

Poised to leap



25 years as a development banker, has given us a strong foundation. Today, as a fully fledged commercial bank, we are breaking into new areas, offering new financial solutions, while **living up to our potential...** and playing with grace and foresight with values that we have gained through the years, by striving for excellence.

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 guides us in our vision to be a world-class Sri Lankan Bank.

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Financial Highlights

	NDB BANK			NDB GROUP		
	2007	2006	Per Cent Change	2007	2006	Per Cent Change
(Rs mn)						
Total Income	9,527	6,882	38.43	10,072	8,202	22.79
Net Interest Income	3,022	2,402	25.80	3,522	2,853	23.46
Net Other Income	1,295	1,193	8.54	1,474	2,127	(30.72)
Net Income	4,317	3,595	20.07	4,996	4,979	0.33
Profit Before Tax	2,342	2,086	12.26	3,058	3,427	(10.77)
Profit After Tax	1,104	1,005	9.83	1,637	2,207	(25.83)
Profit Attributable to						
Equity Holders	1,104	1,005	9.83	1,521	2,030	(25.07)
Shareholders' Funds	9,252	8,555	8.15	11,685	10,567	10.58
Deposits from Customers	25,624	21,161	21.09	25,624	21,161	21.09
Total Assets	73,212	63,253	15.75	76,143	64,977	15.22
Loans and Advances	51,799	44,325	16.86	51,820	44,359	16.82
Gross Dividend Paid	409	327	25.08	409	327	25.08
(%)						
Return on Average Equity *	12.40	12.19	1.70	13.67	20.95	(34.73)
Return on Average Assets *	1.62	1.76	(8.09)	2.16	3.13	(30.99)
Capital Adequacy Tier 1	16.79	16.26	3.32	23.17	22.10	4.84
Tier 1 & 2	19.46	15.58	24.90	26.15	21.95	19.13
(Rs per Share of Rs 10)						
Earnings *	13.48	12.28	9.81	18.59	24.81	(25.09)
Book Value	113.03	104.51	8.15	142.75	129.09	10.58
Dividends	5.00	6.00	(16.67)	5.00	6.00	(16.67)
Market Value	170.00	201.00	(15.42)	170.00	201.00	(15.42)
(Times)						
Debt/Equity	6.58	6.09	8.05	5.12	4.77	7.34
Net Income/Overheads *	2.27	2.39	(5.19)	2.44	2.84	(14.26)
Interest Cover	1.58	1.73	(8.68)	1.69	1.89	(10.38)

* Includes exceptional capital gains of Rs 1.01 bn in NDB Group for 2006 (See Note 1 on page 82).

Chairman's Message



S K Wickremesinghe (Retired w.e.f. 1 January 2008)



P M Nagahawatte (Appointed w.e.f. 1 January 2008)

I have pleasure in presenting to you the Annual Report and Audited Accounts of NDB Bank and the NDB Group for the year 2007.

This report has been compiled by my predecessor Mr S K Wickremesinghe, who was the incumbent Chairman for the period under review.

"The most important change that took place in the country during 2007 was the success achieved by the country's armed forces in clearing the Eastern Province of the main LTTE forces and the calling of local government elections in the Province. The Government also subsequently announced that it wishes to seek a political solution to the problems it faces in the

North and the East through implementation of the 13th Amendment to the Constitution and the granting of a greater degree of devolution to the provinces than previously offered. It is hoped that a way will be found for all parties to come together and arrive at a compromise to solve the present disputes and achieve peace and stability in the country.

It is to the credit of the Government, the business community and the general public that, despite heavy odds, Sri Lanka has been able to grow its economy by nearly 7% in 2007. The main drivers in the economy were services and industry, with agriculture also rebounding from a negative performance in the previous year. These are encouraging trends, but there is no room for complacency.

The resilience of the country, engaged in a long drawn civil conflict, has been noteworthy. However, apart from the international concerns, there are domestic worries on inflation, now over 20% and hurting, some

Government expenditures, as well as waste and corruption. These can be a grave set back to investment, both foreign and local. If we want to be open for economic interaction with the rest of the world, we cannot let these factors get out of hand. We should remind ourselves that it is by being outward looking that our expatriate workers have helped to finance some four-fifths of the country's trade deficit. Nor should we forget that their savings are transforming many rural areas.

The main economic benchmarks achieved during the year were somewhat inconsistent. Yet, the Government can be commended for its budgetary performance. Increased revenue has helped to keep the budgetary out-turn in line with the 2007 budget. It has been a difficult year and difficult times also lie ahead. More has to be done to contain inflation.

Investment remained at previous levels around 29%. This is inadequate as the country demands better infrastructure in practically all sectors - health, education, roads, ports, aviation, water and energy. Sri Lanka, therefore, needs to supplement domestic savings with foreign investments. We cannot look inwards to lift the country's living standards.

The world economy continued to reflect steady growth at around 5.2% in 2007 despite continuing negative factors such as higher international prices for oil and other key commodities. The situation was further complicated by the collapse of the sub prime financial markets in the US and its effect on other major economies. Sri Lanka has not yet felt the impact of this turbulence but is likely to do so in the coming months.

The only redeeming feature in this gloomy picture is the growth of the economies of other countries such as China, India, Russia, Japan and Iran. I referred in my message last year to the importance of building up relationships with such countries in order to benefit from the expansion of their trading and other activities. The Government appears to have made some headway in this direction but it is important that we continue our efforts to make our economic outreach stretch well beyond our borders. The benefits of increased trade and foreign investment are still to be fully recognized in the country.

The transition of the NDB from a development financial institution to a universal bank is well under way. A strong balance sheet, low non-performing loans and a sound capital base coupled with competent management has enabled NDB Bank to enter a phase of sustainable growth. NDB Bank's organic growth plan will be complemented by capitalizing on opportunities both locally and regionally, for mergers and acquisitions, alliances and partnerships in commercial banking, investment banking and other financial services.

The Group's profit attributable to shareholders increased by 50% to Rs 1,521 mn from Rs 1,014 mn in the last year, after excluding the exceptional capital gain of Rs 1,016 mn generated in the first quarter of 2006 by the sale of the controlling interest in Eagle Insurance Company PLC. The Group's profit after tax for the year also increased by 37% to Rs 1,637 mn from Rs. 1,191 mn last year, after excluding the above capital gain. The core banking revenue of NDB Bank grew from Rs 3.1 bn in 2006 to Rs 3.8 bn in 2007, based on the significant growth in loans from Rs 44.3 bn in 2006 to Rs 51.8 bn in 2007 and deposits from Rs 21.2 bn in 2006 to Rs 25.6 bn in 2007.

At the end of 2006, a new general provision of 1% was imposed on the performing portfolios of all banks. This provision could not be set off against profits and therefore effectively increased the rate of tax on banks, in spite of the pleas made by them for a reduction of the tax rate. Banks were given time to make the provision over 10 quarters ending on 31 March 2009, but NDB Bank has been able to make this total provision amounting to Rs 437 mn by the end of 2007.

The NDB Group's success during 2007 was achieved with the advice and co-operation of my colleagues on the Board and through the unstinted efforts and commitment of staff at all levels. As I relinquish office as Chairman, I extend my sincere thanks to all of them and also to the shareholders who have consistently given their support to me during my tenure of office.

I extend a warm welcome to Dr S Yaddhige, the new Government appointee, who joined our Board in December 2007."

The report of former Chairman Mr S K Wickremesinghe concludes at this point. I would now like to place on record, the debt of gratitude NDB Bank owes to Mr S K Wickremesinghe, for his invaluable contribution, during the period of 9 years that he served as Chairman. During this period, NDB Bank underwent several significant changes. The most important changes were the mergers between NDB and NDB Bank in 2005 and between NDB Bank and NDB Housing Bank in 2006. I wish, on behalf of all shareholders, the staff and the Board, to extend our heartfelt thanks for the invaluable guidance and contributions Mr Wickremesinghe has extended so readily to NDB Bank. I wish him well in his future endeavours.

It is with regret that I mention that Mr Nihal Welikala our Chief Executive Officer (CEO) for the last six years will retire from the CEO's position with effect from 31 March 2008. Under Mr S K Wickremesinghe's effective leadership and guidance,

Mr Welikala was responsible for the successful implementation of the many changes introduced to the bank during the period which culminated in the transformation of the bank from a Development Bank into a Universal Bank. I thank him for the services he rendered to the bank as CEO and even before that in other capacities. I am, however, happy to mention that he has agreed to continue to be associated with the bank after retirement, as a Consultant, thereby making available his expertise to the bank in the future as well.

Mr Welikala will be succeeded by Mr Eran Wickramaratne, another experienced banker, who was earlier the CEO of the NDB Bank Ltd. and now the Deputy CEO of the National Development Bank PLC. I congratulate him on his appointment and wish him every success as the CEO of the Bank.



P M Nagahawatte

14 March 2008

Chief Executive's Review



Banking Industry Trends

Globally, new threats to the stability of financial institutions and markets manifested themselves in 2007, which are jeopardizing prospects for world economic growth. There appear to be at least two recent underlying forces driving these changes. Firstly, a long era of cheap money has resulted in unsound lending practices, and the creation of asset bubbles. Secondly, the growing complexity and sophistication of financial instruments, and their distribution to investors across the world, who lacked the knowledge and expertise to evaluate the risks they were taking. Systemic risks in the financial sector and their linkages with the real economy are therefore now of increasing concern.

These, and other trends over the last decade or so, have caused a re-assessment of the relationship between regulators and the financial markets. The model of financial capital markets based on self-regulation, in theory ended many years ago, but continued in practice in the crucial areas of complex derivative instruments and of systemic contagion.

Policy makers and regulators in the midst of crisis, now face an unenviable task. They need to balance the requirement for tighter monetary policies and restrictive regulations to curb past excesses, against the need to foster economic growth and to restore

conditions for sustainable profit generation. Meanwhile, many banks need to recapitalize their balance sheets significantly. The balance of their control is therefore starting to shift to the providers of new capital from new sources, mainly wealthy sovereign states in Asian and Gulf economies. Crisis notwithstanding, there is still universal acceptance of the need for profit as the most relevant criterion for the allocation of capital, for assessing corporate efficiency, and as the oxygen which sustains economic development. Regulators caught between a rock and a hard place, need to put pragmatic policies in place to work their way out of this complex dilemma.

Regulators in Sri Lanka face different challenges and priorities, although no doubt there are lessons to be learned from the crisis overseas. To my mind, the former includes the following. Firstly, to state the obvious, the health of the banking system is directly related to economic and monetary policies. Good management at bank levels will maximize earning opportunities and minimize risks, but ultimately only within the framework of the economy at large. High rates of inflation and interest rates may raise risks and reduce returns, especially to the weakest links in the banking chain, heightening the need for transparency at bank levels and the vigilance by regulators against the possibility of contagion and the risk of unintended consequences.

Secondly, the need for consolidation of the banking industry. A fragmented industry in a small economy is at odds with the challenges that local banks now face. New capital is needed to meet growing regulatory needs and to meet growth opportunities, especially in a post-conflict Sri Lanka, and in booming regional markets. If these opportunities are to be seized, significant

investments need to be made in technology, distribution and people. Economies of scale need to be created to make these investments viable.

Thirdly, post tax returns on capital. Banks are sometimes criticized for making exorbitant profits, and have paid a heavy price in terms of high taxation thereon. What is often forgotten is that banks, for sound regulatory reasons are capital intensive institutions compared with other corporates. The focus therefore should be on the return on capital, not only on bottom line profit. Rational investors expect returns on their equity investments to exceed the risk free rate on Government securities, by a significant risk premium. It is this ratio that will matter as banks compete for new capital in the international markets. It is this ratio, which is presently compressed by a combination of the lack of scale, and by the anomalous absurdity of a tax rate of around 55% on the profits of capital intensive institutions such as banks. Both these factors need to be addressed if needed capital for economic and institutional growth is to be raised by banks from the markets.

Fourthly, the regulatory regime. A plethora of laws, rules, regulations, codes and accounting standards have been introduced by regulators worldwide, many of which have been or will have to be adopted in this country. These rules have largely been a response to crises in advanced economies over the last few years. These include the abuse of powers by over-dominant management in the US a few years ago, by the problem of international money laundering and more recently by the sub prime, derivative and 'rogue trader' crises. While tight regulation of banks in particular, is undoubtedly of great importance, there is a need to avoid where possible, the adoption without discrimination of a first world regulatory regime by third world economies. Regulatory compliance is adding complexity and costs to the operation of local banks, in order to address risks which do not always appear to be of local relevance. In fact the issues which were highlighted by the Asian crisis of 1997, including the need for sound macro-economic policies, transparent ownership group structures and lending of banks, and good governance in relation to dominant ownership, may have more direct relevance for emerging Asian economies such as Sri Lanka, than the complex web of post-Enron regulations, which have enmeshed the US corporate and banking sectors.

NDB Bank Strategies

These are analyzed below under three headings, namely - restructuring, repositioning and resulting financial performance.

Restructuring

NDB Bank restructured itself over many years, in order to create the solid foundations needed to take itself forward as a world-class Sri Lankan Bank.

Thus, a strategic study with the help of the Monitor Group of Consultants in 2000, recognized the unsustainability of a long-term lending operation based on dwindling lines of credit from multinational agencies and set the direction for the future. During this period, non-performing loans were reduced to less than 2%, with the introduction of new credit processes and culture. New core IT systems were introduced, together with centralized back office processing. Best practice MIS was brought in to measure performance and risk with acceptable accuracy. Underperforming subsidiaries were rationalized. There was an infusion of new management, representing a wide spectrum of skills and experience, which continues to be our competitive strength. The organization structure was streamlined, and a new pay for

performance culture implemented. Distribution channels have been expanded enabling the diversification of products, funding, assets and revenues that we see today. The acquisition of the commercial banking business of ABN Amro Colombo, though a separate legal entity, the abolition of the restrictive NDB Act of Parliament, and the seamless merger of the old DFI with the new commercial bank, after the acquisition of a commercial banking license on 1 August 2005, are important milestones in the evolution of the bank. These major and radical changes, a quiet revolution, have occurred in a relatively short period of time, with minimal disruption.

Repositioning

NDB Bank has repositioned itself in four integrated business segments. These are:

Corporate

Corporate, which includes both product and customer segments. These include the specialist area of project finance, where skills are at a premium and opportunities will abound, especially in the context of a post-conflict Sri Lanka and in high growth regional markets. It also includes the fast growing and synergised commercial banking division which provides short-term

finance to larger corporates, while adopting a structured approach to the important small and medium business enterprises.

Retail

NDB Bank has included in its target focus, the growing demand for financial services in the mass and mass affluent market segments. A range of savings, remittance, loans and leasing products have been introduced and distribution channels expanded. Thus, 40 branches have been opened, with a supporting ATM network, which is complemented by a 'feet on street' sales force, and partnerships with commercial entities for distribution of inward remittances in particular, through some 200 of their outlets. A particularly noteworthy achievement was the introduction of mobile phone banking with Dialog, a potentially revolutionary innovation in terms of payment systems. Starting a retail business within a traditional corporate bank poses unique challenges in terms of people, culture and systems. It is pleasing to note the significant progress that has been made in this respect.

Capital Markets

NDB Bank through its investment banking subsidiary NDB Investment Bank, has established itself as the market leader in placement of debt

instruments, equity and advisory work. We will now seek to expand the scope of capital market activities with a synergizing approach to our stockbroker business and by the introduction of asset management products. We are also seeking to build scale by marketing our Investment banking and project finance skills in regional markets.

Insurance

NDB Bank has a significant minority stake in Eagle Insurance, with a controlling majority held by the powerful UK insurer, Aviva PLC. The Aviva/Eagle team is adding great value to this very successful Company. Additionally, the introduction of bancassurance is enabling NDB Bank and insurance company to work together to maximize product synergies.

In summary, NDB Bank is profitable, well capitalized and managed with professional competence. The hard work of restructuring is largely over. It has positioned itself in terms of high quality people, appropriate and well thought through business strategies and processes, which will enable NDB Bank to go forward to a new level of scale and growth in the coming years. On these foundations, I am confident of the continuing success of NDB Bank.

Financial Performance

The financial results for 2007, which are analysed in detail elsewhere in this report, reflect the results of the restructuring and repositioning of NDB Bank which has occurred over the last few years, and the consequent diversification of risks, funding and revenues and business growth. Thus, the loan book shows that the heavy concentration on long-term project lending, has changed to a more balanced mix, with 61% of loans being accounted for by commercial and trade finance loans and by retail exposure. The overall loan portfolio grew by 17%. However, on disaggregation, this shows aggressive growth of 35% in non-project lending from a smaller base whereas project loan growth was depressed by reduced customer demand in a high interest rate environment, and by scheduled principal repayments by term borrowers. Liquid assets on the Balance Sheet have also grown significantly, as NDB met the post merger statutory requirements for reserve and liquidity ratios.

Similarly, the almost total dependence on credit line funding has changed to a better balance with customer deposits accounting for 42% of total borrowings. NDB

Bank made scheduled principal repayments of long-term credit lines of Rs 6.5 bn during the year. The remaining credit lines will be regularly repaid over the medium term, underscoring the rationale for major change at NDB.

As NDB Bank enters new businesses, it has invested in branding, distribution, systems and people for future growth. As an example, the number of employees increased to 858, at 31 December 2007 compared with 376 as at the time of takeover of the business of ABN Amro Bank, in 2001. These investments will compress profits in the short term, but will reap rich rewards in the future at a time when credit line funding will largely disappear.

The task of balancing short-term profits against the cost of investment for long-term gain, has been made easier by the low cost of credit at NDB Bank, reflected in low levels of non-performing loans, among the best in the industry in Sri Lanka. It is noteworthy that NDB Bank is fully compliant as at 31 December 2007 with the statutory requirement which is effective March 2009, mandating the creation of a general provision against doubtful debts of 1%.

The Group profit attributable to shareholders for 2007 grew by 50% over the previous year, to Rs 1,521 mn, but bank level profitability grew at a slower pace of 10%, after the investment expenditure referred to above, and a heavy tax charge against banking profits. These profits reflect in financial terms the end result for the year of the implementation of business strategies described elsewhere, and the thoughtfully planned balance that has been struck between present profits and future gains.

Conclusion

It has been a great privilege for me as Chief Executive Officer, to lead the process of change at NDB Bank over the last six years. Much has been achieved, and much more will be accomplished in the future under the able leadership of my successor, my colleague of many years, Mr Eran Wickramaratne, after my retirement on 31 March 2008.

I would like to take this opportunity to place on record my thanks in particular to the outgoing Chairman Mr S K Wickremesinghe, and to our Board of Directors, for their support and guidance through interesting times. I would also like to welcome the new Chairman Mr Manik Nagahawatte. His vast experience in regulatory areas and in commercial banking will be invaluable for NDB Bank in the future.

None of what NDB Bank has achieved would have been possible without the skills and strengths of an outstanding management team, and highly committed employees. It has been my privilege and pleasure to have worked with them over many years. I have no doubt that this team will take NDB Bank forward to continuing success. Finally, I would like to pay personal tribute to a member of the senior management team, Mr Nimal Ratnayake, whose untimely death deprived us of an outstanding banker, a wonderful colleague and friend.



N S Welikala

14 March 2008



**Stringing a new tune
from the old chords**



We are adding to our repertoire. Moving
to **Commercial Banking and much more...**

We have it all. NDB Group provides a multitude of services from project financing, emerging corporates (SME banking), commercial banking, retail banking, stock broking, investment banking to Insurance.



Management Discussion and Analysis

Review of Operations

Corporate Banking

Introduction

Corporate Banking Group at NDB Bank consists of four integrated business divisions, which are designed to provide both customer focus and product specialization:

- Commercial Banking
- Project Finance
- Specialized Commercial Markets
- Emerging Corporates

Commercial Banking

The Commercial Banking Division of NDB Bank is the youngest player in the market, having acquired the business of ABN Amro Colombo in

2001. With its six years of experience, the Division currently contributes 24% of NDB Bank's revenue, 38% of total loans and advances and 34% of liabilities.

The Division provides a variety of products, including working capital facilities, securitization, commercial paper, cash management and transaction banking to a corporate client portfolio comprising large and medium-sized corporates.

The Commercial Banking Division is supported by a dedicated and highly motivated team of relationship-management

professionals who are thoroughly experienced and possess the necessary technical and functional skills and familiarity with the regulatory framework. They work towards identifying the changing needs of customers, providing innovative and customized financial solutions to satisfy the latter's financial needs.

Electronic Banking

With the help of modern technology, NDB Bank has successfully provided a convenient means for customers to gain access to Banking services simultaneously differentiating itself from

Portfolio Growth of NDB Bank

Year ended	Total Outstanding Rs mn	Total Direct Outstanding Rs mn	Total Contingents Rs mn
31 December 2006	58,511	44,325	14,106
31 December 2007	66,968	51,799	15,169
YoY Growth (%)	14	17	7

competitors while attaining higher transaction volumes, resulting in an enhanced contribution to the fee income of NDB Bank. Over 50% of our customers use the system. More product features and facilities are continually being added to further improve convenience and accessibility.

Portfolio

In spite of aggressive competition and a fluctuating economic climate, satisfactory progress has been made over the last financial year. The Commercial Banking Division showed an overall growth of 19% in total exposure over the financial year. The commercial services sector accounted for the largest share of the portfolio which is 40% of the total exposure. This sector includes industries such as printing and packaging, transportation and shipping, information technology, financial services, energy and construction. From our point of view, the diversity of the sector mitigates this relatively high sectoral concentration.

Other significant sectors were textiles and garments (which accounted for 12% of the exposure and recorded a growth of 14% over the previous year) and food and beverage (8% of total exposure) sector.

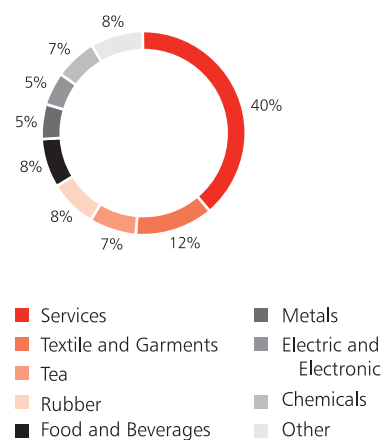
The chemical and tea sectors each accounted for 7% of the exposure and the rubber sector accounted for 8% of the exposure. The chemical sector comprises fertilizer, pharmaceuticals and other forms of chemical products and has been growing at the rate of 47%.

The rubber and tea sectors encompass Sri Lanka's traditional exports and include some of the main national producers. The tea sector experienced a downturn during the year under review as a result of strikes and the drought conditions that prevailed in the hill country. Even so, a growth of 23% was attained. There is now a greater focus in the sector on value-added teas and other innovations that are expected to spur growth.

The metals, electrical and electronics sectors each contributed 5% to total exposure and have shown satisfactory growth trends over the years.

Other sectors of the Commercial Banking Division are agriculture, leather goods, plantations, wood, paper and plastic-based products, and gems and jewellery.

Commercial Banking Portfolio



Project Finance

An efficient economic and social infrastructure and a sound regulatory framework are prerequisites for achieving sustained high economic growth and development. Infrastructure network consists of communications, energy, transport and other public utilities, as well as social infrastructure facilities such as education and healthcare. Continuous improvement and maintenance of this infrastructure is vital to attain sustained economic growth. Substantial funds must therefore be invested, and the Government is no longer their only source. Public-private partnerships and direct private sector participation are now global phenomena. In this context, project finance places a pivotal role in economic and social development.

Project Finance, one of the core business activities of NDB Bank, offers project loans tailored to suit unique customer needs and business cycles. NDB Bank has an admirable track record of funding projects in all significant economic sectors. NDB Bank's long-term loans are structured to finance any form of project: start-up, expansion, relocation, management buy-out, balance sheet restructuring, etc.

During the year under review, NDB Bank followed a strategy of selective lending in keeping with the prevailing economic

NDB Bank has an admirable track record of funding projects in all significant economic sectors. The NDB Bank's long-term loans are structured to finance any form of project.

conditions. Despite the constraints thus implied, Project Financing successfully consolidated its portfolio in terms of quality.

NDB Bank has participated in telecommunication projects to a commendable extent in the past, last year being another successful year with close to Rs 1 bn investments in the preference shares issued by a premier mobile operator in the country. NDB Bank's participation in securitized debt instruments issued by financial services providers and regional plantation companies was also significant, with the total a value of Rs 1.4 bn during the year. In addition, NDB Bank also financed field development and factory modernization projects of regional plantation companies to a considerable extent, thereby providing much needed financing to develop these national assets.

Offshore Lending

In June 2007, NDB Bank approved an offshore financing facility to participate in financing activities in the Republic of Maldives. The proceeds from the facility are being used to provide facilities to Maldivian companies and individuals in such varying sectors

as fisheries, tourism, construction and transport. Moving ahead, NDB Bank intends to expand its offshore lending business, with great emphasis given to providing finance for reputable Sri Lankan corporates intending to diversify their businesses overseas.

Retaining and Improving Core Skills

NDB Bank is widely recognized for its skills in project finance. NDB Bank places great importance in retaining and improving this core competency considering its significance in evaluating large scale development programmes. Hence, NDB Bank continuously strives to update and strengthen its project finance capabilities. In future, NDB Bank will leverage this vital competency to generate fee-based income streams from value-added advisory and outsourcing services to specially targeted customers.

Environmental and Social Development

As a socially responsible corporate citizen, NDB Bank believes that the environmental and social aspects of projects must form a key aspect of project evaluation. Accordingly, the NDB Bank has trained its staff under various programmes related to environmental and social

The Emerging Corporate Unit lays emphasis on a customer-focused approach to business based on the new basket of products offered to SMEs.

aspects of Project Finance. Project Finance is now in the process of developing an environmental and social management system for NDB Bank with the objective of identifying and remedying environmental and social risks in any given project at an early stage. The system will also benefit every financed project in terms of risk mitigation at a very early stage.

Specialized Commercial Markets

The Specialized Commercial Markets (SCM) Division was set up in 2006 to meet the growing demand by corporate clients for structured financial solutions. With this objective, the unit offered a variety of structured products across selected industries.

The unit portfolio more than doubled during the year, rising from Rs 1,463 mn in December 2006 to Rs 2,956 mn by December 2007.

SCM will continue to expand and consolidate activities in the coming year.

Emerging Corporates (Small and Medium Enterprises)

With the restructuring of SME operations at NDB Bank, the old SME Banking Division was placed under the wing of the Corporate Banking Division, being re-branded as the Emerging Corporate Unit. The new strategy lays emphasis on a customer-focused approach to business based on the new basket of products offered to SMEs, by taking into account industry verticals and corporate linkages. The products offered include traditional project-finance facilities (medium to long-term), cash flow-based lending products (structured products), commercial banking products, etc.



NDB Bank Stall at the SME Loans Exhibition held at the Sri Lanka Exhibition and Convention Centre in May 2007.

This business re-engineering process capitalizes expertise and experience gained by our staff members in SME financing and to create a paradigm shift to move from security-focussed lending into cash flow-focussed lending products. Under this process, NDB Bank will continue to develop structured products to finance the short-term cashflow requirements of the SMEs. This new range include facilities offered to the tea industry, importers, supplier/dealer financing and several other selected growth sectors of the economy. Portfolio quality continues to show improvement and will continue to be another important area of focus.

In line with the structural changes, credit approvals and disbursements were also automated in 2007, achieving a significant fall in facility turnaround time. The savings in resources and time created a positive impact on the unit's profitability and its customer service levels.

Refinance Operations

For the twenty-seventh consecutive year, NDB Bank has extended concessionary credit facilities through financial institutions to improve the country's micro, small and medium enterprises. Resources for this operation were mobilized through the Government of Sri Lanka from various international lending agencies: Asian Development Bank (ADB),

Japan Bank for International Corporation (JBIC) and the German Development Corporation (KfW).

During the year 2007, five such on-going refinance schemes were in operation:

- The ADB-funded Southern Province Regional Economic Advancement Project (SPREAP) was specially launched to upgrade small and micro industries in the Southern Province of Sri Lanka.
- The Small and Micro Industries Leader and Entrepreneur Promotion Project 1 (SMILE 1) revolving scheme, funded by JBIC, has supported the development of SMEs all over the country.
- The ADB-funded Aquatic Resources Development and Quality Improvement Project (Miridiya Sampath) promoted inland fisheries and aquaculture activities.
- The KfW III scheme helped grass root level micro and small enterprises raise their levels of operation and improve productive capacity.
- The KfW V continued to support both SMEs and large enterprises.

Total refinance approvals under these credit lines amounted to Rs 1,032.3 mn (for 934 projects) in the year under review.

Participation in other refinancing schemes operated by the Central Bank and the Ministry of Enterprise Development and Investment Promotion also continued. The ADB-funded Tea Development Project (TDP) revolving scheme and the JBIC-funded SMILE III and E-Friends II schemes continued to operate, while the Second Perennial Crop Development Project (SPCDP) revolving fund scheme and the Sahanya scheme were completed in July 2007 and August 2007 respectively. The European Investment Bank (EIB)-funded Post-Tsunami Project is a new credit line participated in by NDB Bank, which will support projects affected by the tsunami. Aggregate approvals for schemes in this category at the end of 2007 stood at Rs 314.9 mn for 49 projects.

Through the World Bank, the Japan Social Development Fund (JSDF) provided a grant for implementation of a project for empowering the poorest of poor women in remote regions of southern and north-eastern Sri Lanka. Total funds made available under this grant were US\$ 1,894,305. NDB Bank was able to conclude the project successfully by the end of 2007, as originally planned.

In addition to developing SMEs, these schemes were instrumental in providing noteworthy social and economic benefits - uplifting the living standards of very poor women, setting up private-sector service providers for enterprise development, improving food security in rural areas and creating new jobs.

