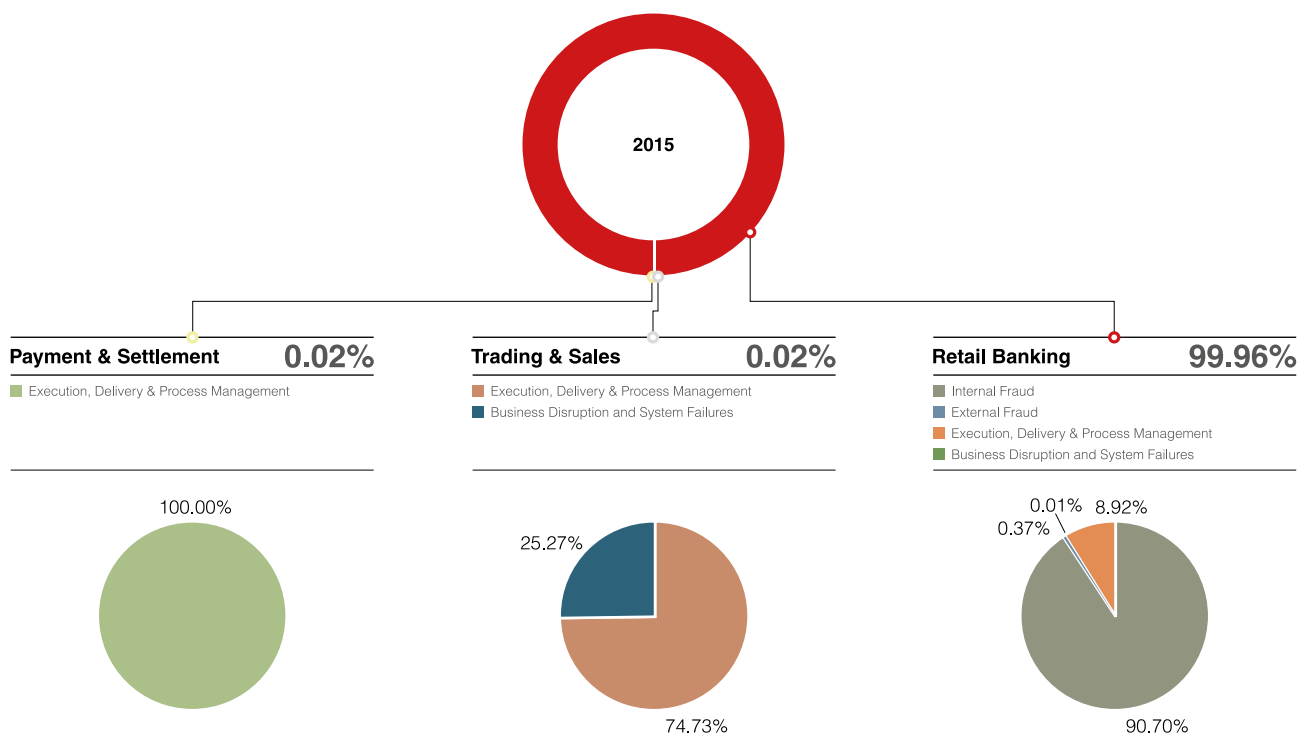
Collection of loss data has served to:

- Facilitate meeting capital adequacy requirements for operational losses set by the regulator.
- Identify trends in loss events and achieve a deeper understanding of risk areas.
- Sharpen the existing operational risk management concepts and tools.

Operational Losses – 2016



Operational Losses – 2015



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 assists 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 prevention environment which requires particular attention or action plan.

Risk and Control 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.

Business Continuity Management (BCM)

In order to cover the risks arising from crisis and disasters which could threaten the safety of staff, customers, service providers, security of assets, and the continuity of critical banking operations which could tarnish the Bank's reputation; Bank's 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) amongst other relevant plans including a Pandemic Plan. 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.

Communications, Security and Safety, Emergency Response and Recovery Teams, plans are periodically reviewed and biannual BCP/DR drills are conducted; which is all part of the Bank's commitment that is showcased undoubtedly within this Business Continuity Management Framework.

The Bank now enjoys an increased recovery capacity at its Disaster Recovery Site, backed by infrastructure to support key services, core systems and critical business processes.

The Governance of Business Continuity Management is steered through the Crisis Management Team comprising Senior Management and co-ordinated 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 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 value add 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 and Officers Liability and 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 Bank's Computer Crime Insurance Policy. The policy covers fraudulent input and modification via computer systems, electronic computer programmes, electronic data and media, computer viruses, electronic and tele-facsimile communications, electronic transmissions, electronic securities and voice incinerated transfers.

• Operating Losses

Operating losses which are insurable are covered by a spectrum of insurance policies on a system-wide basis. Any residual risks that are not within the purview of these insurance policies are addressed by the Bank's Business Continuity Plan.

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.

Accordingly, the Bank is currently in the process of reviewing its strategic plan. 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) offshore, 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 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.

Reputational Risk

Reputational risk is the 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

programmes, 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 to 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 Bank's public help line that is manned on a 24-hour basis, through the Bank web site or social media.

Compliance Risk

Very closely related with reputation 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 and thus the compliance risk is minimal.

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 Senior Management, the Board of Directors and the business and operational functions.

Model Risk

Bank has a Board approved risk model validation policy to mitigate model risk of the Bank. Bank commenced third party validation of risk models during the year in line with the 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 and 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.

Several policies and codes have been developed and implemented to manage governance risk at the Bank. The Internal Code of Corporate Governance which applies to all Directors and Key Management Personnel of the Bank sets out policies and processes for implementing the Corporate Governance Directions issued by the Monetary Board of the Central Bank of Sri Lanka, the Companies Act No. 07 of 2007 [Banks have been exempted from the Corporate Governance Regulations issued by the Colombo Stock

Exchange] and the Best Practices on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. The Bank has in place a Compliance Policy and Code of Conduct governing all employees which outlines standards of professional and ethical conduct that all employees of the Bank are expected to conform to including areas such as general conduct and competence, confidentiality and misuse of material confidential information, managing conflicts of interest situations and insider dealing provisions.

The Bank recognizes the importance of sound management of 'Governance Risk'. Accordingly, governance risk is managed by the Compliance Department of the Bank.

Summary of activities undertaken for management of 'Governance Risk' is as follows:

- Annual Declarations obtained from Directors
- Implementation of the Internal Code of Corporate Governance and training Directors in the areas of Governance
- Compliance Policy and Code of Conduct which incorporates several policies of the Bank including the Confidentiality Policy, Insider Trading prohibitions, Securities Trading Policy, Gift Policy, Anti-Bribery and Corruption Policy, Information Security Policy, approval from CEO prior to staff taking up any outside position, conflicts of interest provisions etc.
- Monitoring of transactions carried out by the Bank with related parties of the Bank in terms of the Bank's related party transactions policy
- Handling complaints of customers of the Bank as per agreed service standards in accordance with the Complaint Handling Procedure
- A whistle-blowing Policy
- Disclosure Policy
- Communications Policy
- Document Retention and Destruction Policy, Staff Transaction Policy

This well-laid out framework defines the Board's collective responsibility for upholding and ensuring the highest standards of corporate governance, ethics and integrity across the Bank.

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 arm's 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 Ltd., being licensed stock broker is regulated by the SEC.
- Risk Reporting Framework by group companies to Centralized Group Risk Management of NDB/IRMC/Board for review/corrective action.

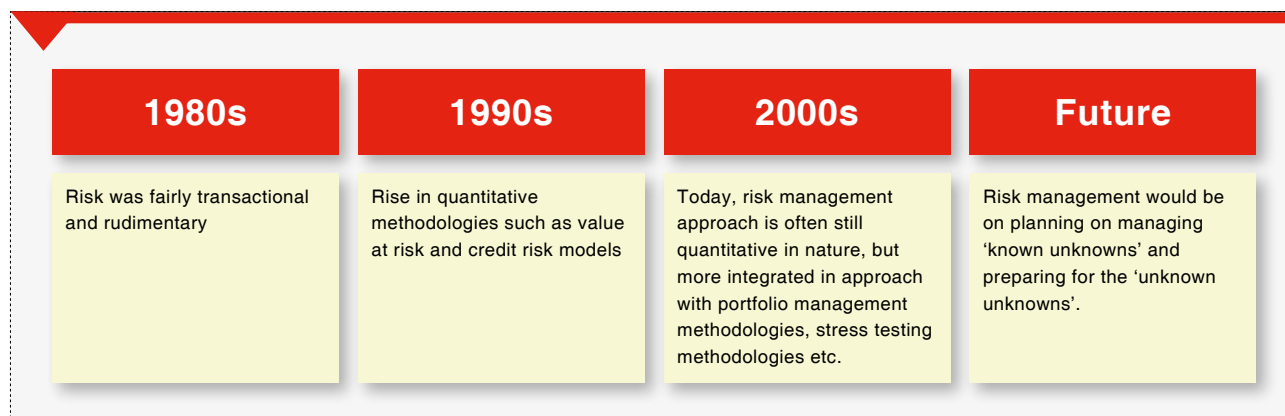
Each Group Company remains responsible for the management of risks, including associated controls and on going monitoring processes. Risks identified by group companies are reported to Group Risk Management Department on a monthly basis through appropriate risk indicators (using a Risk Dashboard) and 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



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.

CAPITAL ADEQUACY COMPUTATION

The Bank's capital adequacy ratio is computed based on Basel II – Pillar I requirements. 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 and 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 and financial subsidiaries and 50% investments in capital of other banks and financial institutions.

In arriving at the Risk-Weighted Assets (RWA) of the Bank, the Standardised Approach for Credit Risk, Standardised Measurement Method for Market Risk and the Basic Indicator Approach for Operational Risk has been used.

Capital Adequacy Computation of the Bank

Capital Base as at 31 December	BANK	
	2016 LKR '000	2015 LKR '000
Tier I: Core Capital		
Capital	1,246,479	1,242,772
Statutory reserve fund	1,246,479	1,242,772
Published retained profits	16,219,170	13,706,561
General and other reserves	5,819,548	5,820,297
Total equity considered for Tier I capital	24,531,676	22,012,402
Deductions – Tier I		
Intangible assets	368,083	240,234
50% Investments in unconsolidated banking and financial subsidiaries	943,850	937,984
50% Investments in capital of other banks and financial institutions	815,997	815,997
	2,127,930	1,994,215
Eligible Tier I Capital	22,403,746	20,018,187
Tier II: Supplementary Capital		
General loan loss provision	957,043	830,100
Approved revaluation reserve	542,092	542,092
Approved subordinated term debts	9,009,969	9,977,543
	10,509,104	11,349,735
Deductions – Tier II		
50% Investments in unconsolidated banking and financial subsidiaries	943,850	937,984
50% Investments in capital of other banks and financial institutions	815,997	815,997
	1,759,847	1,753,981
Eligible Tier II Capital	8,749,257	9,595,754
Capital base (Tier I + Tier II)	31,153,003	29,613,941

	Assets for Credit Risk		BANK	Risk Weighted Assets	
	2016	2015	Risk Weights	2016	2015
	LKR '000	LKR '000	%	LKR '000	LKR '000
Risk weighted on and off-balance sheet exposure					
Cash and claims on Central Government and Central Bank of Sri Lanka	58,647,311	35,798,265	0 – 20	21,026	8,092
Claims secured by cash deposits, gold and guarantees	27,339,087	20,280,019	0	–	–
Claims on banks	9,640,933	15,648,215	20 – 150	4,747,626	5,195,269
Claims on financial institutions	18,711,007	25,705,335	50 – 150	10,938,851	14,863,928
Loans secured by residential property	10,544,601	9,055,452	50 – 100	5,866,613	4,527,726
Past due loans	2,640,758	2,146,571	50 – 150	3,660,446	2,328,523
Retail claims and corporate claims	200,783,449	189,008,802	20 – 150	184,402,403	175,243,262
Property, plant and equipment	2,078,569	2,030,002	100	2,078,569	2,030,002
Other assets	2,844,721	3,313,600	100	2,844,721	3,313,600
Total assets considered for credit risk	333,230,436	302,986,261		214,560,255	207,510,402

	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit Equivalent Off-Balance Sheet Items	
	2016	2015		2016	2015
	LKR '000	LKR '000	%	LKR '000	LKR '000
Credit equivalent of off-balance sheet items					
General guarantees of indebtedness	16,823,830	13,247,956	100	16,823,830	13,247,956
Stand by letters of credit relating to particular transactions	67,410	64,800	50	33,705	32,400
Performance bonds and bid bonds	10,022,804	8,614,302	50	5,011,402	4,307,151
Trade Related acceptances and advance documents endorsed	7,958,256	8,584,926	20	1,591,651	1,716,985
Shipping guarantees	744,055	1,352,796	20	148,811	270,559
Documentary letters of credit	8,338,710	8,067,461	20	1,667,742	1,613,492
Undrawn term loans	10,799,521	6,803,723	0, 20 & 50	5,398,971	3,386,562
Foreign exchange contracts	74,289,101	81,168,189	2, 5 & 8	2,038,616	2,336,935
Undrawn overdrafts and credit lines	12,913,230	14,836,720	0	–	–
Other unutilized facilities	87,123,064	89,009,483	0, 20 & 50	71,937	114,862
Total	229,079,981	231,750,356		32,786,665	27,026,902

	BANK	
	2016	2015
	LKR '000	LKR '000
Capital charge for market risk		
Capital charge for interest rate risk	611,745	448,997
Capital charge for equity securities and unit trusts	23,038	503,478
Capital charge for foreign exchange and gold	98,554	63,668
Total capital charge for market risk	733,337	1,016,143
Total risk-weighted assets equivalent for market risk	7,333,367	10,161,436
Capital charge for operational risk		
Gross income		
Year 1	11,901,793	10,842,463
Year 2	12,237,313	11,901,793
Year 3	13,137,571	12,237,313
Average gross income	12,425,559	11,660,523
Total capital charge for operational risk at 15%	1,863,834	1,749,078
Total risk-weighted assets equivalent for operational risk	18,638,339	17,490,784
Total risk-weighted assets	240,531,961	235,162,622
Capital adequacy ratios		
Tier I (Required statutory minimum ratio is 5%)	9.31%	8.51%
Tier I & Tier II (Required statutory minimum ratio is 10%)	12.95%	12.59%

Capital Adequacy Computation of the Group

Capital Base as at 31 December	GROUP	
	2016	2015
	LKR '000	LKR '000
Tier I: Core capital		
Capital	1,246,479	1,162,963
Statutory reserve fund	1,246,479	1,242,772
Published retained profits	21,246,563	19,213,211
General and other reserves	5,819,548	5,886,805
Minority interests	1,066,810	1,011,046
Total equity considered for Tier I capital	30,625,879	28,516,797
Deductions – Tier I		
Intangible assets	384,742	274,746
50% investments in the capital of other banks and financial institutions	1,133,190	1,087,623
	1,517,932	1,362,369
Eligible Tier I Capital	29,107,947	27,154,428
Tier II: Supplementary capital		
General loan loss provision	957,043	830,100
Approved revaluation reserve	542,092	542,092
Approved subordinated term debt	9,009,969	9,977,543
	10,509,104	11,349,735
Deductions – Tier II		
50% investments in the capital of other banks and financial institutions	1,133,190	1,087,623
Eligible Tier II Capital	9,375,914	10,262,112
Capital base (Tier I +Tier II)	38,483,861	37,416,540

	GROUP				
	Assets for Credit Risk		Risk Weights %	Risk-Weighted Assets	
	2016 LKR '000	2015 LKR '000		2016 LKR '000	2015 LKR '000
Risk-weighted on and off-balance sheet exposure					
Cash and claims on Central Government and Central Bank of Sri Lanka	58,649,716	35,798,378	0 – 20	21,026	8,092
Claims secured by cash deposits, gold and guarantees	27,339,087	20,280,019	0	–	–
Claims on banks	10,166,189	16,057,734	20 – 150	4,995,479	5,373,130
Claims on financial institutions	19,630,437	27,523,393	20 – 150	11,359,196	16,164,584
Loans secured by residential property	10,544,601	9,055,452	50 – 100	5,866,613	4,527,726
Past due loans	2,640,758	2,146,571	50 – 150	3,660,446	2,328,523
Retail claims and corporate claims	202,589,047	189,654,725	20 – 150	186,048,902	175,373,279
Property, plant and equipment	4,304,255	4,126,881	100	4,304,255	4,126,881
Other assets	2,788,786	3,922,896	100	2,788,786	3,922,896
Total assets considered for credit risk	338,652,876	308,566,049		219,044,703	211,825,111

	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor %	Credit Equivalent Off-Balance Sheet Items	
	2016 LKR '000	2015 LKR '000		2016 LKR '000	2015 LKR '000
Credit equivalent of off-balance sheet items					
General guarantees of indebtedness	16,823,830	12,412,956	100	16,823,830	12,412,956
Stand by letters of credit relating to particular transactions	67,410	64,800	50	33,705	32,400
Performance bonds and bid bonds	10,022,804	8,614,302	50	5,011,402	4,307,151
Trade related acceptances and advance documents endorsed	7,958,256	8,584,926	20	1,591,651	1,716,985
Shipping guarantees	744,055	1,352,796	20	148,811	270,559
Documentary letters of credit	8,338,710	8,067,461	20	1,667,742	1,613,492
Undrawn term loans	10,799,521	6,803,723	0, 20 & 50	5,398,971	3,386,562
Foreign exchange contracts	74,289,101	81,168,189	2, 5 & 8	2,038,616	2,336,935
Undrawn overdrafts and credit lines	12,847,706	14,836,720	0	–	–
Other unutilized facilities	88,098,013	90,685,643	0, 20 & 50	809,412	952,942
Total	229,989,406	232,591,516		33,524,140	27,029,982

	GROUP	
	2016 LKR '000	2015 LKR '000
Capital charge for market risk		
Capital charge for interest rate risk	611,745	448,997
Capital charge for equity securities and unit trusts	573,135	899,542
Capital charge for foreign exchange and gold	98,554	63,668
Total capital charge for market risk	1,283,433	1,412,208
Total risk-weighted assets equivalent for market risk	12,834,331	14,122,076
Capital charge for operational risk		
Gross Income		
Year 1	13,588,231	12,001,151
Year 2	13,226,127	13,588,231
Year 3	13,600,034	13,226,127
Average gross income	13,471,464	12,938,503
Total capital charge for operational risk at 15%	2,020,720	1,940,775
Total risk weighted assets equivalent for operational risk	20,207,196	19,407,755
Total risk weighted assets	252,086,230	245,354,942
Capital adequacy ratios		
Tier I (Required statutory minimum ratio is 5%)	11.55%	11.07%
Tier I & Tier II (Required statutory minimum ratio is 10%)	15.27%	15.25%

STEWARDSHIP



SCAN TO VIEW

<http://ndbbank2016.annualreports.lk/stewardship/>

192	204	207	210	212
BOARD OF DIRECTORS	THE LEADERSHIP TEAM	SENIOR MANAGEMENT TEAM	GROUP MANAGEMENT TEAM	CORPORATE GOVERNANCE
249	260	261	274	276
ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF NATIONAL DEVELOPMENT BANK PLC	DIRECTORS' INTERESTS IN CONTRACTS WITH THE NATIONAL DEVELOPMENT BANK PLC	BOARD COMMITTEE REPORTS	STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING	DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
278	279			
CHIEF EXECUTIVE OFFICER'S AND GROUP CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT	INDEPENDENT ASSURANCE REPORT			

BOARD OF DIRECTORS





	Date of Appointment to the Board	Date of Last Re-election as a Director	Length of Service as a Director	Membership in Board Subcommittees	Skills/Experience/Qualifications
1 A W Atukorala <i>Chairman</i> <i>Non-Executive Independent Director</i>	31 August 2016	N/A	4 months	- Corporate Governance & Legal Affairs Committee - Strategic Issues Committee - Nominations Committee - Related Party Transactions Review Committee	- B.Sc. (University of Leeds, UK) - MTT (North Carolina State University, USA) - MBA

2 A K Pathirage <i>Deputy Chairman</i> <i>Non-Executive Non-Independent Director</i>	18 February 2011	28 March 2014	5 years and 10 months	- Strategic Issues Committee - Human Resources and Remuneration Committee - Nominations Committee	- G.C.E Advanced Level - He has over 28 years of experience in senior managerial capacity in Information Technology and in the business world

Present Directorships with Other Companies	Past Directorships/ Positions Held	Other Information	No. of Shares Held in the Bank as at 31 December 2016
- United Motors Lanka PLC – Director - Unimo Enterprises Ltd. – Director - TVS Lanka Ltd. – Director - Pragnya Tech Parks Lanka (Pvt) Ltd. – Director - Arni Holdings & Investments (Pvt) Ltd. – Director - Unawatuna Boutique Resort (Pvt) Ltd. – Director - U B Finance Company Ltd. – Director - Orient Finance PLC (Co. Reg. – PB/1079/PQ) Formerly – Bartleet Finance PLC) – Director - Colombo City Holdings PLC – Director	- DFCC Bank PLC – Director - DFCC Vardhana Bank PLC – Director - Orient Finance PLC (former Co Reg – PB/75/PQ) – Director - U B Finance Company Ltd. - Union Bank of Colombo PLC – Director - Mashreq Bank PSC. – Country Manager, Sri Lanka - 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 - ANZ Grindlays Bank, Colombo Branch (with ANZ Grindlays Group in Sri Lanka & Overseas) – Deputy General Manager (at the time of leaving the bank)	N/A	500
- Softlogic Holdings PLC – Chairman/Managing Director - Asiri Hospital Holdings PLC – Chairman/Managing Director - Asiri Surgical Hospital PLC – Chairman/Managing Director - Asiri Central Hospitals Ltd. – Chairman/Managing Director - Central Hospital Ltd. – Chairman/Managing Director - Asiri Hospital Kandy (Pvt) Ltd. – Chairman/Managing Director - Softlogic Retail (Pvt) Ltd. – Chairman/Managing Director - Ceysand Resorts Ltd. – 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 Ltd. – Chairman - Softlogic Properties (Pvt) Ltd. – Chairman - Softlogic Australia (Pty) Ltd. – Chairman (Incorporated in Australia) - Softlogic City Hotels (Pvt) Ltd. – Chairman - Softlogic Brands (Pvt) Ltd. – Chairman - Odel PLC – Chairman - Sabre Travel Network Lanka (Pvt) Ltd. [Formerly known as Abacus International Lanka (Pvt) Ltd.] – Director - Odel Properties One (Pvt) Ltd. – Director	- Softlogic Information Technologies (Pvt) Ltd.– Chairman - Softlogic Credit Ltd. – Chairman - Softlogic International (Pvt) Ltd. – Chairman - Softlogic Communications (Pvt) Ltd. – Chairman - Asiri Hospital Matara (Pvt) Ltd. – Chairman/Managing Director - Matara Medi House (Pvt) Ltd. – Chairman/Managing Director - Future Automobiles (Pvt) Ltd. – Chairman/ Managing Director - Dai-Nishi Securities (Pvt) Ltd. – Chairman - Asiri Diagnostics Services (Pvt) Ltd. – Chairman - Asian Alliance General Insurance Ltd. – Chairman (now known as Fairfirst Insurance Limited) - Softlogic Communication Services (Pvt) Ltd. – Director - Softlogic Computers (Pvt) Ltd. – Chairman - Ominga International (Pvt) Ltd. - Softlogic Corporate Services (Pvt) Ltd. – Chairman - Gerry's Softlogic (Pvt) Ltd. – Director - Softlogic Solar (Pvt) Ltd. – Director - Softlogic Restaurants (Pvt) Ltd. – Director	N/A	3,993,000

	Date of Appointment to the Board	Date of Last Re-election as a Director	Length of Service as a Director	Membership in Board Subcommittees	Skills/Experience/Qualifications
3 P L D N Seneviratne <i>Director/Chief Executive Officer</i> <i>Executive Non-Independent Director</i>	1 January 2017	N/A	Over one month (as at date)	- Corporate Governance & Legal Affairs Committee - Integrated Risk Management Committee	- Bachelor of Science, University of Sri Jayewardenepura (B.Sc.) - 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) - Fellow of the Institute of Bankers of Sri Lanka (FIB)
4 T L F Jayasekera <i>Non-Executive Independent Director</i>	10 February 2010	30 March 2015	6 years 10 months	- Strategic Issues Committee - Audit Committee - Human Resources and Remuneration Committee - Nominations Committee - Related Party Transactions Review Committee	- FCA - ACMA
5 D S P Wikramanayake <i>Non-Executive Non-Independent Director</i>	4 June 2010	30 March 2016	6 years and 6 months	- Integrated Risk Management Committee - Strategic Issues Committee - Audit Committee - Related Party Transactions Review Committee	FCA (Sri Lanka)

Present Directorships with Other Companies	Past Directorships/ Positions Held	Other Information	No. of Shares Held in the Bank as at 31 December 2016
- Credit Information Bureau of Sri Lanka - LankaClear (Pvt) Ltd.	- Pan Asia Banking Corporation PLC – Director/ Chief Executive Officer - Hong Kong & Shanghai Banking Corporation – Thailand – Chief Risk Officer - Hong Kong & Shanghai Banking Corporation – Sri Lanka – Chief Risk Officer, Sri Lanka and Maldives - Hong Kong & Shanghai Banking Corporation – Sri Lanka – Head of Credit Risk Management	N/A	Nil
- Brandix Apparel India (Pvt) Ltd. – Director - Brandix Apparel Ltd. – Director - Brandix Apparel Solutions Ltd. – Director - Brandix Lanka Ltd. – Director - Brandix Management Services (Pvt) Ltd. – Director - Brandix Asia Ltd. – Director - Brandix Mercury Asia (Pvt) Ltd. – Director - Nirbitha Adventures (Pvt) Ltd. – Director - John Keells Hotels PLC – Non-Executive – Director - Phoenix Industries Ltd. – Director - Phoenix Ventures (Pvt) Ltd. – Director - Brandix I 3 (Pvt) Ltd. – Director - Brandix I three inc., – Director - Brandix I3 Australia Pty Ltd. – Director	- Hayleys PLC – Non-Executive Director - Lanka Ventures Ltd. – Non-Executive Director - Ceylease Financial Services Ltd. – Director - Sri Lanka Accounting and Auditing Standards Monitoring Board – Board Member - Aitken Spence & Company Ltd., Colombo – Group Finance Director - Deutsche Bank, Colombo – General Manager & Financial Controller - Arab Bank Ltd., Bahrain – Internal Auditor - Coopers & Lybrand, Zambia – Audit/Senior Supervisor	N/A	Nil
- NDB Wealth Management Ltd. – Chairman - NDB Investment Bank Ltd. – Chairman - NDB Capital Ltd. (Bangladesh) – Chairman - NDB Zephyr Partners Lanka (Pvt) Ltd. – Chairman - NDB Capital Holdings Ltd. – Director - AIA Insurance Lanka PLC – Director	- NDB Securities (Pvt) Ltd. – Director - Aviva NDB Insurance PLC – Director - Aviva NDB Holdings Lanka (Pvt) Ltd. – Director - PC House PLC – Director - Greenwich Lanka (Pvt) Ltd. – Chairman - Procifinity Ltd. – Director - Eco-Lodgia (Pvt) Ltd. – Director - Rainbow Trust Management (Pvt) Ltd. – Director - Infoserve (Pvt) Ltd. – Director - Bartleet Finance PLC – Director - Power World Gyms Ltd. – Director - Orient Finance PLC – Director	N/A	Nil

	Date of Appointment to the Board	Date of Last Re-election as a Director	Length of Service as a Director	Membership in Board Subcommittees	Skills/Experience/Qualifications
6 Mrs. Kimarli Fernando <i>Non-Executive Independent Director</i>	4 June 2010	30 March 2015	6 years and 6 months	- Corporate Governance & Legal Affairs Committee - Strategic Issues Committee - Audit Committee - Human Resources & Remuneration Committee - Nominations Committee - Related Party Transactions Review Committee	- Barrister-at-Law - Attorney-at-Law, Sri Lanka - LLB-London School of Economics, UK - Postgraduate Certificate Course – Human Resources Management, PIM
7 Mrs. W A I Sugathadasa <i>Non-Executive Independent Director</i>	4 October 2013	28 March 2014	3 years and 2 months	- Corporate Governance & Legal Affairs Committee - Audit Committee - Human Resources and Remuneration Committee - Related Party Transactions Review Committee	- Sri Lanka Administrative Service – Retired Member - BA degree (Social Sciences) – University of Colombo - Masters degree (MBA/MPA) – Monash University, Australia - Hubert H Humphry Fellow (Fulbright)
8 D M R Phillips, PC <i>Non-Executive Independent Director</i>	22 April 2015	30 March 2016	1 year and 8 months	- Corporate Governance & Legal Affairs Committee - Integrated Risk Management Committee	- President's Counsel - Attorney-at-Law - Solicitor England and Wales - Diploma Intellectual Property – University of London

Present Directorships with Other Companies	Past Directorships/ Positions Held	Other Information	No. of Shares Held in the Bank as at 31 December 2016
- Vallible One PLC – Director - Delmege Ltd. – Director - LB Finance PLC – Acting Chairperson - Richard Pieris Distributors – Director	- Deutsche Bank AG – Head – Corporate Banking/Global Cash Management - Standard Chartered Bank – Head – Client Relationships/Corporate Banking/Wholesale Banking - Pan Asia Banking Corporation PLC – CEO/ Director - Waters' Edge – Director - LankaClear (Pvt) Ltd. – Director - Sri Lanka Bankers Association – Board Member	N/A	Nil
- Insurance Board of Sri Lanka – Chairperson - Kalubovitiyana Tea Factory Ltd. – 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 – Director - Environment Council – Member - Sri Lanka Bureau of Foreign Employment – Director - Sri Lanka Tea Board – Member	Mrs. Sugathadasa had an illustrious career in the public service, having joined the Sri Lanka Administrative Service in the year 1977 and reaching the helm in the service as a Permanent Secretary. She was awarded the Hubert H. Humphrey Fellowship (Fulbright) by the United States Government in 1990. She has received many accolades, including the Australian Alumni Excellence Award in 2013 and the 'Inspirational Woman'- Professional and Career Women Award by Women in Management 2014/15. Mrs. Sugathadasa is a Trustee of Musaeus College and the current President of the Sri Lanka Association of Australia Awards Alumni (SLAAAA).	Nil
- Gestetner of Ceylon PLC – Director - Vauxhall Beira Properties (Pvt) Ltd. – Director - Intellectual Property Advisory Commission – Member	- Intellectual Property Advisory Commission – Chairman	A founder member of South Asian Association for Regional Co-operation in Law (SAARC Law) Sri Lanka Chapter. Mr Phillips is also a Member of International Pacific Bar Association and a life member of the Bar Association of Sri Lanka.	Nil

	Date of Appointment to the Board	Date of Last Re-election as a Director	Length of Service as a Director	Membership in Board Subcommittees	Skills/Experience/Qualifications
9 Mrs. D M A Harasgama <i>Non-executive Non-Independent Director as Nominee of the Ministry of Finance (In terms of the Articles of Association)</i>	22 April 2015	N/A	1 year and 8 months	- Integrated Risk Management Committee - Audit Committee - Related Party Transactions Review Committee	- Bachelor of Arts -University of Sri Jayewardenepura Sri Lanka - Licentiate Examination - The Institute of Chartered Accountants of Sri Lanka - Member of the Institute of Public Finance & Development Accountancy in Sri Lanka - Postgraduate Diploma in Management – Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura Sri Lanka - Master of Commerce Majoring in Finance – University of New South Wales (UNSW), Australia - Member of the Australian Institute of Banking and Finance
10 K D W Ratnayaka <i>Non-Executive Independent Director</i>	13 May 2015	30 March 2016	1 year and 7 months	- Integrated Risk Management Committee - Human Resources and Remuneration Committee	- Bachelor of Science (Physics) from the University of California

Present Directorships with Other Companies	Past Directorships/ Positions Held	Other Information	No. of Shares Held in the Bank as at 31 December 2016
- Director General, Department of State Accounts, General Treasury - Director, Sri Jayewardenepura Hospital - Director, Civil Aviation Authority - Director, Association of Public Finance Accountants of Sri Lanka (APFASL) - Director, Vehicular Emission Trust Fund - Director, Judicial Infrastructure Maintenance Trust Fund	- Department of Information and Technology Management, General Treasury – Director General - Department of Public Enterprises, General Treasury - Director General - Department of Public Finance – Additional Director General - Department of Public Finance – Director - United Nations Development Programme (UNDP) – Financial Analyst - Public Enterprises Reform Commission of Sri Lanka (PERC) – Director	N/A	Nil
- The Associated Newspapers of Ceylon Ltd. – Chairman and Managing Director - Sri Lanka Business Development Centre (SLBDC) – Director - KBSL (Pvt) Ltd. – Director - KBSL Singapore (Pte) – Director - i Context – Director	- Cargills Ceylon PLC – Group Chief Corporate Officer - Dialog Axiata PLC – Group Chief Corporate Officer - Dialog Broadband Networks – Chief Executive Officer - IBM – Country General Manager for Sri Lanka/ Maldives - Employers Federation of Ceylon (EFC) – Council Member - Arthur C Clarke Institute for Modern Technologies – Director - Sri Lanka Institute of Information Technology (SLIIT) – Director - John Keells PLC – Director - Amcham, Sri Lanka – Past President - Independent Television Network (ITN) – Director - Sri Lanka Institute of Directors (SLID) – Director - Iagora Solution SDN BHD – Director	N/A	Nil

	Date of Appointment to the Board	Date of Last Re-election as a Director	Length of Service as a Director	Membership in Board Subcommittees	Skills/Experience/Qualifications
11 N S Welikala <i>Non-Executive Independent Director</i>	11 October 2016	N/A	2 months	- Strategic Issues Committee - Audit Committee - Integrated Risk Management Committee - Related Party Transactions Review Committee	- Fellow of the Institute of Chartered Accountants (England and Wales) - Fellow of The Institute of Chartered Accountants of Sri Lanka - Bachelor of Laws – University of Sri Lanka

12 Mrs. Shehani Ranasinghe <i>Assistant Vice President/ Company Secretary</i>	N/A – (Appointed as the Company Secretary in April 2012)	N/A	N/A – (Length of service at the Bank – 23 years)	N/A	- Attorney-at-Law (Hons.) - Bachelor of Arts (Hons.) Degree – University of Colombo

Present Directorships with Other Companies	Past Directorships/ Positions Held	Other Information	No. of Shares Held in the Bank as at 31 December 2016
- AMW Capital Leasing Ltd. (Owned by the Alfutaim Group – Dubai) – Chairman - Bartleet & Co. Ltd. – Director - Bartleet Transcapital Ltd. – Director - Housing Development Finance Corporation – Maldives – Director	- National Development Bank PLC – Director/Chief Executive Officer - Development Holdings (Pvt) Ltd. – Director - NDB Aviva Wealth Management Ltd. – Director - NDB Stockbrokers (Pvt) Ltd. – Director - Aviva NDB Finance Lanka (Pvt) Ltd. – Director - Capital Development & Investment Co. Ltd. – Director - NDB Investment Bank Ltd. – Director - NDB Capital Ltd. – Bangladesh – Director - Eagle Insurance PLC – Alternate Director - Maldives Finance Leasing Co. Ltd. – Alternate Director - Ayojana Fund Management (Pvt) Ltd. – Director - Lakjaya Thrift and Credit Foundation Ltd. – Director - NDB Venture Investments (Pvt) Ltd. – Director - NDB Bank Ltd. – Director - NDB Housing Bank Ltd. – Director - Citibank NA – Chief Executive Officer - Mercantile Leasing Ltd. – Director	N/A	Nil
N/A	N/A	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.	



Dimantha Seneviratne
Director/Chief Executive Officer

Please refer pages 196 and 197 for profile.



Buwanekabahu Perera
Vice-President – Corporate Banking

Mr Perera joined the Bank in 1998, prior to which he was attached to Banque Indosuez, Sampath Bank and Deutsche Bank. He holds a Bachelor's Degree in Financial Services from the University of Manchester, UK and a Postgraduate Diploma in Bank Financial Management from the University of Sri Jayewardenepura. Mr Perera is also an Associate Member of the Chartered Institute of Bankers, UK. Mr Perera counts over 37 years of banking experience of which 18 years have been with NDB with overall exposure in areas of corporate banking project finance and international trade. He is a past president of the Association of Professional Bankers of Sri Lanka (APB). He has also served in the capacity of acting CEO of the Bank.



Faizan Ozman
Group Chief Financial Officer

Mr Ozman counts over 21 years of experience in banking in the disciplines of risk management, remedial management, corporate banking, operations and finance. His prior experiences have been at leading international banks such as the Citigroup and Standard Chartered Bank where he has held key positions and gained vast experience in multiple countries.

Mr Ozman joined the Bank in 2011, prior to which he was the Chief Risk Officer/Head of Compliance at Seylan Bank PLC.

Mr Ozman is a Fellow of the Chartered Institute of Management Accountants, (FCMA) UK and a Chartered Global Management Accountant (CGMA). He is also a member of the Certified Public Accountants of Australia and Certified Management Accountants Australia with a Bachelor of Commerce degree from the University of Sri Jayewardenepura.



Raj Aboobucker
Vice-President – Retail Banking & Institutional Banking

Mr Aboobucker joined NDB in 2005 and counts over 35 years of experience in banking, of which over 11 years have been with NDB. His experience within the Bank has been in the areas of corporate banking, retail banking, SME banking and transactional and institutional banking. Prior to joining NDB, he was the Head of the Commercial Banking Group at Citibank NA, Colombo. Mr Aboobucker holds a MBA in Leadership and Sustainability from the University of Cumbria, UK and is also an alumnus of the Harvard Kennedy School, Boston USA where he underwent his executive education in private enterprise development.



Niran Mahawatte
Vice-President – Treasury

Mr Mahawatte joined the Bank's Treasury in 2001, prior to which he was attached to Deutsche Bank and the Commercial Bank of Ceylon. He holds a B.Sc. from the University of Colombo and is a Fellow Member of the Chartered Institute of Management Accountants, (FCMA) UK and a Chartered Global Management Accountant (CGMA). Mr Mahawatte counts over 24 years of banking experience of which 15 years is with NDB.



Sanjaya Perera
Vice-President – Branch Network Management

Mr Perera, who joined the Bank in 2015, has over 26 years of experience in banking to his credit, including Nations Trust Bank and Sampath Bank PLC with exposure in the areas of retail banking and auditing. He holds an MBA from the University of Sri Jayewardenepura and is a Fellow of the Institute of Bankers of Sri Lanka and is also a passed finalist of the Association of Accounting Technicians (UK).

Mr Perera overlooks the SME banking operations of the Bank, in addition to network management.

Ms Nirmala Rayen*Vice-President – Group Risk Management*

Ms Rayen joined the Bank in 2001. She counts over 35 years of experience in Banking covering operations, corporate banking and risk management. Prior to joining NDB she was with ABN AMRO Bank N.V., ABN Bank N.V. and Citibank N.A.

Ms Rayen is an Associate Member of the Institute of Bankers of Sri Lanka. She is currently the President of the Association of Banking Sector Risk Professionals of Sri Lanka.

**Sujeewa Dissanayake***Vice-President – Information Technology*

Mr Dissanayake joined the Bank's IT Team in 2006. He counts over 31 years' experience in the IT field, with 27 years in the Banking sector, over 11 years of which is with NDB. Prior to joining NDB he was attached to Pan Asia Bank and the Union Bank of Colombo as the Head of IT. He holds a Master's Degree in Business Administration from the University of Lincoln, UK and is a Chartered Member of the British Computer Society. Mr Dissanayake is a past Chairman of the British Computer Society, Sri Lanka Section, and is the author of two IBM Red Books for IBM Research labs, USA.

**Ms Shanti Gnanapragasam***Vice-President – Credit*

Ms Gnanapragasam joined NDB in 2015 from Hatton National Bank where she held the positions of Chief Risk Officer and Head of Treasury and Global Markets. Previously, she also served as the Group Treasurer at Hayleys PLC, Deputy Head of Treasury at People's Bank and Director Global Markets and Treasury at American Express Bank and Maharaja Organization. She counts over 35 years of experience in banking.

She holds a B.Sc. degree from the University of Madras and is a Fellow Member of the Chartered Institute of Management Accountants, UK (FCMA) and is a Chartered Global Management Accountant (CGMA).

**Ms Delrene Seneviratne***Vice-President – Administration*

Ms Seneviratne joined the Bank in 1990 and now accounts for 26 years of experience. During this tenure she has gained vast cross functional exposure in legal, company secretarial, recoveries and collection, housing, retail/SME credit and micro financing, human resources and network management.

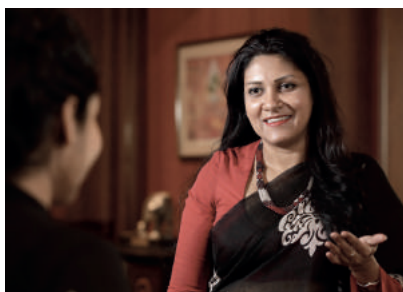
Ms Seneviratne is an Attorney-at-Law (Hons.) of the Supreme Court of Sri Lanka and has successfully completed Solicitor's Final Examination of the Law Society of UK. She also holds a postgraduate Diploma in International Commercial Arbitration (Merit) from Queen Mary College, University of London and a Master's in Public Administration from the University of Colombo.

Ms Seneviratne has had prior experiences as Administrative Secretary of the Sri Lanka National Council of the International Chamber of Commerce and the National Arbitration Centre as the first Registrar. She has also been a journalist at the Independent Newspapers Ltd.

**Ms Ishani Senaweera***Vice-President – Human Resources*

Ms Senaweera joined the Bank in 1995 and accounts for 22 years of experience in human resource management, during which period she has gained all-round experience in human resources management. Ms Senaweera holds a Master's Degree in Business Administration from the University of Wales and a B.Sc. in Economics and Management from the University of London.





