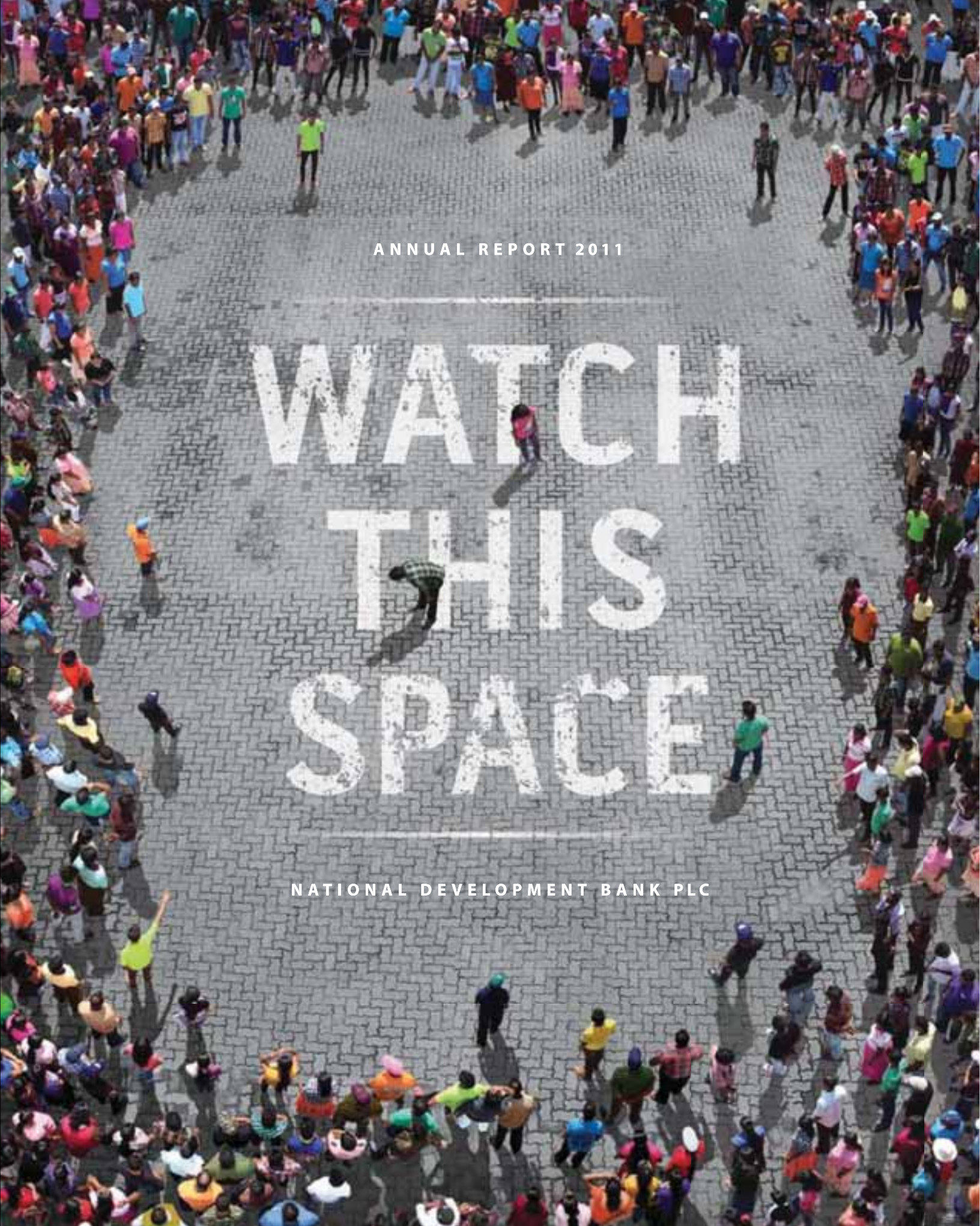


An aerial photograph of a large, diverse crowd of people gathered in a paved square. The people are wearing various colorful clothing, and their shadows are cast on the ground. The text 'WATCH THIS SPACE' is superimposed in large white letters over the center of the image.

ANNUAL REPORT 2011

WATCH THIS SPACE

NATIONAL DEVELOPMENT BANK PLC

National Development Bank PLC
Annual Report 2011

**WATCH
THIS
SPACE**





WATCH THIS SPACE

We live in exciting times. The Nation has embarked on an era of unprecedented change. Sri Lanka's 'skyline' in terms of its landscape and infrastructure; its transport sphere; its environmental consciousness; its social advancement all reflect the country's journey towards change. Change is everywhere... and the National Development Bank is part of it. Our strengths, qualities and portfolio support change...factors such as our Innovativeness, Asset Quality, Human Capital and Knowledge Hub and Vision that stretches well beyond our bottom line. We embrace change in our own enterprise. Which is why we encourage you to...Watch This Space...exciting changes are continuing to unfold!



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, Care, Passion, Teamwork and Service guide us in our vision to be a world-class Sri Lankan Bank.

Financial Highlights	06
Operational Highlights	07
Chairman's Letter	08
Chief Executive Officer's Review	12
Management Discussion and Analysis	17
Introduction	17
Financial Services For All	23
We are for the Long Haul	55
Out of the Box, into Change	71
Proud of Our 'Fleet'	83
Our Open Sesame to Success	97
Financial Review	108
Achievements	114
Board of Directors	116
Group Senior Management Team	122
Sustainability Report	125
Risk Management	156
Corporate Governance	167
NDB Group Companies	186

Financial Reports

Annual Report of the Directors on the State of Affairs of National Development Bank PLC	193
Directors' Interests in Contracts with National Development Bank PLC	199
Statement of Directors' Responsibilities	201
Directors' Statement on Internal Control	202
Independent Assurance Report	204
Audit Committee Report	205
Independent Auditors' Report	207
Income Statement	208
Balance Sheet	209
Statement of Changes in Equity	210
Cash Flow Statement	211
Significant Accounting Policies	213
Notes to the Financial Statements	229
Capital Adequacy	259
Statement of Value Added	264
Investor Information	265
Ten Year Summary - Group Income Statement	267
Ten Year Summary - Group Balance Sheet	268
Glossary of Financial and Banking Terms	269
Corporate Information	271
Notice of Meeting	Enclosed
Form of Proxy	Enclosed
Circular to the Shareholders	Enclosed
Request Letter	Enclosed

Financial Highlights

	NDB BANK			NDB GROUP		
	2011	2010	% Change	2011	2010	% Change
(Rs mn)						
Total income	13,531	11,720	15.45	14,699	12,634	16.35
Net interest income	4,487	3,791	18.35	4,772	4,163	14.63
Net other income	2,194	2,066	6.19	3,158	2,785	13.39
Net income	6,681	5,858	14.06	7,929	6,948	14.12
Profit before tax	3,361	3,353	0.22	4,609	4,351	5.92
Profit after tax	2,011	1,529	31.52	2,941	2,176	35.15
Profit attributable to equity shareholders	2,011	1,529	31.52	2,706	2,103	28.67
Shareholders' Funds	12,739	11,607	9.75	17,089	15,281	11.83
Deposits from customers	80,310	59,364	35.29	80,310	59,364	35.29
Borrowings	27,914	16,938	64.80	26,686	16,061	66.15
Total assets	137,843	104,739	31.61	142,109	108,532	30.94
Loans and advances	104,515	72,916	43.34	105,684	73,939	42.93
Non-performing loans	1,364	1,355	0.66	1,364	1,355	0.66
Dividends	944	983	(3.97)	944	983	(3.97)
(%)						
Return on average equity	16.52	13.47	22.64	16.72	14.27	17.17
Return on average assets	1.66	1.52	9.21	2.16	2.02	6.93
Non-performing loans ratio	1.35	1.90	(28.94)	1.33	1.87	(28.87)
Cost to income ratio	52.10	45.68	14.06	50.05	44.09	13.52
Effective overall tax rate	40.15	54.39	(26.18)	36.19	49.99	(27.61)
Capital Adequacy - Tier I (minimum ratio of 5%)	10.05	12.72	(20.99)	14.39	17.79	(19.11)
Tier I & II (minimum ratio of 10%)	11.33	14.76	(23.24)	15.98	20.29	(21.24)
Liquidity ratio - DBU (minimum ratio of 20%)	22.54	26.18	(13.90)	22.54	26.18	(13.90)
FCBU (minimum ratio of 20%)	28.49	26.31	8.29	28.49	26.31	8.29
(Rs)						
Earnings - per share (basic)	12.25	9.33	31.30	16.48	12.82	28.55
Earnings (diluted)	12.24	9.32	31.33	16.47	12.81	28.57
Dividends	3.50	8.50	(58.82)	3.50	8.50	(58.82)
Book value	77.58	70.69	9.75	104.07	93.06	11.83
Market value (31 December)	138.10	349.50	(60.49)	138.10	349.50	(60.49)
(Times)						
Debt/equity	9.38	7.62	23.09	6.92	5.73	20.76
Total leverage	10.82	9.02	19.95	8.32	7.10	17.18
Interest cover	1.66	1.65	0.60	1.70	1.73	(1.73)

Operational Highlights



Customer deposits grew by 35% to Rs 80 bn in 2011 from Rs 59 bn in 2010

(page 209)



Loans and advances grew by 43% to Rs 105 bn in 2011 from Rs 73 bn in 2010

(page 209)



NPL ratio reached an all time low of 1.35% as at end 2011 from 1.90% a year ago

(page 111)



Group ROE improved to 16.72% in 2011 from 14.27% in 2010

(page 112)



Branch network increased from 47 to 60 touch points during the year

(page 229)



Total staff strength increased from 1,126 to 1,357 during the year

(page 229)



Signed an MOU with DBS Bank of Singapore for a strategic alliance in Investment Banking

(page 24)



Conducted the 'Ithuru Karana Maga' saving drive on a national scale along the theme "ithiri karamu, api hademu, rata hadamu"

(page 77)



Won a Bronze award at the Effie Awards for the third consecutive year

(page 114)



Won two awards at the Best Corporate Citizens Awards 2011

(page 115)



Introduced many 'firsts' in the Sri Lankan banking sector which included 'One Day Leasing' without the need for guarantors and down payments (page 74), 'Raththaran Savings' (page 74), online shopping for debit card holders with 'Verified By Visa' facility (page 74), and introduced a 3-hour approval process for personal loans.

(page 74)

Chairman's Letter



Chairman's Letter



...the emerging national prosperity needs to be spread from the apex to the bottom of the 'pyramid'

We live in exciting times. A propitious confluence of events - the cessation of conflict and economic growth to match that of the region, among others - has placed Sri Lanka on the cusp of a wave of great opportunity. The 'time is right' as the saying goes, for Industry, Bank and Nation to seize the abundant opportunities at hand to grow and prosper in a truly sustainable manner.

In this context, I believe it is relevant to 'watch this space' - more good times are ahead of us.

Our performance this year has amply demonstrated that we have the right strategy, the right culture, the right products and the right human asset to deliver consistent and sustainable value for our shareholders.

To lend perspective to the Bank's performance, let us take a brief look at the global and local operating environments.

Global markets continued to be unpredictable. The global economic crisis though arrested before it reached its peak, was protracted and pervaded almost every western nation due to inherent weaknesses in their economies. The recovery from this crisis is slow and still in progress. The US economy continues to be stagnant, Europe is in crisis, China and India are slowing down and so is most of Asia.

Sri Lanka has contained the budget deficit and performed consistently well with a GDP growth of 8% over the past two years. Remittances from offshore workers were substantial and exceeded US\$ 5 bn. In terms of the macroeconomic environment in Sri Lanka, the lowering of taxes is a very positive sign for the future.

Operating within such a climate, I am delighted to report that NDB has performed exceptionally well in 2011, achieving record income and profits.

The Bank's income increased 15% to Rs 13.5 bn, profit before taxation was Rs 3.4 bn and net profit increased to Rs 2.0 bn, a 32% growth. The Group's income increased 16% to Rs 14.7 bn. Profit before taxation by 6% to Rs 4.6 bn and profit attributable to shareholders to Rs 2.7 bn, a growth of 29%.

Expanding our reach through the addition of new branches is a high priority at the Bank. The importance of this cannot be overemphasized, in the context of a growing, sophisticated customer base and the emerging prosperity in the hinterland.

Chairman's Letter

The 13 new branches we opened during the year increased our network strength to 60. This programme of widening our distribution network will continue into 2012 with three branches opening in the first quarter.

In tandem, we are also expanding our product portfolio continually, in the light of expected prosperity in the country as its economy grows steadily. The Bank is focusing on developing the country's SMEs - workshops, dairy farms, sweetmeats, handicrafts, pottery, weaving and the like. NDB grants 'soft loans' without collateral to uplift this sector. We are of the view that the emerging national prosperity needs to be spread from the apex to the bottom of the 'pyramid' in order to be sustainable.

Pawning and leasing are areas with tremendous growth potential. Pension schemes are fast becoming more attractive and popular propositions than an insurance policy. Islamic banking is receiving our serious consideration. We will take necessary measures to secure and grow our client base accordingly.

Many new products are in the pipeline relating to the export industry, where much hinges on the global economy.

The biggest challenge we faced during the year was in monitoring and managing the maturity gaps between assets and liabilities. A proactive Treasury was *sine qua non* for achieving this balance through effective cash flow management. This discipline will be receiving prime focus as we move into 2012.

Competitiveness in the market is accentuated by the sophistication of present-day customers. With many banks competing in the market, customers are looking for and demanding improved services. In this context, alert and efficient bank managers and superior customer service have helped us to grow and retain our client base.

In articulating that defining 'NDB' factor, I would say that the composition of the NDB Group itself is a main differentiator. Its multi-faceted product range could be termed as NDB's major strength, compared to other banks. The NDB investment portfolio is extremely strong and the Pension Scheme from Aviva is an investment plan. AVIVA NDB is one of the foremost insurance companies in Sri Lanka and the synergy between the two partners continues to benefit both organizations.

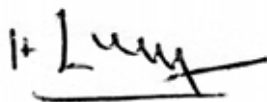
To these strengths one must add our drivers of enterprise - our well-trained and committed staff. The Bank acknowledges with gratitude their invaluable contribution and is fully committed to their continued development and empowerment as they provide a unique personalized service to our customers.

Chairman's Letter

As I conclude, I wish to express our heartfelt gratitude on behalf of employees, shareholders and well-wishers of the Bank, to the late Mr P M Nagahawatte, my predecessor for his invaluable contribution and service to NDB. His sudden demise caused great sadness within the NDB family.

I extend sincere thanks and appreciation on behalf of the Board and myself to our valued shareholders for their continued and ever present support. NDB has an excellent record as one of the best in rewarding its shareholders and I expect this trend to continue into the future.

I look forward with confidence and optimism to the exciting opportunities that await us in 2012 and the years beyond.

A handwritten signature in black ink, appearing to read 'Hemaka', with a horizontal line underneath.

Hemaka Amarasuriya
Chairman

24 February 2012

Chief Executive Officer's Review



Chief Executive Officer's Review



There is reason and purpose to
'National Development'
being enshrined in our name

Living up to our name is how I would characterize the enterprise of NDB, not just during the year under review, but over the recent past.

With clarity and consistency of our strategy, unwavering commitment to our values and lending philosophies, complemented by our core strengths and competencies to guide us, we stand with all of Sri Lanka, poised on the threshold of what promises to be an exciting era of unprecedented development and growth.

There is reason and purpose to 'National Development' being enshrined in our name. Historically we played a significant role in supporting and empowering a myriad initiatives across a gamut of sectors with well-structured and innovative financial solutions, leading to the development of the Nation, its enterprise and its people.

Spurred by the merger of the National Development Bank and the NDB Bank in 2005, we have leveraged the synergies of the other entities within the NDB Group and evolved into a Universal Bank, offering a complete suite of banking and financial products and services that reach across all customer segments and sectors of enterprise, meeting a diverse set of needs.

I review and discuss the Bank's performance in 2011 in the context of the focus areas that were outlined in the preceding year, as reported in my message in the last year's Annual Report.

Optimizing Group Synergies

There were many high points this year that illustrated synergy at work across the Group.

The first ever brand rally that took staff of NDB and its subsidiaries to the streets of Kandy and Galle was one such resounding success. Irrespective of hierarchy this event made everyone feel equal, forming an important link in a strong chain, echoing in one voice 'We are NDB'. This event certainly launched a sound base to stimulate and sustain group synergy throughout the year.

Our Project Finance Division working in tandem with the Group's investment banking arm, NDB Investment Bank (NDBIB), successfully worked on several large scale projects both in Sri Lanka and overseas, pooling their expertise.

Besides, the Corporate Banking Division including cash management operations had several opportunities to complement NDBIB in many Initial Public Offerings (IPOs) that they successfully managed. These certainly augur well in positioning NDB Group as a 'One Stop Shop' for all financial and business solutions.

This year, the NDB Group signed a landmark MOU with DBS Bank of Singapore to form a strategic alliance in Investment Banking. This partnership with the largest bank in Singapore will greatly benefit our Investment Banking Cluster and open up lucrative avenues of new business, in the enabling environment within a rapidly growing economy.

Chief Executive Officer's Review

We are determined to enter into similar alliances with renowned entities in their respective regions, so that NDB would be strongly positioned to play a pivotal role by mobilizing financial resources and investments to Sri Lanka.

NDB partnered AVIVA NDB Insurance to offer the latter's wide customer base with structured products of NDB, using the significantly large distribution network of AVIVA NDB. These initiatives are generating increasingly significant returns to both NDB and AVIVA NDB.

In a like vein, NDB increasingly draws on the expertise and core strengths of its Group entities to offer products and services such as stockbroking and margin trading facilities, positioning the retail network as the common window for offering both banking and capital market products.

We also espouse collective brand building with the participation of staff from all Group companies, which yields valuable outcomes such as motivation and team building amongst staff of different Group entities.

Building Scale in Terms of Assets, Liabilities and Reach

Composite optimal growth and well-being was the watchword this year and we think the results speak for themselves.

The gross loan portfolio of the Bank grew by an unprecedented 43% during the year to surpass Rs 100 bn. We rebalanced our asset book and changed our product mix in line with our strategic focus with more emphasis on retail and SME assets. Correspondingly, our deposit growth of 35% was backed by our novel retail savings schemes and corporate cash management services. Our philosophies in good lending, quality in credit initiation, prudential risk management policies and underwriting standards tried and tested over the years, have helped us maintain the asset quality.

While the Bank's Profit After Tax (PAT) has recorded a significant 32% growth, the Group PAT shows a corresponding growth of 35% from Rs 2.17 bn to Rs 2.94 bn. Much has been done at operational levels to achieve such sustainable profits while on a growth momentum, despite margins being under pressure.

From Niche...to Mass Market

Whilst the overall scope and capacities of enterprise played their part, a number of special initiatives also fuelled this growth. Among them were many 'firsts' and 'one of a kind' products and services we launched, such as auto-financing and leasing without guarantors or down payment, our 'Raththaran Ithurum' savings product targeting prospective investments in gold as well as our new product propositions in pawning. These were some of the imperatives in broadening our customer base, going from a niche to mass market focus.

We continued to make investments for the future in terms of network expansion, people and technology. We expanded our footprint across the country with the addition of 13 branches for improving access to finance at the rural peripheries and catering to the financial needs of the SMEs and urban trading hubs. The traditional brick and mortar channels were further supplemented with contemporary delivery channels as well as through alliances and partnerships.

Chief Executive Officer's Review

Our technology platform has been strengthened and consolidated this year with the progressive migration towards the core banking system. This has helped us to integrate core banking operations that were hitherto supported by several applications and bring them onto one platform for better operational efficiencies and unified customer solutions.

The SME Sector - a Vital Area of Focus

Given our deep roots in SME banking, I strongly believe that SMEs do form the backbone of our economy. Yet, many of them remain financially underserved with approximately 60% remaining 'out of reach' and 'unserved' by banks. Herein lie significant opportunities for banks to scale up their SME operations.

With a rich heritage in SME financing NDB is fully geared and committed to maximize these opportunities. Our strategy has shifted from SME Lending to SME Banking. In early 2011 we made the strategic move to amalgamate our Retail and SME Banking businesses, and form regional credit hubs, in order to serve this customer segment with a more holistic approach.

In addition to the traditional lending, NDB also intermediates in facilitating industry verticals - linking the small scale producers with the large scale distributors and vice versa - that provide value added services and entrepreneurial assistance.

The move towards a more customer centric cash flow based lending approach as opposed to the traditional collateral based lending resulted in a substantial portfolio growth during the year whilst maintaining delinquencies at a low level. We will continue with this strategy and grow our SME portfolio for many years to come.

The Bank's '*Divi Aruna*' scheme was developed to serve cottage industries falling within the microfinancing sector. This scheme has become an invaluable avenue to financial inclusion for people engaged in these industries and has also opened the door for NDB to inculcate the savings habit amongst them.

From 'Group' to 'Team'

The key to our success is our people. The people who work at NDB are truly an inspired team - inspired by the qualities enshrined in our core values - integrity, care, passion, teamwork and service. It is their daily enactment of these values that has infused NDB with its own character and made us such a dominant force in the financial services sector.

It is my belief that our strategies can only be realized with shared knowledge, skills and experience of an inspired team that strives to exceed our customer expectations. These require empowering individuals, nurturing human talent and encouraging a culture of innovation, with commitment to the highest standards of corporate governance, business integrity and professionalism at all times.

Chief Executive Officer's Review

As the NDB Group took shape and diverse entities came under the 'NDB family', the practice of following 'the way' of each own separate entity had to change to a 'one for all' regime. The challenge was before us to integrate more.

Given the diversity of skills and competencies within the Group, we believe in positioning our offering as 'knowledge-based banking', nurturing and harnessing this knowledge base so that it will stand us in good stead to take on the challenges of the new Sri Lanka.

Some Future Initiatives

The future holds much promise. The Central Bank of Sri Lanka has set out a road map for doubling the banking assets by year 2016, expanding lending activities and improving access to finance as we reach a US\$ 100 bn economy. As the country works towards achieving its development targets, the banking and capital market models also need to evolve to be aligned with more innovative and sophisticated financial solutions. The NDB Group with its specialized skills, knowledge base, healthy balance sheet and differentiated strategy is armed with an unparalleled competitive advantage to reap the benefits.

In the medium term we plan to expand our network to 100 branches, initiate innovative product and service solutions that exceed customer expectations and position the NDB Group as a 'One Stop Shop' that caters to all financial service needs from wealth creation to wealth protection through one window, on a common platform.

In Appreciation

Looking back, it particularly grieves me to record the demise of our former Chairman, Mr Manik Nagahawatte in August 2011. He possessed a wealth of knowledge on banking and related legislation and NDB benefited immensely from his valuable contributions to our enterprise. The late Mr Nagahawatte will be sorely missed by the NDB family.

Thanks

In conclusion let me place on record my sincere gratitude to the management and members of Team NDB for their commitment and valued contribution, to Chairman, Deputy Chairman and Board of Directors for their direction and guidance, and last but not least our valued customers and shareholders for their continued patronage.

Please Read On...

The NDB saga is an exciting one. It is full of achievement and promise. To learn more please continue reading...particularly the Management Discussion and Analysis that follows. I invite you to 'watch this space'...as the future unfolds.



Russell de Mel
Chief Executive Officer

24 February 2012

Management Discussion and Analysis

→ INTRODUCTION

The material presented in this section lends perspective and an overview of important aspects that are relevant to the Bank's operations.

The National 'Landscape'

Economic Overview

Sri Lanka's economy has performed well over the last two years, within a climate of global downturn, consistently maintaining a growth rate of 8%, thus laying a solid platform for the country to embark on a sustained development drive that will deliver better standards of living, improved productivity and balanced opportunity.

This is a commendable performance given the global context of slow growth, lower than expected recovery in the advanced countries, sovereign debt issues, resulting financial contagion and related external pressure.

At home, a low interest rate environment prevailed over the year under review while inflation steadied to remain in single digit territory. Progress was made on fiscal consolidation targeting the reduction of budget deficit and healthy focus on capital expenditure.

The year 2011 also saw a growth in external trade albeit with some balance of payment pressure, supplemented to a great extent by a steady influx of remittances and FDIs.

The Government has also been able to make qualitative improvements such as lowering unemployment, reducing poverty and improving the environment for doing business in Sri Lanka.

In facilitating long term development, a key area of focus on the policy agenda is the transformation of Sri Lanka into a regional economic hub, supplemented by balanced regional growth, enhancing access to finance, promoting export-oriented industrialization, promulgating enabling tax reforms and enacting monetary and exchange rate policy measures to stabilize growth.

The Financial Services Industry - Demographics and Challenges

The financial services industry has been resilient, supporting the growth momentum within Sri Lanka's emerging economy.

Overall credit growth has picked up from the historic lows of two years ago and has performed consistently over the last 2 years, driven by increased business confidence and improved economic activities.

Structurally, while the asset books have shown significant expansion in 2011, funding of the asset book at competitive rates has been challenging.

The excess liquidity that was carried in the balance sheets from the previous years has now been wiped out and internally-generated profits alone are not adequate to fund this level of loan growth.

Predominantly it has been a high volume, low margin regime. Given which, it is imperative to manage operational costs as well as credit costs, in order to attain sustainable returns with lower margins.

Management Discussion and Analysis

This year, the bottom line growth has been enhanced by revisions to provisioning policies and reductions in tax rates. Sustaining this growth momentum, going forward is going to be a challenge for the entire industry.

We have seen several new entrants to the industry in 2011 including regional players, while the existing banks have further continued to build capacity.

Capital markets have supplemented bank markets in raising funds for investments, while non-bank financial institutions have also geared up with sophisticated substitutions.

While financial sector stability has been maintained, the regulatory and prudential framework has also been strengthened.

Customer Segments Served

Universal banking from NDB has a service solution, whatever your banking requirement is irrespective of its size and complexity, whether it is a large corporate, a small scale enterprise or a consumer financial need. A large spectrum of services is made available, from converting an idea into a viable project up to the final project exit through a public offering. The NDB Group is a one-stop shop for all business and financial needs throughout this project life cycle.

At the high end, with our project finance expertise we have financed large scale infrastructure projects promoting industrial, agricultural and commercial development in Sri Lanka.

With our commercial banking suite we offer transaction banking solutions to large corporates and the middle market segments, synergized with the Group's investment banking services.

Investment banking cluster offers product portfolios in equity and debt financing and advisory services to the corporate sector as well as value additions such as private wealth management and equity research at the retail end of the customer spectrum.

Since its inception, NDB has pioneered lending to the small and medium scale enterprises and to date continues to service this segment now offering both long term lending and short term working capital financing.

Our Retail Banking focus is now moving from niche to mass market as we expand our footprint and build our brand equity.

Management Discussion and Analysis

The Bank's Approach to Growth vis-à-vis National Policy

In broad terms, there are two aspects that are important to us in our growth story. One is 'Sustainable' growth and the second is 'Inclusive' growth.

Sustainable growth involves managing the short term gains with the long term returns. This is important in how we handle organizational growth as well as in how we participate in the country's economic growth. From the Bank's viewpoint, building a good quality asset book is one focal point in facilitating sustainable growth. Similarly, we believe in investing now for the future; in terms of people, technology, channel expansion and other key areas of enterprise. Continuous improvement in our product and service offering is all about sustaining the growth momentum and enhancing value addition.

Inclusive growth also has several perspectives to it such as social inclusion, geographical expansion and diversity in offering. This is all about bringing the 'unbanked' into the banking fold, building their confidence in the banking system and finding ways and means of accessing the grassroots in a manner that is economically viable.

Inclusive growth at NDB is also about the inclusiveness of the Group and benefiting from the strengths of its diversity.

As the country focuses on establishing itself as a regional financial hub, the Bank also focuses on expanding its regional footprint and establishing itself as a conduit for channelling investment.

Emerging Opportunities...and Future Outlook

Improved macroeconomic conditions have set the backdrop for sustainable growth within the medium term.

The rise in business and trade volumes on both consumption and investment will stimulate demand for credit in the country, whilst there would be some external pressure on the trade account. Domestically, we are catering to the requirements of more sophisticated customers within this middle market economy.

Whilst the industry is gearing up to cater to these growth demands by building capacity, everyone will be competing for the same pool of resources, in terms of capital, liquidity, human talent among others.

From both consumer and operational points of view, those who would fare best in such competition are those who have a clearly defined competitive advantage over the rest.

Given our unique Group composition and our investments into knowledge-based banking, we believe that our differentiated strategy and competitive strengths would stand us in good stead in making a meaningful contribution and raising the stakes within this competitive environment.



**FINANCIAL
SERVICES FOR ALL**





Our complete portfolio provides financial solutions for all

NDB Group offers Corporate Banking, Project Financing, SME Solutions, Retail Banking, Stock Broking, Wealth Management, Investment Banking and Insurance products through its constituents. In fact we are a 'complete service/solutions provider' in the true sense of the phrase!

Management Discussion and Analysis

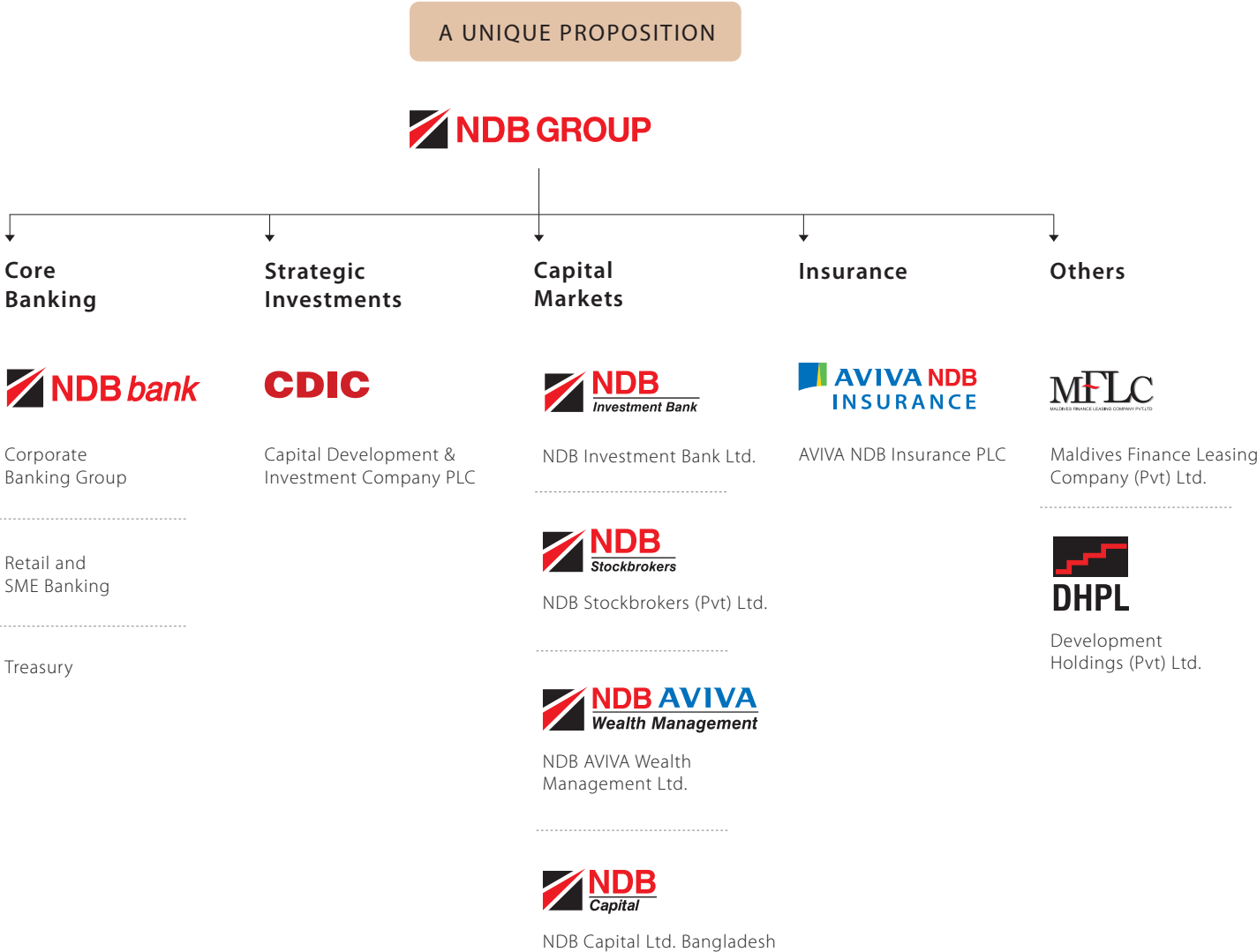
→ FINANCIAL SERVICES FOR ALL

Universal Banking is a banking system in which banks provide a wide array of financial solutions including commercial and investment services.

The concept has provided the customers an opportunity to fulfil all their financial needs under one roof, thereby saving both time and cost. In addition, universal banking has also afforded the Bank many advantages such as economies of scale and a common platform to cross sell its wide array of products and services optimizing the strength of the financial conglomerate, NDB Group has evolved to be today.

NDB Group

In this scenario, universal banking showcase the strength of the NDB Group and its versatility to offer a comprehensive range of financial solutions that go beyond the norm of conventional banking.



Management Discussion and Analysis

Group Synergies

NDB Group has a unique structure which includes National Development Bank PLC, the banking arm of the Group, the Capital Markets Cluster, AVIVA NDB Insurance, the insurance arm of the Group, CDIC the investment arm of the Group and MFLC, the leasing company in the Maldives.

The Capital Markets Cluster consists of NDB Investment Bank (NDBIB), its local investment banking arm NDB Stockbrokers, a premier stockbroker in the country, NDB AVIVA Wealth Management, the largest fund management entity in Sri Lanka and NDB Capital, the investment banking operation in Bangladesh.

This year, the NDB Group continued to revolutionize the banking and financial services arena of the country by signing an MOU with DBS Bank of Singapore to form a strategic alliance in Investment Banking. Through this MOU, NDB Group and DBS Bank would work on Equity and Fixed Income Issuances, Syndications, Project Financing and Mergers and Acquisitions. This strategic alliance with the largest bank in Singapore and a leading financial services group in Asia, with over 200 branches across 15 markets would strengthen the operations of NDBIB by providing easier access to foreign high net worth and institutional clients which will greatly benefit the Investment Banking Cluster. Emboldened by this new partnership, the Group looks forward to building upon its strong foundation and successful track record in the future.

The products on offer provide an unrivalled competitive advantage to the NDB Group propelling it to a unique positioning amongst its competitors. NDB continues to maximize synergies within its Group, in order to offer the best services and products to its clients, cross selling products across its companies and branch network, i.e., by establishing a 'ONE STOP SHOP' and thereby best utilising its key competitive advantage so as to achieve better results.

NDB...its Scope and Substance

Corporate Banking Group

Project and Infrastructure

Financing Division

The Bank provides its services through Corporate Banking Group, Retail/SME Banking and Treasury.

Project Financing is an integral part of development banking in sustaining and advancing key sectors of the economy that are considered to be of strategic importance to the overall socio economic development of the country. It is one of the key financial products offered by NDB tailored to suit specific needs of the targeted sectors. Further, it channels the supply of financial products and services to the identified strategic sectors for the purpose of having long-term and sustainable economic development.

Given the significance attached to developing and promoting the identified strategic sectors of the Sri Lankan economy, NDB since its inception, has been strong, effective and efficient in performing its role in project financing thereby playing a pivotal role by financing long-term projects in consonance with national plans and priorities. The Bank continued to play this role in an accelerated manner even after the conversion to a commercial banking model in 2005. Some key initiatives taken in this direction include strengthening of the organizational structure and operational framework, building capacity and capability, securing credit lines on concessionary terms from foreign funding agencies and enhancing operational efficiency.

Management Discussion and Analysis

At the beginning of the year, the Project Finance portfolio was skewed towards a limited number of sectors. However, in keeping abreast with the growth momentum created as a result of restoration of peace, Project Finance Division diversified its portfolio into growth sectors such as Tourism, Healthcare, Rubber Products, Non-conventional Renewable Energy, Construction related sectors and Animal Husbandary.

In addition, for the convenience of corporate clients, project financing is further facilitated and strengthened to package an array of commercial banking products tailor-made to suit the specific cash flow requirements. Accordingly, the Project Finance Division is now in a position to leverage the strong corporate relationships built up over the years by offering customized and total financial solutions in both development banking as well as commercial banking for all corporate needs.

Project Finance Division worked very closely with the Group's investment banking arm, NDB Investment Bank (NDBIB), to book significant volumes of securitization deals during the year primarily in the financial sector. In addition to the securitization deals, the Project Finance Division also embarked on a large scale energy project overseas, pooling the expertise in Project Finance Division and NDBIB. This demonstrates the efficient leveraging of group synergies to reap benefits to both the Project Finance Division and NDBIB.

The economic revival of the North and the East following the cessation of hostilities has created unprecedented opportunities for project financing and the Division has already funded two hotel projects in Passekudah in the East including a five-star hotel. In addition, several project proposals from the North are under consideration for financing.

NDB remains important and relevant with a greater complementary and developmental role in project financing to support in achieving the nation's socio economic objectives.



A new glove manufacturing project

Management Discussion and Analysis

Role in Financing Infrastructure Sector

Power and Energy sector played an important and active role in the development of the domestic infrastructure and the country saw its first few commercial level wind power projects being commissioned successfully. NDB takes pride in being a key player in financing landmark initiatives in the wind power sector in Sri Lanka. Further, NDB also played a significant role as the 'Lead Arranger' for some of the projects by contributing its expertise in arranging co-financed financial packages. In addition, NDB's Project Finance Division also initiated discussions during the year for financing of other forms of renewable energy projects such as bio-mass energy, waste to energy and solar energy, which are new to the country. We endeavour to continue our lead role in arranging financing packages for these novel projects demonstrating the skills and expertise developed over thirty years of development banking. Year 2011 was a significant year for the Project Finance Division in approving its first ever facility to a premier Sri Lankan Group of companies in their overseas expansion in the energy sector.

The Project Finance Division also approved a significantly large facility to the telecom sector for the purpose of upgrading and expanding their network.

Enhancing Core Competencies

Main contributory factor for the impressive performance achieved by the Project Finance Division in 2011 was the strength of its multi-disciplinary team of professionals. This factor enabled the Project Finance Division to implement effective and efficient project appraisal, monitoring and follow-up systems to maintain a growing and healthy portfolio.

Accordingly, the Project Finance Division places great emphasis on the retention and development of core competencies acquired over the years as a development financier and has taken several initiatives in overseas training and development of its team members especially in the growth sectors such as wind power. Such initiatives have enabled the Project Finance Division to strengthen the technical capabilities and to take a lead role in arranging financial packages into new sectors such as wind power.

Portfolio

The total Project Finance portfolio grew by Rs 5,725 mn in 2011 representing a growth of 56% compared to 2010. It is noteworthy to mention that while maintaining the impressive growth in the portfolio, the Project Finance Division successfully managed its quality as reflected in the low NPL ratio of 0.8%.

The value of the pipeline of project proposals amounting to Rs 8,958 mn as at 31 December 2011 representing diverse sectors was encouraging. This forms a strong platform for the Project Finance Division to sustain the growth momentum in 2012.

Having identified Power & Energy as an important sector in the economy, the Project Finance Division continued to support this sector by granting facilities close to Rs 1 bn during the year.

The Bank's foray into the Tourism sector saw it financing a hotel project in Hikkaduwa joining the two already coming up in Passekudah, in the Eastern Province.

Management Discussion and Analysis

Challenges | Among many challenges faced by the Division in achieving unprecedented growth of its asset book, one key challenge was sourcing long-term funds for capital intensive and long gestation projects which became expensive as a result of tenor risk factored in. In addition, raising of long-term funds to finance export-oriented projects that earn much needed foreign exchange to the country was also a critical challenge.

Way Forward | The Division will continue with the growth momentum on portfolio and diversification created during the year. Given the priority sectors identified in the fiscal policy and incentives granted, the Division's challenge now besides pricing and funding would be to develop project proposals and seek financiers off-shore. In this direction, the Division initiated discussions with several international funding agencies to explore the possibility of securing dedicated credit lines for long-term project financing. In addition, the Project Finance Division feels that the link established by NDB with DBS Singapore would lay a solid platform to channel investments to Sri Lanka.

Commercial Banking Division | Buoyed by economic policies and Government stimuli to push credit growth in post war Sri Lanka, the accelerated growth witnessed towards the end of 2010, continued into 2011.

Portfolio | Seizing opportunity from this growth momentum, the Commercial Banking Division acquired a large number of new customers during the year, from middle market to large scale. Equal focus was given to growing the existing loan portfolio, in order to increase the share of wallet and capture the increase in business volumes. Thus, the Commercial Banking portfolio grew by a substantial 34% during the year and in total it accounted for 45% of the total loan portfolio of the Bank. It remains well diversified with primary concentration on import, export and infrastructure related businesses (contract financing).

However, growth in volumes was offset by the continuous pressure throughout the year from diminishing margins on account of the progressively lower interest regimes.

Deposit Mobilization | Whilst the primary role of the Commercial Banking Division has been to grow on a healthy asset portfolio at a steady pace generating comfortable returns, the focused attention on deposit mobilization through its portfolio of customers enabled the Division to fund as much as 40% of its own asset portfolio. This dual role of managing both sides of the Balance Sheet has evolved to be an additional skill demonstrated by the relationship managers of the Division.

Professional Team | The strength of Commercial Banking lies in its professional team of relationship managers, its portfolio offering of structured financial solutions that supports the customer business models and its internal monitoring systems. Flexibility and greater lending authority delegated to senior personnel have supported fast turnaround in the credit approving process and in responding to customer needs and requests.

Management Discussion and Analysis

Portfolio Management

Despite the growth in volumes, the Division continued to maintain a healthy portfolio as evident from the low NPL ratio, probably the lowest in the market. Apart from the Bank's internal controls and systems that support monitoring and management of the portfolio, this growth was achieved mainly by leveraging strong relationship management skills by maintaining regular contact to understand the customers' changing needs and offering timely, structured financial solutions.

The general increase in investment on account of the positive business environment provided many opportunities to cross sell the Bank's wide range of products and expertise and thereby offer total financial solutions to the customers. During the year, the Commercial Banking Division partnered with the investment banking and stock broking subsidiaries to offer the customers commercial banking support as 'The Bankers to the Issue' on many of their Initial Public Offers. Expansion of margin trading products to corporates reflects our ability to offer timely financial solutions to customers.

Electronic Banking

Over 60% of commercial banking customers of NDB now use our electronic-banking platform to transact their business with us. Product features and facilities are regularly being added and enhanced to continuously improve accessibility, convenience and security. The popular demand for the system and its successful use is a reflection of its value addition. It has undoubtedly given NDB a competitive advantage.

Future Outlook

Competition will certainly be greater in 2012, given the ease in the growth momentum of the economy. The Commercial Banking Division will consolidate and grow its new and existing businesses whilst aggressively seeking opportunities to fund prospective customers by following a target market criteria in terms of industries, customers and acceptable 'risk-return' trade-offs. The harmonized collaboration with Project and Infrastructure Financing Division not only removed barriers of a 'silo' operation, but also brought relationship managers of both Divisions to have one focus, maximizing share of client wallet, irrespective of where the project or facility is booked. This change has certainly benefited both Divisions and will contribute towards making of a much sought after Corporate Banking Group of the country.

SME Banking

The integration of SME and retail banking to form a focus on branch banking at the start of year 2011 has been a tremendous success resulting in significant business growth in the year under review. As a result in 2011 the SME portfolio recorded an unprecedented annual growth of Rs 3 bn or over 150% of the growth achieved during 2010. The total SME portfolio now stands over Rs 10 bn.

According to a recent IFC survey the SME sector is the main contributor to the Sri Lankan economy, providing employment for about 80% of the country's workforce. They constitute about 80% - 90% of the total number of the country's business establishments and 20% of the industrial value-added as per the IFC survey. Yet, many of them remain financially underserved. It is estimated that Sri Lanka's banks fail to reach and serve approximately 60% of the SME market. This financing gap coupled with a booming economy bolstered by the peace dividend in the post-conflict era offers significant opportunities for banks to scale up its SME operations. With a rich heritage in SME financing NDB is fully-gearred and committed to maximize these opportunities.

Management Discussion and Analysis

Strategy

The flexible and wider organizational focus complemented by experienced staff and unique systems and processes provides NDB with a strategic advantage that will enable the Bank to grow the SME business rapidly. The expansion of NDB's branch network to 60 during the year was by and large influenced by this SME focus. The Bank has already laid plans to continue this branch growth momentum to support the SME sector in the coming years.

The need for SME focus led NDB to establish SME Centres in key provinces thereby enabling much closer integration between the SMEs and the Bank. This has immensely helped the entrepreneurs in the regions as they got direct access to expertise of well-trained credit staff of the Bank. Further, NDB is committed to enriching the knowledge base of SMEs and conduct country wide skill development seminars in management, accounting and business etiquette. In addition to this the Bank also regularly addresses SME forums in educating them of banking products and solutions available with NDB. Several such SME seminars and forum addresses were held during 2011 spanning several locations such as Matara, Horana, Ratnapura, Kuliyaipitiya, Kegalle, Galle, Chilaw, Gampaha, Kurunegala, Kalutara and Moratuwa. The Bank believes that such programmes will enable SMEs to adopt best practices, obtain optimum results and become valuable corporate citizens.

In its efforts to support the SME Sector and as its strategic focus NDB continues customer focused Research and Development at branch, Regional Credit Units and Marketing Department level, to offer innovative financial products to meet customer requirements. This process is coordinated centrally.

As a result in addition to the traditional lending forms, NDB also intermediates in facilitating industry verticals - linking the small time producers with the large scale distributors and vice versa - providing value added services and entrepreneurial assistance. The move towards a more customer centric cash flow based lending approach as opposed to the traditional collateral based lending resulted in a substantial portfolio growth during the year whilst maintaining delinquencies at a low level. NDB will continue to follow this strategy with a view to aggressively growing the SME portfolio for many years to come.

'Project Financing' a key core competency of NDB is being maximized to support infrastructure development needs of SMEs, despite the diminishing concessionary funding lines. The Bank has enrolled itself with all available credit lines to ensure SMEs are well supported. During the past year, the Bank has extended financial assistance to projects in the key growth sub-sectors covering Tourism, Construction and Manufacturing thereby contributing positively towards these key sectors of the economy.

Identifying the requirement for investment in infrastructure development in the tourism industry the Bank has assisted a large number of small to medium scale hotel projects in all parts of the country including the newly opened up North and East regions. The Bank has also negotiated several credit lines to support the Capital Expenditure and Working Capital Requirements of the SME sector. (Eg., SMEDeF Credit Line from World Bank, DEG Credit Line from Germany). The Government directed IFA lending is also used to support SME projects.

Management Discussion and Analysis

Apart from 'Project Financing' the Bank is now a focused provider of working capital needs of SMEs.

Prior to 2008 the SME portfolio was predominantly long-term/Project Loans driven. The strategic decisions made since then to focus on working capital needs of SMEs for maximization of existing client relationships and as a client acquisition strategy is now paying rich dividends.

In servicing the working capital requirements of SMEs, NDB adopts a twofold approach of traditional customer and collateral centric lending, and cash flow based structured financing.

This approach has resulted in the change of portfolio composition where the portfolio mix changed from 39% on short-term financing in 2008, to 63% by 2011, while increasing the portfolio three folds during this 3 year period.

'Channel Finance' is an area developed a few years back to focus on providing transactional based financing for suppliers, and distributors and exporters in the country. Financing across the supply chain linkages are carried out by way of Receivable Finance, Distributor Finance, Supplier Finance and Exporter Finance. The in-house developed IT solutions 'Receivable Management System (RMS)' and 'Purchase Order Management System (POMS)' enables a cost effective, efficient and transparent methodology which negates the need for high levels of collateral, yet effect better risk management due to superior control of customer cash flows. The channel financing portfolio presently carries customer instruments in excess of 14,000 at any given time with a portfolio in excess of Rs 2 bn and an annual throughput exceeding Rs 10 bn. This financing segment is expected to grow exponentially in coming years.

The SME portfolio is well-diversified across several industries, with the highest single sector being trading at 23% followed by agriculture and services at 12% and 10% respectively.

'Divi Aruna'

The Bank has not forgotten the fledgling cottage industries in the country, the microfinancing sector.

The microfinancing initiative launched in 2009 branded '*Divi Aruna*' is now becoming an integral part of NDB's business proposition. '*Divi Aruna*' financing activities have now become synonymous with every branch expansion and the Bank has substantially increased its industry coverage to include fisheries, pottery, horticulture, handloom, dairy farming, maldivian fish, confectioneries (*kalu dodol*), hand bags, brassware, brick making, shoe manufacturing, and vegetable farming.

The '*Divi Aruna*' initiative has contributed immensely to NDB's objective of financial inclusion and the scheme has also become a tool to inculcate the savings habit amongst this hard working, underserved yet most deserving economic sector.

Management Discussion and Analysis

NPL Management

Continuing its strong legacy of risk management, NDB's SME NPL ratio stand impressively at 3.24% despite the high portfolio growth in recent years. The portfolio predominantly continues to perform at an exceptional level and the ongoing monitoring of risk will ensure timely action where needed. The risk management is a robust process. The independent risk management team under Group Risk Management is one that provides overall high level supervision. In addition to this SME unit's own line risk management reporting to Vice-President SME/Retail ensures all facility originations are at acceptable levels and within Bank policies. This unit also closely monitors all ongoing facilities for acceptable performance levels and to identify early warning signs. A separate team monitors arrears and recoveries to ensure timely action is taken. The Independent Risk Unit monitors the watch listed clients.

The Branch Managers and Regional Managers are entrusted with the responsibility of ensuring appropriate origination, monitoring and recoveries.



Handing over the cheque to the Women's Co-operative Society in collaboration with Lanka Financial Service for Underserved Settlements



Conducting a capacity building SME Workshop in Kegalle

Management Discussion and Analysis

Competitive Advantage

In a strategic move NDB engaged IFC for a diagnostic study of its SME business. The results of this study has provided additional insights and required strategic process realignments have been identified. This is currently underway and a SME banking focused approach is now being inculcated as against the traditional SME lending approach.

NDB's innovative product approaches, its systems and risk management legacy form key competitive advantages in serving the SME sector and assuming a dominant role. The efforts to fast track facility approvals will continue to be our forte. The SME Banking focus also enables the Bank to partner with customers offering an integral financial service solution.

Future Outlook

The attractive growth opportunities presented have given rise for many financial institutions to focus in the SME space. This is a very encouraging trend and augurs well for the future of the country as SMEs form the bedrock of future economic growth. The long standing engagement with the SME sector and the experience gained allows NDB to profoundly service the SMEs.

With these positive developments coupled with the expansion initiatives in the SME segment with identified business strategies, NDB is very well geared to achieve even greater results in this segment in 2012.

Management Discussion and Analysis

Refinance Operations

Sustainable business ventures are key to the economic growth of the nation. NDB's refinancing operations played a pivotal role in providing assistance to Micro, Small and Medium Enterprises throughout the Island. Continuing its rich legacy of contributing to economic growth, the Bank's Refinance Unit administered credit line funds through Participating Financial Institutions (PFIs) and the Bank's own branch network.

The Bank operated four APEX credit lines during the period under review, as detailed below:

Credit Line	Funding Agency	Main Focus	Status
1. Small and Micro Industries Leader and Entrepreneur Promotion Project II (SMILE II) Revolving Scheme	JBIC*	Providing long-term concessionary funding for small and micro scale industries in the manufacturing, industrial and services sectors.	Commitments of Rs 1.35 bn with over 540 projects funded and employment generation of over 2,200.
2. Southern Province Rural Economic Advancement Project (SPREAP) Revolving Scheme	ADB**	Accelerating economic growth and creating income and employment opportunities in the Southern Province through the promotion of micro scale industries by providing concessionary term loans, with a focus on sectors such as Commercial Crops, Food Processing, Fruit Crops and Agro Industries.	Commitments of Rs 750 mn with over 2,200 projects funded and employment generation of over 3,800.
3. Environmentally Friendly Solutions Fund Project (E Friends I) Revolving Scheme	JBIC*	Assisting industrial enterprises in finding solutions to the environmental problems, such as industrial pollution caused by their manufacturing processes and energy consumption, waste minimization, resource recovery and savings, pollution control and abatement, and compliance with the statutory requirements of the Central Environmental Authority.	Commitments of Rs 682 mn with over 100 projects benefited.
4. Aquatic Resources Development and Quality Improvement Project (ARDQP)	ADB**	Improving food security and reducing poverty especially in rural areas by promoting market driven and sustainable management of inland fisheries and aqua culture through resource development and quality improvement with the goal of increasing income generating opportunities in the rural areas.	The ARDQP Credit Component was utilized by the targeted completion date, with Commitments of Rs 74 mn benefiting 119 Projects. The Credit Scheme created 261 new employment opportunities and benefited several sectors including Aquarium/Ornamental Fish, Ice Manufacturing and Fresh Water Fish; contributing to the National Production of the country whilst utilising the regional resources and entrepreneur skills. With the assistance of the scheme 37 new business enterprises emerged.

* JICA - Japan International Cooperation Agency.

** ADB - Asian Development Bank.

Management Discussion and Analysis



Ornamental fish farm at Kalukele in Polonnaruwa, funded under ARDQP



Ice factory at Valaichchenai, funded under ARDQP

The Bank as the apex institution also conducted many awareness campaigns and training workshops during the year for both the PFIs and the end borrowers providing technical assistance and operational guidance under each of the related credit schemes.

Management Discussion and Analysis

Role as a Participating Financial Institution

NDB also operates as a Participating Financial Institution (PFI) under the following funding schemes which are currently in operation.

1. Small and Medium Enterprise Development Facility Project (SMEDeF)
2. KFW Credit Line for SMEs in the North and the East
3. The Prosperity Loan Scheme (*Saubhagya*), implemented by the Central Bank of Sri Lanka (CBSL)
4. The 'Awakening North' Special Loan Scheme for Resumption of Economic Activities in the Northern Province, implemented by the CBSL
5. Credit Line for the Resumption of Economic Activities in the Eastern Province implemented by the CBSL
6. Agro Livestock Development Loan Scheme (ALDL) implemented by the CBSL
7. New Comprehensive Rural Credit Scheme (NCRCS) implemented by the CBSL
8. Poverty Alleviation Microfinance Project II (PAMP II) implemented by the CBSL



Signing of the SMEDeF Agreement with the Government of Sri Lanka

Retail Banking

Introduction

The conducive environment for business development for the year under review has seen the rapid expansion of the Retail Banking activities of NDB.

In a strategic move NDB amalgamated its Retail and SME Banking businesses at the beginning of 2011, in order to efficiently manage the resource pool as well as to maximize synergies arising out of such a move. This has paid rich dividends, where the business recorded unprecedented growth in advances as well as deposit mobilization. The Retail Banking business group now accounts for 33% of net interest income, 73% of customer deposits of the Bank and 27% of total advances of the Bank. The year also saw the Bank expanding its branch network to 60 by adding 13 new branches. Despite the emergence of technology based channels, there is a necessity for the opening of brick and mortar branches and therefore, the Bank will continue with the branch expansion programme in the coming years.

Management Discussion and Analysis

NDB has also invested in the development of its human capital with regular staff training programmes and specialized training done by external experts to ensure quality customer service.

The retail customer base grew by 25% during the year as a result of focused product innovations and channel sales activities.

Deposit Mobilisation

NDB has been aggressively building its deposit base by canvassing new clients, whilst continuing to offer personalized attention to its existing customer base. This has resulted in a deposit growth of Rs 16 bn sourced from Retail and SME clients during the year. This is a significant growth of 37% over that of the previous year and is also higher than the industry growth of 19% for the year 2011.

The 'Premium Plus Saver Account' introduced by NDB for higher savers benefits from a tier based interest scheme. This is also targeted at meeting the growing needs of the middle income population of the country. The Bank continues to give prominence to the National Savings Drive campaign themed 'Lets Save, Prosper and Build the Nation'. The '*Ithuru Karana Maga*' booklet issued in conjunction with this campaign introduces a multitude of savings methods in day-to-day life of Sri Lankans irrespective of their social class.

Loans and Advances

The low interest rate regime that prevailed throughout the year under review created a sense of confidence among consumers for positive investment activities. Within this context the Bank proactively concentrated on expanding the asset book during the first three quarters of the year and focused on consolidation during the last quarter. Consumer durables and motor vehicle purchases outweighed all other credit usages during the year, whilst the new margin trading product including lending against listed shares had a jump start with a significant increase in the portfolio as at year end 2011.

Overall, the Retail Banking asset book grew by 49% for the year under review versus the previous year, which is a 29% contribution to the total asset book growth of the entire Bank.

The key contributors to the asset growth are as follows:

Product	Portfolio Growth in Year 2011 (%)	Portfolio Growth in Year 2010 (%)
Personal Loans	67	63
Pawning	153	145
Leasing	75	28

Network

The opening of 13 new branches during the year 2011 was operationalized with radical changes to the way branch banking was previously conducted. The new changes ensured that localized economic drivers were recognized and custom built into branch operations. This includes extended banking hours till 4.00 p.m. across the network, keeping selected branches open on Saturday or Sunday and a few branches 365 days per year.

Management Discussion and Analysis

Out of the 13 new branches that were opened, 9 were located outside the Western Province so as to develop the rural economy of the country. The Bank is committed to expanding the current 60 branch network taking into account the localized needs as well as providing new state-of-the-art technological advancements.



Hambantota Branch Opening



Nittambuwa Branch Opening

Management Discussion and Analysis



The Chief Operating Officer addressing the gathering at the Ambalangoda Branch Opening

Cards Business

Although the Bank is a new entrant to the cards business, its unique product positioning incorporating the provision of a free travel insurance cover to the primary cardholder and immediate family members travelling along with the primary cardholder has contributed to the acceptability of this product. Another offer is the 'Balance Transfer Option' which has a lower interest rate. Cardholders further benefited with seasonal bargain promotions in November and December at selected merchant outlets.

