

size matters

National Development Bank PLC

Annual Report

2013

28

March 2014
10.00 am

AGM

to be held at the Auditorium of
Development Holdings (Pvt) Ltd.



3rd Floor, NDB EDB Tower,
No. 42, Navam Mawatha,
Colombo 2.



OUR VISION

To be a world-class Sri Lankan Bank.

OUR MISSION

To be dominant in the financial services sector, creating superior long-term shareholder value and contributing to economic development in Sri Lanka by exploiting regional opportunities and delivering innovative solutions with 'best in industry' service excellence through an inspired team.

OUR VALUES

Integrity

We believe in truth, justice and fair play, above all else.

Care

We will never lose the human touch. We will care for our colleagues, our customers, our community and our environment.

Passion

We will embrace challenges with passion and aggressively pursue our goals.

Teamwork

We will work together as a team, supporting each other, respecting every individual and drawing strength from our diversity.

Service

We will always strive for excellence in serving, our internal and external customers, through professionalism, innovation and creativity.



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Registered Name: National Development Bank PLC

Trade Name:  **NDB bank**

Company Registration No: PQ 27

RATING AA(-) lka
(stable outlook)
by Fitch Ratings Lanka Ltd.



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This Annual Report is published within three months from the date of the Statement of Financial Position. The HTML and Video versions are also published on-line on the same date as the date of issue of this Annual Report at

<http://www.ndbbank.com>

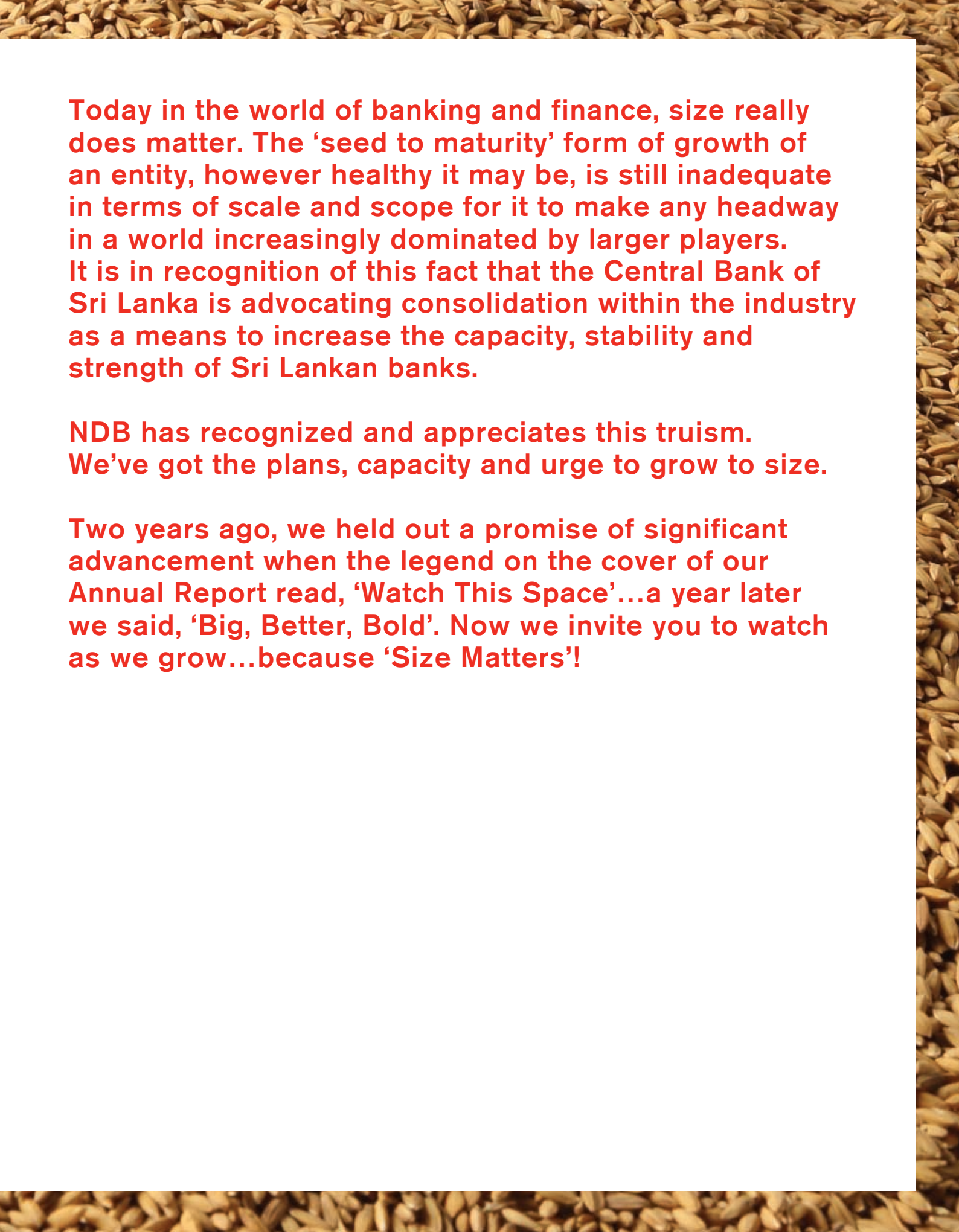
size matters

The extent to which one could harvest prosperity from a mountain of opportunity is in direct proportion to the size and scope of one's enterprise.



About the Iconology:

The icons used in this report relate to grain - more particularly paddy. Rice in plenty is a symbol of prosperity in Sri Lanka. Also featured are traditional instruments of measurement of grain, used in Sri Lanka from times past, to the present.

A decorative border of golden wheat grains runs along the top, bottom, and right edges of the slide. The grains are small, oval-shaped, and have a warm, golden-brown hue.

Today in the world of banking and finance, size really does matter. The 'seed to maturity' form of growth of an entity, however healthy it may be, is still inadequate in terms of scale and scope for it to make any headway in a world increasingly dominated by larger players. It is in recognition of this fact that the Central Bank of Sri Lanka is advocating consolidation within the industry as a means to increase the capacity, stability and strength of Sri Lankan banks.

NDB has recognized and appreciates this truism. We've got the plans, capacity and urge to grow to size.

Two years ago, we held out a promise of significant advancement when the legend on the cover of our Annual Report read, 'Watch This Space'...a year later we said, 'Big, Better, Bold'. Now we invite you to watch as we grow...because 'Size Matters'!



Report Structure

Our annual reporting for the financial year 2013 adopts a different format. It is an integrated report that communicates more coherently and concisely the relationships and interdependence of the many aspects of our business - such as strategy, governance, performance and prospects - in the context of creating value over time.

To balance the twin goals of brevity and completeness we have made use of multiple media. The print version of the integrated report thus provides cross references to additional details that may be accessed by scanning the QR Code found on relevant pages, while one may also visit our interactive online report for a more comprehensive account.

Value Creation and Capital Formation

Although our Annual Report 2012 included a Sustainability Report, commencing with this Annual Report 2013, we have chosen to seamlessly integrate financial reporting and sustainability reporting to better describe the duality of our purpose, namely, deriving value and delivering value that leads to internal and external capital formation. Our internal capital formation is a result of value created by the Bank for itself and comprises financial capital and institutional capital. Our external capital formation is a result of financial and non-financial value created by the Bank for its stakeholders. Both aspects are relevant as the ability of the Bank to create value for itself is linked to the value it creates for others. These concepts are discussed in greater detail on pages 27 to 75.

In preparing this report we have, where applicable, drawn on concepts, principles and guidance given in the following;



Global Reporting Initiative (GRI) Sustainability Reporting Guidelines G4 (2013)

[www.globalreporting.org]

the International Integrated Reporting Framework (2013)

[www.theiirc.org]

and the Smart Integrated Reporting Methodology™

[www.smart.lk]

Report Boundary

National Development Bank PLC ('Bank') and its subsidiaries and associate companies are collectively referred to as 'Group' in this Annual Report 2013.

The subsidiaries and associates of the Group are consolidated with the Bank for both financial and non-financial reporting based on the shareholding control that the Bank has in these Group Companies.

Compliance

The Bank's Annual Report 2013 covers the 12-month period 1 January to 31 December 2013, and is consistent with our usual annual reporting cycle for financial and sustainability reporting.

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.

This report is in accordance with the core criteria of the GRI Sustainability Reporting Guidelines. There are no restatements of information provided in previous reports and no significant changes from previous reporting periods in the scope and aspect boundaries.

Queries

We welcome your comments or questions on this report.

You may contact:

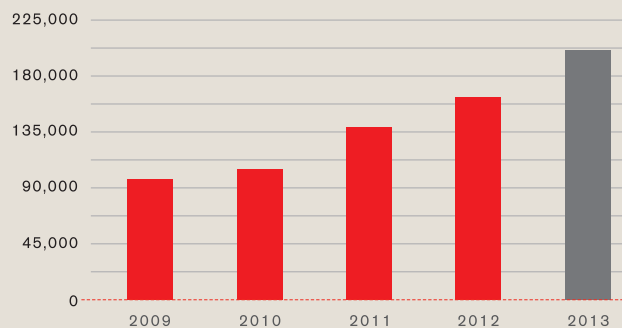
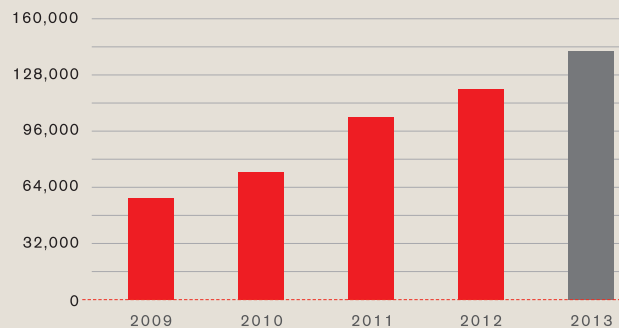
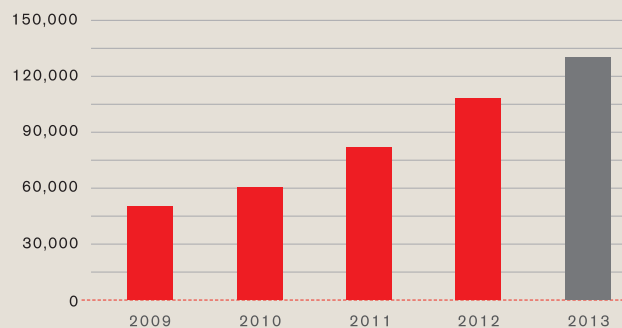
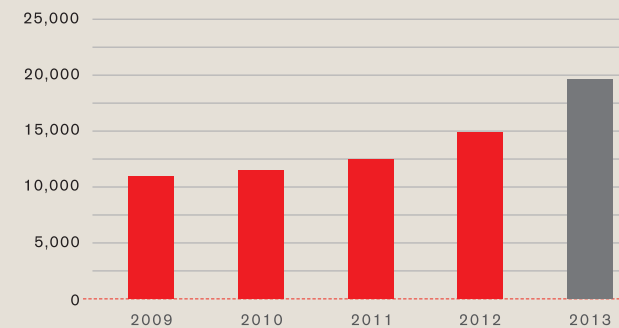
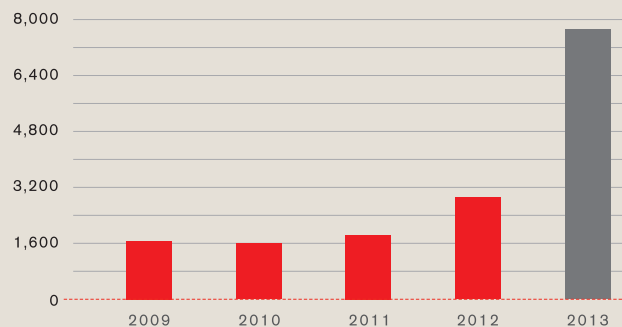
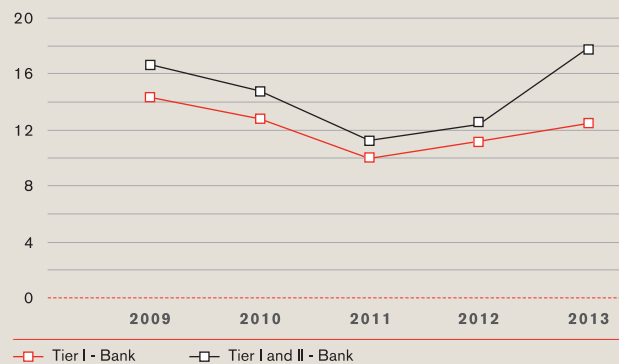
Mr Dhanan Senathirajah
Vice President - Finance & Planning
National Development Bank PLC
No. 40, Navam Mawatha
Colombo 2.

Email: ghanan.senathirajah@ndbbank.com



→

	Bank			Group		
Operating Results for the Year (LKR '000)	2013	2012	% Change	2013	2012	% Change
Net Interest Income	6,812,107	5,596,965	22	7,011,578	5,818,928	20
Total Operating Income	15,864,917	8,815,216	80	11,549,041	14,939,091	(23)
Net Operating Income	14,626,715	8,709,104	68	10,288,276	14,887,712	(31)
Operating Expenses	4,944,203	4,102,193	21	5,563,875	4,496,839	24
Profit before Value Added Tax on Financial Services	9,682,512	4,606,911	110	4,724,401	10,390,873	(55)
Taxation	1,959,276	1,682,953	16	2,061,393	1,897,654	9
Profit After Tax	7,723,236	2,923,958	164	2,712,228	8,931,939	(70)
Profit Attributable to Shareholders	7,723,236	2,923,958	164	2,641,925	8,853,821	(70)
Gross Dividends for the year	1,646,930	2,463,029	(33)	1,646,930	2,463,029	(33)
Revenue to Government	1,764,828	1,644,953	7	1,871,262	1,859,654	1
Assets and Liabilities (LKR '000)						
Customer Deposits	129,830,029	107,600,583	21	129,421,813	107,393,866	21
Loans and Receivables	141,650,632	120,098,824	18	141,710,813	120,145,500	18
Investments	52,242,395	29,412,686	78	55,690,627	37,913,588	47
Total Assets	201,258,628	163,474,296	23	206,817,121	174,103,071	19
Borrowings	46,556,578	34,932,507	33	46,526,578	34,892,582	33
Total Liabilities	181,638,150	148,531,895	22	181,455,467	148,393,619	22
Retained Earnings	15,653,260	12,046,256	30	20,731,801	22,216,054	(7)
Shareholders' Funds	19,620,478	14,942,401	31	24,513,806	24,883,041	(1)
Profitability (%)						
Net Interest Margin	3.74	3.74	(0)	3.68	3.72	(1)
Cost to Income Ratio	31.16	46.54	(33)	48.18	30.10	60
Non-Performing Loans Ratio	2.48	1.31	89	2.48	1.31	89
Return on Assets	4.24	1.94	118	1.39	5.59	(75)
Return on Equity	44.69	21.17	111	10.70	42.35	(75)
Investor Information (LKR)						
Net Asset Value per Share	119.13	91.00	31	148.85	151.54	(2)
Market Value per Share - as at 31 December	160.50	137.90	16	160.50	137.90	16
Market Value per Share - Highest for the year	182.50	155.00	18	182.50	155.00	18
Market Value per Share - Lowest for the year	138.00	96.00	44	138.00	96.00	44
EPS - Basic	46.96	17.81	164	16.48	55.31	(70)
EPS - Diluted	46.95	17.80	164	16.47	55.29	(70)
PE Ratio (%)	3.42	7.74	(56)	9.74	2.49	291
Dividend Per Share	10.00	15.00	(33)	-	-	-
Dividend Cover (Times)	4.70	1.19	296	1.65	3.69	(55)
Market Capitalization (LKR '000)	26,433,232	22,643,442	17	26,433,232	22,643,442	17
Regulatory Ratios (%)						
Capital Adequacy Ratio						
Tier I - (Minimum Ratio of 5%)	12.05	11.14	8	15.15	18.72	(19)
Tier I & II - (Minimum Ratio of 10%)	17.87	12.38	44	21.04	20.66	2
Statutory Liquid Asset Ratio						
DBU	26.22	22.02	19	26.22	22.02	19
FCBU	26.06	24.92	5	26.06	24.92	5
Debt Ratios (Times)						
Debt/Equity Ratio	8.99	9.54	(6)	7.18	5.87	26
Total Leverage	10.26	10.94	(6)	8.44	7.00	21
Interest Cover	1.49	1.49	0	1.51	1.51	(0)
Interest Rate of Comparable Government Security	10.63	12.02	(12)	10.63	12.02	(12)

Total Assets [LKR mn]**Loans and Advances [LKR mn]****Customer Deposits [LKR mn]****Shareholders' Funds [LKR mn]****Profit After Tax [LKR mn]****Capital Adequacy [%]**

INVESTORS

Achieved a record profit of

LKR 7.7 Bn

the highest ever in the history of the Bank

Total assets crossed the

LKR 200 Bn

mark

Customer deposits grew by

21% to

LKR 130 Bn

and Loans and Receivables grew by

18% to

LKR 142 Bn

Raised **LKR 10 Bn**

via a listed debenture issue, the largest ever in the corporate history of Sri Lanka to date

Market capitalization increased to

LKR 26.4 Bn from **LKR 22.6 Bn**

in 2012

Well capitalized with a Tier I CAR of

12.05% and a Tier I & II CAR of

17.87%

CUSTOMERS

Launched **"9-6"**

Full Service Banking



Positioned 8th in the Business Today

"Top 25"

ranking



Branch network reached 78 with the

9 new Branches

opened during the year



Recognized as the "Best Commercial Bank in Sri Lanka" by the renowned International Finance Magazine UK.

Awarded for excellence in Corporate Governance at the National Business Excellence awards by the National Chamber of Commerce.



Launched **"Privilege Select"**

as the pinnacle of Private Banking in Sri Lanka



EMPLOYEES

Staff strength increased by **14%** to reach **1,583**



Average training per employee increased to **7.93** hours from **6.74** in 2012

Recognized with the coveted “Global HR Excellence Award” and “Recruiting and Staffing Best in Class Award” from the World HRD Congress, India.

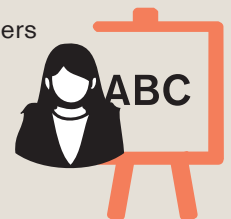


SOCIETY AND ENVIRONMENT

Recycled 26,505 kgs of waste paper, equivalent to saving 450 fully-grown trees.



179 secondary schoolteachers completed the English Communication Programme in 2013



433

university students were trained on entrepreneurship during 2013

Emerged as the winner in the Category Award for Best Performance in Community Relations at the Best Corporate Citizens Sustainability Awards of the Ceylon Chamber of Commerce



Continued to source stationery requirements from ‘St. Vincent’s Home’ at Maggona, a home for juvenile delinquents.



We are at a pivotal moment in history. Thanks to the end of the 30-year conflict, the economic growth of the post-war years and a favourable economic outlook, Sri Lanka now has an unprecedented opportunity to surge ahead in the next decade. This opportunity must not be wasted.

Dear Shareholders,

Nearly six years after the global financial crisis began, the world's economic recovery still remains fragile. Developed countries struggle with high unemployment and weak economic growth. Developing countries are growing more slowly than before the crisis.

There are other challenges that could pose new threats to global economic recovery. Conflict and political instability present major risks because they decrease the utilization of productive capacity and create long-term obstacles to development. Moreover, a warming planet could increase the prevalence and size of drought-affected areas, and make extreme weather changes more frequent, with unpredictable costs in terms of lives and financial resources.

The world economy had a mixed 2013. For many countries it was still a struggle, with the eurozone in recession for much of the year and living standards in most of the developed world still below their 2007 peak. But by the end, even the laggards had started to catch up, and for them the long nightmare of recession and its aftermath began to recede.

We continue to see a structural shift from the developed world towards the emerging world. However, growth in China, at 7.7%, and in India, at just below 5%, slowed when compared to the past. In the case of China, this is the lowest growth rate in the last 23 years.

The Sri Lankan Economy

The Sri Lankan economy grew by 7.2% in 2013 largely buoyed by domestic economic activity. The Government also reduced its budget deficit to a 19-year low of 6.4% of the gross domestic product last year from nearly 10% in 2009.

In addition, inflation was contained to single digit levels during the year. Year-on-year headline inflation declined to 4.7% at the end of 2013 when compared with 9.8% at the beginning of 2013. It was also heartening to see the country recording a balance of payment surplus of close to a billion US Dollars. The balance of payment position has improved gradually, now over a 3-year span. Declining imports and growing exports enabled a trimming of the trade deficit by 19%, while the 'invisibles'; worker remittances and tourist earnings grew by double digits, with the latter exponentially by 35%. All this enabled gross official reserves to sit comfortably at 4½ months of imports by year-end 2013.

Going forward, while the GDP growth is expected to be 7% plus, surpassing the rates recorded by most emerging nations, there appears to be a lag effect in the benefit reaching the peripheral economy.



Sri Lanka aspires to be the South Asian economic hub, focused on six hubs, namely, maritime, aviation, commercial, tourism, knowledge and energy. The realisation of this vision will enable Sri Lanka to reach a per capita income level of USD 4,000 by 2016.

The Group

I will not dwell on specific numbers here as they are discussed in the sections that follow.

Our performance was also supported by impressive growth coming from the Investment Banking cluster. NDB Investment Bank was once again recognized as the best investment bank in Sri Lanka by the Euromoney magazine. The restructuring of the Group two years back, enabling NDB Capital Holdings (NCAP) to focus entirely on capital-related markets is seen to pay dividends. NCAP will take a step further by forming a private equity fund management company, thereby taking Sri Lanka's capital markets forward to a new paradigm by leading innovation and change in this sector.

I stepped down from office on 30 November 2013 in conformity with the prevailing Central Bank's Code on Governance. I wish my successor Mr Sunil G Wijesinha the new Chairman and the Board of Directors which includes newly appointed Director Mrs Indrani Sugathadasa every success as the Bank positions to grow from strength to strength in the years ahead.

Let me take this opportunity to thank the Board of Directors, management and staff of the Bank for their unstinted support during my 2 ½ years tenure of office as Chairman. I also wish to acknowledge our customers' trust, confidence and loyalty in the Bank. To the shareholders, I wish to acknowledge your abiding interest in the progress of the Bank and the healthy dialogue we have maintained over the years. Last, but not least, I thank the various regulatory agencies, particularly the Central Bank of Sri Lanka, for their guidance.

Yours sincerely

Hemaka Amarasuriya
Immediate Past Chairman

13 February 2014

It was with great pleasure and excitement that I took office as the Chairman of the Bank in 1 December 2013. Having witnessed from the outside the Bank's phenomenal growth and transformation over the years from a specialized development bank to a fully-fledged banking conglomerate, I am indeed proud to lead the Bank into an exciting future.

Banking Sector Consolidation

The Central Bank of Sri Lanka announced in its Road Map for 2014, the intention to promote consolidation in the banking sector to ensure an industry with an optimum number of players and healthy levels of capital and competition. The regulators have expressed the desire to see the two development lending oriented banks, DFCC Bank and National Development Bank PLC merge in order to create a strong development bank that could provide a broader impetus to development banking activities.

In view of the above, the Board of Directors of both DFCC Bank and your Bank have commenced preliminary discussion with a view to achieving such consolidation. Your Bank is ready to embrace the positive changes that the consolidation of the sector will bring about.

Product Related Development Banking

Though we are considered a fully-fledged commercial bank, there is every reason to believe that the path by which our predecessor Bank trod, since 1979 has not in any way been forsaken to reach out to 'universality'.

'Ceylon Cinnamon' or true cinnamon as it is popularly known is considered as at the finest quality of all cinnamon on the global map. The Government of Sri Lanka while identifying 'Ceylon Cinnamon' as a breakthrough product realizes its potential to increase national income and exports exponentially.

The Bank has pledged its support to this initiative. With this in view, the Bank is pioneering the concept 'Cinnamon to the World' and aims to empower all stakeholders in the cinnamon industry in order to stimulate cinnamon export growth during the Bank's current planning cycle. The Bank's new initiative will extend support to home growers and large scale exporters and go beyond financing to include empowerment, encompassing the true spirit of development banking.

While there is a tendency for smallholders to stay outside the banking system, the Bank has reached out to them through microfinance facilities. As a new initiative, a sample of 80 selected home growers in the Matara District will form the nucleus of a pilot project which will then be expanded to other areas.

The Bank has supported the local tea industry, consisting of a majority of smallholders for over 30 years. The Bank supports the industry by providing financial assistance for capital expenditure for start-up and expansion projects. We have also developed a customized working capital loan product for tea factories, a first in the industry. By setting up regional SME Centres in the plantation districts, the Bank will provide convenient access to the industry to benefit from speedy delivery of financial and advisory services.

Our Bank has pioneered product lending to the SME sector to the tune of supporting over 90,000 ventures while creating in excess of 900,000 employment opportunities. We firmly believe that the global economic recovery will be led by the SME sector and intend to be in partnership with their progress.

Dividends to Shareholders

The Bank has consistently maintained a high dividend payout ratio in relation to its peers. The primary purpose of the Bank's dividend policy is to maximize the value of shareholders' returns and to reward shareholders with consistently high returns commensurate with the Bank's performance.

I wish to thank Mr Hemaka Amarasuriya, who retired as Chairman in November 2013, for his invaluable contribution and service to the Bank. I also welcome our new Chief Executive Officer Mr Rajendra Theagarajah, a veteran banker with a wealth of experience in the financial services sector.

It has been a good year – indeed a pivotal year – in which the careful plans we had approved began to take shape with the broadening and strengthening of our platforms and the deepening of our customer experience. Our focus for 2014 is unequivocal and unchanged, ensuring that our Board and our Management Team will produce the right conditions for delivering strong performance for you, our shareholders – performance that will validate your confidence in the NDB Group.

I look forward to an exciting future for the Bank based on its strong capital base, operational excellence, visionary leadership and talent.

Yours sincerely,



Sunil G Wijesinha
Chairman

13 February 2014



Change is in the air. Sri Lanka's banking industry is not going to be what it used to be. The Bank too is no longer what it used to be. Today, the Bank and the Group are stronger than ever to play a crucial role in the emerging scenario. They hinge on a few critical success factors, discussed below.

A unique business model built on synergy

Commencing business as a traditional development finance institution over three decades ago, the Bank subsequently diversified and transformed itself into a successful Licensed Commercial Bank in 2005. Notwithstanding the change in legal form, it is an institution that did not abandon its roots. Rather, its development banking heritage provided the required synergy and an edge over its peers in the commercial banking space.

Our approach to 'development' – like Maslow's hierarchy of needs – begins with fulfilling a customer's basic survival and sustenance needs. That makes us offer products such as housing finance and savings solutions. Moving one step higher, we nurture micro, small and medium entrepreneurs across the country with not only financial assistance but also through a host of complementary support services. Moving up further to emerging businesses, we have assisted thousands in the middle market segment to blossom and grow. At the top end of the pyramid, we support large corporates seize the next wave of growth opportunities through a full suite of commercial, development and investment banking products and services that are delivered seamlessly through a diversified financial conglomerate – the NDB Group.

Exemplary financial results

Our best ever financial performance during the year saw many firsts for the Bank.

The Bank's profit after tax reached an unprecedented LKR 7.7 bn, a staggering 164% year on year growth, albeit inclusive of an exceptional equity gain of LKR 5.3 bn arising from a strategic divestment.

Amidst an environment of steadily declining margins, the Bank successfully defended its position and maintained its net interest margin at 3.74% for the second successive year.

The total operating income of the Bank - comprising net interest income, fee and commission income and net trading income - achieved an impressive 80% year on year growth to reach LKR 15.9 bn. However, the corresponding growth in net operating income was limited to 68% due to impairment losses totalling LKR 1.2 bn during the year. This was a result of increased stress levels within the industry for loan recoveries, and the Bank's prudent adoption of fair valuing the impaired loans based on sound judgment and objective evidence on future recoveries.

Effective cost management remained a key strategic priority throughout the year, and will continue to be so going forward. The Bank's cost to income ratio, excluding the exceptional equity gain noted earlier, increased marginally from 47% to 51%. This, however, has to be viewed in the context of the addition of nine new branches during the year and the lag effect in reaping the benefit stream.

The Bank's total assets crossed the LKR 200 bn threshold with an impressive 23% year on year growth, ahead of an industry growth rate of 17%.

In our core business, we again outperformed the industry in both advances and deposit growth. Loans and advances grew by 18% to LKR 142 bn, while customer deposits increased by 21% to reach LKR 130 bn. Such performance sends out a strong signal of our appetite to get bigger and bolder in playing an increasingly important role in supporting the economic resurgence of Sri Lanka.

Our Group companies, primarily the investment banking cluster, posted excellent results. The cluster also set the benchmark for the investment banking industry in the country by winning international awards for the second successive year.

Space to grow through a rich repository of capital

A robust capital base continues to provide the bedrock for the Bank to grow. The year saw us raise a landmark LKR 10 bn through a rated, unsecured subordinated redeemable debenture issue which is the single largest quantum of funds raised through a listed corporate debenture issuance to date in the country.

The Bank's regulatory capital reached LKR 27 bn, with capital adequacy ratios (CAR) being maintained well above the minimum regulatory requirements. Tier I CAR stood at 12.05% (against a minimum of 5%) while the combined Tier I & II CAR was 17.87% (against a minimum of 10%) by year end.

Such a large capital cushion gives us the space to realize our ambitious growth plans profitably with adequate leeway to weather any potential downside business risks.

Strategy driven performance backed by an engaged Board

We have articulated a strategic plan spanning five years. Prepared in-house, and driven by a mature and industry savvy Board, it is designed for growth and to raise performance all round.

Broadly, our strategy is well aligned with national priorities and the targeted growth sectors. Our commitment to the SME sector will remain strong as ever, while we also envisage playing a significant role at the larger end, such as project and infrastructure financing.

Going forward, we see future profitability being strongly anchored by the effective deployment of information and communications technology and cost management. Our 'seven pillars of strategy' provide all members of staff the right degree of motivation, a sense of purpose and clear direction in creating value for the Bank as well as its stakeholders.

On the subject of value creation, readers will observe that we have adopted a new approach to annual reporting. Our Annual Report 2013 is an integrated report that aims to communicate more coherently and concisely the many aspects of our business in creating value, both for itself and to its key stakeholders. Integrated reporting is a relatively new phenomenon that is gaining ground globally, duly supported by technology - such as online, mobile and video - to communicate the organization's message more effectively.

Well aligned to embrace change

I began my review with a reference to change. The Road Map released by the Central Bank of Sri Lanka in January 2014 is a much welcomed direction in terms of banking consolidation. As the first mover, the Bank has already announced its intent of entering into merger talks with DFCC Bank to create a strong development bank of significant strength and stature - an institution that will be one of Sri Lanka's systemically important banks in the next few years. After all, size does matter.

Before I conclude, I wish to thank the Chairman and Board of Directors for their counsel, staff for their solid performance, customers for their loyal patronage and all other stakeholders whose relationships we value.

The Bank bade farewell to two pillars of strength in 2013. The immediate past Chairman Mr Hemaka Amarasuriya and the immediate past CEO Mr Russel De Mel are greatly appreciated for their guidance in taking the Bank and the Group to what it is today. We also warmly welcome Mr Sunil Wijesinha, a seasoned professional with executive leadership in financial services and manufacturing, as our new Chairman.

We are riding a wave that holds potential as well as challenges. As movers and shakers we are well equipped to take them on. To paraphrase Victor Hugo's well-known quote, nothing is more powerful than an opportunity whose time has come. And we are ready to seize the moment.



Rajendra Theagarajah
Chief Executive Officer

13 February 2014





Organizational Profile

Legal Form

Tracing its origins to 1979 as a state-owned development bank set up under the National Development Bank of Sri Lanka Act No. 02 of 1979, National Development Bank PLC ('Bank') today operates as a Licensed Commercial Bank under Section 5 of the Banking Act No. 30 of 1988 (Refer Corporate Information on pages 296 and 297 for further details). The Bank is listed on the Colombo Stock Exchange, and comprises 19% individual and 81% corporate shareholders, both Resident (70%) and Non-Resident (30%).

The Bank's Registered Office and principal place of business are situated at No. 40, Navam Mawatha, Colombo 2, Sri Lanka.

Group Structure

The main activities of the Bank, its subsidiaries and associate companies ('Group') encompass retail banking, Small and Medium Enterprises (SME) banking, corporate banking, project & infrastructure financing, investment banking, leasing, housing finance, investments advisory and securities trading, wealth management, property management and bancassurance. They are delivered through the core banking activities of the Bank and the Group companies of which, the principal activities are listed below.

Name of Group company	Domiciled in	Bank's direct holding, %	Bank's indirect holding, %	Principal activities
NDB Capital Holdings PLC	Sri Lanka	99.6%	–	Full Service investment banking
NDB Investment Bank Ltd.	Sri Lanka	–	99.6%	Investment banking
NDB Securities (Pvt) Ltd.	Sri Lanka	–	99.6%	Investment advisory and securities trading
NDB Wealth Management Ltd.	Sri Lanka	–	99.6%	Wealth management
NDB Capital Ltd.	Bangladesh	77.8%	–	Investment banking
Development Holdings (Pvt) Ltd.	Sri Lanka	58.7%	–	Property management
Maldives Finance Leasing Company (Pvt) Ltd.	Maldives	35%	–	Leasing
Ayojana Fund (Pvt) Ltd. (Under liquidation)	Sri Lanka	50%	–	Venture capital
NDB Venture Investments (Pvt) Ltd. (Under liquidation)	Sri Lanka	50%	–	Venture capital

Markets Served

The Group's significant operations are located within Sri Lanka, with services delivered through locally domiciled entities.

The Bank operates a network of 78 branches (2012: 69) that are categorized into eight Regions. They cover 22 districts in the nine provinces of the country, and serve 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 reaches out to its customers through automated distribution systems such as ATMs, Internet banking, telemarketing, call centre, a mobile commerce application (MPOS) and a unique Feet on the Street sales force.

(Refer Customer Capital on pages 55 to 61 for further details).

Scale of Operations

Total operating income of the Group for the year ended 31 December 2013 was LKR 11,549 mn, with a Profit Attributable to Shareholders of LKR 2,642 mn. Total assets of the Group grew by 19% to LKR 206,817 mn during the year, driven largely by a commendable growth of 18% in Loans and Receivables and a 47% increase in the Investment Portfolio.

The Bank's market capitalization stood at LKR 26,433 mn as at 31 December 2013, and was ranked No. 20 amongst the 289 listed companies on the Colombo bourse.

In terms of market share in the Banking industry, the Bank claimed a 3.8% share in Loans and Receivables, 2.9% share in Customer deposits and 3.2% share in Total Assets within the industry while being ranked 9 in each of those three segments. The industry comprises of 24 Licenced Commercial Banks and 9 Licenced Specialized Banks, 33 players in total.

The Bank's staff strength increased by 13% to 1,583 persons by end 2013 to support business growth, with the corresponding figure for last year being 1,389.

Although the Bank does not have any employees covered by collective bargaining agreements, it encourages an open door policy and has in place many mechanisms to encourage employees to discuss their grievances.

Operating Environment

The Macro Economic Analysis

The Global Economic Performance

The global economy grew at a moderate pace during 2013 at 3.0% exceeding the expectation of 2.9% as set out by IMF in October 2013. This growth however is marginally lower than the 3.1% recorded in 2012. This reiterates that the global economic growth continues to encounter several challenges across emerging and developing economies.

The emerging and developing economies largely benefited from increased demand from advanced economies. The same economies continued to be the major contributors of the global growth, continuing the shift in world economic powers towards them. However several risks remained, arising from the continued uncertainty regarding the US debt ceiling and the impact of the possible tapering of quantitative easing measures on emerging market economies.

Drivers of Global Growth

Advanced economies grew by 1.3%, a large share of this growth coming from the US with the easing of fiscal consolidation measures and a continuation of supportive monetary policy measures. The European Union also experienced further recovery as indicated by continued improvement in business indicators.

Emerging market economies slowed down during the year, growth being restricted to 4.7%, compared to 4.9% in 2012. India, Brazil and Central and Eastern Europe experienced sound growth over the year. China continued to hold its ground at 7.7% growth while the growth rate in Russia declined from 3.4% in 2012 to 1.5% in 2013. Among other countries that reported growth rates lower than 2012 who accounted for most of the decline in overall emerging markets segment were ASEAN countries, Mexico, Middle East and North African countries. Tightening credit conditions in response to the expected unwinding of quantitative easing measures adopted by advanced economies, capacity constraints and less room for policy to support growth were some of the reasons for the recorded slowdown in these emerging market economies.

Global Inflation Levels

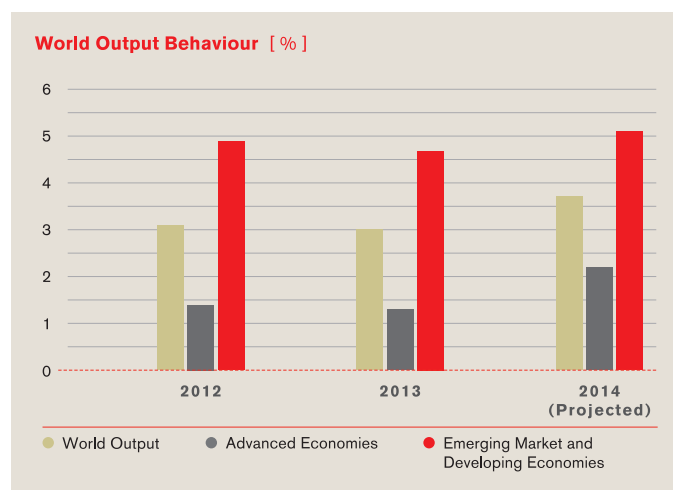
Global inflation remained moderate and subdued with the easing of commodity prices and continued negative output gaps in advanced economies. However, inflation levels were exposed to the risks of the on-going instability in the Middle-East, with its potential impact on international oil prices. In advanced economies, inflation remained below target levels. In the European Union, slow growth and downward pressure on wages contributed towards maintaining inflation below targeted levels.

Future Expectations for Global Growth

Growth expectations are ambitious for the years ahead. The global economy is expected to grow by 3.7% in 2014. Advanced economies are expected to grow by 2.2%. United States is expected to grow by 2.8% fuelled by increased domestic demand and reduction in fiscal drag as a result of the recent budget agreement. Growth in the European Union is projected to strengthen to 1% in 2014 with much contribution anticipated from exports as opposed to domestic demand. On the emerging markets and developing economies, a 5.1% growth is anticipated for 2014.

World output: Past, present and future

	2012	2013	2014 (Projections)
World Output	3.1	3.0	3.7
Advanced Economies	1.4	1.3	2.2
Emerging Market and Developing Economies	4.9	4.7	5.1



Sources: "World Economic Outlook Update – January 2014" of the IMF.



Sri Lankan Economic Performance

Economic Growth

The economic growth was impacted by unfavorable weather conditions, subdued global growth and the lag effect of tight monetary policy measures introduced during the first half of 2012. However, the country managed to grow at a pace faster than most emerging economies at 7.2%.

Inflation

Inflationary pressure remained at benign single digit levels during the year, resulting from prudent demand management policies, stable international commodity prices and significant improvements in domestic food supplies. Year-on-year headline inflation declined to 4.7% in December 2013 from 9.8% in January 2013, while core inflation declined to a record low level of 2.1% in December 2013, on a year-on-year basis. Going forward, inflation is projected to remain at single digit levels during the remainder of 2014.

Balance of Payment

Exports recorded growth on a year on year basis, which were mostly supplemented by growth in tea and recovery of textile and garments. Overall import expenditure also dropped (during the first eight months of the year) as a result of policy measures adopted in 2012 to rationalize imports, lower demand for intermediate goods, mainly of petroleum and petroleum related products due to lower thermal power generation and revisions to customs duties together with reduced input demand from export industries and moderating international commodity prices. Reversing the deficit of USD 169 mn recorded during the first half of 2013, the overall BOP is estimated to generate a surplus of USD 990 mn for 2013, mainly benefiting from an improvement in the trade account, higher receipts from tourism and workers' remittances, increased inflows to the corporate and banking sectors, including the receipt of proceeds from the bond issue of the National Savings Bank in September and inflows to the banking sector.

Exchange Rates

The exchange rate policy in 2013 focused on maintaining flexibility in the determination of the external value of the Sri Lanka rupee. The Sri Lanka rupee which was stable until mid-June 2013, depreciated through August 2013 responding to market conditions. With the receipt of higher foreign exchange inflows to the banking sector, the rupee stabilized thereafter. Accordingly, the Sri Lanka Rupee depreciated against the US dollar only by 2.75% during the year to 31 December 2013, which is a minimal depreciation compared to few other Asian currencies.

Fiscal Management

Fiscal management was challenging during the first half of 2013, predominantly resulting from reducing government revenue. However, government expenditure was maintained within budgetary targets during the same period. As a result, the overall budget deficit during the first half of 2013 was 4.3% of projected GDP. The budget deficit for the year is estimated at of 5.8% for 2013.

Interest Rates

Easing monetary policy stance adopted by the Central Bank of Sri Lanka (CBSL) resulted in market interest rates being adjusted downwards during the year. Lowering of policy interest rates and the Statutory Reserve Ratio, increased levels of liquidity and improved foreign investor appetite, however together with lower credit disbursement by banks to the private sector exerted downward pressure on the yield rates of government securities and the same was witnessed in deposit rates within the banking sector to the public.

Banking Sector Performance

Asset Growth

The banking sector performed moderately well during the year, recording a growth of 16.6% in assets, the total assets nearing the LKR 6 tn mark. Credit growth saw moderation during the year mainly due to improvements in the fiscal consolidation, reforms in the state owned enterprises and the unexpected reduction in gold prices. The majority of the growth was generated by the Licensed Commercial Banks.

Main contributor towards the overall increase in the asset portfolio was the increase in investments, which recorded a 39% growth in 2013, compared to 15% in 2012.

Non Performing Loans (NPLs)

NPLs increased during the year across the industry owing to increased stress levels in loan recoveries, predominantly in the gold pledged loans category as a result of the decline in the price of gold across the world. The gross industry NPL ratio as at 31 December 2013 was 5.6% as compared to 3.7% for 2012.

Profitability

Profitability of the banking industry experienced a dip with a negative growth of 9.8% at Profit After Tax level, as compared with a positive growth of 26% for 2012.

Highlights of the Banking Sector - Growth Rates in Key Performance Indicators

KPIs	Growth in 2013	Growth in 2012
Total Assets	16.6%	19.9%
Loans & Receivables	8.8%	21.1%
Investments	39.3%	15.2%
Cash & Dues from Banks	8.3%	17.2%
Deposits	15.0%	18.0%
Borrowings	26.1%	26.7%
Capital Funds	12.7%	17.5%
Net Interest Income	(0.2%)	19.5%
Profit after Tax	(9.8%)	25.9%

* Source - Publications by Central Bank of Sri Lanka

National Vision and the Banking Sector

Sri Lanka aspires to be a South Asian economic hub, focused on five hubs - maritime, aviation, commerce and tourism, knowledge and energy. Underpinned by this vision, the Sri Lankan economy is targeted to grow at 6 to 7% annually and reach a per capita income of USD 4,000 by 2016.

Realization of this vision will, inter alia, require a paradigm change in the local banking sector. We see immense prospects for direct loans and syndications, project financing, SME development as well as roles in FDIs, mergers and acquisitions (M&A) and initial public offerings (IPO) in a growth focused economy. At the same time a few issues regarding the financial services sector and the banking sector in particular, need to be addressed.

Implications for the Banking Sector

The CBSL has announced a clear Road Map for the Banking and Finance sector, aimed at developing an industry comprising of an optimum number of players and healthy levels of competition among them. This Road Map envisioned for 2016, aims for the industry to have at least five Sri Lankan banks with LKR 1 tn or more assets, thereby such banks having a strong regional presence.

The Road Map has also brought to light the need for a large Development Bank that will provide substantial impetus to development banking activities in the country. We believe that the Bank has a very prominent role to play in the CBSL's vision for the future of the banking and finance industry. The Bank is ready to embrace and welcomes positive changes that these new initiatives will herald.

Strategic Direction

Backed by a strong balance sheet and a dynamic and capable team, the Bank is well poised to play a leading role in supporting the national vision and the emerging scenario in the banking sector.

The Bank has in place a very clear strategy spanning the medium and the long term, which well aligns the Bank's vision, mission and values in to one nexus. This strategy spans across 2014 to 2018 and has been developed in consultation with the management and the Board of Directors. Thus, this strategy well encapsulates the thoughts and opinions of the very people who will be driving and actualising this strategy. The Bank remains strongly committed to an exemplary corporate governance regime and the propagation of a truly sustainable business model that nurtures and delivers value to all its stakeholders.

The Bank has defined clear and ambitious growth targets in the five year strategy covering key areas of market share, maximising sustainable profits, effective cost management, balance sheet growth, return on assets, return on equity, asset quality and a strong capital base. The articulation of this strategy is not devoid of the national growth prospects and economic conditions. We have well taken in to consideration the direction and the momentum of the national economic development that the country aspires to achieve. Strengthening of the SME and micro business sectors embedded within a rural centric development strategy, per capita income target of USD 4,000 by year 2016, construction, power and tourism industry resurgence are few such national development priorities that we have captured in our business strategy.

The projected growth in the Banking Industry will be stimulated by the large business opportunities arising via the South Asian Economic Hub concept discussed earlier. The Group, as a financial conglomerate has inimitable in house expertise in all of these key areas and is well prepared with their five year strategy to efficiently grasp and execute on these new developments as they unfold.

The Strategic Approach

In realising the above strategy, the Bank has identified seven pillars of strategic execution backed by a strong Corporate Governance framework and staying committed to Corporate Social Responsibility.

The seven pillars of strategy execution

- **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.
- **Operational excellence**
Focusing on customers' needs; keeping employees energized and empowered; continuous improvement of systems and procedures to achieve greater efficiency and effectiveness.
- **Strong sales culture**
Identifying and optimizing customer value creation; capitalizing on cross selling opportunities.
- **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.
- **Cost optimization**
Balancing costs and benefits without compromising on the brand value of the Bank.
- **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 a streamlined work processes to enable flawless administration and execution.
- **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.

Stakeholders

Stakeholder Identification

Our stakeholders are persons or organizations who may be significantly affected by our activities; and in turn, whose actions may affect our ability to perform successfully. In this context the primary stakeholders of the Group comprise our shareholders, customers and business partners, employees, regulators and analysts, and the society and environment in which we conduct our business.

Stakeholder Engagement

Engagement with stakeholders is both programmed as well as ad hoc. Often it is a combination of both, and based on statutory as well as business interests. Simply, when the Bank owns or controls the capital ('capital' in the broader context is discussed on pages 30 to 75, the Bank's management and those charged with governance are accountable through applicable laws and regulations, which in turn prescribe the engagement process. On the other hand, when the capital is not owned or controlled by us, we still maintain an ethical responsibility that is guided by striking a balance between stakeholder expectations and business interests.

For example, we engage with customers on a day-to-day basis through a variety of channels, both tangible and intangible, while engagement may also be undertaken for a specific purpose. They are largely driven by ethical business interests. On the other hand our stewardship role - particularly in relation to investors - places certain additional legal responsibilities.

Concerns raised by stakeholders are usually dealt with at the time of questioning. During the year, shareholder queries were largely on matters such as return on equity, capital, interest margins, taxation, loan growth and deposits. Employees' concerns - mainly on work-life balance, compensation review and training & development - were addressed through internal mechanisms.

A detailed description of the Bank's engagement with its key stakeholders are given in the web version of this Annual Report.

Commitments to External Initiatives

As a responsible corporate citizen with a strong local presence but with a global outlook, we participate in several activities through memberships and affiliations. In the year 2013, the Bank renewed its membership with the Asia-Pacific Rural and Agricultural Credit Association (APRACA). The role of APRACA is to promote cooperation and facilitate mutual exchange of information and expertise in the field of rural finance.

Ethics and Integrity

A Vision Underpinned by Values

The Bank takes pride in the five values adopted by itself. These five values are Integrity, Care, Passion, Teamwork and Service. Utmost importance is placed in ensuring that all staff members display these five values in all aspects of their daily work, in dealing with their colleagues and superiors and in dealing with the customers of the Bank.

As the Bank grows it has taken measures to incorporate these values in daily work by making them more demonstrative through specific competencies. These competencies are internalized in employees through recruitment, training, performance management and other human resources related activities.

Translating Values into Practice

The values of the Bank are instilled in several ways. At the time of induction, employees learn how values impact on the Bank's core competencies, while these are reinforced during day to day work as well as formal performance evaluations. In addition, an 'In Retrospect' programme is conducted for those completing one year at the Bank, which serves as a forum to elicit both difficulties faced in working within the values framework as well as to share best practices established by them.

Core Competencies	Value Drivers		
Customer focus	Service	Care	Passion
Superior execution	Integrity	Passion	Care
Openness to innovation and change	Passion	Service	Teamwork
People leadership and development	Care	Teamwork	Passion
Growth and commercial mind set	Passion	Service	Teamwork
Teamwork	Care	Passion	Service

A higher degree of onus and expectation are placed on the Leadership Team for the achievement of the Bank's core competencies within the values framework.

While we emphasize on superior execution and commercial mindset that lead to value creation for shareholders, we ensure that these are achieved within our values by upholding ethical and transparent business practices.

Our Values and the Supply Chain

Stemming from the above, we have also begun to take a closer look at our business boundary where we interface with suppliers and business partners. We recently reviewed our procurement practices, particularly in the context of labour and environmental aspects of our suppliers, and have introduced a comprehensive 'Sustainable Supply Chain Management' process. This includes a code of conduct and checklist covering economic, social and environmental criteria.

All procurements are done locally.

A responsible supplier with shared values is not only a welcome member of our extended business family, but is also one that mitigates risks against our reputation and business continuity.

Management Approach

A Framework for Discussion

Our discussion on management approach outlines how the Bank's economic, social and environmental impacts are managed. Accordingly, we will first identify aspects that are material to the Bank and its stakeholders. We regard an aspect to be material if it substantively affects the Bank's ability to create value over the short, medium and long term. Relevance and importance thus determine materiality, with

importance taking cognizance of both the magnitude of the impact as well as its probability of occurrence.

The brief discussion that follows on economic, social (sub-divided into customers, employees and society) and environmental aspects are based on why we consider the aspect to be material, what we do to manage them and how we evaluate our approach and results. They are elaborated further in the next section on Management Discussion and Analysis in the context of deriving and delivering value.

Material Economic Aspects

Economic Performance

Economic performance is important for a business to grow and prosper in the long term. The benefits are not limited to the business, as they also contribute to the well-being of the local community and ultimately the growth and prosperity of the economy at large. Positive economic performance is a win-win approach to a sustainable business. The Bank adopts a four-pronged approach to manage its economic performance, namely, strategic vision, goals, targets and performance monitoring. They are underpinned by the Bank's core competencies and values that were discussed earlier.

Market Presence

A broad geographical presence is important for business segments such as SME financing and retail fund mobilization. The benefits are mutual: local hires improve the diversity within the management team; they provide fresh insights on local needs that may also be replicable elsewhere, while the local community too enhances its human capital. The Bank has consistently expanded its market position through organic growth in the past, and is represented in every province and 22 districts of the country.

Indirect Economic Impacts

In addition to direct value creation and distribution through our own operations, the Bank's investments and market presence impact on the local communities in many ways. They include jobs created or supported in the supply chain, development of skills and knowledge, attracting investment, etc. The Bank's strategic planning and management of its economic performance give rise to direct and indirect economic impacts that contribute to value creation and a sustainable business.

Material Social Aspects

Customers

Product and Service Labelling

In this technologically savvy, data-driven society consumers demand clear information and transparency before making a purchase. Furthermore, with the popularity of social media as well as social interest groups there are several avenues for dissatisfied customers to air their grievances, let alone seek legal action if product information had been misleading. Furthermore, as financial products and services are often perceived to be complicated, the Bank takes great care in providing accurate and relevant information in a manner that could be easily understood by a layman.

Marketing Communications

Inaccurate or misleading communications could lead to financial loss through fines and penalties, as well as loss of reputation, public trust and customers. The Bank has in place marketing communications guidelines to ensure that all applicable laws, codes of conduct as well as business ethics are strictly followed. This includes advertising, promotion and sponsorship of products and services. All marketing communications material are subject to a three-layer checking process.

Customer Privacy

Banks are privy to sensitive and confidential financial information pertaining to customers, who in turn place high importance on the privacy and security of such information. A breach in customer privacy can lead to direct financial consequences such as fines and penalties, as well as loss of reputation and customer loyalty. Hence, the Bank places high importance on customer privacy and maintains secure systems that also include a pledge of confidentiality taken by employees.

Employees

Employment

Employees of the Bank are responsible for the delivery of business promises to all shareholders and stakeholders. Our practices are governed by the Shop and Office Act of Sri Lanka. The Bank goes well beyond meeting minimum legal requirements. This includes aspects on sourcing, training and retaining the best of talent in a work environment that supports our corporate values and business goals.

The Bank does not support forced labour or child labour.

Over 40% of staff are paid performance bonuses and the Senior Management of the Bank is entitled to an Equity Linked Compensation Plan (ELCP). The latter is a retention and shareholder value creation tool as well as a measure for attracting competent professionals.

Occupational Health and Safety

Employees who are healthy in body and mind not only perform better at work but also in their personal lives and in society at large. In this light, the Bank encourages all staff to embrace a healthy work-life balance which is reflected in the fitness facilities and welfare programmes that are made available. In addition, we take note of the well-being of all staff while on duty. In accordance with our Business Continuity Plan, the Bank has a team of over 50 trained first aid officers and 25 trained psychological first aid officers who are available on site.

There were no workers who were involved in occupational activities who have a high incidence or high risk of specific diseases.

Training and Development

As a key to organizational development the Bank continues to invest in its people, particularly through training and development. This takes into consideration the Bank's business needs and long term goals, staff performance evaluations and succession plans. Our investment in this area cuts across the entire employee base, which in turn supports other aspects such as promoting equal opportunity in the workplace, motivating self-improvement and managing one's career ending.

Diversity and Equal Opportunity

The Bank draws on diversity and equal opportunity as strengths to source and retain the best people across a range of talent, skills and education. Diversity is measured along several metrics such as gender, age group and minority groups, and compared across different employee categories to observe trends.

Equal Remuneration for Women and Men

There is no gender bias at the Bank. Rewards and remuneration are based on the principle of equal pay for equal value of work, and are benchmarked against industry norms. Individual performance is reviewed biannually through a transparent process against agreed criteria and targets, within the wider goals of the Bank and its strategic placement in the industry.

Society

Local Communities

The Bank operated 78 branches island wide as at 31 December 2013, spread across rural as well as urban areas. Community buy-in and acceptance is vital for the long term existence of these units, while distrust can damage business operations, brand image and sustainability of the business. The Bank engages with the local community through strategic and philanthropic Corporate Social Responsibility (CSR) initiatives. These initiatives have clear time-bound objectives and results, and are monitored and reviewed periodically.

Compliance

Banks in general have a special role in the economy of any nation as the effects of their problems go far beyond their corporate boundaries, often to those least able to bear the burden of distress. The safety of the banking system is of paramount importance and as such they are subject to a more stringent set of regulations than most other types of businesses.

The Bank's primary sources of compliance requirements stem from the Banking Act No. 30 of 1988 (as amended) and the Directions issued by the Central Bank of Sri Lanka, the financial reporting standards of the Institute of Chartered Accountants of Sri Lanka (ICASL) – including the requirements following the convergence of the Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRS), the Companies Act No. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange. The Bank is in the process of adopting the Code of Best Practice on Corporate Governance issued jointly by ICASL and the Securities and Exchange Commission of Sri Lanka in 2013.

The governance framework of the Bank casts responsibility on the Board of Directors for the strategic direction, including the overall risk policy and risk management procedures and mechanisms. The Board functions through six Board Committees chaired by Non-Executive Directors. They cover audit, risk management, human resources and remuneration, nominations, strategic issues and corporate governance & legal affairs. The Board and the Chief Executive Officer are further supported by Management Committees focused on assets and liability management, credit, human resources, internal audit, information technology, market & operational risk, outsourcing and procurement.

In order to encourage engagement with the Bank's customers and stakeholders the Bank has in place a Customer Charter, a formal Complaint Handling Procedure, a formal Communication Policy and a Disclosure Policy. The Bank's internal Compliance Policy and Code of Conduct governing all employees is an integral part of the governance framework of the Bank. The Code inter alia outlines the standards of professional and ethical conduct, and includes aspects such as general conduct and competence, confidentiality, conflict of interest, bribery and discrimination.

Material Environmental Aspects

Materials and Energy

Depletion of natural resources and climate change are critical concerns that directly affect everyone. The challenge for every business is therefore to reduce their material and energy intensity through the adoption of appropriate initiatives. They may include switching to alternative sources, reducing waste, recycling and reusing materials as well as changing the way we do business. The Bank strives to inculcate a culture of responsibility amongst employees where they themselves take responsibility for the effective and efficient use of materials and energy.

Products and Services

The Bank's project lending is an area where there could be adverse indirect impacts if not carefully managed. This could arise from the manner in which the project is implemented as well as from the sale, use and disposal aspects of the products or services generated by the project.

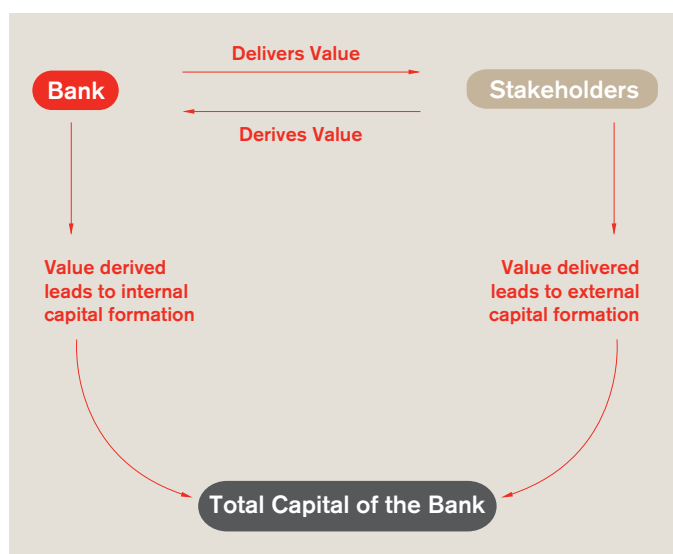
Such risks are addressed from the very inception, starting with advisory services where required, when the project is formulated. The proposed project is then subject to an appraisal process which includes an evaluation of the economic, environmental and social impacts. Guidance is provided in mitigating negative impacts, and implementing proposed action plans is made a pre-disbursement condition as appropriate. The vigilant stance adopted by the Bank on responsible investment serves to mitigate not only such negative impacts but also any consequential reputational and financial losses for both the client and the Bank.

The Dual Aspects of Value Creation

The above discussion covered the key elements of the Bank's business model, which is essentially a process that transforms the various forms of capital through business activities to create value over time.

The Bank delivers value, both financial and non-financial, to its key stakeholders in the context of the economic, social and environmental aspects within which it operates. These same stakeholders are of value to us, and they are nurtured and developed over a period of time. As stores of value, they constitute our stakeholder capital, and are external to the Bank; the key components being investor capital, customer capital, employee capital and social & environmental capital.

The Bank in turn derives value through the dynamic interaction between the external capital as well as its own internal capital to drive future earnings. The capital internal to the Bank comprises financial capital and institutional capital. The latter includes intellectual property, knowledge, systems, procedures, brand value, corporate culture, business ethics, integrity and the like.



The various forms of capital are in a state of flux with flows taking place among them. The Bank has access to and makes use of these forms of capital in creating value for itself (deriving value) and its stakeholders (delivering value) through its business model. They underscore the dual nature of value creation as depicted in the above diagram.

We will next review the performance of the Bank and the Group in this context.



A proudly Sri Lankan Bank...

proud to play a role in fashioning the National Skyline of the future



THE TWO SIDES OF VALUE CREATION

DERIVING
VALUE

Internal Capital Formation

The value created by the Bank for itself through activities, relationships and linkages leads to the formation of capital that is internal to the Bank. While what is most visible and quantifiable is financial capital, internal capital also includes several intangibles that, as discussed previously, constitute institutional capital.

Financial Capital

The Bank as well as the Group concluded yet another successful year with all key financial indicators of performance showing robust growth. A carefully articulated strategy, timely and effective execution and diligent monitoring were the key determinants of such performance of the Bank and Group.

Profitability

Key financial indicators of the Bank and Group are summarized below:

	BANK			GROUP		
	2013 LKR mn	2012 LKR mn	% change	2013 LKR mn	2012 LKR mn	% change
Net interest income	6,812	5,597	22	7,012	5,819	20
Total operating income	15,865	8,815	80	11,549	14,938	(23)
Impairment charges for loans and investments	1,238	106	1,067	1,261	51	2,354
Operating expenses	4,944	4,102	21	5,564	4,496	24
Operating profit before value added tax on financial services	9,683	4,607	110	4,724	10,391	(55)
Profit after tax	7,723	2,924	164	2,712	8,932	(70)
Profit attributable to shareholders	7,723	2,924	164	2,642	8,854	(70)

Net Interest Income

The Bank's Net Interest Income (NII) rose by 22% to a healthy LKR 6,812 mn as compared with the LKR 5,597 mn in 2012. The year under review saw policy rates being reduced in stages, resulting in an overall downward trend in interest rates in the industry that also stimulated credit growth. The Bank achieved such record growth levels, despite stiff competition, through vigilant and continuous monitoring of its asset and liability portfolio yields and their compositions. Accordingly the Bank was able to maintain its net interest margins at 3.7% for both 2013 and 2012.

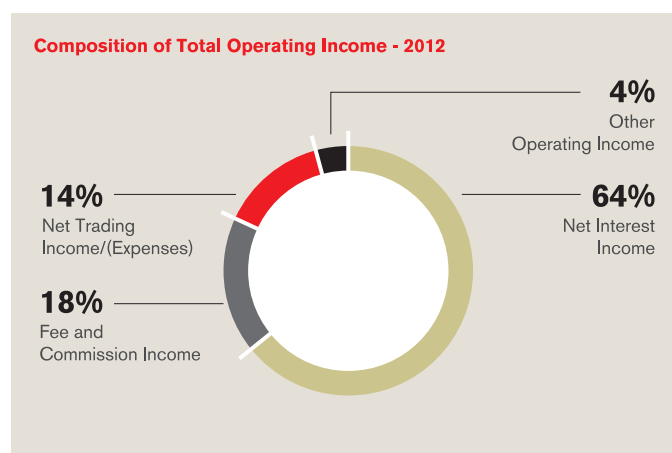
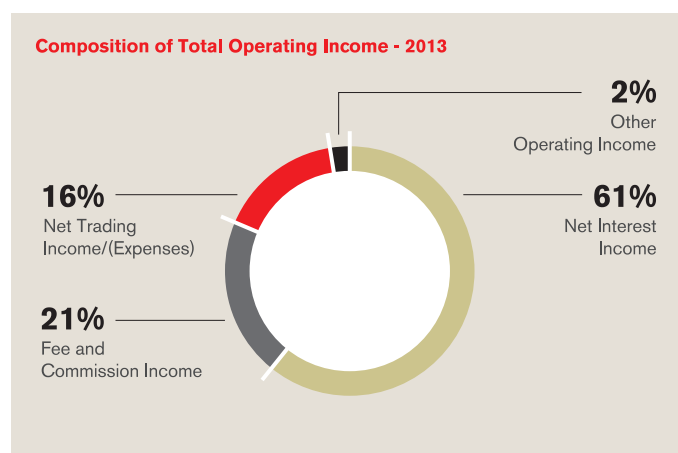
The Group NII also grew by 20% from LKR 5,819 mn in 2012 to LKR 7,012 mn in 2013.

Total Operating Income

The Bank's total operating income includes NII, fee and commission income, net trading income and other operating income as summarized below:

	BANK			GROUP		
	2013 LKR mn	2012 LKR mn	% change	2013 LKR mn	2012 LKR mn	% change
Net interest income	6,812	5,597	22	7,012	5,819	20
Fee and commission income	1,614	1,211	33	2,411	1,720	40
Net trading income	1,272	1,010	26	1,868	1,272	47
Other operating income	6,167	997	518	258	6,127	(96)

Composition of the Group's total operating Income for 2013 and 2012, excluding the one-off equity capital gains earned by the Group in 2012, is depicted below.



Fee and Commission Income

Fee and commission income of the Bank grew by 33% from LKR 1,211 mn in 2012 to LKR 1,614 mn in 2013. This growth was primarily due to the increase in the overall asset base of the Bank and the better utilization of synergies between Group companies, particularly exploiting opportunities for cross selling products and services. NDB Group's subsidiary companies also contributed positively by increasing their fee income by over 40% over the prior year.

Net Trading Income

Net trading income increased by 26% and was primarily due to the increase in forex trading and capital gains earned from trading in Government Securities. The net trading income of the Group increased by 47% over 2012, supported by the marked to market capital gains from the Unit Trust trading portfolio of the Capital Market Cluster.



Other Operating Income

Other operating income of LKR 6,167 mn consisting of dividend received from Group companies, capital gains from Group companies, and gains on revaluation of foreign exchange reserves, increased significantly in 2013. This was predominantly due to the exceptional capital gain of LKR 5,372 mn made by the Bank during the first quarter of 2013. NDB Group earned significant capital gains of LKR 5,751 mn on the strategic divestment of AVIVA NDB Insurance PLC to American International Assurance (AIA) Company Ltd. of Hong Kong in December 2012. The same gain was transferred to the Bank from the Group in March 2013, via a share buyback agreement between NDB Capital Holdings PLC and the Bank.

Impairment Charges for Loans and Other Losses

Impairment charges for loans and other losses were LKR 1,238 mn in 2013 compared to LKR 106 mn in 2012. This was a result of the increased stress levels within the industry for loan recoveries and the Bank's prudent adoption of fair valuing the impaired loans based on sound judgment and objective evidence on future recoveries.

This provision is calculated based on the risk assessment of individual loans and a collective provision is made considering the economic factors relevant to each portfolio segment. These provisions are arrived at in accordance with the Sri Lanka Accounting Standards LKAS 32 - 'Financial instruments: Presentation', LKAS 39 - 'Financial instruments: Recognition and Measurement', and as per a Board-approved impairment policy of the Bank. Settlements of loans made by borrowers and improved facility performance levels were the key factors assessed in arriving at the risk level of each borrower to decide on the provision amount.

The impairment charges for loans and other losses are summarized below:

LKR mn	2013	2012
Impairment of loans and receivables to other customers	1,261	57
Impairment of investments	(23)	49
Total impairment charges	1,238	106
Total loans and advances of the Bank	141,651	120,099
% of impairment charges	0.87	0.09

The low growth in impairment charges compared to the growth in the asset portfolio reflects the quality of the Bank's overall asset portfolio management.

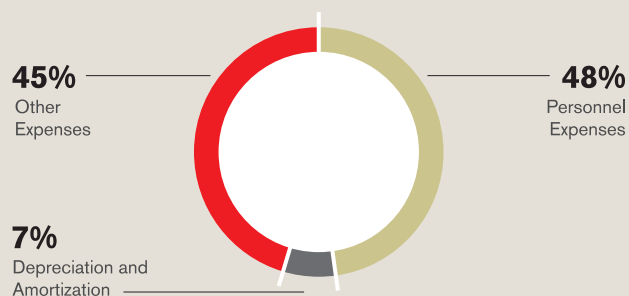
Operating Expenses

The Bank's operating expenses during 2013 was LKR 4,944 mn, an increase of 21% over LKR 4,102 mn for the year 2012. The corresponding figures for the Group were LKR 5,564 mn (2013) and LKR 4,496 mn (2012), which is an increase of 24% year on year.

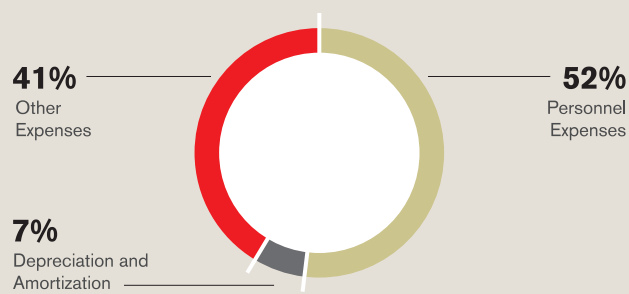
Management of operating expenses remained a key strategic concern of the Bank as well as the Group companies. The Group continuously seeks and adopts ways and means by which cost structures can be made leaner and more efficient. Centralization of key processes is one such example. Another is training and exposure of staff prior to placements to ensure job efficiency and effectiveness.

The compositions of the Group's operating expenses are depicted below.

Composition of Total Operating Expenses - 2013



Composition of Total Operating Expenses - 2012



Cost to Income Ratio

The Bank's cost to income ratio was 51% in 2013, when the exceptional capital gains from the strategic divestment of AVIVA NDB Insurance PLC is excluded, compared with 47% for the year 2012. The Bank is currently increasing its branch network and opened nine new branches during the year. The Bank aims to maintain its cost to income ratio below 50% through effective cost management strategies and initiatives despite the expected growth levels in the future.

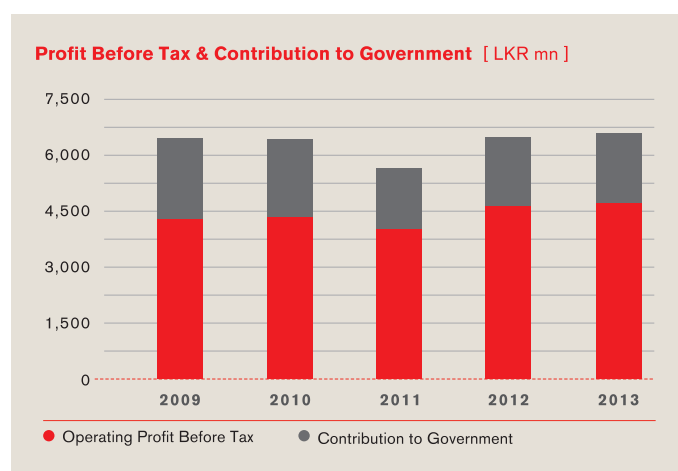
Operating Profit before Value Added Tax on Financial Services

The Bank recorded the highest ever profit before tax of LKR 9,683 mn in 2013, an increase of 110% over the LKR 4,607 mn of 2012. The exceptional increase was primarily due to the one-off exceptional capital gain of LKR 5,372 mn made on the strategic divestment of AVIVA NDB Insurance PLC by the Group.

Taxation

The Group continues to make a significant contribution to the Government of Sri Lanka in the form of Financial Services Value Added Tax and Income Tax. This amounted to LKR 1,871 mn in 2013, averaging LKR 1,924 mn per annum over the past five years.

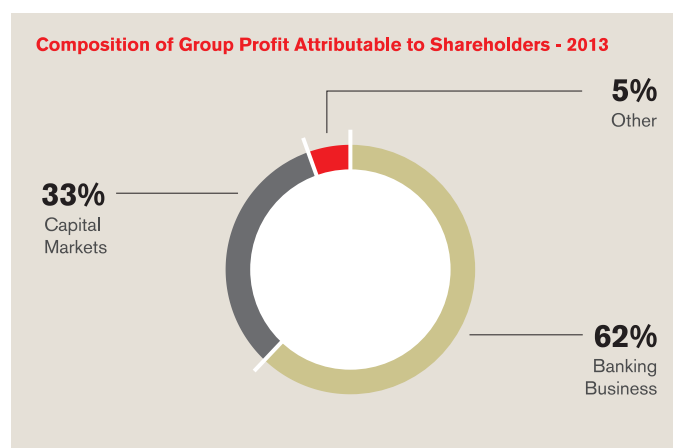
	2009 LKR mn	2010 LKR mn	2011 LKR mn	2012 LKR mn	2013 LKR mn
Operating profit before tax	4,276	4,352	4,030	4,640	4,724
Contribution to Government (VAT and income tax)	2,185	2,090	1,616	1,859	1,872
% contribution	51	48	40	40	40

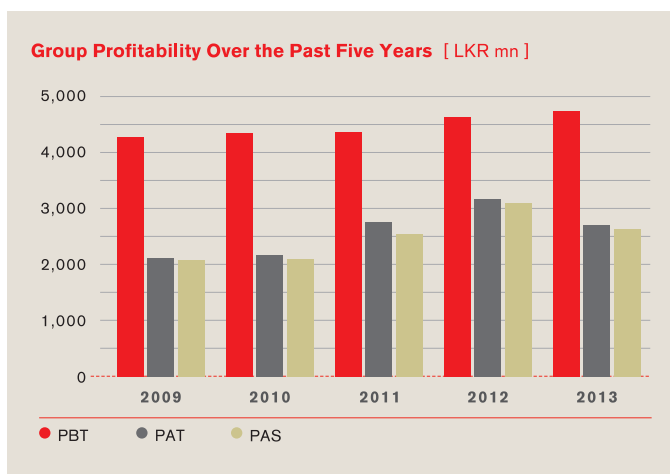
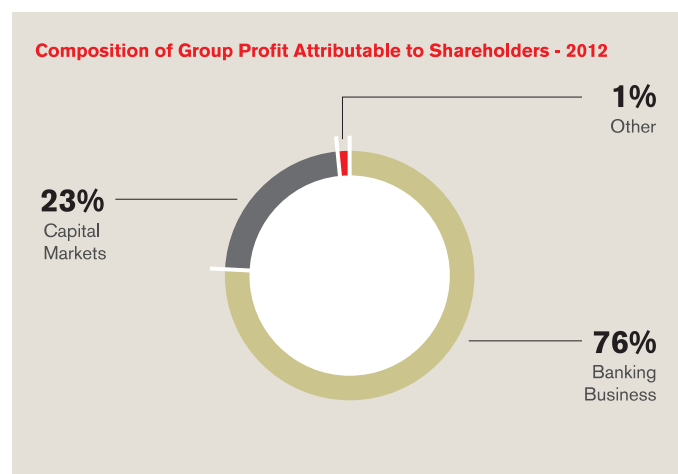


Profit Attributable to Shareholders

Group Profit Attributable to Shareholders (PAS) was LKR 2,642 mn, a decline of 70% over LKR 8,854 mn for 2012. As explained above, NDB Capital Holdings PLC (NCAP), a subsidiary of the Bank divested its strategic investment in AVIVA NDB Insurance PLC to American International Assurance (AIA) Company Ltd. of Hong Kong in December 2012. The same gain was transferred to the Bank from the Group via a share buyback agreement between NCAP and the Bank, in March 2013, resulting in the Group PAT declining by the same amount compared to the previous year. Thus, the timing difference of realizing this income within the Group and the Bank explains significant variation in the Bank's PAT and the Group's PAS over the comparative year.

Depicted below are the compositions of Group PAS in 2013 and 2012, excluding the one-off equity capital gains earned due to the strategic rearrangement and divestment of Group investments.





*Excludes the one off equity gains of LKR 5,751 mn earned by the Group in 2012.

Assets and Liabilities Portfolio

Summary of the assets and liabilities portfolio of the Bank and the Group are summarized below.

	2013		2012		% Growth	
	Bank LKR mn	Group LKR mn	Bank LKR mn	Group LKR mn	Bank	Group
Total assets	201,258	206,817	163,474	174,103	23	19
Loans and receivables	141,651	141,710	120,098	120,145	18	18
Customer deposits	129,830	129,422	107,601	107,394	21	21
Borrowings	46,555	46,527	34,931	34,893	33	33

Total Assets

The Bank's Total Asset base grew by 23% in 2013, compared to the 17% growth rate of the banking sector. This growth was supported by an 18% growth in loans and receivables and a 78% growth in investments, which was a close replication of the growth in the assets composition of the banking industry.

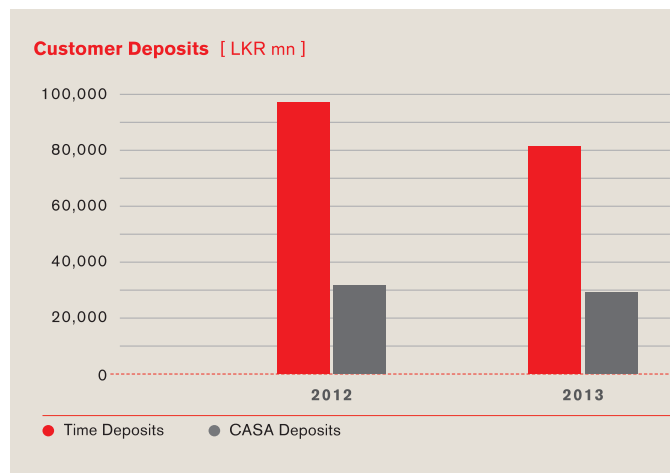
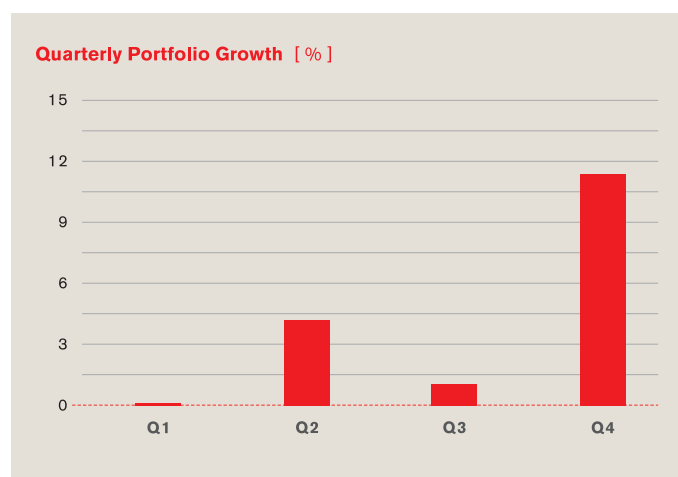
Loans and Receivables

The Bank's loans and receivables comprises the following:

	2013 LKR mn	2012 LKR mn	% Growth Bank
Loans and receivables - to banks	642	1,183	-46%
Loans and receivables - to other customers	141,009	118,915	19%
Total	141,651	120,098	18%

The loans and receivables portfolio as at the end of each quarter for 2013 is given below.