Ms Melody Wickramanayake
Vice-President – Legal

Ms Wickramanayake initially joined the Bank in 1991 and served at NDB till 2008. Following a brief stint of two years up to 2010 in the Middle East, she rejoined the Bank in 2010. She counts over 23 years of experience in corporate and banking law. Her experience within the Bank has been in the areas of legal affairs, company secretarial affairs and compliance.

She is an Attorney-at-law (Hons.) of the Supreme Court of Sri Lanka, a Notary Public and Commissioner for Oaths and a qualified Company Secretary.



Ms Ruwani De Silva
Vice-President – Group Audit

Ms De Silva joined the Bank in 2001 and counts for over 22 years of banking experience in areas of auditing, compliance and finance, of which 15 years is with NDB. Prior to joining NDB, Ms De Silva headed the Audit function at the ABN Amro – Colombo Branch. She has also gained auditing and taxation experience at Messer Ernst & Young for five years.

She is a Fellow member of The Institute of Chartered Accountants of Sri Lanka (FCA) and the Chartered Institute of Management Accountants, UK (FCMA) and is a Chartered Global Management Accountant (CGMA).



Sanjaya Senarath
Assistant Vice-President – Marketing

Mr Senarath joined the Bank in 2012 and has to his credit, over 27 years of experience in the 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.

His role within the Bank has covered the areas of marketing and sales. He holds a B.Sc. in Financial Management from California State University, Long Beach, USA and an Associate Degree from Santa Monica College, California, USA. He is also CIM qualified.



Mrs. Shehani Ranasinghe
Assistant Vice-President/Company Secretary

Please refer pages 202 and 203 for the profile.



Reshanka Abayasekara
Head of Operations

Mr Abayasekara joined the Bank in 2013 prior to which, he served at Hatton National Bank PLC. Mr Abayasekara possesses 38 years of experience in banking which includes exposure in areas such as general branch banking, domestic and international operations, corporate banking, correspondent banking and inward remittances.

He has served as a member of the Board of Management of remittance houses in the Middle East region, Banking Technical Advisory Committee and is the former Senior Vice-President of Trade Finance Association of the Bankers.



Ms Manique Kiriella Bandara
Compliance Officer

Ms Kiriella Bandara joined the Bank in 1997 and has to her credit over 20 years of experience in the areas of lending, structuring transactions, labour law, mergers and acquisitions and serving as the Company Secretary for the NDB Group companies. She assumed duties as the Compliance Officer in 2014.

Ms Kiriella Bandara holds an LLB from the University of Colombo and is an Attorney-at-law (Hons.) of the Supreme Court of Sri Lanka.


Ms Ishani Palliyaguru

*Assistant Vice-President –
Project Finance*

B.Sc. Bio Science (University of Colombo),
MBA (PIM Sri J'pura), FCMA (UK), CGMA,
ACMA (Sri Lanka), AIB (Sri Lanka)

20 years of experience with 18 years
in banking


Amal Yapa

*Assistant Vice-President –
Corporate Banking*

Bachelor's in Business Administration.
(University of Houston, Texas)

23 years of experience in banking


Ms Camy Somasunderam

*Assistant Vice-President –
Cash Management and Islamic Banking*

MBA (University of Wales-UK),
CIM Dip.(UK)

22 years of experience in banking


Ajith Senadheera

*Assistant Vice-President –
Leasing*

B.Sc. Business Administration
(University of Sri J'Pura), MBA
(University of Colombo)

29 years of experience in banking


Mrs. Shera Hassen

*Assistant Vice-President –
Privilege Select Banking*

MBA (Australian Institute of Business),
Certified in Wealth & Investment
Management-CISI UK, AIB (Sri Lanka)

22 years of experience in banking


Indika Ranaweera

*Assistant Vice-President –
Branch Network Management*

B.Sc. Engineering (University of
Moratuwa), MBA, MFE and PGDBM
(University of Colombo)

20 years of experience with 18 years
in banking


Niranjana Thangarajah

*Assistant Vice-President –
Branch Network Management*

MBA (American University of Asia),
ACCA (UK), MABE (UK)

20 years of experience in banking


K V Vinoj

*Assistant Vice-President –
Correspondent and 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)

24 years of experience in banking


Sunil Karunaratne

*Assistant Vice-President –
Treasury*

MBA (University of Western Sydney)

31 years of experience in banking


Damitha Samaranayake

*Assistant Vice-President –
Treasury*

AIB (Sri Lanka), ACI Dealing
Certificate – Paris

22 years of experience in banking


Gehan Biyanwila

*Assistant Vice-President –
Asset and Liability Management*

CFA charter holder, ACI Diploma, ACI
Dealing Certificate – Paris

20 years of experience with 19 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.

30 years of experience with 27 years
in banking


Mrs. Shareen Jayasuriya

*Assistant Vice-President –
Credit*

FCMA (UK), CGMA, CIM Dip. (UK), ACSI

23 years of experience with 22 years
in banking


Ms Harshini Satharasinghe

*Assistant Vice-President –
Credit*

B.Sc. Agriculture (Sp) (University
of Peradeniya), MBA (University of
Sri J'pura)

20 years of experience with 18 years
in banking


Mrs. Anushca Saranapala

*Assistant Vice-President –
Group Risk Management*

31 years of experience in banking


Priyantha Gamage

*Assistant Vice-President –
Operational Risk*

MBA (University of Southern
Queensland), CISA (ISACA-USA),
CISSP (ISC2-USA)

22 years of experience in banking


Lalith Fernando

*Assistant Vice-President –
Information Technology*

MBCS – CITP, MBA (University of
Moratuwa)

30 years of experience with 20 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)

19 years of experience with 16 years
in banking


Mrs. Suvendrini Muthukumarana

*Assistant Vice-President –
Finance and Planning*

B.Sc. Physical Science (University of Colombo), FCA (Sri Lanka)

22 years of experience with 16 years in banking


Kumar Gunawardana

*Assistant Vice-President –
Administration*

37 years of experience in banking


Mrs. Dayani Algama

*Assistant Vice-President –
Human Resources*

BA (Hons.) (University of New Delhi), Master's in Development Studies (University of Colombo)

25 years of experience with 19 years in banking


Mrs. Vidisha Jayawardena

*Assistant Vice-President –
Legal*

Attorney at Law (Hons.)

24 years of experience in banking


Sanjeev Kulendran

*Assistant Vice-President –
Internal Audit*

B.Sc. (University of Madras), Associate Member – Financial Services Institute of Australasia, AIB (Sri Lanka)

24 years of experience in banking


Rivindu Nanayakkara

*Assistant Vice-President –
Operations – Trade Services,
Payments and Settlements*

36 years of experience in banking


Mrs. Ganga Wanigaratne

*Assistant Vice-President –
Operations – Account Services and
Credit Administration*

31 years of experience in banking


Nishantha Hettiarachchi

*Assistant Vice-President –
Information Technology –
Shared Services*

B.Sc. Industrial Management (Hons.) (University of Kelaniya), M.Sc. (Information System Management) (University of Colombo), BCS (UK), Diploma in Business Administration (ICFAI, India)

18 years of experience in banking


Dimantha Seneviratne

Director/ Chief Executive Officer – National Development Bank PLC

Please refer pages 196 and 197 for the profile.


Faizan Ozman

Group Chief Financial Officer

Please refer page 204 for the profile.


Vajira Kulatilaka

Chief Executive Officer – NDB Capital Holdings Ltd.

Mr Kulatilaka counts for over 32 years of experience in Banking and Finance and Capital Market operations in Sri Lanka and has been instrumental in introducing a number of innovative financial products to the country. He joined the NDB Group in 1994 and has also worked at Sampath Bank and USAID. Mr Kulatilaka is the CEO of the Investment Banking cluster of the NDB Group and is a Director of NDB Investment Bank Ltd., NDB Securities (Pvt) Ltd., NDB Wealth Management Ltd., NDB Zephyr Partners Ltd., NDB Capital Ltd. and Resus Energy PLC. He is at present, the Chairman of the Colombo Stock Exchange (CSE) and the Chairman of the South Asian Federation of Exchanges (SAFE). Mr Kulatilaka is also a Member of the Governing Council of the University of Moratuwa. He holds a BSc in Civil Engineering with First Class Honors from the University of Moratuwa and a M.Sc. in Industrial Engineering and Management, from the Asian Institute of Technology, Thailand. He is a Chartered Financial Analyst (CFA) and is a Fellow Member of The Chartered Institute of Management Accountants, UK (FCMA).


Darshan Perera

Chief Executive Officer – NDB Investment Bank Ltd.

Mr Perera joined NDB Investment Bank Ltd. in 2001 and was appointed as the CEO in 2009. He holds a B.Sc in Physical Science and an MBA from the University of Colombo. He is an Associate Member of the Institute of Bankers, Sri Lanka, a Passed Finalist of the Chartered Institute of Management Accountants UK (CIMA) and an Associate Member of the Chartered Institute of Marketing, UK (CIM). He has successfully spearheaded many IPOs, preference share issues, debt syndications and private placements of ordinary shares for a number of Sri Lankan corporations; he has also served as a valuation specialist for share issues.

Prior to joining NDB Investment Bank Ltd, Mr Perera served as an Assistant Vice President at Vanik Incorporation Ltd.


Prabodha Samarasekera

Chief Executive Officer – NDB Wealth Management Ltd.

Mr Samarasekera, who has been with the NDB wealth since 2008, has over 30 years experience in the financial services industry and his main strength is in asset management. His responsibilities have included the setting up and management of all aspects of a fund management business. His extensive international experience and training in banking, finance & capital market verticals encompass USA, Hong Kong, Singapore and Sri Lanka.

Mr Samarasekera holds a B.Sc. in Management Information Systems and an MBA in International Finance from the University of Southern California, Los Angeles, USA.

Ms Prasansani Mendis*Chief Executive Officer – NDB Securities (Pvt.) Ltd.*

Ms Mendis joined the NDB Group in 1990, after serving for four years as an Accountant in two leading private sector companies. She joined the Group's securities trading arm, NDB Securities (Pvt) Ltd in 2008. Having been a banker for over 17 years, she has gained wide experience in corporate finance, merchant banking, consultancy, audit and restructuring of companies. She also functioned as the Head of Special Projects and Leasing Departments of NDB. In addition, she was involved in setting up of the initial branch of NDB and the Maldivian leasing subsidiary. Ms Mendis holds a B.Com. Special Degree from the University of Kelaniya and is a CIMA finalist.

**Senaka Kakiriwaragodage***Managing Director – NDB Zephyr Partners Lanka (Pvt.) Ltd.*

Mr Kakiriwaragodage possesses over 12 years of wide-ranging experience in investment banking, including activities such as IPOs, debt and equity placements, mergers and acquisitions, loan syndications, corporate restructurings, advisory services, feasibility studies, diagnostic studies and project financing. Prior to his current role, he was the Vice-president of NDB Investment Bank Ltd. Prior to joining the NDB Group, Mr Kakiriwaragodage served as a Software Engineer at Virtusa (Pvt) Ltd.

Mr Kakiriwaragodage holds a B.Sc. First Class Degree in Computer Science and Engineering from the University of Moratuwa and a MBA from the University of Manchester, UK. He is also a fellow member of the Chartered Institute of Management Accountants, UK (FCMA), a Chartered Global Management Accountant (CGMA) and a charter holder of CFA. He also served as a member of the CIMA Sri Lanka Board in 2015 and 2016.

**Kanti Kumar Saha***Managing Director and Chief Executive Officer – NDB Capital Ltd.*

Mr Saha joined the NDB Group as the Managing Director and CEO in 2014.

Mr Saha counts over 20 years of experience in the banking industry, in diverse areas such as Corporate & Institutional Banking, Structured Finance, Public Sector and Offshore Banking, Risk Management and International Trade. Prior to joining NDB Capital Ltd., he was the Deputy Managing Director and Chief Business Officer of Prime Bank Ltd. He also served at Citibank NA, Bangladesh as Director and Head of Global Corporate Bank.

Mr Saha holds a Bachelor's Degree and a Master's Degree in Economics from the University of Dhaka and a Postgraduate Management Degree from the Nottingham Trent University, U.K.



Dear Stakeholders,

It is with great pleasure that we present the Corporate Governance Report for 2016. The Corporate Governance Report illustrates the important areas of the governance framework of the Bank. This report also 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, (the Code) 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.

Corporate governance is the set of principles, processes and systems by which an organization is governed. They provide the guidelines on how the organization could be directed and controlled, in order to achieve its objectives, in a manner in which, the Bank could ultimately add value to the organization and all its Stakeholders. Better corporate governance leads to greater long-term values.

It is fundamentally, doing the right thing and asking the right questions.

This is done by aligning the Vision and the Values of the Bank with our Business. Our Values apply universally to all Employees across the Bank's Group and set the standard against which decisions and actions are benchmarked and our individual and corporate performance is measured.

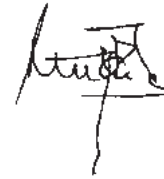
Asking the right questions is a key element, in which a Board would excel in achieving the Bank's long-term objectives. The Board's diversity plays a major role in this aspect as the Bank's Board consists of individuals who possess a diverse set of skills, knowledge and expertise. Further, the Board embraces and encourages exchange of alternate views and ways of thinking. While Board and management hold close ties to one another, their duties and responsibilities are distinctly different. The Board fully supports The Leadership Team, who takes accountability in running the day to day operations of the Bank, keeping in mind the agreed strategy.

The Bank abides strictly by the governing laws and regulations and observes the applicable guidelines and rules issued by regulatory authorities. It regularly undertakes review of its corporate governance system, to ensure it is in line with international and local best practices.

In 2015, we clearly set out values – Integrity, Excellence, Creativity, Accountability and Sincerity, that we expect everyone in the Bank's Group to demonstrate when achieving the Bank's Vision of being the driving force for a financially empowered Sri Lanka. To reinforce these values and drive good behaviour, 2016 saw the launch of a new Compliance Policy and Code of Conduct themed "Living Our Values". This new Compliance Policy and Code of Conduct consolidated all our governance related policies and was fully endorsed by the Board and applies across the Bank. It sets out how, our values should be put into practice by each of us in our interactions with our Stakeholders.

During 2016, the Bank also took measures to further strengthen the Securities Trading Policy and Anti-Bribery and Corruption Policy which applies to the Directors of the Bank and all Employees across the Group.

We strongly believe that good and effective governance helps create value for our Stakeholders. We look forward to unleashing our potential to unlock yours.



A W Atukorala
Chairman



Mrs. K Fernando
*Chairperson – Corporate Governance
and Legal Affairs Committee*

22 February 2017
Colombo

CORPORATE GOVERNANCE INITIATIVES FOR THE YEAR 2016

- The Bank's Compliance Policy and Code of Conduct was reviewed and updated aligning it with the Bank's Vision, Mission and Values and making it a referral point for all governance related policies of the Bank.
- A Group Securities Trading Policy was approved by the Board in August 2016, which applies to all Employees and Directors of the Bank and the Group.
- Anti-Bribery and Corruption Policy, applicable to all Employees and Directors of the Bank and the Group, was also approved by the Board in August 2016, which sets out the minimum standards and describes the Group's stance on bribery and corruption.
- Eflyers/Guidance notes were circulated to Employees of the Bank, which covers governance related Policies in order to create awareness.
- The Board and all Board Subcommittees carried out self-assessments to critically evaluate the effectiveness of the Board and each of the Subcommittees. The results of the self-evaluations were discussed in detail and areas for improvement together with an action plan were mandated.
- All Policies, Procedures and Product Programme Guides are tracked on a monthly basis to ensure that they are reviewed in a timely manner, up-to-date and in compliance with laws, regulations and internal operational standards.
- All documents pertaining to Board and Subcommittee meetings were made available in electronic format to enable timely, more efficient and interactive real time communication among Board members in line with sustainability initiatives adopted by the Bank to reduce paper usage.

The Bank inherits a robust corporate governance framework since its inception, which was further enhanced during the year through these initiatives.

BENCHMARKS ON CORPORATE GOVERNANCE

The Bank's Corporate Governance Framework is governed by the following internal and external regulations:

REGULATORY BENCHMARKS ON CORPORATE GOVERNANCE

- **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 Practice 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 9 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

INTERNAL BENCHMARKS ON CORPORATE GOVERNANCE

- 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
- Product Program Guides
- All Board approved Policies on operational areas

OUR GOVERNANCE FRAMEWORK

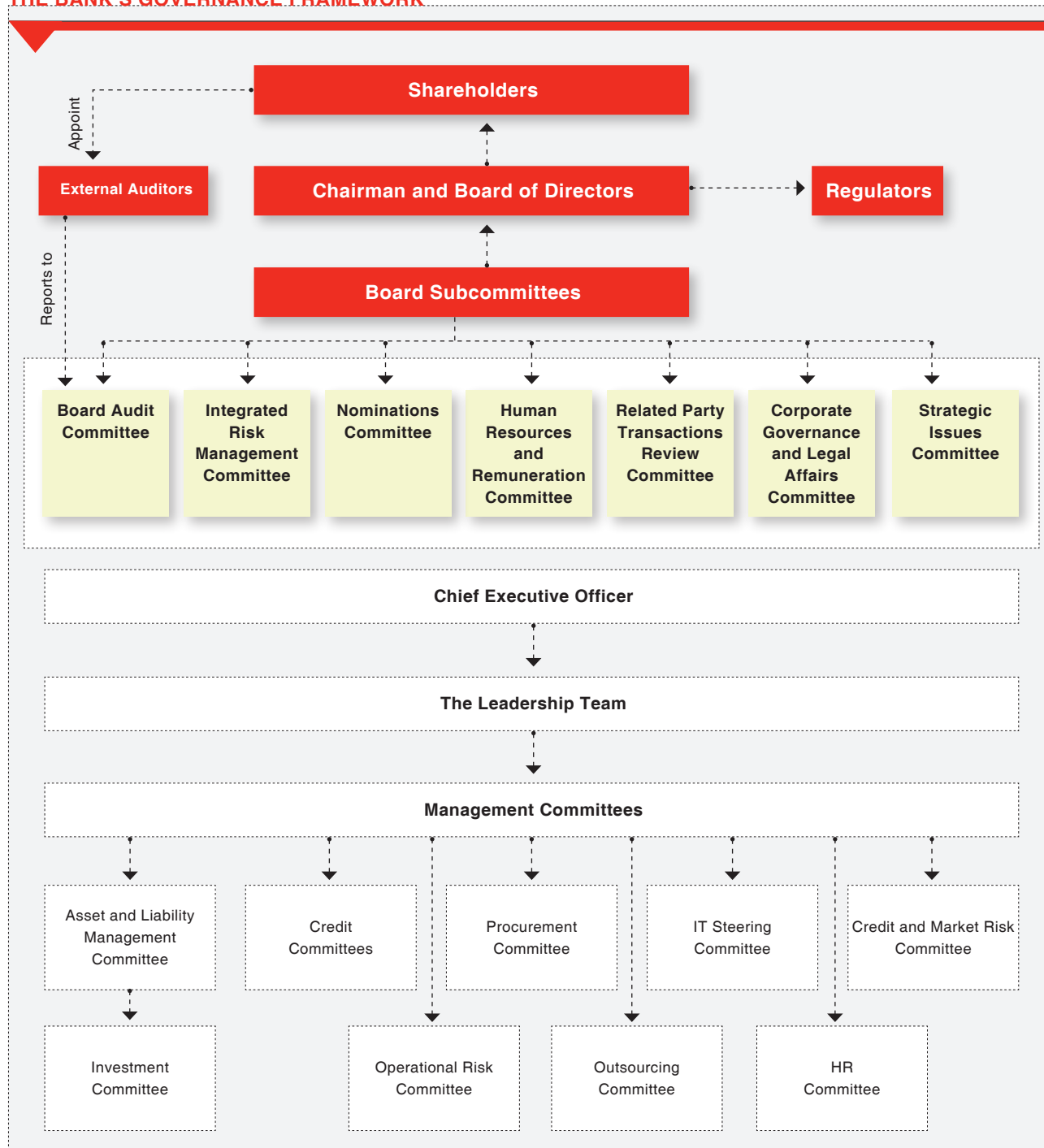
We have a clearly defined governance framework that promotes transparency, fairness and accountability. The Board believes that corporate governance principles should be embedded in our corporate culture. Our corporate culture is anchored on:

- (a) competent leadership;
- (b) effective internal controls; and
- (c) a set of common values.

Our internal controls cover financial, operational, compliance, technology controls, as well as risk management policies and systems.

We work closely with our regulators to ensure that our internal governance standards meet their increasing expectations. We are committed to the highest standards of corporate governance.

THE BANK'S GOVERNANCE FRAMEWORK



Board Composition

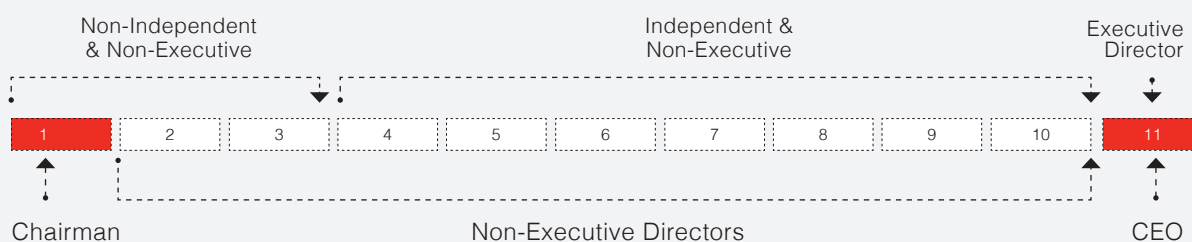
Our Board members have a broad range of experience and industry expertise. The tenure of our Directors demonstrates a good balance between continuity and fresh perspectives. The size and composition of the Board is

appropriate, given the current size and footprint of the Group's operations. The 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 (seven out of eleven) is high. The make up of our Board reflects diversity of gender.

BOARD COMPOSITION

BALANCE OF NON-EXECUTIVE & EXECUTIVE DIRECTORS



BOARD GENDER BALANCE

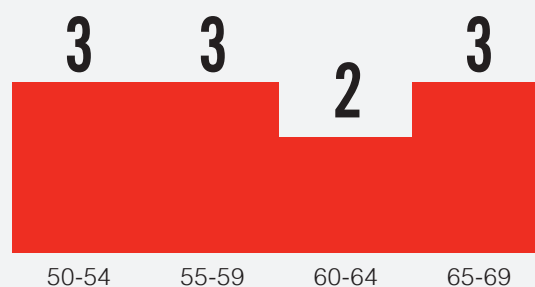


BOARD OF DIRECTORS' INDUSTRY / BACKGROUND EXPERIENCE

Experience	No. of Directors
Banking & Management	6
Finance, Accounting & Management	4
Retail Trade, Insurance, Entrepreneurship	1
Textile Industries	1
Law	2
Treasury (Public Finance)	1
IT, Media	1
Management, Public Administration, Plantations, HR	1
Investment Banking	1

An individual Director may fall into one or more categories.

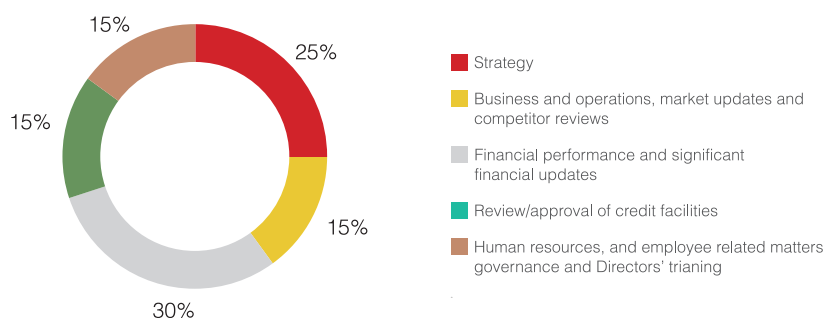
AGE GROUP WISE



The Structure, Composition and Attendance of the Board as at 31 December 2016

Name of Director	Areas of Expertise	Independent/ Non-Independent under CBSL Direction	Independent/ Non-Independent under ICASL/SEC Code	Date of Appointment	No. of Board Meetings Eligible to Attend in 2016	No. of Meetings Attended
A W Atukorala (Chairman)	Management and Banking	Independent	Independent	31.08.2016	7	7
N G Wickremaratne (Retired w.e.f. 31.08.2016)	Management and Banking	Independent	Independent	15.04.2015	11	11
A K Pathirage (Deputy Chairman)	Retail Trade, Insurance, Entrepreneurship	Non-Independent	Non-Independent	18.02.2011	18	18
R Theagarajah (Resigned w.e.f. 30.11.2016)	Banking, Finance and Management	Non-Independent	Non-Independent	24.08.2013	16	15
T L F Jayasekera	Accounting, Banking and Textile Industries	Independent	Independent	10.02.2010	18	18
D S P Wikramanayake	Accounting, Banking and Investment Banking	Non-Independent	Non-Independent	04.06.2010	18	18
Mrs. K Fernando	Law, Banking and Management	Independent	Independent	04.06.2010	18	17
Mrs. W A I Sugathadasa	Management, Public Administration, Plantations and HR	Independent	Independent	04.10.2013	18	17
Mrs. D M A Harasgama	Finance, Public Policy and Management	Non-Independent	Independent	22.04.2015	18	18
D M R Phillips, PC	Law	Independent	Independent	22.04.2015	18	17
K D W Ratnayaka	Management, IT and Media	Independent	Independent	13.05.2015	18	16
N S Welikala	Banking, Finance and Management	Independent	Independent	11.10.2016	5	5

How the Board Spent its Time in 2016



The Bank's Board is highly engaged and facilitates active participation during Board meetings which discusses key topics such as strategy, governance and operational issues.

Board Meetings

Prior to 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

All Directors are given an opportunity to include matters and proposals in the agenda for Board meetings if required

The Chairman draws up the agenda in consultation with the Chief Executive Officer and the Company Secretary to ensure that there is sufficient information and time to address all agenda items

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 now uploaded through a secure connection to the Ipads of all Directors in order to ensure that Board members have access to complete information prior to Board meetings

Directors have the discretion to engage external advisors

Directors can participate by telephone or video conference

During Board Meetings-Effective Engagement with the Board

The Chairman encourages and facilitates constructive dialogue during Board meetings

Board members come well prepared and engage in robust discussions on key matters pertaining to the Bank

The Board Subcommittee Chairpersons provide detailed updates to the Board

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 have direct access to senior management. The Key Management Personnel 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

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 a Director who has an interest in a transaction abstains from voting on the said matter and is not counted in the quorum for the relevant agenda item at the Board meeting

The Board is provided with detailed financial performance reports on a monthly basis

Board Subcommittees

The Board has delegated certain responsibilities to Board Subcommittees to assist it in carrying out its functions and to ensure independent oversight of internal controls and risk management.

Board Subcommittee	Role
Board Audit Committee	To provide 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	Responsible to design, implement and monitor an effective risk management programme for the Bank
Nominations Committee	To ensure that the Board and the Key Management Personnel comprises of individuals with the necessary skills, knowledge and experience to enable effective discharge of their duties
Human Resources and Remuneration Committee	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	To ensure on behalf of the Board, that all related party transactions of the Bank and its 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
Corporate Governance and Legal Affairs Committee	Defines the governance role, improves Board processes and ensure effective governance in the Bank and the Group
Strategic Issues Committee	Examines and evaluates strategic issues and recommends any action required to be taken by the Board

Details of Members of the Board Subcommittees as at 31 December 2016

Name of Committee	Human Resources and Remuneration Committee		Integrated Risk Management Committee		Nominations Committee		Board Audit Committee		Related Party Transactions Review Committee		Corporate Governance and Legal Affairs Committee		Strategic Issues Committee	
Name of Director	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA
N G Wickremeratne [•]					C	15.04.2015			C	20.04.2015			C	20.04.2015
A W Atukorala					C	06.09.2016			C	06.09.2016	M	06.09.2016	C	06.09.2016
A K Pathirage	M	01.01.2014			M	11.08.2011							M	18.02.2011
R Theagarajah [■]			M	01.01.2014							M	01.01.2014		
T L F Jayasekera	M	10.02.2010			M	10.02.2010	C	10.02.2010	M	19.12.2014			M	11.08.2011
D S P Wikramanayake			C	22.06.2010			M	22.06.2010	M	19.12.2014			M	22.06.2010
Mrs. K Fernando	M	22.06.2010			M	30.03.2015	M	11.08.2011	M	19.12.2014	C	22.06.2010	M	04.06.2010
Mrs. W A I Sugathadasa	C	01.01.2014					M	01.01.2014	M	19.12.2014	M	14.11.2014		
Mrs. D M A Harasgama			M	22.04.2015			M	22.04.2015	M	22.04.2015				
D M R Phillips, PC			M	22.04.2015							M	22.04.2015		
K D W Ratnayaka [▲]	M	15.03.2016	M	13.05.2015			M	13.05.2015	M	13.05.2015				
N S Welikala			M	11.11.2016			M	11.11.2016	M	11.11.2016			M	11.11.2016

Number of Meetings Held and Attendance of the Board Subcommittees as at 31 December 2016

Name of Committee	Human Resources and Remuneration Committee		Integrated Risk Management Committee		Nominations Committee		Board Audit Committee		Related Party Transactions Review Committee		Corporate Governance & Legal Affairs Committee		Strategic Issues 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
N G Wickremeratne [•]					4	4			3	3				
A W Atukorala					5	5			2	2	1	1	1	1
A K Pathirage	8	7			9	9							1	1
R Theagarajah [■]			5	4							3	3		
T L F Jayasekera	8	8			9	9	8	8	5	5			1	1
D S P Wikramanayake			5	5			8	8	5	5			1	1
Mrs. K Fernando	8	6			9	6	8	7	5	4	4	4	1	1
Mrs. W A I Sugathadasa	8	7					8	7	5	4	4	4		
Mrs. D M A Harasgama			5	4			8	7	5	5				
D M R Phillips, PC			5	3							4	4		
K D W Ratnayaka [▲]	6	6	5	3			1	1	1	1				
N S Welikala							1	–	1	1			1	1

DOA - Date of Appointment, Status - C - Chairman /M - Member

N G Wickremeratne[•] – Retired w.e.f. 31.08.2016

R Theagarajah[■] – Resigned w.e.f. 30.11.2016

K D W Ratnayaka[▲] – Resigned from the Board Audit Committee w.e.f. 15.03.2016

Directors' Remuneration

The Directors' remuneration is disclosed on page 251.

Directors' Interest in Shares

Interests in the Bank's shares held by the Directors in office during the year, are disclosed on page 135.

Related Party Transactions

The Bank and the Group is committed to conducting its business professionally and ethically. The Board appointed a Related Party Transactions Review Committee mandated to evaluate and consider all transactions that require approval and review by

the Related Party Transactions Review Committee, in line with the Bank's Related Party Transactions Policy. The said policy which is a Board approved document, incorporates processes to ensure compliance with laws and regulations in relation to related parties, as required under the Banking Act, the Corporate Governance Direction issued by CBSL, and section 9 of the Colombo Stock Exchange Listing Rules.

The Related Party Policy of the Bank governs all transactions that the Bank may enter into with related parties of the Bank and Group in order to ensure that related parties are treated on par with other shareholders and constituents of the Bank.

Please refer pages 272 and 273 of this report for the Subcommittee Report of the Related Party Transactions Review Committee of the Bank.

Conflict of Interest

In line with various statutory requirements on the disclosure of Directors' interests, members of the Board are required to make a declaration at the Board meeting, when they have interests in proposals being considered by the Board, including where such interest arises through close family members.

In all situations where the Directors could be deemed as interested, they would excuse themselves from the

discussion and leave the meeting room. The minutes of meeting would also reflect as such.

Performance Evaluation of the Board

The Board evaluation process helps improve Board effectiveness and identifies areas for improvement. A well conducted Board evaluation is vital in helping the Board, Board Subcommittees and each individual Director to perform to their maximum capability. The Board believes that annual self-evaluations provide a valuable opportunity for continuous improvement. In 2016, the Board self-evaluation process took the form of a structured questionnaire, which covered a range of key topics, including effectiveness of Board conduct, the respective roles and responsibilities of the Non-Executive and Executive Directors, quality of strategic and risk debate, the effectiveness of decision making and interactions with management. All Directors participated in the self-assessment and the findings were evaluated by the Chairman and Deputy Chairman and key findings were discussed with the Board.

The effectiveness of each Board Subcommittee was assessed through a separate exercise, again using a structured questionnaire. The findings that are noted pursuant to each of these evaluations are shared with the Chairman and taken up for discussion at the Board.

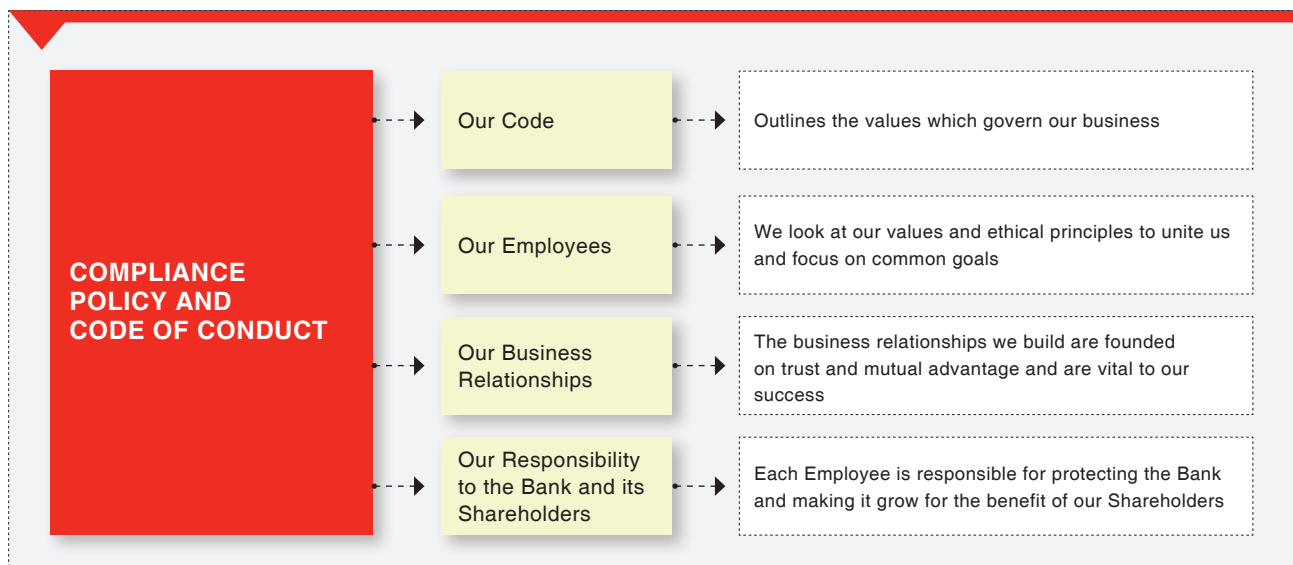
Our Values and Ethics

Our values underpin the way we behave and form the backbone of our reputation as a trusted financial services provider. Our revised Values culminated with the launch of the Compliance Policy and Code of Conduct themed 'Living our Values' to embed clear and consistent expectations of behaviours across the Bank. It constitutes a reference point covering all aspects of Employees' working relationships, specifically (but not exclusively) with other Employees, Customers, Regulators, Service Providers, Suppliers, Competitors and the broader community. It also covers the standards of personal integrity that Employees of the Group are required to exercise in conducting their own private and financial affairs. The revised Compliance Policy and Code of Conduct is a referral point for all governance related policies of the Bank.

In addition to our underlying values, we believe that laws, regulations and the Bank's internal policies are an enabler to our business ensuring that we make informed decisions in how we manage our business and sustain ourselves into the future.

The Compliance Policy and Code of Conduct is segregated into four main areas as illustrated below:

OUR VALUES AND ETHICS



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 defence, are maintained as detailed on page 158 of this report. For more on our risk governance framework see page 154 of this report

IT Governance

IT Governance forms an essential part of the Bank's Corporate Governance framework. Alignment to business objectives, prudent expenditure, compliance, risk management, security, and responsible allocation of resources are core principles of the Bank's IT Governance. The Bank is ISO:IEC 27001:2005 certified and conforms to the Baseline Security Standard of the Central Bank of Sri Lanka. Further, the Group Risk Management 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 the Bank ensure technology investments made by the Bank are appropriate and result in customer convenience, competitive advantage, and business growth.

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. During 2016, the Group Securities Trading Policy, Anti-Bribery and Corruption Policy and the Complaints Handling Policy have been aligned with the reviewed Policies of the Bank. 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 and the Group companies maintain a close relationship in order to entrench and improve their corporate governance framework.

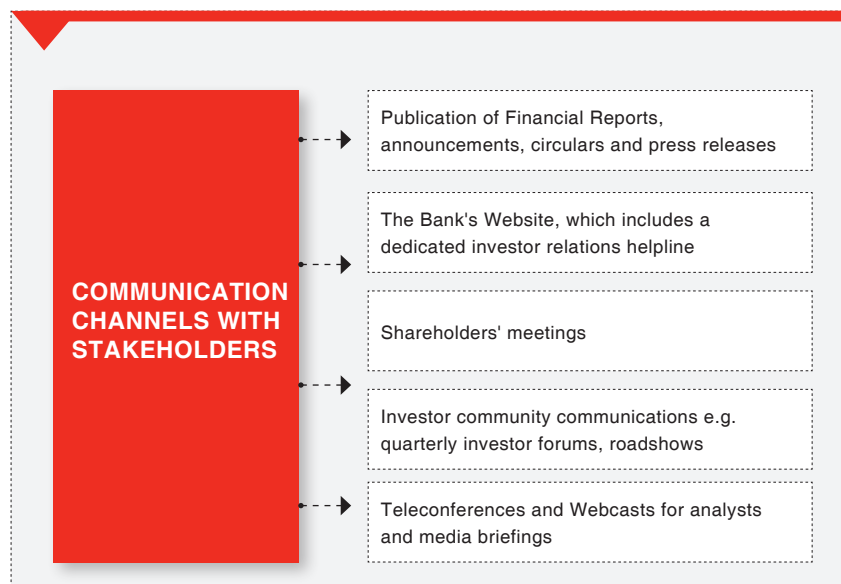
Communication with Stakeholders

It is our utmost priority to provide our stakeholders with high level transparency in all our disclosures, which will enable stakeholders to access information in a timely manner, in accordance with the Bank's Board approved Disclosure Policy. The Bank has a dedicated investor relations team that promotes open, transparent, efficient and consistent communication with shareholders, investors and equity analysts. Necessary information is provided to investors in a timely manner in order to make informative decisions.

The Chairman and CEO ensures effective communication with Shareholders. The views of the investors are escalated to Board by the Chairman. The Bank's engagement with Shareholders has been disclosed in detail in the Investor Relations Report found on pages 128 to 150. Further, Shareholders can raise matters relating to their shareholding and business of the Bank at any time to the Company Secretary.

In order to encourage engagement with the Bank's Customers and Stakeholders, the Bank has in place a Customer Charter, a formal Compliant Handling Procedure supported by a MIS system that is built in house by the IT Department.

The Channels which the Bank reaches it's Stakeholders are depicted below:



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 Sub-committees;
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; (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; (c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently; (d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied Board approved Strategic Plan for 2014 - 2018 is in place, which includes strategic objectives and corporate values. The re-positioned and updated Vision, Mission and Corporate Values, which was approved by the Board, has been communicated through the Bank's intranet (NDB Cloud) and through Brand Play Book given to all staff. The Bank's overall business strategy was approved by the Board for a period of five years, viz 2014 – 2018, after detailed discussions had with the corporate management of the Bank. The Bank's overall business strategy was re-validated in October 2015 for the period 2016 – 2018. The Bank's Strategic Plan for 2017 – 2020 is currently under discussion and will be finalised before 30 June 2017. There are separate risk policies and risk management procedures with regard to credit risk, operational risk, 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 2016. 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 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 154 to 185. - The Board Integrated Risk Management Committee Report on pages 267 to 268. Complied The Bank has in place a Board approved Communications Policy. It's most recent revision was approved by the Corporate Governance and Legal Affairs Committee and the Board. The said policy is available in the Bank's public folder and is accessible to all Employees of the Bank .

Rule No.	Corporate Governance Principles	Compliance Status
(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 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 (KMP) of the Bank have been identified by the Board and currently include: 1. The Leadership Team, whose names are detailed on pages 204 to 206 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 clear segregation of authority and responsibilities between the Directors and the KMPs. Board members are responsible for taking strategic decisions of the Bank and the KMPs are responsible for carrying out the decisions made by the Board and carrying out the day-to-day operations of the Bank. Areas of authority and key responsibilities of Board of Directors are included in the Bank's internal Code of Corporate Governance. Areas of key responsibilities of KMPs are defined in their respective job descriptions and the selection criteria of KMPs approved by the Nominations Committee. Further, authority levels are defined under delegation authority assigned for KMP's which have been approved by the Board.
(h)	Ensure that there is appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with board policy;	Complied Oversight by the Board over KMPs, takes place at Board meetings and through Board Subcommittees. The KMPs makes 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. Banking operations carried out in-line with the Bank's strategic objectives, including any issues faced by the Bank, are discussed on a regular basis at Board meetings. The CEO, at weekly meetings held with The Leadership Team, updates them on key decisions 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 Board has delegated the function of selection, nomination and election of Directors and KMPs to the Nominations Committee. The 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 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 2016 were collated and summarized by the Company Secretary and submitted to the Chairman & Deputy Chairman for their review. The Chairman and Deputy Chairman then discuss 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;	In view of the changes that have taken place during the year 2016, the Board will review and update the Succession Plan of the Bank by 30 June 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 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 towards corporate objectives is a regular agenda item for the Board and the KMPs are regularly involved in Board level discussions on the same.