Debit Card issuance increased by 17% during the year under review in comparison to the previous year, mainly due to the expansion of the branch network. Promotions carried out by VISA in leading supermarkets and clothing stores have also contributed towards cardholder spending increasing by 28% for the year under review. Furthermore, VISA international card statistics have identified the NDB Debit Card as having the highest average per card spend for the year 2011.



Use your NDB Debit and Pre-paid cards to pay for goods and services on the Internet.

The good news is that it is  (VbV)

Now, NDB Debit and Pre-paid cardholders can pay for goods and services over the Internet. Rest assured your card data will be protected by VbV (Verified by Visa) adding security to your card and transactions. VbV works through a One Time Password (OTP), which you should use to Authenticate each time you make an online payment. The OTP will be sent to your pre-registered mobile via SMS or e-mailed to your personal e-mail address each time you make an online payment. The wonderful world of online shopping awaits you! Visit your nearest NDB branch or contact our 24x7 Call Centre today.

NDB
Debit / Pre-paid Cards

More details can be obtained from any NDB branch or call 011 2 44 88 88
Conditions apply.

Changing lives everyday
NDB bank

SV (Verified by VISA) service to its Debit and transacting using the Internet. This enables Internet using an on-line one time password to the registered e-mail address of the customer. way of transacting over the Internet.

During the year under review, home loans were offered not only to salaried employees of corporate and government sectors but also to entrepreneurs, in line with the Bank's strategy to amalgamate consumer and SME. During the year 2011, the Bank extended its services to provide loans to prospective buyers of houses under construction by selected developers. The Bank continued to partner with the ETF Board to provide home loans to eligible ETF members at concessionary interest rates under the 'VIYANA' home loan scheme.

During the year under review, the home loans portfolio recorded a growth of 14%. NDB home loans are managed through pre approved underwriting standards and risks are also managed effectively which kept the Non-Performing Loan ratio at an impressive 0.98%.

Apart from the branch network, NDB home loans are channelled through a dedicated housing sales team which provides customers with services at their door step.



Management Discussion and Analysis

'Dream Maker' Personal Loans

Personal loans have been the highest contributor to the Retail Asset Book with a significant growth of 67% during the year under review.

The 'Dream Maker' facility caters to the salaried market segment. Professionals of multiple disciplines too fall into this market segment. The Bank had a 'Product of the Month' drive and achieved Rs 1.0 bn disbursement within a single month, which may be the first of its kind for consumer loans in the Sri Lankan banking history. This is an indicator of the confidence placed on this product by the customer and the effectiveness of Bank's sales channels.

'Dream Maker - Fast Track' is the new value addition to the Dream Maker product basket. This provides for a loan approval to be made within 3 hours, which is a first in the Sri Lankan banking industry. Specialized services for this product include longer tenure for loan facilities, without guarantors supported by personalized services at the customer's door step with a 24 hour customer support line.

Loan growth has been carried out without compromising quality. The Non-Performing Loan ratio on the Dream Maker Loan facility has been reduced to 1.43% during the year under review, one of the lowest in the industry.

These achievements were made possible due to the continuous improvement in prudent risk management and product development tailor made to suit customer needs.

Auto Finance and Leases

Auto loans and leases have made a significant contribution to boost the Asset Book, recording a portfolio growth of 75%, whilst maintaining the Non-Performing Loan ratio of an all time low figure of 1.95%. Both these ratios are probably the best in the leasing industry in the country. This was made possible with the Bank's wider reach and strategic allocation of resources to potential areas and tie ups made with local agents of reputed brands such as Toyota and Isuzu. The Bank offered tailor made solutions with flexible terms of contract, discounts on motor insurance and special discounts on prices of vehicles bought through the identified local agents. Moreover, the Bank has re-engineered its leasing proposition enabling prospective lessees to drive away their dream vehicle within a day, without down payments and guarantors, a first in the leasing industry in Sri Lanka.



Management Discussion and Analysis

The Bank also introduced a 'three wheeler leasing product' during the year under review. This facility has been timely and relevant indicating a good growth potential and contributing to small SME's in the country and its development.



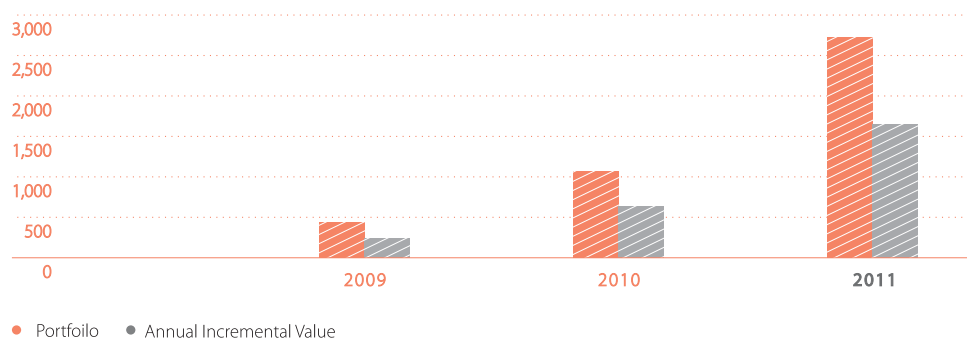
Handing over a lease facility

Pawning

The NDB 'Ran-Naya' pawning facility recorded a substantial growth of 153% during the year under review. The Non-Performing Loan ratio for this product has been 0.31% probably maintaining the best standards in the industry.

The chart below depicts the growth of the pawning portfolio and annual incremental value generated.

PAWNING PORTFOLIO GROWTH DURING LAST 3 YEARS
(Rs mn)



Management Discussion and Analysis

Gold Savings

The NDB 'Raththaran Ithurum' product launched during the year, created history by being the first product of its kind in the country. Under this innovative product, prospective investors of gold would be afforded an opportunity to reserve gold at the prevailing price and pay in instalments in various tenors to suit their affordability.



Privilege Banking

Our private banking offering 'Privilege Banking', is our symbol of commitment towards delivering complete financial solutions, through exclusive Relationship Management, to High Net Worth Individuals (HNWI). Privilege Banking offers all banking products and services, strongly supported by the products and expertise of the NDB Group companies, namely, AVIVA NDB Insurance, NDB AVIVA Wealth Management, NDB Stockbrokers and NDB Investment Bank. Thus, all Privilege Banking clients could avail themselves of a wide array of financial products through the NDB Group.

During the year under review, the Privilege Banking portfolio grew by 38%, thereby becoming a major contributor towards the overall Bank's liability growth. In 2011, Privilege Banking concentrated in new markets outside Sri Lanka, to promote Special Foreign Investment Deposit Accounts (SFIDA) and Securities Investment Accounts (SIA) and successfully acquired new clients from overseas. Further, option linked structured products in foreign currencies were offered through Privilege Banking to meet the individual client needs.

Operational Excellence

In order to maintain the organizational culture and work ethics whilst providing quality services for the Bank's customer, extensive training programmes were carried out for new and existing employees alike.

A multi functional team was formed and given the task of exploring the ways of delighting the customers at every touch point of the Bank. It enabled the Bank to identify gaps in service delivery in terms of customer interfaces and internal processes. Timely corrective action was taken, which enhanced the customer experience of banking with NDB.

Management Discussion and Analysis

24 Hour Customer Service Centre and Tele-Marketing

NDB's Call Centre with its vision of providing unparalleled customer service continued its 24-hour information centre for all banking products and services. The Bank's Tele-Marketing team also continued its efforts in cross selling the Bank's products and services to existing and potential customers whilst simultaneously conducting customer satisfaction surveys to further enhance the profitability and the service quality of the Bank.

Remittances/Bancassurance

Remittances

Remittance inflows to the country from Sri Lankans working overseas and migrants primarily for consumption, construction and investment purposes have increased significantly. To accommodate this segment, NDB continues to partner with Western Union as a primary agent in Sri Lanka, in addition to being agents of the UAE Exchange Company and Habib Exchange Company in the UAE, National Exchange Company in Italy and Ceylon Exchange Company in Australia. While looking for new partnerships in other countries, the Bank is also strengthening the existing relationships to increase the Bank's fee-based income. NDB also carried out several promotional activities to create awareness among its target audience locally and abroad. NDB's appointment of Western Union sub agents; Singer Sri Lanka and the Regional Development Bank has contributed significantly, towards the expansion of the distribution network complementing our branch network.

Bancassurance

Since 2007, NDB partnered with AVIVA NDB Insurance to provide a variety of insurance products and services to customers. As a result of this partnership, the Bank now offers through AVIVA NDB Insurance, the unit and investment linked life insurance plans namely Savings Plan, Pension Plan and Investment Plan along with general insurance products such as Mortgage protection, Vehicle insurance, Health insurance etc. adding significant revenue to the Group.

During the year under review, NDB entered into an agreement to introduce a Global Health Insurance product of Aviva Singapore. This international health insurance provides insurance cover for holistic medical care, ranging from care for chronic illness, maternity and for any other medical treatment.

Retail Banking & Group Synergies

NDB has lived up to its goal of being a Universal Bank by offering financial solutions for every aspect of a client's needs. The wide array of products and services available within the NDB Group are availed to clients as a measure of cross sell while maintaining confidentiality where the clients deal directly with the relevant Group Company.

- Promotion of Bancassurance in collaboration with AVIVA NDB Insurance PLC
- Stock broking and margin trading facilities with NDB Stockbrokers (Pvt.) Ltd.
- Wealth management solutions through NDB AVIVA Wealth Management Ltd.
- Capital market activities and IPO promotions with NDB Investment Bank Ltd.
- Collective brand building activities with the participation of staff from all Group companies and minimizing costs for external promotions such as participation at trade fairs etc.

Management Discussion and Analysis

Treasury

The Treasury had to perform under extremely challenging circumstances, particularly with the global instability experienced and the stressed local market conditions during the last quarter.

Treasury Unit's performance during 2011 was highlighted by significant gains from foreign exchange trading. The foreign exchange income grew by 54% over the previous year as the market volatility and the rise in forward premiums were read accurately by the Treasury.

Treasury Bill rates saw a marginal decline during the first quarter but remained unchanged until the last quarter when the Treasury Bills and Treasury Bonds yields rose sharply due to tightening liquidity in the market. The surplus liquidity position of Rs 100 bn declined to record a negative Rs 5 bn during December. The surplus liquidity declined due to steep credit growth and the Central Bank's dollar selling policy to stabilize the exchange rate. The rise in interest rates adversely affected the Treasury Bills and Treasury Bonds portfolios resulting in a negative capital gain and a mark to market loss. The interest income generated from the portfolio reduced the loss from mark to market valuation.

However, despite market constraints, foreign exchange income and debt trading continued to show satisfactory contributions to the Bank's revenue and profitability.

Based on positive trade volumes due to credit growth, the Treasury further strengthened NDB's position as a market maker in US\$/Rupee currency pair in both spot and forward markets. This enabled pricing advantages to be utilized to acquire customer positions by providing competitive rates to both importers and exporters, which resulted in drawing significantly higher business volumes.

During the year under review, the Treasury played an influential role in acquiring customers, particularly corporate customers, who accounted for almost 60% of business volume. Further new customers, particularly the high net worth individuals were acquired through the retail banking unit.

Treasury played a vital role in sourcing adequate funds to enable the Bank to continue its growth plans as the deposit mobilization alone was not sufficient. The Bank raised local and foreign funds through financial institutions and multilateral organizations at very competitive rates which benefited the overall profitability of the Bank.

Selective strategies were also employed to optimize results on Rupee yield curve movements. Additionally, duration based risk management techniques were used to manage interest rate risks. Currency positions were also successfully managed to minimize market risks with internal expertise that enabled to meet targets, despite operating in a very competitive environment. Internal expertise was also used to its advantage by, reading the market, gaining market entry in a timely manner and making use of arbitrage opportunities that have all enabled to improve revenues.

Management Discussion and Analysis

While Treasury used a range of tools not only to manage risks but also to generate revenue for the Bank, it offered a range of interest rate and currency exchange mixed products to its customers.

The Treasury front office is supported by Treasury Operations, responsible for transaction settlement and control, while the independent Middle Office monitors and reports market risks on an ongoing basis. The Asset and Liability Management (ALM) function, supports the Assets and Liability Management Committee (ALCO) which is a key committee of the Bank.

Equity Investments

Quoted Equity Investments

The Colombo Stock Exchange (CSE), which was ranked as the 2nd best performing market for two consecutive years in 2009 and 2010 took a downward turn in 2011. A multitude of local and global factors contributed to this situation. Globally, the economic recession restricted new foreign investments in Sri Lanka and resulted in divestment of profits by foreign investors. The large number of new listings in 2011, partly to fulfil the regulatory requirements and partly to finance the growing demand for capital in a re-awakening Sri Lanka, saw an influx of retail investors entering the market, thereby creating high volatility.

The All Share Price Index (ASPI) which stood at 6,636 points on 1 January 2011 dropped by 8% to 6,089 points as at 31 December 2011. The Milanka Price Index (MPI) too declined by 25% from 7,061 points on 1 January 2011 to 5,263 points as at 31 December 2011.

This resulted in the underperformance of the Quoted Equity Fund of Rs 500 mn of the Bank in the year under review. A more detailed explanation of the performance of the equity portfolio is given in the Notes to the Financial Statements on pages 236-237.

Non-Quoted Equity Investments

Subsequent to the divestment/write-off of non-quoted equity investments held by the Bank in 2010, in line with the Directives of the CBSL, the Bank currently holds only the investments for which special approval had been granted.

Information Technology

Implementation of the new Core Banking platform was completed towards the latter part of 3rd quarter and the new system was commissioned on 1 October 2011.

In this project, the Bank took on the challenge of bringing together multiple banking applications into a single Core Banking platform. The implementation signified the upgrading of IT infrastructure of the Bank, which now consists of a modern Data Centre and a fully-fledged Disaster Recovery Site.

The new Core Banking platform facilitates the Bank to improve operational efficiencies and increase the productivity. Improved Service Quality, better management of Risks, ease of Regulatory Reporting and consolidated MIS are the other key benefits derived of the new Core Banking platform.

Information Technology (IT) will continue to be a primary driver in achieving business objectives of the Bank facilitating new product development and enhancement of market infrastructure such as Branch network, ATM network and Straight-through-Processing (STP) enabled Internet Banking platform.

Management Discussion and Analysis

Subsidiaries and Associates

NDB Investment Bank

NDB Investment Bank Ltd. (NDBIB), the premier investment bank in Sri Lanka concluded its most successful year to date, raising funds over Rs 38 bn and retaining its unrivalled position as the market leader in both debt and equity placements. It is noteworthy that this was achieved in the backdrop of increased competition and challenging market conditions during the latter half of the year.

Equity Capital Markets

NDBIB managed two Initial Public Offerings during the year - Union Bank PLC and People's Leasing Company PLC. The former was a record breaking IPO with an oversubscription of 345 times, and raised total subscriptions of over Rs 129 bn, both being the highest ever in the history of the Colombo Stock Exchange. The People's Leasing IPO, which was the second largest IPO on the Colombo bourse, was a landmark in the history of the Sri Lankan capital market and was successfully oversubscribed despite unfavourable market conditions.

NDBIB also managed two Private Placements during the year for Access Engineering Ltd. and Union Bank PLC and several Rights Issues for listed companies. It is worth noting that funds for the Private Placement of Union Bank PLC was raised by following a unique and innovative tender process.

NDB continued to participate in these equity transactions both as an investor and by providing services such as Bankers to the Issue and by providing bank guarantees for NDBIB managed issues.

Corporate Advisory Services

The Corporate Advisory Unit concluded another successful year with sizeable mergers and acquisitions transactions being executed in various industry segments.

An extensive diagnostic study was also carried out on one of the largest conglomerates in Sri Lanka, studying the Group's operations and financials, as well as that of its industry and peers.

Further, NDBIB carried out corporate restructuring and numerous valuation exercises for companies from a diverse range of industries including hotels, manufacturing, plantations, hydro power etc.



Exchanging the MOU with DBS Bank of Singapore

Management Discussion and Analysis

The upcoming year promises to be an even brighter one with numerous deals in the pipeline. NDB also participated in financing merger and acquisition transactions.

Debt Financing

The Debt Unit too had a successful year and retained its dominance in the sector raising over Rs 22 bn through a variety of debt instruments. As the pioneer in securitizations, NDBIB introduced the first credit card receivable securitization to the market by raising over Rs 1 bn for Richard Pieris Distributors Ltd. and continued to maintain its dominance by concluding the second credit card securitization raising Rs 500 mn for a consumer durables company.

The growing demand for credit led to a surge in disbursements thereby increasing the need for long-term low cost financing. NDBIB was able to meet this need successfully by structuring numerous securitizations, raising over Rs 13 bn during the year for its clientele. Further, NDBIB supported the growth of finance companies by facilitating the raising of funds through securitizations providing these companies with yet another source of funds.

The unparalleled strengths of the Debt Unit enabled it to further diversify its client base to include new clients from tourism, consumer durables and agriculture industries. The product portfolio was enhanced by the introduction of Islamic Financing products.

NDB Stockbrokers (Pvt.) Ltd.

Established in 1992, NDB Stockbrokers (Pvt.) Ltd. (NDBS) is one of the foremost broking companies in the country today and is a licensed stockbroker registered in the Colombo Stock Exchange.

Despite adverse market conditions, NDBS was able to record substantial profits during the year through attraction of new clients and attracting more share of wallet from existing clients.

During the year, the Company extended its reach to Jaffna, Ampara and Ratnapura via the NDB's branch network, providing a wider spectrum of the population with investment opportunities in the capital markets. Whilst increasing the NDBS retail client base, this expanded footprint will also enable the Group to maximize synergies by cross selling products to a broader clientele. NDBS will continue to use this channel aggressively during the ensuing year to get further connectivity to retail and high net worth clients. The Company also participated in several capital market development activities organized by the Colombo Stock Exchange in several areas in the country.

Management Discussion and Analysis

Internet trading was marketed to a wider client base and has become a popular mode of trading amongst the retail clients. Several improvements will be carried out to software relating to the Internet trading system to enhance efficiencies and provide more functionality. The Company has also made a commitment to invest in further technological advances which will enhance the quality of services provided and facilitate provision of better controls, risk management and compliance. The research and sales teams have been strengthened to cater to needs of investors during this growth phase of the economy.

During the year, NDBS also signed agreements to place mutual funds structured by NDB AVIVA Wealth Management Ltd. NDBS will continue to market securitization and commercial papers structured by NDBIB. Further, NDBS continues to market margin trading facilities for its clients through the Bank.

NDBS is working towards establishing itself as a leading stockbroker able to meet the demands of a growing market.

NDB AVIVA Wealth Management Ltd.

NDB AVIVA Wealth Management Ltd. is the largest private sector wealth management company in Sri Lanka with over 20 years of industry experience. The Company manages over Rs 50 bn or around US\$ 500 mn of funds for institutions and individuals. A joint venture between National Development Bank PLC, Sri Lanka and AVIVA Asia Holdings (Pvt.) Ltd., NDB AVIVA Wealth Management Ltd. is independently owned and managed by a highly qualified and experienced team of professionals and assisted by top class systems.

NDB AVIVA Wealth Management Ltd. has revolutionized the Wealth Management System in Sri Lanka by introducing innovative, customized and sophisticated financial planning and management services to their clientele. Taking initiatives to introduce the concept of wealth management in Sri Lanka, the Company has created three defined services, segmented according to the demographic information of the customer.

The Discretionary Portfolio Management service entails the Fund Managers at NDB AVIVA Wealth Management structuring a specific portfolio, taking into consideration various clients needs, such as risk, return etc. where the client will also be privileged with a custodian bank account. This service has been introduced to cater to the needs of large institutional clients.

The Private Wealth Management service is an exclusive service where each client is assigned a Relationship Manager and a Fund Manager who will advise and administer the portfolio based on various client needs, such as risk, return, etc. The client investment will be made in a variety of asset classes through a series of 'Managed Funds' (Pooled Investments). The investments will be routed through the clients own custodian bank account. Many privileges are attached to this account and tries to offer personalized service to a discerning clientele.

Management Discussion and Analysis

The mutual funds branded as the 'myeaglefunds', series of four risk rated funds, focuses on individuals with investible assets worth Rs 5,000 or more. With a track record of over 15 years and industry leading performance of 'myeaglefunds' is a testament to NDB AVIVA Wealth Management's commitment to bringing benefits of the capital markets to the doorstep of the masses. In keeping with this vision, NDB AVIVA Wealth Management Ltd. has tied up with NDB to distribute its mutual fund products to the Bank's clientele. A structured training programme was conducted for the frontline staff of selected branches of the NDB who will be supported by a team of specialists from NDB AVIVA Wealth Management Ltd. The management of risks according to client needs, with best of controls always in place for the safety of client's wealth and adhering to the highest standards in corporate governance will be the hallmarks of NDB AVIVA Wealth Management Ltd.

NDB Capital Ltd.

NDB Capital Ltd. is a joint venture investment bank in Bangladesh between NDB and a group of investors from Bangladesh. The Company is one of the pioneering merchant banks in Bangladesh. With the acquisition of a controlling interest by the Bank, NDB Capital Ltd. is in a unique position to leverage the technical expertise of NDBIB and local knowledge and contacts of its Bangladeshi joint venture partners to offer high end investment banking services to the Bangladeshi capital market.

Bangladesh's capital market went through a very turbulent period in the backdrop of the stock market correction in December 2010 and severe liquidity crisis in the banking system. The benchmark Dhaka General Index was down by about 40% from its peak in December 2010, which made execution of capital market related transactions extremely difficult. On the other hand, tight liquidity situation in the banking system made debt raising also difficult.

Despite the tough business conditions, NDB Capital completed a successful year in 2011. NDB Capital managed to open business/investment opportunities for Sri Lankan business houses to enter into the Bangladeshi market thereby opening a gateway for Sri Lanka's long built technical and operational excellence to enter the South Asian region.

The Company managed to conclude its first ever equity placement in Bangladesh for a textile company during the year for US\$ 4.4 mn. It has also filed for its first Initial Public Offering for US\$ 14.4 mn during the year. Further, the Company managed to conclude a comprehensive corporate advisory assignment for a reputed business conglomerate that involved financial and organizational restructuring. NDB Capital structured a convertible security to raise finance for a power project to the value of US\$ 36.0 mn. which was well accepted by the investors for its unique features. The Company has been mandated for two project finance deals to raise US\$ 140 mn in debt financing and US\$ 12 mn in private equity which will be mainly placed outside Bangladesh. In addition, NDB Capital has been mandated for a number of IPOs and corporate advisory transactions.

Through NDB Capital, the Bank can look forward to diversify its lending portfolio by financing projects that are brought in from Bangladesh, as well as tap into a new client base that will be interested in investing in Sri Lanka given its current growth trajectory.

Management Discussion and Analysis

Capital Development and Investment Company PLC

The Capital Development and Investment Company PLC (CDIC) is the strategic investment arm of NDB and NDB holds 99.6% of CDIC. The balance shares are held by the public. CDIC's principal business besides its own investments is to identify and manage the investments of NDB and realize high returns in the long term. These investments will be both of strategic and portfolio type.

CDIC's largest investment is in AVIVA NDB Finance Lanka (Pvt) Ltd., through which CDIC holds a 36.27% stake in AVIVA NDB Insurance PLC. CDIC holds a 51% stake in the ordinary share capital of NDB AVIVA Wealth Management Ltd.

CDIC also holds a portfolio of equity and fixed income securities. NDB is presently restructuring the investments of CDIC with the objective of obtaining higher returns.

The market capitalization of CDIC as at December 30, 2011 was Rs 12.19 bn. Earnings per share for the year ended 31 December 2011 was Rs 4.53.

Plans for the future are to leverage the Company to obtain high long-term returns for the NDB Group.

AVIVA NDB Insurance PLC

AVIVA NDB Insurance combines the global strength of Aviva, UK's biggest and the world's sixth largest insurance group, with the financial power of NDB Group. Their range of insurance protection plans can be customized to suit constantly changing needs.

AVIVA NDB Gains Incredible Momentum Amidst Challenges in 2011

- Combined Life and GI Gross Written Premium surpasses Rs 10 bn
- Life new business premium up 13% over the full year 2010
- Profit after tax increases by 15% to Rs 693 mn over the full year 2010

In 2011, AVIVA NDB Insurance continued with the incredible momentum achieved from the business transformation, although it was more challenging with the sharp downturn in the stock market and the replacement of the Company's Life product suite by a world-class contemporary range. The success of the new product range, especially the new flagship brand AVIVA NDB Pensions was evident by the 13.1% growth over the previous year in Life new business. Life Gross Written Premium grew marginally to Rs 7,865 mn in a year that was dominated by challenge and change. The Company declared a Life surplus of Rs 355 mn which improved by 8.3% compared to the prior year, through a keen focus on expense control and optimization of the cost base.

Despite General insurance pricing remaining a challenge in 2011, the claims ratio improved significantly over the previous year from 79.1% to 64.8% and the combined operating ratio improved from 117.5% to 104.5%. This was an impressive reflection of the focus on quality underwriting, pricing and expense control. A post-tax profit of Rs 338 mn was reported by General insurance for the financial year ending 31 December 2011.

Significant improvement in the profitability of the combined composite business was recorded compared to the corresponding period in 2010, due to prudent investment strategies that helped mitigate the significant impact of a decrease in investment income from unrealized equity losses caused by a decline in the capital markets. A noteworthy improvement in the bottom line performance was a result of the focus on optimizing the expense base as well as stringent underwriting and repricing initiatives in General insurance. Embedding the new product suite with Wealth Planners, bancassurance partners and policyholders without detracting from the momentum gained in 2010 was another challenge faced successfully.

Management Discussion and Analysis

Composite financial results recorded a commendable profit after tax amounting to Rs 693 mn, an increase of 15.1%, despite lower investment income. "It was also very much a year where risk awareness and management dominated our agenda" said Managing Director, Shah Rouf. "We enhanced our Enterprise Risk Management (ERM) framework to enable us to make better business decisions now and going forward." The Company's own risk and solvency assessment was developed in line with Aviva Group's norms to meet European standards making AVIVA NDB Insurance, market leaders in understanding and implementing risk based capital. The Company implemented 7 risk policies containing 58 risk standards to improve every aspect of the business.

Reflecting his optimistic view, Chairman T. R. Ramachandran said, 'The positive environment created by the end of the conflict combined with a stable and conducive macroeconomic environment has created a healthy foundation for sustainable economic growth.'

The Company extended its distribution footprint in the North and the East and supported its Wealth Planners with technology and world-class training to provide customers with greater value. The introduction of a modern suite of products was designed to meet changing lifestyles of customers. 'To remove a 20 year old product suite and replace it with a completely new one is a bold step in the right direction and is indicative of the agility of the Company to embrace change and deliver results,' Ramachandran further added.



How, as a Universal Bank... We Change Lives Everyday

NDB is a large financial conglomerate that meets the customers' every financial need, through novel and simplified financial solutions under one-roof.

NDB Group differentiates itself from its peers by providing its customers with an integrated value proposition in Banking and Financial Services, including Capital Markets and Insurance offerings.

This 'universality' of our business proposition is the key factor that helps us 'Change Lives Everyday'...better than most others.

WE ARE FOR



THE LONG HAUL



> WE ARE FOR THE LONG HAUL



Without doubt, for business to be sustainable, it needs to be profitable

But that is not our sole preoccupation. We favour a long-term view. We are focused on, and support national initiatives for true sustainability. Our focus on Project and Infrastructure Financing substantiate this view.

Management Discussion and Analysis

→ WE ARE FOR THE LONG HAUL

Why Look Beyond the Bottom Line?

A century ago resources seemed infinite and there seemed to be plenty for everyone. Companies rarely looked beyond their bottom lines. But since recent times, humanity has painfully begun to realize that this is not adequate. Resources are depleting at an ever increasing pace as exponential population growth combined with unsustainable activities continue to guzzle the world's finite resources. Scarcity and environmental pollution require a truly global response. Companies that solely judged their success by the bottom line in the past disregarding their social and environmental responsibilities could not sustain their businesses. That will be true of today's companies too if they do not look beyond the bottom line.



'Achieving sustainable development is perhaps one of the most difficult and one of the most pressing goals we face. It requires on the part of all of us commitment, action, partnerships and, sometimes, sacrifices of our traditional life patterns and personal interests'

Mostafa Tolba, Chairman of the Commission on Sustainable Development.

NDB is for the Long Run

We at NDB are committed to carrying out our business in a sustainable manner, embedding and integrating sustainability into every aspect from strategy to governance, operations, people, culture and the supply chain. The Bank's initiatives in this regard are aligned not only with its business but also with the needs and expectations of all its stakeholders.

The Bank's approach to sustainability is categorized under Strategic, Philanthropic and Operational initiatives. Strategic initiatives of Education and Entrepreneurship are integrated with the Bank's objectives.

Sustainability sits at the heart of the Bank's business strategy with the purpose of driving value over the longer term.

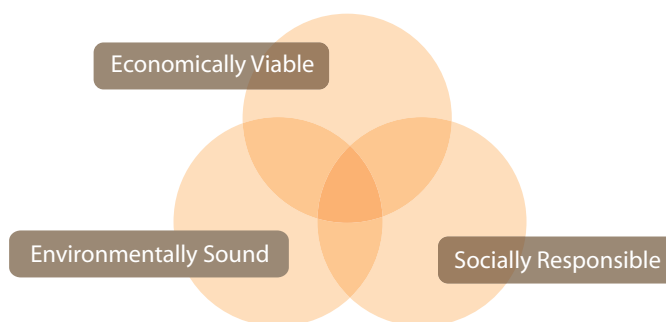
At NDB, being a responsible citizen includes not only reaching out to our community but also how we behave as an employer and how we manage the organization's wider social and environmental impacts.

With a vision to be a World-Class Sri Lankan Bank, NDB continued its efforts to empower the youth of our nation to overcome tomorrow's challenges by focusing on its Strategic Corporate Responsibility initiatives of Education and Entrepreneurship. NDB concentrates on issues that are critical for sustaining economic growth and to the success of our business.

NDB has formed many cross-functional teams that focus on various aspects of sustainability. These teams meet regularly and based on available industry information, the Bank's performance and other information, issues and areas for improvement are identified. Brainstorming then takes place where many creative ideas and projects are developed.

The Bank conducts internal research based on statistics, developments and other trends in the market/society/nation, publicly available information on societal needs as well as requests made to the Bank.

Management Discussion and Analysis



Beyond the Core...Beyond the Bottom Line

A dedicated Sustainability Report appears on page 125 of this Report. Whilst it provides a comprehensive review of the Bank's endeavours to build true sustainability for itself and the wider stakeholder community through environmental values, resource usage, re-cycling, human resource development, customer relations, supplier engagement, sustainable lending and investment decisions etc., there is a wealth of initiative and 'beyond core' activity the Bank has engaged in over the year in review, particularly in the field of CSR.

In this chapter, we present this material, which is an evocative testimony to the manner in which we 'live our ideals', which in turn, equips us admirably...for the Long Haul.

Human Resource Development

Employees being the most valuable asset, the Bank has taken many initiatives to develop them to their full potential and to create a conducive working environment. These initiatives are dealt with later under the Sustainability Report.

Supplier Engagement

NDB deals with reputed vendors in the industry ensuring that the Bank's purchases are made in a responsible manner. The Bank only selects reputed suppliers to deal with in order to ensure that the Bank's supply chain partners are in consonance with its own ideals of social and environmental responsibility.

Building an entrepreneurial culture is not limited to the Bank's customers and the community; it is extended to the Bank's suppliers as well. NDB has partnered with 'St. Vincent's Home' in Maggona which is the first social service home in Sri Lanka to take in street children, children from broken homes and children below 18 years of age sentenced by court. The home runs their own printing operation where the boys are trained, which will help them in their future. Revenue from this operation is used in running the home and making it a sustainable operation that will be of assistance to many boys now and in the future.

A major part of the Bank's stationary printing is sub contracted to this home. The Bank has partnered with this supplier in order to assist the poverty stricken and downtrodden giving them hope and helping them build a secure and sustainable future. Therefore as the Bank grows and progresses, so will the youth of our nation.

Management Discussion and Analysis

Lending for Renewable Energy and Pollution Abatement and Control

The Bank promoted the 'Renewable Energy for Rural Economic Development' Project (RERED) loan scheme which promotes 'Renewable Energy' to replace inefficient energy sources.

The Bank also promotes the E-Friends Loan Scheme which is specifically used for pollution abatement and control. These loans are for equipment for 'end-of-pipe' treatment and equipment that will lead to reduced emissions or to a lower production of wastes by enterprises thereby enabling them to comply with the National Environment Standards. It also includes investments related to the relocation (excluding purchase or lease of land) of highly polluting industries to special estates that are equipped with waste treatment plants, investments by enterprises that set up and operate such treatment plants and equipment used for the monitoring of pollutants in connection with the above.

The end result is saving of valuable resources as well as ensuring environmental protection and sustainability. NDB was also one of the pioneering lenders to fund the country's first ever Commercial Wind Power Project.

Realizing Operational Synergies

Several cross functional teams were appointed from within the Group with the objective of identifying strategic initiatives, creating value through product innovations and synergizing the Group in building the NDB brand. These teams play an active role in operationalizing the overall Group strategy through the implementation of key initiatives across customer segments, products and channels, leveraging the Bank's competitive strengths and market dynamics, thus enabling the Bank to offer improved products and services, which would add value and benefit the customer.

Product Innovation and Guidance

The Bank provides innovative and sustainable products as well as business advice and training and development opportunities to the customers as explained below.

NDB believes in partnering with the customers in order to build a sustainable future for them and also for the Bank. It is from this viewpoint that the Bank develops and promotes its products. Building an entrepreneurial culture, financial inclusion and sustainable livelihoods are some of the key strategic focus areas of the Bank. The Bank has also taken on the role of a 'mentor'; where it goes that extra mile, advising customers on business development, environmental aspects and social development as well as training and developing them on financial aspects. NDB provides value added services to their customers which include; workshops for SMEs, advice on environmental and social management factors, developing their knowledge on wealth management and nurturing prudent financial habits. Awareness programmes have been conducted in 2011 in Matara, Kegalle, Horana, Kuliyaipitiya, Ratnapura, Galle, Chilaw, Gampaha, Kurunegala, Kalutara and Moratuwa in partnership with the IFC and Regional Chambers, benefiting over 300 Small and Medium Scale entrepreneurs.

Information related to the products/services of the Bank are given on the Bank's website together with the contact numbers of the relevant people who are co-ordinating and handling the product.

Management Discussion and Analysis

Entrepreneurial Culture

NDB develops and promotes products in line with the Bank's Vision and Strategic Corporate Social Responsibility initiatives of Education and Entrepreneurship with the aim of educating and developing the entrepreneurial skills of youth; thereby opening the door to a sustainable future for them.

NDB has over the years partnered many success stories of Sri Lankan business and firmly believes that an entrepreneurial culture is essential for the sustainable development of a nation. Entrepreneurial capabilities of Sri Lankan youth are proving vital in the post-conflict era and NDB remains committed to empowering the development of entrepreneurial capabilities in people while partnering with them for their funding requirements.

Aware of the need to bridge the gap between Industry and Academia, the Bank partnered with the University of Moratuwa (UOM) to enhance their capacities in entrepreneurship education and research. This synergy led to the establishment of an Endowed Professor in Entrepreneurship at the University of Moratuwa, a first in Sri Lanka.

As two nationally conscious entities, both the UOM and NDB are focused on achieving a common objective of developing an entrepreneurial culture in Sri Lanka. This endeavour will help foster a new generation of youth who will be 'job creators' rather than 'job seekers' in the country.

The main objectives already achieved under this appointment include:

- Developing an entrepreneurial culture within the University
- Developing entrepreneurship educational programmes and teaching entrepreneurship
- Introducing a Minor in entrepreneurship
- Undertaking research and developing a research base in entrepreneurship
- Launch of the Young Entrepreneurs Sri Lanka (YESL) programme

In line with this initiative NDB, in partnership with the UOM and the YESL sponsored entrepreneurship training for university students for the first time in the Sri Lankan higher education system.

The Young Entrepreneurs Business Programme provides the students with training on practical business, economics and entrepreneurship concepts, giving them an opportunity to set up and operate their own business ventures.

The first phase of the programme was successful in producing nine companies, formed by over 300 students who officially launched their businesses and introduced their products, services and business ideas.

Management Discussion and Analysis

Involvement in SME banking

NDB was the pioneer in project lending and SME financing in Sri Lanka and has contributed immensely to this sector over the years. Having financially supported over 100,000 ventures and creating over 1,000,000 employment opportunities island-wide, NDB remains committed to further empowering the SME sector and thereby helping to build a sustainable economy.



NDB officers inspecting a greenhouse in Bandarawela

Supporting Society

Corporate Social Responsibility at NDB is carried out in a structured manner with the objective of having maximum impact with the available resources.

Philanthropic initiatives are also at the heart of the Bank's Corporate Social Responsibility Programme with the main initiatives being the 'NDB Bank Cancer Aid Trust Fund', the 'Prevention of Child Abuse Trust' and Employee Volunteerism.

NDB Bank Cancer Aid Trust Fund

NDB launched the 'NDB Bank Cancer Aid Trust Fund' in 2007 in partnership with the National Cancer Hospital at Maharagama.

The objectives of the Trust Fund are twofold; to focus on providing financial and related assistance to cancer patients who are unable to afford vital medical supplies and to help maintain the well-being of patients who are being treated at cancer hospitals. A substantial amount has been spent to date for the purchase of essential surgical and therapeutic equipment.

Management Discussion and Analysis

Prevention of Child Abuse Trust

Children are the future of our nation. Child abuse leaves long lasting scars and damages a child's future. In Sri Lanka, this issue is a taboo subject and most often shunned by the community.

Taking these factors into consideration and working closely with the 'Department of Probation and Child Care', NDB through its Corporate Social Responsibility (CSR) Initiative - The 'Prevention of Child Abuse Trust' undertook this initiative on the premise that prevention is better than cure. Therefore creating awareness through various programmes has helped in spreading the message that our children need to be protected. The Trust conducts awareness programmes (in areas where a high incidence of child abuse has been reported) for parents, principals, teachers and other care givers. Special Awareness Programmes are conducted for children as well.

These awareness programmes are conducted by qualified resource persons from the Department of Probation and Child Care. The Programme educates the participants on the different categories of child abuse, repercussions of child abuse, methods of prevention, action in case of an incident and the legal aspects as well as the contact details of the Child Help Centres. It was evident from the discussions held with the parents that the majority were not aware of child abuse, how/where it happens, possible abusers, the methods of prevention and the child help lines available to call for help; nor were they aware of the magnitude of the problem and the need to protect their children. This ignorance leaves children more vulnerable and unprotected. The feedback received from the parents is very encouraging and reinforces the fact that awareness on this pressing issue is vital.



An awareness programme on the prevention of child abuse

Management Discussion and Analysis

Employee Volunteerism

With a view to making 'Responsible Behaviour' an integral part of the Bank and to educate and train the employees on the concept, the Bank promotes employee volunteerism through the Department-wise Corporate Social Responsibility initiatives where the staff carry out community projects taking community involvement beyond core business activities. Demonstrating their deep commitment to the corporate values of Integrity, Care, Passion, Teamwork and Service, the Bank staff reached out to the community with enthusiasm and compassion.

Through these initiatives, the inherent/inborn talents of the employees surfaced and their passion, enthusiasm, teamwork and compassion for the less fortunate became visibly clear. The projects were formulated and carried out successfully whilst carrying out their day-to-day office activities and it was evident that they had not forgotten the human touch. The staff of NDB walked that extra mile to offer a positive benefit to the society. Under the above Initiative, departments in the Bank were grouped (each group referred to as a 'CSR Group') taking into consideration the number of employees in each department and the logistics. A sum was allocated out of the Bank's Corporate Social Responsibility budget, to each CSR Group to implement their own project. Employees had to develop and implement a CSR Project under any one of three categories - Education, Entrepreneurship and Children.

Improving Educational Facilities at Kandana Dharmashoka Vidyalaya

The Audit, Group Risk and Compliance Departments undertook as their CSR project an initiative to provide drinking water facilities to Dharmashoka Vidyalaya, Kandana where over 800 students from low income families in the area attend.



Students of the school enjoying the facilities provided by NDB

Management Discussion and Analysis

Upgrading the Facilities of Peliyagoda Roman Catholic Primary School

As their CSR project, the SME, Auto Finance and Refinance Departments repaired and restored the electricity connections of the Roman Catholic Primary School, Peliyagoda. They also repaired and renovated the children's play area which is an important facility for a primary school as recommended by the current curriculum system since it provides important stimuli to promote physical and psychological development of children.



NDB staff engaged in painting the playground area

Promoting Banking and Leadership Skills

Children in general have a lot of potential. However, only a few make the best of their innate abilities. Having this in mind, the Corporate Office, IT, Legal and HR Departments tied up with the Centre for Banking Studies of the CBSL for a unique CSR initiative aiming to enhance societal value and provide pre-employment training to students who have a passion for Banking. Thirty students from Chundikuli Girls College and St. John's College in Jaffna were given an overview of the Banking System in Sri Lanka. This skills development programme also included a one-day leadership programme covering trust building activities, games and various other initiatives, which broadened the participants' personal outlook of life in general. At the conclusion of the programme the top 10 performers were given an opportunity to work in the North and the East branches giving them an opportunity to gain added on-the-job exposure.

Laboratory for S D S Jayasinghe Vidyalaya, Dehiwala

Like Bill Gates who started his IT business from a garage and became the world's richest man and Einstein who dropped out of school but was proclaimed the 20th century genius, we all have dreams. The children of S D S Jayasinghe Vidyalaya are no different - some aspiring to become heart specialists, electrical/IT engineers, pilots and so on.

The school has over 1,500 children of whom more than 500 are interested in studying science. However, the school did not have a proper laboratory and instead used a small room which had no electricity and broken sinks and furniture, as their laboratory. The Administration, Security, Maintenance and CCPU Departments of the Bank renovated this room and restored it into a proper laboratory.

Management Discussion and Analysis

Upgrading Facilities of the Identified schools in the Hambanthota and Ambalanthota

The Marketing, Retail Credit Operations, Project Finance, Corporate Banking and Finance Departments undertook to upgrade the facilities of four schools in Hambantota and Ambalanthota. A kids play area was constructed in Udamalala Maha Vidyalaya and Beniyawita Junior School and musical instruments were donated to the Hambanthota Kanishta Vidyalaya and Ambalanthota Maha Vidyalaya.

Enhancing English Language Teaching Skills and Knowledge in Sri Lanka

With the premise of 'changing lives everyday', NDB and the British Council embarked on an initiative to improve the teaching skills and knowledge of Secondary English Language Teachers in Sri Lanka. The British Council in Sri Lanka is the UK's international organization for educational and cultural relations and helps people around the world to develop English language skills.

The project aims to support NDBs CSR initiative in Education through this programme, targeting 250 Secondary English Language Teachers teaching 11 to 18 - year old students of Government Schools in the North Western Province. Training and related services comprise of a teacher training course in English language, consisting of 20 topic-based modules on key classroom issues. The teachers are trained in up-to-date learner-centred, activity-based methodology.

Each module is assessed independently and upon the completion of all 20 modules, the participants are awarded a British Council Certificate in Secondary English Language Teaching at the end of the course.

English has become an essential component in a child's curriculum, and the foundation is set at an early age at school. This initiative hopes to enhance the teaching skills of those who teach English language thereby raising the standards of English teaching in Sri Lanka. Teachers are those who nurture the future generations of the country and initiatives such as this will support them to provide a higher quality of education in the country thereby raising the bar for education in Sri Lanka. NDB as a responsible corporate citizen believes that this sustainable initiative will help the nation's youth in the long term.

Library Project in Partnership with the Asia Foundation

Improved English communication is a key ingredient in the development of a globally competitive Sri Lankan labour force. Gaps in the current education system handicap the majority of Sri Lankans in this regard, especially when it comes to securing employment in the private sector-dominated economy. Considering the impact of reading in improving language skills, NDB in partnership with the Asia Foundation, continued to donate educational books in English to rural schools.

The project was carried out through the Bank's branch network, helping build good local-community relations. These books constitute high quality supplementary reading material on various subjects including general knowledge and a broad range of academic subjects, such as Mathematics, Science, Health, Natural Studies and Geography helping readers improve their knowledge in English and broadening their view of the world. Advanced texts in Mathematics, Science, Nature and other subjects were also donated for the benefit of the pupils in higher grades. Books were donated to over 30 schools in 2011.

Management Discussion and Analysis

Partnering EDEX

The Bank, with a cherished vision to be a World Class Sri Lankan, believes in empowering Sri Lankan youth to be globally competitive through education and skills development. Motivated by this ideal, NDB partnered with EDEX to provide Post-Tertiary Higher Educational Opportunities for students by developing and maintaining the EDEX Website. EDEX plays a significant role as the leading educational and career fair, drawing a broad spectrum of visitors ranging from school leavers to university graduates. With this initiative, students have access to limitless choices, countless options and great new opportunities.

With the NDB Sponsorship, the Website was developed as a one stop shop designed to cater to the educational needs of Sri Lanka's youth featuring information on both local and international universities, colleges and institutes, career guidance, education financing, advice on how to apply to colleges, and even visa procedures. A significant feature is that students can post their CVs online, benefiting not only the students but also probable employers.

The Website is accessible not only to urban youth but also to the youth in rural areas through the Government's 'Nenasela' programme. This initiative reaches out to the youth of our nation to offer them better opportunities to achieve educational and career excellence and achieve our vision of empowering Sri Lankan youth to be globally competitive.

Sponsoring Tsunami Orphans

A large number of children were affected by the tsunami of 2004. Apart from tragic loss of loved ones, these children had to struggle to build their own lives through education and employment. The Bank focussed on this need and in partnership with the Women Development Federation in Hambanthota continued to support 40 tsunami affected orphans from the bottom end of the pyramid by providing them a monthly stipend towards their education, health and nutrition. The Bank also continued to maintain the Minor Savings Accounts opened for each child.

Livelihood Development Scheme Towards Building Careers

Having identified specific skills in high demand both in the present and the future, NDB pioneered and developed a Livelihood Development Scheme where youth aged 18-35 from the North and the East of the island could obtain a loan to pursue a career in sectors such as hospitality, motor mechanism, construction and nursing. The Bank has partnered with relevant industry leaders to provide the requisite academic training as well as practical placements to eligible applicants for a period of approximately 6 months.

The NDB Jeevana Livelihood Training/Loan Scheme is unique as it couples a livelihood training scheme with a special personal loan issued at a very concessionary rate with a grace period for repayment, making the scheme more accessible to the youth across the country.

This loan scheme is part of NDB's commitment to the development of human capital in the reawakening of the North and the East in a bid to empower youth and stimulate further economic regeneration in post-conflict Sri Lanka. The Bank focuses on innovation and products and services that enrich and add value to Sri Lankan lives whilst ensuring a sustainable future.

Up to end 2011, two programmes have been completed in hotel operations in Trincomalee in partnership with the International Hotel School of the Mount Lavinia Hotel and one programme in basic motor mechanism in Jaffna in partnership with Diesel and Motor Engineering Company PLC. The youth programme was also launched in Tangalle in 2011 extending its reach from North and East to the Southern Provinces of the Country.

Management Discussion and Analysis

In line with the Bank's Strategic Corporate Social Responsibility intent of Entrepreneurship, the scheme aims to develop entrepreneurial skills of these youth, by giving them a stepping stone to achieve their dreams. The combination of offering both educational opportunities, alongside practical training complemented and backed by theory, will empower them to make the most of their talents. In fact such schemes are bridges of trust built by NDB to make communities believe and respect each other; a way to sustain the desired peace in the country.



The second batch from Trincomalee that graduated in Hotel Operations



The batch from Jaffna that graduated in Motor Mechanism

Management Discussion and Analysis

Financial Inclusion

NDB identified the tremendous need among individuals for a financing facility that will help them rebuild their lives. With the cessation of the 30-year long conflict, people have been making attempts to regain a source of income and means of rebuilding livelihoods. Giving them the equipment that they so dearly need to help build sustainable livelihoods will enable them to contribute towards the development of their respective areas.

Thus NDB has taken steps to assist individuals and groups including them in the banking system through unique products and schemes, which the Bank has made an ongoing initiative. Further, as valued customers of NDB, the Bank will assist them to improve their savings from the new ventures, thereby building the foundation to grow their business further. This will help these communities to move into the mainline banking stream, and obtain other banking facilities that will assist them at different stages in their lives.

NDB has developed unique loan schemes to develop livelihoods and uplift the poor. This will have long-term implications that will help develop the communities and empower the people to develop or take up new business ventures thereby elevating their social standing.

The NDB *Divi Aruna* livelihood development loan scheme stands testament to this commitment of ensuring financial inclusion. Today, low cost financing facilities have been granted through *Divi Aruna* for entrepreneurs in industries such as fisheries, pottery, dairy farming, maldive-fish, confectionery production (*Kaludodol*), hand bags, brassware, brick making, shoe manufacturing and vegetable farming. To date, the scheme has assisted over 350 rural families across the country.



Hon. Speaker Chamal Rajapakse handing over an NDB *Divi Aruna* facility to a beneficiary in Hambantota

Supporting Government Initiatives

Following the end to the armed conflict in Sri Lanka it was reported that nearly 300,000 civilians were displaced and living in camps in the North and East. Taking into consideration the future reconstruction needs in the North and the resulting need for construction craftsmanship, as well as the Bank's Strategic CSR focus being Education and Entrepreneurship, the Bank set up the 'IDP Empowerment Trust' in 2009 to assist the Internally Displaced Persons in Camps in the North by improving their livelihood. The Bank believed that supporting this Initiative will be crucial in the post-conflict resettlement of these individuals by enabling them to build their livelihoods and take on the reconstruction and economic recovery efforts.

Management Discussion and Analysis

As the initial phase, the Bank partnered with the Vocational Training Authority of Sri Lanka (VTA) and donated the required tools and equipment costing over Rs 5 mn to 250 participants who successfully completed vocational training programmes conducted by the VTA.

The VTA to date has conducted a series of comprehensive and diverse range of vocational training programmes in the Northern and the Eastern Provinces, offering a range of courses from electrical house wiring, masonry, carpentry, dressmaking/tailoring, welding to aluminium fabrication. The VTA will continue with their vocational training programmes for those requiring knowledge and expertise in order to set up either a new business or even find employment. NDB also plans to continue donating the required tools and accessories to those trained by the VTA, enabling them to rebuild their lives and build sustainable livelihoods.

The IDP Empowerment Trust is an ongoing revolving fund, providing them with the required tools that will help them to restore their livelihood and bring revival and hope to their lives ensuring a sustainable future for them. The follow-up done on this project revealed that it had long-term sustainable impact not only on the beneficiaries but also on their families as most beneficiaries were the sole breadwinners for their families who were responsible for the support of their entire family. Most had parents and family members who were not well or disabled. These beneficiaries learned the skill but had no means of earning their livelihood as they had lost everything during the conflict and had to leave all their belongings when they fled to the camps. Thus, they had no means of purchasing equipment, tools etc., to start their livelihoods. The tool kit donated gave them a means of starting their own venture and earning their livelihood, instead of being dependent on the state/community and being a burden. It also gave them hope that they can stand on their own and look forward to a brighter future. Therefore, by assisting these people not only were their individual living standards improved, the Bank has also succeeded in indirectly assisting entire family units.

Changing Lives Everyday

NDB is committed to sustainable development and responsible stewardship of resources. This means developing solutions that link economic success with social responsibility. This requires balancing short-term and long-term goals and interests and integrating economic, environmental and social considerations to business decisions across the board.

The Bank endeavours to change lives everyday by:

- Building an entrepreneurial culture
- Fostering sustainable livelihood development
- Inculcating a savings culture
- Prudent risk, environmental and social management processes
- Partnering with the stakeholders and creating synergies
- Offering innovative solutions coupled with speed and flexibility
- Providing advice and guidance to customers
- Being proactive in responding to society's changing demands by introducing innovative, value-added products and services which will create long-term sustainable value and thereby contributing to sustainable economic growth



OUT OF THE BOX.



..INTO CHANGE

> OUT OF THE BOX...INTO CHANGE...



At NDB we espouse innovativeness of thought...

...across delivery channels, products and services and internal processes. Innovation leads to change. This is an integral factor that helps us to change lives everyday. For example, our savings drive went beyond an invitation to come and deposit. In fact we showed people what they could 'save'...by minimizing waste in every area of their lives.

Management Discussion and Analysis

→ OUT OF THE BOX, INTO CHANGE

The importance of being Innovative

In the world of today, some nations are developed, some are fast developing and yet others continue to be under-developed. Similarly, in the field of business some entities perform well, while others struggle to survive. Innovation and resulting knowledge are increasingly seen as the key component to building a competitive advantage for both nations and business entities.

At NDB, we believe that innovation can transform - be it a nation or a business entity. In fact, the ability and commitment to innovate is an intangible asset that nations and organizations need to acquire, cherish and exploit to achieve development and superior performance.

At NDB, we have built innovation into the organizational culture in a way that helps us to meaningfully differentiate the Bank from the competition. Whilst innovation informs all areas of our operations, what matters is how successful it has been for the Bank and successful it has proven to be, as is evident from the many 'firsts' that we were able to introduce to the market in the recent past.

The Ability of the Bank to Respond to a Changing Landscape

We live in an era where unprecedented changes are taking place around us, at speed - changes that affect people in every sphere of their lives. As a result, the ability of a business entity to positively respond and to adapt to these changes is no longer a choice but a business imperative.

Having begun as a development bank 30 years ago, NDB responded to the changing landscape by transforming itself into a fully-fledged commercial bank in 2005. Our 'culture' of getting into the customer's perspective has helped greatly in better understanding their real needs and changing preferences, whether in terms of products and services, channels of distribution, internal processes or marketing initiatives - and enabled us to suitably respond to them with innovation and flair.

IdeaXpress

In order to encourage and promote innovativeness among the staff, NDB has a formal suggestions tracking system known as 'IdeaXpress', that has been implemented as an automated, IT-based process, designed and developed in-house. It promotes borderless thinking amongst the employees, and encourages them to come up with simple ideas as well as out of the box suggestions on any facet of the Bank's operations, such as product development, revenue generation, cost reduction, service development and process improvement, among others, which lead to enhanced productivity, profitability or shareholder value.

As a fully-fledged commercial bank that is breaking new ground, we feel it is crucial that the management actively encourages, listens to and acts upon the ideas and insights of the employees.

The contributors of novel ideas that are implemented are well-recognized across the Bank. They would also be considered for rewards under the merit/variable bonus scheme of the Bank.

Ideas that come up through 'IdeaXpress' go through a systematic and meticulous process of assessment and testing, before they can lead us to the development of new products and services.

The total number of suggestions received since 'IdeaXpress' was implemented in 2008 is 161 of which 31 suggestions were selected for implementation, whilst 9 suggestions are currently under review.

Management Discussion and Analysis

New Product Development Process

In addition to the new products developed based on consumer insights and market research, the Group also looks at the opportunities of bundling banking products with the stand alone products offered by Investment Banking, Wealth Management and Insurance for wealth creation and wealth protection purposes.

In the future, innovation and new product development will primarily take place through value addition to existing products, taking into account consumer needs and focusing on assets and liabilities and new capital market products bundled with banking products.

The following paragraphs illustrates such innovation in practice.

Changing Lives Everyday

NDB strives to introduce new products/services, new channels of distribution and streamline internal processes that will actually make a difference to the lives of its customers. With most of our products being a first in the market, we consider this to be one of our strengths.

For instance, the NDB Divi Aruna SME Loan Scheme launched in June 2010, was aimed at developing livelihoods of prospective entrepreneurs who are not within the mainstream banking. This was aggressively expanded in 2011. The Bank provided soft-loans under this scheme to finance purchasing of boats and fishing equipment as well as funding for women engaged in making maldivian fish. The programme also financed hand tractors for farmers, materials and equipment for pottery makers and livestock for the dairy industry farmers from the North, the East and the South.



NDB Divi Aruna Hambantota - A pottery manufacturer

Management Discussion and Analysis

The NDB Divi Aruna SME Loan Scheme and other SME lending products enable the Bank to support and encourage the SME sector, which is the backbone of the economy. The Bank also engaged with its SME clients by offering training at regional level, intended for their capacity building and skills development.

Similarly, initiated in September 2010, the NDB Jeevana Livelihood Development Scheme has now had three batches of youth graduating - two from the East coast in Hotel Operations and one from the North in Motor Mechanism. The programme has spread its wings to the South too, with the fourth batch also in Hotel Operations now in progress. It is noteworthy to mention that those who successfully completed these courses have found employment.



Training conducted in Jaffna by DIMO under NDB *Jeevana*



The batch from Tangalle that graduated in Hotel Operations

Management Discussion and Analysis

NDB's strategic CSR initiatives of education and entrepreneurship are an integral part of its business activities. The creation of the NDB Endowed Professor in Entrepreneurship at the University of Moratuwa is a testament to the Bank's commitment towards inculcating an entrepreneurial culture in Sri Lanka. NDB believes that an entrepreneurial culture is essential for the sustainable development of the nation and aims to create a culture, where youth will create opportunities not just for themselves but for others as well whilst developing the 'doing business' environment of Sri Lanka.

In line with this initiative NDB, in partnership with the University of Moratuwa and the Young Entrepreneurs Sri Lanka (YESL), sponsored entrepreneurship training in 2011 for university students for the first time in Sri Lanka's higher education system.