	Q1 31 March 13 LKR mn	Q2 30 June 13 LKR mn	Q3 30 Sep 13 LKR mn	Q4 31 Dec 13 LKR mn
Loans and receivables - to other customers	119,976	125,196	126,569	141,651



Driving the growth of loans and receivables of 18% over 2012, were retail and SME financing, project and infrastructure financing and working capital financing to various business sectors. The Bank continued to align its overall lending strategy towards national development during the year.

Customer Deposits

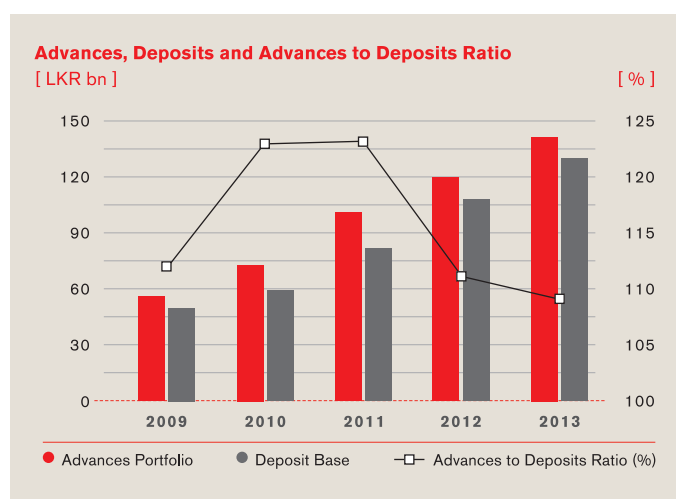
The Bank's customer deposits also grew significantly by 21% to reach LKR 129,830 mn during the year and compares with an industry average of 15% for the year 2013. The total customer deposits as of end 2013 comprised 75% time deposits and 25% Current and Savings (CASA) deposits.

The CASA ratio of 25% is commendable given that our business model as a licensed commercial bank is just nearing a decade.

Advances to Deposits Ratio

The Advances to Deposit Ratio (ADR) of the Bank improved from 111% to 109% during the year.

The Bank has been aggressively involved in commercial banking operations since the Bank obtaining the commercial banking license in 2005, and has progressively improved the ADR as depicted below. This was supported by the steadily expanding branch network that penetrates major economic centres of the country.



Asset Quality

The Non-Performing Loan (NPL) Ratio increased to 2.4% from the previous year's 1.3%. However, the Bank's NPL ratio is well below the industry norm. Despite increased NPLs, the Bank's asset portfolio is backed by a strong provision cover of 51%.

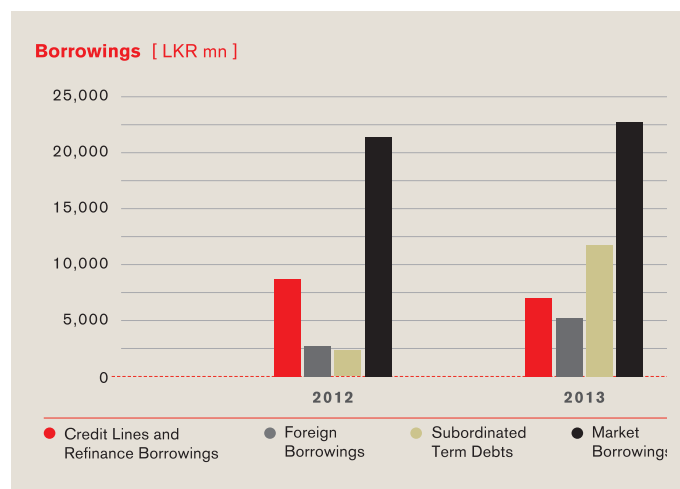
Borrowings

The total borrowings of the Bank as of 31 December 2013 was LKR 46,555 mn, an increase of 33% over 2012. The Bank succeeded in obtaining a 10 year term loan from the International Finance Corporation (IFC) of USD 24 mn, to be utilized for the growth of the Small and Medium Enterprises (SME) portfolio of the Bank.

In December 2013 the Bank raised LKR 10 bn through rated, unsecured, and subordinated redeemable debentures which are listed in the Colombo Stock Exchange. This was the largest debenture issue in the country and was rated A+ (lka) by Fitch Ratings Lanka Ltd. The objectives of the debenture issue were to strengthen the Tier II capital base of the Bank and maintain the capital adequacy requirements in line with the Bank's future expansion plans. In particular, the debenture issue will support operations and growth of the asset base, facilitate the raising of medium term funds to match the medium and long term lending of the Bank, minimize the interest rate risk and help manage the gap exposures of the Bank's assets and liabilities.

The composition of the borrowings of the Bank and the Group is given below.

	BANK			GROUP		
	2013 LKR mn	2012 LKR mn	% change	2013 LKR mn	2012 LKR mn	% change
Credit lines and refinance borrowings	7,014	8,647	(19)	7,014	8,647	(19)
Foreign borrowings	5,207	2,691	93	5,207	2,691	93
Subordinate term debts	11,682	2,254	418	11,682	2,254	418
Market borrowings	22,652	21,339	6	22,624	21,301	6
Total borrowings	46,555	34,931	33	46,527	34,893	33



Returns to Shareholders

The Basic Earnings Per Share (EPS) of the Bank increased by 164% up to LKR 46.96. The Group's EPS however decreased by 70% to LKR 16.48, owing to the aforementioned timing difference of recognizing the one-off equity gain within the Group and the Bank. The Bank's EPS excluding the one-off equity gain was LKR 16.45.

The Bank's Return on Average Shareholders' Funds for 2013 was 44.69% which was a 111% increase compared to the previous year. The same metric for the Group however decreased by 75% to 10.70% due to the timing difference of recognising capital gains earned on the strategic divestment of a Group company. The Bank's Return on Average Shareholders' Funds net of the one-off equity gain was 13.61%.

The market price per share of the Bank closed at LKR 160.50 for the year, resulting in a Price Earning (PE) ratio of 9.74 (times). The PE ratio thus recorded an impressive growth of 291%.

The Bank paid LKR 10.00 per share as dividends to its ordinary shareholders in respect of the financial year 2013 (2012 : LKR 15.00).

Capital Adequacy

The Bank ended the year with a core capital base of LKR 18,350 mn and a total capital base of LKR 27,220 mn. Tier I and Tier I & II capital adequacy ratios stood at 12.05% and 17.87% respectively, which is well above the minimum statutory requirements. The same ratios for 2012 were 11.14% and 12.38% respectively. This enhanced capital base provides the Bank with the essential edge to realize its ambitious growth expectations and maximize its profitability while being able to weather any potential losses arising from the business.

Tier 1 and Tier I & II ratios of the Group as at 31 December 2013 was 15.15% and 21.04% respectively as compared with 18.72% and 20.66% respectively, as at 31 December 2012.



Economic Value Generated and Distributed

The Bank continued to create value for itself for growth and to meet contingencies, as well as distribute value to its multiple stakeholders. Total value created and distributed during the year are given below:

Value Addition and Distribution

For the year ended 31 December	2013		2012	
	LKR mn	%	LKR mn	%
Values Added				
Income from banking services	23,556		19,448	
Cost of services	(15,858)		(13,038)	
Value added by banking services	7,698		6,410	
Non-banking income	6,100		754	
Loan losses and provisions/impairments	(1,238)		(106)	
Total value added	12,560		7,058	
Value Distributed				
To employees				
Salaries and other benefits	2,389	19	2,173	31
To providers of capital				
Dividend to shareholders	3,222		657	
Interest to debenture holders	95		–	
Total to providers of capital	3,317	26	657	9
To Government				
Income tax	854		1,023	
VAT on financial services	911		622	
Crop Insurance Levy	77		–	
Total to Government	1,842	15	1,645	23
For expansion and growth				
Retained profit	4,501		2,267	
Depreciation/amortization	302		265	
Deferred taxation	194		38	
Total for expansion and growth	4,997	40	2,570	36
To community				
Donations	14	–	13	1
Total value distributed	12,560	100	7,058	100

Economic Value Added (EVA)

One of the key objectives of the Bank's strategy is to maximize shareholder's wealth through economic value creation. Results achieved in 2013 and 2012 are tabulated below:

For the year ended 31 December	2013 LKR mn	2012 LKR mn
Invested Equity		
Shareholders' funds	19,620,478	14,942,401
Add: Allowance for impairment charges	4,378,973	2,971,622
Total	23,999,451	17,914,023
Earnings		
Profit after tax and dividend on preference shares	7,723,236	2,923,958
Add: Impairment provisions and other losses	1,238,202	106,112
Less: loan losses written off	(76,246)	(66,769)
Total	8,885,192	2,963,300
Cost of equity (Based on 12 months weighted average T-bill rate plus 2% for the risk premium)	13%	14%
Cost of average equity	3,119,929	2,507,963
Economic value added	5,765,263	455,337

Contribution by Business Units

The discussion thus far looked at the Bank and the Group as a whole in creating and deriving value. In this section we will drill down further and review the financial performance of the Bank's principal lines of businesses - both core banking and capital markets operations - from a financial capital formation context. These same operations create and deliver value to stakeholders, particularly customers and society. Such aspects are discussed in the section that begins on pages 55 to 75.

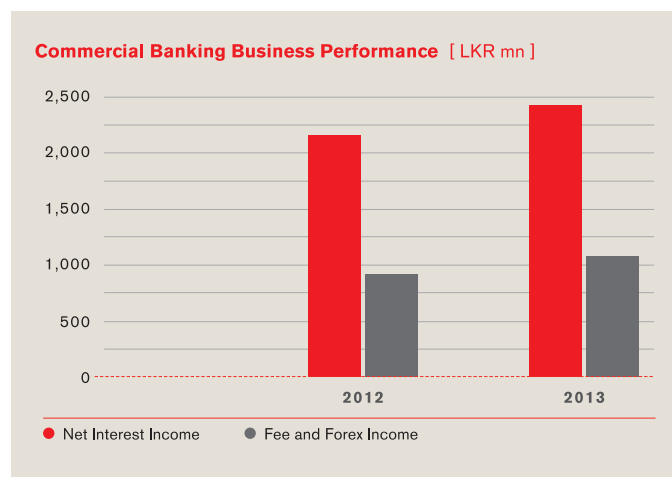
Corporate Banking

The Bank's corporate banking business focuses on two areas, namely, Commercial Banking and Project & Infrastructure Financing (PIF). Since the acquisition of the Sri Lanka operations of ABN AMRO Bank in 2001, the commercial banking segment has grown at a rapid pace and has become a significant solution provider for working capital needs of large and middle market businesses in the country. The PIF Unit with its broad experience in all industry segments spanning a period exceeding three decades, finances large scale long-term projects. These two business units together provide a nexus of financial solutions, effectively addressing the short-term and the long-term needs of the large and middle market customers.

Performance of the Commercial Banking Unit

Well equipped with a full suite of commercial banking products, the Bank provides seamless financial and banking solutions to its existing customer portfolio while aggressively marketing for prospective new clients.

Steady growth was achieved on key performance indicators such as Net Interest Income (NII) and Fee and Forex Income to support Core Banking Revenue while asset and liability growth were prudently managed.

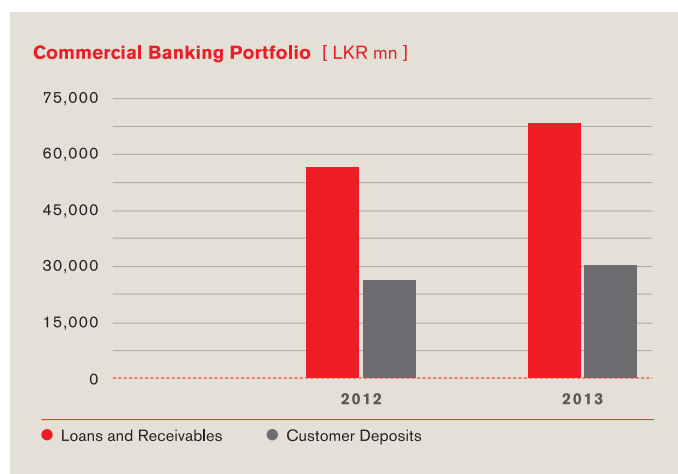


Although the Central Bank of Sri Lanka continued with its relaxed monetary policy stance, the control on imports continued in order to reduce the trade account deficit. This coupled with the moderate growth in exports contributed to the low volumes of the country's external trade. In addition, despite the reduction in interest rates during the year, credit demand from the private sector was moderate and competition for this limited credit was enormous, with a corresponding pressure on the overall net interest margins. However, a focused and professional business approach ensured the continued growth in the NII, Fee and Forex Income. A key ingredient for success is our strong relationship management skills, which ensured the continuous flow of business from a loyal and growing customer base.

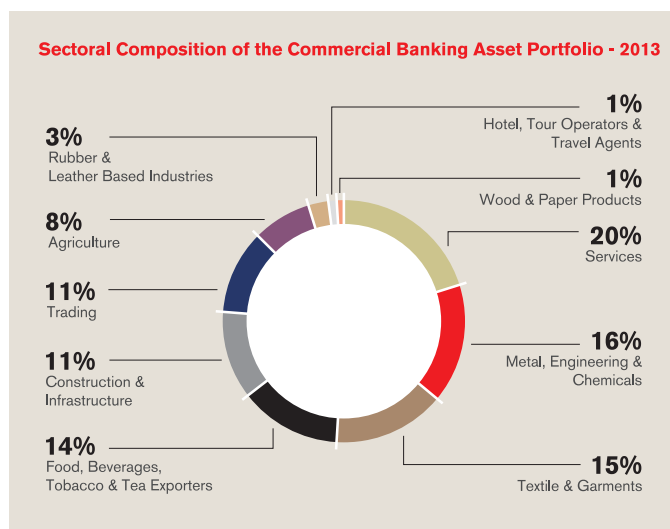
The Commercial Banking Unit's asset portfolio grew by 21% despite the challenges faced during 2013. This was mainly due to the implementation of the focused asset growth strategies coupled with the aggressive customer acquisition drive carried throughout the year. The trade finance volumes of the Business Unit continued to be maintained despite the reduction in the overall trade volumes of the country.

The liability base of the Business Unit grew by 15% in 2013, driven by the successful strategy of rolling out cash management solutions to large local corporates and middle market businesses. The Current Accounts and Savings Account (CASA) portfolio of the Business Unit was 34% in 2013 (2012 - 28%) and has contributed to the reduction to the overall cost of funds of the Bank.

Commercial Banking



The Commercial Banking Unit continues to focus on the core sectors aligning itself to the overall economic strategy of the country. The sectoral composition of the asset portfolio is given below:



Portfolio Quality

The economic pressures experienced locally and globally impacted overall businesses in the country. This led to an increase in the credit terms extended by both export and domestic businesses.

The Commercial Banking Unit manages its non-performing loan portfolio through its excellent credit origination methods followed throughout the years and the proactive credit administration through the well-systemized early warning mechanism. The strong risk management system in place will ensure that a high quality portfolio is maintained amidst the aggressive search for business volumes.

The Future

Taking into account the country's economic strategy of positioning Sri Lanka as the business hub in the region, the Business Unit is geared to exploit every opportunity which will be offered. The five hubs namely maritime, aviation, commercial, tourism, knowledge and energy present many opportunities and the Business Unit expects to play a pivotal role in structuring financial solutions for local and overseas businesses which would be operating in and around these hubs. The strong foundation built by the Commercial Banking Unit is geared to cater to the various working capital needs of enterprises stemming from the overall economic strategy of the country.

The Commercial Banking Unit also acts as a link in providing customers with the full range of financial services by leveraging its close working relationships with the Group companies and the PIF Unit. The latter has been a pioneer long-term infrastructure financier in the country. This hand in hand business approach which has been followed throughout the years has catered to growth and is expected to significantly contribute in the future.

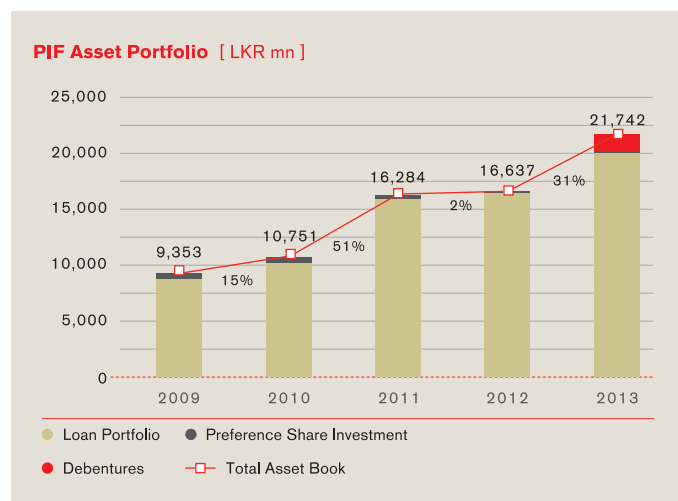
The Continuous Process Development (CPD) adopted by the transactional banking platform, whilst maintaining the ISO 9001:2008 certification for both the Trade Services and Commercial Banking Units has strengthened operational flows. In addition, the state-of-the art electronic banking solutions are expected to further add convenience to the transactional flows. The Commercial Banking Unit's expertise in trade financing along with its key strategic partners will avail unique global product offerings to Sri Lankan businesses operating locally and overseas. This will support its business strategy of 'We Follow You', a commitment given to growing businesses in the country.

The Commercial Banking Unit will continue to pursue its quest for opportunities arising regionally and is confident of being a significant local and regional player in the coming years. This blends well with the Bank's overall strategic focus and belief that 'Size Matters'.

Performance of the Project and Infrastructure Financing (PIF) Unit

The PIF Unit maintained a prudent balance between aggressive asset growth and portfolio quality. The asset portfolio of the PIF Unit increased by 31% over the previous year.

The PIF Unit has been continuously funding the development initiatives of the country, and this intensified after the cessation of the war. Depicted below are the composition and growth of the PIF asset portfolio over the past five years.



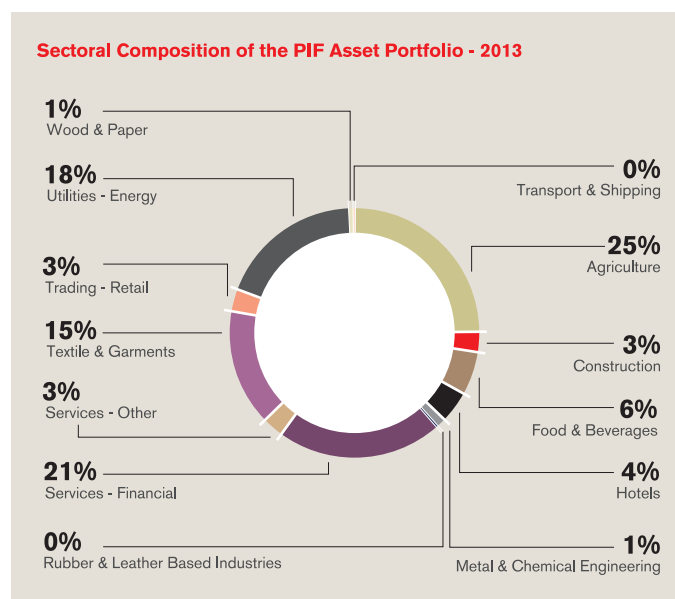
The Bank approved a large facility during the year for the purpose of financing the country's first waste to energy project. This pioneering project includes renowned multilateral agencies for both debt and equity funding. While addressing a key municipal waste management issue in an environmentally friendly manner, the 10 MW plant will add 'green energy' to the national grid when commissioned.

Going further in the energy sector, the Bank granted a facility of over USD 10 mn to set up a 52 MW thermal power plant in Bangladesh promoted by a leading Sri Lankan group of companies. Reaping the benefits of synergy and cross selling within our own

Group, this facility was arranged by the investment banking arm of the Group while part of the debt funding was granted by the Bank.

Other significant projects financed include one in the food sector to export organic tea, spices and frozen food. Our presence in the Eastern Province was enhanced with a facility to manufacture polysacks, while the Bank continued to support the leisure sector with new facilities amounting to about LKR 890 mn.

The PIF Unit caters to a wide range of business sectors and depicted below is the sector wise portfolio composition as at 31 December 2013.



Portfolio Quality

The NPL ratio of the PIF Unit stands at 0.7% by end 2013 compared with 2012. Whilst the asset quality of the PIF Unit is backed by strong risk management and stringent recovery process, the recovery of a long outstanding loan which was jointly financed with few other banks was also a contributor towards managing the NPL ratio.

The Future

the strategy of the PIF Unit would be to take the leadership role in financing major projects in available opportunities using the strong balance sheet and unique pool of expertise developed and preserved over the years on project finance. The PIF Unit envisages good project financing prospects in sectors such as tourism, construction, power and energy in the years to come. With opportunities also appearing in regional economies, it is expected that project and infrastructure financing, will increase its impact on the Bank's balance sheet from the present 15% to around 17% of total assets in the next five years. In addition, intra-group opportunities for cross selling commercial banking and investment banking products and services will also gain momentum.

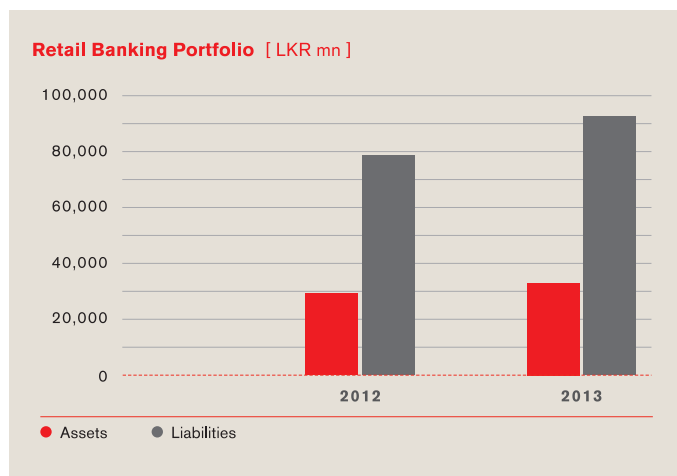


Performance of the Retail Banking Unit

2013 was a busy year for the Retail Banking Unit of the Bank, with several new initiatives being undertaken to boost the asset and liability portfolios. The Bank continued its significant presence in the retail arena within the industry, during the year through its rich assortment of asset and liability products, reaching out with abundance of convenience and novelty, unveiling a unique retail banking experience to the Sri Lankan retail clientele. Retail banking remains important also become our definition of development includes developing the individual citizen(s) in Sri Lanka and provide solutions as their aspirations in terms of home ownership, vehicle ownership, long-term savings or entrepreneurship.

The retail banking portfolio encompasses a wide range of products including deposit products tailored to suit individual investment needs, conveniently processed loans and receivables (housing, personal, hassle free auto finance and leasing solutions etc.), remittances and bancassurance.

The assets and liabilities of the Retail Banking Unit grew by 13% and 18% year on year respectively, while continuing to strengthen the overall performance of the Bank.



Emphasizing on the need to inculcate the savings habit amongst Sri Lankans, the operationalization of the high interest yielding deposit product NDB Real Saver was given prominence during the year. It drew great enthusiasm and interest amongst all segments of the Sri Lankan society.

The successful blend of process improvement and product innovation prompted the introduction of 3-hour personal loans, which enabled eligible clients to obtain a Dream maker Personal Loan within three hours.

Portfolio Quality

Amidst a challenging environment for loan recoveries in the retail segment of the industry, the Retail Banking Unit was able to restrict its NPL ratio to 2.9% which was well below the industry norms.

The Future

The Retail Banking Unit is well aligned with the overall five year strategy of the Bank and positioned to exploit new opportunities that unfold in the industry in the future. It has got the right mix and quantum of skills and potential of an experienced pool of dedicated staff.

The Unit also has a line of exciting new innovations for its target customer segments, including the salaried customers. The new products will encompass not only the financial needs of individuals but also environmental sustainability.

Performance of the SME Banking Unit

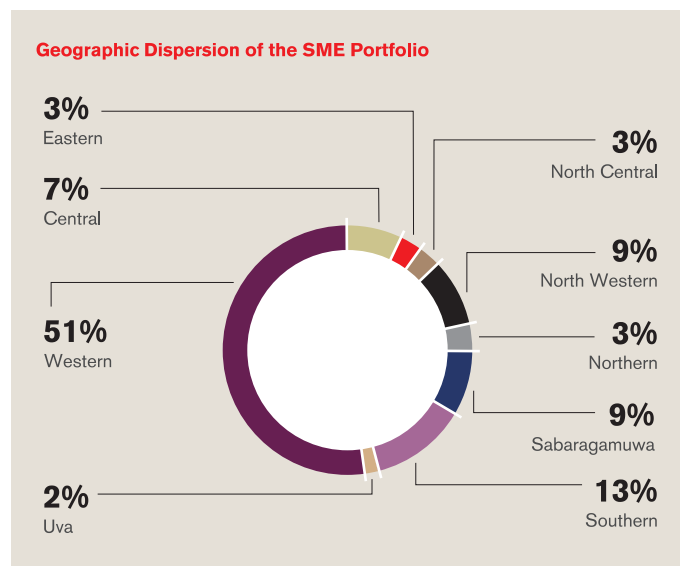
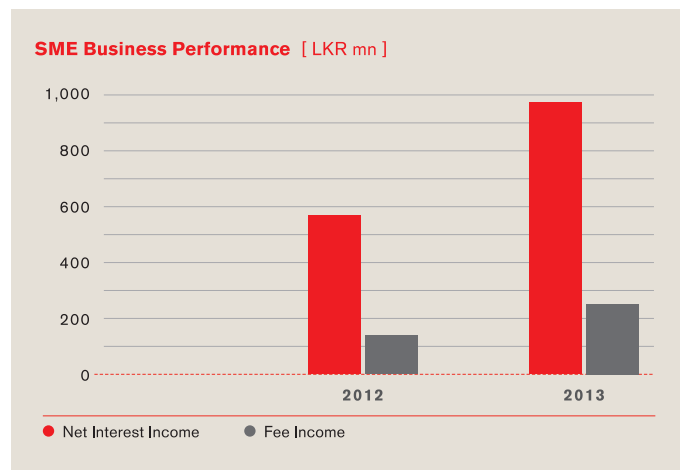
As a pioneer of Small and Medium Enterprises (SME) financing in Sri Lanka with a history spanning over 35 years, the Bank is of firm conviction that a culture of enterprise is key to sustainable development. Transforming from a development bank catering to the long-term financial needs of entrepreneurs, the Bank today is a universal bank catering to the wide and varied needs of small and medium entrepreneurs with a range of products and service offerings.

During the year, the SME Banking Unit financed over 3,000 ventures and created over a 30,000 direct and indirect employment opportunities island-wide.

With its traditional development orientation, the Bank offers unique products and services dedicated to SME clients. They range from traditional long/short-term lending instruments to more specific products tailor-made to finance the identified needs of industries. For example, our Tea Manufacturer Financing Programme originated at grass roots level to address the unique working capital needs of small scale tea manufacturers.

The Bank's SME lending has been on a continuous upward trend, reflecting the Bank's continued commitment to this sector. As at end 2013, the Bank had an overall SME loan portfolio of LKR 15,469 mn with an average SME loan size of LKR 1.8 mn.

The performance of the SME Banking Unit is depicted below:



Asset Quality

The NPL ratio was 4.94% as at end of 2013 compared with 2.2% as at end of 2012, which is a close replication of the NPL levels of the SME industry.

The Future

Supporting the growth of SME continues to be a high priority for the Bank, which aligns well with national priorities. With emphasis on the SME sector in the recent Government Budget and the strategic focus on the five-hub concept in the country's Development Road Map, there will be a several opportunities to grow the micro and SME sectors in all geographic regions. The proposed mega investments in the infrastructure segment too would undoubtedly cast a trickle-down effect on the small and medium industries, thus opening up new avenues of opportunity.

Amongst new initiatives planned, the most ambitious is the national campaign titled 'Cinnamon to the World' where the Bank would pioneer a giant national initiative that aims to empower and encourage the many stakeholders of the industry to propel the Sri Lankan cinnamon industry growth: while helping 'Ceylon Cinnamon' achieve recognition as an international brand. Such initiatives would be complementary to the Bank's customary role of providing financial assistance to the entire value chain associated with the industry

Exploiting the latest developments in information technology, the Bank has ambitious plans to revamp the SME sector with tech edge cash management products and trade service offerings which would offer unparalleled opportunities to this vital sector. While addressing the financial needs of the SME sector, the Bank will continue its role as a forerunner in dissemination of knowledge and expertise to this sector.

Reaffirming its commitment to uplift the service standards of the Micro and SME sectors, the Bank will further enhance the Mobile Point of Sale (MPOS) initiative to empower Micro/SME business entities to maximize their sales opportunities through the usage of debit/credit cards as opposed to cash transactions.

Treasury Services

Treasury plays an important role in striking the right balance between interest rate risk, liquidity risk and foreign exchange risk within predetermined parameters whilst generating profits through its operations. In addition, it carries out inter-bank operations to manage the Bank's proprietary trading business, being a direct customer contact point and a front line service provider.

Foreign Exchange Trading, Sales, Fixed Income Securities and Asset and Liability Management operations form the core arms of Treasury operations. The services of the business unit are extended to the Bank's corporate clientele, private and institutional investors, financial institutes and a wide range of other exchange market participants including individuals.

FX spot and forward contracts, FX swaps, dual currency deposits and FX options are the key foreign exchange products offered through Treasury, while Government debt sales, repurchase/reverse repurchase contracts and corporate debt securities comprise the debt securities products. Interest rate swaps and currency swaps are also offered as hedging instruments, in addition to tailor-made products.



Performance of Treasury Services

The Bank's Treasury was well-poised throughout the year to face evolving market situations and improve its internal objectives on profitability and prudent risk levels.

Enhanced involvement in sales, structuring, market-making and trading across a broad range of financial products including foreign exchange, interest rate debt and other structured derivatives were key to complete a successful year. The foreign exchange desk focused on forward contracts, USD/LKR swaps, dual currency deposits, and plain vanilla options to achieve its revenue while debt trading focused primarily on Government Security Trading. Income reflected in Treasury relates only to trading, market-making, risk-warehousing and investment activities. The Foreign Exchange (FX) and Option Desks in synchronized formation presented enhanced products to clients in both ends of the spectrum, amidst a restrictive trading environment in the market compared to 2012. The FX sales volumes grew by 25% during the year while increasing the market share of the existing client base. The total FX revenue recorded was LKR 954 mn for 2013.

Treasury helped draw in new customers by providing advisory services on market movements and through competitive pricing, significantly improving business volumes. The unit was also very active in developing client relationships. Treasury sales continued its collaborations with Corporate Banking Unit to deliver tailor-made solutions to satisfy the ever evolving needs of the market, affirming its commitment to customer service excellence.

The Treasury also continued its active and strategic involvement in the Repurchase and Reverse Repurchase Markets and the Secondary Government Debt Market. Debt trading yielded a healthy LKR 213 mn return, largely supported by a roller coaster secondary market yield curve and easing monetary policy.

Asset and Liability Management (ALM)

Further enhancement of managing and mitigating balance sheet risk through ALM was achieved in 2013. The groundwork for such stringent ALM processes was done in the year 2012 with the establishment of a dedicated ALM Unit. Enhanced understanding of the balance sheet gaps, detailed MIS analysis and advanced risk management techniques were explored to further the role of ALM, which in turn yielded LKR 222 mn in profits for 2013.

Asset and Liability Management Committee (ALCO)

Treasury acts as the key information provider to the ALCO members on interest and exchange rate updates and other macroeconomic developments. ALCO in turn sets prudent parameters for the management of maturity mismatch risks in the Statement of Financial Position and also sets product transfer pricing rates, taking into consideration the prevailing market conditions. The ALCO process ensures that various internal business units are made aware of any balance sheet and funding issues faced by the NDB Group. This promotes consensus in the process of allocating available resources to various lines of business.

Treasury spearheads the fund management of the Bank. The funding requirements of all business lines including Corporate, Retail and SME Banking are assessed and appropriate funding mechanisms are tabled at ALCO for discussion. ALCO decisions are then executed within the approved risk parameters of the Group. The funding and gapping process is a key element of the Net Interest Income component and is managed appropriately at ALM under advice to ALCO.

The Future

With anticipated contained inflation and sustained market liquidity, the yield curve is expected to hover or dip marginally during the first half of 2014. Interest rates are expected to remain at the current levels until such time the economy experiences accelerated credit growth in the private sector. Inflationary pressure will also weigh heavily in maintaining the yield curve at the current levels.

A stable Sri Lankan rupee is envisaged for much of 2014 with the budgeted inflows, and depreciation is expected to be contained well within the policy framework of maximum 5%.

Amidst such anticipations on the macro indicators, the Bank's Treasury aspires to be 'The Most Preferred Treasury Solutions Provider Amongst Banks'. Aligning towards this endeavour, Treasury will maintain continued engagement with other business units and all customers of the Bank, not restricting such engagement to corporate sales alone. Treasury will diversify and broaden its product range, enabling the Bank to capture wider segments of the market.

Treasury will also focus on increasing the efficiency in managing interest rate risk, liquidity risk and foreign exchange risk through efficient balance sheet management. The processes and policies in this regard will be continuously updated to meet global standards and best practice.

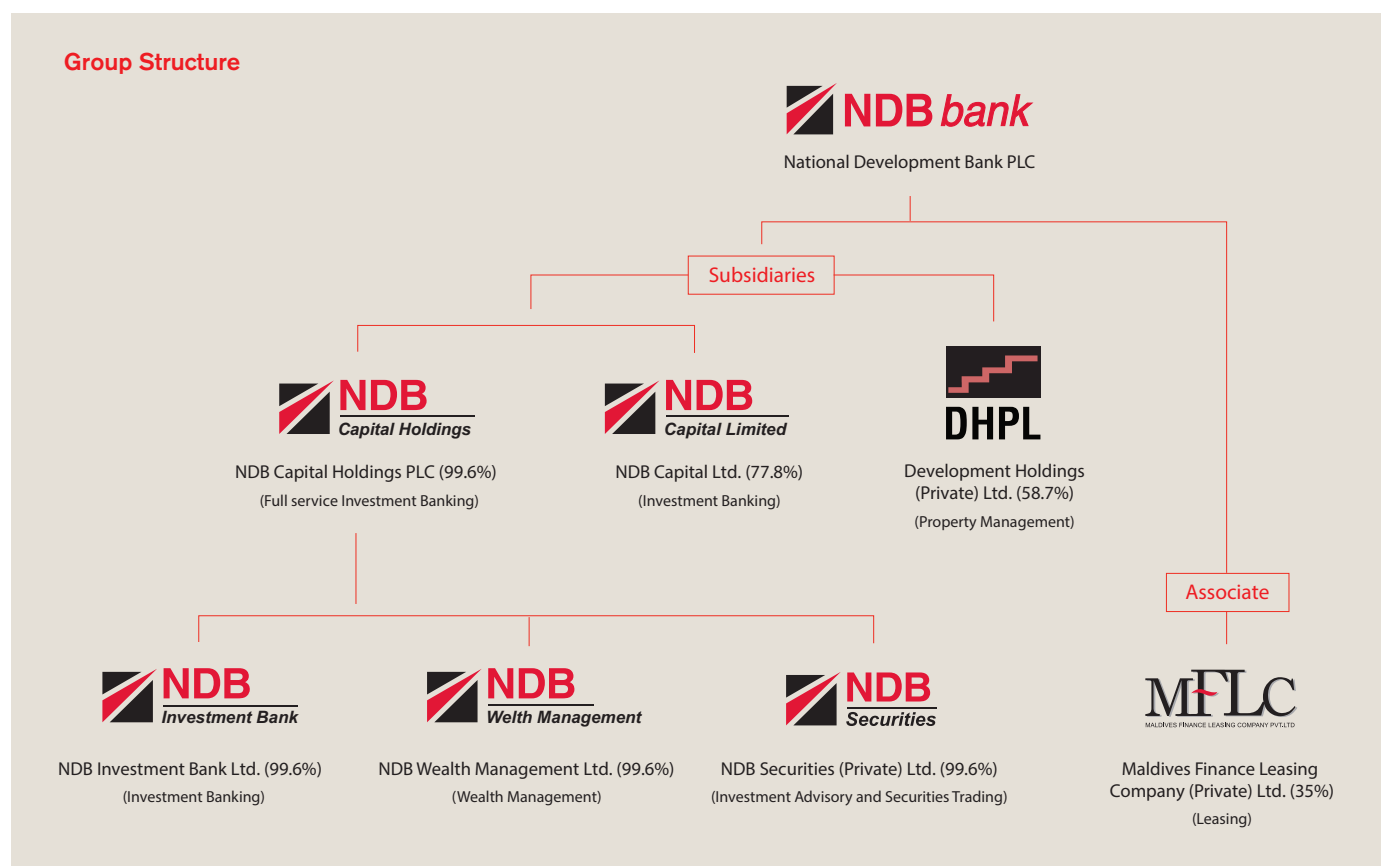
Treasury also envisages engaging with Group companies to promote advisory services and distribution channels. These companies reach a broad-base of customers which provide the Bank with solid ground for cross selling opportunities. Efforts are already underway in Treasury to promote holistic Treasury solutions, customized and specialized to suit varied client segments and increase the awareness of the same. The ultimate objectives of these efforts are to enable wider sales and volume growth of Treasury operations while delivering enhanced customer satisfaction.

Performance of Group Companies

The Group marks its presence in the industry not purely by the size it has grown to, but also by the multiple segments of banking and financial services that it offers, bringing in convenience to varied groups of customers. The Group has established itself as the best financial conglomerate in the country, with commercial banking, wealth management, investment banking, investment advisory and securities trading and property management shaping its robust structure. The Group is the only one of its kind, which provides a one stop solution for investors/customers seeking a wide range of related services under one roof.

Group Structure

The shareholding structure of the Group Companies and their principal business activities are as follows:

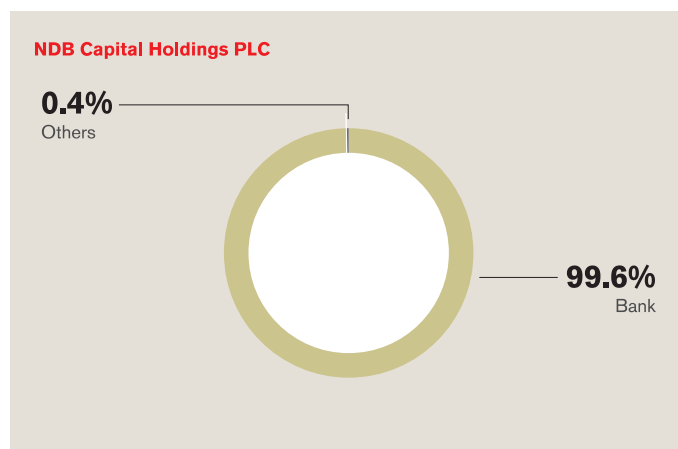


Here is how the subsidiaries were aligned towards the overall strategy of the Bank, and helped the Group to grow to a size that truly matters.



NDB Capital Holdings PLC

NDB Group's investment	LKR 1,748 mn
Profit after tax (Group)	LKR 932 mn
Net assets (Group)	LKR 5,852 mn
Bank's direct holding - 99.6%	



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

NCAP's fee-based operations are carried out through its fully-owned subsidiaries, NDB Investment Bank Ltd. (NDBIB), NDB Wealth Management Ltd. (NWM) and NDB Securities (Pvt) Ltd. (NDBS). NDBIB, the flagship company of the Investment Banking Cluster, is the market leader in both debt and equity structuring and placements. NCAP provides wealth management services to clients through NWM, the largest private sector wealth management company in Sri Lanka. NCAP's stock broking operations are through NDBS, a full-member firm of the Colombo Stock Exchange (CSE) which offers high-end research and brokerage services to both Sri Lankan and foreign investors in the Colombo Bourse. With its unique portfolio of services comprising investment banking, wealth management and stock broking, NCAP plans to cater to the growing needs of the Sri Lankan corporate sector and the capital markets.

Business Performance

NCAP together with its subsidiaries (collectively referred to as 'Investment Banking Cluster') recorded a remarkable 2013 despite the challenging capital market conditions which prevailed during the year. Stemming from the restructuring carried out within the NDB Group in 2012, NCAP further consolidated its position as the country's leading full-service investment bank.

Year 2013 was highly eventful to NCAP due to several reasons. During the year, NCAP took a giant step towards materializing its plans to venture into Private Equity (PE) fund management in partnership with Zephyr Management LP (Zephyr), a New York-based leading emerging market PE fund manager. This completes the missing link in the product offering portfolio of NDB Group which makes it a truly diversified financial services conglomerate. NCAP and Zephyr entered into an agreement to work together, subject to obtaining all regulatory approvals, to set up a PE management company and eventually launch Sri Lanka's first dedicated country PE Fund.

Also in 2013, NCAP conducted the largest share repurchases in the history of the country by returning approximately LKR 6 bn to its shareholders. Additionally, NCAP paid a handsome dividend amounting to over LKR 700 mn during the year.

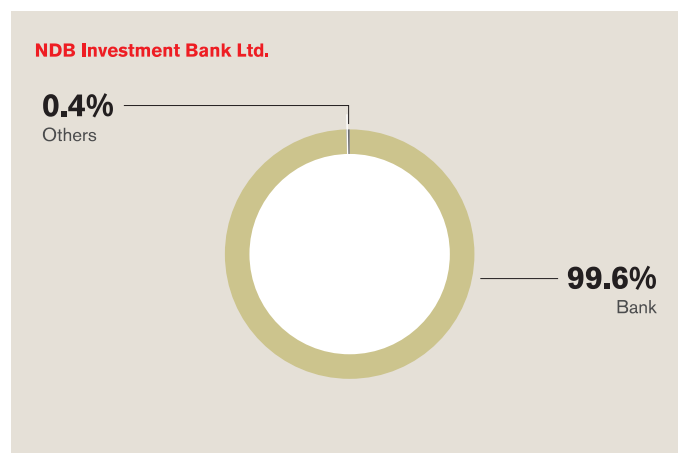
Being at the forefront of a knowledge driven industry, NCAP and its group has realized the value added through human capital development. The Investment Banking Cluster engaged in staff training programmes and overseas training for selected members. Based on the belief that access to information, knowledge sharing and a good education promotes national harmony, NCAP initiated a scholarship scheme for needy university students as a part of its CSR activities.

The Future

NCAP is determined to continue its successful business performance in the coming year as well. A priority activity for 2014 would be to float Sri Lanka's first dedicated private equity country fund (subject to receiving all regulatory approvals). In addition, NCAP plans to improve synergies with the Investment Banking Cluster and with the Bank's core banking operations in 2014.

NDB Investment Bank Ltd.

NDB Group's investment	LKR 290 mn
Profit after tax	LKR 170 mn
Net assets	LKR 499 mn
Bank's indirect holding - 99.6%	



NDB Investment Bank Ltd. (NDBIB) commenced operations in 1997 as a joint venture between National Development Bank PLC and Citibank N.A. In year 2010, NDBIB became a fully owned subsidiary of the Bank. Subsequently, NDBIB became a fully-owned subsidiary of NDB Capital Holdings PLC (NCAP) as a planned part of restructuring in 2012 and acts as the fee-based investment banking arm of NDB Group.

Over the years, NDBIB, has been recognized as the market leader for both Debt and Equity structuring and placement in the country. NDBIB, through its two divisions, Corporate Advisory and Debt and Equity, offers a range of products and services in the investment banking sector.

Business Performance

NDBIB continued to strive towards providing best-in-class advice and impeccable execution on the most complex transactions across products. Its efforts were amply recognized through the numerous accolades awarded for its excellence. (Refer pages 76 and 77 for details).

NDBIB has positioned itself to be the leading trusted financial advisor to its clients, which include corporations and financial institutions providing unsurpassed financial advisory and capital raising services. At the crux of its efforts in delivering first class services and retaining best talent in the industry, NDBIB continuously engaged in staff training and human resource development initiatives during the year.

A noteworthy performance was recorded by NDBIB and rose to unprecedented heights raising a total LKR 42 bn in debt and exploring new avenues in fund raising in 2013. Revenues from debt raising were significantly higher compared to 2012 fuelled by the tax concession introduced by the Government on quoted debenture issues. Debt Division thrived on listed debenture issues during 2013 with this product contributing to approximately 70% of the total funds raised. Through its efforts, NDBIB managed to capture a larger market share in Debenture issues amounting to over 40% in 2013. Two prominent Debenture issues totalling LKR 15 bn were secured from the banking and finance sector with one being the issue carried out for its ultimate parent company, National Development Bank PLC. The Debt Division of NDBIB raised approximately LKR 40 bn via debenture issues, securitizations, USD denominated term loans and commercial papers.

Corporate advisory activities were more challenging during the year under review. NDBIB having being considered as a longstanding market leader in Mergers and Acquisitions (M&A) space successfully advised on an M&A transaction in the manufacturing sector amounting to LKR 1.7 bn and managed the subsequent Mandatory and Voluntary Offers arising therefrom. Further, NDBIB advised on the share repurchase amounting to approximately LKR 6 bn for its parent company, NDB Capital Holdings PLC. Numerous valuation assignments, restructuring and advisory transactions were carried out for firms in the leisure, power, financial services, transportation and manufacturing sectors. Moreover, Corporate Advisory Division too expanded its client base to foreign power companies, business processes outsourcing entities and trading businesses.

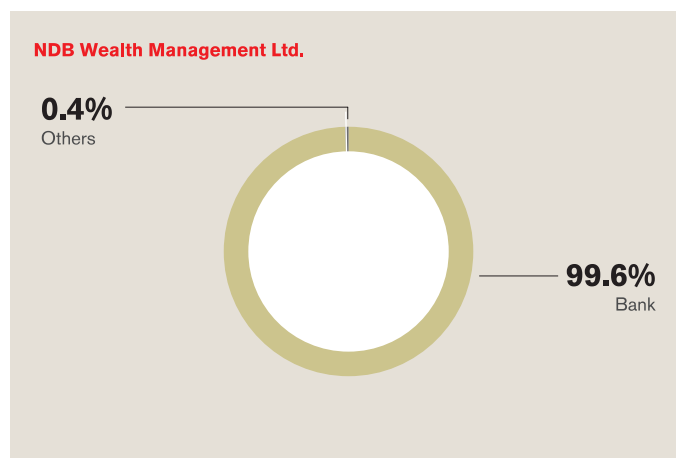
Revenue from equity placements were however, lower compared with 2012, primarily reflecting a decline in the IPO and equity related market. NDBIB intends to launch several IPO transactions in 2014 when the sentiments in the equity market stabilize. In addition, NDBIB is engaged in fund raising for a larger scale infrastructure project showing a promising performance for the next year.

The Future

NDBIB's plan for 2013 was ambitious and the Company envisages resurgence in the Sri Lankan capital markets for 2014. The investor sentiments at the equity markets are expected to bounce back to its past glory with the debt capital markets maintaining its stability. NDBIB is well poised to enjoy a fruitful year ahead, with a healthy portfolio of debt and equity deals already in the pipeline. Corporate Advisory Division has managed to secure mandates for large scale equity raisings and loan syndications which are expected to be executed successfully during 2014. The Debt Division intends to ride on the success it had in 2013 and maintain its superior position in the market.

NDB Wealth Management Ltd.

NDB Group's investment	LKR 412 mn
Profit after tax	LKR 87 mn
Net assets	LKR 361 mn
Bank's indirect holding - 99.6%	



NDB Wealth Management Limited (NWM) began its journey in 1992 as a Securities & Exchange Commission registered licensed Unit Trust Management Company and has now extended its services as a licensed Investment Manager. The Company probably is the most successful private sector institutional and retail Asset Manager with representative portfolios from Provident Funds, Insurance Companies, Banks and Non-Governmental Agencies and Unit Trusts.

Business Performance

NWM is the largest private sector wealth management company in Sri Lanka, with over 20 years of experience and over LKR 65 bn of funds under management. NWM has over 5,000 clients in their roster, large and small, institutional and mass market. NWM has a highly qualified and experienced team of professionals which has created an unparalleled reputation in the Sri Lankan market.

NWM's comprehensive product offering encompasses three distinct services - Discretionary Portfolio Management, Private Wealth Management, and NDB Wealth Funds. They are each clearly defined to support the varying wealth planning needs of the market today and are in a unique position to offer a series of wealth plans which will cover needs from children's education, retirement savings and retirement income. The wealth planning service is further enhanced by combining it with the Bank's core operations which is unique to the NDB Group. As a result, 'Privilege Select', the exclusive solution for discerning clients, is now presented with the unique opportunity of combining world class banking from the Bank, with a comprehensive wealth planning solution from NWM.

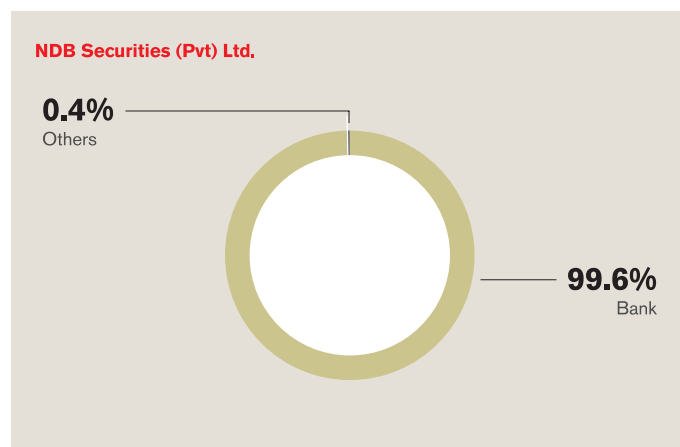
NWM specializes in the management of Unit Trusts or 'pooled investments' and these are marketed coupled with expert advice, to individuals as a convenient and affordable means of enhancing returns on their savings.

The Future

Since 2009 the demand for Unit Trusts managed by NWM has continued to increase and we expect the trend to continue in the future. In 2014, NWM will not only strive to deliver the good returns to its clients but also expects to consolidate its position as the leader in the Wealth Management business in Sri Lanka.

NDB Securities (Pvt) Ltd.

NDB Group's investment	LKR 292 mn
Profit after tax	LKR 3 mn
Net assets	LKR 287 mn
Bank's direct holding - 99.6%	



Established in 1992, NDB Securities (Pvt) Ltd. (NDBS) is one of the pioneering and leading stock brokering companies in the country. NDBS, a licensed stockbroker, is a full member of the Colombo Stock Exchange (CSE) which provides a variety of investment advisory-related services on both listed debt and equity securities.

NDBS has been an important player in the CSE over the years. It was the lead stockbroker in some of the largest IPOs in the CSE and introduced a number of local and foreign high net-worth individuals and institutional investors to the market. NDBS facilitated many placements of strategic stakes of listed companies. Despite tough competition by twenty-eight licensed stockbrokers and the adverse market conditions which prevailed in 2013, NDBS managed to increase its market share while adhering to the strictest ethical guidelines.

NDBS initially catered largely to the institutional segment. However, with the increasing participation of retail investors in the market, NDBS has capitalized on the growing retail segment by developing the infrastructure required to handle a large retail client base.

Business Performance

2013 was a tough year for NDBS. The upbeat movement witnessed over early parts of 2013 sustained till mid 2013 with All Share Price Index (ASPI) nearing the 6,500 level amidst subdued activity levels. Net foreign inflow to the bourse topped LKR 22.3 bn during the year, lifting investor confidence and market sentiments. However, market turnover levels remained subdued with the absence of significant retail activity.

In order to exploit dynamic opportunities and not limiting itself to equity market activities, NDBS rebranded itself as NDB Securities (Pvt) Ltd. from NDB Stockbrokers (Pvt) Ltd. This rebranding was in line with the Group's efforts to grow through integration and leverage on Group dynamics. NDBS, as the marketing arm of the investment banking cluster offers one of the broadest product portfolios by a single financial institution in Sri Lanka.

To capitalize on the diverse product range and superior client service, NDBS expanded its marketing team with the intent of expanding its services to cater to the requirements of the high net worth clientele. Furthermore, NDBS took steps to expand its client base locally and internationally through the expansion of the branch network and appointment of foreign agents. Currently NDBS has 8 branches outside Colombo tapping into regional clientele and providing them with advice and opportunity to invest in more attractive securities. Thus, NDBS which was formerly focused on institutional clientele has successfully transformed itself to a broking entity with significant exposure to high net worth and retail individuals.

NDBS Research has continued to support sales efforts in client advisory with stock recommendations and market analysis. Expanding its client services, NDBS became one of the first to provide trilingual research services. Furthermore, according to Bloomberg, in 2012 and 2013, NDBS Research had the highest investment returns for its stock recommendations amongst the analysts covering the CSE.

2013 also saw NDBS upgrading its IT systems from a legacy system to a core system. This will enable NDBS to introduce a wide variety of new services improving clientele accessibility and convenience. The improvements to the IT infrastructure will continue into 2014 including novel services targeted at client's evolving needs.

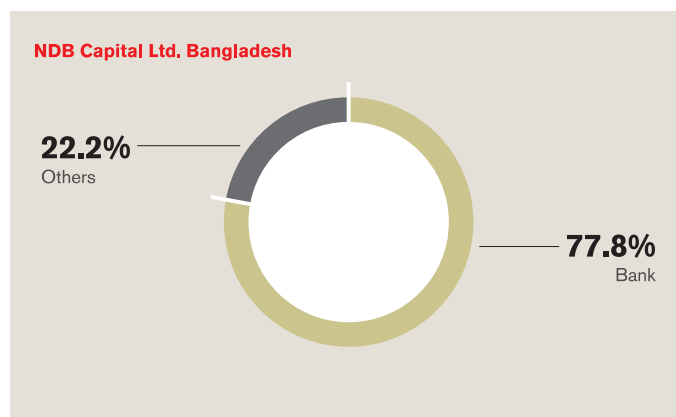
The Future

NDBS is amongst the top stockbrokers at the CSE and has focused its efforts to improve client reach and services over the past few years. NDBS hopes to expand its retail base by leveraging on its strong branch network. Continuous technology upgrades are underway to ensure seamless connectivity and systems efficiency for its clients. Selected strategies are launched targeting a high net worth and foreign clientele while ensuring a portfolio approach to suit the risk return profile of the client. This has put NDBS in a position to capitalize on the growing Sri Lankan capital markets over the medium term and establish itself as a total financial solutions provider.

NDB Capital Ltd., Bangladesh

NDB Group's investment	LKR 131 mn
Profit after tax	LKR 6 mn
Net assets	LKR 78 mn

Bank's direct holding - 77.8%



NDB Capital Ltd. (NDB Capital), with its diversified and experienced professionals has been offering high-end investment banking services to the Bangladeshi capital market since 2009.

Business Performance

2013 was a challenging, yet successful year for NDB Capital. The stock market of Bangladesh finally demonstrated some stability after almost two and a half years. The liquidity in the banking system too eased off creating windows of opportunities for debt raising which helped NDB Capital to successfully conclude three major deals amounting to approximately USD 86 mn.

NDB Capital closed a BDT 2,000 mn (approximately USD 25 mn) fund raising for a leading player in the power sector in Bangladesh via a preference share issue. In addition, NDB Capital raised approximately USD 36 mn for a power project (in Bangladesh) of a leading Sri Lankan power producer via a combination of convertible preference shares and a USD term loan. NDB Capital managed to tap in to the Group synergies via raising part of the finance from the Sri Lankan banks. In addition, NDB Capital managed to raise BDT 2,000 mn (approximately USD 25 mn) for the largest steel manufacturer in Bangladesh to finance a greenfield project for a capacity expansion. In order to minimize the greenfield risk and to achieve the desired credit rating, NDB Capital structured a unique convertible corporate bond coupled with a put option which was well taken-up by the market. It is important to note that NDB Capital managed to raise funding at very competitive rates leveraging the strong structuring skills of NDB Group, a good example of Group synergies. In addition, NDB Capital together with NDBIB presently is in the process of raising further USD 36 mn for another power project in Bangladesh. NDB Capital also managed to obtain a mandate from a UAE-based investment bank to provide advisory services. This advisory mandate would enhance the international exposure of the team of NDB Capital.

The Future

NDB Capital has been able to enhance the brand image in the Bangladesh market, though successful completion of deals. This has helped to ensure a steady deal flow for 2014 which includes a mandate to carry out the first ever Islamic Bond (Sukuk) in the country's capital market. Building on its successful track record in 2013 and strong deal pipeline, NDB Capital plans to establish itself as the leading investment bank in Bangladesh.

Development Holdings (Private) Ltd.

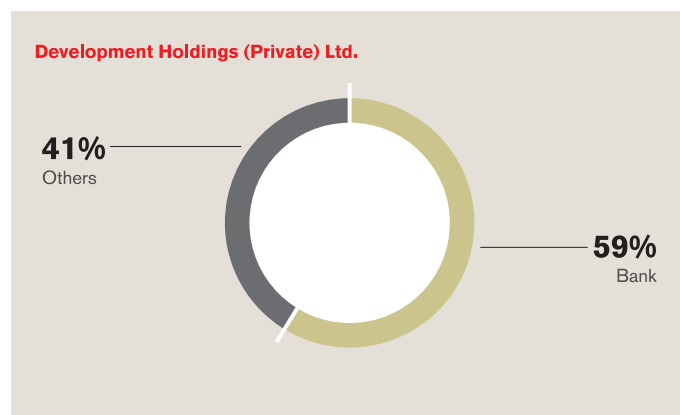
NDB Group's investment	LKR 228 mn
Profit after tax	LKR 193 mn
Net assets	LKR 1,946 mn

Bank's direct holding - 58.7%

The NDB-EDB Tower is treated as an investment property, and is revalued in accordance with the Sri Lanka Accounting Standards. Accordingly, the profits of the Company also include revaluation surpluses of the building.

The Future

DHPL intends to continue the provision of a strategic location for the variety of its tenants. The property is timely upgraded to maintain its stature and prominence.



Development Holdings (Private) Ltd. (DHPL) is managed by the Bank and the Sri Lanka Export Development Board (EDB). DHPL is engaged in the business of renting out a 15-storied high rise commercial property in the heart of Colombo, popularly known as the NDB – EDB tower situated in Navam Mawatha, Colombo 02.

Sri Lanka's iconic representation in the global export market, Sri Lanka Export Development Board is housed in the NDB-EDB tower, along with many other renowned local and global institutions. Amongst them are the International Finance Corporation, Japan International Corporation Agency (JICA), Microsoft Corporation Sri Lanka and NDB Wealth Management Ltd. They largely benefit from the locational convenience of the Tower. The variety of these tenants occupying the building renders it to be a mini-business hub of itself.

The NDB-EDB Tower is a state of the art modern commercial property, with many facilities. It has a fully-fledged auditorium with seating capacity for over 250 people. This auditorium is hired out for various business forums, seminars etc, right throughout the year and is one of the best in kind in the capital city. The NDB-EDB Tower provides ample and convenient parking space, with three floors of the building allocated for parking. The Tower also has a cafeteria which can accommodate 200 people at a time. A balcony lobby area is available, with the magnificent view of the Beira Lake and this lobby area is ideal for hosting events for small gatherings.

Institutional Capital

We will next discuss the second dimension of internal capital formation, namely, institutional capital.

Institutional capital covers a broad spectrum of non-financial components that are, like financial capital, internal to the Bank and the Group. As discussed previously on page 30 they are intangibles and comprise intellectual property, organizational knowledge, systems, processes, brand value, corporate culture, business ethics and integrity and so on. They are akin to 'hygiene factors' - aspects one often takes for granted until something goes wrong!

The paragraphs that follow touch on the key aspects of the Bank's institutional capital.

Organizational Knowledge

Set up as a specialized development finance institution in 1979, subsequently transformed into a licensed commercial bank in 2005, the Bank today leads a formidable universal banking Group that draws on past experience, new thinking and synergies in a resurgent economic landscape. In addition to individual training and development of employees, the Bank also has in place several mechanisms to promote institutional learning, which in turn, duly supported by consolidated strategic functions such as human resources, information technology and finance uniquely position the Group as 'The Knowledge Bank'.

Brand Value

Placing emphasis on personifying the Bank's value proposition through its brand identity, the NDB family is groomed to be the ambassador and guardian of the NDB brand. Brand building is therefore not limited to an external exercise but is given life from within; where daily operations, customer service proposition, front line servicing as well as products and services of the Bank are aligned to embody the distinct identity of the NDB brand.

The Bank implemented an integrated marketing communication strategy and conducted numerous brand building activities during the year to reinforce its position as an innovative, service-oriented banking conglomerate offering universal financial services under one roof. Key activities included partnering the AmCham - RCGC Gold Tournament, sponsorship of the APEA Sri Lanka Awards, De Lanerolle Brothers in Concert, National Chamber of Exporters Awards 2013 and sponsorship of the Commonwealth Festival Orchestra for Commonwealth Heads of Government Meeting 2013.

A customised research project was also undertaken during the year to revalidate the relevance of the Bank's brand values to stakeholders; with a progressive vision to further enhance the brand experience in time to come.

Online presence and the social media: The Bank relaunched its corporate website during the year with several new features. We also entered the social media platform with the launch of the NDB Facebook fan page. The Bank will cautiously further this engagement with the online community locally and internationally to maintain an active presence in diverse social media platforms.

In store visibility and outdoor presence: Product branding, signage and merchandize at branches were better aligned with the Bank's overall brand strategy. To improve branch ambience, LED TV screens were installed within customer areas at branches to display relevant information such as interest rates, exchange rates, new product details and special notices for customers and visitors. New hoarding sites and branding space on city notice boards countrywide were also acquired for greater visibility. The NDB brand in a short period has now become one of the top twenty national brands in the country.

Business Ethics and Integrity

Sound business ethics and integrity are aspects that are well understood and reinforced in all our activities. As discussed on pages 87 to 131, several frameworks, codes and control mechanisms are in place which are reviewed from time to time and upgraded based on need. What is more, we have brought our business partners too into this circle through a Sustainable Supply Chain Management Process that takes into account an assessment of suppliers in the context of environmental, labour and social factors. The Bank is proud of its unblemished record in this sphere.

Systems and Processes

The Bank has developed several internal systems, processes and procedures over the years which are unique to the institution.

The Bank's internally developed Environmental and Social Management System (ESMS) screens all projects to be financed against related laws, regulations and norms as well as inherent risks. It includes downstream aspects during project implementation. Our ESMS meets all relevant national regulatory standards, as well as those of international lending institutions.

Targeting the SME sector, the Bank developed a Receivables Management System and a Purchase Order Management System, both of which were fully operationalized in 2013.

During the year, we revamped our staff Performance Development System with the full involvement of employees. It is a home-grown product that serves to set individual targets, to identify training and development needs, and to assess and reward performance.

With a longer term focus on staff retention, the Bank reviewed and recalibrated its Equity Linked Compensation Plan with new criteria.

Information Technology (IT)

The use of IT in the banking sector has evolved to a level where it is constantly engaged, if not challenged, in providing an array of innovative customer solutions that are convenient, informative and secure. In fact, the provision of superior IT solutions to customers is a key market differentiator for many organizations in the services sector, including banks.

Bearing these in mind, the Bank continued its IT consolidation efforts during 2013 by integrating all core banking products into a single core banking application that enables a seamless view of the entire customer portfolio. The Internet Banking interface saw many features being added, promoting high user friendliness. On security of transactions, our SMS alerts service launched last year was extended to cover ATM and POS transaction alerts as well so that customers who are registered with this service receive immediate notifications whenever their card is used.

The value created through technology is not limited to external stakeholders. Its presence and contribution is integral for the successful functioning of multiple departments in the Bank. Internal information sharing platforms have been introduced by the IT Department to enable efficient and timely distribution of information within the organization. The Bank adopts technology to make information more accessible to decision-makers, enabling them to arrive at informed decisions regardless of time or location. Key beneficiaries of such platforms are the Business Units, Risk, Management, Corporate Governance and Finance and Planning Departments. IT also facilitates the HR Department in their E-Learning system and modules. This system has become a highly efficient mode of disseminating information and improving the knowledge agility of the Bank's staff, spread across its various locations.

To address contingencies, the Bank continued its successful disaster recovery simulations several times during the year; even operating the core banking system from the disaster recovery site for three continuous weeks in one instance.

We are working on providing more digital access to our customers via virtual and mobile devices to allow them to choose when, where and how to conduct their banking business. Such 'branchless banking' operations not only offer convenience but also serve to increase financial inclusion of individuals and businesses in remote locations.

Operations

In order to cater to a bigger bank with a bigger branch network, all support functions were brought under the umbrella of operations during the year. With this initiative, operations which originally covered Central Processing, Trade Finance and Treasury Operations, now plays a bigger role with Human Resources, Administration, Branch Operations, also coming under its purview.

Two main areas coming under the Operations Department, namely Human Resource Department and Trade Finance Department, both follow international best practices and are certified for ISO 9001:2008 standards by SGS UK Ltd. With continuously monitored efficiency levels, the Operations Department has maintained high serviced standards with minimum cost. These initiatives have not only catered

for the increased branch network but also helped offer extended banking hours to its valued customers. Extended full service banking hours is a unique concept for the Bank which is made possible by dedicated and committed team of professionals from the Operations Department.

The Bank intends to further improve on the service standards by closely monitoring efficiencies and implementing workflow management systems into key product processes.

The Bank set up a new unit to market trade finance products to the SME sector with services provided by the experts in the centre who are known to be among the best in the industry.

Administration Department, which is another important area under operations, is responsible in setting up of new branches, relocation and renovation and refurbishment of premises. During the year, the Administration Department supported the fast growing branch network by setting up of nine new branches. Amongst them, the highlight is the refurbishment of the state-of-the-art Privilege Select floor which is designed and built to the needs of the high net worth individuals focusing on their individual needs with special emphasis of privacy.

Transactional and Institutional Banking

During the last quarter of the year, a separate unit was set up to handle Correspondent and Institutional Banking under the umbrella of Transactional and Institutional Banking. The Bank set up this dedicated Correspondent Banking Unit with the view to exploring and enhancing new relationships and, increasing international guarantee issuance. This decision has proven to be very vital in the wake of large amounts of foreign investments expected to flow into the country.

This unit is expected to contribute towards Correspondent Banking relationships with flexibility and flair for services that support the trade sector and also the infrastructure development sector, while institutional relationships are expected to provide supporting links to specific sectors/services.

A new remittance system has also been developed for purposes of harnessing the potential and growing the inward remittance business particularly remittances to accounts of Sri Lankans who are presently gainfully employed or domiciled overseas and to accounts of their kith and kin. These new relationships with Remittance Organizations are expected to materialize in 2014.

Corporate Culture

Ours is a culture moulded by the five values of the Bank, namely, Integrity, Care, Passion, Teamwork and Service. Our employees are all aligned by these core values towards a culture that facilitates superior banking services. Internally, we believe meritocracy. Each individual is respected, rewarded and recognized for the competence, capabilities and knowledge he or she exhibits and the results delivered, both individually and collectively.

DELIVERING VALUE

External Capital Formation

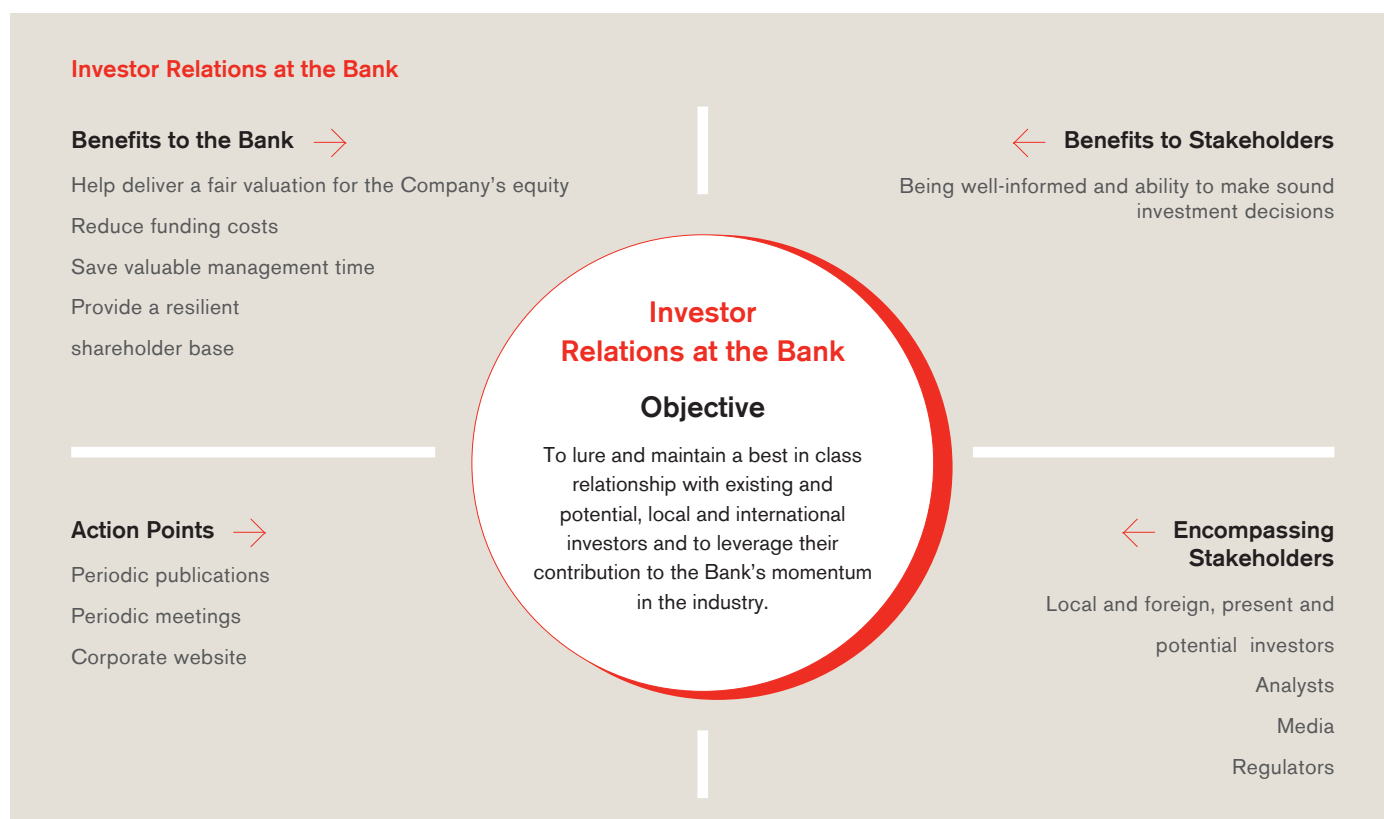
The value created by the Bank for stakeholders through activities, relationships and linkages lead to the formation of capital external to the Bank. They reside within our stakeholders, but the Bank has access to and makes use of these and its own internal capital in driving its business. Our discussion will now focus on the Bank's external capital formation, the material ones being, investor capital, customer capital, employee capital and social and environmental capital.

Investor capital

Investor Relations

Rule #1: Never Lose Money; Rule #2: Never Forget Rule #1

This famous quote by the investment tycoon Warren Buffett reinforces the importance of a correct investment choice that safeguards an investor's wealth. We strongly believe that the same notion applies to our valued investors and the Bank is happy to announce the end of another year, where not only our shareholder's wealth was safeguarded, but was also handsomely rewarded. At the same time we thank all our shareholders for the confidence placed with us in the Group's success story.



Investor Relations at the Bank

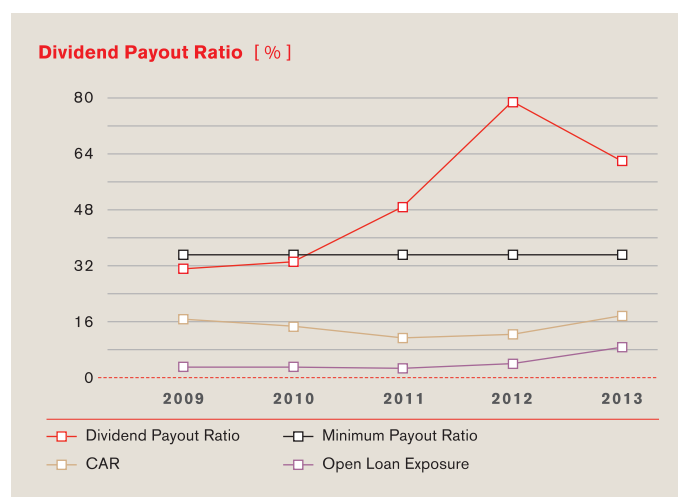
The Bank well recognizes the importance of sound investor relations maintained between the Bank and its investors. Taking a step further, we at the Bank have a broader scope in terms of investor relations, one that encompasses other connected stakeholders such as analysts, media and the regulatory authorities, together with investors. We also believe that well-informed market participants are key for the functioning of an efficient financial market.

Dividend Policy

The Bank's strategy as per the dividend policy is to reward shareholders with consistently high returns through its performance. The policy recommends that there be a gradual increase in the dividends over the years keeping in line with inflation and profits. The policy also recommends that the following minimum ratios be maintained in deciding the dividend for a particular year:

	Minimum Requirement
Capital adequacy ratio	>12%
Open loan position ratio	<40%
Liquidity ratio	>20%
Dividend payout ratio	>35%

The Bank must also satisfy minimum solvency requirements after the distribution of the dividends.



Performance of the NDB Share

Please refer page 278 under Investor Information for details on the Bank share performance.

Customer Capital

Our Portfolio of Products and Services

The Group's suite of core banking and capital markets products and services are delivered through the Bank and its subsidiaries respectively. They are designed with a customer focus and strong brand identity, and comprise the following:

Core Banking Products and Services

- **Commercial Banking**
 - Working capital management
 - Pre and post shipment financing
 - Short-term loans
 - Overdraft facilities
 - Treasury services
 - Distributor financing
 - Receivable financing
 - Guarantees
- **Project Financing**
 - Term loans
 - Securitization
 - Guarantee facilities
 - Merchant banking
 - Ordinary share investments
 - Preference share investments
 - Debentures
 - Advisory services
 - Underwriting
 - Arranging syndications
- **Retail Banking**
 - Current accounts
 - Privilege Select
 - Privilege banking
 - Savings accounts - Regular Savings, Flexi Savings, Savings Star, Savings Star Plus, Premium, *Vishmitha* Savings, Special Savings and Real Saver
 - Children's savings accounts
 - NRFC/RFC accounts
 - Fixed deposits
 - Housing loans - NDB Home Loans, *Viyana* Home Loans, Corporate loans and Loans to self-employed
 - Education loans
 - Personal loans - *Dream Maker*
 - Leasing facilities - NDB Leasing, NDB Hire purchase
 - NDB credit cards
 - NDB Visa debit cards
 - Pawning - NDB *Ran Naya*
 - Western Union money transfer services
 - *Raththaran Ithurum*
 - Internet banking
 - Bancassurance

• SME Banking

- Loans for SME - Long-term loans (concessionary interest rates)
- Short-term working capital loans
- Distributor finance facilities
- Supplier banking products
- Funding importers and exporters
- Customized, industry specific products (tea, cinnamon etc.)

Capital Markets Products and Services

- Investment banking
- Advisory services and securities trading
- Wealth management
- Private equity

Delivery Channels

Our delivery channels included 78 branches and 74 ATMs as at end 2013 across eight regions as well as Internet-based, mobile phone-based and card-based systems.

Expanding Our Reach

Channel	2009	2010	2011	2012	2013
Branches	40	43	55	69	78
Extension offices	4	4	4	4	0
ATMs	38	41	54	64	74

Branches

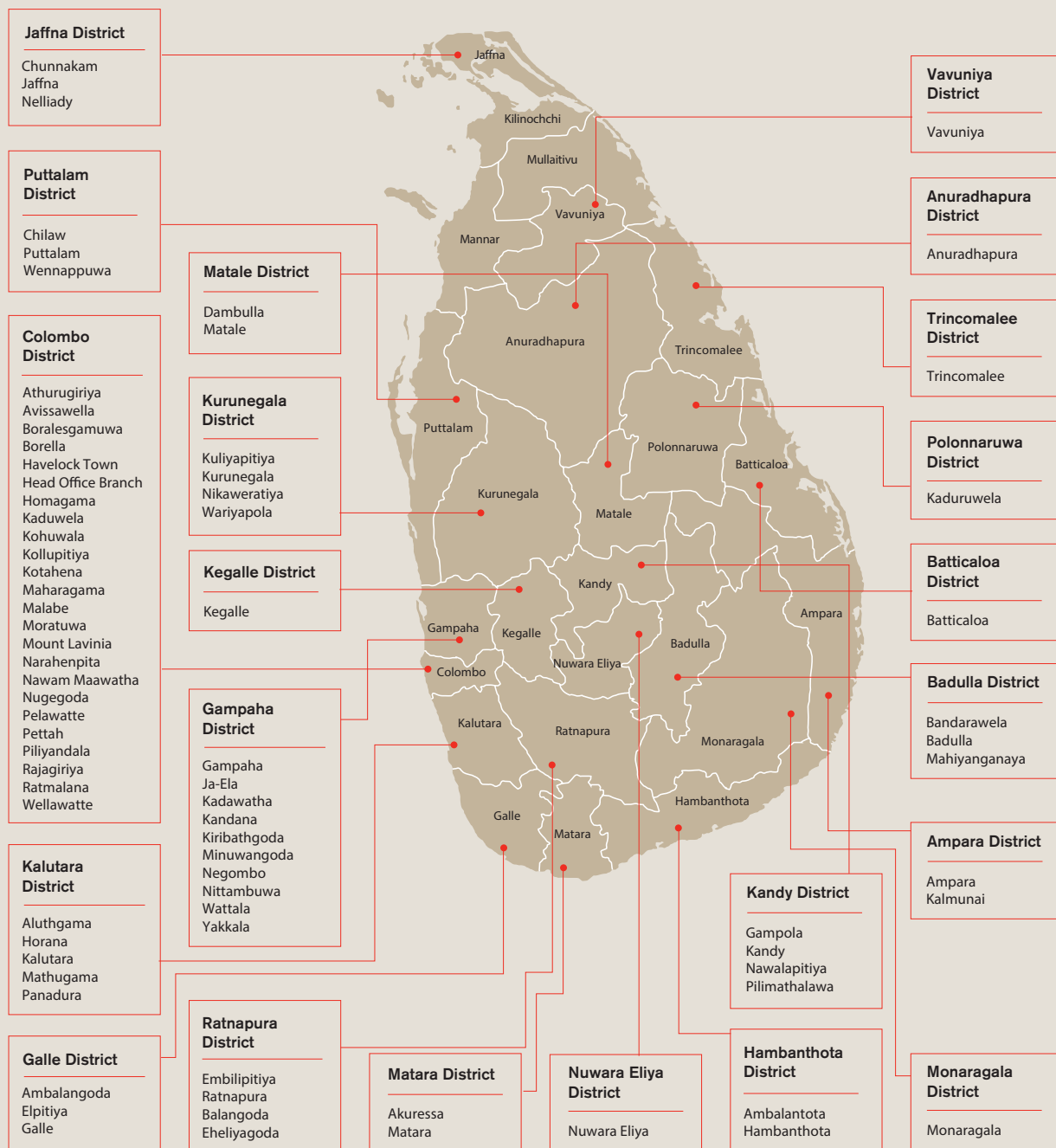
2013 marked a landmark change, with the Bank extending its business hours to 6 p.m. at branches while making available all the usual banking facilities offered at the branch. Dubbed 'Full Service', our branches are now open 9 a.m. to 6 p.m. Monday to Friday, barring applicable holidays. The 'Full Service' banking complements our other customer centric offerings such as 3-hour and 6-hour loans, one-day leasing approvals sans guarantors and 365-day customer desks for leasing/hire purchase.