Rule No.	Corporate Governance Principles	Compliance Status
	(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. 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 meet with the CBSL officials. Further, Directors, the CEO and KMPs of the Bank also maintains a dialog with the Regulators on an ongoing basis.
	(m) Exercise due diligence in the hiring and oversight of External Auditors.	Complied Audit Committee Charter includes the functions of hiring and overseeing of External Auditors. The Board Audit Committee (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 N G Wickremaratne retired as the Chairman w.e.f. 31 August 2016 and A W Atukorala an Independent Director was appointed by the Board w.e.f. 31 August 2016. R Theagarajah resigned as CEO w.e.f. 30 November 2016. P L D N Seneviratne has been appointed as the new CEO by the Board w.e.f. 1 January 2017. Functions and responsibilities of the Chairman and the CEO are documented in Board approved internal Code of Corporate Governance, 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 The Board met eighteen (18) times during 2016, which included six (6) special meetings. Ten (10) Circular resolutions have been passed during the year 2016.
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 The internal Code of Corporate Governance includes a provision, which enables all Directors to include such matters and proposals in the agenda for Board meetings. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year, thereby informing Directors in advance of the date/s of regular Board 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 seven days in advance of the Board meeting. These documents are now uploaded through a secure connection to the iPad's of all Directors.
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 year 2016 and no Director has been absent from three consecutive meetings during 2016. Attendance of Board Directors at Board meetings is detailed on page 217.

Rule No.	Corporate Governance Principles	Compliance Status
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 2016, 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 subsequent Board meetings. The Bank's internal Code of Corporate Governance also provides that minutes are open for inspection at any reasonable times, on reasonable notice 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 There is a Board approved procedure in place for recording of 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 the information in the minutes. All matters required to be minuted in terms 3 (1) (x) (a) – (f) are recorded in the minutes.
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 Directors have obtained independent professional advice wherever necessary 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 organisations 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.

Rule No.	Corporate Governance Principles	Compliance Status
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 its authority.	Complied A formal schedule of matters has been specifically reserved for the decision of the Board and is detailed in the Bank's internal Code of Corporate Governance
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 capitalised 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 Internal Capital Adequacy Assessment Process (ICAAP) covers capital planning over the next three 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.
3 (2)	The Board's Composition	
3 (2) (i)	The number of Directors on the Board shall not be less than seven and not more than 13.	Complied As at 31 December 2016, the Board comprised of ten (10) Directors. The number of Board Directors during the year 2016 was in compliance of the thresholds detailed in this Direction.
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 nine years of service during the year 2016. 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 one 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 dependant child; (e) represents a specific stakeholder of the Bank;	Complied There are seven Independent Non-Executive Directors on the Board as at 31 December 2016. The Non-Executive Directors are detailed on page 217 of this Report. Accordingly, the number of Independent Non-Executive Directors exceeds one-third of the total number of Directors on the Board. 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.

Rule No.	Corporate Governance Principles	Compliance Status
	(f) is an employee or a Director or a material shareholder in a company or business organization: - 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 - in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or - 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;	
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 Association of the Bank, as and when required for a particular meeting. During the year 2016, 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, and resources. Please refer the profiles of Non-Executive Directors on pages 194 to 203 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 a meeting is present, unless more than one half of the number of Directors present at such meetings are Non-Executive Directors.	Complied The attendance of Directors is monitored by the Company Secretary. During 2016, more than one half (1/2) of the Directors have attended the meetings and out of them, more than one half (1/2) were 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 Directors, Non-Executive Directors and Independent Non-Executive Directors are given on page 217 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 Nominations Committee.
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 Nominations Committee. A person so appointed would stand for re-election at the next Annual General Meeting in accordance with the Articles of Association of the Bank. Two Directors A W Atukorala and N S Welikala were appointed in 2016 to fill casual vacancies and thereby will stand for re-election by the Shareholders at the Annual General Meeting.
3 (2) (xi)	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 Two Directors, N G Wickremeratne and R Theagarajah retired and resigned respectively, from the Bank in 2016. 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.

Rule No.	Corporate Governance Principles	Compliance Status
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 Nominations Committee takes into account this requirement in their deliberations when considering the appointments of Directors. The Bank's '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 on pages 194 to 203 of the Annual Report .
3 (4)	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.
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.	Delegation papers are prepared in detail and recommended by the IRMC to the Board. Terms of Reference of each of the Board Subcommittees which are incorporated in the respective charters of each Board Subcommittee are approved by the Board.
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.	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 (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 Both former Chairman N.G. Wickremeratne and present Chairman A W Atukorala were/are Independent Non-Executive Directors of the Bank. Therefore, the appointment of an Independent Director as the Senior Director does not arise.
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.

Rule No.	Corporate Governance Principles	Compliance Status
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 of 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, and, 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 The Chairman is a Non-Executive Director and he does not directly get involved in the day-to-day operations of the Bank. 'Role of the Chairman' is included in the Bank's internal Code of Corporate Governance
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 Corporate Governance and Legal Affairs Committee, a Strategic Issues Committee and a Related Party Transactions Review Committee in addition to the four Board Subcommittees, required in terms of the Direction, namely the Audit Committee, Human Resources and Remuneration Committee, Nominations Committee and Integrated Risk Management Committee. Recommendations of such Subcommittees are addressed directly to the Board and minutes of the same are discussed and noted at the main Board Meetings. This Annual Report includes individual reports of each such committee on pages 261 to 273 which include a summary of duties, roles and performance of each Subcommittee.

Rule No.	Corporate Governance Principles	Compliance Status
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 T L F Jayasekera, 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.
	(c) The Committee shall make recommendations on matters in connection with:	Complied The matters referred to in the Direction are reviewed and appropriate recommendations are made by the BAC;
	(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;	(i) Re-appointment of the External Auditor for audit services has been recommended to the Board by the BAC; The BAC has discussed the audit plan and methodology with the External Auditors.
	(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;	(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;
	(iii) the application of the relevant accounting standards; and	(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.
	(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.	Refer the 'Report of the Board Audit Committee' given on pages 269 to 271.
	(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:	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 revised and updated by the BAC and Board in May 2016.
	(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.	
	(f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including:	Complied The BAC Charter requires the BAC to discuss and finalise 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.
	(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;	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;

Rule No.	Corporate Governance Principles	Compliance Status
	(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.	The preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations. As all audits within the Group are carried out by the same External Auditor, there was no requirement to discuss arrangements for coordinating activities with other Auditors.
	(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 2016, 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 2015 and the Management's response thereto.
	(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 Internal Audit Department (IAD) of the Bank and carries out the following duties: - Reviews and discusses with the Head of Internal Audit (HIA) the annual Audit Plan covering the Group, the adequacy of the scope and functions and the resources of IAD. - 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 IAD. Further, BAC members are 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. - Reviews the performance of the HIA, based on the feedback given by the CEO and BAC Chairman. Further the senior team members performance are discussed with the BAC. - Senior appointments made to IAD are informed to the BAC. (There were no senior level appointments during 2016) - BAC is appraised of any resignations of senior level staff members of IAD and are provided an opportunity to submit reasons for resignation. (However, there have been no resignations of senior level staff during the year 2016) - 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 IAD staff reports directly to the HIA 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.

Rule No.	Corporate Governance Principles	Compliance Status
	(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 Head of Audit and Group Chief Financial Officer attended all meetings as permanent invitees. The CEO and Chief Operating Officer attended meetings as well on invitation and other members of the Senior Management were invited to attend meetings on a need basis. On the invitation of the Committee, the Bank's External Auditors, Messrs.' Ernst & Young attended all meetings during the year. The Chairman of the Bank, being an optional invitee, attended three meetings during the year. The BAC met the External Auditors twice during the year (i.e. in February and October 2016) without the presence of KMPs.
	(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 eight times during 2016. 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 HIA 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 269 to 271 for the details of the activities of the Audit Committee. Complied Attendance of the Committee members at each of these meetings is given in the table on page 219 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 Head of the Internal Audit 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 October 2016. 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 261 for the composition and responsibilities of the 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 and KMPs were reviewed and approved by the HRRC and noted/approved by the Board. The Goals and Targets for the Directors for the year 2016 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 (including the CEO) 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. This process has been carried out in 2016 for the year 2015.
	(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 has stepped out when matters relating to the CEO were discussed.
3 (6) (iv)	Nomination Committee (NC) – Composition and Responsibilities	Complied Please refer page 264 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 A Board approved procedure for selection and appointment of Directors is in place. Further the Bank has in place a Board approved procedure to select CEO and KMPs since December 2008.
	(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 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 of A K Pathirage and Mrs. W A I Sugathadasa and re-appointment of A W Atukorala and N S Welikala.
	(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 Committee has 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 KMPs. 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 Company Secretary has obtained the declarations for the year 2016 from the Directors through the NC and submitted same to CBSL.
	(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.	Interim succession plan for KMPs of the Bank has been submitted and approved at the NC and approved by the Board and will be reviewed by 30 June 2017.
	(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 267 for the composition and responsibilities of the IRMC. The Terms of Reference of the IRMC was reviewed and updated in 2016.
	(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.
	(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.

Rule No.	Corporate Governance Principles	Compliance Status
	(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 of the effectiveness of all management level committees was reviewed at IRMC meeting based on summary of minutes tabled. Also all members carried out self assessments for the year 2016 and the findings were at a satisfactory level. Going forward an independent process will be implemented to determine the adequacy and effectiveness of the Management Committee against the TORs.
	(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 five times in the year 2016.
	(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.
	(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 Compliance Officer, who is a KMP, to carry out the Compliance function of the Bank. The Compliance function assesses the Bank's compliance with laws and regulations and the Bank's internal controls, policies, product programme guides and business operations against applicable laws and regulations and the compliance function reports quarterly to the IRMC. The Compliance Officer in consultation with the IRMC agrees on the annual Compliance Programme, which includes but is not limited to the review of products, accuracy of statutory returns, all product programme guides to determine the compliance with applicable regulations. A detailed quarterly report indicating the status of compliance of the Bank is submitted to the IRMC and the Board. A quarterly compliance sign off from all business unit heads, is obtained and submitted to the Committee.
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 Steps have been taken by the Board to avoid conflicts of interest that may arise in terms of this section Using information submitted to the Bank by Directors and information obtained from the Secretarial Department and HR Department, the Bank maintains a register of the names of related parties set out in the Direction and this list is circulated every quarter to all Relationships Managers of Business Units and Branch Managers together with the Internal Circular on Related Party Transactions. This has been introduced to ensure the Bank avoids conflicts of interest, which may arise from any transaction of the Bank with any person particularly with related party transactions. Board approved Related Party Policy was reviewed and updated in 2016 which lays down processes to identify, approve, monitor, and disclose all related party transactions of the Bank coming within these Guidelines.

Rule No.	Corporate Governance Principles	Compliance Status
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 All transactions defined in this Directions come within the scope of the Related Party Transactions Policy of the Bank.
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. 07 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 line are requested to ensure compliance with the required regulation and to refrain from granting "more favourable treatment" to related parties of the Bank. Further the Compliance Department reviews transactions with related parties to determine if "more favourable treatment" has 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 Transactions 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 granting of accommodation or at the expiry of a period of 18 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 accommodation, was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such a 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 2016.
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 a 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 the 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.
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 years ended 31st December 2016 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 274 The CEO's and CFO's responsibility statement on page 278 and Note 2 (Statement of Compliance) to the Financial Statements on page 297.

Rule No.	Corporate Governance Principles	Compliance Status												
(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 276 and 277.												
(c)	The Assurance Report, issued by the Auditors on the "Sri Lanka Standard on Assurance Engagement on SLSAE 3050 – Assurance Report for the Bank's 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 279 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 to Board Directors on pages 194 to 203 and page 251 for Directors, Remuneration Details of Directors' transactions with the Bank are given below: <table><tr><th>Transactions</th><th>Outstanding balance as at 31.12.2016 LKR '000</th></tr><tr><td>Accommodation</td><td>–</td></tr><tr><td>Deposits</td><td>26,088</td></tr><tr><td>Investments</td><td>–</td></tr></table>	Transactions	Outstanding balance as at 31.12.2016 LKR '000	Accommodation	–	Deposits	26,088	Investments	–				
Transactions	Outstanding balance as at 31.12.2016 LKR '000													
Accommodation	–													
Deposits	26,088													
Investments	–													
(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.	<table><tr><th>Category of Related Parties</th><th>Net Accommodation as at 31.12.2016 LKR'000</th><th>% of Regulatory Capital</th></tr><tr><td>Directors/Close Family Members/ Substantial Interest concerns</td><td>1</td><td>0.00%</td></tr><tr><td>Key Management Personnel/ Close Family Members/ Substantial Interest concerns</td><td>82,138</td><td>0.26%</td></tr><tr><td>The Bank's subsidiaries and associate companies</td><td>30,405</td><td>0.10%</td></tr></table>	Category of Related Parties	Net Accommodation as at 31.12.2016 LKR'000	% of Regulatory Capital	Directors/Close Family Members/ Substantial Interest concerns	1	0.00%	Key Management Personnel/ Close Family Members/ Substantial Interest concerns	82,138	0.26%	The Bank's subsidiaries and associate companies	30,405	0.10%
Category of Related Parties	Net Accommodation as at 31.12.2016 LKR'000	% of Regulatory Capital												
Directors/Close Family Members/ Substantial Interest concerns	1	0.00%												
Key Management Personnel/ Close Family Members/ Substantial Interest concerns	82,138	0.26%												
The Bank's subsidiaries and associate companies	30,405	0.10%												
(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.	<table><tr><th></th><th>Aggregate Value LKR '000</th></tr><tr><td>Remuneration Paid</td><td>353,199</td></tr><tr><td>Accommodation</td><td>82,138</td></tr><tr><td>Deposits</td><td>231,894</td></tr><tr><td>Investments</td><td>7,000</td></tr></table>		Aggregate Value LKR '000	Remuneration Paid	353,199	Accommodation	82,138	Deposits	231,894	Investments	7,000		
	Aggregate Value LKR '000													
Remuneration Paid	353,199													
Accommodation	82,138													
Deposits	231,894													
Investments	7,000													
(g)	A confirmation by the Board of Directors in its annual Corporate Governance Report that all 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	Complied by this report												
(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.	There were no material non-compliance to prudential requirements, regulations, laws and internal controls affecting the Bank.												
(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.	There were no supervisory concerns on lapses in the Bank 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.												

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 31 December 2016 the Board comprised of 10 Directors, all of whom, including the Chairman, functioned 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) being appointed on 1 January 2017 is the only Executive Director. The Board has appointed several 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 it's 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 eighteen(18) times during the year which included six 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 217 and 219 of this Report.
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;	The Board is responsible to Stakeholders for creating and delivering sustainable Shareholder value through the management of the Bank and the 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. Please refer Section 3 (1) (i) (b) of the CBSL table on page 222 of this report which details the Bank's business Strategy and the prudent and effective risk management framework.
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 professionals with an average experience of 27 years in the banking industry. The profiles of the Leadership Team are available on the Bank's Website and on pages 204 to 206 of this Annual Report.
The adoption of an effective CEO and KMP succession strategy;	In view of the changes that have taken place during the year 2016, the Board will review and update the Succession Plan of the Bank by 30 June 2017.
An effective system to secure integrity of information, internal controls, business continuity and risk management;	Complied. 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). Our Business Continuity Plan Disaster Recovery Drill was rehearsed twice during the year. Refer Director's Statement on Internal Control (pages 276 and 277) BAC report (pages 269 to 271) and IRMC (pages 267 to 268) report for more details.

Corporate Governance Principle	Compliance Status
• Compliance with laws, regulations and ethical standards;	Complied. There is significant emphasis across the Bank to ensure compliance with applicable laws and regulations. There is a separate Compliance Department which reports directly to the IRMC of the Board. There is a bottom-up procedure in place to provide the Compliance Officer with a comprehensive sign off at the end of each quarter on the status of compliance with laws and regulations impacting the Bank.
	In order to monitor compliance the Compliance Department carries out compliance testing, reviews the Bank's products and the accuracy of regulatory returns based on the annual programme approved by the IRMC to determine the Banks' compliance with laws and regulations and ethical standards. The Compliance Officer submits a status report to the IRMC setting out the laws and regulations complied and any breaches that have occurred at the end of each quarter. This report is shared with the Board.
• 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.
• Recognising 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 "Corporate Responsibility Report" on pages 101 to 112 for more details.
• Board approved accounting and compliance with financial regulations;	Complied. BAC and the Board review accounting policies annually to ensure that the Financial Reporting Model of the Bank is in line with such policies, financial regulations evolving international and local accounting standards and industry best practices. The Board ensures that the Financial Statements of the Bank are prepared in accordance with the approved Accounting Policies.
• 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 fulfil 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 Bank. 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 advise 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 2016 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.

Corporate Governance Principle	Compliance Status
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 and 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.
A.1.7 Training for new and existing Directors	Complied. The Board policy on Directors' training is to provide adequate opportunities for continuous development, subject to requirement and relevance for each Director. 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. 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 fulfil their roles both on the Board and on Subcommittees appointed by the Board. The Bank provides the necessary resources for training of Directors. New Directors are provided with a comprehensive induction pack on appointment to the Board.
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 and maintains a balance of power between Executive and Non-Executive Directors. The Chairman ensured that all Board proceedings were conducted in a proper manner and the agenda for each meeting was developed in consultation with the CEO and the Company Secretary.
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 as at 31 December 2016 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 so 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. All 10 Directors on the Board as at 31 December 2016 were Non-Executive Directors. The CEO who was appointed on 1 January 2017 is the only Executive Director currently.

Corporate Governance Principle	Compliance Status
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 2016. Based on the annual declarations, there are ten Non-Executive Directors on the Board as at 31 December 2016. Of them eight 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 217 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.
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 Senior Independent Director(SID).
A.5.9 Chairman to meet only with Non-Executive Directors as necessary and atleast 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 seven days in advance of a meeting	Complied. The management provides comprehensive information including both quantitative and qualitative information for the monthly Board meetings generally seven days prior to 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 on 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 pages 264 and 265 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.

A.8.2. Re-election of Non-Executive Directors

Directors to retire at the Annual General Meeting (AGM) :

As per the Articles of Association of the Bank, one-third (1/3) 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 re-election/ re-appointment. In accordance with this provision, A K Pathirage and W A I Sugathadasa retires and have offered themselves for re-election by the Shareholders at the AGM.

Re-appointment of Directors appointed to fill casual vacancies during the year under review: The following Directors who were appointed to fill casual vacancies in the Board during the financial year 2016 shall retire and offer themselves for re-appointment at the AGM.

(i) A W Atukorala

(ii) N S Welikala

Prior to recommending the above re-election/re-appointment of Directors the Nominations Committee considered the fitness and propriety 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 2016. The process is led by the Chairman. All Directors are required to complete a detailed questionnaire. The broad areas covered and the processes adopted are detailed on page 220 of this report

All Subcommittees too carried out a self-evaluation process in 2016 to determine the effectiveness of their performance in 2016 and to identify areas for improvement.

Principle A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS – 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.

Please refer pages 194 to 203 for Directors Profiles

Details of Directorship held by each Director are found on pages 194 to 203. under the Director's Report

Attendance of Directors at Board meetings is given on page 217 of this report

Attendance of Directors at Subcommittee meetings are detailed on page 219 of this report.

Principle A.11 APPRAISAL OF CHIEF EXECUTIVE OFFICER (CEO) – 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

The Board discussed and set financial and non-financial targets to be achieved by the CEO during the year in line with reference to the short, medium and long-term objectives of the Bank.

B. DIRECTORS REMUNERATION

Principle 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 Mrs. W A I Sugathadasa an Independent Non-Executive Director. Please refer page 261 for the report of the HRRC for more details on the activities carried out by the HRRC for the year 2016.

Corporate Governance Principle	Compliance Status
B1.4 Determination of remuneration for Non-Executive Directors	Complied. There is in place a Board approved Remuneration Policy for Directors and KMPs. 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 Subcommittee	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 prerequisites for its Senior Management team.
Principle 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 the CEO 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.
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.
B.2.5. Employee Share Options	Complied. An Employee Share Scheme was determined in 2016. However, it is yet to be implemented. Share options of schemes already approved were exercised by eligible Employees at the Exercise Price determined in terms of such approved schemes and in line with the Listing Rules of the CSE. Details are given in the Annual Report on page 140 and Note 43 to the Financial Statements on page 352.
B.2.6. Designing schemes of performance related remuneration	Complied. The HRRC takes into consideration the provisions detailed in Schedule E when determining the remuneration of the CEO and Senior Management of the Bank. Please refer pages 261 and 262 for the report of the HRRC for more details.
B.2.7 - B.2.8 Early termination of Executive Director	Termination of service of the Executive Director was in accordance with his contract of service.
B.2.9 Levels of Remuneration of Non-Executive Directors	Complied. Non-Executive Directors are remunerated in line with market practices. They are not entitled to receive shares under the existing Share Option Scheme of the Bank.
Principle B.3 DISCLOSURE OF REMUNERATION – The 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 251 of the Annual Report for Director's Remuneration. Also refer Note 12 on pages 309 and 310 of the Financial Statements for aggregate remuneration paid to Executive and Non-Executive Directors.

Corporate Governance Principle

Compliance Status

C. RELATIONS WITH SHAREHOLDERS

Principle 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 is 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 Subcommittee to be available to respond to questions of any Shareholder at AGM

The Chairman of the Board functions as the Chairman of the Nominations Committee, Strategic Issues Committee and the Related Party Transactions Review Committee. He ensures that the Chairpersons of the other Board Subcommittees are present at the AGM to answer all queries that may be raised. The Chairpersons of the Board Subcommittees were present at the AGM held on 30 March 2016. No queries were raised by Shareholders to the Chairpersons of the Subcommittees.

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 are 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 128 to 150 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' provided on pages 128 to 150 for details of the Policy and Methodology adopted for communication.

C.2.4.- C.2.7 The Bank to disclose to Shareholders the contact person for communication with Shareholders.

Complied.

Shareholder correspondence on major issues are handled by the Chairman who will communicate to the Board of Directors as and when necessary.

Details of the contact personnel are provided in the 'Investor Relations' section on page 150 of this Report. In addition, Shareholders are encouraged to provide their feedback to the Chairman and/or the Company Secretary. The Bank's website 'Investor Relations' page also carries contact details of the Company Secretary and a dedicated e-mail for investor relations.

Principle C.3. MAJOR AND MATERIAL TRANSACTIONS – The Code 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 2016 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.

Corporate Governance Principle	Compliance Status																
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 274 of this report. The Interim Accounts and Annual Financial Statements were published on a timely basis in 2016. Regulatory reports were filed by the Bank on or before the due dates in 2016. Price sensitive information is disclosed to the CSE on a timely basis and in accordance with the 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 'Financial Capital' is provided in the Annual Report. Please refer pages 42 to 50 and 147 to 149 of this Report.																
D.1.2. Declarations by the Directors' in the Directors' Report	Complied. Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are provided on page 212 of this Report.																
D.1.3. Responsibilities of the Board for preparation of Financial Statements and reporting responsibilities of Auditors	Complied. The Statement of Directors' Responsibility, Statement on Internal Controls and Report of the Auditors are provided on pages 276 and 277 and 279 respectively in the Annual Report.																
D.1.4 Inclusion of a 'Management Discussion and Analysis' report in the Annual Report	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>20-24</td></tr> <tr> <td>Opportunities and threats, risks and concerns</td><td>20-24</td></tr> <tr> <td>Internal control systems and their adequacy</td><td>276-277</td></tr> <tr> <td>Social and environmental protection activities carried out by the Bank</td><td>101-112</td></tr> <tr> <td>Financial performance</td><td>42-50</td></tr> <tr> <td>Material developments in human resources / industrial relations</td><td>91-100</td></tr> <tr> <td>Prospects for the future</td><td>42-112</td></tr> </table>	Information Required	Pages	Industry structure and developments	20-24	Opportunities and threats, risks and concerns	20-24	Internal control systems and their adequacy	276-277	Social and environmental protection activities carried out by the Bank	101-112	Financial performance	42-50	Material developments in human resources / industrial relations	91-100	Prospects for the future	42-112
Information Required	Pages																
Industry structure and developments	20-24																
Opportunities and threats, risks and concerns	20-24																
Internal control systems and their adequacy	276-277																
Social and environmental protection activities carried out by the Bank	101-112																
Financial performance	42-50																
Material developments in human resources / industrial relations	91-100																
Prospects for the future	42-112																
D.1.5 The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.	Complied. This information is provided in the 'Annual Report of the Board of Directors on the affairs of the Bank' on page 249 to 260.																
D.1.6 Requirement to summon an Extraordinary General Meeting(EGM) to notify serious loss in Net Assets	This situation has not arisen.																
D.1.7 Disclosure of Related Party Transactions	Complied. A detailed Board approved documented process is available and has been circulated to all Employees through the NDB Cloud for compliance. Accordingly, – A record on related party and related party transactions is maintained by the Bank to capture information to comply with the respective related party disclosure requirements imposed by SEC / Accounting Standards / Auditing Standards and similar regulations. – The Company Secretary keeps a record of related party transactions and makes necessary disclosures accordingly; <i>Please refer Section 3 (7) (i) – 3 (7) (vii) of the CBSL table on pages 234 to 236 for more details on the process adopted.</i>																

Corporate Governance Principle

Compliance Status

Principle D.2 INTERNAL CONTROL – The Code required 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.

D.2.1 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 276 and 277.

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 279.

D.2.2 The Bank should have an Internal Audit Function

Complied.

Bank has a fully-fledged Internal Audit Department which reports to the BAC.

D.2.3 The Board should require the Board Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls.

Complied.

The BAC reviewed the internal controls and procedures at eight meetings held during 2016.

The minutes of the BAC meetings are tabled at the meetings of the Board.

The Internal 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 269 to 271 and 267 to 268 of this Annual Report.

D.2.4 The Schedule K to this document 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 269 to 271 for the BAC Report and refer pages 276 to 277 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

D.3.1 Composition of Board Audit Committee

Complied.

All members of the BAC including the Chairman are Non-Executive Directors.

Please refer page 269 for the BAC Report which details the composition of the BAC.

D.3.2 The duties of the Audit Committee

Complied.

As stated in the Report of the BAC on pages 269 to 271 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.

Corporate Governance Principle	Compliance Status
D.3.3 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 June 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.
D.3.4 Disclosures regarding Audit Committee.	Complied. Please refer page 269 for the BAC Report.
Principle D.4 CODE OF BUSINESS CONDUCT AND ETHICS – The Code requires the Bank to adopt a Code of Business Conduct and Ethics for Directors and KMPs and to 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 a Board approved internal Code of Corporate Governance applicable to the Board and KMPs 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 page 220 of the Corporate Governance Report on this aspect.
D.4.2 Affirmative declaration by Chairman of compliance with Code of Business Conduct and Ethics	There have been no violations of the internal Code of Corporate Governance during 2016 by any of the Directors or any member of The Leadership Team.
Principle D.5 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 212 to 279 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 THE GOVERNANCE DISCLOSURE – 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 and 11
- CEO's Review on pages 13 to 15
- Management Discussion and Analysis on pages 40 to 112
- Annual Financial Statements on pages 287 to 400

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 to 50 for details

G.1.2 Reporting on the Environment

Complied.

Please refer pages 111 and 112 for details

G.1.3 Reporting on the Labour Practice

Complied.

Please refer pages 92 to 100 for details

G.1.4 Reporting on society

Complied.

Please refer page 109 for details

G.1.5 Reporting on Product Responsibility

Complied.

Please refer pages 102 to 108 for details

G.1.6 Reporting on Stakeholder identification, engagement and effective communication

Complied.

Please refer pages 27 to 33 for details

G.1.7 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 4 for details

1. GENERAL

The Directors of the 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 2016 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 21 February 2017. 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 Ltd., in 2005 pursuant to the provisions of the National Development Bank of Sri Lanka (Consequential Provision) Act No. 01 of 2005. National Development Bank Ltd., 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 was revised by Fitch Ratings Lanka Ltd., from AA-(lka)/ Stable Outlook to A+(lka)/Stable Outlook in June 2016. The Bank's listed debentures were assigned a rating of A(lka).

The same ratings were re-affirmed in January 2017.

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 2016.

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 Bank and the Group together with any change thereof during the accounting period.	Section 168 (1) (a)	Page 296
ii. Signed Financial Statements of the Bank and the Group for the accounting period completed.	Section 168 (1) (b)	Pages 287 to 400
iii. Auditors' Report on Financial Statements of the Bank and the Group.	Section 168 (1) (c)	Page 284
iv. Accounting Policies and any changes therein (Group also included).	Section 168 (1) (d)	Pages 296 to 400
v. Particulars of the entries made in the Interest Registers of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (e)	Page 251
vi. Remuneration and other benefits paid to Directors of the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (f)	Page 251
vii. Total amount of donations made by the Bank and its Subsidiaries during the accounting period.	Section 168 (1) (g)	Page 251
viii. Information on Directorate of the Bank and its Subsidiaries during and at the end of the accounting period.	Section 168 (1) (h)	Pages 254 to 256, and 422
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)	Page 258
x. Auditor's relationship or any interest with the Bank and its Subsidiaries.	Section 168 (1) (j)	Page 258
xi. Acknowledgement of the Contents of this Report/Signatures on behalf of the Board.	Section 168 (1) (k)	Page 259

2. REVIEW OF BUSINESS

2.1 Vision, Mission and Corporate Conduct

The vision, mission and values of the Bank are given on page 75 of this Report.

The Bank and the Group practice 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 Bank and Group

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 Letter, Chief Executive Officer's Review (pages 10 to 15) and the Management Discussion and Analysis (pages 42 to 112). 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 the Group are described on pages 6 and 7 of our Annual Report.

2.2.2 Future Developments and Current Standing

The Bank opened 11 new branches during the year and 3 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 continued its tradition of developing product initiatives to enable customer ease of business. The state-of-the-art mobile application and

the e-statement were two key initiatives positively impacting customer service levels. Continuous efforts are being made to convert the existing client base to facilitate usage of these new technology-driven facilities.

Complimenting these initiatives and facilities are the flagship 'one day service' based Personal Loans and Leasing Products. The Bank will look to consolidate its position with the customer base through an intense cross selling effort to broaden customer product usage and loyalty. The Bank will continue to attract new customers through these ease of business initiatives.

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 Letter, Chief Executive Officer's Review (pages 10 to 15) and the Management Discussion and Analysis (pages 42 to 112). These reports form an integral part of the Annual Report of the Board of Directors

2.3 Financial Statements of the Bank and the Group

The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) and is given in detail on pages 287 to 400 of this Annual Report.

The Financial Statements of the Bank and the Group for the year ended 31 December 2016 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 289.

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 287 to 400 give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2016 as well as the profit for the year then ended.

The Statement of Directors' Responsibility for Financial Reporting is given on pages 274 and 275 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 276 and 277 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 279 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 2016 and their report on those Financial Statements are given on page 284 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 and the significant changes to accounting policies adopted if any, in the preparation of the Financial Statements are given on pages 296 to 400.

2.8 Entries in the Interest Register

As required by Section 168 (1) (e) 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 135. The Interest Register is available for inspection by shareholders or their authorised 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 2016, are disclosed in Note 12 of the Financial Statements on pages 309 and 310.

3.0 Corporate Donations by the Bank

The Bank and the Group made Donations amounting to LKR 27 million and LKR 30 million respectively, for the year 2016 (2015 – LKR 8.0 million and LKR 10.5 million respectively), in terms of the Resolutions 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 2016 was LKR 33,777 million (2015 – LKR 26,916 million) of which the Bank's gross income was LKR 33,282 million (2015 – LKR 25,855 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 pages 361 and 362.

4. TOTAL OPERATING INCOME

The total operating income of the Group for 2016 was LKR 13,677 million (as compared with LKR 13,291 million for 2015), while the Bank's total operating income was LKR 13,151 million (as compared with LKR 12,209 million for 2015). An analysis of the income is given in the Statement of Profit or Loss on page 287 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 5,094 million (compared to LKR 5,793 million in 2015). After deducting LKR 2,279 million (compared to LKR 2,123 million in 2015) for Valued Added Tax on Financial Services and Taxation, the Profit After Tax for the year amounted to LKR 2,815 million (compared to LKR 3,670 million in 2015). The Group profit attributable to shareholders amounted to LKR 2,691 million (compared to LKR 3,542 million in 2015).

The Bank's Profit Before Value Added Tax on Financial Services and Taxation amounted to LKR 5,335 million (compared to LKR 5,448 million in 2015). After deducting LKR 2,165 million (compared to LKR 1,936 million in 2015) for taxation, the Profit After Tax for the year amounted to LKR 3,170 million (compared to LKR 3,511 million in 2015).

Details are given in the Statement of Profit or Loss on page 287.

Details of appropriation of the Profit of the Bank are given below:

	2016 LKR '000	2015 LKR '000
Profit for the year after charging all operating expenses, depreciation and amortization	5,335,004	5,447,875
Less: Taxation	(2,164,733)	(1,936,444)
Net Profit for the year	3,170,271	3,511,431
Other comprehensive income before tax	(73,151)	94,353
Less: tax on other comprehensive income	10,544	(7,325)
Total other comprehensive income for the year, net of taxes	(62,607)	87,028
Total comprehensive income for the year	3,107,664	3,598,459
Add: Unappropriated balance brought forward from previous year	13,638,678	12,819,737
Less: Adjustment made for Super Gains Tax	–	(732,081)
Total retained profits available for appropriations	16,746,342	15,686,115
Appropriations		
Transfer to statutory reserve fund	3,707	(231,987)
Dividends		
Final cash dividends for the year 2014	–	(659,279)
Interim cash dividends for the year 2015	–	(1,156,171)
Final cash dividends for the year 2015	(653,954)	–
Unappropriated balance carried forward	16,088,681	13,638,678

5.2 Dividends on Ordinary Shares

In February 2016, the Board of Directors authorized and approved a final dividend of LKR 4.00 per share to be paid for the financial year ended 31 December 2015. In February 2017, the Board of Directors authorized and approved a final dividend of LKR 8.00 per share to be paid for the financial year ended 31 December 2016 comprising of LKR 2.00 in the form of cash dividend and the balance LKR 6.00 in the form of Scrip dividend. The total dividend paid to the shareholders for the financial year ended 31 December 2016 was LKR 8.00 (2015-LKR 11.00)

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 the 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 payment 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 the Group's reserves is given below:

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Capital	1,246,479	1,242,772	1,246,479	1,162,963
Statutory reserve fund	1,246,479	1,242,772	1,246,479	1,242,772
Available-for-sale reserve	(565,741)	(207,277)	(542,587)	(139,559)
Revaluation reserve	853,456	853,456	969,795	948,795
General reserve	5,805,707	5,805,707	5,805,707	5,805,707
Share-based payment reserve	13,841	14,590	13,841	81,098
Cash flow hedge reserve	56,148	110,160	56,148	110,160
Retained earnings	16,088,681	13,638,678	21,140,725	19,170,268
Total	24,745,050	22,700,858	29,936,587	28,382,204

5.4 Provision for Taxation

The income tax rate applicable on the Bank was 28%. (2015 – 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% for the period from 2 May 2016 to 11 July 2016 and from 01 November 2016 to 31 December 2016 is 15%. The rate for the balance period of the current year is 11% (2015 – 11%);
- Nation Building Tax at the rate of 2% (2015 – 2%).

The tax rates applicable for the group companies are given in note 15 to the Financial Statements on page 302.

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.

6. INTANGIBLE ASSETS AND PROPERTY, PLANT & EQUIPMENT

The details of intangible assets and property, plant & equipment are given in Notes 33 and 34 to the Financial Statements on pages 334 to 339.

Total Capital expenditure incurred by the Bank and the Group on acquisition of property, plant & equipment and intangible assets amounted to LKR 871 million and LKR 907 million, respectively (2015 – Bank – LKR 595 million and Group – LKR 630 million).

7. INVESTMENT PROPERTY

Investment properties of any group companies when significantly occupied by other companies in the Group are classified under property, plant & 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 on pages 333 and 334.

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 2015, 2016 and 2017 (part) are given in the table below:

Reason for the Issue	Number of Shares Issued		
	2016	2015	2017 (part)
Exercise of options by employees under the Equity Linked Compensation Plan	18,164	73,420	–
Scrip Dividend	–	–	6,300,199

Details of the Debentures issued by the Bank are given in the table below:

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 2016

Name of Subsidiary/ Associate	Number of shares Issued
NDB Capital Ltd. (Bangladesh)	33,548 Ordinary shares

8.3 Stated Capital and Debentures

The stated capital of the Bank at the beginning of the year was LKR 1,242,771,989/- and at the end of the year was LKR 1,246,479,177/- and comprised of 165,167,342 ordinary shares at the beginning of the year and (165,185,506) ordinary shares at the end of the year. The details of the Stated Capital are given in Note 43 to the Financial Statements on Page 352 and 353.

During the period of January 2016 to December 2016 a total number of 18,164 shares were issued by the Bank to eligible employees of the Bank as Share Options in terms of the Equity Linked Compensation Plan (ELCP) of the Bank approved by the Board of Directors and shareholders of the Bank in March 2010.

The details of the debentures issued by the Bank in 2013 and 2015 are disclosed in 8.1 above.

In 2011, the Bank privately placed rated, unsecured, unlisted redeemable debentures having an aggregate face value of LKR 400,000,000/-. The proceeds of these debentures were utilized for lending purposes. These debentures matured during the year. The details of the said debentures are disclosed in Note 38 to the Financial Statements on page 343.

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 133 to 135 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 8 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 135 to 142 of this Annual Report.

10. SUBSTANTIAL SHAREHOLDINGS

The Bank had 8,046 registered shareholders as at 31 December 2016. The distribution, public holding, 20 largest shareholders and the share price during 2016 are set out in pages 133 to 135 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 2016, consisted of ten (10) Directors, including the Chairman and was made-up as follows:

- Seven (07) 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
- Two (02) Directors were appointed to fill casual vacancies during the year 2016
- The Chief Executive Officer is an ex-officio/Executive Director and was appointed with effect from 1 January 2017 bringing the total number of Directors to 11.

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 212 to 248 of the Annual Report. In terms thereof the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2016 is given below:

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 Jayasekera	Independent	Non-Executive
Mrs. K Fernando	Independent	Non-Executive
D S P Wikramanayake	Non-Independent	Non-Executive
Mrs. D M A Harasgama	Non-Independent	Non-Executive
D M R Phillips	Independent	Non-Executive
Mrs. W A I Sugathadasa	Independent	Non-Executive
K D W Ratnayaka	Independent	Non-Executive
N S Welikala	Independent	Non-Executive
P L D N Seneviratne (appointed w.e.f 1 January 2017)	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 238 to 248 of the Annual Report. In terms thereof, the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2016 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 Jayasekera	Independent	Non-Executive
Mrs. K Fernando	Independent	Non-Executive
D S P Wikramanayake	Non-Independent	Non-Executive
Mrs. D M A Harasgama	Independent	Non-Executive
D M R Phillips	Independent	Non-Executive
Mrs. W A I Sugathadasa	Independent	Non-Executive
K D W Ratnayaka	Independent	Non-Executive
N S Welikala	Independent	Non-Executive
P L D N Seneviratne (appointed w.e.f 1 January 2017)	Non-Independent	CEO – Executive

*Mrs. Harasgama is deemed 'independent' in terms of the provisions of the Code.

11.1.2 New Appointments and Resignations

The new Appointments to the Board of Directors of the Bank during the year 2016 were as follows:

- I. A W Atukorala (appointed w.e.f. 31 August 2016)
- II. N S Welikala (appointed w.e.f. 11 October 2016)
(P L D N Seneviratne was appointed as the Chief Executive Officer/Director (appointed w.e.f. 1 January 2017)

Resignations during the year 2016:

- I. N G Wickremeratne (Former Chairman, retired w.e.f. 31 August 2016)
- II. R Theagarajah (Former Chief Executive Officer/Director, resigned w.e.f. 30 November 2016)

11.1.3 List of Directors of Subsidiaries and Associates of the Bank

The Directors of the Group companies are set out on page 422 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 appointed to fill casual vacancies:

- I. A W Atukorala (appointed w.e.f. 31 August 2016)
- II. N S Welikala (appointed w.e.f. 11 October 2016)

The aforementioned Directors shall stand for re-election by the shareholders at the 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 A K Pathirage and Mrs. W A I Sugathadasa 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 Nine 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 nine years. The Bank has no directors who have served the Bank for over nine years.

11.1.5 Directors' Meetings

Details of Directors' meetings which comprised of Board Meetings and all Board Subcommittee meetings are presented on pages 217 to 219.

11.1.6 Board Subcommittees

There are seven permanent committees of the Board, namely, Integrated Risk Management Committee, Audit Committee, Strategic Issues Committee, Human Resources and Remuneration Committee, Nomination Committee, Corporate Governance and Legal Affairs Committee and the Related Party Transactions Review Committee. Details of the members of these committees are given on page 422.

The said committees include four Mandatory Committees 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, as well as three other committees formed by the Board. The Related Party Transactions Review Committee was formed by the Board in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange. The Committees ensure 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 the shareholders.

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.

12. OTHER DIRECTORSHIPS OF DIRECTORS

Information of the other directorships of the Directors of the Bank as at 31 December 2016 is given in pages 194 to 203.

13. DISCLOSURE OF DIRECTOR'S DEALINGS 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 135 of this Annual Report.

Directors' holdings in Debentures of the Bank as at 31 December 2016 are set out on page 142 of this Annual Report.

14. EQUITY-LINKED COMPENSATION PLAN

In 2010, the Board of Directors and the shareholders of the Bank approved an Equity-Linked Compensation Plan (ELCP), to enable the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. A total quantum of 2,455,661 shares of the Bank which was equivalent to a maximum of 3% of the present voting share capital of the Bank was to be issued to the ELCP. Half of such shares were to be awarded as Share Options and the other half as Share Grants in equal proportions. The issue of shares under the ELCP was to take place over five years commencing July 2010. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

The shares under the final award of the Share Grant Component under the ELCP were transferred to the respective eligible employees during the year 2016 subsequent to the completion of the vesting period and subsequent to obtaining the approval of the Securities and Exchange Commission of Sri Lanka (SEC) for such private transfers. Accordingly a total number of 573,018 Shares were transferred to 32 eligible employees during the year.