Here are some of the product highlights achieved during the year-

- For the first time in Sri Lanka, the NDB revolutionized the leasing industry with its offer of 'One Day Leasing' by discontinuing the traditional requirement of having guarantors and the need to make a down payment, in order to obtain a lease facility. This minimized the paper work, offering convenience to the customer while processing of these facilities was done within a day. Customers' acceptance of this innovation is reflected by the fact that our leasing portfolio grew by 75% during the year.
- 'Raththaran Savings' was another first in the history of banking; under which customers are offered the unique opportunity to reserve gold at today's price and obtain gold in the future by paying in instalments over 12, 18 or 24 months.
- Dream Maker Personal loans provide a loan approval within three hours which is a first time in the Sri Lankan banking Industry.
- NDB became the first bank in Sri Lanka to introduce secure, online shopping for debit cardholders with the introduction of the 'Verified by Visa' facility. This is currently the most secured method available for online purchases.
- NDB offers Educational Loans designed specially for local and foreign educational needs which can be obtained by the parents or close relatives of children, or by the students themselves, if they are in employment. A parent, relative or potential student can also apply for a joint loan, giving them further flexibility.

Management Discussion and Analysis

- NDB further strengthened its project financing by diversifying the portfolio into growth industry sectors such as leisure, healthcare, construction, warehousing, printing & packaging and food & beverages. This move was facilitated through packaging of project finance with an array of commercial banking products to suit the corporate needs. This achievement is reflected in the portfolio growth of 56% during the year. Accordingly, the Project Finance Department is now in a strong position to enhance its relationship with the corporate sector by offering customized and total financial solutions in both development banking and commercial banking as one package of products.

The economic revival of the Northern and the Eastern Provinces, following the cessation of hostilities, has created great opportunities for project financing as well as for SME and Retail Finance.

- NDB participated in new credit lines such as those of Asian Development Bank, World Bank and German Development Bank (DEG) to facilitate lending to Small and Medium Enterprises (SMEs). In addition, the Bank tied up with five new credit lines administered by the Central Bank of Sri Lanka (CBSL).
- NDB AVIVA Wealth Management, the wealth management arm of the Group introduced a 'Private Wealth Management' service which offers financial solutions to affluent clients who require services going beyond their traditional. This relationship based exclusive service encompasses assessing an individual's or a family's needs and providing the right solutions from a single location.
- Other products and services offered during the year included the offer of cheque discounts to wholesalers and distributors, exporter financing especially in the areas of fisheries and spices, financing for tea manufacturers and tea factory owners, intermediation in linking the small time producers with the large scale distributors/manufacturers and vice versa providing value added services and entrepreneurial assistance and multiple group product offerings focusing on wealth creation and products all under one roof. This includes Insurance from AVIVA NDB Insurance PLC, Stockbroking from NDB Stockbrokers and 'myeaglefunds', the risk-rated mutual funds by NDB AVIVA Wealth Management.

Channels of Distribution

Our Channels of Distribution is the conduit between our products/services and customers. The Bank has mapped out the target market segments, their characteristics, customer preferences for channels and the different roles each channel is expected to play. Hence, the Bank has the required insights to develop all the channels necessary to provide unprecedented convenience to the customers. Accordingly, apart from plans for significant expansion of the brick and mortar branch network focusing on potential regions outside the Western Province under which 13 branches were opened during the year, the Bank offers its services through the following channels as well:

- Internet Banking - over 60% of the commercial banking division's customers now use this facility
- Tie up with the Regional Development Bank and Singer Sri Lanka PLC for Western Union money transfers
- Partnerships with UAE Exchange and Habib Exchange in Dubai, NEC in Italy and Ceylon Exchange in Australia for money remittances

Management Discussion and Analysis

- Access for the Bank's debit card and pre-paid cards through 1,000 visa ATMs around the country, 1 mn VISA ATMs around the world and 20 mn merchant points across the globe
- Integration with Sampath Bank's 220 strong ATM network, which gave NDB customers greater and easier access to their savings and current accounts.
- eZ Pay - South Asia's first ever M-Commerce solution giving access to accounts, payment of utility bills, payments at merchant points across the country and fund transfers
- Broad-basing our reach to SMEs by converting all 60 branches of the Bank to provide SME Banking Services, whilst developing SME banking aggressively
- Deployment of Sales Teams in a hub and spoke model
- 24-hour Call Centre
- Telemarketing Unit

While continuing to expand its brick and mortar branches, NDB will also develop innovative low cost and technology-driven channels to increase customer reach; thereby enabling financial inclusion.

Efficient Internal Processes

Banks are facing stiff competition to win customers. On the other hand, they strive to meet the regulatory requirements in the industry. Amidst these pressures, it has become necessary for banks to streamline their internal processes by removing bottlenecks to ensure provision of efficient banking services to their customers.

In the context, NDB took several important steps during the year-

- The Bank revolutionized the leasing industry by facilitating a lease facility without the need for guarantors and/or down payments and to issue a delivery order within a day.
- Streamlining and re-engineering of processes of the Centralised Retail Credit Centre to further expand productivity and efficiency to cater to rising retail assets volumes, whilst maintaining the existing staff strength.
- The Bank conducted diagnostic studies with the International Finance Corporation (IFC) to review its capacity and capability to further improve SME Banking.
- The organizational structure was designed to support the growth strategy of the SME business. The changes reflect the objectives of achieving wider distribution of SME products and centralized processing to support scale. These will support the building of a successful and sustainable SME business proposition.

Marketing Campaigns

Today, innovative marketing regimes play a crucial intermediary role between increasingly more knowledgeable and well-informed customers and their equally complex needs and purveyors of financial products and services.

NDB's Strategic Marketing and Communications Department played a key role in building the brand and helping to drive business strategy. Several innovative and unique marketing campaigns were carried out during the year under review to reinforce the Bank's brand position in the customers' minds as being innovative and service oriented, while creating awareness of products/services.

Management Discussion and Analysis

Public Relations (PR) was used to support these marketing campaigns as well as new branch openings and Group Company activities. PR was also strategically used to cover all activities related to SME and Retail Banking, Corporate Banking, Project Finance and CSR activities of the Bank.

Here are some of the highlights of our strategic marketing and communication initiatives undertaken during the year:

- NDB believes that saving is no longer a luxury affordable by a few, but indeed an option for everyone. This dynamic proposition was put forward by the '*Ithuru Karana Maga*' savings drive, along the theme - '*ithiri karamu, api hademu, rata hadamu*', conducted by the Bank on a national scale. The innovative aspect of the campaign was that it taught people to begin to conserve and avoid wastage of precious resources they used everyday, such as water and electricity and to generate financial benefits from such actions for a more lucrative life.

As part of the '*Ithuru Karana Maga*' campaign, a 'Brand Rally' was initiated in the month of April, consisting of multiple programmes that aimed to create public awareness on the habit of savings amongst the communities in Galle and Kandy. The rally saw the staff of the NDB Group take to the streets as one big family, led by the CEO. Approximately 100,000 people were educated on the value of savings while school quiz programmes on savings habits was conducted in the Galle and Kandy areas.



Management Discussion and Analysis

In line with the '*Ithuru Karana Maga*' initiative, NDB also launched the NDB Bill Settle promotion. NDB Bill Settle offered NDB Savings Star customers the opportunity of having their electricity bill paid for by NDB for a three-month period, should they succeed in showing a saving of at least 10% on the value of their bill. The promotion enabled NDB in enlightening customers on the practical aspects of saving through day-to-day activities.



Staff of NDB at the Brand Rally

In driving this national endeavour, NDB launched an integrated communications campaign which in addition to traditional methods of mass communication, also saw the Bank extend the initiative to numerous activities that were conducted through the island-wide branch network, from events at public locations such as train stations, to schools.

- Further establishing the NDB brand among masses, the partnership with 'Ranaviru Real Star' reality TV show on Rupavahini was continued in 2011. The final programme received a TV rating of 10.49 - the highest amongst reality TV shows in Sri Lanka.
- NDB celebrated *Avurudu* this year by rewarding its savings and fixed deposit account holders with special *Avurudu* gifts. The offer was extensively communicated via media advertising; while on the ground promotions were also conducted.
- A Pawning Consumer Promotion was launched with an interest waiver in the 1st month, with the support of media advertising. Further, a special Pawning Promotion was conducted in the North and the East Regions. A significant increase was seen in the sales volumes due to this initiative.
- A promotion was conducted in Italy, for customers who opened NDB Savings or Fixed Deposit Accounts, or sent money to their NDB accounts or to a third party account at NDB through National Exchange Company (NEC), or remitted money to their loved ones through NEC to NDB Branches. Special TV interviews were held on 'Channel One' to educate Sri Lankans in Italy on the benefits they could enjoy by channelling remittances through NDB such as access to housing loans, leases, SME loans etc.
- The corporate TV campaign was continued in 2011 depicting the strengths of the NDB Group and the wide products and services offered through the Group establishing it as a strong financial conglomerate.

Management Discussion and Analysis

These strategic marketing initiatives have paid off with NDB becoming one of Sri Lanka's well-established brands, within a relatively short period of time. According to Brand Finance Lanka's Brands Annual 2011 ratings, the NDB brand's ranking increased to become one of the top 15 brands in Sri Lanka. The Bank was also presented with an award for excellence in branding and marketing at the CMO Asia Awards held in Singapore, thereby recognizing the Bank's strategic marketing initiatives and the strength of its brand.



CEO speaking on 'Ithuru Karana Maga'



The Brand Rally takes off at full steam

PROUD OF O



UR 'FLEET'





Our 'fleet' is our Loans and Advances portfolio...and it is one of the best in the industry.

Our Non-Performing Loans ratio, Provision Cover and Open Credit Exposure ratio stood at 1.35%, 74% and 2.73% respectively, as at 31 December 2011. We were able to achieve these results due to excellent pre- and post-loan sanctioning procedures. This frees us up to become a change enabler.

Management Discussion and Analysis

→ PROUD OF OUR 'FLEET'

Our 'Fleet'...Our Assets Portfolio

Our 'Fleet' or the Assets Portfolio in banking and accounting terminology is comprised broadly of the following:

As at 31 December	2011		2010	
	Rs mn	%	Rs mn	%
Assets Category				
Cash & Cash Equivalents	7,840	6	5,268	5
Investments	24,587	18	25,357	24
Loans and Advances	101,371	73	71,277	68
Less Loan Loss Provisions	(1,527)	(1)	(1,870)	(2)
Investments in Related Companies	3,057	2	3,223	3
Other Assets	1,407	1	625	1
Property, Plant & Equipment	1,108	1	858	1
Total	137,843	100	104,738	100

More details of the individual assets are given in the Balance Sheet on page 209 and the notes to the Financial Statements on pages 234-258.

The Importance of Asset Quality

The quality of the assets portfolio of a bank will depend on the extent to which the assets are 'performing' i.e. They are being recovered in terms of the agreed terms and conditions, generating market returns and worth at least their book values. When the assets do not meet these criteria, such assets are classified as non-performing assets (NPAs).

The level of NPAs in banks and other financial institutions has been a matter of grave concern as bank credit is a catalyst to the economic growth of a country. Disturbances to the smooth flow of credit such as increasing NPAs are bound to create adverse repercussions in the economy. It is because of this crippling effect, that the asset quality of banks have been identified as one of the most important parameters in the measurement of a bank's stability and solvency.

Loans & advances represent more than two thirds of the total assets portfolio of the NDB while investments accounting for approximately 18% ranks the second biggest asset. The two assets together account for over 90% of the total assets portfolio. Hence, the presence of a quality loans & advances and investments portfolio is essential for the maintenance of a quality asset base in the Bank, which in turn has a bearing on the results of operations, the financial position and the cash flow position. Therefore, the manner in which the Bank manages the three phases in the life cycle of these assets i.e., creation, monitoring and recovery, determine the quality of the intermediation process within the Bank.

Management Discussion and Analysis

Quality Dimension

Similarly to an individual being interested in the quality of a product or a service he obtains, increasingly stakeholders of companies are becoming concerned with the quality dimension of the profit, the financial position and the cash flows, that are reported in their Financial Statements. Financial Statements are no longer being viewed in a narrow perspective, as was the case, two decades back.

Among other factors, excessive NPAs will lower the quality and quantity of profit, the quality of assets and the quality of cash flows of a bank, it would adversely impact such factors as the extent up to which profit is realized, prudence of revenue recognition policies, prudence of estimates made, sustainability of sources of revenue, adequacy of provisions for/write offs of NPAs etc.

Similarly, factors such as the level of NPAs, realisable value of the assets against their book values, level of returns the assets generate, risks associated with the assets/overall risk profile of the Bank, extent of diversification, extent to which maturities of assets and liabilities match, extent of concentration/diversification of assets and corporate governance practices among others, help one assess the quality of assets of a bank.

Quality of cash flows can be assessed by analyzing whether they are from operating activities of the business (core banking) and their sustainability.

What Causes NPAs?

While financial institutions faced varying challenges over the years for a multitude of reasons, generally the major cause for NPAs continues to be the Credit Risk, which is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

Some of the specific factors that may lead to NPAs in banks include poor facility appraisal, poor post-sanctioning monitoring, over-emphasis and over-reliance on security, factors internal to borrowers (such as diversion of funds, time/cost overruns, business failures, inefficient management, strained labour relations, technological problems, product obsolescence etc.), factors external to borrowers (such as recession, non-receipt of payments from buyers, inputs/power shortage, price escalation, accidents, natural calamities etc.), changes in Government rules, regulations and policies.

Management Discussion and Analysis

Consequences of NPAs

Deterioration of the quality of the assets portfolio due to doubts about the recoverability will necessitate classification of such assets into NPA category, suspension of interest, providing for bad and doubtful debts and disclosure of same separately in the Financial Statements. Such a situation may also adversely impact the credit ratings of the Bank.

Return on assets classified as NPAs cannot be recognized in the Income Statement as interest or dividend income on the accrual basis as is usually done for performing assets. Such interest has to be transferred to an Interest in Suspense Account and recognized thereafter as income on cash basis. In addition, loans and advances doubtful of recovery will have to be provided for/written-off through the Income Statement. Similarly non-performing investments will have to be written down to their book values. All these reduce profits reported and adversely impact on the capital formation of banks, Single Borrower Limits, Return on Assets, Return on Equity and Dividends.

In addition to the above implications, high levels of NPA's impact lending rates, competitiveness, re-cycling of funds, maturities of assets and liabilities, risk management, capital adequacy, expansion plans, staff morale and finally leading to regulatory interventions.

Why Take Pride in Our 'Fleet'

In the context of the above, it is apparent that possessing a quality assets portfolio is certainly a matter for a bank to take pride in. As illustrated below, NDB has a well-diversified, quality assets portfolio with sound underlying risk management practices with NPAs at substantially lower levels in comparison to the industry.

Portfolio Quality Highlights

As at 31 December	2011	
	Bank	Industry
Gross Loans & Advances Portfolio (Rs mn)	104,515	2,605,000
Portfolio Growth Over 2010 (%)	43	32
Non-Performing Loans (Rs mn)	1,364	98,306
Non-Performing Loans Ratio (%)	1.35	3.80
Specific Provision Cover (%)	74	45
Total Provision Cover (%)	112	57

Portfolio Diversification

One mechanism that banks adopt to lower risk profile and enhance asset quality is portfolio diversification. As a means to ensure a well-diversified quality loans and advances portfolio the Bank has in place maximum exposure limits on borrowers as well as sector concentrations.

Management Discussion and Analysis

Sector and Product Concentration

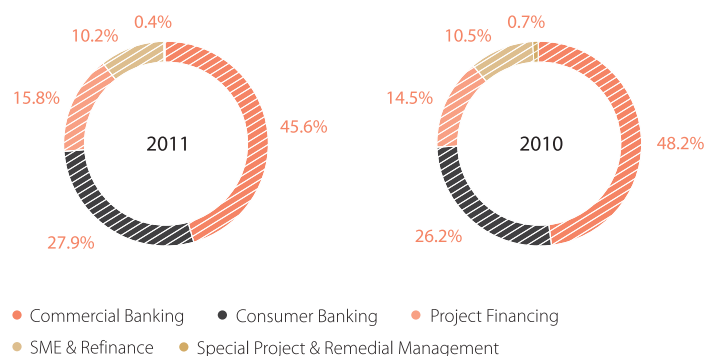
The Bank has sub-classified the portfolio into sub-sectors and set a maximum limit of 15% of total exposure for each sub-sector. Further, based on the different products under Retail there are product sector caps. The Bank's portfolio was not concentrated on a particular sector. The sector distribution was as follows:

SECTOR-WISE BREAKDOWN OF PORTFOLIO



Business segment-wise composition of the loans and advances portfolio of the Bank as at 31 December 2011 and 31 December 2010 were as follows:

BUSINESS SEGMENT-WISE BREAKDOWN OF LOAN PORTFOLIO

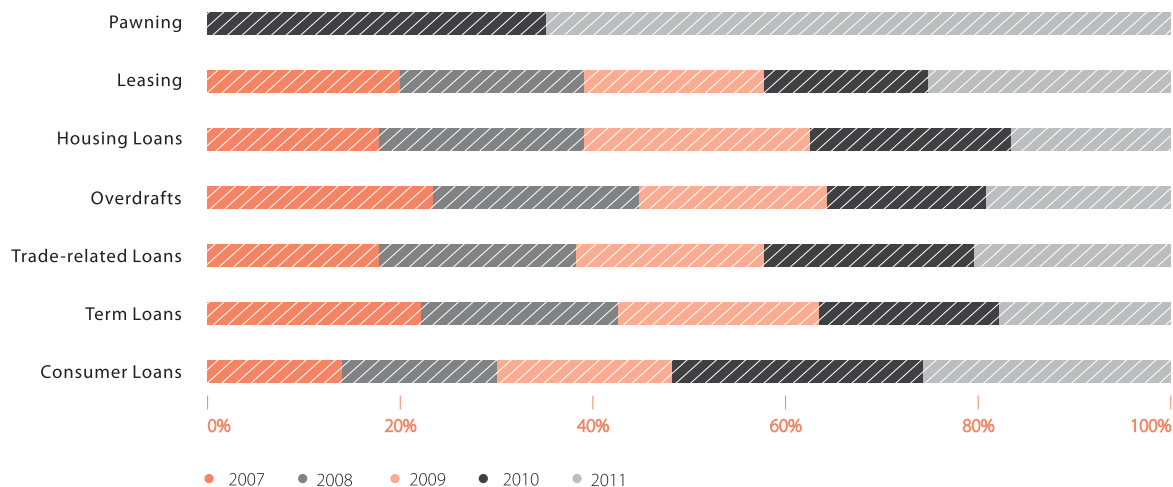


Management Discussion and Analysis

The Bank's portfolio is mainly concentrated in Commercial Banking Segment. The consumer banking portfolio as a percentage of the total portfolio increased during the year in line with the long-term strategy of the Bank.

COMPOSITION OF LOANS AND ADVANCES

(%)



Concentrations

Single Borrower/Group Exposure

The Bank has single borrower/Group exposure limits which are more stringent than those set by Central Bank of Sri Lanka. As at end of the year 2011, the top 10 exposures accounted for only 12% of total portfolio and the top 20 clients for only 21% of the total portfolio, reflecting a well diversified portfolio.

The aggregate of large exposures (i.e. exposures exceeding 15% of capital base) as a percentage of capital base was only 297% which is well within the norms.

Concentration risk of the Bank is measured using the Herfindhal Hirshmen Index (HHI) and monitored on a quarterly basis and the index as at 31 December 2011 reduced to 0.187 indicating a reduction in credit concentration risk.

In all sectors, the Bank's portfolio was mainly concentrated on the Corporate Segment. Thus, the resilience of the Bank's clients to industry stresses is higher.

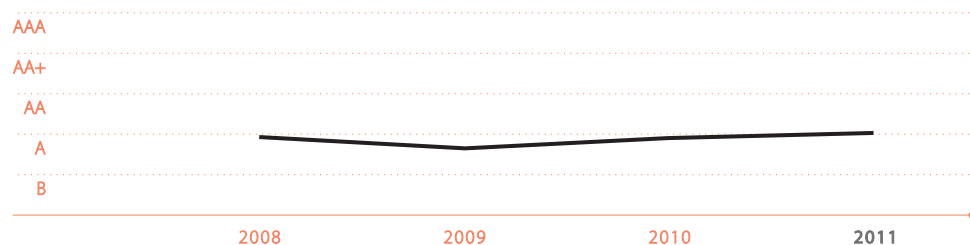
Management Discussion and Analysis

Internal Rating

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 eight-level rating scale ranges from AAA to B4 and the ratings of every borrower is reviewed at least annually or more frequently, if required. This rating system is used as a guide for account monitoring, provisioning, granting delegated authority and pricing. Based on the year-end figures, the portfolio is concentrated in the 'Single A' category which indicates a good acceptable quality portfolio.

NDB monitors the rating migrations and the movement in portfolio quality on a quarterly basis. The Bank's portfolio is mainly concentrated around 'Single A' rated clients.

WEIGHTED AVERAGE RISK RATED PORTFOLIO



The Bank's Approach to Containing NPAs

Asset quality being an imperative for ensuring the stability and solvency of the Bank, the Board and the Corporate Management have set up a comprehensive approach to managing risks associated with the Bank. The effective management of credit risk is a critical component of this approach and is essential to the long-term success of the Bank. The goal of credit risk management of the Bank is to maximise the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters based on the risk appetite of the Bank. The Bank manages the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions.

In addition, the Bank has in place a sound post-sanction/disbursement follow-up system to identify, monitor and rectify problem loans. This includes appropriate methodology for dealing with problem credits/exposures and to make adequate provisions for losses in respect of those loans. The quality of the assets portfolio reflects the success of the Bank's approach towards Risk Management.

Management Discussion and Analysis

Pre and Post-Sanctioning Assessment

NDB has a well-defined credit policy approved by the Board of Directors. It defines the credit culture of the Bank, specifying target markets for lending and areas to avoid. The policy is implemented through the credit process, which is set out with clear guidelines and procedures. NDB's risk-management philosophy is guided by three basic interdependent principles: independence, the 'four-eyes principle' (i.e. minimum of two officers signing a credit proposal) and service function. Although the Bank mitigates credit risk through collateral, lending decisions are mainly based on detailed credit evaluation carried out by Relationship Managers and reviewed by Risk Management as well as the designated approving authority. The financial performance of borrowers is continuously monitored and frequently reviewed, as is the manner in which the borrower has operated his accounts.

Risk Management too 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. A post sanction review and monitoring mechanism is in place to ensure that 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 deteriorate further. Non-performing assets are identified at an early stage, enabling management to take action as appropriate.

The facilities in arrears for more than six months and also requiring special attention due to complexities, value or time are transferred to the Remedial Management Unit. This Unit works closely with the client to regularize the account and prevent further deterioration. As a last resort, accounts needing legal action are transferred to the Special Projects Department which facilitates the recovery through the sale of assets. This may be done either through negotiated settlement, asset acquisition under parate rights or through legal action.

In addition to the above, an independent Credit Audit Unit carries out periodic audits to determine the level of compliance with designed processes, adequacy of controls and identifies areas for improvement.

Delegation of Authority

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 and rating of clients in order to ensure accountability and to 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 the Risk Department. The delegated authority limits are reviewed periodically.

Management Discussion and Analysis

Provisioning Policy of the Bank

The Bank follows a prudent provisioning policy, and provisioning is implemented in three categories -

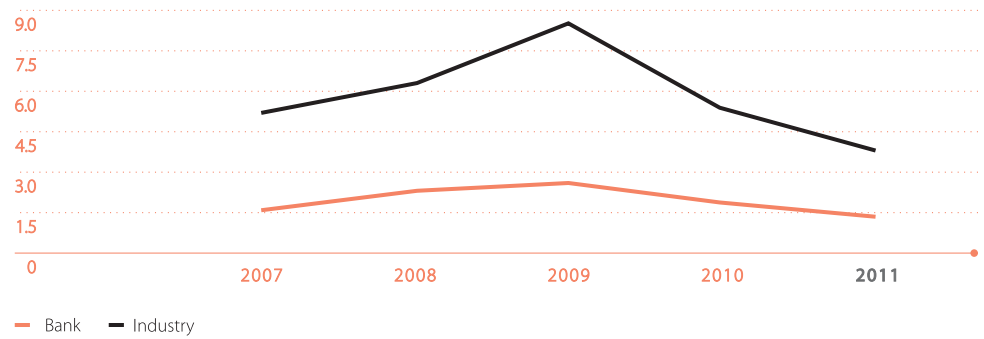
1. General provision (in line with CBSL guidelines and as detailed in the Accounting Policies)
2. Specific provision (in line with CBSL guidelines and as detailed in the Accounting Policies)
3. Judgmental provision (provision made as a prudential measure on selected accounts)

Indicators of Asset Quality

NPL Analysis

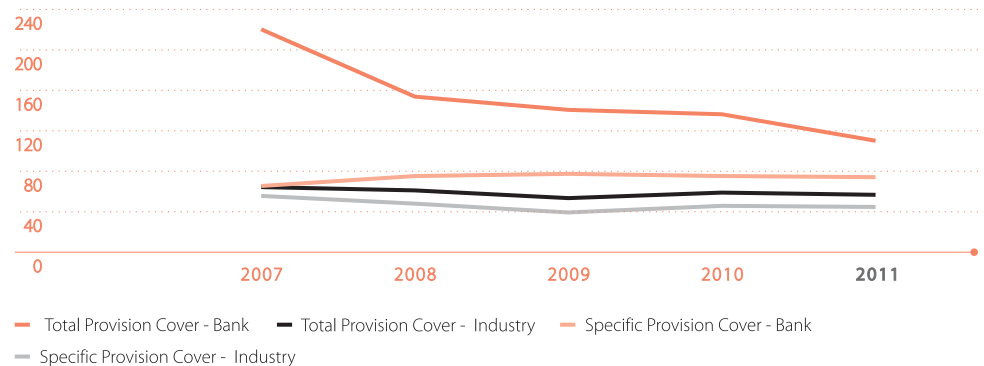
During the year, Bank's growth in loans and advances portfolio exceeded that of the industry. But the Bank succeeded in reducing the NPL ratio despite the growth in portfolio.

TREND IN NPL RATIO - BANK VS INDUSTRY (%)



NPLs and Specific Provisioning

PROVISION COVERAGE - BANK VS INDUSTRY (%)



The Bank has a higher specific provision cover when compared to the industry which is mainly due to a higher percentage of NPLs being in the loss category requiring higher provisioning and the low NPL base. Further, due to the lower cash backed and pawning facility base a higher percentage of the performing portfolio is subject to general provisioning. Hence, this has resulted in the higher total provision cover compared to that of the industry.

Management Discussion and Analysis

Regulatory Developments

The Bank needs to fully comply with the Integrated Risk Management framework as per the guidelines of the CBSL by April 2012. The Bank has identified the gaps and is moving towards complying with the requirements of the guidelines.

It's a Strength

In an environment which is changing rapidly, banks need to be cautious of their exposures to the various sectors/client segments. A well-defined risk appetite and management system with sound pre and post-sanction monitoring, facilitates monitoring of these exposures and the taking of corrective action, if required. Further, a close watch on the external environment will be a guide to identifying the segments/sectors with growth potential or to be avoided. A continuous drive for new product innovation and process improvement fulfils customer satisfaction.

Our proactive approach towards Risk Management encompasses all of the above features which have enabled the Bank to fulfil the requirements of the customers. Hence, this empowers the Bank to allocate its capital prudently whilst safeguarding the interests of all its stakeholders. Therefore our philosophy in Risk Management is that sound risk management is all about 'good lending'.

Capital Management at NDB

Role of Capital

Capital plays an important role in ensuring the soundness and stability of financial institutions and the financial systems the world over. On each occasion when the world has witnessed economic downturns and their repercussions on banking systems, we are reminded of the need for strongly-capitalized financial institutions. Banks with low levels of equity capital and a high variability of operating earnings have proven to be more vulnerable to such financial distress.

Over the past several years, we have addressed the increasing diversity and complexity of risks to which banks are exposed, including credit, market and operational risks. This too emphasises the need for strong levels of Bank capital.

First and foremost, the role of capital is to act as a buffer against future losses that a bank may incur. A bank must hold enough capital to cushion both depositors and senior lenders against losses, while leaving the bank able to meet the needs of its customers. Banks must maintain capital commensurate with the amount of risks that they take and hold enough to weather financial storms.

Capital also provides the banks with financial flexibility. Banks which are strongly capitalized can take advantage of growth opportunities. A strong banking sector with a strong capital base is better equipped to supply credit to businesses and fund investment opportunities that promise to encourage growth, create employment and contribute to a stronger economy. On the other hand, a weak banking sector inevitably leads to inadequate credit and liquidity in financial markets and to banks that are unable to boost the productive capacity of the economy. This has a grave social impact. Given the importance of credit and liquidity to the overall economy, it is apparent that emphasis is placed on issues of capital adequacy and capital allocation and the focus on capital regulation.

Management Discussion and Analysis

Coupled with right human resources, a strongly capitalized bank is better able to promote innovation - in the form of new products and services, new distribution channels and enhanced internal processes. Bank management is able to focus on the business of banking, strategy and competition, rather than on financial difficulties, thereby adding value to shareholders. Enhancing shareholder value is increasingly important to banks since banks need to compete for capital resources. Hence, the importance of capital management.

Capital Management

The continuous development of regulations relating to capital with a regulatory Capital Adequacy Ratio (CAR) of 10% have made capital the limiting factor inhibiting the growth of banks. As a result, banking is fast becoming a capital intensive business. Accordingly, 'Capital Management' is becoming an imperative in achieving profitability and growth in a bank. On the other hand, capital is an expensive form of funding. Hence, there is a need to effectively manage it by optimizing its structure, frequent monitoring, capital re-allocation and managing the return thereon.

NDB's capital management policy seeks to ensure maintenance of capital required for the Bank to remain solvent and for future expansion while generating an acceptable return thereon. Maintenance of capital commensurate with the risk profile of the Bank ensures that the Bank remains solvent while maintaining it at levels comfortably above the regulatory minimum ensuring room for future business expansion.

The Board and the Management periodically evaluate not only the adequacy of the current capital levels but also the appropriateness of its structure. This evaluation integrates decisions about business strategy, risk profile and future capital needs. Stress testing exercises have been performed based on CBSL guidelines. Accordingly, internal capital targets have been set at levels higher than the statutory minimums.

The Bank's prudent provisioning policy resulted in the Bank having higher provision cover and thereby leaving the Bank's capital unencumbered. The Bank's Open Loan Exposure has also remained positive, which indicates an insignificant amount of stress on the Bank's equity resulting from NPLs.

The Dividend policy of the Bank too is based on balancing the shareholder expectations and the need for capital formation for future growth. The Bank's attractive track record of dividends and potential for capital gains have helped it to build a loyal shareholder base, on whose support the Bank can rely on at times of requiring to raise new capital.

In addition, the Bank is constantly on the look out new avenues of increasing the revenue from fee-based activities which do not require maintenance of capital. The unique structure of the Group that contributes 32% of the Group Profit attributable to its shareholders and is growing, will ensure substantial returns to the shareholders.

Management Discussion and Analysis

Capital Adequacy Ratio (CAR)

Capital adequacy is a term used to describe adequacy of a bank's aggregate capital in relation to the risks which arise from its on Balance Sheet assets and Off-Balance Sheet exposures, its dealing operations, human activities, technology and natural incidents. Central Bank of Sri Lanka has prescribed the minimum risk sensitive capital and, with effect from 1 January 2008, has required the banks to compute the minimum capital in accordance with the 'International Convergence of Capital Measurement and Capital Standards - a Revised Framework' (Basel II).

It is a risk-based measure of capital adequacy which takes into account the different risks associated with a bank's differing asset structures.

The aim is to ensure that minimum capital, commensurate with risks assumed by a bank, is maintained as a buffer to absorb foreseeable future credit, market and operational losses. It also serves as a regulatory restraint on unjustified asset expansion by limiting gearing in terms of risk-weighted assets. A CAR of 10% effectively limits gearing in terms of risk weighted assets to 10 times.

A bank with a high capital to risk-assets ratio could withstand greater losses arising from declines in values of assets than a bank with a low capital to risk-assets ratio.

NDB's CAR Computation

The Bank's Capital Adequacy Ratio declined from 14.76% as at 31 December 2010 to 11.33% as at 31 December 2011. The decline in the ratio was primarily due to the aggressive growth of 43% of the Bank's Loans and Advances Portfolio during the year. However, this was mitigated by the continuous improvement in asset quality with the Non-Performing Loans (NPL) ratio as at 31 December 2011 being 1.35% only, a level significantly lower than the industry average and the Bank maintaining a total provision cover of 112% leaving the capital unencumbered,

A detailed computation of the Bank's CAR computation is given on pages 259-263.

Gearing and Risk

It is interesting to note that the Return on Assets (ROA) of financial institutions is relatively low, hovering around 2%, when compared to most non-financial businesses where it can be as high as 20%. However, irrespective of the company/industry they invest in, shareholders expect a comparable Return on Equity (ROE). As a result, ROE being the product of ROA and the level of gearing, financial institutions resort to high levels of gearing in order to compensate lower ROA and generate levels of ROE comparable with companies in other industries.

When a bank increases its level of gearing, it invariably increases its risk profile as well. It is due to this reason that the banking industry is highly regulated the world over. A tight regulatory framework including stringent capital adequacy requirements is therefore imperative in guiding banks to avoid, eliminate and manage these risks and achieve acceptable risk-return tradeoffs.

Indicators of Stability and Solvency

Apart from the indicators explained above, the Bank monitors several other indicators to measure stability and solvency, which are given as Financial Highlights on page 6.



OUR 'OPEN



SESAME'
TO SUCCESS

> OUR 'OPEN SESAME' TO SUCCESS...



The key to our success is people

The people who work at NDB are truly an inspired team. Through their passion, innovation, integrity, care and service, they are the principle drivers of every aspect of our enterprise and are responsible for where the Bank is positioned today...as a dominant force in the financial industry of Sri Lanka.

Management Discussion and Analysis

→ OUR OPEN SESAME TO SUCCESS

Changing Lives Everyday - The HR Perspective

The Bank would not have been a dominant player in the financial services sector in Sri Lanka if not for that 'inspired team' that is referred to in the Mission. The Bank genuinely believes that all its achievements and strengths built over the years are a result of its values - integrity, care, passion, teamwork and service - associated with the human resource. No amount of financial capital and technology could have done it if not for the enabling environment created by this dedicated team. In fact, all of the Bank's innovations in terms of products/services, delivery channels, improved processes etc., were conceived and implemented by this team.

NDB has demonstrated an enviable capability to adjust to an ever changing external environment, without losing its fundamental beliefs and core values. This capability will become ever more challenged with the expansion of the Bank's network and increasing complexity of its operations. We as an institution will only succeed if this permanent transformation is driven by the need to manage complexity with a high level of efficiency, leveraging all the intangibles which enhance our competitive edge.

Our personal motivation based on willingness to learn and to question what we are doing and why we are doing it, combined with our longstanding respect for our values, will assure our success. In such a setting, every employee of NDB has both an individual and a complementary role to play in building the Bank of tomorrow.

NDB provides response to individual human needs with specific concern for the well-being of both its customers and employees. This is clearly reflected in its attitude and its sense of responsibility towards people. The Bank is convinced that it is the people who form the strength of the organization and that nothing can be achieved without their commitment and energy, which makes people its most important asset. This is mainly the reason why human resource initiatives have always been implemented in order to change lives everyday. Career development prospects such as internal recruitment opportunities, lateral movements, competency-based training initiatives, bottom feeds that create vibrancy to the organization, family based welfare programs and staff friendly benefits are just a few of the many human resource strategies adopted by the organization in order to make a difference and change lives everyday.

Human Resource Dynamics...From 'Groups' to 'Teams'

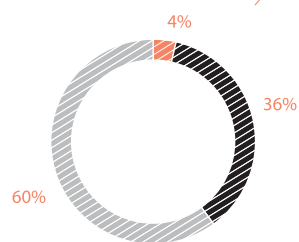
An organization can only grow stronger by having a diverse range of employees - men and women of all ages, nationalities, races, years of experience and levels of hierarchy - working within an organization that is conducive to mutual understanding of one another's distinct values and that allows everyone to shoot for a lofty goal.

Our business success is directly tied to the creativity, knowledge, skills and integrity of our dedicated team of employees. Irrespective of the hierarchical differences, senior management, executives and non-executives collectively represent NDB as one family. They work together to achieve the goals and implement the initiatives of the Bank.

The Bank had a total permanent staff strength of 1,043 as at 31 December 2011 compared to 886 as at 31 December 2010.

Management Discussion and Analysis

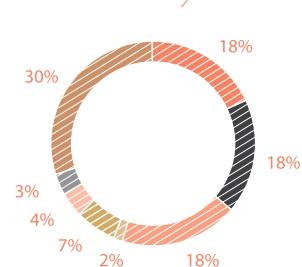
STAFF STATISTICS - 2011



● Management Cadre ● Executive Cadre ● Non-Executive Cadre

The organization's employee make-up is becoming increasingly diverse, with a greater number of non-executives and higher percentage of professionally-qualified staff.

QUALIFICATION

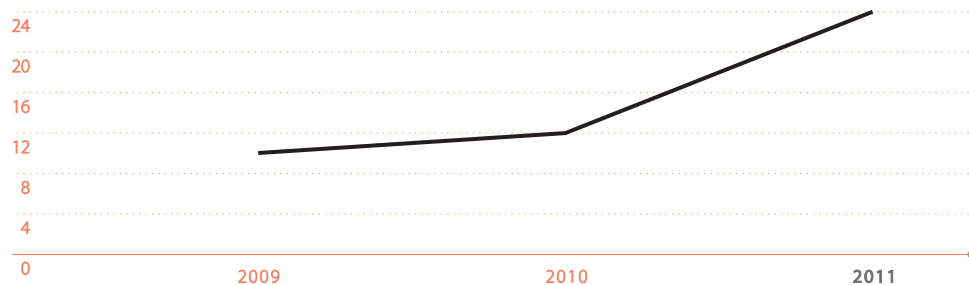


● Accountancy/Finance ● Banking ● Commerce & Management ● Engineering
● IT & Computer Science ● Marketing Management ● Law ● Other

NDB strives to create identical working conditions irrespective of gender differences because the organization's goal is to utilize the talents of both genders to the fullest. There are no barriers between general clerical work and management track jobs so that employees have more career opportunities. The Bank had a promotion rate of 20% in 2011 out of which there is also a systematic increase in the number of female managers from the year 2009.

PROMOTIONS - FEMALE MANAGERS

(Nos)

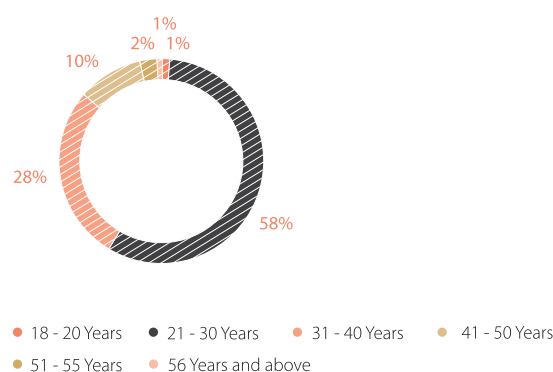


Management Discussion and Analysis

To mould a successful employee who gets the best results from a group, organizations have to come to grips with the fact that their 'teams' of people are made up of a variety of generations. Each generation has its own distinct set of values, view of authority, orientation to the world, sense of loyalty and expectations. And, because those in leadership positions are often of a different generation than the individuals they supervise, those leaders need to better understand the generational differences in their business to effectively manage the diverse groups of employees.

At NDB, one of the most fundamental requirements for motivating employees is the ability to understand others' motives, values, and goals instead of enforcing one's own on others. This means understanding and accepting that people are all different.

AGE ANALYSIS - 2011



Conducive Working Environment

The occupational safety and health policy is an integral part of the Bank's work environment. A work environment should enhance the well-being of employees and should be accident free.

Health safety and educational sessions are carried out as part of the HR welfare initiatives on an annual basis to increase awareness amongst staff. NDB Health Week and NDB Work Life Balance Week are examples for such initiatives.

As per the Bank's Business Continuity Plan there is a dedicated team of specialists to handle first aid as well as psychological first aid requirements in case of emergency situations. As of now there are 38 first aiders at head office and 53 trained specialists at the branches. Similarly the psychological first aid team is a cross functional team consisting of 25 trained specialists.

Management Discussion and Analysis

Sourcing of Resources

Recruitment of new employees helps to demonstrate a company's aspirations and highlights the skills and attitudes to which it attaches the highest priority. This also provides NDB an opportunity to communicate the values and successes of the organization and thereby provide the most attractive employment option for a person to develop his/her career.

NDB believes that an organization can only succeed in the long term if it recruits and motivates people who are able to respond to and shape the challenges of the future. Therefore, with the rapid expansion of the branch network there is a growing need to bring in new talents and skills as it is a challenge to cater to the requirements of the business lines with internal development alone.

The recruitment drives initiated by the Human Resource Department in the North and the East and the Management Trainee recruitment process are such examples through which young blood was brought into the organization.

The first of such initiatives was the recruitment drive held in Vavuniya on 18 June 2011 to cover the Northern Province. The preliminary interviews for the positions and the on line testing for the Trainee Banking Associates took place at the recruitment drive and the results were released on the same day itself. The highlight of this initiative was the technological involvement which made the project a great success.



The registration desk at the recruitment drive in Vavuniya

Management Discussion and Analysis

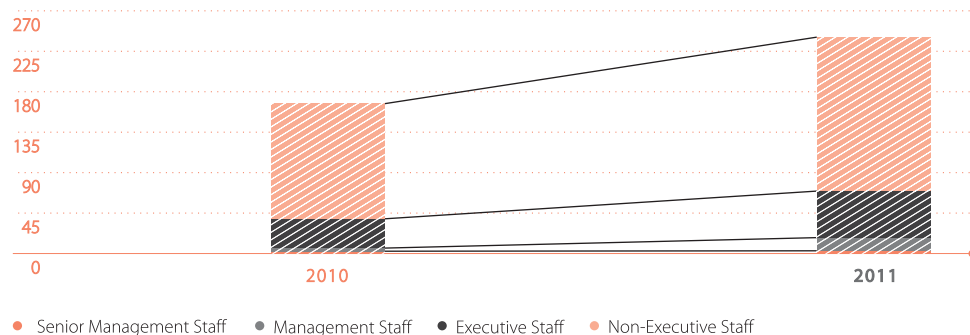


Potential candidates at the recruitment drive in Vavuniya

Further, through the Management Trainee programme the selected candidates got the opportunity to work in major departments of the Bank. NDB offers a comprehensive and rigorous eighteen-months schedule that aims to develop future leaders by exposing the individuals to areas of the organization. It challenges the individual from the time of filling in their application to the final interview with the key decision makers. The comprehensive revolving plan gives the person an opportunity to work on exciting yet challenging assignments providing invaluable insights into how the Bank works.

Similarly, the Credit Officer recruitment drive which was routed through many university career fairs gave numerous ambitious graduates to start off a promising career at NDB.

RECRUITMENTS (2010-2011)
(Nos)



Management Discussion and Analysis

Code of Conduct

NDB's Code of Conduct is all about providing employees with a better understanding of good ethics and conduct. In other words, following the law, acting honourably and treating each other with respect. It's built around the recognition that everything we do in connection with our work at the Bank is measured against the highest possible standards of ethical business conduct. We have set the bar that high for practical as well as aspirational reasons. Our commitment to the highest standards helps us hire good people, who then build great products and offer excellent service, which in turn attract loyal customers. Trust and mutual respect among employees and customers are the foundation of our success and we need to earn them everyday.

Human Resources Manual

The Human Resources manual is the guidebook for all employee-related activities which includes employment conditions and benefits.

NDB is an equal opportunity employer and is not biased to any criterion such as gender, race or religion in recruitment, training or in promotions.

In the recruitment, training, pay and management of staff, and in all our day-to-day work with both colleagues and customers, we seek to create an environment where attitudes and biases that hinder the progress of individuals and groups are dismantled and where we work together in mutual respect and tolerance. We have a comprehensive anti-harassment policy which is available to all staff through intranet. This policy covers gender issues, sexual harassment and harassment redress procedures.

Engaging of Resources

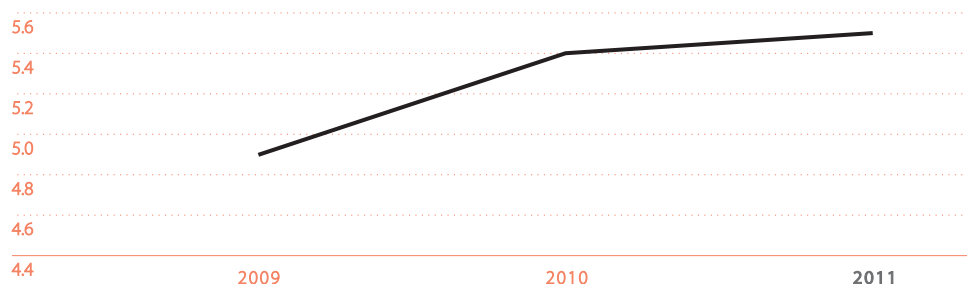
Employee engagement is a valuable concept for understanding and encouraging exceptional performance. NDB has long recognized the importance of fostering motivated, steadfast and trustworthy employees. Hence, training and development, welfare activities and corporate social responsibility initiatives are utilized to optimize employee engagement. In a nutshell, employee engagement is created through caring connections with others in the work place and connections to work.

The unique NDB culture plays a critical role in encouraging employee engagement and performance. Though NDB has grown a lot during the past few years, the Bank still maintains a small company feel. The commitment to innovation depends on everyone being comfortable sharing ideas and opinions. Every employee is a hands-on contributor, contributing on many levels and areas. Because we believe that each NDBer is an equally important part of our success, no one hesitates to pose questions to the CEO or the Leadership Team directly.

Management Discussion and Analysis

The Bank believes that training philosophy and strategies should be revisited from time to time in order to incorporate the new trends and challenges in the environment and the necessary skills needed to face them. Training opportunities are extended to all staff to maximize their skills and competencies in order to meet organizational needs as well as facilitate personal growth, thereby providing challenging careers to employees. The Bank's average training days are well above the industry average and steadily risen from 4.90 in 2009 to 5.50 in 2011. During the year under review, a total of 283 training programmes have been offered to NDB employees.

AVERAGE TRAINING DAYS
(Days)



The launch of e-learning system is another initiative aimed to promote performance and develop skilled workforce which would help meet organizational objectives and create a culture of continuous learning, training and collaboration. E-learning has gained popularity amongst the employees and it has been very beneficial in adding value to organizational matters such as easier access of information and flexibility with respect to time and place.

In addition to e-learning, the 'NDB Knowledge Enhancement Portal' has helped employees to be informed of the relevant training programmes that take place in the organization and ensure that the employees too are committed to make an effort in looking out for training opportunities to stay ahead in terms of knowledge and skills. As part of this initiative, employees are encouraged to go through the programmes available in the portal and apply for training consideration in consultation with their line managers.

Further, the active recreation club organizes various social events for the social welfare of the employees with the aim of enhancing the levels of employee engagement. The Bank maintains a comprehensive gymnasium for the employees and an active social calendar incorporating aspects such as sports day, family weekends, beach parties and a formal year end dinner dance. This clearly indicates the organization's commitment in looking after its employees' well-being.

In addition to the initiatives designed to improve the health, safety and well-being of the people at work, the Bank also offers a number of recreational and educational activities to help employees pursue their interests and find ways to unwind. The Human Resource Department understands that employees spend at least half of their time at work. They contribute to the success of the Bank when they are free from worries and when they feel their welfare needs are taken care of.

Management Discussion and Analysis

Hence, most of the welfare programmes aim to address staff wellness, education assistance, work-related stress, work life balance and educational and development programmes for children of NDB staff. For example, the NDB Toastmasters Youth Leadership Program was a first of a kind project, where a 'Youth Leadership Programme' was created and offered by Toastmasters International solely for the children of NDB'ers. The Human Resources Department in collaboration with Toastmasters International embarked on another unique ten-day joint venture. An initiative to conduct a series of workshops that gave our children the skills and the confidence that would help them effectively express themselves in front of an audience. The network of clubs and their 'learn by doing' programmes surely helped our young leaders to become better speakers..

Succession Planning

The existing Succession Planning process at NDB has several stages, which include creating a succession pool, establishing individual objectives, identifying measures of success, formulating developmental strategies and evaluating the progress of the identified pool of talent.

Employee Complaints Handling Procedure

Analysis of complaints and their trends help organizations plan their jobs better by alerting management to problems that need prompt attention and correction. Furthermore, they indicate long-range opportunities for product innovation and problem prevention. A well-planned system for screening and recording complaint data can provide the management answers to certain important questions. Similar system is used by the Audit Department to keep track of complaints received from external as well as internal customers.

Grievance Handling Procedure

The Grievance Handling procedure of the Bank has promoted a harmonious environment of the organization. The grievances of the employees may be related to the contract, work rules or regulations, policy or procedure, health and safety regulations, past practices, changing the cultural norms unilaterally, individual victimization, salaries, bonuses etc. Here, the attitude on the part of management in their effort to understand the problems of employees and resolve the issues amicably have better probability to maintain a culture of high performance. Managers have been educated about the importance of the grievance process and their role in maintaining favourable relations with relevant parties. Effective grievance handling is an essential part of cultivating good employee relations and running a fair, successful, and productive workplace. Positive labour relations are like a two-way street where both sides must give a little and try to work together. At NDB relationship building is key to successful labour relations.

Management Discussion and Analysis

Rewarding Employees

The Bank offers a range of monetary and non-monetary benefits other than remuneration to its employees such as staff loans to improve their living standards, professional and educational development, social welfare and to improve work-life balance.

In order to develop employee skills and knowledge, the Bank provides assistance for professional and educational programmes. Educational assistance is provided for employees to obtain MBAs and other professional courses such as CIMA, CIM, Banking, CFA etc. Through the professional assistance programme the Bank pays annual subscriptions for employees affiliated to professional bodies identified by the Bank such as CIMA, IBSL, ICA, etc.

Thriving for Service Excellence - ISO Certification for all HR Functions

The human resource department may be one of the silent departments that operate in the background of a business organization. It plays a crucial role in achieving success for the business by primarily focusing on hiring the very people who shape and mould the business towards success. Thus, it comes as a must to measure the productivity of the department itself.

At NDB, the human resource function has made significant progress over the past few years and has put in place the policies, guidelines and processes required to keep its most valued internal customers happy.

The department embarked on a challenging initiative to obtain ISO 9001:2008 certification, by adopting benchmarked practices to increase efficiency levels to carry through employee needs and expectations. The certification was successfully obtained in July 2011 for 25 processes and 5 other procedures coming under 4 main HR functions such as Operations, Recruitment, Training and Performance Management. Further, as per ISO practices internal customer complaints with regard to HRD service standards are highlighted through ISO specific employee satisfaction surveys on an ongoing basis.

The development of a comprehensive management dashboard for HR functions and publications of MIS on a monthly basis is another initiative taken up by HR to improve control over HR planning and efficiency.

Management Discussion and Analysis

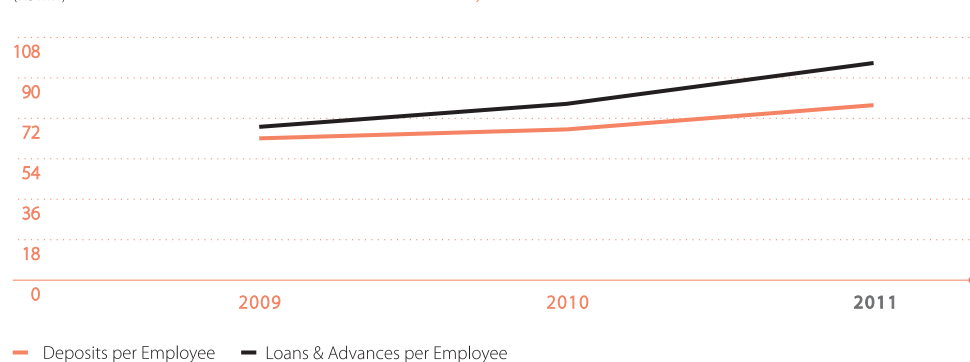
The re-launch of our comprehensive library for employees, which has a wide range of books covering mainly, subjects on Banking, Accountancy, Finance, Economics, Law, Management and Information Technology, latest publications and magazines was also undertaken during the year under review.

The Bank's commitment to build an inspired team has paid rich dividends as evident from the following productivity indicators that compare well with the industry:

EMPLOYEE PRODUCTIVITY

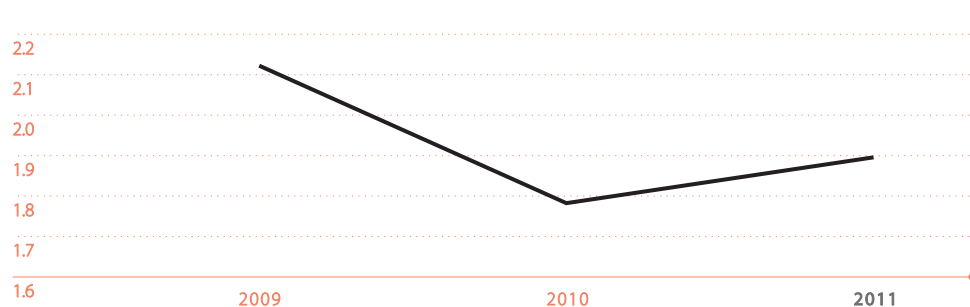
(Deposits and Loans & Advances per Employee)

(Rs mn)



PROFIT PER EMPLOYEE

(Rs mn)



Therefore, it is apparent that the Human Resource Department of NDB plays a definite leadership role through which it manages to change lives everyday.

Management Discussion and Analysis

Encouraging Exceptional Performance

NDB believes in creating a conducive work environment where employees would do their best every single day. The status and condition of a conducive work environment could be assessed through techniques such as employee satisfaction surveys, suggestion tracking systems, reward and recognition schemes where employees are encouraged to be creative, to solicit suggestions, develop trust and confidence. The Employee Satisfaction Surveys (ESS) provide opportunities for employees to highlight their opinion on various aspects of their job and the organization. Hence, ESS is used as a tool in formulating strategic solutions aimed at adding value to careers at NDB as well as assisting in creating a winning organization culture. The system and the questionnaire are developed in-house and questions focus on areas such as the composition of the job, career growth, training and development, performance evaluation, compensation and aspects of work life balance.

Similarly the suggestion tracking system 'IdeaXpress' encourages employees to explore new opportunities for the Bank and promotes boundaryless thinking work culture. As a fully-fledged commercial bank, we are breaking new ground. Therefore, it is imperative to actively encourage, listen to and act upon the ideas and insights of our employees.

Last but not least, the reward and recognition mechanisms play a crucial role in encouraging and retaining exceptional performers. The Bank participates in annual salary surveys and regional salary surveys to ensure that the compensation structures are on par with the industry and is keeping with the benchmark. The key objectives of the study were to obtain relevant information to revise policies, processes, systems and tools that allow the organization attract, select, develop and retain talented individuals and provide connection with world-class external experts to keep us up to date with industry best practices.

In Conclusion

The Bank's business philosophy enfolds the interests of all its stakeholders namely; Shareholders, Customers, Employees, Suppliers, Government Organizations and the Community. The information presented in this chapter and in the rest of the report bear ample evidence that our overall performance to date has safeguarded the interests of all stakeholders to the highest degree possible. It is our earnest desire to commit our unstinted efforts in this direction in the years ahead. We will continue our journey with confidence, dedication, optimism and utmost care, whereby all these groups will be justifiably proud to be connected to NDB.

Financial Review

Overview

The performance of the Bank and the Group attributable to the shareholders for the year ended 31 December 2011 is summarized below:

All figures in Rs mn	NDB BANK			NDB GROUP		
	2011	2010	% Change	2011	2010	% Change
Net interest income	4,487	3,791	18	4,772	4,163	15
Core banking profits	3,298	2,929	13	3,298	2,929	13
Net income	6,681	5,858	14	7,929	6,948	14
Profit before tax	3,361	3,353	0	4,609	4,351	6
Profit after tax	2,011	1,529	32	2,941	2,176	35
Profit attributable to shareholders	2,011	1,529	32	2,706	2,103	29

The Profit Attributable to the shareholders of Rs 2.706 bn increased by 29% over 2010. NDB Group's Net Income (Net Interest Income, Fee Income and Equity Income) for the year grew by 14% over the previous year. This commendable performance of the Group was mainly possible due to increase in core banking profits by 13% over the previous year and improved performance of the fee-based subsidiary companies.

The results of NDB Investment Bank Ltd., NDB Stockbrokers (Pvt.) Ltd., Capital Development & Investment Company PLC (CDIC), Development Holdings (Pvt.) Ltd., NDB Capital Ltd. (Bangladesh) and NDB AVIVA Wealth Management Ltd., representing the spectrum of Group businesses, have been consolidated.

NDB positions itself as the only Financial Services Group in the country with subsidiaries and associates in Investment Banking, Stock Broking, and Wealth Management (which make up the capital markets cluster) and Insurance. The performance of the Capital Markets cluster has significantly improved due to increased level of activity in the capital markets. Additionally, its investment banking arm in Bangladesh, NDB Capital has turned around in a difficult market and is reflecting its true potential.

Though the Net Income of the Bank and its Group companies increased by 14%, NDB Group's profit before tax was reduced to 6% over 2010, due to the decline in equity income by 112% over the previous year. However, NDB Group profit after tax increased by 35%, partly assisted by the reduction in the corporate tax rates (from 35% to 28%) and Financial Services VAT (from 20% to 12%) over 2010.

Net Interest Income (NII)

The Bank's NII of Rs 4.487 bn increased by 18% over the previous year. The Net Interest Margins continue to be under pressure, despite the Loans and Advances portfolio growing significantly by 43% over 2010.