Refinance Approvals and Disbursements as at 31 December 2007

	Approvals		Disbursements	
	No. of projects	Amount Rs mn	No. of projects	Amount Rs mn
APEX				
SMILE I Revolving Fund	412	545.0	296	375.6
DASUNA (SPREAP)	367	179.7	1,057	317.3
MIRIDIYA SAMPATH	12	6.0	19	7.7
	791	730.7	1,372	700.6
DIRECT				
KfW III	118	99.6	87	67.8
KfW V	25	202.0	43	758.2
	143	301.6	130	826.0
NDB BANK as a PCI				
SMILE III	15	33.2	24	91.2
SAHANYA	—	—	8	50.5
E-Friends II	17	141.1	10	109.5
Post-Tsunami (EIB)	1	102.8	—	—
TDP Revolving Fund	12	29.0	9	16.6
SPCDP Revolving Fund	4	8.8	4	8.8
	49	314.9	55	276.6

During the review period, the corporate banking portfolio grew by 20%.

Performance by Sector

During the review period, the portfolio of corporate banking group grew by 20%. In line with national economic trends, the services sector accounted for the largest share of the portfolio (40%). The portfolio growth that amounted to Rs 3,260 mn during the review period was driven mainly by commercial services portfolio growth. The services sector consists of well-diversified sub-sectors such as financial services, telecommunications, energy, transport, shipping, printing, healthcare, construction and warehousing. This diversity mitigates the risk of high sectoral concentration.

In terms of exposure, textiles and garments emerged as the second most important portfolio segment, posting a healthy growth of Rs 2,349 mn. It presently accounts for 13% of the total portfolio.

Growth was largely driven by the extension of trade finance facilities. This sector portfolio is expected to maintain its growth momentum.

The metals, chemicals and engineering sector - NDB Bank's third-ranking sector portfolio - accounted for 12% of the portfolio. NDB Bank's ability to increase this portfolio depends significantly on the return of peace and a subsequent boom in construction. Demand for steel, cement, tiles, glass, paints, cables and PVC products may be expected to strengthen in the context of a boom.

The food, beverages and tobacco sector is an active one for both Project Finance and Commercial Banking. This portfolio increased from Rs 3,726 mn to Rs 4,291 mn, as NDB Bank was able to participate in funding the capital expenditure of a major industry player. This sector will continue to provide good business prospects, especially in the provision of working capital finance.

The agriculture, agribusiness and fisheries sector portfolio maintained its importance with outstandings of Rs 2,849 mn. This included - facilities extended to the plantation sector. During the year, facilities to regional plantation companies were granted in the form of loans under ADB's dedicated credit line and as procurement of securitized instruments.

NDB Leasing

Overall, the leasing industry saw a downward trend due to developments such as the revised VAT application method introduced at the beginning of the year, and upward revision of import taxes and duties several times during the year, as well as in the 2008 Budget, which provisions came into effect immediately after the first budget reading.

Low demand thus led to lowered expectations from the NDB Bank's leasing business. The bank funded 850 customers during the Financial Year with a portfolio growth of 31%.

Retail Banking

2007 was a significant year for the Retail Banking business, marking several key milestones in areas of product differentiation and channel innovation, setting NDB Bank apart as the institution of choice for retail banking in select customer segments. Building a stable liability portfolio with a favourable funding mix and the enhancement of sales and service channels with an increased customer focus remained the overarching objectives driving the retail banking business.

Our Quest for Excellence

Every year, we continue our endeavour to augment our range of retail banking products, backing them with exceptional standards and levels of service, convenience and value, in our quest to become a truly 'World-Class Sri Lankan' Bank. This has led to many past innovations and the year 2007 bore witness to several more: South Asia's first m-Commerce enabled payment solution 'eZ Pay' and our unique savings proposition *Vishmitha*, are truly innovative banking solutions that were added to the Retail portfolio this year.

Developing a Strategic Focus

Against the current macroeconomic backdrop and competitive environment, a detailed strategic review for retail banking was conducted to identify key strategic options for NDB Bank across consumer segments, product propositions and channel focus. Implementation of the key action plan spans across a five-year time horizon, while select initiatives have already commenced.

Deposit Drive

Boosted by focused sales and marketing efforts, expanded geographies for distribution, and innovation at both product and channel level, the total customer deposit-base in the retail segment

We continue to augment our range of retail banking products, backing them with exceptional standards and levels of service, convenience and value in our quest to become a truly 'world-class Sri Lankan' Bank.

showed steady growth during the year under review. Deposit mobilization in 2007 was mainly boosted by a savings drive and the launch of a unique savings product. The total retail banking deposit growth in 2007 was 20%.

Vishmitha

Vishmitha is a traditional savings account, that additionally permits the account holder to obtain 75% of their average daily savings balance as an interest-free loan once in every 12 months after a year of commencement. These loans can be used for any purpose, while the available savings balance receives full interest even while the loan remains outstanding. *Vishmitha* appeals to all customer segments since it allows the depositor to modify his spending pattern today while still saving for tomorrow.

Personal Loan Schemes

The Personal Loan portfolio, in the product range to 'make your dreams come true', recorded another year of excellent performance. Two new product variants, the Dream Maker Educational Loan and the Special

Vehicle Loan for Government permit holders, were introduced during the year. The former, launched to coincide with the EDEX Education Fair in early 2007, is a trouble-free quick cash solution for higher education financing. The Special Vehicle Loan is the bank's specialized offering to Government permit holders, with a host of value additions bundled in.

Home Loans

NDB Bank Home Loans are structured according to the needs of the individual customer and are available to finance property purchases, self-construction or home improvements. They are backed by efficient, centralized processing and personalized service.

Subsequent to the merger with the NDB Housing Bank in late 2006, the year under review was the first full year of performance for the NDB Home Loans product under the retail portfolio. Home loans are now offered through the NDB Bank branch network and the direct sales force, expanding its geographical coverage of product reach.



NDB Bank's home loans promotion in Kandana.

The overall retail asset portfolio continued its growth trend and gathered momentum during the year 2007, recording a 44% growth year-on-year. Growth in product volumes has also been significant, strengthening our market share in target segments and creating numerous opportunities for cross-selling.

Portfolio Risk Management

Given the significant growth in retail assets, development of risk management capabilities within the business group was also a key area of focus this year. Expansion of the risk management structure within the business, standardization of credit policies and enhancement of analytics support and IT applications architecture for the entire risk management value chain were some of the initiatives implemented during the year.

eZ Pay

In August 2007, NDB Bank and its partner Dialog Telekom pioneered South Asia's first mCommerce (Mobile Commerce) initiative - a service that allows consumers to purchase goods, pay bills, transfer money and perform banking transactions on their mobile phones.

This technology also facilitates the transformation of merchants and retailers into electronic payment acceptance points. The facilitation of electronic transactions at the smallest of retail stores across the country is expected to create and nurture a new wave of grassroots banking. Mobile Commerce technology enables mCommerce software on the SIM card to transform a standard mobile phone into an electronic wallet in the hands of the consumer or a point-of-sale device capable of capturing and validating electronic transactions and banking transactions.

The eZ Pay service has the potential, over time, to bring about a fundamental transformation in banking business and payment systems and to play a catalytic role in extending banking services to a hitherto under-banked population.

Bancassurance

Synergic interaction between other members of the NDB Group extends the range and reach of financial options available to the bank's customers. Bancassurance is one such example. Through NDB Bank's partnership with Eagle Insurance Company the bank offers their customers a range of products to suit life's varying needs, with the flexibility of tailoring an investment plan based on a select risk-return mix. Bancassurance continues to be a significant fee-based revenue source to the bank and a significant source of future growth potential.



NDB Bank's mobile vehicle

Western Union

NDB Bank's tie-up with Western Union, a leader in global money transfers, has enabled the bank to provide customers with a convenient and reliable money-transfer service from a network of approximately 285,000 agent locations in more than 200 territories worldwide.

In its capacity as a principal agent of Western Union, NDB Bank also signed up partnerships with Singer Sri Lanka and five Regional Development Banks during the year, further expanding the customer reach.

Privilege Banking

Privilege Banking, our exclusive private-banking service for high-net-worth individuals, continued its growth momentum in 2007, making a significant contribution to the retail business. The total liability portfolio reflected a growth of 15% during the year under review, while revenue grew by 52%. Privilege Banking offers a range of banking products and services to its clientele and continues to expand with advisory services and product offerings.

Sales and Service Channels

Customers now have the convenience of accessing the bank's facilities through various channels, including a state-of-the-art internet banking and phone banking service, an ATM network, a first-of-its-kind mCommerce payment solution and a mobile banking unit. These channels augment and support the physical branch network.

Priority during the year under review was given to enhancing the traditional branch to serve customer segments in their respective locations while leveraging non-traditional channels and the direct sales force to acquire and service selected propositions. Seven main branches and three extension offices were added to the network during the year, increasing the branch reach to 40 centres. The direct sales effort is shared across selected retail products along with other distribution strategies such as alliance networks and partnerships.

Operational Improvements

During the year, processing of the entire lending portfolio of the Retail Banking Division was transferred to the Oracle-based FinnOne Retail Suite from Nucleus Software.



Among branches opened during the year are - Kohuwala, Homagama and Wennappuwa

The establishment of a mini-call centre, the institutionalization of product segment management, a structured recoveries function and the reorganization of the credit risk management function based on a portfolio approach are a few other areas where operational improvements were introduced during the course of the year.

Treasury Operations

The main activities carried out by the Treasury in support of the core business were as follows:

Liquidity Management

NDB Bank's exposure to large credit-line liabilities and project loan assets, which often have different maturity dates, frequently results in liquid gaps. Dealing with these calls for a reliable understanding of cash flows and the ability to devise funding plans with the Asset and Liability Management Committee, a forum representing all business units of NDB Bank. Thus a broader understanding of liquidity issues and their management is gained by providers and users of NDB Bank's funds.

During the period under review, Treasury negotiated several long-term funds from institutional lenders such as National Savings Bank and various insurance companies. Amounting to around Rs 5.6 bn, these funds were intended to replace credit lines that matured during the year. To fund the Offshore Banking Unit, Treasury successfully negotiated several foreign currency loans in tenors ranging from six months to one year.

Treasury was also actively involved in maintaining the statutory liquidity ratio of the NDB Bank. It is currently assessing the liquidity outlook for 2008 and formulating plans to meet NDB Bank's liquidity needs, which will arise due to both repayment of credit line funds and new asset growth.

Foreign Exchange Operations

Foreign exchange transactions were undertaken both to meet customer needs and in the course of NDB Bank's trading on its own account as market maker. In addition to quoting competitive rates for business, Treasury provides regular market updates and views on interest and exchange rates. These inputs helped many customers weather the extremes of interest and exchange rate volatility experienced during the second half of 2007.

NDB Bank recorded a revenue of Rs 391 mn from foreign exchange transactions this year as compared to Rs 280 mn earned in 2006. These figures do not include the translation effect of Foreign Currency Banking Unit (FCBU) capital, which is held as a separate revaluation reserve.

Trading in Government Securities

Debt trading was conducted with a low maturity mismatch between investments and funding repurchase agreements (repos) due to the rise in rupee interest rates. Treasury adopted a duration-based risk management discipline to manage interest rate risk.

Asset and Liability Management Committee (ALCO)

Treasury drives NDB Bank's ALCO process by providing its members with interest and exchange rate updates and data on other macroeconomic developments. Based on these inputs, the Committee sets parameters for the management of maturity mismatch risks in the Balance Sheet. It also fixes product transfer pricing rates based on prevailing market conditions. The ALCO process ensures that various internal business units are made aware of many Balance Sheet and funding issues faced by the NDB Group. This promotes consensus in the process of allocating available resources to various lines of business.

Equity Investment

Quoted Equity Investments

The performance of the Colombo stock market in 2007 was unsatisfactory, with the All Share Price Index recording a decline of 7% to 2,541 points, while the Milanka Price Index declined by 11% to 3,292 points as at 31 December 2007.

Given this market performance, the NDB Bank did not actively pursue divestments during the year. Its quoted portfolio as at 31 December 2007 amounted to Rs 27 mn at cost, with a market value of Rs 432 mn. The market value: cost ratio of the portfolio stood at 16:1.

Dividends earned from the portfolio amounted to Rs 53 mn, while no capital gains were made as there were no divestments. The NDB Bank intends to intensify the divestment programme in the coming year and divert the proceeds to assets yielding a higher return.

Non-Quoted Equity Investments

During the year, focus was on divestment of non-quoted ordinary share portfolio in order to optimize returns and to comply with the Central Bank directive that limits ordinary equity holding by banks in private companies.

The size of the non-quoted equity portfolio, which stood at Rs 392 mn (net of provisions) as at 31 December 2006, was increased to Rs 1,141 mn by 31 December 2007, comprising Rs 152 mn in Ordinary Share Capital and Rs 1,040 mn in Preference Share Capital.

The adoption of this strategy resulted in the realisation of Rs 250 mn in capital gains. Further, the NDB Bank invested Rs 770 mn in a Preference Share issue of Dialog Telekom PLC during the year.

Information Technology

The IT division continues to help drive the Bank towards its vision of being a 'World-Class Sri Lankan', as evinced by many new projects implemented during the year.

Support for eZ Pay

The revolutionary m-Commerce product eZ Pay, introduced last August in partnership with Dialog Telekom, is a regional first for NDB Bank. It gives our customers the unique ability to transact any payment through their mobile phones. The IT Division enhanced its core applications and interfaced

this product to the ATM switch, enabling customers to transfer funds to their pre-paid mobile account through the ATM network.

Subsequent to the launch of the product, it was further improved by enabling the transfer of funds between NDB Bank customers with Dialog connectivity, eliminating the exchange of bank account numbers and other tedious procedures.

A further expansion was made using GPRS technology to cover small retailers in Colombo and the suburbs by interfacing eZ Pay with cash registers, allowing small retailers to initiate eZ Pay transaction from these machines.

FinnOne Retail Suite

This suite of applications, which is known internationally as the best selling retail lending software, was successfully implemented for home loans, consumer loans and collections. This has enabled a speedy, paperless workflow process on loan approvals with improved cost efficiency. The wide range of customer data captured by FinnOne will serve as a useful tool for future CRM programmes.

The revolutionary m-Commerce product eZ Pay, introduced last July in partnership with Dialog Telekom, is a regional first for NDB Bank. It gives our customers the unique ability to transact any payment through their mobile phones.

Upgraded WAN

The NDB Bank's ATM switch and core banking servers were upgraded in the year under review, while investments were made in respect of the wide-area network (WAN) infrastructure by upgrading the entire network to the latest IP/VPN technology.

Transaction Management & Support Services

The NDB Bank's overarching operations strategy is to centralize all possible activities and to outsource functions where appropriate. Expected benefits of this strategy include efficiency, consistency in service standards, better control and focus on operational risk and the assurance of regulatory compliance through better administrative and supervisory control.

Accordingly, in addition to its Centralized Processing Unit and Trade Finance functions, the bank brought more areas under centralized operational control in the year under review. Administration, maintenance, security, record management and archiving are among the other functions under operations that are now handled centrally.

Taking advantage of the newly introduced system of image clearing for cheques, the NDB Bank now clears all locally-issued cheques within 24 hours (T+1), in addition to providing extended customer hours for making deposits at any branch in the NDB Bank network.

Given the present environment, which requires greater attention to security, many security provisions have been made and procedures streamlined. Among the initiatives was the installation of close circuit TV cameras (CCTV) at critical locations in the branches and at the head office building. In addition, regular training and drills are carried out by expert professionals to enable all staff and security officials to face a security crisis or a disaster situation with confidence. Procedures in place also aim to minimize injury or damage to people and property, enabling business resumption without extended interruptions.

Besides physical security, concerns relating to information security have heightened in recent times. The NDB Bank has given special attention to documenting and strengthening its information-handling procedures, with strict centralized control and supervision, including access control to software applications used throughout the NDB Bank.

During the year, the Trade Finance Department achieved re-certification of its processes to ISO 9001 standards, the certificate being awarded by SGS under UKAS accreditation. The unit continues to be a leading player in the market, taking a prominent place in terms of customer satisfaction.

Taking advantage of the newly introduced system of image clearing for cheques, the NDB Bank now clears all locally-issued cheques within 24 hours (T+1), in addition to providing extended customer hours for making deposits at any branch in the NDB Bank network.

In order to ensure an uninterrupted service to customers, a comprehensive Business Continuity Plan has been drawn up under the guidance of a firm of professional consultants, covering all areas of the NDB Bank. The detailed plan was presented to the regulators and was inspected by a team from the Central Bank of Sri Lanka.

NDB Investment Bank is confident that it has the requisite experience, knowledge and the ability to identify and capitalize on the future opportunities given the synergies that exist within the NDB Group.

NDB Investment Banking

NDB Investment Bank (NDBIB) continued to maintain its position in the country's capital market as the leader in investment banking, and as the pioneer in introducing new financial products to the market. In spite of the year under review being a challenging one with high interest rates, rapidly increasing inflation, volatile financial markets and negative investor sentiment, NDBIB successfully executed a number of significant deals with novel features, maintaining its strong presence in the market. In 2007, NDBIB raised approximately Rs 30 bn from the market through equity, quasi-equity and structured debt instruments, offering cost-effective fund raising opportunities to its clients.

Landmark deals

NDBIB was instrumental in executing several landmark deals during the year, including the largest-ever Rights and Preference Share Issues to be executed in the Sri Lankan capital market. NDBIB acted as the Financial Advisor and

Manager to the Rights Issue of Dialog Telekom Ltd., at Rs 15.5 bn, the largest equity raising accomplished on the Colombo bourse.

The Division also designed a unique structure for Dialog Telekom Ltd. to raise Rs 5 bn via a private placement of Rated Cumulative Redeemable Preference Shares with the participation of leading local and foreign banks and financial institutions. This transaction resulted in the largest ever Preference Share issue ever to take place in Sri Lanka.

Other deals handled by NDBIB's Advisory Division during the year included a diagnostic study carried out for a leading company in the power and energy sector and several business valuations for clients in numerous sectors, such as plantation, manufacturing, food and beverages, trading and financial services. NDBIB also structured an employee share option scheme for a leading Sri Lankan bank and advised several clients on mergers and

acquisitions and business divestments. Currently, NDBIB has been mandated by several highly reputed clients to advise and guide them towards obtaining a listing on the Colombo Stock Exchange and raising equity financing via IPOs in the near future.

A successful year for the Debt Unit

NDBIB's Debt Unit also had a successful year, raising over Rs 9 bn by way of securitizations, debentures, structured loans and commercial paper. Some of the structured instruments were designed with special features to suit the respective clients or the requirements of investors. Amongst these were a Debenture Issue of Rs 400 mn for a client in the footwear sector and a securitization of lease receivables amounting to Rs 360 mn for a leading finance company. The latter was the largest ever securitization transaction structured and placed for the said finance company.

Human Resource Development

NDBIB has consistently focused on developing and training its highly skilled staff in order to be on the cutting edge of business environment through local as well as international human resource development programmes. This has paid off in terms of the achievements and innovations of

the past years. Amongst the other human resource initiatives, NDBIB has facilitated its staff members to pursue Masters Degree Programmes both locally and overseas in a bid to create a solid platform for future growth and achievement and personnel career development.

Considering its significant achievements in a year marred by uncertainty, NDBIB is confident that it has the requisite experience, knowledge and the ability to identify and capitalize on the future opportunities given the synergies that exist within the NDB Group.

NDB Stockbrokers

The upward trend in market activity at the Colombo Stock Exchange that commenced in September 2006 continued to February 2007, peaking at an All Share Price Index of 3,016. Thereafter, a declining trend was witnessed owing to the prevailing environmental instability. On 31 December 2007, the ASPI stood at 2,541. Total market turnover recorded for 2007 was Rs 105 bn.

Despite these unfavourable market conditions, NDBS had a profitable year 2007. Given the current macroeconomic environment, however, the Company and the industry will face unprecedented challenges in 2008.

NDBS will make a concerted effort during 2008 to strengthen its position through synergies with Group Companies, providing quality research and strengthening the sales force.

Eagle Insurance

Corporate Performance

Eagle Insurance PLC recorded a consolidated revenue of Rs 5,875 mn in 2007, a 22% growth over the previous year. The gross written premium of life and general businesses grew by 20% and 27% respectively. The Company's profit after tax was Rs 527 mn. Total net assets of Eagle grew by 16%, to over Rs 2 bn and the Company delivered a return on net assets (RONA) of 27%. A final dividend of Rs 3/- per share has been recommended by the Board bringing the total dividend for the year to Rs 5.50. An interim dividend of Rs 2.50 per share was paid in December 2007.

The growth in life gross written premium is a commendable performance achieved amidst difficult economic conditions while the growth of general insurance has been fuelled by an impressive 45% growth in the motor business.

The Company's timely entry into the bancassurance market, leveraging Aviva's global expertise in this channel, has delivered excellent growth. This performance

was further enhanced by the strategic partnership with Sampath Bank - the fourth largest private commercial bank in Sri Lanka. For the second consecutive year, the bancassurance channel remains a key contributor to Eagle's top line achievements.

The company's dynamic and complementary partnership with Aviva has facilitated the amalgamation of the unique expertise Aviva has acquired with its years of global experience, with Eagle's far-sightedness and stability and has provided the Company with the right combination to serve its customers better. Being a part of the Aviva group not only reinforces Eagle's professionalism but also permeates a range of global best practices in many areas of work and infuses a very high degree of dynamism.

In February 2006, the Aviva Group acquired a majority stake in Eagle, with NDB Bank remaining a significant shareholder. Aviva is the world's oldest insurance group, with a history dating back 300 years to 1696. Today it is the world's fifth largest insurance group and the biggest in the UK. The Group has 59,000 employees worldwide, serving 40 mn customers with £377 bn assets under management.



Looking beyond



We have been a Commercial Bank for only three years but our **strong foundation** laid over a period **of three decades** enables us to leapfrog into exciting new areas of Commercial Banking that are emerging in the world today.

Key Retail Banking Products & Services

NDB Bank's products accompany our customers through every stage of life. Our goal is to make a difference through modern and customer focused services that make banking a breeze and life a pleasure.

 The NDB Home Loan provides a variety of alternative ways to make the dream home a reality. Together with a flexible repayment scheme NDB allows you to purchase or construct a home, create an extension, make improvements to your existing home or even purchase land.	 Dream Maker is for all those things you would do, if only you had a little more cash to spare; buy a small land, have a big wedding, renovate the house, go for a better vehicle. All this and more is possible with the Dream Maker loan.	NDB Bank Children's Savings Having a NDB Bank children's savings account means getting more, the more you save. The rewards are endless because NDB Bank offers a bundle of benefits both for the minor and the parent or guardian	 Privilege Banking is an exclusive service designed for a special group of clients, keeping in mind key factors such as time constraints, lifestyle and expectations. It offers a host of exclusive services and some very special privileges.
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Other Retail Banking Products and Services

- Current accounts
- Savings accounts
- Fixed deposits
- Foreign currency accounts
- Call deposits
- Safe deposit lockers
- Internet banking
- Debit cards (Visa)
- Phone banking
- ATM facilities
- Bancassurance products



'Vishmitha' provides an opportunity for you to make your dreams a reality, instead of waiting and longing for them to come true. NDB offers its 'Vishmitha' account customers an interest free loan, upon the completion of one year.



Sending money across the globe is now easy, fast and convenient. NDB Bank's tie-up with Western Union, a leader in global money transfers, enables you to receive money from your loved ones overseas without worries. Acknowledged as the world's fastest, most reliable and secure means of sending and receiving money from overseas, the Western Union Money Transfer Service is available at all NDB Bank branches.



NDB Leasing helps in securing your dream vehicle. Registered and unregistered vehicles ranging from cars, vans, lorries, busses and jeeps could be leased under NDB Leasing with a repayment period of 48 to 72 months. NDB Leasing is faster and hassle free, it's the guaranteed customized vehicle leasing solutions to suit your needs.



eZ Pay is the first ever mCommerce solution in Sri Lanka and South Asia. This enables you to pay for goods and services through your Dialog mobile phone at any time of the day from anywhere.



Financial Review

Overview

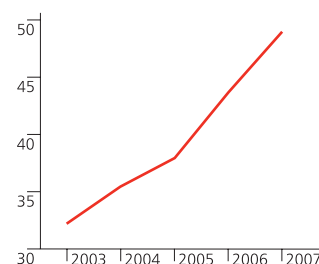
NDB Bank continued to make strong progress in widening its business base, by offering a comprehensive range of banking products to its corporate, SME and consumer customers. The Bank continues to invest in building channels of distribution, in IT systems and in trained people on whom its success depends. There is also renewed focus on customer deposit mobilization through new branches and new product offerings. Despite this continuing expenditure on investment and the change process, the results for the year of 2007 have shown healthy growth in profits.

The Group's profit attributable to shareholders increased by 50% to Rs 1,521 mn from Rs 1,014 mn for the last year after excluding the exceptional capital gain of Rs 1.01 bn generated in the first quarter of 2006 on the sale of the controlling interest in Eagle Insurance Company Ltd. The Group's profit after tax for the year also increased by 37% to Rs 1,637 mn from Rs 1,191 mn for the last year after excluding the exceptional capital gain of Rs 1.01 bn.

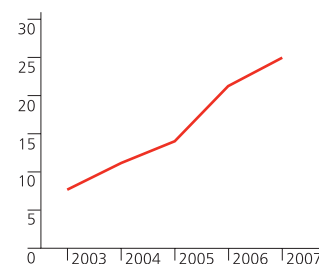
The results of NDB Investment Bank Ltd., NDBS Stock Brokers (Pvt) Ltd., Capital Development & Investment Company PLC and Development Holdings (Pvt) Ltd. representing the spectrum of Group businesses have been consolidated.

NDB Bank's operating profit before provisions for the current year was Rs 2,412 mn as compared with Rs 2,090 mn for the last year, an increase of 15%. The profit before tax increased by 12% from Rs 2,086 mn in 2006 to Rs 2,342 mn during the year while the profit after tax also increased by 10% over the last year. The profit after tax excluding equity capital gains of Rs 249 mn for the current period and exceptional group dividends of Rs 308 mn during the corresponding period last year was Rs 904 mn as compared with Rs 760 mn, an increase of 19%. Overall, the core banking revenue (net interest income, forex and commissions) of NDB Bank grew at a strong pace (25%) based on a significant growth in loans (17%) and deposits (21%) over the previous year.

Loans and Advances
(Rs mn)



Deposits
(Rs mn)



Net Interest Income (NII)

The Net Interest Income of the bank grew by 26% from Rs 2,402 mn in 2006, to Rs 3,022 mn for 2007. This was mainly due to the significant increase in the gross lending portfolio of the bank from Rs 44.3 bn as at 31 December 2006 to Rs 51.8 bn as at 31 December 2007. The total assets of the bank grew from Rs. 63.3 bn as at 31 December 2006

to Rs. 73.2 bn as at 31 December 2007, an increase of 16%. There was also a significant increase in the Customer deposits, which was Rs 25.6 bn as at 31 December 2007 as compared with Rs 21.2 bn as at 31 December 2006 (an increase of 21%).

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

Net Other Income

Net other income of the Bank excluding equity income for the year was Rs 822 mn as compared with Rs 666 mn for the comparative year, mainly due to the steady increase in commercial banking fees and commission and forex income. The Bank has also diversified its avenues of fee income through Bancassurance, Western Union Money Transfer, etc. NDB Bank together with Dialog Telekom has developed and launched South Asia's first m-Commerce programme, eZ Pay, a revolutionary method to make payments for goods, services and utility bills through the mobile phone anytime, anywhere in Sri Lanka. This development is expected to increase the customer-base of both institutions.

Equity income net of provisions was Rs 472 mn as compared with Rs 560 mn for the previous year. The equity income net of provisions for the current year included the exceptional capital gain received on the sale of non quoted ordinary shares of Coats Thread Exports (Pvt) Ltd. and Coats Thread Lanka (Pvt) Ltd. in June 2007 amounting to Rs 249 mn. The Bank received dividends from Capital Development & Investment Company PLC amounting to Rs 308 mn during the last year, which was paid out of the gain on the disposal of 58.44% holding in NDB Finance Lanka (Pvt) Ltd. to Aviva on 1 February 2006.

At the NDB Group level, net other income excluding provisions for equity losses increased by 33% during the year excluding the capital gain of Rs 1.01 bn arising on Capital Development and Investment Company PLC's disposal of part of its holding in NDB Finance Lanka (Pvt) Ltd.

Operating Expenses Excluding Provisioning

The operating expenses excluding provisioning increased by 27% over the previous year. This was primarily due to the increased expenses incurred consequent to the

expansion of operations, such as the increased number of branches from 31 at the beginning of the year to 40 at the year-end and increases in the staff numbers of commercial banking operations.

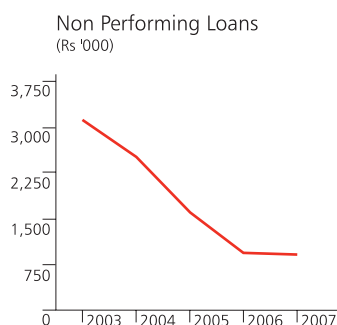
Despite the increased expenditure, the Bank's cost income ratio of 44% for the current year still compares very favourably with the ratio of other local Banks.

At Group level operating expenses excluding provisioning increased by 17% for the year when compared with the previous year.

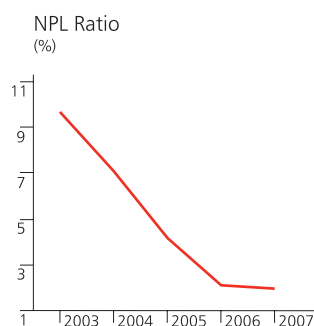
Provision for Credit Losses and Non-Performing Loans (NPLs)

The non-performing loans, leases and advances portfolio of NDB Bank was Rs 822 mn at the year end, compared with Rs 931 mn at the end of 2006, Rs 1,591 mn at the end of 2005, Rs 2,431 mn at the end of 2004 and Rs 2,700 mn at the end of 2003, Rs 3,683 mn at the end of 2002. The quality of the loan portfolio is being maintained and as a result the ratio of NPLs to the total lending portfolio was also down to 1.59% at the end of the year compared with 2.1% at the end of 2006, 4.2% at the end of 2005, 9.9% at the end of 2004 and 10.9% at the end of 2003.