Accordingly, no shares remain to be transferred and/or issued to any eligible employees under the Share Grant Component pertaining to the said ELCP, thus effectively concluding the Share Grant component of the ELCP approved in the year 2010.

A total of 18,164 shares were issued to the eligible employees under the Share Options Component under the aforementioned ELCP during the year 2016. The issue of shares under the Share Options Component under Award 4 shall take place till 30 June 2017, and accordingly shares amounting to a maximum 0.30% of shares allocated to Share Options may be issued until the said date. The Share Options

Component of the said ELCP will thus conclude on 30 June 2017.

In February/March 2016, the Board of Directors and the shareholders of the Bank approved an Employee Share Option Scheme (ESOS) for the Senior Management Team of the Bank in Category 4 and above and the respective Chief Executive Officer of NDB Capital Holdings Ltd, NDB Wealth Management Ltd, NDB Investment Bank Ltd and NDB Securities (Pvt) Ltd. commencing from the performance year 2016. Under the ESOS, 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. No shares have been issued under the scheme as at date.

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 260 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 42 to 112.

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

Events occurring after the date of the Statement of Financial Position are disclosed in Note 53 to the Financial Statement on page 368.

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) 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 363 to 365.

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 151 to 185.

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 2016 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 2016 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 Ltd., 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 judgement 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 page 309 and 310.

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 pages 128 to 150.

28. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROL

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 151 to 185 of this Annual Report.

29. CORPORATE GOVERNANCE

In the management of the Bank, the Directors have placed emphasis on conforming to the best corporate governance practices and procedures required to ensure that the Bank is compliant with the Code of Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Direction on Corporate Governance issued by the Central Bank of Sri Lanka (CBSL). Accordingly, systems and structures are being introduced or revised regularly to ensure this requirement is met. A separate report on Corporate Governance is given on pages 212 to 248.

As required by Section 3(8) (ii) (g) of the Direction No 11 of 2007 of the Banking Act on Corporate Governance for Licensed Commercial Banks, issued by the CBSL, the Board of Directors confirms that all the findings of the 'Factual Findings Reports' of auditors issued under 'Sri Lanka Related Services Practice Statement 4750' has been incorporated to the said report on page 237 of this Annual Report.

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 261 and 262 and the discussion on Employee Capital Formation in the Management Discussion and Analysis on pages 91 to 100.

31. OPERATIONAL EXCELLENCE

Operational Excellence is also a key Strategic Objective of the Bank and focusses 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 357 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 Twelfth Annual General Meeting will be held at the Auditorium of Development Holdings (Pvt) Ltd., 3rd Floor, NDB EDB Tower, No 42, Navam Mawatha, Colombo 2 on 30 March 2017 at 10.00 am. The notice of meeting is given on page 421 of this Annual Report.

35. ACKNOWLEDGEMENT 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



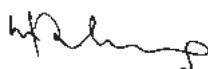
A K Pathirage
Deputy Chairman



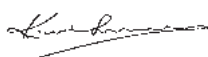
P L D N Seneviratne
Director/Chief Executive Officer



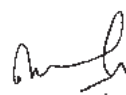
T L F Jayasekera
Director



D S P Wikramanayake
Director



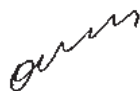
Mrs. K Fernando
Director



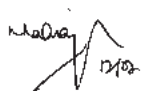
Mrs. W A I Sugathadasa
Director



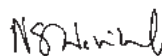
Mrs. D M A Harasagama
Director



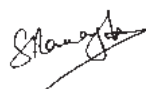
D M R Phillips
Director



K D W Ratnayaka
Director



N S Welikala
Director



Mrs. Shehani Ranasinghe
Company Secretary

21 February 2017

Director/Company	Relationship	Accommodation Granted, Deposits & Investment	Balance Outstanding as at 31.12.2016 LKR '000	Balance Outstanding as at 31.12.2015 LKR '000
A W Atukorala				
United Motor Lanka PLC	Director	Deposits & Investments	31,996	152,994
		Off-Balance Sheet Accommodations	99,533	146,268
		Loans/Advances	15	–
Unimo Enterprises Ltd.	Director	Deposits & Investments	18,727	52,340
		Off-Balance Sheet Accommodations	433,067	59,485
Unawatuna Boutique Resort (Pvt) Ltd.	Director	Deposits & Investments	8,559	–
Colombo City Holdings PLC	Director	Deposits & Investments	2,266	10,076
Orient Finance PLC	Director	Loans/Advances	1,034,209	639,288
A K Pathirage				
NDB Capital Holdings Ltd.	Chairman	Deposits & Investments	3,316	462,351
		Off-Balance Sheet Accommodations	–	460,000
Softlogic Capital PLC	Chairman	Deposits & Investments	1	7
Softlogic Holdings PLC	Chairman / Managing Director	Deposits & Investments		288
Softlogic Retail (Pvt) Ltd.	Chairman / Managing Director	Deposits & Investments	1,324	5,610
Softlogic Life Insurance PLC (Formerly known as Asian Alliance Insurance PLC)	Chairman	Deposits & Investments	13	49
P L D N Seneviratne				
Credit Information Bureau of Sri Lanka	Director	Deposits & Investments	3	3
T L F Jayasekera				
Brandix Apparel Solutions Ltd.	Director	Deposits & Investments	103	99
Brandix Apparel Ltd.	Director	Deposits & Investments	4,249	12,529
		Loans/Advances	408	4,536,000
		Off-Balance Sheet Accommodations	–	213,750
D S P Wikramanayake				
NDB Wealth Management Ltd.	Chairman	Deposits & Investments	4,309	4,243
NDB Investment Bank Ltd.	Chairman	Deposits & Investments	4,020	32,326
		Off-Balance Sheet Accommodations	–	375,000
		Loans/Advances	0.35	39
NDB Capital Holdings Ltd.	Director	Deposits & Investments	3,316	462,351
		Off-Balance Sheet Accommodations	–	460,000
AIA Insurance Lanka PLC	Director	Deposits & Investments	4,552,272	4,526,304
		Off-Balance Sheet Accommodations	83,823	–
		Loans/Advances	0.0016	–
NDB Zephyr Partners Lanka (Pvt) Ltd.	Chairman	Deposits & Investments	9,387	14,340
Mrs. K Fernando				
L B Finance PLC	Acting Chairperson	Deposits & Investments	36,178	16,140
		Loans/Advances	931,250	600,000

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

Composition of the Human Resources and Remuneration Committee

The Board appointed Human Resources and Remuneration Committee comprised of six Non-Executive Directors as members and the Chairman of the Committee 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.

As at 31st December 2016 the Committee comprised of the following:

Name of the Board subcommittee Member	Directorship Status	Membership Status
Mrs. W A I Sugathadasa	Independent	C
A K Pathirage	Non- Independent	M
T L F Jayasekera	Independent	M
Mrs. K Fernando	Independent	M
K D W Ratnayaka	Independent	M
A W Atukorala	Independent	I

C – Chairperson, M – Member, I – By Invitation

Charter of the Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee was formed 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 Human Resources and 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 December 2016 and there were no material changes made. 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 Nomination 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 of 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 eight (8) meetings during the year under review. The attendance of Committee members at meetings is stated in the table on page 219. 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 acknowledged 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. Moreover, the Committee also ascertains the engagement levels of staff through Staff Engagement Surveys.

Several changes took place in the leadership of the Bank during 2016 and successions to such vacancies were carried out through internal and external candidates following due oversight by the Nominations Committee. This Committee considered the salient terms and conditions pertaining to all such senior management changes and appointments made in 2016 in line with the existing policies and procedures of the Bank.

Summary of Activities

During the preceding year the Committee carried out the following:

- I. Comprehensively reviewed the performance of the KMPs of the Bank for the year 2015 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 2016.
- II. Noted and agreed on goals and targets of the Board of Directors and KMPs for the year 2016.
- III. Critically reviewed the senior management vehicle policy.
- IV. Deliberated on employee concerns/issues.
- V. Deliberated on disciplinary matters of staff.
- VI. Considered the benefits to KMPs.

- VII. Considered the granting of concessions to staff members on banking products and services.
- VIII. Noted/approved the vesting and transfer of the final tranche of share grants under the Equity Linked Compensation Plan and termination of the trust created for the said purpose.
- IX. Reviewed the benefits available to the staff and recommended changes.
- X. Revised the Charter of the Committee.



Mrs. W A I Sugathadasa

Chairperson

Human Resources and Remuneration Committee

21 February 2017

Colombo

BOARD CORPORATE GOVERNANCE AND LEGAL AFFAIRS COMMITTEE REPORT

Composition of the Corporate Governance and Legal Affairs Committee

The Board appointed Corporate Governance and Legal Affairs Committee (Committee) comprised of five (05) Board members and the Chairman of the Committee is an Independent Director as set out below.

As at 31 December 2016 the Committee comprised of the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
Ms K Fernando	Independent	C
A W Atukorala	Independent	M
Ms W A I Sugathadasa	Independent	M
D M R Phillips, PC	Independent	M
R Theagarajah (Resigned w.e.f. 30 November 2016)	Non-Independent	M

C – Chairman, M – Member

Charter of the Corporate Governance and Legal Affairs Committee

The Board of Directors has adopted the Charter for the Corporate Governance and Legal Affairs Committee which describes the Committee's composition, responsibilities and operations, as well as the manner in which the Committee would be carrying out its role.

The Corporate Governance and Legal Affairs (CGLA) Committee which was formed in the year 2007 is mandated with the task of assisting the Board of Directors of the National Development Bank PLC (Board) in ensuring compliance with the Companies Act No. 07 of 2007, the Banking Act Directions on Corporate Governance, the Bank's Internal Corporate Governance Code, the Colombo Stock Exchange Rules and all rules, regulations and guidelines issued by regulatory authorities relating to corporate governance for licensed

commercial banks. The Committee on a continuous basis reviews the overall corporate governance of the Bank including its Constitution, the CGLA Charter and the Corporate Governance Code and recommends improvements as appropriate.

Committee Guiding Principles

The principal purposes of the Committee are to assist the Board in defining the governance role, improving Board processes and ensuring effective governance in the Bank and the Group.

Committee Meetings

The Committee held four (04) meetings, during the year under review and the attendance of Committee members at meetings is stated in the table on page 219 of the Annual Report. A majority of the members of the Committee shall constitute a quorum sufficient for the taking of any action by the Committee.

The proceedings of the Committee meetings have been reported to the Board of Directors.

Methodology used by the Committee

The Committee may meet on a regularly scheduled basis preferably twice a year, or more frequently as circumstances dictate in order to ensure effective governance.

Summary of Activities

Whilst endeavouring to ensure a solid corporate governance culture within the Bank, the Committee made significant improvements in several areas connected to corporate governance. During the year, the Committee reviewed the NDB Group Securities Trading Policy, the NDB Group Anti-Bribery and Corruption Policy, Compliance Policy and the Code of Conduct, the Corporate Governance Code, the Communication Policy and also made several recommendations to improve the Board processes as well as the processes followed by the Board Subcommittees at Subcommittee meetings. The Committee

recommended improvements to the monitoring of the complaints under the Whistle Blowing Policy. The Corporate Governance and Legal Affairs Committee Charter was also reviewed by the Committee.

Appreciation

The Committee wishes to convey its sincere gratitude to its former member, Rajendra Theagarajah for his valuable contribution to the Committee over the years.



Mrs. K Fernando
Chairperson
Corporate Governance and Legal Affairs Committee

21 February 2017
Colombo

NOMINATIONS COMMITTEE REPORT

Composition of the Nominations Committee

The Board appointed Nominations Committee comprised of 4 Board members and the Chairman of the Committee is an Independent Director as set out below. The Chief Executive Officer (CEO) has been present at meetings only if invited by the Committee.

As at 31 December 2016 the Committee comprised the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
A W Atukorala (Appointed w.e.f. 6 September 2016)	Independent	C
A K Pathirage	Non-Independent	M
T L F Jayasekera	Independent	M
Mrs. K Fernando	Independent	M
N G Wickremaratne (Retired w.e.f. 31 August 2016)	Independent	C

C – Chairman, M – Member

Charter of the Nominations Committee

The Nominations Committee was formed in compliance with the 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, Committee reviewed the charter in December 2016 and there were no material changes made. As per the

Charter, the scope of work include the following:

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 KMPs 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 entrusted with identifying individuals that may become members of the Boards of National Development Bank PLC and its group companies.

The process of identifying appropriate individuals is carried out by the Committee by assessing the experience, skills, expertise and competencies of the individuals being considered to be so nominated 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 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.

Committee Meetings

The Committee met nine (09) times during the year under review, and the attendance of committee members at meetings is stated in the table on page 219 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 skills, expertise and experience of two new directors and recommended the said appointments to the Board of Directors of the Bank and further reviewed the appointment of directors to the Boards of several subsidiary companies of the Bank.

Several changes took place in the leadership of the Bank during 2016 and succession to such vacancies were carried out through internal and external candidates subsequent to careful consideration by the Committee of the available expertise, skills and talents within the Bank and the group and equal opportunity being afforded internally and where necessary external resources were sought and obtained in line with internal policies and applicable rules and regulations. The said planned and unplanned vacancies that arose in 2016 were thus successfully filled in line with the broader outlook on succession planning in the Bank so as to ensure that no gaps exist.

To this end, the Committee reviewed the interim arrangements arising from the resignation of the former Chief Executive Officer and assessed the skills, expertise and experience of suitable candidates to be appointed to the position of Chief Executive Officer of the Bank and recommended the appointment of the current Chief Executive Officer with effect from 1 January 2017. The promotion to the Vice President cadre of a KMP was another matter recommended by the Committee during the year under review.

Additionally the Committee 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.

The Committee further deliberated with regard to reviewing the succession plan of the Bank and reviewed the Board's composition and the ideal balance in terms of expertise of the Board of Directors in 2016.

Appreciation

The Committee wishes to convey its sincere gratitude to former Chairman N G Wickremaratne for his valuable contribution to the Committee during his tenure.



A W Atukorala
Chairman
Nominations Committee

21 February 2017
Colombo

STRATEGIC ISSUES COMMITTEE REPORT

Composition of the Strategic Issues Committee

The Board appointed Strategic Issues Committee comprised of Six (6) Board members as set out below and the Chairman of the Committee is the Chairman of the Bank who is an Independent Director. Other Board Members and Management of the Bank may be present at the meetings by invitation.

As at 31 December 2016 the Committee comprised of the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
A W Atukorala (Appointed w.e.f. 6 September 2016)	Independent	C
A K Pathirage	Non-Independent	M
T L F Jayasekera	Independent	M
Mrs. K Fernando	Independent	M
D S P Wikramanayake	Non-Independent	M
N S Welikala (Appointed w.e.f. 1 December 2016)	Independent	M
N G Wickremaratne (Retired w.e.f. 31 August 2016)	Independent	C

C – Chairman, M – Member

Brief profiles of each member are given on pages 194 to 203.

Charter of the Strategic Issues Committee

With the formation of the Strategic Issues Committee as a Board Subcommittee, its Charter has been approved by the Board and is reviewed annually. Accordingly, the Committee reviewed the Charter in December 2016 and there were no material changes made.

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 one (01) meeting during the year under review whilst several discussions of strategic nature

were conducted during Board meetings with 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 219. The quorum for a meeting is four (4) members.

The proceedings of the Committee meeting has 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

At the Committee meeting held during the preceding year the Committee reviewed and amended the Charter of the Committee with regard to the frequency of meetings of the Committee to be as and when required. The Committee further noted that the Budget of the Bank for the year 2017 would be deliberated with the attendance of all Board members.

Appreciation

The Committee wishes to convey its sincere gratitude to former Chairman N G Wickremaratne for his valuable contribution to the Committee during his tenure.



A W Atukorala
Chairman
Strategic Issues Committee

21 February 2017
Colombo

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Composition of the Integrated Risk Management Committee

The Board appointed Integrated Risk Management Committee comprised five (5) Board members and the Chairman of the Committee is a Non-Independent Director as set out below.

As at 31 December 2016 the Committee comprised the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
D S P Wikramanayake	Non-Independent	C
Mrs. D M A Harasgama	Non-Independent	M
D M R Phillips, PC (Resigned w.e.f. 31.12.2016)	Independent	M
K D W Ratnayaka	Independent	M
N Welikala (Appointed w.e.f. 11.11.2016)	Independent	M
R Theagarajah (CEO) (Resigned w.e.f. 30.11.2016)	Not-Independent	M
F Ozman (Group CFO)	Non-Directors	M
R. Muttiah (COO) (Appointed w.e.f. 12.02.2016 and resigned w.e.f. 31.10.2016)	Non-Directors	M
Ms N Rayen (Vice-President – Group Risk Management)	Non-Directors	M
Ms S Gnanaprakasam (Vice-President – Credit Review)	Non-Directors	M
Ms C Chandrapala (Senior Manager – Market Risk)	Non-Directors	M
P Gamage (Assistant Vice-President – Operational Risk)	Non-Directors	M

C – Chairman, M – Member,

Charter of the Integrated Risk Management Committee

The Integrated Risk Management Committee was formed in June 2008 replacing the Risk and Credit Committee of the Board, in compliance with the Section 3 (6) of Direction No. 11 of 2007, on the subject 'Corporate Governance for Licensed Commercial Banks in Sri Lanka', 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 2016 and there were no material changes made. As per the Charter, the scope of work include 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 the 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 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 programme.
- 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 four 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 219.

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, dashboards 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 the Bank's/ the Group's policies and regulatory and supervisory requirements.

Summary of Activities

Credit Risk

- Reviewed and approved policies and operating guidelines related to the Credit Policy of the Bank, Risk Management Policy on Bank's Exposure to Stock Market Activities, Policy on Cross Border Exposure, Impairment 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 line, product category, sector wise
 - Exposure to Stock Market Activities/ Margin Trading Exposures Reports
 - Pawning Portfolio/Raththaran Ithurum
 - Collections and Recoveries
 - Movements in Commodity Prices
 - Portfolio Value at Risk
 - Country Risk Exposures
 - Top Credit and Market Risks
- 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 and Key Operational Risk Controls Paper, Key Risk Indicators Methodology Paper and Business Continuity Framework.
- Reviewed operational risk issues, including but not limited to:
 - Significant Operational Risks and Losses, Risk breakdown by control type, KRIs related to HR, Operational Losses due to cash shortages and frauds, IT related incidents, Account Reconciliations and Compliance

- 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 by reviewing the decisions taken by the Committee.

Liquidity and Market Risk

- Reviewed and approved the Bank's policy framework, procedure guidelines, terms of references (TOR) 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 and 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 and stress testing.
 - Treasury dealing room positions, limits, exposures and limit compliance.
 - Counterparty exposures.
 - Country Risk Exposures.

Compliance

- Assessed the Bank's compliance with laws, regulations and regulatory guidelines, internal policies in all areas of business operations.

- Reviewed and approved the annual work plan of compliance function and assess work carried out.

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 Ltd., NDB Capital Holdings Ltd., NDB Wealth Management Ltd., NDB Securities (Pvt.) Ltd., NDB Capital Ltd. (Bangladesh), NDB Zephyr Partners Lanka (Pvt) Ltd. and Development Holdings (Pvt) Ltd.
- Reviewed and approved Annual Review of Internal Capital Adequacy Assessment Process (ICAAP) Document for 2016.
- Reviewed performance against risk appetite.
- Reviewed progress on Integrated Risk Management Framework Implementation and new guidelines issued on Stress Testing and Baseline Security Standard for Information Security Management.
- Reviewed Bank's preparedness towards requirement for Capital Adequacy under BASEL III.
- Quarterly updates on the Regulatory Examination Report.
- Reviewed and approved the Disclosure Policy, Integrated Risk Management Framework, Stress Testing Policy and Framework, Strategic Risk Management Manual and Title Policy of the Bank.

Appreciation

The Committee wishes to convey its sincere gratitude to all its former members for their valuable contribution to the Committee during their tenures.



D S P Wikramanayake
Chairman

Integrated Risk Management Committee

21 February 2017
Colombo

BOARD AUDIT COMMITTEE REPORT

Composition of the Audit Committee

The Board appointed Audit Committee comprised of six (6) Board members as at end December 2016. The Chairman of the Committee is an Independent Director as set out below. The Chairman of the Committee is also a Fellow member of the Institute of Chartered Accountants of Sri Lanka.

As at 31 December 2016 the Committee comprised the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
T L F Jayasekera	Independent	C
D S P Wikramanayake	Non-Independent	M
Mrs. K Fernando	Independent	M
Mrs. W A I Sugathadasa	Independent	M
Mrs. D M A Harasgama	Non-Independent	M
N S Welikala (Appointed w.e.f. 11 November 2016)	Independent	M
K D W Ratnayaka (Resigned w.e.f. 15 March 2016)	Independent	M

C – Chairman, M – Member

The Vice-President Group Audit functions as the Secretary to the Committee.

Charter of the Audit Committee

The Audit Committee Charter 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 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.

The roles and functions of the Committee, are further regulated by 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 and the Securities and Exchange Commission of Sri Lanka.

Committee Guiding Principles

The Committee functions are structured in accordance with the guidelines issued in the Banking Act Direction on Corporate Governance and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission (SEC) and the Institute of Chartered Accountants of Sri Lanka (CASL).

Committee Meetings

The Audit Committee met eight times during the year. Attendance of the committee members for each of these meetings is given on page 219. The minutes of the Committee meetings have been regularly tabled at Board meetings.

Vice-President Group Audit and Group Chief Financial Officer attended all meetings. The Chief Executive Officer and Chief Operating Officer attended meetings on invitation and other members of the Senior Management were invited to attend meetings on a need basis.

On the invitation of the Committee, the Bank's External Auditors, Messrs' Ernst & Young attended all meetings during the year.

The Chairman of the Bank being an optional invitee attended four 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 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

Financial Reporting

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 Control Systems and Procedures.
- The effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders.
- The Bank's Financial Statements and Accounting Policies and practices.
- 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.

The Board also has taken into consideration the requirements of the Accounting Standard – SLFRS 9 on 'Financial Instruments' that has been issued with effective date being 1 January 2018, as it is expected to have a significant impact on the calculation of impairment of financial instruments on an expected credit loss basis that is currently being applied under LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

System 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 31 December 2016, 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 276 and 277 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 279 of the Annual Report.

Group Audit

Vice President, Group Audit reports directly to the Board Audit Committee.

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.

The Audit Committee reviewed the findings of the Group audits completed and their evaluation of the Bank's Internal Control Systems. The Committee also reviewed progress on coverage including the action plans given to address the issues and the implementation status.

The Audit Committee also reviewed the independence, objectivity and performance of the Group Audit function and the adequacy of its resources. The Audit Committee also reviewed the performance of Vice-President Group Audit and the senior members.

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.

Regulatory Compliance

The Group Audit performed verifications covering applicable regulatory requirements during their process audits ensuring that systems and procedures are in place to ensure compliance with such requirements.

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 in April and June 2016 respectively and approved by the Board.

External Audit

The Audit Committee undertook the annual evaluation of the independence and objectivity of the External Auditors and the effectiveness of the audit process.

During the audit, the External Auditors 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 Auditors responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.

The Committee reviewed the Management Letter issued by the External Auditors 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 & Young, Chartered Accountants, to be reappointed for the financial year ending 31 December 2017 subject to the approval of the shareholders at the next Annual General Meeting.

Good Governance and Whistleblowing

The Bank's Whistleblowing Policy was also revised in October 2016. The Policy is intended to serve as a channel of corporate fraud risk management. The Policy will 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. Concerns raised are investigated and the identity of the person raising the concern is kept confidential. A process has been established to track such whistleblowing and take necessary action as required.

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 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 member K D W Ratnayaka for his valuable contribution.



T L F Jayasekera
Chairman of the Audit Committee

21 February 2017
Colombo

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

Composition of the Related Party Transactions Review Committee

The Board appointed Related Party Transactions Review Committee, comprised of seven Board members and the Chairman of the Committee is the Chairman of the Bank and an Independent Director as set out below. The Chief Executive Officer (CEO) has been present at meetings only if invited by the Committee.

As at 31 December 2016 the Committee comprised of the following:

Name of the Board Subcommittee Member	Directorship Status	Membership Status
A W Atukorala (Appointed w.e.f. 6 September 2016)	Independent	C
T L F Jayasekera	Independent	M
D S P Wikramanayake	Non- Independent	M
Mrs. D M A Harasgama	Non- Independent	M
Mrs. K Fernando	Independent	M
Mrs. W A I Sugathadasa	Independent	M
N S Welikala (Appointed w.e.f. 11 November 2016)	Independent	M
N G Wickremaratne (Retired w.e.f. 31 August 2016)	Independent	C
K D W Ratnayaka (Resigned w.e.f. 5 March 2016)	Independent	M

C – Chairman, M – Member

Charter of the Related Party Transactions Review Committee

The Board of Directors of the Bank constituted a Related Party Transactions 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 Colombo Stock Exchange, 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 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 Terms of Reference in December 2016 and there were no material changes made.

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 Colombo Stock Exchange (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 five (5) times during the year under review, and the attendance of committee members at meetings is stated in the table on page 219 of the Annual Report. The quorum for a meeting is four (4) members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

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 Colombo Stock Exchange pertaining to Related Party Transactions, the Board approved Related Party Transaction Policy and the Terms of Reference of the Committee.

Summary of Activities

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 further deliberated on the related party approval process and methods of strengthening the monitoring system pertaining to Related Party Transactions.

Appreciation

The Committee wishes to convey its sincere gratitude to former Chairman N G Wickremeratne and former member K D W Ratnayaka for their valuable contribution to the Committee.



A W Atukorala
Chairman
Related Party Transactions
Review Committee

21 February 2017
Colombo

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 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 Assistant Vice-President - Finance and Planning and the Group Chief Financial Officer 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 21 February 2017 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 2016, prepared and presented in this Annual Report have been prepared based on new Sri Lanka Accounting Standards (SLFRS) which came to effect from 1 January 2012 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 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

276 and 277 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 269 to 271 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 284 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 287 to 400 including, appropriate Accounting Policies selected and applied based on the new financial reporting framework on a consistent basis, while reasonable and prudent judgements 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 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 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 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 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 to the Financial Statements on 'Litigation against the Bank' on page 357. 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,



Mrs. Shehani Ranasinghe
Company Secretary

21 February 2017
Colombo

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 into 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 controls during their 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 system. 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 minutes of the Board Audit Committee meetings are forwarded to the Board 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 Audit Committee Report on pages 269 to 271.
- 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.

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 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 2016 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.

By order of the Board,



A W Atukorala

Chairman



T L F Jayasekera

Chairman Audit Committee



P L D N Seneviratne

Chief Executive Officer

21 February 2017

Colombo

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 2016 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 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 Auditors 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 284 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 System 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 269 to 271. 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 on page 357 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.



P. L. D. N. Seneviratne
Chief Executive Officer



F. Ozman
Group Chief Financial Officer

21 February 2017
Colombo



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

HMAJ/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 2016.

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.

21 February 2017
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 Fernando FCA FCMA
Ms. K R M Fernando FCA FCMA 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 Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

FINANCIAL REPORTS



SCAN TO VIEW

<http://ndbbank2016.annualreports.lk/financial-reports/>

282

FINANCIAL
CALENDAR
2016 AND 2017

283

FINANCIAL
STATEMENTS
HIGHLIGHTS

284

INDEPENDENT
AUDITORS' REPORT

286

INTEGRATED
APPROACH TO
FINANCIAL
REPORTING

287

STATEMENT OF
PROFIT OR LOSS

288

STATEMENT OF
COMPREHENSIVE
INCOME

289

STATEMENT
OF FINANCIAL
POSITION

290

STATEMENT
OF CHANGES
IN EQUITY

294

STATEMENT OF
CASH FLOW

296

NOTES TO THE
FINANCIAL
STATEMENTS

401

COMPLIANCE WITH THE
DISCLOSURE REQUIREMENTS OF
THE CENTRAL BANK OF SRI LANKA

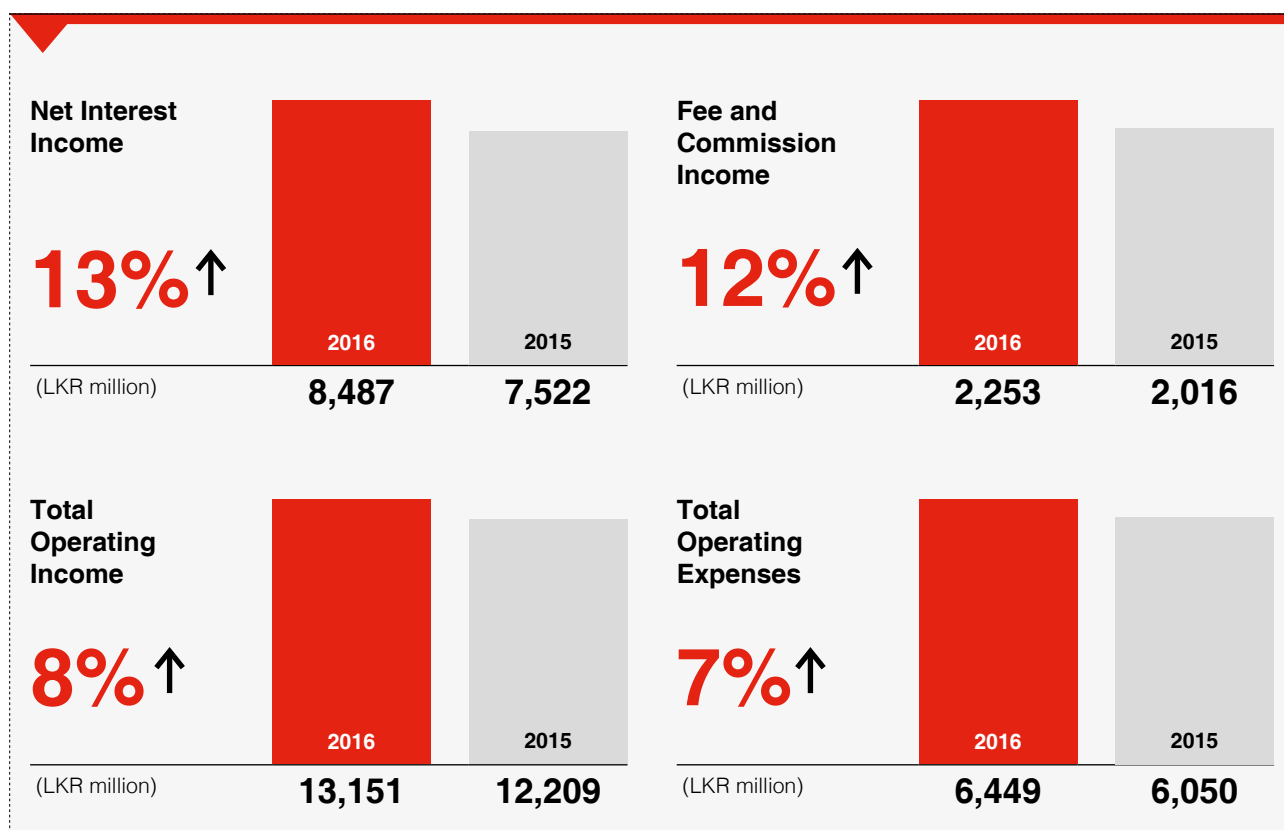
Annual General Meetings			Date	
12th Annual General Meeting			30 March 2017	
11th Annual General Meeting			30 March 2016	
Dividend Payments	Amount	Date Dividends Announced	Date Dividends Paid/to be Paid	
Final dividend for 2016	LKR 8.00 (LKR 2.00 – Cash) (LKR 6.00 – Scrip)	22 February 2017	6 March 2017	
Final dividend for 2015	LKR 4.00	12 February 2016	24 February 2016	
Financial Statements				
Interim Financial Statements		Date Released to the CSE	Date Published in Newspapers (in Sinhala, English & Tamil)	
Q4/For the twelve months ended 31.12.2016		21 February 2017	10 March 2017	
Q3/For the nine months ended 30.09.2016		11 November 2016	15 November 2016	
Q2/For the six months ended 30.06.2016		11 August 2016	15 August 2016	
Q1/For the three months ended 31.03.2016		11 May 2016	16 May 2016	
Q4/For the twelve months ended 31.12.2015		12 February 2016	10 March 2016	
Annual Financial Statements		Date Released to the CSE	Date Published in Newspapers (in Sinhala, English & Tamil)	
Annual Financial Statements for 2016		6 March 2017	10 March 2017	
Annual Financial Statements for 2015		3 March 2016	10 March 2016	
Investor Engagements on Quarterly Financial Results		Forum	Online Webinar	
Q4 2016		14 March 2017	22 February 2017	
Q3 2016		Not hosted	15 November 2016	
Q2 2016		18 August 2016	12 August 2016	
Q1 2016		17 May 2016	12 May 2016	
Q4 2015		15 February 2016	15 February 2016	
Proposed Financial Calendar 2017 & 2018				
Interim Financial Statements		Date to be Released to the CSE	Investor Webinar	Date to be Published in Newspapers (in Sinhala, English & Tamil)
Q1/For the three months ending 31.03.2017		15 May 2017	16 May 2017	18 May 2017
Q2/For the six months ending 30.06.2017		14 August 2017	15 August 2017	17 August 2017
Q3/For the nine months ending 30.09.2017		14 November 2017	15 November 2017	16 November 2017
Q4/For the twelve months ending 31.12.2017		February 2018	February 2018	March 2018
Annual Financial Statements		Date to be Released to the CSE	Date to be Published in Newspapers (in Sinhala, English & Tamil)	
Annual Financial Statements for 2017		March 2018	March 2018	

As per Rule 7.4 of the Listing Rules of the Colombo Stock Exchange (CSE), quarterly Financial Statements (unaudited) 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.

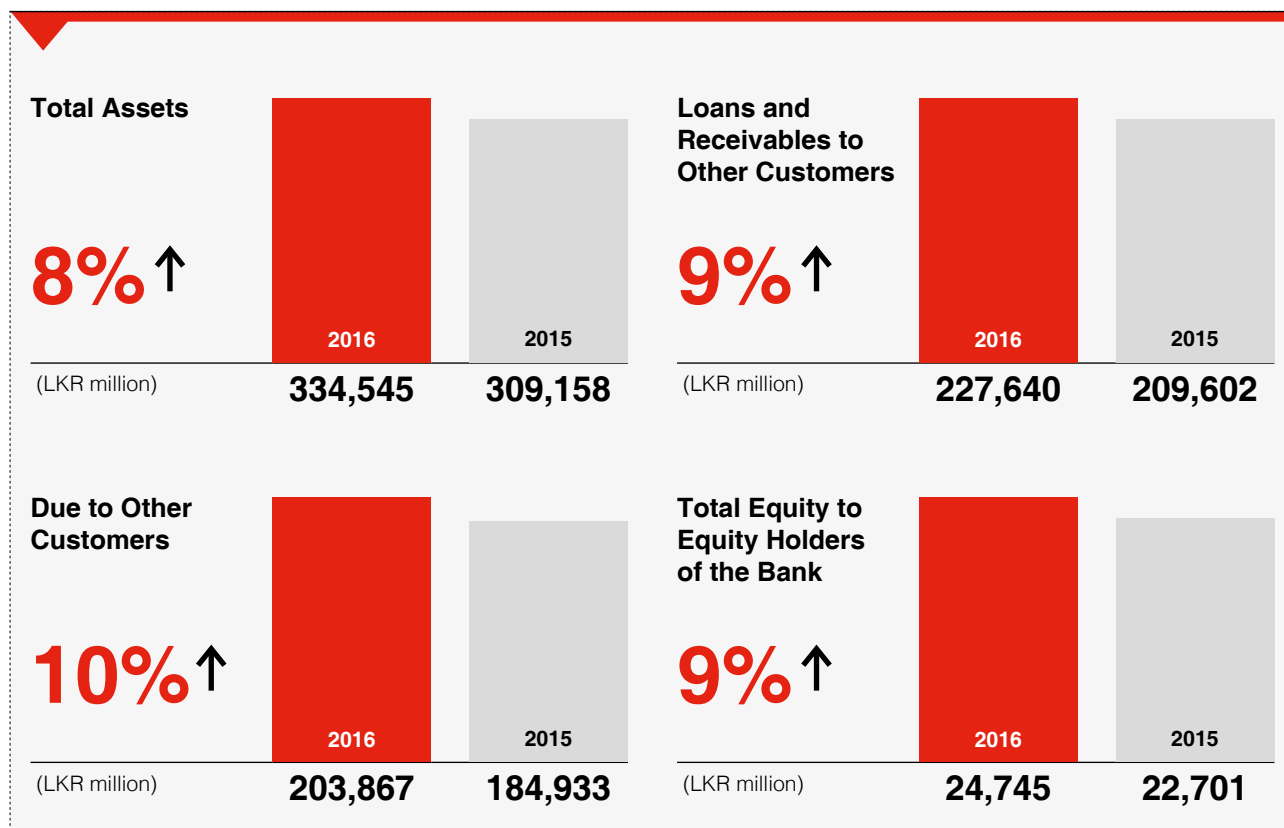
As per the Banking Act Direction No. 11 of 2007 – Corporate Governance for Licensed Commercial Banks, the Annual Audited Financial Statements and Quarterly Financial Statements should be prepared and published in accordance with the requirements of supervisory and regulatory authorities and applicable accounting standards and such statements must be published in the newspapers in an abridged form in Sinhala, Tamil and English.

All of the above dates are/will be updated in the Events Calendar in the Events section of the Investor Relations page of the Bank's corporate website on www.ndbbank.com.

STATEMENT OF PROFIT OR LOSS



STATEMENT OF FINANCIAL POSITION





**Building a better
working world**

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

HMAJ/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 2016, 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 2016, 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. 07 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 2016, 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 Sections 151 and 153 of the Companies Act No. 07 of 2007.

21 February 2017
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 Fernando FCA FCMA
Ms. K R M Fernando FCA FCMA 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 Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

	Page No.
INTEGRATED APPROACH TO FINANCIAL REPORTING	286
Financial Statements	
Statement of Profit or Loss	287
Statement of Comprehensive Income	288
Statement of Financial Position	289
Statement of Changes in Equity	290
Statement of Cash Flow	294
Notes to the Financial Statements	
1. Corporate Information	296
2. Basis of Preparation of Financial Statements	297
3. General Accounting Policies	298
Statement of Profit or Loss	
4. Gross Income	304
5. Net Interest Income	304
6. Fee and Commission Income	305
7. Net Gains/(Losses) from Trading	306
8. Net Gains/(Losses) from Financial Investments	307
9. Other Operating Income	307
10. Impairment for Loans and Receivables and Other Losses	308
11. Personnel Expenses	308
12. Other Expenses	309
13. Tax on Financial Services	310
14. Share of Associate Companies' Profits/(Losses)	310
15. Taxation	311
16. Earnings Per Share on Profit	313
17. Dividend Per Share	313
Statement of Financial Position: Assets	
18. Analysis of Financial Instruments by Measurement Basis	314
19. Cash and Cash Equivalents	317
20. Balances with the Central Bank of Sri Lanka	317
21. Placements with Banks	317
22. Derivative Financial Instruments	318
23. Financial Assets Held-for-Trading	321
24. Loans and Receivables to Banks	321
25. Loans and Receivables to Other Customers	322

	Page No.
26. Financial Investments – Loans and Receivables	328
27. Financial Investments – Available-for-Sale	329
28. Financial Investments – Held-to-Maturity	330
29. Investments – Held-for-Sale	330
30. Investments in Subsidiary Companies	331
31. Investments in Associate Companies	332
32. Investment Property	333
33. Intangible Assets	334
34. Property, Plant & Equipment	335
35. Other Assets	339
Statement of Financial Position: Liabilities	
36. Due to Banks	340
37. Due to Other Customers	341
38. Debt Securities Issued and Other Borrowed Funds	342
39. Deferred Tax Liabilities	343
40. Employee Benefit Liabilities	345
41. Other Liabilities	349
42. Subordinated Term Debts	351
Statement of Financial Position: Equity	
43. Capital	352
44. Statutory Reserve Fund	353
45. Retained Earnings	353
46. Other Reserves	354
47. Non-Controlling Interests	356
Other Financial Disclosures	
48. Commitments and Contingencies	356
49. Net Assets Value Per Ordinary Share	358
50. Maturity Analysis	358
51. Segmental Analysis – Group	361
52. Related Party Disclosures	363
53. Events Occurring after the date of the Statement of Financial Position	368
54. Comparative Information	368
55. Fair Value of Financial Instruments and Non-Financial Instruments	369
56. Risk Management Disclosures	379
COMPLIANCE WITH DISCLOSURE REQUIREMENTS OF THE CENTRAL BANK OF SRI LANKA	401

This is the fourth year that we are presenting Integrated Annual Financial Statements to our stakeholders. 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.

From the year 2013, this attempt in integrating the 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 Financial Statements.