The branch network expanded from 69 to 78 during the year, to provide services in several economically important strategic locations comprising Akuressa, Eheliyagoda, Elpitiya, Mahiyanganaya, Monaragala, Nikaveratiya, Nelliadi, Nuwara Eliya and Yakkala. A salient feature of the expansion was that 8 out of 9 new branches were located outside the Western Province, thus contributing to regional economic development.



Opening of the Nuwara Eliya branch

Branch Network of the Bank



Night banking

Narahenpita 5 p.m. - 10 p.m.



365 day banking

Havelock Town 9 a.m. - 6 p.m.
Mount Lavinia 9 a.m. - 8 p.m.
Rajagiriya 9 a.m. - 8 p.m.



Sunday banking

Balangoda, Bandarawela, Eheliyagoda,
Mathugama, Minuwangoda & Wariyapola
9 a.m. - 1 p.m.

Network of NDB Group Companies



NDB Securities

Main Operations
Head Office
5th Floor, NDB Building
No. 40, Navam Mw, Colombo 02.
0112131000
mail@ndbs.lk

CSE Floor
Colombo Stock Exchange,
No. 04-01, West Block, WTC,
Echelon Square, Colombo 1
0113135495
sujeewa@ndbs.lk



NDB Wealth Management Ltd.

Main Operations

Head Office
Ground Floor
No. 42, NDB EDB Tower,
Navam Mawatha, Colombo 02.
11 230 2323 -226
thrishana@ndbinvestors.com

Client Relationship Centre 1

National Development Bank PLC
Privilege Select
No. 103A, Dharmapala Mawatha,
Colombo 07.
11 244 8448 - 4155
laknada@ndbinvestors.com

Client Relationship Centre 2

National Development Bank PLC
No. 103A, Dharmapala Mawatha,
Colombo 07.
11 244 8448 - 4121
prabu@ndbinvestors.com



NDB Investment Bank Ltd.

Main Operations

Head Office
NDB Investment Bank Ltd.
No. 40 Navam Mawatha, Colombo 02.
11 2300385 - 2300392
info@ndbib.com



Kalutara

No. 290, Galle Road,
Kalutara South.
034 2221589
jeewantha@ndbs.lk



Galle

No. 1/A, Abeysekera Building,
Wakwella Road,
Galle.
091 2225447
aravinda@ndbs.lk



Ratnapura (Service Centre)

No. 32 A,
Zavia Mawatha,
Ratnapura.
077 1037033
indrajith@ndbs.lk



Matara

No. 60, Uyanwatta Road,
Matara.
041 2236757
kithsiri@ndbs.lk



Ampara

No. 103,
D. S. Senanayake Street,
Ampara.
063 2224245
ravi@ndbs.lk



Gampaha

No. 153, Colombo
Road,
Gampaha.
033 2231117
uddeepa@ndbs.lk



Kiribathgoda

No. 139/1, Kandy Road,
Kiribathgoda.
011 2907515
gayan@ndbs.lk



Jaffna

1st Floor,
NDB Bank,
No. 62/6, Stanley Road,
Jaffna.
021 2224978
chandru@ndbs.lk



NDB Securities (Pvt) Ltd.



NDB Wealth Management Ltd.



NDB Investment Bank Ltd.

Alternate Channels

Central Sales Team

The Central Sales Team, also referred to as 'Feet on street', is actively engaged in the promotion of banking business. They mainly focus on 'Dream Maker' personal loans. The 'Dream Maker' personal loans bounced back from a portfolio that was stagnant in 2012 due to the high interest regime. The popular Fast Track feature, where loans for selected companies are approved within 6 hours, accounted for 50% of the total loan value granted during the year. The promotional activities for the year under review were focused more on market development to educate current and potential customers on areas such as financial discipline and saving.

Branchless Banking

During the year, the Bank successfully developed its home grown version of 'Branchless Banking', which is about providing banking services at the customer's finger tips via a mobile device. This will empower the Bank to engage its customers anytime, any place, anywhere in the country while providing them the ultimate in convenience.

MPOS

Following a tie-up during the year with Global Payments Inc., a US based global enterprise, the Bank has enabled itself for Mobile Point of Sale (MPOS). This facility will empower SMEs and micro enterprises to accept card based transactions.

The call centre saw a 13% year on year growth in incoming call volumes during 2013. The Telemarketing Unit continued its operations in enhancing the deposits and asset portfolio of the Bank while conducting surveys and awareness campaigns that are of strategic importance.

Online Banking

The Bank's online services go beyond just another Internet banking solution. Features in the system, like setting up standing orders and real-time settlements of selected utility bill payments serve to enhance value for the customer. Two new utility providers were brought on board this year, while customers can now access their loan accounts online in addition to their normal day-to-day transactions. New customers enrolling for online banking grew by 38% year on year and we see this trend continuing in line with the global shift towards e-commerce.

New Product Development

Several cross functional teams have been set up within the Group to identify strategic initiatives to spur product innovation, synergies and value creation. These teams play an important role in developing the overall Group strategy on new products and services. Further, the Bank encourages innovation through its automated suggestion generating system named the 'IdeaXpress'. It is an IT tool that can be accessed by all employees to share innovative ideas and customer insight.



24-hour Customer Service and Telemarketing

As one of the few banks in the country with a 24-hour call centre, we now plan to upgrade our services further by investing in a more comprehensive platform.

Savings

The year 2013 kicked off with a fully-fledged marketing campaign for the Real Saver account with a unique proposition that offered double the interest for the commitment of regular savers. To reinforce a savings-oriented mind-set useful savings tips were shared on radio and via mobile text messages sent out to the Bank's client base.



Leasing

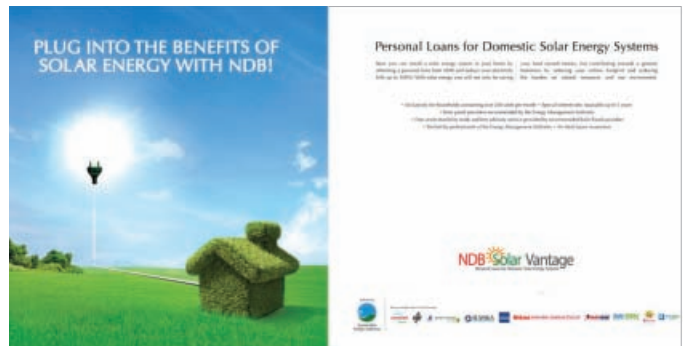
The Bank entered into strategic partnerships with United Motors, AMW, Sathosa Motors and Euro Cars to offer attractive packages. Introducing the 365-day Leasing Centre was a highlight of the year's activity that heightened awareness for auto finance products of the Bank.

Housing Loans

Building on a strategic redirection, promotion of housing loans were recommenced during the latter half of 2013. The Bank also entered into a strategic partnership with a builder to offer loans at discounted interest rates for a premier condominium project in Colombo.

Renewable Energy

Displaying its commitment to sustainable development and green energy, the Bank launched SOLARVANTAGE - a personal loan product to finance solar photovoltaic energy systems for domestic usage. The Bank partnered with the Sri Lanka Sustainable Energy Authority in the selection of suppliers and certification to ensure reliability of service and product quality.



Private Banking



The Bank unveiled its Privilege Select centre at Dharmapala Mawatha, Colombo in 2013, marking the launch of the newest and most exclusive private banking proposition in Sri Lanka.

9-6 Full Service Banking

Banking hours were extended till 6 p.m. at branches countrywide, with the full range banking products and services on offer at these branches.



Islamic Banking

Going forward, a significant new addition planned is the inclusion of Islamic financing in 2014. The Islamic banking business will offer a broad range of Shariah compliant financial solutions for a niche market that is gaining popularity in the country.

Product Responsibility

Customer Charter

The Bank conforms to the requirements of the Customer Charter of the Central Bank of Sri Lanka. This includes labelling and the provision of sufficient information on products, services, rates, tariffs as well as terms and conditions governing such aspects. We have not identified, nor have we been notified, of any significant cases of non-compliance with such regulations or voluntary codes. Further, the Customer Charter is made available on the Bank's corporate website for transparency and easy access to information on consumer rights.

Customer Satisfaction

A dedicated customer service specialist monitors and identifies any service delivery gaps across all touch points of the Bank and provides recommendations for service recovery. The implementation of such remedial action is then monitored end to end.

The Bank conducted annual customer satisfaction surveys through Lanka Market Research Bureau (LMRB) in the past, the ratings received being 69.76% (2008), 75.40% (2009) and 75.43% (2010). This was replaced by a comprehensive research programme executed in 2012/13, also through LMRB.

The mystery shopper results of the survey revealed that the branch ambience was friendly and inviting with neatly displayed material and friendly staff that helps customers and delivers memorable service experiences.

Customer Privacy

The Bank maintains a comprehensive online complaint management system where complaints are resolved within a stipulated timeframe based on the nature and complexity of the complaint. Once a complaint is lodged, it is escalated to the relevant Head of Department where accountability lies for resolution.

The Bank adheres to a strict secrecy policy to which all staff members are bound through the Code of Conduct. Further, the information technology platform of the Bank is maintained in-house under strict confidentiality and is duly secured against malicious spyware etc. There were no substantiated complaints regarding breaches of customer privacy or loss of customer data during the year.

Employee Capital

People Also Matter

Ours is a team of achievers driven by the Bank's corporate values - a winning formula focused on integrity, care, passion, teamwork and service. In turn, the Bank aspires at all times to be an employer of first choice, a policy that underpins all aspects of our human resource development agenda. The discussion that follows is about how the Bank builds its employee capital by attracting the best of talent, nurturing and moulding their development and rewarding performance in its pursuit of excellence.

The Numbers

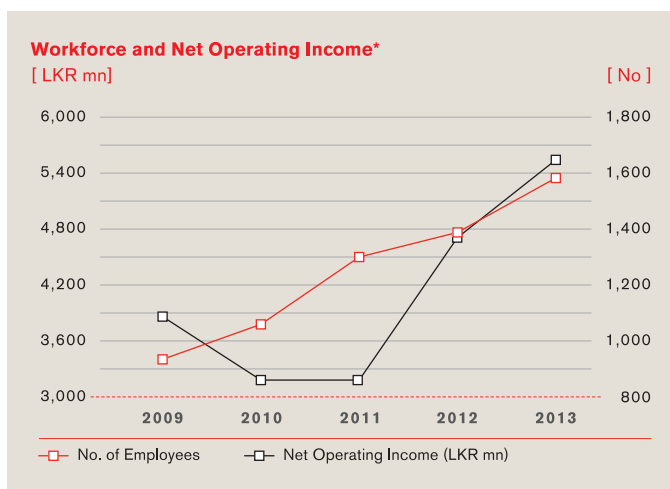
The number of staff, both permanent and contractual, employed at the Bank was 1,583 as at 31 December 2013. Though a relatively small number, it's one that delivers big results. Our lean and agile team comprises some of the finest professionals in their chosen fields, working in harmony and sharply aligned with our strategic direction. The banking industry in Sri Lanka is moving towards consolidation and change, and the Bank together with its subsidiaries sees an important role in shaping it.



Workforce by Grade and Gender

Grade	Number			Composition %	
	Male	Female	Total	Male	Female
Senior Management	31	17	48	65	35
Management	133	64	197	68	32
Executive	176	78	254	69	31
Non-Executive	463	397	860	54	46
Specialized sales force	125	24	149	84	16
Trainees and other	38	37	75	51	49
Total	966	617	1,583	61	39

Workforce Growth



* Net Operating Income before impairment charges and one-off capital gains

Workforce by Geographic Distribution and Gender

Location	Number			Composition (%)	
	Male	Female	Total	Male	Female
HO	498	374	872	57	43
Region 1	53	36	89	60	40
Region 2	53	31	84	63	37
Region 3	39	40	79	49	51
Region 4	50	18	68	74	26
Region 5	88	33	121	73	27
Region 6	92	38	130	71	29
Region 7	93	47	140	66	34
Total	966	617	1,583	61	39

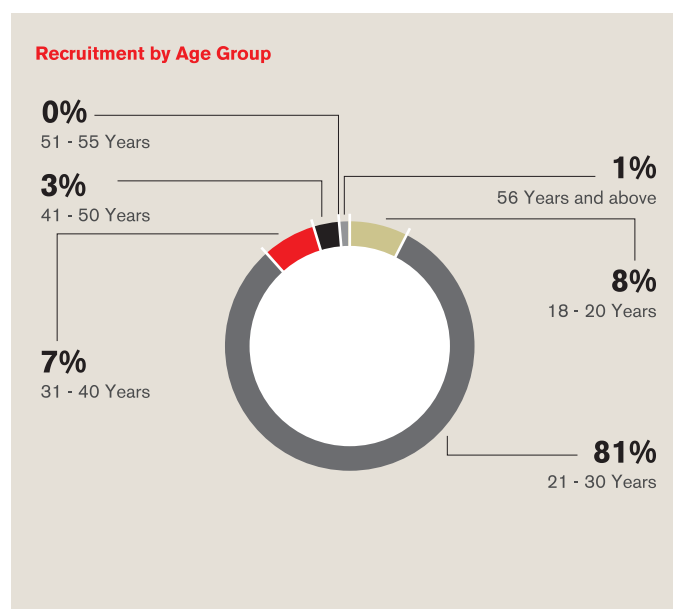
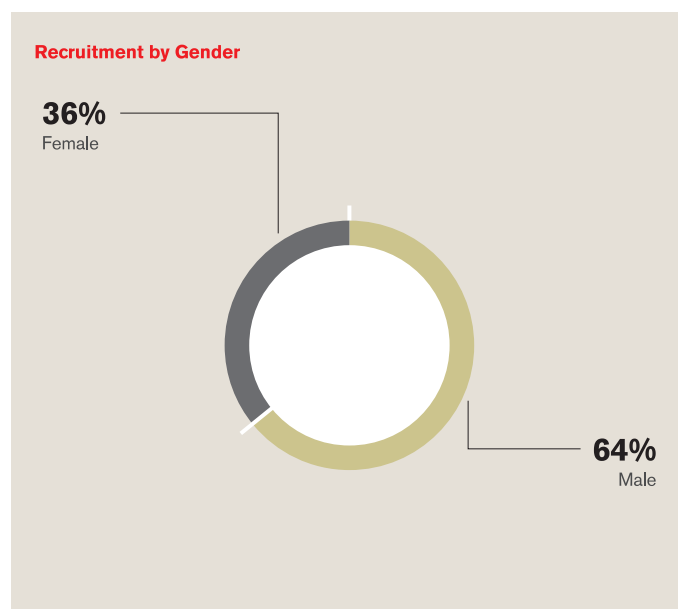
Workforce by type of Employment

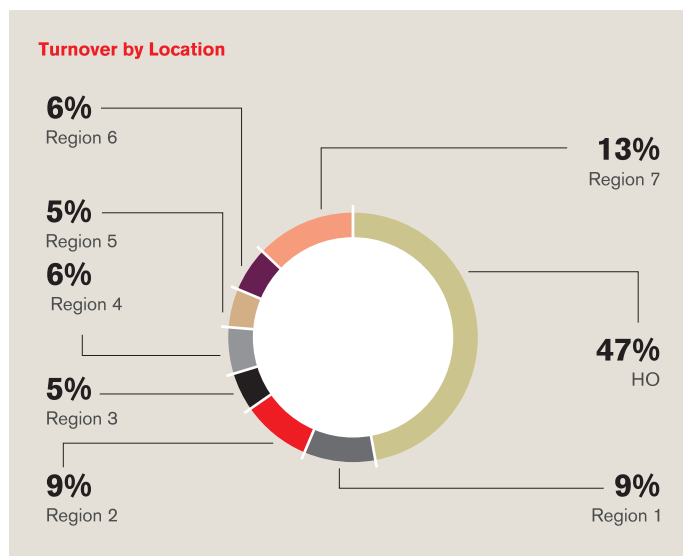
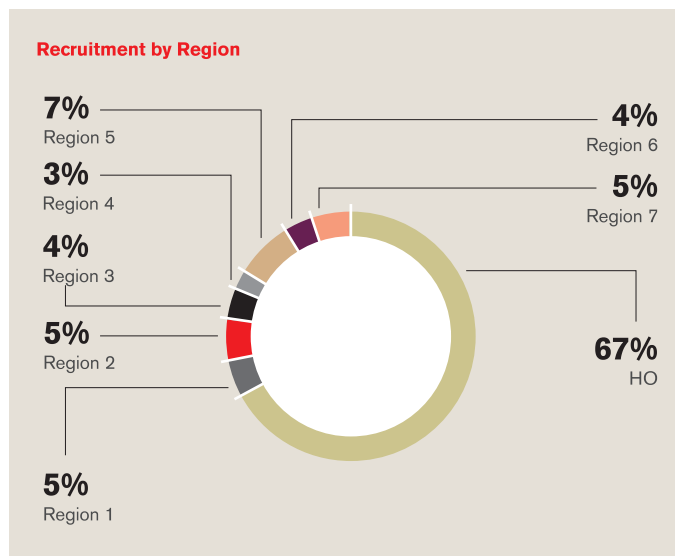
Employment type	Number of Employees				Composition of Employees (%)			
	2013		2012		2013		2012	
	Male	Female	Male	Female	Male	Female	Male	Female
Permanent	778	516	669	460	60	40	60	40
Contract	176	96	162	77	65	35	68	32
Others	12	5	12	9	71	29	57	43
Total	966	617	843	546	61	39	61	39

Recruitment and Retention

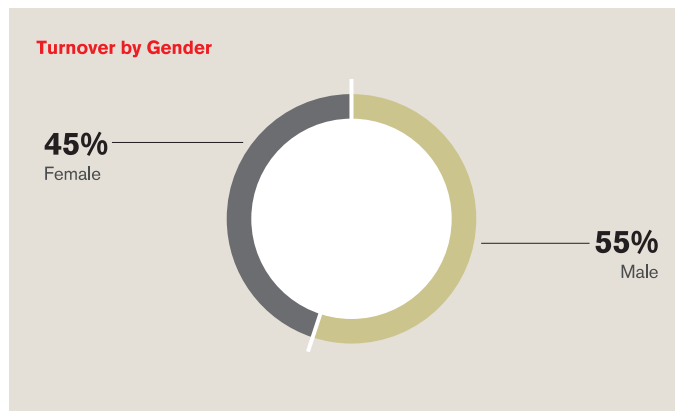
While we give priority to organic growth, duly supported by training, development and succession planning, situations do arise when there is need for new blood. A transparent procedure is in place for all staff recruitment, which is followed by induction and transfiguration. As an employer of choice, the Bank adopts some of the best industry practices in retaining staff. In addition to providing an attractive remuneration package, other aspects focused on retention include regular employee engagement, training and development, career paths, diversity and equal opportunity, maternity leave, an Equity Linked Compensation Plan and retirement benefits.

The Bank recruited a total of 395 persons during the year, analyzed as follows:





A total of 64 persons from the Bank's permanent cadre, excluding retirees, left the Bank during the year. Key statistics on employee turnover are analyzed below:



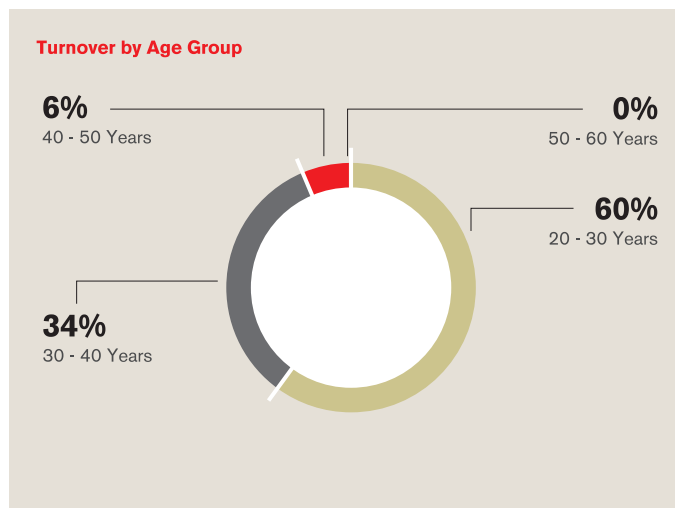
The turnover rate during the year amounted to 4.9% (2012: 5%).

Defined Benefit Plan

Contribution to EPF Contributed by employee 10%
 Contributed by Employer 15%
 Contribution to ETF by the Employer 3%

The Bank provides for gratuity, for permanent employees who have completed five years of service based on an actuarial valuation carried out by Piya S Goonetilleke Associates, a professional actuary. Based on the actuarial valuation, the gratuity liability as at 31 December 2013 was LKR 170 mn.

The Bank has a separate fund to pay the plan's pension liability which amounts to LKR 534 mn. This liability is also based on an actuarial valuation carried out by Piya S Goonetilleke Associates, a professional actuary.



Benefits to Full-time Employees

The table below provides a comparison of the benefits available to permanent employees and contract employees:

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	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
Cafeteria, Gymnasium, Library	Applicable	Applicable
Toast Masters' Club	Applicable	Applicable
Recreation Club	Applicable	Applicable
Subsidized Loan Benefits		
Housing, Vehicle, Sundry Loan	Applicable	Not Applicable
Share Ownership Plans		
Employee Share Ownership Plan	Applicable	Not Applicable
Retirals		
EPF/ETF/Gratuity	Applicable	Applicable

Parental Leave

Only female employees are entitled to parental (maternity) leave, and hence male employees are excluded in the statistics that follow.

Indicator	Total
No. of employees due to return to work after parental leave ended during year under review (including those who were already on leave at the beginning of the year)	24
No. of employees who returned to work during the year under review after parental leave ended	16
Return to work rate	67%

Continuous Learning

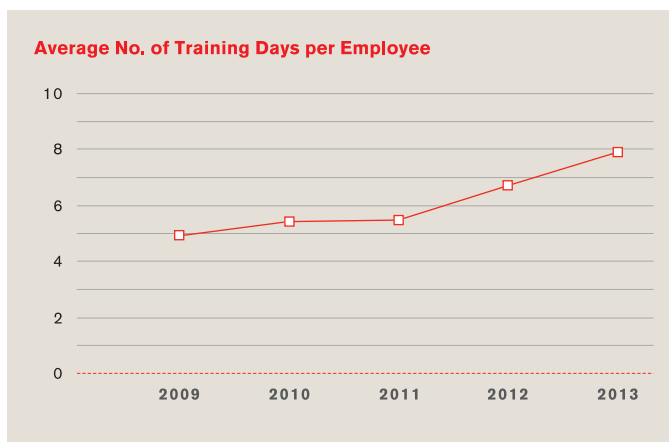
We do recognize that it is our people who make all the difference, and continuous training and development are thus key aspects that keep the Bank ahead of competition. During the year, the Bank invested LKR 51,732 mn (2012: LKR 56,790 mn) to provide a total of 537 person-hours of training (2012: 548 person-hours) across all categories of staff.

The key topics covered for training are summarized below:

Subject	2013 No. of Programmes
Operations	107
Compliance/Basel II/Internal Capital Adequacy Assessment Process (ICAAP)	8
Know Your Customer/Anti Money Laundering	9
International Accounting Standards	16
Integrated Risk Management	15
Treasury	3
Others (Marketing, Audit, Secretarial, Information Technology)	148
Total	306

Average Training Hours

Training is made available to staff based on needs and is independent of gender. The average duration of training per employee during 2013 was 65.7 hours for females and 55.9 hours for males.



Self Learning

Employees are encouraged to supplement such externally provided training with self-learning and take control of their professional development. Supporting this, is our investment in e-learning. We increased the number of e-learning modules from 9 to 24 during the year, which also saw a 50% increase in the number of persons using these modules.

The Bank works closely with the Institute of Bankers of Sri Lanka (IBSL). We were the first local bank to partner with IBSL to offer Certificate and Diploma Programmes conducted in-house for our staff. This partnership has flourished over the past three years, enabling our employees to be accepted as knowledge workers who are recognized for their competencies and contribution.

Going further on personal development, we initiated the NDB Toastmasters Club in 2013 and joined the Global Toastmasters fraternity. This has helped in unleashing the hidden potential of employees in the arena of oral communications and providing them a professional forum for networking and stimulating discussion.

The NDB Family

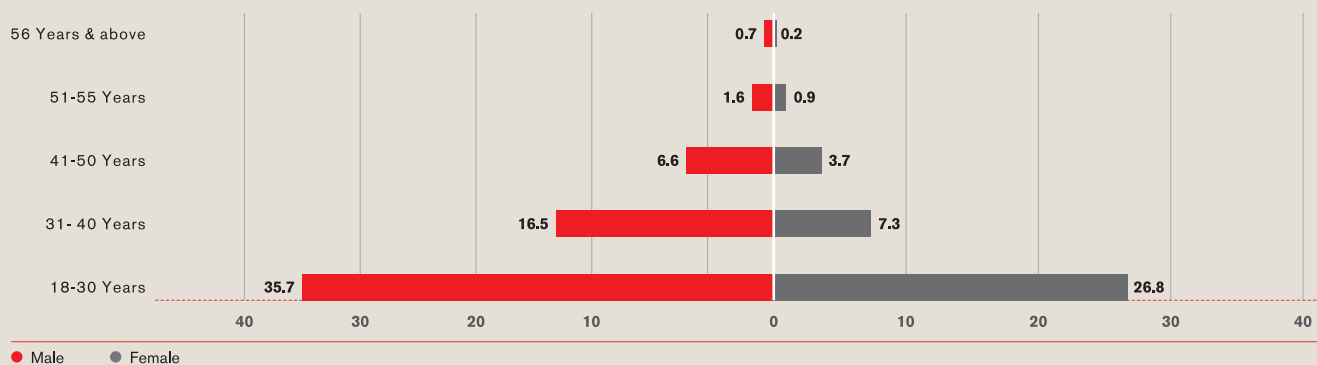
We realize that people are best engaged when the unit that is most close to their hearts, that is the 'Family' is an inseparable extension of their work place. Thus, the Bank makes the families of employees' part of Bank activity through several initiatives. From time to time staff children are provided leadership skills, communication skills and programmes to unleash their potential. 2013 showcased a Lightning Reading Programme for children of staff.

The Bank is also a proud celebrant of achievements. The NDB family recognized and shared in the joy when children of staff members kids achieved 'All A's' in the GCE Ordinary Level and GCE Advanced Level Examinations. The kids were invited to meet the rest of the NDB Family in office and were felicitated for their achievement.

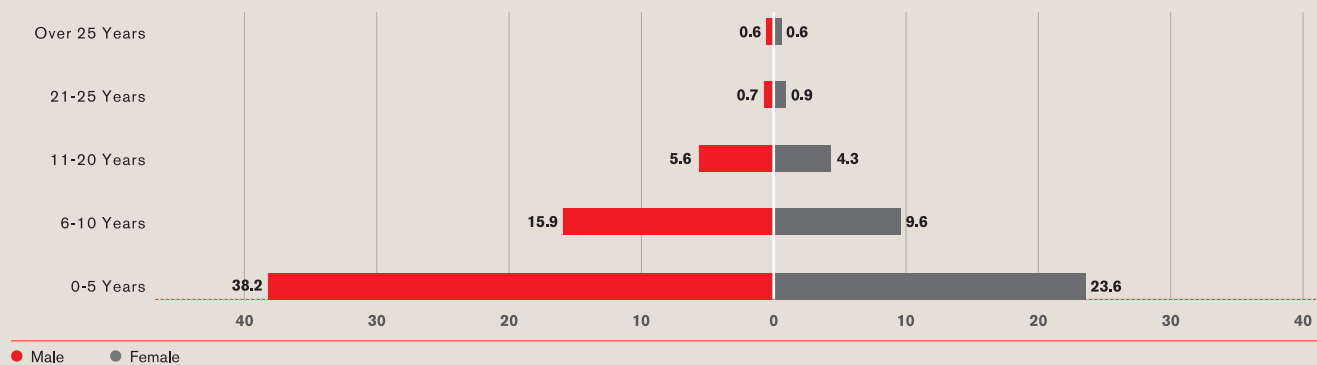
Strength in Diversity

The Bank is an equal opportunity employer that treats all staff with due respect irrespective of gender, race, religion or social background. In fact we recognize the synergies that are to be reaped through such a diverse and talented group that not only enriches our human capital but also helps in aligning our business model to better serve the needs and aspirations of local communities.

Age Analysis [%]



Service Analysis [%]





Employee Engagement

Regular dialogue clears misconceptions, enhances transparency and builds trust. The Bank uses multiple channels - both personal and e-based - to engage with staff. They serve to inform, listen to opinions, ideas and grievances, and above all they underscore one's sense of belonging.

The Bank conducts two Employee Satisfaction Climate Surveys each year.

In addition, the Bank undertook an independent survey in 2013 through the Great Places to Work Organization.

The Bank recognizes the importance of providing a healthy work environment as well as the need to balance one's demands of work and family. Regarding the latter, employees are kept abreast of health issues such as pandemic diseases, diet, exercise and stress management at work and home including aspects of successful parenting. All employees are welcome to use the gymnasium that is located at the Navam Mawatha, Head Office, while health camps were organized in Colombo and Kandy during the year to cover a broader group of employees.



Employees participating at the annual bhakthi gee programme held for Poson.

Occupational Health and Safety

Two incidents related to occupational health and safety was reported in the year 2013. The number of person days lost in relation to these two incidents was 101.

Rewarding Performance

We reward employees based on performance with absolutely no bias based on gender or any other decisive factor. A new Performance Development System (PDS) with improved performance measurement metrics, objectivity and transparency was launched during the year. To ensure buy-in and transparency the PDS was developed through a bottom up approach with feedback obtained from employees at various levels.

With long-term staff retention in mind, we also reviewed and revamped the Bank's Equity Linked Compensation Plan (ELCP) during the year.

All members of staff, regardless of grade or gender, receive regular performance and career development reviews.

Performance Reviews

Grade	Employees Receiving Regular Performance and Career Development Reviews		
	Number of Employees		
	Male	Female	Total
Senior Management	31	17	48
Management	133	64	197
Executive	176	78	254
Non-Executive	463	397	860
Specialized Sales Force	125	24	149
Trainees and Other	38	37	75
Total	966	617	1,583

Gender Equity

Grade	Average Basic Salary Ratio, Male/Female
Senior Management	1:0.7
Management	1:1.1
Executive	1:1.1
Non-Executive	1:0.9
Specialized Sales Force	1:1.2
Trainees and Other	1:0.4
Total	1:0.8

Social & Environmental Capital

A Balanced Scorecard

As a responsible corporate citizen the Bank is ever mindful of the impact it makes on local communities and the environment. But it is not all philanthropy. It is a win-win approach that recognizes that the ability of the Bank to create value for itself over time is inextricably linked to the value it creates for others. Thus, our approach to Corporate Social Responsibility (CSR) is aligned not only with the Bank's values and objectives but also with the expectations and needs of its stakeholders. It is a carefully structured three-pronged agenda that covers operational, strategic and philanthropic CSR initiatives. Monitoring of results is carried out directly by the Bank, with the involvement of staff at head office and branches, as well as our CSR project partners.

Operational CSR

Operational CSR initiatives are based on the Bank's day-to-day business operations. Sometimes they are not separately identifiable as such, as they are integral with normal business and serve to create value for the Bank as well as its multiple stakeholders over multiple time horizons. For brevity and practical reasons only a few business operations that have easily identifiable impacts on local communities are discussed here.

Micro and Small and Medium Enterprises Development



Reviving the legacy of mask making in Ambalangoda

The Micro and Small and Medium Enterprises (MSME) sector forms the backbone of Sri Lanka's economy and is the principal source of employment creation. It encompasses practically all industry sectors and bridges the rural-urban divide. The Bank has been active in the development of this sector since its founding, a role that goes beyond the mere provision of finance.

Our unswerving assistance towards the SME sector also extends to providing entrepreneur education and technical insight. The trilingual quarterly publication 'Siya Savi' ('Power Within') launched in 2012 continued its mission throughout 2013.

The Bank's Microfinance Strategy adopts two approaches in targeting underserved communities of the economy, namely, empowerment and capacity building (through the 'Jeevana' or 'Life' programme), and livelihood development financing (through the 'Divi Aruna' or 'Awakening of Lives' programme). Both programmes inculcate a business orientation that instil a strong credit culture, devoid of a 'dole out' mindset that is often associated with such initiatives.

Two programmes on hotel operations were conducted under the Jeevana programme in Trincomalee and Tangalle, while one on motor mechanism was concluded in Jaffna during the year. These programmes were conducted in collaboration with reputed business partners, and directly benefited a total of 159-youth from these regions.

A revolutionary feature of the Divi Aruna loan scheme is that facilities are granted without the need for collateral. Loan approval is based on the Bank's assessment of the applicant's capabilities and success of the enterprise, coupled with safety nets such as regular savings and insurance which are often new concepts to grass root level entrepreneurs. A total of 414 micro loans totalling LKR 103 mn were disbursed during the year across 22 of the 25 districts in Sri Lanka. The number of microfinance beneficiaries totalled 1,225 and collectively accounted for a total loan portfolio balance of LKR 129 mn by end 2013 (2012: LKR 68 mn portfolio balance representing 891 loans).

Moving one step higher on the ladder to the Small and Medium Enterprise (SME) sector, the Bank conducted 13 technical advisory training programmes for SME entrepreneurs during the year. They were held in Ambalangoda, Colombo, Ja-Ela, Jaffna, Kadawatha, Kaduruwela, Kotahena, Minuwangoda, Moratuwa, Negombo, Panadura, Ratnapura and Trincomalee with the assistance of resource persons drawn from local universities and the Bank's own talent pool. These programmes attracted a total of 1,091 persons from SMEs.

The establishment of dedicated SME Centres equipped with state-of-the-art facilities to support entrepreneurs bears further testimony to the Bank's commitment to this sector. The five SME Centres located in Anuradhapura, Kalutara, Kandy, Kurunegala and Matara became fully-operational during the year. The Centres provide computer access for personal browsing and a wide array of information and training modules, and also organize seminars and workshops which help in elevating the rural entrepreneur to a new level of thinking.

Housing for the Underserved

The Bank acts as the Fund Manager for a project set up by Lanka Financial Services for Underserved Settlements (LFSUS), a not-for-profit organization, that provides financial assistance to upgrade the living conditions of underserved settlements in Sri Lanka. Working closely with the Slum Upgrading Facility (SUF) of UN Habitat, this organization helps communities gain access to financing from local commercial banks by bridging the gap between banking sector expectations and the capacity of low income settlers. This is achieved through full or partial credit guarantees offered by the Bank to banks that are willing to finance these communities through identified 'project partners' such as NGOs and community cooperative groups. Now in its seventh year, the project has benefited 1,253 families, including 4,354 beneficiaries at various locations of the country with financial assistance totalling to LKR 112.4 mn.

Hiring from the Local Community

We recognize that diversity within the management team and the inclusion of members from the local community help in many ways. For instance, it improves our ability to better understand local needs and tailor our products and services accordingly, while also enhancing socioeconomic development of the community.

Proportion of Local Staff at Locations of Operation

Province	Executive Grade and Above %
Central	46%
Eastern	14%
Northern	40%
North-Central	20%
North-Western	33%
Sabaragamuwa	50%
Southern	45%
Uva	57%
Western	95%
Total	87%

Strategic CSR

As a financial institution, the Bank believes that promoting national economic growth is of paramount importance, since a robust economy ultimately contributes to the well-being of a broad section of stakeholders. Considering that education and entrepreneurship are important to support economic growth, the Bank has selected these two aspects for its strategic CSR initiatives.



Prevention of child abuse awareness programme for trainee teachers - Hapitigama National College of Education, Mirigama

CSR Project	Partner	Objectives	Results
English Communication Programme for Secondary School Teachers	British Council	• Increase the standard of English teaching in Sri Lanka. • Sustainable project that will benefit many future batches of students. • Empower teachers to provide a higher quality education.	• Teaching skills of secondary school English language teachers enhanced under the '1,000 Schools Presidential Initiative' • Standard of English teaching enhanced through 179 trained teachers in 87 schools in 10 Regions. • 30,283 students benefited.
Schools Library Project	Asia Foundation	• Improve language skills through reading. • Provide high quality English language books which are not freely available or affordable to most schools.	• Upgraded 45 libraries of schools countrywide. • Sustainable project that will benefit many batches of students as well as teachers. • Improve communication skills in the English language.
Schools Water & Sanitation Project	Sri Lanka Water Partnership	• Improve infrastructure and enhance the learning environment to encourage children to attend school. • Conserve the environment by installing rain water harvesting tanks. • Improve health of children through proper sanitation.	• Sanitation in 13 marginalized schools in the Central Province Denuwara Educational Zone constructed/renovated. • Rainwater harvesting tanks installed in all 13 schools. • Over 5,000 students benefited. • Access to education facilitated.
NDB Senior Fellow in Entrepreneurship	University of Moratuwa	• Create an entrepreneurial culture among students. • Foster a new generation of youth who will be 'job creators instead of job seekers'. • Develop entrepreneurial capabilities among youth. • Enhance capacities in entrepreneurship education and research in the University.	• Minor in Entrepreneurship introduced in the Engineering degree programme • Formation of 23 Student Companies • Research on entrepreneurship undertaken by PhD students • Entrepreneurial capabilities developed in 433 students.

Philanthropic CSR

Philanthropic CSR initiatives are based on the identified needs at national level. The Bank has selected 'Prevention of Child Abuse' and 'Cancer Aid' as two areas for support, and assistance is channelled through two trusts set up for this purpose.

CSR Project	Partner	Objectives	Results
NDB Cancer Aid Trust Fund	Cancer Hospital, Maharagama	Provide assistance through cancer hospital to cancer patients who are unable to afford vital therapeutic items.	LKR 7.0 mn worth of donations made to date consisting of essential therapeutic items for patients as well as surgical items for the hospital.
Prevention of Child Abuse Trust	Department of Probation and Child Care	- Make our communities a better and safer place for our nation's children. - Prevent child abuse and protect children by creating awareness of child abuse and how to prevent it amongst caregivers as well as children.	- Awareness programmes for trainee teachers in 7 National Colleges of Education in Kalutara, Veyangoda, Mirigama, Bingiriya, Kahawatta, Polgolla and Galle. - Awareness for 1,126 teacher trainees. - Enabling them to prevent and combat child abuse in their schools. - Enabling victims of child abuse to seek redress. - Awareness programmes for parents and teachers. - Art Therapist programme for a total of 10 caregivers from National Child Protection Authority (4 caregivers) and Department of Probation and Child Care Services (6 caregivers). - Parents, teachers and caregivers equipped to identify, prevent and combat child abuse in their schools and assist victims.

Socioeconomic Impacts

Infrastructure Investments

The Bank's project financing arm funds both Private Sector as well as State Sector infrastructure projects. The former include large investments in different sectors such as the energy sector, textile and garments, hotel and plantation while the latter have been mainly on road development and water supply schemes. While these are commercial transactions arising from the normal course of business of the Bank, these projects have strong positive impacts on the local communities as well as the country at large. They promote direct and indirect employment creation, increase economic activity through market access, improve health and well-being and so on. Negative social and environmental impacts arising from such projects, including the resettlement of people and greenhouse gas emissions, are controlled through national regulatory bodies, civil society as well as the Bank's own Environmental and Social Management System that screens all projects prior to approval of investment.

Improving Productivity

The Bank finances many projects which improve the productivity and competitiveness of organizations and sectors and hence, the whole economy. Examples include term loans granted for replantation projects in the tea, rubber and oil palm sectors; factory modernization; hotel refurbishment and the like. These loans and leases have typically targeted the plantation, tourism, textile & garments and infrastructure sectors of the economy.

Stimulating Foreign Direct Investment

The Bank has financed as well as structured the financing of numerous projects by companies that have attracted foreign equity and debt investment. During the year we approved a term loan for a waste to energy project promoted by an overseas promoter. Extending a term loan facility to this project is a great opportunity as it is the first of its kind in Sri Lanka. Disposal of solid waste is a priority environmental issue in Sri Lanka and at present it has become a national concern. The most common method of Municipal Solid Waste (MSW) disposal is open dumping. The issue of MSW is acute in the Western Province where majority of the MSW management cost is allocated for waste collection and transportation rather than for waste disposal and treatment. Renewable energy generation has positive environmental impact since it is an alternative to burning fossil fuel. Proposed project therefore will help in the management of municipal solid waste using contemporary technology that meets performance standards established by the multilateral funding agencies.

Further, the proposed project will be a solution for the waste disposal in part of Western Province, which is a national environmental concern at present.

In addition, the Bank has also financed projects overseas - a few thermal power projects in Bangladesh and a plantation project in Cambodia. These are outward investments where local firms expand their operations internationally to earn foreign exchange.

Sustainability Systems and Policies

The Bank is presently not engaged in developing externally any economic, environmental and social charters principles or other initiatives to which the organization subscribes or which it endorses. The Bank's sustainability systems and policies have been developed after conducting research on internationally acclaimed standards and systems. Furthermore, the Bank works in close collaboration with multinational organizations such as International Finance Corporation (IFC), Deutsche Investitions - Und Entwicklungsgesellschaft Mbh (DEG), Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V. (FMO) for the continuous improvement of these systems.

Responsible Investing

Environmental and Social Safeguard Policy

The Bank's Environmental and Social Management System (ESMS) serves to identify environmental and social risks in the projects and companies the Bank finances; and to take action to avoid, or to minimize or to compensate for adverse impacts on the environment, workers and affected communities. The ESMS also serves to inculcate sound management practices on environmental and social aspects in client companies.

Access to ESMS

The Bank's ESMS is an integral part of the Credit Policy and Credit Evaluation Process of the Bank approved by the Board for long term lending. It is available to all executives of the Bank. The ESMS comprises two documents, namely:

- Environmental and Social Management Framework, which is a broad policy level document; and
- Environmental and Social Manual, which sets out the detailed procedure for implementing the ESMS.

Implementation of ESMS

The ESMS requires clients to fulfil all national regulations in relation to environmental and social aspects. These include community consultations and impact assessments, with the depth of study depending on the nature of the project. The Central Environmental Authority (as the national regulatory body for environmental aspects) reviews applicable projects prior to granting approval for implementation.

In addition, the Bank is governed by any additional environmental and social safeguard covenants specified in agreement with its bilateral and multilateral lenders such the International Finance Corporation (IFC) for loans or lines of credit that are on-lent to local projects.

Negative List

The Bank maintains a list of activities that are excluded for funding. They include production, sale or activities involving forced labour or child labour, anything deemed illegal, weapons and ammunitions, wildlife or wildlife products regulated under CITES, hazardous materials such as radioactive substances, unbounded asbestos fibres, commercial logging in any primary forest or forest areas with a high biodiversity value, drift net fishing using nets in excess of 2.5 km in length and products subject to international phase outs or bans such as PCBs and chemicals, pharmaceuticals, pesticides and herbicides and ozone depleting substances.



These are more or less in line with the IFC exclusion list except for two areas, namely, production of alcoholic beverages (excluding beer and wine) and production of tobacco. The Bank's lending to these sectors are subject to tighter scrutiny and ceilings.

Managing Environmental and Social Risks in Projects Financed

ESMS requires the Bank to screen all projects to be funded from a very early stage of evaluation. However, the depth of investigation will vary depending on the industry sector and magnitude of the project. Issues identified are discussed with the project promoter and mechanisms to avoid or mitigate such risks are formulated jointly. These are then incorporated into the terms and conditions of the funding, which are legally binding.

The Bank may also use third-party, non-client consultants or other information sources for identifying and assessing risks if required.

Compliance is monitored on several fronts. A five-member cross functional team is responsible for the day-to-day operations of ESMS. The team includes an environmental & social coordinator and a technical champion. In addition, relationship managers in relevant departments, who have been trained in the day-to-day operation of the ESMS, follow up on the client's environmental licences annually and visit project sites regularly for monitoring.

Materials and Energy Usage

Disposing Assets

Obsolete physical assets, such as computers and furniture that are still in working condition are donated to deserving institutions.

Assets that are beyond use or repair are disposed of responsibly. For example, used computers are disposed to parts recyclers.

Enhanced Recycling

Used toner cartridges from the Bank's printers are collected and recycled by the brand agents. Similarly, mobile phones supplied to employees are recycled, along with their used batteries, by the telecom service provider, which has its own recycling programme to take care of this type of hazardous waste.

Process Innovation

The Bank has developed many process improvements in order to save and optimize resources. These include automated document workflows where paper usage is minimized with improved turnaround time. The automated credit-approval system, for example, has nearly zero paper work with approvals, disbursements, memos etc., processed online.

Resource Saving

Taxi pooling - Following an internal study of vehicle use, a number of cost savings were effected by 'pooling' cabs for late-working employees travelling in the same direction after hours.

Paperless Operations - Employees are encouraged to use electronic communications, online approvals and other web-based applications, printing out documents only if hard copies are strictly necessary.

Resource Consumption in 2013

No	Building	Area (Sq. Ft.)	Total Electricity (KWh)	Total Water Consumption (Cub. Mtrs.)	Total Head Count
1	Navam Mawatha Building	95,170	1,688,740	10,300	498
2	Dharmapala Mawatha Building	40,537	834,480	6,273	226
3	DHPL Building - NDB Floors (Ground, 13th, 14th)	14,811	167,990	1,144	92
4	Branch Network	200,430	1,896,805	14,466	767
	Total	350,948	4,588,015	32,183	1,583

Reduction of Carbon Footprint

The Bank being mindful of its carbon footprint has taken measures to neutralize and minimise the adverse impact to the environment. Being a service oriented organization the reduction of energy consumption can be identified as the most significant contributor towards reducing our Carbon Footprint.

In this light the Bank has taken measures to minimize its energy consumption. A comprehensive Energy Audit was carried out to assess the areas of high energy consuming sources, which also helped in identifying key areas for improvement, introducing low energy consuming devices, eliminating wasteful consumers, etc. Thereafter, low energy consuming illuminaries were introduced and placements of those illuminaries were done in such a way so that luminous levels in relation to energy consumption are optimized. (Luminous level is a measure of the intensity of lighting)

Energy use across the Bank's network is monitored monthly and comparisons are undertaken to identify deviations from the conservation regime. We give below the energy savings achieved in the year 2013 in comparison to the year 2012.

1. Energy saving (kWh) at head office buildings (Navam and Dharmapala Mawatha Buildings).

Saving for 2013 = 60,960 kWh Units

2. All florescent and CFL lights have been replaced by LED fittings at Pelawatta Branch as a pilot project (Rental Basis).

Target Cost Saving per year = Rs. 15,000

3. Proposed energy saving light fittings (LED chip lights 10W) for upcoming branches.

Resource Intensity

Energy consumption per sq. ft.	=	13.07 kWh/sq. ft.
Energy consumption per head	=	2,898.30 kWh/head
Water consumption per sq. ft.	=	0.09 cub. mtrs./sq. ft.
Water consumption per head	=	20.33 cub. mtrs./head

Consumption of Paper in 2013

The Bank in collaboration with Neptune Papers (Pvt) Ltd., makes every effort to collect the waste paper generated in its day-to-day operations for recycling. The Bank successfully carries out a waste reduction and recycling drive where the Bank's waste paper is disposed of in an environmentally friendly manner.

Through the collection of old records and waste paper amounting to 26,505 kg in 2013, we were able to reduce greenhouse gas emissions by 26,505 kg carbon dioxide equivalent and save:

450 trees
46,516 litres of oil
106,020 kWh of electricity
842,328 litres of water
80 cubic metres of land fill



Awards and Accolades 2013

The Group's winning streak for 2013 began in March with NDB Investment Bank Ltd. (NDBIB) being adjudged as 'Best Investment Bank in Sri Lanka 2013' by Global Banking and Finance Review, a leading online magazine providing informative and independent news within the global financial community. In addition to this feat, NDBIB received two more coveted accolades, namely, Most Innovative Investment Bank in Sri Lanka 2013 and Most Innovative Asset Backed Securitization in Sri Lanka 2013, bearing ample testimony for its continuous quest for excellence and innovation within the investment banking sphere in the country.

In June 2013, the International Financial Magazine (IFM) of UK, recognized the Bank as the 'Best Commercial Bank' in its financial recognition awards for Sri Lanka. IFM is a leading online magazine based in London providing information, analysis and insights for the global finance community. IFM's Financial Awards makes a synergetic effort to shine the spotlight on organizations in niche segments and those exhibiting brilliance in the unsung corners of the finance industry. The recipients of the awards have to qualify on stringent parameters which not only includes their size and performance but also their contributions to the society through CSR initiatives. Therefore with this award, IFM recognized the Bank for the great strides it has made in emerging as a competitive commercial bank in the industry while displaying exemplary corporate citizenship through sustainable business practices; resulting in substantial positive impacts on the economy, community and the environment in which it operates. Meanwhile, NDBIB was also adjudged as 'Best Investment Bank in Sri Lanka 2013' by IFM. The award bears testimony to the market leadership position enjoyed by NDBIB and its quest for excellence.

The Bank was adjudged 'Domestic Retail Bank of the Year - Sri Lanka' and 'SME Bank of the Year - Sri Lanka' at the Asian Banking and Finance Awards 2013 held in July. Running in its seventh consecutive year, the Asian Banking and Finance Awards have established integrity and recognition in the region over time. This year's awards recognized the Bank along with numerous international banks for their performance, based on criteria such as innovation, effectiveness and dynamism; and nominations sent by top Asian banks were judged by senior officials from PwC, KPMG, Deloitte Consulting, Ernst and Young Advisory LLP and Accenture.

The NDB brand was ranked at the 18th position in Brand Finance's latest valuation of Sri Lanka's leading brands for 2013. The Bank's ranking climbed up one position from last year's ranking while securing an 'A' rating, the Bank's ranking was published along with other top performing brands in Sri Lanka in the 'Brands Annual' special annual edition by Media Services and Brand Finance in recognition of the 100 most prestigious brands in the country.

Also in July, NDBIB continued its winning streak by coveting the prestigious title, 'Best Investment Bank in Sri Lanka' for the second consecutive year, at the Awards for Excellence 2013 by Euromoney, the world's premier financial markets magazine. Having made history in 2012 as the first investment bank in the country to have received an international accolade, NDBIB's dominance in the Sri Lankan investment banking sphere was further established with the receipt of this award for the second consecutive year. The Company's success and its leadership position in the capital markets were amply demonstrated with its dominance in both debt and equity fund raising transactions throughout the year where NDBIB raised a total of approximately LKR 20 bn for its clients. The award speaks volumes for the high level of excellence demonstrated by the Company and the benchmark it has set for its peers.

The UK-based World Finance magazine rated NDB Group as the 'Best Banking Group in Sri Lanka' in October 2013. World Finance is a highly acclaimed international business journal that is renowned globally for its accuracy, credibility and wide readership. The prestigious accolade recognized the Bank's commitment to continued excellence and the Group's overall financial performance. The award justly compliments the success that the NDB Group enjoys with robust profitability, a sound capital base and the best in industry NPL levels. World Finance magazine also recognized NDBIB as the 'Best Investment Bank in Sri Lanka' in its award for 2013, further reiterating the leadership position of NDBIB in the investment banking sphere in Sri Lanka.

The month of November saw the Bank having been accorded eighth place in the Business Today 'Top 25' ranking of Sri Lanka's Best Performing Public Listed Corporate Entities in 2012-2013. Since its inception, the Business Today Top 25 has been an annually held event to recognize top corporate performers in Sri Lanka that have strengthened the country's economy. Financial criteria considered for the ranking include share turnover, revenue, profit after tax, growth in sales turnover, growth in profit, return on equity, growth in earnings per share, market capitalization, value of shares transacted and value addition. Sri Lanka's fastest growing banking conglomerate climbed up 10 positions from its previous year's ranking, signalling a significant progress in the Bank's performance during the previous financial year.

Also in November 2013, the Bank gained significant acclaim for its commitment towards corporate sustainability at the 'Best Corporate Citizens (BCC) Sustainability Awards 2013' hosted by the Ceylon Chamber of Commerce. The Bank was recognized as one of the 'Top Ten Best Corporate Citizens' for 2013 for the second consecutive year; along with leading multinationals and several other blue-chip corporates in the country. The Bank also received a category award for 'Best Performance in Community Relations' in recognition of the Bank's engagement with the society and the positive contribution made to the community. Hosted by the Ceylon Chamber of Commerce,

the BCC Sustainability Awards is the main CSR and Sustainability event of the Ceylon Chamber of Commerce that recognizes the outstanding work carried out by the corporate entities in the country. The awards strive to raise awareness on the importance of corporate social responsibility and strategic corporate sustainability within the business community while promoting and encouraging these practices amongst the corporate sector. The BCC Sustainability Awards 2013 yet again positively acknowledged the Bank's display of exemplary corporate citizenship while appraising the Bank's triple bottom line performance which takes into account the social, ecological and economic performance.

The Bank concluded year 2013 in grand style by gaining significant recognition at the 2013 National Business Excellence Awards held in December by the National Chamber of Commerce in Sri Lanka (NCCSL). The Bank emerged as a 'Runner-up for Excellence in the Banking and Finance Sector' while winning the 'Award for Excellence in Corporate Governance'. The National Business Excellence Awards is an annual award competition conducted by the NCCSL with a view to recognizing business enterprises which have demonstrated excellence in business, whilst contributing to the economic progress of the country.

BOARD OF
DIRECTORS



(1) Sunil G Wijesinha

Director/Chairman

Mr Wijesinha is a Chartered Engineer, a Chartered Management Accountant FCMA (UK) and has an MBA. His experience in the financial services sector includes having been on the Boards of Sampath Bank PLC (as Deputy Chairman), Merchant Bank of Sri Lanka PLC (as Managing Director), Employees' Trust Fund Board (as Chairman), Merchant Credit of Sri Lanka (as Chairman), Lanka Securities (Pvt) Ltd, DNH Financial (Pvt) Ltd, DFCC Vardhana Bank PLC, Colombo Stock Exchange, and Siyapatha Finance Ltd.

A former Chairman and MD of Dankotuwa Porcelain PLC, he has held Directorships in many other government and private sector organisations including Sri Lankan Airlines Ltd, MILCO, Colombo Dockyard, Sri Lanka Standards Institution, State Plantations Corporation, National Institute of Plantation Management, Maturata Plantations Ltd., and Asiri Surgical Hospitals PLC.

He is currently Managing Director of BizEx Consulting (Pvt) Ltd., Chairman, Watawala Plantations PLC, Chairman, United Motors PLC, Chairman, Employers' Federation of Ceylon, President, National Chamber of Commerce of Sri Lanka. He serves as a member of the National Labour Advisory Council.

Mr Wijesinha was appointed as a Director on 4 October 2013.

(2) Ashok Pathirage

Director/Deputy Chairman

Mr Pathirage is the co-founder of Softlogic Group and was appointed as the Chairman in 2000 after serving as the Managing Director since inception. He was appointed as the Deputy Chairman of National Development Bank PLC in 2011. He is also the Chairman/Managing Director of the Asiri hospital chain including other listed entities of the Group such as Softlogic Capital PLC, Softlogic Finance PLC, Asian Alliance Insurance PLC amongst many other Group Companies operating in Leisure & Restaurants, Retail, Automobile and ICT industries. Due to his business acumen and corporate leadership he is recognised as one of the foremost business figures in the country.

Mr Pathirage has served the Bank for over 2 years as a Director.

(3) Rajendra Theagarajah

Director/Chief Executive Officer

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

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

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

His contribution and expertise has also been extended through many professional bodies. He was a past Chairman of Sri Lanka Banks' Association (Guarantee) Ltd., Chairman of Asian Banks Association and a former Director of the Colombo Stock Exchange.

He was the first Sri Lankan to assume Chairmanship of the Asian Banks' Association from 1 November 2010 for a two-year tenure.

He is also a member of the Sri Lanka Accounting and Auditing Standards Monitoring Board, Deputy Vice Chairman of Ceylon Chamber of Commerce, Chairman of the Chartered Institute of Management Accountants (U.K.) Sri Lanka Governing Board, and member of the Sri Lanka Auditing Quality Assurance Board. He is also Sri Lanka's representative in the CIMA UK's Global Council. He is also an independent Non-Executive Director of Carson Cumberbatch PLC and several companies in the NDB Group.

Mr Theagarajah was appointed as the Chief Executive Officer/Director on 24 August 2013.

(4) Trevine Jayasekara

Director

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

Mr Jayasekara has served the Bank for over 3 years as a Director.

(5) Sarath Wikramanayake**Director**

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

Mr Wikramanayake has served the Bank for over 3 years as a Director.

(6) Kimarli Fernando**Director**

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

Counting over 24 years of experience in the Banking Industry in Sri Lanka and Germany, Mrs Fernando was seconded to Deutsche Bank, Frankfurt and thereafter worked at Standard Chartered Bank. She joined Pan Asia Bank as a Director in March 2008 and functioned as the Chief Executive Officer of the Bank until 2009 when she was also Director of Lanka Clear (Pvt) Ltd., Director and management Committee member of Waters Edge and member, Sri Lanka Bankers' Association. Currently, whilst serving as a Director of National Development Bank PLC, she also serves as a Director of L B Finance PLC, Valibel One PLC and Lewis Brown & Co. (Pvt) Ltd.

Mrs. Fernando has served the Bank for over 3 years as a Director.

(7) Anura Siriwardena**Director**

Mr Siriwardena holds a B.Sc. in Biological Sciences from the University of Kelaniya and an MBA from the Postgraduate Institute of Management of the University of Sri Jayewardenepura, Sri Lanka. He is a member of numerous professional bodies, including the Sri Lanka Institute of Marketing, the Sri Lanka Institute of Biology and the Sri Lanka Association for the Advancement of Sciences. Mr Siriwardena was the past Chairman and Chief Executive Officer of the Independent Television Network Ltd., Secretary to the Ministry of Co-operatives and Internal Trade and Secretary to the Ministry of Coconut Development and Janatha Estate Development. He currently functions as the Secretary – Industry and Commerce of the Ministry of Industry and Commerce of the Government of Sri Lanka. Mr Siriwardena is a Platinum Honour Awardee of the Postgraduate Institute of Management Alumni Association for his outstanding performance in the field of Management.

Mr Siriwardena has served the Bank for over 3 years as a director.

(8) G D Chandra Ekanayake**Director**

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

Ms Ekanayake has served the Bank for over 2 years as a Director.

(9) Sujeewa Rajapakse**Director**

Mr Rajapakse is the Managing Partner of BDO Partners, a firm of Chartered Accountants and counts over 30 years of experience with the firm. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka and holds a Master's in Business Administration from the Postgraduate Institute of Management of the University of Sri Jayewardenepura.

Mr Rajapakse is the immediate past President of The Institute of Chartered Accountants of Sri Lanka (ICASL). He is currently serving as a Non-Executive Independent Director at Asian Alliance PLC, Haycarb PLC and Dipped Products PLC and the Sri Lanka Accounting and Auditing Monitoring Board (SLAAMB) as an ex-officio nominated by ICASL. He is also serving as a Committee Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka and also a member of the National Pay Commission.

He has held numerous honorary positions over the years and has functioned as a Board Member of First Capital Group and the Treasurer of Sri Lanka Cricket.

Mr Rajapakse has served the Bank for over 2 years as a Director.

(10) Indrani Sugathadasa**Director**

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

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

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

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

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

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

Mrs Sugathadasa was appointed as a Director on 4 October 2013.

(11) Hemaka Amarasuriya***Chairman (retired w.e.f. 30 November 2013)**

Mr Amarasuriya brought to the Bank an impressive range of management, industrial, marketing and business skills from his tenure as Chairman of the industrial and retailing conglomerate Singer Group, and his experience on the Boards of such companies as Regnis Lanka and Bata Shoe Company of Ceylon. He also brought with him substantial experience in international management as a former Senior Vice-President of Singer Asia Ltd. and Retail Holdings Ltd., USA and a chairman of the Singer Worldwide Business Council. As a Chartered Accountant and a Chartered Marketer he used his wide experience in the Business world to add value to whatever institution he served. He retired from the Boards of the Bank and NDB Capital Ltd., Bangladesh on 30 November 2013 after a long and illustrious career.

* Not in picture

(12) Russell de Mel***Director/Chief Executive Officer
(retired w.e.f. 23 August 2013)**

Mr de Mel, having been with the Bank for over 30 years, retired as the Bank's Chief Executive Officer in August 2013. Prior to his appointment as CEO, he served as Vice President - Head of the Corporate Banking Group and as Vice President - Head of Group Risk Management.

He was also a director on several Boards of the NDB Group companies until his retirement from the Bank.

Mr de Mel is a Fellow of the Chartered Institute of Management Accountants, UK (FCMA), a Chartered Global Management Accountant (CGMA) and a Fellow of the Institute of Certified Management Accountants (FCMA), Sri Lanka.

* Not in picture

(13) Shehani Ranasinghe**Assistant Vice-President**

Secretary to the Board

Ms Ranasinghe holds a Bachelor of Arts (Hons) Degree from the University of Colombo and is an Attorney-at-Law who counts over twenty years experience at the Bank. She was appointed as the Secretary to the Board in April 2012. She apprenticed at Messrs F J & G De Saram, Attorneys-at-Law prior to joining the Bank.

THE LEADERSHIP
TEAM



The Leadership Team

- | | | |
|---|---|--|
| 1. Rajendra Theagarajah
Director/Chief Executive Officer | 7. Niran Mahawatte
Vice-President - Treasury | 12. Nirmala Rayen
Vice-President -
Group Risk Management |
| 2. Indrajit Wickramasinghe
Chief Operating Officer | 8. Dhanan Senathirajah
Vice-President -
Finance and Planning | 13. Buwanekabahu Perera
Vice-President -
Corporate Banking |
| 3. Faizan Ozman
Chief Financial Officer | 9. Sujeewa Dissanayake
Vice-President -
Information Technology | 14. Delrene Seneviratne
Assistant Vice-President -
Network Management |
| 4. Vajira Kulatilaka
Chief Executive Officer/
NDB Capital Holdings PLC | 10. Raj Aboobucker
Vice-President -
Transactional and
Institutional Banking | 15. Melody Wickremanayake
Assistant Vice-President -
Legal |
| 5. Mancius Paiva
Vice-President -
Administration and Services | 11. Ishani Senaweera
Vice-President -
Human Resources | |
| 6. Ruwani de Silva
Assistant Vice-President -
Internal Audit | | |

GROUP
MANAGEMENT
TEAM



National Development Bank - Group Management Team

- | | | |
|--|---|---|
| 1. Rajendra Theagarajah
Director/Chief Executive Officer/
National Development Bank PLC | 5. Prabodha Samarasekera
Chief Executive Officer/
NDB Wealth Management Ltd. | 8. Faizan Ozman
Chief Financial Officer/
National Development Bank PLC |
| 2. Vajira Kulatilaka
Chief Executive Officer/
NDB Capital Holdings PLC | 6. Mohamed Giyas
Chief Executive Officer/
Maldives Finance Leasing
Company (Pvt) Ltd. | 9. Mancius Paiva
Vice-President - Administration and
Services/National Development Bank PLC |
| 3. Prasansani Mendis
Chief Executive Officer/
NDB Securities (Pvt) Ltd. | 7. Indrajit Wickramasinghe
Chief Operating Officer/
National Development Bank PLC | Qazi Gholam Rasool Arif
<i>(Deceased - 15 January 2014)</i>
Chief Executive Officer and
Managing Director/
NDB Capital Ltd. - Bangladesh |
| 4. Darshan Perera
Chief Executive Officer/
NDB Investment Bank Ltd. | | |

SENIOR MANAGEMENT TEAM

Dayani Algama
Assistant Vice-President -
Human Resources

Gehan Biyanwila
Assistant Vice-President -
Asset and Liability Management

Gehan Dias
Assistant Vice-President -
Cards and M Commerce

Murray Fernandes
Assistant Vice-President -
Treasury

Lalith Fernando
Assistant Vice-President -
Information Technology

Priyantha Gamage
Assistant Vice-President -
Operational Risk

Sithambaram Sri Ganendran
Assistant Vice-President -
Branch Banking

Kumar Gunawardena
Assistant Vice-President -
Administration

Chandana Guniyangoda
Assistant Vice-President Finance:
Strategic Planning and
Business Support

Indrica Hannan
Assistant Vice-President -
Central Processing Unit

Shera Hassen
Assistant Vice-President -
Privilege Select Banking

Nishantha Hettiarachchi
Assistant Vice-President -
Information Technology

Yasas Hewage
Assistant Vice-President -
Alternate Channels

Shareen Jayasuriya
Assistant Vice-President -
Group Risk Management

Vidisha Jayawardena
Assistant Vice-President -
Legal

Sunil Karunaratne
Assistant Vice-President -
Trade and Treasury Marketing

Sanjeev Kulendran
Assistant Vice-President -
Retail Group Risk Management

Suvendrini Muthukumarana
Assistant Vice-President -
Finance and Planning

Rivindu Nanayakkara
Assistant Vice-President -
Trade Finance

Ishani Palliyaguru
Assistant Vice - President -
Project Finance

Sumith Peiris
Assistant Vice-President -
Special Projects

Shehani Ranasinghe
Assistant Vice-President -
Board Secretary

Indika Ranaweera
Assistant Vice-President -
SME/Micro Finance

Darshana Ratnayake
Assistant Vice-President -
Products and New
Product Development

Damitha Samaranyake
Assistant Vice-President -
Treasury

Harshini Satharasinghe
Assistant Vice-President -
Project Finance

Anushca Saranapala
Assistant Vice-President -
Corporate Banking

Ajith Senadheera
Assistant Vice-President -
Leasing

Sanjaya Senarath
Assistant Vice-President -
Marketing

Camy Somasunderam
Assistant Vice-President -
Cash Management

Niranjan Thangarajah
Assistant Vice-President -
Corporate Banking

K V Vinoj
Assistant Vice-President -
Correspondent and
Institutional Banking

Ganga Wanigaratne
Assistant Vice-President -
Branch Operations

Amal Yapa
Assistant Vice-President -
Corporate Banking

Reshanka Abeysekara
Head - Correspondent &
Institutional Banking

Manique Kiriella Bandara
Compliance Officer

“Organizations need to practice qualitative corporate governance rather than quantitative governance thereby ensuring it is properly run. You cannot legislate good behaviour.”

Mervyn King (Chairman: King Report)

Dear Stakeholders,

Good corporate governance remains integral to the way the Bank operates. We are steadfast in our commitment to operating in an ethical and transparent manner and staying accountable to our stakeholders.

The Bank has in place a well-structured corporate governance framework which plays a vital role in maintaining and enhancing sustainable shareholder value. The Board strongly believes that an organization's long-term success depends on both intuitive strategy as well as high-quality governance. Due to this fact, the Bank adheres to both regulatory requirements as well as best practices.

The Board sets the tone at the top by promoting professional standards and corporate values that cascade to senior management and other employees of the Bank.

Directors on the Board are required to have not only a diversity of skills and experiences but also the personal qualities required to provide effective stewardship in leading the Bank to meet its strategic goals within the ethos of the organization's culture and values. We believe that the composition of the current Board more than adequately fulfils this requirement.

Our approach to governance is predicated on the belief that there is a link between high quality governance and the creation of long-term shareholder value.

We believe that the Bank's culture and values are vital elements to ensure high quality governance. The Bank's core values of integrity, care, passion, teamwork and service are shared and willingly embraced by our employees. Our expectations of our employees are further articulated in the Bank's Code of Conduct which is reviewed and updated periodically to reflect both best practices and industry norms.

The Board plays an active role in approving the Bank's strategy, which is then enforced throughout the organization through clear lines of responsibility.

The Board is also supported by robust and independent risk, audit and compliance departments that provide effective oversight.

We wish to confirm that all the findings of the 'Factual Findings Report' of the External Auditors in relation to compliance with the Corporate Governance Directions issued by the Central Bank of Sri Lanka (CBSL) have been incorporated in this Report.

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.

This report will highlight the governance framework and the activities carried out during the year to ensure the maintenance of the highest standards of corporate governance and compliance within National Development Bank PLC.



Sunil G Wijesinha
Chairman
National Development Bank PLC



Kimarli Fernando
Chairperson
Corporate Governance and
Legal Affairs Committee

13 February 2014

Highlights of 2013

1. The Board was further strengthened by the appointment of Mr Sunil G Wijesinha and Ms Indrani Sugathadasa two Independent Non-Executive Directors during 2013.
2. Mr Sunil Wijesinha was appointed as Chairman with the retirement of Mr Hemaka Amarasuriya.
3. Following the retirement of Mr Russell De Mel in August 2013, Mr Rajendra Theagarajah was appointed as Chief Executive Officer/Director.
4. The Internal Code of Corporate Governance and the Compliance Code were revised and updated to stay abreast with local and international corporate governance best practices.
5. In order to reinforce our commitment to be in the forefront of Corporate Governance best practices the Compliance Department has introduced a Management Information System to track all charters, procedures and policies of the Bank.
6. The Compliance Charter and the Compliance Policy and Code of Conduct were revised and updated in order to improve processes and broaden the scope of the compliance function. In addition, the department-wise checklists and sign offs are updated to ensure that they are up to date with all laws and regulations.
7. The Business Continuity Plan of the Bank was rehearsed from end to end twice in 2013 to ensure readiness and identify any gaps that need to be addressed.
8. Board performance evaluation was carried out for the year 2013.

Corporate Governance Framework

The Board of Directors is the highest governance body of the Bank. The Board is committed to achieving long-term success by being the best bank for customers and generating stable and sustainable returns for shareholders.

The Board believes that good governance goes beyond merely conforming to regulations. The Board is collectively responsible for upholding and ensuring the highest standards of corporate governance and inculcating ethics and integrity across the Group.

Ensuring compliance with the provisions of the Banking Act Direction No. 11 of 2007 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka, the Bank's Internal Code of Corporate Governance and 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 is fundamental to the Board's corporate governance strategy.

The Role of the Board

The Board is responsible to stakeholders for creating and delivering sustainable shareholder value through the management of the Group's businesses.

The Board therefore, determines the strategic objectives and policies of the Group to deliver such long-term value, providing overall strategic direction within a framework of rewards, incentives and controls.

The Board plays an active role in approving the strategic direction, vision and mission of the Bank including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least three years and ensures that they are kept under review.

It also monitors the performance of the Bank against such plans at all times and ensures that the going concern status of the Bank is not threatened.

The Board provides effective leadership within a framework of prudent and effective controls for the operations of the Bank.

It has implemented appropriate policies on internal control and reviewed the adequacy and integrity of such systems and seek regular assurance from management that the system is functioning effectively.

In order to be effective, the Board demonstrates ethical leadership and defines and promotes the collective vision of the Bank's purpose, values, culture and behaviours.

A formal schedule of powers is reserved for approval by the Board.

These include the approval of the Group's strategy, approval of risk appetite, major changes to the Group's corporate structure, approval of annual budgets, the Bank's Board structure, size and composition, including appointments and removals and such other matters specifically reserved for approval of the Board under law and regulation.

The Board does not delegate any matters to a Board committee, the Chief Executive Officer 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.

The Board has delegated its authority in operational areas to the senior management led by the Chief Executive Officer, within clearly defined limits. The management works through a number of internal committees as shown in the diagram on page 91.

The Board reviews the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.

Board Structure and Composition

The Board comprise ten Directors as at end December 2013, of whom nine, including the Chairman, are Non-Executive Directors. Of the nine Directors five are independent. The Chief Executive Officer of the Bank, functions as the only ex-officio Director. The Board is of an appropriate size and functions effectively as it comprises of individuals not only with the right skills and expertise, but also with the personal qualities required to be effective stewards of the business. The Directors provide the Bank with the knowledge, mix of skills and experience required. The Board is aware of the other commitments of its Directors and is satisfied that all Directors allocate sufficient time to enable them to discharge their responsibilities effectively.

Structure and Composition of the Board for the year 2013 and the attendance of each Director is set out in the table below:

Name of Director	Non-Executive/ Executive	Independent/ Non-Independent under CBSL Direction	Independent/ Non-Independent under ICASL/SEC Code	No. of Board Meetings in 2013	
				Eligible to attend	Attended
Mr Sunil G Wijesinha (Chairman)	Non-Executive	Independent	Independent	5	4
Mr Ashok Pathirage (Deputy Chairman)	Non-Executive	Non-Independent	Non-Independent	18	16
Mr Rajendra Theagarajah (CEO)	Executive	Non-Independent	Non-Independent	8	8
Mr Trevine Jayasekara	Non-Executive	Independent	Independent	18	15
Mr Sarath Wikramanayake	Non-Executive	Non-Independent	Non-Independent	18	13
Mrs Kimarli Fernando	Non-Executive	Independent	Independent	18	15
Mr Anura Siriwardena	Non-Executive	Independent	Independent	18	15
Ms Chandra Ekanayake	Non-Executive	Non-Independent	Independent	18	17
Mr Sujeewa Rajapakse	Non-Executive	Non-Independent	Non-Independent	18	15
Mrs Indrani Sugathadasa	Non-Executive	Independent	Independent	5	5
Mr Hemaka Amarasuriya (Chairman, retired w.e.f. 30 November 2013)	Non-Executive	Independent	Independent	17	17
Mr Russell de Mel (CEO, retired w.e.f. 23 August 2013)	Executive	Non-Independent	Non-Independent	10	9

Board Committees

In order to provide effective oversight and leadership, certain functions of the Board have been delegated to Board committees, enabling Directors forming part of respective committees to focus on their designated areas of responsibility and impart knowledge in areas where they have the greatest expertise. Appointment of the members to Board committees is decided by the Board.

In addition to the four statutory committees, viz. the Board Audit Committee, Integrated Risk Management Committee, Human Resources and Remuneration Committee and the Nominations Committee, the Board set up the Strategic Issues Committee and the Corporate Governance and Legal Affairs Committee to underscore the importance it places in both these areas.

The Corporate Governance and Legal Affairs Committee assists the Board in ensuring compliance with the Companies Act, the Banking Act Directions on Corporate Governance and all rules and regulations issued by regulatory authorities relating to Corporate Governance for Licensed Commercial Banks. It ensures that the Internal Code of Corporate Governance which encapsulates the Bank's Corporate Governance practices is reviewed and updated regularly and was most recently revised in 2013 to ensure that the Bank remains at the forefront of global corporate governance best practices.

The Strategic Issues Committee examines and evaluates strategic issues of a regular as well as of an ad hoc nature, and recommends any action the Board should take. The committee assists the Board in maintaining an interactive strategic planning process with management and this includes the review and assessment of business strategy plans developed by the management and approved by the Board.

Each committee is chaired by an experienced Non-Executive Director. Each Board committee has been given 'Terms of Reference' by the Board, which are reviewed periodically by the Board.

Notwithstanding the functioning of the Board committees, the Board of Directors are collectively responsible for the decisions taken by these committees. The Board is kept up to date on the activities of the Committees and minutes of each committee are placed at the next Board meeting and any matters of concern are taken up for the discussion of the Board. This permits the Board to focus on key issues and prioritize its time and resources. Further, the framework provides the Board with a structured way to collaborate with management on specific issues the Bank faces and clarifies the role of each Board committee in fulfilling the Board's objectives.

Please refer pages 132 to 140 of this Report for Committee Reports submitted by each Board Committee.



Structure and composition of Board committees for the year 2013 and the attendance of each Director is set out in the table below:

Name of Director	Board Audit Committee		Integrated Risk Management Committee		Strategic Issues Committee		Human Resources and Remuneration Committee		Nominations Committee		Corporate Governance and Legal Affairs Committee	
	E*	A*	E*	A*	E*	A*	E*	A*	E*	A*	E*	A*
Committee/Composition												
Sunil G Wijesinha* (Chairman)											-	1
Ashok Pathirage (Deputy Chairman)					-	-	4	4	7	7		
Rajendra Theagarajah (CEO)			1	1	-	-					1	1
Trevine Jayasekara	9	9					4	4	7	7		
Sarath Wikramanayake	9	8	4	4	-	-						
Kimarli Fernando	9	7			-	-	4	3			2	2
Anura Siriwardena					-	-	4	3	7	7	2	-
Chandra Ekanayake	9	7	4	4							2	2
Sujeewa Rajapakse	9	6			-	-	4	3	7	5		
Indrani Sugathadasa												
Hemaka Amarasuriya (Chairman, retired w.e.f. 30.11.2013)			4	4			4	4	7	7		
Russell de Mel (CEO, retired w.e.f. 23.08.2013)			3	3	-	-					1	1

E* - Eligible to attend A* - Attended

* Sunil G Wijesinha on invitation of the chairperson attended the meeting held on 8 November 2013.