This compares very favourably with the local banking industry norm.



Effective 2008, it has been proposed by the Central Bank of Sri Lanka, change the method of identifying non-performing loans by recognizing loans that are three months in arrears to be classified as non-performing loans. Under this proposed method non-performing loans were Rs 997 mn as at 31 December 2007. The ratio of non-performing loans to gross lending portfolio on the proposed method was 1.95% as at 31 December 2007.



The Central Bank mandated specific provisions at the year-end amounted to Rs 306 mn compared with Rs 343 mn as at the previous year-end. The percentage of such specific provisions to NPLs increased from 36% to 37% during the year. Total specific provisions including the judgemental provisions made over and above the minimum Central Bank mandated provisions at the year-end amounted to Rs 1,369 mn compared with Rs 1,508 mn as at the previous year-end. Total specific and general provisions together amounted to Rs 1,806 mn at the year-end compared with Rs 1,783 mn at the previous year-end.

During the last quarter of 2006, the Central Bank of Sri Lanka mandated a 1% provision on the performing portfolio of each Bank. The Banks have been given time to make this provision over ten quarters ending on 31 March 2009. However, the Bank had accounted for the 100% general provision requirement as at 31 December 2007 (which amounted to Rs 437 mn).

The charge for the year amounted to Rs 68 mn as compared with Rs 37 mn for the previous year.

Taxation

The effective overall tax rates inclusive of the VAT charge was 53% for the year and 52% for the last year.

The overall tax rate of the Group inclusive of the VAT charge was 46% as compared with 36% for the previous year. The reduced effective rate for the last year was mainly due to the exceptional capital gains made by Capital Development & Investment Company PLC on the sale of 58.44% of its share holding in NDB Finance Lanka (Private) Ltd. The effective tax rate excluding the capital gains for the last year was 51%.

Capital Adequacy

The Tier 1 and 2 ratios improved from 15.58% to close at 19.46% as at 31 December 2007.

The ratio for the NDB Group increased from 22.10% to 23.17% for Tier 1 and Tier 1 and 2 increased from 21.95% to 26.15%.

The minimum levels mandated by the Central Bank are 5% for Tier 1 and 10% for Tier 1 and 2.

Regulatory Developments

NDB Bank is substantially in compliance with all the directions, and complies with the monthly and quarterly reporting requirements of the Central Bank.

Group Returns

The Group earnings per share for the year, was Rs 18.59 as compared with Rs 12.36 excluding the capital gains from the Eagle sale for the previous year. The Group return on equity for the year of 13.67% compared with 10.63% in 2006 while its return on average assets of 2.16% for the year compared with 1.56% excluding the Eagle capital gains for the previous year.

Eagle Insurance Company Ltd., Capital Development & Investment Company PLC, and NDB Investment Bank Ltd. mainly contributed towards the improved performance.

Share Price

The Bank's share price closed at Rs 170 as compared with Rs 201 at the end of 2006 which reflects the general downward trend in the market. The price/book value (PBV) at the year-end was 1.19 as compared with 1.56 at the previous year-end. There was considerable activity on the CSE this year and the Bank's share was one of the most heavily transacted.

Post Balance Sheet Events

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



Big shoes to fill



For many years we have financed some of the biggest infrastructure projects in the country and we still continue to do so.

For many years we have been a part of the infrastructure development in Sri Lanka. Over the years we have financed projects in telecommunication, energy, transport, education and healthcare sectors.



Board of Directors

01. S K Wickremesinghe

Chairman (Retired w.e.f. 1 January 2008)

Mr Wickremesinghe is a well known and much respected figure both in Sri Lankan business and diplomatic circles. He was Sri Lanka's High Commissioner to the UK from 1995 to 1999. Before and after this assignment, he chaired the Boards of a number of Sri Lankan blue-chip companies including Commercial Bank of Ceylon, Ceylon Tobacco Company, Chemical Industries (Colombo), CTC Eagle, SriLankan Airlines and Chemanex, a company founded by him.

Mr Wickremesinghe has served as a Trustee of the Employers' Federation of Ceylon and on a number of Government Commissions and Boards including the Securities and Exchange Commission, National Education Commission, the Sri Lanka Institute of Development Administration and the Postgraduate Institute of Management of the University of Sri Jayawardenapura.

02. P M Nagahawatte

Chairman (Appointed w.e.f. 1 January 2008)

Mr Nagahawatte holds a Bachelor of Laws (Hons.) Degree and a Master of Laws Degree. He was the Senior Legal and Banking Advisor of the Ministry of Finance and Planning immediately before accepting the appointment as Chairman of NDB Bank on 1 January 2008.

He is 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 has held several senior positions, including those of Controller of

Exchange and Executive Director during a 38-year career with the Central Bank.

He has also been Chairman of Bank of Ceylon and of the Credit Information Bureau of Sri Lanka, a Commissioner of the Securities & 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 has also been a company Chairman/Director.

03. N S Welikala

Director/Chief Executive

Mr Welikala is a Bachelor of Laws of the University of Sri Lanka, a Fellow of the Institute of Chartered Accountants of England and Wales and an Associate Member of the Institute of Chartered Accountants of Sri Lanka. He worked for several years at the London offices of Ernst & Young, and prior to joining NDB, was CEO of Citibank NA, Colombo. Mr Welikala served on the Board of NDB as an Alternate Director for the ADB, since its privatization and joined the NDB as the Deputy General Manager in January 1999. He assumed duties as the General Manager of NDB on 1 January 2002 and he became the Chief Executive Officer of NDB Bank on 1 August 2005 with the merger of NDB and NDB Bank. He is also a Director of several NDB Group companies.

04. H D S Amarasuriya

Director

Mr Amarasuriya brings to NDB Bank an impressive range of management, marketing, industrial and business skills from his tenure as Chairman of the industrial and retailing conglomerate Singer Sri Lanka, and his experience on the Boards of such companies as Regnis

Lanka, Commercial Leasing and Bata Shoe Company of Ceylon. He also brings with him substantial experience in international management as a Vice President of Singer Asia Ltd. and Retail Holdings Ltd., USA. He is also involved in regional management and human resource development programmes across the Asian region.

05. G C B Wijeyesinghe

Director

Dr Wijeyesinghe is a Fulbright Scholar and has had a distinguished professional career, retiring as Precedent Partner of KPMG Ford, Rhodes, Thornton & Co. He also served on the Board of KPMG - Asia Pacific, the External Audit Committee of the IMF and the Council of the Commonwealth Association of Corporate Governance. He is a Past President of the Institute of Chartered Accountants of Sri Lanka and the Organization of Professional Association of Sri Lanka. He holds directorates in other public quoted companies. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka, a Fellow of the Society of Chartered Management Accountants and has been conferred a Doctorate (D. Litt) Honoris Causa, by the Postgraduate Institute of Management affiliated to the University of Sri Jayawardenapura.

06. L de Mel

Director

Mr Lal de Mel was Managing Director of CIC Paints from 1995 to 2001, prior to which he was a Director of Chemical Industries (Colombo) Ltd. He was Chairman of the Sri Lanka Insurance Corporation and a Director of the Bank of Ceylon in 2001. He is currently the Chairman of N Chandraratne (Decorators) (Pvt) Ltd., Capital Development and



Investment Company PLC, Language Skills Development (Pvt) Ltd. and a Director of Chemanex PLC. He is a Director of a number of NDB Group companies including Eagle Insurance. He is Co-Chairman of the Trade & Tariff Cluster of National Council for Economic Development. He has served as Chairman of the Ceylon National Chambers of Industries, President of the Federation of Chambers of Commerce & Industry and President of the Sri Lanka Institute of Marketing. He is a Member of the Chartered Institute of Marketing, U.K. He has a Bachelor of Science Degree from the University of Ceylon and Diplomas in Marketing (CIM) and Management (NIBM).

07. **S R de Silva**

Director

Mr de Silva is a Lawyer, holding an LL.B. (Hons.) Degree. He was the Chief Executive of the Employers' Federation of Ceylon which he served for 25 years till end 1989. He served the International Labour Organization from 1990 until his retirement in July 2001, as Deputy Director of the Employers' Bureau in Geneva. From August 2001 to July 2003 he was Senior Adviser to the International Organization of Employers in Geneva. He is a Director of Lanka Walltile Ltd., Lanka Tiles Ltd., Ceradec (Pvt) Ltd., Lanka Tiles Trading (Pvt) Ltd. and Lanka Walltile (Meepe) Ltd. He is the author of several books and other publications on labour law and relations, human resource management, globalization, the informal economy and other related subjects.

08. **A R Gunasekara**

Director

Mr Gunasekara is a Fellow of the Institute of Chartered Accountants of Sri Lanka. His career includes a spell of 17 years overseas

where he worked for several years with Coopers & Lybrand in Zambia and Botswana. He then joined the Lloyd's Insurance Broking Group, Minets, as Head of Finance of its Botswana operation before transferring to Minet's Head Office in London where he served as Financial Controller/Executive Director of the International Holdings Company. On returning to Sri Lanka in 1994, he joined NDB Bank, and retired as its Chief Financial Officer in 2004. He is also a Director of some of the NDB Group Companies and Trans Asia Hotels PLC.

09. **S T Nagendra**

Director

Mr Nagendra is presently Chairman and Director of several public and private limited companies. He was formerly Chairman of the James Finlay Group, one of Sri Lanka's oldest-established business houses. He is a former Chairman of the Employers' Federation of Ceylon and the British Business Association, and has served on the Committees of the Planters' Association of Ceylon and the Ceylon Chamber of Commerce.

10. **Ravindra B Thambiayah**

Director

Educated at the University of Madras, where he received a Degree in Economics, Mr. Thambiayah's early career was in tourism. He was the President of Colombo City Tourist Hotels Association and Vice-President of the Tourist Association of Sri Lanka. He was appointed to the Board of NDB Bank in February 2006. He is Chairman and Managing Director of several companies in the Renuka Hotels Group as well as of the Cargo Boat Development Company Ltd. and sits on the Board of a number of other

companies. He is a Fellow of the Chartered Management Institute (UK).

11. **Richard Vokes**

Director

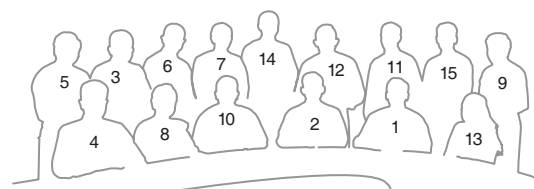
Richard Vokes is an economist by training with over 30 years experience working on development in Asia. He joined the Asian Development Bank in 1991 and was Senior Economist in the Office of the Vice-President - East between 1995-1997. Prior to joining Asian Development Bank (ADB), Dr. Vokes held teaching positions at the University of Kent in the United Kingdom and at the Asian Institute of Technology in Bangkok. He has also worked as an Adviser in the Ministry of Agriculture and Cooperatives, Zambia. 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). He has been the Country Director for ADB Sri Lanka Resident Mission since November 2006.

12. **Dr S Yaddhegige**

Director

Dr Sena Yaddhegige is a Sri Lankan born British Scientist/Engineer and a UK based industrialist. He is the Managing Director of a European Company, which is part of a Group involved in the development of high technology, automated manufacturing and export of automotive components and systems to Europe and the United States. In addition to the Companies in the Richard Pieris Group, Dr Yaddhegige is the Chairman of Asian Alliance Insurance Company Ltd. He was appointed to the Board of NDB Bank in December 2007.

Management Team



01. Nihal Welikala

Chief Executive

Mr Welikala is a Bachelor of Laws of the University of Sri Lanka, a Fellow of the Institute of Chartered Accountants of England and Wales, and an Associate Member of the Institute of Chartered Accountants of Sri Lanka. He worked for several years at the London offices of Ernst & Young, and prior to joining NDB, was CEO of Citibank NA, Colombo. Mr Welikala served on the Board of NDB as an Alternate Director for the ADB, since its privatization, and joined the NDB Bank as the Deputy General Manager in January 1999. He assumed duties as the General Manager of NDB on 1 January 2002 and became the Chief Executive Officer of NDB Bank on 1 August 2005 with the merger of NDB and NDB Bank. He is also a Director of several NDB Group companies.

02. Eran Wickramaratne

Deputy Chief Executive (CEO Designate)

Prior to the merger of the National Development Bank and NDB Bank Ltd., Mr Wickramaratne functioned as Director/Chief Executive Officer of the NDB Bank Ltd. From 1999 to 2001, he was Assistant General Manager, responsible for Corporate Finance, Infrastructure and Privatization. Mr Wickramaratne joined the NDB in 1999 from Citibank, where he was Vice-President and Corporate Bank Head. He has 15 years of varied banking experience at Citibank and held various positions. Mr Wickramaratne was a pioneer of the Government of Sri Lanka's Information Communication Technology driven Development Programme, e-Sri Lanka, and was Chairman of the Information Communication Technology Agency (ICTA). He also served as a Director on the Board of Investment. He holds a Degree in Economics and Politics and a M.Sc. in Economics from the University of London. Mr Wickramaratne is an Eisenhower Fellow.

03. Raj Aboobucker

Vice-President

Head of Emerging Corporates and Specialized Commercial Markets
Mr Aboobucker is currently Vice-President in charge of the Emerging Corporates and Specialised Commercial Markets divisions on the corporate-banking side of NDB Bank. He was also instrumental in successfully setting up the bank's Specialised Commercial Markets divisions. He counts 26 years of local and foreign banking experience. Prior to joining NDB Bank in 2005, he was Vice-President and Head of Commercial Banking Group at Citibank in Colombo.

04. Ranjit Bibile

(Retired w.e.f. 31 December 2007)
Vice-President

Head of Emerging Corporates & CSR
He is an Associate Member of the Institute of Bankers, UK. Prior to joining the NDB Bank, he served Nations Trust Bank as its Assistant General Manager - Corporate Banking and was Head of Corporate Banking at Deutsche Bank AG. His experience in Banking and Finance exceeds 37 years.

05. Russell de Mel

Vice-President

Head of Risk Management, Credit Administration & Special Projects

Mr de Mel has served NDB Bank over 26 years, largely in the field of corporate banking. An Associate of the Chartered Institute of Management Accountants (UK), he worked for several private sector organizations prior to joining the Bank.

06. Sujeewa Dissanayake

Vice-President

Head of Information Technology

Before joining the NDB Bank, Mr Dissanayake worked at Pan-Asia Bank and the Union Bank of Colombo as Head of IT. He came to banking from the IBM World Trade Corporation, where he was IT specialist for the finance industry. He has over 24 years experience in IT, 18 of which were acquired in the banking sector. Mr Dissanayake holds a Master's Degree in Business Administration from the University of Lincoln and is a Chartered Member of the British Computer Society.

07. Nilam Jayasinghe

Vice-President

Head of Group Audit & Compliance

Mr Jayasinghe joined NDB Bank eleven years ago and is currently Head of Group Audit and Compliance. He is a Fellow of The Chartered Institute of Management Accountants (CIMA), UK, having trained at KPMG Ford, Rhodes, Thornton & Co. Before joining NDB Bank, he worked at Aitken Spence & Co. as Group Treasurer and Director, Aitken Spence Corporate Finance Ltd. Prior to this, he was Finance and Commercial Manager at Lanka Tiles. Mr Jayasinghe is a past President of CIMA (Sri Lanka division) and has been awarded the Institute's Bronze Medal. He has been a member of the Sri Lanka Accounting and Auditing Standards Monitoring Board and counts over twenty years experience in the areas of Finance and Treasury.

08. Chrishanthi Jayawardena

Vice-President

Head of Legal

She is an Attorney-at-Law who counts over 26 years experience at the NDB Bank. Mrs Jayawardena was employed at Messrs F J & G De Saram, Attorneys-at-Law before joining the Bank.

09. Buwanekabahu Perera

Vice-President

Head of Commercial Banking

Mr Perera holds a Bachelor's Degree in Financial Services from the University of Manchester and a Postgraduate Diploma in Bank Financial Management from the University of Sri Jayawardenapura. He is an Associate Member of the Chartered Institute of Bankers, UK. His 27 years of experience in banking covers corporate banking, project finance and international trade. Before joining NDB Bank in 1998, he worked at Banque Indosuez, Sampath Bank and Deutsche Bank. Mr Perera is currently Senior Vice-President of the Association of Professional Bankers, Sri Lanka.

10. Kumar Weerasuriya

Vice-President

Head of Operations

Prior to joining NDB Bank, Mr Weerasuriya worked at several Sri Lankan and international banks, more recently with Standard Chartered Bank and MasterCard International. He has held senior positions in all areas of banking and IT.

11. Indrajit Wickramasinghe

Vice-President

Head of Retail Banking & Marketing

He holds a Master's Degree in Business Administration from the University of Sri Jayawardenapura, a Postgraduate Diploma from the Chartered Institute of Marketing, UK and is a Fellow of the Chartered Institute of Marketing, UK. Before joining NDB Bank eight years ago, he held the position of Head of Marketing at Reckitt & Colman of Ceylon Ltd. Mr Wickramasinghe has over 19 years experience in the Fast-Moving Consumer Goods and Financial Service Sectors.

12. Ajith Wickremaratne

Vice-President

Head of Corporate Banking

Mr Wickremaratne holds an Engineering Degree from the University of Peradeniya and a Postgraduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants, of Sri Lanka. He has been with NDB Bank for 21 years, his experience ranging from project/infrastructure financing to investment banking and venture capital financing. Presently, he is responsible for operations of the Corporate Banking Group. Mr Wickremaratne also holds corporate memberships of the Institute of Civil Engineers, UK and Institute of Engineers, Sri Lanka.

13. Ishani Navaratne Bandara

Assistant Vice-President

Head of Human Resources

Having joined the organization in 1995, Ms Navaratne Bandara counts 13 years of experience in all areas of HR management and development. She holds a B.Sc. in Economics and Management from the University of London.

14. Dhanan Senathirajah

Assistant Vice-President

Head of Finance & Planning

Mr Senathirajah is an Attorney-at-Law and a Fellow of The Chartered Institute of Management Accountants, UK. Before joining NDB Bank in 1998, he worked at the Maharaja Organization and Reckitt and Colman of Ceylon. He counts 20 years experience in finance and accounting.

15. Niran Mahawatte

Assistant Vice-President

Head of Treasury

Mr Mahawatte holds a B.Sc. from the University of Colombo and is an Associate Member of The Chartered Institute of Management Accountants, UK. He joined the NDB Group Treasury in 2001, prior to which he worked at Deutsche Bank and Commercial Bank of Ceylon. He has to his credit over 15 years banking experience.

Human Resources



Having gone through the merger in August 2005, which transformed NDB from a Development Financial Institution into a Universal Bank with project financing and capital investment - expertise, year 2007 necessitated NDB Bank to implement business strategies that would make it grow further as a universal bank. With the growth of the retail banking business, the branch network expanded to 40 and new products

and processes were introduced, creating a new operating culture with a differentiated retail banking team and support structures which help the business to maximize its delivery and growth potential. The Human Resources priority was to make this work in a two pronged manner in which HR's role was to be strategically aligned to support and grow existing businesses whilst facilitating the aggressive growth of new businesses.

HR in the Face of Business Growth

HR was faced with the task of holding together a group of employees in working towards common corporate goals and in doing so, to ensure uncompromising service standards and productivity. HR had to work across cultures, clusters of people with varied mindsets and compositions in making them partners of business growth.

NDB Bank is predominant in the financial sector as an ethical, professional firm with a well trained, professional set of employees who are highly sought after within Sri Lanka and beyond. This poses a continuous challenge to HR in seeking ways of retaining and developing staff and keeping them stimulated with rewarding careers.

HR had to facilitate the recruitment of the right people for the right jobs, retain key people in critical jobs, facilitate development and learning of new skills and competencies to be more effective in existing jobs and to stay ahead in new jobs as well. Meeting these expectations of NDB Bank was undoubtedly challenging by itself compounded by the above mentioned mix of staff coming from diverse cultures, backgrounds and demographic outlooks with varied sets of skills. It was further aggravated by meeting and managing the expectations of the longer serviced employees with that of the most recent employees who were relatively very much younger.

Meeting the Demands of Business

HR facilitated a total recruitment of over 235 staff which resulted in 35% staff growth by the end of 2007. Further, HR had to be a catalyst in training, re-training and providing new skills to staff. Negotiations skills, Branch Manager Development Training, Commercial Lending skills, Extensive Product

Training were coupled with cross selling skills for targeted staff to stay ahead of the business demands. These were complemented with continuous operational risk management training and other support staff training, resulting in 2,534 training days for the year. Living by the philosophy that we invest in the best sources of knowledge when it comes to developing our staff, considerable efforts were made to provide foreign training and involving foreign faculty to conduct exclusive programmes for our staff to build on networks and global know-how.

In addition, HR shouldered the responsibility of further growing the culture driven by performance by revisiting compensation structures, introducing incentive based pay structures for certain business lines and overall, taking the stand that remuneration is purely based on performance and not governed by traditional variables such as long service. HR in no uncertain terms established this position in 2007.

Way Forward

NDB Bank is predominant in the financial sector as an ethical, professional firm with a well trained, professional set of employees who are highly sought after within Sri Lanka and beyond. This poses a continuous challenge to HR in seeking ways of retaining and developing staff and keeping them stimulated with rewarding careers. The task ahead of HR in this context is to foresee business drivers beyond traditional boundaries and work with and through our Human Resources to achieve the best and the most successful business formula.

Lending a Helping Hand



Keenly aware of its responsibilities to fellow citizens, NDB Bank works through numerous initiatives to discharge its corporate social responsibilities. The principal donations are listed on page 61.

Notable achievements in this area during 2007 included the setting-up of the Cancer Aid Trust Fund aimed at assisting patients at Cancer Hospitals. The bank made an initial contribution of Rs 3.5 mn to this fund. NDB Bank also continued support for the Prevention of Child Abuse Trust, an initiative with which the bank has been associated for the last

six years. The bank also extended its helping hand to several other community-upliftment projects.

Cancer Aid Trust Fund

The high cost of cancer therapy prevents many patients with limited means from completing the full course of their treatment, often with tragic results. The Cancer Aid Trust Fund (CATF) seeks to address the plight of such patients by helping them meet the cost of treatment, including the purchase of necessary therapeutic items such as staplers and balloon dilators.

The non-availability of funds to meet recurring working capital requirements of the cancer patients has been a serious drawback, potentially delaying or impeding the treatment process for some patients. The Government is the main source of funds for the Cancer Hospital. However, supply is inadequate to demand and very often patients must purchase these therapeutic items out of their own money, which is a heavy burden on them.

The Fund has been a major initiative in terms of NDB Bank's CSR programme. Besides providing financial assistance for recurring

working capital needs the Fund also intends to provide assistance to the Cancer Hospital, Maharagama for some of its capital requirements on a continuous and need basis. The present urgent requirement is the procurement of an Endoluminal Ultrasonography System which is a non-invasive diagnostic technique that is essential in defining the location of a tumor and provides useful imaging because of its safety and minimal invasiveness whilst avoiding radiation. The Fund proposes to act as a catalyst in raising funds to purchase their equipment.

The Trustees of the CATF consists of the CEO, a few members of the management of NDB Bank and the Consultant Surgical Oncologist of the Cancer Hospital, Maharagama. The Fund is audited by NDB Bank's auditors, Messers Ernst and Young.

Prevention of Child Abuse Trust Fund

NDB Bank continued its activities in connection with the Prevention of Child Abuse Trust Fund for the sixth consecutive year.

An important initiative in 2007 was a series of child-abuse awareness programmes for schools. These were conducted at Newstead College, Negombo (with the participation of more than 600 parents) and at Central College, Piliyandala.

The programme in schools was conducted by CRPO Mrs Monica

Atureliya, a training officer of the Department of P&CC. The topics addressed by the programme included:

- What is child abuse?
- Different forms of child abuse
- Abuse that takes place in school vans
- How to deal with a child faced with trauma and physical abuse
- What steps parents and the teachers should take to prevent child abuse

The programmes also covered the available legal alternatives and the importance of informing the relevant authorities when faced with a case of child abuse.

The following donations were also made:

- Donation of used computers to the National Centre for Training & Counselling, Paraththa and to the Ranmuthugala Detention Centre.



Donation of Computers to Ranmuthugala Detention Centre.

- Donation of linen to inmates at Ranmuthugala Detention Centre.

Other Community Activities

The following is a brief list of significant community activities

carried out by NDB Bank in the year under review:

- Donation of furniture including beds and cupboards, stationery and a washing machine to the Sanhinda Girls Home, Meegoda.
- Funding for the construction of toilets at Seth Sevana Orphanage, Vavuniya (which houses around 180 boys), Alagalle School, Vavuniya and Sandagala Special School, Kurunegala, (which takes care of deaf and blind children).
- 'Mini-libraries', lab equipment, desks and chairs donated to several schools in Vavuniya.
- Support for 40 very poor tsunami orphans from Hambantota, comprising a monthly grant towards education, health and nutrition and savings accounts for each child.
- Generous donations to numerous charitable organizations including the Ceylon School for the Deaf and Blind, Victoria Home for Incurables, the Sri Lanka Army Rehabilitation Fund, the Children's Heart Project of Sri Lanka, HelpAge Sri Lanka, the Society for the Uplift and Rehabilitation of Leprosy Patients, The Ceylon Association for the Mentally Retarded, the National Federation of Sports for the Disabled, the Leonard Cheshire Disability Resource Centre, AFLAC International, Prithipura Infants' Home, Sri Lanka Sumithrayo and the Educate-a-Child Trust.



**A good grasp of the
situation**



Reading the context and **taking risks**
requires intellectual dexterity and a
careful reflection of the state of play.

Risk Management



Risk Management is a discipline at the core of every financial institution and encompasses all the activities that affect its risk profile. It involves identification, measurement, monitoring and controlling risks to ensure that:

- a) Risk taking decisions are in line with the business strategy and objectives of the organization.
- b) The expected payoffs compensate for the risks taken.
- c) Sufficient capital as a buffer is available to take risk.
- d) The organization's risk exposure is within the limits established by Board of Directors.

e) Risk taking decisions are explicit and clear.

- f) The individuals who take or manage risk clearly understand it.

In addition to the above, the 'Mandatory Code of Corporate Governance for Licensed Banks in Sri Lanka' drafted by the Central Bank of Sri Lanka (CBSL) has come into effect in January 2008. The Code is significant in the context of the important role banks play in the economy and the impact of current global developments in corporate governance practices. It further strengthens and facilitates the risk management processes in banks from a regulatory perspective.

The acceptance and management of financial risk is inherent to the business of banking and banks' role as financial intermediaries. This intermediation activity of banks, exposes them to a host of risks, the effect of which tends to increase due to the volatility in the operating environment of banks.

Risk management as commonly perceived does not mean minimizing risk; rather the goal of risk management is to optimize risk-reward trade-off. Notwithstanding the fact that banks are in the business of taking risk, it should be recognized that an institution need not engage in business in a manner that

unnecessarily imposes risk upon it; nor should it absorb risk that can be transferred to other participants. Rather it should accept those risks that are uniquely part of the array of products and services of a bank.

The main objective of risk management in any bank should aim at achieving the following:

- a) Manage risk at an acceptable level.
- b) Reject unacceptable risks.
- c) Monitor risk on a continuous basis in order to avoid surprises and to manage volatility in returns in order to maintain a quality portfolio.

Therefore, effective risk management is fundamental to the success of the bank. NDB Bank's Group Risk Management is responsible for the design and application of the Bank's integrated risk management framework, and is independent of the Bank's business units. Accordingly, the risk framework is integrated with the Bank's strategy and business planning processes.

Based on the origin and their nature, risks are classified into various categories. The most prominent risks to which banks are exposed are as follows:

- a) Credit Risk
- b) Market Risk
- c) Liquidity Risk
- d) Operational Risk

Credit Risk

Credit Risk can be defined as the potential loss arising from the failure of a counterparty to perform according to the contractual arrangements with the bank, which includes non-repayment of capital and/or interest in full within the agreed time frame, at the agreed rate of interest and in the agreed currency.

Credit Risk Management at NDB Bank

NDB Bank has a well-defined Credit Policy, which has been approved by the Board of Directors. The policy defines the credit culture of the bank and specifies the target market that the Bank wishes to lend to and areas that it would avoid. Implementation of the Credit Policy is done through a credit process with clear guidelines and procedures. The Risk Management Unit ensures the comprehensiveness of the credit process and maintenance of the quality of the bank's credit portfolio. The effectiveness of this system is well reflected in the Non-Performing Loan ratio (NPL) of the bank (1.6% as at 31 December 2007).

There are two Executive Credit Committees in place with one responsible for Policy issues and the other delegated with approval authority. The Executive Credit Committees comprise senior officers of Lending Units and Risk Management Department. Bank's Risk Management philosophy is

guided by three basic, interdependent principles namely, Independence, 4-Eyes Principle and Service Function. Although the bank obtains collateral as a means of mitigating risk, decisions are mainly based on detailed credit evaluation, carried out by the Relationship Managers, and reviewed by the Risk Management Unit along with the designated approving authority. Frequent reviews are carried out in order to continuously monitor the financial performance of the borrowers, and the manner in which the account has been conducted.

Risk Management is associated with the Business Units from facility origination to approval stage adding value as appropriate and developing the proposal in terms of risks, mitigants and returns. Well-defined risk rating system is in place, which is used in account monitoring, provisioning, granting delegated authority and in pricing as appropriate. Continuous training is offered to staff engaged in lending operations.