At the NDB Group level, contribution to NII primarily came from interest income earned by Capital Development & Investment Company PLC.

Financial Review

Other Income

Other Income of the NDB Group, which consists of fee and forex income, equity income and gains on sale of Government Securities, is summarized below:

Rs mn	2011	2010	% Growth
Fee and fund based income	2,448	1,528	60
Forex income	825	535	54
Income from Government Securities	(44)	144	(131)
Equity income	(71)	578	(112)
	3,158	2,785	13

The fee and fund based income recorded a commendable growth of 60% in line with the increased activities of the NDB Group.

The equity income of the NDB Group consists of income from quoted and non-quoted shares. The income from quoted and non-quoted shares reduced by Rs 648 mn as compared to the previous year due to adverse equity market conditions that prevailed during the year.

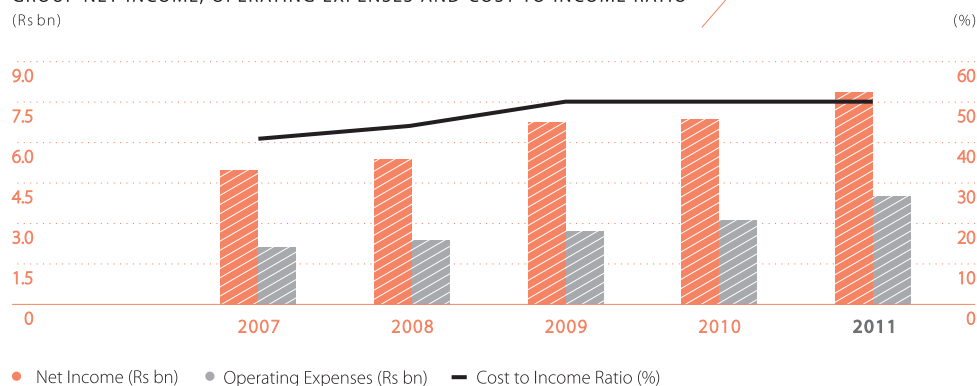
Operating Expenses

Operating expenses of Rs 3,481 mn of NDB was an increase of 30% over the previous year. The increase was mainly due to the one-off remuneration adjustments done to middle level staff, payment of deposit insurance which was a new regulatory requirement commencing October 2010 and the cost of 13 branches opened during the year.

The Bank's cost to income ratio for the year was 52% as compared with 45% for the previous year.

At Group level, operating expenses increased by 29% for the year when compared with the previous year.

GROUP NET INCOME, OPERATING EXPENSES AND COST TO INCOME RATIO
(Rs bn)



Financial Review

Provision for Bad and Doubtful Debts

The release in the provision for bad and doubtful debts for the year was Rs 326 mn and compares with Rs 172 mn for the previous year. The increase in the release of the provision during year was mainly due to the recent Banking Act Direction No. 3 of 2010 issued by the Central Bank of Sri Lanka for General Provisions made on the performing portfolios, mandating the earlier 1% rate to be revised to 0.5% with effect from 1 October 2010 over 5 successive quarters.

Provision releases occurred due to settlements made by borrowers and due to improved performance of the respective borrowers and also resulting from transfers from extra performing/ non-performing provisions to Central Bank mandated provisions based on an age analysis of arrears.

Rs mn	2011 YTD	2010 YTD
General provision	(113)	82
CBSL mandated provisions	194	158
Provisions against debts judgmentally classified as doubtful	24	140
Provision releases/cash recoveries	(431)	(551)
	(326)	(172)

Provision for Fall in Value of Securities

The provision made for the fall in value of securities of Rs 165 mn represents a provision made for the impairment of the Bank's investment in Maldives Finance Leasing Company (Pvt) Ltd. on account of the continuous losses made by that Company.

Taxation

The effective overall tax rate inclusive of the Financial Services VAT was at 40% for the year as compared with 54% for the previous year. The reduction in the overall tax rate was due to the reduction in the statutory tax rates in 2011 for both corporate Tax (from 35% to 28%) and Financial Services VAT (from 20% to 12%).

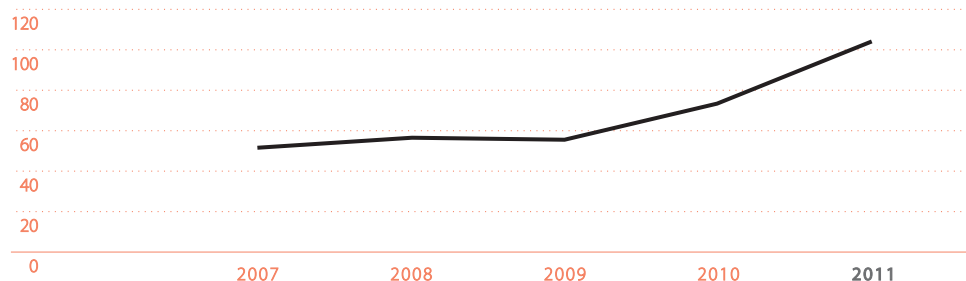
The overall tax rate of the Group inclusive of the VAT charge was 36% and compares with 50% for the previous year.

Loans and Advances

NDB's lending portfolio as at 31 December 2011 grew significantly by 43% over 31 December 2010 and far exceeds the industry growth of 32% for 2011. The increase in the loans and advances portfolio was mainly in the areas of corporate and retail banking, i.e. term loans, SME loans, consumer loans and trade finance portfolios. The Loans and Advances to total assets ratio increased to 76% as compared with 70% as at the last year-end.

Financial Review

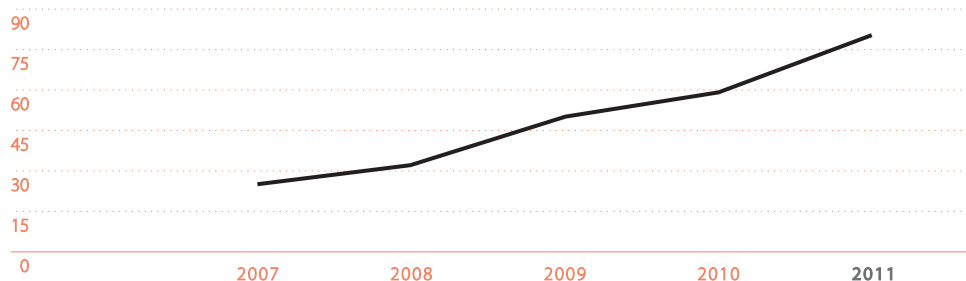
LOANS AND ADVANCES (Rs bn)



Customer Deposits

The Bank's customer deposits also grew significantly by 35% from Rs 59.3 bn as at 31 December 2010 to Rs 80.3 bn as at 31 December 2011. The banking industry deposit growth over the last year was 19% as at 31 December 2011. The increase in retail banking activities contributed mainly towards the growth in customer deposits.

CUSTOMER DEPOSITS (Rs bn)



Provision for Credit Losses and Non-Performing Loans (NPLs)

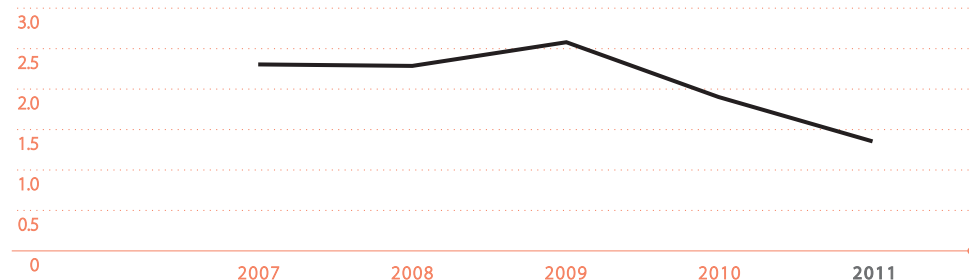
The Bank continued to adopt stringent policies to maintain the quality of its loan book throughout the year. The NPLs to the gross lending portfolio was 1.35% as at 31 December 2011 as compared with 1.90% as at 31 December 2010. The Bank's ratio of 1.35% has remained well below the industry average during the year. The NPL cover as at 31 December 2011 was 74% and compares with 76% as at 31 December 2010 and an industry cover of 45% as at 31 December 2011. The open loan exposure for the Bank was 2.73% as at 31 December 2011, which shows an insignificant amount of stress on the Bank's equity resulting from NPLs.

The Central Bank mandated specific provisions for credit losses at the year-end amounted to Rs 1,002 mn compared with Rs 934 mn as at the previous year end. Total specific provisions including the judgmental provisions made over and above the minimum Central Bank mandated provisions at the year end amounted to Rs 1,066 mn compared with Rs 1,297 mn as at the previous year end. Total specific and general provisions together amounted to Rs 1,527 mn at the year end compared with Rs 1,870 mn at the previous year end.

Financial Review

The Bank is fully compliant with the requirement of the Central Bank of Sri Lanka on the ruling to provide 1% general provision on the performing portfolio. As per the Banking Act Direction No. 3 of 2010 issued by the Central Bank of Sri Lanka, the 1% rate was revised to 0.5% with effect from 1 October 2010. Accordingly, banks are given the opportunity to reverse the existing additional provision of 0.5% by 0.1% each quarter over 5 quarters commencing 1 October 2010. Accordingly, the Bank's general provision as at 31 December 2011 was Rs 461 mn.

NPL RATIO
(%)



Capital Adequacy

The Bank's core capital and the capital base were Rs 11.0 bn and Rs 12.4 bn respectively, as at 31 December 2011. The Tier I and II ratio of the Bank was 11.33% as compared with 14.76% for the previous year. The same ratio for the NDB Group was 15.98% as compared with 20.29% for the previous year. With the proposed aggressive portfolio expansion, the Bank has to consider obtaining Tier II capital such as subordinated term debt to maintain the regulatory requirement during 2012.

The minimum levels mandated by the Central Bank are 5% for Tier I and 10% for Tier I and II.

Regulatory Developments

The Bank is substantially in compliance with all the Directions and complies with the daily, monthly and quarterly reporting requirements of the Central Bank.

Key Performance Indicators

The Bank's earnings per share for the year, was Rs 12.25 as compared with Rs 9.33 for the previous year. The Bank's return on equity for the year 16.52% as compared with 13.47% in 2010.

The Group earnings per share for the year, was Rs 16.48 as compared with Rs 12.81 for the previous year. The Group's return on equity for the year was 16.72% as compared with 14.27% in 2010.

Share Price

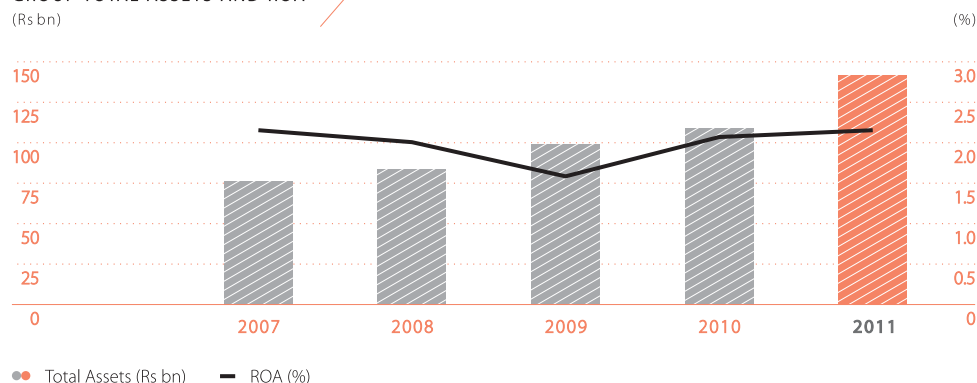
The share price of NDB closed at Rs 138.10 at the year-end, as compared with Rs 349.50 at the end of 2010. At the Annual General Meeting held on 30 March 2011, the shareholders of the Bank approved to increase the number of existing ordinary shares amounting to 82,100,951 by subdividing the said existing ordinary shares in the proportion of one share for every ordinary share in issue so that the number of ordinary shares representing the Stated Capital of NDB be increased to 164,201,902. The decline in the share price was partly attributed to the decline in the banking sector index of 17.73% and ASPI of 9% over the last year.

Financial Review

The price/book value (PBV) at the year end was 1.33 compared with 1.88 at the previous year end. The PE ratio for the year 2011 was 8.38 times as compared with 13.63 times for the previous year.

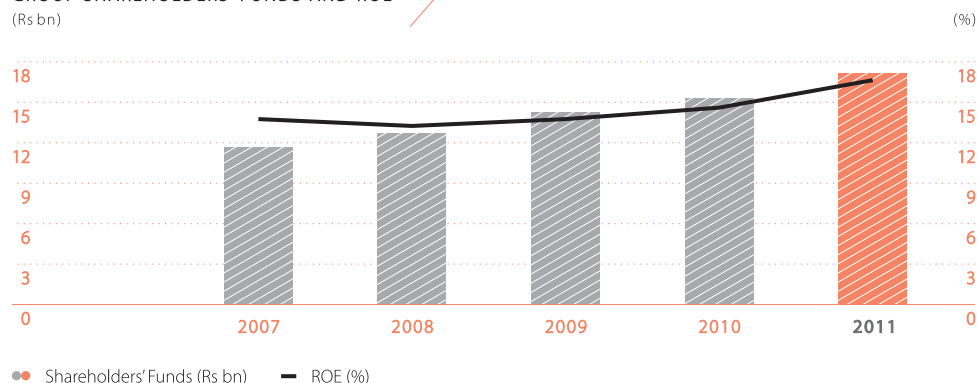
GROUP TOTAL ASSETS AND ROA

(Rs bn)



GROUP SHAREHOLDERS' FUNDS AND ROE

(Rs bn)



Post Balance Sheet Events

NDB's 99.6% held subsidiary Capital Development and Investment Company PLC (CDIC) approved a new business plan to position itself as a diversified financial services conglomerate with ultimate exposure to investment banking (both regionally and in Sri Lanka), stockbroking, wealth management, private equity investments and insurance sectors.

Accordingly, CDIC will acquire 100% ownership of NDB Investment Bank and NDB Stockbrokers from NDB, which will complement its existing strategic investments in AVIVA NDB Insurance PLC and NDB AVIVA Wealth Management Ltd. The above acquisitions will be made subject to regulatory approvals.

There have been no other significant events subsequent to the Balance Sheet date that require disclosure in the Financial Statements.

Achievements

• CMO Asia Award for Excellence in Branding and Marketing

NDB received the award for excellence in branding and marketing at the CMO Asia Awards 2011.

NDB was the only Sri Lankan bank to be recognized, at this Award Presentation.

The CMO awards were held for the 2nd consecutive year and was represented by 37 countries across Asia, from Australia to the Middle East.

Asia's Best Brand Awards are adjudged by the Global Research Cell of the CMO Council - whose members control over US\$ 200 bn in marketing spend - which identifies brands that perform within their respective markets based on market dominance, brand longevity, goodwill, customer loyalty and market acceptance.

• NDB - A Hat Trick at the EFFIEs 2009, 2010 and 2011

The only Bank to Win Awards in Three Consecutive Years

NDB received a Bronze Award for its 'Ithuru Karana Maga' initiative in the Financial Services Category at this year's Effie Awards. In 2009, the Bank won the Effie Award for '*Badu Malla*' and in 2010 for '*Savings Star*'. The Effie Awards organized by the Sri Lanka Institute of Marketing in partnership with Sri Lanka's Advertising body, the 4A's, rewarded the Bank for its effective and innovative campaign to promote the saving habit among the masses.

The Effie Awards is the only international advertising awards programme currently being conducted in Sri Lanka.

• NDB Wins for the Second Consecutive Year at National Business Excellence Awards 2011

NDB won an award at the prestigious National Business Excellence Awards, for the second consecutive year, being chosen as Runners-Up in the 'Banking & Financial Sector'

The National Business Excellence Awards are presented based on the business and financial performance of an organization, in the areas of financial stability, steady growth, balanced business portfolio, growth of value addition and performance against the industry. The awards criterion also included excellence in product and process innovation, successful implementation of best practices in performance management, best practices in corporate governance and successful institutionalization of corporate social responsibility practices.



Achievements

NDB Wins Two Awards at the 'Best Corporate Citizens Awards 2011'

NDB won two awards at the Best Corporate Citizens Awards 2011 conducted by Ceylon Chamber of Commerce. The Bank emerged 2nd Runner Up - under the second main category at the Best Corporate Citizen Award 2011 for CSR and Sustainable Business, and was also recognized for the Special CSR Project carried out in the North and East, under the category of 'Best CSR Projects'.

These awards raise awareness on the importance of corporate social responsibility and strategic corporate sustainability within the business community, promoting and encouraging these practices amongst the corporate sector. The Ceylon Chamber of Commerce has incorporated internationally recognized principles of the Global Reporting Initiative as part of the judging criteria.

Business Today Top Twenty Awards 2011

NDB was once again positioned within the prestigious Business Today Top Twenty Awards which recognizes the cream of Sri Lankan corporate entities for their exceptional performance throughout the past year. These awards are made strictly based on published financial information and other indicators of companies listed on the Colombo Stock Exchange for the year 2010/11. NDB was ranked 16th.



Board of Directors



Board of Directors



Board of Directors

01. Hemaka Amarasuriya

Chairman

Mr Amarasuriya brings to NDB 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 brings with him substantial experience in international management as a former Senior Vice-President of Singer Asia Ltd. and Retail Holdings Ltd., USA.

02. Ashok Pathirage

Deputy Chairman

Mr Pathirage co-founded Softlogic in 1991 and has served the Softlogic Group as the Managing Director from its inception. He was appointed as the Chairman of Softlogic Holdings PLC in 2000 and is also the Chairman of many of the subsidiary companies of the Group. Having begun his career at a leading Blue-Chip Company in Sri Lanka, Mr Pathirage has over 25 years of experience at Senior Managerial capacity in the Information Technology industry and in the business world.

03. Russell De Mel

Director/Chief Executive Officer

Mr de Mel has been with NDB for over 30 years, largely in the field of Corporate Banking. 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.

During the initial phase of his career at NDB he has held many key positions in the field of Project and Infrastructure Finance. Over the last two decades he has been actively associated with some of the key commercial projects NDB partnered with both local and foreign investors. He also played a leading role in the privatization of the plantation sector. As Head of Group Risk Management he was instrumental in realigning the risk management function within the NDB Group. Currently, he sits on several Boards of the NDB Group companies.

Mr de Mel is a Fellow of the Chartered Institute of Management Accountants, UK.

04. 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 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 Lanka Ventures Ltd.

Board of Directors

05. Sarath Wikramanayake

Director

Mr Wikramanayake is a Chartered Accountant. He has worked with the Bank of Butterfield, a Bermuda-based international bank for 19 years, where he reached the position of Executive Vice-President. Since returning to Sri Lanka, he has been the Chief Executive Officer of Union Assurance 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 AVIVA NDB Insurance PLC, PC House PLC, Capital Development and Investment Company PLC, NDB Investment Bank Ltd. and NDB AVIVA Wealth Management Ltd.

06. Mrs 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 21 years of experience in the Banking Industry in Sri Lanka and Germany, Mrs Fernando was seconded to Deutsche Bank, Frankfurt and thereafter worked at Standard Chartered Bank. 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.

07. Anura Siriwardena

Director

Mr Siriwardena holds a B.Sc. in Biological Sciences from University of Kelaniya and an MBA from the Postgraduate Institute of Management of the University of Sri Jayewardenepura. He is a Member of numerous 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. and the Secretary to the Ministry of Cooperatives and Internal Trade. Mr Siriwardena is the Secretary to the Ministry of Coconut Development and Janatha Estate Development in addition to his current position as a Director of National Development Bank PLC.

08. Ms G D Chandra Ekanayake

Director

Ms Ekanayake is a nominee of the Ministry of Finance and Planning. She has been a Member of the Sri Lanka Administrative Service since 1984. Presently, she is the Director General of the Department of National Budget of the Ministry of Finance and Planning. Previously, she has held senior positions in the Treasury of Director - Economic Affairs, Controller of Insurance, Additional Director General - Department of External Resources and Director General - Department of Trade, Tariff and Investment Policy over a span of approximately 24 years service. Ms Ekanayake holds a Science Special Degree from the University of Kelaniya, an MBA from the Postgraduate Institute of Management, Sri Lanka and Diploma in the fields of Development Planning Techniques, International Relations and Economic Development.

Board of Directors

09. Sujeewa Rajapakse

Director

Mr Rajapakse is the Managing Partner of BDO Partners, a firm of Chartered Accountants and counts over 27 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 Jayawardenapura.

Today, Mr Rajapakse serves as the President of The Institute of Chartered Accountants of Sri Lanka (ICASL) and is a Board Member of the South Asian Federation of Accountants and also a Member of the Confederation of Asia Pacific Accountants. He is currently serving as a Non-Executive Independent Director at Asian Alliance PLC and also a Board Member at the National Institute of Business Management (NIBM), Postgraduate Institute of Management Securities Exchange Commission and the Sri Lanka Accounting and Auditing Monitoring Board 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.

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.

10. Manik Nagahawatte

Director

(Ceased to hold office w.e.f. 01.08.2011)

Mr Nagahawatte held a Bachelor of Laws (Hons.) Degree and a Master of Laws Degree. He had been an Examiner and a Visiting Lecturer in Law in the Faculty of Law of the University of Colombo. Immediately before accepting appointment as Chairman of the National Development Bank PLC in January 2008, he was the Senior Legal and Banking Advisor of the Ministry of Finance and Planning. He held the position of Chairman of National Development Bank PLC until his demise on 1 August 2011.

Mr Nagahawatte was a former Deputy Governor of the Central Bank of Sri Lanka and functioned at various times as Chief Executive Officer and as Chairman of the Monetary Board of the Central Bank in the absence of the Governor. He had held several senior positions, including those of Controller of Exchange and Executive Director during a nearly 38-year career with the Central Bank.

Mr Nagahawatte had been the Chairman of Bank Supervisors in the SEANZA Group of Countries, comprising banking regulators from countries in South and East Asia, Australia and New Zealand. He had also been associated with the establishment of the South East Asian Central Banks' Research and Training Centre in Malaysia as a legal entity, and with the preparation of the Constitution and By Laws of the Asia-Pacific Rural and Agricultural Credit Association in Thailand.

Mr Nagahawatte had been the Chairman of the Bank of Ceylon and of the Credit Information Bureau of Sri Lanka, a Commissioner of the Securities and Exchange Commission of Sri Lanka, a Member of the Insurance Board of Sri Lanka and a Director of the National Development Bank of Sri Lanka. He was also Chairman/Director of several companies.

Board of Directors**11. Richard Vokes**
Director
(resigned w.e.f. 12.05.2011)

Dr Vokes is an economist by training with over 30 years experience working on development in Asia. He joined the Asian Development Bank in 1991 and was Senior Economist in the Office of the Vice-President - East between 1995-1997. Between April 1997 - October 2006 he worked as the Senior Economist and Senior Desk Officer for India, Country Director for Nepal and Director of Operations Coordination for South Asia. In November 2006 he took up the position of Country Director for ADB's Sri Lanka Resident mission, a position he held until April 2011. Prior to joining ADB, Dr. Vokes held teaching positions at the University of Kent in the United Kingdom and at the Asian Institute of Technology in Bangkok. Dr. Vokes has a PhD in Economics from the University of Hull (awarded in 1978) and a Joint BA (Hons.) Degree in Economics and South East Asian Studies, also from the University of Hull (awarded in 1972).

Group Senior Management Team



Group Senior Management Team



Group Senior Management Team

01. Russell de Mel

Director/Chief Executive Officer
02. Indrajit Wickramasinghe

Chief Operating Officer (Business)
03. Chrishanthi Jayawardena

Chief Operating Officer (Services)
04. Faizan Ozman

Chief Financial Officer
05. Nilam Jayasinghe

Vice President

Head - Group Treasury
06. Kumar Weerasuriya

Vice President

Head - Operations
07. Buwanekabahu Perera

Vice President

Head - Corporate Banking
08. Sujeewa Dissanayake

Vice President

Head - Information Technology
09. Raj Aboobucker

Vice President

Head - Retail & SME Banking
10. Niran Mahawatte

Vice President

Head - Treasury
11. Ishani Senaweera Navaratne

Bandara

Vice President

Head - Human Resources
12. Dhanan Senathirajah

Vice President

Head - Finance & Planning
13. Lionel Wickramasinghe

Head - Project Finance
14. Nirmala Rayen

Assistant Vice President

Head - Group Risk Management, Compliance and Special Projects
15. Ruwani de Silva

Assistant Vice President

Head - Group Audit
16. Vajira Kulatilleke

Chief Executive Officer

NDB Investment Banking Cluster
17. Darshan Perera

Director/Chief Executive Officer

NDB Investment Bank Ltd.
18. Prasansani Mendis

Chief Executive Officer

NDB Stockbrokers (Pvt) Ltd.
19. Kusal Jayawardana

Managing Director/Chief Executive Officer (upto 25.01.2012)

NDB Capital Ltd.
20. Prabodha Samarasekera

Chief Executive Officer

NDB AVIVA Wealth Management Ltd.
21. Shah Rouf

Managing Director

AVIVA NDB Insurance PLC
22. Saeed Reza

Managing Director and Acting Chief Executive Officer

Maldives Finance Leasing Company (Pvt) Ltd.

Sustainability Report

CEO's Message on Sustainability (1.1)

At National Development Bank PLC (NDB) good corporate citizenship is a lifestyle. It is a lifestyle built upon our values of Integrity, Care, Passion, Teamwork and Service which establishes the Bank's commitment to the nurturing and fostering of true sustainability across every strategy and endeavour. Therefore it's with great pleasure that I present our first Sustainability Report.

Being a responsible corporate citizen includes not only reaching out to our community but also how we behave as an employer, and how we manage the organization's wider social and environmental impacts. Sustainability has always been a priority at NDB and will continue to be a major priority as we move forward. This Report celebrates the dedicated efforts of our employees and how our operations have contributed towards sustainability for all stakeholders of the Bank.

We at NDB believe that our responsibility is threefold - economic responsibility, social responsibility and environmental responsibility. Economic viability is more than just financial performance; it means operating the business in an ethical manner whilst ensuring sustainable growth of our business. It also means value addition and sustainable growth for all stakeholders of the Bank.

Our social responsibility goes far beyond philanthropy. Beyond core business, the Bank is deeply interested in the impact it makes on society through activities that seek to uplift and empower. Much of this activity takes place through our CSR programmes. With a strategic focus on Education and Entrepreneurship, our CSR programmes are a launching pad for the youth of our nation. Creating long term value for our stakeholders, the Bank has changed many lives through a variety of CSR programmes. Entrepreneurship and sustainable livelihood development, nurturing the reading habit and English language communication, awareness programmes on the prevention of child abuse and assisting cancer patients are some of the CSR projects carried out by the Bank. Demonstrating the Bank's commitment to uplifting the lives of the impoverished and marginalised in the community, the Bank's employees went the extra mile, volunteering their time and effort in carrying out many CSR Projects. The Bank has also undertaken many initiatives with regard to the environment as explained further in this Report.

NDB is committed to sustainable development and the responsible stewardship of resources. This means developing solutions that link economic success with social and environmental responsibility. This requires balancing short and long term goals and interests whilst integrating economic, environmental and social considerations to business decisions across the board. It also requires the Bank to be proactive in responding to society's changing demands by introducing innovative, value added products and services which will create long term value, thereby contributing to sustainable economic growth for the Bank, People and Nation.



Russell de Mel
Chief Executive Officer

24 February 2012

Sustainability Report

Our Profile and Reporting Parameters

An Important 'First'

This is the Bank's first Sustainability Report to be published according to the guidelines of the GRI. Whilst every attempt has been made to report as fully and transparently as possible on every matter of relevance, we expect the evolution of this reporting format to help us be more inclusive and comprehensive as the years unfold. (3.2)

Our reporting period is from 1 January 2011, to 31 December 2011 and will be an annual occurrence. (3.3)

Should you have any queries as to this Report and its contents, you may contact
Ms Sharon De Silva - Manager
Telephone : +94 11 2448448 Ext. 3130
Fax : +94 11 2341048
Email : sharon.desilva@ndbbank.com
(3.4)

Parameters of the Report

Although the Bank operates a subsidiary company in Bangladesh and an associate company in the Maldives, its main enterprise is conducted within Sri Lanka. Therefore this Report will be confined to its operations in Sri Lanka. (3.6)

A comprehensive Table of Standard Disclosures in the context of GRI appear on pages 150 and 151. (3.12)

Profiling the Bank

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.

The principal activities of the National Development Bank PLC, its subsidiaries and associate companies, consist of the business of commercial banking, development financing, merchant banking, investment banking, leasing, housing finance, venture capital, stock broking, wealth management, property investment and insurance. (2.2, 2.3 and 2.6)

For a complete list of our subsidiaries and associates, please refer to 'NDB Group Companies' appearing on pages 186-189 of the Annual Report.

We also draw your kind attention to the Corporate Information provided on pages 271 and 272 of the Report, which provides further insight into salient features of the Bank. (2.4; 2.5)

Scope and Scale

NDB's permanent staff strength stood at 1,043 as at 31 December 2011.

Shareholder funds (equity) amounted to Rs 12.7 bn as at 31 December 2011. (2.8)

Sustainability Report

Our Products

NDB's product portfolio offers a wide range of products and services under the broad headings - SME Banking, Retail Banking, Corporate Banking and Project Financing.

SME Banking

- Loans for SME - Long-Term Loans (Concessionary Interest Rates)
- Short-Term Working Capital Loans
- Distributor Finance Facilities
- Supplier Banking Products
- Funding Importers & Exporters

Retail Banking

- Current Accounts
- Savings Accounts
- Children's Savings Accounts
- NRFC/RFC Accounts
- Fixed Deposits
- Housing Loans
- Education Loans
- Personal Loans
- Leasing Facilities
- Credit Cards
- Debit Cards
- Pawning Services
- Western Union Money Transfer Services
- Raththaran Ithurum
- Internet Banking
- Bancassurance

Corporate Banking

- Overdrafts
- Trade Products
- Money Market
- Cash Management Products
- Electronic Banking Platform, eWindow Facilitates the Payment Module

Project Finance

- Term Loans
- Securitization
- Guarantee Facilities
- Merchant Banking
- 1. Ordinary Share Investments
- 2. Preference Share Investments
- 3. Debentures
- 4. Advisory Services
- 5. Underwriting
- 6. Arranging Syndications

Sustainability Report

The distribution of these products and services are achieved via the Bank's Branch Network, Automated Distribution systems such as ATMs, Internet Banking, our Website, Telemarketing, Call Centre, a Mobile Commerce Application EZPay and our unique 'Feet on the Street' Sales force.

These channels are all managed by the Bank and thus outsourcing does not arise. (2.2)

Our Growing Footprint

The Bank opened 13 new branches during 2011 in - Pettah, Ja-Ela, Matugama, Matale, Wariyapola, Ambalangoda, Ambalantota, Pilimathalawa, Gampola, Bandarawela, Borella, Kalmunai and Nittambuwa. (2.9)

Accolades Received During the Year

At the prestigious National Business Excellence Awards - NDB was awarded Runners-Up under the Banking & Financial Sector.

NDB won two awards at the recently concluded Best Corporate Citizens Awards 2011. The Bank emerged as 2nd Runner Up - under the second main category for the Best Corporate Citizen Award 2011 for CSR and Sustainable Business, and was also recognized for its Special CSR Project carried out in the North and the East, under the category of 'Best CSR Projects'.



Chief Operating Officer of NDB receiving the 2nd Runner-up Award under the second main category for the Best Corporate Citizen Award 2011

NDB was presented with Asia's Award for Excellence in Branding and Marketing at the CMO Asia Awards held in Singapore.

The Bank walked away with a Bronze Award for its 'Ithuru Karana Maga' initiative in the Financial Services Category at the Effie Awards. This was the third consecutive year that the Bank won an Effie Award.

NDB was placed at number 16 in the Business Today Top 20.

Sustainability Report

An accolade we were particularly pleased to receive was the Gold for Corporate Accountability 2011, awarded by the LMD business magazine consequent to a survey conducted amongst Sri Lanka's Top 50 listed companies.

Defined as the moral and legal obligation of the company to be accountable for their actions to all stakeholders, Corporate Accountability is of the utmost importance to NDB. It is not just about donations of large sums of money, it's about minimizing the negative impacts on society and the environment, while ensuring that business operations give significant long-term benefits to all stakeholders of the company.

Indicators considered in the survey for the Annual Corporate Accountability Rating 2011, carried out by Sting Consultants together with LMD included - Corporate Values, Stakeholder Engagement, Identification of Impacts, Risks and Opportunities, Policy Coverage, Management and Governance and Measurement and Disclosure.

Good Governance

The Bank employs a comprehensive and well-founded Corporate Governance regime. This includes stipulated processes and corporate forums necessary to ensure that Governance is maintained at the highest levels of prudence, ethics and professionalism.

The Corporate Governance Report that appears on pages 167-185 provides a full account of the measures adopted by the Bank. (4.1 to 4.3)

The Bank also has a culture of inclusiveness, which values qualities such as open and frank dialogue and transparency. Thus, there is healthy dialogue and interaction between all categories of staff from 'Boardroom to Shop floor', to allow for the capture of valuable suggestions and other inputs that contribute to the administration and governance of the Bank.

Some of the avenues for interaction include regular Committee meetings which channel reports and information to the Board, which are deliberated on at monthly Board meetings.

In similar vein, the Chairman and CEO of the Bank engage with key shareholders providing an opportunity for the shareholders to make recommendations and express views regarding the performance and strategic direction of the Bank. (4.4)

Stakeholder Engagement

The scope of the Bank's stakeholder engagement is wide ranging and includes dialogue with Shareholders, Customers, Directors, Employees, Depositors, Multilateral Lending Agencies, our Regulator - Central Bank of Sri Lanka, Auditors, Market Analysts, Suppliers, Local and Foreign Correspondent Banks, Government Agencies such as the Inland Revenue Department, the Registrar of Companies, the Colombo Stock Exchange, Sri Lanka Accounting and Auditing Standards Monitoring Board and Rating Agencies. (4.14)

Sustainability Report

Desired Outcome of Engagement of Stakeholder Groups

The chart that appears below is self-explanatory.

Stakeholder Group	Desired Outcome of Engagement
Shareholders	To ensure that their expectations are met.
Directors	To ensure that stakeholder expectations are met.
Employees	Loyalty, Commitment and Motivation. To create a great place to work and also to ensure that employees' values are aligned with corporate values. Moreover, as NDB is in the service industry, we strive to create a unique value proposition in the industry through our staff.
Depositors	To attract new depositors and to maintain loyalty
Multilateral Lending Agencies	To keep them updated about the Bank and to report on progress.
Regulator - Central Bank of Sri Lanka	Maintain a close working relationship and ensure compliance.
Auditors	Ensure compliance.
Market Analysts	To keep them informed of the Bank's performance.
Suppliers	Maintain a close working relationship.
Local & Foreign Correspondent Banks	Maintain a good relationship.
Government Agencies - such as Inland Revenue Department, Registrar of Companies, Colombo Stock Exchange, etc.	Ensure compliance.
Sri Lanka Accounting & Auditing Standards Monitoring Board	Ensure compliance.
Rating Agencies	Ensure compliance.

(4.15)

Sustainability Report

The Medium and Frequency of Stakeholder Engagement

The chart that appears below is self-explanatory.

Stakeholder Group	Medium & Frequency of Engagement
Shareholders	Quarterly Financial Statements - Quarterly Meetings and Conference Calls - Regularly Annual Report and AGM - Annually Road Shows
Directors	Board Meetings and Board Papers - Monthly (sometimes more frequently)
Employees	Regularly. Through the following methods: • Town-hall Meetings • The Leadership Team (TLT) meetings • Monthly departmental meetings • Published policy and procedure manuals • Open-door policy • Cross-functional teams • Surveys • Software systems - (E.g., Idea Xpress) • Active staff recreation club • Common X Drive of the Bank which acts as an intranet • Informal Group Meetings across staff of varying grades, including those of the Group.
Depositors	Account Statements - Generally Monthly
Multilateral Lending Agencies	Regular Reports and Visits - Quarterly
Regulator - Central Bank of Sri Lanka	Regular Meetings and Reports - Daily, Weekly, Monthly, Quarterly and Annually
Auditors	Regular Meetings - Monthly and Annual Audit Exercise
Market Analysts	Quarterly Meetings and Telephone Conversations - Quarterly
Suppliers	Meetings
Local and Foreign Correspondent Banks	Daily via Telephone, SWIFT, E-mail, etc.
Government Agencies - such as Inland Revenue Department, Registrar of Companies, Colombo Stock Exchange, etc.	Reports, Payments, Meetings when necessary
Sri Lanka Accounting & Auditing Standards Monitoring Board	Submission of Annual Report
Rating Agencies	Annual rating exercise and submission of Quarterly Accounts

(4.16)

Sustainability Report

Key Topics arising from Stakeholder Engagement

Not all stakeholder groups we engaged raised issues or concerns which required us to address them, in the year under review. The chart below indicates the areas of inquiry raised by the relevant stakeholder group.

Shareholders	Return on Equity, Capital, Interest Margins, Taxation, Loan Growth, Loans & Deposits
Directors	Bank's Performance, Corporate Governance, Compliance, Reach, Strategy
Employees	Work-life balance, compensation review, training and development, career planning

All matters raised were satisfactorily dealt with, at the time they were brought up. (4.17)

Economic Performance

NDB fully subscribes to the precept that in pursuing economic prosperity and profitability, an enterprise must contribute to and enrich the sustainability of a broader economic system involving the wider stakeholder community.

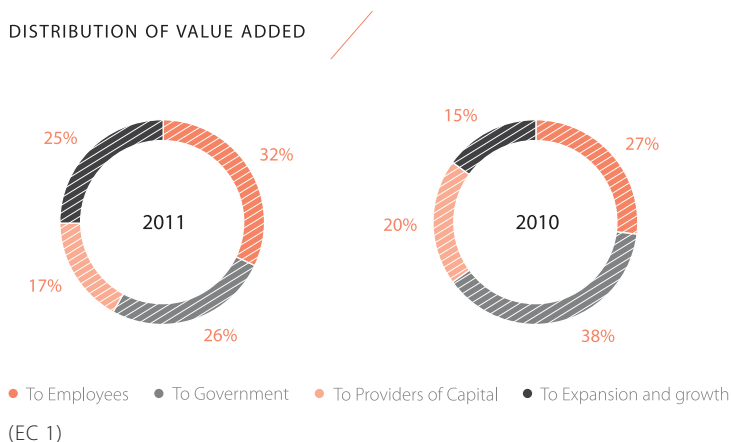
The most appropriate data in this regard is to be found in the Bank's statement of Economic Value Added (EVA) and the Distribution of EVA. The charts below are self-explanatory.

	2011	%	2010	%	2009	%
Value Added						
Gross Income	13,531,130		11,720,053		13,821,072	
Cost of Borrowings and Services	(8,314,980)		(7,021,650)		(8,558,258)	
Provision for losses	160,727		171,541		(373,495)	
Value Addition	5,376,877		4,869,944		4,889,319	
Distribution of Value Added						
To Employees						
Remuneration and benefits	1,789,294	32	1,325,673	27	1,204,978	25
To Government						
Income tax	1,349,555	26	1,824,092	38	1,810,063	37
To Providers of Capital						
Dividend to shareholders	879,833	17	983,246	20	552,523	11
Retained in the Business						
Retained profit	1,131,580	21	546,131	11	1,129,930	23
Depreciation	226,615	4	190,802	4	191,825	4
	1,358,195	25	736,933	15	1,321,755	27
	5,376,877	100	4,869,944	100	4,889,319	100

Sustainability Report

	2011 %	2010 %	2009 %
Distribution of Value Added			
To Employees	32	27	25
To Government	26	38	37
To Providers of Capital	17	20	11
To Expansion and growth	25	15	27

DISTRIBUTION OF VALUE ADDED



Participatory Management and Equity Linked Compensation Plan

The overall human resources management philosophy is attuned towards participatory management which creates a conducive environment for performance management and recognition. The remuneration structure is in fact linked with the performance management system.

Additionally, in order to develop long term employee commitment, the management revamped its compensation strategy, looking beyond short term bonuses and benefits to sustainable long term rewards. Remuneration is structured to include not only short term compensation in the form of the guaranteed pay and variable pay, but long term compensation as well. Consequently, as per the current equity-linked compensation plan (ELCP) the Vice Presidents and the Assistant Vice Presidents are eligible for share- based ownership plans. (EC 3)

Going 'Beyond the Core' for Public Benefit

Quite apart from what the Bank can and does accomplish in its normal course of enterprise, there are many instances of indirect economic value addition to the wider community in pursuit of true sustainability of Bank and stakeholder.

Sustainability Report

Financial Inclusion for the Wider Community

Striding forth with the strategic focus of building an entrepreneurial culture, NDB has taken the initiative to move beyond our regular customer base and assist a wider community consisting of individuals and groups, including them in the Banking system through unique products and schemes, assisting them to improve their savings from new ventures, helping develop the communities and empowering the people to develop or take up new business ventures. In doing so, we are laying the foundation towards sustainable livelihood development that will result in elevating their social standing while contributing towards regional development.

The NDB *Divi Aruna* livelihood development scheme stands testament to this commitment of ensuring financial inclusion. Today, low cost financing facilities have been granted through *Divi Aruna* for entrepreneurs in industries such as fisheries, pottery, dairy farming, maldivian fish production, confectionery production, hand bags, brassware, brick making, shoe manufacturing and vegetable farming. To date, the scheme has assisted over 350 rural families across the country.

NDB partners with their customers by providing value added services which include workshops for SME's, advice on environmental and social management factors, developing their knowledge on wealth management and nurturing prudent financial habits.

අවිස්සාවේල්ල නේ කර්මාන්තශාලාව ආරම්භ කිරීමට 1998 දී ණය මුදලක් ලබාගත් දින සිට මගේ කර්මාන්තයට අදාළ බැංකු කටයුතු NDB සමඟ පවත්වාගෙන යාමට හැකිවීම සතුටට හේතුවක්. අද අවිස්සාවේල්ල නේ කර්මාන්තශාලාවේ නිපදවන තේ, තත්ත්වය අතින් ශ්‍රී ලංකාවේ පළමු තැනට පත්වෙලා තිබෙනවා. අපගේ ක්ෂේත්‍රයට ගැලපෙන ආකාරයට ණය පැකේජයන් සලසා දී තිබීමත් සම්මන්ත්‍රණ පවත්වමින් සුළු හා මධ්‍යම පරිමාණ කර්මාන්තකරුවන්ට උපදේශන සේවාවන් සැපයීමත් NDB හි මා දැකින සුවිශේෂී ලක්ෂණයක්. මට මූල්‍ය පහසුකම් සපයා දී ව්‍යාපාරය සාර්ථක කරගැනීමට බැංකුව ඉමහත් පිටුවහලක් වුණා.

ලලිත් ලියනගේ මහතා
කළමනාකාර අධ්‍යක්ෂ - RTS හෝල්ඩින්ග්ස්
රත්නපුර



I have been banking with NDB since 1998, having obtained a loan to start up a tea factory in Avissawella. Today the tea produced in this factory is ranked number 01 in the 'all island low grown orthodox rank'. What I see as unique qualities of the Bank, are that they have loan schemes which are tailor-made to the individual requirements and they also conduct seminars and workshops to educate and advise the small and medium scale entrepreneurs. I can proudly state that the service the Bank offers enabled me to fulfil my business activities.

Mr Lalith Liyanage
Managing Director - RTS Holdings, Rathnapura

Sustainability Report

Setting them on their feet...



Training provided at the St. Vincent's Home Maggona

Building an entrepreneurial culture is not limited to the Bank's customers and the community; it is extended to the Bank's suppliers as well. NDB has partnered with 'St. Vincent's Home' at Maggona which is the first social service home in Sri Lanka to take in street children, children from broken homes and children below 18 years of age sentenced by court. The Home runs their own printing operation where the boys are trained, thus helping them to build a lucrative future for themselves. Revenue from this operation is used to run the Home and make it a sustainable operation that will be of assistance to many generations of underprivileged children who will come under the protection of the Home. (EC 8)

The NDB Jeevana Livelihood Training/Loan Scheme is another unique initiative which couples a livelihood training scheme with a special personal loan issued at a very concessionary rate with a grace period for payment, making the scheme more accessible to youth. This scheme is part of NDB's commitment to the development of human capital.

Environmental Performance

The Bank accepts that the sustainable prosperity and well-being of our enterprise is closely intertwined with that of all stakeholders and importantly, it is closely linked with the well-being of the environment. It is not enough to conduct business...we are required to practice 'good living habits' vis-à-vis the environment, minimizing harmful impacts and fostering conservation.

The 'Fruits' of Recycling

We have an ongoing initiative, operated in collaboration with M/s Neptune Papers (Pvt) Ltd., an acknowledged expert in recycling of paper, whereby every possible scrap of waste paper is retrieved for recycling.

It is indeed enlightening to learn of what can be achieved from an exercise such as this.

In 2011, NDB sent 9,755 kgs of waste paper for recycling. This process allowed us to save - 165 Trees, 310,013 Litres of Water, 39,020 Kwh's of Electricity, 17,120 Litres of Oil and 29 Cubic meters of Land Fill and reduce Green House Gas Emission by 9,755 kg of Carbon Equivalent. (EN 2)

Sustainability Report

Conserving Precious Energy

NDB being mindful of its carbon footprint has taken measures to neutralize and minimize the adverse affects of its operations on the environment. Being a service-oriented organization the reduction of energy consumption can be identified as the most significant step towards reducing its carbon footprint. In this light, NDB has conducted an Energy Audit and taken several measures to minimize its energy consumption and resource usage.

Some of the initiatives we took to save energy were - the installation of an energy efficient centralized air conditioning system, which we closely monitor and operate prudently, shutting down the system when not required.

We also replaced all illumination appliances with low energy consuming devices, which we complemented with energy saving procedures such as a 'Switch Off When Not Required' policy.

Installation of capacitor banks has reduced the maximum demand on the KVA Meter, thereby avoiding unnecessary electricity drawdown.

Many vehicles from the Bank's fleet were converted to run on LP Gas which significantly helped NDB to reduce its Carbon Footprint.

We even turned our attention to décor and colour schemes, using light colours (on walls, ceilings, floor areas) which reflect rather than absorb light, thus helping to minimize the requirement for artificial lighting and in turn, saving energy. (EN 7)

Sustainable Lending and Investment Decisions

The Environmental and Social Management System (ESMS) in NDB was implemented on June 5, 2008 which coincided with 'World Environment Day'. ESMS identifies Environmental and Social (E&S) risks in the projects/companies it finances and takes action to minimize such risks, at a very early stage of the credit evaluation. The ESMS is an integral part of the Credit Policy and Credit Evaluation Process of long term lending of NDB, hence all relevant staff members are expected to be familiar with the requirements under ESMS. The objectives of the ESMS are as follows:

1. To identify and assess adverse environmental and social impacts, in the project's area of influence
2. To avoid, or where avoidance is not possible, to minimize, to mitigate, or to compensate for adverse impacts on the environment, workers and the affected communities
3. To promote improved environmental and social performance of companies, through the effective use of management systems.

Sustainability Report

A Sustainable Lending Practice Embedded

Sustainable lending has been central for NDB where we established an environmental guideline, an environmental management system and a governance model that integrates environmental impact considerations into business decisions across the Bank.

The Bank's lending policies ensure that facilities are not extended to industries engaged in illegal activities, industries that pollute the environment with no proper pollution control methods, industries involved in manufacturing and selling arms and production or activities involving harmful or exploitative forms of forced labour/child labour. While certain sectors are excluded from funding, 10 other major sectors have been identified where the Bank conducts an individual social and environmental risk analysis for the borrowers' operations and takes measures to avoid, mitigate and minimize the risks identified before funding.

NDB evaluates projects based on the Bank's 'Environmental and Social Management Policy', ensuring that funding is provided only for projects that comply with these standards. (EN 26)

Our 'Transport Habits' Revamped

NDB conducted a survey internally to ascertain the usage of vehicles for official purposes, which are mainly cab services. The results were revealing and led to many changes. Cab usage for employees who work after office hours was rationalized, where people who were travelling to destinations on a particular route were grouped and assigned one cab, thereby cutting down on precious resources such as fuel as well as minimizing environmental pollution. (EN 29)

I have been banking with NDB for almost two and a half years. When I first applied for the loan, the Bank advised me in many ways, not only regarding the loan but about my business as well. NDB visited me in Jaffna to discuss things and advise me. I began my hotel with only eight rooms and now with the help of NDB it has 24 rooms and a swimming pool. I am so proud to bank with NDB. I think my hotel is now one of the best hotels in Jaffna. I hope to develop this as a 3 Star Hotel with 60 rooms in the future. I have also set up a hotel in Nuwara Eliya. For my banking services I will continue to bank with NDB.

Mr. Wetti Yajan

Managing Director - Hotel Lux Etoiles - Jaffna



Sustainability Report

Other Initiatives

NDB promotes a paperless culture where employees are encouraged to use electronic communications, online approvals, and other web-based applications. Thus, printing of documents takes place only if no alternative is available.

The Bank has also identified opportunities to save resources by developing process improvements. Document workflows have been automated which has resulted in minimizing paper usage whilst greatly improving turnaround time.

The Bank implemented Automated Approval Systems where paper work is almost at zero level. Credit Approvals, Disbursements, Memos and the like are handled via the online system and forwarded to the respective authorized personnel for approval. Approval takes place online. This has greatly minimized paper usage whilst improving turnaround time.



Our 'One of a Kind' Savings Drive

Moving beyond the parochial concept of savings practice, NDB evolved a unique concept to foster the savings habit amongst people of all ages. How it works is - the Bank recognized that not all in society were solvent enough to commit a financial outlay to conventional savings. Out of the box thinking led to the idea that we could demonstrate to people how, by simple actions like turning off a tap or lights, they could save hard earned financial resources, ultimately helping them to achieve an income over expenditure scenario. In effect...financial savings from resource saving. In line with this initiative, the Bank has published a handy 'Saving Booklet' that offers useful tips on how to optimize the benefits and minimize waste of common everyday essentials via the discounting of continuous unconscious wastage of national resources. From electricity and water, to telephone bills and fuel, this pocket-sized booklet contains useful tips that can be practiced on a day-to-day basis.

The Bank as a Good Employer

From the inception, the Bank has strived to be a good employer...an employer of choice in a competitive market place. We did what was necessary; put the systems in place, the thinking in place and created our own culture which we felt would serve the needs of both Bank and employees.

At the outset, let us examine some 'employee demographics'.

Staff Statistics - Trend - By Designation

	2011 %	2010 %	2009 %
Designation			
Senior Management Staff	3	3	4
Management Staff	12	14	16
Executive Staff	17	16	16
Non-Executive Staff	49	50	50
Bank Staff	82	84	86
Incentivized Staff	10	8	6
Other Staff	9	8	8
Overall Staff	100	100	100

Sustainability Report

Employment Category

	2011 %	2010 %	2009 %
Permanent Staff	84	85	87
Contract Staff	16	15	13

(LA 1)

Full time permanent staff of the Bank enjoy a variety of benefits. Some of these are:

Staff Loans

Staff loans are granted to employees under three main categories - housing, vehicle and sundry to improve their living standards. With effect from November 2010, employees were given the opportunity to combine their staff housing loan and vehicle loan entitlements and channel them for one purpose, either for housing or obtaining a vehicle.

As NDB's workforce grows in diversity, the Bank acknowledges the corresponding diversity of needs towards enhancing the quality of lifestyle. It is believed that this policy revision would assist employees in prioritizing their needs and help them acquire assets that are in line with their expectations.

Some other benefits enjoyed by this category of staff are - Critical Illness Cover and In-house (OPD)/ Hospitalization Insurance. (LA 3)

Ensuring the Health & Safety of Our Staff

NDB has in place a comprehensive occupational health and safety policy, which is an integral part of our work environment.

To our way of thinking, the terms 'health', 'safety' and 'security' are closely related to each other.

Health is a general state of well-being. It not only includes physical well-being, but also emotional and mental well-being.

Safety refers to the act of protecting the physical well-being of the employee. It will include the risk of accidents caused due to machinery, fire or diseases.

Security refers to protecting facilities and equipments from unauthorized access and protecting employees while they are at work.

The health and safety policy is in place and is covered under the NDB HR policy.

The Bank also has a comprehensive insurance policy in excess of the industry norms in majority of the areas under concerned; inclusive of workmen compensation cover and medical insurance cover.

Sustainability Report

Further, we ensure that our employees are educated on health and safety issues. Health safety and educational sessions are carried out as part of the HR welfare initiatives on an annual basis to increase awareness amongst staff. NDB Health Week and NDB Work Life Balance Week are examples of such initiatives. (LA 6)

In accordance with the stipulations of the Bank's Business Continuity Plan there is a dedicated team of specialists on hand to handle first aid as well as psychological first aid requirements in case of emergency situations.

As of now, there are 38 'first aiders' at our Head Office and 53 trained specialists at the branches.

Similarly, the psychological first aid team is a cross-functional team consisting of 25 trained specialists.

First Aid/Psychological First Aid/ Counseling programmes are conducted biannually. (LA 8)

1998 දී ණය මුදලක් ලබාගැනීම තුළින් NDB සමග ඇතිකරගත් මගේ සම්බන්ධතාවය අද වන විට මම ව්‍යාපාර ලෝකයේ ඉතාමත් සාර්ථක තත්ත්වයකට පත්කර තිබෙනවා. ආරම්භයේදී වර්ග අඩි 200ක් පමණ වූ ඉඩක පටන් ගත් සිල්ලර බඩු ව්‍යාපාරය මේ වන විට වෙනත් ව්‍යාපාර කටයුතු රාශියක් දක්වා ව්‍යාප්ත කිරීමට මට හැකියාව ලැබුණා. අද මම වර්ග අඩි 45,000 ක් පුරා පැතිරුණ සුපිරි වෙළඳ සැලක හිමිකරුවෙක්. NDB ලබා දුන් ණය මුදලින් ඔබ්බට ගිය උපදේශක සේවාවන් මෙම සාර්ථකත්වයට මහඟු පිටිවහලක් වූ බව මම නොපැකිලව ප්‍රකාශ කිරීමට කැමතියි. එමෙන්ම ව්‍යාපාර කටයුතු අසීරු තත්ත්වයකට පත් වූ අවස්ථා වලදී පවා බැංකුව ඥාතියෙකු සේ අප සමගම රැඳී සිටීම ඉතා අගය කරන කරුණක්.

එම්. එස්. එම්. ෂමීස් මහතා
හිමිකරු - හවුස් ඔෆ් හිදායත්
තාල්ල



I started banking with NDB in 1998 by obtaining a loan, and today my connections with the Bank has taken me to great heights in the business world. I started off business with a small retail shop of 200 sq.ft. but I have come a long way by expanding the business into diverse areas. Today my business is spread across 45,000 sq. ft. I could undoubtedly say that the Bank's consultancy services which go beyond granting a loan have enabled me to succeed in my business. The Bank has always been with me like a close relative and encourages me even in difficult situations, which I greatly appreciate.

Mr M S M Shums
Proprietor - House of Hidayath, Galle

Sustainability Report

Training and Education...for Employability

We believe that training philosophy and strategies should be revisited from time to time in order to incorporate the new trends and meet new challenges in the environment and to forge the necessary skills needed to face them.

Training opportunities are extended to all staff to maximize their skills and competencies in order to meet organizational needs as well as to facilitate personal growth, thereby providing challenging careers to employees.

The training plan is developed with and linked to the strategic plan of the Bank. The leadership competencies required to acquire our strategic focus were designed with assistance from an international consultant. Later, the job specific competencies for other areas were developed.

We consider Training Needs Analysis (TNA) as the first step towards a comprehensive training strategy, which helps us identify and analyze various employee training needs. TNA highlights gaps between knowledge and skills currently available with the workforce and the capabilities required to perform their jobs at an acceptable level. This process of competency identification, gap identification and filling is an ongoing exercise. The gaps and training needs are identified using performance appraisals and the feedback/responses obtained from individuals and business lines. Through all of these, training priorities and gaps are identified and the training calendar is developed to address them.

For identified key employees of the Bank, Individual Development Plans (IDP) are designed. These employees are given extensive training including foreign faculty-based training. The process of differentiating leadership talent and identifying high potential is a decisive function.

Through this process, employees on the potential and need to have list are assessed on multiple dimensions and their results compared with successful characteristics that are associated with the expected leadership style. Pivotal importance is given to performance appraisal and the senior management business planning process where the need to have and potential employees are identified and training needs analyzed in assessing the best talent in the organization.

All employees of the Bank receive regular performance and career development reviews.

Once the talent pool is identified, development strategies are outlined. Although many strategies are available to develop employees, the key is to identify the right combination of strategies that prepare them to successfully take on higher leadership roles within the organization. Strategies which are effective in developing future leaders are developmental feedback, mentoring/coaching, cross-functional team exposure, training and development, enhanced responsibilities and lateral transfers.

The training programme designed for Management Trainees, NDB leadership skills programme offered to the Managers, the one-year extensive training programme offered to the Trainee Banking Assistants and the fast track programme offered to the Credit Officers are a few such examples of programmes offered to employees to facilitate their personal/ career development.

Sustainability Report

The Management Trainee programme is comprehensively designed in a way to give the trainees maximum exposure in all business lines as well as support functions in the organization. This comprises both the theoretical aspects as well as practical on-the-job training in all dimensions of Banking. On completion of the programme, they are absorbed into the permanent cadre as Middle Managers.

Similarly, the NDB leadership skills programme is offered to Managers focusing on the importance of building leadership skills at all levels to improve organizational performance.

In the same way, the one-year training programme designed for Trainee Banking Assistants ensures that they move up in their career, based on the outcome of the performance review at the end of the training period.