* All matters of strategic importance were discussed in detail with the entire Board and as such the Strategic Issues Committee did not meet during the year 2013.

Board Balance and Independence

The roles of Chairman and Chief Executive Officer are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of Executive and Non-Executive Directors. The Chairman provides leadership to the Board and ensures that the Board works effectively and discharges its responsibilities. The Chairman also ensures that all key issues are discussed by the Board in a timely manner.

The Non-Executive Directors contribute a balance of business and commercial experience with independent and objective judgment.

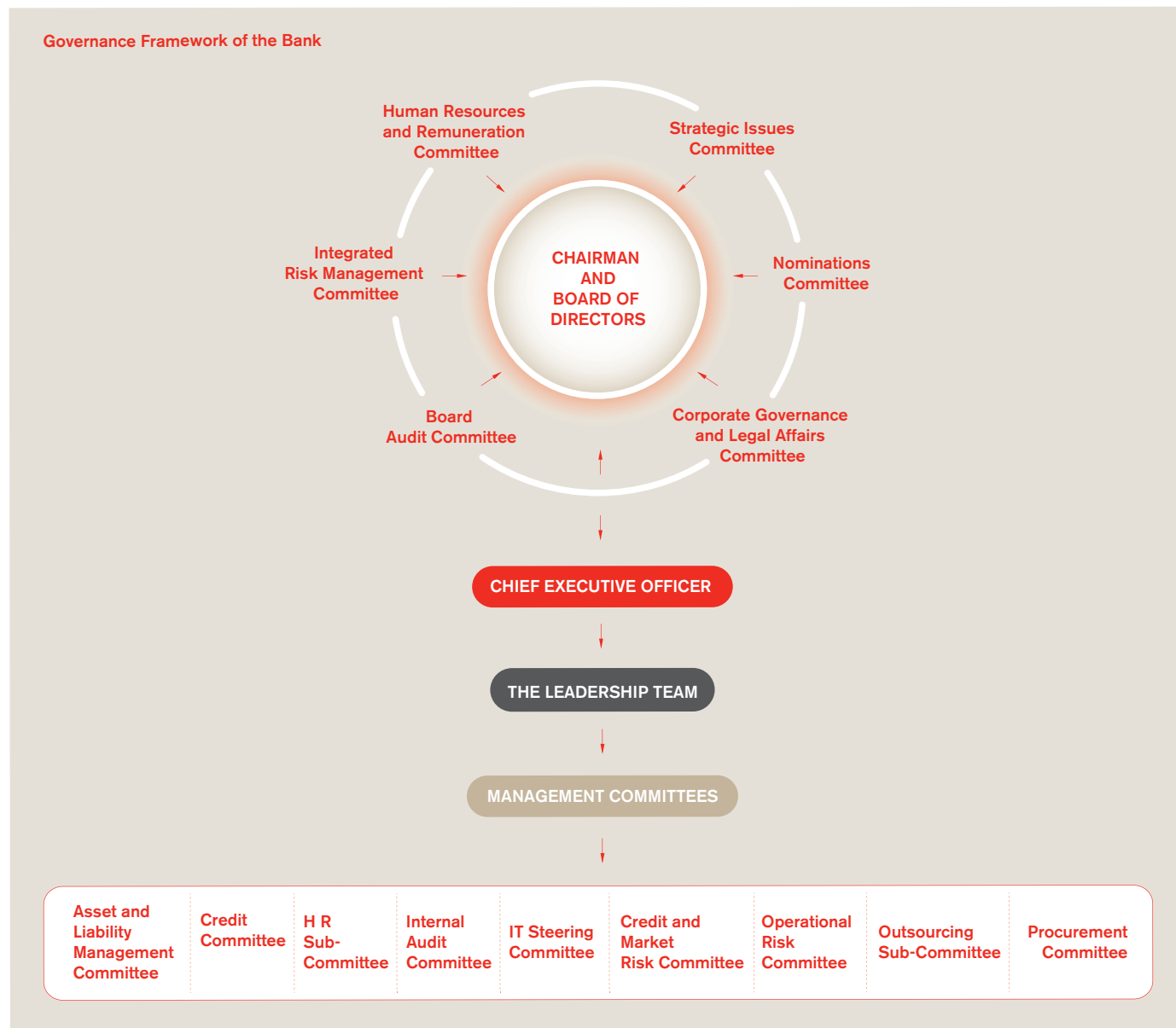
The Chief Executive Officer is responsible for providing the leadership, expertise and professional environment within the Bank for the implementation of the Board's policies and the achievement of the Bank's goals and objectives. He is accountable to the Board for the performance of the Bank and the implementation of Board policies and plans.

Management Committees

The Board and the Chief Executive Officer are further supported by the following Management Committees:

Asset and Liability Management Committee
Credit Committees
HR Sub-Committee
Internal Audit Committee
IT Steering Committee
Credit and Market Risk Committee
Operational Risk Committee
Outsourcing Sub-Committee
Procurement Committee

The governance framework of the Bank is set out in the diagram below:



Information, Induction and Professional Development

All Directors receive accurate, timely, clear and pertinent information, in particular about the Bank's performance, to enable the Board to take sound decisions, monitor effectively and provide advice to promote the success of the Bank.

Independent professional advice is available, on request, to all Directors at the expense of the Bank.

On joining the Board, all Directors receive an induction pack which contains a range of documents including the Bank's Articles of Association, the Internal Code of Corporate Governance, a summary of Director's duties, Board calendar, organization and management structure charts, annual goals and targets of Directors, minutes of the past three meetings and charters of Board committees. These ensure that Non-Executive Directors have the knowledge and understanding of the business to enable them to contribute effectively at Board meetings.

The Bank conducted an induction programme for the newly appointed Directors in 2013 and in that process explained to the members of the Board the strategic direction and key areas of operations of the Bank.

Directors are encouraged to address their developmental needs, to maintain the necessary depth and breadth of knowledge and skills, and enhance the effectiveness of the Board as a team and to participate in opportunities available for Directors during the year.

The Bank's Internal Code of Corporate Governance further makes provision for the Chairman and Deputy Chairman to review the business awareness and development needs of each Director arising from the self-evaluation process and provide them with relevant training opportunities.

Managing Conflicts of Interest

The governance structure of the Bank ensures that the Directors take all necessary steps to avoid conflicts of interest, or the appearance of conflicts of interest, in their activities with and commitments to, other organizations or related parties. If a Director of the Bank has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, such matters are disclosed and discussed at the Board meetings, where Independent Non-Executive Directors who have no material interest in the transaction are present.

Further, Directors abstain from voting on any Board resolution in relation to which such Directors or any of their close relation/s or a concern in which such Directors have substantial interests, are interested in. Further, their votes are not counted in the quorum for the relevant agenda item at the Board meeting.

Board Self-Evaluation Process

In accordance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka, the Board annually assesses the effectiveness of the Directors' own governance practices and to that end the Board has adopted a scheme of self-assessment to be undertaken by each Director annually.

The Bank's Internal Code of Corporate Governance was revised to include a process whereby the Chairman and the Deputy Chairman will review the responses of the Directors to the self assessment carried out by the Directors and report to the Board on any identified weaknesses and lapses and where necessary recommend an action plan for approval to the Board. In addition, the Board will periodically review the progress made on the action plan (if any).

The self-assessment of Directors was obtained for the year 2013 and the performance of the Board was *interalia* evaluated against the goals and targets set for the Board for the year 2013. The Chairman and Deputy Chairman are in the process of reviewing and reporting to the Board on the outcome.

Code of Ethics

The Bank's Internal Code of Conduct governing all employees is an integral part of the governance framework of the Bank. The code provides a general outline of the 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's Internal Code also has a bribery and anti-discrimination policy. The Bank has zero tolerance towards bribery, including giving or receiving bribes and making of facilitation payments. Further, the Bank applies an equitable standard of fair treatment to all its employees. It also conducts its business dealings in a non-discriminatory manner and employs persons of varied backgrounds based upon their qualifications, without regard to age, gender, national origin, marital status, race, religion, disability etc.

Engagement with Stakeholders

The Chairman together with the Chief Executive Officer ensures effective communication with shareholders and the members of the Board are apprised of the views of investors and other key stakeholders. The Bank's engagement with shareholders has been disclosed in detail in the tables below. Further, individual shareholders have access to the Company Secretary and can raise matters relating to their shareholdings and the business of the Bank at any time.

The Bank has in place an effective Communication Policy and Disclosure Policy that ensures that the Bank provides all its stakeholders with timely, accurate and relevant information which would enable stakeholders to make an accurate assessment of the Bank's activities, performance and risk profile. At the same time, the Bank ensures that confidentiality is strictly maintained in respect of material confidential information of the Bank's as well as its customers' and stakeholders' which is not publicly available.

In order to encourage engagement with the Bank's customers and stakeholders the Bank has in place a Customer Charter, a formal Complaint Handling Procedure supported by an effective Management Information System that has been developed internally by our IT Department.

The Bank's compliance with the Banking Act Direction No. 11 of 2007 (as amended) on Corporate Governance issued by the Monetary Board of the Central Bank of Sri Lanka is detailed below with explanatory comments as follows:

Rule No.	Principle	Compliance Status	Comments
3 (1)	Responsibilities of the Board		
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:		
	(a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;	Complied	The Bank's strategic objectives and corporate values have been approved by the Board. The objectives and corporate values are communicated to all members of the staff at communications meetings, at various structured forums, via e-mails and through the Bank's intranet 'NDB Cloud'.
	(b) Approve the overall business strategy of the Bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years;	Complied	The Bank's overall business strategy containing measurable goals 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. Risk management policies and procedures have been approved as required by the Direction.
	(c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Complied	The Board whilst being responsible for the overall risk framework of the Bank has delegated to the Integrated Risk Management Committee the task of defining the risk appetite of the Bank. The Integrated Risk Management Committee has identified key risks of the Bank, set governance structures and implemented systems to measure, monitor and manage credit, operational, market, liquidity and strategic risks.
	(d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied	The Bank has in place a Board approved Communication Policy aimed at encouraging effective internal and external communications of corporate information in relation to the Bank on its behalf covering all stakeholders including staff, customers, creditors, shareholders, partners, general public and regulators. A cross-section of the segments mentioned were covered.
	(e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems;	In the process of being Complied	The Board is responsible to review the adequacy, integrity and effectiveness of the Bank's internal control systems and the management information systems and has tasked the Board Audit Committee to carry out this function and report to the Board where the minutes are tabled for review of the Board. The Internal Audit Department of the Bank and External Auditors report directly to the Board Audit Committee in carrying out this function. The adequacy and integrity of the Bank's Management Information Systems will be reviewed in 2014.

Rule No.	Principle	Compliance Status	Comments
	(f) Identify and designate Key Management Personnel, as defined in the International Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied	Key Management Personnel of the Bank have been identified by the Board having considered the Banking Act Determination No. 3 of 2010 on officers performing executive functions of the Bank, the International Accounting Standards and the Sri Lanka Accounting Standards and presently include the following: 1. Chief Executive Officer 2. Chief Financial Officer 3. Chief Operating Officer 4. Vice-President - Corporate Banking 5. Vice-President - Transactional and Institutional Banking 6. Vice-President - Administration and Services 7. Vice-President - Finance and Planning 8. Vice-President - Group Risk Management 9. Assistant Vice-President - Internal Audit 10. Vice-President - Human Resources 11. Vice-President - Treasury 12. Vice-President - IT 13. Assistant Vice-President - Legal 14. Assistant Vice-President - Network Management 15. Company Secretary 16. Compliance Officer 17. Employees holding Director positions in subsidiaries All appointments of designated Key Management Personnel are recommended by the Human Resources and Remuneration Committee and approved by the Board.
	(g) Define the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel;	Complied	The responsibilities of the Directors and Key Management Personnel have been set out in the Bank's Internal Code of Corporate Governance. Additionally the Directors were set goals and targets for the year 2013. The duties and responsibilities of Key Management Personnel are also documented in their respective job descriptions by the Human Resources Department. The Board approves the Performance Review Objectives of the Key Management Personnel.
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;	Complied	The Board interacts with Key Management Personnel on a regular basis and through reports tabled at both Board meetings and committee meetings. 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 both Board meetings and weekly meetings held with The Leadership Team.

Rule No.	Principle	Compliance Status	Comments
	(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 effectiveness of the Board's governance practices are reviewed periodically. Please refer page 92 of this Report for more details on the assessment process. There is a procedure in place for the selection, nomination and election of Directors and Key Management Personnel. The process adopted for the management of conflicts of interest is detailed on page 92 of this Report. The Board self-evaluation process requires that weaknesses and implementation of changes be discussed at the Board meeting pursuant to the self-evaluation carried out by members of the Board.
	(j) Ensure that the Bank has an appropriate succession plan for Key Management Personnel;	In the process of being Complied	A formal succession plan is currently being developed by the Human Resources Department in consultation with the Chief Executive Officer. Considering that the Chief Executive Officer has himself only been in office for 5 months, the Board agreed that a further period of 6 months be provided to the Chief Executive Officer to analyze the staff competencies etc. and recommend a fresh succession plan to the Board for consideration and approval.
	(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	Directors meet Key Management Personnel on a regular basis at Board meetings, Board committee meetings and at informal meetings.
	(l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	Complied	The Board is provided with a quarterly update of all directions issued by the Central Bank of Sri Lanka in order to ensure that the Board is updated regularly to facilitate the effective discharge of their responsibilities. In addition, the Directors, the Chief Executive Officer and Key Management Personnel of the Bank maintain a dialogue with the regulators on a continuous 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. External Auditors attend all Audit Committee meetings by invitation and there is continuous dialogue with the External Auditors.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	Complied	The Board has appointed the Chairman and the Chief Executive Officer and has approved their functions. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer maintaining the balance of power between the two roles.



Rule No.	Principle	Compliance Status	Comments
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	There have been 12 routine and 6 special Board meetings during 2013. The attendance of Directors for Board and committee meetings is set out in the tables on pages 89 and 90. Circulation of Board papers to obtain Board's consent is minimized and resorted to only when absolutely necessary. These decisions are in any event confirmed at the immediately succeeding Board meeting.
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied	The Internal Code of Corporate Governance includes a provision to indicate that all Directors are entitled to include such matters and proposals in the agenda for board meetings. Further Directors are free to bring up any matter at Board meetings. During the year 2013 Directors have requested for discussions on matters and same have been minuted.
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	Notice of meetings, the agenda and board papers related to each Board meeting is circulated to all Directors at least 7 days in advance of the Board meeting. Therefore, adequate notice is given to Directors providing them with an opportunity to attend.
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 (2/3) of the meetings held during 2013 and no Director has been absent from three consecutive meetings during 2013.
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 secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied	The Board has appointed a Company Secretary who satisfies the provisions of Section 43 of the Banking Act and who is responsible to the Board for ensuring that Board procedures are followed and that applicable laws, rules and regulations are complied with.
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	All Directors have access to the advice and services of the Company Secretary. For the year 2013 the Company Secretary has provided assistance to the Directors when requested.
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied	The Company Secretary maintains detailed Board minutes and circulates minutes to all Directors. The minutes are approved at the subsequent Board meetings. Minutes are open for inspection by any Director. Additionally, copies have been provided of previous meeting to Directors when requested.

Rule No.	Principle	Compliance Status	Comments
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	The minutes contain adequate details appropriate to the matters dealt with. The minutes are also read together with the corresponding Board papers, which supplement the information in the minutes. All matters required to be minuted in terms of 3 (1) (x) (a) - (f) are recorded in 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	Independent professional advice is available, on request, to all Directors at the expense of the Bank. The Bank's Internal Code of Corporate Governance has put in place a procedure which enables independent professional advice to be obtained jointly or severally by a Director or Directors where such advice is necessary to enable the fulfilment of the obligations imposed on a member of the Board. The Directors have obtained professional advice during the year.
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organizations or related parties. If a director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board meeting, where independent Non-Executive Directors [refer to Direction 3 (2) (iv) of these Directions] who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied	Please refer page 92 of this report regarding the managing of conflicts of interest. In addition, the Articles of Association and the Bank's Internal Code of Corporate Governance has put in place a procedure to ensure that, Directors avoid conflicts of interest or the appearance of conflict of interest. Accordingly, any interests are disclosed at the Board meetings and duly minuted. The Director concerned abstains from voting in such a situation and he/she is not counted in the quorum.



Rule No.	Principle	Compliance Status	Comments
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 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.	Not Applicable	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 Integrated Risk Management Committee and the Board.
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	The Bank is fully compliant with the Capital Adequacy requirements stipulated by the Central Bank. Capital Adequacy ratios are presented to the Board on a regular basis for the Board's awareness.
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 complied with by 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 adopted a scheme of self-assessment for the year 2013 and records are maintained by the Board of same. Please refer page 92 of this Report for a more detailed insight into the self-assessment process undertaken by the Board.
3 (2)	The Board's Composition		
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied	The composition as required under this Direction was met during the year 2013. At no time did the Board have less than nine Directors or more than eleven Directors during the year 2013. The Board comprised of ten Directors as at 31 December 2013.
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	All Directors comply with 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 Chief Executive Officer is the only employee on the Board. Accordingly, the number of Executive Directors do not exceed one-third of the Directors on the Board.

Rule No.	Principle	Compliance Status	Comments
3 (2) (iv)	The Board shall have at least three independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher. A Non-Executive Director shall not be considered independent if he/she: (a) has direct and indirect shareholdings of more than 1% 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% 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; (f) is an employee or a Director or a material shareholder in a company or business organization: i. which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10% of the regulatory capital of the Bank, or ii. in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or iii. in which any of the other Directors of the Bank have a transaction as defined in Direction 3 (7) of these Directions, exceeding 10% of regulatory capital in the Bank;	Complied	There are nine Non-Executive Directors on the Board as at 31 December 2013. Of them five are independent Non-Executive Directors. The details of Non-Executive Directors are detailed on page 89 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.
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	No formal Alternate Directors have been appointed. Directors appoint Alternate Directors within the Rules and Articles of the Bank as and when required for a particular meeting.
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	The Directors are eminent persons with knowledge, expertise and experience in different business sectors including leadership in public listed companies. Please refer the profiles of the Non-Executive Directors detailed on pages 79 to 81 of this Report.



Rule No.	Principle	Compliance Status	Comments
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors.	Complied	Attendance of Directors is monitored by the Company Secretary and is strictly observed. It was noted that more than one half (1/2) of Directors present at each meeting of the Board convened in the year 2013 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 Directors' profiles and composition of the Board are published in the Annual Report. Please refer pages 79 to 81 The composition of the Board by category of Directors is detailed in page 89 of the Corporate Governance 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 by 2014	The Board has established a Nominations Committee in conformity with the requirements of these Directions. All new appointments and re-election of Directors are on the recommendations of the Nominations Committee. Central Bank approval is obtained in terms of the Banking Act for the appointment of a new Director. A procedure to select/appoint new Directors has been approved by the Board in February 2014.
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. Mr Sunil G Wijesinha and Mrs Indrani Sugathadasa will stand for re-appointment 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	Any resignation or removal of a Director is informed to the Director Bank Supervision by the Board including reasons for such resignation or removal Mr Hemaka Amarasuriya retired as a Director of the Bank upon reaching 70 years of age and Mr N I R de Mel former Chief Executive Officer of the Bank retired from the services of the Bank. An announcement was made as required.
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	None of the Directors are either employees or Directors of other banks. This is ensured by obtaining declarations from Directors annually.

Rule No.	Principle	Compliance Status	Comments
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	All Directors are under 70 years of age. Mr Hemaka Amarasuriya retired as a Director of the Bank upon reaching 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
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	Delegation papers are prepared in detail and presented to the Board. The Board periodically evaluates the delegation of authority process. Terms of reference of each of the Board Committees which are incorporated in the respective charters of each Board committee are approved by the Board.
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.	Complied	Please refer to comment above. In addition it is to be noted that by delegating, the Board does not lose the authority to deal with matters that have been delegated when necessary.
3 (4) (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.	Complied	The Board evaluates the process/delegation papers from time to time to ensure that delegation does not materially affect the ability of the Board in discharging its functions. Terms of reference of each of the Board committees are reviewed to ensure that they remain relevant to the needs of the Bank.
3 (5)	The Chairman and Chief Executive Officer		
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied	The roles of Chairman and Chief Executive Officer of the Bank are held by separate individuals. In addition, there is a clear division of responsibilities between the Chairman and the Chief Executive Officer thereby maintaining the balance of power between the two roles.
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an independent Director as well. In the case where the Chairman is not an independent Director, the Board shall designate an independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Complied	The Chairman is a Non-Executive, independent Director and therefore, the appointment of an independent Director as the Senior Director does not arise.



Rule No.	Principle	Compliance Status	Comments
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 Board is aware that there is no relationship [including financial, business, family or other material/relevant relationship(s)] between the Chairman and Chief Executive Officer. Similarly no relationships exist among the other members of the Board other than Directors who sit together on some of the Boards of the Bank's subsidiaries.
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 in effectively carrying out his responsibilities by providing him the required feedback.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied	The Chairman draws up the agenda for Board meetings in consultation with the Chief Executive Officer which ensures that the management's viewpoints are included. 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, Chief Executive Officer and officers of the management in respect of matters that are taken up by the Board. Board papers are circulated in advance among the Directors.
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. Further, the self-evaluation process carried out ensures that members effectively participate.
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	The Chairman ensures that the Non-Executive Directors actively contribute to the decisions of the Board and a climate of mutual trust and respect exists between the Board and the Chief Executive Officer. In addition, the evaluation process carried out by the Board assesses the contribution of Non-Executive Directors as well.
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 not involved in the day-to-day operations of the Bank.
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	The Chairman ensures effective communication with shareholders through investor forums held each year and through continuous engagement with our institutional investors. Members of the Board are apprised of the views of major investors and other key stakeholders pursuant to these meetings.

Rule No.	Principle	Compliance Status	Comments
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 Chief Executive Officer 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 (CGLA) and a Strategic Issues Committee in addition to the four Board Committees required in terms of this Direction namely, Audit Committee, Human Resources and Remuneration Committee, Nominations Committee and Integrated Risk Management Committee. Reports of such committees are addressed directly to the Board and minutes of the same are discussed and ratified at the Main Board meetings. This Annual Report includes individual reports of each of the committees on pages 132 to 140. Such reports include a summary of duties, roles and performance.
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	Chairman of the Board Audit Committee is an Independent Non-Executive Director and possesses the required qualifications and experience. The members of the Board Audit Committee are detailed in page 138 of this report.
	(b) All members of the Committee shall be Non-Executive Directors.	Complied	All members of the Board Audit Committee (BAC) are Non-Executive Directors.
	(C) The Committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank Guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied	The matters referred to in the Direction are reviewed and appropriate recommendations are made by the BAC- (i) Appointment of the External Auditor for audit services has been recommended by the BAC; (ii) BAC has discussed the implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) The application of the relevant accounting standards; (iv) The External Audit Partner was rotated during the year as per the five-year rotation requirement, in order to ensure the independence of the Auditor to comply with the requirements of this Direction. Refer the 'Report of the Board Audit Committee' given on pages 138 - 140.

Rule No.	Principle	Compliance Status	Comments
	(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 (SLFRSs/LKASs).
	(e) The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider: (i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor.	Complied	A policy for 'Engaging the External Auditor for non-audit services' is in place which covers all aspects stated in this Direction.
	(f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: (i) an assessment of the Bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between firms where more than one audit firm is involved.	Complied	The Auditors make a presentation at the BAC meeting with details of the proposed audit plan and the scope. Members of the BAC obtain clarifications in respect of the contents of the presentation, if deemed necessary.

Rule No.	Principle	Compliance Status	Comments
	(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 twice during the year (in March and December 2013) without the presence of the Executive Director and Management.
	(i) The Committee shall review the External Auditor's Management Letter and the management's response thereto.	Complied	During the year, the BAC reviewed the Management Letter for year ended 2012 and any concerns raised by the External Auditor have been addressed and are being monitored by the BAC.



Rule No.	Principle	Compliance Status	Comments
	(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	(i) The Annual Audit Plan of the Internal Audit Department (IAD) as well as the staff requirements are reviewed/ discussed with AVP - Internal Audit (ii) The annual audit plan prepared by the Internal Audit Department is submitted to the BAC for approval. This plan covers the scope and resource requirement relating to the audit plan. The audit progress in line with the approved audit plan is tabled at the BAC every quarter. The audit report contains a section for the units audited to indicate the action taken based on IAD recommendation. Further all high and medium risk findings are sent to Operational Risk Unit for inclusion in the Risk Grid. (iii) The performance appraisal of the AVP - Internal Audit is reviewed by the BAC with input by the Chief Executive Officer. (iv) All senior appointments to the audit team are approved by the BAC. Also outsourced arrangements are recommended by the BAC and approved by the Board. The services of five audit firms have been obtained to assist the Inspection Department to carry out the audit function. Prior approval of the Board Audit Committee has been obtained in this regard. (v) All resignations of senior staff members of the Internal Audit Department including the AVP - Internal Audit are advised to the BAC. (vi) The IAD reports directly to the AVP Internal Audit who in turn reports directly to the BAC. Hence, it is independent and the audits are performed with impartiality, proficiency and due professional care.
	(k) The Committee shall consider the major findings of internal investigations and management's responses thereto.	Complied	Significant findings of investigations carried out by the Internal Audit Department along with the responses of the management are tabled and discussed at Board Audit Committee meetings.

Rule No.	Principle	Compliance Status	Comments
	(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	The Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Operating Officer (COO) and AVP - Internal Audit attend BAC meetings as permanent invitees. The External Auditor also attends the meetings on invitation. During the year the External Auditor met the BAC twice, without the presence of the Executive Directors and Management.
	(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 Board Audit Committee clearly defines the authority and terms of reference of the committee.
	(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	During the year 2013, the BAC held nine meetings and minutes of such meetings are maintained by AVP Internal Audit 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 138-140 for the details of the activities of the Audit Committee and the number of Audit Committee meetings held in the year. Attendance of the Committee members at each of these meetings is given in the table on page 90 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 AVP Internal Audit functions as the Secretary to the BAC and maintains detailed minutes of all meetings. Copies of these 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 a Whistle-Blowing Policy where the employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. This has been recommended by the BAC and is to be submitted to the Board for their approval.



Rule No.	Principle	Compliance Status	Comments
3 (6) (iii)	Human Resources and Remuneration Committee (HRRC) - Composition & Responsibilities	Complied	Please refer page 132 for the composition and responsibilities of the HRRC The Terms of Reference of the HRRC was most recently reviewed and updated in 2013.
	(a) Determine the remuneration policy relating to Directors, Chief Executive Officer and Key Management Personnel of the Bank	Complied	The Board has established a HRRC that makes recommendations on remuneration payable to Directors and Key Management Personnel of the Bank. There is in place a Board approved Remuneration Policy for Directors Chief Executive Officer and Key Management Personnel.
	(b) Set goals and targets for the Directors, Chief Executive Officer and the Key Management Personnel.	Complied	The HRRC has set goals and targets for the Directors, Chief Executive Officer and the Key Management Personnel for the year 2013.
	(c) Evaluate the performance of the Chief Executive Officer 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 evaluation of Key Management Personnel are put up to the HRRC in March of every year. The Chief Executive Officer's performance will be evaluated by the full Board.
	(d) The Chief Executive Officer shall be present at all meetings of the Committee, except when matters relating to the Chief Executive Officer are being discussed.	Complied	The Chief Executive Officer was present at all meetings, and has stepped out when requested to do so by members when matters relating to the Chief Executive Officer were being discussed.
3 (6) (iv)	Nominations Committee (NC) - Composition & Responsibilities	Complied	Please refer page 135 for the composition and responsibilities of the NC. The Terms of Reference of the NC was most recently reviewed and updated in 2013.
	(a) The Committee shall implement a procedure to select/appoint new Directors, Chief Executive Officer and Key Management Personnel.	Complied	A procedure to select/appoint new Directors has been approved by the Board in February 2014.
	(b) The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Complied	The NC determines the Directors who will be re-elected every year. The committee has considered and recommended the re-election of the current Directors.

Rule No.	Principle	Compliance Status	Comments
	(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 Chief Executive Officer and the Key Management positions.	In the process of being Complied	The appointments of Chief Executive Officer/Key Management Personnel are processed through the NC & HRRC through an evaluation scheme and appropriate recommendations are made to the Board for consideration. The NC in the process of setting criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Chief Executive Officer and the Key Management Positions, by review of job descriptions.
	(d) The Committee shall ensure that Directors, Chief Executive Officer 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	Directors and Key Management Personnel annually submit affidavits and declarations to the CBSL to assess their fitness and propriety. The Secretary to NC obtains the affidavits/declarations from the Directors whilst the Human Resources Department obtains affidavits/declarations from Key Management Personnel.
	(e) The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Complied	The NC considers Board vacancies based on the expertise required by the Bank and recommends suitable candidates when necessary. The NC also approves the succession plan for Key Management Personnel.
	(f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The Chief Executive Officer may be present at meetings by invitation.	Complied	The Committee is chaired by the Chairman of the Bank who is an independent director and is constituted by a majority of independent directors. The Chief Executive Officer is present only if invited.
3 (6) (v)	Integrated Risk Management Committee (IRMC) - Composition & Responsibilities	Complied	Please refer page 137 for the composition and responsibilities of the IRMC The Terms of Reference of the IRMC was most recently reviewed and updated in 2013.
	(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	The Composition of the IRMC complies with the provisions of this Direction. Please see detailed Report on page 137 of this report.



Rule No.	Principle	Compliance Status	Comments
	(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 Committee assesses all risks on a monthly basis through Key Risk Indicators and through the quarterly risk assessment report done for the Group as well as for the Bank which is discussed at Board meetings on a quarterly basis.
	(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	On a quarterly basis we summarise all key decisions taken at all key management, credit, operations and risk committee meetings and these decisions are tabled and discussed at the quarterly IRMC meetings.
	(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 actual position vis a vis the risk appetite decided through ICAAP on a monthly basis as well as on a quarterly basis is tabled and discussed at the IRMC meetings.
	(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 four times in the year 2013.
	(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.	N/A	The need has not arisen. The IRMC shall if the need arises take action appropriate to the relevance of the situation.
	(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 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	A permanent compliance function has been established which 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. The compliance function reports quarterly to the IRMC.

Rule No.	Principle	Compliance Status	Comments
3 (7)	Related Party Transaction		
3 (7) (i), (ii), (iii)	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. 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;	Complied	Steps have been taken by the Board to avoid any conflicts of interest as may arise in terms of this Direction. Annual declarations are obtained from the individual Directors stating whether they have avoided conflicts of interest. The Bank maintains a register of the names of the Related Parties set out in the Direction and this list is circulated to all relationship managers of all business units and to all branch staff in terms of the Bank's internal circular on related party transactions which has been introduced to ensure that the Bank avoids 'Conflicts of Interest' which may arise from any transaction of the Bank with any person, particularly with 'Related Parties'. The circular requires that 'More Favorable Treatment' to 'Related Parties' when conducting 'Transactions' with 'Related Parties', than that accorded to other constituents of the Bank carrying on the same business be reported immediately to Chief Operating Officer, Head of Finance and IRMC each quarter. Clear guidelines are also set out in the Bank's Internal Code of Corporate Governance. The declaration submitted by the Directors on a quarterly basis sets out the Directors' Related Parties. In addition to the above, there is a Board Audit Committee approved documented policy in place to identify, monitor, report and disclose related party transactions in line with CBSL requirements, LKAS 24 related party disclosures and requirements of CSE Listing Rules. The said policy is in the process being approved by the Board.

Rule No.	Principle	Compliance Status	Comments
	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. 3 (7) (iii) The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the bank carrying on the same business. In this context, 'more favourable treatment' shall mean and include treatment, including the: a) Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the Board. For purposes of this Sub-Direction: I. 'Accommodation' shall mean accommodation as defined in the Banking Act Directions, No. 7 of 2007 on Maximum Amount of Accommodation. II. The 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more. b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty. c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties. d) Providing services to or receiving services from a related party without an evaluation procedure. e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.		

Rule No.	Principle	Compliance Status	Comments
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	The Board ensures compliance with this Direction when accommodation is granted to Directors and their close relations
3(7) (v)	a) Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a director. b) Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier. c) Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public. d) This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such bank.	Complied	Prior to the appointment of a new Director, the Company Secretary obtains a declaration/affidavit of any transactions the Director may have with the Bank. The employees of the Bank are informed to obtain necessary security as set out by the Monetary Board, if the need arises.
3(7) (vi)	A bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	Complied	The Bank refrains from granting more favourable treatment other than on the basis of a general scheme available to the employees or their close relations or to any concern in which an employee or close relation has a substantial interest.



Rule No.	Principle	Compliance Status	Comments
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.	N/A	The situation has not arisen.
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 Statements for the year ended 31 December 2013 and quarterly Financial Statements are in conformity with all rules and regulatory requirements. These statements have been published in the newspapers 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 Reporting' on page 175, the 'CEO's and CFO's Responsibility Statement' on page 182 and Note No. 2.1.1 (Statement of Compliance) to the Financial Statements on page 192.
	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	Directors' Report on the effectiveness of the internal control system over financial reporting is given under the 'Statement of Internal Control' on pages 178 and 179.
	c) The Assurance Report issued by the Auditors under 'Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Reports for Banks on Directors' Statement on Internal Control'.	Complied	The Assurance Report issued by the External Auditor on the Internal Control over Financial Reporting based on the auditing framework issued by ICASL is detailed on page 180 of this Report.

Rule No.	Principle	Compliance Status	Comments
	d) Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.	Complied	Please refer 'Board of Directors' on pages 78 to 81 'Directors' Interest in contracts with the Bank' on page 174 and 175 and page 171 for Directors' Remuneration.
	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.	Complied	Please refer page 264 for details of total net accommodation.
	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.	Complied	Please refer pages 263 and 264 for details of 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.
	g) A confirmation by the Board of Directors in its Annual Corporate Governance Report that all the findings of the 'Factual Findings Reports' of auditors issued under 'Sri Lanka Related Services Practice Statement 4750' have been incorporated in the Annual Corporate Governance Report, provided that Auditors confirm to the Director of Bank Supervision to this effect.	Complied	Is 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.	Complied	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.	Complied	There were no supervisory concerns on lapses in the Bank's risk management system or non-compliance with this Direction that have been pointed out by the Director of the Bank Supervision Department of the CBSL and requiring disclosure to the public.

The Bank's adherence to 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) is detailed below with explanatory comments as follows:

Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
A. THE BOARD DIRECTORS			
Principle A. 1 Every public company should be headed by an effective Board, which should direct, lead and control the Company.	A. 1.1 Board meetings should be held at least once in every quarter of a financial year.	Complied	The Bank is headed by an effective Board of Directors who are responsible and accountable for the functions of the Bank. There have been 12 routine and 6 special Board meetings during 2013 and attendance of Directors at both Board and Committee meetings are detailed on pages 89 and 90 of this Report
	A. 1.2 Role of the Board - provide entrepreneurial leadership within a framework of prudent and effective controls, risks to be assessed and managed.		
	• formulation and implementation of a sound business strategy;	Complied	A five year business strategy is in place and has been detailed under Section 3 (1) (i) (b) of the CBSL table on page 93 of this Report.
	• the Chief Executive Officer and management team possess the skills, experience and knowledge to implement the strategy;	Complied	The Chief Executive Officer and management team consist of senior bankers with an average experience in the field of banking and finance, of over 24 years.
	• the adoption of an effective Chief Executive Officer and Key Management Personnel succession strategy;	In the process of being complied	Please see our comments on the succession strategy detailed under Section 3 (1) (i) (j) of the CBSL table on page 95 of this Report.
	• 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 control. Policies relating to securing information, business continuity and risk management have been approved by the Board. These policies have been reviewed by either Integrated Risk Management Committee and the Board Audit Committee prior to obtaining Board approval. Our Business Continuity Action Plan was rehearsed and used twice for the year.

Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
	compliance with laws, regulations and ethical standards;	Complied	There is a procedure in place where every head of department provides the compliance officer with a comprehensive sign off at the end of each quarter. The Compliance Officer submits a status report to the Integrated Risk Management Committee setting out the laws and regulations complied together with any breaches that have occurred. There is also in place a Compliance Policy and Code of Conduct which was last revised and updated by the Board in 2013.
	all stakeholder interests are considered in corporate decisions;	Complied	The Board 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 indulged by the Board when taking decisions.
	Board approved accounting and compliance with financial regulations;	Complied	The Board ensures that the approved accounting standards and financial regulations are complied with when Financial Statements are being prepared.
	fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned	Complied	The Board fulfils all such functions as required in carrying out the Groups' operations effectively.
	A .1.3 Approved procedure of the Board to seek independent professional Advice	Complied	Independent professional advice is available, on request, to all Directors at the expense of the Bank. The Internal Code of Corporate Governance which was revised and approved by the Board in 2013, contains the procedure to be followed when a Director or the Board wishes to obtain independent professional advice on any matter.
	A. 1.4 All Directors of the Board to have access to the advice and services of the Company Secretary	Complied	All Directors have access to the advice and services of the Company Secretary. For the year 2013 the Company Secretary has provided assistance to the Directors when requested.



Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
	A. 1.5 All Directors to bring independent judgment to matters submitted to the Board for its decision.	Complied	All Directors bring their independent judgment to matters discussed at Board meetings. Details of Directors deliberation are contained in the minutes maintained by the Company Secretary.
	A. 1.6 Every Director to dedicate adequate time and effort to matters of the Board • sufficient time before a meeting to review Board papers • facilitate call for additional information and clarification • follow up on issues consequent to the meeting • This should be supplemented by a time allocation for familiarization with business changes, operations, risks and controls	Complied	Board papers are circulated to the Board at least seven days prior to each board meeting. Any requests for additional information is made to the Company Secretary. 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 Chief Executive Officer 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	New Directors are provided with a comprehensive induction on appointment to the Board. Pleas refer page 92 of this report for the Directors induction and professional development programme of the Board.
Principle A. 2 There are two key tasks at the top of every public company – conducting of the business of the Board, and facilitating executive responsibility for management of the Company's business. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.	A. 2.1 There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision	Complied	The posts of Chairman and Chief Executive Officer 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.

Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
Principle A. 3 The Chairman's role in preserving good Corporate Governance is crucial. As the person responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions.	A. 3.1 The Chairman should conduct Board proceedings in a proper manner and ensure, <i>inter-alia</i>, that: - the effective participation of both Executive and Non-Executive Directors is secured; - all Directors are encouraged to make an effective contribution, within their respective capabilities, for the benefit of the Company; - a balance of power between Executive and Non-Executive Directors is maintained; - the views of Directors on issues under consideration are ascertained; and - the Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders.	Complied	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 self evaluation process carried out by the Board each year assists the Chairman to effectively carry out his responsibilities by providing him with the required feedback.
Principle A. 4 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	A majority of the Directors on the Board have financial acumen and knowledge.
Principle A. 5 It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-taking.	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	Nine of the ten Directors on the Board are Non-Executive Directors.

Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
	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'. For a Director to be 'independent' such Director should be independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment. A Declaration to be obtained from each Non-Executive Director against the criteria set out in in the Code of Best Practices issued by ICASL and the SEC. Based on the said declaration and other information available to the Board, the Board is required to annually make a determination as to the independence or non-independence of each Non-Executive Director. The Board should specify the criteria not met and basis of its determination in the Annual Report.	Complied	There are nine Non-Executive Directors on the Board as at 31st December 2013. Of them six 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 89 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 based on the criteria for independence set out in this Code.
	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 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 - A Senior Independent Director is required to be appointed where Chief Executive Officer and Chairman are one and the same person. Such a Senior Independent Director should make himself available for discussions with other Directors.	Not Applicable	The Chief Executive Officer and Chairman are not one and the same person. As such there is no requirement to appoint a Senior Independent Director.

Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
	A. 5.9 Chairman to meet only with Non-Executive Directors as necessary and at least once each year.	Complied	If required the Chairman has discussions with and/or meets Non-Executive Directors.
	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 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 The Board to be provided appropriate and timely information by management.	Complied	Management provides appropriate and timely information to the Board and Directors are encouraged to request further information or clarification where required.
	A. 6.2 Agenda, Board papers and minutes of previous meetings to be circulated 7 days in advance of a meeting.	Complied	Papers are circulated at least 7 days in advance of each meeting of the Board.
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 - A. 7.2 A Nomination Committee to be established to make recommendations on new appointments.	Complied	The Board has mandated the Nominations Committee to make recommendations on new appointments to the Board and the Board has documented a detailed procedure in February 2014. Please refer page 135 for the composition 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).
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.	Not Complied	Non-Executive Directors are not appointed for specific periods. However, re-election is not automatic and re-appointment of Directors are based on the recommendations of the Nominations Committee.
	A. 8.2 Re-election of Non-Executive Directors	Complied	One third of all Directors of the Board excepting the Chief Executive Officer and Government Nominee Directors retire at an Annual General Meeting. Such Director is eligible for re-election.

Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
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. 9.1 - A. 9.3 The Board should annually appraise itself on its performance and that of its subcommittees	In the process of being Complied	The Board has in place a self-assessment process which has been detailed under Section 3 (1) (i) (i) of the CBSL table on page 95 of this report. The Board Audit Committee and the Integrated Risk Management Committee have carried out a self-assessment for 2013. Self-assessment for all other committees are being rolled out for the year 2014.
Principle A. 10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS Principle A. 10 Shareholders should be kept advised of relevant details in respect of Directors.	A. 10.1 Disclosures on Directors in the Annual Report - The Annual Report of the Company should set out the following information in relation to each Director: • name, qualifications and brief profile; • the nature of his/her expertise in relevant functional areas; • immediate family and/or material business relationships with other Directors of the Company; • whether Executive, Non-Executive and/or Independent Director; • names of listed companies in Sri Lanka in which the Director concerned serves as a Director; • names of other companies in which the Director concerned serves as a Director, provided that where he/she holds directorships in companies within a Group of which the Company is a part, their names need not be disclosed; it is sufficient to state that he/she holds other directorships in such companies; • number/percentage of Board meetings of the Company attended during the year; • the total number of Board seats held by each Director indicating listed and unlisted companies and whether in an executive or non-executive capacity;	Complied	Details of the Directors are given on pages 78 to 81 Directors' attendance at the Board and Board Sub Committee meetings are given on pages 89 and 90.

Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
	- names of Board committees in which the Director serves as Chairman or a member; and - number/percentage of committee meetings attended during the year.		
A. 11 APPRAISAL OF CHIEF EXECUTIVE OFFICER Principle A.11 The Board should be required, at least annually, to assess the performance of the Chief Executive Officer.	A. 11.1 - A.11.2 Setting annual targets and the appraisal of performance of the Chief Executive Officer.	Complied	There is an ongoing process to evaluate the performance of the Chief Executive Officer against the financial and non-financial targets. A formal feedback on the performance of the Chief Executive Officer would be given by the full Board to the Chief Executive Officer.
B. DIRECTORS' REMUNERATION			
Principle B.1 - B.2 Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. The level of remuneration of Directors and Key Management Personnel should be sufficient to attract and retain them.	Remuneration Policy for Directors and Key Management Personnel.	Complied	There is in place a Board approved Remuneration Policy for Directors and Key Management Personnel which has taken into consideration the requirements in this section. Additionally, the Board has established a Human Resources and Remuneration Committee that makes recommendations on remuneration payable to Directors and Key Management Personnel of the Bank. Please refer page 132 for the composition and role of the Human Resources and Remuneration Committee.
B. 3 DISCLOSURE OF REMUNERATION	Principle B. 3 The Bank's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.	Complied	Please refer page 171 of the Annual Report for Directors Remuneration and pages 132 and 133 for the Statement of Remuneration Policy.
C. RELATIONS WITH SHAREHOLDERS			
C. 1 Constructive use of the Annual General Meeting (AGM) and conduct of general meetings to communicate with shareholders.	C. 1.1. Companies should count all proxy votes and should indicate the level of proxies lodged on each resolution, and the balance for and against the resolution and withheld, after it has been dealt with on a show of hands, except where a poll is called.	Complied	All proxy votes lodged 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 issues.



Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
	C. 1.3. Chairpersons of all Board Sub Committees to be available to respond to questions of any shareholder at AGM.	Complied	All Directors of the Board are present at the Annual General Meeting in order to respond to the questions raised at the Annual General Meeting.
	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	Notice to shareholders and relevant papers are circulated to shareholders in compliance with the provisions for notice under the Companies Act No. 07 of 2007.
Principle C. 2 The Board should implement effective communication with shareholders.	C.2.1. - C.2.3 The Company to disclose the policy and methodology for timely communication with shareholders and how it is implemented. The process for responding to shareholder matters should be formulated by the Board and disclosed.	Complied	The Board approved Communication Policy deals with communication with shareholders. Additionally contact details were provided in the website & in the Annual Report. Please see page 92 of this report for details relating to engagement with stakeholders.
	C. 2.4. The Company to disclose to shareholders the contact person for communication with shareholders.	Complied	Contact details are provided in the website and in this Report.
	There should be a process to make all Directors aware of major issues and concerns of shareholders, and this process has to be disclosed by the Company.		Shareholder correspondence on major issues are handled by the Chairman who will communicate to the Board of Directors as and when necessary.
Principle C. 3 Further to complying with the requirements under the Companies Act, Securities and Exchange Commission Law and Colombo Stock Exchange Regulations; as applicable, Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter/vary the Company's net assets base or in the case of a Company with subsidiaries, the consolidated Group net asset base.	C. 3.1 Disclosure of Major and Material Transactions.	Complied	During 2013, 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 by way of disclosures made to the CSE.

Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
D. ACCOUNTABILITY AND AUDIT			
D. 1 FINANCIAL REPORTING Principle D. 1 The Board should present a balanced and understandable assessment of the Company'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	Please refer pages 167 to 173 of this Report.
	D. 1.2 The Directors' Report, which forms part of the Annual Report, should contain declarations by the Directors to the effect that: • the Company has not engaged in any activity, which contravenes laws and regulations; • the Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested; • the Company has made all endeavours to ensure the equitable treatment of shareholders; • the business is a going concern, with supporting assumptions or qualifications as necessary; and • they have conducted a review of the internal controls, covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence therewith, and, if it is unable to make any of these declarations, to explain why it is unable to do so.	Complied	Please refer pages 167 to 173 of this report.
	D. 1.3 The Annual Report to contain a report/statement: (i) setting out the responsibilities of the Board for the preparation and presentation of Financial Statements, together with a Statement by the Auditors about their reporting responsibilities; and (ii) on Internal Control.	Complied	Please refer pages 176 to 179 of this report Please refer page 183 of Independent Auditors' Report Page 178 to 179.



Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
	D. 1.4 The Annual Report should contain a 'Management Discussion & Analysis', discussing, among other issues: • industry structure and developments; • opportunities and threats; • risks and concerns; • internal control systems and their adequacy; • social and environmental protection activities carried out by the Company; • financial performance; • material developments in human resource/industrial relations; and • prospects for the future.	Complied	Please refer pages 30 to 75 of this report
	D. 1.5 The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.	Complied	Please refer pages 167 of this report
	D. 1.6 In the event the net assets of the Company fall below 50% of the value of the Company's shareholders' funds, the Directors shall forthwith summon an Extraordinary General Meeting of the Company to notify shareholders of the position and of remedial action being taken.	N/A	Likelihood of such occurrence is remote. However, should the situation arise, an Extraordinary General Meeting will be called for and shareholders will be notified.
	D. 1.7 The Board should adequately and accurately disclose the related party transactions in its Annual Report:	Complied	Please see Note 50 on pages 263 to 267 of this report.
	• Each related party should submit signed and dated declaration quarterly mentioning whether they have related party transactions with the Company as defined in this Code;	Complied	A declaration is obtained from related parties quarterly.
	• It should be the responsibility of the Company Secretary to keep a record on related party transactions and make necessary disclosures accordingly;	Complied	The Finance Department at the Bank keeps a record of all related party transactions and discloses the same to the Company Secretary and the Company Secretary makes necessary disclosures.

Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
	• There should be a process to capture related parties and related party transactions. This process needs to be operationalized and related party transactions should be properly documented. Further, a report should be presented by the Audit Committee to the Board on identified related parties and related-party transactions on a regular basis;	In the process of being complied	There is in place a process to capture related party transactions and all related party transactions are documented. A process for disclosure of related parties is being evaluated and discussed.
	• A record/register either in hard or soft form on related party and related-party transaction should be maintained by the Company;	Complied	In addition to the interest register maintained by the Company Secretary, a system generated related party transaction report is available at the Finance Department. Finance Department uses this report for disclosure purposes.
	• This record should ensure that the Company captures information to comply with the respective related party disclosure requirements imposed by SEC/Accounting Standards/Auditing Standards and similar regulations.	Complied	The Bank has in place an internal system to capture information relating to related party transactions which is currently being reviewed and updated.
Principle D.2 The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets. Broadly, risk management and internal control is a process, affected by a Company's Board of Directors and management, designed to provide reasonable assurance regarding the achievement of a Company's objectives.	D. 2.1 Directors to conduct an annual review of internal controls through the Board Audit Committee	Complied	The committee reviews the effectiveness of the Bank's internal control system and the Chief Executive Officer's quarterly information on the internal control environment. Additionally, the Committee also assesses the effectiveness of the Bank's internal controls over financial reporting. The result of the assessment is given on pages 178 and 179 in the Directors Statement on Internal Control in the Annual Report. The External Auditors have also issued an Assurance Report on Directors Statement on Internal Control. The report is given on page 180 of this Report.
	D. 2.2 The Bank should have an internal audit function	Complied	The Bank has a fully-fledged Internal Audit Department which reports to the Board Audit Committee.



Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
Principle D. 3 The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Bank's External Auditors.	D. 2.3 The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls, and to document to the Board and Board takes the responsibility for the disclosures on internal controls.	Complied	The Board Audit Committee Report on pages 138 to 140 specifies the process carried out in relation to receiving the effectiveness of Risk Management and Internal Controls.
	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 the Board Audit Committee Report and the Directors Statement on Internal Control in relation to compliance with this requirement.
	D. 3.1 Composition of Audit Committee.	Complied	All members of the Board Audit Committee, including the Chairman are Non-Executive Directors of which a majority are independent. Details of the committee members and invitees are found on page 138 in this Annual Report under the caption of 'Composition of the Board Audit Committee'.
	D. 3.2 The duties of the Audit Committee.	Complied	As stated in the Report of the Board Audit Committee of the Bank on pages 138-140 on the Annual Report, Board Audit Committee 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.
	D. 3.3 Terms of Reference of the Audit Committee.	Complied	Terms of Reference of the Board Audit Committee is clearly defined in the Charter of the Audit Committee approved by the Board of Directors, which was last revised and updated in November 2013. 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.

Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
	D. 3.4 Disclosures regarding Audit Committee.	Complied	Names of the members of the Audit Committee are given on pages 138 under the heading 'The Composition of the Board Audit Committee' and disclosure on the independence of the Auditors is found on page 139 under the section on 'External Audit' in the 'Board Audit Committee Report' on pages 138 to 140.
Principle D. 4. Companies must adopt a Code of Business Conduct and Ethics for Directors, and Key Management Personnel and must promptly disclose any waivers of the Code for Directors or others.	D. 4.1. Code of Conduct to be developed for Directors and Senior Management.	Complied	The Internal Code of Corporate Governance details matters relating to Directors and Key Management Personnel and best practices relating to their business conduct and ethics. In addition, the Bank's Code of Conduct was reviewed and updated in the year 2013 to ensure that the Bank stays ahead of the best practices related to business conduct and ethics.
	D. 4.2. Affirmative declaration by Chairman of compliance with Code of Business Conduct and Ethics.	Complied	Is complied by this report.
Principle D. 5. CORPORATE GOVERNANCE DISCLOSURES Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.	D. 5.1. Disclosure of corporate governance	Complied	The requirement is met through the presentation of the report.
E. INSTITUTIONAL INVESTORS			
Principle E. 1 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. Shareholders' voting.	Complied	The Annual General Meeting is used as an effective channel to create a dialogue between the shareholders and the Board of Directors. Also the Chairman ensures effective communication with stakeholders through investor's forums that are held each year and through a continuous dialogue held with institutional investors. The Chairman thereafter apprises members of the Board of the views of major investors and other key stakeholders.



Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
Principle E. 2 When evaluating Companies' 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	Complied	Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition.
F. OTHER INITIATIVE			
Principle F. 1 Individual shareholders, investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.	F. 1 Investing/Divesting decision.	Complied	Individual shareholders are encouraged to carry out adequate analysis or seek independent advice on their investing, holding or divesting decision.
Principle F. 2. Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.	F. 2 Shareholder Voting.	Complied	Individual shareholders are encouraged to participate at the Annual General Meeting and exercise their voting rights.
G. SUSTAINABILITY REPORTING			
Principle G. 1.1 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. Economic sustainability.	Complied	Please refer page 30 for details.
Principle G. 1.2 Environmental Governance of an organisation should adopt an integrated approach that takes into consideration the direct and indirect economic, social, health and environmental implications of their decisions and activities, including pollution prevention, sustainable resource use, climate change, protection of environment, bio-diversity and restoration of national resources.	G. 1.2. Environmental Governance.	Complied	Please refer page 69 for details.
Principle G. 1.3 Labour practices governance of an organisation encompass all policies and practices relating to work performed by or on behalf of the organization.	G. 1.3. Labour Practice.	Complied	Please refer page 61 for details.

Corporate Governance Principle	Rule	Status of Compliance	Details of Compliance
Principle G. 1.4 Society governance encompasses support for and building a relationship with the community and striving for sustainable development including responsible public policy participation, fair competition and responsible community involvement.	G. 1.4 Society Governance.	Complied	Please refer page 69 for details.
Principle G. 1.5 Product responsibility Governance includes manufacturing quality products and distributing them and ensuring that the products are safe for the consumers and the environment and also communicating clearly with consumers so that they can make an informed choice including factual unbiased information and fair contractual practices and consumer data protection and privacy.	G. 1.5 Product Responsibility.	Complied	Please refer page 55 for details.
Principle G. 6 - Stakeholder identification, engagement and effective communication Internal and external stakeholder groups should be identified in relation to the Company's sphere of influence, impact and implication. Communications should be proactive and transparent. The communication with stakeholders should include reporting on economic, social and environmental issues and be relevant, material, comparable with past performance and should be well-presented focusing on substance over form.	G. 1.6 Stakeholder identification, engagement and effective communication.	Complied	Please refer page 24 for details.
Principle G. 7 Sustainable reporting and disclosure should be formalized as part of the Company's reporting processes and take place on a regular basis.	G. 7 Sustainable Reporting and Disclosures	Complied	Please refer pages 20 to 75 for details.

Composition of the Remuneration and Human Resources Committee of the Board

The Board appointed Remuneration and Human Resources Committee comprised of a minimum of five Board members as set out below and the Chief Executive Officer (CEO) has been present at meetings by invitation of the Committee except when matters relating to the CEO were discussed.

Chairman	Mr Hemaka Amarasuriya was the Chairman of the Committee until his retirement on 30 November 2013 Mr Sunil G Wijesinha is the current Chairman of the Committee
Members	Mr Ashok Pathirage, Mr Sujeewa Rajapakse, Mrs Kimarli Fernando, Mr Anura Siriwardena, Mr Trevine Jayasekara and Mrs Indrani Sugathadasa

Brief profiles of each member are given on pages 79 and 81.

Charter of the Board Remuneration and Human Resources Committee

The Committee carries out the following duties and responsibilities:

- The Committee determines and periodically reviews the Remuneration Policy (salaries, allowances and other financial payments and perquisites) relating to executive and/or Non-Executive Directors, the CEO and Key Management Personnel (KMPs) of the Bank.
- The Committee recommends 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.
- The Committee recommends to the Board the remuneration payable to the Executive Director(s) and CEO of the Bank in terms of the Remuneration Policy/the Bank's Articles.
- The Committee reviews and recommends to the Board in consultation with the Nomination Committee, personnel considered fit and proper for appointment to KMP positions of the Bank.
- The Committee sets and reviews goals and targets for the Directors, CEO and KMPs, and evaluates the performance of the CEO and KMPs against the goals and targets set, and determines their periodic revision.
- The Committee considers the succession plans and proposals recommended by the Senior Management of the Bank for all existing KMP positions of the Bank and makes necessary recommendations for the approval of the Board.
- The Committee discusses and analyzes with the Management the overall remuneration expenditure on all staff and their distribution among different categories and obtains information on the remuneration and benefits paid/given to consultants engaged by the Bank.

- The Committee receives information on the role and activities of the Human Resources Department and makes recommendations for the strengthening of the role of the said department if necessary.
- The Committee reviews the recommendations made by the Senior Management on appropriate incentives/awards to achieve objectives such as rewarding performance and retaining KMPs of the Bank.
- The Committee reviews and recommends to the Board in the event termination payments are proposed to be paid to Directors, the CEO and/or KMPs and ensures that such payments are in terms of the remuneration policy of the Bank and are approved in accordance with applicable statutes, rules and regulations.

Board Remuneration and Human Resources 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 Key Management Positions.
- 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.

Board Remuneration and Human Resources Committee Meetings

The Committee held four meetings during the year under review. The attendance of Committee members at meetings is stated in the table on page 90. The quorum for a meeting is three (3) members.

The Committee may invite such officers, directors, employees of the Bank or professionals from outside, from time to time, if the need arises, to attend meetings of the Committee and/or to assist the Committee in its deliberations.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

Methodology used by the Board Remuneration and Human Resources Committee

The Committee recognized rewards as one of the key drivers influencing employee behaviour, thereby 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 predetermined 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 organises and takes part in compensation surveys every two 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.

For the Committee broadening the leadership base in the Bank is a strategic priority. Development areas were focused, having followed up from the '360-degree Evaluation' done previously for the leadership team of the Bank. This intervention was to ensure the Bank's leadership is adequately developed to face current and future challenges and to build a broader leadership capacity and a deeper pipeline of leaders. The Bank is also focusing on a competency-based approach to leadership to make better-informed decisions in hiring, developing and promoting leaders.

Further, the Committee reviewed the succession plans and the talent management process in respect of the senior management of the Bank. Succession planning within the Bank also incorporates diagnostic tools and methods for assessing the developmental readiness of employees for particular experiences and roles.

The Committee also advised the management to identify a set of customer service competencies and train the front line staff, based on those competencies. Among the other activities of the Committee during this period, the Committee:

- (a) reviewed the existing Equity Linked Compensation Plan scheme;
- (b) reviewed the Human Resource Strategy to ensure the Human Resource Organisation is positioned to create value and deliver strategically relevant business capabilities;
- (c) advised to review options to identify and implement a new Human Resource Information System to support the Bank's strategy;
- (d) reviewed a Performance Development System;
- (e) reviewed and recommended a Remuneration Policy for Directors and KMPs.



Sunil G Wijesinha

Chairman - Board Remuneration and Human Resources Committee

13 February 2014

Composition of the Corporate Governance and Legal Affairs Committee as at 31 December 2013

Ms K Fernando (Chairperson)
Ms C Ekanayake
Mr H A Siriwardena
Mr Rajendra Theagarajah
Mr N I R De Mel (Retired w.e.f. 23.08.2013)

The Corporate Governance and Legal Affairs Committee was formed in the year 2007. The principal purposes of the Committee are to assist the Board of Directors of the Bank in defining the Governance Role, improving Board processes and ensuring effective governance.

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.

Scope

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

Committee Meetings

The Committee held two meetings, during the year under review. The attendance of Committee Members at meetings is given in page 90 of the Annual Report.

Summary of Activities

The Committee has carried out the following activities in the year 2013:

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 Corporate Governance Code of the Bank and suggested necessary amendments to the Board. The Committee also recommended improvements to the monitoring of the related party transactions effected by all Directors and Key Management Personnel. On the suggestions made by the Committee, the Bank initiated an orientation program for the new Board Members. The Committee also reviewed and approved the amendments made to the Bank's Compliance Policy and Code of Conduct.

**Kimarli Fernando**

Chairperson - Corporate Governance & Legal Affairs Committee

13 February 2014

Composition of the Nominations Committee of the Board

The Board appointed Nominations Committee comprised of 5 Board members and the Chairman of the Committee was an Independent Director as set out below and the Chief Executive Officer (CEO) has been present at meetings only if invited by the Committee.

Chairman	Mr Hemaka Amarasuriya was the Chairman of the Committee until his retirement on 30 November 2013
Present Chairman	Mr Sunil G Wijesinha
Members	Mr Ashok Pathirage, Mr Sujeewa Rajapakse, Mr Anura Siriwardena, Mr Trevine Jayasekara

Brief profiles of each member are given on pages 79 to 81.

Charter of the Board Nominations Committee

The Committee carries out the following duties and responsibilities:

1. Implements procedures to select/appoint new Directors, CEO and Key Management Personnel (KMPs).
2. Considers and recommends the re-election of current Directors, taking into account the performance and contribution made by the Director/s concerned towards the overall discharge of the Board's responsibilities.
3. Sets out the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the KMPs.
4. Ensures that Directors, CEO and 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. Implements procedure to set 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.

The primary purpose of the Committee is to identify individuals qualified to become members of the Boards of the Bank and its Group companies. The Committee ascertains the fit and proper nature of the Directors to be so appointed by taking into account the relevant regulatory requirements and the applicable statutes. The Nominations Committee is expected to recommend individuals that they consider may make valuable members of the Board/s taking into consideration the experience, skills and expertise and competencies of such individuals and the needs of the Board/s, if and when a vacancy exists. The Nominations Committee is further expected to ascertain periodically and determine if there is a specific requirement for a Director with particular skills.

The procedure which the Committee adheres to in the selection of suitable candidates to fill casual vacancies is depicted below:

- 1) Determining the skills and experience appropriate and necessary for the role of the Director/s to be appointed.
- 2) Evaluating and deducing a timetable for the appointment of the Director and/or Directors.
- 3) Analyzing the skills and expertise of the nominated individual/s.
- 4) The preparation of a short-list of candidates.
- 5) The potential candidates so identified are then approached in order to determine their interest and willingness to join the Board pursuant to explaining to the said candidates the responsibilities such an appointment would entail as well as the terms and conditions of the appointment, including the level of time commitment, remuneration etc.
- 6) Once a potential candidate has been identified that candidate is expected to provide a copy of his/her résumé detailing their skills, expertise and experience. The Committee thereafter may interview the candidate and explain details of the Bank, its operations, policies and expectations whilst simultaneously, further assessing the suitability of the said candidate.
- 7) When considering a candidate the Committee makes their assessment bearing in mind the following guidelines:
 - a) competencies and qualifications;
 - b) independence/connections with the Bank and related parties;
 - c) other Directorships held (previously and currently);
 - d) time availability;
 - e) contribution to the overall balance of the composition of the Board;
 - f) depth of understanding of the role and legal obligations of a Director.
- 8) Upon assessing the aforementioned the Committee then accordingly makes a recommendation to this effect to the Board of Directors of the Bank.
- 9) The said recommendation will be submitted for approval to the Board of Directors of the Bank subject to obtaining necessary regulatory approval for the same

Board Nominations Committee Meetings

The Committee held seven meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 90. The quorum for a meeting is three (3) members.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.



Sunil G Wijesinha

Chairman - Board Nominations Committee

13 February 2014

Composition of the Strategic Issues Committee of the Board

The Board appointed Strategic Issues Committee comprised of seven (7) Board members and the Chairman of the Committee was an Independent Director as set out below. Other Board members and Management of the Bank may be present at the meetings by invitation.

Chairman	Mr Hemaka Amarasuriya was the Chairman of the Committee until his retirement on 30 November 2013
Present Chairman	Mr Sunil G Wijesinha
Members	Mr Ashok Pathirage Mr Trevine Jayasekera Ms Kimarli Fernando Mr Sarath Wikramanayake Mr Sujeewa Rajapakse Mr Anura Siriwardena

Brief profiles of each member are given on pages 79 to 81.

Charter of the Board Strategic Issues Committee

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.

The Committee additionally 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 the group companies of the Bank to ensure that the same are in line with the strategic initiatives and strategic direction of the Bank.

Board Strategic Issues Committee Meetings

The Committee meets as and when necessary. The quorum for a meeting is four (4) members of whom a minimum of two Directors shall be independent.

The proceedings of the Committee are reported to the Board of Directors subsequent to the conclusion of the meetings.



Sunil G Wijesinha

Chairman - Board Strategic Issues Committee

13 February 2014

Composition of the Integrated Risk Management Committee

The Committee consists of three Non-Executive Directors, the Chief Executive Officer, Head of Group Risk, Head of Operational Risk, Head of Market Risk and Head of Strategic Risk (CFO). As at year-end Committee comprised of the following:

Mr D S P Wikramanayake (Chairman)
 Ms C Ekanayake
 Mr R Theagarajah
 Mr Faizan Ozman (CFO)
 Ms N Rayen (Head - Group Risk Management)
 Ms C Chandrapala (Head - Market Risk)
 Mr P Gamage (Head - Operational Risk)

Mr H D S Amarasuriya (Retired w.e.f. 30 November 2013)
 Mr N I R de Mel (Retired w.e.f. 23 August 2013)
 Mr S S Ganendran (Replaced by Mr Gamage w.e.f. 01 November 2013)

Charter of the Integrated Risk Management Committee

The Integrated Risk Management Committee was formed in June 2008 replacing the Risk & Credit Committee of the Board, in compliance with the Section 3 (6) of Direction No. 11 of 2007, on the subject 'Corporate Governance for Licensed Commercial Banks in Sri Lanka', issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction.

The Charter of the IRMC was approved by the Board of Directors in May 2012 and reviewed by the Committee in May 2013. The names of Director members were reviewed and re-appointed in July 2013 in line with requirements of the Charter.

Meetings

The Committee held four meetings, on a quarterly basis, during the year under review to discuss the normal scope of work. The attendance of Committee Members at meetings is given under Corporate Governance Report on page 90 of the Annual Report.

The Committee also assesses all key risks of the Bank such as Credit, Market, Liquidity, Operational Risks and the Key Risk Indicators of the group companies on a monthly basis. Group companies covered are NDB Investment Bank, NDB Capital Holdings PLC, NDB Wealth Management Ltd., NDB Securities (Pvt) Ltd., NDB Capital Bangladesh and Maldives Finance Leasing Company.

The discussions and conclusions reached at the meeting are recorded in minutes and circulated to the Board of Directors for their information and necessary action.

Key members of the staff participate at the meetings as appropriate.

Scope of Duties

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

- Review the quality of the portfolio on a business line basis, product, groups, sectors, trends in NPL, capital adequacy and stress tests on capital adequacy.
- Review performance of the Bank in line with the agreed Risk Appetite
- Review adequacy of impairment in line with LKAS 39 and approve the charge/release for the period
- Review liquidity position, impact on market volatility, performance of equity portfolio, country exposures
- Review progress on Operational Risk Roll-out throughout the organization
- Review of Business Continuity Plans
- Assess adequacy and effectiveness of all Executive Credit Committees, Policy Committees on Credit, Market and Operational Risk & ALCO
- Compliance with the local laws and regulations etc.
- Propose appropriate corrective action to mitigate specific risks in case such risks are beyond prudent levels agreed upon based on internal and regulatory requirements.
- Review and approve the new products developed prior to roll out
- Review and approve Policies relating to the risk categories

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

Appreciation

The Committee wishes to convey its gratitude to former Chairman, Mr H D S Amarasuriya and former CEO Mr N I R de Mel for their valuable contributions to the Committee over the years.



Sarath Wikramanayake

Chairman - Board Integrated Risk Management Committee

13 February 2014

Purpose and Terms of Reference

The Board Audit Committee is responsible to the Board of Directors in its general oversight of financial reporting, internal controls and functions relating to internal and external audit. The Board Audit Committee reports to the Board of Directors on its activities on a regular basis.

The Charter of the Board Audit Committee, which is periodically reviewed and revised with the concurrence of the Board of Directors, clearly defines the Terms of Reference of the Committee. The Board Audit Committee Charter was last reviewed by the Board Audit Committee in the last quarter of 2013 and approved by the Board of Directors.

The roles and functions of the Committee, are set out in the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' (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.

Composition of the Board Audit Committee

The Audit Committee comprised of five Non-Executive Directors for the year, in line with the composition requirements specified in the Direction. Two members of the Committee were Independent Directors. The Chairman of the Audit Committee is an Independent Director and a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, while the other members of the Committee are also from a specialist financial/auditing background.

The following Directors serve/served on the Audit Committee:

Mr T L F W Jayasekera	Chairman
Mr D S P Wikramanayake	Non-Executive Director
Mr S Rajapakse	Non-Executive Director
Ms G D C Ekanayake	Non-Executive Director
Ms K Fernando	Non-Executive Director

This report focuses on the activities of the Audit Committee for the year under review. A more general description of the Committee's functions is given under Corporate Governance on Page 89.

Responsibilities of the Audit Committee

- Monitors the integrity of Financial Statements
- Oversees the internal control systems over financial reporting, including reviewing of their effectiveness
- Monitors and reviews the effectiveness of the internal audit function
- Review the Financial Statements and Accounting Policies and practices
- Advises the Board on appointment of the External Auditor and is responsible for oversight and remuneration of the External Auditor

Meetings

The Audit Committee met nine times during the year. Four meetings were to approve the Bank's quarterly and annual Financial Statements. Attendance by the Committee members at each of these meetings is given in the table on page 90 of the Annual Report.

The Chief Executive Officer attended the meetings of the Committee by invitation. The Head of Internal Audit, the Chief Financial Officer, Head of Group Risk and the Chief Operating Officer also attended the meetings on invitation. Other officials were invited to attend the meetings on a need basis. On the invitation of the Committee, the Bank's External Auditors, Messrs Ernst & Young, attended eight 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 there was no limitation of scope in relation to the Audit and to allow for full disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit, and concluded that there were no cause for concern.

Financial Reporting

The Committee assists the Board to discharge their responsibility in the preparation of Financial Statements that reflect a true and fair view on the financial position and performance in accordance with the Bank's accounting records and as per the requirements of the Sri Lanka Accounting Standards. The Committee reviews -

- The adequacy and effectiveness of the Internal Control Systems and Procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account.
- 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 including 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.

Having assessed the prevailing Internal Control Systems and Procedures, the Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the Bank's assets are safeguarded and that the financial position of the Bank is well-monitored and accurately reported.

Risks and 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 also assessed the effectiveness of the Bank's internal controls over financial reporting as of 31 December 2013, 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 page 178 and 179, in the 'Directors' Statement on Internal Control' in the Annual Report. The External Auditors have also issued an Assurance Report on Directors' Statement on Internal Controls. The report is given on page 180 of the Annual Report.

Internal Audit

During the year, the Audit Committee reviewed the independence, objectivity & performance of the internal audit function and the adequacy of its resources. The Internal Audit Plan for the Bank/Group was reviewed and approved by the Committee and the findings of the internal audits completed and their evaluation of the Bank's internal control systems were reviewed. The Committee also reviewed updates on audit activities and the adequacy of coverage of the approved audit plan, the results of any unsatisfactory audits, the action plan to address these areas and the implementation status. Audit findings presented in the reports are prioritized based on the level of risk.

In addition to the Bank's Audit Department carrying out branch operational audits, with the concurrence of Board of Directors, the Bank engaged the services of a firm of Chartered Accountants from the list of firms approved by Central Bank of Sri Lanka in order to carry out branch operational audits for wider coverage. The Committee regularly reviews and monitors the activities of the firm in relation to activities carried out for the Branch Operational Audits.

Also as a special assignment, with the concurrence of Board of Directors, the annual internal audit of Treasury and related areas for the year 2013 and the information security audit of the core banking system were assigned to an audit firm from the list of firms approved by Central Bank of Sri Lanka.

The Committee also invited representatives of audit firms engaged in outsourcing assignments to make presentations on their findings. These outsourcing assignments were awarded in compliance with the Central Bank of Sri Lanka Outsourcing Direction No. 02 of 2012.

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 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 Internal Audit performs 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 Policy

The Group Audit Policy was last approved by the Audit Committee/the Board during the 4th Quarter of 2013, with the formation of a separate Audit Committee for the NDB Capital Holdings Group.

Internal Audit Charter and Manual

The internal audit function is governed by the Internal Audit Charter which defines the scope, functions, authority, responsibility, reporting, external relationship management and ethics that assist and direct/guide the Internal Audit Department to discharge its function independently. The Internal Audit Charter and Internal Audit Manual were last reviewed by the Board Audit Committee, in the last quarter of 2013.

External Audit

The Audit Committee undertook the annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process.

During the audit, the External Auditor presented to the Committee their audit approach and procedures, including matters relating to the scope of the audit and Auditor's independence. The Lead Audit Partner was rotated during the year as per the five-year rotation requirement, in order to ensure the independence of the Auditor and to comply with the requirements of the Banking Act Direction No. 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka.

The Committee reviewed the audited Financial Statements with the External Auditor who is responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.



The Committee reviewed the Management Letter issued by the External Auditor with 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 the 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.

Re-appointment of External Auditor

The Audit Committee recommends the reappointment of Messrs Ernst & Young, Chartered Accountants as their External Auditor to the Board of Directors for the financial year ending 31 December 2014, subject to the approval of the shareholders at the next Annual General Meeting.

Good Governance and Whistle-Blowing

The Bank's Whistle-Blowing Policy is intended to serve as a channel of corporate fraud risk management which was revised in the first quarter of 2013. 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, as even anonymous complaints are looked into.

Evaluation of the Board Audit Committee

As authorized by the Board, the Board Audit Committee carried out a formal self-evaluation/appraisal on the effectiveness of the Committee. Report with the results of the self-assessment was submitted to the other members of the Board for their review and the Board concurred that the Committee had carried out its responsibilities in a satisfactory manner.

A handwritten signature in black ink, appearing to read 'Trevine Jayasekara'.

Trevine Jayasekara

Chairman - Board Audit Committee

12 February 2014

Overview

Taking risks is inherent in any bank's strategic plan. The Bank's risk philosophy is that the risk should be taken in line with the Bank's risk appetite and it should fit in with the Bank's business strategy, assist the decision making process and enhance management effectiveness.

Risk management continues to be a key area of focus providing the framework for a stable foundation of the Bank. In the changing environment the structures, tools and techniques are also aligned to effectively identify, measure and manage the risks.

The objectives of the risk management framework are:

1. To establish common principles and standards to identify, measure, evaluate, monitor and manage significant risks to the Bank on a forward looking basis.
2. Define Bank's risk appetite and align Bank's portfolios and business strategy accordingly.
3. Provide a shared framework and language to improve awareness of risk management processes.
4. To provide clear accountability and responsibility for risk management.
5. Optimize risk return decisions.
6. Maintain Bank's capital adequacy and strong liquidity position.
7. Further strengthen governance, controls and accountability across the organization.

In addition to the main risks i.e. credit, market and operational risks, the Bank has considered nine other risks which are material to it. The decision is based on directions given by the Central Bank of Sri Lanka (CBSL) and self-assessment of most important risk categories which need a separate mention from an ICAAP perspective. These risk categories include, liquidity risk, interest rate risk in the banking book, Underestimation of Credit Risk in Standardized Approach, Residual Credit Risk, Concentration Risk, Compliance Risk, Legal Risk, Strategic Risk and Reputational Risk.

The Bank promotes a strong risk management culture supported by a robust risk governance structure. We believe that in an organization everyone is a risk manager and organizations need dynamic risk officers to direct and embed a culture of risk management across the organization.

As part of our regular risk and cross-risk analysis, sensitivities of the key portfolio risks are reviewed through a bottom-up risk assessment and through a top-down macro economic and regulatory scenario analysis. These approaches allow us to capture risks that have an impact across our risk inventories and business divisions or those that are relevant only to specific portfolios.

The year 2013 has continued to see increased regulation in the financial services industry. We are also focused on ensuring that we act proactively to identify potential macro economic and regulatory changes and assess the possible impact on our business model or processes.

Details of risk management initiatives undertaken during the year and planned for the next three years are summarized below:

2013	2014 and beyond
Internal Capital Adequacy Assessment Process (ICAAP) completed and document submitted to Central Bank in January 2013	Continue improvements for prudential capital management
Implementation of an Obligor and Facility Rating and scoring model	Collection of data to migrate to Internal risk-based approach for Credit Risk
Implementation of a Market Risk Model to facilitate Value at Risk calculations	Migrate to Market Risk Internal Models Approach
Calculation of Operational Risk Capital based on Basic Indicator Approach (BIA) and The Standardized Approach (TSA)	Migrate completely to TSA approach for Operational Risk
Adoption of Pillar III market disclosure requirements under Basel II	Improvements to the disclosures made
Conglomerate Risk Identification - Discussions with group companies to build a risk registry	Based on the library of risks to carryout detailed probability/impact analysis
Improve on the existing Risk Dashboards for the Bank as well as Group Companies and reporting to the Board	Regular review of monitoring & control functions of Bank/Group companies
sub-committees for Integrated Risk Management as well as the Board of Directors	

Uncertainties and Risk Management

We balance risk and return taking account of changing conditions through the economic cycle, and monitor economic trends in our markets very closely. We also continuously review the suitability of our risk policies and controls.

Rapid economic development and change of business in both local and global economies provide opportunities but at the same time is a challenging task under risky economic environment. A sound and accurate risk management process is an essential part of our business norm to deliver superior shareholder value by accomplishing an appropriate degree of trade-off between risk and return.

The world economy is coming out of a difficult period and uncertainty remains. The sovereign debt crisis in the Eurozone continues and, although acute risks have been addressed by ongoing policy initiatives, there is still need for substantial new structural reforms. The US will likely continue to be held back by fiscal challenges unless political compromises are made, though economic fundamentals are improving. Larger and more domestically driven economies such as India, Indonesia and China are expected to be more resilient than more open economies such as Singapore, Hong Kong and South Korea.