Credit Portfolio/Provisioning

The credit portfolio of the bank is risk rated using an internally developed risk rating system, which takes into account areas such as Management, Financial Position, Industry Performance and Operating Conditions. The rating system is used to monitor the overall quality of the portfolio and to determine

the degree of supervision required for each credit. Any deteriorating credits are identified and monitored closely with periodic reports submitted to the Credit Committee and the Board. Non-performing assets are identified at an early stage, to enable the management to take appropriate action. NDB Bank follows a conservative provisioning policy, which exceeds the minimum requirements of the CBSL.

Provisioning is implemented in three categories:

1. General Provision

In line with CBSL guideline.

2. Judgemental Provision

Provision is made as a prudential measure on selected accounts.

3. Specific Provision

In line with the CBSL guideline.

NDB Bank's credit risk management system ensures that risk acceptance criteria are well defined and complemented by clear guidelines and procedures to ensure a well diversified and a high quality portfolio.

In addition to the above-mentioned control, an independent Credit Audit Unit carries out audits to determine the adequacy of controls and areas for improvement. The Board Credit Committee, which meets on a quarterly basis, reviews the Credit Portfolio of the bank and policies & processes. Quarterly review reports on the credit portfolio are submitted to the Board.

Market Risk

It is the risk that the value of on and off balance sheet positions of a financial institution will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and capital.

Financial institutions may be exposed to Market Risk in a variety of ways. Market risk exposure may be explicit in portfolios of securities/equities and instruments that are actively traded. Conversely it may be implicit such as interest rate risk due to mismatch of loans and deposits.

Some of the Market Risk categories could be described as follows:

- **Interest Rate Risk** - the risk of loss due to changes in the level slope and curvature of the yield curve; the volatility of interest rates; and mortgage prepayment rates.
- **Credit Spread Risk** - the risk of loss due to changes in the market price of credit, or the creditworthiness of a particular issue.
- **Foreign Currency Risk** - the risk of loss due to changes in spot and forward prices, and the volatility, of currency exchange rates.
- **Equity Risk** - the risk of loss due to changes in the prices, and the volatility of individual equity instruments and equity indices.

Market Risk Management at NDB Bank

Assets and Liabilities Committee (ALCO) comprising the senior management staff from treasury, risk management, finance and various business units of the bank is responsible for supervision/management of market risk. The ALCO meets monthly to review the market risk. ALCO's decisions are further reviewed by the Board. Some of the main responsibilities of the committee are as follows:

- a) Monitor the structure/ composition of bank's assets and liabilities and decide on product pricing for deposits and advances.
- b) Decide on required maturity profile and mix of incremental assets and liabilities.
- c) Articulate interest rate view of the bank and decide on the future business strategy.
- d) Review and articulate funding policy.
- e) Decide the transfer pricing policy of the bank.
- f) Evaluate market risk involved in launching of new products.

The assets and liabilities management in the Bank has been further strengthened during the year by the implementation of a software on Assets and Liabilities Management (ALM).

Liquidity Risk

Liquidity Risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses. It arises when the cushion provided by the liquid assets is not adequate enough to meet its obligation. In such a situation banks often meet their liquidity requirements from market. However, conditions of funding through market depend upon liquidity in the market and borrowing institution's liquidity.

Effective liquidity risk management is essential in order to maintain the confidence of depositors and counterparties, and to enable bank's core business continue to generate revenue even under adverse conditions.

Liquidity Risk Management at NDB Bank

The liquidity risk of the bank also comes under the supervision/management of the ALCO. The ALCO maintains a satisfactory trade-off between liquidity and profitability. Liquidity risk is managed by categorizing the liquidity shortfalls in the Balance Sheet into suitable time buckets and placing exposure limits on each bucket. The limits placed correspond to the liquidity available to NDB Bank through various providers, at an agreed confidence

level. NDB Bank has also adopted a liquidity policy with the objective of ensuring it has sufficient liquidity to execute its financial obligations on a timely basis and at a fair market price.

The policy of the bank has always been to maintain an optimum liquidity position, which is above the minimum liquid assets to liability ratio of 20%, as per the guidelines of the CBSL.

Operational Risk

Operational Risk is the risk of direct or indirect loss due to an event or action resulting from failure of people, internal processes, people and systems or from external events.

Operational Risk Management at NDB Bank

NDB Bank manages the key operational risks in a pro-active and effective manner through a Risk Management architecture. It comprises policies, procedures, tools and governance framework.

All managers of business & support units are responsible in adhering to the Operational Management policies. Appropriate procedures and guidelines, are in place to ensure control of risks arising from day-to-day operational activities.

Regular assessment is made of risks facing each business and support units to identify risks inherent in products, processes and activities.

Risk assessment also incorporates review of all identified risks to evaluate significant changes.

NDB Bank adopts a comprehensive operational risk management approach with internal audit and compliance playing a complementary role in identifying, assessing, monitoring, controlling and mitigating operational risk.

Progress on Implementation of Basel II

Implementation of the Basel II Accord on Capital Adequacy from 2008 is on schedule. Based on the parallel calculations carried out during 2007 under Basel II, NDB Bank is adequately capitalized.

As part of preparatory work for Basel II, presentations were carried out to educate staff across all divisions and units. The road map drawn in 2006 has been implemented in stages. Periodic updates on progress towards implementation were provided to the Board. Parallel runs under Basel II commenced from 31 December 2005.

NDB Bank is geared to meet the challenges in implementing Basel II. Infrastructure for necessary systems together with training & development is being carried out on a regular basis to facilitate smooth transition.



Everyone's a winner



Our goal is to **create win-win scenarios** for all: customers, employees, the community and the nation. Everyone *must* be a winner.



Corporate Governance

The Governance Framework

Corporate Governance emphasizes the need to balance the achievement of corporate objectives against the need for a sound framework of controls, in the best interests of all stakeholders, while maintaining high standards of industrial and professional ethics.

NDB Bank as a responsible corporate citizen, is guided by the regulations, guidelines relating to Corporate Governance issued by the Central Bank of Sri Lanka, The Colombo Stock Exchange and the Institute of

Chartered Accountants of Sri Lanka. Further, NDB Bank acknowledges and fully supports the recommendations of the Committee on Financial Aspects of Corporate Governance initiated by the Institute of Chartered Accountants of Sri Lanka. Accordingly, this section sets out the governance practices followed by NDB Bank in general.

In its endeavour to maintain a high degree of commitment to Corporate Governance practices, the bank adopted its own Code of Corporate Governance, in January 2007.

The following have also been introduced to enhance Governance practices within the Bank:

- A well articulated corporate strategy against which the success of the overall enterprise and the contribution of individuals can be measured.
- An organization structure, which clearly defines the assignment of responsibilities and accountability backed by appropriate financial and managerial incentive schemes.

- An appropriate structure of the Board and appointments to the Board of Directors.
- Strong internal control systems including internal audit, compliance and risk management functions independent of the business lines.
- Effective internal and external information flows and ensuring appropriate financial reporting.
- Promoting fairness and transparency in NDB bank.

The Banking Act Direction No. 11 of 2007 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 (as amended) provides that the mandatory provisions set out in Direction 3 thereof should be complied by Licensed Commercial Banks from 1 January 2008 onwards and all Licensed Commercial Banks should fully comply with the said provisions by or before 1 January 2009 except where extended compliance dates have been specifically provided for in the said direction. NDB Bank has commenced at this stage to implement the mandatory provisions of the aforesaid direction and Section 6 of the Listing Rules of the Colombo Stock Exchange on Rules on Corporate Governance with effect from 1 January 2008.

The Board of Directors

Directors are representatives of all shareholders of NDB Bank and they ensure that the corporate management acts in the best interest of all of the stakeholders.

The Board of NDB Bank comprises of eleven Directors, ten of whom including the Chairman, are Non-Executive Directors. The Chief Executive Officer (CEO) of NDB Bank, functions as an Ex-officio Director. The positions of the Chairman and CEO are kept separate. The filling of vacancies of elected Directors are made on the recommendations of the Nomination Committee of the Board. The Directors of NDB Bank are professionals and eminent persons from both the private and public sectors who are able to add value to the Corporate Governance process. The Board has also formulated appropriate checks and balances to ensure that the Corporate Governance process is upheld at all times. The Board lays strong emphasis on transparency, accountability and integrity of transactions, in line with NDB Bank's Code of Corporate Governance. While the Board is entrusted with the responsibility of providing leadership in terms of NDB Bank's strategic aims, it is the responsibility of the corporate management to ensure the implementation of these strategies. To this end, the Board has delegated its authority to the

corporate management in operational areas within clearly defined limits.

The Board has met fifteen times during the financial year under review. Matters considered at these meetings include approving and/or reviewing of corporate strategy, budgets and forecasts, operational and financial performance, delegation of authority, portfolio quality, reporting to shareholders and approving loans in excess of defined thresholds.

Board Committees

NDB Bank has six Board Committees, which focuses on specific areas of review. These Board Committees are comprised of Non-Executive Directors. They are the Audit Committee, Risk and Credit Committee, Nomination Committee, Strategic Issues Committee, Remuneration and Human Resources Committee and the Corporate Governance & Legal Affairs Committee.

Audit Committee

The Audit Committee is entrusted with the task of monitoring the internal controls, systems and processes of NDB Bank. It serves as an effective forum for the Board of Directors in discharging their responsibilities and ensuring the quality of financial reporting and related communications to shareholders and the public.

The Audit Committee 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 review. At the end of 2007, the Audit Committee comprised of five Non-Executive Board members.

Among its other functions, the Audit Committee Charter empowers the Audit Committee to examine any matters relating to the financial affairs of NDB Bank and to review the adequacy of internal control procedures, coverage of internal and external audit programmes, disclosure of Accounting Policies and compliance with statutory requirements and internal policies.

The Committee also provides a forum for the impartial review of the reports of internal and external audits and takes into consideration findings and recommendations stated therein relating to significant business risks and control issues. It also suggests appropriate remedial measures. The Committee along with the Board review the quarterly financial results to ensure compliance with mandatory banking and statutory requirements.

During the year under review, eight Audit Committee meetings were

held and reports of internal and external audits were discussed. The minutes of committee meetings were made available to the Board of Directors for their information.

NDB Bank has an effective and independent Audit and Compliance function consisting of Internal Audit, Credit Audit and Compliance, all of which report to the Audit Committee.

Risk and Credit Committee

The Credit Committee has been appointed to assist the Board in managing credit risk of NDB Bank. The committee is comprised of five Non-Executive Directors. Head, Risk Management acts as its Secretary while key members of the staff participate at the meetings as appropriate. The Committee meets at least once in a quarter.

In fulfilling its duties, the Committee reviews the quality of the loan portfolio, large credit exposures, stressed sectors, trends in non-performing loans, provisions etc. With regard to policies and processes, the Committee reviews the adequacy and appropriateness of same for managing credit risk and maintaining a sound portfolio.

Keeping in line with the Basel II requirements which came into effect from the year 2008, the Credit Committee was re-designated as Risk & Credit Committee towards the latter part

of the year, to cover Market and Operational risk as well.

Nomination Committee

The Nomination Committee is headed by the Chairman of NDB Bank and has four Non-Executive Directors serving on it. The Committee is responsible in evaluating the requirements of the Board of Directors and identifying suitable members for the Board. Suitable persons identified by the Committee as stated above, are recommended by the Board to the Shareholders, to be appointed as Directors, at the AGM.

Strategic Issues Committee

The Committee is headed by the Chairman of NDB Bank and has four Non-Executive Directors serving on the Committee. The Committee is responsible for evaluating all major strategic decisions taken by NDB Bank. The Committee reviews the strategy development and implementation process and assesses the key business drivers. The Committee met three times during the year under review.

Remuneration and Human Resources Committee

This Committee is responsible for maintaining NDB Bank's performance and market oriented remuneration policy for its staff, thereby attracting and retaining quality staff with proven business experience and other required

qualities. It is further responsible for reviewing recruitment and promotions of the senior management and executive officers and thereby ensuring that an effective succession plan is in place in the Bank. It is also responsible to ensure that appropriate processes are cascaded to other staffing levels. The Committee has a Chairman and four Non-Executive Directors serving on it.

Corporate Governance and Legal Affairs Committee

The Corporate Governance and Legal Affairs Committee was established in May 2007 and consists of four Non-Executive Directors. This Committee was mandated with the task of assisting the Board in ensuring compliance with the Companies Act No. 7 of 2007, the Bank's Corporate Governance Code and all rules, regulations and guidelines issued by regulatory authorities relating to Corporate Governance for Licensed Commercial Banks. The Committee met 4 times during the year under review.

Structure and Composition of the Board Committees as at end 2007

Name of Director	Audit Committee	Risk and Credit Committee	Strategic Issues Committee	Remuneration and Human Resources Committee	Nomination Committee	Corporate Governance and Legal Affairs Committee
S K Wickremesinghe			*T		*T	
H D S Amarasuriya		T		*T	T	
G C B Wijeyesinghe	*T		T	T		
L de Mel	T	*T			T	*T
S R de Silva		T		T	T	T
A R Gunasekera	T		T		T	T
S T Nagendra	T	T	T			
R B Thambiah		T		T		
R Vokes	T		T	T		T

* Chairman of the Committee

Compliance

NDB Bank has an effective process in place to ensure compliance with applicable laws and regulations pertaining to the banking industry (including the Anti-Money Laundering Act No. 5 of 2006 and related Acts), the Companies Act No. 7 of 2007, and the Listing Rules of the Colombo Stock Exchange.

The Compliance Department independently monitors adherence to all applicable laws, regulations and statutory requirements stated above and reports to the Audit Committee. Reports are also submitted to the Audit Committee confirming compliance with NDB Bank's Compliance Policy and the Code of Conduct. These reports are also circulated to the Board of Directors for their information.

The Compliance Department further ensures that compliance reports are submitted to the Central Bank of Sri Lanka confirming NDB Bank's compliance with Central Bank regulations and guidelines.

NDB Bank has further strengthened its 'Know Your Customer' (KYC) and anti-money laundering practices through implementing the new KYC regulations issued by the Financial Intelligence Unit established under the Financial Transaction Reporting Act No. 6 of 2006. The front-line and operational staff are given appropriate training in this area by the Compliance Department.

In order to ensure compliance with anti-money laundering legislation, reporting is done by the respective departments of the bank to the Financial Intelligence Unit, through the Compliance Department.

Details of Board Meetings held and Attendance of Directors

Name of Director	No. of Meetings Attended
S K Wickremesinghe	15
H D S Amarasuriya	9
G C B Wijeyesinghe	15
L de Mel	13
S R de Silva	14
A R Gunasekera	15
S T Nagendra	12
R B Thambiah	12
R W A Vokes	8
S Yaddhegige *	—
N S Welikala	15
P M Nagahawatte **	—

* Appointed with effect from 14 December 2007.

** Appointed with effect from 1 January 2008

NDB Group Companies

As at 31 December 2007

Aviva NDB Finance Lanka (Pvt) Ltd.

Eagle House,
75, Kumaran Ratnam Road, Colombo 2
Tel: +94 11 2310300

(Holding Company of
Eagle Insurance Company Ltd.)

NDB Group's Investment	Rs 741 mn
Profit after Tax	Rs 438 mn
Net Assets	Rs 1,991 mn

Directors: J Mukherji (*Chairman*),
S K Wickremesinghe (*Retired w.e.f.*
01.01.2008), N S Welikala, S Roye,
A W Paterson

NDB Bank's indirect holding - 31.42%



■ Aviva International Holding Ltd.
■ Capital Development & Investment Company Ltd.

Eagle Insurance Company Ltd.

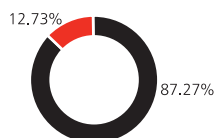
Eagle House,
75, Kumaran Ratnam Road, Colombo 2
Tel: +94 11 2310300

(Insurance)

NDB Group's Investment	Rs 741 mn
Profit after Tax	Rs 527 mn
Net Assets	Rs 2,025 mn

Directors: G Barrans (*Chairman*),
D Sooriyaarachchi (*Managing*
Director), S Roye, J Mackay,
A W Paterson, S N P Palihena,
L de Mel, N S Welikala,
D S P Wikramanayaka

NDB Bank's indirect holding - 32.42%



■ Aviva NDB Finance Lanka (Pvt) Ltd.
■ Others

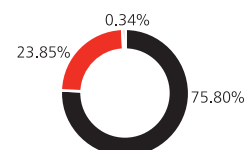
Capital Development and Investment Company Ltd.

40, Navam Mawatha,
Colombo 2
Tel: +94 11 2437701

(Property Development)

NDB Group's Investment	Rs 1,169 mn
Profit after Tax	Rs 410 mn
Net Assets	Rs 3,574 mn

Directors: L de Mel,
N S Welikala, A R Gunasekara,
K Dharmasiri,
Ms B C D Wijayakulasuriya (*Alternate*
to K Dharmasiri)



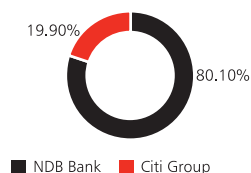
■ NDB Bank ■ Bank of Ceylon
■ Others

NDB Investment Bank Ltd.

40, Navam Mawatha,
Colombo 2
Tel: +94 11 2300385
(Investment Banking)

NDB Group's Investment	Rs 32 mn
Profit after Tax	Rs 41 mn
Net Assets	Rs 126 mn

Directors: S K Wickremesinghe
(Retired w.e.f. 01.01.2008),
P M Nagahawatte (Appointed
w.e.f. 16.01.2008), N S Welikala,
E Wickremaratne, L de Mel,
A Wickremaratne, V Kulatilleke (CEO
and Ex-Officio Director)

**NDBS Stockbrokers (Pvt) Ltd.**

40, Navam Mawatha,
Colombo 2
Tel: +94 11 2314170
(Stock Broking)

NDB Group's Investment	Rs 27 mn
Profit after Tax	Rs 10 mn
Net Assets	Rs 140 mn

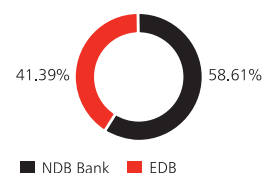
Directors: S K Wickremesinghe
(Retired w.e.f. 01.01.2008),
N S Welikala, L de Mel,
S N Jayasinghe,
D S P Wikramanayaka,
* P M Nagahawatte (Appointed
w.e.f. 01.01. 2008)

**Development Holdings (Pvt) Ltd.**

42, Navam Mawatha,
Colombo 2
Tel: +94 11 2436279
(Property Development)

NDB Group's Investment	Rs 268 mn
Profit after Tax	Rs 86 mn
Net Assets	Rs 1,225 mn

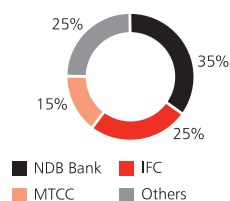
Directors: N S Welikala,
S N Jayasinghe, A R Gunasekara,
D S P Wikramanayaka,
B A S Angunawela,
G V W D Gamaarachchi

**Maldives Finance Leasing Company (Pvt) Ltd.**

12, Boduthakurufaanu Magu,
Male 20-094,
Republic of Maldives
Tel: +(960) 315605/315606
(Leasing)

NDB Group's Investment	Rs 165 mn
Profit after Tax	Rs 107 mn
Net Assets	Rs 742 mn

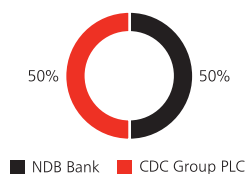
Directors: Rifaath Jaleel (Chairman),
N S Welikala, G Galludec, I Shaheen,
F Manike, H Afeef, M Zameer,
S D Soosaipillai (CEO)

**Ayojana Fund (Pvt) Ltd.**

7th Floor, McLaren's Building,
123, Bauddhaloka Mawatha,
Colombo 4
Tel: +94 11 4510505
(Venture Capital)

NDB Group's Investment	Rs 0.1 mn
Profit after Tax	Rs 5 mn
Net Assets	Rs 85 mn

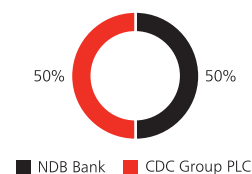
Directors: Ms R L Nanayakkara
(Chairman), G C B Wijeyesinghe,
Ms A M Byworth, N S Welikala

**NDB Venture Investments (Pvt) Ltd.**

7th Floor, McLaren's Building,
123, Bauddhaloka Mawatha,
Colombo 4
Tel: +94 11 4510505
(Venture Capital)

NDB Group's Investment	Rs 35 mn
Profit after Tax	Rs 4 mn
Net Assets	Rs 110 mn

Directors: Ms R L Nanayakkara
(Chairman), G C B Wijeyesinghe,
Ms A M Byworth, N S Welikala



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Financial Calendar 2007

■ Interim Quarterly Unaudited Reports for 2007

March	28 May 2007*
June	23 August 2007*
September	20 November 2007*
December	29 February 2008*

■ Annual Reports and Accounts

2005	4 April 2006
2006	4 April 2007
2007	4 April 2008

■ Meetings

First Annual General Meeting of National Development Bank PLC	26 April 2006
Second Annual General Meeting	26 April 2007

■ Dividends

Final Dividend 2005	26 April 2006
Final Dividend 2006	26 April 2007
Final Dividend 2007	29 April 2008**

* Published in the newspapers

** Subject to approval by the Shareholders

The Directors of the National Development Bank PLC (NDB Bank) have pleasure in presenting their Report and the audited Financial Statements for the year ended 31 December 2007.

Principal Activities

The principal activities of NDB Bank and NDB Group are described under Note 1 to the Financial Statements on page 82.

Details of the NDB Group Companies Indicating

NDB Bank's own holding in key companies is shown on pages 56 and 57.

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 Bank during the year ended 31 December 2007 and contain a fair review of NDB Bank's affairs.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of NDB Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988 (as amended).

The Directors are satisfied that the Financial Statements, presented on pages 70 to 108 inclusive, give a true and fair view of the state of affairs of NDB Bank and the NDB Group as at 31 December 2007 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 judgement 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.

Corporate Governance

The Directors are responsible for the governance of NDB Bank including the establishment and maintenance of NDB Bank's systems of internal financial control. Internal control systems are designed to meet the particular needs of the organization concerned, and the risks to which it is exposed and by their nature they can provide reasonable but not absolute assurance against material misstatement or loss. The Directors are satisfied that a strong control environment is prevalent within NDB Bank and that the internal control systems referred to above are effective.

A description of NDB Bank's Corporate Governance practices is set out on pages 52 to 55.

Profits, Reserves and Dividends

The NDB Group's profit before taxation including that of its subsidiaries and its share of profit from associate companies amounted to Rs 3,058 mn (compared to Rs 3,427 mn in 2006). After deducting Rs 1,421 mn (compared to Rs 1,220 mn in 2006) for taxation, the profit after tax for the year amounted to Rs 1,637 mn (compared to Rs 2,206 mn in 2006).

NDB Bank's profit before taxation amounted to Rs 2,432 mn (compared to Rs 2,086 in 2006). After deducting Rs 1,238 mn (compared to Rs 1,081 mn in 2006) for taxation, the profit after tax for the year amounted to Rs 1,104 mn (compared to Rs 1,005 mn in 2006).

Details are given in the Income Statement on page 70.

Final Dividend

The Directors propose that a final dividend of Rs 6.00 per share, be paid out of the profits of NDB Bank for the year 2007. NDB Bank paid a final dividend for the previous year of Rs 5.00 per share.

Details of the reserves are shown in the Statement of Changes in Equity on pages 74 and 75.

Branch Expansion

In keeping with NDB Bank's Branch expansion scheme ten branches were opened during the year thereby bringing the total number of branches to forty as at the end of 2007.

Property, Plant & Equipment and Depreciation

Details of the property, plant and equipment of NDB Bank, additions made during the year and the depreciation charges for the year are shown in Note 31 to the Financial Statements on pages 98 to 99.

Donations

No donations to external charitable or political organizations were made by NDB Bank during the year, except for the following:

	Rs
Cancer Aid Trust Fund	3,500,000
Vavuniya Orphanage & Schools	350,000
Tsunami Orphans (World Bank Project)	500,000
Deaf & Blind School - Kurunegala	50,000
Martin Wickramasinghe Trust	200,000
Orphanage for Street Children (Meegoda)	100,000
Home for the Mentally Retarded	100,000
Prevention of Child Abuse Trust Fund	500,000

Charitable Organizations

Ceylon School for Deaf & Blind	200,000
Victoria Home for Incurables	200,000
Ranaviru Rehabilitation Fund	200,000
Children's Heart Project	200,000
HelpAge Sri Lanka	200,000
Society for the Uplift & Rehabilitation of Leprosy Patients	200,000
National Federation of Sports for the Disabled	100,000
Leonard Cheshire Disability Resource Centre	100,000
Lt. General Denzil Kobbekaduwa Trust	100,000
AFLAC International	50,000
YMCA	50,000
YMBA	50,000
Preethipura Infant Home	50,000
Sri Lanka Sumithrayo	50,000
Educate-a-Child Project	50,000
National Council for Child & Youth Welfare	50,000
Sri Lanka Association for the Advancement of Science	50,000
Sri Lanka Association of Economists	50,000
Cancer Society	50,000
Army Rehabilitation Centre	100,000
Others	193,155
	7,593,155

Corporate Social Responsibility

The report on the Community Upliftment by NDB Bank is given on pages 42 and 43 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. During the last quarter of 2007, the Central Bank mandated that banks build up a 1% general provision on their performing portfolio and have given them time to make this provision over ten quarters ending on 31 March 2009. However, the NDB Bank had accounted for the 100% general provision requirement as at 31 December 2007 (which amounted to Rs 437 mn).

In terms of the Sri Lanka Accounting Standards, provision has been made for any permanent diminution in value in the case of investment securities and for any fall in value of dealing 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.

Post Balance Sheet Events

There have been no events subsequent to the Balance Sheet date that require disclosure.

Share Capital/Stated Capital and Debentures

The stated capital of NDB Bank at the beginning and end of the year under review was Rs. 1,032,931,000.

On 11 December 2007, NDB Bank privately placed debentures having an aggregate face value of Rs. 250,000,000 and the same was listed at Colombo Stock Exchange on 24 December 2007 by way of an introduction. The proceeds of these debentures were utilized for re-lending purposes.

Directorate

In terms of the provisions of the Articles of Association of NDB Bank, the Board of Directors, as at 31 December 2007, consisted of eleven Directors, including the Chairman, was made up as follows:

- Six Directors appointed as the first Directors of National Development Bank Ltd.
- The Chief Executive Officer is an ex-officio Director, with voting rights.
- Three Directors appointed on casual vacancies.
- One Director has been nominated by the Government of Sri Lanka.

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 Bank, one-third of the elected Directors shall retire from office and new Directors will be elected at each Annual General Meeting of NDB Bank.

In compliance with the internal Code of Governance of NDB Bank which was adopted on January 2007, of the 11 Directors, 9 Directors are independent. The others being the CEO and the Government nominee.

Interest Register

The Bank, as per the Companies Act No. 7 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 64 to 66 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 the Company for the financial year ended 31 December 2007 are as follows:

	Bank	Group
Directors' Fees and emoluments	7.79 mn	7.80 mn

Insurance and Indemnity

Pursuant to a decision of the Board, NDB Bank obtained an Insurance Policy to cover Directors' liability.

Major Shareholders

The 20 largest shareholders of NDB Bank as at 31 December 2007 are given on page 115 together with an analysis of the shareholdings. As at that date NDB Bank had 7,191 shareholders.

Board Subcommittees

There are six permanent subcommittees of the Board, namely, Risk and Credit Committee, Audit Committee, Strategic Issues Committee, Remuneration and Human Resources Committee, Nominations Committee and Corporate Governance and Legal Affairs Committee. Members of these six committees during the year are given on the Inner Back Cover.

Directors' Shareholdings

Shareholdings of the Directors in NDB Bank as at the year-end and their corresponding holdings as at the end of the previous year are as shown below:

Name	As at 31.12.07	As at 31.12.06
S K Wickremesinghe	450	450
H D S Amarasuriya	9,075	9,075
A R Gunasekara	883	883
G C B Wijeyesinghe	—	—
N S Welikala	—	—
S R de Silva	—	—
Lal de Mel	15,541	15,541
S T Nagendra	4,575	4,575
R B Thambiayah	—	—
R W A Vokes	—	—
S Yaddehige	4,174,500	73,000

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.

Application of Banking Act Directions No. 11 of 2007 (Corporate Governance for Licensed Commercial Banks in Sri Lanka)

The above Directions mandate all Licensed Commercial Banks to commence compliance with the Directions from 1 January 2008 and be fully compliant with the provisions of the Directions by 1 January 2009, with the exception, where extended compliance dates have been specifically provided for.

The Board of Directors confirms that:

- (a) NDB Bank has commenced compliance with the Directions from 1 January 2008, as required by the Directions,
- (b) NDB Bank shall endeavour to comply with the requirements, which are mandatory for compliance currently, and
- (c) with regard to the requirements for which extended compliance dates have been provided, NDB Bank has taken steps to be compliant, by such dates.

Application of the Corporate Governance Rules of the Colombo Stock Exchange

As per the Section 6 of the Listing Rules of the Colombo Stock Exchange on Corporate Governance Rules, it is mandatory for all listed companies to publish a Table in the Annual Report relating to the financial year commencing on or after 1 April 2007, confirming that as at the date of the Annual Report that the Company complies with the Corporate Governance Rules set out in the above Section and if not, the reasons for non-compliance. Further, it is mandatory for all listed companies to comply with the above Corporate Governance Rules with effect from the financial year commencing on or after 1 April 2008, and also to include the relevant affirmative statements in the Annual Report.

In the circumstances, NDB Bank is in the process of taking necessary steps to comply with the above requirements from 1 January 2008, the date on which the applicable financial year of NDB Bank begins.