The Certificate Course in Branch Operations conducted by the Institute of Bankers of Sri Lanka is offered to employees at all levels as another career development initiative.

We also ensure that the contractual staff are given sufficient career development opportunities which is a rare occurrence as per the norms in the industry.

Finally, the internship programme offered by NDB is quite commendable as it gives young aspiring individuals an opportunity to get a taste of the corporate world before embarking on their professional career.

NDB, මධ්‍ය පරිමාණ අපනයන ව්‍යාපාරයක් පවත්වාගෙන යන අප ආයතනය ඉතාමත් හොඳින් තේරුම්ගෙන සුහදශීලී සේවාවන් අපට අවශ්‍ය සෑමවිටම ලබාදෙනවා. රාජකාරී මට්ටමෙන් ඔබ්බට ගොස් ඔවුන්ගේ පුද්ගලික කාර්යයක් සේ සළකා අපට දෙන සහයෝගය නිසා අපි අපගේ අපනයන කටයුතු මුළුමනින්ම NDB හරහා කරනවා. අපගේ හදිසි මූල්‍ය අවශ්‍යතාවන්හිදී බැංකුව අවදානමක් ගෙන අපට අවශ්‍ය අරමුදල් ලබාදෙනවා. බැංකුව සමග පවතින මෙම සම්බන්ධතාවය මගේ ජීවිතයේ සැබෑ දියුණුවක් ඇති කිරීමට හේතු පාදක වූ බව සතුටින් ප්‍රකාශ කරනවා

එම්.ඒ.ජේ. ප්‍රියලාල් ප්‍රනාන්දු මහතා

කළමනාකාර අධ්‍යක්ෂක, නිර්මාතෘ
ජේ.පී. මැරින්
මගමුව



NDB fully understands the nature and scale of business we are in and provides a friendly service all the time. They always go the extra mile to support us. This has enabled us to comfortably carry out our export business through NDB. I am happy to say that my relationship with the Bank has led to a true success in my life.

Mr M A J Priyalal Fernando

Managing Director, Founder - J.P. Marine, Negambo

Sustainability Report

The e-Learning system which is a Knowledge Management Solution, aims to help the Bank develop a skilled workforce which would help meet organizational objectives and develop an environment and culture of continuous learning, training and collaboration within the organization. The system provides training and knowledge management features required by NDB and offers training materials and courses online with tracking options.

The 'NDB Knowledge Enhancement Portal' has helped employees to be informed of the relevant training programmes that takes place in the organization and ensures that the employees too are committed to make an effort in looking out for training opportunities to stay ahead in terms of knowledge and skills. As part of this initiative, employees are encouraged to go through the programmes available in the portal and apply for them in consultation with their line managers.

We believe that people give us the competitive edge amidst others in the industry; we ensure that our employees are geared with the required competencies to face the challenges and lead the organization towards success.

(LA 11 & 12)

An Equal Opportunity Employer

NDB is a non-discriminatory, equal opportunity employer, welcoming the diversity that a multi-faceted employee base brings to its enterprise.

The charts appearing below highlight the Bank's approach in this context.

Age Analysis - Overall

	2011	%	2010	%	2009	%
Range						
18 - 20 Years	18	1	19	2	18	2
21 - 30 Years	715	58	504	52	464	51
31 - 40 Years	342	28	294	30	288	31
41 - 50 Years	128	10	116	12	104	11
51 - 55 Years	31	2	30	3	33	4
56 Years and above	9	1	9	1	10	1
	1243	100	972	100	917	100

Sustainability Report

Age Analysis - By Category - Percentage

	18 - 20 Years	21 - 30 Years	31 - 40 Years	41 - 50 Years	51 - 55 Years	56 Years and above	Total
Designation							
Senior Management Staff	0	0	3	19	19	22	3
Management Staff	0	0	29	43	35	11	13
Executive Staff	0	9	43	16	16	0	19
Non-Executive Staff	39	74	26	23	29	44	53
NDB Staff	39	83	100	100	100	78	89
Incentivized Staff	61	17	0	0	0	0	11
Other Staff	0	0	0	0	0	22	0
Overall Staff	100	100	100	100	100	100	100

Gender Analysis - By Designation

	Female %	Male %
Designation		
Senior Management Staff	37	63
Management Staff	38	62
Executive Staff	31	69
Non Executive Staff	47	53
Bank Staff	42	58
Incentivized Staff	20	80
Other Staff	45	55
Overall Staff	40	60

Gender Analysis - Trend (Overall Staff)

Gender	2011 %	2010 %	2009 %
Male	60	60	60
Female	40	40	40

Analysis of Staff by Professional Qualification is given in the HR write up under 'Human Resource Dynamics' on page 98.

Sustainability Report



Fostering Entrepreneurship...the NDB Way!

As the strategic focus of the Bank is cascaded down to our Community Relations and Corporate Social Responsibility Initiatives, a plethora of innovative thought and action followed. This story is about the Bank's partnership with the University of Moratuwa to create the country's first ever Endowed Chair - NDB Endowed Professor in Entrepreneurship. The objective was to provide entrepreneurship education to undergraduate and postgraduate students, in order to make them "job creators" rather than "job seekers". Bridging the gap between academia and Industry and encouraging a culture of entrepreneurship, this has resulted in the introduction of a Minor in Entrepreneurship into the University's curriculum as well as the formation of student companies, where the university undergraduates are trained in practical business, economics and entrepreneurship concepts, giving them an opportunity to set up and operate their own business ventures.



At the Launch of the YESL companies - 'Leef' a student company set up to manufacture energy saving bulbs

Sustainability Report

Upholding Human Rights

The Bank has ensured human rights of all its stakeholders.

Here are some aspects of our endeavours this year.

Training for Staff

All new recruits undergo a compulsory corporate induction programme and they are familiarized with the main aspects of the policies and procedures governing organizational ethics and practices.

There have been no incidents of discrimination during the period under review. (HR 3 & 4)

Assuring the Rights of Employees

At NDB, we are extremely vigilant in managing this aspect and we ensure that no such situations arise, to affect in any way, the rights and freedom of our employees.

Though NDB has grown substantially over the past few years, we have striven to maintain the nimbleness and pro-activeness that one comes to associate more with institutions of smaller scale.

Our commitment to innovation depends on everyone being comfortable sharing ideas and opinions. Every employee is a hands-on contributor. Because we believe that each NDBer is an equally important part of our success, no one even hesitates to pose questions directly to the CEO or the Leadership Team.

Within this enabling environment, the Bank actively espouses several forums that give free rein to the exercising of an individual's rights.

සත්ව පාලන ව්‍යාපාරයක් පවත්වාගෙන යාම සඳහා වසර කිහිපයකට පෙර මම ගත් උත්සාහය බැංකු විසින් ඉල්ලා සිටී ඇප ලබාදීමට නොහැකි වූ නිසා අසාර්ථක වූනා. අවසානයේ දී NDB අවම ලියකියවිලි සහිතව එම ණය මුදල මට ලබාදීමට ඉදිරිපත් වූනා. ණය මුදල ලබාදීමට පෙර ඔවුන් මුදල් පරිහරණය කළ යුතු ආකාරය පිළිබඳව මාව හොඳින් දැනුවත් කළා. මගේ ව්‍යාපාරය අද සෑහෙන දියුණු වෙලා. මට ලැබුණ ආදායමෙන් නිවසක් ගොඩනගා ගන්න හැකි වුනා. මේ හැමදේටම ගෞරවය NDB හට පුද කරන බව මම කෘතඥපූර්වකව සඳහන් කිරීමට කැමතියි.

ඩබ්.එම්. චන්ද්‍රකුමාර මහතා

NDB දිවි අරුණ ණය ප්‍රතිලාභී
හලාවත



A few years back I intended to start my own dairy farm; but I failed because I was unable to provide the banks with the required guarantee. However, NDB offered me a loan on flexible terms. Prior to granting the loan, the Bank educated me on how to effectively manage the funds. I have also built a house with my earnings. Today I have developed my farm to a great extent and I am grateful to NDB and would like to pay my gratitude to the Bank for the support extended.

Mr W M Chandrakumar

Divi Aruna SME Loan Beneficiary, Chilaw

Sustainability Report



'Together We are NDB'

We firmly believe that if the values and aspirations of company and employee are aligned - with the company operating ethically, providing a suitable work-life balance and clearly demonstrating a concern for health and safety – then staff morale and commitment will increase, reducing staff turnover and boosting productivity. And the evidence suggests that employees will be far more effective learners if they go to work with a sense of purpose and feel that they are working within a supportive learning environment, with the opportunity to turn their commitments into productive action.

It is also true that individuals who participate in community development partnerships and programmes are highly motivated by the experience. For example, The Bank launched its corporate campaign to strengthen its image as one of Sri Lanka's largest financial conglomerates. "Together We are NDB" was the 'first of a kind' successful brand rally, where 622 NDB brand ambassadors made a tremendous effort to reinforce the NDB brand in Galle and Kandy by reminding 100, 000 Sri Lankans about the value of saving and the strength of NDB Group. In just four hours;

- 15,000 daily train commuters in Galle were offered the comfort of seating at the station.
- Children in 9 schools got a chance to compete on their knowledge on saving habits.
- Hundreds of patients in Galle Ayurvedic Hospital received equipment for treatment.
- Hundreds of patients of the Kandy General Hospital were offered hot water facilities.
- Over 80 orphans at Singithi Sevana in Kandy were given the opportunity to sleep without fear of mosquitos.
- Over 120 children and elders at Daya Niwasa, Kandy were given better sanitation and a better environment.
- Peradeniya Children's Hospital now has computerised support
- Educated 70 High Net Worth Investors and Small and Medium Entrepreneurs on wealth management and investing in the stock market.

On 9 April 2011, we united as one NDB, with one voice and one goal to show every Sri Lankan that together we can make a difference.

And a truly life changing experience it was too!

The Whistle Blowing Policy

The whistle blowing policy of the Bank promotes employees to raise serious concerns of malpractice or misconduct internally and to ensure that such allegations are thoroughly investigated. The whistle blowing employee is protected against any adverse action for raising such issues.

Sustainability Report

The Open Door Policy

An open door policy guarantees an employee's right to seek assistance from any point in the chain of command, even superseding their immediate supervisor. The policy provides employee access to any Manager or supervisor including the CEO. At NDB, we practice open door policy for communication. We believe that an effective communication policy would increase the morale and motivation of employees.

Other forums at which exemplary human rights are scrupulously followed are the HR grievance handling procedures, the suggestion tracking system known as IdeaXpress, where any employee is encouraged to contribute their innovative ideas with the guarantee that they are listened to and their suggestions noted. Further, the Employee Satisfaction Surveys, which provide yet another forum for the employees to express their opinion on aspects of their job and the organization.

As we said, Human Rights and their protection are safeguarded across the Bank including the security personnel the Bank employs. This is an outsourced function and we ensure that the personnel engaged in this aspect are fully cognizant of the Bank's own policies and requirements in this context. (HR 5 & 8)

விவசாயத்தை மின்புலமாகக் கொண்ட நான் வியாபாரத்தின் மேல் கொண்ட நாட்டத்தினால் 2002 இல் CIC இன் ஒரு உப முகவராக என் பயணத்தினை ஆரம்பித்தேன். பாரிய முதலீடுகள் இல்லாததால் எனது முன்னேற்றம் தடைப்பட்டு வந்தது. 2010 இல் NDB உடன் கொடுக்கல் வாங்கல்களை மேற்கொண்டேன். காசோலைத் தள்ளுபடி வசதி மூலம் எனது காசோலைகளை இரண்டே நாட்களில் பணமாக்க முடிந்தமையானது எனக்கு பல வழிகளில் உதவியது. துணை முகவராக இருந்த நான் இப்போது முகவராக உயர்ந்துள்ளேன். 25 மில்லியனாக இருந்த எனது வருடாந்த புறள்வு இப்போது 100 மில்லியனைத் தாண்டியுள்ளது. NDB வழங்கும் ஆலோசனைச் சேவைகள் எனது வியாபாரத்தை மேலும் வலுப்படுத்த உதவின. மிகக் குறைந்த வட்டிவீதம் மட்டுமன்றி எனது சொந்த வீடு போல வேலை நேரத்திற்கு முன்னமேயே நாம் வங்கியை அணுகினாலும் எங்களுக்கு வழங்கப்படும் ஒத்தாசையான சேவைகள் என்பன NDB இல் நான் கண்ட சிறப்புகள். இதுவரை நான் நாடிச் சென்ற எந்தவொரு சேவையையும் NDB மறுத்ததில்லை. எனது வியாபாரத்தை தொடர்ந்து விரிவுபடுத்திவரும் இவ்வேளையில் அதற்கான ஒத்துழைப்பை NDB நிச்சயம் செய்யும்.

எஸ். சுதாகரன்
உரிமையாளர்-அம்பல் ஃபார்ம் ஹவுஸ்
மட்டக்களப்பு



My family has been engaged in agriculture for years. However, I had an interest to start a business and started my journey as a sub agent for CIC in 2002. Due to lack of capital my growth was prolonged. I started dealing with NDB in 2010. NDB's cheque discounting facility has enabled me to grow my business. Starting as a sub agent, I have grown my business and today I am an agent for CIC. My annual turnover, which was 25 million, has now grown to 100 million, thanks to NDB's assistance. NDB's consultancy service has also helped me strengthen my business. Low interest rates, the freedom to visit the branch as it were my own home, where I can reach the Bank before the working hours and get assistance, are some of the key features I experience with NDB. Today, I am expanding my business further and I believe NDB will help me along the way.

Mr S Suthakaran

Proprietor - Ambal Farm House, Batticaloa

Sustainability Report

Child/Forced Labour

NDB does not espouse the employment of any person under the age of 18. We abhor the practice of child labour. We also do not condone or practice forced labour.
(HR 6 & 7)

Product Responsibility

As with any establishment, the Bank requires to publicize aspects of its operations and its products and services from time to time. This has always been approached with responsibility and adherence to all laws and regulatory practices applicable to the Bank.

The Bank has a Communication Policy in place for Internal and External Communications. All staff have been briefed on this whilst the Policy itself is available on the X Drive for staff to access at anytime.

New recruits are briefed on this policy at the time of their induction.

NDB adheres to the Central Bank Customer Charter.

Ethical Partnerships - regarding sponsorship and advertising. Mindful of the partnering party's due diligence being done before entering into contracts.

Brand Guidelines for NDB.
(PR 6)

Tracking Customer Satisfaction

The Bank has an online Complaint/Suggestion Tracking System where all customer complaints are logged and tracked. As per the observations taken from the Customer Surveys conducted in 2010, systematic improvements were carried out on customer service quality standards and on building efficiencies in branch operations during the year under review.

Based on the observations from the Customer Surveys, changes are made as required, including staff training on handling customer queries, service standards and product issues. Systematic improvements were carried out on customer service quality standards and on building efficiencies in branch operations during the year under review. The frontline staff are being continuously monitored and trained to ensure improved customer satisfaction at all touch points of the Bank.

Protecting Customer Privacy

Adherence to key risk indicators to mitigate the reputational risk helps the Bank avoid any breaches of customer privacy or loss of customer data.
(PR 8)

Sustainability Report

GRI Compliance Index

Index No.	Description	Report Section	Page
1.	Strategy & Analysis		
1.1	Statement from the most senior decision-maker of the Organization	Sustainability Report	125
1.2	Description of Key Impacts, Risks & Opportunities	Not applicable	
2.	Organisational Profile		
2.1	Name of the Organization	Sustainability Report	126
2.2	Primary Brands, Products and/or Services	Sustainability Report	127
2.3	Operational Structure of the Organization	Sustainability Report	126
2.4	Location of Organization's Headquarters	Sustainability Report	126
2.5	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	Sustainability Report	126
2.6	Nature of ownership & legal form	Sustainability Report	126
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	Sustainability Report	126
2.8	Scale of the Reporting Organization	Sustainability Report	126
2.9	Significant changes during the reporting period regarding size, structure or ownership	Sustainability Report	128
2.10	Awards received during the reporting period	Sustainability Report	128
3.	Report Parameters		
3.1	Reporting period	Sustainability Report	126
3.2	Date of most recent previous report	Sustainability Report	126
3.3	Reporting cycle	Sustainability Report	126
3.4	Contact point for questions regarding the Report or its Contents	Sustainability Report	126
3.5	Defining Report Content	Sustainability Report	126
3.6	Boundary of the Report	Sustainability Report	126
3.7	Any specific limitations on the scope or boundary of the Report	Sustainability Report	126
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can affect comparability from period to period and/or between organizations	Sustainability Report	126
3.9	Data measurement techniques and the bases of calculations	Not applicable	
3.10	Explanation of the effect of any re-statement of information provided in earlier reports	Sustainability Report	126
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report	Sustainability Report	126
3.12	GRI Compliance Index	Sustainability Report	150
3.13	Policy and current practice with regards to seeking external assurance for the Report	Not applicable	

Sustainability Report

Index No.	Description	Report Section	Page
4.	Governance, Commitments & Engagement		
4.1	Governance Structure of the Organization	Corporate Governance	167
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Corporate Governance	167
4.3	The number of members of the highest governance body that are independent and/or non-executive members	Corporate Governance	167
4.4	Mechanisms for Shareholders and employees to provide recommendations or direction to the highest governance body	Corporate Governance	167
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives and the Organization's performance	Not applicable	
4.6	Processes in place for the highest governing body to ensure conflicts of interests are avoided	Not applicable	
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the Organization's strategy on economic, environmental, and social topics	Not applicable	
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	Not applicable	
4.9	Procedures of the highest governance body for overseeing the Organization's identification and management of economic, environmental, and social performance.	Not applicable	
4.10	Processes for evaluating the highest governance body's own performance	Not applicable	
4.11	Precautionary Approach	Not applicable	
4.12	Externally developed economic, environmental and social Charters and principles	Not applicable	
4.13	Membership in industry/ business association	Not applicable	
4.14	List of stakeholder groups engaged by the Organization	Sustainability Report	129
4.15	Basis for identification and selection of stakeholders with whom to engage	Sustainability Report	130
4.16	Approaches to stakeholder engagement including frequency	Sustainability Report	131
4.17	Key topics and concerns raised through stakeholders engagement and the Organization's response	Sustainability Report	132

Sustainability Report

Index No.	Description	Report Section	Page
Economic Performance			
EC1	Direct economic value generated and distributed	Sustainability Report	132-133
EC2	Financial implications and other risks and opportunities for the Organization's activities due to climate change	Sustainability Report	134
EC3	Coverage of the Organisation's defined benefit plan obligations	Sustainability Report	133
EC4	Significant financial assistance received from Government	Not Reported	
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Not Reported	
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Not Reported	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	Not Reported	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement	Sustainability Report	135
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Not Reported	
Environmental Performance			
EN1	Materials used by weight or volume	Not Reported	
EN2	Percentage of materials used that are recycled input materials	Sustainability Report	135
EN3	Direct energy consumption by primary energy source	Not Reported	
EN4	Indirect energy consumption by primary source	Not Reported	
EN5	Energy saved due to conservation and efficiency improvements	Not Reported	
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	Not Reported	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Sustainability Report	136
EN8	Total water withdrawal by source	Not Reported	
EN9	Water sources significantly affected by withdrawal of water	Not Reported	
EN10	Percentage and total volume of water recycled and reused	Not Reported	
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Not Reported	
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Not Reported	
EN13	Habitats protected or restored	Not Reported	
EN14	Strategies, current action & future plans for managing biodiversity	Not Reported	
EN15	Number of IUCN Red List Species & National Conservation List Species with habitats in areas affected by operations	Not Reported	
EN16	Total direct and indirect greenhouse gas emissions by weight	Not Reported	
EN17	Other relevant indirect greenhouse gas emissions by weight		
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved		
EN19	Emissions of ozone-depleting substances by weight		
EN20	NO, SO, and other significant air emissions by type and weight		

Sustainability Report

Index No.	Description	Report Section	Page
EN21	Total water discharge by quality and destination	Not Reported	
EN22	Total weight of waste by type and disposal method	Not Reported	
EN23	Total Number of & Volume of significant spills	Not Reported	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	Not Reported	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff	Not Reported	
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Sustainability Report	137
EN27	Percentage of products sold & their packaging materials reclaimed	Not Reported	
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Not Reported	
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	Sustainability Report	137
EN30	Total environmental protection expenditures and investments by type	Not Reported	
Society			
SO1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities including entering, operating and exiting	Not Reported	
SO2	Percentage and total number of business units analyzed for risks related to corruption	Not Reported	
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	Not Reported	
SO4	Actions taken in response to incidents of corruption	Not Reported	
SO5	Public policy positions and participation in public policy development and lobbying	Not Reported	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	Not Reported	
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	Not Reported	
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	Not Reported	

Sustainability Report

Index No.	Description	Report Section	Page
Labour Practices and Decent Work			
LA1	Total workforce by employment type, employment contract, and region	Sustainability Report	138-139
LA2	Total number and rate of employee turnover by age group, gender, and region	Not Reported	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Sustainability Report	139
LA4	Percentage of employees covered by collective bargaining agreements	Not Reported	
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	Not Reported	
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advice on occupational health and safety programmes	Sustainability Report	139
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by province	Not Reported	
LA8	Education, training, counseling, prevention of diseases, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	Sustainability Report	140
LA9	Health and safety topics covered in formal agreements with trade unions	Not Reported	
LA10	Average hours of training per year per employee by employee category	Not Reported	
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Sustainability Report	141, 142, 143
LA12	Percentage of employees receiving regular performance and career development reviews	Sustainability Report	141, 142, 143
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	Sustainability Report	143-144
LA14	Ratio of basic salary of men to women by employee category	Not Reported	
Human Rights			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	Not Reported	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	Not Reported	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Sustainability Report	146
HR4	Total number of incidents of discrimination and actions taken	Sustainability Report	146
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	Sustainability Report	147-148
HR6	Measures taken to eliminate child labour	Sustainability Report	149
HR7	Measures taken to eliminate compulsory or forced labour	Sustainability Report	149
HR8	Percentage of security personnel trained in Organization policies & Procedures on Human Rights	Sustainability Report	147-148
HR9	Total number of violations of rights of indigenous people and actions taken	Not Reported	

Sustainability Report

Index No.	Description	Report Section	Page
Products Responsibility			
PR 1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	Not Reported	
PR 2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services	Not Reported	
PR3	Type of product & service Information required by procedures and percentage of significant products and services subject to such information requirements	Not Reported	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	Not Reported	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Not Reported	
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Sustainability Report	149
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	Not Reported	
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Sustainability Report	149
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	Not Reported	

		2002 In Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared							
	Third Party Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured
	GRI Checked							

Risk Management

Overview

One of the key challenges faced by the financial sector today is to strike a balance between risks and return. The ability of a bank to take strategic initiatives within pre-defined and consistent risk framework can be considered as a speciality that can make a distinction for a bank and ensure safety for all the stakeholders in today's competitive market. Thus risk management is an integral part of banking business.

The Board is required to define the risk appetite for the Bank which would then be rolled out to each business line and then the business unit. This risk appetite supports effective decision-making, capital allocation and is central to embedding risk management in business decisions and risk reporting across the Bank.

Recent Learning's and Risk Management

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. Therefore 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.

A strong and pervasive integrated risk management culture provides a bank with a sound foundation of risk management framework consistent with the Bank's objectives, risk tolerance, control standards and management philosophy. In risk management, robustness is more important than sophistication. In an organization everyone is, a risk manager - or should be - and organizations need dynamic risk officers to direct and embed a culture of risk management across the organization.

The objectives of the risk management frame work are -

1. To establish common principles, standards for the management and control of all risks and to inform behaviour across the Bank
2. Provide a shared framework and language to improve awareness of risk management processes
3. To provide clear accountability and responsibility for risk management.

Integrated Risk Management at NDB

Our risk management strategy is based on the need to assess the Bank's susceptibility to the risk while minimizing adverse impacts of operational risk, market risk and credit risk on resources, earnings and cash flows through a robust framework of integrated risk management.

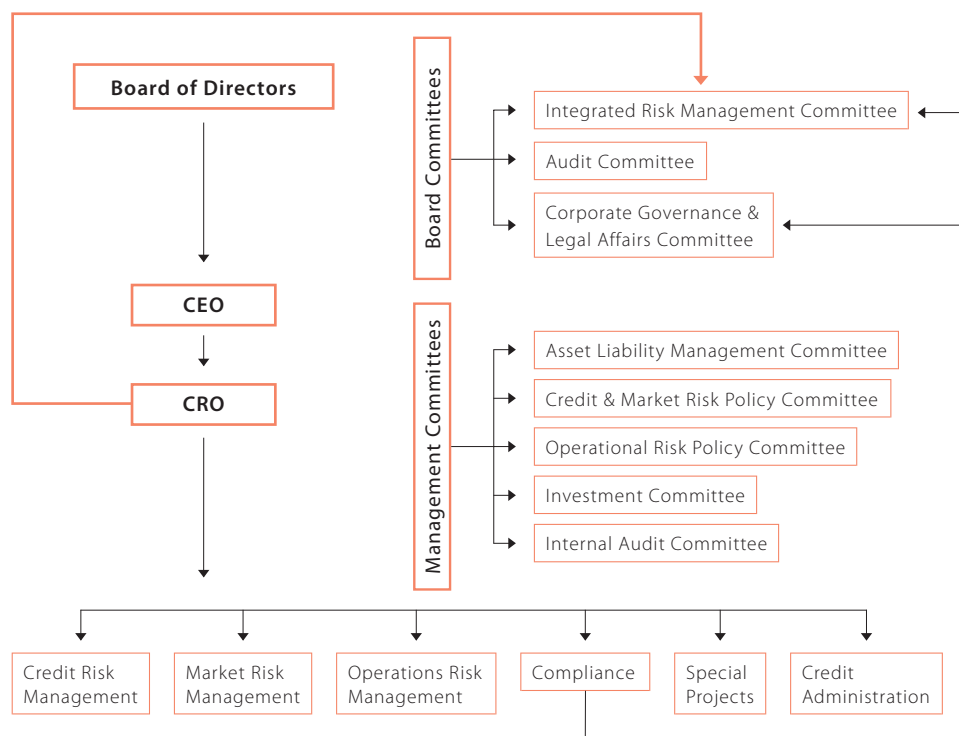
NDB promotes a strong risk management culture supported by a robust risk governance structure. The Bank's risk management unit is assigned with the responsibility to design and operate the Bank's integrated risk management process and is independent of the Bank's business units. Its risk management framework is integrated with the Bank's strategy and business planning processes. An integrated risk capital framework is consistently applied across all business units to protect its capital base and support effective capital management.

Risk Management

A number of committees have been established to manage the various risks in an efficient and objective manner to support the business decisions.

- Board Integrated Risk Management Committee (IRMC)
- Board Audit Committee (BAC)
- Corporate Governance and Legal Affairs Committee
- Asset Liability Management Committee (ALCO)
- Credit and Market Risk Policy Committee
- Operational Risk Policy Committee (ORPC)
- Credit Committees for each business line
- Internal Audit Committee
- Investment Committee

Risk Governance Structure



The Board Integrated Risk Management Committee (IRMC) which is a subcommittee of the Board meets quarterly to review and assess the Bank's overall risks and to focus on policy recommendations and strategies in an integrated manner. The IRMC Charter was formulated and approved by the Board of Directors.

The Bank's Assets & Liabilities Committee (ALCO) reviews all related exposures, excesses on a monthly basis and decisions are made to facilitate the business requirements. These decisions are further reviewed at IRMC and approved by the Board.

Risk Management

The Credit and Market Risk Policy Committee and Operational Risk Policy Committee (ORPC) are in operation to formulate policies and to focus more clearly on defined risk areas. The membership of these Committees comprises the CEO, the heads of business units and 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.

There are four Credit Committees representing separate business lines and members comprise of senior officers of business units and risk management. The committees meet on a weekly basis to assist in the process of pre-clearance of large credit, approvals, reviewing portfolio and watch listed clients etc.

The Bank recognizes various types of risk, based on the origin and nature, as follows:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Strategic risk
- Legal Risk
- Reputational risk

Credit Risk

Credit risk is the loss arising from the failure of counterparty to perform according to its contractual arrangements with the Bank. It includes failures in repayment of capital or interest in full within the agreed time period, at the agreed rate of interest and in the agreed currency. 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 at NDB

NDB has a well-defined credit policy approved by the Board of Directors. It defines the credit culture of the Bank, specifying target markets for lending and areas to avoid. The policy is implemented through the credit process, which is set out with clear guidelines and procedures. NDB risk management philosophy is guided by three basic interdependent principles: independence, the 'four-eyes principle' (i.e. minimum of two officers signing a credit proposal) and service function. Although the Bank mitigates credit risk through collateral, lending decisions are mainly based on detailed credit evaluation carried out by relationship managers and reviewed by risk management as well as the designated approving authority. The financial performance of borrowers is continuously monitored and frequently reviewed, as is the manner in which the borrower has operated his accounts.

Risk Management

Delegation of Authority	The Board of Directors has delegated approval authority to the CEO, with authority to redelegate 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.
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, granting delegated authority and pricing. Based on the year end figures the portfolio is concentrated in the 'Single A' category which represents a quality portfolio.
Monitoring post credit risk	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. 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. This process has enabled the Bank to control and maintain a low NPL ratio of 1.3% when compared to the industry ratio of 3.8%. In addition to the above, an independent credit audit unit carries out audits to determine the level of compliance with designed processes, adequacy of controls and identifies areas for improvement.
Loan Loss Provisioning	The Bank follows a prudent provisioning policy, which exceeds the minimum requirements of the Central Bank of Sri Lanka (CBSL) which has resulted in the Bank having a higher provision cover when compared to the industry. The higher percentage of NPL's in the loss category requiring higher provisioning as per CBSL directions and low NPL base too has contributed towards this end. Provisioning is implemented in three categories: - general provision (in line with CBSL guidelines) - judgmental provision (provision made as a prudential measure on selected accounts) - specific provision (in line with CBSL guidelines) The Bank is also in the process of adopting the new accounting standards SLAS 44 and 45 for impairment and the Bank has obtained the services of an external party to assist with the initial transition.

Risk Management

Management of Credit Portfolio Concentrations Risk

Concentration risk is the probability of a loss arising from significantly imbalanced exposure to a particular group, sector or region. Bank has stipulated risk limits on exposures to a single/group borrowers which are more stringent than the limits set out by the regulator. The aggregate exposure to clients with substantial exposures as a percentage of capital base was only 297%. The top 10 clients account for only 11.5% of total portfolio. Even the top 20 accounted for only 21% of portfolio and thus does not pose any name concentration risk.

Further the Bank has also classified its portfolio into various sectors and sub-sectors and set a cap in order to avoid any concentration risks. Herfindhal Hirshmen Index (HHI) is used to monitor the sector concentration risks and the index as at end of year reduced to 0.187 representing a reduction in the concentration risk, during the year. This trend in index is monitored on a quarterly basis to assess any significant adverse fluctuations.

Sector	HHI Score	
	2011	2010
Consumer	0.056	0.039
Services	0.080	0.074
Agri, Agro, Rubber & Fisheries	0.026	0.060
Food and Beverages	0.008	0.001
Textiles & Garments	0.007	0.014
Metals, Chemicals & Engineering	0.008	0.014
Wood & paper products	0.000	0.000
Hotels & Tourism	0.000	0.000
Others	0.002	0.000
HHI	0.187	0.202
Min HHI	0.111	
HHI/Min HHI	1.683	1.814

Portfolio Analysis

The Risk Department undertakes a detailed credit portfolio analysis on a quarterly basis. This covers analysis of portfolio based on products, business lines, groups, sectors, trends in NPL, sector NPL concentrations and capital adequacy. Additional stress tests/scenario analysis are carried out to assess impact of any adverse external factors (such as change in tariff structures, commodity prices etc.) on portfolio. A comprehensive presentation is submitted to the Board subcommittee for Integrated Risk and to Board through a detailed Risk Assessment Report.

Risk Management

Market Risk

The possibility that the on and off-Balance Sheet positions of a financial institution will be adversely affected by movements in market variables viz: interest rates, foreign exchange rates, equity prices, credit spreads and commodity prices, resulting in a loss to earnings and capital is referred as market risk.

The associated market risks are:

- Equity risk, the risk that stock prices and/or the implied volatility will change.
- Interest rate risk, the risk that interest rates and/or the implied volatility will change.
- Currency risk, the risk that foreign exchange rates and/or the implied volatility will change.
- Commodity risk, the risk that commodity prices and/or implied volatility will change.

Financial institutions are exposed to market risk in a variety of ways. Exposure may be explicit in portfolios of securities, equities and other actively traded instruments, or it may be implicit - manifesting itself, for example, as interest rate risk arising from a mismatch of loans and deposits.

Market Risk Management at NDB

Market risk management ensures that the Bank is operating within the pre-defined risk parameters, thereby business units optimize the risk/reward relationship without exposing the Bank to unexpected losses.

A comprehensive risk management policy framework has been set up to manage the Market, Liquidity, Asset and Liability risks, with the assistance of an independent consultancy service. The policies are drafted covering the best practices of risk management and the statutory guidelines. Implementation of the policy recommendations are in progress with setting up of prudential internal limits on liquidity risks, price risks, exchange risks and asset/liability risks for close monitoring of exposures. All exposure limits are subject to annual review and are approved by the Board.

In addition, sensitivity analysis, stress tests, scenario analysis and mark to market exercises are being carried out on products, portfolios and Balance Sheet on a regular basis as forward-looking analytical tools for managing exposures.

Sensitivity Analysis

Daily sensitivity analysis is carried out on major foreign currency net open positions giving positive and negative shocks to the spot rates to determine the impact on the P/L. Bank's Balance Sheet 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.

Stress Testing

Bank's net foreign currency position is tested under three stressed scenarios giving adverse shocks of 5%, 10% and 15% to the exchange rate to arrive at the maximum loss scenarios the Bank is exposed and is monitored against the limits set.

Risk Management

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 taken where necessary ensuring minimum loss situations to the portfolios.

Clear segregation of duties has been established between different business units ensuring prudent control and monitoring mechanisms. The Treasury Front Office reports to CEO and Treasury Operations reports to Head of Operations. The market risk unit reports directly to the Head of Group Risk who is a member of Bank's Assets and Liabilities Committee (ALCO). All senior level staff attached to Market Risk, Treasury Front Office and Treasury Operations have obtained the internationally recognized ACI qualification offered by the Financial Markets Association, as required by the CBSL directives.

The Assets and Liabilities Committee (ALCO), comprising senior management staff from the Treasury, Risk Management, Finance and various business units of the Bank together with the Market Risk Management unit is responsible for the supervision and management of market risk. 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

Liquidity Risk

Liquidity risk arises due to unmatched maturities of assets and liabilities, and hinders honouring commitments as and when they fall due. Thus the overall funding strategy is based on, taking 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 NDB

The liquidity management comes under the supervision and management of ALCO. A satisfactory trade-off between liquidity and profitability is maintained by categorizing liquidity shortfalls in the Balance Sheet into suitable time 'buckets', placing exposure limits on each one to monitor the liquidity mismatch gaps. These limits correspond to the liquidity available to NDB through various providers, at an agreed level of confidence. The Bank has also adopted a liquidity management policy to ensure that it has at all times sufficient liquidity to meet its financial obligations at a fair market price. Market and liquidity risks are addressed at ALCO on a monthly basis and at Board IRMC level on quarterly basis.

The Bank is equipped with a comprehensive Liquidity Contingency Funding Plan linked to the Business Continuity Plan, which falls in line with the regulatory guidelines.

Risk Management

Operational Risk

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of internal processes, people and systems, or from external events. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

Operational Risk Management at NDB

Operational risk is recognized as a distinct risk category which the Bank strives to manage within acceptable levels through sound operational risk management practices. The Bank's approach to managing operational risk is to adopt practices that are fit for purpose to suit the organizational maturity and particular business environments.

The objective in managing operational risk is to increase the efficiency and effectiveness of the Bank's resources, minimize losses and utilise opportunities. The Bank continues to manage operational risk on the Basic Indicator Approach (BIA) in accordance with the Regulator's guidelines.

In accordance with leading practice, our comprehensive risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with our business operations. The Bank's framework defines the minimum requirements for operational risk management and is supported by specific policies and procedures. Business units implement the Bank framework, policies and procedures but may customize these to better suit their unique environments.

Both centralized and decentralized operational risk management functions are independent from business line management and work in partnership as the second line of defence. Their role is to monitor, manage and report on risks to ensure operational risk exposure remains within the policies as mandated by Senior Management and the Board. These independent functions are also responsible for developing and implementing the operational risk management framework and for promoting sound risk management practices across the Bank. Business unit/line management, as the first line of defence, is ultimately responsible for managing risks that arise.

Bank's Internal Audit is the Bank's third line of defence and performs an independent review of the operational risk management framework, policies and practices to ensure that operational risk practices are implemented consistently across the Bank as operational risk management matures.

Managing Operational Risk

Operational risk management forms part of the day-to-day responsibilities of management at all levels. Qualitative and quantitative methodologies and tools are applied to identify and assess operational risks and to provide management with information for determining appropriate mitigating measures.

These tools include:

- a loss database of operational risk events categorized according to the Basel II business lines and operational risk event types;
- a risk and control self-assessment process to analyze business activities and identify operational risks that could affect the achievement of business objectives. An effective risk and control self-assessment process is a key component of developing a risk profile and understanding the residual risk; and

Risk Management

- key risk indicators which are used to manage operational risk on an ongoing basis. Key risk indicators contribute to the development of a risk profile. The main purpose is to assist management by providing an early warning indicator of potential risk exposures and/or a potential breakdown of controls.

During this year we have embarked on a project to implement a software based solution to assist us in the management of operational risk. Once fully implemented the above tools would be managed through the said software.

Managing Operational Risks in New Product Development

Operational risks of new products are identified along with possible mitigants at the point of introducing the product and a similar process is carried out during the annual review of existing product programmes. Risk management is a key and priority aspect of product development, as the Bank thrives on innovation to deliver new products to the market which would cater to the growing needs of the ever evolving consumer and corporates of our developing economy. These product programmes are approved by all the stakeholders including the compliance unit of the Bank and same is reviewed independently by Internal Audit.

Business Continuity Management

As an integral component of the Bank's risk management framework, the Bank has deployed a Business Continuity Plan enabling it to possess adequate preparedness to continue its business through a disaster. This plan is not only designed to comply with Central Bank of Sri Lanka's requirements but also with best practices promoted by Disaster Recovery Institute International of USA. The Bank's business continuity strategy is structured to ensure strong central monitoring and reporting and decentralized execution, and is supported by an entrenched governance process. The plan developed contains four different areas which include, Recovery Plans, Emergency Response Plans, Support Plans and Management System Plans. The Business Continuity Plans so developed are underlined by redundant infrastructure to support core services, key systems and critical business processes.

The plan is approved and authorized by the Board of Directors of the Bank and its implementation is being coordinated by the Head of Operational Risk of the Bank. The Bank has appointed a Disaster Management Team representing critical business units and officers who manage resources required for disaster recovery. The Disaster Management Team consists of three layers, where the Incident Commander takes the top most layer, the Team Leaders take the layer two and the Team Members who will man the continuity of operations and recovery take the layer three.

The Bank gives the primary importance to ensuring safety of its customers, staff, contractors and other visitors. In this regard Bank not only has an able Emergency Response Team but also a team dedicated to support people and families affected.

Management Plans within the BCP details out the tools and processes required to maintain the continued effectiveness of the plan. Business Continuity Plan is being periodically reviewed and maintained to accommodate organizational changes and is being subjected to regular drills and testing as well. For the year the Bank has conducted 53 functional drills, 3 call tree drills and 2 evacuation drills. The BCP processes were audited and necessary corrective actions were also taken.

Risk Management

Compliance Function

NDB has established a permanent and effective compliance function in line with the Directions issued by the Central Bank of Sri Lanka and the recommendations made by the Basel Committee on Bank Supervision on 'Compliance and compliance function in banks'. A dedicated Compliance Department headed by a senior officer, independently monitors adherence to all applicable laws, regulations and statutory requirements and reports to the Integrated Risk Management and the Corporate Governance and Legal Affairs Committees. Quarterly reports are submitted to the Integrated Risk Management Committee confirming compliance with the Bank's Compliance Policy and Code of Conduct in addition to compliance with external laws and regulations. These reports are also tabled quarterly at Board meetings for the information of the Directors.

NDB has effective processes in place to ensure compliance with applicable laws and regulations pertaining to the banking industry (including the Anti-Money Laundering Act No. 05 of 2006 and related Acts, Companies Act No. 07 of 2007, and the Listing Rules of the Colombo Stock Exchange). The Compliance Department ensures that compliance reports are submitted to the Central Bank of Sri Lanka confirming the Bank's compliance with Central Bank regulations and guidelines.

Group Risk Management

The key risk indicators/key performance indicators of the Group companies are monitored and reported to Board subcommittee 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.

Basel II Compliance

Currently, the Bank is applying the Standardised Approach for Credit Risk, Standardised Measurement Approach for Market Risk and Basic Indicator Approach for Operational Risk in computing the minimum capital requirements as per CBSL regulations. Further, stress tests are carried out periodically for credit risk, equity price risk and exchange rate risk to assess the impact of these on capital allocation and the results of same are presented to the Board Subcommittee on integrated risk.

	Test	Base Case	Magnitude of Shock (%)	Revised CAR (%)
Credit Risk	Increase in NPLs	CAR 11.33	5	11.28
			10	11.22
			20	11.11
	Negative Shifts in NPL Categories		50	11.31
			80	11.29
			100	11.28
Equity Price Risk	Fall in Stock Market Prices		10	11.31
			20	11.29
			40	11.26
Exchange Rate Risk	Adverse Movement in Exchange Rate		5	11.29
			10	11.25
			15	11.21

Risk Management

The Bank continues to exceed the Central Bank requirement for minimum capital even under the stressed conditions considered, thereby protecting shareholder interest and enhancing the financial strength and stability of the Bank. The Bank has successfully implemented a new core banking system which has facilitated data capturing and thus enabling the Bank to migrate towards Advance Approaches of Basel II in the future.

Central Bank issued guidelines on Pillar II, the supervisory review process which the banks need to comply with from April 2012. This framework recognizes the responsibility of Bank Management in developing an internal capital assessment process and setting capital targets that are commensurate with the Bank's risk profile and the control environment. The framework also encourages Banks to develop and use better risk management techniques in monitoring and managing their risks. The Bank is currently in the process of developing an Internal Capital Adequacy Assessment Process (ICAAP).

A strong and resilient banking system is the foundation for sustainable economic growth, as banks are at the centre of the credit intermediation process between savers and investors. Basel III addresses the lessons of the financial crisis. Basel III is a comprehensive set of reform measures, developed by the Basel Committee on banking supervision, to strengthen the regulation, supervision and risk management for the banking sector. These measures aim to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance and strengthen Bank's transparency and disclosures. The reforms strengthen bank-level or micro prudential regulation, which will help raise the resilience of individual banking institutions in periods of stress. The reforms also have a macro prudential focus, addressing system wide risks, which can build up across the banking sector, as well as pro cyclical amplification of these risks over time.

Basel III involves maintenance of a capital conservation buffer and a counter cyclical buffer. Failure to meet the set minimum standards would restrict the earnings distribution (dividend payments, share buybacks and bonuses). Banks are expected to increase the quality and quantum of minimum capital allowing banks to be more resilient in times of stress. The Bank's robust risk management framework would facilitate the move towards Basel III with confidence.

Corporate Governance

The Corporate Governance Report

Corporate Governance is the structure and process for the direction and the control of a company. It defines the link between the Board of Directors, management, shareholders and other stakeholders. Corporate Governance is aimed at protecting the interest of all its stakeholders. Not only does Corporate Governance provide guidelines for sustainability it also provides long-term benefits for its stakeholders such as enhancing performance by reducing investment risks, protecting the Bank's reputation and increases transparency.

In a globalized economy, environmental, social and corporate governance responsibilities are critical to a company's long-term sustainability, financial stability and success. At NDB, we consider these to be integral to our business strategy.

The Board of NDB provides effective leadership within a framework of prudent and effective controls for the operations of the Bank. The Board leads by example in establishing professional standards and corporate values for the Bank and ensures that its obligations to its shareholders and other stakeholders are understood and met.

While the Chief Executive Officer (CEO) and senior management are responsible for recommending the strategic direction of the Bank, the Board constructively challenges and helps the development of proposals on strategy. The Board decides the strategic direction, vision and mission of the Bank and ensures that they are kept under review.

The Board regularly reviews the progress of the Bank against financial objectives and business strategy.

Board structure and composition

The Board of NDB comprises nine Directors as at end December 2011, eight of whom, including the Chairman, are Non-Executive Directors. The five independent Directors provide a strong and independent balance to the Board. The CEO of NDB, functions as the only ex-officio Director. Three new Directors joined the Board in 2011. The new appointments brought a diversity of experience and skills on the Board. The existing Directors contribute a balance of financial and banking experience together with business experience and skills. The Board works effectively as a team where divergent views are considered constructively, in order to maximize the effectiveness of the contribution of the Directors. The filling of vacancies of Directors by the Board is made on the recommendation of the Nominations Committee of the Board, based on guidelines approved by the Board. The Non-Executive Directors are from both the private and public sectors, who exercise independent judgement with reasonable care, skill and diligence having regard to the long-term impact of their decisions. Additionally, in recommending the appointment of Non-Executive Directors, the Nominations Committee ensures that these Directors are persons of repute with credible track records who bring to the decision making process a vast pool of knowledge, experience and insight from different business segments. The Board has met fourteen times during the financial year under review.

Roles and responsibilities of Chairman and CEO

The separation of responsibilities between the Chairman and the CEO is clearly defined in the Internal Code of Corporate Governance. Furthermore, this requirement is embodied in the Articles of the Bank. The functions of Chairman and CEO are assigned to two different individuals which ensure that there is a separation of power.

Corporate Governance

The Chairman provides leadership to the Board and ensures that proceedings at meetings are conducted in a proper manner. The Chairman promotes high standards of Corporate Governance in line with the Internal Code of Corporate Governance. Further, the Chairman maintains effective communication with shareholders and ensures that the members of the Board develop an understanding of the views of the major investors and other key stakeholders.

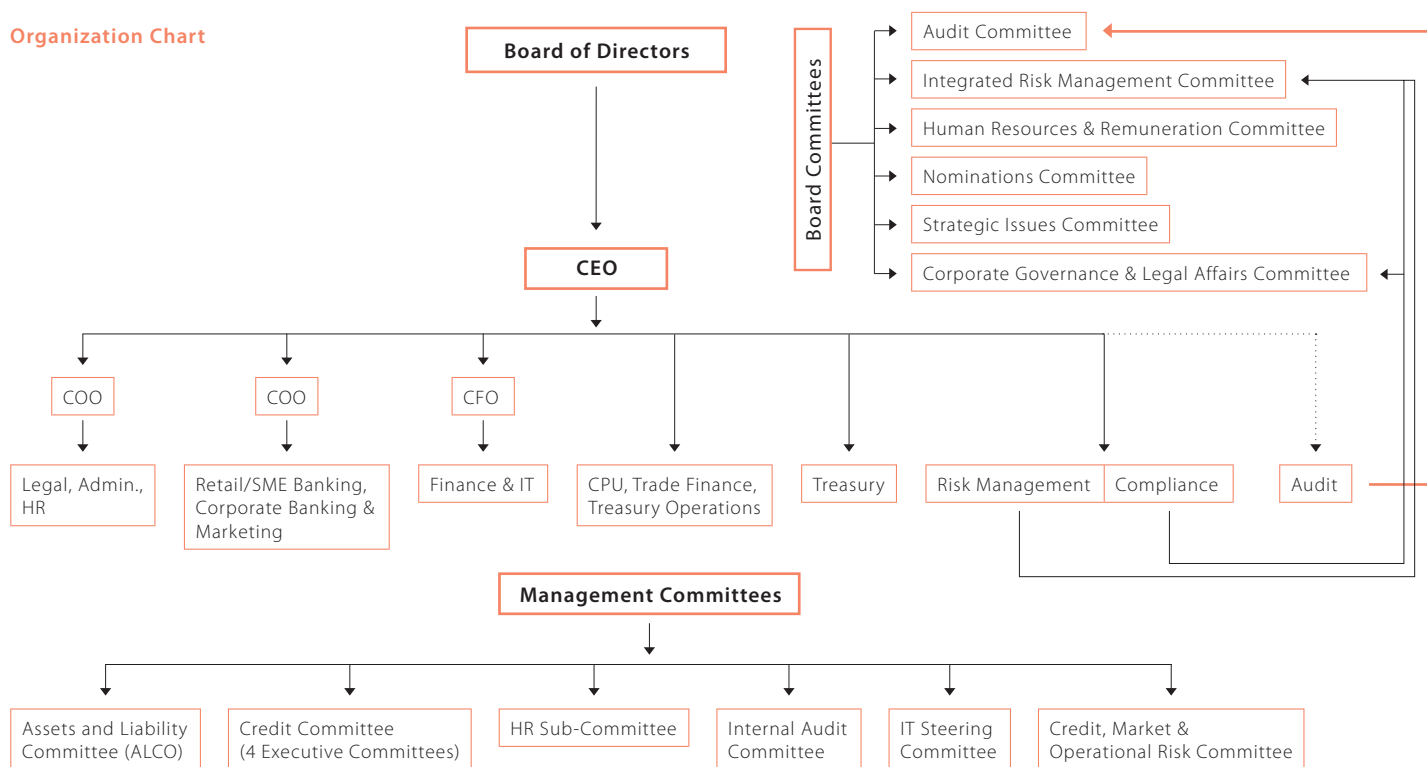
The CEO spearheads the senior management in their achievement of the strategic objectives based on the decisions taken by the Board.

Board Responsibility and Accountability

The Board of Directors under the leadership of the Chairman decides on the business strategy of the Bank on the recommendation of the senior management.

The Board of Directors is ultimately responsible for the financial success of the Bank, provides leadership in terms of NDB's overall business strategy, including the approving of the risk policy and risk management procedures. It is the responsibility of the senior management to ensure the implementation of these strategies, which is monitored by the Board. The Board is responsible for approving the risk capacity and appetite, taking into consideration the proposals put forth by the Integrated Risk Management Committee. The Board ensures that appropriate systems are in place to manage the identified risks prudently. The Board has delegated its authority in operational areas to the senior management, within clearly defined limits. The management works through a number of internal committees as shown in the diagram below:

Organization Chart



Corporate Governance

Code of Ethics

NDB's Board of Directors voluntarily adopted its own Code of Corporate Governance in January 2007, which inter alia sets out the duties of the Directors.

The Bank has implemented a Compliance Policy/Code of Conduct which sets out the standards of ethical and professional conduct that all employees of the Bank are expected to conform to and to ensure that all employees are aware of the standards of personal integrity they are required to exercise in conducting both the Bank's business as well as their own private and financial affairs.

Regulations and Supervision

NDB being a Licensed Commercial Bank is governed by the Banking Act No. 30 of 1988 (as amended) and the Directions issued by the Central Bank of Sri Lanka.

The Banking Act Direction No. 11 of 2007 and its amendments on Corporate Governance for Licensed Commercial Banks in Sri Lanka, issued by the Monetary Board of the Central Bank of Sri Lanka under Section 46 (1) of the Banking Act No. 30 of 1988 provides that the mandatory requirements set out in Direction 3 should be complied with by Licensed Commercial Banks from 1 January 2008 onwards and that all Licensed Commercial Banks should fully comply with the said provisions on or before 1 January 2009, except where extended compliance dates have been specifically provided for in the said Direction. NDB complies with the said Directions on Corporate Governance and the table containing the degree of compliance with explanatory comments thereon is given in pages 170-178.

NDB being committed to the high standards of Corporate Governance is also guided 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. Further, NDB has been exempted by the Colombo Stock Exchange from the requirement to comply with Section 7.10 (Corporate Governance) of the Continuing Listing Requirements under the Colombo Stock Exchange Listing Rules.

Assessment of Governance practices

Annually the 'Board assesses the effectiveness of the Board of Directors' own governance practices and makes necessary changes based on best practices.

Corporate Governance

Banking Act Direction No. 11 of 2007 on Corporate Governance

NDB's adherence to the Corporate Governance Directions, contained in the Banking Act Direction No. 11 of 2007 (as amended) issued by the Central Bank of Sri Lanka with explanatory comments thereon is set out as follows:

Rule No.	Principle	Compliance Status	Comments
3(1) Responsibilities of the Board	3(1)(i)	Compliant	The Board in its principle objective of delivering sustainable shareholder value provides leadership to the management in terms of the NDB's overall business strategy. The Board provides effective leadership within a framework of prudent and effective controls for the operations of the Bank.
	3(1)(ii)	Compliant	There is a clear division of responsibilities between the Chairman and the CEO of the Bank with regard to the executive responsibility for the running of the Bank, by defining the roles of the Chairman and the CEO.
	3(1)(iii)	Compliant	There have been fourteen Board meetings during 2011. Circulation of Board papers to obtain Board's consent is minimized and resorted to only when absolutely necessary. The attendance of Directors for Board and Committee meetings is set out in the table on page 185.
	3(1)(iv)	Compliant	The Directors have been informed that they could propose items for inclusion in the agenda. A Director is free to bring up any matter at Board meetings.
	3(1)(v)	Compliant	Company Secretary issues notice and agenda to the members of the Board 7 days in advance of the Board meeting.
	3(1)(vi)	Compliant	Board members have been informed of the relevant provisions and the Company Secretary monitors the attendance register to ensure compliance.

Corporate Governance

Rule No.	Principle	Compliance Status	Comments
3(1)(vii)	Appointment of a Company Secretary	Compliant	A person with the specified qualifications has been appointed.
3(1)(viii)	Access to the advice and services of the Company Secretary	Compliant	All Directors have access to the advice and services of the Company Secretary. The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that applicable laws, rules and regulations are complied with.
3(1)(ix)	Board meeting minutes	Compliant	Detailed Board minutes as appropriate, are made available to Directors.
3(1)(x)	Minutes to be in detail	Compliant	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.
3(1)(xi)	Independent professional advice at Bank's expense	Compliant	The availability of this service has been communicated to the members of the Board. Requests in this regard are made to the Chairman.
3(1)(xii)	Avoid conflicts of interest	Compliant	The Directors have been informed of the requirements. Furthermore, this requirement is also laid down in the Bank's Internal Code of Corporate Governance. Annually, a declaration is obtained from the Directors confirming whether they have avoided conflicts of interest.
3(1)(xiii)	Formal schedule of matters	Compliant	The Board has not delegated any matter so as to preclude the Board from having authority to direct and control the Bank. Any delegation is made formally.
3(1)(xiv)	Insolvency	Compliant The situation has not arisen	A Solvency Statement is prepared quarterly and tabled at the Integrated Risk Management Committee and the Board.
3(1)(xv)	Capital Adequacy Ratio	Compliant	The Bank is in compliance with Capital Adequacy requirements stipulated by the Central Bank.

Corporate Governance

Rule No.	Principle	Compliance Status	Comments
3(1)(xvi)	Corporate Governance Report	Compliant	The Annual Report contains a Corporate Governance Report.
3(1)(xvii)	Self assessment	Compliant	An evaluation is done annually by Directors based on a format which would constitute the scheme.
3(2) Composition of the Board			
3(2)(i)	Number of Directors	Compliant	The Board comprised nine Directors as at 2011 year end.
3(2)(ii)	Period of service of a Director	Compliant	This is monitored by the Company Secretary to ensure compliance.
3(2)(iii)	Appointment of an employee as a Director	Compliant	The CEO is the only employee on the Board. The number of Executive Directors does not exceed one-third of the Directors on the Board.
3(2)(iv)	Independent Non-Executive Directors	Compliant	Five of the eight Non-Executive Directors as at year end 2011 were independent. The number of independent Non-Executive Directors exceeds one-third of the total number of Directors on the Board.
3(2)(v)	Appointment of an alternate Director	Compliant	The Company Secretary monitors this to ensure compliance.
3(2)(vi)	Non-Executive Directors with credible track records, necessary skills and experience	Compliant	The Directors are eminent persons with experience, knowledge, expertise and good judgement, and have a clear understanding of their role as Board members.
3(2)(vii)	Number of Non-Executive Directors required to form a quorum	Compliant	Company Secretary maintains a summary of attendance of Directors and ensures compliance.
3(2)(viii)	Details of Directors	Compliant	The Directors' profiles and composition of the Board are published in the Annual Report.
3(2)(ix)	Appointment of new Directors	Compliant	The Board has approved guidelines for the Nominations Committee to recommend new Directors to the Board.

Corporate Governance

Rule No.	Principle	Compliance Status	Comments
3(2)(x)	Appointment to fill a casual vacancy	Compliant	Appointment to fill a casual vacancy is made by the Board. A person so appointed could be elected as a Director at the next Annual General Meeting. Central Bank approval is obtained in terms of the Banking Act for the appointment of Directors.
3(2)(xi)	Resignation or removal of a Director	Compliant	The reason for resignation is given.
3(2)(xii)	Appointment of a Director/ Employee to another bank	Compliant	None of the Directors or employees of the Bank have been appointed as Directors of other Banks.
3(3) Criteria to Assess the Fitness and Propriety of Directors			
3(3)(i)	Directors over 70 years of age	Compliant	This is monitored by the Company Secretary to ensure compliance.
3(3)(ii)	Holding of office in more than 20 companies	Compliant	This is monitored by the Company Secretary to ensure compliance.
3(4) Management Function Delegated by the Board			
3(4)(i)	Delegation arrangements	Compliant	Delegation papers are prepared in detail and presented to the Board. Terms of Reference of Board Committees are approved by the Board.
3(4)(ii)	Extent of delegation	Compliant	By delegating the Board does not lose the authority to deal with matters that have been delegated when necessary.
3(4)(iii)	Review of delegation process	Compliant	Delegation of authority is reviewed from time to time.
3(5) The Chairman and Chief Executive Officer			
3(5)(i)	Separation of roles of the Chairman and CEO	Compliant	In terms of the Internal Code of Corporate Governance there is a clear division of responsibilities between the Chairman and the CEO of the Bank with regard to the executive responsibility for the running of the Bank by defining the roles of the Chairman and the CEO.