Changes in exchange rate affect, among other things, the value of our assets and liabilities denominated in foreign currencies, as well as our earnings in foreign currency. Sharp movements in currency can also impact trade flows and wealth of clients, both of which could have an impact on our performance. We monitor exchange rate movements closely and adjust our exposures accordingly. Under certain circumstances, we may take the decision to hedge our foreign exchange exposures in order to protect our capital ratios from the

effects of changes in exchange rates and exposures are closely monitored against the internally set prudential foreign exchange risk limits. The effect of exchange rate movements on the capital adequacy ratio is mitigated to the extent there are proportionate movements in risk weighted assets.

We are in the business of taking selected risks to generate shareholder value, and we seek to contain and mitigate these risks to ensure they remain within our risk appetite and are adequately compensated.

The risk indicators/uncertainties that may arise in the future and our initiatives to manage them are set out below;

Risk	Risk Level	Description	Mitigants
Regulatory changes and compliance	Low	The nature and impact of future changes in economic policies, laws and regulations are not predictable and may run counter to our strategic interests. These changes could also affect the volatility and liquidity of financial markets and more generally the way we conduct business and manage capital and liquidity. Although we seek to comply with all applicable laws and regulations, we may be subject to regulatory actions and investigations across our subsidiaries, the outcome of which is generally difficult to predict and could be material to the Group.	We review key regulatory developments in order to anticipate changes and their potential impact on our performance. We respond both unilaterally and through our 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. Internal Capital Adequacy Assessment Process (ICAAP) to analyse/assess our capital requirements under stressed scenarios to maintain stability.
Financial markets instability	Moderate	Financial markets volatility or a sudden dislocation could affect our performance, through its impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios or the availability of capital or liquidity. Financial markets instability also increases the likelihood of default by our corporate customers and financial institution counterparties.	We assess carefully the financial position of our counterparties and their credit rating (Issuer Default Rating-IDR) according to their systemic importance when setting limits and adjusting our exposure accordingly. Portfolio valuations are carried out through mark to market exercise and ensure the results are within our pre-defined risk appetite. We maintain robust processes to assess the suitability and appropriateness of products and services we provide to our clients and customers.
Exchange rate movements	Low	Changes in exchange rates affect the value of our assets and liabilities denominated in foreign currencies. Sharp currency movements can also impact trade flows and the wealth of clients, both of which could have an impact on our performance.	We actively monitor exchange rate movements and adjust our exposure accordingly within our prudential limit framework. Stress tests are being performed to ensure least impact to the P/L on a daily basis. Low exposure to the un-hedged positions given internal policy and strengthened supervision by the regulators on minimizing open foreign currency positions. We assess the impact of exchange rate movements on our counter parties business and impact on meeting debt obligations.

Risk	Risk Level	Description	Mitigants
Risk of adverse movements in interest rates	Moderate	The risk of potential losses due to changes in the fixed income security portfolios.	The duration of the bond portfolios are being monitored regularly to assess sensitivity of portfolios to interest rate changes. The impact of the Trading portfolio is minimal due to bank holding Treasury Bills and Bonds with short-term maturities. Available-for-Sale (AFS) portfolio of Bills and Bonds are managed within the pre defined risk parameters.
Geopolitical events	Moderate	We face a risk that geopolitical tensions or segments in our footprint could impact trade flows, our customers' ability to pay, and our ability to manage capital.	We actively monitor the situations that could have an impact and conduct regular stress tests of the impact of such events on our portfolios, which inform assessments of risks and any need to take mitigating action.
Risk of fraud	Moderate	The risk of fraud and other criminal activities is growing as criminals become more sophisticated and as they take advantage of the increasing use of technology in society.	We have a broad range of measures in place to monitor and mitigate this risk. Controls are embedded in our policies and procedures across a wide range of the Group's activities, such as origination, recruitment, physical and information security.
Risk of Natural Disasters	Moderate	Natural disasters can have an impact on the performance of the customers' operations and the ability to meet debt obligations. It can also have an impact on the Bank's operations and inability to continue business from current location.	In such situations on natural disasters (both local and overseas), stress tests are carried out to assess impact of such events on portfolio and appropriate action taken to mitigate the risk. Formalize and tested Business Continuity Plan is in place and able to switch over to the Disaster Recovery Site.
Active Share market operations	Moderate	This leads to frequent changes in share ownership and hence affects Group structuring which could have an impact on credit concentrations and complying with regulations.	Closely monitor share market movements. Internal policies on single/group borrower limits are more stringent than regulatory requirements.
Risk arising from inability to meet maturing deposit liabilities	Low	The Bank's liquidity position can affect the ability to meet liability requirements as they fall due. Low liquidity in the markets may result in unexpected stresses to the bank.	The Bank monitors number of prudential liquidity ratios as per CBSL risk directions which are discussed at ALCO, IRMC. Credit committees. Adherence to the Liquid Asset Ratio (LAR) above the statutory requirement. The Bank was least dependant on the short-term inter-bank borrowing during the year and the liquidity position is further strengthened with the planned debenture issue which took place in December 2013.



Capital Management

Currently, the Bank is applying the Standardized Approach for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk in computing the minimum capital requirements.

Credit Risk is the largest contributor in the overall risk exposure of the Bank and bears the highest risk related capital charge. The Bank at present possesses a quality portfolio and moving into advanced approaches of capital computation for credit risk would facilitate minimizing the capital requirements. This requires sophisticated systems and methodologies for quantifying and monitoring of risk. The Bank has taken steps to invest in a Credit and Market Risk Management solution, the implementation of which is in progress.

Internal Capital Adequacy Assessment Process (ICAAP)

ICAAP is part of Pillar II of Basel II framework, which focuses on bridging the gap between the Regulatory Capital and Economic Capital Requirements of the Bank. ICAAP captures all material risks such as - 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 and Reputational Risk which are not covered under Pillar I.

ICAAP Framework

Capital helps protect individual banks from insolvency, thereby promoting safety and soundness in the overall banking system. Minimum regulatory capital requirements under Pillar 1 establish a threshold below which a sound bank's regulatory capital must not fall. The Pillar 2 (Supervisory Review Process - SRP) requires banks to implement an internal process, called the Internal Capital Adequacy Assessment Process (ICAAP), for assessing their capital adequacy in relation to their risk profiles as well as a strategy for maintaining their capital levels. The Pillar 2 also requires the supervisory authorities to subject all banks to an evaluation process/Supervisory Review Process (SRP), and to initiate such supervisory measures on that basis, as might be considered necessary.

The ICAAP would be in addition to a bank's calculation of regulatory capital requirements. It is in operation in the Bank with effect from January 2013. Bank's ICAAP process strengthens the risk management practices and capital planning process.

Capital Adequacy Ratio of the Bank after Consideration of Pillar II Risks and Stress Testing

Types of Risk	Regulatory Capital - Pillar I LKR mn	Stressed Capital LKR mn	Internal Capital (Pillar + Pillar II Stressed Capital) LKR mn
Credit Risk	13,391.14	697.91	14,089.05
Market Risk	538.19	829.52	1,367.70
Operational Risk	1,303.76	260.75	1,564.51
Liquidity Risk	-	638.21	638.21
Interest Rate Risk in Banking Book	-	92.01	92.01
Credit Concentration Risk	-	-	-
Reputation Risk	-	-	-
Strategic Risk	-	-	-
Settlement Risk	-	-	-
Residual Credit Risk	-	-	-
Total Capital Requirement	15,233.08	2,518.40	17,751.48
Equivalent RWA	152,330.85	-	177,514.82
Eligible Capital	27,219.56	-	27,219.56
Capital Adequacy Ratio	17.87%	-	15.33%

BASEL III

This is the new global regulatory standard on managing capital and liquidity of banks. BASEL III stresses that it is critical that banks' risk exposures are backed by a high quality capital base and there is greater focus on common equity, the highest quality component of a bank's capital. Further, BASEL III also stresses that a strong liquidity base is of equal importance.

The CBSL is yet to issue guidelines on BASEL III framework and this would entail further improvements to the existing risk management structures and practices in the banking sector. However, the Bank is confident of meeting the additional capital requirements as specified in the standards.

Integrated Risk Management at the Bank

NDB believes in a strong risk governance structure as the foundation for its successful risk management framework. The Bank's overall risk governance model is based on the concept of three lines of defence whereby the business lines, risk management and audit functions are carried out independently of one another.

First line of defence Decentralized Primary Responsibilities - Business Line Operations

- Primary responsibility for identifying, managing and reporting risk
- Self-assessment of risk and controls
- Compliance with all policies and procedures
- Training as a way of mitigating risks in business operations

Second line of defence Centralized Oversight - Risk Management

- Develop and implement the risk management framework, policies, systems and processes and tools
- Providing support to the business units, review and report key risks to the Integrated Risk Management Committee
- Challenge the self-assessment and inherent risks identified by business units and review controls
- Independently identify and assess risk

Third line of defence Assurance - Independent Verification

Compliance

- Regulatory Adherence
- Regulatory Reporting
- Anti-Money Laundering

Internal Audit

- Review effectiveness of risk management practices and internal control framework
- Confirm level of compliance
- Recommend improvements and enforce corrective action where necessary

External Audit

- Reporting to the shareholders on the following
- Opinion on the true and fair view of the Financial Statements
- Review internal controls over financial reporting process



Risk Governance

The Bank's Board of Directors has the overall responsibility for risk management and sets the tone at the top for an 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 11 of 2007 on Corporate Governance.

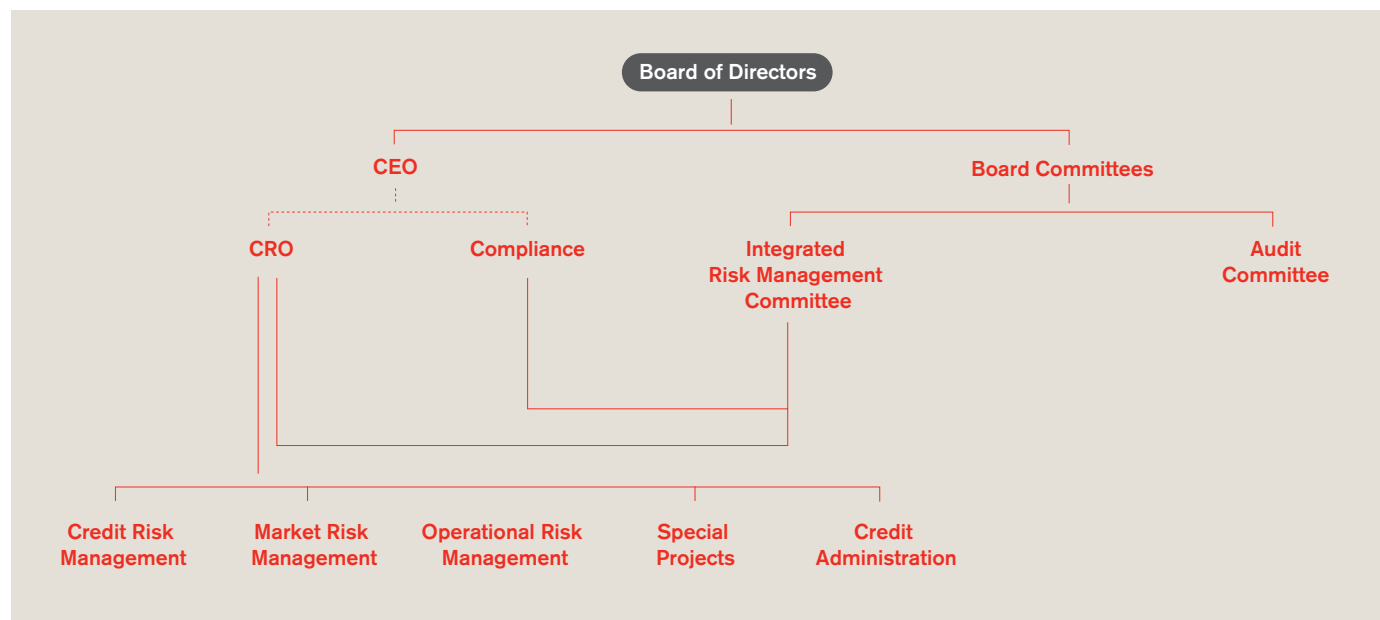


The Bank believes in combining the specialized knowledge of the business units and risk professionals in forming sub committees for the management of risks.

Committee	Key Objectives	Represented by
Integrated Risk Management Committee (IRMC)	Review the Bank's risk management policies, regulatory framework and compliance. IRMC also reviews the Bank's risk profile against the agreed risk appetite, business continuity and disaster recovery plans.	Three members of the Board of Directors, CEO, CRO, CFO, Heads of Operational and Market Risks
Board Audit Committee (BAC)	Ensuring the Bank's compliance to its internal and external regulatory guidelines.	Five members of the Board of Directors, CEO and Heads of relevant Business Units.
Assets and Liabilities Committee (ALCO)	Reviews all Market and Liquidity related exposures on a monthly basis and decisions are made to facilitate the business requirements and make investment/policy decisions.	CEO, COO, CFO, CRO, Heads of Business Units and Treasury
Credit and Market Risk Policy Committee	Review the Bank's risk policy framework, overall performance and the potential risks faced by specific lines of business and support functions.	CEO, COO, CRO and the Heads of Business Units, Treasury and representatives of the Group Risk Management

Committee	Key Objectives	Represented by
Operational Risk Policy Committee	Monitor and ensure that appropriate operational risk management frameworks are in place, adhering to the policies of the Bank. Provide a forum for the discussion and management of all aspects of operational risks and control lapses identified through the risk reporting process ensuring all significant issues raised in internal audits and regulatory reviews are resolved satisfactorily within agreed timescales while outstanding action points are tracked. Ensure that there is full compliance of the local regulations and rules and raising awareness of new trends and developments in operational risk management techniques, and for the migration of best practices from the industry/market. Assist the Bank in the management of corporate governance related to operational risk on an ongoing basis. Assumes and demonstrates general sponsorship and ownership of operational risk management.	CEO, COO, CRO, CFO, Heads of Business Units, Treasury, Finance, Audit, IT and representatives of the Group Risk and Operational Risk Management teams.
Four Executive Credit Committees	Pre-clearance of large credits, approvals in line with delegated authority. Reviewing portfolio and watch listed clients. Review status of NPLs. Review impairment.	COO, CRO, Heads of Business Units and Senior officers of Business Units and Risk Management

The Bank's Risk Management Division is independent of the business units it monitors and reports directly to the Integrated Risk Management Committee and the CEO. Several units within the Risk Management Division contribute to the management of risk and co-ordinates across the business functions to ensure risk management is seamlessly integrated into the Bank's corporate culture.



Our proactive approach towards risk identification and mitigation has given us the ability to absorb shocks arising from financial and economic stress scenarios and be more resilient and competitive in the market.

The Bank thrives on innovation to deliver new products which would cater to the growing and evolving needs of our customers. Risk management is a key aspect of product development and all new products are supported by product programmes which are reviewed and approved by all stakeholders including the Compliance Unit prior to the product launch. These product programmes are reviewed independently by internal audit and are subject to annual review.

Group Risk Management

The group companies are guided by the best practices of the Group Risk Management Division of the Bank. Each group company has developed and follows its own risk management framework and policies to manage and mitigate the exposures to different types of risks within their respective businesses.

The Key Risk Indicators/Key Performance Indicators of the Group companies are monitored and reported to Board sub-committee on Integrated Risk Management on a monthly/quarterly basis for their review. Further, the Bank's Group Risk Management Team is a party to the approval process of credits, pre-clearance of product papers/underwriting standards of specific companies.

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 on-balance sheet financial products such as loans, overdrafts, trade finance and leasing business, and also from off-balance sheet products such as letters of credit, bid and performance bonds, documents against acceptance, guarantees etc. This represents the Bank's contingent commitments on behalf of its customers which also creates varying levels of credit risk. Credit risk generates the largest regulatory capital requirement of the risks we incur. Deterioration of counter-party credit quality and/or market volatility can lead to potential credit risk losses for the Bank.

Credit Risk Management at the Bank

The Bank manages the credit risk in the entire portfolio as well as individual credits or transactions with a view to minimize the non-performing loans and also to manage any concentrations as well as to maximize returns.

Credit risk management reviews and manages the credit process from origination to collection. The Bank has a well-defined credit policy approved by the Board of Directors. It defines the

- credit culture of the Bank
- target markets for lending
- credit granting process
- acceptable risk parameters
- remedial and recovery actions

The Bank uses the following principles/methods to manage credit risk across the Bank:

The Bank uses the following principles/methods to manage credit risk across the Bank;

- 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;

- 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, with authority to re-delegate limits to the Executive Credit Committees and the Business Lines. All approval limits are name specific and are based on the individual experience, facility type, collateral in order to ensure accountability and mitigate any judgmental errors. There are four Executive Credit Committees representing the four Business Lines and these committees comprise senior officers of business units as well as Risk Department. The delegated authority limits are reviewed periodically and the Bank follows the 'four-eyes principle' (i.e., minimum of two officers signing a credit proposal). Lending decisions are based on detailed credit evaluation carried out by Relationship Managers and reviewed/approved by designated approving authority/risk management.
- 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 Triple A to B4 and the ratings of every obligor is reviewed at least annually or more frequently if required. This rating system is used as a guide for account monitoring, provisioning/collective impairment, granting delegated authority and pricing.
- A post sanction review and monitoring mechanism is in place to ensure quality of credit is not compromised. Any deteriorating credits with emphasis on internal and external early warning signals are identified and such accounts are 'Watch Listed'. The Watch Listed clients are monitored closely with quarterly reports submitted to the Executive Credit Committee. Further, based on the Watch Lists the Bank assesses the portfolio at risk in the event, such accounts deteriorates further. Non-performing assets are identified at an early stage, enabling management to take action as appropriate.

- **Prudential Limits** - The industry and portfolio limits are set by the Board of Directors on the recommendation of the Risk Department. Credit Risk Management monitors compliance with approved limits. Desired diversification is achieved by setting maximum exposure limits on substantial exposure, industry/ economic sector limits, single/group obligor limits, prudential group exposure limit
- **Stress Testing** - specific forward looking scenarios are generated to analyze how the Bank's capital adequacy would be affected by adverse changes in the operating environment. The Bank's Stress Testing framework is embedded in the ICAAP document which has been approved by the Board of Directors and a number of variables relevant to management of credit risk are included in Stress Testing.
- **Risk Appetite** - limits and tolerances under normal and also stressed conditions have been formulated to ensure that risks stay within an acceptable range even during adverse conditions. These limits will be reviewed by the Board on an annual basis and actual performance against limits are reviewed by the members of the IRMC on a monthly basis.

Credit Risk

Non-Performing Loans (NPLs) Ratio	Maximum NPL ratio to be 3.5% of Gross Lending Portfolio
Target Internal Rating of Retail Exposures	Minimum 75% Portfolio rated 'A' or above as per the Internal Rating
Target Internal Rating of Corporate and SME Portfolio	Minimum 45% Portfolio rated 'A' or above as per the Internal Rating

Concentration Risk

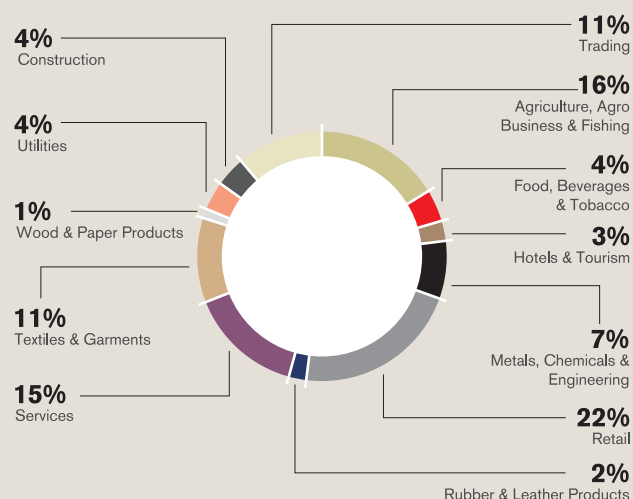
Top 20 Borrowers	Exposure to top 20 borrowers will not exceed 35% of Gross Lending Portfolio
Substantial Exposures Limit	Total Exposures of clients with exposures exceeding 15% of capital base not to exceed 500% of Bank's Capital Base
Top 20 Depositors	Reliance on top 20 depositors will not exceed 25% of the Total Deposits

Asset Quality

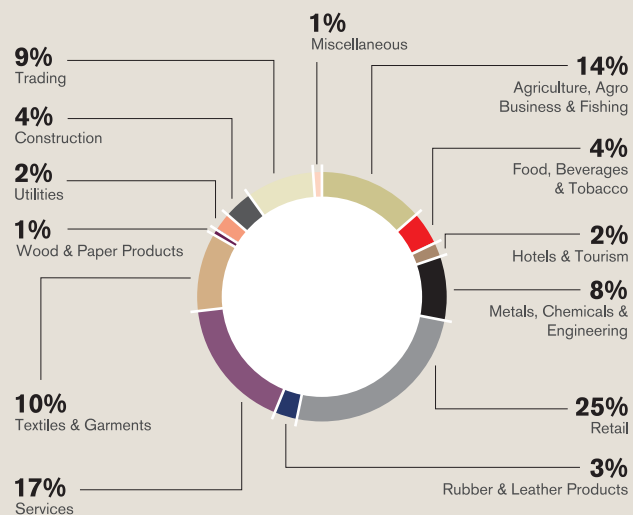
Risk management works closely with the Bank's business units at every stage of the credit process, from facility origination to approval to collections, adding value as appropriate and developing the proposal in terms of risks, mitigants and returns.

The Bank's strong credit risk management practices and the factors that impact credit risk are reflected in the following pictorial representations.

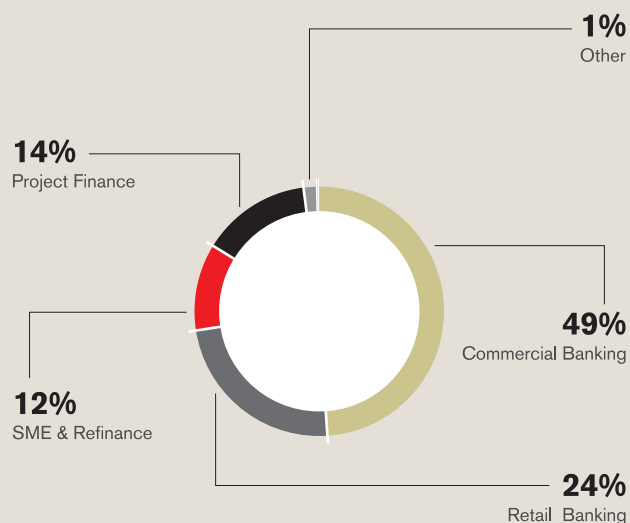
Sector-Wise Distribution of Portfolio - 2013



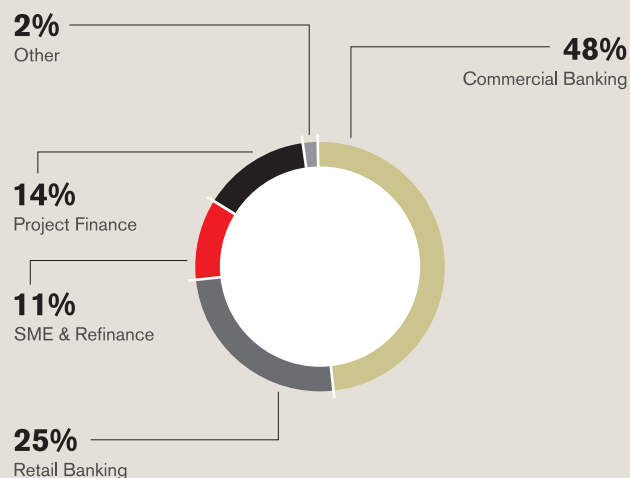
Sector-Wise Distribution of Portfolio - 2012



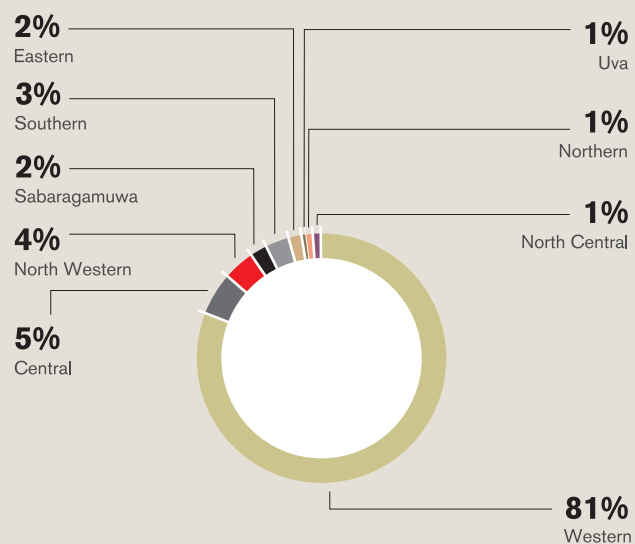
Division Wise Breakdown of the Portfolio - 2013



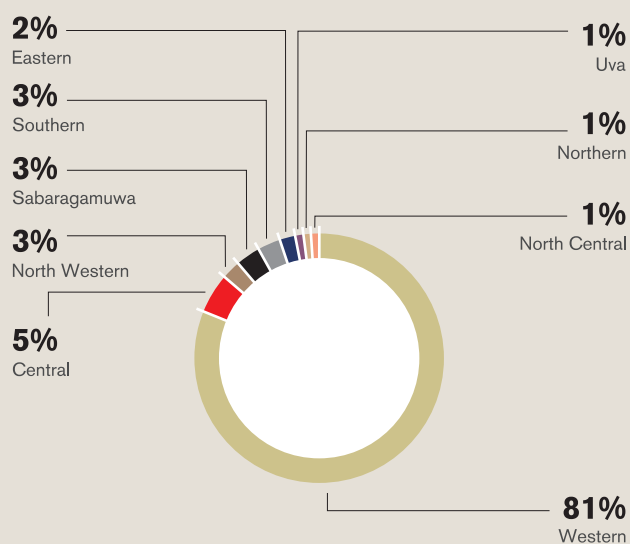
Division Wise Breakdown of the Portfolio - 2012

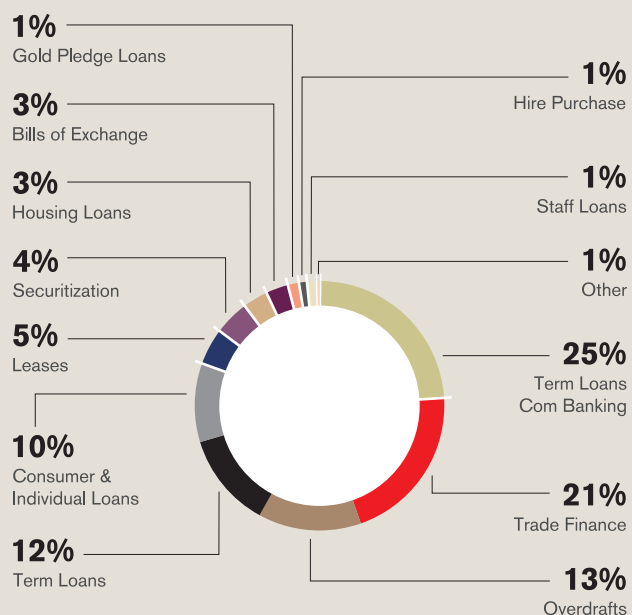
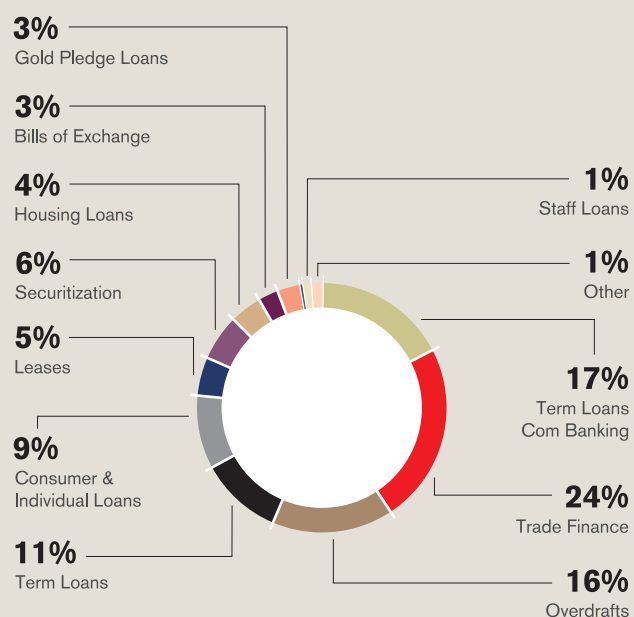
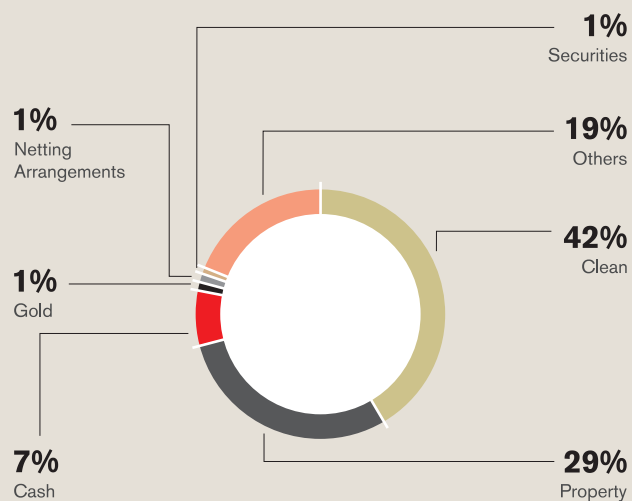


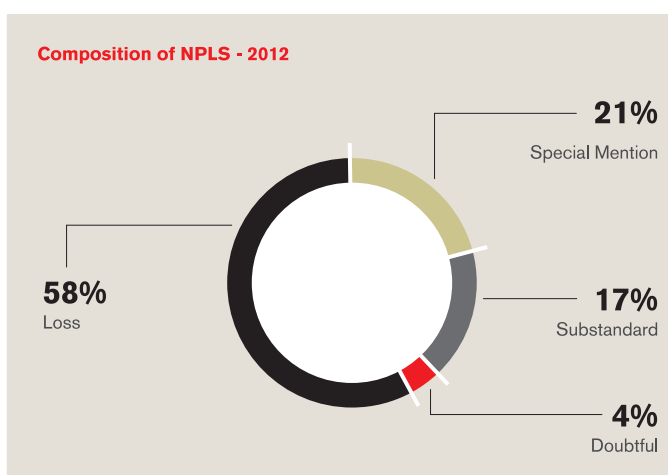
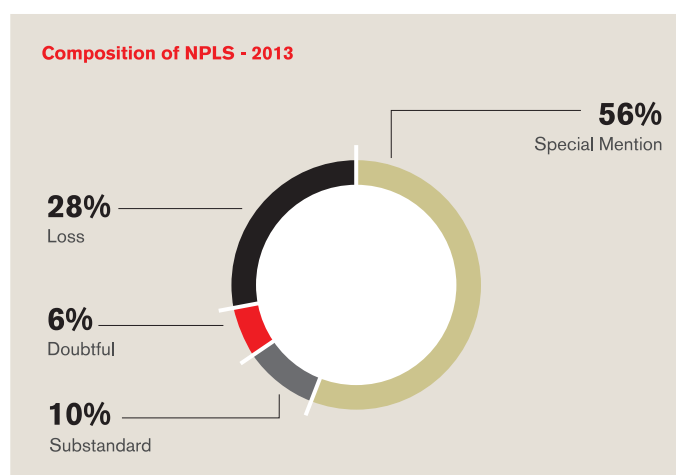
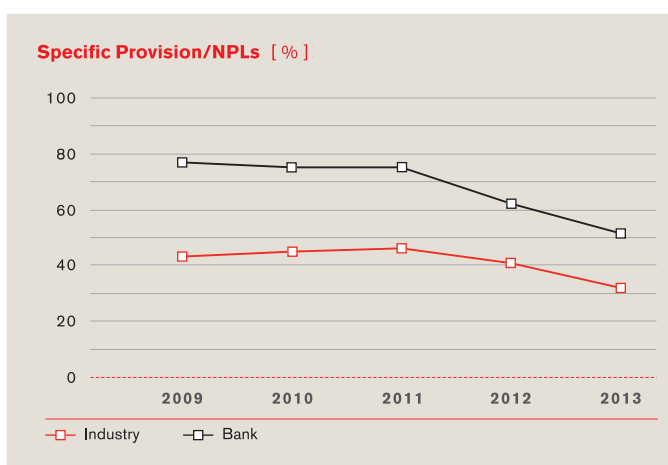
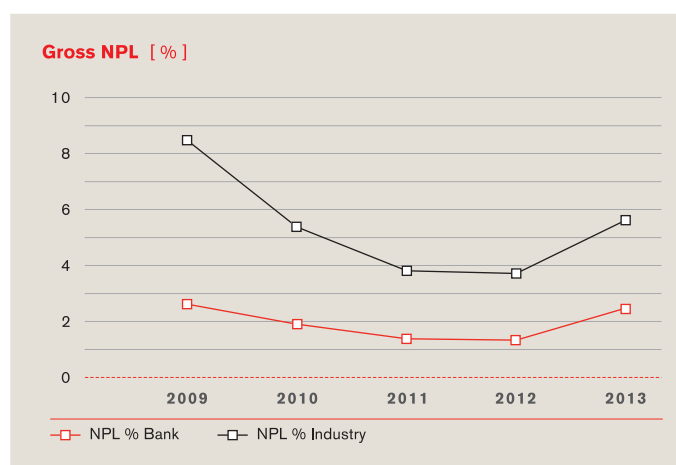
Geographical Concentration of Portfolio - 2013



Geographical Concentration of Portfolio - 2012



Product Concentrations - 2013**Product Concentrations - 2012****Collateral Concentrations**



Market Risk

The vast majority of our businesses are subject to market risk, defined as the potential for change in the market value of our trading and investing positions. Risk can arise from adverse changes in interest rates, credit spreads, foreign exchange rates, equity prices, commodity prices and other relevant parameters, such as market volatility and market implied default probabilities.

Market risks can be distinguished between three substantially different types of risk.

- Trading market risk arises primarily through the market making activities. This involves taking positions in debt, equity, foreign exchange, other securities and commodities as well as in the equivalent derivatives.

- Traded default risk arising from the defaults and rating migrations relating to trading instruments.
- Non-trading market risk arises from market movements, primarily outside the activities of our trading units, in our banking book and from off-balance sheet items. This includes interest rate risk, credit spread risk, investment risk and foreign exchange risk as well as market risk arising from modelling of client deposits as well as savings and loan products.

Market Risk Management at the Bank

The primary objective of our Market risk management, a part of our independent Risk Function, is to ensure that our business units optimize the risk-reward relationship and do not expose the Bank to unacceptable losses outside of our risk appetite. To achieve this objective, Market risk management works closely together with the risk takers.

Market risk management at the Bank is designed and established to ensure oversight of all market risks, including trading market risk, traded default risk and non-trading market risk, effective decision making and timely escalation to senior management.

Market Risk Management defines and implements a framework to systematically identify, assess, monitor and report our market risk and support management and mitigation. Market risk managers identify existing and potential future Market risks through active portfolio analysis and engagement with the business areas.

Market Risk Measurement and Assessment

Market risk management aims to accurately measure all types of market risks by a comprehensive set of risk metrics reflecting economic and regulatory requirements.

In accordance with economic and regulatory requirements, we measure market and related risks by using key risk metrics such as:

- Metrics for Market Risk Standardized Approach
- Three types of stress tests: Portfolio stress testing, business level stress testing and event risk scenarios
- Market risk economic capital, including traded default risk
- Sensitivities
- Market value/notional (concentration risk)
- Duration analysis
- FX risk monitoring metrics

These measures are viewed as complementary to each other and in aggregate define the Market Risk Framework, by which all businesses can be measured and monitored.

Market Risk Monitoring

Our primary instrument to manage trading market risk is the application of our limit framework. The Board supported by Asset Liability Management Committee (ALCO) and Market Risk Management, sets the risk limits based on anticipated business plans and risk appetite.

The Bank's comprehensive risk management framework covers the market, liquidity, asset and liability risks and proactively manages the exposures against the pre-defined risk parameters. Prudential internal limits have been defined for liquidity risks, price risks, exchange risks and asset/liability risks for close monitoring of exposures. All exposure limits are linked to the Bank's capital base to ensure adequate and efficient capital allocation/planning. These limits are subject to annual review and are approved by the Board.

As an additional and complementary tool for managing certain portfolios or risk types, Market risk management performs risk analysis and stress testing. Limits are also set on sensitivity and concentration/liquidity, portfolio stress tests, business-level stress testing and event risk scenarios.

The market risk limits set by market risk management are monitored on a daily, weekly and monthly basis. Where limits are exceeded, Market risk management is responsible for identifying and escalating those excesses to the senior management on a timely basis.

Stress Testing

Losses beyond the confidence level are not captured by certain models, which therefore gives no indication of the size of unexpected losses in these situations. This is complemented by regular stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books. The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs. Stress scenarios are regularly updated to reflect changes in risk profile and economic events. ALCO considers the results of stress tests as part of its supervision of risk appetite. Regular stress test scenarios are applied to interest rates, liquidity ratios, exchange rates, commodity prices and equity prices. Ad hoc scenarios are also prepared reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.



Foreign Currency Net Open Position Stress Test Results as at 31 December 2013

The Bank's net foreign currency position is tested on a daily basis under four stressed scenarios giving adverse shocks of 5%, 10%, 15% and 25% to the exchange rate to arrive at the maximum loss scenarios the Bank is exposed and is monitored against the limits set. Stress tests on liquidity are being carried out to ensure liquidity under stressed scenarios.

Limit is set at the minimum level of shock (Scenario 1) as an early warning where the Bank will take action to ensure that it does not surpass the first level of shock and reach worse case scenarios.

	Net Position*	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Magnitude of shock (adverse)		5%	10%	15%	25%
Spot rate movement	130.75	124.21	117.68	111.14	98.06
Position loss/profit	*993,482	(6,494,886)	(12,989,773)	(19,484,659)	(32,474,432)

* The stress results of the Bank's over-night Net Open Position is managed well within the risk limit and monitored on a daily basis.

Liquidity Stress Test Results as at 31 December 2013

Stress Testing for Liquidity Risk - December 2013

Banks average Liquid Assets Ratio for the month - 27.33%

Stress testing on Liquid Asset Ratio

Scenario No.	Stress Scenarios**	Magnitude of Shocks on Liquid Asset Ratio		
		5%	10%	15%
		Revised LAR after relevant shocks		
1	Adverse impact on MM & Institutional Borrowings/drop in market liquidity	26.83	26.32	25.80
2	Run down on CASA & Time Deposits	24.45	21.32	17.92
3	Impact on total liquid liabilities	23.90	20.13	15.96

The Bank managed to maintain a healthy Liquid Asset Ratio well above the regulatory limit of 20% on a daily basis throughout the year and the stress results are being evaluated on a regular basis.

Sensitivity Analysis

Daily sensitivity analysis is carried out on major foreign currency Net Open Positions (NOP) giving positive and negative shocks to the spot rates to determine the impact of the profit or loss to the banks (P/L account). The Bank's Statement of Financial Position too is subject to sensitivity analysis based on the duration of its interest sensitive assets and liabilities which is carefully managed within the set limit.

Exchange Rate Sensitivity of Major Foreign Currency Net Open Positions as at 31 December 2013.

LKR Depreciate					LKR Appreciate			
Spot Rate Shocks		-5.0%	-2.5%	-1.0%	Spot Rate	1.0%	2.5%	5.0%
Currency	Net Open Position							
USD	1,986,680	12,987,921	6,493,961	2,597,584	130.75	(2,597,584)	(6,493,961)	(12,987,921)
GBP	(152,739)	(1,650,827)	(825,413)	(330,165)	216.16	330,165	825,413	1,650,827
EUR	(121,075)	(1,089,284)	(544,642)	(217,857)	179.93	217,587	544,642	1,089,284
JPY	4,101,956	254,470	127,235	50,894	1.24	(50,894)	(127,235)	(254,470)
AUD	(587,659)	(3,400,014)	(1,700,007)	(680,003)	115.71	680,003	1,700,007	3,400,014
Total		7,102,266	3,551,133	1,420,453		(1,420,453)	(3,551,133)	(7,102,266)

The possible impact of exchange rate movements on the major NOP of major foreign currency positions is monitored to evaluate the impact on the P/L and ensure it is within acceptable levels.



Interest Rate Sensitivity of the Balance Sheet as at 31 December 2013

Modified Duration and Price Sensitivity of Assets and Liabilities

As at 31 December 2013	Duration	Total Balance LKR mn	Price Sensitivity DEC
Assets:			
Overdrafts - LKR	2.88	17,392	500.92
Margin Trading	2.88	194	5.59
Credit Cards	2.88	97	2.79
Short-Term Loans	0.10	22,662	22.77
Project Loans Fixed	1.47	15,332	226.00
Refinance Loans	1.36	628	8.55
Securitization Loans	0.03	6,127	2.07
Post-Import Finance - LKR	0.11	9,685	10.84
Packing Credit - LKR	0.07	46	0.03
Fixed Retail Loans	1.17	1,536	17.91
Fixed DM Loan	1.70	7,298	124.31
Raththaran Loans	0.39	26	0.10
Vishmitha/Cash Back	1.58	829	13.12
Fixed Housing Loans	2.87	4,487	128.58
Variable DM Loans	0.07	3,120	2.09
Staff Loans	1.90	1,470	27.93
Pawning	0.17	1,978	3.31
AF Lease	1.17	6,623	77.53
Hire Purchase	1.35	1,612	21.70
Investments in Treasury Bills	0.35	5,850	20.26
Investments in Treasury Bonds	0.99	10,490	103.47
Investments in T Bills Trading	0.44	5,842	25.44
Investments in T Bonds Trading	4.01	9,160	367.32
Reverse Repos	0.02	4,918	0.93
Total assets			1,713.55
Liabilities			
Demand Deposits	1.39	10,134	141.06
Savings Deposits	3.26	14,417	470.16
Call Deposits	3.18	955	30.41
Margin Deposits	3.36	463	15.55
Term Deposits	0.35	72,159	252.56
Repurchase Agreements	0.12	11,650	10.04
Borrowings LKR	0.01	500	0.05
Credit Lines Fixed	1.32	6,134	80.97
Debentures	5.00	10,400	520.00
Other Liabilities	2.65	10,595	280.77
Total Liabilities			1,805.56
Price Sensitivity			92.01
Limit			150

Modified Duration - measurement of the portfolio to a 1% change in interest rates.

Price Sensitivity - Sum of value change in each portfolio due to a 1% change in interest rates.

The price sensitivity of the Statement of Financial Position was managed within the pre-defined risk parameters whilst maximizing the market potential on interest sensitive assets and liabilities.

Mark to Market Exercise

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

Liquidity Risk

Liquidity risk arises due to unmatched maturities of assets and liabilities, that hinders honouring commitments as and when they fall due or will have to do so at an excessive cost. Thus the overall funding strategy takes into consideration both timing and size of business and investment together with the various sources of funding.

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 adverse conditions.

Liquidity Risk Management at the Bank

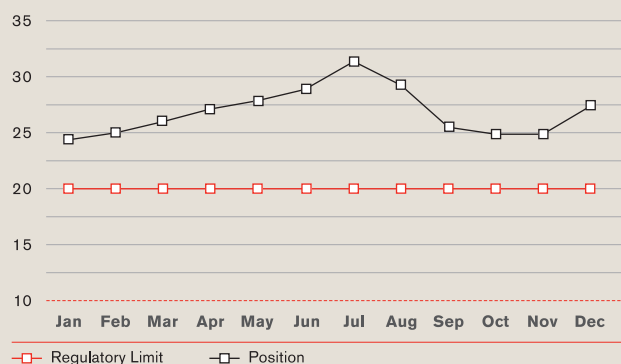
The objective of our liquidity framework is to ensure that all anticipated funding commitments can be met when due and allow us to withstand liquidity stresses whilst maintaining our business profile. It is designed to be adaptable to changing business models, market and regulations.

The Bank maintains well-articulated liquidity risk management policies and procedures, which drive the level of liquidity risk exposures and determine the business size and maturities which ensure that it has at all times sufficient liquidity to meet its financial obligations at a fair market price.

We also monitor key liquidity metrics on a regular basis, both on local currency and foreign currency Statements of Financial Position and prudential limits are set to better manage the liquidity profile of the Bank.

Our principle mechanism for implementation of the liquidity policy is to maintain the Bank's liquid assets to liabilities ratio above the regulatory defined ratio of 20%. Our internally set prudential liquidity limits/ ratios would give us early warnings of any areas of concern. The Bank has maintained a healthy Liquid Asset Ratio throughout the year.

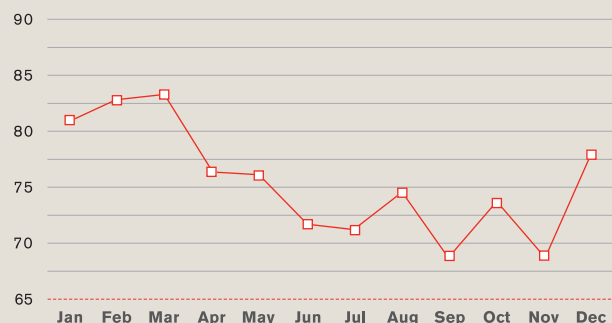
Statutory Liquid Asset Ratio Maintenance [%]



Medium-Term Funding (MTF) Ratio

Healthy MTF ratio throughout the year represents the stable funds available for the Bank to fund the long-term assets of the Statement of Financial Position.

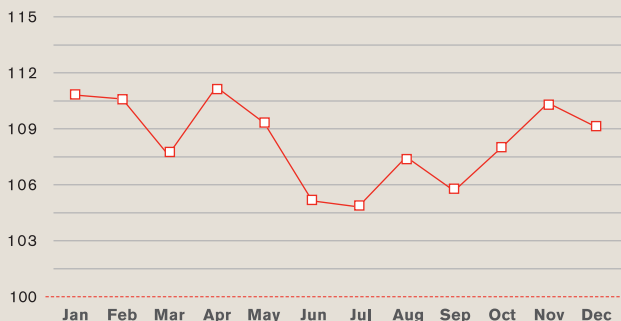
Medium Term Funding Ratio [%]



Advances to Deposits Ratio

This is defined as the ratio of total loans and advances to customers relative to deposits available which has been maintained within the set parameters.

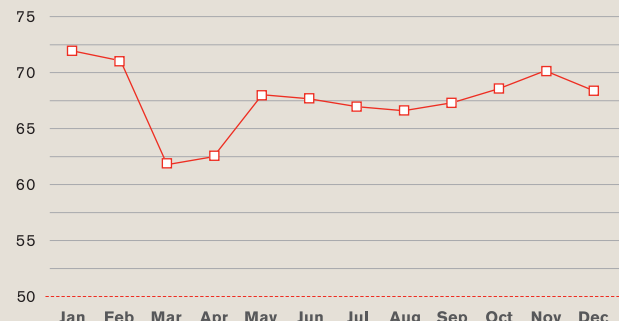
Loans to Customer Deposits [%]



Net Loans to Total Assets Ratio

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

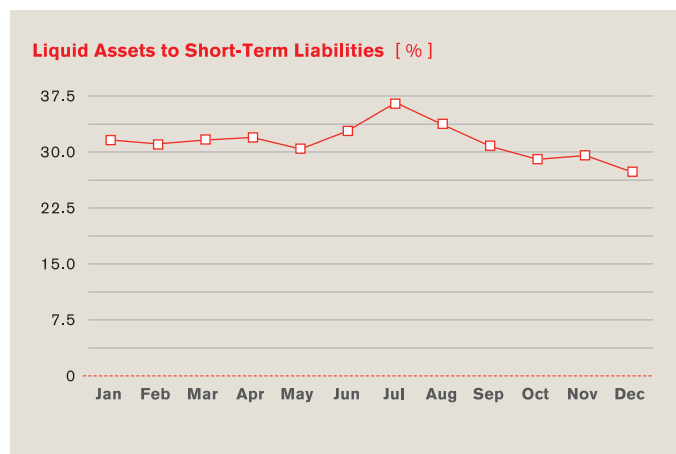
Net Loans to Total Assets [%]





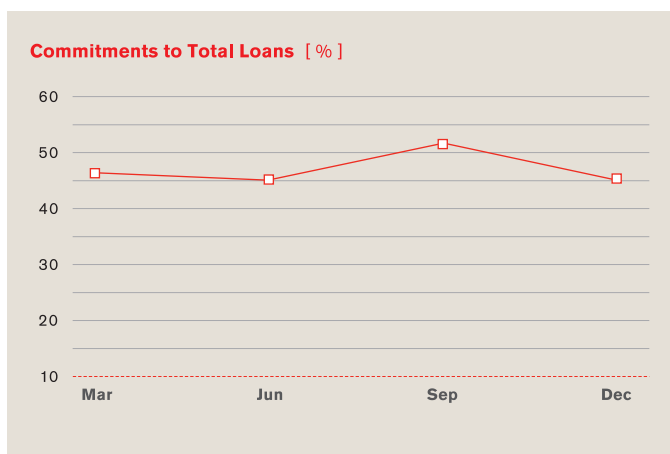
Liquid Assets to Short-Term Liabilities

The Statutory Liquid Asset ratio has been maintained above the regulatory requirement at all times. Hence the Liquid Assets to Short term liabilities (< one year) would definitely result a higher ratio than the statutory level. The Bank maintained this ratio at a prudent level whilst meeting the commitments on a daily basis.



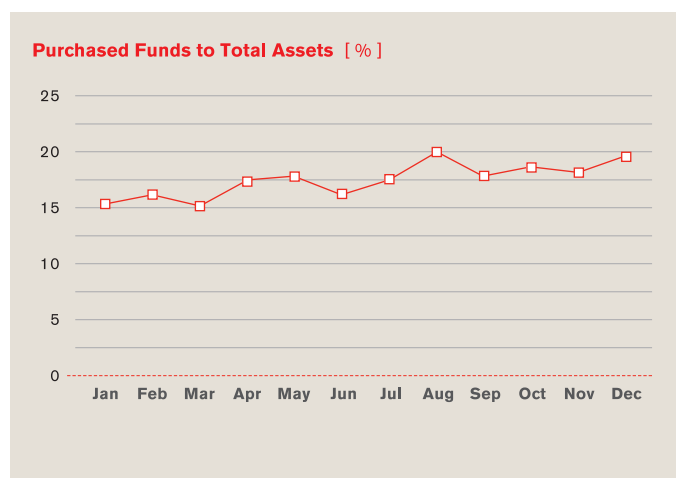
Commitments to Total Loans

With the expansion of the Statement of Financial Position the Bank's total loan portfolio has increased during the year. As a result, the Commitments & the Commitments to total Loans ratio was also at an increasing trend.

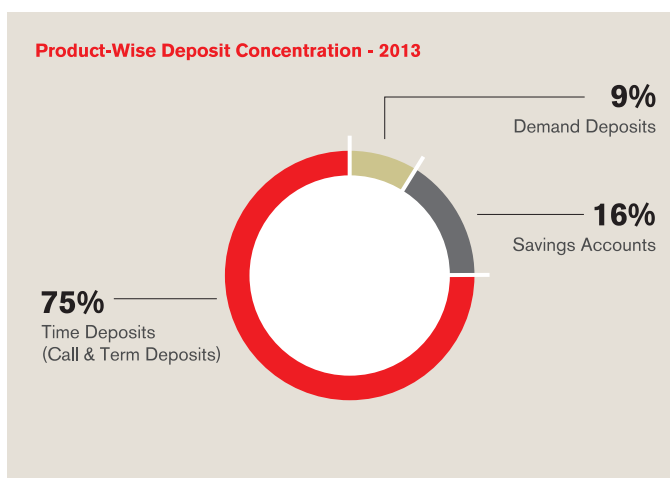


Purchased Funds to Total Assets

The Bank has maintained the Purchased Funds to total assets ratio below 20 % throughout the year. The ratio has increased in relation to the expansion of the Asset base during the year.



Through the deposit concentration policy requirements we ensure that the Bank is not relying on a limited number of depositors or funding sources. The Top 20 depositors' account for only 17.2% of the total deposit portfolio whilst the Top 10 depositors account 11.80% as at end December 2013 which reflects the granularity of our deposit base.



The liquidity position of the Bank further strengthened in 2013 with the planned debenture issue and inflows of customer deposits during the year. Our Advances to Deposit Ratio (ADR) improved considerably compared to the previous year with the aggressive deposit mobilization campaigns. During 2013 customer deposits grew by 20.5%. Our stable funding ratio which reflects the measure of advances to core funding recorded a ratio of 78% as at 31 December 2013 reflecting the strong liquidity profile of the Statement of Financial Position. The Bank will continue to focus on liability generation, which will be a necessary pre-condition for significant asset growth.

A satisfactory trade-off between liquidity and profitability is maintained by categorizing liquidity shortfalls in the Statement of Financial Position into suitable time buckets, placing exposure limits on each time bucket to monitor the liquidity mismatch gaps. These limits correspond to the liquidity available to the Bank through various fund providers, at an agreed level of confidence.

We have carefully assessed and revised our Statement of Financial Position maturity mismatch limits in order to optimise market opportunities which are being effectively managed by our Asset Liability Management Desk (ALM desk) which was set up in 2013 within the finance function. Separate gap limits are set for the local currency and foreign currency Statement of Financial Position based on the size and the nature of the Bank's Statement of Financial Position.

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 and ensures the business continuity through close monitoring of the Bank's liquidity position against the pre-defined liquidity risk trigger points. Trigger points have been defined taking into consideration the Bank's specific and systemic triggers which would cause a liquidity crisis. Action Plans are set out under each level of liquidity crisis (Mild, Moderate, Severe) with responsibilities assigned to a Liquidity Management Team nominated from all areas of business to ensure that all stakeholders of the Bank are safeguarded. We have also entered in to a reciprocal liquidity funding agreement with identified counterpart banks to ensure stability.

Segregation of Duties

Clear segregation of duties has been established between different business units ensuring prudent control and monitoring mechanisms. The Treasury Front Office reports to the CEO and Treasury Back Office reports to Head of Operations. The Market Risk Management Unit reports directly to the CRO who is a member of Bank's Assets and Liabilities Committee (ALCO). All senior level staff attached to the Market Risk Management Unit, Treasury Front Office and Treasury Back Office have obtained the internationally recognised ACI qualification offered by the Financial Markets Association, as required by the CBSL directives and are competent in their job profile.

The Assets and Liabilities Committee (ALCO), comprising of senior management staff from the Treasury, Risk-Management and the Finance Departments and all business units of the Bank together with the Market Risk Management Unit is responsible for the supervision and management of market risks. The ALCO meets on a monthly basis and whenever circumstances demand. Its main responsibilities are:

- to decide on the required maturity profile and mix of incremental assets and liabilities;
- to monitor the structure and composition of the Bank's assets and liabilities and decide on product pricing for deposits and advances;
- to articulate the interest rate view of the Bank and decide on future business strategy;
- to review and articulate funding policy;
- to decide the transfer pricing policy of the Bank;
- to evaluate risks involved in launching new products

ALCO is the governing body for the market risk, liquidity risk and asset liability risk management and the implementation of the Bank's risk management policies, procedures and systems is delegated to the Head of Market Risk Management who reports to the Chief Risk Officer. Market and liquidity risks are addressed at ALCO on a monthly basis and at the Board Integrated Risk Management Committee level on a quarterly basis.

The market risk management in the Bank is evolving very fast and there is greater emphasis on strengthening systems and people with adequate training and system support.

Market and Liquidity Risk Reporting

Risk reporting creates transparency on the risk profile and facilitates the understanding of the core market/liquidity risk drivers to all levels of the organization. The Board, Senior Management and the Risk Management Committees receive regular reporting, as well as ad hoc reporting as required, on market risk, liquidity risk, regulatory capital and stress testing. Senior risk committees receive risk information at a number of frequencies, including weekly, monthly or quarterly.

Additionally, market risk management produces daily and weekly market risk specific reports and daily limit excess reports for management review and action. Such reports include -

- Daily Market Risk Report on foreign exchange to Treasury, Finance, CEO and GRM
- Daily Limit Exception Report to Treasury and GRM
- Weekly/Monthly Liquidity Risk Report on internal/external liquidity trends/analysis to ALCO and IRMC
- Monthly market risk reports on Foreign Exchange, Liquidity, Deposit Concentration, Country Exposure Reports to ALCO
- Monthly ALM Reports to ALCO
- Quarterly Market, ALM and Liquidity reports to CMRPC and IRMC
- Quarterly Risk Assessment Report to the Board



Operational Risk

Over the last few years, the Bank has developed processes, management tools and a control infrastructure to enhance the control and management across the Group of the operational risks that are inherent to its various activities. These include, among others, general and specific procedures, permanent supervision, business continuity plans, new product development programmes and designated staff members for the management of operational risk in the business unit and support functions.

The Operational Risk Management Unit

The Operational Risk Management Unit was incorporated within the Group Risk Management in 2009. It works in close co-operation with operational risk staff in the business units and support functions.

The Operational Risk Management Unit is notably responsible for;

- Running the operational risk function
- Devising and implementing the Bank's operational risk policy in co-operation with the business units and support functions.
- Promoting an operational risk culture throughout the Group.
- Defining at Group level, methods for identifying, measuring, monitoring, reducing and/or transferring operational risk, in co-operation with the business units and support functions, in order to ensure consistency across the Group.
- Maintaining the Bank's Business Continuity Plan (BCP) and crisis management policy, managing the policy and co-ordinating its implementation.

The Operational Risk Function

In addition to the Operational Risk Management Unit, the operational risk function includes Operational Risk Managers (ORMs) in the business units and support functions, who are under the operational authority of the Bank's Head of Operational Risk.

ORMs operate in the Bank's units and are responsible for implementing the Bank's procedures and guidelines, and for monitoring and managing operational risks, with the support of the staff in the business units and support functions and in close collaboration with the respective Business/Support Function Heads.

Operational Risk Committees have been set up at the Bank level, as well as business levels and support function levels.

Operational Risk Management at the Bank

Since 2009, the Bank has used the Basic Indicator Approach (BIA) as proposed by the Capital Requirements Directive, to measure operational risk.

This approach notably makes it possible to:

- identify the greatest risk exposures, and
- the types of risk that have the greatest impact on the Bank's risk profile and overall capital requirements;

- enhance the Bank's operational risk culture and overall management, by introducing a virtuous cycle of risk identification, improved risk management and risk mitigation and reduction.

The Bank holds capital for operational risk, equal to 15% of the positive average annual gross income, over the previous three years.

The Bank's regulatory capital requirements for operational risks within the scope of BIA (Basic Indicator Approach) requirements are calculated using the above stated formula. The Bank's capital requirements for operational risks were LKR 1.304 bn at the end of 2013, representing LKR 13.03 bn in risk weighted assets. In accordance with the Regulator's Guidelines, the Bank has commenced parallel computation of capital in terms of The Standardized Approach (TSA) with effect from December 2011.

Operational Risk Monitoring Process

The frameworks specifically established by the Basel II Regulations (the Capital Requirements Directive and 'Sound practices for the management and supervision of operational risk') have been implemented, on the basis of existing procedures wherever possible, to support the 'virtuous circle' referred to previously. They notably include:

- Gathering of internal data on operational risk losses
- Risk and Control Self-Assessment (RCSA) processes
- Key Risk Indicators (KRI)
- Scenario analysis and stress testing
- Business continuity planning and crisis management

The Bank's classification of operational losses in seven Basel loss event categories is the cornerstone of its risk modelling, ensuring consistency throughout the system and enabling analysis across the Bank.

Internal Loss Data Collection

Internal loss data has been compiled throughout the Bank since 2010, enabling operational staff to define and implement the appropriate corrective actions (changes to activities or processes, strengthening of controls etc.):

- Build expertise in operational risk management concepts and tools
- Achieve a deeper understanding of their risk areas
- Help foster an operational risk culture throughout the Bank

All losses are recorded, and losses above the value of 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.

Risk and Control Self-Assessment (RCSA)

The purpose of Risk and Control Self-Assessment (RCSA) is to assess the Bank's exposure to operational risks in order to improve their monitoring. Based on the results of other operational risk management tools/methodologies (internal losses, KRI, etc) risk areas are identified by business units and support functions for their respective fields of expertise, and interviews with key staff.

Its objectives are as follows:

- Identifying and assessing the major operational risks to which each business unit or support function is inherently exposed (the 'intrinsic' risks), while disregarding prevention and control systems. Where necessary, risk mapping established by the business units or support functions contribute to the evaluation of intrinsic risks.
- Assessing the quality of major risk prevention and mitigation measures, including their existence and effectiveness in detecting and preventing major risks and/or their capacity to reduce their financial impact.
- Assessing the major risk exposure of each business unit or support function that remains once the risk prevention and mitigation measures are taken into account (the 'residual' risk), while disregarding insurance coverage.
- Correcting any deficiencies in risk prevention and mitigation measures and implementing corrective action plans.
- Facilitating and/or supporting the implementation of key risk indicators.
- Adapting the risk insurance strategy, if necessary.

As part of this exercise, major risks of a given scope are described using a double scale of impact and probability.

Key Risk Indicators (KRI)

KRIs supplement the overall operational risk management system, by providing a dynamic view of changes in business line risk profiles as well as a warning system. Regular KRI monitoring assists managers of the entities in their assessment of the Bank's operational risk exposure obtained from the RCSA, the analysis of internal losses and scenario analysis, by providing them with:

- A quantitative, verifiable risk measurement,
- A regular assessment of the improvements or deteriorations in the risk profile and the control and prevention environment which require particular attention or an action plan.

KRIs that may have a significant impact on the entire bank are reported to the Bank's senior management and the Board Integrated Risk Management Committee.

Scenario Analysis and Stress Testing

Scenario analysis serves two purposes - informing the Bank about potential significant areas of risk and contributing to the calculation of the capital required to cover operational risks.

For the calculation of capital requirements, the Bank uses stress tests to measure its exposure to potential losses.

Analysis are undertaken for major bank stress scenarios, involving very severe events that cut across business units and support functions, having an external cause in most cases and requiring, if necessary, a Business Continuity Plan (BCP). The scenarios of this type analysed so far have helped to develop the Business Impact Analysis aspects of the BCP.

The Bank does its operational risk stress testing using two approaches -

• Operational Risk Value at Risk (OpVaR) based Stress Testing

This is calculated based on the Bank's Internal Loss Data (ILD); however, OpVaR based capital is less than Operational Risk capital calculated based on BIA approach. Hence, no additional capital is allocated.

• BIA-based Stress Testing

Stress scenario considers that 18% of stress has been applied on gross income and while comparing the same with BIA capital, 3% of additional stressed capital is required

Business Continuity Planning and Crisis Management

In order to cover the risk of a crisis affecting the Bank's staff, premises and IT systems, the 'Crisis Management' team steered by the Bank's Business Continuity Management Co-ordinator along with the Human Resources Department, aims to prevent health and safety risks, and to define and maintain the crisis system in operating condition.

The Bank also prepares to face all kinds of disasters (loss of operating resources, failures, lack of human resources, etc.) by developing business continuity plans. To do this, it draws on a methodical approach based on international standards and regularly tests its emergency response mechanisms.

Insurance Cover in Operational Risk Management

The Bank has a comprehensive insurance policy as a measure to mitigate 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.

Description of Coverage

General Risks

Buildings and their contents, including IT equipment, are insured at their replacement value. Liability other than professional liability (i.e. relating to operations, Directors, vehicles, etc.) is covered by insurance policies.

Risks Arising from Operations

Insurance is one of the measures to offset the consequences of the risks inherent in the Bank's activity. It complements the risk monitoring policy led by the Bank and also by its Internal Controls.

Theft/Fraud

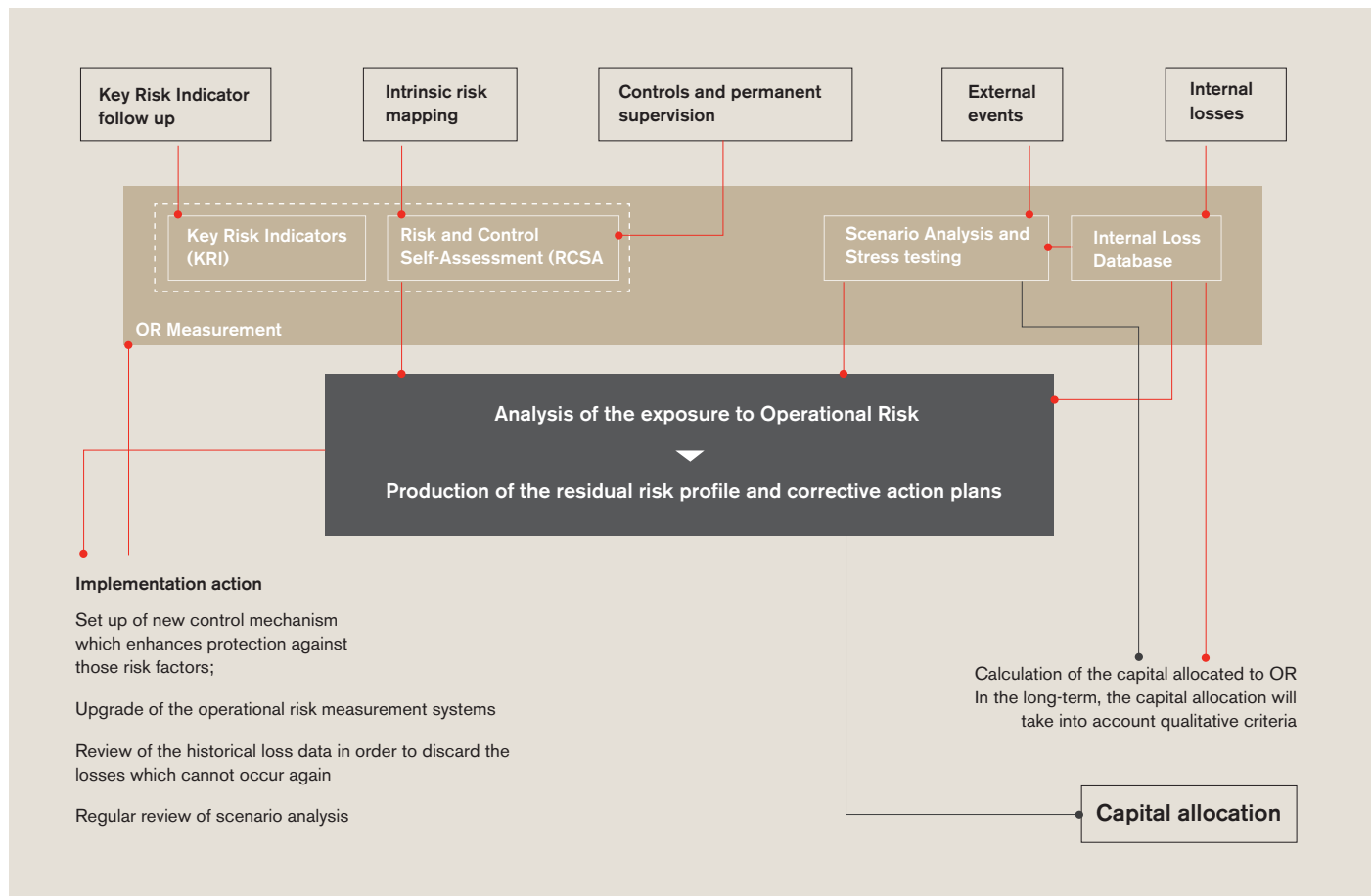
These risks are included in the 'Bankers Indemnity Cover' policy that insures all the Bank's financial activities around the country. Fraudulent actions by an employee or by a third party acting on its own or with the aid of an employee with the intent to obtain illicit personal gain or through malice are covered.

Professional Liability

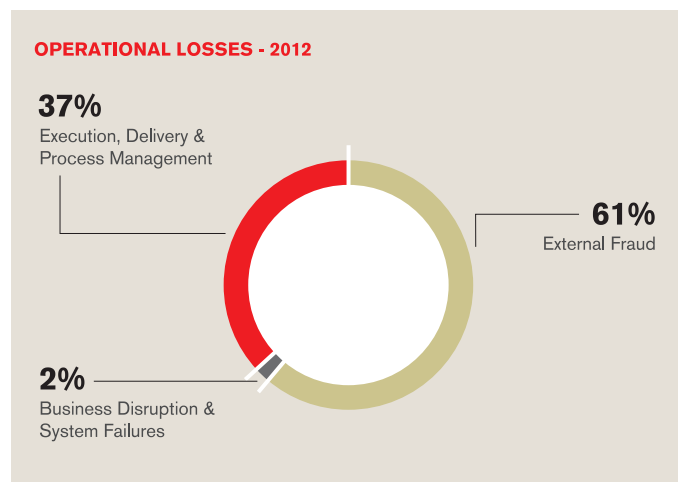
The consequences of any legal action against staff or managers as a result of their professional activity are insured under the Bank's BID policy.

Operating Losses

The consequences of any accidental interruptions to activity are insured under a bank-wide policy. This policy supplements the business continuity plans. The amounts insured are designed to cover losses incurred between the time of the event and the implementation of an emergency solution.



Quantitative Data



The majority of the losses caused during the year 2013 mainly due to low Karatage articles pawned at branches which were classified under loss type, - Execution, Delivery and Process Management as per the Basel Guidelines.

Strategic Risk Management

Strategic risk is the possibility of current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. The Bank manages Strategic Risk in the following manner: A five year Strategic Plan has been formulated by the Corporate Management and the Board. This is updated annually and is used as the foundation for defining new business goals, budgets and resource planning.

During FY2013, Bank made significant strides in managing strategic risk in a more robust and holistic manner across the Group. Amidst the challenging business landscape and tighter regulatory regime, Risk Management has managed to enhance and embed risk management into the business to drive value creation for the Group.

Taking cognizance of strategic risks, the Bank continues to plan, monitor and respond to internal and external risk factors in an anticipative manner. This is further accomplished through the continuing implementation of the Strategy implementation Tracker

The Strategic Plan is 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.

Reputational Risk Management

Reputation Risk arises from the negative effects of public opinion, customer opinion and market reputation, and the damage caused to brands by failing to manage public relations. The Bank has implemented the following to manage reputation risk:

All employees are responsible for day -to -day identification and management of reputational risk. These responsibilities form part of the Bank's Code of Conduct and are further embedded through values-based performance assessments.

Reputation 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. A Customer Complaint Handling Process has been established under which the customers have a range of options through which they can forward their grievances to the Bank, by way of letters, using our public help line that is manned on a 24 hour basis , through the Bank web-site or social media. A senior officer is tasked with coordinating such grievances and handling customer relations. Significant public or customer grievances are submitted for appropriate action by corporate management and review by operational risk committees. In addition to the above, contact details of the country's financial Ombudsman is displayed at every branch for customers to refer their complaint if it is not resolved to their satisfaction by the Bank.

The Bank has a Whistle Blowing Policy approved by the Board providing a channel for employees to raise issues, if any, on breaches of any law, statutory, regulatory or other ethical concerns shared by them.

Legal Risk

The Bank is subject to a comprehensive range of legal obligations and as a result is exposed to many forms of legal risks, which may arise in a number of ways:

- Business may not be conducted in accordance with applicable laws.
- Contractual obligations may either not be enforceable as intended or may be enforced in an adverse way
- Legal repercussions of lacunae in documents, forms, advertisements and other modes of conduct and communication adopted by the Bank
- Intellectual property may not be adequately protected.
- Liability for damages may be incurred to third parties harmed by conduct of its business.

Legal risk is managed by the Legal Department. The Heads of departments for each business unit is responsible for management and reporting of legal risk. The adequacy and effectiveness of the controls operated in the business units are overseen by the Head of Legal Department. Specific risks relating to legal risk are reported on a monthly basis to the Board.

Compliance 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. Thus, it is very closely related with reputation and legal/regulatory risk.

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.

The Charter applies to all Board and staff members of the organization and all its branches. Operationally the Bank has a detailed compliance programme to manage compliance risk in the day-to-day conduct of business in the Bank and has well-defined processes for risk identification, assessment, mitigation and control.

Future Outlook

Given the opportunities presented in the post war era, the Bank has been very aggressive in pursuing business. Emphasis has been given to SME, Retail and Project Finance in support of the development objectives of the country. Risk has facilitated this process by reviewing existing policies and procedures within acceptable risk parameters and strengthening the post-sanction monitoring process.

The credit process will be enhanced to address prevailing challenges, while credit models to be implemented will be subjected to periodic validation for the purpose of obtaining necessary assurances. Portfolio stress tests will be adopted as appropriate, to consider implications of scenarios that may seem relatively unlikely but could pose serious risks to the institution if they crystallize.

The Bank will continue to focus on the growth sectors of the economy through strategic portfolio planning, supported by sound risk identification, measurement, control, monitoring and reporting.



Financial Calendar 2013/2014 →

Annual General Meetings	Date
8th Annual General Meeting	28 March 2013
9th Annual General Meeting	28 March 2014

Dividend Payments	Date
Interim dividend payment for 2012 (LKR 5/- per share)	26 February 2013
Final dividend payment for 2012 (LKR 10/- per share)	5 April 2013
Interim dividend payment for 2013 (LKR 5/- per share)	5 November 2013
Final dividend payment for 2013 (LKR 5/- per share)	25 February 2014

Interim Financial Statements	Released to the CSE	Published in newspaper
Q4/For the twelve months ended 31.12.2012	13 February 2013	26 February 2013
Q1/For the three months ended 31.03.2013	14 May 2013	20 May 2013
Q2/For the six months ended 30.06.2013	14 August 2013	21 August 2013
Q3/For the nine months ended 30.09.2013	14 November 2013	21 November 2013
Q4/For the twelve months ended 31.12.2013	13 February 2014	21 February 2014

Annual Financial Statements	Released to the CSE	Published in newspaper
Annual Financial Statements for 2012	5 March 2013	25 March 2013
Annual Financial Statements for 2013	March 2014	March 2014

Proposed Financial Calendar 2014/2015 →

Interim Financial Statements	To be released to the CSE	To be published in newspaper
Q1/For the three months ended 31.03.2014	May 2014	May 2014
Q2/For the six months ended 30.06.2014	August 2014	August 2014
Q3/For the nine months ended 30.09.2014	November 2014	November 2014
Q4/For the twelve months ended 31.12.2014	February 2015	February 2015

Annual Financial Statements	To be released to the CSE	To be published in newspaper/web
Annual Financial Statements for 2014	March 2015	March 2015

As per Rule 7.4 of the Listing Rules of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka, quarterly Financial Statements (unaudited) for the first three quarters are released to the Colombo Stock Exchange within 45 days from the end of each quarter and the final quarter/annual Financial Statements for the financial year ended 31 December 2013 (audited) will be released to the Colombo Stock Exchange within two months from the end of the year.



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General

The Directors of National Development Bank PLC 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 2013 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 National Development Bank PLC ('Bank'), originally established by an Act of Parliament in 1979 as the National Development Bank PLC of Sri Lanka was incorporated 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.

Principal Activities of Bank and its Subsidiaries (Group)

The principal activities of the Group are described in the Business Model on page 20 of our Annual Report.

Vision, Mission and Values

The vision, mission and values of the Bank are given on page 1 of this Report. The Group practices high ethical standards in carrying out their business activities in line with the vision of the Bank.

Registered Office and Head Office

The registered office and head office of the Bank is situated at No. 40, Navam Mawatha, Colombo 2.

Review of Business

A review of the operations of the Bank and the Group and future developments are discussed in the Chairman's Message, Chief Executive Officer's Review (pages 12 to 19) and the Management Discussion and Analysis (pages 30 to 75). These reports form an integral part of the Annual Report of the Board of Directors.

Financial Statements

These Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) and is given in detail on pages 184 to 267 of this Annual Report.

The Financial Statements of the Bank and the Group for the year ended 31 December 2013 are duly signed by the Vice-President - Finance and Planning, the 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 pages 184 to 267.

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 184 to 267 inclusive, give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2013 as well as the profit for the year then ended.

The Statement of Directors' Responsibility for Financial Reporting is given on pages 176 and 177 and forms an integral part of the Annual Report of the Board of Directors.

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 2013 and their report on those Financial Statements are given on page 183 of the Annual Report.

Significant Accounting Policies

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 192 to 202. The significant changes to accounting policies adopted if any, in the preparation of the Financial Statement are given on pages 192 to 202.

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.

Financial Performance

The Group's Profit Before Taxation including that of its subsidiaries and its share of profit from associate companies amounted to LKR 4,774 mn (compared to LKR 10,830 mn in 2012). After deducting LKR 2,061 mn (compared to LKR 1,898 mn in 2012) for taxation, the Profit After Tax for the year amounted to LKR 2,712 mn (compared to LKR 8,932 mn in 2012). The Group profit attributable to shareholders amounted to LKR 2,642 mn (compared to LKR 8,854 mn in 2012).

The Bank's Profit Before Taxation amounted to LKR 9,683 mn (compared to LKR 4,607 mn in 2012). After deducting LKR 1,959 mn (compared to LKR 1,683 mn in 2012) for taxation, the Profit After Tax for the year amounted to LKR 7,723 mn (compared to LKR 2,923 mn in 2012).

Details are given in the Income Statement on page 184.

Reserves

The reserves of the Bank and the Group consists of the following:

LKR '000	Bank		Group	
	2013	2012	2013	2012
Capital	1,172,904	1,093,095	943,746	863,937
Statutory Reserve Fund	958,527	878,718	958,527	878,718
Investment Fund Account	1,706,751	924,332	1,706,751	924,332
Available-for-Sale Reserve	106,669	–	150,614	–
Share-based Payment Reserve	22,367	–	22,367	–
Retained Earnings	15,653,260	12,046,256	20,731,801	22,216,054
Total	19,620,478	14,942,401	24,513,806	24,883,041

Total Operating Income

The total operating income of the Group for 2013 was LKR 11,549 mn (as compared with LKR 14,939 mn), while the Bank's total operating income was LKR 15,865 mn (as compared with LKR 8,815 mn for 2012). An analysis of the income is given on page 184 to the Financial Statements.