Auditors

The Financial Statements for the year ended 31 December 2007 have been audited by M/s. Ernst & Young, Chartered Accountants.

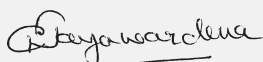
Fees to Auditors

The fees paid to Auditors during the year was Rs 2.8 mn (2006 - Rs 2.4 mn) for audit work and Rs 0.5 mn for non-audit work (2006 - Rs 0.4 mn).

Re-appointment of Auditors

The Auditors have indicated their willingness to offer themselves for re-appointment. A resolution appointing M/s. Ernst & Young as Auditors and authorizing the Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board



C L Jayawardena

Secretary to the Board

14 March 2008

Directors' Interests in Contracts with the NDB Bank

The NDB Bank carried out transactions in the ordinary course of business at commercial rates with the following Director related Companies

	Relationship	Accommodation Granted/Deposits	Balance Outsatnding as at 31.12.2007 Rs. '000	Balance Outsatnding as at 31.12.2006 Rs. '000
(a) Mr S K Wickremesinghe				
NDBS Stock Brokers (Pvt) Ltd.	Chairman	Deposits	7,620	15,002
NDB Investment Bank Ltd.	Chairman	Loans/Advances	92	4
		Deposits	841	381
CIC Fertilizers Ltd.	Director	Loans/Advances	346,066	496,219
(b) Mr N S Welikala				
NDBS Stock Brokers (Pvt) Ltd.	Director	Deposits	7,620	15,002
NDB Investment Bank Ltd.	Director	Loans/Advances	92	4
		Deposits	841	381
Capital Development & Investment Company PLC	Director	Deposits	2	2,325
		Investment in REPOs	1,062,430	1,478,165
Development Holdings (Pvt) Ltd.	Director	Deposits	13,946	12,587
		Investment in REPOs	18,000	18,209
Eagle Insurance Company PLC	Director	Loans/Advances	22,936	640
		Deposits	21,572	37,842
Lakjaya Thrift and Credit Foundation Ltd.	Director	Loans/Advances	–	2,378
		Deposits	–	336
		Investment in Ordinary Shares	500	500
(c) Mr H D S Amarasuriya				
Singer (Sri Lanka) Ltd.	Chairman	Loans/Advances	561,659	660,121
		Investment in Debentures	175,000	175,000
Regnis (Lanka) Ltd.	Chairman	Loans/Advances	163,008	196,162
		Deposits	362	366
Commercial Leasing Company Ltd.	Chairman	Loans/Advances	185,646	484,837
		Deposits	–	410
Bata Shoe Company Ltd.	Director	Loans/Advances	29,558	28,659
		Deposits	1,274	3,443
(d) Dr G C B Wijeyasinghe				
Singer (Sri Lanka) Ltd.	Director	Loans/Advances	561,659	660,121
		Investment in Debentures	175,000	175,000
Regnis Lanka Ltd.	Director	Loans/Advances	163,008	196,162
		Deposits	362	366

	Relationship	Accommodation Granted/Deposits	Balance Outsatnding as at 31.12.2007 Rs. '000	Balance Outsatnding as at 31.12.2006 Rs. '000
e) Mr L de Mel				
Capital Development & Investment Company PLC	Chairman	Deposits	2	2,325
		Investment in REPOs	1,062,430	1,478,165
Cisco Specialty Packaging Ltd.	Director	Loans/Advances	33,088	48,750
Eagle Insurance Company PLC	Director	Loans/Advances	22,936	640
		Deposits	21,572	37,842
NDBS Stock Brokers (Pvt) Ltd.	Director	Deposits	7,620	15,002
NDB Investment Bank Ltd.	Director	Loans/Advances	92	4
		Deposits	841	381
(f) Mr S R De Silva				
Lanka Walltile Ltd.	Director	Loans/Advances	3,453	–
Lanka Walltile (Meepe) (Pvt) Ltd.	Director	Loans/Advances	3,103	4,108
Lanka Tiles Ltd.	Director	Loans/Advances	1,929	2,829
(g) Mr A R Gunasekara				
Capital Development & Investment Company PLC	Director	Deposits	2	2,325
		Investment in REPOs	1,062,430	1,478,165
Development Holdings (Pvt) Ltd.	Director	Deposits	13,946	12,587
		Investment in REPOs	18,000	18,209
(h) Mr S T Nagendra				
Acme Printing & Packaging Ltd.	Chairman	Loans/Advances	76,261	51,629
		Deposits	2,086	–
Lanka Aluminium Industries Ltd.	Chairman	Loans/Advances	85,562	31,850
		Deposits	–	81
Texlan (Lanka) Ltd.	Chairman	Loans/Advances	327,927	80,041
		Deposits	327	546
Texlan Centre (Pvt) Ltd.	Chairman	Loans/Advances	60,995	9
		Deposits	–	32
Filotex (Lanka) Ltd.	Chairman	Deposits	942	625
CIC Fertilizers (Pvt) Ltd.	Chairman	Loans/Advances	346,066	496,219
Residence Peelawatte (Pvt) Ltd.	Chairman	Deposits	–	44
Alpha Apparels Ltd.	Chairman	Loans/Advances	–	1,463

	Relationship	Accommodation Granted/Deposits	Balance Outsatnding as at 31.12.2007 Rs. '000	Balance Outsatnding as at 31.12.2006 Rs. '000
(I) Dr S Yaddhegige				
Richard Peiris & Company Ltd.	Chairman	Advances/Loans	214,686	126,956
		Deposits	2,901,169	1,869,271
Richard Peiris Exports Ltd.	Chairman	Advances/Loans	37,121	45,409
		Deposits	17	17
Richard Peiris Distributors Ltd.	Chairman	Advances/Loans	1,192,521	410,261
		Deposits	6,621	13,113
Arpico Interiors (Pvt) Ltd.	Chairman	Advances/Loans	57,901	17,361
Arpidag International (Pvt) Ltd.	Chairman	Advances/Loans	183,949	98,917
RPC Management Services (Pvt) Ltd.	Chairman	Advances/Loans	25,981	45,467
Kegalle Plantations (Pvt) Ltd.	Chairman	Advances/Loans	150,233	111,591
Maskeliya Plantations (Pvt) Ltd.	Chairman	Advances/Loans	359,435	200,428
RPC Logistics Ltd.	Chairman	Advances/Loans	23,955	–
RPC Construction (Pvt) Ltd.	Chairman	Deposits	521	–
Arpico Plastics Ltd.	Chairman	Advances/Loans	29,052	10,697
Plastishells Ltd.	Chairman	Advances/Loans	249,993	260,087
Richard Peiris Rubber Products Ltd.	Chairman	Advances/Loans	27,312	12,079
Richard Peiris Tyre Company Ltd.	Chairman	Advances/Loans	482,807	312,222
		Deposits	186,603	64,880
Richard Peiris Rubber Compunds Ltd.	Chairman	Advances/Loans	247,635	158,964
		Deposits	–	29
Richard Peiris Natural Foams Ltd.	Chairman	Advances/Loans	328,950	275,235
Arpico Homes Ltd.	Chairman	Advances/Loans	71,019	–
		Deposits	1	–
RPC Retail Development (Pvt) Ltd.	Chairman	Deposits	4,046	–
RPC Real Estate Development Company (Pvt) Ltd.	Chairman	Advances/Loans	–	77
		Deposits	1,827	–
RPC Precision Craft (Pvt) Ltd.	Chairman	Advances/Loans	5,668	–
RPC Timber Line (Pvt) Ltd.	Chairman	Advances/Loans	34,847	–
		Deposits	726	–
Richard Peiris Group Services (Pvt) Ltd.	Chairman	Loans/Advances	–	1,194
RPC Airline Services (Pvt) Ltd.	Chairman	Deposits	–	43
Rivira Media Corporation (Pvt) Ltd.	Chairman	Advances/Loans	97,716	42,380
Arpico Natural Latex Foams (Pvt) Ltd.	Chairman	Advances/Loans	14,905	292,928
Richard Pieris Plantation (Pvt) Ltd.	Chairman	Advances/Loans	–	24,089
Arpimalls Development Company (Pvt) Ltd.	Chairman	Advances/Loans	831	473
Arpico Industrial Development Company (Pvt) Ltd.	Chairman	Advances/Loans	–	3,753

Statement of Directors' Responsibilities

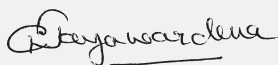
The Directors of the National Development Bank PLC (NDB Bank) are required by relevant statutory provisions to prepare and table at a General Meeting of NDB Bank, such Financial Statements as may be necessary, which give a true and fair view of the state of NDB Bank and the NDB Group.

It is also the responsibility of the Directors to ensure that NDB Bank maintains proper accounting records and to take reasonable steps as far as practical to ensure the accuracy and reliability of accounting records and to prepare Financial Statements using appropriate accounting policies applied consistently and supported by reasonable and prudent judgement and estimates in compliance with the Sri Lanka Accounting Standards, the Banking Act No. 30 of 1988 (as amended), the Companies Act No. 7 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 Bank and the NDB Group and to prevent and detect frauds and other irregularities. The Directors have instituted an effective and comprehensive system of internal controls and an effective system of monitoring its effectiveness, internal audit being one of them. The 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 page 68 of this Report.

M/s. Ernst & Young, Chartered Accountants have been made available with all records of NDB Bank 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 69 of this report.

By Order of the Board



C L Jayawardena

Secretary to the Board

14 March 2008

Audit Committee Report

The Audit Committee is empowered to review and monitor the financial reporting process of NDB Bank, so as to provide additional assurance on the reliability of the Financial Statements through a process of independent and objective review. As such, the Audit Committee acts as an effective forum in assisting the Board of Directors in discharging their responsibilities of ensuring the quality of financial reporting and related communications to the shareholders and the public.

As at year end, the Audit Committee comprised of five non-executive members of the Board. The CEO/Deputy CEO, Vice President (Audit & Compliance), Heads of Audit, relevant Audit Staff, Compliance Officer, representatives from the External Auditors and relevant Operational Managers attend these meetings by invitation. The Head of Internal Audit functions as the Secretary to the Committee.

The Board Audit Committee's authority, responsibilities and the specific duties have been formalized through an Audit Committee Charter. By this, the Audit Committee is empowered among other things to examine any matters relating to the financial affairs of NDB Bank and to review the adequacy of the internal control procedures, coverage of internal and external audit programmes, disclosure of accounting policies, compliance with statutory and corporate governance requirements etc. The Committee also provides a forum for the impartial review of the reports of internal and external audits, and to take into consideration findings and recommendations stated therein relating to significant business risks and control issues.

The Audit Committee reviews significant business risks and internal control issues and suggested appropriate remedial measures. The Committee along with the Board reviewed the quarterly financial results to ensure compliance with mandatory banking and statutory requirements.

The Compliance Officer monitors NDB Bank's compliance with the applicable laws and regulations and its employees compliance with NDB Bank's Compliance Policy/Code of Conduct by all employees. This includes the Bank's compliance with Anti-Money Laundering Act, Financial Transaction Reporting Act, Suppression of Terrorist Financing Act and enforcing Know Your Customer (KYC) regulations within the entire bank. The Compliance Officer reports to the Audit Committee and the Board of Directors and submits a quarterly statement on the status of NDB Bank's compliance with Central Bank Directions/Regulations, Local Statutory Requirements and appropriate International Regulations.

During the year, eight Audit Committee meetings were held and reports of internal and external audits were discussed at these meetings. The minutes of the Committee were made available to the Board of Directors for information.

Based on the reports submitted by the External Auditors, Internal Auditors and the risk reviews performed by NDB Bank, the Audit Committee is of the view that the control environment prevalent within NDB Bank is satisfactory and provides reasonable assurance that the financial position of NDB Bank is well monitored and the assets are safeguarded.

The Audit Committee has recommended to the Board of Directors that M/s. Ernst & Young, (Chartered Accountants) be re-appointed as Auditors for the financial year ending 31 December 2008 subject to the approval of the shareholders at the Annual General Meeting.


G C B Wijeyesinghe
Chairman

Board Audit Committee

26 February 2008



■ **Chartered Accountants**
201 De Saram Place
P. O. Box 101
Colombo 10
Sri Lanka

■ Telephone : (0) 11 2463500
Fax Gen: (0) 11 2697369
Tax : (0) 11 5578180
E-Mail : eysl@lk.ey.com

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL DEVELOPMENT BANK PLC

Report on the Financial Statements

We have audited the accompanying financial statements of National Development Bank PLC ("the Bank"), the consolidated financial statements of the Bank and its subsidiaries, which comprise the balance sheet as at 31 December 2007, and the income statement, 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 pages 70 to 108.

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 controls 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 31 December 2007 and the financial statements give a true and fair view of the Bank's state of affairs as at 31 December 2007 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 31 December 2007 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 shareholders of the Bank.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Sections 151(2) and 153(2) to 153(7) of the Companies Act No. 07 of 2007.

(Sgd.)

Ernst & Young
Chartered Accountants

Colombo
26 February 2008

■ **Partners** : A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray ACA FCMA
Ms. Y A De Silva ACA W R H Fernando FCA FCMA W K B S P Fernando FCA ACMA
A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa ACA FCMA LLB (Lond)
A S M Ismail ACA FCMA H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA
Ms. L C G Nanayakkara FCA FCMA

Income Statement

		NDB BANK		NDB GROUP	
<i>For the year ended 31 December</i>		2007	2006	2007	2006
	Note	Rs '000	Rs '000	Rs '000	Rs '000
GROSS INCOME	2	9,527,321	6,882,067	10,071,656	8,202,512
Interest income	3	8,232,445	5,689,394	8,598,627	6,075,601
Interest expenses	4	5,210,744	3,287,181	5,076,227	3,223,014
NET INTEREST INCOME		3,021,701	2,402,213	3,522,400	2,852,587
Other income	5	1,294,876	1,192,673	1,473,029	2,126,911
NET INCOME		4,316,577	3,594,886	4,995,429	4,979,498
OPERATING EXPENSES	6				
Personnel costs		866,711	710,940	931,871	816,856
Staff retirement benefits	7	14,910	11,460	17,395	13,183
Other administrative and general expenses	8	1,023,315	782,527	1,102,217	923,173
Total operating expenses		1,904,936	1,504,927	2,051,483	1,753,212
PROFIT BEFORE PROVISIONS		2,411,641	2,089,959	2,943,946	3,226,286
Provision for bad and doubtful debts and for fall in value of securities	9	69,372	3,559	65,122	13,385
		2,342,269	2,086,400	2,878,824	3,212,901
Share of associate companies' profit	10	—	—	179,392	214,453
PROFIT BEFORE TAXATION		2,342,269	2,086,400	3,058,216	3,427,354
Taxation	11	(1,238,477)	(1,081,403)	(1,421,432)	(1,220,449)
PROFIT FOR THE YEAR		1,103,792	1,004,997	1,636,784	2,206,905
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS		1,103,792	1,004,997	1,521,374	2,030,484
PROFIT ATTRIBUTABLE TO MINORITY SHAREHOLDERS		—	—	115,410	176,421
		1,103,792	1,004,997	1,636,784	2,206,905
Earnings per share (in Rs)	13			18.59	24.81
Dividend per share (in Rs)		5.00	6.00	5.00	6.00

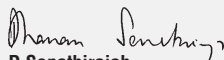
Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 76 to 108 are an integral part of these Financial Statements.

26 February 2008

Balance Sheet

		NDB BANK		NDB GROUP	
As at 31 December		2007	2006	2007	2006
	Note	Rs '000	Rs '000	Rs '000	Rs '000
ASSETS					
Cash and short-term funds	14	4,343,467	3,394,766	6,056,052	4,467,154
Balances with Central Bank	15	1,692,227	1,575,260	1,692,227	1,575,260
Investment in sinking fund	16	10,000	2,873,288	10,000	2,873,288
Investments held for trading	17	9,061,047	5,235,599	9,061,047	5,235,599
Investments held to maturity	18	4,560,807	3,048,178	4,842,835	3,059,602
Dealing securities	19	373,353	396,581	373,353	396,581
Commercial paper		413,636	605,100	413,636	605,100
Bills of exchange	20	2,121,467	1,591,931	2,121,467	1,591,931
Loans and advances	21	45,361,874	38,947,962	45,373,110	38,957,189
Lease rentals receivable	22	1,819,971	1,449,077	1,819,971	1,449,077
Interest receivable	23	504,045	420,018	504,045	420,018
Investments in subsidiary companies	26	1,456,466	1,656,466	–	–
Investments in associate companies	27	200,562	233,062	1,209,938	1,184,440
Group balances receivable	28	17,724	36,247	437	1,663
Other assets	29	466,702	1,073,927	627,219	1,225,874
Deferred tax	30	32,731	43,192	33,125	43,192
Property, plant & equipment	31	775,823	671,883	804,412	691,529
Investment property	44	–	–	1,200,000	1,200,000
Goodwill	32	–	–	–	–
Total assets		73,211,902	63,252,537	76,142,874	64,977,497
LIABILITIES					
Deposits	33	25,623,670	21,161,104	25,623,670	21,161,104
Borrowings	34	26,402,459	24,938,204	25,304,264	23,181,509
Securities sold under repurchase agreement		8,843,115	6,022,016	8,843,115	6,022,016
Other liabilities	35	2,501,143	1,869,744	2,580,479	1,983,671
Taxation		419,679	598,824	521,596	640,408
Dividends payable		170,086	107,918	170,086	107,918
Total liabilities		63,960,152	54,697,810	63,043,210	53,096,626
SHAREHOLDERS FUNDS					
Stated capital	36	1,032,931	1,032,931	1,032,931	1,032,931
Statutory reserve fund	37	818,554	818,554	818,554	818,554
Revenue reserves	38	7,400,265	6,703,242	9,833,367	8,715,154
		9,251,750	8,554,727	11,684,852	10,566,639
Minority interests		–	–	1,414,812	1,314,232
Total funds employed		9,251,750	8,554,727	13,099,664	11,880,871
Total liabilities and funds employed		73,211,902	63,252,537	76,142,874	64,977,497
Commitments and contingencies	40	16,023,448	14,368,547	16,023,448	14,368,547

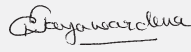
These Financial Statements are in compliance with the requirements of the Companies Act No. 7 of 2007.


D Senathirajah
 Assistant Vice-President - Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
 Signed for and on behalf of the Board.


P M Nagahawatte
 Chairman


N S Welikala
 Chief Executive Officer


C L Jayawardena
 Company Secretary

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 76 to 108 are an integral part of these Financial Statements.

26 February 2008

Cash Flow Statement

For the year ended 31 December	Note	NDB BANK		NDB GROUP	
		2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		8,108,599	5,130,972	8,558,635	5,592,273
Fee based income received		438,690	352,579	660,668	491,938
Dividend income received		224,334	522,853	259,810	288,323
Other income received		375,598	322,247	579,592	518,186
Lease rentals received		757,006	338,115	757,006	338,115
Lease disbursements		(822,680)	(1,018,838)	(822,680)	(1,018,838)
Interest paid		(4,813,476)	(2,889,555)	(4,813,476)	(2,953,947)
Personnel costs paid		(849,711)	(688,716)	(914,872)	(676,121)
General expenses paid		(805,546)	(624,283)	(816,902)	(937,251)
VAT paid		(538,166)	(349,001)	(538,166)	(354,625)
Income taxes paid		(930,941)	(202,603)	(1,025,270)	(239,562)
Net (increase)/decrease in other receivables		645,030	(262,890)	630,844	(272,910)
Net increase/(decrease) in other liabilities		163,978	(132,920)	(59,698)	(54,168)
Net cash provided by operating activities		1,952,715	497,960	2,455,491	721,413
CASH FLOWS FROM INVESTING ACTIVITIES					
Net increase in investments					
Acquisition of subsidiaries		–	(156,000)	–	(131,412)
Redemption of preference shares		232,500	–	32,500	–
Disposal of a subsidiary		–	70,000	–	2,391,272
Government treasury bills and bonds		(5,140,873)	(1,312,163)	(5,140,873)	(1,528,431)
Change in other investments		320,274	(1,677,710)	693,567	(2,870,308)
Securities sold under repurchase agreements		2,821,099	1,496,258	2,821,099	1,496,258
Transfer of assets and liabilities of subsidiaries		–	24,588	–	–
Net increase in loans and advances		(7,450,413)	(5,166,127)	(7,449,197)	(5,470,102)
Deposits from customers		4,462,566	7,207,375	4,462,566	7,207,375
Net due to/(from) related companies		18,522	28,553	18,522	31,077
Expenditure on property, plant & equipment		(270,125)	(164,992)	(288,148)	(166,130)
Proceeds from sale of property, plant & equipment		19,316	9,692	21,026	9,714
Net cash provided by investing activities		(4,987,134)	359,474	(4,828,938)	969,313
CASH FLOWS FROM FINANCING ACTIVITIES					
(Decrease)/increase in borrowings		4,447,195	2,232,742	4,447,195	1,838,379
Dividend paid		(347,109)	(227,500)	(368,324)	(380,833)
Net cash used in financing activities		4,100,086	2,005,242	4,078,871	1,457,546
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
		1,065,667	2,862,676	1,705,424	3,148,272
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR					
		4,970,026	2,107,350	6,042,139	2,893,867
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	a	6,035,693	4,970,026	7,747,563	6,042,139

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 76 to 108 are an integral part of these Financial Statements.

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Note a				
RECONCILIATION OF CASH AND CASH EQUIVALENTS				
Cash and short-term funds	4,343,467	3,394,766	6,056,052	4,467,154
Balances with Central Bank	1,692,227	1,575,260	1,692,227	1,575,260
Less: Bank overdraft	—	—	(715)	(275)
	6,035,693	4,970,026	7,747,563	6,042,139

Statement of Changes in Equity

For the year ended 31 December

	Note	Attributable to equity holders of the parent				Total Rs '000
		Stated Capital Fund Rs '000	Statutory Reserve Rs '000	General Reserve Rs '000	Retained Profit Rs '000	
NDB BANK						
Balance as at 1 January 2006		760,080	545,703	5,805,707	818,804	7,930,294
Issue of Bonus shares	36	272,851	—	—	(272,851)	—
Transfer to statutory reserve fund	37	—	272,851	—	(272,851)	—
Net profit for the year		—	—	—	1,004,997	1,004,997
Exchange difference on conversion of FCBU reserves		—	—	—	11,390	11,390
Difference between the investment and net assets of NDB Housing Bank		—	—	—	(64,532)	(64,532)
Dividend paid		—	—	—	(327,422)	(327,422)
Balance as at 31 December 2006		1,032,931	818,554	5,805,707	897,535	8,554,727
Balance as at 1 January 2007		1,032,931	818,554	5,805,707	897,535	8,554,727
Exchange difference on conversion of FCBU reserves		—	—	—	2,508	2,508
Net profit for the year		—	—	—	1,103,792	1,103,792
Dividend paid		—	—	—	(409,277)	(409,277)
Balance as at 31 December 2007		1,032,931	818,554	5,805,707	1,594,558	9,251,750

For the year ended 31 December

For the year ended 31 December							
		Attributable to equity holders of the parent					
		Stated Capital	Statutory Reserve Fund	General Reserve	Retained Profit	Minority Interests	Total
	Note	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
NDB GROUP							
Balance as at 1 January 2006		760,080	545,703	5,805,707	1,703,697	974,479	9,789,666
Issue of Bonus shares	36	272,851	—	—	(272,851)	—	—
Fair value adjustment on adoption of SLAS-40	44	—	—	—	340,252	240,383	580,635
Adjustment on disposal of subsidiaries		—	—	—	(255,412)	47,261	(208,151)
Net profit for the year		—	—	—	2,030,484	176,421	2,206,905
Transfer to satutory reserve fund	37	—	272,851	—	(272,851)	—	—
Exchange difference on conversion of FCBU reserves		—	—	—	11,390	—	11,390
Exchange gain from valuation of foreign associate		—	—	—	16,692	—	16,692
Difference between the investment and net assets of NDB Housing Bank		—	—	—	(64,532)	—	(64,532)
Dividend paid		—	—	—	(327,422)	(124,312)	(451,734)
Balance as at 31 December 2006		1,032,931	818,554	5,805,707	2,909,447	1,314,232	11,880,871
Balance as at 1 January 2007		1,032,931	818,554	5,805,707	2,909,447	1,314,232	11,880,871
Net profit for the year		—	—	—	1,521,374	115,410	1,636,784
Exchange difference on conversion of FCBU reserves		—	—	—	2,508	—	2,508
Exchange gain from valuation of foreign associate		—	—	—	3,608	—	3,608
Dividend paid		—	—	—	(409,277)	(14,830)	(424,107)
Balance as at 31 December 2007		1,032,931	818,554	5,805,707	4,027,660	1,414,812	13,099,664

1. GENERAL

1.1 Accounting Convention

The Financial Statements, both consolidated financial statements and separate Financial Statements comprising balance sheet as at 31 December 2007, statements of income, cash flow, changes in equity for the year then ended, together with accounting policies and notes thereto; have been prepared on a historical cost basis, except for certain investments and investment properties as morefully described under the respective policies. These Financial Statements of NDB Bank are presented in Sri Lankan Rupees and have 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.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

No adjustments are made for inflationary factors affecting these Financial Statements.

1.2 Format of Accounts, prior year Figures and Phrases

Certain prior year figures and phrases are re-arranged wherever necessary to conform to the current year's presentation. Changes to comparative information made due to better presentation and other reasons are more fully described in Note 42 to these Financial Statements.

1.2.1 Date of Authorization for Issue

The Financial Statements of National Development Bank PLC for the year ended 31 December 2007 were authorized for issue in accordance with a resolution of the Board of Directors on 26 February 2008.

1.2.2 Going Concern

The Directors have made an assessment of the Bank's ability to continue as a going concern and they do not intend either to liquidate or cease trading.

1.2.3 Significant Accounting Judgements and Estimates

In the process of applying the accounting policies, management is required to make judgements, 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 and uncertainty at the Balance Sheet date that have significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year. The key items, significant accounting judgements and estimates

involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in related notes.

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 profits will be available against which such items can be deducted in the future. Significant management judgement 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 Bank determines whether Goodwill and Other Long-Term Assets involve any impairment by performing an impairment test. This requires an estimation of the 'value in use' of the cash generating units or the fair value of such assets. Estimating the value in use requires management to make an estimate of the expected future cash flows and to determine suitable discount rates in order to derive the present values, and hence are subject to uncertainty.

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 Bank 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. Judgements by management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors though actual results may differ, resulting in future changes to the provisions.

Defined Benefit Plans

The cost of defined benefit plans - gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about 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.

1.3 Basis of Consolidation

The NDB Group refers to the consolidated Financial Statements of NDB Bank and its subsidiaries.

1.3.1 The NDB Group Financial Statements include the consolidated results, assets and liabilities of NDB Bank and its subsidiaries made up to the financial year-end. The results of subsidiaries are included from the date on which NDB Bank 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.

All intra-group balances, transactions and profits & losses are eliminated on consolidation.

1.3.2 In the NDB Group Financial Statements, investments in associate companies described in Note 27 to the Financial Statements, are accounted for under the equity method of accounting. Under the equity method of accounting, the NDB Group's share of profits and losses of the associate companies made up to their respective year-ends is accounted for in the Consolidated Income Statement for the year. The carrying value of the investment is thereby increased or decreased to recognize the NDB Group's share of retained profits and losses of the associate companies since the date of acquisition. 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.

1.3.3 In NDB Bank'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 basis.

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 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 NDB Group'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.

1.4.2 For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of NDB Bank's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Where goodwill forms part of a cash-generating unit (or a group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unimpaired 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.

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 Forward exchange contracts are valued at the forward market rates prevailing at the date of the Balance Sheet. Unrealized gains and losses are dealt within the Income Statement.

1.6.3 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. NDB Bank pays a premium to the Government of Sri Lanka for bearing such risk.

1.6.4 As at the reporting date, the assets and liabilities of overseas subsidiaries/associates are translated into NDB Bank'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.

1.6.5 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.

1.8 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.

1.9 Taxation

1.9.1 Domestic 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. 38 of 2000 and the amendments thereto, at the rate of 35% (2006 - 35%).

1.9.2 Foreign Currency Banking Unit

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No. 38 of 2000 and amendments thereto, at the

rate of 35% on On-shore foreign currency transactions and at 20% on Off-shore foreign currency transactions. (2006 - On-shore 35%, 2006 - Off-shore 20%.)

1.9.3 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.

1.10 Impairment of 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.

2. ASSETS AND BASES OF THEIR VALUATION

2.1 Loans and Advances to Customers

2.1.1 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.

2.1.2 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. In addition, a general provision is also made by NDB Bank to cover unforeseen losses on all loans and advances excluding those for which a specific provision is being made and for refinance loans and staff loans. However, during the last quarter of 2006, the Central Bank mandated that banks build up a 1% general provision on its performing portfolio. Banks have been given time to do so over 10 quarters ending on 31 March 2009.

2.2 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.

Assets leased to customers under agreements in which NDB Bank retains substantially all the risks and rewards associated with ownership and legal title are classified as operating leases. The lease rentals receivable in the Balance Sheet include rental instalments receivable, net of 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.

2.3 Investments

2.3.1 Securities held for Trading Purposes

Government securities held for trading purposes are accounted for at the lower of cost and market value as at the Balance Sheet date, determined on a portfolio basis and interest is accrued up to the end of the year. Adjustment for fall in market value below cost, if relevant is accounted by charging the difference to the Income Statement as per the provisions under Sri Lanka Accounting Standards.

Dealing securities comprise of shares and debentures quoted on the Colombo Stock Exchange and are accounted for at the lower of cost and market value as at the Balance Sheet date, determined on a portfolio basis.

2.3.2 Investments held to Maturity

Investments held to maturity are regarded as long-term investments and comprise of investments in treasury bonds and 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.

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. Temporary declines in value are charged to equity. All other investment securities are stated at cost and provisions are made for permanent diminutions in value on a case by case basis.