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December	Note	Page No.	BANK			GROUP		
			2016	2015	Change	2016	2015	Change
			LKR '000	LKR '000	%	LKR '000	LKR '000	%
Gross income	4	304	33,281,736	25,855,311	29	33,776,905	26,915,863	25
Interest income	5.1	304	28,618,247	21,167,848	35	28,960,606	21,431,932	35
Less: Interest expenses	5.2	305	20,130,935	13,646,025	48	20,099,837	13,624,555	48
Net interest income	5	304	8,487,312	7,521,823	13	8,860,769	7,807,377	13
Fee and commission income	6	305	2,253,226	2,016,260	12	3,046,132	3,156,841	(4)
Net gains/(losses) from trading	7	306	982,123	1,088,464	(10)	982,123	1,088,464	(10)
Net gains/(losses) from financial investments	8	307	211,370	262,048	(19)	440,748	493,739	(11)
Other operating income	9	307	1,216,770	1,320,691	(8)	347,296	744,887	(53)
Total operating income			13,150,801	12,209,286	8	13,677,068	13,291,308	3
Less: Impairment for loans and receivables and other losses	10	308	1,366,953	711,833	92	1,424,573	746,145	91
Net operating income			11,783,848	11,497,453	2	12,252,495	12,545,163	(2)
Less: Operating expenses								
Personnel expenses	11	308	3,434,550	3,204,228	7	3,792,590	3,633,627	4
Other expenses	12	309	3,014,294	2,845,350	6	3,366,359	3,196,253	5
Total operating expenses			6,448,844	6,049,578	7	7,158,949	6,829,880	5
Operating profit before tax on financial services			5,335,004	5,447,875	(2)	5,093,546	5,715,283	(11)
Less: Tax on financial services	13	310	1,048,000	910,442	15	1,048,000	910,442	15
Operating profit after tax on financial services			4,287,004	4,537,433	(6)	4,045,546	4,804,841	(16)
Share of associate companies' profits/(losses)	14	310	–	–	–	–	77,818	(100)
Profit before taxation			4,287,004	4,537,433	(6)	4,045,546	4,882,659	(17)
Less: Taxation	15	311	1,116,733	1,026,002	9	1,230,587	1,212,564	1
Profit for the year			3,170,271	3,511,431	(10)	2,814,959	3,670,095	(23)
Profit attributable to equity holders of the parent			3,170,271	3,511,431	(10)	2,691,014	3,542,040	(24)
Non-controlling interests			–	–	–	123,945	128,055	(3)
			3,170,271	3,511,431	(10)	2,814,959	3,670,095	(23)
Earnings per share on profit	16	313						
Basic earnings per share (in LKR)			19.19	21.26	(10)	16.29	21.51	(24)
Diluted earnings per share (in LKR)			19.19	21.26	(10)	16.29	21.51	(24)
Dividend per share (in LKR)	17	313	8.00	11.00	–	–	–	–

The Notes to the Financial Statements disclosed from pages 296 to 400 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

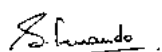
For the year ended 31 December	Note	Page No.	BANK			GROUP		
			2016	2015	Change	2016	2015	Change
			LKR '000	LKR '000	%	LKR '000	LKR '000	%
Profit for the year			3,170,271	3,511,431	(10)	2,814,959	3,670,095	(23)
Other comprehensive income								
Other comprehensive income/ (expenses) to be reclassified to profit or loss in subsequent period								
Exchange differences on translation of foreign operations			–	–	–	7,537	16,225	(54)
Gains/(losses) on remeasuring of available-for-sale investments			(372,240)	(391,286)	5	(436,305)	(380,673)	(15)
Deferred tax effect on fair value adjustments of available-for-sale investments			13,776	78,759	(83)	33,277	78,759	(58)
Net gains/(losses) on available-for-sale investments	46.2	355	(358,464)	(312,527)	(15)	(403,028)	(301,914)	(33)
Gains/(losses) on cash flow hedges	22.1 (b)	320	(54,012)	(287,692)	81	(54,012)	(287,692)	81
Other comprehensive income/ (expenses) not to be reclassified to profit or loss in subsequent period								
Revaluation of owner occupied portion of freehold buildings	46.1	355	–	–	–	21,000	95,339	(78)
Actuarial gains/(losses) on defined benefit plans	40.2 (f)	349	(73,151)	94,353	(178)	(79,530)	99,431	(180)
Deferred tax effect on actuarial gains/(losses)			10,544	(7,325)	244	11,529	(7,325)	257
Net actuarial gains/(losses) on defined benefit plans			(62,607)	87,028	(172)	(68,001)	92,106	(174)
Total other comprehensive income for the year, net of taxes			(475,083)	(513,191)	7	(496,504)	(385,936)	(29)
Total comprehensive income for the year			2,695,188	2,998,240	(10)	2,318,455	3,284,159	(29)
Attributable to:								
Equity holders of the parent			2,695,188	2,998,240	(10)	2,192,078	3,150,531	(30)
Non-controlling interests			–	–	–	126,377	133,628	(5)
			2,695,188	2,998,240	(10)	2,318,455	3,284,159	(29)

The Notes to the Financial Statements disclosed from pages 296 to 400 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page No.	BANK			GROUP		
			2016	2015	Change	2016	2015	Change
			LKR '000	LKR '000	%	LKR '000	LKR '000	%
Assets								
Cash and cash equivalents	19	317	5,018,438	11,821,503	(58)	5,139,389	11,848,575	(57)
Balances with the Central Bank of Sri Lanka	20	317	11,815,277	6,999,898	69	11,815,277	6,999,898	69
Placements with banks	21	317	3,297,262	1,153,619	186	3,297,262	1,153,619	186
Derivative financial instruments	22	318	1,544,621	1,903,573	(19)	1,544,621	1,903,573	(19)
Financial assets held-for-trading	23	321	832,694	2,985,262	(72)	3,661,530	5,229,493	(30)
Loans and receivables to banks	24	321	37,032	102,632	(64)	37,032	102,632	(64)
Loans and receivables to other customers	25	322	227,639,844	209,602,069	9	227,679,939	209,665,561	9
Financial investments – loans and receivables	26	328	41,992,533	35,830,311	17	43,896,593	37,368,705	17
Financial investments – available-for-sale	27	329	31,500,020	28,501,518	11	31,899,259	28,964,820	10
Financial investments – held-to-maturity	28	330	4,137,601	4,436,973	(7)	4,946,120	5,660,868	(13)
Investments held-for-sale	29	330	18,526	18,526	–	33,302	33,302	–
Investments in subsidiary companies	30	331	2,115,850	2,104,117	1	–	–	–
Investments in associate companies	31	332	–	–	–	–	–	–
Investment property	32	333	–	–	–	1,776,000	1,672,000	6
Intangible assets	33	334	368,083	240,234	53	384,742	274,746	40
Property, plant & equipment	34	335	2,078,570	2,030,005	2	2,528,258	2,454,883	3
Other assets	35	339	2,148,384	1,427,365	51	2,092,444	2,021,058	4
Total assets			334,544,735	309,157,605	8	340,731,768	315,353,733	8
Liabilities								
Due to banks	36	340	17,124,944	11,620,003	47	17,124,944	11,620,003	47
Derivative financial instruments	22	318	474,770	639,272	(26)	474,770	639,272	(26)
Due to other customers	37	341	203,866,547	184,933,230	10	203,515,828	184,152,280	11
Debt securities issued and other borrowed funds	38	342	59,233,264	60,527,844	(2)	59,233,264	60,497,844	(2)
Tax liabilities			845,660	486,503	74	852,454	524,020	63
Deferred tax liabilities	39	343	791,791	702,378	13	744,880	712,823	4
Employee benefit liabilities	40	345	331,211	252,825	31	394,666	297,152	33
Other liabilities	41	349	7,684,997	7,720,809	–	7,931,165	7,935,739	–
Subordinated term debts	42	351	19,446,501	19,573,883	(1)	19,446,501	19,573,883	(1)
Total liabilities			309,799,685	286,456,747	8	309,718,472	285,953,016	8
Equity								
Capital	43	352	1,246,479	1,242,772	–	1,246,479	1,162,963	7
Statutory reserve fund	44	353	1,246,479	1,242,772	–	1,246,479	1,242,772	–
Retained earnings	45	353	21,894,388	19,444,385	13	26,946,432	24,975,975	8
Other reserves	46	354	357,704	770,929	(54)	497,197	1,000,494	(50)
Total equity to equity holders of the Bank			24,745,050	22,700,858	9	29,936,587	28,382,204	5
Non-controlling interests	47	356	–	–	–	1,076,709	1,018,513	6
Total equity			24,745,050	22,700,858	9	31,013,296	29,400,717	5
Total liabilities and total equity			334,544,735	309,157,605	8	340,731,768	315,353,733	8
Commitments and contingencies	48	356	234,221,049	237,748,413	(1)	235,130,473	238,589,573	(1)
Net Asset Value per share (LKR)	49	358	149.80	137.44	9	181.23	172.35	5

We certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



Mrs. Suvendrini Muthukumarana
Assistant Vice-President – Finance & Planning



Faizan Ozman
Group Chief Financial Officer

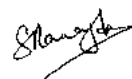
The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Approved and Signed for and on behalf of the Board,



A W Atukorala
Director/Chairman
21 February 2017



P L D N Seneviratne
Director/Chief Executive Officer



Mrs. Shehani Ranasinghe
Company Secretary

The Notes to the Financial Statements disclosed from pages 296 to 400 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Capital LKR '000	Statutory Reserve Fund LKR '000	Available- for-Sale Reserve LKR '000
BANK			
Balance as at 1 January 2015	1,225,162	1,010,785	105,250
Super Gain Tax	–	–	–
Adjusted Opening Balance as at 1 January 2015	1,225,162	1,010,785	105,250
Total comprehensive income for the year			
Profit for the year	–	–	–
Other Comprehensive Income before tax	–	–	(391,286)
Tax on other comprehensive income	–	–	78,759
Total comprehensive income for the year	–	–	(312,527)
Transactions with equity holders, recognized directly in equity			
Issue of shares (Notes 43 and 46.3)	17,610	–	–
Transfer to the statutory reserve fund (Note 44)	–	231,987	–
Dividends to equity holders (Note 17)	–	–	–
Balance as at 31 December 2015	1,242,772	1,242,772	(207,277)
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)	–	–	–
Balance as at 31 December 2016	1,246,479	1,246,479	(565,741)

Revaluation Reserve	General Reserve	Share Based Payment Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
853,456	5,805,707	20,243	397,852	12,819,737	22,238,192
–	–	–	–	(732,081)	(732,081)
853,456	5,805,707	20,243	397,852	12,087,656	21,506,111
–	–	–	–	3,511,431	3,511,431
–	–	–	(287,692)	94,353	(584,625)
–	–	–	–	(7,325)	71,434
–	–	–	(287,692)	3,598,459	2,998,240
–	–	(5,653)	–	–	11,957
–	–	–	–	(231,987)	–
–	–	–	–	(1,815,450)	(1,815,450)
853,456	5,805,707	14,590	110,160	13,638,678	22,700,858
853,456	5,805,707	14,590	110,160	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	5,805,707	13,841	56,148	16,088,681	24,745,050

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 2015	1,145,353	1,010,785	162,355
Super Gain Tax			
Adjusted Opening Balance as at 1 January 2015	1,145,353	1,010,785	162,355
Total comprehensive income for the year			
Profit for the year	–	–	–
Other Comprehensive Income before tax	–	–	(380,673)
Tax on other comprehensive income	–	–	78,759
Total comprehensive income for the Year	–	–	(301,914)
Transactions with equity holders, recognized directly in equity			
Issue of shares (Notes 43 and 46.3)	17,610	–	–
Adjustment to share based payment reserve (Note 46.3)	–	–	–
Adjustment due to changes in group companies	–	–	–
Transfer to the statutory reserve fund (Note 44)	–	231,987	–
Dividends to equity holders (Note 17)	–	–	–
Balance as at 31 December 2015	1,162,963	1,242,772	(139,559)
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)	–	–	–
Balance as at 31 December 2016	1,246,479	1,246,479	(542,587)

Revaluation Reserve	General Reserve	Share Based Payment Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total	Non-Controlling Interests	Total Equity
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
853,456	5,805,707	60,148	397,852	18,440,117	27,875,773	922,646	28,798,419
				(833,548)	(833,548)	(21,123)	(854,671)
853,456	5,805,707	60,148	397,852	17,606,569	27,042,225	901,523	27,943,748
–	–	–	–	3,542,040	3,542,040	128,055	3,670,095
95,339	–	–	(287,692)	110,083	(462,943)	5,573	(457,370)
–	–	–	–	(7,325)	71,434	–	71,434
95,339	–	–	(287,692)	3,644,798	3,150,531	133,628	3,284,159
–	–	(5,653)	–	–	11,957	–	11,957
–	–	26,603	–	–	26,603	–	26,603
–	–	–	–	(33,662)	(33,662)	24,645	(9,017)
–	–	–	–	(231,987)	–	–	–
–	–	–	–	(1,815,450)	(1,815,450)	(41,283)	(1,856,733)
948,795	5,805,707	81,098	110,160	19,170,268	28,382,204	1,018,513	29,400,717
948,795	5,805,707	81,098	110,160	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	5,805,707	13,841	56,148	21,140,725	29,936,587	1,076,709	31,013,296

STATEMENT OF CASH FLOW

ACCOUNTING POLICY

The Statement of Cash Flow 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 Flow, 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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Cash flows from operating activities				
Interest received	26,492,391	20,765,613	26,770,059	21,038,450
Fee and commission income received	2,253,226	2,016,259	3,273,243	2,765,456
Dividend income received	481,457	942,293	81,208	(636)
Other operating income received	1,370,942	1,700,796	1,377,172	1,870,590
Interest paid	(19,700,090)	(13,134,957)	(19,705,603)	(13,134,957)
Personnel costs paid	(3,387,278)	(3,162,861)	(3,488,904)	(3,280,182)
Other expenses paid	(2,574,442)	(2,415,887)	(3,121,736)	(2,519,663)
Operating profit before changes in operating assets and liabilities (a)	4,936,206	6,711,256	5,185,439	6,739,058
Net increase in loans and receivables to other customers	(17,564,396)	(34,473,636)	(17,568,625)	(34,473,636)
Net increase due to other customers	18,271,867	32,941,814	18,271,867	32,941,814
Net (increase)/decrease in other assets	130,036	(95,262)	174,537	(179,272)
Net increase/(decrease) in other liabilities	(297,687)	1,587,663	(319,036)	1,640,173
Net cash inflow/(outflow) from operating activities before taxation	5,476,026	6,671,835	5,744,182	6,668,137
Tax on Financial Services paid	(985,188)	(1,005,492)	(985,188)	(1,005,492)
Income taxes paid	(643,843)	(1,211,841)	(732,167)	(1,254,368)
Super Gain Tax Paid by the Parent Company	–	(732,081)	–	(833,548)
Super Gain Tax Paid by non-controlling interest	–	–	–	(21,123)
Net cash provided by/(used in) operating activities	3,846,995	3,722,421	4,026,827	3,553,606
Cash flows from investing activities				
Net changes in financial investments	(6,741,637)	(5,078,640)	(6,740,813)	(5,078,362)
Net changes in investments in subsidiaries/associates	–	(103,826)	–	(53,947)
Expenditure on property, plant & equipment	(612,468)	(594,790)	(654,471)	(637,259)
Proceeds from sale of property, plant & equipment	10,556	15,817	11,759	42,580
Net cash used in investing activities	(7,343,549)	(5,761,439)	(7,383,525)	(5,726,988)
Cash flows from financing activities				
Issue of shares	2,958	11,957	2,958	45,031
Net proceeds from issue of subordinated debts	–	8,914,408	–	8,914,408
Interest paid on subordinated debts	(2,032,761)	(1,719,085)	(2,032,761)	(1,719,085)
(Decrease)/increase in other borrowings	6,363,234	4,164,980	6,363,234	4,164,980
Dividends paid to non-controlling interests	–	–	(45,977)	(41,283)
Dividends paid to shareholders of the Bank	(664,029)	(1,806,863)	(664,029)	(1,806,863)
Net cash provided by/(used in) financing activities	3,669,402	9,565,397	3,623,425	9,557,188
Net increase in cash and cash equivalents	172,848	7,526,379	266,727	7,383,806
Cash and cash equivalents at the beginning of the year	19,958,129	12,431,750	19,985,201	12,601,395
Cash and cash equivalents at the end of the year	20,130,977	19,958,129	20,251,928	19,985,201

For the year ended 31 December	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	5,018,438	11,821,503	5,139,389	11,848,575
Balances with the Central Bank of Sri Lanka	11,815,277	6,999,898	11,815,277	6,999,898
Placements with banks	3,297,262	1,153,619	3,297,262	1,153,619
	20,130,977	19,975,020	20,251,928	20,002,092
Unfavourable balances in Nostro accounts (Note 36)	–	(16,891)	–	(16,891)
	20,130,977	19,958,129	20,251,928	19,985,201

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Operating profit before tax on financial services	5,335,004	5,447,875	5,093,546	5,715,283
Gains on sale of property, plant & equipment	(9,109)	(4,356)	(11,883)	(10,150)
Accrual for interest income	(2,125,855)	(402,236)	(2,206,395)	(420,812)
Accrual for interest expenses	430,845	511,067	436,358	511,067
Accrual for general expenses	35,406	85,130	45,555	93,342
Contribution made to pension fund	16,927	15,284	16,927	15,284
Depreciation of property, plant & equipment	329,327	284,744	364,909	317,798
Amortization of intangible assets	105,464	85,673	126,077	103,598
Gains on disposal of investments	(260)	(23,758)	(228)	(206,190)
Impairment for loans and receivables	1,378,686	711,833	1,378,686	711,833
Provision/(reversals) of investments in subsidiaries	(11,733)	–	45,887	34,312
Accrued dividend income	(548,496)	–	–	–
Fair value adjustments on investment property	–	–	(104,000)	(126,307)
Operating profit before changes in operating assets and liabilities	4,936,206	6,711,256	5,185,439	6,739,058

The Notes to the Financial Statements disclosed from pages 296 to 400 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

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, Navam Mawatha, Colombo 2.

The number of branches of the Bank as at 31 December 2016 was 104 (2015 – 93) and the number of staff employed as at 31 December 2016 was 2,109 (2015 – 1,960).

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 % – 2016		Holding % – 2015	
			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 2016 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 2016 which comprise the Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, Accounting Policies and Notes, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs 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 operate. 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 the preparation and presentation of the 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 274 to 275 and page 289 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 287 and 288);

- Statement of Financial Position providing the information on the financial position of the Bank and the Group as at the year end (Refer page 289);
- 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 Flows 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 294 and 295); and
- Financial Statements, which comprise of the Accounting Policies and other explanatory Notes and information (Refer pages 296 to 400).

2.4 Approval of the Financial Statements

The Financial Statements of the Bank and the Group for the year ended 31 December 2016 (including the comparative figures) have been approved and authorized for issue by the Board of Directors in accordance with the resolution of the Directors on 21 February 2017.

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	318
Financial assets and liabilities – Held-for-trading	Fair value	23	321
Financial investments – Available-for-sale	Fair value	27	329
Investment property	Fair value	32	333
Freehold land and building	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	335
Employee benefit liabilities	Recognized at the present value of the defined benefit obligations less the fair value of the assets of the plan.	40	345

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.

2.7 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 2016. 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 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 296 to 400.

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 through 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 liabilities upon recognition, at fair value through 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,

- 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.

Reclassification 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 into 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 decision 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.

3.4 Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the 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 activities.

3.5 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 asset's 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 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.

3.6 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.

3.7 Standards Issued but not yet Effective as at 31 December 2016

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 2016.

(i) SLFRS 15 – Revenue from Contracts with Customers

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SLFRS 15 will become effective on 1 January 2018. The impact on the implementation of the above Standard has not been quantified yet.

(ii) 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.

The initial assessment, the gap analysis between the two standards and policy statements on financial assets and financial liabilities were completed during the year 2016. The initial assessments on impairment is being evaluating with an external consultant at present.

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 subsequently reclassification of gains or losses to the Statement of Profit or Loss.

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 FVPL. 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 is in the view that:

- 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.
- Financial assets held-for-trading are expected to be continued to be measured at FVPL.
- The majority of the debt securities classified as available-for-sale under LKAS 39 are expected to be measured at FVOCI.
- Debt securities classified as held-to-maturity are expected to continue to be measured at amortized cost.

Impairment of Financial Assets

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 is in the process of quantifying the potential impact on impairment by implementing SLFRS 9 with the assistance of an external consultant.

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.

Amendments and improvements to the standards but not effective as at 31 December 2016 are given below:

LKAS 7 – Disclosure Initiative – Amendments to LKAS 7

The amendments to LKAS 7 – Statement of Cash Flows are part of the ICASL's Disclosure Initiative and require an entity to provide disclosures that enable users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted.

Additional Disclosure will be made as per the requirements of the Amended Standards.

LKAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to LKAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. The Bank and the Group are in the process of assessing the impact to the Financial Statements.

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.

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Interest income	28,618,247	21,167,848	28,960,606	21,431,932
Fee and commission income	2,253,226	2,016,260	3,046,132	3,156,841
Net gains/(losses) from trading	982,123	1,088,464	982,123	1,088,464
Net gains/(losses) from financial investments	211,370	262,048	440,748	493,739
Other operating income	1,216,770	1,320,691	347,296	744,887
Total	33,281,736	25,855,311	33,776,905	26,915,863

5. NET INTEREST INCOME

ACCOUNTING POLICY

The Net Interest Income represents the Gross Interest Income earned from financial assets, after set 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 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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Loans and receivables – to banks	4,261	16,276	4,261	16,276
Loans and receivables – to other customers	23,164,985	17,155,338	23,176,018	17,157,607
Placements with banks	220,582	263,415	279,962	269,815
Financial assets – held-for-trading	81,833	89,785	107,981	89,785
Financial investments – held-to-maturity	499,370	622,183	499,386	685,926
Financial investments – available-for-sale	2,381,242	1,458,884	2,381,242	1,458,884
Financial investments – loans and receivables	2,044,211	1,444,981	2,289,993	1,636,653
Other interest income	221,763	116,986	221,763	116,986
Total Interest Income (a)	28,618,247	21,167,848	28,960,606	21,431,932

5.2 Interest Expenses

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Due to banks	1,226,752	475,242	1,226,752	475,242
Due to other customers	12,362,362	8,157,526	12,331,264	8,137,635
Debt securities issued and other borrowed funds	4,250,672	3,120,546	4,250,672	3,118,967
Subordinated term debts	2,291,149	1,892,711	2,291,149	1,892,711
Total Interest Expenses (b)	20,130,935	13,646,025	20,099,837	13,624,555
Net Interest Income (a)-(b)	8,487,312	7,521,823	8,860,769	7,807,377

5.3 Interest Income from Sri Lanka Government Securities

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Interest income	3,875,945	3,732,743	3,875,945	3,732,743

5.4 Interest Income on Impaired Financial Assets

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Interest income on impaired loans and receivables to other customers	267,141	316,636	267,141	316,636

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 2016 and the notional tax credit amounted to LKR 279.4 million (2015 – LKR 197.1 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 drawdown 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.

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Fees and commission income on				
Cards	185,861	135,144	185,861	135,144
Due to other customers	211,466	140,521	211,466	140,521
Guarantees	347,499	270,927	347,499	270,925
Loans and receivables to other customers	580,959	580,078	580,959	580,078
Remittances	203,795	200,793	203,795	200,793
Trade finance	548,065	544,292	548,065	544,292
Bancassurance	81,838	68,885	81,838	68,885
Investment banking and wealth management	–	–	521,000	757,518
Brokerage	–	–	82,495	136,926
Other financial services	82,168	64,405	140,023	155,688
Rental income	11,575	11,215	143,131	166,071
Total	2,253,226	2,016,260	3,046,132	3,156,841

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Income from foreign exchange				
– With Banks	643,878	753,437	643,878	753,437
– With Customers	338,245	335,027	338,245	335,027
Total	982,123	1,088,464	982,123	1,088,464

8. NET GAINS/(LOSSES) FROM FINANCIAL INVESTMENTS

ACCOUNTING POLICY

All gains and losses from changes in fair value and dividend income from investments 'held-for-trading' or as 'available-for-sale' are included under Net Gains/(Losses) from Financial Investments.

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 changes in the fair value of unit trust investments.

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Financial Investments – Held-for-Trading				
Equities	–	–	58,008	16,293
Debt Securities	76,694	886	76,694	15,404
Unit Trusts	96,263	154,318	271,596	309,853
Sub total	173,957	155,204	406,298	341,550
Financial Investments – Available-for-Sale				
Equities	38,413	34,725	34,450	34,725
Debt Securities	–	72,119	–	117,464
Sub total	38,413	106,844	34,450	152,189
Total	211,370	262,048	440,748	493,739

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 risk 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.

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Dividend income from securities				
– Non-quoted investments	9,646	12,643	15,025	12,643
Dividend income from group investments				
– Non-quoted investments	981,893	894,925	–	–
Capital gains from sale of securities	260	23,758	228	41,793
Capital gains from sale of group investments	–	–	–	164,397
Foreign exchange gains	203,242	381,339	203,242	381,339
Gains on sale of property, plant & equipment	9,109	4,356	11,883	10,150
Gains on investment properties	–	–	104,000	126,307
Others	12,620	3,670	12,918	8,258
Total	1,216,770	1,320,691	347,296	744,887

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 also makes provisions/write-backs for impairment of investments in subsidiary and associate companies and other financial assets, when there is a permanent diminution in the carrying value of these investments.

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 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)]	1,116,072	526,932	1,116,072	526,932
Charge/(Write-back) to the Statement of Profit or Loss – Impairment on collective loan portfolio [Note 25.5 (b)]	277,097	150,673	277,097	150,673
– Capital write-offs/(recoveries)	(14,483)	34,228	(14,483)	34,228
	1,378,686	711,833	1,378,686	711,833
Provision/(reversal) of investments in subsidiaries	(11,733)	–	45,887	34,312
Total	1,366,953	711,833	1,424,573	746,145

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 the LKAS 19.

The 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 morefully described in Note 43.2 and 46.3 to these Financial Statements.

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Salary and bonus	2,695,598	2,529,980	3,008,876	2,902,328
Contribution to Employees' Provident Fund	253,722	214,509	263,190	224,695
Contribution to Employees' Trust Fund	50,744	42,902	52,365	44,193
Contribution to defined benefit plan				
– Pension Fund [Note 40.2 (a)]	16,927	15,284	16,927	15,284
– Gratuity [Note 40.1 (a)]	62,754	53,988	77,927	62,199
Share-based payments	13,505	27,248	13,505	36,248
Others	341,300	320,317	359,800	348,680
Total	3,434,550	3,204,228	3,792,590	3,633,627

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.

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Directors' emoluments	29,330	27,905	33,572	35,166
Auditors' remuneration	7,770	7,260	10,133	9,568
Fees for other audit services	2,945	2,796	2,945	2,796
Non-audit fees to auditors	6,886	7,135	9,049	8,560
Professional and legal expenses	46,768	85,181	60,561	99,142
Office administration and establishment expenses	1,284,654	1,075,859	1,540,979	1,173,140
Depreciation of property, plant & equipment	329,327	284,744	364,909	317,798
Amortization of intangible assets	105,464	85,673	126,077	103,598
Deposit insurance expenses	211,492	155,397	211,492	155,397
Others	989,658	1,113,400	1,006,642	1,291,088
Total	3,014,294	2,845,350	3,366,359	3,196,253

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. 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 computed on the prescribed rates. The regulatory tax rate for the period from 2 May 2016 to 11 July 2016 and from 1 November 2016 to 31 December 2016 was 15%. The rate for the balance period of the current year was 11% (2015 – 11%).

The same base is also applied for the computation of the Nation Building Tax on Financial Services and the regulatory tax rate is 2%.

	BANK & GROUP	
	2016 LKR '000	2015 LKR '000
Value Added Tax on financial services	903,500	770,441
Nation Building Tax on financial services	144,500	140,001
Total	1,048,000	910,442

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.

	Percentage Holding 2015 %	GROUP	
		2016 LKR '000	2015 LKR '000
Resus Energy PLC (Note 14.1) (Equity accounted profit up to 17 September 2015)	32.40	–	77,818
Total		–	77,818

14.1 In April 2015, Resus Energy PLC was accounted as an Investment in Associate, which was a 32% owned associate company of NDB Capital Holdings Ltd. However NDB Capital Holdings Ltd. divested part of its 32% owned investment in Resus Energy PLC on 17 September 2015 and subsequently the investment was reclassified as 'Available-for-Sale' Investments on 30 September 2015. As such, the LKR 77.8 million was recognized as an equity accounted profit for the period in which the Investment was accounted as an Investment in Associate.

15. TAXATION

ACCOUNTING POLICY

As per the Sri Lanka Accounting Standard – LKAS 12 – 'Income Taxes', the tax expense/tax income is the aggregate amount included in 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 amount 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 2016 and 2015 are:

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Current Tax Expense				
Taxation based on the profit for the year	781,128	676,943	911,851	841,929
Adjustment in respect of current income tax of the prior years	221,872	194,714	241,872	196,314
Total current tax expense (Note 15.1)	1,003,000	871,657	1,153,723	1,038,243
Deferred Tax Expense				
Origination and reversal of temporary differences (Note 15.3)	113,733	154,345	76,864	174,321
Total income tax charged to the Statement of Profit or Loss	1,116,733	1,026,002	1,230,587	1,212,564
Effective tax rate (including deferred tax) (%)	21	19	24	21
Effective tax rate (excluding deferred tax) (%)	19	16	23	18

15.1 Reconciliation of the Accounting Profit to Current Tax Expense

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Operating profit before tax on financial services	5,335,004	5,447,875	5,093,546	5,715,283
Income tax for the year (accounting profit @ applicable tax rate)	1,492,965	1,525,404	1,660,292	1,764,835
Tax effect of exempt income	(697,178)	(606,978)	(839,733)	(744,446)
Adjustment in respect of current income tax of the prior years	221,872	194,714	241,872	196,314
Tax effect of expenses that are not deductible for tax purposes	2,182,186	1,602,917	2,300,656	1,684,243
Tax effect of expenses that are deductible for tax purposes	(2,098,799)	(1,968,908)	(2,111,318)	(1,973,240)
Tax effect of leasing/tax losses	(98,046)	124,508	(98,046)	110,537
Current tax expense for the year	1,003,000	871,657	1,153,723	1,038,243

15.2 Applicable Income Tax rates

The applicable income tax rates of the Bank and the subsidiary companies for the years 2016 and 2015 are as follows:

		GROUP	
		2016	2015
		%	%
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
	2016	2016	2016	2016	2015	2015	2015	2015
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
BANK								
Provisions	–	–	298	–	(298)	–	6,157	–
Revaluation of financial investments available-for-sale	(84,744)	–	–	(13,776)	(70,968)	–	–	(78,759)
Other temporary differences	(121,906)	998,441	113,435	(10,544)	(234,273)	1,007,917	148,188	7,325
Total	(206,650)	998,441	113,733	(24,320)	(305,539)	1,007,917	154,345	(71,434)
GROUP								
Provisions	–	–	298	–	(298)	–	6,157	–
Revaluation of financial investments available-for-sale	(87,156)	–	–	(33,277)	(70,968)	17,090	–	(78,759)
Other temporary differences	(172,647)	1,004,683	76,566	(11,529)	(250,211)	1,017,210	168,164	7,325
Total	(259,803)	1,004,683	76,864	(44,806)	(321,477)	1,034,300	174,321	(71,434)

16. EARNINGS PER SHARE ON PROFIT

ACCOUNTING POLICY

The Bank and the Group present the Basic and Diluted Earnings per Share (EPS) data 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 all dilutive potential ordinary shares, which comprise share options granted to employees as required by the Sri Lanka Accounting Standard – 33 (LKAS 33) – 'Earnings per Share':

	BANK		GROUP	
	2016	2015	2016	2015
Amount Used as the Numerator				
Profit attributable to equity holders of the parent (LKR '000)	3,170,271	3,511,431	2,691,014	3,542,040
Amount Used as the Denominator				
Ordinary shares in issue for basic EPS calculation	165,185,506	165,167,342	165,185,506	164,676,210
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	165,173,413	165,137,837	165,173,413	164,646,705
Weighted average basic Earnings per Share (LKR)	19.19	21.26	16.29	21.51
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	165,173,413	165,137,837	165,173,413	164,646,705
Effect of outstanding share option schemes	–	56,971	–	56,971
Number of ordinary shares including share options	165,173,413	165,194,808	165,173,413	164,703,676
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for diluted EPS calculation	165,173,413	165,194,808	165,173,413	164,703,676
Weighted average diluted Earnings per Share (LKR)	19.19	21.26	16.29	21.51

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 Board of Directors of the Bank has recommended the payment of a total 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 for the year ended 31 December 2016.

	BANK & GROUP	
	2016	2015
	LKR	LKR
Total dividend per share	8.00	11.00

Dividend Paid during the Year

	BANK & GROUP			
	Dividend per Share	2016	Dividend per Share	2015
	LKR	LKR '000	LKR	LKR '000
Final dividend paid for the prior year	4.00	660,669	4.00	660,376
Interim dividend paid for the current year	–	–	7.00	1,156,171
Gross dividends paid during the year	4.00	660,669	11.00	1,816,547
Reversal of dividends declared in prior years	–	(6,715)	–	(1,097)
Dividends to equity holders		653,954		1,815,450

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 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

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total 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	81,899,259	334,335,478

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total 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	–	3,516,073	3,516,073
Total financial liabilities	474,770	302,836,610	303,311,380

As at 31 December 2015	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	–	–	11,821,503	–	11,821,503
Balances with the Central Bank of Sri Lanka	–	–	6,999,898	–	6,999,898
Placements with banks	–	–	1,153,619	–	1,153,619
Derivative financial instruments	1,903,573	–	–	–	1,903,573
Financial assets held-for-trading	2,985,262	–	–	–	2,985,262
Loans and receivables to banks	–	–	102,632	–	102,632
Loans and receivables to other customers	–	–	209,602,069	–	209,602,069
Financial investments – loans and receivables	–	–	35,830,311	–	35,830,311
Financial investments – available-for-sale	–	–	–	28,501,518	28,501,518
Financial investments – held-to-maturity	–	4,436,973	–	–	4,436,973
Other financial assets	–	–	3,091	–	3,091
Total financial assets	4,888,835	4,436,973	265,513,123	28,501,518	303,340,449

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
Liabilities			
Due to banks	–	11,620,003	11,620,003
Derivative financial instruments	639,272	–	639,272
Due to other customers	–	184,933,230	184,933,230
Debt securities issued and other borrowed funds	–	60,527,844	60,527,844
Subordinated term debts	–	19,573,883	19,573,883
Other financial liabilities	–	2,960,063	2,960,063
Total financial liabilities	639,272	279,615,023	280,254,295

As at 31 December 2015	GROUP				
	Held-for-Trading LKR '000	Held-to-Maturity LKR '000	Loans and Receivables LKR '000	Available-for-Sale LKR '000	Total LKR '000
Assets					
Cash and cash equivalents	–	–	11,848,575	–	11,848,575
Balances with the Central Bank of Sri Lanka	–	–	6,999,898	–	6,999,898
Placements with banks	–	–	1,153,619	–	1,153,619
Derivative financial instruments	1,903,573	–	–	–	1,903,573
Financial assets held-for-trading	5,229,493	–	–	–	5,229,493
Loans and receivables to banks	–	–	102,632	–	102,632
Loans and receivables to other customers	–	–	209,665,561	–	209,665,561
Financial investments – loans and receivables	–	–	37,368,705	–	37,368,705
Financial investments – available-for-sale	–	–	–	28,964,820	28,964,820
Financial investments – held-to-maturity	–	5,660,868	–	–	5,660,868
Other financial assets	–	–	580,723	–	580,723
Total financial assets	7,133,066	5,660,868	267,719,713	28,964,820	309,478,467

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
Liabilities			
Due to banks	–	11,620,003	11,620,003
Derivative financial instruments	639,272	–	639,272
Due to other customers	–	184,152,280	184,152,280
Debt Securities issued and other borrowed funds	–	60,497,844	60,497,844
Subordinated term debts	–	19,573,883	19,573,883
Other financial liabilities	–	3,194,279	3,194,279
Total Financial Liabilities	639,272	279,038,289	279,677,561

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Local currency in hand	2,543,219	2,504,536	2,543,306	2,504,620
Foreign currency in hand	121,320	91,841	121,339	91,860
Balances with banks	2,353,899	9,225,126	2,474,744	9,252,095
Total	5,018,438	11,821,503	5,139,389	11,848,575

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 2016 (6.0% as at 31 December 2015). 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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Statutory balances with the Central Bank of Sri Lanka	11,815,277	6,999,898	11,815,277	6,999,898
Total	11,815,277	6,999,898	11,815,277	6,999,898

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Placements – in Sri Lanka	3,297,262	1,153,619	3,297,262	1,153,619
Total	3,297,262	1,153,619	3,297,262	1,153,619

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
	2016	2016	2015	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Currency options	331	331	1,912	1,912
Forward foreign exchange contracts	401,670	474,439	1,060,248	637,360
Currency SWAP	1,142,620	–	841,413	–
Total	1,544,621	474,770	1,903,573	639,272

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 2016 and are indicative of neither the market risk nor the credit risk:

		Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
		2016	2016	2016	2015	2015	2015
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Currency options	– Sales	–	331	55,623	–	1,912	550,752
	– Purchases	331	–	55,623	1,912	–	550,752
Forward foreign exchange contracts	– Sales	212,632	117,551	72,365,808	68,106	600,723	79,090,652
	– Purchases	189,038	356,888	72,388,358	992,142	36,637	79,472,936
Currency SWAP	– Sales	–	–	–	–	–	–
	– Purchases	1,142,620	–	5,617,500	841,413	–	5,400,000
Total		1,544,621	474,770	150,482,912	1,903,573	639,272	165,065,092

22.1 Currency SWAP

The Bank raised USD 75 million on 21 July 2014 through foreign borrowings for a period of seven years, against which a SWAP arrangement was entered into with the Central Bank of Sri Lanka for 50 per cent of the borrowing value. The SWAP arrangement will be renewed annually over the tenor of the borrowing.

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 hedge is give below:

22.1 (a) SWAP Agreement

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	Seven-year USD denominated borrowing – USD 15 million with a grace period of 3.5 years. Repayment periods are as follows:
	15 January 2018 USD 1.875 million
	15 July 2018 USD 1.875 million
	15 January 2019 USD 1.875 million
	15 July 2019 USD 1.875 million
	15 January 2020 USD 1.875 million
	15 July 2020 USD 1.875 million
	15 January 2021 USD 1.875 million
	15 July 2021 USD 1.875 million
	Seven-year USD denominated borrowing – USD 60 million with a grace period of 5 years. Repayment periods are as follows:
	15 July 2019 USD 15 million
	15 January 2020 USD 15 million
	15 July 2020 USD 15 million
	15 January 2021 USD 15 million
The periods when the cash flows are expected to occur	As given above
The amount recognized in Other Comprehensive Income during the year	LKR 54 million debit to the cash flow hedge reserve
Fair Value of the Hedged item as at 31 December 2016	LKR 11,235 million
Fair Value of the Hedged instrument as at 31 December 2016	LKR 1,142.6 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 Currency SWAP

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Gains/(losses) on adjustment of fair value [Note 55(b)]	301,207	(100,138)	301,207	(100,138)
Amortization adjustment of day one difference on the SWAP transaction	(355,219)	(187,554)	(355,219)	(187,554)
Total	(54,012)	(287,692)	(54,012)	(287,692)

22.1 (c) The expected impact to the Statement of Financial Position on the Hedge is as follows:

	Less than One Year LKR million	More than One Year LKR million
Forecast receivable cash flow	5,576	–
Forecast payable cash flow	(5,972)	(10,800)
	(396)	(10,800)

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 are recognized in 'Net gains/(losses) from financial investments'. 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	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Sri Lanka Government Securities – treasury bills	–	969	–	969
Sri Lanka Government Securities – treasury bonds	832,694	576,964	832,694	576,964
Equity Securities	–	–	392,944	336,769
Investment in Unit Trusts	–	2,407,329	2,435,892	4,314,791
Total	832,694	2,985,262	3,661,530	5,229,493

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	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Gross loans and receivables – Refinance loans in local currency	37,032	102,632	37,032	102,632
Less: Allowance for impairment charges for loans and receivables to banks	–	–	–	–
Net loans and receivables – Refinance loans in local currency	37,032	102,632	37,032	102,632

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.

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 net of unearned interest income not accrued to revenue and allowance for impairment.