Corporate Governance

Rule No.	Principle	Compliance Status	Comments
3(5)(ii)	Chairman to be a Non-Executive Director and preferably an independent Director	Compliant	The Chairman is a Non-Executive, independent Director and therefore, the appointment of an independent Director as the Senior Director does not arise.
3(5)(iii)	Relationship between Chairman and CEO and other Directors	Compliant	Based on the annual declarations and affidavits provided by the Directors, there is no relationship between the Chairman and CEO and among the members of the Board.
3(5)(iv)	Role of the Chairman	Compliant	The Chairman is responsible for the running of the Board, preserves order and ensures 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.
3(5)(v)	Primary responsibilities of the Chairman	Compliant	The responsibilities of the Chairman are included in the Bank's Internal Code of Corporate Governance. The Chairman inter alia, • is not involved in the day-to-day operations of the Bank and ensures that the Board is in control of the affairs of the Bank; • is responsible for setting the agenda for meetings in consultation with the Company Secretary; • ensures that the Board receives accurate, timely, clear and pertinent information; • ensures that all members of the Board participate effectively as a team, for the benefit of the Bank; • ensures effective communication with shareholders; • ensures that every Board member has an opportunity to be heard.
3(5)(vi)	Briefing on issues arising at Board meetings	Compliant	The Directors are adequately briefed in the course of discussions by the Chairman, CEO and officers of the management in respect of matters that are taken up by the Board. Board papers containing information are normally circulated among the Directors in advance.

Corporate Governance

Rule No.	Principle	Compliance Status	Comments
3(5)(vii)	Board to act in the best interest of the Bank	Compliant	The Chairman ensures that all members effectively participate as a team in Board decisions.
3(5)(viii)	Effective contribution of Non-Executive Directors and constructive relations between Executive and Non-Executive Directors	Compliant	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 CEO.
3(5)(ix)	Chairman not to engage in executive duties whatsoever	Compliant	In terms of the Internal Code of Corporate Governance the Chairman is not involved in the day-to-day operations of the Bank.
3(5)(x)	Effective communication with shareholders	Compliant	The Chairman ensures there is effective communication with shareholders and that the members of the Board develop an understanding of the views of the major investors and other key stakeholders.
3(5)(xi)	CEO to be the apex executive-in-charge of the daily operations and business	Compliant	This is a requirement of the Bank's Internal Corporate Governance Code as well. The CEO and senior management are 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.
3(6) Board Appointed Committees			
3(6)(i)	Four Board appointed committees	Compliant	The Board has appointed a Corporate Governance and Legal Affairs Committee (CGLA) and a Strategic Issues Committee in addition to the four Board committees mentioned in the Direction. Please refer pages 178-184 for details.
3(6)(ii)	Board Audit Committee - composition and responsibilities	Compliant	Please refer pages 178-180.
3(6)(iii)	Human Resources and Remuneration Committee - composition and responsibilities	Compliant	Please refer pages 182-183.

Corporate Governance

Rule No.	Principle	Compliance Status	Comments
3(6)(iv)	Nominations Committee - composition and responsibilities	Compliant	Please refer page 183.
3(6)(v)	Integrated Risk Management Committee - composition and responsibilities	Compliant	Please refer pages 180-181.
3(7) Related Party Transactions			
3(7)(i), (ii), (iii)	Avoid conflicts of interest in related party transactions and favourable treatment	Compliant	When entering into Related Party Transactions the Bank is governed by the Banking Act and Regulations issued thereunder. The Bank's internal Code of Corporate Governance has laid down provisions regarding Conflicts of Interest and procedure to be followed in the event of a Conflict of Interest. The policies and procedures relating to Related Party Transactions have been improved in the current year and will be continued to be reviewed and strengthened on an ongoing basis.
3(7)(iv)	Accommodation to Directors and/or their close relations	Compliant	When accommodation is granted to Directors and their close relations, the requirements of the Banking Act and Directions are complied with.
3(7)(v)	Appointment of a Director subsequent to granting of facilities	Compliant	The requirements of the Banking Act and Directions are complied with.
3(7)(vi)	Accommodation to employees	Compliant	Accommodation to employees is based on specific schemes that have been formulated.
3(7)(vii)	Remission of accommodation/ interest due on facilities under 3(7) (v) and 3(7) (vi)	Compliant	The situation has not arisen.

Corporate Governance

Rule No.	Principle	Compliance Status	Comments
3(8) Disclosures			
3(8)(I)	Publication of annual and quarterly Financial Statements	Compliant	
3(8)(ii)	Minimum disclosure requirements in the Annual Report		
	a. Annual Audited Financial Statements to be prepared in line with applicable accounting standards and regulatory requirements	Compliant	Please refer "Statement of Directors' Responsibilities" on page 201.
	b. Confirmation from Directors on the effectiveness of the internal control mechanism over the financial reporting system and compliance with accounting principles and regulatory requirements	Compliant	Please refer "Directors' Statement on Internal Control" on pages 202-203.
	c. External Auditors' certification on the internal control mechanism referred to in 3(8)(ii)(b) above	Compliant	Please refer page 206.
	d. Details of Directors, Directors' transactions with the Bank and total of fees/remuneration paid by the Bank	Compliant	Please refer 'Board of Directors' on pages 118-121. "Directors' Interests in Contracts with National Development Bank PLC" on pages 199-200 and page 197 for Directors' Remuneration.
	e. Total net accommodation to related parties included as a percentage of the Bank's regulatory capital	Compliant	Please refer page 257.
	f. Aggregate values of remuneration paid to and transactions with key management personnel	Compliant	Please refer page 256.
	g. External Auditors' certification of the compliance with the Corporate Governance Directions	Compliant	Certification has been provided by the External Auditors as required by the Direction.

Corporate Governance

Rule No.	Principle	Compliance Status	Comments
	h. Report of compliance with prudential requirements, regulations, laws and internal controls and rectification measures	Compliant	Please refer page 201.
	i. Lapses in the Bank's risk management or non-compliance with these directions, pointed out by the Director of Bank Supervision and directed by the Monetary Board to be disclosed to the public	Compliant	The situation has not arisen.

Board Committees

The Board of Directors has appointed six committees to oversee specific areas. They are the Audit Committee, Integrated Risk Management Committee, Nominations Committee, Strategic Issues Committee, Human Resources and Remuneration Committee and the Corporate Governance and Legal Affairs Committee. Committees size and composition are appropriate and the Committee members possess the relevant experience to function effectively.

The composition and workings of these Committees are elaborated in the table below:

Committee/Composition as at 31 December 2011	Scope of the Board Committee/Principal Activities carried out during the year
Audit Committee: Mr T L F W Jayasekara* Mr D S P Wikramanayake Mr S Rajapakse Ms G D C Ekanayake Ms K Fernando	The Audit Committee is entrusted with the task of monitoring the internal controls, systems and processes of the Bank. It also serves as an effective forum for the Board of Directors in discharging their responsibilities and is empowered to review and monitor the financial reporting process of the Bank and to provide additional assurance on the reliability of Financial Statements through a process of independent and objective reviews. At the end of 2011, the Audit Committee comprised of five Non-Executive Board members. Amongst its other functions, the Audit Committee Charter empowers the Audit Committee to examine any matters relating to the financial affairs of NDB and to review the adequacy of internal control procedures, coverage of internal and external audit plans, disclosure of accounting policies etc.

Corporate Governance

Committee/Composition as at 31 December 2011	Scope of the Board Committee/Principal Activities carried out during the year
	NDB has an effective and independent internal audit function, which reports to the Audit Committee covering operational, financial, credit and information security audits. The Committee ensures that the audit function is independent of the activities it audits and that impartiality is maintained with due professional care being exercised when carrying out its duties. The internal audit plan and results of the internal audit process is reviewed by the Committee and where necessary, it is ensured that appropriate actions are taken on the recommendations of the Internal Audit Department. The Committee also provides a forum for the impartial review of the regular internal audit reports and investigation reports and takes into consideration the major findings and recommendations stated therein relating to significant business risks and control issues suggesting appropriate remedial measures where necessary. The Committee also reviews and monitors the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with the applicable standards and best practices. Before the audit commences, the nature and scope of the external audit is discussed including an assessment of the Bank's compliance with the relevant directions in relation to Corporate Governance, the management's internal controls over financial reporting and the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations. The Committee also reviews the External Auditor's management letter and management's response thereto. The Committee reviews the Financial Statements of the Bank, its Annual Report, accounts and disclosures and significant financial reporting, judgements contained therein, before submission to the Board, focusing particularly on major judgmental areas, any changes in accounting policies and practices, significant adjustments arising from the audit, going concern assumption and compliance with the relevant accounting standards and other legal requirements.

Corporate Governance

Committee/Composition as at 31 December 2011	Scope of the Board Committee/Principal Activities carried out during the year
	During the year, nine Audit Committee meetings were held with due notice of issues to be discussed, recording its conclusions in discharging its duties and responsibilities. The minutes of Committee meetings were formalized and made available to the Board of Directors for their information.
Integrated Risk Management Committee: Mr D S P Wikramanayake* Mr H D S Amarasuriya Ms G D C Ekanayake Mr N I R de Mel Mr F Ozman (CFO) Ms Nirmala Rayen (Head - Group Risk Management) Ms C Chandrapala (Head - Market Risk) Mr S S Ganendran (Head - Operational Risk)	The Integrated Risk Management Committee was formed in June 2008 replacing the Risk and Credit Committee of the Board, in compliance with the Section 3 (6) of Direction No. 11 of 2007, on the subject 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'. The Committee consists of three Non-Executive Directors, the CEO, Head of Group Risk, Head of Operational Risk, Head of Market Risk and Head of Strategic Risk. In addition, key members of the staff participate at the meetings as appropriate. IRMC Committee Meetings The Committee held four meetings on a quarterly basis, during the year under review to discuss the normal scope of work and two special meetings jointly with Board Audit Committee to discuss the risk assessment of the new core banking system changeover. The attendance of Committee Members at meetings is given under page 185 of the Annual Report. The minutes of the Committee meetings were made available to the Board of Directors for their information and necessary action and were affirmed by the Board. 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 adequacy of provisions 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

Corporate Governance

Committee/Composition as at 31 December 2011	Scope of the Board Committee/Principal Activities carried out during the year
	- Assess adequacy and effectiveness of all Executive Credit Committees, Policy Committees on Credit, Market and Operational Risk and ALCO - Compliance with the local laws and regulations etc. - 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.
Strategic Issues Committee: Mr H D S Amarasuriya* Mr A K Pathirage Ms K Fernando Mr T L F W Jayasekara Mr S Rajapakse Mr H A Siriwardena Mr D S P Wikramanayake	The Strategic Issues Committee was formed in 2005. The Committee consists of seven Non-Executive Directors. The Committee was set up to examine and evaluate strategic issues of a regular as well as an ad hoc nature and recommend any action the Board should take. The Committee was set up to serve as a catalyst as well as a monitor of the development and implementation of the Bank's business strategies. The Committee assists the Board in maintaining an interactive strategic planning process with the management. This includes review and assessment of business strategy plans developed by the management and approved by the Board. Committee Meetings The Committee meets as and when necessary and as such there were no meetings of the Committee during the year under review. The Chairman of the Committee is the Chairman of the Board. The majority of the Committee members are independent Directors of the Bank. The CEO and the management may be present at meetings of the Committee. The Minutes of the Committee meetings would be made available to the Board of Directors for their information and necessary action.

Corporate Governance

Committee/Composition as at
31 December 2011

Scope of the Board Committee/Principal Activities carried out during
the year

Scope of Duties

The main responsibilities of the Committee are -

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

Human Resources and Remuneration Committee:

Mr H D S Amarasuriya*

Mr A K Pathirage

Ms K Fernando

Mr T L F W Jayasekara

Mr S Rajapakse

Mr H A Siriwardena

The Human Resources and Remuneration Committee was formed in 2003. The Committee consists of six Non-Executive Directors. The Committee was set up to determine the human resources and remuneration policies (salaries, allowances and other financial payments) relating to Directors, the CEO and Key Management Personnel. The Committee also evaluates the performance of the CEO and the Key Management Personnel against the set targets and goals periodically and determines the basis for revising remuneration benefits and other payments of performance based incentives.

Committee Meetings

The Committee held four meetings during the year under review. The attendance of Committee members at meetings is given under page 185 of the Annual Report. The minutes of the Committee meetings were made available to the Board of Directors for their information and necessary action and were affirmed by the Board.

Corporate Governance

Committee/Composition as at 31 December 2011	Scope of the Board Committee/Principal Activities carried out during the year
	Scope of Duties The main responsibilities of the Committee are to recommend to the Board the apportionment of the remuneration, perquisites and benefits of Non-Executive Directors including the Chairman out of a total sum determined for the purpose by the shareholders in terms of the Bank's Articles and to recommend to the Board the remuneration payable to the Executive Directors and the CEO of the Bank in terms of the Bank's Articles.
Nominations Committee: Mr A K Pathirage* Mr H D S Amarasuriya Mr T L F W Jayasekara Mr S Rajapakse (Chairman w.e.f. 27.01.2012) Mr H A Siriwardena	The Nominations Committee was formed in 2007. The Committee consists of five Non-Executive Directors. The Committee was set up to identify individuals qualified to become members of the Board and to recommend to the Board the nominees for the next Annual General Meeting. Committee Meetings The Committee held three meetings during the year under review. The Minutes of the Committee meetings were made available to the Board of Directors for their information and necessary action and were affirmed by the Board. Scope of Duties The main responsibilities of the Committee are - - Implement a procedure to select/appoint Directors, the CEO and Key Management Personnel. - To consider and recommend (or not recommend) the election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities. - To set up the criteria such as qualifications, experience, key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the Key Management positions.

Corporate Governance

Committee/Composition as at 31 December 2011	Scope of the Board Committee/Principal Activities carried out during the year
Corporate Governance and Legal Affairs Committee: Ms K Fernando* Ms G D C Ekanayake Mr H A Siriwardena Mr N I R de Mel	The Corporate Governance and Legal Affairs Committee was formed in 2007. The Committee consists of three Non-Executive Directors and the CEO. In addition, an External Advisor and key members of the staff participate at the meetings as appropriate. CGLA Committee Meetings The Committee held three meetings during the year under review. The attendance of Committee members at meetings is given under page 185 of the Annual Report. Scope of Duties The Committee is mandated with the task of assisting the Board in ensuring compliance with the Companies Act No. 07 of 2007, the Banking Act Directions on Corporate Governance, 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 and recommending improvements as appropriate.

**Chairman of the Committee*

Corporate Governance

Structure and composition of the Main Board, Board Committees as at end 2011 and the attendance of each Director is set out in the table below

Name of Director	Category	Main Board	Audit Committee		Integrated Risk Management Committee		Strategic Issues Committee		Human Resources and Remuneration Committee		Nominations Committee		Corporate Governance and Legal Affairs Committee		
Committee/ composition		*E	*A	*E	*A	*E	*A	*E	*A	*E	*A	*E	*A	*E	*A
P M Nagahawatte (Chairman - ceased to hold office w.e.f. 01.08.2011)	Non-Executive Independent	8	8					–	–			2	2	2	2
H D S Amarasuriya (Chairman - appointed w.e.f. 04.08.2011)	Non-Executive Independent	14	13			5	3	–	–	4	4	3	3		
A K Pathirage (Deputy Chairman - appointed w.e.f. 04.08.2011)	Non-Executive	11	10					–	–			1	1	1	1
N I R de Mel (CEO)	Executive	14	13			6	6							1	1
R Vokes (resigned w.e.f. 12.05.2011)	Non-Executive Independent	6	5	4	1			–	–	3	2	2	2		
T L F W Jayasekara	Non-Executive Independent	14	14	9	9	4	4	–	–	4	3	3	3		
D S P Wikramanayake	Non-Executive	14	14	9	8	6	6	–	–						
K Fernando	Non-Executive Independent	14	14	3	1			–	–	4	1			3	3
H A Siriwardena	Non-Executive Independent	14	13							4	2	1	1	3	3
G D C Ekanayake	Non-Executive	12	11	3	3	2	2							3	3
S Rajapakse	Non Executive Independent	11	11	6	6	3	2	–	–			1	1		
*E - Eligible to attend		*A - Attended													

NDB Group Companies



AVIVA NDB Finance Lanka (Pvt) Ltd.

No. 75, Kumaran Ratnam Road, Colombo 02.
Tel: +94 11 2310000

(Holding Company of AVIVA NDB Insurance PLC)

NDB Group's Investment	Rs 741 mn
Profit after Tax (Group)	Rs 643 mn
Net Assets (Group)	Rs 3,314 mn

Directors:

S Machell - Chairman

R J Donaghy

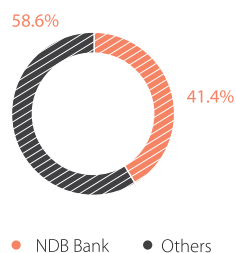
T R Ramachandran

N I R de Mel

D S P Wikramanayake (Appointed w.e.f. 24.05.2011)

N S Welikala (Resigned w.e.f. 24.05.2011)

NDB Bank's indirect holding - 41.40%



● NDB Bank ● Others



AVIVA NDB Insurance PLC

No. 75, Kumaran Ratnam Road, Colombo 02.
Tel: +94 11 2310000

(Insurance)

NDB Group's Investment	Rs 741 mn
Profit after Tax (Group)	Rs 691 mn
Net Assets (Group)	Rs 3,331 mn

Directors:

T R Ramachandran - Chairman

S Rouf - Managing Director

D Sooriyaarachchi

D Hope

N Majmudar

N I R de Mel

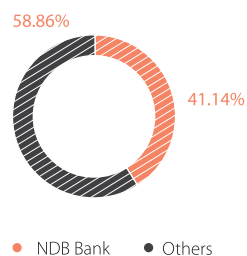
D S P Wikramanayake

L de Mel

I A Wickramasinghe (Resigned w.e.f. 08.02.2011)

H A Siriwardena (Appointed w.e.f. 08.02.2012)

NDB's direct and indirect holding - 41.14%



● NDB Bank ● Others



Capital Development and Investment Company PLC

No. 40, Navam Mawatha, Colombo 02.
Tel: +94 11 2448448

(Venture Capital)

NDB Group's Investment	Rs 2,331 mn
Profit after Tax (Group)	Rs 373 mn
Net Assets (Group)	Rs 5,308 mn

Directors:

A K Pathirage (Appointed w.e.f. 28.09.2011) -

Chairman

N I R de Mel

I A Wickramasinghe

Aruni Rajakarier

D S P Wikramanayake (Appointed w.e.f. 24.11.2011)

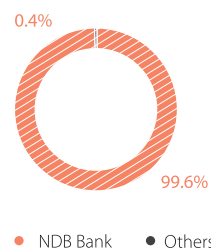
C V Kulatilaka (Appointed w.e.f. 02.12.2011)

N S Welikala (Resigned w.e.f. 24.05.2011)

H D S Amarasuriya (Appointed w.e.f. 24.05.2011 & resigned w.e.f. 28.09.2011)

N Wadugodapitiya (Resigned w.e.f. 18.01.2012)

NDB's direct holding - 99.6%



● NDB Bank ● Others

NDB Group Companies



NDB Investment Bank Ltd.

No. 40, Navam Mawatha, Colombo 02.

Tel: +94 11 2300385

(Investment Banking)

NDB Group's Investment	Rs 54 mn
Profit after Tax	Rs 156 mn
Net Assets	Rs 288 mn

Directors:

D S P Wikramanayake (Appointed w.e.f. 29.06.2011) -
Chairman

N I R de Mel

C V Kulatilaka

D G Perera

S Peiris

L de Mel (Resigned w.e.f. 29.06.2011)

N S Welikala (Resigned w.e.f. 29.06.2011)

NDB's direct holding - 100%



100%



NDB Stockbrokers (Pvt) Ltd.

No. 40, Navam Mawatha, Colombo 02.

Tel: +94 11 2131000

(Stock Broking)

NDB Group's Investment	Rs 27 mn
Profit after Tax	Rs 70 mn
Net Assets	Rs 291 mn

Directors:

S R de Silva - Chairman

N I R de Mel (Appointed w.e.f. 24.05.2011)

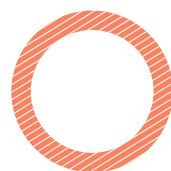
S N Jayasinghe

C V Kulatilaka

I A Wickramasinghe

N S Welikala (Resigned w.e.f. 24.05.2011)

NDB's direct holding - 100%



100%



Development Holdings (Pvt) Ltd.

No. 42, Navam Mawatha, Colombo 02.

Tel: +94 11 2436279

(Property Development)

NDB Group's Investment	Rs 228 mn
Profit after Tax	Rs 492 mn
Net Assets	Rs 1,809 mn

Directors:

L de Mel - Chairman

S N Jayasinghe

E D K Weerasuriya

(Mrs) C L Jayawardena

(Mrs) D Seneviratne

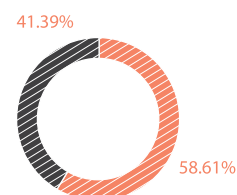
J Ratnayake

(Ms) S Weerakoon

S Wijesinghe

(Mrs) P K Sumithrarachchi

NDB's direct holding - 58.61%



● NDB Bank ● Others

NDB Group Companies



NDB Capital Ltd.

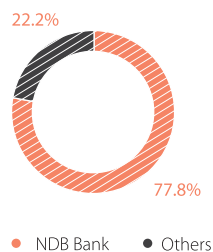
Bilquis Tower, 5th Floor, Plot 6 (New),
Gulshan 2, Dhaka 1212, Bangladesh.
Tel: +88 02 9888626, +88 02 9888979
(Investment Banking)

NDB Group's Investment	Rs 131 mn
Profit after Tax	Rs 17 mn
Net Assets	Rs 129 mn

Directors:

H D S Amarasuriya - Chairman
A L M Khan
C M Alam
C V Kulatilaka
K Jayawardana
(Mrs) Z Chowdhury
H F Chowdhury
Q G R Arif - MD (Appointed w.e.f. 25.01.2012)

NDB's direct holding - 77.8%



NDB AVIVA Wealth Management Ltd.

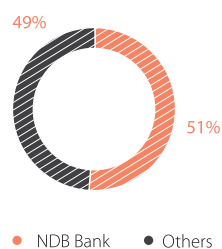
No. 42, Navam Mawatha, Colombo 02.
Tel: +94 11 2303232
(Wealth Management)

NDB Group's Investment	Rs 24 mn
Profit after Tax	Rs 66 mn
Net Assets	Rs 237 mn

Directors:

D S P Wikramanayake - Chairman
C V Kulatilaka
T R Ramachandran
N I R de Mel (Appointed w.e.f. 31.05.2011)
D U R Wijesinghe (Appointed w.e.f. 28.09.2011)
N S Welikala (Resigned w.e.f. 31.05.2011)
Deepal Sooriyarachchi (Resigned w.e.f. 28.09.2011)

NDB's indirect holding - 51%



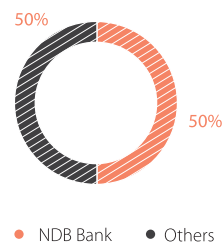
Ayojana Fund (Pvt) Ltd.

1st Floor, Parkway Building,
No. 48 1/1, Park Street, Colombo 02.
Tel: +94 11 4510505
(Venture Capital)

NDB Group's Investment	Rs 0.1 mn
Profit after Tax	-
Net Assets	-

The company is under liquidation and Mr Thomas Prins of CAS Corporate Services (Pte.) Ltd. has been appointed as liquidator from 24 July 2010.

NDB's direct holding - 50%



NDB Group Companies

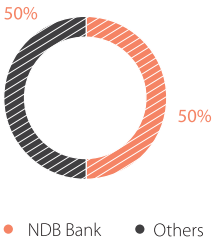


NDB Venture Investments (Pvt) Ltd.

1st Floor, Parkway Building,
No. 48 1/1, Park Street, Colombo 02.
Tel: +94 11 2307230
(Venture Capital)

NDB Group's Investment	Rs 19 mn
Profit after Tax	Rs 13 mn
Net Assets	Rs 67 mn

Directors:
(Ms) R L Nanayakkara - Chairperson
A Shrivastava
D Senathirajah
G C B Wijeyesinghe
NDB's direct holding - 50%

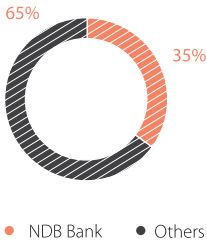


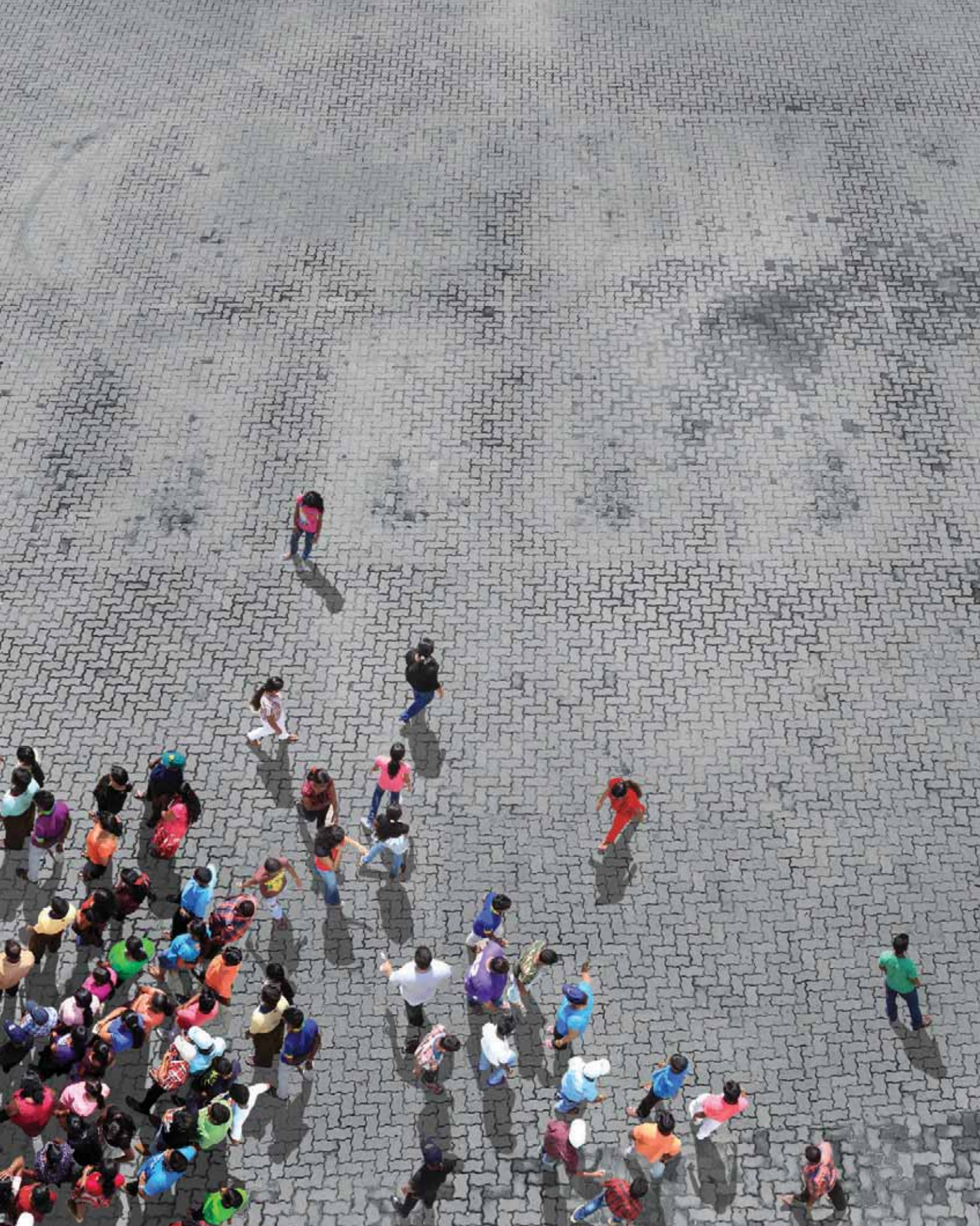
Maldives Finance Leasing Company (Pvt) Ltd.

04-01 Aage,
No. 12, Boduthakurufaanu Magu, Male 20-094,
Republic of Maldives.
Tel: +(960) 3315605/3315606
(Leasing)

NDB Group's Investment	Rs 165 mn
Profit after Tax	Rs (357) mn
Net Assets	Rs 27 mn

Directors:
M H Maniku
N I R de Mel
S Senanayake
S Abdulla
A Noordeen
H Afeef
H Rasheed
S Reza (Acting CEO)
NDB's direct holding - 35%





→ Financial Reports and Notes to the Accounts

Annual Report of the Directors on the State of Affairs of National Development Bank PLC	193
Directors' Interests in Contracts with National Development Bank PLC	199
Statement of Directors' Responsibilities	201
Directors' Statement on Internal Control	202
Independent Assurance Report	204
Audit Committee Report	205
Independent Auditors' Report	207
Income Statement	208
Balance Sheet	209
Statement of Changes in Equity	210
Cash Flow Statement	211
Significant Accounting Policies	213
Notes to the Financial Statements	229

Financial Calendar 2011

Interim Quarterly Unaudited Reports for 2011
March - 29 May 2011*
June - 30 August 2011*
September - 29 November 2011*
December - 28 February 2012*

Meetings

First Annual General Meeting	- 26 April 2006
Second Annual General Meeting	- 26 April 2007
Third Annual General Meeting	- 29 April 2008
Fourth Annual General Meeting	- 30 March 2009
Fifth Annual General Meeting	- 30 March 2010
Sixth Annual General Meeting	- 30 March 2011

* Published in the newspapers

Annual Report of the Directors on the State of Affairs of National Development Bank PLC

The Directors of the National Development Bank PLC (NDB) have pleasure in presenting their Report on the state of affairs of NDB together with the Audited Financial Statements for the year ended 31 December 2011.

The Audited Financial Statements were approved by the Board of Directors by circulation on 24 February 2012.

Principal Activities

The principal activities of NDB and NDB Group are described under Note 1 to the Financial Statements on page 229.

Details of the NDB Group companies indicating NDB's own holding in key companies is shown on pages 186 to 189.

Vision, Mission and Values

The Vision, Mission and Values of NDB are given on page 4 of this Report.

Review of Business

The Chairman's Review, the Chief Executive's Review, the Financial Review and the Operations Review which form an integral part of the Directors' Report on the state of affairs of the Bank, contain a detailed description of the operations of NDB during the year ended 31 December 2011 and contain a fair review of NDB's affairs.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of NDB 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, 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 208 to 258 inclusive, give a true and fair view of the state of affairs of NDB and the NDB Group as at 31 December 2011 as well as the profit for the year then ended.

The Directors consider that, in preparing these Financial Statements, suitable accounting policies have been used which are applied consistently and supported by reasonable and prudent judgment and that all applicable accounting standards have been followed. The Financial Statements are prepared on a going concern basis.

The Directors are satisfied that all statutory payments have been made up to date.

Annual Report of the Directors on the State of Affairs of National Development Bank PLC

Corporate Governance

The Directors are responsible for the governance of NDB including the establishment and maintenance of NDB'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 NDB and that the internal control systems referred to above are effective.

A description of NDB's Corporate Governance Practices is set out on pages 167 to 185.

Profits and Reserves

The NDB Group's profit before taxation including that of its subsidiaries and its share of profit from associate companies amounted to Rs 4,608 mn (compared to Rs 4,351 mn in 2010). After deducting Rs 1,668 mn (compared to Rs 2,175 mn in 2010) for taxation, the profit after tax for the year amounted to Rs 2,941 mn (compared to Rs 2,176 mn in 2010).

NDB's profit before taxation amounted to Rs 3,360 mn (compared to Rs 3,353 mn in 2010). After deducting Rs 1,350 mn (compared to Rs 1,824 mn in 2010) for taxation, the profit after tax for the year amounted to Rs 2,011 mn (compared to Rs 1,529 mn in 2010).

Details are given in the Income Statement on page 208.

Details of the reserves are shown in the Statement of Changes in Equity on page 210.

Shares and Shareholders

In April 2011, NDB 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.

NDB had 8,251 registered shareholders as at 31 December 2011. The distribution, public holding, 20 Largest Shareholders and the share price during 2011 are set out in page 266 of the Annual Report.

Dividend

NDB paid an interim dividend of Rs 4.00 per share in December 2010 and a final dividend of Rs 4.50 per share for the year ended 31 December 2010.

On the recommendation of the Board of Directors, NDB has also paid an interim dividend of Rs 3.50 per share in December 2011.

In declaring the interim dividend the Directors ensured due compliance by NDB of the solvency provisions contained in the Companies Act No. 07 of 2007 and obtained a certification thereof from the External Auditor of NDB. This dividend was partly paid out of dividends received and partly out of taxable profits, the latter being subject to withholding tax.

Annual Report of the Directors on the State of Affairs of National Development Bank PLC

Property, Plant & Equipment and Depreciation

Details of the property, plant & equipment of NDB, additions made during the year and the depreciation charges for the year are shown in Note 28 to the Financial Statements on page 245.

Donations

No donations to external charitable or political organizations were made by NDB during the year, except for the following:

Corporate Social Responsibility

	Amount Rs
Buttala Project	543,267.00
English Communication Programme	1,882,100.00
Jeevana Livelihood Programme	513,775.00
Sponsorship for Edex	1,000,000.00
Solar Lamp Project	1,500,000.00
Library Project for Rural School	450,000.00
Cancer Aid Trust Fund	500,000.00
Staff CSR Activities	1,769,180.00
Other CSR Activities	722,861.00
	8,881,183.00

The Report on the Community Upliftment by NDB is given on pages 125 to 155 of the Annual Report.

Portfolio Loss Provision

The Directors have taken all reasonable steps in relation to the writing off and providing for portfolio losses. In respect of bad and doubtful loans they have satisfied themselves that all known bad loans and advances have been written off and that, where necessary, adequate provision has been made for doubtful loans.

In terms of the Sri Lanka Accounting Standards, provision has been made for any permanent diminution in value in the case of investment securities on an aggregate portfolio basis.

As at the date of this Report, the Directors are not aware of any circumstances, which would render inadequate amounts written off or provided for portfolio losses in the accounts of the NDB Group.

Annual Report of the Directors on the State of Affairs of National Development Bank PLC

Post-Balance Sheet Events

NDB's 99.6% held subsidiary Capital Development and Investment Company PLC (CDIC) approved a new business plan to position itself as a diversified financial services conglomerate with ultimate exposure to investment banking (both regionally and in Sri Lanka), stock broking, wealth management, private equity investments and insurance sectors.

Accordingly, CDIC will acquire 100% ownership of NDB Investment Bank and NDB Stockbrokers from NDB, which will complement its existing strategic investments in AVIVA NDB Insurance PLC and NDB AVIVA Wealth Management Ltd. The above acquisitions will be made subject to regulatory approvals.

There have been no other events subsequent to the Balance Sheet date that require disclosure.

Share Capital/Stated Capital and Debentures

The stated capital of NDB at the beginning and end 2011 of the year was Rs 1,093,094,670/-.

In 2011 NDB privately placed rated subordinated unsecured unlisted redeemable debentures having an aggregate face value of Rs 400,000,000. The proceeds of these debentures were utilized for re-lending purposes. The details of the said debentures are as follows:

Date	Amount Rs	Number of Debentures	Value Rs	Redemption	Rate of Interest
30 June 2011	1,000/- each	110,000	110,000,000	30 June 2016	03 months gross TBR + 1.00% per annum
22 July 2011	1,000/- each	290,000	290,000,000	30 June 2016	03 months gross TBR + 1.00% per annum

Directorate

In terms of the provisions of the Articles of Association of NDB, the Board of Directors, as at 31 December 2011, consisted of nine (09) Directors, including the Chairman and was made up as follows:

- Seven (07) Directors appointed by the shareholders.
- One director appointed as a representative of the Ministry of Finance.
- 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 the Inner Back Cover.

In terms of the provisions of the Articles of Association of NDB, one-third of the elected Directors shall retire from office and new Directors will be elected at each Annual General Meeting of NDB. Accordingly, Mr H D S Amarasuriya and Mr T L F Jayasekara will retire and stand for re-election by the shareholders at the Annual General Meeting of NDB.

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 page 177 of the Annual Report.

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.

Annual Report of the Directors on the State of Affairs of National Development Bank PLC

Interest Register

The NDB, 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 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' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 199 to 200 of the 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.

Directors' Remuneration

Directors' fees and Emoluments, in respect of the Group and NDB for the financial year ended 31 December 2011 are as follows:

	NDB	Group
Directors' Fees and Emoluments (Rs mn)	17.6	19.2

Insurance and Indemnity

Pursuant to a decision of the Board, NDB obtained an Insurance Policy to cover Directors' liability.

Directors' Shareholdings

Shareholdings of the Directors in NDB as at the year-end and their corresponding holdings as at the end of the previous year are as shown on page 265 of the Annual Report.

Directors' Interests in Debentures

There were no debentures registered in the name of any Director as at the beginning and at the end of the year.

Board Committees

There are six permanent committees of the Board, namely, Integrated Risk Management Committee, Audit Committee, Strategic Issues Committee, Remuneration and Human Resources Committee, Nominations Committee and Corporate Governance and Legal Affairs Committee. Details of the members of these six committees are given on the Inner Back Cover.

Auditors

The Financial Statements for the year ended 31 December 2011 have been audited by M/s. Ernst & Young, Chartered Accountants.

Annual Report of the Directors on the State of Affairs of National Development Bank PLC

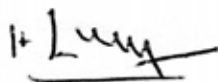
Fees to Auditors

The fees paid to Auditors during the year was Rs 9.4 mn (2010 - Rs 6.0 mn) for audit work and Rs 2.0 mn for non-audit work (2010 - Rs 1.2 mn).

Reappointment of Auditors

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.

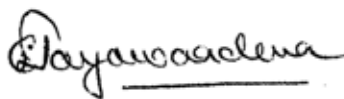
For and on behalf of the Board,



H D S Amarasuriya
Chairman



N I R de Mel
Chief Executive Officer



C L Jayawardena
Secretary to the Board

24 February 2012

Directors' Interests in Contracts with National Development Bank PLC

	Relationship	Accommodation Granted/Deposits	Balance Outstanding as at 31.12.2011 Rs '000	Balance Outstanding as at 31.12.2010 Rs '000
(a) Mr H D S Amarasuriya				
Singer (Sri Lanka) PLC	Chairman	Deposits & Investments	13,338	7,379
		Loans/Advances	150,000	520,000
		Off-Balance Sheet Accommodations	112,918	178,289
Regnis Lanka PLC	Chairman	Deposits & Investments	6,554	685
		Loans/Advances	88,461	72,040
		Off-Balance Sheet Accommodations	76,434	43,061
Regnis Appliances (Pvt) Ltd.	Chairman	Loans/Advances	646	–
		Off-Balance Sheet Accommodations	265,479	48,967
		Bata Shoe Company of Ceylon Ltd.	Director	Deposits & Investments
ACL Cables PLC	Director	Deposits & Investments	–	1,445
		Loans/Advances	10,885	129,295
		Off-Balance Sheet Accommodations	67,921	90,939
C W Mackie PLC	Director	Deposits & Investments	1,837	1,964
		Loans/Advances	218,620	101,843
		Singer Finance (Lanka) PLC	Chairman	Deposits & Investments
(b) Mr A K Pathirage				
Softlogic Holdings PLC	Chairman/Managing Director	Deposits & Investments	1,155	797
		Loans/Advances	500,536	–
Uni Walkers (Pvt) Ltd.	Chairman/Managing Director	Deposits & Investments	–	5,762
		Loans/Advances	141,562	196,095
		Off-Balance Sheet Accommodations	6,317	16,549
Asiri Central Hospitals PLC	Chairman/Managing Director	Loans/Advances	23,750	26,626
Central Hospital (Pvt) Ltd.	Chairman/Managing Director	Loans/Advances	41,560	75,000
Softlogic Capital Ltd.	Chairman	Deposits & Investments	2,637	–
		Loans/Advances	450,000	–
Softlogic Communications (Pvt) Ltd.	Chairman	Deposits & Investments	6,797	1,518
		Loans/Advances	421,698	424,424
		Off-Balance Sheet Accommodations	2,591	–
Softlogic Information Technologies (Pvt) Ltd.	Chairman	Deposits & Investments	220	–
Asiri Hospital Holdings PLC	Managing Director	Deposits & Investments	2,895	863
Capital Development and Investment Company PLC	Director	Deposits & Investments	637,388	533,564

Directors' Interests in Contracts with National Development Bank PLC

	Relationship	Accommodation Granted/Deposits	Balance Outstanding as at 31.12.2011 Rs '000	Balance Outstanding as at 31.12.2010 Rs '000
(c) Mr N I R De Mel				
NDB Investment Bank Ltd.	Director	Deposits & Investments	163,309	99,717
		Loans/Advances	–	84
AVIVA NDB Insurance PLC	Director	Deposits & Investments	378,656	383,198
Capital Development and Investment Company PLC	Director	Deposits & Investments	637,388	533,564
Maldives Finance Leasing Company Ltd.	Director	Deposits & Investments	144	–
		Loans & Advances	–	15,484
NDB AVIVA Wealth Management Ltd.	Director	Deposits & Investments	153	100,083
NDB Stockbrokers (Pvt) Ltd.	Director	Deposits & Investments	141,524	40,147
(d) Mrs K Fernando				
L B Finance PLC	Director	Deposits & Investments	441	4
		Loans/Advances	1,145,700	1,080,800
(e) Mr D S P Wickremanayke				
AVIVA NDB Insurance PLC	Director	Deposits & Investments	378,656	383,198
NDB AVIVA Wealth Management Ltd.	Director	Deposits & Investments	153	100,083
PC House PLC	Director	Deposits & Investments	2,989	374
		Loans/Advances	403,909	236,559
		Off-Balance Sheet Accommodations	156,385	110,325
Greenwich Lanka (Pvt) Ltd.	Director	Deposits & Investments	9,297	–
		Loans/Advances	53,586	24,694
		Off-Balance Sheet Accommodations	50	–
NDB Investment Bank Ltd.	Director	Deposits & Investments	163,309	99,717
		Loans/Advances	–	84
Capital Development and Investment Company PLC	Director	Deposits & Investments	637,388	533,564
Procifinity Ltd.	Director	Deposits & Investments	85	–
(f) Mr T L F W Jayasekara				
Brandix Lanka Ltd.	Director	Deposits & Investments	1,118	–
Ceylease Financial Services Ltd.	Director	Deposits & Investments	56	–
		Loans/Advances	191,868	50,000

Statement of Directors' Responsibilities

The Directors of National Development Bank PLC (NDB) are required by relevant statutory provisions to prepare and table at a General Meeting of NDB, such Financial Statements as may be necessary, which give a true and fair view of the state of affairs of NDB and the NDB Group.

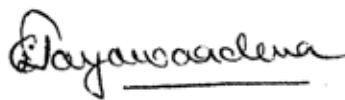
It is also the responsibility of the Directors to ensure that NDB maintains proper accounting records and to take reasonable steps as far as practical to ensure the accuracy and reliability of accounting records and to prepare Financial Statements using appropriate Accounting Policies applied consistently 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'.

The Directors have been responsible for taking reasonable measures and care to safeguard the assets of NDB 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 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 205 and 206 of this Report.

Messrs Ernst & Young, Chartered Accountants have been made available with all records of NDB including the Financial Statements by the Board of Directors which they have examined and have expressed their opinion which appears as reported by them on page 207 of this Report.

The NDB has also complied with the prudential requirements, regulations, laws and internal controls and there were no material non-compliances.

By Order of the Board,



C L Jayawardena
Secretary to the Board

24 February 2012

Directors' Statement on Internal Control

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 Controls.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of National Development Bank PLC's system of Internal Controls. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, to achieve the policies and business objectives of the Bank, rather than eliminate the risk of failure. Accordingly, the system of Internal Controls can only provide reasonable but not absolute assurance against material misstatement of management and 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 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. As per the said guidance significant processes affecting significant accounts of the Bank were assessed along with the key risk areas of the Bank.

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 by the Bank and in the design, operation and monitoring of suitable Internal Controls to mitigate and control these risks.

The Board is of the view that the system of Internal Controls 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 and is in accordance with relevant accounting principles and regulatory requirements.

Key Features of the Process Adopted in Applying in Reviewing the Design and Effectiveness of the Internal Control System

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:

- The Board Sub Committees are established by the Board to assist the Board in ensuring the effectiveness of 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 Division 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 highlight 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 Audit Committee. Findings of the Internal Audit Division are submitted to the Audit Committee for review at their periodic meetings.

Directors' Statement on Internal Control

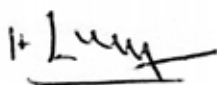
- The Audit Committee of the Bank reviews Internal Control issues identified by the Internal Audit Division, regulatory authorities and management, and evaluate the adequacy and effectiveness of the Internal Control systems. They also review the Internal Audit function with particular emphasis on the quality of audits performed. The minutes of the Audit Committee meetings are tabled for the information of the Board 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 205 to 206.
- In assessing the Internal Control system, 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. The Internal Audit Division checks for suitability of design and effectiveness of these procedures and controls on an ongoing basis during their Audit Process. Areas with respect to the processes that provide disclosures to the Financial Statements such as related party transactions, contingencies and commitments continue to be strengthened. The assessment did not include subsidiaries of the Bank.

Confirmation

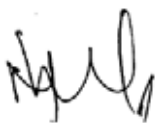
Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka 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 included in the Annual Report of the Bank for the year ended 31 December 2011 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 system of the Bank.



H D S Amarasuriya
Chairman



Trevine Jayasekara
Chairman Audit Committee



N I R de Mel
Chief Executive Officer

24 February 2012

Independent Assurance Report



Chartered Accountants

201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
eysl@lk.ey.com

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 ("Statement") included in the annual report for the year ended 31 December 2011.

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 both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Bank.

The procedures performed are limited primarily to inquiries of company personnel and the existence of documentation on a sample basis that supports 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 of the Bank.

(Sgd.)

24 February 2012

Colombo

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A de Silva ACA W R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

Audit Committee Report

1. Introduction

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 178.

2. Composition of the Committee and Meetings

The Audit Committee comprised of five Non-Executive Directors as at the end of the year of which four 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 specialist financial/auditing backgrounds.

The Committee had nine meetings during the year and information on the attendance at these meetings by the members of the Committee is given on page 185.

The Chief Executive Officer attended the meetings of the Committee by invitation. The Head of Internal Audit, the External Auditors: Ernst & Young, the Chief Financial Officer and the two Chief Operating Officers also attended the meetings. Other officials were invited to attend the meetings on a needs basis.

The activities and views of the Committee have been communicated to the Board of Directors by tabling the minutes of the Committee's meetings at Board meetings and by means of separate discussion papers for consideration by the Board.

3. Financial Reporting

The Audit Committee has reviewed and discussed the Bank's quarterly and annual Financial Statements prior to publication with management and the External Auditors, including the extent of compliance with Sri Lanka Accounting Standards and the adequacy of disclosures required by other applicable laws, rules and guidelines. The Committee has also regularly discussed the operations of the Bank and its future prospects with management and is satisfied that all relevant matters have been taken into account in the preparation of the Financial Statements and that the financial position of the Bank is secure.

4. Internal Audit, Risks and Controls

The Bank's Internal Audit Charter and Internal Audit Manual were last reviewed in the last quarter of 2011, and approved by the Board Audit Committee.

The Internal Audit Department has provided independent assurance on the overall system of internal controls and governance, by evaluating the adequacy and effectiveness of internal controls and compliance with laws and regulations and established policies and procedures of the Bank, based on the audits performed in 2011.

During the year, audit reports were received by the Committee from the Internal Auditors covering audits and investigations which were reviewed and discussed with management and the Internal Auditors. The recommendations of the Internal Auditors have been followed up and implemented. Formal confirmations and assurances were received from the Chief Executive Officer on a quarterly basis regarding the efficacy and status of the internal control systems.

While the monitoring of the risk management systems of the Bank, including the compliance function, comes under the purview of the Bank's Integrated Risk Management Committee, the Audit Committee has in its work been constantly alert to the threats posed by significant business and operational risks. Two members of the Audit Committee also served as members of the Bank's Integrated Risk Management Committee during the year.

Audit Committee Report

5. External Audit

The External Auditors' letter of engagement, including the scope of the audit, was reviewed and discussed by the Committee with management and the External Auditors prior to the commencement of the audit.

The External Auditors kept the Committee advised on an on-going basis regarding any unresolved matters of significance. Before the conclusion of the audit, the Committee met with the External Auditors to discuss all audit issues and agree on their treatment. The Committee also met the External Auditors, without management present, twice during the period under review. The External Auditors' management letter for the year 2010, together with management's responses was discussed with management and the Auditors.

The External Auditors were also involved in validating the effectiveness of the internal control mechanism in relation to the financial reporting framework, together with the management, in order to provide a certification on the internal control environment in terms of the Banking Act Direction on Corporate Governance.

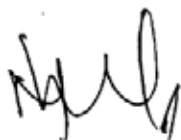
The Audit Committee is satisfied that the independence of the External Auditors has not been impaired by any event or service that gives rise to a conflict of interest. Due consideration has been given to the level of audit and non-audit fees received by the External Auditors from the NDB Group and confirmation has been received from the External Auditors on their compliance with the independence criteria given in the Code of Ethics of The Institute of Chartered Accountants of Sri Lanka.

The performance of the External Auditors has been evaluated and discussed with the senior management of the Bank, and the Committee has recommended to the Board that Ernst & Young be reappointed as the External Auditors of National Development Bank PLC for the financial year ending 31 December 2012, subject to approval by the shareholders at the Annual General Meeting.

6. Conclusion

The responsibilities of the Audit Committee in terms of Banking Act Direction No. 11 of 2007 on Corporate Governance, issued by the Central Bank of Sri Lanka and the Listing Rules of the Colombo Stock Exchange have been fulfilled.

Based on the reports submitted by the External Auditors and the Internal Auditors of the Bank, the assurances and certifications provided by the Chief Executive Officer, and the discussions with management and the Auditors, the Committee is of the view that the control environment within the Bank is satisfactory and provides reasonable assurance that the financial position of the Bank is adequately monitored and its assets are safeguarded.



Trevine Jayasekara
Chairman of the Audit Committee

24 February 2012

Independent Auditors' Report



Chartered Accountants

201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
eysl@lk.ey.com

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 balance sheets as at December 31, 2011 and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in the pages 208 to 258.

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 principles 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 December 31, 2011 and the financial statements give a true and fair view of the Bank's state of affairs as at December 31, 2011 and its profit 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 state of affairs as at December 31, 2011 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the members of the Bank.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Section 151(2) and Sections 153 (2) to 153 (7) of the Companies Act No. 07 of 2007.

(Sgd.)

24 February 2012
Colombo

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A de Silva ACA W R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

Income Statement

		NDB BANK			NDB GROUP		
		2011	2010	Change	2011	2010	Change
	Note	Rs '000	Restated Rs '000	%	Rs '000	Restated Rs '000	%
<i>For the year ended 31 December</i>							
Gross income	2	13,531,130	11,720,054	15	14,698,747	12,633,542	16
Interest income	3	11,337,032	9,653,943	17	11,541,126	9,848,466	17
Interest expenses	4	6,849,961	5,862,462	17	6,769,314	5,685,903	19
Net interest income		4,487,071	3,791,481	18	4,771,812	4,162,563	15
Other income	5	2,194,098	2,066,111	6	3,157,621	2,785,075	13
Net income		6,681,169	5,857,592	14	7,929,433	6,947,638	14
Operating expenses	6						
Personnel costs		1,704,906	1,293,673	32	1,976,398	1,530,081	29
Staff retirement benefits	7	84,389	32,000	164	91,166	36,689	148
Other administrative and general expenses	8	1,691,634	1,349,992	25	1,901,099	1,496,120	27
Total operating expenses		3,480,929	2,675,665	30	3,968,663	3,062,890	30
Operating profit before provisions		3,200,240	3,181,927	1	3,960,770	3,884,748	2
Provision/(Reversal) for bad and doubtful debts and for fall in value of securities	9	(160,727)	(171,541)	(6)	(317,008)	(171,541)	85
Operating profit after provisions		3,360,967	3,353,468	0	4,277,778	4,056,289	5
Share of associate companies' profit	10	–	–	–	330,793	294,784	12
Profit before taxation		3,360,967	3,353,468	0	4,608,571	4,351,073	6
Taxation	11	(1,349,554)	(1,824,092)	(26)	(1,667,710)	(2,175,044)	(23)
Profit for the year		2,011,413	1,529,376	32	2,940,861	2,176,029	35
Profit attributable to Equity Holders of the Parent		2,011,413	1,529,376	32	2,705,530	2,102,609	29
Minority interest		–	–	–	235,331	73,420	221
		2,011,413	1,529,376	32	2,940,861	2,176,029	35
Basic earnings per share (in Rs)	12	12.25	9.33		16.48	12.82	
Dividend per share (in Rs)	13	3.50	8.50				

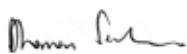
Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 213 to 258 are an integral part of these Financial Statements.

24 February 2012

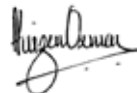
Balance Sheet

		NDB BANK			NDB GROUP		
		2011	2010	Change	2011	2010	Change
As at 31 December	Note	Rs '000	Restated Rs '000	%	Rs '000	Restated Rs '000	%
Cash and short-term funds	14	3,225,999	2,191,431	47	3,349,687	2,475,443	35
Balances with Central Bank	15	4,614,170	3,077,406	50	4,614,170	3,077,406	50
Investments held for trading	16	7,058,269	7,782,587	(9)	7,058,269	8,007,936	(12)
Investments held to maturity	17	16,383,363	15,222,142	8	18,168,906	16,740,026	9
Securities purchased under resale agreement		911,709	1,984,200	(54)	911,712	2,085,264	(56)
Dealing securities	18	233,771	368,650	(37)	543,809	832,427	(35)
Bills of exchange	19	3,824,828	3,266,461	17	3,824,828	3,266,461	17
Loans and advances	20	91,510,422	63,813,641	43	92,678,865	64,837,507	43
Lease rentals receivable	21	4,508,959	2,326,989	94	4,508,959	2,326,989	94
Investments in subsidiary companies	24	2,770,540	2,770,540	—	—	—	—
Investments in associate companies	25	286,898	452,460	(37)	1,796,695	1,762,589	2
Other assets	26	1,406,665	625,256	125	1,853,741	997,324	86
Intangible assets	27	278,633	206,720	35	318,347	210,300	51
Property, plant & equipment	28	828,754	650,433	27	1,185,259	707,727	67
Investment Properties	29	—	—	—	1,295,693	1,200,000	8
Goodwill	30	—	—	—	—	4,330	(100)
Total assets		137,842,980	104,738,916	32	142,108,940	108,531,729	31
Liabilities							
Deposits	31	80,310,181	59,363,660	35	80,310,181	59,363,660	35
Borrowings	32	27,913,530	16,937,822	65	26,686,271	16,061,460	66
Securities sold under repurchase agreements		11,242,672	12,174,293	(8)	11,242,672	12,174,293	(8)
Other liabilities	33	4,557,003	3,784,732	20	4,736,413	3,941,121	20
Tax liabilities		213,535	361,370	(41)	264,850	482,287	(45)
Deferred Tax	34	112,108	59,256	89	111,353	59,753	86
Dividends payable	35	755,381	450,793	68	755,381	450,793	68
Total liabilities		125,104,409	93,131,926	34	124,107,121	92,533,367	34
Shareholders' Funds							
Stated Capital	36	1,093,095	1,093,095	—	1,093,095	1,093,095	—
Statutory reserve fund	37	878,718	878,718	—	878,718	878,718	—
Investment Fund Account	38	386,825	—	100	386,825	—	100
Revenue reserves	39	10,379,932	9,635,177	8	14,730,506	13,309,466	11
		12,738,571	11,606,990	10	17,089,144	15,281,279	12
Minority interests		—	—	—	912,675	717,083	27
Total funds employed		12,738,571	11,606,990	10	18,001,819	15,998,362	13
Total liabilities and funds employed		137,842,980	104,738,916	32	142,108,940	108,531,729	31
Commitments and contingencies	42	145,667,380	95,704,093	52	145,667,380	95,704,093	52

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

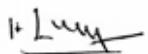


D Senathirajah
Vice-President - Finance & Planning



Faizan Ozman
Chief Financial Officer

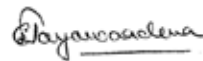
The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the Board.



H D S Amarasuriya
Chairman



N I R De Mel
Chief Executive Officer



C L Jayawardena
Company Secretary

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 213 to 258 are an integral part of these Financial Statements.