2.3.3 Securities purchased under Resale Agreement

Securities purchased under agreements to resale are classified as part of assets and accounted for accordingly.

2.3.4 Securities sold under Resale Agreement

Obligations to repurchase resulting from securities sold under Repurchase Agreements are accounted for as a liability and are classified under liabilities.

2.4 Property, Plant & Equipment

2.4.1 Plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

2.4.2 Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from when the assets are available for use. The estimated useful lives of the assets are as follows:

Buildings/improvements	5% - 10%
Motor vehicles	25%
Furniture and office equipment	20%

Leasehold assets are amortized over lower of the useful life and the lease period of the respective assets.

2.5 Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or both.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the Balance Sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the Income Statement in the year in which they arise.

Development Holdings (Private) Ltd., a subsidiary company whose principal business activity is renting out premises for trade, business or vocation adopted Sri Lanka Accounting Standard No. 40, Investment Properties during the year. Accordingly the property owned by Development Holdings (Private) Ltd. was revalued by an independent valuer on 1 January 2006 and the surplus arising over the net book value of the property as at that date was credited to retained earnings of 1 January 2006. Further, another revaluation was done on 31 December 2006 and the incremental surplus over the valuation as at 1 January has been credited to the Income Statement. Thereafter, a valuation of the property will be done annually and any surplus or deficit arising thereon over the previous valuation will be adjusted in the Income Statement.

2.6 Other Assets

All other assets are valued net of specific provisions, where necessary, so as to reduce the carrying value of such assets to their estimated realizable values.

2.7 Cash and Cash Equivalents

Cash and cash equivalents comprise of cash balances, short-term funds, balances with Central Bank of Sri Lanka and Government of Sri Lanka Treasury bills readily convertible to known amounts of cash and subject to insignificant risk of changes in value. 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.

3. LIABILITIES AND PROVISIONS

3.1 All discernible risks are taken into account in quantifying the liabilities.

3.2 Pensions and Retirement Benefits

3.2.1 NDB Bank 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. Up to 31 December 2002, annual contributions to the Pension Plan were payable by NDB Bank based on a percentage of gross salaries, as stipulated in the pension deed. However, following the formulation of a revised pension deed, which has been approved by the Department of Inland Revenue, the contributions in subsequent years are determined on the basis of an actuarial valuation each year.

3.2.2 Provision is made for the payment of retirement gratuities payable under the Payment of Gratuity Act No. 12 of 1983, in respect of employees who do not qualify for a pension, on the basis of an actuarial valuation each year.

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 Bank contributes 15% and 3% of gross salaries of employees to NDB Bank's Employees' Provident Fund and the Employees' Trust Fund respectively.

3.2.4 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 recognized on an accrual basis. However, no accrued interest income is recognized where any portion of capital or interest is in arrears for three months or more. 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 months or more. In such cases interest income is accounted for on a cash basis.
- (b) Operating Leases - Rental income is recognized 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 months or more. In such cases, rental income is accounted for on a cash basis.

4.1.3 Interest Income from other Sources

Interest income from Government securities is recognized on a time proportion basis as discounts on purchase, over the period to maturity or the date of sale.

Income from other interest bearing investments is recognized as revenue on an accrual basis.

4.1.4 Bills Discounted

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 NDB 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 a cash 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 guarantee/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.

NDB Bank enters into off Balance Sheet transactions such as forward exchange contracts. At the year end losses on such transactions are dealt with in the Income Statement.

5. Standards Issued but not yet Effective Sri Lanka Accounting Standard 16 (Revised) - Employee Benefits

A revised SLAS 16 was issued in 2007, and becomes effective for financial years beginning on or after 1 July 2007. Accordingly, the Financial Statements for the year ending 31 December 2008 will adopt the revised SLAS 16.

As a result of the revision all short-term employee benefits of the Company will required to be recognized when an employee has rendered service in exchange for those benefits. For post-employment benefits, the Company will be required to involve a qualified actuary in their measurement. Pending a full study of this revised standard, the financial impact is not yet known nor is it reasonably estimable.

6. Business Segment Reporting

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services that is subject to risk and returns that are different from those of other business segments. The Accounting Policies adopted for segment reporting are the same Accounting Policies adopted for preparing the Financial Statements of the NDB Group.

7. Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by NDB Bank's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of NDB Bank.

1. INCORPORATION, PRINCIPAL ACTIVITIES AND THE SIGNIFICANT CHANGES IN THE NDB GROUP STRUCTURE

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 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, Navam Mawatha, Colombo 2.

In terms of the new Companies Act No. 7 of 2007, the name of the bank was changed as 'National Development Bank PLC'. NDB 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 principal activities of NDB Bank, its subsidiaries and associate companies included in consolidation, consist of the business of commercial banking, development financing, merchant banking, investment banking, leasing, housing finance, venture capital, stockbroking, fund management, property investment and insurance.

The number of staff employed by NDB Bank as at 31 December 2007 was 858 (2006 - 713).

The number of branches of NDB Bank as at 31 December 2007 was 40 (2006 - 31).

On 1 February 2006, Capital Development and Investment Company PLC, a subsidiary of NDB Bank disposed of 58.44% of its holding in its fully-owned subsidiary NDB Finance Lanka (Pvt) Ltd. (now known as Aviva NDB Finance Lanka (Pvt) Ltd.) to Aviva International Holdings Ltd. The current holding of Capital Development and Investment Company Ltd. in Aviva NDB Finance Lanka (Pvt) Ltd. is 41.56%. Aviva NDB Finance Lanka (Pvt) Ltd. holds 87.27% of Eagle Insurance Company PLC, thus giving Aviva International Holdings Ltd. a 51% stake in Eagle Insurance Company Ltd.

The capital gain earned by Capital Development and Investment Company PLC on this transaction was Rs 1.64 bn. In accordance with Sri Lanka Accounting Standard No. 26, 'Consolidated and Separate Financial Statements' the capital gain attributable to the NDB Group was Rs 1.01 bn.

On 2 February 2006 NDB Bank purchased a 5% stake in Eagle Insurance Company PLC from James Finlay and Company (Colombo) Ltd. Consequently, NDB Bank's original and current effective holdings in Eagle Insurance Company Ltd. are 65.98% and 32.42% respectively.

NDB Bank's holding in NDB Housing Bank Ltd. which originally was 41.34% (direct holding of 30% and 15% through Capital Development and Investment Company PLC) was increased to 80% as at 31 December 2005 by the acquisition of the shares held by Capital Development and Investment Company PLC and some of the minority shareholders at a price of Rs 13.00 per share. NDB Bank further acquired the balance minority shareholding of 15% during the first quarter of 2006 and the balance 5% in April 2006. Consequently, NDB Bank's holding in NDB Housing Bank Ltd. was 100% as at 31 August 2006.

On 1 September 2006, NDB Bank acquired the assets and liabilities of NDB Housing Bank Ltd. Consequently, NDB Housing Bank Ltd. is now under liquidation.

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
2. INCOME				
Gross income	9,527,321	6,882,067	10,071,656	8,202,512
Interest income (Note 3)	8,232,445	5,689,394	8,598,627	6,075,601
Other income (Note 5)	1,294,557	1,191,487	1,472,710	2,125,725
Income from operating leases	319	1,186	319	1,186
	9,527,321	6,882,067	10,071,656	8,202,512
3. INTEREST INCOME				
Loans and advances	5,968,325	4,390,169	5,968,667	4,545,463
Treasury bills, bonds and placements with other banks	2,264,120	1,299,225	2,629,960	1,530,138
	8,232,445	5,689,394	8,598,627	6,075,601
4. INTEREST EXPENSES				
Long-term borrowings	1,340,239	1,211,227	1,340,239	1,211,227
Other term borrowings	2,125,330	1,160,790	1,990,813	1,096,623
Deposits	1,745,175	915,164	1,745,175	915,164
	5,210,744	3,287,181	5,076,227	3,223,014
5. OTHER INCOME				
Dividend income from securities				
- Quoted investments	45,773	42,092	45,773	42,092
- Non-quoted investments	89,369	73,823	89,369	100,774
Dividend income from subsidiaries/associates				
- Quoted investments	35,902	331,211	-	-
- Non-quoted investments	53,289	75,727	-	-
Gain/(loss) from dealing securities	-	-	-	(4,313)
Gain/(loss) from investment securities	249,495	3,752	249,495	3,752
Gain/(loss) from group companies	-	-	-	1,016,068
	473,828	526,605	384,637	1,158,373
Net gain/(loss) from sale of government securities	(46,241)	(15,836)	(46,241)	(15,836)
Fee and commission income	387,950	306,328	387,950	306,328
Income from other fee-based activities	55,203	46,285	322,547	341,965
Net insurance income	-	-	-	6,790
Net exchange gain	390,854	280,421	390,854	280,421
Net Income from Operating leases	319	1,186	319	1,186
Income from other activities	32,963	47,684	32,963	47,684
	1,294,876	1,192,673	1,473,029	2,126,911

Provisions made/released for the change in value of quoted and non-quoted securities are disclosed in Note 9 to the Financial Statements.

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
6. OPERATING EXPENSES				
Operating expenses include the following:				
Employees' Provident Fund	53,471	43,127	59,125	44,793
Employees' Trust Fund	10,699	10,904	11,625	11,237
Gratuity	14,910	11,460	17,395	13,183
Depreciation - own assets	156,884	186,175	165,916	189,174
Legal charges	22,105	33,764	23,394	34,305

7. STAFF RETIREMENT BENEFITS

The Bank 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 expense over the respective periods.

The adequacy of the contributions was reviewed by an actuary as at 31 December 2007. Accordingly, the actuarial experience loss or gains have been recognized over the expected future working life of the participants. As the current year's amortization of the Actuarial Gains and expected returns on assets were more than the cost of benefits this year, no provision has been made in the accounts (2006 - Nil).

The Pension Plan is fully funded.

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, and the rate of increase in salaries, which have been estimated at 12% and 12% respectively.

Provisions for retirement gratuities have been made based on the actuarial valuation carried out as at 31 December 2007. Accordingly, gratuity benefit expense for the year was Rs 15 mn (2006 - Rs 11 mn).

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
8. OTHER ADMINISTRATIVE AND GENERAL EXPENSES				
Premises, equipment and establishment expenses	333,854	268,105	385,756	401,586
Depreciation - own assets	156,884	186,175	165,916	193,340
Other overhead expenses	532,577	328,247	550,545	328,247
	1,023,315	782,527	1,102,217	923,173
9. PROVISIONS FOR BAD AND DOUBTFUL DEBTS AND FOR FALL IN VALUE OF SECURITIES				
Bad and doubtful debts	67,787	37,165	63,537	41,278
Fall in value of non-quoted securities	1,585	(33,606)	1,585	(27,893)
	69,372	3,559	65,122	13,385
	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
10. SHARE OF ASSOCIATE COMPANIES' PROFIT BEFORE TAXATION				
Ayojana Fund (Pvt) Ltd.		50.00%	2,351	10,894
Maldives Finance Leasing Co. (Pvt) Ltd.		35.00%	37,376	24,245
NDB Venture Investments (Pvt) Ltd. (with effect from 31 May 2006)		50.00%	2,108	3,530
Aviva NDB Finance Lanka (Pvt) Ltd. (with effect from 1 February 2006)		32.42%	137,557	175,784
			179,392	214,453
	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
11. TAXATION				
Provision for taxation				
On profit for the year (a)	751,796	650,654	934,810	778,875
Transfer from deferred taxation (Note 30)	10,461	(25,415)	10,067	(25,415)
VAT on financial services	476,220	456,164	476,220	466,383
On associate companies' share of profit	-	-	335	606
	1,238,477	1,081,403	1,421,432	1,220,449

	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
a. Reconciliation of Effective Tax Rate				
Profit before tax	2,342,269	2,086,400	2,878,824	3,212,901
Statutory tax at 20%	3,765	3,270	3,765	3,270
Statutory tax at 30%	–	78,658	–	78,658
Statutory tax at 35%	813,206	632,750	900,138	915,224
Add: Effect of tax on non-deductible expenses	316,909	234,470	316,909	240,182
Less: Effect of tax on claimable expenses	(382,084)	(298,494)	(286,002)	(458,459)
Total tax	751,796	650,654	934,810	778,875
Deferred taxation	10,461	(25,415)	10,067	(25,415)
Income Tax expense at effective rate of tax of 33% (2006 - 23%)	762,257	625,239	944,877	753,460

The Bank is liable to VAT on financial services at 20% (2006 - 20%).

NDB Investment Bank Ltd. is liable to taxation at 35% (2006 - 35%).

Ayojana Fund (Pvt) Ltd. is liable to taxation at 20% (2006 - 20%).

NDBS Stock Brokers (Pvt) Ltd. is liable to taxation at 35% (2006 - 35%).

The profits earned by Capital Development and Investment Co. Ltd. is liable to taxation at 35% (2006 - 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 35% (2006 - 35%).

Aviva NDB Finance Lanka (Pvt) Ltd. is liable to income tax at 35% (2006 - 35%). The tax charge for the year consists wholly of dividend tax paid at source. However, no tax provision has been made for the current year due to the tax losses incurred by the Company.

Profits earned through the business of venture capital by NDB Venture Investments (Pvt) Ltd. is taxed at 20% (2006 - 20%).

Maldives Finance Leasing Co. (Pvt) Ltd. is a company based in the Republic of Maldives and is not subject to taxation.

12. DIVIDENDS PROPOSED

A first and final dividend of Rs 6.00 per share has been proposed for the year 2007. However, no provision is made in the accounts in accordance with SLAS - 12.

13. EARNINGS PER SHARE

The basic and diluted earnings per share for 2007 and 2006 have been calculated by dividing the profit after taxation attributable to the shareholders of the parent for each year by the number of ordinary shares in issue on a time proportionate basis as required by the Sri Lanka Accounting Standard No. 34 on Earnings per share. Further, the number of shares have been adjusted retrospectively for the bonus issue in accordance with SLAS - 34.

	NDB GROUP	
	2007	2006
Profit attributed to ordinary shareholders (Rs '000)	1,521,374	2,030,484
Ordinary shares in issue (Number '000)	81,855	81,855
Earnings per ordinary share (Rs)	18.59	24.81

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
14. CASH AND SHORT-TERM FUNDS				
Cash in hand	410,319	271,689	410,344	271,704
Dues from banks and other financial institutions	3,933,148	3,123,077	5,645,708	4,195,450
	4,343,467	3,394,766	6,056,052	4,467,154

15. BALANCES WITH CENTRAL BANK

Balances with Central Bank includes the cash balance that is required as per the provisions of Section 93 of the Monetary Law Act and contains the effects of cheques pending realization. The minimum cash reserve requirement was 10% of the rupee deposit liabilities as at 31 December 2007 and 2006. 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.

16. SINKING FUND - TREASURY BILLS AND BONDS

In terms of the provisions of an agreement entered into between NDB Bank and the Government of Sri Lanka for the latter to guarantee a US\$ 55 mn loan obtained by NDB Bank from the Industrial Bank of Japan, Nippon Life Insurance Company and the Asian Development Bank in 1997, NDB Bank had established a Sinking Fund to provide funds for the repayment of the loan. This sinking fund balance was utilized to pay the US\$ 55 mn loan in August 2007. The remaining balance as at 31 December 2007, represents a fund created to pay a credit line obtained by the former NDB Housing Bank for housing loans. This loan is due to be settled in 2020.

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
17. INVESTMENTS HELD FOR TRADING				
Treasury Bills	7,559,697	2,637,543	7,559,697	2,637,543
Treasury Bonds	1,501,350	2,598,056	1,501,350	2,598,056
	9,061,047	5,235,599	9,061,047	5,235,599

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 8.8 bn (2006 - Rs 6.0 bn).

	BANK				GROUP			
	2007	2007	2006	2006	2007	2007	2006	2006
	Market Value/ Directors' Valuation Rs '000	Market Value/ Directors' Valuation Rs '000	Market Value/ Directors' Valuation Rs '000	Market Value/ Directors' Valuation Rs '000	Market Value/ Directors' Valuation Rs '000	Market Value/ Directors' Valuation Rs '000	Market Value/ Directors' Valuation Rs '000	Market Value/ Directors' Valuation Rs '000
18. INVESTMENTS HELD TO MATURITY								
Treasury Bonds	2,617,949	2,547,133	1,460,643	1,365,198	2,617,949	2,547,133	1,460,643	1,365,198
Treasury Bills	158,119	158,119	—	—	158,119	158,119	—	—
Tradable Corporate Securities	468,817	468,817	1,019,955	1,019,955	559,417	468,817	1,019,955	1,019,955
Investment Securities (Note 18.1)	1,315,922	1,535,137	567,580	852,056	1,507,350	1,726,565	579,004	863,480
	4,560,807	4,709,206	3,048,178	3,237,209	4,842,835	4,900,634	3,059,602	3,248,633

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
18.1 Investment Securities				
Non-quoted shares (Note 18.2)	1,140,922	392,580	1,332,350	404,004
Non-quoted debentures (Note 18.3)	175,000	175,000	175,000	175,000
	1,315,922	567,580	1,507,350	579,004

	2007			2006		
	Number of Shares	Cost Rs '000	Net Realizable Value Rs '000	Number of Shares	Cost Rs '000	Net Realizable Value Rs '000
18.2 Non-Quoted Shares						
A. Ordinary Shares						
Anuradha Ceramics (Pvt) Ltd.	—	—	—	1,399	14	38
Arpitalian Compact Soles (Pvt) Ltd.	—	—	—	2,500,000	25,000	18,550
Beico Link Carbons (Pvt) Ltd.	—	—	—	328,500	2,190	4,399
Coats Thread Lanka (Pvt) Ltd.	—	—	—	374,574	9,785	98,112
Coats Thread Exports (Pvt) Ltd.	—	—	—	13,564	273	72,916
Credit Information Bureau of Sri Lanka	30,395	3,039	37,602	30,395	3,039	171
Ceylinco Developers (Pvt) Ltd.	—	—	—	250,000	2,500	12,090
Fitch Ratings Lanka Ltd.	62,500	625	776	62,500	625	736
Hethersett Hotels Ltd.	1,500,000	15,000	20,505	1,500,000	15,000	20,505
Mahaweli Livestock Enterprises Ltd.	600,000	6,000	21,702	600,000	6,000	21,702
MPS Hotels Ltd.	—	—	—	180,000	900	7,508
Sampath Centre (Pvt) Ltd.	1,000,000	10,000	20,022	1,000,000	10,000	10,625
South Asia Regional Fund	500	41	36,062	500	41	32,407
Suntel Ltd.	11,729,794	117,296	184,953	11,729,794	117,296	157,297
Sub-Total		152,001	321,622		192,663	457,056

Non-quoted ordinary shares which are fully provided for are not included in the above list. The total cost of such investments is Rs 69.72 mn (2006 - Rs 88.06 mn).

	2007			2006		
	Number of Shares	Cost Rs '000	Net Realizable Value Rs '000	Number of Shares	Cost Rs '000	Net Realizable Value Rs '000
B. Redeemable Cumulative Preference Shares						
Aqua Packaging Ltd.	5,000,000	50,000	50,000	—	—	—
Sampath Centre (Pvt) Ltd.	22,000,000	220,000	220,000	22,000,000	220,000	220,000
Dialog Telekom PLC	770,000,000	770,000	770,000	—	—	—
Total		1,192,001	1,361,622	—	412,663	677,056
Less: Provision for losses		(51,079)		—	(20,083)	
Total as at 31 December - NDB Bank		1,140,922			392,580	
Investments in non-quoted shares by subsidiaries net of provision		191,428			11,424	
Total as at 31 December - NDB Group		1,332,350			404,004	

The redemption of the redeemable cumulative preference shares are due in 2008.

The net realizable values stated above represent the Directors' valuation.

The net realizable value of non-quoted shares is the net book value of these shares at 31 December 2007.

	2007			2006		
	Number of Units	Cost Rs '000	Market Value Rs '000	Number of Units	Cost Rs '000	Market Value Rs '000
18.3 Non-Quoted Debentures						
Singer Sri Lanka Ltd. (18.11.2008)	250,000	25,000	25,000	250,000	25,000	25,000
Singer Sri Lanka Ltd. (14.09.2008)	1,500,000	150,000	150,000	1,500,000	150,000	150,000
Total as at 31 December - NDB Bank		175,000	175,000		175,000	175,000
Investments in non-quoted debentures by subsidiaries		—			—	
Total as at 31 December - NDB Group		175,000			175,000	

The redemption dates are shown within brackets.

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
19. DEALING SECURITIES				
Quoted shares (Note 19.1)	295,853	288,854	295,853	288,854
Quoted debentures (Note 19.2)	77,500	107,727	77,500	107,727
	373,353	396,581	373,353	396,581

	2007			2006		
	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000
19.1 Quoted Ordinary Shares						
Banks and Finance						
DFCC Bank Ltd.	299,997	22,140	38,100	199,999	15,141	35,650
		22,140	38,100		15,141	35,650
Diversified Holdings						
Hayleys PLC	60	4	6	60	4	8
John Keells Holdings PLC	67	2	9	59	2	12
		6	15		6	20
Footwear and Textiles						
Hayleys MGT Knitting Mills PLC	6,912,400	5,334	394,007	6,912,400	5,334	368,085
		5,334	394,007		5,334	368,085
Insurance						
Eagle Insurance Co. PLC*	1,500,000	268,373	226,125	1,500,000	268,373	268,373
		268,373	226,125		268,373	268,373
Total as at 31 December - NDB Bank		295,853	658,247		288,854	672,128
Investments in quoted shares by subsidiaries		—			—	
Total as at 31 December - NDB Group		295,853			288,854	

* Investment in Eagle Insurance Company PLC shares was for strategic investment purposes.

	2007			2006		
	Number of Debentures	Cost Rs '000	Market Value Rs '000	Number of Debentures	Cost Rs '000	Market Value Rs '000
19.2 Quoted Debentures						
Commercial Bank of Ceylon PLC (13.05.2008)	50,000	50,000	50,000	50,000	50,000	50,000
Hatton National Bank PLC	—	—	—	60,000	6,000	6,000
Suntel Ltd.	—	—	—	24,227	24,227	24,227
Sampath Bank PLC (08.06.2009)	175,000	17,500	15,750	175,000	17,500	17,281
Seylan Bank PLC	100,000	10,000	10,000	100,000	10,000	10,000
Total as at 31 December - NDB Bank		77,500	75,750		107,727	107,508
Investments in quoted debentures by subsidiaries		—			—	
Total as at 31 December - NDB Group		77,500			107,727	

The redemption dates are shown within brackets.

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
20. BILLS OF EXCHANGE				
Export bills	2,092,439	1,576,942	2,092,439	1,576,942
Import bills	29,028	14,989	29,028	14,989
Net loans and advances	2,121,467	1,591,931	2,121,467	1,591,931

	NDB BANK	
	2007 Rs '000	2006 Rs '000
21. LOANS AND ADVANCES		
(a) <i>NDB Bank</i>		
Corporate - long-term	14,724,425	16,203,729
Corporate - short-term	23,613,887	17,656,638
Refinance loans	2,413,465	2,313,939
Consumer loans	5,712,370	3,928,992
Staff loans	639,623	571,809
	47,103,770	40,675,107
Less: Provision for bad and doubtful loans (Note 21.1)	1,741,896	1,727,145
Net loans and advances	45,361,874	38,947,962

	Specific	General	2007 Total Rs '000	2006 Total Rs '000
	Rs '000	Rs '000		
21.1 Provision for Bad and Doubtful Loans				
At the beginning of the year	1,467,707	259,438	1,727,145	1,957,394
Resulting from the transfer of assets and liabilities of NDB Housing Bank Ltd.	—	—	—	20,119
Amounts recovered/provisions written back	(439,146)	—	(439,146)	(319,603)
Amounts written off	(106,589)	—	(106,589)	(285,540)
Provision made during the year	400,548	159,938	560,486	354,775
At the end of the year	1,322,520	419,376	1,741,896	1,727,145

	2007 Total Rs '000	2006 Total Rs '000
21.2 Provision for Bad and Doubtful Loans		
Provision as per CBSL rules	273,592	303,618
Specific provision against debts judgementally classified as doubtful	1,048,928	1,164,089
General provision (1% of performing loans)	419,376	259,438
	1,741,896	1,727,145

NDB GROUP		
	2007 Rs '000	2006 Rs '000
(b) NDB Group		
Corporate - long-term	14,734,425	16,229,329
Corporate - short-term	23,613,172	17,656,638
Refinance loans	2,413,465	2,313,939
Consumer loans	5,712,370	3,928,992
Staff loans	651,574	581,035
	47,125,006	40,709,933
Less: Provision for bad and doubtful loans (Note 21.3)	1,751,896	1,752,744
Net loans and advances	45,373,110	38,957,189

	Specific Rs '000	General Rs '000	2007 Total Rs '000	2006 Total Rs '000
21.3 Provision for Bad and Doubtful Loans				
At the beginning of the year	1,493,246	259,498	1,752,744	1,998,999
Amounts recovered/provisions written back	(439,146)	—	(439,146)	(319,603)
Amounts written off	(122,128)	(60)	(122,188)	(285,540)
Provision made during the year	400,548	159,938	560,486	358,888
At the end of the year	1,332,520	419,376	1,751,896	1,752,744

	2007 Total Rs '000	2006 Total Rs '000
21.4 Provision for Bad and Doubtful Loans		
Provision as per CBSL rules	273,591	303,618
Specific provision against debts judgementally classified as doubtful	1,058,929	1,189,688
General provision (1% of performing loans)	419,376	259,438
	1,751,896	1,752,744

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
22. LEASE RENTALS RECEIVABLE				
Total rentals receivable	2,573,588	2,057,620	2,573,588	2,057,620
Less: Provision for doubtful recoveries (Note 22.1)	64,187	55,432	64,187	55,432
Interest in suspense (Note 22.3)	11,993	10,942	11,993	10,942
Unearned income	677,437	542,169	677,437	542,169
Net rentals receivable	1,819,971	1,449,077	1,819,971	1,449,077
22.1 Provision for Bad and Doubtful Debts				
At the beginning of the year	55,432	61,069	55,432	61,069
Amounts recovered/provisions written back	(8,745)	(20,144)	(8,745)	(20,144)
Amounts written off	(893)	(7,631)	(893)	(7,631)
Provision made during the year	18,393	22,138	18,393	22,138
At the end of the year	64,187	55,432	64,187	55,432
			2007 Total Rs '000	2006 Total Rs '000
22.2 Provision for Bad and Doubtful Recoveries				
Provision as per CBSL rules			13,975	—
Specific provision against debts judgementally classified as doubtful			32,642	39,712
General provision (1% of performing loans)			17,570	15,720
			64,187	55,432
	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
22.3 Interest in Suspense				
At the beginning of the year	10,942	13,900	10,942	13,900
Amounts written back to profit	(4,438)	(2,170)	(4,438)	(2,170)
Amounts written off	(959)	(5,380)	(959)	(5,380)
Transfer to interest in suspense	6,448	4,592	6,448	4,592
At the end of the year	11,993	10,942	11,993	10,942
	Up to 1 year Rs '000	1 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
22.4 Maturity of Lease Rentals Receivable of NDB Bank				
Total rentals receivable	123,143	2,330,868	119,577	2,573,588
Provision for doubtful recoveries	(30,445)	(31,908)	(1,834)	(64,187)
Interest in suspense	(11,993)	—	—	(11,993)
Unearned income	(1,202)	(618,912)	(57,323)	(677,437)
Net rentals receivable	79,503	1,680,048	60,420	1,819,971

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
23. INTEREST RECEIVABLE				
Interest receivable	1,213,602	1,262,913	1,213,602	1,262,913
Less: Interest in suspense (Note 23.1)	709,557	842,895	709,557	842,895
	504,045	420,018	504,045	420,018
23.1 Interest in Suspense				
At the beginning of the year	842,895	1,035,331	842,895	1,035,331
Amounts written back to profit	(137,609)	(191,964)	(137,609)	(191,964)
Amounts written off	(209,185)	(353,231)	(209,185)	(353,231)
Transfer to interest in suspense	213,456	352,759	213,456	352,759
At the end of the year	709,557	842,895	709,557	842,895

	BANK				GROUP			
	2007 Loan Loss Provision Rs '000	2007 Interest in Suspense Rs '000	2006 Loan Loss Provision Rs '000	2006 Interest in Suspense Rs '000	2007 Loan Loss Provision Rs '000	2007 Interest in Suspense Rs '000	2006 Loan Loss Provision Rs '000	2006 Interest in Suspense Rs '000
24. ANALYSIS OF PROVISION FOR LOAN LOSSES AND INTEREST IN SUSPENSE								
Loans and advances	1,741,896	709,557	1,727,145	842,895	1,751,897	709,557	1,752,744	842,845
Lease rentals receivable	64,187	11,993	55,432	10,942	64,188	11,993	55,432	10,942
	1,806,083	721,550	1,782,577	853,837	1,816,085	721,550	1,808,176	853,787

25. ASSET QUALITY INFORMATION**25.1 Concentration of Credit Risk**

In granting credit facilities NDB 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 NDB 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 NDB 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.

NDB Bank's lending portfolio is diversified covering all sectors of the economy. The total lending exposure of NDB Bank as at the Balance Sheet date, shows the following analysis:

	2007 %	2006 %
Food, beverage and tobacco	7.3	8.4
Agriculture, agro-business and fisheries	10.1	6.0
Textiles and garments	12.9	9.5
Wood and paper products	0.9	0.5
Rubber and leather products	7.9	7.4
Metals, chemicals and engineering	14.4	12.1
Hotels and tourism	0.6	1.0
Utilities	3.3	6.8
Housing Finance	7.0	4.8
Services	25.6	35.8
Transport	3.0	4.3
Other	7.0	3.4
	100.0	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.