Taxation

The income tax rate applicable on the Bank's domestic operations and FCBU on-shore and off-shore banking operations is 28% (2012 - 28%). The Bank's profit is also liable for Value Added Tax on Financial Services at the rate of 12% (2012 - 12%). 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.

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.

Dividends

An interim dividend of LKR 5.00 per share (2012 - LKR 5.00) was paid on 5 November 2013 to the shareholders of the Bank for the financial year 2013. The Directors authorized and approved a final dividend of LKR 5.00 per share (2012 - LKR 10.00 per share) to be paid for the financial year ended 31 December 2013.

In declaring the dividends the Directors ensured due compliance by the Bank of the solvency provisions contained in the Companies Act No. 07 of 2007.

These dividends were partly paid out of dividends received and partly out of taxable profits, the latter being subject to withholding tax.

Capital Expenditure and Commitments

Total Capital expenditure incurred by the Bank and the Group on acquisition of investment property, property, plant & equipment, intangible assets and work-in-progress amounted to LKR 355 mn and LKR 364 mn, respectively (2012 - Bank - LKR 403 mn and Group - LKR 416 mn).

Property, Plant & Equipment

The details of Property, Plant & Equipment are given in Note 27 to the Financial Statements.

Donations

The Bank made Donations amounting to LKR 14.40 mn for the year 2013 (2012 - LKR 13.44 mn), 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.

Pending Litigations

In the opinion of the Directors and the Bank's lawyers, pending litigations against the Bank disclosed in Note 46.2, to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

Events Occurring after the Date of the Statement of Financial Position

In pursuance of the policies announced by the Government encouraging the consolidation of certain banking businesses, the Boards of Directors of DFCC Bank (DFCC) and of the Bank, have commenced preliminary discussion with a view to achieving such consolidation. The consolidation of the two entities will be dependent on relevant approvals and possibly, the passage of facilitative legislation.

There have been no other events that require adjustment to the Financial Statements or disclosure in the Financial Statements that has occurred subsequent to the date of the Statement of the Financial Position of the Bank.

Stated Capital and Debentures

The stated capital of the Bank at the beginning of the year was LKR 1,093,094,670/- and at the end of the year was LKR 1,172,903,620/- and comprised of 164,201,902 ordinary shares at the beginning of the year and 164,693,034 ordinary shares at the end of the year.

In December 2013, the Bank, by way of a public offer, issued one hundred million (100,000,000) rated, unsecured, subordinated, redeemable debentures of the par value of LKR One Hundred (LKR 100/-) each aggregating to the value of LKR Ten Thousand Million (LKR 10,000,000,000/-). The proceeds of these debentures were utilized to support the Bank's Tier II Capital.

The details of the said debentures are disclosed in Note 35 to the Financial Statements.

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. The details of the said debentures are also disclosed in Note 31 to the Financial Statements.

Information on Shares

The information relating to earnings, dividends, net assets and market price per share is given in the financial highlights on the inner front cover of the Annual Report. Information on share trading is given on page 278 of this Annual Report.

Shares and Shareholders

The Bank had 7,695 registered shareholders as at 31 December 2013. The distribution, public holding, 20 largest shareholders and the share price during 2013 are set out in page 277 of this Annual Report.

The Bank issued 491,132 ordinary shares to the Trustee of the Equity Linked Compensation Plan (ELCP), Corporate Services (Pvt) Ltd. in July 2013 as a Share Grant to eligible employees of the Bank under the ELCP approved by the Board of Directors and shareholders of the Bank in March 2010.

The Board of Directors

In terms of the provisions of the Articles of Association of the Bank, the Board of Directors, as at 31 December 2013, consisted of ten (10) Directors, including the Chairman and was made-up as follows:

- Six (06) Directors have been appointed by the shareholders;
- Two (02) Directors have been appointed during the year 2013 to fill casual vacancies;
- One Director has been appointed as a representative of the Ministry of Finance in terms of the Articles of Association of the Bank; and
- The Chief Executive Officer is an ex-officio Director, with voting rights.

The list of Directors who held office during the year under review and changes thereto are given on pages 79 to 81.

In terms of the provisions of the Articles of Association of the Bank, one-third of the elected Directors shall retire from office and new Directors will be elected by the shareholders at each Annual General Meeting of the Bank. 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 election or appointment. Accordingly, Mr Ashok Pathirage and Mr Sujeewa Rajapakse will retire and stand for re-election by the shareholders at the Annual General Meeting of the Bank.

Further, in terms of the provisions of the said Articles, Directors who filled casual vacancies during the year will be reappointed by the shareholders at the next Annual General Meeting of the Bank and accordingly, Mr Sunil Wijesinha and Mrs Indrani Sugathadasa will stand for reappointment by the shareholders at the Annual General Meeting.

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 87 to 131 of the Annual Report. In terms thereof the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2013 is given below:

Name of Director	Independent/ Non-Independent	Executive/ Non-Executive
Mr Sunil G Wijesinha	Independent	Non-Executive
Mr Ashok Pathirage	Non-Independent	Non-Executive
Mr Rajendra Theagarajah (CEO)	Non-Independent	Executive
Mr Trevine Jayasekara	Independent	Non-Executive
Mr Sarath Wikramanayake	Non-Independent	Non-Executive
Mrs Kimarli Fernando	Independent	Non-Executive
Mr Anura Siriwardena	Independent	Non-Executive
Ms Chandra Ekanayake	Non-Independent	Non-Executive
Mr Sujeewa Rajapakse	Non-Independent	Non-Executive
Mrs Indrani Sugathadasa	Independent	Non-Executive
Mr Hemaka Amarasuriya (retired w.e.f. 30 November 2013)	Independent	Non-Executive
Mr Russell de Mel (CEO, retired w.e.f. 23 August 2013)	Non-Independent	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 116 to 131 of the Annual Report. In terms thereof, the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2013 is given below:

Name of Director	Independent/ Non-Independent	Executive/ Non-Executive
Mr Sunil G Wijesinha	Independent	Non-Executive
Mr Ashok Pathirage	Non-Independent	Non-Executive
Mr Rajendra Theagarajah (CEO)	Non-Independent	Executive
Mr Trevine Jayasekara	Independent	Non-Executive
Mr Sarath Wikramanayake	Non-Independent	Non-Executive
Mrs Kimarli Fernando	Independent	Non-Executive
Mr Anura Siriwardena	Independent	Non-Executive
Ms Chandra Ekanayake	Independent	Non-Executive
Mr Sujeewa Rajapakse	Non-Independent	Non-Executive
Mrs Indrani Sugathadasa	Independent	Non-Executive
Mr Hemaka Amarasuriya (retired w.e.f. 30 November 2013)	Independent	Non-Executive
Mr Russell de Mel (CEO, retired w.e.f. 23 August 2013)	Non-Independent	Executive

Directors of Group Companies

The Directors of the Group companies are set out on page 297 of the Annual Report.

Other Directorships of Directors

Information of the other Directorship of the Directors of the Bank as at 31 December 2013 is given below:

Name of Director	Other Directorships
Mr Sunil G Wijesinha	Watawala Plantations PLC Siyapatha Finance Ltd. Sampath Centre Ltd. United Motors Lanka PLC Unimo Enterprises Ltd. Orient Motor Company Ltd. TVS Lanka (Pvt) Ltd. TVS Automotives (Pvt) Ltd. TVS Autoparts (Pvt) Ltd. UML Property Developments Ltd. UML Agencies & Distributors (Pvt) Ltd. BizEx Consulting (Pvt) Ltd. National Chamber of Commerce of Sri Lanka (limited by guarantee)
Mr Ashok Pathirage	Softlogic Holdings PLC Asiri Hospital Holdings PLC Asiri Surgical Hospital PLC Asiri Central Hospitals PLC Central Hospital Private Ltd. Asiri Hospital Kandy (Pvt) Ltd. Uni Walkers Private Ltd. Ceysand Resorts Ltd. Softlogic Finance PLC Softlogic Capital PLC Asian Alliance Insurance PLC NDB Capital Holdings PLC Softlogic Information Technologies Private Ltd. Softlogic Properties (Pvt) Ltd. Softlogic Australia (Pvt) Ltd. Softlogic City Hotels (Pvt) Ltd. Abacus International Lanka (Pvt) Ltd. Ominga International Lanka (Pvt) Ltd. Softlogic Restaurants (Pvt) Ltd.
Mr Rajendra Theagarajah	NDB Capital Holdings PLC NDB Wealth Management Ltd. NDB Securities (Pvt) Ltd. NDB Investment Bank Ltd. Development Holdings (Pvt) Ltd. Carson Cumberbatch PLC
Mr Trevine Jayasekara	Brandix Lanka Ltd. John Keells Hotels PLC
Mr Sarath Wikramanayake	NDB Capital Holdings PLC Eco - Lodgia (Pvt) Ltd. NDB Wealth Management Ltd. NDB Investment Bank Ltd. Orient Finance PLC

Name of Director	Other Directorships
Mrs Kimarli Fernando	LB Finance PLC Vallibel One PLC Lewis Brown & Company Ltd.
Mr Anura Siriwardena	Nil
Ms Chandra Ekanayake	Nil
Mr Sujeewa Rajapakse	Asian Alliance Insurance PLC Dipped Products PLC Haycarb PLC Cornucopla Lanka (Pvt) Ltd. Lanka Holdings (Pvt) Ltd. Development Holdings (Pvt) Ltd.
Mrs Indrani Sugathadasa	Kalubovitiyana Tea Factory Ltd.

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.

Directors' Interest Register

The Bank, as per the Companies Act No. 07 of 2007, maintains the Interest Register. All Directors have made declarations as provided for in Section 192 (2) of the Companies Act aforesaid. The related entries were made in the Interest Register during the year under review. The share and debenture ownership of Directors is indicated elsewhere in this Report. Entries were made in the Interest Register on share disposals, Directors' interest in contracts, remuneration paid to the Directors etc. the Interest Register is available for inspection as required under the Companies Act.

Directors' Interest in Contracts

Directors' interest in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 174 and 175 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.

Insurance and Indemnity

Pursuant to a decision of the Board, the Bank obtained an Insurance Policy to cover Directors' liability.

Directors' Interests in Shares

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 279 of this Annual Report.

Directors' Interests in Debentures

Directors holdings in Debentures of the Bank as at 31 December 2013 are set out on page 281 of this Annual Report.

There were no debentures registered in the name of any Director as at the beginning of the year.

Related Party Transactions

The Directors 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 50 to the Financial Statements.

Directors' Emoluments

Directors fees and emoluments in respect of the Bank and the Group for the financial year ended 31 December 2013 are as follows.

	BANK	GROUP
Directors' fees and emoluments (LKR mn)	62.5	66.1

The Bank has in place a Board approved remuneration policy to guide the Remuneration and Human Resources Committee in their deliberations.

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 is 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 for the ELCP will take place over five years commencing July 2010. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

The details of the grants and options granted, grants and options exercised, the grant price and the grants and options cancelled or lapsed and outstanding as at 31 December 2013 is given in Note 41 to the Financial Statements.

Environmental Protection

The Bank and the Group has not engaged in any activity that is detrimental to the environment, and have complied with the environmental laws and regulations at all times.

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 141 to 164 of this Annual Report.

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 178 and 179 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 180 of this Annual report.

Operational Excellence

To increase efficiency and reduce operating costs, the Bank has ongoing initiatives to drive policy and process standardization and to optimize the use of existing technology platforms.

Corporate Governance

The Directors are responsible for the governance of the Bank including the establishment and maintenance of the Bank's systems of internal financial control. Internal control systems are designed to meet the particular needs of the organization concerned, and the risks to which it is exposed and by their nature they can provide reasonable but not absolute assurance against material misstatement or loss. The Directors are satisfied that a strong control environment is prevalent within the Bank and that the internal control systems referred to above are effective.

The Directors declared that the Bank complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provision in various laws and regulations confirm compliance in each quarter to the Board Integrated Risk Management Committee

All endeavours have been made to ensure that shareholders in each category have been treated equitably in accordance with the original terms of issue

A description of the Bank's Corporate Governance Practices is set out on pages 87 to 131.

Board Sub Committees

There are six permanent committees of the Board, namely, Integrated Risk Management Committee, Audit Committee, Strategic Issues Committee, Remuneration and Human Resources Committee, Nomination Committee and Corporate Governance and Legal Affairs Committee. Details of the members of these six committees are given on pages 132 to 140.

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 141 to 164.

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.

Auditors

The Financial Statements for the year ended 31 December 2013 have been audited by Messrs Ernst & Young, Chartered Accountants.

The fees paid to the Auditors during the year for the Bank and the Group was LKR 8.0 mn and LKR 10.0 mn respectively. (2012 - Bank LKR 7.2 mn and Group LKR 9.0 mn). The fees paid for non-audit work during the year by the Bank and the Group was LKR 18.2 mn and LKR 18.2 mn respectively (2012 - Bank and Group - LKR 5.7 mn).

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.

First Integrated Annual Report

The Bank has taken the initiative to present its first Integrated Annual Report for the year ended 31 December 2013. 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.

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.

A data base has been developed based on the requirements of shareholders and accordingly, 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.

Notice of Meeting

The 9th 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 28 March 2014. The notice of meeting is given on page 298 of this Annual Report.

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.

For and on behalf of the Board,



Sunil G Wijesinha
Chairman



Rajendra Theagarajah
Chief Executive Officer



Shehani Ranasinghe
Secretary to the Board

13 February 2014



	Relationship	Accommodation Granted, Deposits and Investments	Balance Outstanding as at 31.12.2013 LKR '000	Balance Outstanding as at 31.12.2012 LKR '000
(a) Mr A K Pathirage				
Softlogic Holdings PLC	Chairman/Managing Director	Deposits & Investments	3,143	53,161
		Loans/Advances	-	500,000
Softlogic Retail (Pvt) Ltd.	Chairman/Managing Director	Deposits & Investments	4,190	-
		Loans/Advances	52,508	144,957
		Off-Balance Sheet Accommodations	-	19,144
Asiri Central Hospitals PLC	Chairman/Managing Director	Loans/Advances	13,750	18,750
Softlogic Capital PLC	Chairman	Deposits & Investments	12	-
		Loans/Advances	-	450,114
Softlogic Information Technologies (Pvt) Ltd.	Chairman	Deposits & Investments	-	2,283
		Loans/Advances	-	22,359
		Off-Balance Sheet Accommodations	-	29,839
Asian Alliance Insurance PLC	Chairman	Deposits & Investments	17	17
Asiri Hospital Holdings PLC	Chairman/Managing Director	Deposits & Investments	-	200,779
NDB Capital Holdings PLC	Chairman	Deposits & Investments	13,388	3,973
(b) Ms K Fernando				
L B Finance PLC	Director	Deposits & Investments	30,617	275
		Loans/Advances	11,200	750,600
(c) Mr D S P Wikramanayake				
NDB Wealth Management Ltd.	Director	Deposits & Investments	1,503	7
NDB Investment Bank Ltd.	Director	Deposits & Investments	10,606	11,419
		Loans/Advances	1	2
NDB Capital Holdings PLC	Director	Deposits & Investments	13,388	3,973
Orient Finance PLC	Director	Deposits & Investments	519	-
		Loans/Advances	390,000	273,078

	Relationship	Accommodation Granted, Deposits and Investments	Balance Outstanding as at 31.12.2013 LKR '000	Balance Outstanding as at 31.12.2012 LKR '000
(d) Mr S Rajapakse				
Asian Alliance Insurance PLC	Independent Director	Deposits & Investments	17	17
Development Holdings (Pvt) Ltd.	Director	Deposits & Investments	265,948	213,103
Dipped Products PLC	Independent Director	Deposits & Investments	16,136	-
Haycarb PLC	Independent Director	Deposits & Investments	2,094	-
(e) Mr S Wijesinha				
Watawala Plantations PLC	Director	Deposits & Investments	18,334	-
Siyapatha Finance Ltd.	Director	Deposits & Investments	322	-
		Loans/Advances	275,000	-
United Motors Lanka PLC	Non-Executive Chairman	Deposits & Investments	69,568	-
		Off-Balance Sheet Accommodations	78,996	-
Unimo Enterprises Ltd.	Director	Deposits & Investments	7,728	-
		Loans/Advances	91,000	-
		Off-Balance Sheet Accommodations	46,296	-
Orient Motor Company Ltd.	Director	Loans/Advances	80,024	-
		Off-Balance Sheet Accommodations	310,979	-
TVS Lanka (Pvt) Ltd.	Director	Deposits & Investments	255	-
		Loans/Advances	150,000	-
(f) Mr R Theagarajah				
NDB Capital Holdings PLC	Director	Deposits & Investments	13,388	3,973
NDB Wealth Management Ltd.	Director	Deposits & Investments	1,503	7
NDB Securities (Pvt) Ltd.	Director	Deposits & Investments	41,961	-
		Loans/Advances	35	-
NDB Investment Bank Ltd.	Director	Deposits & Investments	10,606	11,419
		Loans/Advances	1	2
Development Holdings (Pvt) Ltd.	Director	Deposits & Investments	265,948	213,103



This statement sets out the responsibility of the directors in relation to the Financial Statements of National Development Bank PLC (the Bank) and the Consolidated Financial Statements of the Bank and its subsidiaries (the Group). The Directors are required by relevant statutory provisions to prepare and table at a General Meeting of the Bank, such Financial Statements as may be necessary, which give a true and fair view of the state of affairs of the Bank and the Group.

It is also the responsibility of the directors to ensure that the Bank maintains proper accounting records and to take reasonable steps as far as practical to ensure the accuracy and reliability of accounting records and to prepare Financial Statements using appropriate Accounting Policies applied consistently and supported by reasonable and prudent judgment and estimates in compliance with the Sri Lanka Accounting Standards, the Banking Act No. 30 of 1988 (as amended), the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange. Changes in the Accounting Policies where applicable and the rationale for the changes have been disclosed in the 'Notes to the Financial Statements.'

Accordingly the Directors confirm that the Financial Statements of the Bank and the Group give a true and fair view of:

- (a) the financial position of the Bank and the Group as at 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 Vice President - Finance and Planning and the 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 13 February 2014 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 2013, 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 (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

In addition, these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual Financial Statements of licensed commercial banks.

The Directors have been responsible for taking reasonable measures and care to safeguard the assets of the Bank and the NDB Group and to prevent and detect frauds and other irregularities. The Directors have instituted an effective and comprehensive system of internal controls and an effective system of monitoring its effectiveness, internal audit being one of them. The Directors' Statement on Internal Control is given on pages 178 and 179 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 Audit Committee Report on pages 138 to 140 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 183 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 184 to 267 including, appropriate Accounting Policies selected and applied based on the new financial reporting frame work 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 the Section 56 (2) of the Companies Act No. 07 of 2007, they have authorized distribution of the dividends paid upon being satisfied that the Bank would satisfy the solvency test after such distributions are made in accordance with the Section 57 of the Companies Act No. 07 of 2007 and have obtained in respect of dividends paid, necessary certificates of solvency from the External Auditors.

The Board of Directors also wishes to confirm that, as required by the Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Bank, who have expressed desire to receive a hard 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 and its quoted subsidiary have met all the requirements under the Section 07 on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange, where applicable

The 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 46 to the Financial Statements on 'Litigation against the Bank' on page 261 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 ICASL and the SEC, the Directors have a reasonable expectation that the Bank and the NDB 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,



Shehani Ranasinghe
Secretary to the Board

13 February 2014

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 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 and accords 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 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.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. 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 138 to 140.
- 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 Bank adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The processes and procedures initially applied to adopt the aforementioned accounting standards were further strengthened during the year 2013 based on the feedback received from the External Auditors, Internal Audit Department, Regulators and the Board Audit Committee. 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 assessment did not include subsidiary companies of the Bank.

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.

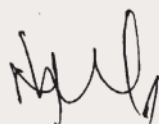
Review of the Statement by External Auditors

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 2013 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,



Sunil G Wijesinha
Chairman



Trevine Jayasekara
Chairman Audit Committee



Rajendra Theagarajah
Chief Executive Officer

13 February 2014



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HMAJ/MVM/HAU

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 2013.

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.

13 February 2014

Colombo



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Independent Assurance Report to the Board of Directors of National Development Bank PLC on the Sustainability Report - 2013

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 Report - 2013 ('the Report').

- Reasonable assurance on the information on financial performance as specified on pages 38 and 39 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative G4 '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 ('ICASL').

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 G4 '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 G4 'In accordance' - Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 22 January 2014. 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 ICASL.

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 the self-declaration
- 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 2013
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative G4 '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 pages 38 and 39 of the Report are properly derived from the audited financial statements of the Bank for the years ended 31 December 2012 and 31 December 2013.
- 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-G4 - 'In accordance' - Core Sustainability Reporting Guidelines.

Chartered Accountants

20 February 2014

Colombo

The Financial Statements of the National Development Bank PLC (the Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries (the Group) as at 31 December 2013 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 1998 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 the Annual Financial Statements of Licensed Commercial Banks, issued by the Central Bank of Sri Lanka.

The Group's Accounting Policies are in compliance with Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka, which were effected from 01 January 2013. 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, income statement and the cash flows of the Bank and the Group for the year. We also believe that the Group has adequate resources to continue its operations in the foreseeable future and accordingly adopts a going concern basis for the preparation of the Financial Statements.

The Board of Directors and the Management of the Bank 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 Bank's state of affairs is reasonably presented. To ensure this, the Group has 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 Bank's

Internal Auditor has conducted periodic audits to provide reasonable assurance that the established policies and procedures of 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 Group were audited by Messrs Ernst & Young, Chartered Accountants. The Report issued by them is available on page 184 of this Report. The audit and non-audit services provided by Messrs Ernst & Young are approved by the Board Audit Committee, to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka or impair Messrs Ernst & Young's independence.

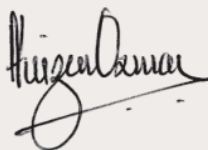
The Board Audit Committee reviews the adequacy and effectiveness of the internal control systems including the effectiveness of the internal controls over financial reporting to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account and the processes by which compliance with Sri Lanka Accounting Standards including SLFRS/LKAS and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on pages 138 to 140. 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 Group has complied by all applicable laws, rules, regulations and guidelines
- There is no material non-compliance
- There is no material litigation against the Group other than those disclosed in Note 46 on page 261 of the Financial Statements section of this Report
- All taxes, duties, levies and all statutory payments by the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group as at the reporting date have been paid, or where relevant provided for.



Rajendra Theagarajah
Chief Executive Officer



Faizan Ozman
Chief Financial Officer

13 February 2014



Ernst & Young
Chartered Accountants
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Independent Auditors' Report to the Shareholders of National Development Bank PLC

Report on the Financial Statements

We have audited the accompanying financial statements of National Development Bank PLC ("Bank"), the consolidated financial statements of the Bank and its subsidiaries, which comprise the statements of financial position as at 31 December 2013, and the income statements and statements of comprehensive income, statements of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 192 to 267 of the annual report.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the Bank's financial position as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the financial position as at 31 December 2013 and the financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiary dealt with thereby, so far as concerns the shareholders of the Bank.

Report on Other Legal and Regulatory Requirements

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

13 February 2014

Colombo

For the year ended 31 December	Note	BANK			GROUP		
		2013 LKR '000	2012 LKR '000	Change %	2013 LKR '000	2012 LKR '000	Change %
Interest income		20,603,610	16,983,637	21	20,765,842	17,149,867	21
Interest expenses		13,791,503	11,386,672	21	13,754,264	11,330,939	21
NET INTEREST INCOME	3	6,812,107	5,596,965	22	7,011,578	5,818,928	20
Fee and commission income	4	1,614,106	1,210,500	33	2,411,273	1,720,479	40
Net trading gains/(losses)	5	1,271,628	1,010,276	26	1,868,293	1,272,496	47
Other operating income	6	6,167,076	997,475	518	257,897	6,127,188	(96)
Total operating income		15,864,917	8,815,216	80	11,549,041	14,939,091	(23)
Impairment for loans & receivables and other losses	7	1,238,202	106,112	1,067	1,260,765	51,379	2,354
Net operating income		14,626,715	8,709,104	68	10,288,276	14,887,712	(31)
LESS: OPERATING EXPENSES							
Personnel expenses	8	2,389,144	2,172,740	10	2,660,281	2,333,325	14
Other expenses	9	2,555,059	1,929,453	32	2,903,594	2,163,514	34
Total operating expenses		4,944,203	4,102,193	21	5,563,875	4,496,839	24
OPERATING PROFIT BEFORE VALUE ADDED TAX ON FINANCIAL SERVICES		9,682,512	4,606,911	110	4,724,401	10,390,873	(55)
Value Added Tax on financial services		(910,500)	(622,286)	46	(910,500)	(622,286)	46
OPERATING PROFIT AFTER VALUE ADDED TAX ON FINANCIAL SERVICES		8,772,012	3,984,625	120	3,813,901	9,768,587	(61)
Share of associate companies' profits/(losses)	10	–	–	–	49,220	438,720	(89)
PROFIT BEFORE TAXATION		8,772,012	3,984,625	120	3,863,121	10,207,307	(62)
Taxation	11	(1,048,776)	(1,060,667)	(1)	(1,150,893)	(1,275,368)	(10)
PROFIT FOR THE YEAR		7,723,236	2,923,958	164	2,712,228	8,931,939	(70)
PROFIT ATTRIBUTABLE TO:							
Equity holders of the Parent		7,723,236	2,923,958	164	2,641,925	8,853,821	(70)
Non-controlling interests		–	–	–	70,303	78,118	(10)
		7,723,236	2,923,958	164	2,712,228	8,931,939	(70)
Earnings Per Share on Profit							
Basic earnings per share (in LKR)	12	46.96	17.81	164	16.48	55.31	(70)
Diluted earnings per share (in LKR)		46.95	17.80	164	16.47	55.29	(70)
Dividend per share (in LKR)		10.00	15.00	(33)			

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 192 to 267 are an integral part of these Financial Statements.

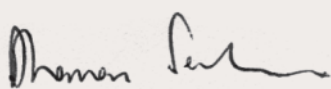
For the year ended 31 December	Note	BANK			GROUP		
		2013 LKR '000	2012 LKR '000	Change %	2013 LKR '000	2012 LKR '000	Change %
Profit for the year		7,723,236	2,923,958	164	2,712,228	8,931,939	(70)
Other comprehensive income/(expenses)							
Exchange differences on translation of foreign operation		–	–	–	(11,158)	21,784	(151)
Net gains on available-for-sale investments		148,151	–	100	209,186	–	100
Actuarial losses on defined benefit plans		(35,443)	–	(100)	(35,443)	–	(100)
Total other comprehensive income		112,708	–	100	162,585	21,784	646
Less: Tax expenses relating to components of other comprehensive income		(38,110)	–	(100)	(55,200)	–	(100)
Total other comprehensive income for the year, net of taxes		74,598	–	100	107,385	21,784	393
Total comprehensive income for the year		7,797,834	2,923,958	167	2,819,613	8,953,723	(69)
ATTRIBUTABLE TO:							
Equity holders of the Parent		7,797,834	2,923,958	167	2,750,522	8,872,645	(69)
Non-controlling interests		–	–	–	69,091	81,078	(15)
		7,797,834	2,923,958	167	2,819,613	8,953,723	(69)



		BANK			GROUP		
As at 31 December		2013	2012	Change	2013	2012	Change
	Note	LKR '000	LKR '000	%	LKR '000	LKR '000	%
ASSETS							
Cash and cash equivalents	13	2,611,075	3,480,395	(25)	2,668,262	3,634,983	(27)
Balances with Central Bank	14	5,339,000	6,074,792	(12)	5,339,000	6,074,792	(12)
Placements with banks	15	130,751	3,559,354	(96)	130,751	3,559,354	(96)
Derivative financial instruments	16	1,149,541	1,706,372	(33)	1,149,541	1,706,372	(33)
Other financial assets held for trading	17	10,720,689	982,967	991	14,194,141	11,394,625	25
Loans and receivables to banks	18	641,628	1,183,343	(46)	641,628	1,183,343	(46)
Loans and receivables to other customers	19	136,821,532	115,992,359	18	136,881,713	116,039,035	18
Financial investments - loans and receivables	20	15,837,455	6,446,031	146	16,791,701	7,088,893	137
Financial investments - available-for-sale	21	5,982,450	66,714	8,867	6,167,450	173,541	3,454
Financial investments - held-to-maturity	22	17,602,249	19,257,271	(9)	18,460,591	19,223,228	(4)
Investments in subsidiary companies	23	2,037,585	2,641,178	(23)	-	-	-
Investments in associate companies	24	61,967	18,525	235	76,744	33,301	130
Investment property	25	-	-	-	1,383,693	1,295,693	7
Intangible assets	26	260,425	272,314	(4)	296,678	318,723	(7)
Property, plant & equipment	27	872,890	856,195	2	1,176,491	1,222,500	(4)
Other assets	28	1,189,391	936,486	27	1,458,737	1,154,688	26
Total assets		201,258,628	163,474,296	23	206,817,121	174,103,071	19
LIABILITIES							
Due to banks	29	10,453,086	2,319,984	351	10,453,086	2,319,984	351
Derivative financial instruments	16	817,310	1,736,838	(53)	817,310	1,736,838	(53)
Due to other customers	30	129,830,029	107,600,583	21	129,421,813	107,393,866	21
Debt securities issued and other borrowed funds	31	24,420,818	30,357,824	(20)	24,390,818	30,317,899	(20)
Tax liabilities		266,128	656,211	(59)	300,196	633,838	(53)
Deferred tax liabilities	32	312,432	79,874	291	324,451	79,120	310
Employee benefit liability	33	170,008	122,192	39	214,830	165,633	65
Other liabilities	34	3,685,665	3,403,690	8	3,850,289	3,491,742	9
Subordinated term debts	35	11,682,674	2,254,699	418	11,682,674	2,254,699	418
Total liabilities		181,638,150	148,531,895	22	181,455,467	148,393,619	22

As at 31 December	Note	BANK			GROUP		
		2013 LKR '000	2012 LKR '000	Change %	2013 LKR '000	2012 LKR '000	Change %
EQUITY							
Capital	36	1,172,904	1,093,095	7	943,746	863,937	9
Statutory Reserve Fund	37	958,527	878,718	9	958,527	878,718	9
Investment Fund Account	38	1,706,751	924,332	85	1,706,751	924,332	85
Available-for-sale reserve	39	106,669	–	100	150,614	–	100
Share based payment reserve	41	22,367	–	100	22,367	–	100
Retained earnings	40	15,653,260	12,046,256	30	20,731,801	22,216,054	(7)
Total equity to equity owners of the Bank		19,620,478	14,942,401	31	24,513,806	24,883,041	(2)
Non-controlling interests		–	–	–	847,848	826,411	3
Total equity		19,620,478	14,942,401	31	25,361,654	25,709,452	(1)
Total liabilities and equity		201,258,628	163,474,296	23	206,817,121	174,103,071	19
Commitments and contingencies	46	177,200,240	158,740,820	12	177,200,240	158,740,820	12

We certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



Dhanan Senathirajah
Vice-President - Finance & Planning



Faizan Ozman
Chief Financial Officer

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



Sunil G Wijesinha
Chairman



Rajendra Theagarajah
Chief Executive Officer



Shehani Ranasinghe
Company Secretary

13 February 2014

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 192 to 267 are an integral part of these Financial Statements.



For the year ended 31 December	Attributable to Equity Holders of the Parent								Non-Controlling Interests	Total Equity
	Capital	Statutory Reserve Fund	Available-for-Sale Reserve	General Reserve	Investment Fund Account	Share Based Payment Reserve	Retained Earnings	Total		
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
BANK										
Balance as at 1 January 2012	1,093,095	878,718	–	5,805,707	386,825	–	4,510,794	12,675,139	–	12,675,139
Total comprehensive income for the year										
Profit for the year	–	–	–	–	–	–	2,923,958	2,923,958	–	2,923,958
Other comprehensive income net of tax	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the Year	–	–	–	–	–	–	2,923,958	2,923,958	–	2,923,958
Transactions with equity holders, recognized directly in equity										
Transfer to investment fund	–	–	–	–	537,507	–	(537,507)	–	–	–
Dividends to equity holders	–	–	–	–	–	–	(656,696)	(656,696)	–	(656,696)
Balance as at 31 December 2012	1,093,095	878,718	–	5,805,707	924,332	–	6,240,549	14,942,401	–	14,942,401
Balance as at 1 January 2013	1,093,095	878,718	–	5,805,707	924,332	–	6,240,549	14,942,401	–	14,942,401
Total comprehensive income for the year										
Profit for the year	–	–	–	–	–	–	7,723,236	7,723,236	–	7,723,236
Other comprehensive income net of tax	–	–	106,669	–	–	–	(32,071)	74,598	–	74,598
Total Comprehensive Income for the Year	–	–	106,669	–	–	–	7,691,165	7,797,834	–	7,797,834
Transactions with equity holders, recognized directly in equity										
Issue of shares (Note 36)	79,809	–	–	–	–	–	–	79,809	–	79,809
Transfer to investment fund	–	–	–	–	782,419	–	(782,419)	–	–	–
Fair value of share options	–	–	–	–	–	22,367	–	22,367	–	22,367
Transfer to statutory reserve fund	–	79,809	–	–	–	–	(79,809)	–	–	–
Dividends to equity holders	–	–	–	–	–	–	(3,221,933)	(3,221,933)	–	(3,221,933)
Balance as at 31 December 2013	1,172,904	958,527	106,669	5,805,707	1,706,751	22,367	9,847,553	19,620,478	–	19,620,478

For the year ended 31 December	Attributable to Equity Holders of the Parent									
	Capital	Statutory Reserve Fund	Available-for-Sale Reserve	General Reserve	Investment Fund Account	Share Based Payment 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	LKR '000	LKR '000
GROUP										
Balance as at 1 January 2012	863,937	878,718	–	5,805,707	386,825	–	8,989,942	16,925,129	912,752	17,837,881
Total comprehensive income for the year										
Profit for the year	–	–	–	–	–	–	8,853,821	8,853,821	78,118	8,931,939
Other comprehensive income net of tax	–	–	–	–	–	–	18,824	18,824	2,960	21,784
Total Comprehensive Income for the Year	–	–	–	–	–	–	8,872,645	8,872,645	81,078	8,953,723
Transactions with equity holders, recognized directly in equity										
Transfer to investment fund	–	–	–	–	537,507	–	(537,507)	–	–	–
Dividends to equity holders	–	–	–	–	–	–	(656,696)	(656,696)	(37,333)	(694,029)
Effect of change in holding in a group company	–	–	–	–	–	–	(258,037)	(258,037)	(130,086)	(388,123)
Balance as at 31 December 2012	863,937	878,718	–	5,805,707	924,332	–	16,410,347	24,883,041	826,411	25,709,452
Balance as at 1 January 2013	863,937	878,718	–	5,805,707	924,332	–	16,410,347	24,883,041	826,411	25,709,452
Total comprehensive income for the year										
Profit for the year	–	–	–	–	–	–	2,641,925	2,641,925	70,303	2,712,228
Other comprehensive income net of tax	–	–	150,614	–	–	–	(42,017)	108,597	(1,212)	107,385
Total Comprehensive Income for the Year	–	–	150,614	–	–	–	2,599,908	2,750,522	69,091	2,819,613
Transactions with equity holders, recognized directly in equity										
Issue of shares (Note 36)	79,809	–	–	–	–	–	–	79,809	–	79,809
Transfer to investment fund	–	–	–	–	782,419	–	(782,419)	–	–	–
Fair value of share options	–	–	–	–	–	22,367	–	22,367	–	22,367
Transfer to statutory reserve fund	–	79,809	–	–	–	–	(79,809)	–	–	–
Dividends to equity holders	–	–	–	–	–	–	(3,221,933)	(3,221,933)	(34,645)	(3,256,578)
Effect of change in holding in a group company	–	–	–	–	–	–	–	–	(13,009)	(13,009)
Balance as at 31 December 2013	943,746	958,527	150,614	5,805,707	1,706,751	22,367	14,926,094	24,513,806	847,848	25,361,654

For the year ended 31 December	Note	BANK		GROUP	
		2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Cash flows from operating activities					
Interest received		20,603,610	16,317,018	20,841,634	16,568,884
Fee and commission income received		1,623,266	2,387,630	1,982,017	2,538,084
Dividend income received		718,461	126,648	45,116	162,855
Other income received		1,449,324	312,746	1,672,511	651,633
Interest paid		(13,791,503)	(9,918,252)	(13,791,743)	(9,917,401)
Personnel costs paid		(2,469,540)	(876,337)	(2,714,920)	(1,031,225)
General expenses paid		(2,040,890)	(2,721,155)	(2,057,470)	(2,910,189)
Operating profit before changes in operating assets and liabilities		6,092,728	5,628,298	5,977,145	6,062,641
Net increase in loans and receivables		(21,548,181)	(17,298,517)	(21,548,181)	(17,298,517)
Net increase in deposits from customers		22,229,446	24,739,780	22,229,446	24,739,780
Net (increase)/decrease in other receivables		406,098	341,993	409,521	339,356
Net increase/(decrease) in other liabilities		(616,510)	63,941	(585,420)	(41,960)
Net cash inflow/(outflow) from operating activities before taxation		6,563,581	13,475,495	6,482,511	13,801,300
VAT on Financial Services paid		(806,647)	(569,106)	(806,647)	(569,106)
Income taxes paid		(1,244,412)	(671,119)	(1,293,080)	(832,895)
Net cash provided by/(used in) operating activities	a	4,512,522	12,235,270	4,382,784	12,399,299
Cash flows from investing activities					
Net changes in financial investments		(23,389,900)	(1,871,575)	(17,292,330)	(8,684,891)
Disposal of subsidiaries/associates		5,954,774	884,951	(13,016)	7,654,287
Expenditure on property, plant & equipment		(308,681)	(295,273)	(309,257)	(325,078)
Proceeds from sale of property, plant & equipment		3,981	22,111	3,981	23,276
Net cash used in investing activities		(17,739,826)	(1,259,786)	(17,610,622)	(1,332,406)
Cash flows from financing activities					
Net proceeds from issue of subordinated debts		9,488,350	(184,950)	9,488,350	(184,950)
Interest paid on subordinated debts		(282,446)	(262,728)	(282,446)	(262,728)
(Decrease)/increase in other borrowings		2,418,165	(3,777,544)	2,418,165	(3,777,544)
Dividends paid to non-controlling interests		-	-	(96,867)	(60,509)
Dividends paid to shareholders of the parent Company		(3,430,480)	(1,162,876)	(3,430,480)	(1,162,876)
Net cash provided by/(used in) financing activities		8,193,589	(5,388,098)	8,096,722	(5,448,607)
Net increase in cash and cash equivalents		(5,033,715)	5,587,386	(5,131,116)	5,618,286
Cash and cash equivalents at the beginning of the year		13,114,541	7,527,155	13,269,129	7,650,843
Cash and cash equivalents at the end of the year		8,080,826	13,114,541	8,138,013	13,269,129
Reconciliation of cash and cash equivalents					
Cash and cash equivalents		2,611,075	3,480,395	2,668,262	3,634,983
Balances with Central Bank		5,339,000	6,074,792	5,339,000	6,074,792
Placement with banks		130,751	3,559,354	130,751	3,559,354
		8,080,826	13,114,541	8,138,013	13,269,129

For the year ended 31 December	Note	BANK		GROUP	
		2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Note a					
Reconciliation of Operating Profit					
Operating profit before value added tax on financial services		9,682,512	4,606,911	4,724,401	10,390,873
Non-cash items included in the profit		(3,589,784)	1,021,386	1,253,988	(4,328,231)
Net increase in loans and receivables		(21,548,181)	(17,298,517)	(21,548,181)	(17,298,517)
Net increase in deposits from customers		22,229,446	24,739,780	22,229,446	24,739,780
Net (increase)/decrease in operating receivables		406,098	341,993	409,519	339,356
Net increase/(decrease) in operating liabilities		(616,510)	631,941	(585,420)	(41,960)
VAT on Financial Services paid		(806,647)	(569,106)	(806,647)	(569,106)
Income taxes paid		(1,244,412)	(671,119)	(1,293,080)	(832,895)
Net cash provided by/(used in) operating activities		4,512,522	12,235,270	4,382,784	12,399,299

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 192 to 267 are an integral part of these Financial Statements.



1. Corporate Information

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 was re-registered in terms of the new companies Act regime on 4 July 2007 and was assigned with PQ 27 as the new Registration Number.

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

The principal activities of the Bank, its subsidiaries and associate companies, consist of the business of commercial banking, development financing, merchant banking, investment banking, leasing, housing finance, investment advisory and securities, wealth management, property investment and Bancassurance.

The number of branches of the Bank as at 31 December 2013 was 78. (2012 - 69) and the number of staff employed as at 31 December 2013 was 1,583 (2012 - 1,389)

2. Significant Accounting Policies

2.1 Basis of Preparation

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

- Investment properties which are measured at fair value
- Available-for-sale Financial Assets which are measured at fair value
- Derivative financial instruments which are measured at fair value
- Other financial assets and liabilities held-for-trading which are measured at fair value
- Financial assets and liabilities designated at fair value through profit or loss which are measured at fair value
- Liabilities for defined benefit obligations which are recognized at the present value of the defined benefit obligations less the net totals of plan assets and unrecognized past service cost.

2.1.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank as at 31 December 2013 which comprise the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, Accounting Policies and Notes, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKASs) 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 Financial Statements are also in compliance with the requirements of 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.

2.1.2 Functional and Presentation Currency

The Financial Statements of the Group and the Bank are presented in Sri Lankan Rupees which is the currency of the primary economic environment in which the Bank operates. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

2.1.3 Presentation of Financial Statements

The Group and the Bank present its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery and settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 45 to the Financial Statements.

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

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

2.1.5 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries for the year ended 31 December 2013. The Financial Statements of the Bank's subsidiaries are prepared for the same reporting year as Bank, using consistent Accounting Policies.

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

Subsidiaries are fully-consolidated from the date on which control is transferred to the Bank.

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

Non-controlling interests are presented separately in the Consolidated Income Statement and within equity in the Consolidated Statement of Financial Position, but separate from Parent shareholders' equity.

2.2 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying Group's Accounting Policies, management is required to make judgments, which may have significant effects on the amounts recognized in the Financial Statements. Further, management is also required to consider key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of Financial Position date that have 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 are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in related Notes.

Fair Value of Financial Instruments

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

Financial Assets Held-for-Trading

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

Financial Derivatives

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

Determination of Value and Fair Value Hierarchy

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

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

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

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

Going Concern

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

Impairment Losses on Loans and Receivables

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

Loans and receivables that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio such as loan ownership 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). The impairment loss on loans and receivables is disclosed in more detail in Note 19.

Impairment of Available-for-Sale Investments

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

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

Deferred Tax Assets

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

Defined Benefit Plans

The cost of the defined benefit plans (gratuity and pension plan) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The assumptions used to arrive in defined benefit obligation reported in Financial Statements are disclosed in Note 33.

In determining the appropriate discount rate, 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 and pension increases are based on expected future inflation rates and expected future salary increase rate of the Bank.

Distinction Between Investment Properties and Owner-Occupied Properties

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

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

Useful Life Time of Property, Plant & Equipment

The Group and the Bank 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.

Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are 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. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

2.3 Summary of Significant Accounting Policies

2.3.1 Business Combinations and Goodwill

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

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

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

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

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

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

2.3.2 Investment in an Associate

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

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

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

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

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

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

2.3.3 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 of the transactions were affected.

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

(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

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

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

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

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

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

2.3.4 Financial Instruments - Initial Recognition and Subsequent Measurement

(a) Date of Recognition

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

(b) Initial Measurement of Financial Instruments

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

(c) 'Day 1' Difference for Staff Loans

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

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

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

Details of 'Derivative financial instruments' are given in Note 16 to the Financial Statements.

(e) Financial Assets Held-for-Trading

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

Included in this classification are Investments in Unit Trusts, Debt Securities, Equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

Details of 'Financial assets held-for-trading' are given in Note 17 to the Financial Statements.

(f) Available-for-Sale Financial Investments

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

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



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

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

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

Details of 'Financial assets - available-for-sale' are given in Note 21 to the Financial Statements.

(g) Held-to-Maturity Financial Investments

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

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

Details of 'financial assets - held-to-maturity' are given in Note 22 to the Financial Statements.

(h) Loans and Receivables to Banks and Other Customers

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

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

Details of 'Loans and receivables to banks' and Loans and receivables to other customers' are given in Note 18 and 19 to the Financial Statements.

(i) Cash and Cash Equivalents

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

Details of 'Cash and cash equivalents' are given in Note 13 to the Financial Statements.

(j) Other Financial Liabilities

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

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

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

2.3.5 Derecognition of Financial Assets and Financial Liabilities

(a) Financial Assets

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

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

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

(b) Financial Liabilities

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

2.3.6 Securities Purchased Under Reverse Repurchase Agreements

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

2.3.7 Securities Sold Under Repurchase Agreements

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

2.3.8 Determination of Fair Value of Financial Instruments

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

An analysis of fair values of financial instruments are provided in Note 43.

2.3.9 Impairment of Financial Assets

(a) Impairment of Financial Assets Carried at Amortized Cost

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

Individually Assessed Financial Assets

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

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

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

Collectively Assessed Loans and Receivables

Impairment is assessed on a collective basis in two circumstances:

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



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

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

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

See Note 7 for details of impairment for loans and receivables and other losses carried at amortized cost and Note 19 for an analysis of the impairment allowance on loans and receivables by class.

Write-off of Loans and Receivables

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

(b) Available-for-Sale Financial Investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the Income Statement is removed from equity and recognized in the Income Statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in Other Comprehensive Income.

The Group writes-off certain financial investments - Available-for-sale when they are determined to be uncollectible.

(c) Rescheduled Loan Facilities

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

(d) Collateral Valuation

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

To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have 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.

2.3.10 Impairment of Non-Financial Assets Other than Goodwill

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs 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 Group estimates 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 Income Statement.

2.3.11 Offsetting Financial Instruments

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

2.3.12 Property, Plant & Equipment

(a) Basis of Recognition

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

(b) Basis of Measurement

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

(c) Subsequent Cost

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

(d) Depreciation

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

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

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

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

(e) Derecognition

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

2.3.13 Intangible Assets

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

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a

business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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

Computer software 5 years

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

2.3.14 Leases

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

2.3.15 Investment Property

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

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

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

An external, independent valuer, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property.

2.3.16 Taxes

(a) Current Tax

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

**(b) Deferred Tax**

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

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

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

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

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

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

(c) Value Added Tax on Financial Services

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

2.3.17 Financial Guarantees

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

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

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

2.3.18 Employee Benefits**Pension Fund**

The Bank operates an approved employee non-contributory pension plan for the payment of pensions to members of its permanent staff who qualify for such payments when retiring. Employees who joined since 1999 are not covered under the said pension scheme. These employees are entitled to retirement gratuity as explained in Note 33 on page 228 Up to 31 December 2002, annual contributions to the pension plan was payable by the Bank based on a percentage of gross salaries, as stipulated in the pension deed. However, following the formulation of a revised pension deed, which has been approved by the Department of Inland Revenue, the contributions in subsequent years are determined on the basis of an actuarial valuation each year.

Gratuity

The costs of retirement gratuities are determined by a qualified actuary using projected unit credit method. This item is stated under other liabilities in the Statement of Financial Position. Actuarial gains and losses are recognized as income or expense in other comprehensive income during the financial year in which it arise.

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 contributes 12% and 3% to Central Bank of Sri Lanka for eligible employees for Employees' Provident Fund contributions and Employees' Trust Fund contributions respectively.

2.3.19 Provisions

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

2.3.20 Equity Linked Compensation Plan

On 1 July 2010, shareholders of the Bank approved an Equity Linked Compensation Plan (ELCP), to enable the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. A total quantum of 2,455,661 shares of the Bank which is equivalent to a maximum of 3% of the present voting share capital of the Bank is to be issued to the ELCP. Half of such shares are to be awarded as share options and the other half as Share Grants in equal proportions. The issue of shares for the ELCP will take place over five years commencing July 2010. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

Details of the Share Options and the Share Grants are given in Note 41 to the Financial Statements.

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

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

2.3.21 Dividends on Ordinary Shares

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

2.3.22 Recognition of Income and Expenses

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

(a) Interest and Similar Income and Expense

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

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR

and the change in carrying amount is recorded as 'interest and similar income' for financial assets and interest and similar expense for financial liabilities.

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

(b) Dividend Income

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

(c) Income from Fee-based Activities

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

(d) Net Trading Income

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

(e) Expenditure Recognition

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

2.3.23 Cash and Cash Equivalents

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

2.3.24 Segment Reporting

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 chief operating decision-maker 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 Bank has identified four operating segments based on products and services, as follows:

- Banking
- Capital Markets
- Property Investment
- Others



Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Consolidated Financial Statements. 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 2013 or 2012.

2.3.25 Changes in Accounting Policies and Disclosures

LKAS 19 - Employee Benefits (Revised 2013)

The Group applied LKAS 19 (Revised 2013) in the current period in accordance with the transitional provisions set out in the revised standard. Some of the key changes that impacted the Group include the following:

The Group previously recognized only the net cumulative unrecognized actuarial gains and losses of the previous period, which exceeded 10% of the greater of the defined benefit obligation and the fair value of the plan assets in accordance with LKAS 19.93 (previous).

As a consequence, the Group's Statement of Financial Position did not reflect a significant part of the unrecognized net actuarial gains and losses.

This method is no more allowed under revised LKAS 19 and hence Group changed its accounting policy to recognized actuarial gains and losses in the period in which they occur in total in Other Comprehensive Income Statements.

2.4 Standards Issued But Not Yet Effective

The following SLFRS have been issued by The Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these financial statements. Those SLFRS will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future Financial Statements.

(i) SLFRS 9 - Financial Instruments: Classification and Measurement
SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

This Standard was originally effective for annual periods commencing on or after 1 January 2015. However, effective date has been deferred subsequently.

(ii) SLFRS 13 - Fair Value Measurement

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

This Standard will be effective for the financial period beginning on or after 1 January 2014.

However, use of fair value measurement principles contained in this Standards are currently recommended.

In addition to the above, following Standards will also be effective for the annual periods commencing on or after 1 January 2014.

SLFRS 10 - Consolidated Financial Statements

SLFRS 11 - Joint Arrangements

SLFRS 12 - Disclosure of Interests in Other Entities

The above parcel of three Standards will impact the recognition, measurement and disclosures aspects currently contained in LKAS 27 - Consolidated and Separate Financial Statements, LKAS 28 - Investments in Associates, LKAS 31 - Interest in Joint Ventures and SIC - 12 and SIC 13 which are on consolidation of Special Purpose Entities (SPEs) and jointly controlled entities respectively.

Establishing a single control model that applies to all entities including SPEs and removal of option to proportionate consolidation of jointly controlled entities are the significant changes introduced under SLFRS 10 and SLFRS 11 respectively.

SLFRS 12 - establishes a single standard on disclosures related to interests in other entities. This incorporates new disclosures as well as the ones previously captured in earlier versions of LKAS 27, LKAS 28 and LKAS 31.

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

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
3. Net Interest Income				
3.1 Interest Income				
Loans and receivables - to banks	68,735	105,400	68,735	105,400
Loans and receivables - to other customers	16,437,695	14,046,695	16,437,695	14,046,695
Placements with banks	683,723	309,346	686,785	309,346
Other financial investments - held-for-trading	821,202	304,261	821,202	304,610
Financial investments - held-to-maturity	1,636,638	1,712,458	1,652,929	1,712,458
Financial investments - available-for-sale	53,649	–	53,649	–
Financial investments - loans and receivables	790,575	314,175	926,606	450,722
Other interest income	111,393	191,302	118,241	220,636
Total Interest Income	20,603,610	16,983,637	20,765,842	17,149,867
3.2 Interest Income from Sri Lanka Government Securities				
Interest income	3,346,578	2,485,116	3,346,578	2,485,116
3.3 Interest Income on Impaired Financial Assets				
Interest income from impaired loans and receivables to other customers	147,702	107,694	147,702	107,694
3.4 Interest Expenses				
Due to banks	312,341	444,581	312,341	444,581
Due to other customers	10,462,783	7,853,381	10,462,783	7,853,381
Debt securities issued and other borrowed funds	2,697,330	2,814,344	2,660,091	2,758,611
Subordinated term debts	319,049	274,366	319,049	274,366
Total Interest Expenses	13,791,503	11,386,672	13,754,264	11,330,939
Net Interest Income	6,812,107	5,596,965	7,011,578	5,818,928

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
4. Fee and Commission Income				
Comprising of				
Cards	75,860	35,379	75,860	35,379
Due to other customers	142,707	73,364	142,707	73,364
Guarantees	270,596	182,712	270,596	182,712
Loans and receivables - to other customers	347,139	268,319	347,139	268,319
Remittances	173,329	112,017	173,329	112,017
Trade finance	543,888	493,121	543,888	493,121
Bancassurance	44,638	14,398	44,638	14,398
Fees related to investment banking and wealth management	–	–	518,447	286,500
Brokerage	–	–	68,940	56,428
Rental income	9,160	8,103	209,673	164,645
Others	6,789	23,087	16,056	33,596
Total Fee and Commission Income	1,614,106	1,210,500	2,411,273	1,720,479

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
5. Net Trading Gains/(Losses)				
Income from foreign exchange	953,325	976,401	953,325	976,401
Equities	–	238	877	9,099
Debt securities	213,227	33,637	213,434	37,286
Unit Trusts	105,076	–	700,657	249,710
	1,271,628	1,010,276	1,868,293	1,272,496

- 'Foreign Exchange' income includes gains and losses from spot and forward contracts and other currency derivatives.
- 'Equities' income includes the results of buying and selling, and changes in the fair value of equity securities.
- 'Debt Securities' income includes the realized and unrealized gains of debt securities.
- 'Unit Trusts' income includes change in the fair value of unit trust investments.

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
6. Other Operating Income				
Dividend income from securities				
- Quoted investments	–	–	17,969	–
- Non-quoted investments	18,258	30,950	41,864	40,496
Dividend income from group investments				
- Quoted investments	659,136	54,632	–	–
- Non-quoted investments	41,067	41,067	–	–
Capital gains from sales of securities	9,685	91,122	43,194	91,122
Capital gains from sale of group investments	5,372,060	535,716	–	5,750,942
Foreign exchange gain	60,449	218,830	60,449	219,471
Gains on sale of property, plant & equipment	2,408	12,384	2,408	12,384
Gains on investment properties	–	–	88,000	–
Others	4,013	12,774	4,013	12,773
	6,167,076	997,475	257,897	6,127,188

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
7. Impairment for Loans & Receivables and Other Losses				
Loans and receivables				
- To banks	–	–	–	–
- To other customers	1,184,420	(9,157)	1,184,420	(9,157)
- Write offs	76,345	66,769	76,345	66,769
	1,260,765	57,612	1,260,765	57,612
Investments in subsidiaries	20,881	48,500	–	(6,233)
Investments in associates	(43,444)	–	–	–
	1,238,202	106,112	1,260,765	51,379

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	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
8. Personnel Expenses				
Salary and bonus	1,895,144	1,676,485	2,138,517	1,811,056
Contribution to Employees' Provident Fund	164,154	139,404	181,132	153,606
Contribution to Employees' Trust Fund	32,835	27,880	36,488	31,033
Contribution to defined benefit plan				
- Pension Fund (Note 33.3)	5,449	22,706	5,449	22,706
- Gratuity (Note 33.3)	40,990	40,960	42,370	48,619
Share-based payments	32,323	20,054	32,323	20,054
Others	218,249	245,251	224,002	246,251
Total	2,389,144	2,172,740	2,660,281	2,333,325

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
9. Other Expenses				
Directors' emoluments	28,586	25,397	32,191	26,367
Auditors' remuneration	8,019	7,188	10,008	8,987
Non-audit fees to auditors	18,176	5,746	18,176	5,746
Professional and legal expenses	21,061	12,051	42,716	13,908
Office administration and establishment expenses	953,413	876,351	999,135	1,015,955
Depreciation of property, plant & equipment	223,297	181,837	293,571	218,433
Amortization of intangible assets	78,807	82,783	91,068	95,786
Deposit insurance expenses	117,530	95,212	117,530	95,212
Crop Insurance Levy	77,373	-	77,373	-
Others	1,028,797	642,888	1,221,826	683,120
Total	2,555,059	1,929,453	2,903,594	2,163,514

Directors emoluments include fees paid to Non-Executive Directors. Remunerations paid to executive directors are included under salary and bonus in Note 8.

	GROUP		
	Percentage Holding 2013/2012	2013 LKR '000	2012 LKR '000
10. Share of Associate Companies' Profits/(Losses)			
Maldives Finance Leasing Co (Pvt) Ltd.	35.00%	49,220	(14,683)
AVIVA NDB Insurance PLC (Note 10.1)	41.14%	-	440,000
AVIVA NDB Finance Lanka (Pvt) Ltd.	41.42%	-	13,403
Total		49,220	438,720

10.1 On 27 September 2012, the Bank and NDB Capital Holdings PLC entered into a Share Sale and Purchase Agreement with American International Assurance Company Ltd. (AIA) of Hong Kong to divest the 41.56% shareholding in AVIVA NDB Holdings and 5% of AVIVA NDB Insurance PLC. Accordingly, on 5 December 2012, the divestment of these shares resulted in a capital gain of LKR 5.9 bn to the NDB Group.

11. Taxation

The components of the income tax expense for the years ended 31 December 2013 and 2012 are:

	BANK			GROUP	
	Note	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Income tax expense					
Current year		982,551	1,039,602	982,551	1,039,602
Adjustment in respect of current income tax of prior years		(128,223)	(16,935)	(128,223)	(16,935)
		854,328	1,022,667	854,328	1,022,667
Income tax of subsidiary companies		–	–	106,434	74,854
Income tax of associate companies		–	–	–	139,847
	a	854,328	1,022,667	960,762	1,237,368
Deferred tax expense					
Temporary differences	b	194,448	38,000	190,131	38,000
Total tax charged to the Income Statement					
		1,048,776	1,060,667	1,150,893	1,275,368
Effective tax rate (%)		11	23	24	12
Reconciliation of the total tax expense					
a. Income Tax					
Profit before tax		9,682,512	4,606,911	4,724,401	10,390,873
Income tax for the year (Accounting profit @ applicable tax rate)		2,711,103	1,289,935	1,318,486	3,342,895
Tax effect of exempt income		(1,881,884)	(269,649)	(392,927)	(2,107,123)
Adjustment in respect of current income tax of prior years		(128,223)	(16,935)	(127,691)	(16,935)
Add: Tax effect of expenses that are not deductible for tax purposes		1,210,519	606,963	1,235,509	612,837
(Less): Tax effect of expenses that are deductible for tax purposes		(1,049,995)	(625,679)	(1,065,423)	(632,338)
Tax effect of leasing/tax losses		(7,192)	38,032	(7,192)	38,032
Tax expenses for the year		854,328	1,022,667	960,762	1,237,368



b. Deferred Tax

The following table shows the deferred tax expense recorded in the Income Statement and Statement of Comprehensive Income due to the changes in the deferred tax assets and liabilities:

	Deferred Tax Assets	Deferred Tax Liabilities	Income Statement	Other Comprehensive Income	Deferred Tax Assets	Deferred Tax Liabilities	Income Statement	Other Comprehensive Income
	2013 LKR '000	2013 LKR '000	2013 LKR '000	2013 LKR '000	2012 LKR '000	2012 LKR '000	2012 LKR '000	2012 LKR '000
BANK								
Provisions	(41,443)	–	(34,452)	–	(6,991)	–	5,106	–
Gains on available-for-sale investments	–	41,482	–	41,482	–	–	–	–
Other temporary differences	(109,846)	422,239	228,900	(3,372)	(208,716)	295,581	32,894	–
Total	(151,289)	463,721	194,448	38,110	(215,707)	295,581	38,000	–
GROUP								
Provisions	(41,443)	–	(34,452)	–	(6,991)	–	5,106	–
Gains on available-for-sale investments	–	58,572	–	58,572	–	–	–	–
Other temporary differences	(116,749)	424,071	224,583	(3,372)	(209,792)	295,903	32,894	–
Total	(158,192)	482,643	190,131	55,200	(216,783)	295,903	38,000	–

12. Earnings Per Share

The basic earnings per share for 2013 and 2012 have been calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) on 'Earnings Per Share':

	BANK		GROUP	
	2013	2012	2013	2012
Amount used as the numerator				
Profit attributed to ordinary shareholders (LKR '000)	7,723,236	2,923,958	2,641,925	8,853,821
Amount used as the denominator				
Ordinary shares in issue for basic EPS calculation	164,693,034	164,201,902	160,559,308	160,068,176
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	164,450,167	164,201,902	160,316,441	160,068,176
Weighted average basic Earnings Per Share (LKR)	46.96	17.81	16.48	55.31
Amount used as the numerator				
Profit attributed to ordinary shareholders (LKR '000) (excluding exceptional capital gain)	2,705,236	2,923,958	2,641,925	2,161,077
Amount used as the denominator				
Ordinary shares in issue for basic EPS calculation	164,693,034	164,201,902	160,559,308	160,068,176
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	164,450,167	164,201,902	160,316,441	160,068,176
Weighted average basic Earnings Per Share (excluding exceptional capital gain) (LKR)	16.45	17.81	16.48	13.50
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	164,450,167	164,201,902	160,316,441	160,068,176
Effect of outstanding share option scheme	49,684	55,479	54,847	55,479
Number of ordinary shares including share option	164,499,851	164,257,381	160,371,288	160,123,655
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for diluted EPS calculation	164,499,851	164,257,381	160,371,288	160,123,655
Weighted average diluted Earning Per Share (LKR)	46.95	17.80	16.47	55.29

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
13. Cash and Cash Equivalents				
Local currency in hand	1,737,799	1,448,690	1,794,986	1,448,766
Foreign currency in hand	125,169	98,098	125,169	98,098
Balances with banks	748,107	1,933,607	748,107	2,088,119
	2,611,075	3,480,395	2,668,262	3,634,983

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
14. Balances with Central Bank				
Statutory balances with Central Bank of Sri Lanka	5,339,000	6,074,792	5,339,000	6,074,792
	5,339,000	6,074,792	5,339,000	6,074,792

Balances with Central Bank includes the cash balance that is required as per the provisions of Section 93 of the Monetary Law Act .

The minimum cash reserve requirement was 6.0% of the Rupee deposit liabilities as at 31 December 2013 (8.0% as at 31 December 2012). This reserve requirement is not applicable for the foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
15. Placements with Banks				
Money Market Placements - in Sri Lanka	130,751	3,559,354	130,751	3,559,354
	130,751	3,559,354	130,751	3,559,354

	BANK & GROUP			
	Financial Assets 2013 LKR '000	Financial Liabilities 2013 LKR '000	Financial Assets 2012 LKR '000	Financial Liabilities 2012 LKR '000
16. Derivative Financial Instruments				
Currency options	5,895	5,895	–	–
Forward foreign exchange contracts	1,143,646	811,415	1,706,372	1,736,838
	1,149,541	817,310	1,706,372	1,736,838

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
17. Other Financial Assets Held-for-Trading				
Sri Lanka Government Securities - Treasury Bills	5,061,675	448,489	5,061,675	448,489
Sri Lanka Government Securities - Treasury Bonds	4,053,939	534,478	4,053,939	534,478
Equity Securities	–	–	336,293	123,717
Investment in Unit Trusts	1,605,075	–	4,742,234	10,287,941
	10,720,689	982,967	14,194,141	11,394,625

Financial assets held-for-trading pledged as collateral amounted to LKR 9,115 mn as at 31 December 2013 (2012 - LKR 983 mn).

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
18. Loans and Receivables to Banks				
Gross loans and receivables - Refinance loans in local currency	641,628	1,183,343	641,628	1,183,343
(Less): Allowance for impairment charges	–	–	–	–
Net Loans and Receivables - Refinance Loans in Local Currency	641,628	1,183,343	641,628	1,183,343

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
19. Loans and Receivables to Other Customers				
Gross loans and receivables	141,009,004	118,915,481	141,069,185	118,962,157
(Less): Allowance for impairment charges (Note 19.5)	4,187,472	2,923,122	4,187,472	2,923,122
Net Loans and Receivables to Other Customers	136,821,532	115,992,359	136,881,713	116,039,035
19.1 Loans and Receivables to Other Customers - By Product				
Long-term loans	25,231,706	21,235,303	25,231,706	21,235,303
Medium and short-term loans	33,566,630	20,325,610	33,566,630	20,325,610
Overdrafts	18,459,862	18,634,753	18,443,398	18,634,753
Trade finance loans	32,776,432	31,171,501	32,776,432	31,171,501
Consumer loans	14,620,469	11,341,513	14,620,469	11,341,513
Leasing (Note 19.6)	8,428,409	6,439,571	8,428,409	6,439,571
Housing loans	4,764,297	4,972,040	4,764,297	4,972,040
Pawning	2,232,748	4,011,455	2,232,748	4,011,455
Staff loans	928,451	783,735	1,005,096	830,411
Gross Loans and Receivables to Other Customers	141,009,004	118,915,481	141,069,185	118,962,157

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
19.2 Loans and Receivables to Other Customers - By Currency				
Sri Lanka Rupee	107,171,530	91,190,842	107,231,711	91,237,518
United States Dollar	32,632,514	26,548,524	32,632,514	26,548,524
Sterling Pound	264,378	56,792	264,378	56,792
Euro	918,679	1,090,473	918,679	1,090,473
Australian Dollar	1,921	–	1,921	–
Others	19,982	28,850	19,982	28,850
Total	141,009,004	118,915,481	141,069,185	118,962,157

	BANK			
	2013		2012	
	LKR '000	%	LKR '000	%
19.3 Loans and Receivables to Other Customers - By Industry				
Food, beverages and tobacco	6,147,979	4.4	3,867,971	3.4
Agriculture, agro-business and fisheries	23,822,627	16.9	16,611,353	14.8
Textiles and garments	15,762,846	11.2	15,137,000	10.5
Wood and paper products	1,411,804	1.0	1,608,146	1.4
Leather and plastic products	2,068,823	1.5	2,793,814	2.5
Metals, chemicals and engineering	10,464,249	7.4	9,782,592	8.7
Hotels and tourism	3,442,992	2.4	2,079,905	1.8
Utilities	4,968,585	3.5	2,590,607	2.3
Constructions and housing finance	11,500,264	8.2	12,752,024	8.6
Services	17,081,395	12.1	17,380,140	15.5
Transport	3,778,090	2.7	733,709	0.7
Trading	15,725,082	11.2	10,494,381	9.3
Consumer	24,792,450	17.6	22,227,027	19.8
Other	41,818	–	856,812	0.7
Total	141,009,004	100.0	118,915,481	100.0

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
19.4 Loans and Receivables to Other Customers - By Province				
Western Province	124,579,549	103,448,133	124,639,731	103,494,809
Southern Province	3,632,923	3,185,742	3,632,923	3,185,742
North-Western Province	3,404,250	2,910,290	3,404,250	2,910,290
Central Province	2,932,843	2,587,501	2,932,843	2,587,501
Sabaragamuwa Province	2,113,614	2,025,175	2,113,614	2,025,175
Eastern Province	1,515,788	1,864,716	1,515,788	1,864,716
North-Central Province	1,195,847	1,215,422	1,195,847	1,215,422
Northern Province	906,496	1,035,940	906,496	1,035,940
Uva Province	727,694	642,562	727,693	642,562
Total	141,009,004	118,915,481	141,069,185	118,962,157

The province wise disclosure is made based on the location of the branch from which the loan has been disbursed.

19.5 Allowance for Impairment Charges for Loans and Receivables to Other Customers

	BANK & GROUP									
	Long-term Loans LKR '000	Medium and Short-term Loans LKR '000	Overdrafts LKR '000	Trade Finance Loans LKR '000	Consumer Loans LKR '000	Leasing LKR '000	Housing Loans LKR '000	Pawning LKR '000	Staff Loans LKR '000	Total LKR '000
As at 1 January 2013	930,383	449,089	797,844	359,060	280,155	49,735	42,763	7,947	6,146	2,923,122
Charges/(reversals) for the year	204,151	464,482	433,534	261,002	79,433	34,706	(6,065)	120,741	3,422	1,595,406
Amounts written-off	(331,056)	-	-	-	-	-	-	-	-	(331,056)
As at 31 December 2013	803,478	913,571	1,231,378	620,062	359,588	84,441	36,698	128,688	9,568	4,187,472
Individual impairment	194,309	717,745	552,936	340,580	-	3,233	-	10,134	9,128	1,828,065
Collective impairment	609,169	195,826	678,442	279,482	359,590	81,208	36,698	118,554	440	2,359,407
	803,478	913,571	1,231,378	620,062	359,590	84,441	36,698	128,688	9,568	4,187,472
Gross amount of loan individually determined to be impaired, before deduction of individually assessed impairment allowance	2,356,833	2,635,835	1,049,859	1,780,766	-	178,814	-	14,886	-	8,016,993



BANK & GROUP

	Long-term Loans LKR '000	Medium and Short-term Loans LKR '000	Overdrafts LKR '000	Trade Finance Loans LKR '000	Consumer Loans LKR '000	Leasing LKR '000	Housing Loans LKR '000	Pawning LKR '000	Staff Loans LKR '000	Total LKR '000
As at January 2012	1,041,179	423,704	588,409	457,317	273,052	56,448	18,787	72	5,469	2,864,437
Charges/(reversals) for the year	(110,796)	25,385	209,435	(98,257)	7,103	(6,713)	23,976	7,875	677	58,685
As at 31 December 2012	930,383	449,089	797,844	359,060	280,155	49,735	42,763	7,947	6,146	2,923,122
Individual impairment	245,289	210,753	371,505	148,985	–	–	–	2,654	–	979,186
Collective impairment	685,094	238,336	426,339	210,075	280,155	49,735	42,763	5,293	6,146	1,943,936
	930,383	449,089	797,844	359,060	280,155	49,735	42,763	7,947	6,146	2,923,122
Gross amount of loan individually determined to be impaired, before deduction of individually assessed impairment allowance	1,620,989	571,330	500,925	345,773	–	19,697	–	47,869	–	3,106,583

BANK

GROUP

2013
LKR '0002012
LKR '0002013
LKR '0002012
LKR '000**19.5.(a) Movements in Individual and Collective Impairment during the year for Loans and Receivables to Other Customers****Individual impairment**

As at 1 January	979,186	987,054	979,186	987,054
Charge/(reversals) to Income Statement	1,179,935	(7,868)	1,179,935	(7,868)
Write-off during the year	(331,056)	–	(331,056)	–
As at 31 December	1,828,065	979,186	1,828,065	979,186

Collective impairment

As at 1 January	1,943,936	1,877,383	1,943,936	1,877,383
Charge/(reversals) to Income Statement	415,471	66,553	415,471	66,553
Write-off during the year	–	–	–	–
As at 31 December	2,359,407	1,943,936	2,359,407	1,943,936
Total impairment	4,187,472	2,923,122	4,187,472	2,923,122

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
19.6 Lease Rentals Receivable				
Gross lease rentals receivables	10,468,941	9,764,885	10,468,941	9,764,885
Less: Unearned income	2,040,532	3,325,314	2,040,532	3,325,314
Total lease receivables	8,428,409	6,439,571	8,428,409	6,439,571
(Less): Allowance for impairment charges [Note 19.6. (a)]	84,441	49,734	84,441	49,734
Net lease rentals receivables	8,343,968	6,389,837	8,343,968	6,389,837

	BANK & GROUP	
	2013 LKR '000	2012 LKR '000
19.6.(a) Allowance for Impairment Charges		
As at 1 January	49,735	56,448
Charges/(reversals) for the year	34,706	(6,713)
As at 31 December	84,441	49,735
Individual impairment	3,233	–
Collective impairment	81,208	49,735
	84,441	49,735
Gross amount of lease individually determined to be impaired, before deduction of the individually assessed impairment allowance	178,814	19,697

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
19.6.(b) Movements in Individual and Collective Impairment during the year for Lease Rentals Receivable				
Individual impairment				
As at 1 January	–	–	–	–
Charge to Income Statement	3,233	–	3,233	–
As at 31 December	3,233	–	3,233	–
Collective impairment				
As at 1 January	49,735	56,448	49,735	56,448
Charge/(write back) to Income Statement	31,473	(6,713)	31,473	(6,713)
As at 31 December	81,208	49,735	81,208	49,735
Total impairment	84,441	49,735	84,441	49,735

19.7 Maturity of Lease Rentals Receivable

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
19.7.(a) Gross Lease Rentals Receivable within One Year				
Total rental receivables	412,692	867,302	412,692	867,302
(Less): Allowance for impairment charges	(29,265)	(22,920)	(29,265)	(22,920)
Interest in suspense	(68,242)	(57,714)	(68,242)	(57,714)
Unearned income	(11,848)	(86,089)	(11,848)	(86,089)
Net Rentals Receivables	303,337	700,579	303,337	700,579
19.7.(b) Gross Lease Rentals Receivable after One Year				
Total rental receivables	10,164,395	8,960,201	10,164,395	8,960,201
(Less): Allowance for impairment charges	(55,176)	(26,815)	(55,176)	(26,815)
Interest in suspense	(39,933)	(4,903)	(39,933)	(4,903)
Unearned income	(2,028,655)	(3,239,225)	(2,028,655)	(3,239,225)
Net Rentals Receivables	8,040,631	5,689,258	8,040,631	5,689,258
Total Net Rentals Receivables	8,343,968	6,389,837	8,343,968	6,389,837

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
20. Financial Investments - Loans and Receivables				
Sri Lanka development bonds	10,781,368	2,981,123	10,781,369	2,981,123
Redeemable cumulative preference shares	136,262	140,040	136,262	140,040
Investment in securitizations	–	–	91,698	642,862
Investment in quoted debentures	–	–	854,943	–
Securities purchased under resale agreements	4,919,825	3,324,868	4,927,429	3,324,868
	15,837,455	6,446,031	16,791,701	7,088,893

The face value of securities purchased under resale agreements which are pledged as collateral for borrowings under repurchase agreements amounted to LKR 4.9 bn (2012 - LKR 3.3 bn).

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
21. Financial Investments - Available-for-Sale				
Sri Lanka Government Securities - Treasury Bills	4,889,272	–	4,889,272	–
Sri Lanka Government Securities - Treasury Bonds	582,449	–	582,449	–
Sovereign Bonds	505,939	–	505,939	–
Non-quoted ordinary shares	4,790	4,790	189,790	111,617
Investment Fund Account [Refer Note 21.(a)]	–	61,924	–	61,924
	5,982,450	66,714	6,167,450	173,541

Financial Investments available-for-sale, pledged as collateral amounted to LKR 2,657 mn as at 31 December 2013 (2012 - Nil).

	BANK & GROUP			
	Maturity Date	Rate of Interest %	2013 LKR '000	2012 LKR '000
21.(a) Investment Fund Account				
Sri Lanka Government Securities - Treasury Bills	Feb - Apr 2013	10.5 -13.5	–	61,924
			–	61,924

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
22. Financial Investments Held-to-Maturity				
Sri Lanka Government Securities - Treasury Bills	5,620,318	3,476,192	5,620,318	3,500,061
Sri Lanka Government Securities - Treasury Bonds	10,379,471	15,781,079	10,379,471	15,616,573
Debentures	1,602,460	–	2,460,802	106,594
	17,602,249	19,257,271	18,460,591	19,223,228

	Corporate Status	Percentage Holding %	2013 Cost LKR '000	2013 Directors' Valuation/ Market Value LKR '000	Percentage Holding %	2012 Cost LKR '000	2012 Directors' Valuation/ Market Value LKR '000
23. Investments in Subsidiary Companies							
23.1 Bank							
NDB Capital Holdings PLC	Quoted	99.62	1,748,142	16,062,148	99.62	2,330,855	19,063,550
Development Holdings (Pvt) Ltd.	Non-quoted	58.61	228,150	1,140,651	58.61	228,150	1,072,860
NDB Capital Ltd.	Non-quoted	77.80	130,673	61,293	77.80	130,673	82,216
Less: Allowance for impairment of investments (Note 23.2)			(69,380)	–		(48,500)	–
			2,037,585	17,264,092		2,641,178	20,218,626

23.2 Movement in the Impairment of Investments

	2013 LKR '000	2012 LKR '000
As at 1 January	48,500	–
Charge to Income Statement	20,880	48,500
As at 31 December	69,380	48,500

23.3 The Bank has a 100% holding in NDB Industrial Estates (Pvt) Ltd., in which company, LKR 30 has been invested as share capital. The Company is currently under liquidation.

23.4 The Directors' valuation of investments in subsidiary companies has been carried out on a net assets basis except for investments in quoted companies, which are at the Market value as at the date of the Statement of Financial Position.

23.5 As explained in 23.3, NDB Capital Holdings PLC has been valued at the market price as at the Statement of Financial Position date. The Company's shares are traded and the market price is driven by the non-controlling shareholders of only 0.38%.

23.6 On 27 September 2012, the Bank and NDB Capital Holdings PLC (NCAP) entered into a Share Sale and Purchase Agreement with American International Assurance Company Ltd. (AIA) of Hong Kong to divest the 41.56% shareholding in AVIVA NDB Holdings and 5% of AVIVA NDB Insurance PLC. Accordingly on 5 December 2012 the divestment of these shares resulted in a capital gain of LKR 5.9 bn to the NDB Group during the fourth quarter of 2012. Pursuant to this divestment, the shareholders of NCAP approved a share repurchase plan in March 2013, which resulted in NCAP buying back 25% of its share capital equivalent to LKR 583 mn of cost of investment of the Bank, posting a capital gain of LKR 5.3 bn to the Bank during the first quarter of 2013.