24 February 2012

Statement of Changes in Equity

For the year ended 31 December	Attributable to Equity Holders of the Parent						
	Stated Capital	Statutory Reserve Fund	General Reserve	Investment Fund	Retained Profit	Minority Interests	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
NDB BANK							
Balance as at 1 January 2010	1,032,931	818,554	5,805,707	–	3,437,432	–	11,094,624
Restatement of interest income	–	–	–	–	(38,609)	–	(38,609)
Balance as at 1 January 2010 restated	1,032,931	818,554	5,805,707	–	3,398,823	–	11,056,015
Issue of new shares	60,164	–	–	–	–	–	60,164
Transfer to Statutory Fund	–	60,164	–	–	(60,164)	–	–
Exchange difference on conversion of FCBU reserves	–	–	–	–	(55,319)	–	(55,319)
Profit for the year	–	–	–	–	1,529,376	–	1,529,376
Dividends paid (Refer Note 35)	–	–	–	–	(983,246)	–	(983,246)
Balance as at 31 December 2010	1,093,095	878,718	5,805,707	–	3,829,470	–	11,606,990
Balance as at 1 January 2011	1,093,095	878,718	5,805,707	–	3,914,998	–	11,692,518
Restatement of interest income	–	–	–	–	(85,528)	–	(85,528)
Balance as at 1 January 2011 restated	1,093,095	878,718	5,805,707	–	3,829,470	–	11,606,990
Profit for the year	–	–	–	–	2,011,413	–	2,011,413
Transfer to Investment Fund	–	–	–	386,825	(386,825)	–	–
Dividends paid (Refer Note 35)	–	–	–	–	(879,832)	–	(879,832)
Balance as at 31 December 2011	1,093,095	878,718	5,805,707	386,825	4,574,224	–	12,738,571
NDB GROUP							
Balance as at 1 January 2010	1,032,931	818,554	5,805,707	–	6,539,509	686,623	14,883,324
Restatement of interest income	–	–	–	–	(38,609)	–	(38,609)
Balance as at 1 January 2010 - restated	1,032,931	818,554	5,805,707	–	6,500,900	686,623	14,844,715
Issue of new shares	60,164	–	–	–	–	–	60,164
Transfer to Statutory Fund	–	60,164	–	–	(60,164)	–	–
Exchange difference on conversion of FCBU reserves	–	–	–	–	(55,320)	–	(55,320)
Exchange gain from valuation of foreign associate	–	–	–	–	(6,353)	–	(6,353)
Acquisition of total minority interest in a subsidiary company	–	–	–	–	5,332	(24,049)	(18,717)
Net profit for the period	–	–	–	–	2,102,609	73,420	2,176,029
Dividends paid (Refer Note 35)	–	–	–	–	(983,246)	(18,910)	(1,002,156)
Balance as at 31 December 2010	1,093,095	878,718	5,805,707	–	7,503,758	717,084	15,998,362
Balance as at 1 January 2011	1,093,095	878,718	5,805,707	–	7,589,287	717,084	16,083,890
Restatement of interest income	–	–	–	–	(85,528)	–	(85,528)
Balance as at 1 January 2011 - restated	1,093,095	878,718	5,805,707	–	7,503,759	717,083	15,998,362
Exchange gain from valuation of foreign associate	–	–	–	–	(17,832)	(1,989)	(19,820)
Transfer to Investment Fund	–	–	–	386,825	(386,825)	–	–
Profit for the year	–	–	–	–	2,705,530	235,331	2,940,861
Dividends paid (Refer Note 35)	–	–	–	–	(879,832)	(37,751)	(917,584)
Balance as at 31 December 2011	1,093,095	878,718	5,805,707	386,825	8,924,800	912,675	18,001,819

Cash Flow Statement

		NDB BANK		NDB GROUP	
		2011	2010	2011	2010
	Note	Rs '000	Restated Rs '000	Rs '000	Restated Rs '000
For the year ended 31 December					
Cash flows from operating activities					
Interest received		11,391,173	10,352,927	11,572,159	10,685,516
Fee based income received		1,156,265	157,736	1,680,745	253,040
Dividend income received		311,124	197,284	132,595	213,917
Other income received		980,565	2,277,768	1,446,844	2,852,743
Interest paid		(6,215,430)	(6,252,562)	(6,215,430)	(6,251,883)
Personnel costs paid		(1,704,905)	(1,293,673)	(1,958,117)	(1,547,754)
General expenses paid		(1,506,478)	(1,211,287)	(1,827,087)	(1,377,592)
Operating profit before changes in operating assets and liabilities	a	4,412,314	4,228,193	4,831,709	4,827,987
Net increase in loans and advances		(30,164,965)	(15,733,608)	(30,164,965)	(15,733,608)
Deposits from customers		20,946,521	9,416,071	20,946,521	9,416,071
Net (increase)/decrease in other receivables		(802,676)	18,388	(723,686)	(226,096)
Net increase/(decrease) in other liabilities		207,653	291,175	174,920	406,771
Net cash inflow/(outflow) from operating activities before taxation		(5,401,154)	(1,779,780)	(4,935,501)	(1,308,875)
Financial Services VAT paid		(578,869)	(792,174)	(578,869)	(792,174)
Income taxes paid		(939,576)	(1,078,899)	(1,075,328)	(1,216,623)
Net cash provided by/(used in) operating activities		(6,919,599)	(3,650,853)	(6,589,698)	(3,317,672)
Cash flows from investing activities					
Net increase in investments -					
Acquisition of total minority interests in a subsidiary company		–	(21,883)	–	(21,883)
Government Treasury Bills and Bonds		453,245	4,866,428	452,718	4,676,816
Change in other investments		45,558	(904,164)	(408,461)	(955,332)
Securities sold under repurchase agreements		(931,621)	1,373,043	(833,656)	1,373,043
Net due to/(from) related companies		(17,872)	17,889	(17,872)	17,889
Expenditure on property & equipment		(476,801)	(257,265)	(525,150)	(292,212)
Proceeds from sale of property & equipment		17,959	27,177	18,594	27,248
Net cash provided by/(used in) investing activities		(909,532)	5,101,223	(1,313,827)	4,825,568
Cash flows from financing activities					
(Decrease)/Increase in borrowings		10,975,708	(3,299,056)	10,975,708	(3,299,056)
Dividend paid		(575,245)	(876,612)	(661,174)	(899,147)
Net cash provided by/(used in) financing activities		10,400,463	(4,175,668)	10,314,534	(4,198,203)
Net increase/(decrease) in cash and cash equivalents		2,571,330	(2,725,300)	2,411,007	(2,690,307)
Cash and cash equivalents at the beginning of the year		5,268,837	7,994,137	5,552,850	8,243,156
Cash and cash equivalents at the end of the year	b	7,840,167	5,268,837	7,963,857	5,552,849

Cash Flow Statement

	NDB BANK		NDB GROUP	
	2011	2010	2011	2010
	Rs '000	Restated Rs '000	Rs '000	Restated Rs '000
<i>For the year ended 31 December</i>				
Note a				
Reconciliation of Operating Profit				
Profit before taxation	3,360,967	3,353,468	4,608,571	4,351,073
Add/(less)				
Accrued interest on loans & advances	54,142	698,977	54,142	698,976
Accrued interest on deposits & borrowings	634,531	(390,099)	634,531	(390,099)
Profit on disposal of fixed assets	(17,807)	(7,494)	(17,807)	(7,494)
Depreciation of Property, Plant & Equipment	226,615	191,003	246,625	204,545
(Gain)/loss on marked to market valuation on shares	74,789	(106,161)	194,589	(256,198)
Capital (gain)/ loss on sale of shares	25,266	(120,963)	25,266	(120,963)
Proceeds on sale of shares	171,608	856,617	90,663	890,084
Accrued general expenses	22,875	(30,325)	22,875	(30,325)
Exchange gain	–	(55,321)	–	(55,321)
Provision for investment	165,562	–	9,281	–
Loan loss provision	(326,289)	(171,541)	(326,289)	(171,540)
Deferment of Equity Linked Compensation Plan	20,055	10,033	20,055	10,033
Share of profit of Associate	–	–	(330,793)	(294,784)
Change in the fair value of investment property	–	–	(400,000)	–
Operating profit before changes in operating assets and liabilities	4,412,314	4,228,193	4,831,709	4,827,987
Note b				
Reconciliation of cash and cash equivalents				
Cash and short-term funds	3,225,999	2,191,431	3,349,687	2,475,443
Balances with Central Bank	4,614,170	3,077,406	4,614,170	3,077,406
	7,840,167	5,268,837	7,963,857	5,552,849

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 213 to 258 are an integral part of these Financial Statements.

24 February 2012

Significant Accounting Policies

1. General

1.1 Accounting Convention

Basis of Preparation

The Financial Statements, both Consolidated Financial Statements (NDB Group) and Separate Financial Statements (Bank) comprising Balance Sheets as of 31 December 2011, Statements of Income, Cash Flow and Changes in Equity for the year then ended, together with Accounting Policies and Notes thereto; have been prepared on a historical cost basis unless otherwise indicated.

These Financial Statements of the Bank and NDB Group are presented in Sri Lanka Rupees.

1.1.1 Statement of Compliance

The Financial Statements of NDB Group has been prepared in accordance with Sri Lanka Accounting Standards. The preparation and presentation of these Financial Statements is also in compliance with the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto.

1.1.2 Comparative Information

The accounting policies have been consistently applied by NDB Group and, are consistent with those used in the previous year. Previous year's figures and phrases have been restated and reclassified wherever necessary to confirm to current presentation, including details as explained in Note 41 to these Financial Statements.

1.1.3 Date of Authorization for Issue

The Financial Statements of National Development Bank PLC for the year ended 31 December 2011 was authorized for issue in accordance with a resolution of the Board of Directors on 24 February 2012.

1.1.4 Going Concern

The Directors have made an assessment of NDB's ability to continue as a going concern and they do not intend either to liquidate or cease operations.

1.2 Significant Accounting Judgments, Estimates and Assumptions

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

Impairment Losses on Loans and Advances

In addition to the provisions made for possible loan losses based on the parameters and directives for specific and general provisions on Loans and Advances by the Central Bank of Sri Lanka, the NDB reviews its loans and advances portfolio at each reporting date to assess whether a further allowance for impairment should be provided in the Income Statement. Judgment of management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors, such as deterioration of country risk, industry and technological obsolescence, borrower's financial situation, strategies adopted, net book values of collateral undertaken, and deterioration of cash flows, though actual results may differ, resulting in future changes to the provisions.

Significant Accounting Policies

Deferred Tax Assets

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

Impairment of Goodwill

NDB determines whether Goodwill is impaired by performing an annual impairment test.

Defined Benefit Plans

The cost of defined benefit plans - gratuity and pension plan is determined based on assumptions relating to 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.

Distinction between Investment Properties & Owner-occupied Properties

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 lives of Property, Plant & Equipment

The Group reviews the asset's residual values, useful lives and methods of depreciation at each reporting date. Judgment by the management is exercised in the estimation of these values, rates and methods.

Reviews of Impairment of Other Assets

The Group determines whether assets have been impaired by performing an impairment review. Any assets considered impaired are provided for, based on management judgement.

Significant Accounting Policies

1.3 Basis of Consolidation

The NDB Group refers to the Consolidated Financial Statements of the Bank and its subsidiaries.

1.3.1

The NDB Group Financial Statements include the consolidated results, assets and liabilities of the NDB and its subsidiaries made-up to the financial year end of 31 December. The results of subsidiaries are included from the date on which the NDB effectively acquires control of each subsidiary. The interests of outside shareholders of the subsidiaries in the net assets and their proportion of the results are grouped separately in the Consolidated Balance Sheet, Income Statement and the Statement of Changes in Equity respectively under the heading of minority interests.

The Consolidated Financial Statements incorporating all subsidiaries in the Group are prepared to a common financial year ending 31 December, using uniform Accounting Policies for like transactions and events in similar circumstances are applied consistently.

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

1.3.2

In the NDB Group Financial Statements, investments in associate companies described in Note 25 to the Financial Statements, are accounted for under the equity method of accounting. Under the equity method of accounting, the Group's share of profits and losses of the associate companies made up to the year end of 31 December is accounted for in the Consolidated Income Statement for the year. The carrying value of the investment in the Consolidated Balance Sheet is increased or decreased to recognise the Group's share of retained profits and losses of the associate companies, after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that significant influence ceases. An associate company which becomes a subsidiary during the year is accounted for under the equity method of accounting up to the date on which it becomes a subsidiary, after which date it is accounted for as a subsidiary.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the investee. Profits and losses resulting from transactions between the Bank and the associates are eliminated to the extent of the interest in the associate.

1.3.3

In the NDB's Separate Financial Statements, investments in subsidiaries and associate companies are accounted for at cost. Income is recognized only to the extent that dividends are declared from the accumulated profit. Provision is made for any permanent diminution in value of such investments determined on an individual investment basis.

Significant Accounting Policies

1.4 Business Combinations and Goodwill

1.4.1

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 NDB'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.

1.4.2

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the NDB'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 off in this circumstance is measured based on the relative values of the operation disposed off 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 equity accounted 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.

1.5 Intangible Assets - Other than Goodwill

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.

Significant Accounting Policies

1.6 Foreign Currency Translation

1.6.1

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

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

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

1.6.2 Transactions of the Foreign Currency Banking Unit

These have been recorded in accordance with Note 1.6.1 above. Net gains and losses are dealt through the Income Statement.

1.6.3

Forward exchange contracts are valued at the forward market rates prevailing at the date of the Balance Sheet. Profits and losses on such transactions are dealt within the Income Statement.

1.6.4

Liabilities in respect of foreign currency borrowings guaranteed by the Government of Sri Lanka are not translated at rates of exchange prevailing at the Balance Sheet date, 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 NDB pays a premium to the Government of Sri Lanka for bearing such risk.

1.6.5

As at the reporting date, the assets and liabilities of overseas subsidiaries/associates are translated into the NDB's presentation currency at the rate of exchange ruling at the Balance Sheet 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.

1.6.6

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.

1.7 Post-Balance Sheet Events

All material events occurring after the Balance Sheet date are considered and where necessary, adjusted for or disclosed in the Financial Statements.

1.8 Taxation

1.8.1 Domestic Banking Unit & Foreign Currency Banking Unit

Provision for taxation is based on the elements of income and expenditure as reported in the Financial Statements and computed in terms of the provisions of the Inland Revenue Act No. 10 of 2007 and amendments thereto, at the rate of 28% for both on-shore domestic banking unit and on-shore foreign currency banking unit transactions (2010 - on-shore transactions - 35% and off-shore transactions - 20%).

Significant Accounting Policies

1.8.2 Deferred Tax

Deferred tax is provided on temporary differences at the Balance Sheet date 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 Balance Sheet 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 Balance Sheet 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 Balance Sheet date.

1.8.3 Value Added Tax on Financial Services

The basis for the computation of Value Added Tax on financial services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on prescribed rates. The amount of Value Added Tax charged at 12% in determining the profit for the period is given in Note 11 to the Financial Statements on page 232.

1.9 Impairment of Non-Financial Assets Other than Goodwill

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

Significant Accounting Policies

1.10 Financial Instruments

The Bank uses derivative financial instruments such as interest rate swaps foreign currency contracts to hedge its risk associated with interest rate and exchange rate fluctuations. The net gain or losses on such derivative instruments are recognized in the Income Statement over the period of such contracts.

2. Assets and Bases of Their Valuation

2.1 Loans and Advances to Customers

Advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.

2.1.1 Non-Performing Loans and Advances

Loans and advances which are in arrears of due capital and/or interest are classified as non-performing as per Direction No. 3 of 2008 on 'Classification of Loans and Advances, Income Recognition and Provisioning' as amended by the Direction No. 9 of 2008 on 'Amendments to Directions on Classification of Loans and Advances, Income Recognition and Provision for Licensed Commercial Banks in Sri Lanka' of the Central Bank of Sri Lanka.

Details of the non-performing loans and advances are given in Note 23 to the Financial Statements on page 241.

2.1.2 Provision for Bad and Doubtful Loans

Provision for bad and doubtful loans is made on the basis of a continuous review of all advances, in accordance with the Directions issued by the Central Bank of Sri Lanka to the banking sector, which mandates minimum specific provisions on a sliding scale linked to the age of the debt, net of any realizable security value as follows:

Categories of Non-Performing Facilities	Minimum Specific Provisioning Requirement on the net exposure
Substandard	20
Doubtful	50
Loss	100

In addition, the value of security is further discounted on the 'Hair Cut Rule' imposed by the Central Bank of Sri Lanka. In arriving at the Forced Sale Value (FSV), the following thresholds have been laid down by the Central Bank of Sri Lanka:

	% of FSV of Immovable Property that can be Considered as the Value of Security	
	Freehold Property	Leasehold Property
At the first time of provisioning	75	60
Period in Loss Criteria		
Less than 12 months	75	60
More than 12 but less than 24 months	60	50
More than 24 but less than 36 months	50	40
More than 36 but less than 48 months	40	30
More than 48 months	40 or less	Nil

Significant Accounting Policies

The Bank complies with the recent Banking Act Direction No. 3 of 2010 issued by the Central Bank of Sri Lanka, where the 1% rate has been revised to 0.5% with effect from 1 October 2010. Accordingly, Banks are given the opportunity to reverse the existing additional provision of 0.5% by 0.1% each quarter over five quarters commencing 1 October 2010.

Judgemental provision is made on both performing and non performing loans at the discretion of the management of the Bank after considering the account stresses which may be due to regulatory, industry or company specific reasons and where recoverability of facility is considered to be doubtful.

2.2 Credit Card Receivables

Amounts receivable on credit cards are included in loans and advances at the amounts expected to be recovered.

2.2.1

Provision for credit cards are made as follows:

Categories of Non-Performing Facilities	Minimum Specific Provisioning Requirement on the balance outstanding
Substandard	25
Doubtful	50
Loss	100

2.3 Pawning Receivables

The Bank provides pawning facilities for a maturity period of 12 months. Amounts receivable on pawning are included in loans and advances at the amounts expected to be recovered.

2.3.1 Provision for Pawning Receivable

A 100% specific provision is made on pawning receivable after discounting the value of security, where no payment is received within one month from the contractual maturity date.

2.4 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 Balance Sheet include total lease payments due net of unearned interest income not accrued to revenue, interest in suspense and provisions for bad and doubtful recoveries.

Provision for bad and doubtful recoveries is made in the same manner as for loans and advances as described under 2.1.2.

2.5 Investments

2.5.1 Securities Held for Trading

Government Securities in the trading portfolio are investments that are held principally for the purpose of selling or held as a part of a portfolio that is managed for short-term profits. These investments are initially recorded at the prices that prevail at the date of acquisition and subsequently marked to market and carried at that market value in the Balance Sheet. Gains and losses on marked to market valuation are recognized in the Income Statement.

2.5.2 Dealing Securities

Investments in quoted shares are acquired and held with the intention of resale over a short period of time. Such quoted shares are initially measured at cost and subsequently measured at the market value as at the Balance Sheet date. Adjustment for changes in market values is accounted for in the Income Statement.

Significant Accounting Policies

2.5.3 Investments Held to Maturity

Investments held to maturity are regarded as long-term investments and comprise of investments in Treasury Bonds, Treasury Bills, investments in Unit Trusts quoted on the Colombo Stock Exchange, non-quoted equity investments and sinking fund investments. Sinking fund investments consist of Treasury Bills and Bonds.

The investments in Government Treasury Bills and Bonds held to maturity are recorded at the value of the Bills and Bonds purchased and the discount/premium accrued there on, is carried at these values until maturity. Discount received/premium paid is taken to the Income Statement based on a pattern reflecting a constant periodic rate of return.

Non-quoted equity investments are accounted for at cost, net of provisions for any permanent diminution in value on an individual basis. Investments in Unit Trusts and sinking fund investments are each carried at the lower of cost and market value as at the Balance Sheet date, determined on a portfolio basis. All other investment securities are stated at cost and provisions are made for permanent diminution in value on a case by case basis.

2.5.4 Securities Purchased Under Resale Agreements

These are advances collateralized by purchase of Government Treasury Bills and Treasury Bonds subject to an agreement to resell them at a predetermined price. Such Securities remain on the Balance Sheet of the Bank and the asset is recorded in respect of the consideration paid.

The difference between the aforesaid predetermined price and the purchase price represents interest income and is recognized in the Income Statement over the period of the Resale Agreement.

2.6 Property, Plant & Equipment

2.6.1 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.

2.6.2 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 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.

2.6.3 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.

Significant Accounting Policies

2.6.4 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:

	Years
Buildings/Improvements	10 - 20
Motor vehicles	4
Furniture and Office equipment	5

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.

2.6.5 Derecognition

An item of Property, Plant & Equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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.

2.7 Intangible Assets

2.7.1

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard No. 37 on 'Intangible Assets'. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortization and accumulated impairment loss, if any. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed when incurred.

2.7.2 Amortization of Intangible Assets

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

	Years
Computer software	5

2.7.3 Derecognition of Intangible Assets

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

Significant Accounting Policies

2.8 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 Balance Sheet date. 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.

2.8.1 Determining Fair Value

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 portfolio every 3 years. In financial periods within that period the fair value is determined by the Directors.

3. Liabilities and Provisions

3.1

All discernible risks are taken into account in quantifying the liabilities of NDB Group.

3.2 Pensions and Retirement Benefits

3.2.1

NDB 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 3.2.2 below. Up to 31 December 2002, annual contributions to the Pension Plan was payable by NDB 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. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains or losses at the end of the previous reporting period exceeded 10% of the defined benefit obligation at the date and recognized over the expected average working lives of employees participating in the plan of the defined benefit obligation at that date, in accordance with the Corridor Method.

3.2.2

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 Balance Sheet. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains or losses at the end of the previous reporting period exceeded 10% of the defined benefit obligation at the date and recognized over the expected average working lives of employees participating in the plan of the defined benefit obligation at that date, in accordance with the Corridor Method.

Significant Accounting Policies

- 3.2.3** | Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in accordance with the respective statutes and regulations. NDB contributes 15% and 3% of gross salaries of employees to NDB'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.

3.3 Securities Sold Under Resale Agreements

These are borrowings collateralized by sale of Treasury Bills, Treasury Bonds and Corporate Debt Papers held by the Bank to the counterparty from whom the Bank borrowed, subject to an agreement to repurchase them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the liability is recorded in respect of the consideration received.

The difference between the aforesaid predetermined price and the sale price represents interest expense and is recognized in the Income Statement evenly over the period of the Repurchase Agreement.

3.4 Provisions

A provision is 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.

3.5 Commitments and Contingencies

All discernible risks are taken into consideration in determining the amount of commitments and contingencies.

4. Income Statement

4.1 Revenue Recognition

4.1.1 Interest Income from Loans and Advances

Interest income from loans and advances is recognised on an accrual basis. However, no accrued interest income is recognised where any portion of capital or interest is in arrears for periods specified in Central Bank Direction No. 3 of 2008 relating to classification of non-performing loans and advances. In such cases interest income is accounted for on a cash basis.

4.1.2 Lease Income

- a. Financial leases - The excess of aggregate rentals receivable over the cost of the leased asset constitutes the total unearned interest income. The unearned interest income is taken into revenue on an accrual basis over the term of the lease in proportion to the remaining balance of the lease. However, no accrued interest income is recognized where any portion of capital or interest is in arrears for three instalments or more. In such cases interest income is accounted for on a cash basis.
- b. Operating leases - Rental income is recognized as revenue on a straight-line basis over the term of the lease. However, no accrued income is recognized where the rental is in arrears for three instalments or more. In such cases, rental income is accounted for on a cash basis.

Significant Accounting Policies

4.1.3 Income from Government Securities and Securities Purchased under Resale Agreements	Discounts/Premium on Treasury Bills and Bonds are amortized over the period to reflect a constant yield. The coupon interest on Treasury Bonds is recognized on an accrual basis. The interest income on securities purchased under Resale Agreements is recognized in the Income Statement on an accrual basis over the period of the agreement. Income from other interest bearing investments is recognized as revenue on an accrual basis.
4.1.4 Bills Discontinued	Income on bills discounted is recognized proportionately over the tenor of the bill.
4.1.5 Dividend Income	Dividend income from shares is recognized when the Bank's right to receive the payment is established.
4.1.6 Profit or Loss on Sale of Marketable Securities	Profit or loss arising from the sale of equity shares, units, commercial paper and other marketable securities is accounted for on an accrual basis.
4.1.7 Income from Fee - Based Activities	Fees for underwriting, advisory work, loan syndication, management of funds and all other fees and commissions are recognized on a cash basis. Fees charged on guarantees/bid bonds are recognized on an accrual basis over the period the service is performed.
4.1.8 Other Income	Other income is recognized on an accrual basis.
4.1.9 Recovery of Loans and Advances Written-off	Recovery of amounts written-off as bad and doubtful loans is recognized as income on a cash basis.
4.2 Expenditure Recognition	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. Interest expenses are recognized on an accrual basis.
5. Cash Flow Statement	The cash flow 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. Cash and cash equivalents comprise of cash balances, short-term funds and balances with Central Bank of Sri Lanka.

Significant Accounting Policies

6. Equity Linked Compensation Plan

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

Details of the Share Options and the Share Grants are given in Note 36 to the Financial Statements.

7. Business Segment Reporting

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

In accordance with the Sri Lanka Accounting Standard No. 28 on 'Segment Reporting, Segmental Information' is presented in respect of the NDB Group. The segments comprise of banking, equity instruments property investment insurance and others. Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

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

8. Dividends on Ordinary Shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the NDB's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the NDB.

9. Sri Lanka Accounting Standards effective from 01 January 2012

The Bank will be adopting the new Sri Lanka Accounting Standards (new SLAS) comprising LKAS and SLFRS applicable for financial periods commencing from 01 January 2012 as issued by The Institute of Chartered Accountants of Sri Lanka. The Bank has commenced reviewing its accounting policies and financial reporting in readiness for the transition. As the Bank has a 31 December year end, priority has been given to considering the preparation of an opening Balance Sheet in accordance with the new SLASs as at 01 January 2011. This will form the basis of accounting for the new SLASs in the future, and is required when the Bank prepares its first new SLAS compliant Financial Statements for the year ending 31 December 2012. Set out below are the key areas where Accounting Policies will change and may have an impact on the Financial Statements of the Bank. The Bank is in the process of quantifying the impact on the Financial Statements arising from such changes in Accounting Policies.

Significant Accounting Policies

- a. SLFRS 1 - First Time Adoption of Sri Lanka Accounting Standards requires the Bank to prepare and present opening new SLFRS Financial Statements at the date of transition to new SLAS. The Bank shall use the same Accounting Policies in its opening new SLAS Financial Statements and throughout all comparable periods presented in its first new SLAS Financial Statements.
- b. LKAS 1 - Presentation of Financial Statements requires an entity to present, in a Statement of Changes in Equity, all owner changes in equity. All non-owner changes in equity are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. This standard also requires the Bank to disclose information that enables users of its Financial Statements to evaluate the entity's objectives, policies and processes for managing capital.
- c. LKAS 32 - Financial Instruments: Presentation, LKAS 39 - Financial Instruments: Recognition and Measurement and SLFRS 7 - Disclosures will result in changes to the current method of recognizing financial assets, financial liabilities and equity instruments. These standards will require measurement of financial assets and financial liabilities at fair value at initial measurement. The subsequent measurement of financial assets classified as fair value through profit and loss and available for sale will be at fair value, with the gains and losses routed through the statements of comprehensive income and other comprehensive income respectively.

Financial assets classified as held to maturity and loans and receivables will be measured subsequently at amortized cost. These assets will need to be assessed for any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') coupled with a reliable estimate of the loss events impact on the estimated future cash flows of the financial asset or group of financial assets. As such the current method of assessing for impairment will have to be changed to meet the requirements of these new standards.

Financial liabilities will be either classified as fair value through profit or loss or at amortized cost. At present, the Bank does not identify, categorize and measure financial assets and liabilities as per the requirements of the standard and also does not recognized certain derivative instruments on the Balance Sheet.

- d. SLFRS 2 - Share Based Payments, will require the Bank to reflect in its profit or loss and financial position the effects of share based payment transactions, including expenses associated with share options granted to employees. An entity is required to recognize share based payment transactions when goods are received or services obtained based on the fair value of goods or services or the fair value of equity instruments granted. Hence the Bank will be required to determine the fair value of options issued to employees as remuneration and recognize an expense in the statement of financial performance. This standard is not limited to options and extends to all forms of equity based remuneration and payments.

Significant Accounting Policies

- e. SLFRS 3 - Business combinations will require the Bank to apply this standard to transactions and other events that meet the new definition of a business i.e. an integrated set of assets (inputs) and activities (processes) which are capable of being conducted and managed to provide a return, as opposed to a mere asset acquisition. Under the new acquisition method of accounting, in addition to recognizing and measuring in its Financial Statements the identifiable assets acquired and liabilities assumed the standard also requires recognition and measurement of any non-controlling interest in the acquiree and remeasuring to fair value any previously held interests which could have an impact on the recognition of goodwill. Subsequent to the acquisition of control any acquisitions or disposals of non-controlling interest without loss of control will be accounted for as equity transactions and cannot be recognized as profit/loss on disposal of investments in the statement of financial performance.
- f. LKAS 12 - Income Tax requires deferred tax to be provided in respect of temporary differences which will arise as a result of adjustments made to comply with the new SLAS.
- g. LKAS 18 - Revenue requires the Bank to measure revenue at fair value of the consideration received or receivable. It also specifies recognition criteria for revenue, and the Bank needs to apply such recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.

Notes to the Financial Statements

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

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

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

The Bank is listed on the Colombo Stock Exchange. The registered office of the Bank and its principal place of business is situated at No. 40, Nawam 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, venture capital, stockbroking, wealth management, property investment and insurance.

The total number of staff employed by NDB as at 31 December 2011 was 1,357 (2010 - 1,126).

The number of branches of NDB as at 31 December 2011 was 60 (2010 - 47).

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Restated Rs '000	2011 Rs '000	2010 Restated Rs '000
2. Gross Income	13,531,130	11,720,054	14,698,747	12,633,542
Interest income (Note 3)	11,337,032	9,653,943	11,541,126	9,848,466
Other income (Note 5)	2,194,098	2,066,111	3,157,621	2,785,075
	13,531,130	11,720,054	14,698,747	12,633,542
3. Interest Income				
Loans and advances	9,037,823	6,882,340	9,040,711	6,883,879
Treasury bills, bonds and placements with other banks	2,299,209	2,771,603	2,500,415	2,964,587
	11,337,032	9,653,943	11,541,126	9,848,466
4. Interest Expenses				
Long-term borrowings	1,137,692	1,314,583	1,137,692	1,314,583
Other term borrowings	1,508,650	1,209,943	1,428,003	1,033,384
Deposits	4,203,619	3,337,936	4,203,619	3,337,936
	6,849,961	5,862,462	6,769,314	5,685,903

Notes to the Financial Statements

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
5. Other Income				
Dividend income from securities				
- Quoted investments	8,837	8,509	15,352	19,544
- Non-quoted investments	44,875	56,914	116,068	181,383
Dividend income from subsidiaries/associates				
- Quoted investments	179,194	110,784	–	–
- Non-quoted investments	78,217	21,076	–	–
Gain/(loss) from dealing securities	(100,054)	226,324	(219,854)	377,161
Gain/(loss) from investment securities	(110)	–	(110)	–
Gain from group investment	17,300	800	17,300	–
	228,259	424,407	(71,244)	578,088
Net gain/(loss) from sale of government securities	(43,855)	143,543	(61,290)	126,108
Fee and commission income	1,150,398	934,732	1,150,398	934,732
Income from other fee-based activities	5,866	6,148	886,231	588,771
Net forex income	825,102	534,505	825,198	534,601
Revaluation gain on investment property	–	–	400,000	–
Income from other activities	28,328	22,775	28,328	22,775
	2,194,098	2,066,111	3,157,621	2,785,075

6. Operating Expenses

Operating expenses include the following:

Employees' Provident Fund	117,475	92,052	128,394	101,734
Employees' Trust Fund	23,502	18,419	26,026	20,912
Employees' Pension Fund	36,305	–	36,305	–
Gratuity	48,084	32,000	55,605	37,074
Depreciation/(Amortization)	226,615	191,003	246,625	204,545
Legal charges	14,907	12,526	16,106	13,483

7. Staff Retirement Benefits

Employees' Pension Fund

NDB operates an approved non-contributory Pension Plan for the payment of pensions to members of its permanent staff who qualify for such payments when retiring. Please see Accounting Policy 3.2.

The amount funded since the inception of the Plan is the amount recognized as an expense over the respective periods. The adequacy of the contributions was reviewed by an actuary as at 31 December 2011. The actuarial method used is the Projected Unit Credit method. The principal assumptions, which have the most significant effect on the valuation, are the investment return net of taxes, which has been estimated at 10% (2010 - 10%) and the rate of increase in salaries, which have been estimated at 9% (2010 - 12%).

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

Accordingly, the provision made for pension liability was Rs 36 mn as at 31 December 2011 (2010 - Nil).

The Pension Plan is fully funded.

Notes to the Financial Statements

Gratuity

Provisions for retirement gratuities have been made based on the actuarial valuation carried out as at 31 December 2011. Please refer Note 33 (1) for detailed disclosure and assumptions on the retirement benefit liability.

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
8. Other Administrative and General Expenses				
Premises, equipment and establishment expenses	793,687	674,070	1,031,376	729,606
Depreciation - own assets	226,615	191,003	246,625	204,545
Other overhead expenses	671,332	484,919	623,098	561,969
	1,691,634	1,349,992	1,901,099	1,496,120

9. Provisions/(Reversals) for Bad and Doubtful Debts and for Fall in Value of Securities

General provision	(112,415)	81,628	(112,415)	81,628
Specific provision	200,357	302,352	200,357	302,352
(-) Recoveries/releases	(420,262)	(555,727)	(420,262)	(555,727)
Write-offs	6,031	206	6,031	206
Total	(326,289)	(171,541)	(326,289)	(171,541)
Provision for fall in value of securities	165,562	–	9,281	–
	(160,727)	(171,541)	(317,008)	(171,541)

	NDB GROUP		
	Percentage Holding 2010/2011	2011 Rs '000	2010 Rs '000
10. Share of Associate Companies' Profit/(Loss) before Taxation			
Ayojana Fund (Pvt) Ltd.	50.00	–	(405)
Maldives Finance Leasing Co. (Pvt) Ltd.	35.00	(125,152)	(75,803)
NDB Venture Investments (Pvt) Ltd.	50.00	4,177	807
AVIVA NDB Insurance PLC	41.14	430,724	367,692
AVIVA NDB Finance Lanka (Pvt) Ltd.	41.41	21,044	2,493
		330,793	294,784

Notes to the Financial Statements

		NDB BANK		NDB GROUP	
	Note	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
11. Taxation					
Income Tax expense of Domestic Banking Unit		562,060	692,516	562,060	692,516
Income Tax expense of Foreign Currency Banking Unit		228,390	237,763	228,390	237,763
Under/(over) provision for previous years		1,294	6,641	1,294	6,641
		791,744	936,920	791,744	936,920
Income tax of subsidiary companies		–	–	146,480	218,963
Income tax of associate companies		–	–	172,928	130,056
		791,744	936,920	1,111,152	1,285,939
Transfer from deferred taxation (Note 34)		52,850	82,562	51,598	84,495
		844,594	1,019,482	1,162,750	1,370,434
VAT on financial services	a	504,960	804,610	504,960	804,610
		1,349,554	1,824,092	1,667,710	2,175,044
(a) Reconciliation of Effective Tax Rate					
Profit before tax		3,360,967	3,353,468	4,608,571	4,351,073
Tax effect at the statutory income tax rates		941,071	1,173,251	1,272,331	1,618,825
Tax effect of exempt income		(100,520)	(202,752)	(114,908)	(302,980)
Statutory tax at 2%		–	–	2,536	2,447
Tax effect of non-deductible expenses		391,951	333,495	391,951	333,495
Tax effect of deductible expenses		(490,247)	(394,170)	(490,247)	(394,170)
Tax effect of leasing loss		48,195	5,786	48,195	5,786
Social Responsibility Levy at the rate of 1.5% of income tax		–	14,669	–	14,833
Under/(over) provision for previous years		1,294	6,641	1,294	7,703
Deferred taxation		52,850	82,562	51,598	84,495
Income Tax expense at effective rate of tax of 25% (2010 - 31%)		844,594	1,019,482	1,162,750	1,370,434
Effective overall tax rate (%)		40	54	36	50

The Bank is liable to VAT on financial services at 12% (2010 - 20%).

NDB Investment Bank Ltd. is liable to taxation at 28% (2010 - 35%).

NDB Stock Brokers (Pvt) Ltd. is liable to taxation at 10% (2010 - 35%).

The profits earned by Capital Development and Investment Co. PLC is liable to taxation at 28%. (2010 - 35%).

Profits earned by Development Holdings (Pvt) Ltd, through the business of construction and operation of an office complex was exempt from tax for a period of seven years commencing from 1997 under an agreement with the Board of Investment of Sri Lanka. With effect from 2004, the Company is liable to tax at 2% of its turnover of such business for a period of fifteen years. The Company is liable to tax on other income at 28% (2010 - 35%).

NDB AVIVA Wealth Management Ltd. is liable to taxation at 10% (2010 - 35%).

NDB Capital Ltd. is a company based in Bangladesh and is subject to taxation at 45% (2010 - 45%).

AVIVA NDB Finance Lanka (Pvt) Ltd. is liable to income tax at 28% (2010 - 35%).

Profits earned through the business of venture capital by NDB Venture Investments (Pvt) Ltd. is taxed at 20% (2010 - 20%).

Maldives Finance Leasing Co. (Pvt) Ltd. is a company based in the Republic of Maldives and is not subject to taxation.

Notes to the Financial Statements

12. Earnings Per Share

The basic earnings per share for 2011 and 2010 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. 34 on 'Earnings per Share'.

	NDB BANK		NDB GROUP	
	2011	2010	2011	2010
Amount used as the numerator				
Profit attributed to ordinary shareholders (Rs '000)	2,011,413	1,529,376	2,705,530	2,102,609
Amount used as the denominator				
Ordinary shares in issue for basic EPS calculation	164,201,902	81,855,385	164,201,902	81,855,385
Shares issued as a grant under the Equity-Linked Compensation Plan	–	245,566	–	245,566
Number of ordinary shares as at the Balance Sheet date	164,201,902	82,100,951	164,201,902	82,100,951
Weighted average number of ordinary shares as at the Balance Sheet date for Basic EPS calculation	164,201,902	163,956,336	164,201,902	163,956,336
Weighted Average Basic Earnings Per Share (Rs)	12.25	9.33	16.48	12.82
Weighted average number of ordinary shares as at the Balance Sheet date for Basic EPS calculation	164,201,902	163,956,336	164,201,902	163,956,336
Effect of outstanding share option scheme	55,479	55,479	55,479	55,479
Number of ordinary shares including share option	164,257,381	164,011,815	164,257,381	164,011,815
Weighted average number of ordinary shares as at the Balance Sheet date for Diluted EPS calculation	164,257,381	164,011,815	164,257,381	164,011,815
Weighted Average Diluted Earnings Per Share (Rs)	12.24	9.32	16.47	12.81

Weighted average number of ordinary shares

Weighted average number of shares held as at 31 December 2010 was 82,100,951. However, it was restated as 163,956,336 in the comparative column as a result of sub division of shares as described below.

Sub division of shares

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 so that the number of ordinary shares representing the Stated Capital of NDB Bank be increased to 164,201,902. Accordingly, the number of shares as at 31 December 2011 was 164,201,902.

13. Dividends Per Share

The Bank paid an interim dividend of Rs 3.50 per share during the year (2010 - Rs 4.00 per share). The Bank paid a final dividend of Rs 4.50 per share for the year ended 2010.

Notes to the Financial Statements

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
14. Cash and Short-Term Funds				
Cash in hand	1,140,934	241,385	1,140,997	241,448
Dues from banks and other financial institutions	2,085,065	1,950,046	2,208,690	2,233,995
	3,225,999	2,191,431	3,349,687	2,475,443

15. Balances with Central Bank

Balances with Central Bank include the cash balance that is required as per the provisions of Section 93 of the Monetary Law Act. The minimum cash reserve requirement was 8.0% of the rupee deposit liabilities as at 31 December 2011 (7.0% as at 31 December 2010). 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.

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
16. Investments Held for Trading				
Treasury bills (16.1)	3,105,847	3,404,406	3,105,847	3,629,755
Treasury bonds	3,952,422	4,378,181	3,952,422	4,378,181
	7,058,269	7,782,587	7,058,269	8,007,936

Investments in treasury bills and bonds, both held for maturity as well as held for trading include securities kept as collateral for borrowings under repurchase agreements having a face value of Rs 5.5 bn (2010 - Rs 10.5 bn).

16.1 Investments in Short-Term Government Securities by Utilizing the Funds in Investment Fund Account

Investment in treasury bills stated above includes investments made by utilizing the funds in the Investment Fund Account of Rs 83.8 mn.

	BANK & GROUP			
	Maturity Date	Rate of Interest %	2011 Rs '000	2010 Rs '000
Government Security				
Treasury Bills	January - March 2012	7.35 - 8.25	83,858	–
			83,858	–

Notes to the Financial Statements

	NDB BANK				NDB GROUP			
	2011	2011	2010	2010	2011	2011	2010	2010
		Market Value/ Directors' Valuation		Market Value/ Directors' Valuation		Market Value/ Directors' Valuation		Market Value/ Directors' Valuation
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
17. Investments Held to Maturity								
Treasury bonds	15,545,505	15,388,935	5,482,454	5,838,229	15,545,506	6,776,074	5,788,797	6,776,074
Treasury bills	462,379	459,996	2,334,613	2,339,150	462,379	459,996	2,334,613	2,339,150
Central Bank securities	–	–	6,847,257	6,847,257	–	–	6,847,257	6,847,257
Debentures	–	–	–	–	100,000	100,000	100,000	100,000
Investment securities (Note 17.1)	332,290	430,124	524,790	593,182	2,017,833	2,115,667	1,636,331	1,687,584
Investments in sinking fund (Note 17.3)	43,189	43,189	33,028	33,028	43,189	43,189	33,028	33,028
	16,383,363	16,322,244	15,222,142	15,650,846	18,168,906	9,494,926	16,740,026	17,783,093

	NDB BANK		NDB GROUP	
	2011	2010	2011	2010
	Rs '000	Rs '000	Rs '000	Rs '000
17.1 Investment Securities				
Non-quoted shares (Note 17.2)	332,290	524,790	2,017,833	1,636,331
	332,290	524,790	2,017,833	1,636,331

	2011			2010		
	Number of Shares	Cost	Directors' Valuation	Number of Shares	Cost	Directors' Valuation
		Rs '000	Rs '000		Rs '000	Rs '000
17.2 Non-Quoted Shares						
A. Ordinary Shares						
Credit Information Bureau of Sri Lanka	30,395	3,040	100,596	30,395	3,040	71,170
Fitch Ratings Lanka Ltd.	62,500	625	903	62,500	625	887
Lanka Financial Services Bureau Ltd.	112,500	1,125	1,125	112,500	1,125	1,125
Sub-total		4,790	102,624		4,790	73,182
B. Redeemable Cumulative Preference Shares						
Hemas Power PLC	135,000	135,000	135,000	135,000	135,000	135,000
Dialog Axiata PLC	192,500,000	192,500	192,500	385,000,000	385,000	385,000
Total as at 31 December - Bank		332,290	430,124		524,790	593,182

Notes to the Financial Statements

	2011			2010		
	Number of Shares	Cost Rs '000	Directors' Valuation Rs '000	Number of Shares	Cost Rs '000	Directors' Valuation Rs '000
A. Ordinary Shares						
Lanka Communication Services (Pvt) Ltd.	2,856,670	28,565	11,427	2,856,670	28,565	11,426
Pawan Danavi (Pvt) Ltd.	864,000	86,400	86,400	–	–	–
B. Preference Shares						
Dialog Axiata PLC	45,000,000	45,000	45,000	135,000	90,000	90,000
Investment in Unit Trust		80,611	80,611	–	–	–
Eagle Gilt Edged Fund		1,462,105	1,462,105		1,019,557	992,976
Less: Provision for Losses		(17,138)	–		(26,581)	–
Total as at 31 December - Group		2,017,833	2,115,667		1,636,331	1,687,584

The net realizable value of non-quoted shares is the net book value of these shares at 31 December 2011 and 31 December 2010.

17.3 Sinking Fund - Treasury Bills and Bonds

The balance in the Sinking Fund represents a fund created to pay a credit line obtained by the former NDB Housing Bank Ltd., for housing loans. This loan is due to be settled in 2020.

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
18. Dealing Securities				
Quoted shares (Note 18.1)	233,771	368,650	543,809	832,427
	233,771	368,650	543,809	832,427

	2011			2010		
	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000
18.1 Quoted Ordinary Shares						
Banks and Finance						
DFCC Bank PLC	75,700	9,747	8,547	504,400	64,946	100,980
Lanka Orix Leasing Company PLC	92,500	12,066	7,705	103,000	13,436	13,163
Seylan Bank PLC	–	–	–	35,200	3,523	3,443
		21,813	16,252		81,905	117,586
Diversified Holdings						
John Keells Holdings PLC	675,200	162,973	114,919	506,400	162,973	151,110
		162,973	114,919		162,973	151,110

Notes to the Financial Statements

	2011			2010		
	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000
Beverage Food and Tobacco						
The Lion Brewery Ceylon PLC	540,000	100,412	102,600	540,000	100,412	99,954
		100,412	102,600		100,412	99,954
Total as at 31 December - Bank		285,198	233,771		345,290	368,650

Investments in quoted shares by subsidiaries at market value

Lanka Orix Leasing Co. PLC	85,000	11,021	7,080	1,091,000	145,884	139,430
John Keells Holdings PLC	791,466	192,578	134,708	618,600	200,826	184,590
The Lion Brewery Ceylon PLC	540,000	100,412	102,600	560,000	104,349	103,656
People's Leasing Co. PLC	3,288,800	59,198	52,620	–	–	–
Hayleys PLC	24,900	9,694	9,337	–	–	–
Asian Hotels & Properties PLC	12,000	1,195	917	20,400	4,064	3,958
DFCC Bank PLC	–	–	–	10,000	2,300	2,002
Sampath Bank PLC	–	–	–	16,600	4,380	4,514
Richard Pieris & Co. PLC	–	–	–	50,000	539	525
Cargills (Ceylon) PLC	–	–	–	14,400	2,984	2,814
Dialog Axiata PLC	–	–	–	350,000	4,243	4,130
Tokyo Cement (Lanka) PLC	–	–	–	150,000	8,126	8,250
Brown & Co. PLC	–	–	–	10,000	2,604	2,469
Singer Finance PLC	–	–	–	39,500	593	593
Other Quoted Investments in aggregate		4,144	2,776	5,020	7,266	6,846
Total as at 31 December - Group		663,440	543,809		833,448	832,427

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
19. Bills of Exchange				
Export Bills	3,840,030	3,222,298	3,840,030	3,222,298
Import Bills	10,393	44,163	10,393	44,163
Less: Interest in Suspense	25,595	–	25,595	–
Total	3,824,828	3,266,461	3,824,828	3,266,461

Notes to the Financial Statements

	NDB BANK		NDB GROUP	
	2011	2010	2011	2010
	Rs '000	Restated Rs '000	Rs '000	Restated Rs '000
20. Loans and Advances				
Long-term loans (Note 20.5)	20,101,073	14,110,533	21,198,273	15,101,434
Medium and short-term loans	15,290,882	11,138,081	15,290,882	11,138,081
Overdrafts	14,409,916	8,775,492	14,408,653	8,775,408
Trade Finance loans	22,331,054	16,564,526	22,331,054	16,564,526
PCI loans	1,640,462	1,816,744	1,640,462	1,816,744
Consumer loans	11,203,238	7,654,032	11,203,238	7,654,032
Housing loans	5,134,789	4,497,903	5,134,789	4,497,903
Pawning	2,873,588	1,122,657	2,873,588	1,122,657
Staff loans	1,094,177	831,484	1,166,683	864,533
	94,079,179	66,511,452	95,247,622	67,535,318
Less : Provision for bad and doubtful loans (Note 20.1 and 20.2)	1,453,502	1,787,519	1,453,502	1,787,519
Less : Interest in suspense (Note 20.4)	1,115,255	910,292	1,115,255	910,292
Net loans and advances	91,510,422	63,813,641	92,678,865	64,837,507

	Specific	General	2011 Total	2010 Total
	Rs '000	Rs '000	Rs '000	Rs '000
20.1 Movement in the Provision for Bad and Doubtful Loans - Bank				
At the beginning of the year	1,234,578	552,941	1,787,519	1,947,598
Amounts recovered/provisions written-back	(392,366)	–	(392,366)	(504,936)
Amounts written-off	(10,899)	–	(10,898)	(1,911)
Provision made during the year	183,542	(114,295)	69,247	346,768
At the end of the year	1,014,855	438,646	1,453,502	1,787,519
20.2 Movement in the Provision for Bad and Doubtful Loans - Group				
At the beginning of the year	1,234,578	552,941	1,787,519	1,947,598
Amounts recovered/provisions written-back	(392,366)	–	(392,366)	(504,936)
Amounts written-off	(10,899)	–	(10,898)	(1,911)
Provision made during the year	183,542	(114,295)	69,247	346,768
At the end of the year	1,014,855	438,646	1,453,502	1,787,519

Notes to the Financial Statements

	NDB BANK		NDB GROUP	
	2011 Total Rs '000	2010 Total Rs '000	2011 Total Rs '000	2010 Total Rs '000
20.3 Break up of the Provision for Bad and Doubtful Loans				
Provision as per CBSL rules	950,516	886,256	950,516	886,256
Specific provision against debts judgmentally classified as doubtful	64,340	348,322	64,340	348,322
General provision	438,646	552,941	438,646	552,941
	1,453,502	1,787,519	1,453,502	1,787,519

20.4 Interest In Suspense

At the beginning of the year	910,292	883,505	910,292	883,505
Amounts written-back to profit	(135,759)	(161,034)	(135,759)	(161,034)
Amounts written-off	–	(172,146)	–	(172,146)
Transfer to interest in suspense	340,722	359,967	340,722	359,967
At the end of the year	1,115,255	910,292	1,115,255	910,292

20.5 Loans Granted by Utilizing the Funds in Investment Fund Account

The above long-term loans include Rs 302.3 mn of loans disbursed by utilizing the Investment Fund Account Balance.

BANK & GROUP					
Sector	Interest Rates %	Tenure (Years)	Number of Loans Granted	2011 Rs '000	2010 Rs '000
(a) Cultivation of agriculture/plantation crops	11.0 - 14.3	5 - 6	6	67,302	–
(b) Factory/mills modernization			14	70,249	–
(c) Small and medium enterprises			16	142,887	–
(d) Information technology and BPO			1	2,200	–
(e) Education			1	19,667	–
			38	302,305	–

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
21. Lease Rentals Receivable				
Total rentals receivable	6,611,411	3,137,659	6,611,411	3,137,659
Less: Provision for doubtful recoveries (Note 21.1)	73,276	82,477	73,276	82,477
Less: Interest in suspense (Note 21.3)	123,823	19,605	123,823	19,605
Less: Unearned income	1,905,353	708,588	1,905,353	708,588
Net rentals receivable	4,508,959	2,326,989	4,508,959	2,326,989

Notes to the Financial Statements

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
21.1 Provision for Bad and Doubtful Recoveries				
At the beginning of the year	82,477	86,055	82,477	86,055
Amounts recovered/provisions written-back	(27,898)	(40,487)	(27,898)	(40,487)
Amounts written-off	–	(304)	–	(304)
Provision made during the year	18,697	37,213	18,697	37,213
	73,276	82,477	73,276	82,477

	2011 Total Rs '000	2010 Total Rs '000
21.2 Provision for Bad and Doubtful Recoveries		
Provision as per CBSL rules	51,048	47,964
Specific provision against debts judgmentally classified as doubtful	–	14,066
General provision	22,228	20,447
	73,276	82,477

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
21.3 Interest in Suspense				
At the beginning of the year	19,605	17,950	19,605	17,950
Amounts written-back to profit	(14,254)	(23,374)	(14,254)	(23,374)
Amounts written-off	–	(1,866)	–	(1,866)
Transfer to interest in suspense	118,472	26,895	118,472	26,895
At the end of the year	123,823	19,605	123,823	19,605

	Up to 1 Year Rs '000	1 to 5 Year Rs '000	More than 5 Year Rs '000	Total Rs '000
21.4 Maturity of Lease Rentals Receivable of the Bank				
Total rentals receivable	1,773,396	4,799,056	38,959	6,611,411
Provision for doubtful recoveries	(53,413)	(19,731)	(132)	(73,276)
Interest in suspense	(123,823)	–	–	(123,823)
Unearned income	(45,465)	(1,847,137)	(12,751)	(1,905,353)
Net rentals receivable	1,550,695	2,932,188	26,076	4,508,959

Notes to the Financial Statements

	NDB BANK				NDB GROUP			
	2011 Loan Loss Provision Rs '000	2011 Interest in Suspense Rs '000	2010 Loan Loss Provision Rs '000	2010 Interest in Suspense Rs '000	2011 Loan Loss Provision Rs '000	2011 Interest in Suspense Rs '000	2010 Loan Loss Provision Rs '000	2010 Interest in Suspense Rs '000
22. Analysis of Provision for Loan Losses and Interest in Suspense								
Loans and advances	1,453,502	1,115,255	1,787,519	910,292	1,453,502	1,115,255	1,787,519	910,292
Lease rentals receivable	73,276	123,823	82,477	19,605	73,276	123,823	82,477	19,605
	1,526,778	1,239,078	1,869,996	929,897	1,526,778	1,239,078	1,869,996	929,897

23. Asset Quality Information

23.1 Concentration of Credit Risk

In granting credit facilities the Bank exposes itself to a credit risk. This concerns the Balance Sheet items, Loans and Advances and Lease Rentals Receivable. Concentration of the credit risk could result in a material loss for the Bank if a change in economic circumstances were to impinge upon a whole industry or the country. However, in order to maintain such risk at a manageable level the Bank has established prudent credit controls, such as predetermined sector and group exposure limits and Board and Management Credit Committees. Security is also invariably obtained when granting credit.

The Bank's exposure to credit risk is concentrated in companies domiciled in Sri Lanka. The Bank's lending portfolio is diversified covering all sectors of the economy. The analysis of the total lending exposure of the Bank as at the Balance Sheet date is given below:

	2011		2010	
	Rs mn	%	Rs mn	%
Food & Beverages	9,220	8.8	2,654	3.6
Agriculture, Agro-business, Rubber and Fisheries	15,665	15.0	16,521	22.7
Textiles and Garments	9,007	8.6	8,500	11.6
Wood and Paper products	547	0.5	592	0.8
Leather and Plastic products	1,064	1.0	1,327	1.8
Metals, Chemicals and Engineering	9,061	8.7	8,456	11.6
Hotels and Tourism	753	0.8	361	0.5
Utilities	434	0.4	545	0.7
Constructions and Housing Finance	7,812	7.5	4,721	6.5
Services	19,594	18.7	12,821	17.6
Transport	1,716	1.6	1,678	2.3
Consumer	24,842	23.8	14,271	19.5
Others	4,800	4.6	469	0.8
	104,515	100.0	72,916	100.0

These concentrated exposures, direct and indirect, have been considered in setting the level of specific and general provisions for bad and doubtful loans, advances and lease receivables.

Notes to the Financial Statements

23.2 Non-Performing Loans, Advances and Leases

Non-performing loans, advances and leases are those balances where capital or interest is in arrears for 3 months or more. Interest is not accrued to revenue on these accounts. Non-performing loans, advances and leases that are rescheduled need to perform for 6 consecutive months before they can be reclassified.

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
23.3 Asset Quality				
Loans and advances	1,160,132	1,172,009	1,160,132	1,172,009
Overdrafts	120,888	96,117	120,888	96,117
Leases	83,098	87,046	83,098	87,046
	1,364,118	1,355,172	1,364,118	1,355,172

The capital balance outstanding on non-performing accounts are as follows.

Bank	Loans and Advances Rs '000	Lease Capital Rs '000	Total 2011 Rs '000	Total 2010 Rs '000
Gross	1,270,443	93,675	1,364,118	1,355,172
Net of tangible securities and Central Bank mandated specific provisions	173,550	32,050	205,600	356,953

	Percentage Holding	Cost	Directors' Valuation/ Market Value	Percentage Holding	Cost	Directors' Valuation/ Market Value
	%	2011 Rs '000	2011 Rs '000	%	2010 Rs '000	2010 Rs '000
24. Investments in Subsidiary Companies						
Capital Development and Investment Company PLC	99.66	2,330,855	12,149,626	99.66	2,330,855	5,749,391
Development Holdings (Pvt) Ltd.	58.61	228,150	1,060,291	58.61	228,150	817,438
NDB Investment Bank Ltd.	100.00	53,922	287,885	100.00	53,922	147,650
NDB Stock Brokers (Pvt) Ltd.	100.00	26,940	297,914	100.00	26,940	237,661
NDB Capital Ltd.	77.80	130,673	130,673	77.80	130,673	130,673
		2,770,540	13,926,389		2,770,540	7,082,813

24.1 The Bank has a 100% holding in NDB Industrial Estates (Pvt) Ltd, in which Company, Rs 30 has been invested as share capital.

24.2 The Directors' valuation of Investments in Subsidiary companies has been done on net assets basis except for investments in quoted companies, which is at the market value as at the Balance Sheet date.

24.3 As explained in 24.2, Capital Development Company PLC has been valued at the market price as at the Balance Sheet date. The Company's shares are traded and the market price is driven by the minority shareholders of only 0.4%.