25.2 Non-Performing Loans, Advances and Leases

Non-performing loans, advances and leases are those balances where capital or interest is in arrears for three 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 six consecutive months before they can be reclassified. The capital balance outstanding on the non-performing accounts are as follows:

Bank	Loans and Advances Rs '000	Lease Capital Rs '000	2007 Total Rs '000	2006 Total Rs '000
Gross	735,234	86,759	821,993	931,438
Net of tangible securities and Central Bank mandated specific provisions	69,644	6,117	75,761	588,110

		2007	2007		2006
	Percentage Holding	Cost	Directors' Valuation/ Fair Value	Percentage Holding	Cost
		Rs '000	Rs '000		Rs '000
26. INVESTMENTS IN SUBSIDIARY COMPANIES					
Capital Development & Investment Co. PLC	75.60%	1,169,336	3,390,668	75.60%	1,169,336
Development Holdings (Pvt) Ltd. - ordinary shares	58.61%	228,150	718,208	58.61%	228,150
Development Holdings (Pvt) Ltd. - preference shares	—	—	—	100.00%	200,000
NDB Investment Bank Ltd.	80.10%	32,040	83,470	80.10%	32,040
NDBS Stockbrokers (Pvt) Ltd.	100.00%	26,940	137,309	100.00%	26,940
		1,456,466	4,329,655		1,656,466

NDB Bank has a 100% holding in NDB Industrial Estates (Pvt) Ltd., in which Company, Rs 30.00 has been invested as share capital.

The Directors' valuation/fair value of the above investments for 2006 was Rs 3,682 mn.

		2007	2007		2006
	Percentage Holding	Cost	Directors' Valuation	Percentage Holding	Cost
		Rs '000	Rs '000		Rs '000
27. INVESTMENTS IN ASSOCIATE COMPANIES					
<i>(a) NDB Bank</i>					
Ayojana Fund (Pvt) Ltd.	50.00%	100	42,366	50.00%	100
Maldives Finance Leasing Co. (Pvt) Ltd.	35.00%	165,462	259,865	35.00%	165,462
NDB Venture Investments (Pvt) Ltd.	50.00%	35,000	55,188	50.00%	67,500
		200,562	357,419		233,062

	As at 01.01.07	Repayment of Investment	Exchange Gain on Valuation	Profit Net of Dividend Received	As at 31.12.07
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
<i>(b) NDB Group</i>					
Ayojana Fund (Pvt) Ltd.	49,090	—	—	(6,724)	42,366
Maldives Finance Leasing Co. (Pvt) Ltd.	234,661	—	3,608	21,595	259,864
NDB Venture Investments (Pvt) Ltd.	97,274	(32,500)	—	(4,151)	60,623
NDB Finance Lanka (Pvt) Ltd.	803,415	—	—	43,670	847,085
	1,184,440	(32,500)	3,608	54,390	1,209,938

NDB Bank's investment in Development Insurance Brokers (Pvt) Ltd. is Rs 10/-. The Company has not commenced commercial operations.

NDB GROUP		
	2007 Rs '000	2006 Rs '000
(c) Summarized Financial Information of the NDB Group's Investment in its Associates		
Total assets	6,513,900	5,461,006
Total liabilities	5,464,195	4,556,407
Net assets	1,209,938	1,184,440
Revenue	721,796	618,388
Profits	179,061	213,847

The Directors' valuation/fair value of the above investments for 2006 was Rs 376 mn.

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
28. GROUP BALANCES RECEIVABLE				
Maldives Finance Leasing Co. (Pvt) Ltd.	437	1,663	437	1,663
NDB Industrial Estates Ltd.	17,282	34,584	—	—
Development Holdings (Pvt) Ltd.	5	—	—	—
	17,724	36,247	437	1,663
29. OTHER ASSETS				
Sundry receivables	251,974	863,015	400,890	1,011,041
Payments in advance	77,233	61,959	88,834	65,880
Employee Share Ownership Plan (ESOP)	137,495	148,953	137,495	148,953
	466,702	1,073,927	627,219	1,225,874

The ESOP represents the written down value of the NDB shares paid for by NDB 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.

	BALANCE SHEET				INCOME STATEMENT			
	NDB BANK		NDB GROUP		NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
30. DEFERRED TAXATION								
Deferred Tax Liabilities								
Accelerated Depreciation for tax purposes	140,204	111,484	140,204	111,484	28,720	11,321	28,720	11,321
	140,204	111,484	140,204	111,484	28,720	11,321	28,720	11,321
Deferred Tax Assets								
Provision for bad and doubtful debts	161,872	140,077	161,266	140,077	(21,795)	(26,642)	(22,189)	(26,642)
Other liabilities	11,063	14,599	11,063	14,599	3,536	(10,094)	3,536	(10,094)
	172,935	154,676	173,329	154,676	(18,259)	(36,736)	(18,653)	(36,736)
					10,461	(25,415)	10,067	(25,415)
Net deferred tax asset	32,731	43,192	33,125	43,192				

	Land and Buildings Rs '000	Motor Vehicles Rs '000	Furniture and Equipment Rs '000	Total Rs '000
31. PROPERTY, PLANT & EQUIPMENT				
31.1 Bank				
Cost				
<i>Freehold Assets</i>				
As at 1 January 2007	578,154	277,788	608,345	1,464,287
Additions during the year	33,334	29,428	207,252	270,014
Disposals during the year	(2,531)	(16,683)	(7,547)	(26,761)
As at 31 December 2007	608,957	290,533	808,050	1,707,540
Depreciation/Amortization				
<i>Freehold Assets</i>				
As at 1 January 2007	170,523	212,255	409,626	792,404
Charge for the year	36,548	34,040	91,292	161,880
On disposals	(1,160)	(16,234)	(5,173)	(22,567)
As at 31 December 2007	205,911	230,061	495,745	931,717
Written down value as at 31 December 2007	403,046	60,472	312,305	775,823
Written down value as at 31 December 2006	407,631	65,533	198,719	671,883
31.2 NDB Group				
Cost				
<i>Freehold Assets</i>				
As at 1 January 2007	578,154	289,990	714,487	1,582,631
Additions during the year	33,334	38,128	217,583	289,045
Disposals during the year	(2,531)	(21,083)	(12,042)	(35,656)
As at 31 December 2007	608,957	307,035	920,028	1,836,020
Depreciation/Amortization				
<i>Freehold Assets</i>				
As at 1 January 2007	170,523	218,416	502,163	891,102
Charge for the year	36,548	37,247	97,116	170,911
On disposals	(1,160)	(19,634)	(9,611)	(30,405)
As at 31 December 2007	205,911	236,029	589,668	1,031,608
Written down value as at 31 December 2007	403,046	71,006	330,360	804,412
Written down value as at 31 December 2006	407,631	71,574	212,324	691,529

31.3 Assets on Operating Leases

Assets purchased for the purpose of granting operating leases to customers are included above. The details are as follows:

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Cost as at 31 December	–	157,931	–	157,931
Less: Accumulated depreciation as at 31 December	–	(156,678)	–	(156,678)
Written down value as at 31 December	–	1,253	–	1,253

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
32. GOODWILL				
Goodwill arises on consolidation of NDB Bank's subsidiaries				
At the beginning of the year				
Gross amount	–	380,581	–	1,033,866
Provision for goodwill (b)	–	(380,581)	–	–
Accumulated amortization	–	–	–	(161,147)
		–	–	872,719
Movement during the year				
Realized on conversion of an subsidiary to an associate	–	–	–	(802,613)
Realized on transfer of assets and liabilities of a subsidiary to NDB Bank	–	–	–	(70,106)
At the end of the year				
Gross amount	–	380,581	–	161,147
Provision for goodwill (b)	–	(380,581)	–	–
Accumulated amortization	–	–	–	(161,147)
Net balance	–	–	–	–

- (a) A full provision has been made against equity for the goodwill arising on 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.
- (b) Goodwill was amortized to the Income Statement up to 31 May 2005. With effect from 1 June 2005, the remaining goodwill amount is tested for impairment annually, and any resulting amount of impairment loss will be recognized in the Income Statement accordingly.

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
33. DEPOSITS				
Savings deposits	2,943,290	2,506,488	2,943,290	2,506,488
Time deposits	16,968,408	13,842,766	16,968,408	13,842,766
Certificate of deposits	46,065	62,565	46,065	62,565
Demand deposits	5,317,398	4,381,230	5,317,398	4,381,230
Margins	348,509	368,055	348,509	368,055
	25,623,670	21,161,104	25,623,670	21,161,104
			2007 Rs '000	2006 Rs '000
34. BORROWINGS				
(a) <i>NDB Bank</i>				
Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines			12,828,300	13,165,715
Other Government of Sri Lanka loans			1,681,319	1,664,570
Foreign borrowings			2,558,250	4,136,226
Local borrowings			8,926,557	5,971,693
Listed Debentures			250,000	–
Amounts due to foreign banks			158,033	–
			26,402,459	24,938,204
	Up to 1 year Rs '000	1 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
(a.1) <i>Maturity of Borrowings</i>				
Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines	1,791,442	6,517,210	4,519,647	12,828,299
Other Government of Sri Lanka loans	302,595	899,553	479,170	1,681,318
Foreign borrowings	–	369,900	2,188,350	2,558,250
Other local borrowings	5,553,592	3,281,000	500,000	9,334,592
	7,647,629	11,067,663	7,687,167	26,402,459
			2007 Rs '000	2006 Rs '000
(b) <i>NDB Group</i>				
Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines			12,828,300	13,165,715
Other Government of Sri Lanka loans			1,681,319	1,664,570
Foreign borrowings			2,558,250	4,136,226
Local borrowings			7,827,647	4,214,723
Listed Debentures			250,000	–
Amounts due to foreign banks			158,033	–
			25,303,549	23,181,234
Dues to banks			715	275
			25,304,264	23,181,509

	Up to 1 year Rs '000	1 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
(b.1) Maturity of Borrowings				
Government of Sri Lanka loans under				
ADB, IDA, KfW and JBIC credit lines	1,791,442	6,517,210	4,519,647	12,828,299
Other Government of Sri Lanka loans	302,595	899,553	479,170	1,681,318
Foreign borrowings	–	369,900	2,188,350	2,558,250
Other local borrowings	4,454,682	3,281,000	500,000	8,235,682
Dues to banks	715	–	–	715
	6,549,434	11,067,663	7,687,167	25,304,264

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
35. OTHER LIABILITIES				
Interest payable	1,199,551	802,283	1,199,551	802,283
Accrued expenses	219,601	171,500	299,649	196,259
Other liabilities	1,081,991	895,961	1,081,279	985,129
	2,501,143	1,869,744	2,580,479	1,983,671

	NDB BANK & GROUP		
	Number	2007 Rs '000	2006 Rs '000
36. STATED CAPITAL			
Issued and fully paid			
Balance as at 1 January	81,855,385	1,032,931	760,080
Issue of bonus shares (Note a)	–	–	272,851
Balance as at 31 December	81,855,385	1,032,931	1,032,931

- (a) At an Extraordinary General Meeting of NDB Bank held on 26 April 2006, the shareholders approved a bonus issue of one ordinary share for every two shares held in the issued share capital of NDB Bank.
- (b) The authorized capital and par value concept in relation to share capital were abolished by the Companies Act No. 7 of 2007. Therefore the comparative figures have been restated accordingly. The total amount received by the Company or due and payable to the Company in respect of issue and calls of shares are referred to as stated capital.

37. STATUTORY RESERVE FUND

The Statutory Reserve Fund was created out of revenue reserves to comply with a direction issued to Licensed Specialized 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	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Balance as at 1 January	818,554	545,703	818,554	545,703
Transfers in respect of new shares	–	272,851	–	272,851
Balance as at 31 December	818,554	818,554	818,554	818,554

	General Reserves Rs '000	Retained Profit Rs '000	Total Rs '000
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38. REVENUE RESERVES**(a) NDB Bank**

As at 1 January 2007	5,805,707	897,535	6,703,242
Profit after taxation	–	1,103,792	1,103,792
Dividends paid	–	(409,277)	(409,277)
Exchange equalization reserve	–	2,508	2,508
As at 31 December 2007	5,805,707	1,594,558	7,400,265

	General Reserves Rs '000	Retained Profit Rs '000	Total Rs '000
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(b) NDB Group

As at 1 January 2007	5,805,707	2,909,447	8,715,154
Exchange gain from valuation of foreign associate	–	3,608	3,608
Profit after taxation	–	1,521,374	1,521,374
Dividends paid	–	(409,277)	(409,277)
Exchange equalization reserve	–	2,508	2,508
As at 31 December 2007	5,805,707	4,027,660	9,833,367

39. MATURITY ANALYSIS - NDB Bank

An analysis of the assets and liabilities based on the remaining period at the Balance Sheet date to the respective contractual maturity dates, is as follows:

	Upto 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						
<i>Cash and Short-Term Funds</i>						
Cash in hand and with banks	410,319	—	—	—	—	410,319
	410,319	—	—	—	—	410,319
<i>Investments Held for Trading</i>						
Treasury Bills	7,559,697	—	—	—	—	7,559,697
Treasury Bonds	1,501,350	—	—	—	—	1,501,350
	9,061,047	—	—	—	—	9,061,047
<i>Bills of Exchange</i>	1,904,758	216,709	—	—	—	2,121,467
<i>Commercial paper</i>	413,636	—	—	—	—	413,636
<i>Investments Held for Maturity</i>						
Sinking Fund investments	—	—	—	—	10,000	10,000
Other securities	47,982	265,223	155,612	—	—	468,817
Treasury Bills	158,119	—	—	—	—	158,119
Treasury Bonds	—	470,504	2,034,348	36,289	76,808	2,617,949
	206,101	735,727	2,189,960	36,289	86,808	3,254,885
<i>Loans and Advances</i>						
Direct loans (Gross)	9,881,797	7,610,848	5,088,770	6,723,745	5,963,434	35,268,594
Refinance loans (Gross)	218,075	435,680	914,330	457,400	387,980	2,413,465
Staff loans	15,111	50,383	125,240	132,506	316,383	639,623
Overdrafts	8,846,271	—	—	—	—	8,846,271
Provisions for bad and doubtful debts	(1,806,082)	—	—	—	—	(1,806,082)
	17,155,172	8,096,911	6,128,340	7,313,651	6,667,797	45,361,871
Interest receivable	504,045	—	—	—	—	504,045
Lease rentals receivable	48,700	30,804	467,742	1,212,305	60,420	1,819,971
	29,703,778	9,080,151	8,786,042	8,562,245	6,815,025	62,947,241
Non-Interest Earning Assets						
Balances with Central Bank	1,692,227	—	—	—	—	1,692,227
Dues from banks	3,933,148	—	—	—	—	3,933,148
	5,625,375	—	—	—	—	5,625,375

	Upto 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
Investments in shares and debentures						
Quoted shares	27,481	–	268,373	–	–	295,854
Quoted debentures	27,500	–	50,000	–	–	77,500
Non-quoted shares/debentures	–	175,000	–	–	1,140,923	1,315,923
	54,981	175,000	318,373	–	1,140,923	1,689,277
Investments in Subsidiaries						
& Associates	–	–	–	–	1,657,028	1,657,028
Group balances/other assets	484,426	–	–	–	–	484,426
Deferred tax	–	–	–	–	32,731	32,731
Property, plant & equipment	–	–	–	–	775,823	775,823
As at 31 December 2007	35,868,560	9,255,151	9,104,415	8,562,245	10,421,530	73,211,902
As at 31 December 2006	33,848,159	8,993,816	10,896,146	4,715,030	4,799,386	63,252,537
Interest Bearing Liabilities						
Borrowings						
Government of Sri Lanka loans under						
ADB, IDA, KfW and JBIC credit lines	529,739	1,261,704	3,322,804	3,194,407	4,519,647	12,828,301
Other Government of Sri Lanka loans	33,871	268,724	466,175	433,379	479,170	1,681,319
Foreign borrowings	–	–	–	369,900	2,188,350	2,558,250
Debentures	–	–	250,000	–	–	250,000
Local borrowings	4,460,729	1,092,860	3,031,000	–	500,000	9,084,589
	5,024,339	2,623,288	7,069,979	3,997,686	7,687,167	26,402,459
Securities purchased under repurchase agreements	7,455,465	1,386,566	1,084	–	–	8,843,115
Deposits	19,574,466	5,267,581	342,802	438,820	–	25,623,669
	32,054,270	9,227,435	7,413,865	4,436,506	7,687,167	60,869,243
Non-Interest Bearing Liabilities						
NDB Group balances/sundry creditors	2,501,143	–	–	–	–	2,501,143
Taxation	419,679	–	–	–	–	419,679
Dividends payable	170,086	–	–	–	–	170,086
	3,090,908	–	–	–	–	3,090,908
As at 31 December 2007	35,145,178	9,277,435	7,413,865	4,436,506	7,687,167	63,960,152
As at 31 December 2006	24,363,309	12,016,647	5,960,295	3,715,063	8,642,496	54,697,810

40. COMMITMENTS AND CONTINGENCIES

40.1 Business Commitments

In the normal course of business, NDB Bank makes various commitments and incurs certain contingent liabilities some of which give rise to legal recourse to its customers. No material losses are anticipated as a result of these transactions.

These commitments are quantified below:

	NDB BANK		NDB GROUP	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Undisbursed financing commitments	2,082,170	2,352,045	2,082,170	2,352,045
Guarantees	7,195,013	5,993,511	7,195,013	5,993,511
Commitments on account of letters of credit	3,795,508	4,137,415	3,795,508	4,137,415
Forward exchange contracts (Net)	784,565	109,199	784,565	109,199
Acceptances	2,096,598	1,703,606	2,096,598	1,703,606
Travellers cheques	69,594	72,771	69,594	72,771
	16,023,448	14,368,547	16,023,448	14,368,547

40.2 Litigation against NDB Bank

In the normal course of business, NDB Bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their loan agreements. As of the Balance Sheet date twenty-seven (27) client companies have filed cases against NDB Bank preventing the sale of assets mortgaged to NDB Bank. NDB Bank's legal counsel is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or the future operations of NDB Bank.

41. SEGMENTAL ANALYSIS - NDB GROUP

	Banking Income		Equity Income		Property Investment		Insurance		Others		Consolidated	
	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000	2007 Rs '000	2006 Rs '000
Revenue												
External income	9,054,746	6,524,820	384,638	1,158,374	146,491	171,797	—	76,570	487,095	270,952	10,072,970	8,202,513
Inter-segment income	—	—	—	—	17,779	11,825	—	—	134,473	139,038	152,252	150,863
Total income	9,054,746	6,524,820	384,638	1,158,374	164,270	183,622	—	76,570	621,568	409,990	10,225,222	8,353,376
Segment expenses	(7,050,202)	(4,790,533)	(1,585)	25,361	(45,942)	(41,710)	—	(60,227)	(96,417)	(122,503)	(7,194,146)	(4,989,612)
Inter-segment expenses	—	—	—	—	(17,779)	(11,825)	—	—	(134,473)	(139,038)	(152,252)	(150,863)
Segment results	2,004,543	1,734,287	383,053	1,183,735	100,549	130,087	—	16,343	390,678	148,449	2,878,824	3,212,901
Share of associate companies' profit before taxation	37,376	24,243	4,459	14,424	—	—	137,557	175,786	—	—	179,392	214,453
Taxation											(476,220)	(754,066)
VAT on financial services											(945,212)	(466,383)
Profit after taxation											1,636,784	2,206,905
Other information												
Segment assets	70,145,209	60,611,906	1,420,904	867,859	1,228,267	1,237,112	—	—	2,138,555	1,081,614	74,932,933	63,798,491
Investment in associates	259,865	234,661	102,988	140,929	—	—	847,086	803,416	—	—	1,209,939	1,179,006
Consolidated total assets											76,142,874	64,977,497
Segment liabilities	62,861,957	52,957,355	—	—	42,131	28,881	—	—	139,122	110,390	63,043,210	53,096,626
Consolidated total liabilities											63,043,210	53,096,626
Segmental Cash Flow												
Cash Flow from Operating Activities	1,728,417	(24,893)	224,334	522,853	98,535	80,604	—	—	404,205	142,849	2,455,491	721,413
Cash Flow from Investing Activities	(4,978,719)	519,883	105,582	936,255	(117)	(189)	—	—	44,316	(486,636)	(4,828,938)	969,313
Cash Flow from Financing Activities	4,100,086	2,005,242	—	—	(1,250)	(3,000)	—	—	(19,965)	(544,696)	4,078,871	1,457,546

42. COMPARATIVE INFORMATION

The presentation and classification of comparative information in these Financial Statements are amended to ensure comparability with the current year. The significant amendments are as follows:

	NDB Bank 2006 Rs.'000	NDB Group 2006 Rs.'000
As reported previously		
Balance Sheet		
Investments Held for Trading - (a)	5,632,180	5,632,180
Share Capital - (b)	818,554	818,554
Share Premium Reserve - (b)	214,377	214,377
	1,032,931	1,032,931
Commitment and Contingencies - (c)	14,052,983	14,052,983
Income Statement		
Other Income - (d)	1,191,487	2,125,725
Income from Operating Leases - (d)	7,498	7,498
Depreciation - Operating Leases - (d)	(6,312)	(6,312)
	1,192,673	2,126,911
Current Presentation		
Balance Sheet		
Investments Held for Trading - (a)	5,235,599	5,235,599
Dealing Securities - (a)	396,581	396,581
	5,632,180	5,632,180
Stated Capital - (b)	1,032,931	1,032,931
Commitment and Contingencies - (c)	14,368,547	14,368,547
Income Statement		
Other Income - (d)	1,192,673	2,126,911

- (a) Dealing Securities had been classified under Investments held for trading in 2006. These have now been separately classified for better presentation.
- (b) The total amounts received by the bank or due and payable to the bank in respect of the issues and calls of the shares have been reflected as Stated Capital under the provision of Companies Act No. 7 of 2007, and the comparatives have been reclassified accordingly.
- (c) Facilities that are committed but undrawn by the customers amounting to Rs 316 mn have now been included under Commitments and Contingencies.
- (d) Income from Operating Leases and the related Depreciation thereon had been presented separately in 2006. However, the net Income from Operating Leases have now been included under Other Income as the amount involved is not material.

43. POST BALANCE SHEET EVENTS

No material events have taken place after the Balance Sheet date which require an adjustment to or a disclosure in the Financial Statements

44. INVESTMENT PROPERTIES

	NDB GROUP	
	2007	2006
	Rs '000	Rs '000
Balance as at 1 January	1,200,000	–
Additions/Transfers	–	581,365
Fair value adjustment transferred to equity	–	580,635
Fair value adjustment during the year	–	38,000
	1,200,000	1,200,000

Development Holdings (Private) Ltd., a subsidiary of NDB Bank, whose principal activity is renting out premises for commercial use, adopted the Sri Lanka Accounting Standard No. 40 - Investment Property.

Investment Properties are stated at fair value. The fair value has been determined based on valuations performed by a professional valuer as at 1 January and 31 December 2006 on the basis of an open market value, supported by market evidence and has been re-evaluated by the professional valuer as at 31 December 2007.

45. RELATED PARTY TRANSACTIONS**Bank and Group****45.1 Transactions with key management and their close family members**

Key management includes the members of the Board of Directors of NDB Bank and the key employees who are in the capacity of decision making (as per the definition of the bank key management includes Vice Presidents and above). NDB Bank carries out transactions with the key management and their related concerns in the ordinary course of its business on an arm's 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. Members of the Board of Directors of Subsidiaries have also been considered in the Group disclosures.

45.1.1 Key management of NDB Bank and their close family members had the following accounts/deposits/facilities with NDB Bank as at 31 December.

	2007	2006
	Rs '000	Rs '000
Deposits	10,942	10,647
Loans and Advances	16,725	19,612

45.1.2 Compensation for Key Management

Compensation paid to key management personnel by the Bank are as follows:

Short-term employee benefits paid by NDB Bank for key management amounted to Rs 109.9 mn during the year 2007 (Rs 93.9 mn in 2006).

BANK**45.2 Transactions with Related Companies**

	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	
	2007 Rs'000	2006 Rs'000	2007 Rs'000	2006 Rs'000	2007 Rs'000	2006 Rs'000	2007 Rs'000	2006 Rs'000
Balance sheet								
Assets								
Loans and advances	–	–	–	–	55,918	–	55,459	–
Group company receivables	17,282	34,584	28,164	38,266	437	1,663	1,050	13,486
Other receivables	10,621	8,182	8,059	10,289	761	–	64	–
Liabilities								
Deposits	1,205,592	1,635,185	937,754	1,529,599	–	–	–	–
Equity								
Investment in ordinary shares	1,456,466	1,456,466	1,456,466	1,910,216	200,562	233,062	200,562	199,312
Investment in preference shares	–	200,000	87,500	200,000	–	–	–	–
Dividends received	58,411	397,505	58,411	397,505	30,780	9,222	30,780	9,222

	During the year		During the year	
	2007 Rs'000	2006 Rs'000	2007 Rs'000	2006 Rs'000
Income Statement				
Interest received/(paid)	(134,517)	(135,327)	2,477	–
Rent received	3,883	3,883	–	–
Rent paid	9,528	9,439	–	–
Management fees received	9,984	6,600	–	–
Bancassurance income	–	–	10,532	–

Subsidiary Company details

Name of subsidiary Company	Country of Incorporation	% Equity Interest	
		2007	2006
Capital Development and Investment Company PLC	Sri Lanka	75.60	75.60
Development Holdings (Private) Ltd.	Sri Lanka	58.61	58.61
NDB Investment Bank	Sri Lanka	80.10	80.10
NDBS Stock Brokers (Pvt) Ltd.	Sri Lanka	100.00	100.00
NDB Industrial Estates (Private) Ltd.	Sri Lanka	100.00	100.00

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. The minimum risk sensitive capital required to be maintained by NDB Bank is prescribed by Central Bank of Sri Lanka and is consistent with the international standards of Basel Committee on Banking Capital Regulations and Supervisory Practices. The aim is to ensure minimum capital, commensurate with risks assumed by NDB Bank, is maintained as a buffer to absorb credit losses.

Basis of Computation

The risks weights assigned to the on and off balance sheet assets and composition of capital are prescribed by Central Bank of Sri Lanka.