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Gross loans and receivables to other customers	233,679,116	215,012,449	233,719,211	215,075,941
Less: Allowance for impairment charges for loans and receivables to other customers [Note 25.5 (a)]	6,039,272	5,410,380	6,039,272	5,410,380
Net loans and receivables to other customers	227,639,844	209,602,069	227,679,939	209,665,561

25.1 Loans and Receivables to Other Customers – By Product

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Long-term loans	61,889,700	47,867,326	61,889,701	47,867,326
Medium and short-term loans	49,899,671	56,920,084	49,899,671	56,920,084
Overdrafts	35,871,840	25,868,746	35,826,355	25,866,356
Trade finance loans	32,678,627	31,041,387	32,678,627	31,041,387
Consumer loans	23,648,777	23,565,859	23,648,777	23,565,859
Leasing and hire purchases (Note 25.6)	15,834,304	17,692,190	15,834,304	17,692,190
Housing loans	9,460,115	8,308,954	9,460,115	8,308,954
Pawning	122,755	208,024	122,755	208,024
Staff loans	1,453,984	1,235,347	1,539,563	1,301,229
Islamic loans	2,819,343	2,304,532	2,819,343	2,304,532
Total	233,679,116	215,012,449	233,719,211	215,075,941

25.2 Loans and Receivables to Other Customers – By Currency

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Rupee	180,001,419	159,620,705	180,041,514	159,684,197
United States Dollar	53,340,765	54,720,377	53,340,765	54,720,377
Great Britain Pound	4,522	5,247	4,522	5,247
Euro	327,975	666,120	327,975	666,120
Others	4,435	–	4,435	–
Total	233,679,116	215,012,449	233,719,211	215,075,941

25.3 Loans and Receivables to Other Customers – By Industry

	BANK			
	2016	2015		
	LKR '000	%	LKR '000	%
Food, beverages and tobacco	11,371,240	5	8,986,494	4
Agriculture, agro-business and fisheries	25,325,854	11	25,383,947	12
Textiles and garments	19,120,305	8	27,065,745	13
Wood and paper products	2,390,848	1	2,097,711	1
Leather and plastic products	4,614,673	2	2,885,304	1
Metals, chemicals and engineering	23,765,894	10	15,402,842	7
Hotels and tourism	12,101,861	5	8,121,353	4
Utilities	10,907,963	5	12,096,518	6
Constructions and housing finance	24,178,744	10	20,645,692	10
Services	49,222,685	21	44,350,044	21
Transport	5,704,590	2	6,436,058	3
Consumer	17,667,666	8	17,898,807	8
Trading	27,276,542	12	23,618,606	10
Others	30,251	–	23,328	–
Total	233,679,116	100	215,012,449	100

25.4 Loans and Receivables to Other Customers – By Province

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Western Province	196,837,459	184,679,731	196,877,554	184,743,223
Southern Province	8,480,695	7,309,362	8,480,695	7,309,362
North-Western Province	7,217,048	5,605,710	7,217,048	5,605,710
Central Province	7,010,183	6,339,923	7,010,183	6,339,923
Northern Province	2,113,306	1,305,200	2,113,306	1,305,200
Sabaragamuwa Province	4,172,942	3,636,529	4,172,942	3,636,529
North-Central Province	3,184,195	2,779,375	3,184,195	2,779,375
Eastern Province	2,324,920	1,624,097	2,324,920	1,624,097
Uva Province	2,338,368	1,732,522	2,338,368	1,732,522
Total	233,679,116	215,012,449	233,719,211	215,075,941

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	Pawning	Islamic Banking	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
As at 1 January 2016	1,241,396	1,999,755	1,017,957	468,632	374,977	242,760	45,224	14,729	691	4,259	5,410,380
Charges/(reversals) for the Year	64,903	899,963	231,045	70,422	127,607	7,171	2,756	(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	502,584	195,614	47,980	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	502,584	184,670	47,980	401	846	643	3,010,338
Total	1,134,339	2,694,590	1,019,074	436,110	502,584	195,614	47,980	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

	BANK & GROUP										
	Long-term Loans	Medium and Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Leasing & Hire Purchases	Housing Loans	Pawning	Islamic Banking	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
As at 1 January 2015	1,304,096	1,203,015	1,300,513	410,404	535,360	149,383	32,425	69,378	–	9,629	5,014,203
Charges/(reversals) for the year	(147,015)	822,728	34,066	72,092	(152,882)	74,110	8,909	(29,724)	691	(5,370)	677,605
Other movement	173,257	78,871	153,607	133,400	55,560	19,267	3,890	(24,925)	–	–	592,927
Amounts written off	(88,942)	(104,859)	(470,229)	(147,264)	(63,061)	–	–	–	–	–	(874,355)
As at 31 December 2015	1,241,396	1,999,755	1,017,957	468,632	374,977	242,760	45,224	14,729	691	4,259	5,410,380
Individual impairment	309,331	1,634,915	343,229	305,481	–	15,676	–	9,000	–	3,711	2,621,343
Collective impairment	932,065	364,840	674,728	163,151	374,977	227,084	45,224	5,729	691	548	2,789,037
Total	1,241,396	1,999,755	1,017,957	468,632	374,977	242,760	45,224	14,729	691	4,259	5,410,380
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	3,394,490	7,296,870	1,988,631	7,368,552	–	92,048	–	19,318	–	3,711	20,163,620
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	1,474,979	3,040,103	403,712	827,472	–	15,676	–	19,318	–	3,711	5,784,971
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	1,165,648	1,405,188	60,483	521,991	–	–	–	10,318	–	–	3,163,628

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Individual Impairment				
As at 1 January	2,621,343	2,289,590	2,621,343	2,289,590
Charges/(reversals) for the year	1,116,072	526,932	1,116,072	526,932
Other movement	–	592,927	–	592,927
Amounts written off	(708,481)	(788,106)	(708,481)	(788,106)
As at 31 December	3,028,934	2,621,343	3,028,934	2,621,343
Collective Impairment				
As at 1 January	2,789,037	2,724,613	2,789,037	2,724,613
Charges/(reversals) for the year	277,097	150,673	277,097	150,673
Amounts written off	(55,796)	(86,249)	(55,796)	(86,249)
As at 31 December	3,010,338	2,789,037	3,010,338	2,789,037
Total	6,039,272	5,410,380	6,039,272	5,410,380

25.6 Leasing and Hire Purchases

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Gross lease and hire purchase rental receivables	16,484,743	19,305,434
Less: Unearned income	650,439	1,613,244
Total lease and hire purchase rental receivables	15,834,304	17,692,190
Less: Allowance for impairment charges [Note 25.6.(a)]	195,614	242,760
Total	15,638,690	17,449,430

25.6 (a) Allowance for Impairment Charges

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
As at 1 January	242,760	149,383
Charges/(reversals) for the year	7,171	74,110
Other movement	–	19,267
Amounts written off	(54,317)	–
As at 31 December [Note 25.6 (b)]	195,614	242,760
Individual impairment	10,944	15,676
Collective impairment	184,670	227,084
Total	195,614	242,760
Gross amount of loans individually determined to be impaired, before deduction of the individually assessed impairment allowance	195,571	92,048
Gross amount of loans individually impaired, before deduction of the individually assessed impairment allowance	16,472	15,676
Gross amount of loans individually impaired, after deduction of the individually assessed impairment allowance	5,528	–

25.6 (b) Movements in Individual and Collective Impairment Provision during the year for Lease & Hire Purchase Rentals Receivables

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Individual Impairment		
As at 1 January	15,676	1,085
Charges/(reversals) for the year	(4,732)	(4,676)
Other movement	–	19,267
As at 31 December	10,944	15,676
Collective Impairment		
As at 1 January	227,084	148,298
Charge/(reversals) for the year	11,903	78,786
Amounts written off	(54,317)	–
As at 31 December	184,670	227,084
Total	195,614	242,760

25.7 Maturity of Leasing and Hire Purchases

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
25.7 (a) Gross Lease and Hire Purchase Rentals Receivables within One Year		
Total rental receivables	812,781	743,391
Less: Allowance for impairment charges	83,394	150,370
Interest in suspense	95,331	99,817
Unearned income	25,533	27,218
Net rentals receivables within one year	608,523	465,986
25.7 (b) Gross Lease and Hire Purchase Rentals Receivables after One Year		
Total rental receivables	15,784,593	18,709,351
Less: Allowance for impairment charges	112,220	92,390
Interest in suspense	17,300	47,491
Unearned income	624,906	1,586,026
Net rentals receivables after one year	15,030,167	16,983,444

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Development Bonds	22,183,671	21,298,039	22,183,671	21,298,039
Quoted debentures	–	–	1,689,506	1,538,395
Securities purchased under resale agreements	19,808,862	14,532,272	19,808,863	14,532,271
Investment in private equity fund	–	–	311,170	53,691
Less: Allowance for impairment of investments	–	–	96,617	53,691
Total	41,992,533	35,830,311	43,896,593	37,368,705

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 of the payment 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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Government Securities – treasury bills	7,865,451	12,981,321	7,865,451	12,981,321
Sri Lanka Government Securities – treasury bonds	22,122,394	13,936,379	22,122,394	13,936,379
Quoted ordinary shares	1,497,030	1,568,673	1,746,271	1,846,975
Non-quoted ordinary shares	15,145	15,145	165,143	200,145
Total	31,500,020	28,501,518	31,899,259	28,964,820

The majority of non-quoted ordinary shares 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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Government Securities – treasury bonds	891,918	1,044,602	891,918	1,044,602
Quoted Debentures	3,245,683	3,392,371	4,054,202	4,616,266
Total	4,137,601	4,436,973	4,946,120	5,660,868

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 fair value 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 2016.

	BANK		GROUP	
	2016	2015	2016	2015
	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.

	Corporate Status	2016		2015	
		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)			94,941		106,674
Total			2,115,850		2,104,117

30.1 Movement in the Allowance for Impairment of Investments

	2016	2015
	LKR '000	LKR '000
As at 1 January	106,674	106,674
Charge/(release) to Statement of Profit or Loss	(11,733)	–
As at 31 December	94,941	106,674

30.2 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)
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	824,917	32,417	122,840	(4,622)	302,072	(4,691)	267,534	109,367
2015								
Total assets	10,313,315	132,790	752,126	131,902	5,771,546	455,281	2,344,419	725,251
Total liabilities	484,384	20,837	115,294	23,677	76,452	122,081	68,478	57,565
Net assets	9,828,931	111,953	636,832	108,225	5,695,093	333,200	2,275,941	667,687
Gross income	2,099,313	116,178	374,743	92,269	617,716	176,507	323,483	398,417
Profits	1,151,020	16,873	169,315	15,474	495,601	18,183	277,282	158,292

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.

31.1 Bank

	Corporate Status	2016		2015	
		Percentage Holding %	Cost LKR '000	Percentage Holding %	Cost 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 as 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.

Investment properties are initially recognized at cost. Subsequent to the initial recognition, the investment properties are stated at fair values. The Bank and the Group engaged an External Independent Valuer, 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 building. 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

Investment properties are stated at fair value, which has been determined based on valuations performed by a Professional Valuer, A A M Fathihu, B.Sc. (Hons.), EMV, FIV Sri Lanka.

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 (2015 – 40%)
- Capitalize YP at 16% (2015 – 16%)

	Group	
	2016	2015
	LKR '000	LKR '000
As at 1 January	1,672,000	1,545,693
Change in the fair value during the year	125,000	150,000
Less: Fair value of the owner-occupied portion	21,000	23,693
As at 31 December	1,776,000	1,672,000

Statement of Income and Expenditure of the Investment Property.

	2016	2015
	LKR '000	LKR '000
Rental income derived from investment properties	162,932	154,856
Direct operating expenses (including repair and maintenance) generating rental income	(28,857)	(24,009)
Direct operating expenses (including repair and maintenance) that did not generate rental income	(18,068)	(13,879)
Profit arising from investment properties carried at fair value	116,007	116,968

The Group has no restrictions on the realisability 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).

33. INTANGIBLE ASSETS

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

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the years ended 31 December 2016 and 2015 are given below:

Class of Assets	Period	% per Annum
Computer software	5 years	20

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.

33.1 Computer Software

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Cost				
As at 1 January	600,038	565,006	696,691	653,162
Additions during the year	217,525	35,032	220,285	43,529
Disposals during the year	–	–	(3,257)	–
Transfers/adjustments	(1,340)	–	(1,340)	–
As at 31 December	816,223	600,038	912,379	696,691
Depreciation/Amortization				
As at 1 January	451,025	365,352	513,166	409,570
Charge for the year	105,464	85,673	126,077	103,596
Disposals during the year	–	–	(3,257)	–
As at 31 December	556,489	451,025	635,986	513,166
Net book value as at 31 December (a)	259,734	149,013	276,393	183,525

33.2 Software Under Development

Cost	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January	91,221	53,478	91,221	53,478
Additions during the year	159,257	46,212	159,257	46,212
Transfers/adjustments	(142,129)	(8,469)	(142,129)	(8,469)
As at 31 December (b)	108,349	91,221	108,349	91,221
Net book value of total intangible assets (a) + (b)	368,083	240,234	384,742	274,746

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 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, 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.

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 2014. 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 capitalisation. 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 2016 and 2015, 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

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 2015	431,500	949,526	265,159	673,634	185,105	607,464	19,052	3,131,440
Additions during the year	–	12,864	42,794	169,773	98,901	83,285	105,929	513,546
Disposals during the year	–	–	–	(10,791)	(30,689)	(2,708)	–	(44,188)
Transfers/adjustments	–	–	–	–	–	–	(114,831)	(114,831)
As at 31 December 2015	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
(b) Depreciation/Amortization								
As at 1 January 2015	–	14,041	188,609	458,347	126,812	416,135	–	1,203,944
Charge for the year	–	35,118	34,887	96,539	40,939	77,261	–	284,744
On disposals	–	–	–	(10,769)	(19,250)	(2,707)	–	(32,726)
As at 31 December 2015	–	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
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
Net book value as at 31 December 2015	431,500	913,231	84,457	288,499	104,816	197,352	10,150	2,030,005

34.2 Details of Revalued Freehold Land and Buildings – Bank

Location	Extent (Perches)	Revaluation of Land LKR '000	Buildings (Square Feet)	Revaluation of Buildings LKR '000	Total Value LKR '000	Accumulated Depreciation LKR '000	Written Down Value LKR '000	As a % of Total Cost
Head Office No. 103A, Dharmapala Mawatha, Colombo 7	20	420,000	41,143	327,148	747,148	24,005	723,143	54.28
Head Office No. 40, Navam Mawatha, Colombo 02	1.43	11,500	95,343	665,283	676,783	67,563	609,220	45.72
	21.43	431,500	136,486	992,431	1,423,931	91,568	1,332,363	100.00

34.3 Freehold Land and Buildings on the 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:

Class of assets	2016			2015		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Freehold land	165,016	–	165,016	165,016	–	165,016
Freehold buildings	475,946	397,872	78,074	446,863	372,632	74,231
Total	640,962	397,872	243,090	611,879	372,632	239,247

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 2015	431,500	1,254,026	265,159	725,593	287,595	758,937	19,052	3,741,862
Additions during the year	–	12,864	42,794	174,885	109,092	94,209	105,929	539,773
Disposals during the year	–	(193)	–	(12,515)	(48,402)	(57,311)	–	(118,421)
Revaluation of owner occupied portion of freehold buildings	–	95,339	–	–	–	–	–	95,339
Transfers/adjustments	–	–	–	–	–	–	(114,831)	(114,831)
As at 31 December 2015	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
(b) Depreciation/Amortization								
As at 1 January 2015	–	34,449	188,609	499,576	176,405	590,176	–	1,489,215
Charge for the year	–	35,118	34,887	103,889	60,428	83,476	–	317,798
On disposals	–	(193)	–	(19,294)	(45,491)	(53,196)	–	(118,174)
As at 31 December 2015	–	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
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
Net book value as at 31 December 2015	431,500	1,292,662	84,457	303,792	156,943	175,379	10,150	2,454,883

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 2016, which are still in use as at 31 December 2016 are as follows:

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Freehold buildings	492	138	492	138
Leasehold building	179,360	138,826	179,360	138,826
Motor vehicles	93,036	64,561	93,535	64,895
Office equipment and furniture	381,587	276,214	432,842	327,958
Computer equipment	434,833	292,703	478,183	305,170
Computer software	394,591	207,372	457,033	211,650
Total	1,483,899	979,814	1,641,445	1,048,637

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Other financial assets (Note 35.1)	570,115	3,091	418,456	580,723
Other non-financial assets (Note 35.2)	1,578,269	1,424,274	1,673,988	1,440,335
Total	2,148,384	1,427,365	2,092,444	2,021,058

35.1 Other Financial Assets

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Dividend receivable from Group companies	548,496	–	–	–
Others	21,619	3,091	418,456	580,723
	570,115	3,091	418,456	580,723

35.2 Other Non-Financial Assets

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Sundry receivables	630,236	548,461	626,902	477,817
Deposits and prepayments	257,968	279,432	333,238	344,079
Unamortized staff cost (Note 35.3)	690,065	596,381	713,848	618,439
Total	1,578,269	1,424,274	1,673,988	1,440,335

35.3 Unamortized Staff Cost

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January	596,381	529,883	618,439	551,889
Add: Adjustment for new grants and settlements	175,162	140,769	177,255	147,360
Charged to personnel expenses	(81,478)	(74,271)	(81,846)	(80,810)
As at 31 December	690,065	596,381	713,848	618,439

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Borrowings from local banks	11,331,625	6,553,426	11,331,625	6,553,426
Borrowings from foreign banks	5,793,319	5,049,686	5,793,319	5,049,686
Unfavourable balances in Nostro accounts	–	16,891	–	16,891
Total	17,124,944	11,620,003	17,124,944	11,620,003

36.1 Due to Banks – By Currency

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Local currency	8,291,077	5,692,115	8,291,077	5,692,115
Foreign currency	8,833,867	5,927,888	8,833,867	5,927,888
Total	17,124,944	11,620,003	17,124,944	11,620,003

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Savings deposits	30,477,137	30,983,005	30,474,472	30,983,005
Time deposits	157,124,992	137,018,391	156,787,035	136,262,411
Demand deposits	15,838,949	16,384,842	15,828,852	16,359,872
Margin deposits	307,529	462,935	307,529	462,935
Other deposits	117,940	84,057	117,940	84,057
Total	203,866,547	184,933,230	203,515,828	184,152,280

37.2 Due to Other Customers – By Currency

	BANK				GROUP			
	2016		2015		2016		2015	
	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000	%
Local Currency Deposits								
Savings deposits	21,810,521	11	24,032,428	13	21,807,856	11	24,032,427	13
Time deposits	124,893,885	61	97,558,696	53	124,555,927	61	96,802,717	53
Demand deposits	12,170,167	6	11,770,327	6	12,160,071	6	11,745,357	6
Margin deposits	263,284	–	425,098	–	263,284	–	425,098	–
Other deposits	32,622	–	36,097	–	32,622	–	36,097	–
Sub total	159,170,479	78	133,822,646	72	158,819,760	78	133,041,696	72
Foreign Currency Deposits								
Savings deposits	8,666,616	4	6,950,576	4	8,666,616	4	6,950,576	4
Time deposits	32,231,107	16	39,459,695	21	32,231,107	16	39,459,695	21
Demand deposits	3,668,781	2	4,614,516	3	3,668,781	2	4,614,516	3
Margin deposits	44,245	–	37,837	–	44,245	–	37,837	–
Other deposits	85,319	–	47,960	–	85,319	–	47,960	–
Sub total	44,696,068	22	51,110,584	28	44,696,068	22	51,110,584	28
Total	203,866,547	100	184,933,230	100	203,515,828	100	184,152,280	100

37.3 Due to Other Customers – By Province

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Western Province	179,760,166	168,208,584	179,409,447	167,427,634
North-Western Province	5,597,539	3,595,126	5,597,539	3,595,126
Southern Province	4,030,982	3,481,097	4,030,982	3,481,097
Central Province	4,877,216	3,412,002	4,877,216	3,412,002
Sabaragamuwa Province	3,416,804	2,606,505	3,416,804	2,606,505
Northern Province	1,952,309	1,164,815	1,952,309	1,164,815
Eastern Province	1,518,806	992,615	1,518,806	992,615
North-Central Province	1,360,680	624,467	1,360,680	624,467
Uva Province	1,352,045	848,019	1,352,045	848,019
Total	203,866,547	184,933,230	203,515,828	184,152,280

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	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Concessionary credit lines	3,531,478	1,839,337	3,531,478	1,839,337
Refinance borrowings	3,618,396	3,208,678	3,618,396	3,208,678
Foreign borrowings	27,611,833	28,412,489	27,611,833	28,412,489
Securities sold under repurchase agreements	24,471,557	26,667,250	24,471,557	26,667,250
Non-quoted debentures – (Note 38.1)	–	400,090	–	370,090
Total	59,233,264	60,527,844	59,233,264	60,497,844

38.1 Non-Quoted Debentures

Non-quoted debentures consisted of 400,000 unlisted unsecured redeemable debentures of LKR 1,000/- each issued by the Bank in 2011. These debentures matured during the year and given below are the features of the non-quoted debentures:

	Interest Payable Frequency	Issue Date	Maturity Date	BANK		GROUP	
				2016	2015	2016	2015
				LKR '000	LKR '000	LKR '000	LKR '000
Floating Rate Debenture							
2011-2016 – 3 month TB rate (Gross) +1% p.a.	Quarterly	30.06.2011	30.06.2016	–	110,000	–	110,000
2011-2016 – 3 month TB rate (Gross) +1% p.a.	Quarterly	22.07.2011	30.06.2016	–	290,090	–	260,090
				–	400,090	–	370,090

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Deferred Tax Liabilities				
Accelerated depreciation for tax purposes	55,858	74,753	62,100	84,046
Revaluation surplus on freehold buildings	230,729	230,729	230,729	230,729
Finance leases	711,854	702,435	711,854	702,435
Gains on financial investments – available-for-sale	–	–	–	17,090
Total (a)	998,441	1,007,917	1,004,683	1,034,300
Deferred Tax Assets				
Defined benefit plans	92,739	70,791	107,667	82,895
Carry forward losses on leasing business	29,167	151,442	29,167	151,442
Losses on other operations	–	–	35,813	3,834
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	70,968	87,156	70,968
Allowance for impairment charges	–	298	–	298
Total (b)	206,650	305,539	259,803	321,477
Net deferred tax liability (a)-(b)	791,791	702,378	744,880	712,823

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	
	2016	2015	2016	2015	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Deferred Tax Liabilities								
Accelerated depreciation for tax purposes	(18,895)	(5,917)	(21,946)	69	–	–	–	–
Finance leases	9,419	249,398	9,419	249,398	–	–	–	–
Gains on financial investments – available-for-sale	–	–	–	–	–	(7,791)	(17,090)	(7,791)
Total	(9,476)	243,481	(12,527)	249,467	–	(7,791)	(17,090)	(7,791)
Deferred Tax Assets								
Defined benefit plans	(11,404)	(8,844)	(13,243)	(13,643)	(10,544)	7,325	(11,529)	7,325
Carry forward losses on leasing business	122,275	(86,513)	122,275	(86,513)	–	–	–	–
Losses on other operations	–	–	(31,979)	18,789	–	–	–	–
Deferred expenses to be claimed in income tax liability of future years	12,040	64	12,040	64	–	–	–	–
Losses on financial investments – available-for-sale	–	–	–	–	(13,776)	(70,968)	(16,187)	(70,968)
Allowance for impairment charges	298	6,157	298	6,157	–	–	–	–
Total	123,209	(89,136)	89,391	(75,146)	(24,320)	(63,643)	(27,716)	(63,643)
Net impact	113,733	154,345	76,864	174,321	(24,320)	(71,434)	(44,806)	(71,434)

40. EMPLOYEE BENEFIT LIABILITIES

ACCOUNTING POLICY

Employee benefit liabilities include the provisions made for retirement gratuity and the pension fund.

Retirement Gratuity

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January	252,825	247,011	297,152	301,219
Provision made during the year				
Statement of Profit or Loss [Note 40.1 (a)]	62,754	53,988	77,927	62,199
Other Comprehensive Income [Note 40.1 (a)]	37,658	(26,160)	44,037	(31,238)
Contribution made for retirement gratuity	100,412	27,828	121,964	30,961
Benefits paid by the plan	(22,026)	(22,014)	(24,450)	(35,028)
As at 31 December	331,211	252,825	394,666	297,152

40.1 (a) Contribution made for Retirement Gratuity

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Current service cost	35,575	31,757	50,256	36,259
Interest cost	27,179	22,231	27,671	25,940
Amount recognized in the Statement of Profit or Loss	62,754	53,988	77,927	62,199
Recognition of transitional liability/(asset)	–	–	–	(5,782)
Liability experience loss/(gain)	16,143	(7,337)	22,700	(1,969)
Liability loss/(gain) due to changes in assumptions	21,515	(18,823)	21,337	(23,487)
Amount recognized in the Other Comprehensive Income	37,658	(26,160)	44,037	(31,238)

40.1 (b) Assumptions and the Sensitivity of the Assumptions used for the Provision of Retirement Gratuity – Bank

An actuarial valuation of the retirement gratuity liability was carried out as at 31 December 2016 and 31 December 2015 by Messrs. Piya 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'.

	31 December 2016	31 December 2015
Actuarial Assumptions		
Discount rate	12.00%	10.75%
Salary increment rate	10%	8%
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

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			
		2016		2015	
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 LKR million	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability LKR million	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR million	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability LKR million
1		28.51	(28.51)	21.83	(21.83)
(-1)		(32.93)	32.93	(25.23)	25.23
	1	(32.27)	32.27	(24.92)	24.92
	(-1)	28.45	(28.45)	21.94	(21.94)

40.1 (c) The expected Benefit Payout in the future years for Retirement Gratuity

	BANK	
	2016	2015
	LKR '000	LKR '000
Within next 12 months	35,320	38,521
Between 2 and 5 years	206,889	188,656
Beyond 5 years	660,562	412,265

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 (2015 – 12.5 years).

40.2 Pension Fund

The amount recognized in the Statement of Financial Position is as follows:

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Present value of the funded obligation as at 31 December	678,741	616,578
Fair value of plan assets as at 31 December	(803,919)	(724,713)
Retirement Benefit (Asset)/Liability*	(125,178)	(108,135)

* The over payment is recognized as prepaid expenses in Other Assets.

40.2 (a) Contribution made to the Pension Fund

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Current service cost	20,604	19,613
Interest cost	(9,860)	(4,329)
Immediate recognition of loss arising during the year	6,183	–
Amount recognized in the Statement of Profit or Loss	16,927	15,284
Assets loss/(gain) arising during the year	17,149	20,985
Liability experience loss	22,698	38,908
Actuarial loss/(gain) due to changes in assumptions	(14,708)	(66,089)
Difference between the return on plan assets and interest income on plan assets	–	(19,443)
Effect of net assets recognition in the pension fund	10,354	(42,554)
Amount recognized in the Other Comprehensive Income	35,493	(68,193)

40.2 (b) Defined Benefit Obligation Reconciliation

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Defined Benefit Obligation as at 1 January	616,578	604,818
Current service cost	20,604	19,613
Increase in pension for current retirees	6,183	–
Interest cost	72,756	60,482
Actual benefits paid from plan	(45,370)	(41,154)
Actuarial (gain)/loss due to changes in assumptions	(14,708)	(66,089)
Actuarial (gain)/loss due to experience adjustments	22,698	38,908
Defined Benefit Obligation as at 31 December	678,741	616,578

40.2 (c) Fair Value of Plan Assets Reconciliation

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Fair value of plan assets as at 1 January	724,713	670,398
Expected return on assets	82,616	64,811
Actual employer contributions	59,109	51,643
Actual benefit paid from plan	(45,370)	(41,154)
Actuarial (loss)/gain from plan assets	(17,149)	(20,985)
Fair Value of plan assets as at 31 December	803,919	724,713

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 2016 and 31 December 2015 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	
	2016	2015
Actuarial Assumptions		
Discount rate	12.75%	11.80%
Salary increment	10%	8%
Annual return on assets rate	8.45%	6%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age	Normal retirement age

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			
		2016		2015	
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 LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability LKR million	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability LKR million
%	%				
1		51.81	(51.81)	50.29	(50.29)
(-1)		(59.59)	59.59	(58.24)	58.24
	1	(20.30)	20.30	(19.86)	19.86
	(-1)	19.14	(19.14)	18.60	(18.60)

	BANK			
	2016		2015	
Increase/(Decrease) in Life Expectancy	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability LKR million	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability LKR million
+1 Year	(6.94)	6.94	(6.79)	6.79
- 1 Year	7.25	(7.25)	7.08	(7.08)

The fair value of the total plan assets are as follows:

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Investments in Government Securities	627,662	35,000
Investment in Time Deposits	130,275	123,459
	757,937	158,459

40.2 (e) The Expected Benefit Payout from the Pension Fund in Future Years

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Within next 12 months	55,262	41,804
Between 2 and 5 years	231,692	210,926
Beyond 5 years	567,112	506,011

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 24 years as at 31 December 2016 (2015 – 24 years).

40.2 (f) The total amount recognized in the Other Comprehensive Income relating to Employee Benefit liabilities

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Retirement Gratuity [Note 40.1 (a)]	37,658	(26,160)	44,037	(31,238)
Pension Fund [Note 40.2 (a)]	35,493	(68,193)	35,493	(68,193)
Total	73,151	(94,353)	79,530	(99,431)

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Other financial liabilities (Note 41.1)	2,777,519	2,960,063	3,516,073	3,194,279
Other non-financial liabilities (Note 41.2)	4,907,478	4,760,746	4,415,092	4,741,460
Total	7,684,997	7,720,809	7,931,165	7,935,739

41.1 Other Financial Liabilities

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Unpresented cheques/pay orders	2,702,988	2,883,208	2,702,988	2,887,097
Unpresented cheques – Dividend Payable (Note 41.3)	49,933	60,014	49,933	60,014
Others	24,598	16,841	763,152	247,168
Total	2,777,519	2,960,063	3,516,073	3,194,279

41.2 Other Non-Financial Liabilities

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Accrued expenses	602,040	616,237	644,054	829,498
Provision for deposit insurance	55,269	42,416	55,269	42,416
Other liabilities	4,250,169	4,102,093	3,715,769	3,869,546
Total	4,907,478	4,760,746	4,415,092	4,741,460

41.3 Dividend Payable

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Balance as at 1 January	60,014	51,429
Final dividend declared for the prior year	660,669	660,376
Interim dividend declared for the current year	–	1,156,171
Reversal of dividends declared in prior years [Note 41.3 (a)]	(6,715)	(1,097)
Dividend paid	(664,035)	(1,806,865)
As at 31 December	49,933	60,014

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	
	2016	2015
	LKR '000	LKR '000
As at 1 January	19,573,883	11,149,439
Additions during the year	–	8,922,617
Redemptions during the year	(326,700)	(511,650)
Balance before adjusting for amortized interest	19,247,183	19,560,406
Net effect on amortized interest payable	199,318	13,477
As at 31 December (Note 42.1)	19,446,501	19,573,883

42.1 Subordinated Term Debts – by Products

42.1 (a) Term Loans

	Repayment Terms	Issued Date	Maturity Date	Rate of Interest %	BANK & GROUP	
					2016	2015
					LKR '000	LKR '000
Nederland's Financierings Maatschappij Voor Ontwikkelingslanden N.V. (FMO)						
FMO Loan II	Semi-Annually	18 Dec. 2007	15 Oct. 2017	Avg. (6 months AWDR, 6 months T Bill rate) + 3%	334,432	666,877
Total (a)					334,432	666,877

42.1 (b) Debentures

	Interest Payable Frequency	Issued Date	Maturity Date	Effective Annual Yield %	BANK & GROUP	
					2016	2015
					LKR '000	LKR '000
Fixed Rate Debenture Issuance – December 2013						
Type A – 13.0% – (60 Months)	Semi-Annually	19 Dec. 2013	18 Dec. 2018	12.79	1,239,726	1,238,493
Type B – 13.40% – (60 Months)	Annually	19 Dec. 2013	18 Dec. 2018	12.77	1,525,097	1,523,517
Type C – 13.90% – (120 Months)	Annually	19 Dec. 2013	18 Dec. 2023	13.17	3,623,167	3,621,915
Type D – 14.00% – (144 Months)	Annually	19 Dec. 2013	18 Dec. 2025	13.26	3,573,890	3,572,947
Total (b)					9,961,880	9,956,872
Fixed Rate Debenture Issuance – June 2015						
Type A – 9.40% – (60 Months)	Annually	24 Jun. 2015	24 Jun. 2020	9.19	6,967,467	6,958,142
Type B – Zero coupon – (60 Months)	9.40% Annual compounding on the Issue Price of Rs. 63.8136 payable on the Date of Redemption	24 Jun. 2015	24 Jun. 2020	9.18	2,182,722	1,991,992
Total (c)					9,150,189	8,950,134
Total subordinated term debts (a)+(b)+(c)					19,446,501	19,573,883
The maturity of the subordinated term debts are given below:						
Due within one year					334,432	340,177
Due after one year					19,112,069	19,233,706
					19,446,501	19,573,883

43. CAPITAL

	BANK				GROUP			
	Number of Shares	2016 LKR '000	Number of Shares	2015 LKR '000	Number of Shares	2016 LKR '000	Number of Shares	2015 LKR '000
Issued and fully paid	165,167,342	1,242,772	165,093,922	1,225,162	164,676,210	1,162,963	164,602,790	1,145,353
Adjustment on Equity Linked Compensation Plan	–	–	–	–	491,132	79,809	–	–
Issue of shares under the Equity Linked Compensation Plan [Note 43.2]	18,164	3,707	73,420	17,610	18,164	3,707	73,420	17,610
Total	165,185,506	1,246,479	165,167,342	1,242,772	165,185,506	1,246,479	164,676,210	1,162,963

	BANK & GROUP			
	Number of Shares	2016 LKR '000	Number of Shares	2015 LKR '000
43.1 Stated Capital	165,185,506	1,246,479	165,167,342	1,242,772

43.2 Issue of Shares under the Equity Linked Compensation Plan (ELCP)

The Bank obtained approval of the shareholders at an Extraordinary General Meeting held in April 2010, to enable the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. Accordingly, the ELCP 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.

43.2 (a) The details of the share grant and the share options made available to the relevant staff members are given below:

	BANK & GROUP	
	2016	2015
Share Grant		
Award 04 – (1 July 2013) – to be vested on 30 June 2016		
Number of ordinary shares awarded and to be vested	–	491,132
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	353,970	427,390
Number of ordinary shares exercised at a price of LKR 162.86	18,164	73,420
Number of ordinary shares to be exercised	335,806	353,970

	2016	2015
43.2 (b) Expense arising from ELCP recognized in the Statement of Profit or Loss	13,505	27,248

43.2 (c) The following tables list the inputs to the models used for the award 4 (option plan):

Expected volatility (%)	2
Risk-free interest rate (%)	7.50
Expected life of share options (years)	3
Exercise share price	162.86

43.2 (d) Number of shares issued to the eligible staff members during the year as per the ELCP is given below:

	BANK & GROUP			
	Number of Shares	2016 LKR '000	Number of Shares	2015 LKR '000
Award 04 – (1 July 2014)	18,164	3,707	73,420	17,610
	18,164	3,707	73,420	17,610

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	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
As at 1 January	1,242,772	1,010,785	1,242,772	1,010,785
Transferred from retained earnings (Note 45)	3,707	231,987	3,707	231,987
As at 31 December	1,246,479	1,242,772	1,246,479	1,242,772

45. RETAINED EARNINGS

	2016			2015		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
Bank						
As at 01 January	5,805,707	13,638,678	19,444,385	5,805,707	12,819,737	18,625,444
Super Gain Tax	–	–	–	–	(732,081)	(732,081)
Adjusted Opening Balance as at 1 January	5,805,707	13,638,678	19,444,385	5,805,707	12,087,656	17,893,363
Total comprehensive income for the year	–	3,107,664	3,107,664	–	3,598,459	3,598,459
Transferred to the Statutory Reserve Fund	–	(3,707)	(3,707)	–	(231,987)	(231,987)
Dividends to equity holders	–	(653,954)	(653,954)	–	(1,815,450)	(1,815,450)
As at 31 December	5,805,707	16,088,681	21,894,388	5,805,707	13,638,678	19,444,385

	2016			2015		
	General Reserve	Retained Earnings	Total	General Reserve	Retained Earnings	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Group						
As at 01 January	5,805,707	19,170,268	24,975,975	5,805,707	18,440,117	24,245,824
Super Gain Tax	–	–	–	–	(833,548)	(833,548)
Adjusted Opening Balance as at 1 January	5,805,707	19,170,268	24,975,975	5,805,707	17,606,569	23,412,276
Total comprehensive income for the year	–	2,628,118	2,628,118	–	3,644,798	3,644,798
Adjustment due to changes in group companies	–	–	–	–	(33,662)	(33,662)
Transferred to Statutory Reserve Fund	–	(3,707)	(3,707)	–	(231,987)	(231,987)
Dividends paid to equity holders	–	(653,954)	(653,954)	–	(1,815,450)	(1,815,450)
As at 31 December	5,805,707	21,140,725	26,946,432	5,805,707	19,170,268	24,975,975

46. OTHER RESERVES

Current 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

Previous Year 2015	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	853,456	95,339	948,795
Available-for-sale reserve (Note 46.2)	105,250	(312,527)	(207,277)	162,355	(301,914)	(139,559)
Share based payment reserve (Note 46.3)	20,243	(5,653)	14,590	60,148	20,950	81,098
Cash flow hedge reserve [Note 22.1 (b)]	397,852	(287,692)	110,160	397,852	(287,692)	110,160
Total	1,376,801	(605,872)	770,929	1,473,811	(473,317)	1,000,494

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	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
As at 1 January	853,456	853,456	948,795	853,456
Adjustment for revaluation of owner occupied portion of Investment Property	–	–	21,000	95,339
As at 31 December	853,456	853,456	969,795	948,795

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	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
As at 1 January	(207,277)	105,250	(139,559)	162,355
Net gains/(losses) on re-measuring financial investments – available-for-sale	(597,874)	(363,461)	(661,939)	(352,848)
Fair value gains/(losses) realized and reclassified to the Statement of Profit or Loss during the year	225,634	(27,825)	225,634	(27,825)
Tax effect on available-for-sale reserve	13,776	78,759	33,277	78,759
	(358,464)	(312,527)	(403,028)	(301,914)
As at 31 December	(565,741)	(207,277)	(542,587)	(139,559)

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 (Refer Note 43.2).

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
As at 01 January	14,590	20,243	81,098	60,148
Adjustments	–	–	(66,508)	26,603
Capitalisation of the fair value of the options exercised	(749)	(5,653)	(749)	(5,653)
As at 31 December	13,841	14,590	13,841	81,098

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	
	2016	2015
	LKR '000	LKR '000
Balance as at 1 January	1,018,513	922,646
Super gain tax	–	(21,123)
Adjusted opening balance as at 1 January	1,018,513	901,523
Profit for the year	123,945	128,055
Other comprehensive income, net of tax	2,432	5,573
Adjustment due to changes in group companies	(17,976)	24,645
Dividends to equity holders	(50,205)	(41,283)
Balance as at 31 December	1,076,709	1,018,513

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

As at December 31	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Contingencies				
Guarantees	19,693,607	18,270,312	19,693,607	17,435,312
Performance Bonds	10,022,804	8,614,302	10,022,804	8,614,302
Documentary Credits	8,406,120	8,132,261	8,406,120	8,132,261
Other Contingencies [Refer Note 48 .1 (a)]	85,262,702	92,081,612	85,262,702	92,081,612
Commitments				
Undrawn commitments	110,835,816	110,649,926	111,745,240	112,326,086
Total	234,221,049	237,748,413	235,130,473	238,589,573

48.1 (a) Other Contingencies

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Forward Exchange Contracts	72,365,808	79,090,652	72,365,808	79,090,652
Interest Rate Swap Agreements	5,576,250	5,370,000	5,576,250	5,370,000
Acceptances	7,320,644	7,620,960	7,320,644	7,620,960
Sub total	85,262,702	92,081,612	85,262,702	92,081,612

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	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Commitments in relation to Property, Plant & Equipment				
Approved and contracted for	–	64,680	–	64,680
Approved and not contracted for	105,160	144,620	105,160	144,620
Sub total	105,160	209,300	105,160	209,300
Commitments in relation to intangible assets				
Approved and contracted for	127,570	103,300	127,570	103,300
Total	232,730	312,600	232,730	312,600

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-three 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/group companies have 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 determination.
2. The assessment on Income Tax received by the Bank for the Year of Assessment 2012/2013 amounting to LKR 321.6 million is to be determined by the Commissioner General of Inland Revenue. The Income Tax Assessment for the Year of Assessment 2013/2014 amounting to LKR 487.8 million is pending hearing by the Appeal Unit of the Department of Inland Revenue.
3. 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 are pending determination by the Commissioner General of Inland Revenue. The Company has taken up the position that it is not in the business of provision of loans, as charged in the assessments.
4. The Income Tax assessment received by NDB Capital Holdings Ltd. for the Year of Assessment 2013/2014 amounting to LKR 80.1 million is pending hearing by the Appeal Unit 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	
	2016	2015	2016	2015
Amount used as the Numerator:				
Total equity attributable to equity holders of the Bank (LKR '000)	24,745,050	22,700,858	29,936,587	28,382,204
Number of Ordinary Shares used as the Denominator:				
Total number of shares	165,185,506	165,167,342	165,185,506	164,676,210
Net Assets value per share (LKR)	149.80	137.44	181.23	172.35

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 2016	BANK		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total 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

As at 31 December 2016	GROUP		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total 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

The Bank classified LKR 18 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.

However, the Bank obtained a formal waiver letter for one of the credit facilities (LKR 16 billion) subsequent to the reporting date. The Bank is in the process of obtaining formal waivers for the other two credit facilities.

As at 31 December 2015

	BANK		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	11,821,503	–	11,821,503
Balances with the Central Bank of Sri Lanka	6,805,961	193,937	6,999,898
Placements with banks	1,153,619	–	1,153,619
Derivative financial instruments	1,903,573	–	1,903,573
Financial assets held-for-trading	2,985,262	–	2,985,262
Loans and receivables to banks	64,397	38,235	102,632
Loans and receivables to other customers	121,569,050	88,033,019	209,602,069
Financial investments – loans and receivables	35,830,311	–	35,830,311
Financial investments – available-for-sale	28,501,518	–	28,501,518
Financial investments – held-to-maturity	1,388,981	3,047,992	4,436,973
Investments – held-for-sale	18,526	–	18,526
Investments in subsidiary companies	–	2,104,117	2,104,117
Intangible assets	–	240,234	240,234
Property, plant & equipment	–	2,030,005	2,030,005
Other assets	705,770	721,595	1,427,365
Total Assets	212,748,471	96,409,134	309,157,605
Liabilities			
Due to banks	11,620,003	–	11,620,003
Derivative financial instruments	639,272	–	639,272
Due to other customers	179,809,515	5,123,715	184,933,230
Debt securities issued and other borrowed funds	30,367,708	30,160,136	60,527,844
Tax liabilities	76,923	409,580	486,503
Deferred tax liabilities	–	702,378	702,378
Employee benefit liabilities	38,521	214,304	252,825
Other liabilities	5,190,512	2,530,297	7,720,809
Subordinated term debts	340,177	19,233,706	19,573,883
Total Liabilities	228,082,631	58,374,116	286,456,747
Net	(15,334,160)	38,035,018	22,700,858

As at 31 December 2015	GROUP		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	11,848,575	–	11,848,575
Balances with the Central Bank of Sri Lanka	6,805,961	193,937	6,999,898
Placements with banks	1,153,619	–	1,153,619
Derivative financial instruments	1,903,573	–	1,903,573
Financial assets held-for-trading	5,229,493	–	5,229,493
Loans and receivables to banks	64,397	38,235	102,632
Loans and receivables to other customers	121,561,396	88,104,165	209,665,561
Financial investments – loans and receivables	35,875,665	1,493,040	37,368,705
Financial investments – available-for-sale	28,964,820	–	28,964,820
Financial investments – held-to-maturity	1,874,998	3,785,870	5,660,868
Investments – held-for-sale	33,302	–	33,302
Investment Property	–	1,672,000	1,672,000
Intangible assets	–	274,746	274,746
Property, plant & equipment	–	2,454,883	2,454,883
Other assets	1,299,463	721,595	2,021,058
Total Assets	216,615,262	98,738,471	315,353,733
Liabilities			
Due to banks	11,620,003	–	11,620,003
Derivative financial instruments	639,272	–	639,272
Due to other customers	179,028,565	5,123,715	184,152,280
Debt securities issued and other borrowed funds	30,337,708	30,160,136	60,497,844
Tax liabilities	114,440	409,580	524,020
Deferred tax liabilities	–	712,823	712,823
Employee benefit liabilities	38,521	258,631	297,152
Other liabilities	5,405,442	2,530,297	7,935,739
Subordinated term debts	340,177	19,233,706	19,573,883
Total Liabilities	227,524,128	58,428,888	285,953,016
Net	(10,908,866)	40,309,583	29,400,717

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 about 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
- Others

Income taxes are managed on a group basis and are not allocated to operating segments. Interest income is reported net, as management primarily relies on net interest revenue as a performance measure, not the gross income and expense. 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 2016 or 2015.