Notes to the Financial Statements

	Percentage Holding	Cost	Directors' Valuation/ Market Value	Percentage Holding	Cost	Directors' Valuation/ Market Value
	%	2011 Rs '000	2011 Rs '000	%	2010 Rs '000	2010 Rs '000
25. Investments in Associate Companies						
A. NDB						
Ayojana Fund (Pvt) Ltd. (Under Liquidation)	50	100	–	50	100	–
Maldives Finance Leasing Co (Pvt) Ltd.	35	165,462	–	35	165,462	145,300
NDB Venture Investments (Pvt) Ltd.	50	18,525	33,301	50	18,525	29,124
AVIVA NDB Insurance PLC	5	268,373	371,100	5	268,373	420,000
Less: Provision made for impairment of investments		(165,562)	–		–	–
		286,898	404,401		452,460	594,424

	Percentage Holding	As at 01.01.2011	Provision for Impairment	Exchange gain on valuation	Profit net of Dividend Received	As at 31.12.2011
	%	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
B. NDB Group						
Maldives Finance Leasing Co (Pvt) Ltd.	35	145,299	(9,281)	(10,867)	(125,151)	–
NDB Venture Investments (Pvt) Ltd.	50	29,124	–	–	4,177	33,301
AVIVA NDB Insurance PLC	41.14	1,197,027	–	–	177,366	1,374,393
AVIVA NDB Finance Lanka (Pvt) Ltd.	41.41	391,139	–	–	(2,138)	389,001
		1,762,589	(9,281)	(10,867)	54,254	1,796,695

	2011 Rs '000	2010 Rs '000
C. Summarized Financial Information of the NDB Group's Investment in its Associates		
Total Assets	15,758,076	13,918,595
Total Liabilities	14,338,047	12,541,906
Net Assets	1,420,028	1,376,689
Revenue	4,146,227	6,406,529
Profits	330,793	294,784

Notes to the Financial Statements

	NDB BANK		NDB GROUP	
	2011	2010	2011	2010
	Rs '000	Restated Rs '000	Rs '000	Restated Rs '000
26. Other Assets				
Sundry Receivables	1,169,495	405,123	1,593,448	758,545
Payments in advance	144,150	114,653	168,630	135,658
Employees Share Ownership Plan (ESOP)	91,663	103,121	91,663	103,121
Group Balance Receivable	1,357	2,359	–	–
	1,406,665	625,256	1,853,741	997,324

The ESOP represents the written-down value of the NDB shares paid for by the Bank on behalf of a trust for the benefit of the employees. The total cost of Rs 229 mn is being amortized over a period of 20 years with effect from 1 January 2000.

	NDB BANK		NDB GROUP	
	2011	2010	2011	2010
	Rs '000	Rs '000	Rs '000	Rs '000
27. Intangible Assets				
27.1 Computer Software and Copyrights				
Cost/Valuation				
As at 1 January	385,141	338,859	389,185	350,960
Additions during the year	213,055	46,282	252,272	49,690
On disposals	–	–	–	(11,465)
As at 31 December	598,196	385,141	641,457	389,185
Depreciation/Amortization				
As at 1 January	281,656	245,726	282,120	257,233
Charge for the year	48,328	35,930	51,411	36,352
On disposals	–	–	–	(11,465)
As at 31 December	329,984	281,656	333,531	282,120
Written-Down Value as at				
31 December	268,212	103,485	307,926	107,065

27.2 Software Under Development

Cost/Valuation				
As at 1 January	103,235	54,250	103,235	54,250
Additions during the year	8,190	50,294	8,190	50,294
Transfers/Adjustments	(101,004)	(1,309)	(101,004)	(1,309)
As at 31 December	10,421	103,235	10,421	103,235
Net Book Value of total Intangible Assets	278,633	206,720	318,347	210,300

Notes to the Financial Statements

	Land and Buildings Rs '000	Motor Vehicles Rs '000	Furniture and Equipment Rs '000	Work-in- Progress Rs '000	Total Rs '000
28. Property, Plant & Equipment					
28.1 NDB Bank					
(a) Cost					
Freehold Assets [Note 28 (c)]					
As at 1 January 2011	700,742	321,915	785,178	14,564	1,822,399
Additions during the year	62,177	43,750	255,465	9,441	370,833
Disposals during the year	–	(30,164)	(11,631)	–	(41,795)
Transfers/Adjustments	(19,029)	(161,759)	288,176	(14,525)	92,863
As at 31 December 2011	743,890	173,742	1,317,188	9,480	2,244,300

(b) Depreciation/Amortization**Freehold Assets**

As at 1 January 2011	323,023	280,751	568,192	–	1,171,966
Charge for the year	41,894	20,631	115,561	–	178,086
On Disposals	–	(30,164)	(11,479)	–	(41,643)
Transfers/Adjustments	(12,250)	(161,759)	281,146	–	107,137
As at 31 December 2011	352,667	109,459	953,420	–	1,415,546

Written Down Value as at 31 December 2011 (a) - (b)	391,223	64,283	363,768	9,480	828,754
Written Down Value as at 31 December 2010	377,719	41,164	216,986	14,564	650,433

Location	Extent (Perches)	Cost or Revaluation of Land Rs '000	Buildings (Square Feet)	Cost or Revaluation of Buildings Rs '000	Total Value Rs '000	Accumulated Depreciation Rs '000	Written Down Value Rs '000	As a % of Total Cost
(c) Freehold Land and Building								
Head Office - Dharmapala Mawatha No. 103 A, Dharmapala Mawatha, Colombo 07	20	164,857	3,766	10,098	174,955	2,507	172,448	53.8
Head Office - Navam Mawatha No. 40, Navam Mawatha, Colombo 02	1.43	159	8,842	378,782	378,942	231,053	147,888	46.2
		165,016		388,880	553,897	233,560	320,336	
Add: Improvement to Buildings of the NDB Bank Branches					189,993	119,107	70,887	
Written Down Value as at 31 December 2011					743,890	352,667	391,223	

Notes to the Financial Statements

	Land and Buildings Rs '000	Motor Vehicles Rs '000	Furniture and Equipment Rs '000	Work-in- Progress Rs '000	Total Rs '000
28.2 NDB Group					
(a) Cost					
Freehold Assets					
As at 1 January 2011	700,742	361,071	942,970	14,564	2,019,347
Additions during the year	70,826	59,168	284,928	9,433	424,355
Transferred from investment property	304,307	–	–	–	304,307
Disposals during the year	–	–	(30,164)	(11,631)	(41,795)
Transfers/Adjustments	(27,628)	(161,924)	295,172	(14,525)	91,095
As at 31 December 2011	1,048,247	258,315	1,492,906	(2,159)	2,797,309
(b) Depreciation/Amortization					
Freehold Assets					
As at 1 January 2011	323,023	296,435	692,162	–	1,311,620
Charge for the year	41,894	28,788	165,581	–	236,263
On Disposals	–	(30,329)	(12,643)	–	(42,972)
Transfers/Adjustments	(12,240)	(161,759)	281,138	–	107,139
As at 31 December 2011	352,677	133,135	1,126,238	–	1,612,050
Written Down Value as at 31 December 2011 (a) - (b)	695,570	125,180	366,668	(2,159)	1,185,259
Written Down Value as at 31 December 2010	377,719	64,636	250,808	14,564	707,727

	NDB GROUP	
	2011 Rs '000	2010 Rs '000
29. Investment Properties		
Balance as at 1 January 2011	1,200,000	1,200,000
Change in the Fair Value during the year	400,000	–
Transferred to property, plant & equipment	304,307	–
Balance as at 31 December 2011	1,295,693	1,200,000

Development Holdings (Pvt) Ltd. is a subsidiary of NDB, 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 as of 31 December 2011 on the basis of rental income supported by current rent income.

Note (a)

Investment properties are stated at fair value, which has been determined based on the valuation performed by Mr A A M Fathihu, F I V (Sri Lanka), an independent valuer in reference to rent income basis as at 31 December 2011.

Significant assumption used:

- Discount rate 0.6%

Notes to the Financial Statements

	NDB GROUP	
	2011 Rs '000	2010 Rs '000
30. Goodwill		
Net Assets of Subsidiary Companies	–	19,459
Purchase Consideration	–	23,789
Goodwill on Acquisition	–	4,330

a. Goodwill on consolidation was amortized to the income statement up to 31 May 2005. With effect from 1 June 2005, goodwill on consolidation as at date is tested for impairment annually and any resulting amount of impairment loss is recognized in the Income Statement accordingly.

b. A full provision has been made against equity for the goodwill arising from the transfer of assets and liabilities of NDB Bank Ltd. on 1 August 2005 to be in line with the provisions contained under Section 22 of the Banking Act to declare dividends.

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
31. Deposits				
Savings Deposits	11,299,306	10,094,596	11,299,306	10,094,596
Time Deposits	61,577,767	41,743,706	61,577,767	41,743,706
Demand Deposits	7,059,107	7,301,268	7,059,107	7,301,268
Margins	312,007	189,676	312,007	189,676
Certificates of Deposit	61,994	34,414	61,994	34,414
	80,310,181	59,363,660	80,310,181	59,363,660

	2011 Rs '000	2010 Rs '000
32. Borrowings		
(a) NDB Bank		
Government of Sri Lanka Loans under ADB, IDA, KFW and JBIC Credit Lines	9,394,948	10,448,805
Other Government of Sri Lanka Loans	1,069,482	1,406,882
Foreign Borrowings	6,226,537	3,667,750
Local Borrowings	9,900,349	829,403
Debentures (Note 32.1)	900,000	500,000
Amounts Due to Foreign Banks	422,214	84,982
	27,913,530	16,937,822

Notes to the Financial Statements

32.1 Debentures

As at 31 December 2011 debentures consisted of 400,000 unlisted unsecured redeemable debentures of Rs 1,000/- each issued by the Bank in 2011 and of 500,000 debentures issued in 2005.

	Interest Payable	Issued Date	Maturity Date	Value as at 31st December	
				2011 Rs '000	2010 Rs '000
Floating Rate Debenture					
2011 - 2016 - 3 month TB rate (gross) +1% p.a.	Quarterly	30.06.2011	30.06.2016	110,000	–
2011 - 2016 - 3 month TB rate (gross) +1% p.a.	Quarterly	18.07.2011	30.06.2016	50,000	–
2011 - 2016 - 3 month TB rate (gross) +1% p.a.	Quarterly	19.07.2011	30.06.2016	40,000	–
2011 - 2016 - 3 month TB rate (gross) +1% p.a.	Quarterly	21.07.2011	30.06.2016	200,000	–
				400,000	–
Fixed Rate Debenture					
2005/2020 - 10.13% p.a.	Semi Annually	23.03.2005	22.08.2020	500,000	500,000
				900,000	500,000

	2011 Rs '000	2010 Rs '000
(b) NDB Group		
Government of Sri Lanka Loans Under ADB, IDA, KfW and JBIC Credit Lines	9,394,948	10,448,805
Other Government of Sri Lanka Loans	1,069,482	1,406,882
Foreign Borrowings	6,226,537	3,667,750
Local Borrowings	8,673,090	453,041
Non-Quoted Debentures	900,000	–
Amounts Due to Foreign Banks	422,214	84,982
	26,686,271	16,061,460

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
33. Other Liabilities				
Interest Payable	2,258,130	1,619,224	2,253,755	1,619,265
Accrued Expenses	302,587	290,156	339,917	345,317
Retirement Benefit Liability (Note 33.1)	94,106	55,702	203,481	98,486
Other liabilities	1,902,180	1,819,650	1,939,260	1,878,053
	4,557,003	3,784,732	4,736,413	3,941,121

Notes to the Financial Statements

33.1 The movement in the retirement benefit liability of NDB Bank is given below:

	2011 Rs '000	2010 Rs '000
Present Value of Defined Benefit Obligation	131,554	139,879
Outstanding Balance of Transition (Liability)/Asset (c)	(3,840)	(7,682)
Unrecognised Net Actuarial (Loss) or Gain	(33,608)	(76,495)
Retirement Benefit Liability as at 31 December	94,106	55,702

(a) Messrs Piyal S Goonethilleke and Associates, a firm of professional actuaries has carried out an independent actuarial valuation of the Defined Benefit Plan - Gratuity and accordingly compatible assumptions have been used in determining the cost of retirement benefits.

(b) The key assumptions used by the Actuary include the following:

	2011	2010
Rate of Interest	10%	10%
Rate of Salary Increase	9%	12%
Retirement Age	55-60 years	55-60 years

(c) The transitional liability of Rs 7.7 mn on the adoption of SLAS 16 ('Employee Benefits') is expensed on a straight line basis over five years from the date of adoption.

Balance Sheet				Income Statement			
NDB BANK		NDB GROUP		NDB BANK		NDB GROUP	
2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000

34. Deferred Taxation

Deferred Tax Liabilities

Accelerated Depreciation for Tax Purposes	40,108	27,731	41,286	31,402	12,378	969	9,883	6,076
Finance Leases	172,810	177,179	172,810	177,179	(4,370)	16,980	(4,369)	16,980
	212,918	204,910	214,096	208,581	8,008	17,949	5,514	23,056

Deferred Tax Assets

Defined Benefit Plans	26,350	19,496	28,282	22,671	(6,854)	(4,307)	(5,611)	(7,481)
C/F loss on leasing business	62,363	27,643	62,363	27,643	(34,720)	(11,660)	(34,720)	(11,660)
Provision for bad and doubtful loans and advances	12,097	98,515	12,098	98,514	86,416	80,580	86,415	80,580
	100,810	145,654	102,743	148,828	44,842	64,613	46,084	61,439
					52,850	82,562	51,598	84,495
Net Deferred Tax Liability/(Asset)	112,108	59,256	111,353	59,753				

Notes to the Financial Statements

	BANK & GROUP	
	2011 Rs '000	2010 Rs '000
35. Dividends Payable		
Balance as at 1 January	450,793	344,158
Final dividends paid during the year (Refer Note 13)	369,454	654,842
Interim dividends declared during the year (Refer Note 13)	574,707	328,405
Reversal of dividends declared in prior years (Note 35.1)	(64,328)	–
Dividends paid	(575,245)	(876,612)
Balance as at 31 December	755,381	450,793

35.1 Reversal of Dividends Declared in Previous Years

Certain persons/entities who invested in the ordinary shares of NDB were not registered as shareholders in the registers of NDB 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 Rs 64.33 mn have been credited to retained earnings during the year and presented in the Statement of Changes in Equity.

	Number	2011 Rs '000	Number	2010 Rs '000
36. Stated Capital				
Issued and Fully Paid				
Balance as at 1 January	82,100,951	1,093,095	81,855,385	1,032,931
Issue of shares under the Equity Linked Compensation Plan (Note 36.1)	–	–	245,566	60,164
Sub Division of Shares - Scrip Issue (Note 36.2)	82,100,951	–	–	–
Balance as at 31 December	164,201,902	1,093,095	82,100,951	1,093,095

36.1 Equity Linked Compensation Plan (ELCP)

NDB 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 NDB to take part in the voting ordinary share capital of the NDB, 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 6 July 2010, 245,566 shares were issued to the Trustees of the ELCP grant scheme, being the first tranche under the share grant scheme. This share issue resulted in the increase of the stated capital of the NDB from Rs 1,032.9 mn to Rs 1,093.1 mn and the number of shares from 81,855,385 to 82,100,951.

36.2 Sub Division of Shares (Scrip Issue)

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 so that the number of ordinary shares representing the Stated Capital of NDB be increased to 164,201,902. Accordingly the number of shares as at 31 December 2011 was 164,201,902.

Notes to the Financial Statements

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 76J (1) of the Banking Act No. 30 of 1988.

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
Balance as at 1 January	878,718	818,554	878,718	818,554
Transfer from revenue reserves	–	60,164	–	60,164
Balance as at 31 December	878,718	878,718	878,718	878,718

38. Investment Fund Account

Transfers to Investment Fund Account

As proposed in the Budget 2011, 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 with the concurrence of the Commissioner General of Inland Revenue.

- i. 8% of the profits 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.

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
Balance as at 1 January	–	–	–	–
Transfer from revenue reserves	386,825	–	386,825	–
Balance as at 31 December	386,825	–	386,825	–

Notes to the Financial Statements

	Reserves Rs '000	Profit Rs '000	Total Rs '000
39. Revenue Reserves			
(a) Bank			
As at 1 January 2011	5,805,707	3,914,998	9,720,705
Restatement of Interest Income	–	(85,528)	(85,528)
As at 1 January 2011 - Restated	5,805,707	3,829,470	9,635,177
Profit After Taxation	–	2,011,413	2,011,413
Transferred to Investment Fund	–	(386,825)	(386,825)
Dividends Paid	–	(879,833)	(879,833)
As at 31 December 2011	5,805,707	4,574,225	10,379,932
(b) Group			
As at 1 January 2011	5,805,707	7,589,287	13,394,994
Restatement of Interest Income	–	(85,528)	(85,528)
As at 1 January 2011 - Restated	5,805,707	7,503,759	13,309,466
Transferred to Investment Fund	–	(386,825)	(386,825)
Profit After Taxation	–	2,705,530	2,705,530
Exchange Loss from Valuation of Foreign Associates and Subsidiaries	–	(17,832)	(17,832)
Dividends Paid	–	(879,832)	(879,832)
As at 31 December 2011	5,805,707	8,924,800	14,730,506

Notes to the Financial Statements

40. Maturity Analysis

An analysis of the assets and liabilities based on the remaining period at the Balance Sheet date to the respective contractual maturity dates:

	Up to 3 months Rs '000	3 to 12 months Rs '000	1 to 3 years Rs '000	3 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
Interest Earning Assets						
Cash and short-term funds	–	500,000	–	–	–	500,000
Investments held for trading	7,058,269	–	–	–	–	7,058,269
Investments held to maturity	990,721	3,674,929	5,342,727	5,999,507	43,189	16,051,073
Securities purchased under resale agreements	911,709	–	–	–	–	911,709
Bills of Exchange	3,732,334	92,494	–	–	–	3,824,828
Loans and advances	46,674,554	14,945,019	16,039,146	8,255,130	5,596,573	91,510,422
Lease rentals receivable	503,266	1,040,293	2,129,663	809,663	26,075	4,508,960
	59,870,853	20,252,735	23,511,536	15,064,300	5,665,837	124,365,260
Non-Interest Earning Assets						
Cash and short-term funds	2,725,999	–	–	–	–	2,725,999
Balances with Central Bank	4,614,170	–	–	–	–	4,614,170
Investments held to maturity	197,290	–	–	135,000	–	332,290
Dealing securities	233,771	–	–	–	–	233,771
Investments in Subsidiaries & Associates	–	–	–	–	3,057,438	3,057,438
Group balances/Other assets	870,574	414,477	121,614	–	–	1,406,665
Intangible Assets	–	–	–	–	278,633	278,633
Property, plant & equipment	–	–	–	–	828,754	828,754
	8,641,804	414,477	121,614	135,000	4,164,825	13,477,720
As at 31 December 2011	68,512,657	20,667,212	23,633,150	15,199,300	9,830,662	137,842,980
As at 31 December 2010	61,829,853	8,428,455	11,489,256	9,182,400	13,808,953	104,738,916
Interest-Bearing Liabilities						
Deposits	38,922,771	29,256,368	3,045,950	1,713,978	–	72,939,067
Borrowings	9,716,031	4,306,544	7,252,832	2,846,277	3,791,846	27,913,530
Securities sold under repurchase agreements	9,746,263	1,493,860	2,549	–	–	11,242,672
	58,385,065	35,056,772	10,301,331	4,560,255	3,791,846	112,095,269
Non-Interest Bearing Liabilities						
Deposits	7,371,114	–	–	–	–	7,371,114
Other liabilities	3,238,321	762,453	452,680	103,549	–	4,557,003
Taxation	170,000	43,536	–	–	–	213,536
Deferred tax	–	–	–	–	112,108	112,108
Dividends payable	755,381	–	–	–	–	755,381
Stated capital	–	–	–	–	1,093,095	1,093,095
Statutory reserve fund	–	–	–	–	878,718	878,718
Investment fund	–	–	–	–	386,825	386,825
Revenue reserves	–	–	–	–	10,379,932	10,379,932
	11,534,816	805,989	452,680	103,549	12,850,678	25,747,712
As at 31 December 2011	69,919,881	35,862,761	10,754,011	4,663,804	16,642,523	137,842,980
As at 31 December 2010	49,794,829	25,639,455	8,470,945	4,064,046	16,769,639	104,738,916

Notes to the Financial Statements

41. Restatement of Comparative Figures

Comparative figures have been re-stated wherever necessary to conform to the current period's presentation. Rs 46.9 mn has been restated in the income statement for the year ended 31 December 2010 and Rs 38.61 mn has been debited to the brought forward reserves as at 1 January 2010 to adjust for the over accrual of interest receivable in the prior years.

	Effect on the Year ended 31 December 2010 Rs '000
Income Statement	
Decrease in interest income	104,271
Decrease in income tax expense	(57,349)
Decrease in profit	46,922
Balance Sheet	
Decrease in other assets	179,821
Decrease in Income tax payable	94,292
Decrease in Equity	85,529

42. Commitment and Contingencies

42.1 Business Commitments

In the normal course of business, NDB 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:

	NDB BANK		NDB GROUP	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
Undisbursed financing commitments	33,086,804	21,495,867	33,086,804	21,495,867
Guarantees	16,747,134	7,919,207	16,747,134	7,919,207
Commitments on account of letters of credit	8,955,288	6,197,540	8,955,288	6,197,540
Forward exchange contracts	80,959,785	56,226,251	80,959,785	56,226,251
Acceptances	5,918,369	3,865,223	5,918,369	3,865,223
Travellers cheques	–	5	–	5
	145,667,380	95,704,093	145,667,380	95,704,093

42.2 The Following Interest Rate SWAP Agreement is Outstanding as at 31 December 2011:

Year of Agreement	Notional Value (Rs '000)	Year of Maturity
2008	250,000	2012

42.3 Rs. 165 mn was provided during the year ended 31 December 2011 in respect of the impairment of the Bank's investment in Maldives Finance Leasing Company (Pvt) Ltd., which is disclosed in the Income Statement under Provision/(Release) for the fall in value of investment securities. Further the Bank has provided letters of comfort for the borrowings undertaken by the Company. Accordingly the probable liability in the event the Company fails to meet its debt obligations amounts to Rs. 285 mn as at the Balance Sheet date.

Notes to the Financial Statements

42.4 During the year, the Bank entered into a Sale and Purchase Agreement (SPA) with Dialog Broadband Networks (Pvt) Ltd. and the rest of the shareholders of Suntel (Pvt) Ltd. to divest its entire shareholding in the Suntel (Pvt) Ltd. The purchase consideration is dependant upon the finalization of certain pre-determined conditions which are not wholly within the control of the Bank. Therefore as at 31 December 2011, the above flow of funds is uncertain. The contingent asset cannot be estimated due to the non-finalization of the agreed conditions.

42.5 Litigation Against NDB Bank

In the normal course of business, NDB is a party to various types of litigation, including litigation with borrowers who are in default in terms of their loan agreements. As of the Balance Sheet date twenty client companies have filed cases against NDB preventing the sale of assets mortgaged to NDB. NDB'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 NDB.

43. Post-Balance Sheet Events

NDB's 99.6% held subsidiary Capital Development and Investment Company PLC (CDIC) approved a new business plan to position itself as a diversified financial services conglomerate with ultimate exposure to investment banking (both regionally and in Sri Lanka), stock broking, wealth management, private equity investments and insurance sectors.

Accordingly, CDIC will acquire 100% ownership of NDB Investment Bank and NDB Stockbrokers from NDB, which will complement its existing strategic investments in AVIVA NDB Insurance PLC and NDB AVIVA Wealth Management Ltd. The above acquisitions will be made subject to regulatory approvals.

There have been no other events subsequent to the end of the reporting period that require disclosure.

44. Segmental Analysis- Group

	Banking Income		Investment Banking Cluster		Property Investment		Insurance		Others		Consolidated	
<i>For the year ended 31 December</i>	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
Revenue												
External income	13,302,871	11,295,646	671,644	1,128,449	494,613	120,056	–	–	125,474	61,561	14,594,601	12,605,712
Inter-segment income	–	–	33,585	26,684	41,424	28,384	–	–	29,138	182,174	104,147	237,242
Total income	13,302,871	11,295,646	705,229	1,155,133	536,037	148,440	–	–	154,612	243,735	14,698,748	12,842,954
Segment expenses	(10,004,601)	(8,190,028)	(409,545)	(316,765)	(41,818)	(64,507)	–	–	34,995	(215,366)	(10,420,970)	(8,786,666)
Segment results	3,298,270	3,105,618	295,684	838,368	494,219	83,933	–	–	189,607	28,369	4,277,778	4,056,288
Share of associate companies profit before taxation	(125,152)	(75,803)	4,177	–	–	–	451,768	370,184	–	403	330,793	294,784
Taxation											(1,162,746)	(1,370,433)
VAT on financial services											(504,960)	(804,610)
Profit after taxation											2,940,861	2,176,029
Other Information												
Segment assets	134,176,297	100,101,118	686,188	1,581,034	1,645,729	1,246,671	–	–	3,804,031	3,840,316	140,312,245	106,769,139
Investment in associates	–	145,300	–	–	–	–	1,763,393	1,588,166	33,301	29,124	1,796,694	1,762,590
Consolidated total assets											142,108,940	108,531,729
Segment liabilities	123,877,153	92,256,057	71,169	209,828	90,715	31,338	–	–	68,085	36,144	124,107,121	92,533,367
Consolidated total liabilities											124,107,121	92,533,367
Segmental Cash Flows												
Cash flows from operating activities	(6,919,599)	(3,848,138)	49,066	71,261	17,882	63,202	–	–	262,953	396,003	(6,589,698)	(3,317,672)
Cash flows from investing activities	(909,533)	5,644,176	(97,156)	(32,553)	18,899	(44,813)	–	–	(326,036)	(741,242)	(1,313,827)	4,825,568
Cash flows from financing activities	10,400,463	(4,175,668)	(8,546)	(3,808)	(36,781)	(18,389)	–	–	(40,602)	(338)	10,314,534	(4,198,203)

Notes to the Financial Statements

45. Related Party Disclosures

45.1 Parent and Ultimate Control Party

The Bank does not have an identifiable parent of its own.

45.2 Transactions with Key Management 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 at concessionary rates.

45.2.1 Key management of the Bank and their close family members had the following deposits/facilities with the Bank as at 31 December.

	Balances as at end of year	
	2011 Rs '000	2010 Rs '000
Deposits placed	59,248	91,178
Loans and advances	40,873	36,947

	2011 Rs '000	2010 Rs '000
45.2.2 Compensation of Key Management Personnel		
Short-term employee benefits	111,603	105,628
Post employment benefits	6,301	2,735
	117,904	108,863

45.2.3 Transactions involving entities which are controlled/significantly influenced by Key Management Personnel

	Balance as at end of the Year 2011 Rs '000
Balance Sheet	
Assets	
Loans and advances	1,579,178
Liabilities	
Deposits	13,705
Commitments and Contingencies	
Letter of credits/guarantees	66,237
Income Statement	
Net interest income	32,697
Other income	4,659

Notes to the Financial Statements

	2011 Rs '000	2010 Rs '000
45.2.4 Direct and Indirect Accommodation of Related Parties		
Direct and indirect accommodation as a % of the Bank's regulatory capital	13.55	0.32

	2011	2010
45.3 Share Based Payments to Key Management Personnel		
Share Grant		
No. of ordinary shares held [Refer Note (a)]	209,848	104,924
Dividends paid (Rs '000)	1,127	939
No of cumulative grants allocated under the Equity Linked Compensation Plan (ELCP) Tranch 1 (6 July 2010)	209,848	104,924

Note (a)

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 subdividing the said existing ordinary shares in the proportion of one share for every ordinary share in issue so that the number of ordinary shares representing the Stated Capital of NDB Bank be increased to 164,201,902. Accordingly the number of shares of the share grant and the share option as at 31 December 2011 was 209,848.

Share Option

As at 31 December 2010, the eligible members of the staff were allocated share options as follows:

209,848 Ordinary Shares at a price of Rs 124.21 each, was vested on 6 July 2011 and exercisable before 30.06.2014.

45.4 Transactions with Related Companies

45.4.1 The Bank had the undermentioned financial dealings during the year with the following Subsidiaries and Associates of the Bank.

	Subsidiaries of the Group*				Associates of the Group*			
	Balances as at end of Year		Average Balance during the Year		Balances as at end of Year		Average Balance during the Year	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
Balance Sheet								
Assets								
Loans and advances	1,263	84	674	12,296	453	15,484	7,968	30,889
Group company receivables	1,640	—	820	—	—	1,356	678	1,365
Liabilities								
Deposits placed	1,254,506	975,856	1,115,181	2,119,843	378,800	383,198	380,999	547,280
Other payables	12,163	9,134	10,649	6,948	—	—	—	—
Equity								
Investment in ordinary shares net of provisions	2,770,540	2,770,540	2,770,540	2,759,599	286,898	452,460	369,679	452,460
Contingencies and commitments	—	—	—	—	285,000	—	—	—

* Refer Note 24 and Note 25 for details of subsidiary and associate companies.

Notes to the Financial Statements

	Subsidiaries of the Group during the year		Associates of the Group during the year	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
Income Statement				
Interest received/(paid) - net	(80,520)	(181,152)	(22,580)	(57,582)
Rent and utilities received	12,368	6,740	–	–
Rent and utilities paid	(15,582)	(10,633)	–	–
Management fees received	17,289	29,385	–	–
Front end fees	5,876	1,339	–	–
Bancassurance Income	–	–	27,018	73,613
Insurance paid	–	–	(61,248)	(73,488)
Claims received	–	–	28,167	30,665
Capital Gains received	–	–	17,300	800
Dividends paid	244,821	118,869	12,590	12,991

45.4.2 NDB had the undermentioned financial dealings during the year with NDB Provident Fund.

	2011 Rs '000	2010 Rs '000
Deposits with NDB	44,658	8,826
Interest paid on deposits during the year	1,052	1,487
Contribution made by the Bank	116,948	92,052
Investments in Government Securities	220,809	140,000

45.4.3 AVIVA NDB Wealth Management Ltd., a subsidiary of NDB had the undermentioned financial dealings with NDB Provident Fund.

	2011 Rs '000	2010 Rs '000
Portfolio balance as at 31 December managed on behalf of NDB Provident Fund	847,442	779,251

45.4.4 Direct and Indirect Accommodation

Direct and indirect accommodation of subsidiaries & associates companies as a % of the Bank's regulatory capital	0.01	0.14
--	------	------

Capital Adequacy

This term is used to describe the adequacy of 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 risk weights assigned to the On and Off-Balance Sheet assets and the composition of capital are prescribed by Central Bank of Sri Lanka.

	NDB BANK	
<i>Capital Base as at 31 December</i>	2011 Rs '000	2010 Rs '000
Tier I: Core Capital		
Stated capital	1,093,095	1,093,095
Statutory reserve fund	878,718	878,718
Published retained profits	4,574,227	3,829,471
General & other reserves	6,192,532	5,805,707
	12,738,571	11,606,990
Deductions - Tier I		
Intangible assets	278,633	206,720
50% Investments in unconsolidated banking & financial subsidiaries	1,271,196	1,271,196
50% Investments in capital of other banks & financial institutions	151,575	285,024
Total Tier I Capital	11,037,167	9,844,050
Tier II: Supplementary Capital		
General provision	460,873	573,387
Approved subordinated term debt	2,373,300	2,558,250
	2,834,173	3,131,637
Deductions - Tier II		
50% Investments in unconsolidated banking & financial subsidiaries	1,271,195	1,271,195
50% Investments in capital of other banks & financial institutions	151,575	285,024
	1,422,770	1,556,219
Eligible Tier II Capital	1,411,403	1,575,418
Capital Base	12,448,570	11,419,468

Capital Adequacy

Risk Weighted Assets and Off-Balance Sheet Exposure

NDB BANK					
	Principal Amount of On-Balance Sheet Items		Risk Weights	Risk-Weighted Asset Amount	
	2011 Rs '000	2010 Rs '000	%	2011 Rs '000	2010 Rs '000
Cash, Treasury Bills & other securities with Central Bank	21,942,787	18,459,433	0	–	–
Loans against cash deposits & gold	7,546,053	6,279,433	0	–	–
Claims on banks	3,685,237	4,231,876	20-100	1,147,889	1,262,611
Claims on financial institutions	8,694,418	3,852,690	50-100	5,139,402	2,315,984
Loans secured by primary mortgages	5,505,536	4,788,982	50	2,752,768	2,394,491
Other claims	77,264,316	53,471,925	20-150	72,570,716	50,823,058
Property & equipment	828,754	547,291	100	828,754	547,291
Other receivables	1,124,870	625,268	100	1,124,870	625,268
Total assets considered for credit risk	126,591,971	92,256,898		83,564,399	57,968,703

Off-Balance Sheet Exposure

NDB BANK					
	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit Equivalent of Off-Balance Sheet Items	
	2011 Rs '000	2010 Rs '000	%	2011 Rs '000	2010 Rs '000
General guarantees of indebtedness	7,643,592	4,308,560	100	7,643,592	4,308,560
Stand by LCs relating to particular transactions	18,844	536,829	50	9,422	268,414
Performance Bonds, Bid Bonds	2,210,523	2,214,066	50	1,105,262	1,107,033
Trade-related acceptances	5,918,368	3,865,223	20	1,183,674	773,045
Shipping guarantees	2,297,673	465,527	20	459,535	93,105
Documentary letters of credit	8,936,444	5,660,711	20	1,787,289	1,132,142
Undrawn term loans	1,389,401	1,301,925	0, 20 & 50	694,701	332,135
FX contracts	66,149,182	45,858,255	2 & 5	1,385,674	948,668
Undrawn overdrafts	4,911,290	4,480,467	0	–	–
Other unutilized facilities	26,786,112	15,713,479	0, 20 & 50	1,010,873	255,814
Total Off-Balance Sheet exposure	126,261,429	84,405,042		15,280,022	9,218,916

Capital Adequacy

	2011 Rs '000	2010 Rs '000
Capital Charge for Market Risk		
Capital charge for interest rate risk	62,503	167,957
Capital charge for equity	37,758	42,657
Capital charge for foreign exchange & gold	123,778	30,322
Total capital charge for market risk	224,039	240,936
Total risk-weighted assets equivalent for market risk	2,240,390	2,409,360
Capital Charge for Operational Risk		
Gross Income:		
Year 1	5,411,883	4,759,698
Year 2	5,404,125	5,411,883
Year 3	6,711,041	5,404,125
Average gross income	5,842,350	5,191,902
Total capital charge for operational risk -15%	876,352	778,785
Total risk-weighted assets equivalent for operational risk	8,763,525	7,787,853
Total risk-weighted assets and Off-Balance Sheet exposure	109,848,336	77,384,832
Risk-Weighted Capital Ratios		
Tier I (Required statutory minimum ratio is 5%)	10.05	12.72
Tier I & Tier II (Required statutory minimum ratio is 10%)	11.33	14.76

	NDB GROUP	
	2011 Rs '000	2010 Rs '000
<i>Capital Base as at 31 December</i>		
Tier I: Core Capital		
Stated capital	1,093,095	1,093,095
Statutory reserve fund	878,718	878,718
Published retained profits	8,924,800	7,503,758
General & other reserves	6,192,531	5,805,707
Minority interests	912,675	717,084
	18,001,819	15,998,362
Deductions - Tier I		
Goodwill	—	4,330
Intangible assets	318,347	210,300
50% investments in the capital of other banks and financial institutions	986,967	1,064,801
Total Tier I Capital	16,696,505	14,718,931

Capital Adequacy

	NDB GROUP	
<i>Capital Base as at 31 December</i>	2011 Rs '000	2010 Rs '000
Tier II: Supplementary Capital		
General provision	460,873	573,387
Approved subordinated term debt	2,373,300	2,558,250
	2,834,173	3,131,637
Deductions - Tier II		
50% Investments in the capital of other banks and financial institutions	986,971	1,064,801
Capital base	18,543,707	16,785,767

Risk-Weighted Assets and Off-Balance Sheet Exposure

	NDB GROUP				
	Principal Amount of On-Balance Sheet Items		Risk Weights	Risk-Weighted Asset Amount	
	2011 Rs '000	2010 Rs '000	%	2011 Rs '000	2010 Rs '000
Cash, Treasury Bills & other securities with Central Bank	21,955,774	18,866,902	0	—	—
Loans against cash deposits & gold	7,546,053	6,279,433	0	—	—
Claims on banks	3,808,862	4,465,965	20-100	1,196,293	1,336,209
Claims on financial institutions	9,791,618	4,843,590	20-100	5,775,902	2,831,434
Loans secured by primary mortgages	5,505,536	4,788,982	50	2,752,768	2,394,491
Other claims	78,780,029	54,438,140	20-150	74,050,429	51,717,274
Property & equipment	2,480,961	1,804,586	100	2,480,961	1,804,586
Other receivables	1,571,939	997,337	100	1,571,939	997,337
Total assets considered for credit risk	131,440,772	96,484,935		87,828,292	61,081,331

Capital Adequacy

Off-Balance Sheet Exposure

	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit Equivalent of Off-Balance Sheet Items	
	2011 Rs '000	2010 Rs '000	%	2011 Rs '000	2010 Rs '000
General guarantees of indebtedness	7,643,592	4,308,560	100	7,643,592	4,308,560
Stand by LCs relating to particular transactions	18,844	536,829	50	9,422	268,414
Performance Bonds, Bid Bonds	2,210,523	2,214,066	50	1,105,262	1,107,033
Trade-related acceptances	5,918,368	3,865,223	20	1,183,674	773,045
Shipping guarantees	2,297,673	465,527	20	459,535	93,105
Documentary letters of credit	8,936,444	5,660,711	20	1,787,289	1,132,142
Undrawn term loans	1,389,401	1,301,925	0, 20 & 50	694,701	332,135
FX contracts	66,149,182	45,858,255	2 & 5	1,385,674	948,668
Undrawn overdrafts	4,911,290	4,480,467	0	–	–
Other unutilized facilities	26,786,112	15,713,479	0, 20 & 50	1,010,873	255,814
Total Off-Balance Sheet exposure	126,261,429	84,405,042		15,280,022	9,218,916

	2011 Rs '000	2010 Rs '000
Capital Charge for Market Risk		
Capital charge for interest rate risk	62,503	217,025
Capital charge for equity	80,831	95,744
Capital charge for foreign exchange & gold	123,778	30,322
Total capital charge for market risk	267,112	343,091
Total risk-weighted assets equivalent for market risk	2,671,120	3,430,910

Capital Charge for Operational Risk

Gross Income:		
Year 1	5,996,782	5,483,189
Year 2	6,494,971	5,996,782
Year 3	8,034,887	6,494,971
Average gross income	6,842,213	5,991,647
Total capital charge for operational risk -15%	1,026,332	898,747
Total risk-weighted assets equivalent for operational risk	10,263,320	8,987,471

Total risk-weighted assets and Off-Balance Sheet exposure	116,042,754	82,718,628
--	--------------------	-------------------

Risk-Weighted Capital Ratios

Tier I (Required statutory minimum ratio is 5%)	14.39	17.79
Tier I & Tier II (Required statutory minimum ratio is 10%)	15.98	20.29

Statement of Value Added

	2011	%	2010	%
Value Added				
Gross Income	13,531,130		11,720,054	
Cost of Borrowings and Services	(8,314,981)		(7,021,452)	
Provision for Losses	160,727		171,540	
	5,376,876		4,870,142	
Distribution of Value Added				
To Employees				
Remuneration and Benefits	1,789,294	33	1,325,673	27
To Government				
Income Tax	1,349,554	25	1,824,092	38
To Providers of Capital				
Dividend to Shareholders	879,833	17	983,246	20
Retained in the Business				
Retained Profit	1,131,579	21	546,130	11
Depreciation	226,616	4	191,003	4
	1,358,195	25	737,131	15
	5,376,876	100	4,870,142	100

Investor Information

1. Stock Exchange

The Consolidated Income Statement for the year ended 31 December 2011 and the Balance Sheet of the Bank and the Group as at that date have been submitted to the Colombo Stock Exchange within two months of the Balance Sheet date.

2. Ordinary Shareholders as at 31 December 2011

Individuals

No. of Shares	No.	Resident Shares	%	No.	Non-Resident Shares	%	No.	Total Shares	%
1 - 1,000	5,236	1,903,660	1.16	61	31,930	0.02	5,297	1,935,590	1.18
1,001 - 10,000	2,104	6,268,185	3.82	45	198,796	0.12	2,149	6,466,981	3.94
10,001 - 100,000	252	6,281,802	3.83	19	506,516	0.31	271	6,788,318	4.13
100,001 - 1,000,000	16	2,579,016	1.57	0	0	0.00	16	2,579,016	1.57
1,000,001 Over	2	5,008,950	3.05	1	8,469,000	5.16	3	13,477,950	8.21
Sub Total	7,610	22,041,613	13.43	126	9,206,242	5.61	7,736	31,247,855	19.03

Corporate

No. of Shares	No.	Resident Shares	%	No.	Non-Resident Shares	%	No.	Total Shares	%
1 - 1,000	159	57,344	0.03	4	926	0.00	163	58,270	0.03
1,001 - 10,000	164	722,624	0.44	5	28,146	0.02	169	750,770	0.46
10,001 - 100,000	107	4,295,659	2.62	9	457,400	0.28	116	4,753,059	2.89
100,001 - 1,000,000	34	11,361,782	6.92	14	6,421,500	3.91	48	17,783,282	10.83
1,000,001 Over	11	73,468,216	44.74	8	30,940,450	18.84	19	104,408,666	63.59
Sub Total	475	89,905,625	54.75	40	37,848,422	23.05	515	127,754,047	77.80
Total	8,085	111,947,238	68.18	166	47,054,664	28.66	8,251	159,001,902	96.83

Notes on unregistered/unallotted shares

Out of the 164,201,902 shares in issue, 5,200,000 shares which were issued in 2006 representing 3.17% are not allotted.

3. Share Valuation

The market value of the National Development Bank PLC ordinary shares on 31 December 2011 was Rs 138.10 per share. The highest and lowest values recorded during this 12-month period were Rs 186.00 on 10 January 2011 (Adjusted for split) and Rs 120.00 on 30 November 2011 respectively.

4. Directors Interest in Shares of NDB

Name	No. of Shares as at 31 December 2011	Name	No. of Shares as at 31 December 2010 (before split)
H D S Amarasuriya	18,150	H D S Amarasuriya	9,075
A K Pathirage	3,470,000	A K Pathirage	N/A
N I R de Mel (CEO)	7,116	N I R de Mel (CEO)	3,558
T L F Jayasekara	—	T L F Jayasekara	—
K Fernando	—	K Fernando	—
H A Siriwardena	—	H A Siriwardena	—
D S P Wikramanayake	—	D S P Wikramanayake	—
G D C Ekanayake	—	G D C Ekanayake	N/A
S Rajapakse	—	S Rajapakse	N/A

Investor Information

5. Twenty Largest Registered Shareholders as at 31 December 2011

Name	2011	
	No. of Shares	%
1. Bank of Ceylon A/C 1	16,371,076	9.97
2. Employees' Provident Fund	14,408,400	8.77
3. Sri Lanka Insurance Corporation Ltd. - General Fund	9,388,488	5.72
4. Dr S Yaddahige	8,469,000	5.16
5. Sri Lanka Insurance Corporation Ltd. - Life Fund	7,805,426	4.75
6. Pershing LLC S/A Averbach Grauson & Co.	5,811,800	3.54
7. Asian Alliance Insurance PLC - General Fund Account Number 01	5,732,200	3.49
8. HSBC Intl Nominees Ltd.-BPSS LUX - Aberdeen Global Asia Pacific Equity Fund	5,715,450	3.48
9. Employees' Trust Fund Board	5,284,700	3.22
10. HSBC International Nominees Ltd.-MSNY-Bay Pond Partners LP	4,501,200	2.74
11. HSBC Intl Nom Ltd.-BPSS LDN-Aberdeen Asia Pacific Fund	4,294,800	2.62
12. Hatton National Bank PLC A/C No. 1	4,282,200	2.61
13. HSBC INTL Nom Ltd. - SNFE-NTAsian Discovery Master Fund	4,152,000	2.53
14. NDB-ESOP	4,133,726	2.52
15. Mr A K Pathirage	3,470,000	2.11
16. BNY-CF Ruffer Investment Funds : CF Ruffer Pacific Fund	3,000,000	1.83
17. Asiri Hospital Holdings PLC	2,400,000	1.46
18. HSBC International Nominees Ltd.-MSNY-Bay Pond Investors (Bermuda) LP	2,045,200	1.25
19. DFCC Bank A/C 1	2,000,000	1.22
20. National Savings Bank	1,662,000	1.01
Total	114,927,666	70.00

Percentage of Shares held by the Public - 96.42%

6. Debenture Information

In 2011, NDB privately placed rated subordinated unsecured unlisted redeemable debentures having an aggregate face value of Rs 400,000,000.

The proceeds of these debentures were utilized for re-lending purposes. The details of the said debentures are as follows:

Date	Amount Rs	Number of Debentures	Value Rs	Redemption	Rate of Interest
30 June 2011	1,000/- each	110,000	110,000,000	30 June 2016	03 months gross TBR + 1.00% per annum
22 July 2011	1,000/- each	290,000	290,000,000	30 June 2016	03 months gross TBR + 1.00% per annum

Ten Year Summary - Group Income Statement

Rs mn	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Income										
Interest income	11,541.1	9,848.5	11,606.9	10,860.2	8,598.6	6,075.6	5,035.3	4,397.9	4,666.5	5,041.3
Interest expenses	6,769.3	5,685.9	7,373.7	7,073.0	5,076.2	3,223.0	2,342.0	2,151.8	2,465.4	3,380.6
Net interest income	4,771.8	4,162.6	4,233.2	3,787.2	3,522.4	2,852.6	2,693.3	2,246.1	2,201.1	1,660.7
Other income	3,157.6	2,785.1	2,560.0	1,661.9	1,474.3	2,133.2	2,080.7	1,471.0	1,404.5	930.0
Net Income	7,929.4	6,947.7	6,793.2	5,449.1	4,996.7	4,985.8	4,774.0	3,717.1	3,605.6	2,590.7
Less Operating Expenses										
Personnel costs	2,067.6	1,566.8	1,299.8	1,151.1	949.3	830.0	1,131.5	916.3	588.0	412.7
Provision for bad & doubtful debts and fall in value of investments	(317.0)	(171.5)	373.5	115.7	65.1	13.4	153.5	278.6	787.0	476.8
Other administrative & general expenses	1,901.1	1,496.1	1,370.1	1,237.2	1,103.5	929.5	1,473.3	1,266.9	817.6	520.9
Total Operating Expenses	3,651.7	2,891.4	3,043.4	2,504.0	2,117.9	1,772.9	2,758.3	2,461.8	2,192.6	1,410.4
Less: Exceptional items	–	–	–	–	–	–	171.8	–	–	–
Operating profit	4,277.7	4,056.3	3,749.8	2,945.1	2,878.8	3,212.9	1,843.9	1,255.3	1,413.0	1,180.3
Share of associate companies profit	330.8	294.8	525.8	172.4	179.4	214.5	21.7	31.3	113.2	113.7
Profit before taxation	4,608.6	4,351.1	4,275.6	3,117.5	3,058.2	3,427.4	1,865.6	1,286.6	1,526.2	1,294.0
Taxation	(1,667.7)	(2,175.0)	(2,154.3)	(1,409.4)	(1,421.4)	(1,220.4)	(593.0)	(481.1)	(305.2)	(251.0)
Profit after taxation	2,940.8	2,176.1	2,121.3	1,708.1	1,636.8	2,207.0	1,272.6	805.5	1,221.0	1,043.0
Minority interest	(235.3)	(73.4)	(36.6)	(103.4)	(115.4)	(176.4)	(236.6)	(102.4)	(98.0)	(112.3)
Profit attributable to group	2,705.5	2,102.7	2,084.7	1,604.7	1,521.4	2,030.6	1,036.0	703.1	1,123.0	930.7
Earnings per share (Rs)	16.5	12.8	12.7	9.8	9.3	12.4	11.2	6.5	10.4	8.4
Final dividend (Rs mn) - Proposed/paid	879.8	983.2	552.5	491.1	409.3	327.4	322.5	309.1	309.1	295.6
Final dividend per share - Proposed/paid (Rs)	–	8.50	8.00	6.75	6.00	4.00	6.00	5.75	5.75	5.50
Interim dividend per share - paid (Rs)	3.50	4.00	–	–	–	–	–	–	–	–
Dividend cover (Times)	3.1	2.2	3.8	3.3	3.7	6.2	3.2	2.3	3.6	3.1

Ten Year Summary - Group Balance Sheet

Rs mn	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Assets										
Cash & short-term funds	3,349.7	2,475.4	5,841.0	4,250.1	6,056.1	4,467.2	2,098.8	14,101.5	12,440.7	5,937.7
Balances with Central Bank	4,614.2	3,077.4	2,402.2	1,632.9	1,692.2	1,575.3	818.7	–	–	–
Investments	26,682.7	27,665.7	32,127.5	18,509.3	14,700.9	12,170.2	19,078.0	5,633.5	5,726.0	3,828.6
Bills of Exchange	3,824.8	3,266.5	2,539.4	2,247.3	2,121.5	1,591.9	970.8	943.4	–	–
Loans & advances	92,678.9	64,837.5	49,703.7	50,431.3	45,877.2	39,377.2	35,274.5	31,833.4	20,783.2	24,364.4
Lease Rentals & Receivables	4,509.0	2,327.0	1,863.4	1,910.4	1,820.0	1,449.1	731.3	609.4	573.3	2,884.7
Investments in Associate Companies	1,796.7	1,762.6	1,723.8	1,392.9	1,209.9	1,179.0	241.2	225.1	413.1	798.6
Property & equipment	1,503.6	918.0	805.5	780.6	804.4	691.4	1,162.0	1,658.0	1,166.5	1,667.8
Investment property	1,295.7	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0	1,040.9	–	–	–
Other assets	1,853.7	997.4	1,075.2	925.4	660.8	1,276.2	3,006.3	2,445.6	1,865.4	889.0
Goodwill	–	4.3	4.3	–	–	–	872.7	1,535.1	904.9	2.9
Total Assets	142,109.0	108,531.8	99,286.0	83,280.2	76,143.0	64,977.5	65,295.2	58,985.0	43,873.1	40,373.7
Liabilities										
Borrowings	37,928.9	28,235.8	29,561.1	34,992.7	34,147.4	29,203.5	27,798.9	26,881.2	25,847.6	30,250.4
Deposits	80,310.2	59,363.7	49,947.6	31,091.4	25,623.7	21,161.1	13,953.7	11,085.1	–	–
Non-life insurance reserves	–	–	–	–	–	–	858.8	485.8	420.8	–
Long-term insurance fund	–	–	–	–	–	–	9,238.2	7,985.4	6,612.8	–
Taxation	376.3	542.0	560.1	351.7	521.6	640.4	220.4	300.1	350.8	550.1
Other liabilities	4,736.4	3,941.1	3,989.7	3,364.1	2,580.5	1,983.7	2,846.9	2,770.1	1,997.5	1,397.2
Dividend payable	755.4	450.8	344.2	249.9	170.1	107.9	8.0	7.5	4.6	300.2
Total Liabilities	124,107.1	92,533.4	84,402.7	70,049.8	63,043.3	53,096.6	54,924.9	49,515.2	35,234.1	32,497.9
Shareholders' Funds										
Stated capital	1,093.1	1,093.1	1,032.9	1,032.9	1,032.9	1,032.9	760.1	629.2	629.2	629.2
Statutory reserves	878.7	878.7	818.6	818.6	818.6	818.6	545.7	546.5	537.5	537.5
Revaluation reserve	–	–	–	–	–	–	–	86.2	–	131.7
Investment fund	386.8	–	–	–	–	–	–	–	–	–
Revenue reserves	14,730.5	13,309.5	12,345.2	10,810.5	9,833.4	8,715.2	7,849.7	7,114.7	6,730.5	5,524.8
Total shareholders' funds	17,089.1	15,281.3	14,196.7	12,662.0	11,684.9	10,566.7	9,155.5	8,376.6	7,897.2	6,823.2
Minority interests	912.7	717.1	686.6	568.4	1,414.8	1,314.2	1,214.8	1,093.2	741.9	1,052.6
Total funds employed	18,001.8	15,998.4	14,883.3	13,230.4	13,099.7	11,880.9	10,370.3	9,469.8	8,639.1	7,875.8
Total Liabilities and Funds Employed	142,109.0	108,531.8	99,286.0	83,280.2	76,143.0	64,977.5	65,295.2	58,985.0	43,873.1	40,373.7
Return on average Assets (%)	2.2	2.0	2.3	2.0	2.2	3.1	2.0	1.6	3.2	2.5
Return on equity (%)	16.7	14.3	15.5	13.2	13.7	21.0	14.3	8.6	15.3	14.4
Price Earnings Ratio (Times)	10.8	13.3	8.1	4.4	9.1	8.1	9.6	12.2	6.8	5.2
Book value per share (Rs)	104.7	93.06	86.72	77.35	71.38	64.54	79.80	77.92	73.46	63.47

Glossary of Financial and Banking Terms

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 transactions 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.

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 Adequacy Ratios

The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capital Reserves

Reserves identified for specific purposes and considered not available for distribution.

Commitments

Credit facilities approved but not yet utilized by the clients as at the Balance Sheet date.

Contingencies

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Cost/Income Ratio

Operating expenses excluding Loan Loss Provision as a percentage of net income.

Cost Method

This is a method of accounting for an investment whereby the investment is initially recognized at cost. The investor recognizes income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

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.

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.

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

Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short term.

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 number of ordinary shares in issue.

Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

Equity Method

This is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

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.

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 Balance Sheet date and the settlement/Balance Sheet date. 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

General Provisions

These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Group

A Group is a parent and all its subsidiaries.

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.

I

Impairment

This occurs when the recoverable amount of an asset is less than its carrying amount.

Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

Interest in Suspense

Interest suspended on non-performing loans and advances.

Glossary of Financial and Banking Terms

Interest Spread

Represents the difference between the average interest rate earned on interest-earning assets and the average interest rate paid on interest-bearing liabilities.

Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

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.

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 and Treasury Bills & Bonds.

Loan Losses and Provisions

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

M

Market Capitalization

Number of ordinary shares in issue multiplied by the market value of a share as at a date.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

Minority Interest

The interest of individual shareholders, in a company more than 50% of which is owned by a holding company.

N

Net Assets Value per Ordinary Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Net Interest Income (NII)

The difference between the 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 advance placed on cash basis (i.e. Interest income is only recognized when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectibility 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 advances (net of Interest in Suspense) divided by total loans and advances portfolio (net of Interest in Suspense).

O

Open Credit Exposure Ratio

Total net non-performing loans and advances expressed as a percentage of regulatory capital base.

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 advances before discounting for provisions on non-performing loans and advances.

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 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.

Corporate Information

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

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

Telex: 21399 NDB CE

Web Page: www.ndbbank.com

E-mail: contact@ndbbank.com

VAT Registration No.: 409000266-7000

Credit Rating: AA(Ika) Fitch Rating

Board of Directors

Mr H D S Amarasuriya

Mr A K Pathirage

Mr N I R de Mel

Mr T L F Jayasekara

Mr D S P Wikramanayake

Mrs K Fernando

Mr H A Siriwardena

Ms G D C Ekanayake

Mr S Rajapakse

Mr P M Nagahawatte

(Ceased to hold office w.e.f. 01.08.2011)

Dr R W A Vokes (Resigned w.e.f. 12.05.2011)

Integrated Risk Management Committee

Mr D S P Wikramanayake (Chairman)

Mr H D S Amarasuriya

Ms G D C Ekanayake

Mr N I R de Mel

Mrs N Rayen

Audit Committee

Mr T L F Jayasekara (Chairman)

Ms G D C Ekanayake

Mr D S P Wikramanayake

Mr S Rajapakse

Mrs K Fernando

Strategic Issues Committee

Mr H D S Amarasuriya (Chairman)

Mr A K Pathirage

Mr T L F Jayasekara

Mrs K Fernando

Mr D S P Wikramanayake

Mr S Rajapakse

Mr H A Siriwardena

Remuneration & Human Resource Committee

Mr H D S Amarasuriya (Chairman)

Mr A K Pathirage

Mr S Rajapakse

Mrs K Fernando

Mr H A Siriwardena

Mr T L F Jayasekera

Nominations Committee

Mr S Rajapakse (Chairman)

Mr H D S Amarasuriya

Mr A K Pathirage

Mr T L F Jayasekera

Mr H A Siriwardena

Corporate Governance & Legal Affairs Committee

Mrs K Fernando (Chairperson)

Ms G D C Ekanayake

Mr H A Siriwardena

Mr N I R de Mel

Subsidiary Companies as at 31.12.2011

Capital Development & Investment Co. PLC

Development Holdings (Pvt) Ltd.

NDB Stockbrokers (Pvt) Ltd.

NDB Investment Bank Ltd.

NDB Capital Ltd. (Bangladesh)

NDB AVIVA Wealth Management Ltd.

NDB Industrial Estates (Pvt) Ltd.

Associate Companies as at 31.12.2011

AVIVA NDB Insurance PLC

AVIVA NDB Finance Lanka (Pvt) Ltd.

Maldives Finance Leasing Co. (Pvt) Ltd.

NDB Venture Investments (Pvt) Ltd.

Ayojana Fund (Pvt) Ltd.

Stock Exchange Listing

The shares of the Bank are listed with the Colombo Stock Exchange

Company Secretary

Mrs C L Jayawardena (Attorney-at-Law)

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

Corporate Information

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 'National Development Bank Ltd.' was incorporated for the purposes of taking over the business of National Development Bank of Sri Lanka. Accordingly, on the 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 the 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 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 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.

The present stated capital of the Bank is Rs 1,093,094,670/-. 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.



This Annual Report is Carbon Neutral

This National Development Bank PLC Annual Report has been produced by Smart Media The Annual Report Company whose greenhouse gas emissions resulting from the writing, designing, photography, production, project management, usage of paper and printing are offset using verified carbon offsets.



The
Annual Report
Company

www.smart.lk



www.carbonfund.org

NATIONAL DEVELOPMENT BANK PLC

40, Navam Mawatha, Colombo 2, Sri Lanka

Tel: +94 11 2448448

Web: www.ndbbank.com