	Corporate Status	Percentage Holding %	2013 Cost LKR '000	2013 Directors' Valuation LKR '000	Percentage Holding %	2012 Cost LKR '000	2012 Directors' Valuation LKR '000
24. Investments in Associate Companies							
24.1 Bank							
Maldives Finance Leasing Co. (Pvt) Ltd.	Non-quoted	35	165,462	43,443	35	165,462	–
Ayojana Fund (Pvt) Ltd.	Under liquidation	50	100	–	50	100	–
NDB Venture Investments (Pvt) Ltd.	Under liquidation	50	18,525	33,301	50	18,525	33,301
Less: Allowance for impairment of investments (Note 24.2)			(122,120)	–		(165,562)	–
			61,967	76,744		18,525	33,301

24.2 Movement in the Impairment of Investments

	2013 LKR '000	2012 LKR '000
As at 1 January	165,562	165,562
Reversal to Income Statement	(43,442)	–
As at 31 December	122,120	165,562

	Corporate Status	Percentage Holding %	As at 01.01.2013 LKR '000	Exchange gain on Valuation LKR '000	Profit net of Dividend Received LKR '000	As at 31.12.2013 LKR '000
24.3 Group						
Maldives Finance Leasing Co. (Pvt) Ltd.	Non-Quoted	35	–	(5,777)	49,220	43,443
NDB Venture Investments (Pvt) Ltd.	Under Liquidation	50	33,301	–	–	33,301
			33,301	(5,777)	49,220	76,744

	2013 LKR '000	2012 LKR '000
24.4 Summarized Financial Information of the NDB Group's Investment in its Associates		
Total assets	397,232	595,148
Total liabilities	206,497	546,359
Net assets	190,724	48,790
Revenue	116,204	134,213
Profits	49,220	438,720

	GROUP	
	2013 LKR '000	2012 LKR '000
25. Investment Property		
As at 1 January	1,295,693	1,295,693
Change in the fair value during the year	88,000	–
As at 31 December	1,383,693	1,295,693

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

Investment properties are stated at fair value, which has been determined based on valuations performed by a professional valuer Mr 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 LKAS 40 - Investment Property.

Significant Assumptions Used for the Valuation

- Outgoing at 40% of estimated rent
- Capitalise YP at 6.35%

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
26. Intangible Assets				
26.1 Computer Software				
Cost/Valuation				
As at 1 January	485,769	598,196	548,728	641,457
Additions during the year	23,330	87,062	25,573	106,747
Disposals during the year	(1,755)	–	(1,894)	(199,476)
Transfers/Adjustments	–	(199,489)	–	–
As at 31 December	507,344	485,769	572,407	548,728
Depreciation/Amortization				
As at 1 January	213,455	329,984	230,004	333,530
Charge for the year	78,807	82,783	91,068	95,786
Disposals during the year	–	–	–	–
Transfers/Adjustments	(134)	(199,312)	(134)	(199,312)
As at 31 December	292,128	213,455	320,938	230,004
Net book Value as at 31 December	215,216	272,314	251,469	318,723

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
26.2 Software Under Development				
Cost/Valuation				
As at 1 January	–	10,421	–	10,421
Additions during the year	48,285	7,935	48,285	7,935
Transfers/Adjustments	(3,076)	(18,356)	(3,076)	(18,356)
As at 31 December	45,209	–	45,209	–
Net Book Value of Total Intangible Assets	260,425	272,314	296,678	318,723

	Freehold Land LKR '000	Freehold Buildings LKR '000	Computer Equipment LKR '000	Motor Vehicles LKR '000	Office Equipment & Furniture LKR '000	Capital Work-in- Progress LKR '000	Total LKR '000
27. Property, Plant & Equipment							
27.1 Bank							
(a) Cost							
As at 1 January 2013	165,016	618,746	540,223	172,492	453,446	–	1,949,923
Additions during the year	–	50,332	56,350	53,669	76,369	46,997	283,717
Disposals during the year	–	–	(4,827)	(22,095)	(235)	–	(27,157)
Transfers/Adjustments	–	(362)	(136)	–	2,384	(43,574)	(41,688)
As at 31 December 2013	165,016	668,716	591,610	204,066	531,964	3,423	2,164,795
(b) Depreciation/Amortization							
As at 1 January 2013	–	398,550	314,746	88,433	291,997	–	1,093,726
Charge for the year	–	49,062	76,172	38,059	60,004	–	223,297
On disposals	–	–	(5,434)	(20,417)	(209)	–	(26,060)
Transfers/Adjustments	–	(502)	(136)	–	1,580	–	942
As at 31 December 2013	–	447,110	385,348	106,075	353,372	–	1,291,905
Net book value as at 31 December 2013							
(a) - (b)	165,016	221,606	206,262	97,991	178,592	3,423	872,890
Net book value as at 31 December 2012	165,016	220,196	225,477	84,058	161,448	–	856,195



Location	Extent (Perches)	Cost or Revaluation of Land LKR '000	Buildings (Square Feet)	Cost or Revaluation of Buildings LKR '000	Total Value LKR '000	Accumulated Depreciation LKR '000	Written down Value LKR '000	As a % of Total Cost
27.2 Freehold Land and Building								
Head Office - Dharmapala Mawatha - No. 103A, Dharmapala Mawatha, Colombo 7	20	164,857	3,766	38,145	203,002	4,636	198,366	64.5
Head Office - Navam Mawatha - No. 40, Navam Mawatha, Colombo 02	1.43	159	8,842	385,339	385,498	276,309	109,189	35.5
	21.43	165,016	12,608	423,484	588,500	280,945	307,555	100.0
Add: Improvement to buildings of the Bank branches					245,232	166,165	79,067	
Net book value as at 31 December 2013					833,732	447,110	386,622	

	Freehold Land LKR '000	Freehold Buildings LKR '000	Computer Equipment LKR '000	Motor Vehicles LKR '000	Office Equipment & Furniture LKR '000	Capital Work-in- Progress LKR '000	Total LKR '000
27.3 Group							
(a) Cost							
As at 1 January 2013	469,323	618,746	581,802	233,305	590,109	–	2,493,285
Additions during the year	–	50,525	61,360	54,120	77,426	46,997	290,428
Disposals during the year	–	–	(4,827)	(22,095)	(235)	–	(27,157)
Transfers/adjustments	–	(362)	(136)	–	2,375	(43,574)	(41,697)
As at 31 December 2013	469,323	668,909	638,199	265,330	669,675	3,423	2,714,859
(b) Depreciation/Amortization							
As at 1 January 2013	–	398,550	347,887	117,220	407,128	–	1,270,785
Charge for the year	–	50,115	81,971	47,976	113,509	–	293,571
On disposals	–	(1,372)	(5,434)	(20,417)	(209)	–	(27,432)
Transfers/adjustments	–	–	(136)	–	1,580	–	1,444
As at 31 December 2013	–	447,293	424,288	144,779	522,008	–	1,538,368
Net book value as at 31 December 2013 (a) - (b)	469,323	221,616	213,911	120,551	147,667	3,423	1,176,491
Net book value as at 31 December 2012	469,323	220,196	233,915	116,085	182,981	–	1,222,500

27.4 Fully Depreciated Property Plant & Equipment - Bank

The initial cost of fully depreciated property, plant & equipment as at 31 December 2013, which are still in use as at the reporting date is as follows:

	BANK	
	2013 LKR '000	2012 LKR '000
Computer equipment	209,304	528,840
Buildings	195,573	189,614
Motor vehicles	33,758	57,449
Office equipment & furniture	224,555	264,143
	791,778	1,314,740

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
28. Other Assets				
Sundry receivables	333,580	151,517	591,601	414,280
Deposits and prepayments	243,892	257,820	301,886	273,846
Unamortised staff cost (Note 28.1)	541,525	445,842	565,249	466,562
Employees Share Ownership Plan (ESOP)	68,747	80,205	–	–
Group balance receivable	1,647	1,101	–	–
	1,189,391	936,485	1,458,737	1,154,688

The ESOP represents the written down value of the Bank's shares issued to a trust for the benefit of the employees. The total cost of LKR 229 mn is being amortized over a period of 20 years with effect from 1 January 2000.

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
28.1 Unamortized Staff Cost				
As at 1 January 2013	445,842	386,366	466,562	403,248
Add: Adjustment for new grants and settlements	168,727	115,941	178,289	124,570
Less: Charged to personnel cost	(73,045)	(56,464)	(79,603)	(61,256)
As at 31 December 2013	541,525	445,842	565,249	466,562



	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
29. Due to Banks				
Borrowings from local banks	9,053,574	2,187,539	9,053,574	2,187,539
Due to foreign banks	1,399,512	132,445	1,399,512	132,445
	10,453,086	2,319,984	10,453,086	2,319,984

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
29.1 Due to Banks - By Currency				
Local Currency	505,918	1,551,026	505,918	1,551,026
Foreign Currency	9,947,168	768,958	9,947,168	768,958
Total	10,453,086	2,319,984	10,453,086	2,319,984

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
30. Due to Other Customers				
30.1 Due to Other Customers - By Products				
Savings deposits	20,737,295	18,023,160	20,329,079	18,023,160
Time deposits	97,457,473	81,648,029	97,457,473	81,441,312
Demand deposits	11,099,605	7,742,146	11,099,605	7,742,146
Margins	489,251	143,600	489,251	143,600
Other deposits	46,405	43,648	46,405	43,648
	129,830,029	107,600,583	129,421,813	107,393,866

	BANK				GROUP			
	2013 LKR '000	%	2012 LKR '000	%	2013 LKR '000	%	2012 LKR '000	%
30.2 Due to Other Customers - By Currency								
Local Currency Deposits								
Savings deposits	14,419,607	11	10,726,145	10	14,011,391	11	10,726,145	10
Time deposits	76,149,198	59	62,509,647	58	76,149,198	59	62,302,930	58
Demand deposits	9,081,419	7	6,194,524	6	9,081,419	7	6,194,524	6
Margins	462,539	–	105,440	–	462,539	–	105,440	–
Other deposits	16,681	–	30,372	–	16,681	–	30,372	–
	100,129,444	77	79,566,128	74	99,721,228	77	79,359,411	74
Foreign Currency Deposits								
Savings deposits	6,317,688	5	7,297,015	7	6,317,688	5	7,297,015	7
Time deposits	21,308,275	16	19,138,382	18	21,308,275	16	19,138,382	18
Demand deposits	2,018,186	2	1,547,622	1	2,018,186	2	1,547,622	1
Margins	26,712	–	38,160	–	26,712	–	38,160	–
Other deposits	29,724	–	13,276	–	29,724	–	13,276	–
	29,700,585	23	28,034,455	26	29,700,585	23	28,034,455	26
Total	129,830,029	100	107,600,583	100	129,421,813	100	107,393,866	100

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
30.3 Due to Other Customers - By Province				
Western Province	118,274,186	97,238,538	117,865,971	97,031,821
North Western Province	2,819,643	2,612,774	2,819,643	2,612,774
Southern Province	2,104,254	1,960,352	2,104,254	1,960,352
Central Province	2,374,189	1,780,424	2,374,189	1,780,424
Sabaragamuwa Province	1,926,321	1,654,511	1,926,321	1,654,510
Eastern Province	617,021	723,384	617,021	723,384
Northern Province	657,371	662,464	657,371	662,465
North Central Province	544,081	500,278	544,081	500,278
Uva Province	512,963	467,858	512,962	467,858
	129,830,029	107,600,583	129,421,813	107,393,866



	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
31. Debt Securities Issued and Other Borrowed Funds				
(a) Bank				
Concessionary credit lines	3,553,877	7,762,298	3,553,877	7,762,298
Refinance borrowings	3,460,599	885,011	3,460,599	885,011
Foreign borrowings	5,207,343	2,690,692	5,207,343	2,690,692
Reverse repurchase agreements	11,771,598	12,515,861	11,771,598	12,515,861
Local borrowings	27,290	5,579,551	27,290	5,569,626
Non-quoted debentures - (Note 31.1)	400,111	924,411	370,111	894,411
	24,420,818	30,357,824	24,390,818	30,317,899

31.1 Non-quoted Debentures

Non-quoted debentures consist of 400,000 unlisted unsecured redeemable debentures of LKR 1,000/- each issued by the Bank in 2011 of which debts are given below:

	Interest Payable Frequency	Issue Date	Maturity Date	BANK		GROUP	
				2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 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	110,000	110,000
2011-2016 - 3 month TB rate (Gross) + 1% p.a.	Quarterly	18.07.2011	30.06.2016	50,000	50,000	50,000	50,000
2011-2016 - 3 month TB rate (Gross) + 1% p.a.	Quarterly	19.07.2011	30.06.2016	40,000	40,000	40,000	40,000
2011-2016 - 3 month TB rate (Gross) + 1% p.a.	Quarterly	21.07.2011	30.06.2016	200,111	200,140	170,111	170,140
				400,111	400,140	370,111	370,140
Fixed Rate Debenture							
2005/2013 -10.13 % p.a.	Semi annually	23.03.2005	24.01.2013	–	524,271	–	524,271
				400,111	924,411	370,111	894,411
Due within one year				–	524,271	–	524,271
Due after one year				400,111	400,140	370,111	370,140
				400,111	924,411	370,111	894,411

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
32. Deferred Taxation				
Deferred tax liabilities				
Accelerated depreciation for tax purposes	71,502	57,013	73,334	57,335
Finance leases	350,737	238,568	350,737	238,568
Gains on available-for-sale investments	41,482	–	58,572	–
	463,721	295,581	482,643	295,903
Deferred tax assets				
Defined benefit plans	47,603	34,214	46,915	35,290
Carry forward loss on leasing business	62,243	104,269	62,243	104,269
Loss on other operations	–	70,233	7,591	70,233
Provision for bad and doubtful debts	41,443	6,991	41,443	6,991
	151,289	215,707	158,192	216,783
Net deferred tax liability	312,432	79,874	324,451	79,120

	INCOME STATEMENT				OTHER COMPREHENSIVE INCOME			
	BANK		GROUP		BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Deferred tax liabilities								
Accelerated depreciation for tax purposes	14,489	16,905	15,999	16,048	–	–	–	–
Finance leases	112,169	65,758	112,169	65,758	–	–	–	–
Gains on available-for-sale investments	–	–	–	–	41,482	–	58,572	–
	126,658	82,663	128,168	81,806	41,482	–	58,572	–
Deferred tax assets								
Defined benefit plans	(10,017)	(7,864)	(8,253)	(7,008)	(3,372)	–	(3,372)	–
Carry forward loss on leasing business	42,026	(41,905)	42,026	(41,905)	–	–	–	–
Loss on other operations	70,233	–	62,642	–	–	–	–	–
Provision for bad and doubtful debts	(34,452)	5,106	(34,452)	5,107	–	–	–	–
	67,790	(44,663)	61,963	(43,806)	(3,372)	–	(3,372)	–
Net impact	194,448	38,000	190,131	38,000	38,110	–	55,200	–



		BANK		GROUP	
	Note	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
33. Employee Benefit Liability					
33.1 Provision for Retirement Gratuity					
As at 1 January		122,191	94,107	165,633	129,889
Provision made during the year					
Income Statement		40,990	40,960	42,370	48,619
Other comprehensive income		12,042	–	12,042	–
Contribution made for gratuity liability	33.3	53,032	40,960	54,412	48,619
Benefits paid by the plan		(5,215)	(12,875)	(5,215)	(12,875)
As at 31 December		170,008	122,192	214,830	165,633

An actuarial valuation of the gratuity fund was carried out as at 31 December 2013 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'.

	31 December 2013	31 December 2012
Actuarial Assumptions		
Discount rate	11%	12%
Salary increment rate	8%	10%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age or age on valuation date, if greater	Normal retirement age or age on valuation date, if greater

Sensitivity of Assumptions Used in the Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

		BANK			
Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment rate	2013		2012	
		Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year LKR mn	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR mn	Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year LKR mn	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR mn
1%		15.47	(15.47)	14.10	(14.10)
(-1%)		(17.93)	17.93	(16.40)	16.40
	1%	(17.75)	17.75	(16.10)	16.10
	(-1%)	15.58	(15.58)	14.10	(14.10)

The expected Benefit Payout in the future years to the defined benefit plan obligation:

	2013 LKR '000
Within the next 12 months	15,108
Between 2 and 5 years	132,492
Beyond 5 years	278,448

The expected benefits are estimated 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 12.5 years.

33.2 Pension Fund Receivable

The amounts recognized in the Statement of Financial Position are as follows:

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Present value of funded obligations as at 31 December	533,685	473,224	533,685	473,224
Fair value of plan assets as at 31 December	(634,172)	(597,075)	(634,172)	(597,075)
	(100,487)	(123,851)	(100,487)	(123,851)
Present value of unfunded obligations	–	–	–	–
Unrecognized actuarial gains/losses	–	(11,857)	–	(11,857)
Retirement Benefit (Asset)/Liability	(100,487)	(135,708)	(100,487)	(135,708)

This over payment is recognized as pre-paid expenses in other assets.

An actuarial valuation of the pension fund was carried out as at 31 December 2013 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'.

	2013	2012
Actuarial Assumptions		
Discount rate	11%	12%
Salary increment	8%	10%
Annual return on assets rate	10%	12%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age	Normal retirement age



Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Statement of Financial Position is the effect of the assumed changes in discount rate, salary increment rate and the life expectancy on the profit or loss and employment benefit obligation for the year.

BANK					
Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment	2013		2012	
		Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability	Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability
		LKR mn	LKR mn	LKR mn	LKR mn
1%		47.87	(47.87)	42.30	(42.30)
(-1%)		(56.13)	56.13	(49.60)	49.60
	1%	(20.31)	20.31	(19.70)	19.70
	(-1%)	18.77	(18.77)	18.10	(18.10)

2013		
Increase/(Decrease) in Life Expectancy	Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year LKR mn	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR mn
+ 1 year	(6.19)	6.19
-1 Year	6.43	(6.43)

The major categories of plan assets of the fair value of the total plan assets are as follows:

	2013 LKR '000	2012 LKR '000
Investments in unquoted investments		
Investments in Government Securities	515,276	572,083
Investment in fixed deposit	112,893	-
	628,169	572,083

The expected Benefit Payout in the future years to the defined benefit plan obligation:

	2013 LKR '000
Within the next 12 months	33,958
Between 2 and 5 years	156,983
Beyond 5 years	321,421

The expected benefits are estimated 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 26.6 years.

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
33.3 Contribution Made for Employee Benefits				
Contribution made for Gratuity Liability				
Current service & interest cost (Note 8)	40,990	35,415	42,370	43,074
Expected return on assets and recognition of actuarial loss/(gain)	–	–	–	–
Recognition of actuarial gain/(loss)	–	1,704	–	1,704
Recognition of transitional liability/(asset)	25,672	3,841	25,672	3,841
Liability experience loss/(gain)	3,942	–	3,942	–
Liability loss/(gain) due to changes in assumptions	(17,572)	–	(17,572)	–
Income Statement and Other Comprehensive Income	53,032	40,960	54,412	48,619
Contribution made to the Pension Fund				
Current service & interest cost (Note 8)	5,449	70,350	5,449	70,350
Expected return on assets & recognition of actuarial loss/(gain)	–	(52,964)	–	(52,964)
Recognition of actuarial gain/(loss)	5,928	5,320	5,928	5,320
Liability experience loss/(gain)	6,313	–	6,313	–
Liability loss/(gain) due to changes in assumptions	11,160	–	11,160	–
Income Statement and Other Comprehensive Income	28,850	22,706	28,850	22,706



	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
34. Other Liabilities				
Accrued expenses	575,079	421,203	631,942	436,911
Provision for deposit insurance	34,500	28,650	34,500	28,650
Dividend payable (Note 34.1)	40,656	249,201	40,656	249,201
Other liabilities	3,035,430	2,704,636	3,143,191	2,776,980
	3,685,665	3,403,690	3,850,289	3,491,742

	BANK & GROUP	
	2013 LKR '000	2012 LKR '000
34.1 Dividend Payable		
As at 1 January	249,201	755,381
Interim dividend declared for the prior year	821,010	–
Final dividend declared for the prior year	1,642,019	656,696
Interim dividend declared for the current year	823,465	–
Reversal of dividends declared in prior years (34.2)	(64,560)	–
Dividend paid	(3,430,479)	(1,162,876)
As at 31 December	40,656	249,201

34.2 Reversal of Dividends Declared in Prior Years

Certain persons/entities who invested in the ordinary shares of the Bank were not registered as shareholders in the registers of the Bank to ensure compliance with certain provisions of the Banking Act. As such, no dividends were paid to unregistered shareholders. These persons/entities subsequently sold their shares on the trading floor of the Colombo Stock Exchange. As persons/entities who dispose of shares while they are not registered as shareholders are no longer entitled to any past dividend on such shares, the dividends accrued against such persons/entities amounting to LKR 64.56 mn have been credited to retained earnings during the year and presented in the Statement of Changes in Equity.

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
35. Subordinated Term Debts				
As at 1 January	2,188,350	2,373,300	2,188,350	2,373,300
Additions during the year	9,954,542	–	9,954,542	–
Redemptions during the year	(511,650)	(184,950)	(511,650)	(184,950)
Balance before adjusting for amortized interest	11,631,242	2,188,350	11,631,242	2,188,350
Net effect on amortized interest payable	51,432	66,349	51,432	66,349
As at 31 December (Note 35.1)	11,682,674	2,254,699	11,682,674	2,254,699

	Repayment Terms	Issued Date	Maturity Date	Rate of Interest %	Amount FCY	BANK		GROUP	
						2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
35.1 Subordinated Term Debts - by Products									
35.1 (a) Term Loans									
Nederland's Financierings Maatschappij Voor Ontwikkelingslanden N.V. (FMO)									
FMO Loan 1	Semi annually	20 Jan. 2006	1 Oct. 2015	AWDR +5%	EUR 7,500,000	384,467	573,879	384,467	573,879
FMO Loan 11	Semi annually	18 Dec. 2007	15 Oct. 2017	Avg (6 months AWDR, 6 months T Bill rate) + 3%	USD 15,000,000	1,343,665	1,680,820	1,343,665	1,680,820
						1,728,132	2,254,699	1,728,132	2,254,699

				BANK		GROUP	
	Interest Payable Frequency	Issued Date	Maturity Date	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
35.1 (b) Debentures							
Fixed Rate Debenture							
Type A - 13.0% - (60 Months)	Semi annually	19 December 2013	18 December 2018	1,237,065	–	1,237,065	–
Type B - 13.40% - (60 Months)	Annually	19 December 2013	18 December 2018	1,521,968	–	1,521,968	–
Type C - 13.90% - (120 Months)	Annually	19 December 2013	18 December 2023	3,620,995	–	3,620,995	–
Type D - 14.00% - (144 Months)	Annually	19 December 2013	18 December 2025	3,574,514	–	3,574,514	–
				9,954,542	–	9,954,542	–
Total subordinated debts				11,682,674	2,254,699	11,682,674	2,254,699
Due within one year				511,650	511,650	511,650	511,650
Due after one year				11,171,024	1,743,049	11,171,024	1,743,049
				11,682,674	2,254,699	11,682,674	2,254,699

	BANK				GROUP			
	Number	2013 LKR '000	Number	2012 LKR '000	Number	2013 LKR '000	Number	2012 LKR '000
36. Capital								
Capital Comprises of								
Issued and fully paid	164,201,902	1,093,095	164,201,902	1,093,095	164,201,902	1,093,095	164,201,902	1,093,095
Adjustment on consolidation of Employee Share Ownership Plan	-	-	-	-	(4,133,726)	(229,158)	(4,133,726)	(229,158)
Issue of shares under the Equity Linked Compensation Plan (Note 36.2)	491,132	79,809	-	-	491,132	79,809	-	-
	164,693,034	1,172,904	164,201,902	1,093,095	160,559,308	943,746	160,068,176	863,937

	BANK & GROUP			
	2013 Number	2013 LKR '000	2012 Number	2012 LKR '000
36.1 Stated Capital	164,693,034	1,172,904	164,201,902	1,093,095

36.2 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 will create a maximum of 3% of the ordinary voting shares, half of such shares are to be awarded as share options and the other half as share grants in equal proportions. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

Accordingly on 1 July 2013, 491,132 ordinary shares were issued to the eligible members of the staff as per the Equity Linked Compensation Plan (ELCP) of the Bank at a price of LKR 162.50 per share. This share issue resulted in the increase of the Stated Capital of the Bank from LKR 1,093.1 mn to LKR 1,172.9 mn, and the number of shares in issue from 164,201,902 to 164,693,034.

37. Statutory Reserve Fund

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

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
As at 1 January	878,718	878,718	878,718	878,718
Transferred from retained earnings (Note 40)	79,809	-	79,809	-
As at 31 December	958,527	878,718	958,527	878,718

38. Investment Fund Account

Transfers to Investment Fund Account

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

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

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
As at 1 January	924,332	386,825	924,332	386,825
Transferred from retained earnings	782,419	537,507	782,419	537,507
As at 31 December	1,706,751	924,332	1,706,751	924,332

Loans Granted by Utilizing the Funds in the Investment Fund Account

The long-term loans include LKR 1,677 mn of loans disbursed by utilizing the Investment Fund Account balance (refer Note 19.1).

Sector	BANK & GROUP							
	Interest Rates	Tenure Years	Number of Loans Granted	2013 Total	Interest Rates	Tenure Years	Number of Loans Granted	2012 Total
	%			LKR '000	%			LKR '000
a. Cultivation of agriculture/ plantation crops	11.0 - 18.0	5 - 7	29	124,039	11.0 - 18.0	5 - 6	23	101,927
b. Factory/mills modernization			39	215,022			40	217,966
c. Small and medium enterprises			253	1,226,571			72	369,092
d. Information technology and BPO			1	1,514			1	2,093
e. Infrastructure development			2	3,125			-	-
f. Education			1	3,295			1	4,250
i. Construction of hotels			15	103,255			14	104,042
			340	1,676,821			151	799,370



	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
39. Available-for-Sale Reserve				
As at 1 January	–	–	–	–
Net gain on financial investments available-for-sale	106,669	–	150,614	–
As at 31 December	106,669	–	150,614	–

	2013			2012		
	General Reserve LKR '000	Retained Profit LKR '000	Total LKR '000	General Reserve LKR '000	Retained Profit LKR '000	Total LKR '000
40. Retained Earnings						
(a) Bank						
As at 1 January	5,805,707	6,240,549	12,046,256	5,805,707	4,510,794	10,316,501
Profit for the year	–	7,691,165	7,691,165	–	2,923,958	2,923,958
Transferred to investment fund	–	(782,419)	(782,419)	–	(537,507)	(537,507)
Transferred to statutory reserve fund	–	(79,809)	(79,809)	–	–	–
Dividends to equity holders	–	(3,221,933)	(3,221,933)	–	(656,696)	(656,696)
As at 31 December	5,805,707	9,847,553	15,653,260	5,805,707	6,240,549	12,046,256

	2013			2012		
	General Reserve LKR '000	Retained Profit LKR '000	Total LKR '000	General Reserve LKR '000	Retained Profit LKR '000	Total LKR '000
(b) Group						
As at 1 January	5,805,707	16,410,347	22,216,054	5,805,707	8,989,942	14,795,649
Profit for the year	–	2,641,925	2,641,925	–	8,853,821	8,853,821
Exchange differences on translation of foreign operations	–	(42,017)	(42,017)	–	18,824	18,824
Transferred to investment fund	–	(782,419)	(782,419)	–	(537,507)	(537,507)
Effect of change in holding in a group company	–	–	–	–	(258,037)	(258,037)
Transferred to statutory reserve fund	–	(79,809)	(79,809)	–	–	–
Dividends to equity holders	–	(3,221,933)	(3,221,933)	–	(656,696)	(656,696)
As at 31 December	5,805,707	14,926,094	20,731,801	5,805,707	16,410,347	22,216,054

41. Share Based Payment Reserve

a. Equity Linked Compensation Plan

On 1 July 2010, shareholders of the Bank approved an Equity Linked Compensation Plan (ELCP), to enable the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. A total quantum of 2,455,661 shares of the Bank which is equivalent to a maximum of 3% of the present voting share capital of the Bank is to be issued to the ELCP. Half of such shares are to be awarded as share options and the other half as Share Grants in equal proportions. The issue of shares for the ELCP will take place over five years commencing July 2010. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

b. The details of the share grant and the share options made available to the relevant staff members are given below:

	2013	2012
Share Grant		
Award 01 - (01 July 2010) - vested on 30 June 2013		
Numbers of ordinary shares awarded	491,132	491,132
Award 04 - (01 July 2013) - to be vested on 30 June 2016		
Numbers of ordinary shares awarded	491,132	–
Total number of shares granted under share grant scheme	982,264	491,132
Share Option		
Award 01 - (01 July 2010) - exercisable from 1 July 2011 to 30 June 2014	491,132	491,132
Number of shares allocated at a price of LKR 124.21		
Award 04 - (01 July 2013)- exercisable from 1 July 2014 to 30 June 2017	491,132	
Total number of shares allocated under the share option scheme	982,264	491,132

c. Awards 2 and 3 were not granted as the Bank did not meet the necessary criteria for entitlement.

d. At the Annual General Meeting held on 30 March 2011, the shareholders of the Bank approved to increase the number of existing ordinary shares amounting to 82,100,951 by sub dividing the said existing ordinary shares in the proportion of one share for every ordinary share in issue. Accordingly, the number of shares of the share grant and the share option as per award 01, increased by two folds as at 31 December 2011.

e. The share grant of 491,132 shares as per award 04, resulted in the increase of the stated capital of the Bank from LKR 1,093.1 mn as at 31 December 2012 to LKR 1,172.9 mn as at 31 December 2013.



e. Share-based Payment Reserve

The expense recognized for employee services received during the year is shown in the following table:

	2013 LKR '000	2012 LKR '000
Expense arising from equity-settled share-based payment transactions	54,690	20,055
Total expense arising from share-based payment transactions	54,690	20,055

There were no cancellations or modifications to the awards in 2013 or 2012.

Movements During the Year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2013 Number	2013 LKR	2012 Number	2012 LKR
Outstanding at 1 January	491,132	124.21	491,132	124.21
Granted during the year	491,132	222.02	–	–
Outstanding at 31 December	982,264	173.12	491,132	124.21
Exercisable at 31 December	491,132			

The following table lists the inputs to the models used for the two plans for the years ended 31 December 2013 and 2012, respectively:

	2013	2012
Expected volatility (%)	10	10
Risk free interest rate (%)	7.55	7.55
Expected life of share options (years)	3	3
Weighted average share price (LKR)	160.50	137.90

42. Measurement of Financial Instruments

	Held-for- Trading LKR '000	Held-to- Maturity LKR '000	Loans and Receivable LKR '000	Available- for-Sale LKR '000	Others LKR '000	Total LKR '000
(a) Bank - Current Year (2013)						
Assets						
Cash and cash equivalents	-	-	2,611,075	-	-	2,611,075
Balances with Central Bank	-	-	5,339,000	-	-	5,339,000
Placements with banks	-	-	130,751	-	-	130,751
Derivative financial instruments	1,149,541	-	-	-	-	1,149,541
Other financial assets held-for-trading	10,720,689	-	-	-	-	10,720,689
Loans and receivables to banks	-	-	641,628	-	-	641,628
Loans and receivables to other customers	-	-	136,821,532	-	-	136,821,532
Financial Investments - Loans and receivables	-	-	15,837,455	-	-	15,837,455
Financial investments - Available- for-sale	-	-	-	5,982,450	-	5,982,450
Financial investments - Held-to-maturity	-	17,602,249	-	-	-	17,602,249
Total Financial Assets	11,870,230	17,602,249	161,381,441	5,982,450	-	196,836,370
Investments in subsidiary companies	-	-	-	-	2,037,585	2,037,585
Investments in associate companies	-	-	-	-	61,967	61,967
Investment property	-	-	-	-	-	-
Intangible assets	-	-	-	-	260,425	260,425
Property, plant & equipment	-	-	-	-	872,890	872,890
Other assets	-	-	-	-	1,189,391	1,189,391
Total Assets	11,870,230	17,602,249	161,381,441	5,982,450	4,422,258	201,258,628
			Held-for- Trading LKR '000	Amortized Cost LKR '000	Others LKR '000	Total LKR '000
Liabilities						
Due to banks			-	10,453,086	-	10,453,086
Derivative financial instruments			817,310	-	-	817,310
Due to other customers			-	129,830,029	-	129,830,029
Debt Securities issued and other borrowed funds			-	24,420,818	-	24,420,818
Subordinated term debts			-	11,682,674	-	11,682,674
Total Financial Liabilities			817,310	176,386,607	-	177,203,917
Tax liabilities			-	-	266,128	266,128
Deferred tax liabilities			-	-	312,432	312,432
Employee benefit liability			-	-	170,008	170,008
Other liabilities			-	-	3,685,665	3,685,665
Total Liabilities			817,310	176,386,607	4,434,233	181,638,150



	Held-for- Trading LKR '000	Held-to- Maturity LKR '000	Loans and Receivable LKR '000	Available- for-Sale LKR '000	Others LKR '000	Total LKR '000
(b) Group - Current Year (2013)						
Assets						
Cash and cash equivalents	-	-	2,668,262	-	-	2,668,262
Balances with Central Bank	-	-	5,339,000	-	-	5,339,000
Placements with banks	-	-	130,751	-	-	130,751
Derivative financial instruments	1,149,541	-	-	-	-	1,149,541
Other financial assets held-for-trading	14,194,141	-	-	-	-	14,194,141
Loans and receivables to banks	-	-	641,628	-	-	641,628
Loans and receivables to other customers	-	-	136,881,713	-	-	136,881,713
Financial Investments - Loans and receivables	-	-	16,791,701	-	-	16,791,701
Financial investments - Available-for-sale	-	-	-	6,167,450	-	6,167,450
Financial investments - Held-to-maturity	-	18,460,591	-	-	-	18,460,591
Total Financial Assets	15,343,682	18,460,591	162,453,055	6,167,450	-	202,424,778
Investments in subsidiary companies	-	-	-	-	-	-
Investments in associate companies	-	-	-	-	76,744	76,744
Investment property	-	-	-	-	1,383,693	1,383,693
Intangible assets	-	-	-	-	296,678	296,678
Property, plant & equipment	-	-	-	-	1,176,491	1,176,491
Other assets	-	-	-	-	1,458,737	1,458,737
Total Assets	15,343,682	18,460,591	162,453,055	6,167,450	4,392,343	206,817,121
			Held-for- Trading LKR '000	Amortized Cost LKR '000	Others LKR '000	Total LKR '000
Liabilities						
Due to banks			-	10,453,086	-	10,453,086
Derivative financial instruments			817,310	-	-	817,310
Due to other customers			-	129,421,813	-	129,421,813
Debt Securities issued and other borrowed funds			-	24,390,819	-	24,390,819
Subordinated Term debts			-	11,682,674	-	11,682,674
Total Financial Liabilities			817,310	175,948,392	-	176,765,702
Tax liabilities			-	-	300,196	300,196
Deferred tax liabilities			-	-	324,451	324,451
Employee benefit liability			-	-	214,830	214,830
Other liabilities			-	-	3,850,288	3,850,288
Total Liabilities			817,310	175,948,392	4,689,765	181,455,467

	Held-for- Trading LKR '000	Held-to- Maturity LKR '000	Loans and Receivable LKR '000	Available- for-Sale LKR '000	Others LKR '000	Total LKR '000
(a) Bank - Previous Year (2012)						
Assets						
Cash and cash equivalents	-	-	3,480,395	-	-	3,480,395
Balances with Central Bank	-	-	6,074,792	-	-	6,074,792
Placements with banks	-	-	3,559,354	-	-	3,559,354
Derivative financial instruments	1,706,372	-	-	-	-	1,706,372
Other financial assets held-for-trading	982,967	-	-	-	-	982,967
Loans and receivables to banks	-	-	1,183,343	-	-	1,183,343
Loans and receivables to other customers	-	-	115,992,359	-	-	115,992,359
Financial Investments - Loans and receivables	-	-	6,446,031	-	-	6,446,031
Financial investments - Available-for-sale	-	-	-	66,714	-	66,714
Financial investments - Held-to-maturity	-	19,257,271	-	-	-	19,257,271
Total Financial Assets	2,689,339	19,257,271	136,736,274	66,714	-	158,749,598
Investments in subsidiary companies	-	-	-	-	2,641,178	2,641,178
Investments in associate companies	-	-	-	-	18,525	18,525
Investments property	-	-	-	-	-	-
Intangible assets	-	-	-	-	272,314	272,314
Property, plant & equipment	-	-	-	-	856,195	856,195
Other assets	-	-	-	-	936,486	936,486
Total Assets	2,689,339	136,736,274	136,736,274	66,714	4,724,698	163,474,296
			Held-for- Trading LKR '000	Amortized Cost LKR '000	Others LKR '000	Total LKR '000
Liabilities						
Due to banks			-	2,319,984	-	2,319,984
Derivative financial instruments			1,736,838	-	-	1,736,838
Due to other customers			-	107,600,583	-	107,600,583
Debt Securities issued and other borrowed funds			-	30,357,824	-	30,357,824
Subordinated term debts			-	2,254,699	-	2,254,699
Total Financial Liabilities			1,736,838	142,533,090	-	144,269,928
Tax liabilities			-	-	656,211	656,211
Deferred tax liabilities			-	-	79,874	79,874
Employee benefit liability			-	-	122,192	122,192
Other liabilities			-	-	3,403,690	3,403,690
Total Liabilities			1,736,838	142,533,090	4,261,967	148,531,895



	Held-for- Trading LKR '000	Held-to- Maturity LKR '000	Loans and Receivable LKR '000	Available- for-Sale LKR '000	Others LKR '000	Total LKR '000
(b) Group - Previous Year (2012)						
Assets						
Cash and cash equivalents	-	-	3,634,983	-	-	3,634,983
Balances with Central Bank	-	-	6,074,792	-	-	6,074,792
Placements with banks	-	-	3,559,354	-	-	3,559,354
Derivative financial instruments	1,706,372	-	-	-	-	1,706,372
Other financial assets held-for-trading	11,394,625	-	-	-	-	11,394,625
Loans and receivables to banks	-	-	1,183,343	-	-	1,183,343
Loans and receivables to other customers	-	-	116,039,035	-	-	116,039,035
Financial Investments - Loans and receivables	-	-	7,088,893	-	-	7,088,893
Financial investments - Available-for-sale	-	-	-	173,541	-	173,541
Financial investments - Held-to-maturity	-	19,223,228	-	-	-	19,223,228
Total Financial Assets	13,100,997	19,223,228	137,580,400	173,541	-	170,078,166
Investments in subsidiary companies	-	-	-	-	-	-
Investments in associate companies	-	-	-	-	33,301	33,301
Investment property	-	-	-	-	1,295,693	1,295,693
Intangible assets	-	-	-	-	318,723	318,723
Property, plant & equipment	-	-	-	-	1,222,500	1,222,500
Other assets	-	-	-	-	1,154,688	1,154,688
Total Assets	13,100,997	19,223,228	137,580,400	173,541	4,024,905	174,103,071
			Held-for- Trading LKR '000	Amortized Cost LKR '000	Others LKR '000	Total LKR '000
Liabilities						
Due to banks			-	2,319,984	-	2,319,984
Derivative financial instruments			1,736,838	-	-	1,736,838
Due to other customers			-	107,393,866	-	107,393,866
Debt Securities issued and other borrowed funds			-	30,317,899	-	30,317,899
Subordinated term debts			-	2,254,699	-	2,254,699
Total Financial Liabilities			1,736,838	142,286,448	-	144,023,286
Tax liabilities			-	-	633,838	633,838
Deferred tax liabilities			-	-	79,120	79,120
Employee benefit liability			-	-	165,633	165,633
Other liabilities			-	-	3,491,742	3,491,742
Total Liabilities			1,736,838	142,286,448	4,370,333	148,393,619

43. Fair Value of Financial Instruments

a. Determination of Fair Value of Financial Instruments by Hierarchy

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

31 December 2013	BANK			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial Assets				
Other financial assets held-for-trading				
Sri Lanka Government Securities - Treasury Bills	5,061,675	–	–	5,061,675
Sri Lanka Government Securities - Treasury Bonds	4,053,939	–	–	4,053,939
Investment in unit trusts	1,605,075	–	–	1,605,075
Financial Investments - Available-for-sale				
Sri Lanka Government Securities - Treasury Bills	4,889,272	–	–	4,889,272
Sri Lanka Government Securities - Treasury Bonds	582,449	–	–	582,449
Sovereign Bonds	505,939	–	–	505,939
Non-quoted ordinary shares	–	4,790	–	4,790
Derivative Financial Instruments				
Currency options	–	5,895	–	5,895
Forward foreign exchange contracts	–	1,143,646	–	1,143,646
Total Financial Assets	16,698,350	1,154,331	–	17,852,680
Derivative financial instruments				
Currency options	–	5,895	–	5,895
Forward foreign exchange contracts	–	811,415	–	811,415
Total Financial Liabilities	–	817,310	–	817,310

31 December 2012	BANK			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial Assets				
Other financial assets held-for-trading				
Sri Lanka Government Securities - Treasury Bills	448,489	–	–	448,489
Sri Lanka Government Securities - Treasury Bonds	534,478	–	–	534,478
Financial Investments - Available-for-Sale				
Non-quoted ordinary shares	–	4,790	–	4,790
Investment fund account	61,924	–	–	61,924
Derivative Financial Instruments				
Forward foreign exchange contracts	–	1,706,372	–	1,706,372
Total Financial Assets	1,044,891	1,711,162	–	2,756,053
Derivative financial instruments				
Forward foreign exchange contracts	–	1,736,838	–	1,736,838
Total Financial Liabilities	–	1,736,838	–	1,736,838



31 December 2013	GROUP			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial Assets				
Other financial assets held-for-trading				
Sri Lanka Government Securities - Treasury Bills	5,061,675	-	-	5,061,675
Sri Lanka Government Securities - Treasury Bonds	4,053,939	-	-	4,053,939
Equity Securities	336,293	-	-	336,293
Investment in Unit Trusts	4,742,234	-	-	4,742,234
Financial investments - Available-for-sale				-
Sri Lanka Government Securities - Treasury Bills	4,889,272	-	-	4,889,272
Sri Lanka Government Securities - Treasury Bonds	582,449	-	-	582,449
Sovereign Bonds	505,939	-	-	505,939
Non-quoted ordinary shares	-	4,790	185,000	189,790
Derivative financial instruments				
Currency options	-	5,895	-	5,895
Forward foreign exchange contracts	-	1,143,646	-	1,143,646
Total Financial Assets	20,171,801	1,154,331	185,000	21,511,132
Derivative financial instruments				
Currency options	-	5,895	-	5,895
Forward foreign exchange contracts	-	811,415	-	811,415
Total Financial Liabilities	-	817,310	-	817,310

31 December 2012	GROUP			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial Assets				
Other financial assets held-for-trading				
Sri Lanka Government Securities - Treasury Bills	448,489	–	–	448,489
Sri Lanka Government Securities - Treasury Bonds	534,478	–	–	534,478
Equity Securities	123,717	–	–	123,717
Investment in Unit Trusts	10,287,941	–	–	10,287,941
Financial Investments - Available-for-Sale				
Non-quoted ordinary shares	–	4,790	106,827	111,617
Investment fund account	61,924	–	–	61,924
Derivative financial instruments				
Forward foreign exchange contracts	–	1,706,372	–	1,706,372
Total Financial Assets	11,456,549	1,711,162	106,827	13,274,538
Derivative financial instruments				
Forward foreign exchange contracts	–	1,736,838	–	1,736,838
Total Financial Liabilities	–	1,736,838	–	1,736,838

b. Movements in Level 3 Financial Instruments Measured at Fair Value

The level of the fair value hierarchy of financial instruments is determined at the beginning of each reporting period. The following table shows a reconciliation of the opening and closing amounts of Level 3 Financial Assets and Liabilities which are recorded at fair value.

31 December 2013	GROUP			
	At 1 January 2013 LKR '000	Total Gains/ (Losses) Recorded in Income Statement LKR '000	Total Gains/ (Losses) Recorded in Equity LKR '000	At 31 December 2013 LKR '000
Financial investments available-for-sale				
Non-quoted equity securities	106,827	17,138	61,035	185,000
Total Financial Assets	106,827	17,138	61,035	185,000



31 December 2012	GROUP			
	At 1 January 2012	Total Gains/ (Losses) Recorded in Income Statement	Total Gains/ (Losses) Recorded in Equity	At 31 December 2012
	LKR '000	LKR '000	LKR '000	LKR '000
Financial investments available-for-sale				
Non-quoted equity securities	106,827	–	–	106,827
Total Financial Assets	106,827	–	–	106,827

c. Determination of Fair Value of the Financial Assets and Financial Liabilities

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

	BANK			
	2013		2012	
	Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets				
Cash and cash equivalents	2,611,075	2,611,075	3,480,395	3,480,395
Balances with Central Bank	5,339,000	5,339,000	6,074,792	6,074,792
Placements with banks	130,751	130,751	3,559,354	3,559,354
Loans and receivable to banks	641,628	650,235	1,183,343	1,029,596
Loans and receivable to other customers	136,821,532	140,694,797	115,992,359	111,102,276
Financial investments - Loans and receivable	15,837,455	15,837,455	6,446,031	6,446,031
Financial investments - Held-to-maturity	17,602,249	17,440,886	19,257,271	17,346,778
Total Financial Assets	178,983,690	182,704,199	155,993,545	149,039,222
Financial Liabilities				
Due to banks	10,453,086	10,453,086	2,319,984	2,319,984
Due to other customers	129,830,029	130,000,256	107,600,583	104,231,973
Debt securities issued and other borrowed funds	24,420,818	24,420,818	30,357,824	30,357,824
Subordinated term debts	11,682,674	11,682,674	2,254,699	2,254,699
Total Financial Liabilities	177,203,917	177,374,144	144,269,928	140,901,318

c. Determination of Fair Value of the Financial Assets and Financial Liabilities (Contd.)

	GROUP			
	2013		2012	
	Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets				
Cash and cash equivalents	2,668,262	2,668,262	3,634,983	3,634,983
Balances with Central Bank	5,339,000	5,339,000	6,074,792	6,074,792
Placements with banks	130,751	130,751	3,559,354	3,559,354
Loans and receivable to banks	641,628	650,235	1,183,343	1,191,950
Loans and receivable to other customers	136,881,713	140,694,797	116,039,035	111,148,952
Financial investments - Loans and receivable	16,791,701	16,791,701	7,088,893	7,088,893
Financial investments - Held-to-maturity	18,460,591	18,421,094	19,223,228	19,223,228
Total Financial Assets	180,913,646	184,695,840	156,803,628	154,621,837
Financial Liabilities				
Due to banks	10,453,086	10,453,086	2,319,984	2,319,984
Due to customers	129,421,813	130,000,256	107,393,866	108,179,026
Debt securities issued and other borrowed funds	24,390,818	24,390,819	30,317,899	30,317,899
Subordinated term debts	11,682,674	11,682,674	633,838	633,838
Total Financial Liabilities	175,948,392	176,526,835	140,665,587	141,450,747



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

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

Assets for which Fair Value Approximates Carrying Value

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

Fixed Rate Financial Instruments

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

44. Risk Management

Introduction

Taking risks is inherent in any bank's strategic plan but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Bank's risk strategy focuses on managing principal risks faced by the Bank while striking a fair balance between the risk return trade-off and the efficient capital allocation across the risk exposures.

The Bank is mainly exposed to credit risk, liquidity risk, market risk and operational risk. Market risk could be further subdivided into trading and non-trading risks. Exposure to country risk and any risks due to changes in environment, technology and industry is managed through the Bank's strategic planning process.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's Risk Management Framework. The Board has delegated its authority to the Integrated Risk Management Committee (IRMC) for the overall Risk Management approach and for approving the risk management strategies and principles. IRMC meets

quarterly to review and assess the Bank's overall risks and to focus on policy recommendations and strategies in an integrated manner and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank/Group to set appropriate risk limits and controls and to monitor adherence to established limits.

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

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

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

Risk Measurement and Reporting

Monitoring and controlling risks is primarily performed based on limits established by the Bank which reflects the business strategy and market environment of the Bank as well as the Bank's risk appetite.

Information compiled is examined and processed in order to analyze, control and identify risks on a timely basis. The compiled information is presented to the IRMC, Credit and Market Risk Policy Committee, and the Board of Directors receives a risk report once a quarter which covers all necessary information to assess and conclude on the risks of the Bank. The information analyzed include the following:

- Portfolio quality analysis covering, product and business line wise concentration, group/single borrower concentrations, sector concentrations, NPL analysis, watch listed portfolio, details of facilities rescheduled/restructured.
- Reports on impairment.
- Reports on decisions taken by the respective management committees such as Executive Credit Committees, ALCO, Operational Risk Policy Committee, Credit and Market Risk Policy Committee.
- Market and liquidity risk analysis.

Risk Mitigation

As part of its overall risk management, the Bank obtains various types of collateral. Details such as nature of the collateral that could be accepted, required collateral cover are clearly defined in the Credit Policy Manual.

44.1 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 target markets for lending
- 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 Allowances

The Bank determines the allowances appropriate for each individually significant loans or receivables on an individual basis if there is any objective evidence of a loss based on the above. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout

should bankruptcy arise, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

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

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

Credit Related Commitments 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 on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the accessibility and valuation of each type of collateral.

The main types of collateral obtained are as follow:

- for commercial lending - mortgages over immovable and movable fixed assets, inventory, trade receivables, corporate and personal guarantees
- for retail lending- mortgage over residential property, gold stocks, personal guarantees



Credit Quality

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'.

Bank

As at 31st December 2013 - LKR '000							
Products	Neither Past Due nor Impaired	Past Due but not Impaired				Individually Impaired	Total
		Special Mention (3-6 months)	Sub Standard (6-12 months)	Doubtful (12-18 months)	Loss (more than 18 months)		
Cash and cash equivalents	2,611,075	–	–	–	–	–	2,611,075
Balances with Central Bank	5,339,000	–	–	–	–	–	5,339,000
Placements with banks	130,751	–	–	–	–	–	130,751
Derivative financial instruments	1,149,541	–	–	–	–	–	1,149,541
Other financial assets held-for-trading	10,720,689	–	–	–	–	–	10,720,689
Financial investments - loans and receivable	15,837,455	–	–	–	–	–	15,837,455
Loans and receivables to banks	641,628	–	–	–	–	–	641,628
Loans and receivables to other customers	131,770,586	921,357	280,821	90,329	501,225	3,257,214	136,821,532
Financial investments - held-to-maturity	17,602,249	–	–	–	–	–	17,602,249
Financial investments - available-for-sale	5,982,450	–	–	–	–	–	5,982,450

	As at 31st December 2012 LKR '000						
Products	Neither Past Due nor Impaired	Past Due but not Impaired				Individually Impaired	Total
		Special Mention (3-6 months)	Sub Standard (6-12 months)	Doubtful (12-18 months)	Loss (more than 18 months)		
Cash and cash equivalents	3,480,395	–	–	–	–	–	3,480,395
Balances with Central Bank	6,074,792	–	–	–	–	–	6,074,792
Placements with banks	3,559,354	–	–	–	–	–	3,559,354
Derivative financial instruments	1,706,372	–	–	–	–	–	1,706,372
Other financial assets held-for-trading	982,967	–	–	–	–	–	982,967
Financial Investments - loans and receivable	6,446,031	–	–	–	–	–	6,446,031
Loans and receivables to banks	1,183,343	–	–	–	–	–	1,183,343
Loans and receivables to other customers	108,609,750	655,720	2,900,695	832,079	1,645,519	1,348,596	115,992,359
Financial investments - held-to-maturity	19,257,271	–	–	–	–	–	19,257,271
Financial investments - available-for-sale	66,714	–	–	–	–	–	66,714

Group

	As at 31 December 2013 LKR '000						
Products	Neither Past Due nor Impaired	Past Due but not Impaired				Individually Impaired	Total
		Special Mention (3-6 Months)	Sub Standard (6-12 Months)	Doubtful (12-18 Months)	Loss (More Than 18 Months)		
Cash and cash equivalents	2,668,262	-	-	-	-	-	2,668,262
Balances with Central Bank	5,339,000	-	-	-	-	-	5,339,000
Placements with banks	130,751	-	-	-	-	-	130,751
Derivative financial instruments	1,149,541	-	-	-	-	-	1,149,541
Other financial assets held-for-trading	14,194,141	-	-	-	-	-	14,194,141
Financial investments - loans and receivable	16,791,701	-	-	-	-	-	16,791,701
Loans and receivables to banks	641,628	-	-	-	-	-	641,628
Loans and receivables to other customers	131,830,767	921,357	280,821	90,329	501,225	3,257,214	136,881,713
Financial investments - held-to-maturity	18,460,591	-	-	-	-	-	18,460,591
Financial investments - available-for-sale	6,167,450	-	-	-	-	-	6,167,450

	As at 31 December 2012 LKR '000						
Products	Neither Past Due nor Impaired	Past Due but not Impaired				Individually Impaired	Total
		Special Mention (3-6 Months)	Sub Standard (6-12 Months)	Doubtful (12-18 Months)	Loss (More Than 18 Months)		
Cash and cash equivalents	3,634,983	-	-	-	-	-	3,634,983
Balances with Central Bank	6,074,792	-	-	-	-	-	6,074,792
Placements with banks	3,559,354	-	-	-	-	-	3,559,354
Derivative financial instruments	1,706,372	-	-	-	-	-	1,706,372
Other financial assets held-for-trading	11,394,625	-	-	-	-	-	11,394,625
Financial investments - loans and receivable	7,088,893	-	-	-	-	-	7,088,893
Loans and receivables to banks	1,183,343	-	-	-	-	-	1,183,343
Loans and receivables to other customers	108,656,425	655,720	2,900,695	832,079	1,645,519	1,348,597	116,039,035
Financial investments - held-to-maturity	19,223,228	-	-	-	-	-	19,223,228
Financial investments - available-for-sale	173,541	-	-	-	-	-	173,541



Types of Collateral

Bank

Products	As at 31st December 2013 - LKR '000		
	Maximum Exposure to Credit Risk	Gross Collateral	Net Exposure
Cash and cash equivalents	2,611,075	–	2,611,075
Balances with Central Bank	5,339,000	–	5,339,000
Placements with banks	130,751	–	130,751
Derivative financial instruments	1,149,541	–	1,149,541
Other financial assets held-for-trading	10,720,689	–	10,720,689
Financial Investments - loans and receivable	15,837,455	–	15,837,455
Loans and receivables to banks	641,628	–	641,628
Loans and receivables to other customers			
Corporate lending	88,178,349	48,185,498	39,992,851
Branch lending	17,630,781	14,721,676	2,909,105
Consumer lending	25,542,828	12,787,959	12,754,869
Residential mortgages	4,708,688	4,708,688	–
Others	760,886	583,740	177,146
	136,821,532	80,987,561	55,833,971
Financial investments - held-to-maturity	17,602,249	–	17,602,249
Financial investments - available-for-sale	5,982,450	–	5,982,450

Concentrations of Credit Risk

Concentration by Sector

The Bank's analysis of credit risk concentration by sector is shown in the table below:

Bank

As at 31 December 2013	LKR '000									Total
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	
Cash and cash equivalents	-	-	-	-	-	2,611,075	-	-	-	2,611,075
Balances with Central Bank	-	-	-	-	-	-	-	5,339,000	-	5,339,000
Placements with banks	-	-	-	-	-	130,751	-	-	-	130,751
Derivative financial instruments	-	-	-	-	-	1,149,541	-	-	-	1,149,541
Other financial assets held-for-trading	-	-	-	-	-	1,605,075	-	9,115,614	-	10,720,689
Financial investments - loans and receivables	-	-	-	-	74,235	-	-	15,763,220	-	15,837,455
Loans and receivables to banks	-	-	-	-	-	641,628	-	-	-	641,628
Loans and receivables to other customers	22,609,177	6,062,225	15,505,743	10,318,290	29,894,257	20,568,529	15,542,980	-	16,320,331	136,821,532
Financial investments - held-to-maturity	-	520,000	-	-	-	842,819	-	15,999,789	239,641	17,602,249
Financial investments - available-for-sale	-	-	-	-	-	4,790	-	5,977,660	-	5,982,450

*Government refers to the investments held with Central Bank of Sri Lanka.

Group

As at 31 December 2013	LKR '000									Total
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government	Others	
Cash and cash equivalents	-	-	-	-	-	2,668,262	-	-	-	2,668,262
Balances with Central Bank	-	-	-	-	-	-	-	5,339,000	-	5,339,000
Placements with banks	-	-	-	-	-	130,751	-	-	-	130,751
Derivative financial instruments	-	-	-	-	-	1,149,541	-	-	-	1,149,541
Other financial assets held-for-trading	-	-	-	-	-	5,078,527	-	9,115,614	-	14,194,141
Financial investments - loans and receivables	-	-	-	-	74,235	91,699	-	15,763,220	862,547	16,791,701
Loans and receivables to banks	-	-	-	-	-	641,628	-	-	-	641,628
Loans and receivables to other customers	22,609,177	6,062,225	15,505,743	10,318,290	29,894,257	20,568,529	15,542,980	-	16,380,512	136,881,713
Financial investments - held-to-maturity	-	520,000	-	-	-	842,819	-	15,999,789	1,097,983	18,460,591
Financial investments - available-for-sale	-	-	-	-	-	4,790	-	5,977,660	185,000	6,167,450

Commitments and Guarantees

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

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

LKR '000	2013	2012
Guarantees & bonds	15,529,639	9,119,636
Shipping guarantees	2,162,432	3,668,525
Advance docs endorsed	1,961,540	1,571,227
Letters of credit	7,287,156	7,167,961
Acceptances	6,415,082	5,865,916
Undrawn ODs & credit cards	7,004,968	5,838,596
Commitments	56,994,606	43,598,669
Options	—	—
Forex	79,844,817	81,910,290
Total	177,200,240	158,740,820

44.2 Market Risk

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

Mark to Market Exercise – Trading

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

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

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 Treasury Bills & Bonds trading and available-for-sale portfolios, with all other variables held constant of the Bank's Income Statement.

	Increase/ Decrease in Basis Points	Sensitivity of Profit or Loss LKR '000	Sensitivity of Equity LKR '000
Trading & AFS Portfolio	+100/(100)	(216,307)/216,307	(216,307)/216,307

The sensitivity of the Income Statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the interest rate sensitive assets and liabilities as at 31 December 2013.

Report on Non-Trading Financial Assets and Liabilities

As at 31 December 2013	On Demand LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Carrying Amount LKR '000
Assets						
Cash and balances with Central Bank	7,830,399	–	–	–	119,676	7,950,075
Placements with banks	–	130,751	–	–	–	130,751
Loans and receivables to banks	13,617	111,837	263,486	252,643	45	641,628
Loans and receivables to other customers	34,798,115	47,022,378	17,091,779	34,870,695	7,226,038	141,009,004
Financial investments - loans & receivables	–	5,502,693	130,750	10,067,750	136,262	15,837,455
Financial investments - Held-to-maturity	–	4,992,124	4,251,454	8,358,671	–	17,602,248
Financial investments - Available-for-sale	–	641,634	1,305,810	485,103	3,549,903	5,982,450
Total Financial Assets	42,642,131	58,401,417	23,043,279	54,034,862	11,031,924	189,153,613
Financial Liabilities						
Due to Banks	–	8,472,014	1,961,250	–	–	10,433,264
Due to Customers	42,950,979	39,212,301	44,975,018	2,691,731	–	129,830,021
Debt Securities issued and other borrowed funds	5,202,125	4,524,708	3,981,776	9,180,630	1,531,579	24,420,818
Subordinated term debts	–	–	–	4,435,734	7,195,509	11,631,243
Total Financial Liabilities	48,153,104	52,228,845	50,918,044	16,359,526	8,727,088	176,386,607
Total Interest Sensitivity Gap	5,510,973	6,172,572	(27,874,765)	37,675,336	2,304,836	12,767,006

Currency Risk

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

The table below indicates the currencies to which the bank had significant exposure at 31st December 2013 & 2012 on its currency exposures. The analysis calculates the sensitivity of each currency position to the increase in exchange rate against the LKR with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity while a positive amount reflects a net potential increase depending on the side of the currency position.

An equivalent decrease in below currencies against the LKR would have resulted in an equivalent but opposite impact.

Change in Currency Rate in %

Currency	Spot Rate Shock %	Effect on Profit 2013 LKR '000	Effect on Equity 2013 LKR '000	Effect on Profit 2012 LKR '000	Effect on Equity 2012 LKR '000
USD	2.50	6,493	6,493	(15,327)	(15,327)
GBP	2.50	(825)	(825)	(144)	(144)
EUR	2.50	(544)	(544)	1,100	1,100
JPY	2.50	127	127	229	229
AUD	2.50	(1,700)	(1,700)	521	521

Prepayment Risk

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



Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available-for-sale.

The Bank was insensitive to the equity price changes since the Bank did not carry any equity portfolio as at 31 December 2013.

Country Risk

Country Risk is the risk that an occurrence within a country could have an adverse affect 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 - Bank

31 December 2013	Sri Lanka LKR '000	Europe LKR '000	America LKR '000	Asia LKR '000	Middle East LKR '000	New Zealand LKR '000	Total LKR '000
Cash and cash equivalents	1,904,820	178,290	241,868	278,833	583	6,681	2,611,075
Balances with Central Bank	5,339,000	-	-	-	-	-	5,339,000
Placements with banks	130,751	-	-	-	-	-	130,751
Derivative financial instruments	1,149,541	-	-	-	-	-	1,149,541
Other financial assets held-for-trading	10,720,689	-	-	-	-	-	10,720,689
Loans and Receivables to banks	641,628	-	-	-	-	-	641,628
Loans and Receivables to other customer	136,821,532	-	-	-	-	-	136,821,532
Financial Investments - From Loans and receivables	15,837,455	-	-	-	-	-	15,837,455
Financial Investments - Available-for-sale	5,982,450	-	-	-	-	-	5,982,450
Financial Investments - Held-to-maturity	17,602,249	-	-	-	-	-	17,602,249
Total Financial Assets	196,130,115	178,290	241,868	278,833	583	6,681	196,836,370
Contingent Assets	169,254,240	5,156,000	2,422,000	368,000	-	-	177,200,240

Geographical Analysis - Group

31 December 2013	Sri Lanka LKR '000	Europe LKR '000	America LKR '000	Asia LKR '000	Middle East LKR '000	New Zealand LKR '000	Total LKR '000
Cash and cash equivalents	1,969,271	178,290	241,868	278,833	583	6,681	2,668,262
Balances with Central Bank	5,339,000	-	-	-	-	-	5,339,000
Placements with banks	130,751	-	-	-	-	-	130,751
Derivative financial instruments	1,149,541	-	-	-	-	-	1,149,541
Other financial assets held for trading	14,194,141	-	-	-	-	-	14,194,141
Loans and Receivables to banks	641,628	-	-	-	-	-	641,628
Loans and Receivables to other customer	136,881,713	-	-	-	-	-	136,881,713
Financial Investments - Loans and receivables	16,791,701	-	-	-	-	-	16,791,701
Financial Investments - Available-for-sale	6,167,450	-	-	-	-	-	6,167,450
Financial Investments - Held-to-maturity	18,460,591	-	-	-	-	-	18,460,591
Total Financial Assets	201,725,787	178,290	241,868	278,833	583	6,681	202,424,778
Contingent Assets	169,254,240	5,156,000	2,422,000	368,000	-	-	177,200,240

44.3 Liquidity Risk and Funding Management

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

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

The Bank maintains a portfolio of marketable and diverse assets that are assumed to be liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition the bank maintains a statutory deposit with the Central Bank of 6% of customer deposits.

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

Liquidity Ratios

Liquid Asset Ratio

The Bank defines liquid assets for the purposes of the liquidity ratio as cash balances short-term interbank deposits and highly rated debt securities available for immediate sale and for which a liquid market exists. The Bank is expected to maintain a minimum liquid asset ratio of 20% on a daily basis.

An internally set prudential liquid asset ratios on top of the regulatory requirement level ensures that the Bank is maintaining adequate liquidity buffer throughout the year.

Year end	2013 %	2012 %
Year - end	27.33	24.92
Maximum	31.32	27.67
Minimum	24.40	23.17
Average	26.86	24.35

Advances to Deposit Ratio (ADR)

The Bank stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the ADR, which compares loans and receivables to customers as a percentage of core customer current and savings accounts, together with term funding with a remaining term to maturity in excess of one year. Loans to customers that are part of reverse repurchase arrangements, and where the Bank receives securities which are deemed to be liquid are excluded from the advances to deposits ratio.

Year end	2013 %	2012 %
Year-end	105.87	108.90
Maximum	106.20	114.29
Minimum	103.60	108.90
Average	105.00	112.10



Liquidity Risk and Funding Management

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2013.

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities

As at 31 December 2013	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Assets							
Cash and Bank balances with Central Bank	7,950,075	-	-	-	-	-	7,950,075
Less: Restricted balance	(5,554,021)	-	-	-	-	-	(5,554,021)
Placements with banks	-	-	130,751	-	-	-	130,751
Financial assets held-for-trading	-	-	3,627,615	7,492,096	-	-	11,119,711
Derivative financial instruments	-	1,149,541	-	-	-	-	1,149,541
Loans and receivables to banks	-	-	135,990	284,635	272,450	45	693,120
Loans and receivables to other customers	33,889,211	-	46,016,531	20,745,936	47,905,028	11,736,540	160,293,246
Other financial assets classified as loans and receivables	-	-	5,326,689	133,103	10,248,955	136,262	15,845,010
Financial assets - Held-to-maturity	-	-	5,147,025	4,782,287	9,032,200	-	18,961,512
Financial assets - Available-for-sale	-	-	774,888	1,459,526	1,699,655	4,685,905	8,619,974
Total Undiscounted Financial Assets	36,285,265	1,149,541	61,159,488	34,897,583	69,158,288	16,558,752	219,208,917
Financial Liabilities							
Due to banks	2,891,711	-	8,492,120	1,987,691	-	-	13,371,521
Derivative financial instruments	-	817,310	-	-	-	-	817,310
Due to customers	39,879,905	-	41,028,338	49,014,929	3,772,088	-	133,695,260
Debt Securities issued and other borrowed funds	-	-	9,837,505	4,083,836	9,180,630	1,531,579	24,633,551
Subordinated term debts	-	-	123,029	1,901,570	10,191,683	13,215,124	25,431,408
Total Undiscounted Financial Liabilities	42,771,615	817,310	59,480,993	56,988,026	23,144,402	14,746,704	197,949,049
Net Undiscounted Financial Assets and Liabilities	(6,486,351)	332,231	1,678,495	(22,090,443)	46,013,887	1,812,048	21,259,868

Contractual Maturities for Contingencies

The table below summarizes the maturity profile of the Bank's Contingent Liabilities as at 31 December 2013.

	On Demand LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Undisbursed financing commitments	63,999,574	-	-	-	-	63,999,574
Guarantees	944,260	3,845,894	6,814,099	3,921,125	4,128,232	19,653,611
Commitments on account of Letters of Credit	736,312	5,589,470	961,374	-	-	7,287,156
Forward exchange contracts	9,331,461	38,813,787	31,699,570	-	-	79,844,817
Acceptances	230,023	4,096,632	2,088,427	-	-	6,415,082
	75,241,630	52,345,783	41,563,470	3,921,125	4,128,233	177,200,240

45. Maturity Analysis

A maturity analysis of the assets and liabilities of the Bank, based on the remaining period to the contractual maturity date, as at the date of the Statement of Financial Position is as follows:

Bank	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	2,611,075	–	2,611,075
Balance with Central Bank	5,226,954	112,046	5,339,000
Placements with banks	130,751	–	130,751
Derivative financial instruments	1,149,541	–	1,149,541
Other financial assets held-for-trading	10,720,689	–	10,720,689
Loans and receivables to banks	388,941	252,687	641,628
Loans and receivables to other customers	95,959,296	40,862,236	136,821,532
Financial investments - loans and receivables	5,633,443	10,204,012	15,837,455
Financial investments - available-for-sale	5,982,450	–	5,982,450
Financial investments - held-to-maturity	9,243,577	8,358,672	17,602,249
Investments in subsidiary companies	–	2,037,585	2,037,585
Investments in associate companies	–	61,967	61,967
Intangible assets	–	260,425	260,425
Property, plant & equipment	–	872,890	872,890
Other assets	328,865	860,526	1,189,391
Total Assets	137,375,581	63,883,047	201,258,628
Liabilities			
Due to banks	10,453,086	–	10,453,086
Derivative financial instruments	817,310	–	817,310
Due to other customers	126,919,836	2,910,193	129,830,029
Debt securities issued and other borrowed funds	13,762,024	10,658,794	24,420,818
Tax liabilities	266,128	–	266,128
Deferred tax liabilities	288,532	23,900	312,432
Employee benefit liability	–	170,008	170,008
Other liabilities	1,981,974	1,703,691	3,685,665
Subordinated term debts	563,082	11,119,592	11,682,674
Total Liabilities	155,051,973	26,586,178	181,638,150
Equity			
Capital	–	1,172,904	1,172,904
Statutory reserve fund	–	958,527	958,527
Investment fund account	–	1,706,751	1,706,751
Available-for-sale reserve	106,669	–	106,669
Share based payment reserve	–	22,367	22,367
Retained earnings	–	15,653,260	15,653,260
Total Equity to Equity owners of the Bank	106,669	19,513,809	19,620,478
Total Liabilities and Equity as at 31 December 2013	155,158,641	46,099,987	201,258,628



Maturity Analysis

Group	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	2,668,262	–	2,668,262
Balance with Central Bank	5,226,954	112,046	5,339,000
Placements with banks	130,751	–	130,751
Derivative financial instruments	1,149,541	–	1,149,541
Other financial assets held-for-trading	14,194,141	–	14,194,141
Loans and receivables to banks	388,941	252,687	641,628
Loans and receivables to other customers	96,019,476	40,862,237	136,881,713
Financial investments - loans and receivables	6,496,565	10,295,136	16,791,701
Financial investments - available-for-sale	6,167,450	–	6,167,450
Financial investments - held-to-maturity	9,261,070	9,199,521	18,460,591
Investments in subsidiary companies	–	–	–
Investments in associate companies	–	76,744	76,744
Investment property	–	1,383,693	1,383,693
Intangible assets	–	296,678	296,678
Property, plant & equipment	–	1,176,491	1,176,491
Other assets	598,210	860,527	1,458,737
Total Assets	142,301,361	64,515,760	206,817,121
Liabilities			
Due to banks	10,453,086	–	10,453,086
Derivative financial instruments	817,310	–	817,310
Due to other customers	126,601,031	2,820,782	129,421,813
Debt securities issued and other borrowed funds	13,762,025	10,628,793	24,390,818
Tax liabilities	300,196	–	300,196
Deferred tax	298,033	26,418	324,451
Provision	–	214,830	214,830
Other liabilities	2,146,599	1,703,690	3,850,289
Subordinated term debts	563,082	11,119,592	11,682,674
Total Liabilities	154,941,360	26,514,107	181,455,467
Equity			
Capital	–	943,746	943,746
Statutory reserve fund	–	958,527	958,527
Investment fund account	–	1,706,751	1,706,751
Available-for-sale reserve	150,614	–	150,614
Share-based payment reserve	–	22,367	22,367
Retained earnings	–	20,731,801	20,731,801
Minority interests	–	847,848	847,848
Total equity	150,614	25,211,040	25,361,654
Total Liabilities equity as at 31 December 2013	154,941,364	51,725,147	206,817,121

46. Commitments and Contingencies

46.1 Business Commitments

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

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Undisbursed financing commitments	63,999,574	49,437,265	63,999,574	49,437,265
Guarantees	15,723,292	11,555,442	15,723,292	11,555,442
Performance bonds and bid bonds	3,930,319	2,803,947	3,930,319	2,803,947
Letters of credit	7,287,156	7,167,960	7,287,156	7,167,960
Forward exchange contracts	79,844,817	81,910,290	79,844,817	81,910,290
Acceptances	6,415,082	5,865,916	6,415,082	5,865,916
	177,200,240	158,740,820	177,200,240	158,740,820

46.2 Litigation Against the Bank

In the normal course of business, the Bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their loan agreements. As at the date of The Statement of Financial Position fifteen client companies have filed cases against the Bank, preventing the sale of assets mortgaged to the Bank. The Bank's legal counsel is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or the future operations of the Bank.

47. Events Occurring after the Date of the Statement of Financial Position

47.1 The Board of Directors of DFCC Bank (DFCC) and National Development Bank (the Bank), in pursuance of the policies announced by the Government encouraging the consolidation of certain banking businesses, are about to commence preliminary discussion with a view to achieving such consolidation. The consolidation of the two entities will be dependent on relevant approvals and possibly, passage of facilitative legislation.

47.2 On 13 February 2014, the Board of Directors of the Bank authorized and approved a final dividend of LKR 5.00 per share for the financial year 2013. (2012 - final dividend of LKR 10.00 per share).

This will be paid out of dividend income received by the Bank and from the operational profits, the latter portion being liable to a dividend tax at 10%. (Rs. 4.36 per share will be out of Dividend Income - Net of Tax, and the balance cents 64 will be subject to 10% Withholding Tax).



48. Comparative Information

The classification of following items in the Statement of Financial Position were amended to ensure proper presentation in the Financial Statements.

			BANK	GROUP	BANK	GROUP
			2013 LKR '000	2013 LKR '000	2012 LKR '000	2012 LKR '000
Assets						
As reported Previously:	Current Presentation:					
Securities purchased under resale agreements	Financial Investments - Loans and Receivables	(Refer Note 20)	4,919,825	4,927,429	3,324,868	3,324,868
Financial Assets held-for-trading	Other Financial Assets held-for-trading	(Refer Note 17)	9,115,614	9,115,614	982,967	982,967
Lease rentals receivables	Loans and Receivables to other customers	(Refer Note 19)	8,428,409	8,428,409	6,439,571	6,439,571
Liabilities						
Securities sold under repurchase agreements	Debt Securities issued and other borrowed funds	(Refer Note 31)	11,771,598	11,771,598	12,515,861	12,515,861

49. Segmental Analysis - Group

For the year ended 31 December	Banking		Capital Markets		Property Investment		Others		Consolidated	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Revenue										
External income	24,559,508	19,468,265	469,772	5,897,725	194,756	123,646	-	610,059	25,224,037	26,099,695
Inter-segment income	-	-	23,319	51,794	55,949	41,001	-	-	79,268	92,795
Total Income	24,559,508	19,468,265	493,091	5,949,519	250,705	164,647	-	610,059	25,303,305	26,192,490
Segment Expenses	(19,959,230)	(15,413,846)	(496,230)	(332,705)	(123,442)	(61,300)	-	6,234	(20,578,903)	(15,801,617)
Segment Results	4,600,278	4,054,419	(3,141)	5,616,814	127,264	103,347	-	616,293	4,724,401	10,390,873
Share of associate companies profit before taxation	-	-	-	-	-	-	49,220	438,719	49,220	438,720
Taxation	-	-	-	-	-	-	-	-	(1,150,893)	(1,275,368)
VAT on financial services	-	-	-	-	-	-	-	-	(910,500)	(622,286)
Profit after taxation	-	-	-	-	-	-	-	-	2,712,228	8,931,939
Other information										
Segment assets	201,189,884	163,474,297	4,091,993	8,921,190	1,458,500	1,674,283	-	-	206,740,377	174,069,770
Investment in associates	-	-	-	-	-	-	76,744	33,301	76,744	33,301
Consolidated total assets									206,817,121	174,103,071
Segment liabilities	181,192,251	148,283,244	207,262	73,581	55,956	36,794	-	-	181,455,467	148,393,619
Consolidated total liabilities									181,455,467	148,393,619
Segmental cash flows										
Cash Flows from Operating Activities	4,512,522	12,235,016	(309,949)	(95,356)	96,878	(712)	83,333	260,351	4,382,784	12,399,299
Cash Flows from Investing Activities	(17,739,826)	(154,163)	271,196	196,967	(60,097)	37,493	(81,895)	(1,412,701)	(17,610,622)	(1,332,406)
Cash Flows from Financing Activities	8,193,589	(6,493,464)	(60,087)	(111,907)	(36,779)	(36,781)	-	(1,193,545)	8,096,722	(5,448,607)

50. Related Party Disclosures

50.1 Parent and Ultimate Control Party

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

50.2 Transactions with Key Management Personnel and their Close Family Members

Related parties include Key Management Personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Bank and its subsidiaries. Key Management Personnel include the members of the Board of Directors of the Bank, key employees who are holding directorships in subsidiary companies and other key employees who meet the criteria mentioned above. The Bank carries out transactions with key management and their related concerns 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 uniformly applicable to all the staff.

	2013 LKR '000	2012 LKR '000
50.2.1 Compensation to Key Management Personnel of the Bank		
Short-term employee benefits	248,754	193,331
Post-employment benefits (defined benefit plan)	4,072	7,258
Share-based payment transactions	12,828	10,080
	265,654	210,669

The amounts disclosed above are the amounts recognized as an expense during the reporting period related to Key Management Personnel.

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

	2013	2012
50.2.1.1 Share-Based Payments to Key Management Personnel		
Share Grant		
Award 01 (1 July 2010)		
No. of ordinary shares held	261,916	246,867
No. of cumulative grants allocated under the Equity-Linked Compensation Plan (ELCP) Tranche 1 (1 July 2010)	261,916	246,867
Award 04 (1 July 2013)		
No. of ordinary shares held	276,212	–
No. of cumulative grants allocated under the Equity-Linked Compensation Plan (ELCP) Tranche 4 (1 July 2013)	276,212	–

Share Options

Share options held by Key Management Personnel under the Equity-Linked Compensation Plan (ELCP) to purchase ordinary shares have the following expiry dates and exercise prices.