For the period ended 31 December	Banking		Capital Markets		Property Investment		Others		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Revenue										
Interest Income	28,618,247	21,167,848	311,260	242,615	–	–	–	–	28,929,507	21,410,463
Fee and Commission Income	2,253,226	2,016,260	388,337	858,034	131,377	124,355	124,797	116,178	2,897,737	3,114,827
Net gains/(losses) from trading	982,123	1,088,464	–	–	–	–	–	–	982,123	1,088,464
Net gains/(losses) from financial investments	211,370	262,048	229,378	231,691	–	–	–	–	440,748	493,739
Other operating Income	234,877	425,767	112,419	192,813	104,000	126,307	–	–	451,296	744,887
Total revenue from external customers	32,299,843	24,960,387	1,041,394	1,525,153	235,377	250,662	124,797	116,178	33,701,411	26,852,380
Inter-segment revenue	–	–	15,176	14,406	60,318	49,077	–	–	75,494	63,483
Total Revenue	32,299,843	24,960,387	1,056,570	1,539,559	295,695	299,739	124,797	116,178	33,776,905	26,915,863
Impairment for loans and receivables and other losses	(1,378,686)	(711,833)	(45,887)	(34,312)	–	–	–	–	(1,424,573)	(746,145)
Segment expenses	(26,548,680)	(19,576,116)	(608,339)	(767,152)	(11,834)	(13,147)	(89,933)	(98,020)	(27,258,786)	(20,454,435)
Total segment expenses	(27,927,366)	(20,287,949)	(654,226)	(801,464)	(11,834)	(13,147)	(89,933)	(98,020)	(28,683,359)	(21,200,580)
Segment results	4,372,477	4,672,438	402,344	738,095	283,861	286,592	34,864	18,158	5,093,546	5,715,283
Share of associate companies' profit before taxation	–	–	–	–	–	–	–	77,818	–	77,818
Taxation									(1,230,587)	(1,212,564)
Tax on financial services									(1,048,000)	(910,442)
Profit after taxation									2,814,959	3,670,095
Other information										
Segment assets	333,992,991	308,629,425	4,688,678	4,800,410	1,953,451	1,821,766	63,346	68,830	340,698,466	315,320,431
Investments – Held-for-sale	–	–	–	–	–	–	33,302	33,302	33,302	33,302
Consolidated total assets									340,731,768	315,353,733
Segment liabilities	309,441,098	285,603,172	205,827	280,623	69,243	62,745	2,304	6,476	309,718,472	285,953,016
Consolidated total liabilities									309,718,472	285,953,016
Segmental Cash flows										
Cash flows from operating activities	3,569,590	3,273,773	295,225	276,036	66,436	42,198	95,576	(38,401)	4,026,827	3,553,606
Cash flows from investing activities	(7,343,549)	(5,761,439)	(48,941)	22,087	(13,445)	17,760	22,410	(5,396)	(7,383,525)	(5,726,988)
Cash flows from financing activities	3,669,402	9,565,397	8,760	56,026	(45,977)	(97,310)	(8,760)	33,075	3,623,425	9,557,188

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 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 (Resigned w.e.f. 31 October 2016) and the Group Chief Financial Officer.

KMP of the Group

The Bank is the ultimate parent of the subsidiaries listed out on page 296. 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 (Resigned w.e.f. 31 October 2016) and the Group Chief Financial Officer represent the KMP of the Group.

52.3 (a) Compensation to KMP

	2016	2015
	LKR '000	LKR '000
Short-term employee benefits	81,714	81,819
Directors' emoluments	29,330	27,905
Post-employment benefits (defined benefit plans)	32,099	7,086
Share-based payments [Note 52.3 (b)]	10,041	–
	153,184	116,810

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 KMP in line with the approved benefit plan of the Bank.

52.3 (b) Share-based payments

	Number of Shares	
	2016	2015
Share Grant		
Award 04 – (1 July 2013)		
Shares awarded and to be vested	–	23,452
Shares awarded and vested	64,363	–

Share Option

Share option held by KMP under the Equity-Linked Compensation Plan (ELCP) to purchase ordinary shares have the following expiry date and exercise price.

	Issue date	Expiry date	Exercise price	Number of Shares	
				2016	2015
Award 04	01.07.2013	30.06.2017	162.86		
Shares allocated and outstanding				46,424	23,452

52.3 (c) KMP and their Close Family Members had the following related party transactions during the year:

	Limit		Outstanding Balance		Average Balance	
	2016	2015	2016	2015	2016	2015
	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	9,890	6,059	9,280	4,795	10,394	3,595
	9,890	6,059	9,280	4,795	10,394	3,595
Liabilities						
Due to other customers			35,620	280,535	270,548	247,825
Debt securities issued and other borrowed funds			–	52,432	34,099	105,657
			35,620	332,967	304,647	353,482

	During the Year	
	2016	2015
	LKR '000	LKR '000
Items in the Statement of Profit or Loss excluding compensation to KMP		
Interest income	284	114
Interest expenses	26,055	24,718
Fee and commission income	77	103
Dividends paid	16,020	44,060

Share investments in the Bank, by the KMP and their Close Family Members are given below:

	Number Outstanding	
	2016	2015
Investments in Ordinary shares (including the shares held in the slash account)	4,037,862	4,004,974

52.3 (d) Transactions involving entities which are controlled/ jointly controlled by the KMP and their Close Family Members.

	Outstanding Balance		Average Balance	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Items in the Statement of Financial Position				
Assets				
Loans and receivables to other customers	1	1	1,357	173
	1	1	1,357	173
Liabilities				
Due to other customers	8,339	13,436	13,070	51,657
Debt securities issued and other borrowed funds	8,004	120,000	25,381	47,426
	16,343	133,436	38,451	99,083

	During the Year	
	2016	2015
	LKR '000	LKR '000
Items in the Statement of Profit or Loss		
Interest income	349	75
Interest expenses	1,886	3,323
Fee and commission income	254	225
Other expenses	74,154	83,137
Dividends paid	44,179	121,486

Share investments in the Bank by the entities which are controlled/ jointly controlled by the KMP and their Close Family Members are given below:

	Number Outstanding	
	2016	2015
Investments in ordinary shares	11,109,898	11,044,177

52.4 Transactions with the Government of Sri Lanka and its Related Entities

The Bank and the Group enter into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities.

52.4 (a) The financial dealings carried out with the Government of Sri Lanka and its related entities for the year and as of the date of the Statement of Financial Position are disclosed on a collective basis as follows:

	Outstanding Balance		Average Balance	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Items in the Statement of Financial Position				
Assets				
Loans and receivables	8,007,819	4,758,986	6,877,562	4,209,193
	8,007,819	4,758,986	6,877,562	4,209,193
Liabilities				
Due to other customers	2,452,554	6,678,149	6,561,402	4,569,477
Debt securities issued and other borrowed funds	16,179,664	20,305,950	17,369,838	12,478,110
	18,632,218	26,984,099	23,931,240	17,047,587
Commitments and Contingencies				
Guarantees and letters of credit	126,269	104,891	97,605	128,339
Forward exchange contracts	3,264,944	1,726,600	2,498,491	2,298,467
Commitments	2,329,674	2,561,921	3,697,443	3,803,151
	5,720,887	4,393,412	6,293,539	6,229,957

	During the Year	
	2016	2015
	LKR '000	LKR '000
Items in the Statement of Profit or Loss		
Interest income	1,837,033	1,393,786
Interest expenses	1,975,966	1,064,600
Fee and commission income	108,268	2,580
Net gains/(losses) from trading	814	541
Dividends paid	225,062	616,159

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:

- 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 assessments 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 individually significant transactions for the year ended 31 December 2016 are as follows:

52.4 (c) (i) The Bank raised USD 75 million on 21 July 2014 through foreign borrowings for a period of 7 years, against which a SWAP arrangement was entered into with the Central Bank of Sri Lanka for 50% of the borrowing value. The SWAP arrangement will be renewed annually over the tenor of the borrowing.

52.4 (c) (ii) The Bank has approved a term loan facility of LKR 8,353 million to the Road Development Authority which is Guaranteed by the Government Treasury of Sri Lanka and the total outstanding balance of the facility as at the reporting date was LKR 8,045 million.

52.4 (c) (iii) The Bank utilized the approval given by the Central Bank of Sri Lanka for licensed commercial banks to borrow up to USD 50 million and the specific approval given to the National Development Bank PLC to borrow up to USD 250 million in excess of the 15% of the Bank's capital by direction dated 17 April 2013, circular Ref 2/19/150/0104/001. Accordingly the Bank raised a total of USD 299 million during 2014 and 2015, and the balance outstanding as at 31 December 2016 was USD 182.23 million.

52.5 Transactions with Related Entities

52.5 (a) The Bank had the undermentioned financial dealings during the year and as of the date of the Statement of Financial Position, with the Subsidiaries and Associates of the Bank as follows:

	Subsidiaries of the Bank*					Associates of the Bank*			
	Limit	Outstanding Balance		Average Balance		Outstanding Balance		Average Balance	
	2016 LKR '000	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Items in the Statement of Financial Position									
Assets									
Loans and receivables to other customers	100,000	30,405	64	27,702	5,190	–	–	–	45,834
Financial assets held-for-trading		–	2,407,328	1,179,336	2,300,569	–	–	–	–
Other assets		551,952	705	183,925	413,511	–	–	–	–
Investments in subsidiary companies		2,115,850	2,104,117	2,119,447	2,066,707	–	–	–	–
Investments held-for-sale		–	–	–	–	18,526	18,526	18,526	18,526
Liabilities									
Due to other customers		335,458	783,638	381,292	794,363	–	–	–	–
Debt securities issued and other borrowed funds		2,301	30,000	4,325	31,309	–	–	–	–
Other liabilities		17	–	17	–	–	2,403	–	2,403
Commitments and Contingencies									
Guarantees	500,000	–	835,000	192,857	46,212	–	–	–	–

	During the Year		During the Year	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Items in the Statement of Profit or Loss				
Interest income	2,210	1,508	–	1,412
Interest expense	32,469	23,726	–	12
Fee and commission income	21,371	12,915	–	–
Net gains/(losses) from trading	619	208	–	–
Other operating income	981,893	894,925	–	164,397
Other expenses	28,503	69,158	–	–

The Bank's 99.89% owned subsidiary, NDB Capital Holdings Ltd. divested part of its 32% owned investment in Resus Energy PLC on 17 September 2015. Accordingly, the investment which was accounted as an Investment in Associates, was reclassified as 'Available-for-Sale' Investments on 30 September 2015. The transaction resulted in a capital gain of LKR 164 million to the Group during the year 2015.

* Refer Note 30 and note 31 for details of subsidiary and associate companies.

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.

	2016 LKR '000	2015 LKR '000
Due to other customers	18,864	53,930
Interest paid on deposits during the year	8,609	6,170
Contribution by the Bank	253,713	214,508

52.5 (c) NDB Wealth Management Ltd., a subsidiary of the Bank, had the undermentioned financial dealings with the NDB Provident Fund.

	2016 LKR '000	2015 LKR '000
Portfolio under management	1,847,828	1,705,719

52.5 (d) The Bank had the undermentioned financial dealings with the NDB Pension Fund during the year.

	2016 LKR '000	2015 LKR '000
Due to other customers	130,275	123,460
Interest paid on deposits during the year	20,345	11,131
Contribution by the Bank	59,109	51,643

53. EVENTS OCCURRING AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Non-Adjusting Events

- (a) On 21 February 2017, the Bank declared a final 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 per share for the financial year ended 31 December 2016. Out of the final dividend LKR 1.76 per share will be liable to a dividend tax at 10% and the balance LKR 6.24 per share will be paid out of dividend income.

Accordingly, the Stated Capital of the Bank will be increased to LKR 2,209 million (LKR 1,246 million as at 31 December 2016), as a result of the scrip dividends declared for the year ended 31 December 2016.

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	Note	BANK 2016 LKR '000	GROUP 2016 LKR '000	BANK 2015 LKR '000	GROUP 2015 LKR '000
Assets						
Other Non-Financial Assets – Group balances Receivable	Other Financial Assets	35.1	548,496	–	–	–
Freehold Buildings	Leasehold Buildings (net book value)	34	–	–	84,457	84,457
Liabilities						
Other Non-Financial Liabilities – Dividend payable	Other Financial Liabilities	41.1	49,933	49,933	60,014	60,014

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 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 the 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 freehold land and 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 values 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 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 foreign exchange contracts	–	401,670	–	401,670
Currency SWAP	–	–	1,142,620	1,142,620
Financial Assets – held-for-trading				
Sri Lanka Government securities – treasury bonds	832,694	–	–	832,694
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 foreign exchange contracts	–	474,439	–	474,439
Total Financial Liabilities	–	474,770	–	474,770

31 December 2015	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	–	1,912	–	1,912
Forward foreign exchange contracts	–	1,060,248	–	1,060,248
Currency SWAP	–	–	841,413	841,413
Financial Assets – Held-for-Trading				
Sri Lanka Government securities – treasury bills	969	–	–	969
Sri Lanka Government securities – treasury bonds	576,964	–	–	576,964
Investment in unit trusts	2,407,329	–	–	2,407,329
Financial Investments – Available-for-Sale				
Sri Lanka Government securities – treasury bills	12,981,321	–	–	12,981,321
Sri Lanka Government securities – treasury bonds	13,936,379	–	–	13,936,379
Quoted ordinary shares	1,568,673	–	–	1,568,673
Total Financial Assets	31,471,635	1,062,160	841,413	33,375,208
Non-Financial Assets				
Freehold land	–	–	431,500	431,500
Freehold buildings	–	–	913,231	913,231
Total Non-Financial Assets	–	–	1,344,731	1,344,731
Financial Liabilities				
Derivative Financial Instruments				
Currency options	–	1,912	–	1,912
Forward foreign exchange contracts	–	637,360	–	637,360
Total Financial Liabilities	–	639,272	–	639,272

31 December 2016

Financial Assets**Derivative Financial Instruments**

	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	Total LKR '000
Currency options	–	331	–	331
Forward foreign exchange contracts	–	401,670	–	401,670
Currency SWAP	–	–	1,142,620	1,142,620

Financial Assets – Held-for-Trading

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 foreign exchange contracts	–	474,439	–	474,439
Total Financial Liabilities	–	474,770	–	474,770

31 December 2015	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	–	1,912	–	1,912
Forward foreign exchange contracts	–	1,060,248	–	1,060,248
Currency SWAP	–	–	841,413	841,413
Financial Assets – Held-for-Trading				
Sri Lanka Government securities – treasury bills	969	–	–	969
Sri Lanka Government securities – treasury bonds	576,964	–	–	576,964
Equity securities	336,769	–	–	336,769
Investment in unit trusts	4,314,791	–	–	4,314,791
Financial Investments – Available-for-Sale				
Sri Lanka Government securities – treasury bills	12,981,321	–	–	12,981,321
Sri Lanka Government securities – treasury bonds	13,936,379	–	–	13,936,379
Quoted ordinary shares	1,846,975	–	–	1,846,975
Non-quoted ordinary shares	–	–	185,000	185,000
Total Financial Assets	33,994,168	1,062,160	1,026,413	36,082,741
Non-Financial Assets				
Freehold land	–	–	431,500	431,500
Freehold buildings	–	–	1,292,662	1,292,662
Investment property	–	–	1,672,000	1,672,000
Total Non-Financial Assets	–	–	3,396,162	3,396,162
Financial Liabilities				
Derivative Financial Instruments				
Currency options	–	1,912	–	1,912
Forward foreign exchange contracts	–	637,360	–	637,360
Total Financial Liabilities	–	639,272	–	639,272

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.

Included in		BANK				As at 31 December 2016
		As at 1 January 2016	Additions/ Disposals during the Year	Total Gains/(Losses) and Charges Recorded in the Statement of Profit or Loss	Total Gains/(Losses) Recorded in Other Comprehensive Income	
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAP [Note 22.1 (b)]	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

Included in		GROUP				As at 31 December 2016
		As at 1 January 2016	Additions/ Disposals during the Year	Total Gains/(Losses) and Charges Recorded in the Statement of Profit or Loss	Total Gains/(Losses) Recorded in Other Comprehensive Income	
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAP [Note 22.1 (b)]	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	185,000	–	–	(35,000)	150,000
		4,422,575	30,041	55,806	287,207	4,795,629

		BANK				
	Included in	As at 1 January 2015	Additions/ Disposals during the Year	Total Gains/(Losses) and Charges Recorded in the Statement of Profit or Loss	Total Gains/(Losses) Recorded in Other Comprehensive Income	As at 31 December 2015
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAP [Note 22.1 (b)]	Derivative financial instruments	994,028	(52,477)	–	(100,138)	841,413
Non-Financial Assets						
Freehold land	Property, plant & equipment	431,500	–	–	–	431,500
Freehold buildings (Note 34)	Property, plant & equipment	935,485	12,864	(35,118)	–	913,231
		2,361,013	(39,613)	(35,118)	(100,138)	2,186,144

		GROUP				
	Included in	As at 1 January 2015	Additions/ Disposals during the Year	Total Gains/(Losses) and Charges Recorded in the Statement of Profit or Loss	Total Gains/(Losses) Recorded in Other Comprehensive Income	As at 31 December 2015
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Currency SWAP [Note 22.1 (b)]	Derivative financial instruments	994,028	(52,477)	–	(100,138)	841,413
Non-Financial Assets						
Freehold land	Property, plant & equipment	431,500	–	–	–	431,500
Freehold buildings (Note 34)	Property, plant & equipment	1,219,577	12,864	(35,118)	95,339	1,292,662
Investment property	Investment property	1,545,693	–	126,307	–	1,672,000
Financial Assets						
Non-quoted ordinary shares	Financial investments - available-for-sale	185,000	–	–	–	185,000
		4,375,798	(39,613)	91,189	(4,799)	4,422,575

55 (c) Unobservable Inputs Used in Measuring the Fair Value of Financial and Non-Financial Instruments

The table below sets out information about significant unobservable inputs used as at 31 December 2016 and as at 31 December 2015 in measuring financial and non-financial instruments categorized as Level 3 in the fair value hierarchy:

Financial Assets

Type of Instrument	Fair Values as at 31 December 2016	Valuation Technique	BANK		
			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

	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
Navam 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

Financial Assets

Type of Instrument	Fair Values as at 31 December 2016	Valuation Technique	GROUP		
			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
Navam 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
Navam 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

Financial Assets

Type of Instrument	BANK				
	Fair Values as at 31 December 2015	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 841 million	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR – 6.3875	Positive impact to the fair value

Non-Financial Assets

Type of Instrument	BANK				
	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
Navam 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

Financial Assets

Type of Instrument	GROUP				
	Fair Values as at 31 December 2015	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 841 million	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR – 6.3875	Positive impact to the fair value

Non-Financial Assets

Type of Instrument	GROUP				
	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
Navam 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
Navam Mawatha					
Investment Property	LKR 2,000 million (Including the fair value of owner occupied portion of LKR 328 million)	Income approach	Rent per square feet	Rentable area at LKR 160/- Non-rentable area at LKR 95/-	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 and 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.

	Fair Value Classification	BANK			
		2016		2015	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets					
Cash and cash equivalents	Note 55 (e)	5,018,438	5,018,438	11,821,503	11,821,503
Balances with the Central Bank of Sri Lanka	Note 55 (e)	11,815,277	11,815,277	6,999,898	6,999,898
Placements with banks	Note 55 (e)	3,297,262	3,297,262	1,153,619	1,153,619
Loans and receivables to banks	Level 2	37,032	37,057	102,632	102,714
Loans and receivables to other customers	Level 2	227,639,844	220,811,236	209,602,069	210,444,878
Financial investments – loans and receivables	Level 2	41,992,533	40,387,126	35,830,311	35,792,766
Financial investments – held-to-maturity	Level 1	4,137,601	4,023,336	4,436,973	4,572,341
Other financial assets		570,115	570,115	3,091	3,091
Total Financial Assets		294,508,102	285,959,847	269,950,096	270,890,810
Financial Liabilities					
Due to banks	Note 55 (e)	17,124,944	17,124,944	11,620,003	11,620,003
Due to other customers	Level 2	203,866,547	203,956,688	184,933,230	184,889,633
Debt securities issued and other borrowed funds	Level 2	59,233,264	59,233,264	60,527,844	60,527,844
Subordinated term debts	Level 2	19,446,501	20,246,623	19,573,883	22,004,203
Other financial liabilities	Note 55 (e)	2,777,519	2,777,519	2,960,063	2,960,063
Total Financial Liabilities		302,448,775	303,339,038	279,615,023	282,001,746

	Fair Value Classification	GROUP			
		2016		2015	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets					
Cash and cash equivalents	Note 55 (e)	5,139,389	5,139,389	11,848,575	11,848,575
Balances with the Central Bank of Sri Lanka	Note 55 (e)	11,815,277	11,815,277	6,999,898	6,999,898
Placements with banks	Note 55 (e)	3,297,262	3,297,262	1,153,619	1,153,619
Loans and receivables to banks	Level 2	37,032	37,057	102,632	102,714
Loans and receivables to other customers	Level 2	227,679,939	220,842,442	209,665,561	210,522,603
Financial investments – loans and receivables	Level 2	43,896,593	41,823,570	37,368,705	37,390,608
Financial investments – held-to-maturity	Level 1	4,946,120	4,677,816	5,660,868	6,036,352
Other financial assets		418,456	418,455	580,723	580,723
Total Financial Assets		297,230,068	288,051,268	273,380,581	274,635,092
Financial Liabilities					
Due to banks	Note 55 (e)	17,124,944	17,124,944	11,620,003	11,620,003
Due to other customers	Level 2	203,515,828	203,612,311	184,152,280	185,671,700
Debt securities issued and other borrowed funds	Level 2	59,233,264	59,233,264	60,497,844	60,497,845
Subordinated term debts	Level 2	19,446,501	20,246,623	19,573,883	22,004,203
Other financial liabilities	Note 55 (e)	3,516,073	3,516,073	3,194,279	3,194,279
Total Financial Liabilities		302,836,610	303,733,215	279,038,289	282,988,030

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, 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 the 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 is 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 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 loan or receivable 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 for Impairment 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 loans and receivables (such as loan types, industry codes, and level of arrears).

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 follows:

- 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

56.1.1 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 2016	BANK								Total
	Neither Past due nor Impaired	Past Due but not Impaired						Individually Impaired	
		Less than 1 Month	1-3 Months	3-6 Months	6-12 Months	12-18 Months	More than 18 Months		
Assets	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
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 2015	BANK								Total
	Neither Past due nor Impaired	Past Due but not Impaired						Individually Impaired	
		Less than 1 Month	1-3 Months	3-6 Months	6-12 Months	12-18 Months	More than 18 Months		
Assets	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	11,821,503	–	–	–	–	–	–	–	11,821,503
Balances with the Central Bank of Sri Lanka	6,999,898	–	–	–	–	–	–	–	6,999,898
Placements with banks	1,153,619	–	–	–	–	–	–	–	1,153,619
Derivative financial instruments	1,903,573	–	–	–	–	–	–	–	1,903,573
Financial assets – held-for-trading	2,985,262	–	–	–	–	–	–	–	2,985,262
Loans and receivables to banks	102,632	–	–	–	–	–	–	–	102,632
Loans and receivables to other customers	141,839,265	29,933,996	20,445,024	3,421,651	2,574,338	1,382,527	6,841,640	3,163,628	209,602,069
Financial investments – Loans and receivables	35,830,311	–	–	–	–	–	–	–	35,830,311
Financial investments – available-for-sale	28,501,518	–	–	–	–	–	–	–	28,501,518
Financial investments – held-to-maturity	4,436,973	–	–	–	–	–	–	–	4,436,973
Other financial assets	3,091	–	–	–	–	–	–	–	3,091

As at 31 December 2016	GROUP								Individually Impaired	Total
	Neither Past due nor Impaired	Past Due but not Impaired								
		Less than 1 Month	1-3 Months	3-6 Months	6-12 Months	12-18 Months	More than 18 Months			
Assets	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
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	418,455	–	–	–	–	–	–	–	418,455	

As at 31 December 2015	GROUP								
	Neither Past due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		Less than 1 Month	1-3	3-6	6-12	12-18	More than 18 Months		
Assets	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	11,848,575	-	-	-	-	-	-	-	11,848,575
Balances with the Central Bank of Sri Lanka	6,999,898	-	-	-	-	-	-	-	6,999,898
Placements with banks	1,153,619	-	-	-	-	-	-	-	1,153,619
Derivative financial instruments	1,903,573	-	-	-	-	-	-	-	1,903,573
Financial assets – held-for-trading	5,229,493	-	-	-	-	-	-	-	5,229,493
Loans and receivables to banks	102,632	-	-	-	-	-	-	-	102,632
Loans and receivables to other customers	141,902,757	29,933,996	20,445,024	3,421,651	2,574,338	1,382,527	6,841,640	3,163,628	209,665,561
Financial investments – loans and receivables	37,368,705	-	-	-	-	-	-	-	37,368,705
Financial investments – available-for-sale	28,964,820	-	-	-	-	-	-	-	28,964,820
Financial investments – held-to-maturity	5,660,868	-	-	-	-	-	-	-	5,660,868
Other financial assets	580,723	-	-	-	-	-	-	-	580,723

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:

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

As at 31 December 2015	BANK	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	LKR '000	LKR '000
Balances with the Central Bank of Sri Lanka	6,999,898	6,999,898
Placements with banks	1,153,619	1,153,619
Derivative financial instruments	1,903,573	1,903,573
Financial assets held-for-trading	2,985,262	2,985,262
Loans and receivables to banks	102,632	102,632
Loans and Receivables to other customers (Net)		
Corporate lending	120,646,375	62,367,197
Branch lending	29,778,809	8,450,093
Consumer lending	47,852,802	35,961,558
Residential mortgages	8,758,937	–
Others	2,565,146	1,539,260
	209,602,069	108,318,108
Financial investments – loans and receivables	35,830,311	21,298,039
Financial investments – available-for-sale	28,501,518	28,501,518
Financial investments – held-to-maturity	4,436,973	4,436,973
Other financial assets	3,091	3,091

As at 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	418,455	418,455

As at 31 December 2015	GROUP	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	LKR '000	LKR '000
Balances with the Central Bank of Sri Lanka	6,999,898	6,999,898
Placements with banks	1,153,619	1,153,619
Derivative financial instruments	1,903,573	1,903,573
Financial assets held-for-trading	5,229,493	5,229,493
Loans and receivables to banks	102,632	102,632
Loans and Receivables to other customers (Net)		
Corporate lending	120,646,375	62,367,197
Branch lending	29,778,809	8,450,093
Consumer lending	47,852,802	35,961,558
Residential mortgages	8,758,937	–
Others	2,628,638	1,602,752
	209,665,561	108,381,600
Financial investments – loans and receivables	37,368,705	22,836,434
Financial investments – available-for-sale	28,964,820	28,964,820
Financial investments – held-to-maturity	5,660,868	5,660,868
Other financial assets	580,723	580,723

56.1 (c) Concentrations of Credit Risk

Concentration by Sector

The Bank and the Group monitor concentration of credit risk by sector. An analysis of risk concentration by industry for the financial assets is given below:

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
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, and loans and advances given to the Government related institutions.

As at 31 December 2015	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
Cash and cash equivalents	–	–	–	–	–	11,821,503	–	–	–	11,821,503
Balances with the Central Bank of Sri Lanka	–	–	–	–	–	–	–	6,999,898	–	6,999,898
Placements with banks	–	–	–	–	–	1,153,619	–	–	–	1,153,619
Derivative financial instruments	–	–	–	–	–	1,903,573	–	–	–	1,903,573
Financial assets – held-for-trading	–	–	–	–	–	2,407,328	–	577,934	–	2,985,262
Loans and receivables to banks	–	–	–	–	–	102,632	–	–	–	102,632
Loans and receivables to other customers (net)	24,612,175	7,670,692	20,106,766	12,980,130	40,138,496	33,811,736	24,027,169	10,958,294	35,296,611	209,602,069
Financial investments – loans and receivables	–	–	–	–	–	–	–	35,830,311	–	35,830,311
Financial investments – available-for-sale	–	–	–	–	–	1,483,458	–	26,917,700	100,360	28,501,518
Financial investments – held-to-maturity	–	797,980	196,000	–	–	1,328,650	–	1,044,602	1,069,741	4,436,973
Other financial assets	–	–	–	–	–	–	–	–	3,091	3,091

*Government refers to the investments held with the Central Bank of Sri Lanka, and loans and advances given to the Government related institutions.

As at 31 December 2016	GROUP									Total
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
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 the Central Bank of Sri Lanka, and loans and advances given to the Government related institutions.

As at 31 December 2015	GROUP									Total
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Cash and cash equivalents	–	–	–	–	–	11,821,503	–	–	–	11,848,575
Balances with the Central Bank of Sri Lanka	–	–	–	–	–	–	–	6,999,898	–	6,999,898
Placements with banks	–	–	–	–	–	1,153,619	–	–	–	1,153,619
Derivative financial instruments	–	–	–	–	–	1,903,573	–	–	–	1,903,573
Financial assets – held-for-trading	–	6,794	55,527	2,910	–	2,671,240	1,775	577,933	1,913,314	5,229,493
Loans and receivables to banks	–	–	–	–	–	102,632	–	–	–	102,632
Loans and receivables to other customers (net)	24,612,175	7,670,692	20,106,766	12,980,130	40,138,496	33,811,736	24,027,169	10,958,294	35,360,103	209,665,561
Financial investments – loans and receivables	–	–	83,221	–	–	857,045	–	35,830,311	598,128	37,368,705
Financial investments – available-for-sale	–	–	–	–	–	1,483,458	–	26,917,700	563,662	28,964,820
Financial investments – held-to-maturity	–	797,980	528,940	–	–	1,976,197	–	1,044,602	1,313,149	5,660,868
Other financial assets	–	–	–	–	–	–	–	–	580,723	580,723

*Government refers to the investments held with the Central Bank of Sri Lanka, and loans and advances given to the Government related institutions.

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 financial commitments and contingencies is the maximum amount the Bank has to pay if the commitments and contingencies are called upon.

	BANK	
	2016	2015
	LKR '000	LKR '000
Guarantees and bonds	26,846,635	21,862,258
Shipping guarantees	2,232,165	4,058,389
Advance documents endorsed	637,612	963,966
Documentary credit	8,406,120	8,132,261
Acceptances	7,320,644	7,620,960
Undrawn overdrafts and credit cards	12,913,230	14,836,720
Commitments	97,922,585	95,813,207
Forward foreign exchange contracts	77,942,058	84,460,652
Total	234,221,049	237,748,413

	GROUP	
	2016	2015
	LKR '000	LKR '000
Guarantees and bonds	26,846,634	21,027,258
Shipping guarantees	2,232,165	4,058,389
Advance documents endorsed	637,612	963,966
Documentary credit	8,406,120	8,132,261
Acceptances	7,320,644	7,620,960
Undrawn overdrafts and credit cards	12,847,706	14,836,720
Commitments	98,897,534	97,489,367
Forward foreign exchange contracts	77,942,058	84,460,652
Total	235,130,473	238,589,573

56.1 (e) Offsetting of Financial Assets and 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 has 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 and 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	2016			2015		
	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	53,503,255	27,658,204	25,845,051	40,846,345	19,423,046	21,423,299
Financial Liabilities						
Securities sold under repurchase agreements	24,471,554	25,842,249	–	26,667,251	27,949,792	–

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. Guided by these policies and Regulatory Directions; the 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 is 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 Sri Lanka Government Securities (Treasury Bills and 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

	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
HFT portfolio	814,034	+100/(100)	(2,293)/2,336	(2,293)/2,336

	2015			
	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
HFT Portfolio	560,908	+100/(100)	(7,223)/7,377	(7,223)/7,377

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 (AFS) – Fixed Income Securities

	2016			
	Portfolio Size	Increase/Decrease in Basis Points	Sensitivity on Bank	Sensitivity on Group
	LKR '000		LKR '000	LKR '000
AFS Portfolio	30,528,207	+100/(100)	(416,841)/439,301	(416,841)/439,301

	2015			
	Portfolio Size	Increase/Decrease in Basis Points	Sensitivity on Bank	Sensitivity on Group
	LKR '000		LKR '000	LKR '000
AFS Portfolio	26,997,647	+100/(100)	(271,157)/281,080	(271,157)/281,080

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 December 2016.

56.2 (c) Interest Rates Sensitivity Analysis

The table below analyse the Bank's and the Group's interest rate risk exposure on financial assets and liabilities as at 31 December 2016:

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 investments – loans and receivables	312,871	22,804,862	2,247,000	16,627,800	–	–	41,992,533
Financial investments – available-for-sale	29,987,845	–	–	–	–	1,512,175	31,500,020
Financial investments – held-to-maturity	166,538	–	583,923	3,387,140	–	–	4,137,601
Other financial assets	570,115	–	–	–	–	–	570,115
Total financial assets	79,659,058	79,461,577	31,619,250	96,991,427	20,763,614	18,345,890	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	18,816,221	(36,348,046)	(34,540,651)	66,249,052	8,133,993	2,081,472	24,392,041

As at 31 December 2015	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	–	–	–	–	–	11,821,503	11,821,503
Balances with the Central Bank of Sri Lanka	–	–	–	–	–	6,999,898	6,999,898
Placements with banks	1,619	1,152,000	–	–	–	–	1,153,619
Financial assets held-for-trading	2,985,262	–	–	–	–	–	2,985,262
Loans and receivables to banks	3,468	40,169	20,759	38,236	–	–	102,632
Loans and receivables to other customers	33,178,037	61,409,854	26,981,158	66,305,161	21,727,859	–	209,602,069
Financial investments – loans and receivables	274,039	29,220,272	6,336,000	–	–	–	35,830,311
Financial investments – available-for-sale	26,917,700	–	–	–	–	1,583,818	28,501,518
Financial investments – held-to-maturity	145,760	–	1,243,220	3,047,993	–	–	4,436,973
Other financial assets	3,091	–	–	–	–	–	3,091
Total financial assets	63,508,976	91,822,295	34,581,137	69,391,390	21,727,859	20,405,219	301,436,876
Liabilities							
Due to banks	49,366	11,127,600	443,037	–	–	–	11,620,003
Due to other customers	34,765,742	72,410,382	55,701,557	3,917,124	1,206,591	16,931,834	184,933,230
Debt securities issued and other borrowed funds	658,116	25,924,483	3,785,111	23,656,543	6,503,591	–	60,527,844
Subordinated term debts	13,477	–	326,700	11,977,336	7,256,370	–	19,573,883
Other financial liabilities	2,960,063	–	–	–	–	–	2,960,063
Total financial liabilities	38,446,764	109,462,465	60,256,405	39,551,003	14,966,552	16,931,834	279,615,023
Total interest sensitivity gap	25,062,212	(17,640,170)	(25,675,268)	29,840,387	6,761,307	3,473,385	21,821,853

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 investments – loans and receivables	364,908	22,804,862	2,311,122	18,415,701	–	–	43,896,593
Financial investments – available-for-sale	29,987,845	–	–	–	–	1,911,414	31,899,259
Financial investments – 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	3,516,073	–	–	–	–	–	3,516,073
Total financial liabilities	61,534,372	115,516,020	66,159,901	30,742,375	12,629,621	16,254,321	302,836,610
Total interest sensitivity gap	20,828,729	(36,048,810)	(34,208,089)	68,607,317	8,163,341	2,611,759	29,954,247

As at 31 December 2015	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	–	–	–	–	–	11,848,575	11,848,575
Balances with the Central Bank of Sri Lanka	–	–	–	–	–	6,999,898	6,999,898
Placements with banks	1,619	1,152,000	–	–	–	–	1,153,619
Financial assets held-for-trading	5,229,493	–	–	–	–	–	5,229,493
Loans and receivables to banks	3,468	40,169	20,759	38,236	–	–	102,632
Loans and receivables to other customers	33,154,376	61,414,552	26,992,468	66,353,399	21,750,766	–	209,665,561
Financial investments – loans and receivables	319,392	29,220,272	6,336,000	1,408,317	84,724	–	37,368,705
Financial investments – available-for-sale	26,917,700	–	–	–	–	2,047,120	28,964,820
Financial investments – held-to-maturity	201,448	–	1,673,550	3,785,870	–	–	5,660,868
Other financial assets	580,723	–	–	–	–	–	580,723
Total financial assets	66,408,219	91,826,993	35,022,777	71,585,822	21,835,490	20,895,593	307,574,894
Liabilities							
Due to banks	49,366	11,127,600	443,037	–	–	–	11,620,003
Due to other customers	34,660,881	71,759,264	55,701,557	3,917,124	1,206,590	16,906,864	184,152,280
Debt securities issued and other borrowed funds	658,115	25,924,483	3,755,111	23,656,543	6,503,592	–	60,497,844
Subordinated term debts	13,477	–	326,700	11,977,336	7,256,370	–	19,573,883
Other financial liabilities	3,194,279	–	–	–	–	–	3,194,279
Total financial liabilities	38,576,118	108,811,347	60,226,405	39,551,003	14,966,552	16,906,864	279,038,289
Total interest sensitivity gap	27,832,101	(16,984,354)	(25,203,628)	32,034,819	6,868,938	3,988,729	28,536,605

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, foreign exchange positions and foreign currency options are subject to marked to market valuations on a daily basis to derive the economic value of portfolios.

Mark to market results are being monitored against the Board-approved stop-loss limits on a daily basis and reviewed at monthly ALCO and 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 31 December 2016 and 31 December 2015 on its currency exposures. The analysis calculates the sensitivity of each currency position to the increase in exchange rate 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 the 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 in 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 Percentage

Currency	Spot Rate Shock %	2016		2015	
		Effect on Profit LKR '000	Effect on Equity LKR '000	Effect on Profit LKR '000	Effect on Equity LKR '000
United States Dollar	2.50	21,916	21,916	3,996	3,996
Great Britain Pound	2.50	(180)	(180)	10	10
Euro	2.50	47	47	(236)	(236)
Japanese Yen	2.50	(43)	(43)	(1,749)	(1,749)
Australian Dollar	2.50	91	91	(20)	(20)

56.2 (f) Price Risk

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases 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:

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

Entity	2015			
	Magnitude of Shock and the Fall in Value of Equities – LKR '000			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	1,458,609	72,930	145,861	218,791
Group	2,073,681	103,224	206,448	309,673

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 and adverse conditions.

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

Entity	2015			
	Magnitude of Shock and the Fall in Value of Units – LKR '000			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	2,407,804	120,390	240,780	361,171
Group	4,315,266	215,763	431,527	647,290

56.2 (g) Commodity Price Risk

The Bank's investment on the Gold buffer stock could have the following impact due to an adverse impact in the Gold prices in the market. The Mark to Market impact on the Statement of Profit or Loss is monitored and the sensitivity of the portfolio is monitored under three scenarios mid moderate and adverse conditions:

Items	2016				
	Change in Value due to Decrease in Market Price – LKR '000				
	No. of Units	Present Value at Market Price	Scenario 1 2%	Scenario 2 5%	Scenario 3 8%
Coins	394	16,969	16,630	16,121	15,612
Biscuits	112	62,081	60,840	58,977	57,115

Items	2015				
	Change in Value due to Decrease in Market Price – LKR '000				
	No. of Units	Present Value at Market Price	Scenario 1 2%	Scenario 2 5%	Scenario 3 8%
Coins	395	15,076	14,775	14,322	13,870
Biscuits	113	55,507	54,397	52,732	51,067

56.2 (h) 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 2016	BANK							Total
	Sri Lanka	Europe	America	Asia	Middle East	Australia – New Zealand	Africa	
	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

31 December 2015	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	2,773,122	1,539,976	7,008,139	434,738	7,708	57,820	–	11,821,503
Balances with the Central Bank of Sri Lanka	6,999,898	–	–	–	–	–	–	6,999,898
Placements with banks	1,153,619	–	–	–	–	–	–	1,153,619
Derivative financial instruments	1,903,573	–	–	–	–	–	–	1,903,573
Financial assets held-for-trading	2,985,262	–	–	–	–	–	–	2,985,262
Loans and receivables to banks	102,632	–	–	–	–	–	–	102,632
Loans and receivables to other customers	202,568,503	–	–	5,361,724	–	–	1,671,842	209,602,069
Financial Investments – loans and receivables	35,830,311	–	–	–	–	–	–	35,830,311
Financial Investments – available-for-sale	28,501,518	–	–	–	–	–	–	28,501,518
Financial Investments – held-to-maturity	4,436,973	–	–	–	–	–	–	4,436,973
Other financial assets	3,091	–	–	–	–	–	–	3,091
Total financial assets	287,258,502	1,539,976	7,008,139	5,796,462	7,708	57,820	1,671,842	303,340,449

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

31 December 2015	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	2,800,194	1,539,976	7,008,139	434,738	7,708	57,820	–	11,848,575
Balances with the Central Bank of Sri Lanka	6,999,898	–	–	–	–	–	–	6,999,898
Placements with banks	1,153,619	–	–	–	–	–	–	1,153,619
Derivative financial instruments	1,903,573	–	–	–	–	–	–	1,903,573
Financial assets – held-for-trading	5,229,493	–	–	–	–	–	–	5,229,493
Loans and receivables to banks	102,632	–	–	–	–	–	–	102,632
Loans and receivables to other customers	202,631,995	–	–	5,361,724	–	–	1,671,842	209,665,561
Financial Investments – loans and receivables	37,368,705	–	–	–	–	–	–	37,368,705
Financial Investments – available-for-sale	28,964,820	–	–	–	–	–	–	28,964,820
Financial Investments – held-to-maturity	5,660,868	–	–	–	–	–	–	5,660,868
Other financial assets	580,723	–	–	–	–	–	–	580,723
Total financial assets	293,396,520	1,539,976	7,008,139	5,796,462	7,708	57,820	1,671,842	309,478,467

56.2 (i) Liquidity Risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stressed 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.