	NDB BANK	
Capital Base as at 31 December	2007	2006
	Rs '000	Rs '000
Tier 1: Core Capital		
Paid-up ordinary shares	818,554	818,554
Share premium	214,377	214,377
Statutory reserve fund	818,554	818,554
Published retained profits	1,594,558	897,536
General & other reserves	5,805,707	5,805,707
Minority interests	-	-
	9,251,750	8,554,728
Deductions		
Goodwill	-	-
Total Tier 1 Capital	9,251,750	8,554,728
Tier 2: Supplementary Capital		
General provision	436,947	275,159
Approved subordinated term debt	2,558,250	924,750
Total Tier 2 Capital	2,995,197	1,199,909
Total Tier 1 & Tier 2 Capital	12,246,947	9,754,637
Deductions		
Equity investments in unconsolidated banking & financial subsidiaries	1,228,316	1,228,316
Investments in capital of other banks and financial associates	300,203	331,703
Capital Base	10,718,428	8,194,618

Risk Weighted Assets and Off-Balance Sheet Exposure

	Principal Amount of On-Balance Sheet Items		NDB Bank Risk Weights %	Risk Weights Asset Amount	
	2007 Rs '000	2006 Rs '000		2007 Rs '000	2006 Rs '000
Cash, treasury bills & other securities with Central Bank	4,888,614	11,416,479	—	—	—
Loans secured against Sri Lanka Government guarantee	127,139	308,692	—	—	—
Loans secured by Provident Fund	639,623	150,327	—	—	—
Loans against cash deposits and gold	5,818,922	952,627	—	—	—
Loans guaranteed by OECD Central Governments and Central Banks	166,666	—	10	16,667	—
Loans guaranteed by OECD Incorporated Banks	378,333	303	20	75,667	61
Dues from banks abroad	2,361,036	1,244,282	20	472,207	248,856
Placements with and loans to other banks and financial institutions	3,917,612	4,234,898	20	783,522	846,980
Loans secured by Primary Mortgage	2,679,141	2,519,652	55	1,473,528	1,385,809
Other loans and advances	38,088,980	36,486,566	110	41,897,878	40,135,223
Other investments (excluding items deducted from total capital)	2,694,898	2,620,784	100	2,694,898	2,620,784
Property and equipment	791,085	671,883	100	791,085	671,883
Other receivables	331,669	1,004,414	100	331,669	1,004,414
Total Assets	62,883,718	61,610,907		48,537,121	46,914,009

Off-Balance Sheet Exposure

	Credit Conversion Factor, %	Principal Amount of On-Balance Sheet Items		Risk Weights %	Risk Weights Asset Amount	
		2007 Rs '000	2006 Rs '000		2007 Rs '000	2006 Rs '000
General guarantees of indebtedness	100	3,487,363	2,662,053	100	3,487,363	2,662,053
Performance Bonds, Bid Bonds	50	1,009,718	423,881	100	504,859	211,941
Trade related acceptances	20	2,096,597	1,703,606	100	419,319	340,721
Shipping guarantees	20	2,697,931	2,907,577	100	539,586	581,515
Documentary letters of credit	20	3,795,509	4,137,415	100	759,102	827,483
Other commitments with an original maturity up to 1 year	20	69,594	72,771	100	13,919	14,554
Undrawn term loans	—	1,682,721	1,583,881	100	—	—
Others - Refinance loans	—	—	452,600	100	—	—
FX contracts - Banks	2	784,565	109,199	50	15,691	1,199
Undrawn Overdrafts	—	399,450	315,564	—	—	—
Total off balance sheet exposure		16,023,448	14,368,547		5,739,840	4,639,466
Market risk					809,861	1,059,998
Total Risk Weighted Assets and Off-Balance Sheet Exposure					55,086,821	52,613,473
Risk Weighted Capital Ratios						
Tier 1 (Required statutory minimum ratio is 5%)					16.79	16.26
Tier 1 & Tier 2 (Required statutory minimum ratio is 10%)					19.46	15.58

Capital Base as at 31 December	NDB GROUP	
	2007 Rs '000	2006 Rs '000
Tier 1: Core Capital		
Paid-up ordinary shares	818,554	818,554
Share premium	214,377	214,377
Statutory reserve fund	818,554	818,554
Published retained profits	4,027,660	2,909,448
General & other reserves	5,805,707	5,805,707
Minority interests	1,414,812	1,314,232
	13,099,664	11,880,872
Deductions		
Goodwill	—	—
Total Tier 1 Capital	13,099,664	11,880,872
Tier 2: Supplementary Capital		
General provision	436,947	275,159
Approved subordinated term debt	2,558,250	924,750
Total Tier 2 Capital	2,995,197	1,199,909
Total Tier 1 & Tier 2 Capital	16,094,861	13,080,781
Deductions		
Investments in capital of other banks and financial associates	1,309,579	1,277,647
Capital Base	14,785,282	11,803,134

Risk Weighted Assets and Off-Balance Sheet Exposure

	Principal Amount of On-Balance Sheet Items		NDB Group Risk Weights %	Risk Weights Asset Amount	
	2007 Rs '000	2006 Rs '000		2007 Rs '000	2006 Rs '000
Cash, treasury bills & other securities with Central Bank	6,505,650	11,416,494	—	—	—
Loans secured against Sri Lanka Government guarantee	127,139	308,692	—	—	—
Loans secured by Provident Fund	639,623	150,327	—	—	—
Loans against cash deposits and gold	5,818,922	952,627	—	—	—
Loans guaranteed by OECD Central Governments and Central Banks	166,666	—	10	16,667	—
Loans guaranteed by OECD Incorporated Banks	378,333	303	20	75,667	61
Dues from banks abroad	2,361,036	1,244,282	20	472,207	248,856
Placements with and loans to other banks and financial institutions	4,013,160	5,307,271	20	802,632	1,061,454
Loans secured by Primary Mortgage	2,679,141	2,519,652	55	1,473,528	1,385,809
Other loans and advances	38,100,216	36,495,792	110	41,910,238	40,145,371
Other investments (excluding items deducted from total capital)	2,748,774	2,204,060	100	2,748,774	2,204,060
Property and equipment	819,673	691,529	100	819,673	691,529
Other receivables	1,674,898	2,327,211	100	1,674,898	2,327,211
Total Assets	66,033,231	63,618,240		49,994,283	48,064,351

Off-Balance Sheet Exposure

	Credit Conversion Factor, %	Principal Amount of Off-Balance Sheet Items		Risk Weights %	Risk Weights Asset Amount	
		2007 Rs '000	2006 Rs '000		2007 Rs '000	2006 Rs '000
General guarantees of indebtedness	100	3,487,363	2,662,053	100	3,487,363	2,662,053
Performance bonds, bid bonds	50	1,009,718	423,881	100	504,859	211,941
Trade related acceptances	20	2,096,597	1,703,606	100	419,319	340,721
Shipping guarantees	20	2,697,931	2,907,577	100	539,586	581,515
Documentary letter of credit	20	3,795,509	4,137,415	100	759,102	827,483
Other commitments with an original maturity up to 1 year	20	69,594	72,771	100	13,919	14,554
Undrawn term loans	–	1,682,721	1,583,881	100	–	–
Others - Refinance loans	–	–	452,600	100	–	–
FX contracts - Banks	2	784,565	109,199	50	15,691	1,199
Undrawn Overdrafts	–	399,450	315,564	–	–	–
Total Off-Balance Sheet Exposure		16,023,448	14,368,547		5,739,840	4,639,466
Market risk					809,862	1,059,998
Total Risk Weighted Assets and Off-Balance Sheet Exposure					56,543,983	53,763,815
Risk Weighted Capital Ratios						
Tier 1 (Required statutory minimum ratio is 5%)					23.17	22.10
Tier 1 & Tier 2 (Required statutory minimum ratio is 10%)					26.15	21.95

Statement of Value Added

NDB Bank

	2007 Rs '000	%	2006 Rs '000	%
VALUE ADDED				
Gross Income	9,528,574		6,888,379	
Cost of Borrowings and Services	(6,077,175)		(3,883,533)	
Provision for Losses	(69,372)		(3,559)	
	3,382,027		3,001,287	
DISTRIBUTION OF VALUE ADDED				
To Employees				
Remuneration and Benefits	881,621	26	722,400	24
To Government				
Income Tax	1,238,477	37	1,081,403	36
To Providers of Capital				
Dividend to Shareholders	409,277	12	327,422	11
Retained in the Business				
Retained Profit	694,515	20	677,575	23
Depreciation	158,137	5	192,487	6
	852,652	25	870,062	29
	3,382,027	100	3,001,287	100



	2007	2006
■ To Employees	26%	24%
■ To Government	37%	36%
■ To Providers of Capital	12%	11%
■ To Expansion/Growth	25%	29%

Investor Information

1. Stock Exchange

The Consolidated Income Statement for the year ended 31 December 2007 and the Balance Sheet of NDB Bank and the NDB Group as at that date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

2. Registered Ordinary Shareholders as at 31 December 2007

Range No. of Shares	No.	Residents Shares	%	No.	Non-Residents Shares	%	No.	Total Shares	%
Individuals									
0 - 500	4,662	860,358	1.05	39	9,141	0.01	4,701	869,499	1.06
501 - 1,000	960	699,870	0.86	9	6,336	0.01	969	706,206	0.86
1,001 - 5,000	946	1,942,217	2.37	18	38,655	0.05	964	1,980,872	2.42
5,001 - 10,000	95	669,261	0.82	5	37,100	0.05	100	706,361	0.86
10,001 - 20,000	51	678,682	0.83	2	24,971	0.03	53	703,653	0.86
20,001 - 30,000	8	202,520	0.25	—	—	—	8	202,520	0.24
30,001 - 40,000	7	231,232	0.28	1	30,802	0.04	8	262,034	0.32
40,001 - 50,000	4	173,573	0.21	—	—	—	4	173,573	0.21
50,001 - 100,000	2	127,350	0.16	—	—	—	2	127,350	0.16
100,001 - 1,000,000	1	125,287	0.15	—	—	—	1	125,287	0.15
1,000,001 & Over	—	—	—	4	12,028,750	14.70	4	12,028,750	14.70
SUB-TOTAL	6,736	5,710,350	6.98	78	12,175,755	14.89	6,814	17,886,105	21.84

Corporate

0 - 500	161	25,580	0.03	4	1,063	—	165	26,643	0.03
501 - 1,000	48	36,958	0.05	1	723	—	49	37,681	0.05
1,001 - 5,000	79	190,629	0.23	1	3,000	—	80	193,629	0.24
5,001 - 10,000	14	110,744	0.14	1	6,300	0.01	15	117,044	0.14
10,001 - 20,000	23	329,234	0.40	—	—	—	23	329,234	0.40
20,001 - 30,000	5	124,100	0.15	2	50,300	0.06	7	174,400	0.21
30,001 - 40,000	4	135,594	0.17	1	36,100	0.04	5	171,694	0.21
40,001 - 50,000	2	84,900	0.10	1	47,800	0.06	3	132,700	0.16
50,001 - 100,000	6	407,450	0.50	3	224,503	0.27	9	631,953	0.77
100,001 - 1,000,000	4	1,824,250	2.23	9	3,786,610	4.63	13	5,610,860	6.85
1,000,001 & Over	5	20,514,107	25.06	3	18,033,285	22.03	8	38,547,392	47.09
SUB-TOTAL	351	23,783,546	29.06	26	22,189,684	27.10	377	45,973,230	56.15
TOTAL	7,087	29,493,896	36.04	104	34,365,439	41.99	7,191	63,859,335	78.0

Notes on unregistered/unallotted shares

Out of the 81,855,385 shares issued, 18,032,150 representing 22% are either not registered or not allotted, the details of which are given below:

- 7,854,250 bonus shares which were issued in 2006, remain unallotted.
- 28,500 shares of the capital are not registered in the books of NDB Bank and as such the holder is not a member of NDB Bank.
- 10,149,400 shares are pending registration.

3. Share Valuation

The market value of the National Development Bank PLC ordinary shares on 31 December 2007 was Rs 170.00 per share. The highest and lowest values recorded during this 12 month period were Rs 225.00 on 25 January 2007 and Rs 150.00 on 29 May 2007 respectively.

4. Directors' Interest in Shares of NDB Bank as at 31 December 2007

Name	No. of Shares	
	As at 31.12.2007	As at 31.12.2006
S K Wickremesinghe	450	450
H D S Amarasuriya	9,075	9,075
A R Gunasekara	883	883
G C B Wijeyesinghe	—	—
N S Welikala	—	—
S R de Silva	—	—
Lal de Mel	15,541	15,541
S T Nagendra	4,575	4,575
R B Thambiayah	—	—
R W A Vokes	—	—
Dr S Yaddehige	4,174,500	73,000

5. Twenty Largest Shareholders as at 31 December 2007

Name	No. of Shares	%
Bank of Ceylon No. 1 Account	8,185,538	10.00
Galleon Diversified Fund Ltd.	8,185,500	10.00
EC Global Ltd.	8,098,000	9.89
Dr. S Yaddehige	4,174,500	5.10
Employees' Provident Fund	3,772,900	4.61
Sri Lanka Insurance Corporation Ltd. - General Fund	3,626,644	4.43
HSBC Intl Nominees Ltd. - SSBT - Aberdeen Global Asia Pacific Fund	3,025,725	3.70
Citibank London S/A RBS AS DP FOR FS Asia Pacific	3,020,110	3.69
Seylan Bank Ltd./Asia Fort Asset Management Private Ltd.	2,866,600	3.50
HSBC Intl Nominees Ltd. - BPSS - LDN Aberdeen Asia Pacific Fund	2,147,400	2.62
NDB - ESOP	2,062,425	2.52
Pershing LLC S/A Averbach Grauson & Co	1,374,700	1.68
Employees Trust Fund Board	770,300	0.94
HSBC Intl Nominees Ltd./SSBT Lloyds TSB Group Pension TR (No. 1) Ltd.	717,900	0.88
Waldock Mackenzie Ltd./Investor Access Equities Pvt Ltd.	673,000	0.82
HSBC Intl Nominees Ltd. - BPSS LDN - Aberdeen Investment Fund ICVC - Emerging Market Fund	637,500	0.78
HSBC Intl Nominees Ltd./HSBC Bank PLC/CMG First State Global Umbrella Fund	612,800	0.75
HSBC Intl Nominees Ltd. - SSBTL - Aberdeen New Dawn Investment Trust	450,000	0.55
HSBC Intl Nominees Ltd./SSBT Lloyds TSB Group Pension TR (No. 2) Ltd.	384,300	0.47
HSBC Intl Nominees Ltd. - SNFE - Aberdeen Pacific Equity Fund	356,100	0.44
Total	55,141,942	67.37

Percentage of Shares held by the Public - 70.31%

6. Debenture Information

Date of issuing - 24 December 2007

Issue Price - Rs 1,000/- per Debenture

Total No of Debentures Issued - 250,000

Highest Price per debenture for the period }
 Lowest Price per debenture for the period } Not traded

Interest rate of comparable Government Security - 17.60%

Debt Equity ratio (times) 6.58

Interest Cover (times) 1.58

Quick Asset ratio (times) 1.03

Interest Yield as at date of last trade }
 Yield to Maturity and trade done } Not applicable

Ten Year Summary

NDB Group Income Statement

Rs mn	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Income										
Interest Income	3,560.6	4,183.3	4,896.4	5,810.3	5,041.3	4,666.5	4,397.9	5,035.3	6,075.6	8,598.6
Interest Expenses	2,492.0	3,219.3	3,662.2	4,369.7	3,380.6	2,465.4	2,151.8	2,342.0	3,223.0	5,076.2
Net Interest Income	1,068.6	964.0	1,234.2	1,440.6	1,660.7	2,201.1	2,246.1	2,693.3	2,852.6	3,522.4
Other Income	492.4	417.0	615.8	715.2	930.0	1,404.5	1,471.0	2,080.7	2,133.2	1,474.3
Net Income	1,561.0	1,380.9	1,850.0	2,155.8	2,590.7	3,605.6	3,717.1	4,774.0	4,985.8	4,996.7
Less: Operating Expenses										
Personnel Costs	199.9	247.8	289.0	382.1	412.7	588.0	916.3	1,131.5	830.0	949.3
Provision for Bad & Doubtful Debts and Fall in Value of Investments	159.9	19.0	547.9	526.8	476.8	787.0	278.6	153.5	13.4	65.1
Other Administrative & General Expenses	187.1	243.0	300.1	534.4	520.9	817.6	1,266.9	1,473.3	929.5	1,103.5
Total Operating Expenses	546.9	509.8	1,137.1	1,443.3	1,410.5	2,192.5	2,461.8	2,758.3	1,772.9	2,117.9
Less: Exceptional Items	—	—	—	—	—	—	—	171.8	—	—
Operating Profit	1,014.1	871.1	712.9	712.4	1,180.2	1,413.1	1,255.4	1,843.9	3,212.9	2,878.8
Share of Associate Companies Profit	32.3	106.5	124.8	72.4	113.7	113.2	31.3	21.7	214.5	179.4
Profit Before Taxation	1,046.4	977.6	837.7	784.8	1,293.9	1,526.3	1,286.6	1,865.6	3,427.4	3,058.2
Taxation	(232.5)	(232.9)	(281.9)	(226.2)	(251.0)	(305.2)	(481.1)	(593.0)	(1,220.4)	(1,421.4)
Profit After Taxation	813.9	744.7	555.8	558.6	1,042.9	1,221.1	805.5	1,272.6	2,206.9	1,636.8
Minority Interests	(11.3)	(31.4)	(6.7)	40.1	(112.3)	(98.0)	(102.4)	(236.6)	(176.4)	(115.4)
Profit Attributable to Group	802.6	713.3	549.1	598.7	930.6	1,123.1	703.0	1,036.0	2,030.5	1,521.4
Earnings per Share	14.9	13.3	10.2	11.1	17.3	20.9	13.1	22.4	24.8	18.6
Dividends (Rs mn) - Proposed/Paid	232.9	241.9	241.9	456.9	295.6	309.1	309.1	322.5	327.4	409.3
Dividends per Share - Proposed/Paid	6.5	4.5	4.5	8.5	5.5	5.8	5.8	6.0	4.0	5.0
Dividend Cover	3.4	2.9	2.3	1.3	3.1	3.6	2.3	3.2	6.2	3.7

NDB Group Balance Sheet

Rs mn	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
ASSETS										
Cash & Short-Term Funds	1,379.4	745.6	1,305.8	3,037.7	5,937.7	12,440.7	14,101.5	2,098.8	4,467.2	6,056.1
Balances with Central Bank	–	–	–	–	–	–	–	818.7	1,575.3	1,692.2
Investments	3,940.7	4,154.1	4,093.3	5,016.0	3,828.6	5,726.0	5,633.6	19,078.0	12,170.2	14,700.9
Bills of Exchange	–	–	–	–	–	–	943.4	970.8	1,591.9	2,121.5
Loans & Advances	23,749.4	28,692.0	29,514.7	27,035.4	24,364.4	20,783.2	31,833.4	35,274.5	39,377.2	45,877.2
Lease Rentals & Receivables	1,050.6	1,711.3	4,253.4	3,504.3	2,884.7	573.3	609.4	731.3	1,449.1	1,820.0
Investments in Associate Companies	677.3	977.3	410.2	454.0	798.6	413.1	225.1	241.2	1,179.0	1,209.9
Property & Equipment	207.3	315.0	1,646.1	1,747.1	1,667.8	1,166.5	1,658.0	1,162.0	691.5	804.4
Investment Property	–	–	–	–	–	–	–	1,040.9	1,200.0	1,200.0
Other Assets	782.3	982.8	965.6	1,815.7	889.0	1,865.4	2,445.6	3,006.3	1,276.2	660.8
Intangible Assets	36.4	27.9	(53.4)	(43.6)	2.9	904.9	1,535.1	872.7	–	–
Total Assets	31,823.4	37,606.0	42,135.8	42,566.5	40,373.7	43,873.1	58,985.0	65,295.2	64,977.5	76,142.9
LIABILITIES										
Borrowings	24,616.9	29,813.3	33,129.7	32,506.0	30,250.4	25,847.6	26,881.2	27,798.9	29,203.5	34,147.4
Deposits with Customers	–	–	–	–	–	–	11,085.1	13,953.7	21,161.1	25,623.7
Non-life Insurance Reserves	–	–	–	–	–	420.8	485.8	858.8	–	–
Long-term Insurance Fund	–	–	–	–	–	6,612.8	7,985.4	9,238.2	–	–
Taxation	336.6	333.7	480.2	401.0	550.1	350.8	300.1	220.4	640.4	521.6
Other Liabilities	1,171.9	1,258.1	1,807.1	2,259.6	1,397.2	1,997.5	2,770.1	2,846.9	1,983.7	2,580.5
Dividend Payable	234.2	243.5	244.1	245.8	300.2	4.6	7.5	8.0	107.9	170.1
Total Liabilities	26,359.6	31,648.6	35,661.1	35,412.4	32,498.0	35,234.1	49,515.2	54,924.9	53,096.6	63,043.20
SHAREHOLDERS' FUNDS										
Stated Capital	450.0	450.0	450.0	629.2	629.2	629.2	629.2	760.1	1,032.9	1,032.9
Statutory Reserves	358.3	358.3	537.5	537.5	537.5	537.5	546.5	545.7	818.6	818.6
Revaluation Reserve	–	–	–	131.7	131.7	–	86.2	–	–	–
Revenue Reserves	4,352.5	4,824.0	4,654.3	4,839.7	5,524.8	6,730.5	7,114.7	7,849.7	8,715.2	9,833.4
Total Shareholders' Funds	5,160.8	5,632.3	5,821.0	6,138.1	6,823.2	7,897.1	8,376.5	9,155.4	10,566.6	11,684.9
Minority Interests	303.0	325.1	653.7	1,016.0	1,052.6	741.9	1,093.2	1,214.9	1,314.2	1,414.8
Total Funds Employed	5,463.8	5,957.4	6,474.7	7,154.0	7,875.8	8,639.0	9,469.8	10,370.3	11,880.9	13,099.7
Total Liabilities & Funds Employed	31,823.4	37,606.0	42,135.8	42,566.5	40,373.7	43,873.1	58,985.0	65,295.2	64,977.5	76,142.9
RETURN ON ASSETS										
Return on Average Assets (%)	2.8	2.2	1.4	1.3	2.5	3.2	1.6	2.0	3.1	2.2
Return on Equity (%)	16.5	13.3	9.7	10.0	14.4	15.3	8.6	14.3	21.0	13.7
Return on Equity (%) (excluding exceptional items)	16.5	13.3	9.7	10.0	14.4	15.3	8.6	14.3	10.5	13.7
Book Value per Share (Rs.)	96.02	103.34	108.30	114.20	126.94	146.92	155.84	159.60	129.09	142.75
Book Value per Share (Rs.) (excluding exceptional items)	96.02	103.34	108.30	114.20	126.94	146.92	155.84	159.60	116.68	142.75

Notice of Meeting

Notice is hereby given that the Third (3rd) Annual General Meeting of the National Development Bank PLC (NDB Bank) will be held at Hotel Hilton Colombo of No. 2, Chittampalam A Gardiner Mawatha, Colombo 2 in the 'Grand Ballroom' at 11.00 a.m. on Tuesday, Twenty Ninth (29th) April, Two Thousand and Eight (2008) and the business to be brought before the meeting will be:

1. To lay before the shareholders' for consideration, the Annual Report for the year ended 31 December 2007.
2. To re-elect Mr Punsisi Manik Nagahawatte as a Director in terms of Article 94 of the Articles of Association of NDB Bank.
3. To re-elect in terms of Article 89 of the Articles of Association Mr Lal De Mel, who retires in terms of Article 87 read with Article 88 of the Articles of Association of NDB Bank.
4. To re-elect in terms of Article 89 of the Articles of Association Mr Sriyan Ranjit de Silva, who retires in terms of Article 87 read with Article 88 of the Articles of Association of NDB Bank.
5. To re-elect in terms of Article 89 of the Articles of Association Mr Ravindra Balakantha Thambiayah, who retires in terms of Article 87 read with Article 88 of the Articles of Association of NDB Bank.
6. To appoint Mr Gamini Christopher Bernard Wijeyesinghe of No. 81, Gregory's Road, Colombo 7 who is 74 years and one month old as at 1 March 2008 who retires pursuant to Section 210 of the Companies Act No. 7 of 2007, as a director. A special notice has been received by NDB Bank from Ms Padmini Gunasekara of No. 62, Vijithapura, Thalawathugoda Road, Pitakotte, a shareholder of the NDB Bank intimating her intention to move the following resolution together with an intimation from Mr. Gamini Christopher Bernard Wijeyesinghe in writing of his willingness to be elected.

"IT IS HEREBY RESOLVED THAT, Mr Gamini Christopher Bernard Wijeyesinghe who is 74 years and one month old as at 1st March 2008 be re-appointed as a director of National Development Bank PLC in terms of Section 211 of the said Companies Act and it is further resolved that the age limit referred to in Section 210 of the said Companies Act shall not apply to Mr Gamini Christopher Bernard Wijeyesinghe".
7. To appoint Mr Sri Theagarajah Nagendra of No. 103/2, Rosmead Place, Colombo 7 who is 70 years and five months old as at 1 March 2008 who retires pursuant to Section 210 of the Companies Act No. 7 of 2007, as a director. A special notice has been received by NDB Bank from Mr Ajith Wickremaratne of No. 594/23, Jayasinghe Mawatha, Kotte Road, Pitakotte, a shareholder of the NDB Bank intimating his intention to move the following resolution together with an intimation from Mr Sri Theagarajah Nagendra in writing of his willingness to be elected.

"IT IS HEREBY RESOLVED THAT, Mr Sri Theagarajah Nagendra who is 70 years and five months old as at 1 March 2008 be re-appointed as a director of National Development Bank PLC in terms of Section 211 of the said Companies Act and it is further resolved that the age limit referred to in Section 210 of the said Companies Act shall not apply to Mr Sri Theagarajah Nagendra."

8. To declare a Dividend as recommended by the Directors.
9. To re-appoint Messrs Ernst & Young Chartered Accountants, as Auditors of the NDB Bank as set out in Section 154 of the Companies Act No. 7 of 2007 and to fix the fees and expenses of such Auditors.
10. To authorize the Directors to approve matters relating to payment of remuneration and providing other benefits to the Directors in terms of Section 216 of the Companies Act No. 7 of 2007 and to determine the aggregate remuneration payable to such Directors.
11. To authorize the Board of Directors to determine donations for the financial year 2007 under the Companies Donations Act No. 26 of 1951.
12. To consider and if thought fit amend the Articles of Association of NDB Bank by passing a special resolution as given below to expressly authorize NDB Bank to effect insurance for or indemnify a Director or employee of NDB Bank or a related company as defined in the Companies Act No. 7 of 2007.

Special Resolution

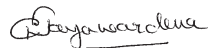
"Article 155 of the Articles of Association of NDB Bank be amended by deleting the existing Article and replacing same with the following:

155 Insurance and indemnity

- (1) The Company may indemnify a Director or employee of the Company or a related company in the circumstances specified in the Statutes.
- (2) The Company may effect insurance for a Director or employee of the Company or a related company in the circumstances specified in the Statutes, with the prior approval of the Board.

For the purposes of this Article, the term 'Director' includes a former Director and the term 'employee' includes a former employee."

By Order of the Board



Mrs C L Jayawardena

Board Secretary

14 March 2008, Colombo

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy holder to attend and vote in his/her stead.
2. A proxy holder need not be a shareholder of NDB Bank.
3. Form of Proxy is sent herewith. The completed Form of Proxy must be deposited at the Head Office of NDB Bank, at No. 40, Navam Mawatha, Colombo 2 not later than 48 hours prior to the time appointed for the holding of the meeting in accordance with Article 70 of the Articles of Association of NDB Bank.
4. Shareholders/Proxy holders attending the meeting are requested to bring their National Identity Cards.

Form of Proxy



I/We
(NIC/s) of
..... being a member/members of
National Development Bank PLC (the 'NDB Bank') hereby appoint

1. Holder of
NIC No. or failing him/her

2. Mr P M Nagahawatte (Chairman of NDB Bank) of Colombo or failing him any one of the Directors of NDB Bank, as my/our proxy to represent me/us and to vote for me/us and on my/our behalf at the Third Annual General Meeting of NDB Bank to be held on 29 April 2008 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

As witness I/We have set my/our hand/s hereunto this day of
Two Thousand and Eight (2008).

.....
Signature of the Member/Members

.....
Common Seal (If applicable)

Instructions for Completion of the Form of Proxy

1. In order to appoint a proxy holder, this form duly completed together with any Power of Attorney under which it is signed, must be deposited at the Registered Office of the NDB Bank, at No. 40, Navam Mawatha, Colombo 2, not later than forty-eight (48) hours prior to the time appointed for the holding of the meeting.
2. The proxyholder appointed need not to be a shareholder of NDB Bank.
3. In the case of a corporate member, the proxy must be executed under its common seal (if applicable) or by its authorized Attorney.
4. The first joint holder shall have the power to sign the proxy without the concurrence of the other joint holder/s.
5. The full name and the registered address of the member appointing the proxy should be legibly entered in the Form of Proxy.

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. 7 of 2007 on 4 July 2007).

Registration No.

PQ 27

Legal Form

Incorporated in Sri Lanka under the Companies Act No. 7 of 2007 and also regulated under the Banking Act No. 33 of 1988 as amended from time to time.

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 NDB Bank was transferred to private ownership. In 1997 NDB Bank was privatised 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 NDB 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 1 August 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 NDB 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 NDB Bank was further increased by another 27,285,128 shares. The present stated capital of NDB Bank is Rs 1,032,931,000/- and the number of shares issued are 81,855,385. The

shares of NDB Bank are continuously quoted on the Colombo Stock Exchange.

Pursuant to the provisions in the Companies Act No. 7 of 2007 NDB Bank was re-registered and is associated with PQ 27 as the new registration number.

Head Office/Registered Office

40, Navam Mawatha, Colombo 2
Tel: 2437701, 2437350, 2323966
Fax: 2341044, 2440262
Telex: 21399 NDB CE

Board of Directors

S K Wickremesinghe (Chairman)
(retired w.e.f. 1 January 2008)
P M Nagahawatte - (Chairman)
(appointed w.e.f. 1 January 2008)
H D S Amarasuriya
G C B Wijeyesinghe
Lal de Mel
S R de Silva
A R Gunasekara
S T Nagendra
R B Thambiayah
R W A Vokes
N S Welikala (Chief Executive Officer)
Dr S Yaddheghe
(Appointed w.e.f. 14 December 2007)

Risk & Credit Committee

Lal de Mel (Chairman)
S R de Silva
H D S Amarasuriya
R B Thambiayah
S T Nagendra

Audit Committee

G C B Wijeyesinghe (Chairman)
Lal de Mel
A R Gunasekara
R Vokes
S T Nagendra

Strategic Issues Committee

S K Wickremesinghe (Chairman)
G C B Wijeyesinghe
A R Gunasekara
S T Nagendra
R Vokes

Remuneration &

Human Resources Committee

H D S Amarasuriya (Chairman)
S R de Silva
G C B Wijeyesinghe
R Vokes
R B Thambiayah

Nomination Committee

S K Wickremesinghe (Chairman)
H D S Amarasuriya
Lal de Mel
A R Gunasekara
S R de Silva

Corporate Governance &

Legal Affairs Committee

Lal de Mel (Chairman)
R Vokes
S R de Silva
A R Gunasekara

Subsidiary Companies as at 31.12.2007

Capital Development & Investment Co. PLC
Development Holdings (Pvt) Ltd.
NDB Industrial Estates (Pvt) Ltd.
NDBS Stock Brokers (Pvt) Ltd.
NDB Investment Bank Ltd.

Associate Companies as at 31.12.2007

Ayojana Fund (Pvt) Ltd.
Maldives Finance Leasing Co. (Pvt) Ltd.
NDB Venture Investments (Pvt) Ltd.
Aviva NDB Finance Lanka (Pvt) Ltd.

Stock Exchange Listing

The shares of NDB Bank are listed with the Colombo Stock Exchange

Company Secretary

C L Jayawardena - Attorney-at-Law

Auditors

Ernst & Young
201, De Saram Place, Colombo 10

Principal Correspondent Banks

ABN Amro
Citibank
Deutsche Bank Trust Company
Hypovereins Bank Group
Standard Chartered Bank
Hongkong & Shanghai Banking Corporation PLC

Management Team

Director/Chief Executive

N S Welikala

Deputy Chief Executive (CEO Designate)

E Wickramaratne

Vice-President - Emerging Corporates and Specialized Commercial Markets

R Aboobucker

Vice-President - Emerging Corporates and CSR

R Bibile (Retired w.e.f. 31 December 2007)

Vice-President - Risk Management, Credit Administration & Special Projects

N I R de Mel

Vice-President - Information Technology

S Dissanayake

Vice-President - Group Audit & Compliance

S N Jayasinghe

Vice-President - Legal and Company Secretary

C L Jayawardena

Vice-President - Commercial Banking

B Perera

Vice-President - Operations

K Weerasuriya

Vice-President - Retail Banking and Marketing

I A Wickramasinghe

Vice-President - Corporate Banking

A Wickremaratne

Assistant Vice-President - Human Resources

I Navaratnebandara

Assistant Vice-President - Finance and Planning

D Senathirajah

Assistant Vice-President - Treasury

N Mahawatte



Customer Service Hotline +94 11 2448888

www.ndbbank.com