	Issue date	Expiry date	Exercise Price LKR	2013 Number Outstanding	2012 Number Outstanding
Award 01	1 July 2010	30 June 2014	124.21	261,916	246,867
Award 04	1 July 2013	30 June 2017	222.02	276,212	–

50.2.2 Key Management of the Bank and their close family members had the following facilities with the Bank as at 31 December:

As at	31.12.2013 LKR '000	31.12.2012 LKR '000
Deposits	312,116	228,488
Loans and Receivables	76,693	64,308
Credit cards	1,759	1,042
Investment in debentures	14,700	–
For the year		
- Interest income	6,766	5,322
- Interest expenses	32,860	23,074

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

As at	31.12.2013 LKR '000	31.12.2012 LKR '000
Loans and Receivables	1,967,742	2,767,736
Commitments and contingencies	549,317	130,830
Forex transactions	1,307,500	–
Deposits	685,903	2,139,049
For the year		
- Interest income	234,578	361,382
- Interest expenses	60,989	42,053
- Fee and commission Income	19,134	10,536
- Capital expenditure and services rendered	79,104	12,478

	31.12.2013	31.12.2012
50.2.4 Direct and Indirect Accommodation to Key Management Personnel and their close family members & Entities that have Significant Influence		
Direct and indirect accommodation as a percentage of the Bank's regulatory capital	9.54	19.82

50.3 Transactions with the Government of Sri Lanka and its Related Entities

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

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

As at	31.12.2013 LKR '000	31.12.2012 LKR '000
Loans and Receivables	2,546,153	2,579,503
Investments	–	3,224,905
Deposits	57,534	23,275
Repo borrowings	2,294,000	1,064,215
Borrowings	1,546,000	700,000
Debentures	2,455,890	–
Concessionary credit lines	6,946,460	8,555,805
Guarantees	67,066	68,468
Forex transactions	4,214,929	9,065,250
For the year		
- Interest income	1,164,400	367,228
- Interest expenses	1,014,397	979,404
- Fee and commission income	5,466	826

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

- Investment in Treasury Bills, Treasury Bonds and Development Bonds
- Payment of statutory rates and taxes
- Payment for utilities mainly comprising of telephone, electricity and water
- Payment for employment retirement benefits - ETF

	31.12.2013 %	31.12.2012 %
50.3.3 Direct and Indirect Accommodation to Government of Sri Lanka and its Related Entities		
Direct and indirect accommodation as a percentage of the Bank's regulatory capital	9.60	17.71



50.4 Transactions with Related Entities

50.4.1 The Bank had the under mentioned financial dealings during the year with the following subsidiaries and associates of the Bank:

	Subsidiaries of the Group*		Associates of the Group*	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Loans and Receivables	1	4	–	–
Group company receivables	1,646	1,100	–	–
Deposit	289,937	228,502	–	1
Other payables	204	2,862	–	–
Investment in ordinary shares net of provisions for impairment	2,037,585	2,641,178	61,968	18,525
Disposal of investments	582,714	80,862	–	268,373

	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Income Statement				
Interest received/(paid) - Net	(44,476)	(48,282)	–	(22,060)
Rent and utilities received	20,136	15,477	–	2,590
Rent and utilities paid	18,305	18,937	–	–
Management fees received/(paid) - Net	(23,120)	5,788	–	–
Front end fees received	–	952	–	–
Bancassurance income	–	–	–	9,251
Insurance paid	–	–	–	119,947
Insurance claims received	–	–	–	25,813
Share Brokerage fees paid	7,436	1,240	–	–
Dividends received	700,203	95,698	–	–
Capital gains	5,372,060	501,759	–	33,958

* Refer Note 23 and Note 24 for details of Subsidiary and Associate Companies.

50.4.2 The Bank had the under mentioned financial dealings during the year with NDB Provident Fund:

	2013 LKR '000	2012 LKR '000
Deposits	51,661	22,908
Interest paid on deposits during the year	2,585	2,618
Contribution made by the Bank	163,732	138,864

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

	2013 LKR '000	2012 LKR '000
Portfolio under management	1,340,823	933,491

50.4.4 The Bank had the under mentioned financial dealings with the NDB Pension Fund during the year.

	2013 LKR '000	2012 LKR '000
Deposits	112,893	–
Contribution made by the Bank	28,850	22,706

50.4.5 The Bank had the under mentioned financial dealings with the NDB Employee Share Ownership Plan during the year.

	2013	2012
No. of ordinary shares held	4,133,726	4,133,726
Dividends paid by the Bank (LKR '000)	82,675	16,535

	31.12.2013 %	31.12.2012 %
50.4.6 Direct and Indirect Accommodation of Related Companies		
Direct and indirect accommodation as a percentage of the Bank's regulatory capital	–	–

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

1.1.1	Disclosures on categories of financial assets and financial liabilities	Note 42 to the Financial Statements - Measurement of Financial Instruments
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 43 to the Financial Statements - Fair value of financial instruments Note 44 to the Financial Statements - Risk Management
	(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 44.1 to the Financial Statements
	(iv) Reconciliation of the allowance account for credit losses by class of financial assets.	Note 19.5 to the Financial Statements
	(v) Information about compound financial instruments with multiple embedded derivatives.	Not Applicable
	(vi) Breaches of terms of loan agreements.	None

1.2 Statement of Comprehensive Income

1.2.1	Disclosures on items of income, expense, gains and losses	Note 3 to Note 10 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 3.1 and 3.4 to the Financial Statements
	(ii) Fee income and expense.	Note 4 to the Financial Statements
	(iii) Amount of impairment losses by class of financial assets.	Note 7 to the Financial Statements
	(iv) Interest income on impaired financial assets.	Note 3.3 to the Financial Statements

1.3 Other Disclosures

1.3.1	Accounting Policies for financial instruments	Accounting Policies No 2.3.4 and 2.3.5 to the Financial Statements
1.3.2	Information on hedge accounting	Not Applicable
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with-	
	(i) Comparable carrying amounts.	Note 43 to the Financial Statements - Fair value of financial instruments
	(ii) Description of how fair value was determined.	Accounting Policy No 2.2 to the Financial Statements
	(iii) The level of inputs used in determining fair value.	Accounting Policy No 2.2 to the Financial Statements
	(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 43.b to the Financial Statements
	(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

2.1.1	Risk exposures for each type of financial instrument	Note 43 - Risk Management of the Financial Statements
2.1.2	Management's objectives, policies, and processes for managing those risks	Please refer Risk Management on Pages 141 to 162
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 43 - 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 44 - Risk Management of the Financial Statements and Pages 141 to 164 on Risk Management

(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 44.1 - Risk Management of the Financial Statements

(ii) Liquidity Risk-

- (a) A maturity analysis of financial liabilities.
- (b) Description of approach to risk management.
- (a) For other disclosures, refer Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).

Note 44.3 - Liquidity Risk and Funding Management of the Financial Statements

(iii) Market Risk-

- (c) A sensitivity analysis of each type of market risk to which the entity is exposed.
- (d) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.
- (e) For other disclosures, refer Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).

Note 44.2 - 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).

Pages 160 to 163 on Risk Management

(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.

Not Applicable

(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 realised gains/(losses) arising from sales and liquidations in the reporting period.	} Not Applicable
(vi) Interest rate risk in the banking book (a) Qualitative disclosures - Nature of interest rate risk in the banking book (IRRBB) and key assumptions.	Note 44.2 - Interest Rate Risk of the Financial Statements
(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 44.2 - Interest Rate Risk of the Financial Statements
2.2.3 Information on concentration of risk	Note 44.1 - 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 I capital (b) The total amount of Tier II and Tier III capital (c) Other deductions from capital (d) Total eligible capital	} Pages 271 to 275 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 144 to 145 on Risk Management
(ii) Quantitative disclosures (a) Capital requirements for credit risk, market risk and operational risk (b) Total and Tier I capital ratio	} Pages 271 to 275 on Capital Adequacy

This term is used to describe the adequacy of the Bank's aggregate capital in relation to the risks which arise from its assets and its off-balance sheet transactions, its dealing operations and its human activities, technology and natural incidents. Central Bank of Sri Lanka has prescribed the minimum risk sensitive capital, and effective from 1 January 2008 required the Bank to compute the minimum

capital in accordance with the 'International Convergence of Capital Measurement and Capital Standards - a Revised Framework' (Basel II). The aim is to ensure minimum capital, commensurate with risks assumed by the Bank, is maintained as a buffer to absorb foreseeable future credit, market and operational losses.

Basis of Computation

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

Capital Base as at 31 December	BANK	
	2013 LKR '000	2012 LKR '000
Tier I: Core Capital		
Capital	1,172,904	1,093,095
Statutory reserve fund	958,527	878,718
Investment fund account	1,706,751	924,332
Available-for-sale reserve	106,669	-
Share based payment reserve	22,367	-
Retained earnings	15,653,260	12,046,256
Total equity	19,620,478	14,942,401
Less: Available-for-sale reserve and charges to other comprehensive income	74,598	-
Total equity considered for Tier I capital	19,545,880	14,942,401
Deductions - Tier I		
Intangible assets	260,425	272,314
50% investments in unconsolidated banking and financial subsidiaries	904,717	1,206,514
50% investments in capital of other banks and financial institutions	30,984	9,263
Eligible Tier I Capital	18,349,754	13,454,310
Tier II: Supplementary Capital		
General provision	641,815	528,401
Approved subordinated term debt	9,163,692	2,188,350
	9,805,507	2,716,751
Deductions - Tier II		
50% investments in unconsolidated banking and financial subsidiaries	904,717	1,206,514
50% investments in capital of other banks and financial institutions	30,984	9,263
	935,701	1,215,777
Eligible Tier II Capital	8,869,806	1,500,974
Capital Base (Tier I + Tier II)	27,219,560	14,955,284



	BANK				
	Principal Amount of On-Balance Sheet Items		Risk Weights	Risk-Weighted Assets	
	2013 LKR '000	2012 LKR '000	%	2013 LKR '000	2012 LKR '000
Risk-Weighted Assets and Off-Balance Sheet Exposure					
Cash, Treasury Bills and other securities with Central Bank	43,908,753	29,542,462	0	–	–
Loans against cash deposits, gold and guarantees	11,091,809	11,847,144	0	–	–
Claims on banks	2,002,596	6,719,738	20 - 100	836,820	1,673,817
Claims on financial institutions	9,201,018	10,811,311	50 - 100	4,916,134	7,156,750
Loans secured by primary mortgage	5,360,620	5,446,713	50	2,680,310	2,723,356
Other claims	112,381,172	89,027,408	20 - 150	102,578,786	82,465,798
Property, plant & equipment	872,890	856,194	100	872,890	856,194
Other assets	2,554,940	738,471	100	2,554,940	738,471
Total On-Balance Sheet Assets Considered for Credit Risk	187,373,798	154,989,441		114,439,880	95,614,386

	BANK				
	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit Equivalent Off-Balance Sheet Items	
	2013 LKR '000	2012 LKR '000	%	2013 LKR '000	2012 LKR '000
General guarantees of indebtedness	11,587,079	6,304,827	100	11,587,079	6,304,827
Stand by LCs relating to particular transactions	35,168	36,193	50	17,584	18,096
Performance bonds and bid bonds	3,909,259	2,784,498	50	1,954,630	1,392,249
Trade related acceptances and advance documents endorsed	8,301,839	7,370,072	20	1,660,368	1,474,014
Shipping guarantees	678,659	1,186,614	20	135,732	237,323
Documentary letter of credit	6,986,428	7,124,801	20	1,397,286	1,424,960
Undrawn term loans	2,882,331	1,399,849	0, 20 & 50	1,385,899	693,022
Foreign exchange contracts	62,235,214	64,384,677	2 & 5	1,244,704	1,300,125
Undrawn overdrafts and credit lines	7,004,968	5,838,596	0	–	–
Other unutilized facilities	54,112,275	43,473,820	0, 20 & 50	88,206	130,335
Total Off-Balance Sheet Exposure	157,733,220	139,903,947		19,471,488	12,974,951

	2013 LKR '000	2012 LKR '000
Capital Charge for Market Risk		
Capital charge for interest rate risk	85,493	12,544
Capital charge for equity securities and unit trusts	321,015	–
Capital charge for foreign exchange and gold	131,679	158,255
Total capital charge for market risk	538,187	170,799
Total risk-weighted assets equivalent for market risk	5,381,870	1,707,988
Capital Charge for Operational Risk		
Gross Income:		
Year 1	7,015,947	5,682,271
Year 2	8,216,803	7,015,947
Year 3	10,842,463	8,216,803
Average gross income	8,691,737	6,971,674
Total capital charge for operational risk at 15%	1,303,761	1,045,751
Total risk-weighted assets equivalent for operational risk	13,037,606	10,457,510
Total risk-weighted assets and Off-Balance Sheet exposure	152,330,844	120,754,835
Risk-Weighted Capital Ratios		
Tier I (Required statutory minimum ratio is 5%)	12.05%	11.14%
Tier I & Tier II (Required statutory minimum ratio is 10%)	17.87%	12.38%



Capital Base as at 31 December	GROUP	
	2013 LKR '000	2012 LKR '000
Tier I: Core Capital		
Capital	943,746	863,937
Statutory reserve fund	958,527	878,718
Investment fund account	1,706,751	924,332
Available-for-sale reserve	150,614	–
Share based payment reserve	22,367	–
Retained earnings	20,731,801	22,216,054
Non-controlling interest	847,848	826,411
Total equity	25,361,654	25,709,452
Less: Available-for-sale reserve and charges to other comprehensive income	129,169	21,784
Total equity considered for Tier I capital	25,232,485	25,687,668
Deductions - Tier I		
Intangible assets	296,678	318,723
50% investments in the capital of other banks and financial institutions	199,153	88,943
Eligible Tier I Capital	24,736,654	25,280,002
Tier II: Supplementary Capital		
General provision	641,815	528,401
Approved subordinated term debt	9,163,692	2,188,350
	9,805,507	2,716,751
Deductions - Tier II		
50% investments in the capital of other banks and financial institutions	199,153	88,943
Eligible Tier II Capital	9,606,354	2,627,808
Capital base (Tier I + Tier II)	34,343,008	27,907,810

Risk-Weighted Assets and Off-Balance Sheet Exposure	GROUP				
	Principal Amount of On-Balance Sheet Items		Risk Weights	Risk-Weighted Assets	
	2013 LKR '000	2012 LKR '000		2013 LKR '000	2012 LKR '000
Cash, Treasury Bills & other securities with Central Bank	43,916,468	29,542,538	0	–	–
Loans against cash deposits and gold	11,091,809	11,847,144	0	–	–
Claims on banks	2,175,349	6,874,251	20 - 100	909,136	1,722,775
Claims on financial institutions	10,131,860	11,171,411	20 - 100	5,281,526	7,370,650
Loans secured by primary mortgage	5,360,620	5,446,713	50	2,680,310	2,723,356
Other claims	113,056,556	99,252,404	20 - 150	102,889,804	92,690,794
Property, plant & equipment	2,612,330	2,515,678	100	2,612,330	2,515,678
Other assets	2,812,925	1,086,268	100	2,812,925	1,086,268
Total On-Balance Sheet Assets Considered for Credit Risk	191,157,917	167,736,407		117,186,031	108,109,521

	GROUP				
	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit Equivalent Off Balance Sheet Items	
	2013 LKR '000	2012 LKR '000	%	2013 LKR '000	2012 LKR '000
General guarantees of indebtedness	11,587,079	6,304,827	100	11,587,079	6,304,827
Stand by LCs relating to particular transactions	35,168	36,193	50	17,584	18,096
Performance bonds and bid bonds	3,909,259	2,784,498	50	1,954,630	1,392,249
Trade related acceptances and advance documents endorsed	8,301,839	7,370,072	20	1,660,368	1,474,014
Shipping guarantees	678,659	1,186,614	20	135,732	237,323
Documentary letter of credit	6,986,428	7,124,801	20	1,397,286	1,424,960
Undrawn term loans	2,882,331	1,399,849	0, 20 & 50	1,385,899	693,022
Foreign exchange contracts	62,235,214	64,384,677	2 & 5	1,244,704	1,300,125
Undrawn overdrafts and credit lines	7,004,968	5,838,596	0	–	–
Other unutilized facilities	54,112,275	43,473,820	0, 20 & 50	88,206	130,335
Total Off-Balance Sheet Exposure	157,733,220	139,903,947		19,471,488	12,974,951

	2013 LKR '000	2012 LKR '000
Capital Charge for Market Risk		
Capital charge for interest rate risk	85,493	12,544
Capital charge for equity securities and unit trusts	969,583	13,268
Capital charge for foreign exchange and gold	131,679	158,255
Total capital charge for market risk	1,186,755	184,067
Total risk-weighted assets equivalent for market risk	11,867,554	1,840,666
Capital Charge for Operational Risk		
Gross Income:		
Year 1	8,264,211	6,773,117
Year 2	9,255,352	8,264,211
Year 3	11,917,874	9,255,352
Average gross income	9,812,479	8,097,560
Total capital charge for operational risk at 15%	1,471,872	1,214,634
Total risk-weighted assets equivalent for operational risk	14,718,719	12,146,340
Total risk-weighted assets and Off-Balance Sheet exposure	163,243,792	135,071,478
Risk-Weighted Capital Ratios		
Tier I (Required statutory minimum ratio is 5%)	15.15%	18.72%
Tier I & Tier II (Required statutory minimum ratio is 10%)	21.04%	20.66%

1. Listing Details

Listed Exchange : Colombo Stock Exchange (CSE) - Main Board

Listed Securities : Ordinary shares
Rated Unsecured Subordinated Redeemable Debentures

Stock Symbol : NDB.N0000

2. Submission of Financial Statements to the Colombo Stock Exchange as per Listing Rules - 2013

Financial statements	Submission to CSE as per rule 7.4 & 7.5 of the Listing Rules of the CSE	Date of submission by the Bank	Level of compliance
Unaudited Financial Statements - Q1	Within 45 days from the end of the quarter	14 May 2013	Complied
Unaudited Financial Statements - Q2	Within 45 days from the end of the quarter	14 August 2013	Complied
Unaudited Financial Statements - Q3	Within 45 days from the end of the quarter	14 November 2013	Complied
Unaudited Financial Statements - Q4	Within 60 days from the end of the quarter	13 February 2014	Complied
Audited financial statements for the year ended 31 December 2013	Within five months from the year end	Submitted with the Annual Report of the Company	Complied

The full report on Accounts and Interim Financial Statements can be viewed on our WEB site (<http://www.ndbbank.com/Investor and Community Relations>)

3. Bank's Credit Ratings

The Bank's credit ratings are as follows:

Fitch Ratings Lanka Ltd.

National Long Term Rating AA (-) lka/Stable Outlook [2012: AA (lka)/Negative Outlook]

International Rating B+/Stable Outlook

Standard and Poor Rating Services

International Rating B+ (long-term)/Stable Outlook

B (Short-Term)/Stable Outlook

4. Analysis of Ordinary Shareholders as at 31 December 2013 as per Rule 7.6 (x) of the Listing Rules of the Colombo Stock Exchange

(i)

Shareholding Range	As at 31.12.2013				As at 31.12.2012			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1 - 1,000	5,212	67.73	1,760,740	1.10	5,497	65.64	1,956,081	1.19
1,001 - 10,000	2,048	26.61	6,352,964	3.90	2,361	28.19	7,454,083	4.54
10,001 - 100,000	346	4.50	10,076,661	6.10	428	5.11	12,384,077	7.54
100,001 - 1,000,000	61	0.79	20,039,880	12.20	65	0.78	20,884,079	12.72
Over 1,000,000	28	0.37	126,462,789	76.70	23	0.28	116,323,582	70.84
Total	7,695	100.00	164,693,034	100.00	8,374	100.00	159,001,902*	96.83*

* Out of the 164,201,902 shares in issue as at 31 December 2012, 5,200,000 shares which were issued in 2006 representing 3.17% was not allotted.

(ii) Resident/Non-Resident Shareholding

Shareholding	As at 31.12.2013				As at 31.12.2012			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Resident	7,529	98.00	115,337,647	70.00	8,190	98.00	114,930,484	69.99
Non-resident	166	2.00	49,355,387	30.00	184	2.00	44,071,418	26.86
Total	7,695	100.00	164,693,034	100.00	8,374	100.00	159,001,902*	96.83*

* Out of the 164,201,902 shares in issue as at 31 December 2012, 5,200,000 shares which were issued in 2006 representing 3.17% was not allotted.

(iii) Individual/Institutional Shareholding

Shareholding	As at 31.12.2013				As at 31.12.2012			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Individual	7,243	94.00	30,769,120	19.00	7,852	94.00	33,477,540	20.38
Institutional	452	6.00	133,923,914	81.00	522	6.00	125,524,362	76.45
Total	7,695	100.00	164,693,034	100.00	8,374	100.00	159,001,902*	96.83*

* Out of the 164,201,902 shares in issue as at 31 December 2012, 5,200,000 shares which were issued in 2006 representing 3.17% was not allotted.

5. 20 Largest Registered Shareholders of the Bank as at 31 December 2013:

Name	2013		2012	
	No of Shares	%	No of Shares	%
1. Bank of Ceylon No. 1 Account	16,371,076	9.94	16,371,076	9.97
2. Employees' Provident Fund	16,010,248	9.72	15,810,248	9.63
3. Sri Lanka Insurance Corporation Ltd. - General Fund	9,388,488	5.70	9,388,488	5.72
4. Dr S Yadehige	8,669,000	5.26	8,669,000	5.28
5. HSBC International Nominees Ltd. - SNFE - NTAsian Discovery Master Fund	8,432,154	5.12	4,686,400	2.85
6. Sri Lanka Insurance Corporation Ltd. - Life Fund	7,805,426	4.74	7,805,426	4.75
7. HSBC International Nominees Ltd. - BPSS LUX - Aberdeen Global Asia Pacific Equity Fund	5,715,450	3.47	5,715,450	3.48
8. Employees' Trust Fund Board	5,303,700	3.22	5,303,700	3.23
9. HSBC International Nominees Ltd. - MSNY - BAY Pond Partners L.P.	4,501,200	2.73	4,501,200	2.74
10. HSBC International Nominees Ltd. - BPSS LDN - Aberdeen Asia Pacific Fund	4,294,800	2.61	4,294,800	2.62
11. Hatton National Bank PLC A/C No. 01	4,282,200	2.60	4,282,200	2.61
12. NDB-ESOP	4,133,726	2.51	4,133,726	2.52
13. Asian Alliance Insurance PLC - Account Number 03/Life Shareholders' Fund	3,450,977	2.10	3,500,000	2.13
14. BNY-CF Ruffer Investment Funds: CF Ruffer Pacific Fund	3,000,000	1.82	3,000,000	1.83
15. Mr A K Pathirage	2,970,000	1.80	3,470,000	2.11
16. Asian Alliance Insurance PLC - General Fund Account No. 01	2,540,977	1.54	2,741,700	1.67
17. Asiri Hospital Holdings PLC	2,411,583	1.46	2,408,136	1.47
18. Asian Alliance Insurance PLC - Life Fund	2,159,746	1.31	910,000	0.55
19. HSBC International Nominees Ltd. - MSNY - BAY Pond Investors (Bermuda) LP	2,045,200	1.24	2,045,200	1.25
20. United Motors Lanka PLC	2,000,000	1.21	-	0.00
Total	115,485,951	70.12	109,036,750	66.40
Percentage of Shares held by the Public	75.62%		96.12%	

6. Information on Share Trading

(i) Share Valuation

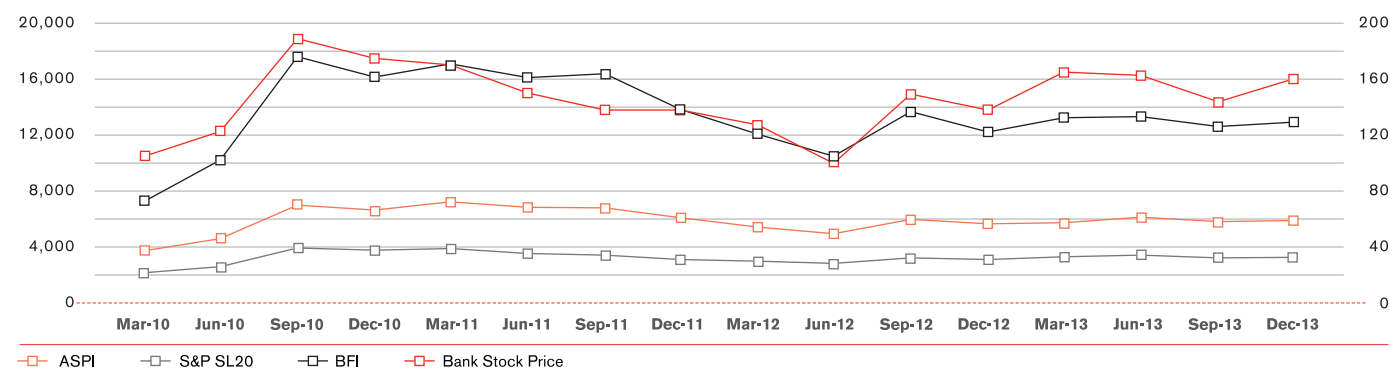
The market value of the National Development Bank PLC ordinary shares on 31 December 2013 was LKR 160.50 per share. The highest and lowest values recorded during this 12 month period were LKR 182.50 on 10 May 2013 and LKR 138.00 on 18 September 2013.

Movement of the Bank's share price compared with the two main indices and the sector index

Share Price Movements of NDB Bank

[Index Value]

[Share Price LKR]



(ii) Share Price Movement Trend over the Past 5 Years

Year	2013	2012	2011	2010	2009
Highest Price (LKR)	182.50	155.00	186.00	410.00	208.00
Lowest Price (LKR)	138.00	96.00	120.00	202.00	88.00
Price as at 31 December (LKR)	160.50	137.90	138.10	349.50	206.00
Total number of shares in issue	164,693,034	164,201,902	164,201,902	82,100,951	81,855,385

(iii) Information on Share Trading

Year	2013	2012	2011	2010	2009
(a) Number of transactions	11,406	9,854	7,906	11,862	13,935
(b) Number of shares traded	31,631,020	21,406,492	20,108,047	32,390,146	50,902,803
(c) Value of shares traded (LKR mn)	5,112,129,480.70	2,675,791,205.50	3,736,603,225.90	8,514,002,130.85	6,773,902,259

(iv) Information on Market Capitalization and Shareholders' Funds

Year	2013 LKR mn	2012 LKR mn	2011 LKR mn	2010 LKR mn	2009 LKR mn
A - Shareholders' Funds - NDB	19,656	14,942	12,675	11,724	11,095
B - NDB Market Capitalization	26,433	22,643	22,676	28,694	16,862
C - CSE Market Capitalization	2,422,985	2,167,581	2,213,873	2,210,452	1,092,138
D - NDB Market Capitalization as a % of CSE Market Capitalization	1.09	1.04	1.02	1.30	1.54

(v) Information on Dividends and Net Asset Value

Year	2013	2012	2011	2010	2009
Dividend Per Share (LKR)	10.00	15.00	7.50	8.50	8.00
Dividend Payout Ratio (%)	62.00	79.00	49.00	33.00	31.00
Net Assets Value (LKR)	148.85	151.54	103.07	93.15	86.72

(vi) Directors' Interest in Shares of the Bank

Directors' Interest in Shares of NDB as at 31 December 2013	
Name	No. of Shares
Sunil G Wijesinha	880
Ashok Pathirage	3,993,000*
Rajendra Theagarajah	126
Trevine Jayasekara	-
Kimarli Fernando	-
Anura Siriwardena	-
Sarath Wikramanayake	-
Chandra Ekanayake	-
Sujeewa Rajapakse	-
Indrani Sugathadasa	-

Directors' Interest in Shares of NDB as at 31 December 2012	
Name	No. of Shares
Hemaka Amarasuriya	18,150
Ashok Pathirage	3,470,000
Russell de Mel	7,116
Trevine Jayasekara	-
Kimarli Fernando	-
Anura Siriwardena	-
Sarath Wikramanayake	-
Chandra Ekanayake	-
Sujeewa Rajapakse	-

* Includes shares held in slash account.

7. Debenture Information

(i) In December 2013, the Bank issued by way of a public offer one hundred million (100,000,000) rated, unsecured, subordinated, redeemable debentures of the par value of rupees one hundred (LKR 100/-) each aggregating to the value of rupees ten thousand million (LKR 10,000,000,000/-). The proceeds of these debentures were utilized to support the Bank's Tier II Capital. The details of the said debentures are as follows:

In 2011, the Bank privately placed rated subordinated unsecured unlisted redeemable debentures having an aggregate face value of LKR 400,000,000. The proceeds of these debentures were utilized for re-lending purposes. The details of the said debentures are as follows:

(ii) Information On Debentures - Bank

Type of Debenture	CSE Listing	Interest Payable Frequency	Balance as at 31 December 2013 LKR mn	Market Value			Interest Rate		Interest Rate of Comparable Security %
				Highest LKR mn	Lowest LKR	Year end LKR	Coupon Rate %	Effective Annual Yield %	
Fixed Rate -									
Rated Unsecured Subordinated Redeemable Debentures									
A - Dec. 2013/Dec. 2018	Listed	Semi Annually	1,243	Not traded during the period			13.00	13.42	9.78
B - Dec. 2013/Dec. 2018	Listed	Annually	1,529	Not traded during the period			13.40	13.40	9.78
C - Dec. 2013/Dec. 2023	Listed	Annually	3,638	Not traded during the period			13.90	13.90	11.00
D - Dec. 2013/Dec. 2025	Listed	Annually	3,590	Not traded during the period			14.00	14.00	11.39
Floating Rate -									
Unsecured Redeemable Debentures									
2011 - 2016 (3 month TB rate (gross)+1% p.a.)	Unlisted	Quarterly	400	-	-	-	11.43	11.93	7.78
Total Debentures			10,400						

* Three months Treasury Bill rate before deducting 10% withholding tax as published by the Central Bank of Sri Lanka has been used.

(iii) Information on Debentures of the Bank (As per Rule No. 7.6 X (1) of the Listing Rules of the Colombo Stock Exchange:

	2013	2012
Debt Equity Ratio (%)	8.99	9.54
Interest Cover (Times)	1.49	1.49
Liquid Assets Ratio (%) - Domestic Banking Unit	26.22	22.02
Liquid Assets Ratio (%) - Foreign Currency Banking Unit	26.06	24.92

Credit Rating of Debentures

The subordinated Debentures are rated as A+ by Fitch Ratings Lanka Ltd.

Directors' Interest in Debentures as at 31 December 2013

Name	No. of Debentures
Sunil G Wijesinha	10,000
Ashok Pathirage	-
Rajendra Theagarajah	-
Trevine Jayasekara	-
Kimarli Fernando	-
Anura Siriwardena	-
Sarath Wikramanayake	-
Chandra Ekanayake	-
Sujeewa Rajapakse	-
Indrani Sugathadasa	-

8. Financial Statements in USD

Income Statement

For the year ended 31 December	BANK			GROUP		
	2013 USD '000	2012 USD '000	% Change	2013 USD '000	2012 USD '000	% Change
Interest income	159,249	134,385	19	160,503	135,701	18
Interest expenses	106,597	90,099	18	106,309	89,658	19
Net interest income	52,652	44,286	19	54,194	46,043	18
Fee and commission income	12,476	9,578	30	16,801	11,980	40
Net trading gains/(losses)	9,829	7,994	23	14,440	10,069	43
Other operating income	47,666	7,893	504	3,829	50,111	(92)
Total operating income	122,623	69,751	76	89,264	118,203	(24)
Impairment Charges/(Reversal) for Loans and Other Losses	9,570	840	1,040	9,745	407	2,297
Net operating income	113,053	68,911	64	79,519	117,796	(32)
Less: Operating expenses						
Personnel expenses	18,466	17,192	7	20,562	18,463	11
Other expenses	19,748	15,267	29	22,442	17,119	31
Total operating expenses	38,214	32,459	18	43,004	35,582	21
Operating profit before Value Added Tax (VAT)	74,839	36,452	105	36,515	82,214	(56)
Value Added Tax (VAT) on financial services	(7,037)	(4,924)	43	(7,037)	(4,925)	43
Operating profit after Value Added TAX (VAT)	67,802	31,528	115	29,478	77,289	(62)
Share of associate companies' profits/(losses)	–	–	–	380	3,471	(89)
Profit before taxation	67,802	31,528	115	29,858	80,760	(63)
Taxation	(8,106)	(8,393)	(3)	(8,895)	(10,092)	(12)
Profit for the year	59,696	23,135	158	20,963	70,668	(70)
Profit Attributable to:						
Equity holders of the parent	59,696	23,135	158	20,420	70,050	(70)
Non-controlling interests	–	–	–	543	618	(10)
	59,696	23,135	158	20,963	70,668	(70)

Statement of Comprehensive Income

For the year ended 31 December	BANK			GROUP		
	2013 USD '000	2012 USD '000	% Change	2013 USD '000	2012 USD '000	% Change
Profit for the year	59,696	23,135	158	20,963	70,668	(70)
Exchange gain from valuation of a foreign operation	–	–	–	(86)	167	(151)
Gains and losses on available-for-sale investments	1,145	–	100	1,617	–	100
Provisions made for terminal benefits	(274)	–	(100)	(274)	–	(100)
Total other comprehensive income/(expenses)	871	–	100	1,257	167	652
Less: Tax expenses relating to components of other comprehensive income	(295)	–	(100)	(427)	–	(100)
Other comprehensive income for the year, net of taxes	576	–	100	830	167	397
Total comprehensive income for the year	60,270	23,135	160	21,793	70,835	(69)
Attributable to:						
Equity holders of the parent	60,270	23,135	160	21,259	70,194	(69)
Non-controlling interests	–	–	–	534	641	(17)
	60,270	23,135	160	21,793	70,835	(69)

Statement of Financial Position

As at 31 December	BANK			GROUP		
	2013 USD '000	2012 USD '000	% Change	2013 USD '000	2012 USD '000	% Change
Assets						
Cash and cash equivalents	19,970	27,297	(27)	20,407	28,510	(28)
Balances with Central Bank	40,834	47,645	(14)	40,834	47,645	(14)
Placements with banks	1,000	27,917	(96)	1,000	27,917	(96)
Derivative financial instruments	8,792	13,383	(34)	8,792	13,383	(34)
Other financial assets held-for-trading	81,994	7,710	964	108,559	89,370	21
Loans and receivables to banks	4,907	9,281	(47)	4,907	9,281	(47)
Loans and receivables to other customers	1,046,436	909,744	15	1,046,896	910,110	15
Financial investments - Loans and receivables	121,128	50,557	140	128,426	55,599	131
Financial investments - Available-for-sale	45,755	523	8,644	47,170	1,361	3,366
Financial investments - Held-to-maturity	134,625	151,037	(11)	141,190	150,770	(6)
Investments in subsidiary companies	15,584	20,715	(25)	–	–	0
Investments in associate companies	474	145	226	587	261	125
Investment property	–	–	0	10,583	10,162	4
Intangible assets	1,992	2,136	(7)	2,269	2,500	(9)
Property, plant & equipment	6,676	6,715	(1)	8,998	9,588	(6)
Other assets	9,097	7,345	24	11,157	9,056	23
Total assets	1,539,264	1,282,150	20	1,581,775	1,365,513	16

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As at 31 December	BANK			GROUP		
	2013 USD '000	2012 USD '000	% Change	2013 USD '000	2012 USD '000	% Change
Liabilities						
Due to banks	79,947	18,196	339	79,947	18,196	339
Derivative financial instruments	6,251	13,622	(54)	6,251	13,622	(54)
Due to other customers	992,964	843,926	18	989,842	842,305	18
Debt securities issued and other borrowed funds	186,775	238,101	(22)	186,545	237,787	(22)
Tax liabilities	2,035	5,147	(60)	2,296	4,971	(54)
Deferred tax	2,390	626	281	2,481	621	300
Provision	1,300	958	36	1,643	1,018	61
Other liabilities	28,189	26,695	6	29,448	27,667	6
Subordinated term debts	89,351	17,684	405	89,351	17,684	405
Total liabilities	1,389,202	1,164,955	19	1,387,804	1,163,871	19
Equity						
Stated capital	8,971	8,573	5	7,218	6,776	7
Statutory reserve fund	7,331	6,892	6	7,331	6,892	6
Investment fund account	13,054	7,250	80	13,054	7,250	80
Available-for-sale reserve	816	–	100	1,152	–	100
Share-based payment reserve	171	–	100	171	–	100
Retained earnings	119,719	94,480	27	158,561	174,242	(9)
Total equity to equity owners of the Bank	150,062	117,195	28	187,487	195,160	(4)
Non-controlling interest	–	–		6,484	6,482	0
Total equity	150,062	117,195	27	193,971	201,644	(4)
Total liabilities and equity	1,539,264	1,282,150	20	1,581,775	1,365,513	16
Commitments and contingencies	1,355,261	1,245,026	9	1,355,260	1,245,026	9

USD Accounts

The Income Statement and the Statement of Financial Position given in USD on pages 283 and 284 are solely for the shareholders, investors and any other users of Financial Statements and do not form part of the Financial Statements.

9. Interim Financial Performance

BANK	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
LKR '000	12.31.2013	09.30.2013	06.30.2013	03.31.2103	12.31.2012	09.30.2012	06.30.2012	03.31.2102
Net interest income	1,706,507	1,811,528	1,793,005	1,575,021	1,564,848	1,471,721	1,307,570	1,296,518
Other operating income	936,967	779,357	747,425	6,517,490	466,518	542,070	1,048,037	1,069,433
Total operating income	2,643,474	2,590,885	2,540,430	8,092,511	2,031,366	2,013,791	2,355,607	2,365,951
Impairment charges for loans and other losses	1,012,095	77,201	98,735	50,171	(36,678)	11,717	386,517	(303,944)
Net operating income	1,631,379	2,513,684	2,441,695	8,042,340	2,068,044	2,002,074	1,969,090	2,669,895
Total operating expenses	1,330,606	1,281,566	1,177,257	1,154,773	1,048,292	1,078,168	1,004,882	970,851
Profit from operations	300,773	1,232,118	1,264,438	6,887,567	1,019,752	923,906	964,208	1,699,044
Share of associate companies' profit	-	-	-	-	-	-	-	-
Profit before taxation	300,773	1,232,118	1,264,438	6,887,567	1,019,752	923,906	964,208	1,699,044
Taxation	(131,775)	(538,805)	(672,704)	(618,376)	(346,300)	(375,085)	(501,334)	(460,233)
Profit for the period	168,998	693,313	591,734	6,269,191	673,452	548,820	462,873	1,238,811
Profit Attributable to:								
Equity holders of the parent	168,998	693,313	591,734	6,269,191	673,452	548,820	462,873	1,238,811
Non-controlling interests	-	-	-	-	-	-	-	-
	168,998	693,313	591,734	6,269,191	673,452	548,820	462,873	1,238,811
Basic Earnings per share (in LKR)	1.03	4.21	3.60	38.18	4.10	3.34	2.82	1.84

GROUP	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
LKR '000	12.31.2013	09.30.2013	06.30.2013	03.31.2103	12.31.2012	09.30.2012	06.30.2012	03.31.2102
Net interest income	1,782,684	1,858,010	1,836,605	1,608,231	1,684,580	1,512,293	1,364,751	1,377,890
Other operating income	1,443,552	1,067,697	1,089,447	865,197	6,403,546	722,337	925,056	887,459
Total operating income	3,226,236	2,925,707	2,926,052	2,473,428	8,088,126	2,234,630	2,289,807	2,265,349
Impairment charges for loans and other losses	1,055,348	83,201	98,735	23,480	(103,447)	11,717	386,517	(303,944)
Net operating income	2,170,888	2,842,506	2,827,317	2,449,948	8,191,573	2,222,913	1,903,290	2,569,293
Total operating expenses	1,524,781	1,408,122	1,309,853	1,322,364	1,132,508	1,179,383	1,112,133	1,072,174
Profit from operations	646,107	1,434,384	1,517,464	1,127,584	7,059,065	1,043,530	791,157	1,497,119
Share of associate companies' profit	9,562	28,980	8,210	2,468	266,196	60,314	62,414	49,796
Profit before taxation	655,669	1,463,364	1,525,674	1,130,052	7,325,261	1,103,844	853,571	1,546,915
Taxation	(155,537)	(558,259)	(718,646)	(630,088)	(371,859)	(420,330)	(572,141)	(533,324)
Profit for the period	500,132	905,105	807,028	499,964	6,953,403	683,514	281,430	1,013,591
Profit Attributable to:								
Equity holders of the parent	445,324	891,961	797,753	506,888	6,916,429	667,918	267,022	1,002,454
Non-controlling interests	54,808	13,144	9,275	(6,924)	36,976	15,596	14,408	11,138
	500,132	905,105	807,028	499,964	6,953,403	683,514	281,430	1,013,592
Basic Earnings per share (in LKR)	2.70	5.42	4.86	3.09	41.72	4.07	1.63	4.47

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BANK	As at	As at	As at	As at	As at	As at	As at	As at
LKR '000	31.12.2013	30.09.2013	30.06.2013	31.03.2013	31.12.2012	30.09.2012	30.06.2012	31.03.2012
Cash and cash equivalents	8,080,826	8,746,703	15,224,455	16,863,330	13,114,541	12,224,021	14,460,187	9,710,502
Net loans and advances	137,463,159	123,465,534	121,925,593	116,894,891	117,175,703	111,433,236	107,399,030	103,693,923
Investments	52,242,397	48,417,566	38,884,857	36,198,102	29,412,686	32,984,636	27,692,527	27,303,268
Other assets	3,472,246	2,595,732	4,257,589	3,484,992	3,771,366	2,384,367	2,762,071	2,768,871
Total assets	201,258,628	183,225,533	180,292,494	173,441,315	163,474,296	159,026,260	152,313,815	143,476,564
Customer deposits	129,830,029	118,489,102	117,639,980	110,091,898	107,600,583	96,517,676	95,086,142	88,445,517
Borrowings	46,556,578	39,878,258	36,845,563	36,879,823	34,932,507	41,608,262	37,264,955	36,165,959
Other liabilities	5,251,544	4,682,791	6,404,693	7,721,035	5,998,805	6,476,447	6,098,518	5,772,447
Total equity	19,620,477	20,175,384	19,402,258	18,748,561	14,942,401	14,423,875	13,864,200	13,092,641
Total liabilities & equity	201,258,628	183,225,535	180,292,494	173,441,315	163,474,296	159,026,260	152,313,815	143,476,564
Net asset value	119.13	122.50	118.16	114.18	91.00	87.84	84.43	79.74

GROUP	As at	As at	As at	As at	As at	As at	As at	As at
LKR '000	31.12.2013	30.09.2013	30.06.2013	31.03.2013	31.12.2012	30.09.2012	30.06.2012	31.03.2012
Cash and cash equivalents	8,138,013	8,794,081	15,285,968	17,108,941	13,269,129	12,399,540	14,583,264	10,247,438
Net loans and advances	137,523,341	123,505,308	121,964,938	116,955,138	117,222,378	112,052,416	108,197,047	104,686,025
Investments	55,690,627	51,558,903	41,765,435	38,884,247	37,913,589	34,827,342	29,268,216	28,116,188
Other assets	5,465,140	4,448,933	6,200,663	5,315,740	5,697,975	4,647,238	4,980,881	4,693,100
Total assets	206,817,121	188,307,225	185,217,004	178,264,066	174,103,071	163,926,536	157,029,408	147,742,751
Customer deposits	129,421,813	118,094,538	117,290,318	109,742,736	107,393,866	96,517,676	95,086,142	88,445,517
Borrowings	46,526,578	39,841,559	36,800,553	36,850,288	34,892,582	41,348,643	36,941,267	35,132,981
Other liabilities	5,507,076	4,819,685	6,560,392	7,940,684	6,107,171	6,647,013	6,277,948	6,021,007
Shareholders' funds	24,513,808	24,757,448	23,785,039	22,926,435	24,883,041	18,491,046	17,816,427	17,240,261
Non-controlling interests	847,846	793,995	780,702	803,923	826,411	922,158	907,624	902,985
Total liabilities & equity	206,817,121	188,307,225	185,217,004	178,264,066	174,103,071	163,926,536	157,029,408	147,742,751
Net asset value	148.85	150.32	144.85	139.62	151.54	112.61	108.50	104.99

10. Ten Years at a Glance (Group Performance)

Income Statement

LKR mn	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Income										
Net interest income	2,246	2,693	2,853	3,522	3,787	4,233	4,163	4,910	5,819	7,012
Other income	1,471	2,081	2,133	1,474	1,662	2,560	2,785	3,012	9,119	4,537
Total operating income	3,717	4,774	4,986	4,996	5,449	6,793	6,948	7,922	14,938	11,549
Charges/(reversals) impairment charges for loans and receivables and other losses	279	153	13	65	116	373	(172)	(88)	51	1,261
Net operating income	3,438	4,621	4,972	4,932	5,333	6,420	7,119	8,010	14,887	10,288
Less Operating Expenses										
Personnel costs	916	1,132	830	949	1,151	1,300	1,567	2,118	2,333	2,660
Other operating costs	1,267	1,645	929	1,104	1,237	1,370	1,496	1,863	2,163	2,904
Total operating expenses	2,183	2,777	1,760	2,053	2,388	2,670	3,063	3,981	4,496	5,564
Operating Profit before Share of Associate										
Co's profit before tax	1,255	1,844	3,214	2,878	2,945	3,750	4,057	4,029	10,391	4,724
Share of associate Co's profit	31	22	214	179	172	526	295	331	439	49
Profit before taxation	1,288	1,866	3,428	3,057	3,117	4,276	4,352	4,360	10,830	4,773
Taxation	(481)	(593)	(1,222)	(1,421)	(1,409)	(2,154)	(2,176)	(1,597)	(1,898)	(2,061)
Profit after taxation	805	1,273	2,207	1,636	1,708	2,122	2,176	2,763	8,932	2,712
Non-controlling interests	(102)	(237)	(176)	(115)	(103)	(37)	(73)	(235)	(78)	(70)
Profit attributable to equity holders of the parent	703	1,036	2,030	1,521	1,605	2,085	2,103	2,528	8,854	2,642

Statement of Financial Position

LKR mn	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
ASSETS										
Liquid assets	14,101	2,917	6,042	7,748	5,883	8,243	5,586	7,651	13,269	8,138
Investments	5,633	19,078	12,170	14,701	18,509	32,128	20,021	27,359	32,499	55,614
Loans and receivables	33,387	36,976	42,418	49,818	54,589	54,107	78,452	102,019	124,311	137,523
Investments in associate Companies	225	241	1,179	1,210	1,393	1,724	1,763	1,797	33	77
Property, plant and equipment	1,658	1,162	691	804	781	806	918	1,504	1,541	1,473
Investment property	–	1,041	1,200	1,200	1,200	1,200	1,200	1,296	1,296	1,384
Other assets	2,446	3,007	1,277	661	925	1,074	691	962	1,154	2,608
Goodwill	1,535	873	–	–	–	4	4	–	–	–
Total Assets	58,985	65,295	64,977	76,143	83,280	99,286	108,635	142,588	174,103	206,817
LIABILITIES										
Borrowings	26,881	27,799	29,204	34,147	34,993	29,561	28,631	38,973	36,630	47,344
Deposits with customers	11,085	13,954	21,161	25,624	31,091	49,948	60,533	82,094	107,394	129,423
Non-life insurance reserves	486	859	–	–	–	–	–	–	–	–
Long-term insurance fund	7,985	9,238	–	–	–	–	–	–	–	–
Taxation	300	220	640	522	352	560	633	397	713	625
Other liabilities	2,778	2,855	2,091	2,750	3,614	4,334	2,826	3,286	3,657	4,062
Total Liabilities	49,515	54,925	53,096	63,043	70,050	84,403	92,623	124,750	148,394	181,454
SHAREHOLDERS' FUNDS										
Stated capital	629	760	1,033	1,033	1,033	1,033	864	864	864	944
Statutory reserves	546	546	819	819	819	819	879	879	879	959
Revaluation reserve	86	–	–	–	–	–	–	–	–	–
Share based payment reserve	–	–	–	–	–	–	–	–	–	22
Available-for-Sale reserve	–	–	–	–	–	–	–	–	–	151
Investment Fund Account	–	–	–	–	–	–	–	387	924	1,707
Retained earnings	7,115	7,850	8,715	9,833	10,811	12,345	13,552	14,795	22,216	20,732
Total equity to equity owners of the Bank	8,377	9,155	10,567	11,685	12,662	14,197	15,295	16,925	24,883	24,515
Non-controlling interest	1,093	1,215	1,314	1,415	568	687	717	913	826	848
Total equity	9,470	10,370	11,881	13,100	13,230	14,884	16,012	17,838	25,709	25,363
Total Liabilities and total equity	58,985	65,295	64,977	76,143	83,280	99,286	108,635	142,588	174,103	206,817
Share Information										
Market price per share	160.00	215.00	201.00	170.00	86.00	206.00	174.50	138.10	138.10	161.50
Basic earnings per share	6.50	11.20	12.40	9.30	9.80	12.75	12.81	15.79	55.31	16.48
Interim dividends per share	–	–	–	–	–	–	4.00	3.50	5.00	5.00
Final dividends per share	5.75	6.00	4.00	6.00	6.75	8.00	4.50	4.00	10.00	5.00
Total dividends per share	5.75	6.00	4.00	6.00	6.75	8.00	8.50	7.50	15.00	10.00
Dividend cover (Times)	2.28	3.21	6.20	3.72	3.27	3.77	2.19	2.05	3.69	1.60
Price earnings ratio (Times)	12.23	9.56	8.10	9.14	4.39	8.09	13.61	8.97	2.56	9.74
Book value per share (LKR)	77.92	79.80	64.54	71.38	77.35	86.72	93.15	103.07	151.54	148.85

11. Shareholder Enquiries and Communications

Secretary to the Board

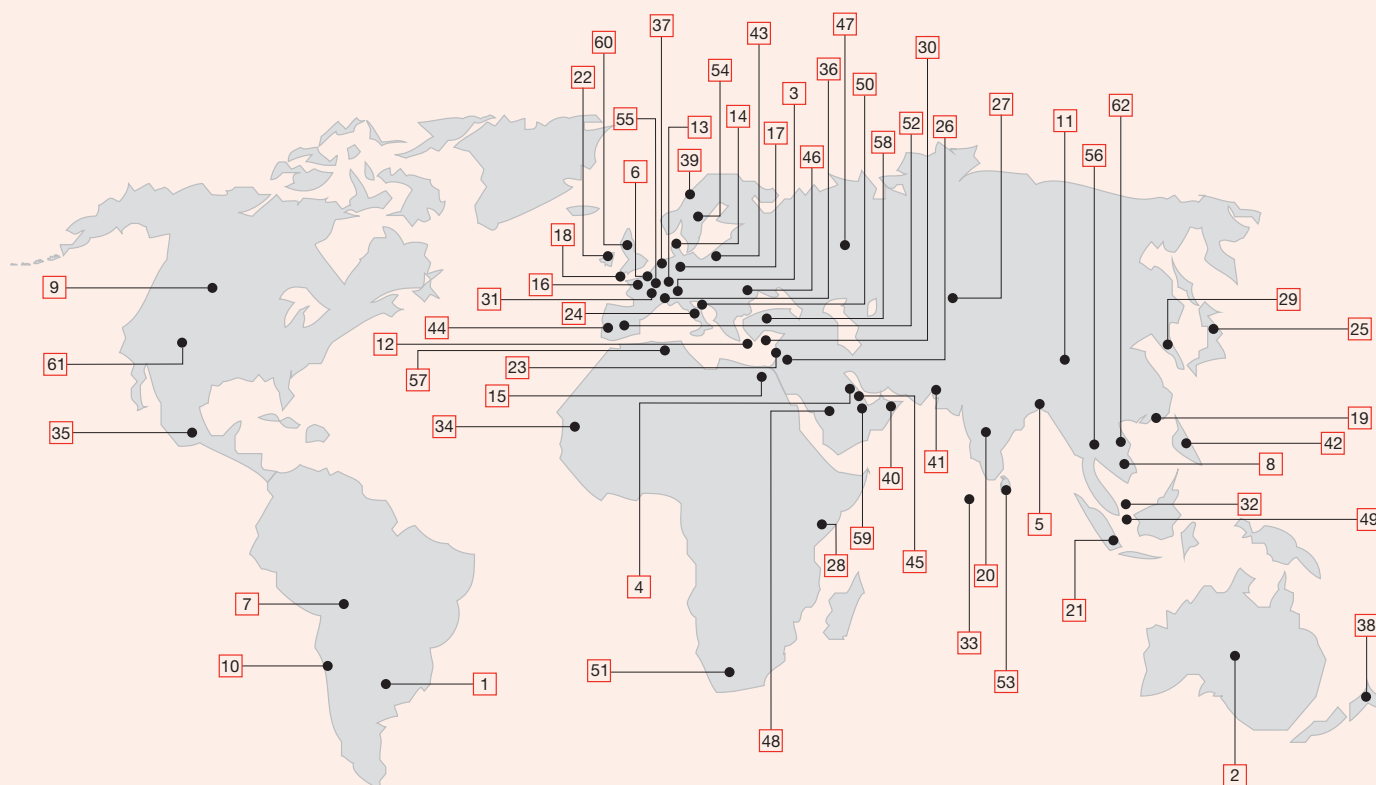
National Development Bank PLC
No. 40, Navam Mawatha, Colombo 2
Tel: 2448 448, Ext: 3080, Fax: 2341050
e-mail: shehani.ranasinghe@ndbbank.com or
investor.relations@ndbbank.com

12. 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 by the Contents of 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 with this Annual Report.

Rule No:	Disclosure requirement	Cross reference within the Report
7.6 (i)	Names of persons, who during the financial year, were directors of the Entity	Pages 79 to 81
7.6 (ii)	Principal activities of the Entity and its subsidiaries during the year and any changes therein	Pages 20 and 192
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting shares and the percentage of such shares held	Page 277 on Investor Information
7.6 (iv)	The Public Holding percentage	Page 277 on Investor Information
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	Page 279 on Investor Information
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	Pages 141 to 164 on Risk Management
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity	Pages 61 to 75 on Employee Capital and Social and Environmental Capital
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Note 27 to the Financial Statements on page 222
7.6 (ix)	Number of shares representing the Entity's stated capital	Note 36.1 to the Financial Statements on page 234
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Page 276 and 277 on Investor Information
7.6 (xi)	Ratios and Market Price Information	Page 8 - Highlights of the year
	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)	Page 8 - Highlights of the year
	Debt: Interest rate of comparable government security, debt/equity ratio, quick assets ratio, market prices & yield during the year	Page 8 - Highlights of the year
	Any changes in the credit rating (for the entity or any other instruments issued by the entity), if applicable	Page 276 on Investor Information
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 25 to 27 to the Financial Statements on pages 220 to 223
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.	Note 35 to Financial Statements on pages 232 and 233
7.6 (xiv)	Employee share option scheme details	Note 41 to the Financial Statements on page 237
	Employee share purchase schemes	Not applicable
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 exempt from Section 7.10 of the CSE Listing Rules thus not applicable.
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	Note 50 to the Financial Statement on pages 263 to 267

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|---------------|--------------------|----------------|-----------------|------------------------|-----------------|
| 1. Argentina | 12. Cyprus | 23. Israel | 34. Mauritania | 45. Qatar | 55. Switzerland |
| 2. Australia | 13. Czech Republic | 24. Italy | 35. Mexico | 46. Romania | 56. Thailand |
| 3. Austria | 14. Denmark | 25. Japan | 36. Monaco | 47. Russian Federation | 57. Tunisia |
| 4. Bahrain | 15. Egypt | 26. Jordan | 37. Netherlands | 48. Saudi Arabia | 58. Turkey |
| 5. Bangladesh | 16. France | 27. Kazakhstan | 38. New Zealand | 49. Singapore | 59. UAE |
| 6. Belgium | 17. Germany | 28. Kenya | 39. Norway | 50. Slovenia | 60. UK |
| 7. Bolivia | 18. Guernsey | 29. Korea | 40. Oman | 51. South Africa | 61. USA |
| 8. Cambodia | 19. Hong Kong | 30. Lebanon | 41. Pakistan | 52. Spain | 62. Vietnam |
| 9. Canada | 20. India | 31. Luxemburg | 42. Philippines | 53. Sri Lanka | |
| 10. Chile | 21. Indonesia | 32. Malaysia | 43. Poland | 54. Sweden | |
| 11. China | 22. Ireland | 33. Maldives | 44. Portugal | | |

GRI Indicator	Description	Reported in	Externally Assured	Page No./ Explanations
GENERAL STANDARD DISCLOSURES				
STRATEGY AND ANALYSIS				
G4-1	Statement from the Chairman	Joint Letter from the Chairmen	✓	12
ORGANIZATION PROFILE				
G4-3	Name of the Organization	Business Model	✓	20
G4-4	Primary Brands, Products and/or Services	Business Model	✓	20
G4-5	Location of Organization's Headquarters	Business Model	✓	20
G4-6	Number of countries where the Organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	Business Model	✓	20
G4-7	Nature of ownership and legal form	Business Model	✓	20
G4-8	Markets served	Business Model	✓	20
G4-9	Scale of the Reporting Organization	Business Model	✓	20
G4-10	Total workforce by employment type, employment contract, and region, broken down by gender	Business Model	✓	20
G4-11	Report the percentage of total employees covered by collective bargaining agreements	Business Model	✓	20
G4-12	Organization's supply chain	Business Model	✓	25
G4-13	Significant changes during the reporting period regarding size, structure or ownership	About the Report		06
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization	Management Discussion and Analysis	✓	75
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	Management Discussion and Analysis	✓	73
G4-16	List of membership of associations and national or internal advocacy organizations	Business Model	✓	24
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES				
G4-17	Operational Structure of the Organization	Management Discussion and Analysis	✓	45
G4-18	Process for Defining Report Content	About the Report	✓	06
G4-19	Material Aspects identified for Report Content	Business Model	✓	25
G4-20	Aspect Boundary for identified Material Aspects within the organization	Business Model	✓	25
G4-21	Aspect Boundary for identified Material Aspects outside the organization	Business Model	✓	25
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	About the Report	✓	06
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	About the Report	✓	06
STAKEHOLDER ENGAGEMENT				
G4-24	List of stakeholder groups engaged by the Organization	Business Model	✓	24
G4-25	Basis for identification and selection of stakeholders with whom to engage	Business Model	✓	24
G4-26	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Business Model	✓	24
G4-27	Key topics and concerns raised through stakeholders engagement and how the Organization responded to them	Business Model	✓	24
REPORT PROFILE				
G4-28	Reporting period	About this Report	✓	06
G4-29	Date of most recent previous report	About this Report	✓	06
G4-30	Reporting cycle	About this Report	✓	06
G4-31	Contact point for questions regarding the Report or its Contents	About this Report	✓	06



GRI Indicator	Description	Reported in	Externally Assured	Page No./ Explanations
G4-32	Compliance with GRI G4 guidelines, GRI Content index and the External Assurance Report.	About this Report	✓	06
G4-33	Policy and current practice with regard to seeking external assurance for the Report	Sustainability Assurance Report	✓	181
GOVERNANCE				
G4-34	Governance Structure of the Organization, including committees under the highest governance body responsible for decision-making on economic, environment and social impacts	Corporate Governance	✓	91
ETHICS AND INTEGRITY				
G4-56	The values, principles, standards and norms of behaviour	Business Model	✓	06
SPECIFIC STANDARD DISCLOSURES				
G4 - DMA Aspect and Materiality fulfilled				
CATEGORY: ECONOMIC				
Aspect	Economic Performance			
G4-EC1	Direct economic value generated, distributed and retained	Management Discussion and Analysis	✓	38
G4-EC2	Financial implications and other risks and opportunities for the Organization's activities due to climate change	Risk Management	✓	141-164
G4-EC3	Coverage of the Organization's defined benefit plan obligations	Management Discussion and Analysis	✓	64
Aspect	Market Presence			
G4-EC6	Proportion of senior management hired from the local community at locations of significant locations of operation	Management Discussion and Analysis	✓	70
Aspect	Indirect Economic Impact			
G4-EC7	Development and impact of infrastructure investments and services supported	Management Discussion and Analysis	✓	72
CATEGORY: ENVIRONMENT				
Aspect	Materials			
G4-EN1	Materials used by weight or volume	Management Discussion and Analysis	✓	74
G4-EN2	Percentage of materials used that are recycled input materials	Management Discussion and Analysis	✓	74
Aspect	Energy			
G4-EN3	Energy consumption within the organization	Management Discussion and Analysis	✓	74
Aspect	Effluents and Waste			
G4-EN23	Total weight of waste by type and disposal method	Management Discussion and Analysis	✓	75
Aspect	Products and Services			
G4-EN27	Extent of impact mitigation of environmental impacts of Products and Services	Business Model	✓	27
Aspect	Supplier Environment Assessment			
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	Business Model	✓	25

GRI Indicator	Description	Reported in	Externally Assured	Page No./ Explanations
CATEGORY: SOCIAL				
LABOUR PRACTICES AND DECENT WORK				
Aspect	Employment			
G4-LA1	Total number and rate of new employee hires and employee turnover by age group, gender, and region	Management Discussion and Analysis	✓	63, 64
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Management Discussion and Analysis	✓	65
G4-LA3	Return to work and retention rates after parental leave, by gender.	Management Discussion and Analysis	✓	66
Aspect	Labour/Management Relations			
G4-LA6	Type of injury and rates of injury, occupational disease, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Management Discussion and Analysis	✓	68
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	Business Model	✓	26
Aspect	Training and Education			
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Management Discussion and Analysis	✓	66
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings			66
G4-LA11	Percentage of employees receiving regular performance and career development reviews by gender and employee category	Management Discussion and Analysis	✓	68
Aspect	Diversity and Equal Opportunity			
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Management Discussion and Analysis	✓	67
Aspect	Equal Remuneration for Women and Men			
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Management Discussion and Analysis	✓	68
HUMAN RIGHTS DIMENSION				
HUMAN RIGHTS				
Aspect	Child Labour			
G4-HR5	Operations and Suppliers identified as having significant risk for incidents of child labour and measures taken to contribute to the effective abolition of child labour	Business Model	✓	26
Aspect	Forced or Compulsory Labour			
G4-HR6	Operations and significant suppliers identified as having significant risk of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	Business Model	✓	26
SOCIETY				
Aspect	Local Communities			
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	Management Discussion and Analysis	✓	69
PRODUCT RESPONSIBILITY				
Aspect	Product and Service labelling			
G4-PR3	Type of product & service Information required by the organization's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	Management Discussion and Analysis	✓	59
G4-PR5	Results of surveys measuring customer satisfaction	Management Discussion and Analysis	✓	61
G4-PR8	Total number of substantial compliance regarding breaches of customer privacy and losses of customer data	Management Discussion and Analysis	✓	61

A**Accounting Policies**

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Amortization

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Accrual Basis

Recognizing the effects of transaction and other events when they occur without waiting for receipt or payment of cash or its equivalent.

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

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.

B**Bonus Issue (Scrip Issue)**

The issue of new shares to existing shareholders in proportion to their shareholdings. It is a process for converting a company's reserves (in whole or part) into issued capital and hence does not involve an infusion of cash.

C**Capital****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.

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 organisation 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.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Statement of Financial Position date.

Contingencies

A condition or situation existing at the Statement of Financial Position date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Cost to Income Ratio

Operating expenses excluding impairment for loans and receivables and other losses as a percentage of total operating income.

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.

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.

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.

D**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.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

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.

Effective Tax Rate

Provision for taxation including deferred tax divided by the profit before taxation.

Equity Method

This is a method of accounting whereby the investment is initially recognised 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.

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.

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 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.

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.

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**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**Held-to-Maturity**

Investments and debt securities that a Company has the ability and intent to hold until maturity.

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).

I**Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

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.

Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

Integrated Reporting

A methodology of reporting an organisation'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.

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

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**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.

M**Market Capitalisation**

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 amount a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinancing funds and inter-bank borrowings.

Net Interest Margins (NIM)

Net interest income expressed as a percentage of average interest earning assets.

Non-Performing Loans (NPLs)

A loan or an receivables placed on cash basis (i.e. Interest income is only recognised 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).

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.

Price Earnings Ratio (P/E Ratio)

Market price of a share divided by earnings per share.

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.

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.

Return on Average Assets (ROA)

Profit after tax divided by the average assets.

Risk-Weighted Assets

On-Balance Sheet assets and the credit equivalent of off-Balance Sheet assets multiplied by the relevant risk weighting factors.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.

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.

Revenue Reserves

Reserves that are set aside for future distribution and investments.

S**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.

Single Borrower Limit (SBL)

33% of the regulatory capital base.

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

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.

Subsidiary

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the Parent).

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.

V**Value Added**

Value of wealth created by providing banking and other related services less the cost of providing such services.

Y**Yield-to-Maturity**

The discount rate at which a securities present value of future cash flows will be equal to the security's current price.

Name

National Development Bank PLC (The Bank was registered under the Companies Act No. 17 of 1982 and subsequently re-registered under the Companies Act No. 07 of 2007 on 4 July 2007).

Registration No.

PQ 27

Registered Logo:**Legal Form**

Incorporated in Sri Lanka under the Companies Act No. 07 of 2007 and also regulated under the Banking Act No. 30 of 1988 as amended from time to time.

Head Office/Registered Office

40, Navam Mawatha, Colombo 2

Tel: 2448448

Fax: 2341044, 2440262

SWIFT Code: NDBS LK LX

Web Page: www.ndbbank.com

E-mail: contact@ndbbank.com

VAT Registration No.: 409000266-7000

Accounting year-end: 31 December

Credit Rating: AA(-)Ika Fitch Rating Lanka Ltd.

Stock Exchange Listing

The shares of the Bank are listed on the Colombo Stock Exchange.

No. of Ordinary Shares Listed: 164,693,034

No. of debentures, par value and tenor listed:

Type	No. of Debentures	Par Value (LKR)	Interest Rate (p.a.)	Frequency of Interest Payment	Tenor (Years)
A	12,427,000	100	13.00%	Semi-Annually	5
B	15,288,900	100	13.40%	Annually	5
C	36,379,800	100	13.90%	Annually	10
D	35,904,300	100	14.00%	Annually	12
	100,000,000				

Board of Directors

Sunil G Wijesinha - *Chairman*
(Appointed w.e.f. 04.10.2013)
Ashok Pathirage - *Deputy Chairman*
Rajendra Theagarajah - *CEO*
(Appointed w.e.f. 24.08.2013)
Trevine Jayasekara
Sarath Wikramanayake
Kimarli Fernando
Anura Siriwardena
Chandra Ekanayake
Sujeewa Rajapakse
Indrani Sugathadasa
(Appointed w.e.f. 04.10.2013)
Hemaka Amarasuriya
(Retired w.e.f. 30.11.2013)
Russell de Mel (Retired w.e.f. 23.08.2013)

Company Secretary

Shehani Ranasinghe (Attorney-at-Law)

Compliance Officer

Manique Kiriella Bandara

Integrated Risk Management Committee

Sarath Wikramanayake - *Chairman*
Sunil G Wijesinha (Appointed w.e.f. 01.01.2014)
Chandra Ekanayake
Rajendra Theagarajah
(Appointed w.e.f. 24.08.2013)
Nirmala Rayen - *(Vice-President - Group Risk)*
Faizan Ozman - *(CFO)*
Chamila Chandrapala - *(Head - Market Risk)*
S Sri Ganendran - *(Head - Operational Risk)*
(Ceased to be a member w.e.f. 01.11.2013)

Priyantha Gamage - *(AVP - Operational Risk)*
(Appointed w.e.f. 01.11.2013)
Hemaka Amarasuriya - *(Chairman)*
(Retired w.e.f. 30.11.2013)
(Ceased to be a member w.e.f. 24.08.2013)
Russell de Mel
(Retired w.e.f. 23.08.2013)

Audit Committee

Trevine Jayasekara - *(Chairman)*
Chandra Ekanayake
Sarath Wikramanayake
Sujeewa Rajapakse
Kimarli Fernando
Indrani Sugathadasa (Appointed w.e.f. 01.01.2014)

Strategic Issues Committee

Sunil G Wijesinha - *(Chairman)*
(Appointed w.e.f. 01.01.2014)
Ashok Pathirage
Trevine Jayasekara
Kimarli Fernando
Sarath Wikramanayake
Sujeewa Rajapakse
Anura Siriwardena
Hemaka Amarasuriya - *(Chairman)*
(Retired w.e.f. 30.11.2013)

Remuneration & Human Resources Committee

Sunil G Wijesinha - *(Chairman)*
(Appointed w.e.f. 01.01.2014)
Ashok Pathirage
Sujeewa Rajapakse
Kimarli Fernando
Anura Siriwardena
Trevine Jayasekara
Indrani Sugathadasa
(Appointed w.e.f. 01.01.2014)
Hemaka Amarasuriya - *(Chairman)*
(Retired w.e.f. 30.11.2013)

Nominations Committee

Sunil G Wijesinha - *(Chairman)*
(Appointed w.e.f. 01.01.2014)
Sujeewa Rajapakse
Ashok Pathirage
Trevine Jayasekara
Anura Siriwardena
Hemaka Amarasuriya - *(Chairman)*
(Retired w.e.f. 30.11.2013)

Corporate Governance and Legal Affairs Committee

Kimarli Fernando - *(Chairperson)*
Chandra Ekanayake
Anura Siriwardena
Rajendra Theagarajah
(Appointed w.e.f. 24.08.2013)
Sunil G Wijesinha (Appointed w.e.f. 01.01.2014)
Russell de Mel
(Retired w.e.f. 23.08.2013)

Subsidiary Companies as at 31.12.2013**NDB Capital Holdings PLC****Directors:**

A K Pathirage - (Chairman)
 D S P Wikramanayake
 R Theagarajah (Appointed w.e.f. 24.08.2013)
 B A I A Rajakarier
 W M De F Arasakularatna
 I A Wickramasinghe
 C V Kulatilaka
 N I R de Mel (Resigned w.e.f. 23.08.2013)

Development Holdings (Pvt) Ltd.**Directors:**

B Egodage - (Chairman)
 (Appointed w.e.f. 28.06.2013)
 R Theagarajah (Appointed w.e.f. 24.08.2013)
 Lal de Mel
 Dr Y K Maraikkar (Appointed w.e.f. 03.04.2013)
 I A Wickramasinghe
 D Seneviratne
 S Weerakoon
 P K Sumithrarachchi
 S Rajapakse
 S Wijesinghe (Resigned w.e.f. 28.06.2013)
 C L Jayawardena
 (Resigned w.e.f. 23.07.2013)
 J Ratnayake (Resigned w.e.f. 03.04.2013)

NDB Securities (Pvt) Ltd.**Directors:**

S R de Silva - (Chairman)
 R Theagarajah (Appointed w.e.f. 12.09.2013)
 C V Kulatilaka
 I A Wickramasinghe
 N I R de Mel (Resigned w.e.f. 23.08.2013)

NDB Investment Bank Ltd.**Directors:**

D S P Wikramanayake - (Chairman)
 R Theagarajah (Appointed w.e.f. 24.08.2013)
 C V Kulatilaka
 D G Perera
 S Peiris
 N I R de Mel (Resigned w.e.f. 23.08.2013)

NDB Capital Ltd. (Bangladesh)**Directors:**

H D S Amarasuriya - (Chairman)
 (Resigned w.e.f. 30.11.2013)
 A M Khan
 C M Alam
 C V Kulatilaka
 K Jayawardana
 Mrs Z Chowdhury
 H F Choudhury
 Q G R Arif - (Managing Director, Deceased)

NDB Wealth Management Ltd.**Directors:**

D S P Wikramanayake - (Chairman)
 C V Kulatilaka
 R Theagarajah (Appointed w.e.f. 24.08.2013)
 N I R de Mel (Resigned w.e.f. 23.08.2013)

**NDB Industrial Estates (Pvt) Ltd.
(Under Liquidation)****Associate Companies as at 31.12.2013**

Maldives Finance Leasing Co. (Pvt) Ltd.

NDB Venture Investments (Pvt) Ltd.

(Under Liquidation)

Ayojana Fund (Pvt) Ltd. (Under Liquidation)

Auditors

Messrs Ernst & Young
 201, De Saram Place, Colombo 10

Bankers

Hongkong & Shanghai Banking Corporation PLC
 Citibank
 Deutsche Bank AG
 Standard Chartered Bank
 ANZ
 ICICI Bank
 Uni Credit Bank AG
 Nordea Bank Norge ASA
 Bank of New Zealand
 Commerz Bank AG

**Registrar to the LKR 10 mn Rated
Unsecured Subordinated Redeemable
Debentures Issue**

S S P Corporate Services (Pvt) Ltd.
 No. 101, Inner Flower Road, Colombo 03

Queries

We welcome your comments or questions on this report. You may contact:

Dhanan Senathirajah
 Vice-President - Finance & Planning

National Development Bank PLC
 No: 40, Navam Mawatha, Colombo 2

Email: dhanan.senathirajah@ndbbank.com

Bank's History

In January 1979, an Act of Parliament, originally set up the predecessor of National Development Bank PLC, National Development Bank of Sri Lanka, as a wholly state-owned institution. Following a change of ownership structure in 1993, 61% of the share capital of the Bank was transferred to private ownership. In 1997, the Bank was privatized further by the early conversion of its convertible debentures and the disposal of the resulting shares. This reduced the Government's direct shareholding to 12.2%.

Thereafter, a further 2.56% was allocated for the Employee Share Option Scheme. In April 2000, the Bank issued a further 17,916,667 shares in the ratio of 1:2 as Bonus Shares thereby increasing its total issued share capital to 53,750,000 shares.

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 save and except for certain provisions contained therein.

On 29 July 2005, the Central Bank of Sri Lanka granted a commercial banking license to the new company whilst withdrawing the specialized banking license that was held by it and on the same day the business operations of the NDB Bank Ltd. was taken over by National Development Bank Ltd. In view of this, the shareholders of NDB Bank Ltd. were issued with shares of National Development Bank Ltd. at the ratio of 1 National Development Bank Ltd. share for every 5.6 shares of NDB Bank Ltd. held by them. This resulted in the increase of the issued capital to 54,570,257 shares.

In 2006, the Bank approved a bonus share issue at the ratio of 1 new share for every 2 shares held by the shareholders and accordingly, the capital of the Bank was further increased by another 27,285,128 shares.

In July 2010, as per the Equity Linked Compensation Plan (ELCP) of the Bank, 245,566 ordinary shares were issued.

In April 2011, the Bank subdivided its existing ordinary shares amounting to 82,100,951 in the proportion of one ordinary share for every ordinary share in issue resulting in 164,201,902 ordinary shares in issue.

In July 2013, 491,132 ordinary shares were issued on account of eligible employees of the Bank to the trustee of the ELCP approved by the Board of Directors and shareholders in March 2010. As at 31.12.2013 the Bank had 164,693,034 shares in issue.

The present stated capital of the Bank is Rs 1,172,903,620/-. The shares of the Bank are continuously quoted on the Colombo Stock Exchange.

Pursuant to the provisions in the Companies Act No. 07 of 2007 the Bank was re-registered and is accorded with PQ 27 as the new registration number.



Notice is hereby given that the Ninth (9th) Annual General Meeting of National Development Bank PLC (the Bank) will be held at the Auditorium of Development Holdings (Pvt) Ltd., 3rd Floor, NDB EDB Tower, No. 42, Navam Mawatha, Colombo 2 at 10.00 a.m. on Friday the Twenty-Eighth (28th) day of March, Two Thousand and Fourteen (2014) 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 2013.
2. To re-elect Mr Ashok Pathirage, as a Director in terms of Article 42 of the Articles of Association of the Bank.
3. To re-elect Mr Sujeewa Rajapakse, as a Director in terms of Article 42 of the Articles of Association of the Bank.
4. To reappoint Mr Sunil G Wijesinha in terms of Article 44 (2) of the Articles of Association of the Bank.
5. To reappoint Mrs Indrani Sugathadasa 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 2014 under the Companies Donations Act No. 26 of 1951.

By Order of the Board,

Shehani Ranasinghe
Secretary to the Board

Colombo
13 February 2014

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.

National Development Bank PLC

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. Mr Sunil G Wijesinha (Chairman of the Bank) of Colombo or failing him,
Mr Ashok Pathirage (Deputy Chairman of the Bank) of Colombo or failing him,
Mr Trevine Jayasekara of Colombo or failing him,
Mr Sarath Wikramanayake of Colombo or failing him,
Mrs Kimarli Fernando of Colombo or failing her,
Mr Anura Siriwardena of Colombo or failing him,
Ms Chandra Ekanayake of Colombo or failing her,
Mr Sujeewa Rajapakse of Colombo or failing him,
Mrs Indrani Sugathadasa of Colombo or failing her,
Mr Rajendra Theagarajah (CEO 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 Ninth Annual General Meeting of the Bank to be held on Friday the twenty-eighth (28th) day of March 2014 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

As witness I/We have set my/our hand/s hereunto this day of Two Thousand and Fourteen (2014).

.....

*Signature of the Member/Members***Instructions for Completion of the Form of Proxy**

1. In order to appoint a proxy holder, this form duly completed together with any Power of Attorney under which it is signed, must be deposited at the Registered Office of the Bank, at No. 40, Navam Mawatha, Colombo 2, not later than twenty-four (24) hours prior to the time appointed for the holding of the meeting.
2. The Proxy Holder appointed need not be a shareholder of the Bank.
3. In case of a corporate member, the Proxy must be executed under its common seal (if applicable) or by its authorized attorney.
4. The first joint holder shall have the power to sign the proxy without the concurrence of the other joint holder/s.
5. The full name and the registered address of the member appointing the Proxy should be legibly entered in the Form of Proxy.



To request information or submit a comment/query to the Bank, please provide the following details and return this page to:

Secretary to the Board
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's via e-mail?

☐
☐

Would you like to receive any news on our products/services?

☐
☐



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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.