Liquidity Risk

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank and the Group financial assets and liabilities as at 31 December 2016 and 31 December 2015:

31 December 2016	BANK						Total LKR '000
	On Demand	Trading Derivatives	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	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 2015	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	11,821,503	–	–	–	–	–	11,821,503
Balances with the Central Bank of Sri Lanka	6,999,898	–	–	–	–	–	6,999,898
Less: Restricted balance	(6,999,898)	–	–	–	–	–	(6,999,898)
Placements with banks	–	–	1,154,104	–	–	–	1,154,104
Derivative financial instruments	–	1,903,573	–	–	–	–	1,903,573
Financial assets – held-for-trading	2,985,262	–	–	–	–	–	2,985,262
Loans and receivables to banks	3,468	–	41,401	22,943	40,783	–	108,595
Loans and receivables to other customers	33,030,237	–	62,783,612	30,642,200	85,289,432	32,496,643	244,242,124
Financial Investments – loans and receivables	–	–	29,516,807	6,478,074	–	–	35,994,881
Financial assets – available-for-sale	28,501,518	–	–	–	–	–	28,501,518
Financial assets – held-to-maturity	–	–	89,654	1,594,061	3,905,614	–	5,589,329
Other financial assets	3,091	–	–	–	–	–	3,091
Total undiscounted financial assets	76,345,079	1,903,573	93,585,578	38,737,278	89,235,829	32,496,643	332,303,980
Financial Liabilities							
Due to banks	16,891	–	11,172,037	452,538	–	–	11,641,466
Derivative financial instruments	–	639,272	–	–	–	–	639,272
Due to other customers	48,792,521	–	74,538,114	59,192,048	5,313,208	1,636,588	189,472,479
Debt securities issued and other borrowed funds	–	–	26,672,790	5,106,707	27,483,576	9,339,611	68,602,684
Subordinated term debts	–	–	–	2,418,040	20,179,192	11,260,126	33,857,358
Other financial liabilities	2,960,063	–	–	–	–	–	2,960,063
Total undiscounted financial liabilities	51,769,475	639,272	112,382,941	67,169,333	52,975,976	22,236,325	307,173,322
Net undiscounted financial assets and liabilities	24,575,604	1,264,301	(18,797,363)	(28,432,055)	36,259,853	10,260,318	25,130,658

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	3,516,073	–	–	–	–	–	3,516,073
Total undiscounted financial liabilities	73,136,038	474,770	118,840,010	74,487,078	43,689,105	16,624,589	327,251,590
Net undiscounted financial assets and liabilities	15,966,900	1,069,851	(37,604,441)	(37,813,963)	81,187,241	12,621,169	35,426,757

31 December 2015	GROUP						Total LKR '000
	On Demand	Trading Derivatives	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Financial Assets							
Cash and cash equivalents	11,848,575	–	–	–	–	–	11,848,575
Balances with the Central Bank of Sri Lanka	6,999,898	–	–	–	–	–	6,999,898
Less: Restricted balance	(6,999,898)	–	–	–	–	–	(6,999,898)
Placements with banks	–	–	1,154,104	–	–	–	1,154,104
Derivative financial instruments	–	1,903,573	–	–	–	–	1,903,573
Financial assets – held-for-trading	5,229,493	–	–	–	–	–	5,229,493
Loans and receivables to banks	3,468	–	41,401	22,943	40,783	–	108,595
Loans and receivables to other customers	33,027,847	–	62,788,334	30,653,678	85,341,281	32,522,158	244,333,298
Financial Investments – loans and receivables	–	–	29,516,807	6,478,074	2,164,910	156,655	38,316,446
Financial assets – available-for-sale	28,964,820	–	–	–	–	–	28,964,820
Financial assets – held-to-maturity	–	–	89,654	2,221,544	5,061,213	–	7,372,411
Other financial assets	580,723	–	–	–	–	–	580,723
Total undiscounted financial assets	79,654,926	1,903,573	93,590,300	39,376,239	92,608,187	32,678,813	339,812,038
Financial Liabilities							
Due to banks	16,891	–	11,172,037	452,538	–	–	11,641,466
Derivative financial instruments	–	639,272	–	–	–	–	639,272
Due to other customers	48,663,526	–	73,879,166	59,192,048	5,313,208	1,636,588	188,684,536
Debt securities issued and other borrowed funds	–	–	26,672,121	5,076,039	27,483,576	9,339,611	68,571,347
Subordinated term debts	–	–	–	2,418,040	20,179,192	11,260,126	33,857,358
Other financial liabilities	3,194,279	–	–	–	–	–	3,194,279
Total undiscounted financial liabilities	51,874,696	639,272	111,723,324	67,138,665	52,975,976	22,236,325	306,588,258
Net undiscounted financial assets and liabilities	27,780,230	1,264,301	(18,133,024)	(27,762,426)	39,632,211	10,442,488	33,223,780

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 2016 and 31 December 2015.

31 December 2016	BANK					Total LKR '000
	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Undisbursed financing commitments	110,835,816	–	–	–	–	110,835,816
Guarantees and 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 foreign 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	64,010,958	47,065,447	9,391,941	2,916,888	234,221,049

31 December 2015	BANK					Total LKR '000
	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Undisbursed financing commitments	110,649,926	–	–	–	–	110,649,926
Guarantees and performance bonds	–	5,201,239	8,841,724	7,814,944	5,026,707	26,884,614
Documentary credits	–	5,925,841	1,742,216	464,204	–	8,132,261
Forward foreign exchange contracts	–	51,558,560	32,758,091	144,000	–	84,460,652
Acceptances	–	5,106,522	2,514,438	–	–	7,620,960
	110,649,926	67,792,162	45,856,469	8,423,148	5,026,707	237,748,413

31 December 2016	GROUP					Total
	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Undisbursed financing commitments	111,745,240	–	–	–	–	111,745,240
Guarantees and 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 foreign 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

31 December 2015	GROUP					Total
	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Undisbursed financing commitments	112,326,086	–	–	–	–	112,326,086
Guarantees and performance bonds	–	4,366,239	8,841,724	7,814,944	5,026,707	26,049,614
Documentary credits	–	5,925,841	1,742,216	464,204	–	8,132,261
Forward foreign exchange contracts	–	51,558,561	32,758,091	144,000	–	84,460,652
Acceptances	–	5,106,522	2,514,438	–	–	7,620,960
	112,326,086	66,957,162	45,856,469	8,423,148	5,026,707	238,589,573

56.3 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 utilised 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 computation for the Bank and the Group as at 31 December 2016 and 31 December 2015 is given on page 186 to 189.

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 Note 14 to 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 296 to 400.
1.3.2 Information on hedge accounting.	Note 22 to the Financial Statements
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 Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	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 Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Note 56.2 (i) – 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 Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Note 56.2 – Market Risk of the Financial Statements
iv. Operational Risk Refer Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Risk Management pages 151 to 185
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 Capital****3.1.1 Capital Structure****i. Qualitative Disclosures**

Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.

Not Applicable

ii. Quantitative Disclosures**a. The amount of Tier 1 capital, with separate disclosure of:**

- Paid-up share capital/common stock
- Reserves
- Non-controlling interests in the equity of subsidiaries
- Innovative instruments
- Other capital instruments
- Deductions from Tier 1 capital

b. The total amount of Tier 2 and Tier 3 capital**c. Other deductions from capital****d. Total eligible capital**

Pages 186 to 189 on Capital Adequacy

3.1.2 Capital Adequacy**i. Qualitative Disclosures**

A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.

Pages 151 to 185 on Risk Management

ii. Quantitative Disclosures**a. Capital requirements for credit risk, market risk and operational risk****b. Total and Tier 1 capital ratio.**

Pages 186 to 189 on Capital Adequacy

CORPORATE INFORMATION SUPPLEMENT



SCAN TO VIEW

<http://ndbbank2016.annualreports.lk/cis/>

406

BRANCH NETWORK OF
THE BANK

412

BRANCH NETWORK OF
GROUP COMPANIES

413

CORRESPONDENT
RELATIONSHIPS

414

GRI CONTENT INDEX

417

GLOSSARY OF
FINANCIAL AND
BANKING TERMS

421

NOTICE OF MEETING

422

CORPORATE
INFORMATION

ENCLOSED

FORM OF PROXY

ENCLOSED

INVESTOR
FEEDBACK FORM

No.	Region	Branch Name	Abbreviation	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. 5, Dalada Weediya, 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	No. 522/C, Maithreepala Senanayake Mawatha, 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	Thambuththegama	TBG	104	No. 255A, Main Street, Thambuththegama	Anuradhapura
Northern Province						
1.	R 8	Chavakachcheri	CVK	099	Nos. 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	Vauniya	VAV	041	Nos. 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, Trincomalee 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	Nos. 91 & 93, North Coast Road, Trincomalee	Trincomalee
North Western Province						
1.	R 4	Chilaw	CHI	010	Nos. 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 Mawatha, 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	Naththandiya	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 Building, Puttlam Road, Wariyapola	Kurunegala
11.	R 4	Wennappuwa	WEN	036	No. 56/C, Main Street, 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 9.00 a.m. to 4.00 p.m.	
081-2354400/60	081-2351370	081-2354388	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
081-2202776/7	081-2202779	081-2202778	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
081-2202893/4	081-2202 892	081-2202895	Yes	365 Day Banking Monday to Friday (9.00 a.m. to 7.00 p.m.)	365 Day Banking/Saturday Banking (9.00 a.m. to 3.00 p.m.)/Sunday and Holiday Banking (9.00 a.m. to 1.00 p.m.)
066-2224405/6	066-2224403	066-2224407	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
054-2223933/49	054-2223858	054-2223696	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
052-2235212/3	052-2235210	052-2235214	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
081-2579665/6	081-2579660	081-2579899	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
025-4581142/3	025-2234820	025-4581144	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
027-2245385/6	027-2245416	027-2245417	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
027-2225193/03	027-2225243	027-2224483	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
025-2263061/2	025-2263064	025-2263070	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
025-2276872/3	025-2276871	025-2276807	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
021-2271361/2	021-2271360	021-2271363	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
021-2242093/4	021-2242092	021-2242095	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
021-2221180/1	021-2221182	021-2221183	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
021-2256721/2	021-2256720	021-2256723	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
021-2263402/3	021-2263400	021-2263399	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
021-2216441/2	021-2216440	021-2216443	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
024-2225780/1	024-2225782	024-2225783	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
067-2057612/3	067-2057611	067-2057614	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
063-2223209	063-2223191	063-2223216	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
065-2227944/5	065-2227946	065-2227947	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
065-2054344/5	065-2054343	065-2054346	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
067-2225781/2	067-2225780	067-2225783	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
026-2226771/2	026-2226773	026-2226774	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
032-2220107/8	032 2222227	032-2220109	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
037-2288583	037-2288581	037-2288584	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
037-2281255/6	037-2281260	037-2281264	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
037-2231952/3	037-2231955	037-2231954	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
032-2054402/3	032-2054401	032-2054404	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
037-2249756	037-2249746	037-2249757	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
032-2059441/2	032-2059440	032-2059443	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
037-2260192/3	037-2260191	037-2260196	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	
032-2265529	032-2266031	032-2266030	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
037-2267838/9	037-2267837	037-2267840	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
031-2245431/2	031-2245433	031-2245434	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	

No.	Region	Branch Name	Abbreviation	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, Hambantota	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. 32 A, Zavia Road, Ratnapura	Ratnapura
7.	R 6	Warakapola	WKP	101	Nos. 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, Boralesgamuwe	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 7	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 5	Colombo
11.	R 4	Hendala	HND	088	No. 46A Hendala Road, Hendala	Gampaha
12.	R 2	Homagama	HOM	030	No. 64A, Highlevel 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, Avissawella Road, Kaduwela	Colombo
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	Katunayake	KTN	082	No. 745, Baseline Road, Aweriwatta, Katunayake	Gampaha

Telephone: General	Telephone: Manager's Direct	Fax	ATM	Business Hours	Saturday/Sunday/365 Days Banking
041-2284541/2	041-2284540	041-2284543	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
091-2256562/3	091-2256561	091-2256517	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
047-2225552/3	047-2225551	047-2225554	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
091-2290481/2	091-2290480	091-2290483	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
091-2224136/ 091-4380787	091-2233752	091-2233751	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
047-2222178/9	047-2222177	047-2222180	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
041-2231542/3	041-2231544	041-2231545	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
047-2238184/5	047-2238183	047-2238186	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
091-2264195/6	091-2264019	091-2264016	Yes	Monday to Thursday 9.00 a.m. to 4.00 p.m./Friday 9.00 a.m. to 6.00 p.m.	
055-2231419/20	055-2224573	055-2224627	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
057-2233690/1	057-2233689	057-2233688	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Sunday Banking from 9.00 a.m. to 1.00 p.m.
055-2051671/2	055-2051670	055-2051673	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
055-2277327/8	055-2277326	055-2277329	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
045-2289487/8	045-2289486	045-2289489	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
036-2257321/2	036-2257320	036-2257323	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Sunday Banking from 9.00 a.m. to 1.00 p.m.
047-2261752/3	047-2261751	047-2261754	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
045-2271538/48	045-2271528	045-2271558	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
035-2232536/7	035-2232532	035-2232571	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
045-2230910/1	045-2226022	045-2226042	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
035-2269106/7	035-2269105	035-2269108	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
034-2275625/6	034-2275624	034-2275627	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2563325/ 011-2073244	011-2073243	011-2563326	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
036-2233610/1	036-2233612	036-2233613	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
011-2885928/9	011-2885298	011-2885299	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
011-2509701/ 011-2150798	011-2150797	011-2509702	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
011-2694484/5	011-2694438	011-2694439	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2448448/ 011-4796262	011-2446995	011-4796278	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
033-2225051/2/3	033-2234350	033-2234351	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	
036-2252078/85	036-2255519	036-2255926	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
011-2591140/1	011-2591144	011-2591142	Yes	365 Day Banking Monday to Friday a.m. to 7.00 p.m.)	(9.00365 Day Banking/Saturday Banking (9.00 a.m. to 3.00 p.m.)/Sunday and Holiday Banking (9.00 a.m. to 1.00 p.m.)
011-2945981/2	011-2945983	011-2945984	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2894880/1	011-2894882	011-2894883	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
034-2265171/2	034-2265173	034-2265174	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
011-2248982/3	011-2248981	011-2248984	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2926453/4	011-2926456	011-2926455	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2548571/2	011-2548569	011-2548573	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
034-2229680/2	034-2236577	034-2236579	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2228601/2	011-2228603	011-2228604	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	
011-2254960/70	011-2254950	011-2254930	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	

No.	Region	Branch Name	Abbreviation	Branch Code	Address	District
20.	R 4	Kiribathgoda	KBG	025	No. 139/1, Kandy Road, Kiribathgoda	Gampaha
21.	R 4	Kochchikade	KCH	089	No. 96, Chilaw Road, Kochchikade	Gampaha
22.	R 2	Kohuwela	KOH	032	No. 118, S De S Jayasinghe Mawatha, Kohuwela	Colombo
23.	R 1	Kollupitiya	KPY	014	No. 712, Galle Road, Colombo 3	Colombo
24.	R 1	Kotahena	KOT	024	No. 295, George R De Silva Mawatha, Colombo 13	Colombo
25.	R 2	Maharagama	MHG	012	No. 108 A, Highlevel Road, Maharagama	Colombo
26.	R 2	Malabe	MLB	031	No. 760, New Kandy Road, Malabe	Colombo
27.	R 1	Marine Drive	MRD	103	No. 42, Sagara Road, Marine Drive, Colombo 4	Colombo
28.	R 3	Mathugama	MGM	045	No. 98, Agalawatta Road, Mathugama	Kalutara
29.	R 4	Minuwangoda	MNG	063	No. 49, Negombo Road, Minuwangoda	Gampaha
30.	R 1	Moratuwa	MOR	015	No. 255, Galle Road, Idama, Moratuwa	Colombo
31.	R 1	Mount Lavinia	MLV	020	No. 431/433, Galle Road, Mount Lavinia	Colombo
32.	R 1	Narahenpita	NAR	074	No. 193, Kirula Road, Narahenpita, Colombo 5	Colombo
33.	R 1	Nawam Mawatha	NMB	001	No. 42, DHPL Building, Nawam Mawatha, Colombo 02	Colombo
34.	R 4	Negombo	NEG	009	No. 121, St. Joseph Street, Negombo	Gampaha
35.	R 4	Nittambuwa	NTB	054	No. 496, Kandy Road, Nittambuwa	Gampaha
36.	R 2	Nugegoda	NUG	004	No. 152, Nawala Road, Nugegoda	Colombo
37.	R 1	Old Moor Street	OMS	079	No. 311, Old Moor Street, Colombo 12	Colombo
38.	R 1	Panadura	PAN	035	No. 319, Galle Road, Panadura	Kalutara
39.	R 2	Pelawatte	PEL	022	No. 730A, Pannipitya Road, Pelawatte, Battaramulla	Colombo
40.	R 1	Pettah	PET	043	No. 137, 133/1, Main Street, Colombo 11	Colombo
41.	R 2	Piliyandala	PIL	023	No. 21, Second Cross Street, Piliyandala	Colombo
42.	R 2	Pitakotte	PTK	087	No. 322B, Kotte Road, Pitakotte	Colombo
43.	R 2	Rajagiriya	RAJ	005	No. 505, Sri Jayawardenapura Etul Kotte, Kotte	Colombo
44.	R 1	Ratmalana	RML	073	No. 151, Galle Road, Ratmalana	Colombo
45.	R 4	Wattala	WTL	011	No. 378A, Negombo Road, Wattala	Gampaha
46.	R 1	Wellawatte	WEL	008	No. 302, Galle Road, Colombo 6	Colombo
47.	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	Address
Colombo Region	1	Sydney Downall	Borella Branch	No. 31/5, Dr. N M Perera Mawatha, Borella
Greater Colombo Region	2	Indika Kudagamage	Rajagiriya Branch	No. 505, Sri Jayawardenapura Mawatha, Etul Kotte, Kotte
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	Suresh Weerasinghe	Kurunegala Branch	No. 6, Rajapihilla Mawatha, Kurunegala
Central Region	6	Nalin Abeyratne	Kandy Branch	No. 133, Kotugodella Veediya, Kandy
Uva-Sabaragamuwa Region	7	Sisira Herath	Ratnapura Branch	No. 32 A, Zavia Road, Ratnapura.
North East Region	8	Thissaveerasingam Jeyarajasingam	Jaffna Branch	No. 62/6, Stanley Road, Jaffna

Telephone: General	Telephone: Manager's Direct	Fax	ATM	Business Hours	Saturday/Sunday/365 Days Banking
011-2907511/12	011-2907514	011-2907513	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
031-2272193/4	031-2272192	031-2272195	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Sunday Banking from 9.00 a.m. to 1.00 p.m.
011-2814224/5	011-2814226	011-2814227	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	
011-2504961/2	011-2504964	011-2504963	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
011-2436169/70	011-2436171	011-2436199	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2745091/2	011-2745093	011-2745094	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2762345/6	011-2762347	011-2762348	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2055238/64	011-2055184	011-2055132	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
034-2249509/10	034-2249379	034-2249513	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Sunday Banking from 9.00 a.m. to 1.00 p.m.
011-2280970/1	011-2280969	011-2280995	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Sunday Banking from 9.00 a.m. to 1.00 p.m.
011-2642021/2	011-2642025	011-2642023	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2739176/ 011-2739144	011-2739717	011-2721249	Yes	365 Day Banking Monday to Friday (9.00 a.m. to 7.00 p.m.)	365 Day Banking/Saturday Banking (9.00 a.m. to 3.00 p.m.)/Sunday and Holiday Banking (9.00 a.m. to 1.00 p.m.)
011-2369580/07	011-2369508	011-2369581	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2314640/1	011-2314643	011-2314642	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	
031-2220246/7	031-2220249	031-2220248	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
033-2294931/2	033-2294945	033-2294947	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2820885/7	011-2820879	011-2820893	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2339902/3	011-2339901	011-2 339904	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
038-2241893/4	038-2241895	038-2241896	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2786708/9	011-2786710	011-2786711	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2331204/5	011-2331285	011-2331286	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2604600	011-2604685	011-2604800	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2856503/34	011-2856491	011-2856479	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
011-2885790/2	011-2885794	011-2885793	Yes	365 Day Banking Monday to Friday (9.00 a.m. to 7.00 p.m.)	365 Day Banking/Saturday Banking (9.00 a.m. to 3.00 p.m.)/Sunday and Holiday Banking (9.00 a.m. to 1.00 p.m.)
011-2716684/ 011-2719361	011-2716685	011-2719377	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	
011-2981519/20	011-2981522	011-2981521	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
011-2361903/4	011-2361906	011-2361905	Yes	Monday to Friday 9.00 a.m. to 6.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.
033-2239395/6	033-2239394	033-2239397	Yes	Monday to Friday 9.00 a.m. to 4.00 p.m.	Saturday Banking from 9.00 a.m. to 1.00 p.m.

Telephone: General	Telephone: Regional Head's Direct	Fax
011-2685712	011-2685711	011-2685713
011-2078715/16	011-2077483	011-2078714
041-2 227161/3	041-2227164	041-2222406
011-2071491/2	011-2071493	011-2341049
037-4692421	037-2225341	037-2231954
081 2228633/5	081-2238786	081-2202778
045-2230912	045-2223839	045-2226042
021-2217396	021-2217395	021-2217397

Head Office/Branches	Postal Address	Contact Person	Telephone	Fax	Email Address
NDB Capital Holdings Ltd.	No. 40, Navam Mawatha, Colombo 02	Vajira Kulatilaka	011-2300385-90	0112300393	vajira@ndbib.com
NDB Investment Bank Ltd.	No. 40, Navam Mawatha, Colombo 02	Darshan Perera	011-2300385-90	0112300393	darshan@ndbib.com
NDB Wealth Management Ltd.	No. 42, Ground Floor, NDB-EDB Tower, Navam Mawatha, Colombo 02	Ms. Shehani Dharmakirti	011-2303232	011230 3237	contact@ndbinvestors.com
NDB Securities (Pvt) Ltd.					
Head Office	5th Floor, NDB Building, No. 40, Navam Mawatha, Colombo 02	Aroos Faleel	011-2131000	0112314181	aroosfaleel@ndbs.lk
Colombo Stock Exchange	No. 04-01, West Block, World Trade Center, Echelon Square, Colombo 01	Ms. Shiromi De Silva	011-2335054		shiromi@ndbs.lk
NDB Capital Ltd. (Bangladesh)	Bilquis Tower (5th floor), Plot-06, Gulshan-2, Dhaka-1212, Bangladesh	Kanti Kumar Saha	+880-1755645460	+880-29888626	kanti@ndbcapital.com
NDB Zephyr Partners Lanka (Pvt) Ltd.	No. 97, Dharmapala Mawatha, Colombo 07	Senaka Kakiriwaragodage	0112-303810	0112-307155	sk@emeraldfundsl.com
NDB Zephyr Partners Ltd.	IFS Court, Bank Street, Twenty Eight, Cybercity, Ebene, Mauritius	Ms. Mateshwaree Mulloo	+230-4673208	+230-4674000	mmulloo@ifsmauritius.com
Development Holdings (Pvt) Ltd.	No. 42, NDB EDB Tower (2nd floor), Navam Mawatha, Colombo 02	D M Janitha Dissanayake	011-2300174	011-2300174	mgrdhpl@gmail.com



CORRESPONDENT RELATIONSHIPS

1. Algeria	21. Czech Republic	41. Kenya	61. Oman	81. Switzerland
2. Argentina	22. Denmark	42. Kuwait	62. Pakistan	82. Taiwan
3. Australia	23. Egypt	43. Latvia	63. Peru	83. Tanzania
4. Austria	24. Estonia	44. Lebanon	64. Philippines	84. Thailand
5. Bahamas	25. Finland	45. Luxembourg	65. Poland	85. Tunisia
6. Bahrain	26. France	46. Macao	66. Portugal	86. Turkey
7. Bangladesh	27. Gabon	47. Madagascar	67. Qatar	87. Ukraine
8. Belgium	28. Germany	48. Malaysia	68. Romania	88. United Arab Emirates
9. Bolivia	29. Greece	49. Maldives	69. Russian Federation	89. United Kingdom
10. Brazil	30. Guernsey CI	50. Mauritania	70. Saudi Arabia	90. United States
11. Bulgaria	31. Hong Kong	51. Mauritius	71. Senegal	91. Uruguay
12. Cambodia	32. Hungary	52. Mexico	72. Seychelles	92. Vietnam
13. Cameroon	33. India	53. Moldova	73. Singapore	93. Zambia
14. Canada	34. Indonesia	54. Monaco	74. Slovakia	94. Zimbabwe
15. Chile	35. Ireland	55. Morocco	75. Slovenia	
16. China	36. Israel	56. Nepal	76. South Africa	
17. Colombia	37. Italy	57. Netherlands	77. South Korea	
18. Congo	38. Japan	58. New Zealand	78. Spain	
19. Cote Divoire	39. Jordan	59. Nigeria	79. Sri Lanka	
20. Cyprus	40. Kazakhstan	60. Norway	80. Sweden	

GRI Standard	Disclosure	Page number(s)	Omission/Comment
GRI 101: Foundation 2016			
General Disclosures			
GRI 102: General Disclosures 2016			
102-1	Name of the organization	422	
102-2	Activities, brands, products, and services	104, 105	
102-3	Location of headquarters	422	
102-4	Location of operations	85	
102-5	Ownership and legal form	422	
102-6	Markets served	07, 08, 92, 304	
102-7	Scale of the organization	07	
102-8	Information on employees and other workers	92	Partially reported
102-9	Supply chain	80	Partially reported
102-10	Significant changes to the organization and its supply chain	04	
102-11	Precautionary principle or approach	159	
102-12	External initiatives	34-35	
102-13	Membership of associations	34	
102-14	Statement from senior decision-maker	11	
102-16	Values, principles, standards, and norms of behavior	75	
102-18	Governance structure	215	
102-40	List of stakeholder groups	27	
102-41	Collective bargaining agreements	99	
102-42	Identifying and selecting stakeholders	27	
102-43	Approach to stakeholder engagement	28-33	
102-44	Key topics and concerns raised	28-33	
102-45	Entities included in the Consolidated Financial Statements	06	
102-46	Defining report content and topic Boundaries	04	
102-47	List of material topics	36	
102-48	Restatements of information	04	
102-49	Changes in reporting	36	
102-50	Reporting period	04	
102-51	Date of most recent report	04	
102-52	Reporting cycle	04	
102-53	Contact point for questions regarding the report	04	
102-54	Claims of reporting in accordance with GRI Standards	04	
102-55	GRI content index	414-416	
102-56	External assurance	114, 115	
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its boundaries	37-38	
103-2	The management approach and its components	38	Management Approach to all material topics are discussed in this section

GRI Standard	Disclosure	Page number(s)	Omission/Comment
Material Topics			
GRI 201: Economic Performance			
	201-1 Direct economic value generated and distributed	50	
	201-3 Defined benefit plan obligations and other retirement plans	309	
GRI 202: Market Presence			
	202-2 Proportion of senior management hired from the local community	109	
GRI 203: Indirect Economic Impacts			
	203-2 Significant indirect economy impact	107	Partially reported
GRI 204: Procurement Practices			
	204-1 Proportion of spending on local suppliers	80	Partially reported
GRI 205: Anti-corruption			
	205-1 Operations assessed for risks related to corruption	160-185	Partially reported
	205-3 Confirmed incidents of corruption and actions taken		No incidents reported during the year
GRI 206: Anti-competitive Behavior			
	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices		No incidents reported during the year
GRI 302: Energy			
	302-1 Energy consumption within the organization	111, 112	
GRI 305: Emissions			
	305-1 Direct (Scope 1) GHG emissions	111, 112	Partially reported
	305-2 Energy indirect (Scope 2) GHG emissions	111, 112	Partially reported
	305-3 Other indirect (Scope 3) GHG emissions	111, 112	Partially reported
	305-4 GHG emissions intensity	111, 112	Partially reported
	305-5 Reduction of GHG emissions	111, 112	Partially reported
GRI 306: Effluents and Waste			
	306-2 Waste by type and disposal method	112	Partially reported
GRI 307: Environmental Compliance			
	307-1 Non-compliance with environmental laws and regulations		No incidents reported during the year
GRI 401: Employment			
	401-1 New employee hires and employee turnover	93-96	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	96-97	
	401-3 Parental leave	96	
GRI 402: Labor/Management Relations			
	402-1 Minimum notice periods regarding operational changes	99	
GRI 404: Training and Education			
	404-1 Average hours of training per year per employee	97	
	404-2 Programmes for upgrading employee skills and transition assistance programmes	98	
	404-3 Percentage of employees receiving regular performance and career development reviews	99	

GRI Standard	Disclosure	Page number(s)	Omission/Comment
GRI 405: Diversity and Equal Opportunity			
	405-2 Ratio of basic salary and remuneration of women to men	99	
GRI 406: Non-discrimination			
	406-1 Incidents of discrimination and corrective actions taken		No incidents reported during the year
GRI 407: Freedom of Association and Collective Bargaining			
	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk		No incidents reported during the year
GRI 408: Child Labor			
	408-1 Operations and suppliers at significant risk for incidents of child labor		No incidents reported during the year
GRI 409: Forced or Compulsory Labor			
	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor		No incidents reported during the year
GRI 413: Local Communities			
	413-1 Operations with local community engagement, impact assessments, and development programmes	109	Partially reported
GRI 414: Supplier Social Assessment			
	414-1 New suppliers that were screened using social criteria	80	Partially reported
GRI 417: Marketing and Labeling			
	417-1 Requirements for product and service information and labeling	38	Partially reported
	417-2 Incidents of non-compliance concerning product and service information and labeling		No incidents reported during the year
	417-3 Incidents of non-compliance concerning marketing communications		No incidents reported during the year
GRI 418: Customer Privacy			
	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data		No incidents reported during the year
GRI 419: Socioeconomic Compliance			
	419-1 Non-compliance with laws and regulations in the social and economic area		No incidents reported during the year

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.

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 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 homogenous 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.

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.

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.

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 given 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 at Default (an amount) and Loss Given Default (a percentage).

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

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.

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 & equipment.

Revenue Reserve

Reserves set aside for future distribution and investment.

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 and revenue reserves.

Significant Influence

If an entity holds, directly or indirectly (e.g. through subsidiaries), 20% 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.

Notice is hereby given that the Twelfth (12th) 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, Navam Mawatha, Colombo 2 at 10.00 a.m. on Thursday, the Thirtieth (30th) day of March, Two Thousand and Seventeen (2017) 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 2016.
2. To re-elect A K Pathirage, as a Director in terms of Article 42 of the Articles of Association of the Bank.
3. To re-elect Mrs. W A I Sugathadasa, as a Director in terms of Article 42 of the Articles of Association of the Bank.
4. To reappoint A W Atukorala in terms of Article 44 (2) of the Articles of Association of the Bank.
5. To reappoint N S Welikala in terms of Article 44 (2) of the Articles of Association of the Bank.
6. 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.
7. 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.
8. To authorize the Board of Directors to determine donations for the financial year 2017 under the Companies Donations Act No. 26 of 1951.

By Order of the Board,



Mrs. Shehani Ranasinghe

Company Secretary

21 February 2017

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, Navam 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.

NAME

National Development Bank PLC

COMPANY REGISTRATION NUMBER

PQ 27

REGISTERED LOGO**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

No. 40, Navam Mawatha, Colombo 02
Tel: 011 244 8888
Fax: 011 2341049
Swift code: NDBS LK LX
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+(Ika)/
Stable Outlook: Fitch Ratings Lanka Ltd.
Basel II compliant subordinated debentures:
A (Ika): Fitch Ratings Lanka Ltd.

BOARD OF DIRECTORS AND BOARD SUBCOMMITTEES**Board of Directors as at 31 December 2016**

A W Atukorala – Chairman – Independent
(Appointed w.e.f. 31 August 2016)
A K Pathirage – Deputy Chairman –
Non-Independent
T L F Jayasekera – Independent
Mrs. K Fernando – Independent
D S P Wikramanayake – Non-Independent
Mrs. W A I Sugathadasa – Independent
Mrs. D M A Harasgama – Non-Independent
D M R Phillips, PC – Independent
K D W Ratnayaka – Independent
N S Welikala – Independent
(Appointed w.e.f. 11 October 2016)
P L D N Seneviratne – Chief Executive Officer –
Non-Independent
(Appointed w.e.f. 1 January 2017)
N G Wickremaratne – Chairman – Independent
(Retired w.e.f. 31 August 2016)
R Theagarajah – CEO/Director – Non-independent
(Resigned w.e.f. 30 November 2016)

Board Subcommittees as at 31 December 2016**Integrated Risk Management Committee**

D S P Wikramanayake – Chairman
K D W Ratnayaka
Mrs. D M A Harasgama
D M R Phillips, PC
N S Welikala
Mrs. N Rayen – Vice-President – Group Risk
F Ozman – Group Chief Financial Officer

Mrs. Gnanapragasam – Vice-President –
Credit Review
P Gamage – AVP – Operational Risk
Ms. C Chandrapala – Senior Manager –
Market Risk

Strategic Issues Committee

A W Atukorala – Chairman
A K Pathirage
T L F Jayasekera
Mrs. K Fernando
D S P Wikramanayake
N S Welikala

Audit Committee

T L F Jayasekera – Chairman
D S P Wikramanayake
Mrs. D M A Harasgama
Mrs. K Fernando
Mrs. W A I Sugathadasa
N S Welikala

Human Resources and Remuneration Committee

Mrs. W A I Sugathadasa – Chairperson
A K Pathirage
Mrs. K Fernando
T L F Jayasekera
K D W Ratnayaka

Nominations Committee

A W Atukorala – Chairman
A K Pathirage
T L F Jayasekera
Mrs. K Fernando

Corporate Governance and Legal Affairs Committee

Mrs. K Fernando – Chairperson
A W Atukorala
Mrs. W A I Sugathadasa
D M R Phillips, PC

Related Party Transactions Review Committee

A W Atukorala – Chairman
T L F Jayasekera
D S P Wikramanayake
Mrs. D M A Harasgama
Mrs. K Fernando
Mrs. W A I Sugathadasa
N S Welikala

SUBSIDIARIES AND ASSOCIATE COMPANIES**Subsidiary Companies as at 31 December 2016**

NDB Capital Holdings Ltd. – 99.8%

Directors

A K Pathirage – Chairman,
D S P Wikramanayake, W M D F Arsakularatne,
C V Kulatilaka, F Ozman, R Theagarajah
(Resigned w.e.f. 30 November 2016)

NDB Wealth Management Ltd. – 99.8%

Directors

D S P Wikramanayake – Chairman,
C V Kulatilaka, R Theagarajah
(Resigned w.e.f. 30 November 2016)

NDB Investment Bank Ltd. – 99.8%

Directors

D S P Wikramanayake – Chairman,
C V Kulatilaka, P E A B Perera, D G Perera,
R Theagarajah
(Resigned w.e.f. 30 November 2016)

NDB Securities (Private) Ltd. – 99.8%

Directors

C V Kulatilaka, F Ozman, R Theagarajah
(Resigned w.e.f. 30 November 2016)

NDB Capital Ltd. (Bangladesh) – 77.8%

Directors

D S P Wikramanayake – Chairman,
A M Khan, C M Alam, C V Kulatilaka,
Mrs. Z Chowdhury, H F Choudhury, K K Saha,
D G Perera, R Theagarajah (Resigned w.e.f.
30 November 2016)

NDB Zephyr Partners Ltd. (Mauritius) – 60%

Directors

T C Barry, F Ozman, C V Kulatilaka, M Gulati,
Ms. D Rajabalee, Ms. R B Mandary,
R Theagarajah (Resigned w.e.f.
30 November 2016)

NDB Zephyr Partners Lanka (Pvt) Ltd. – 60%

D S P Wikramanayake – Chairman,
(Appointed w.e.f. 30 December 2016)
T C Barry, M Gulati, F Ozman, C V Kulatilaka,
R Theagarajah (Resigned w.e.f.
30 November 2016)

Development Holdings (Pvt) Ltd. – 58.61%

Directors

A W Atukorala – Chairman
(Appointed w.e.f. 30 December 2016)
Mrs. I Malwatte, Mrs. P K Sumithrarachchi,
Mrs. D T Wijayarathne, C S Guniyangoda,
Ms R M P Hewaliyanage, R Theagarajah
(Resigned w.e.f. 30 November 2016)

Associate Companies as at 31 December 2015

NDB Venture Investments (Pvt) Ltd. – 50%
(Under liquidation)

Ajoyana Fund (Pvt) Ltd. – 50% (Under Liquidation)

OTHER INFORMATION**Company Secretary**

Mrs. Shehani Ranasinghe – (Attorney-at-Law)

Compliance Officer

Mrs. 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 2016 NDB Annual Report**

Faizan Ozman
Group Chief Financial Officer
National Development Bank PLC
No. 40, Navam Mawatha, Colombo 02
Email: faizan.ozman@ndbbank.com
Tel: + 94(0)112 321117

On Investor Relations**Company Secretarial Unit**

Mrs. Shehani Ranasinghe
Company Secretary/Assistant Vice President
National Development Bank PLC
No. 40, Navam Mawatha, Colombo 02
Email: shehani.ranasinghe@ndbbank.com
Tel: +94(0)112448448 Extn: 33000

Investor Relations Team

Mrs. Suvendrini Muthukumarana
Assistant Vice President – Finance and Planning
National Development Bank PLC
No. 40, Navam Mawatha, Colombo 02
Email: suvendrini.muthukumarana@ndbbank.com
Tel: +94(0)112448448 Extn: 3817

I/We
 (NIC/s) 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 Jayasekera of Colombo or failing him,
 D S P Wikramanayake of Colombo or failing him,
 Mrs. K Fernando of Colombo or failing her,
 Mrs. W A I Sugathadasa of Colombo or failing her
 Mrs. D M A Harasgama of Colombo or failing her,
 D M R Phillips of Colombo or failing him,
 K D W Ratnayaka of Colombo or failing him
 N S Welikala of Colombo or failing him,
 P L D N Seneviratne (CEO/Director of the Bank) of Colombo

as my/our Proxy to represent me/us and to vote for me/us and on my/our behalf at the Twelfth Annual General Meeting of the Bank to be held on Thursday the thirtieth (30th) day of March 2017 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 A K Pathirage, as a Director in terms of Article 42 of the Articles of Association of the Bank.	☐	☐
2. To re-elect Mrs. W A I Sugathadasa, as a Director in terms of Article 42 of the Articles of Association of the Bank.	☐	☐
3. To reappoint A W Atukorala, as a Director in terms of Article 44 (2) of the Articles of Association of the Bank.	☐	☐
4. To reappoint N S Welikala, as a Director in terms of Article 44 (2) of the Articles of Association of the Bank.	☐	☐
5. 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.	☐	☐
6. 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.	☐	☐
7. To authorize the Board of Directors to determine donations for the financial year 2017 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 Seventeen (2017).

.....
 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, Navam 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 cage provided 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.

To request information or submit a comment/query to the Bank, please provide the following details and return this page to:

Company Secretary
National Development Bank PLC
No. 40, Navam Mawatha
Colombo 02
Sri Lanka

Name :
Permanent Mailing Address :
Contact Number/s :
 - Tel :
 - Fax :
 - E-Mail :
Name of Company (if applicable) :
Designation (if applicable) :
Company Address (if applicable) :

Queries/Comments

.....
.....
.....
.....
.....
.....

Please mark (x) in the appropriate box

Would you like to receive soft copies of the Bank's Interim Reports via e-mail?

Yes No

☐	☐

Would you like to receive news and press releases of the Bank via e-mail?

☐	☐

Would you like to receive any updates on our products/services?

☐	☐

Would you like the Bank to directly deposit/transfer any future dividends to a bank account designated by you?

☐	☐

If 'Yes', please provide your bank account details in the space provided above and also instruct your stockbroker regarding your above instructions. Kindly also forward a certified copy of your National Identity Card when you return this form to the Company Secretary.



This Annual Report is Carbon Neutral

This National Development Bank PLC annual report has been produced by Smart Media The Annual Report Company, a certified carbon neutral organisation. Additionally, the greenhouse gas emissions resulting from activities outsourced by Smart Media in the production of this annual report, including the usage of paper and printing, are offset through verified sources.

This is an Integrated Annual Report

This National Development Bank PLC annual report has been prepared using the Smart Integrated Reporting Methodology[™] of Smart Media The Annual Report Company.

40, Navam Mawatha, Colombo 2, Sri Lanka.

T: +94 11 244 84 48

F: +94 11 234 10 44

W: www.ndbbank.com

E: contact@ndbbank.com

SWIFT Code: NDBS LK LX



www.facebook.com/ndbbankplc



www.twitter.com/NDBBank



www.linkedin.com/company/ndbbank



www.youtube.com/user/NDBBankSL



instagram.com/ndbbank