



A vision to become
a world-class Sri Lankan Bank

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.

Registered Name: National Development Bank Limited

Trade Name:  **NDB bank**

Contents

2	Financial Highlights
3	Chairman's Message
8	Chief Executive's Review
14	Social Responsibility Report
15	Corporate Social Responsibility
24	Human Resources
28	Management Discussion & Analysis
28	Operations Review
40	Financial Review
46	Board of Directors
48	Senior Management
50	Risk Management
54	Corporate Governance
58	NDB Group Companies

Financial Reports

62	Report of the Directors
65	Statement of Directors' Responsibilities
66	Audit Committee Report
67	Report of the Auditors
68	Income Statement
69	Balance Sheet
70	Cash Flow Statement
73	Statement of Changes in Equity
74	Significant Accounting Policies
81	Notes to the Financial Statements
113	Statement of Value Added
114	Investor Information
116	Ten Year Summary
118	Notice of Meeting
Enclosed	Form of Proxy

Financial Highlights

	BANK			GROUP		
	2005	2004	Per cent Change	2005	2004	Per cent Change
(Rs mn)						
Net Interest Income	1,595	1,177	36	2,693	2,246	20
Net Other Income	814	676	20	2,061	1,442	43
Net Income	2,409	1,853	30	4,754	3,688	29
Profit Before Tax	1,243	921	35	2,037	1,287	58
Profit After Tax	806	679	19	1,453	805	80
Profit Attributable to Equity Shareholders	806	679	19	1,216	703	73
Shareholders' Funds	7,840	7,755	1	8,725	8,377	4
Total Assets	50,955	32,399	57	64,719	58,985	10
Total Lending Portfolio	36,386	24,435	49	37,745	34,335	10
Total Portfolio	44,063	29,076	52	55,635	50,657	10
Gross Dividend Paid during the year	322	309	4	322	309	4

(Per cent)

Return on Average Equity	10.33	8.98	1.4	14.23	8.64	6
Return on Average Assets	1.93	2.02	(0.1)	1.97	1.57	0.4
Capital Adequacy Tier 1	18.87	28.44	(10)	18.87	17.11	2
Tier 1 & 2	13.97	13.63	130.3	18.53	16.91	2

(Rs per Share of Rs 10)

Earnings	14.90	12.64	18	22.49	13.08	71.9
Book Value	143.66	144.29	(0.4)	159.87	155.84	2.6
Dividends	6.00	5.75	4.4	6.00	5.75	4.4

(Times)

Debt/Equity	5.25	3.04	72.70	4.72	4.53	4.2
Net Income/Overheads	2.42	3.16	(23.4)	1.84	1.73	6.4
Interest Cover	1.86	1.71	8.8	2.15	2.02	6.4
Debt Service Cover	4.17	2.96	40.9	4.02	2.77	45.1



Chairman's Message

I am pleased to present to you the Annual Report and Audited Accounts of the Bank and the Group for the year 2005. The highlight of the Bank's activities during the year was the successful completion of the merger of the National Development Bank of Sri Lanka (NDB) and NDB Bank Ltd., in August 2005, to which reference will be made later in this review.

The most significant political event of the year was the election of the United People's Freedom Alliance (UPFA) candidate, Prime Minister Mahinda Rajapakse, as the fifth President of the Democratic Socialist Republic of Sri Lanka on 17 November 2005. He was elected on a promise to build a new Sri Lanka and to launch a fresh initiative to usher in a lasting peace through a political solution to the country's national problem.

In spite of rising oil prices and the distress caused by the tsunami, all indications are that the Sri Lankan economy in 2005 grew at around 5.8 per cent outpacing its performance

in 2004. All major sectors showed progress, with industry and services leading the way. Agriculture recovered with favourable weather contributing to good harvests. The tsunami which resulted in a huge loss of life and great damage to property and infrastructure, had an adverse impact on the housing and fisheries sectors. There is an urgency to complete the recovery in 2006.

Foremost among the challenges that lie ahead is peace in the country and a higher rate of equitable economic growth. The peace initiatives appear to have made some welcome progress. Growth objectives, however, involve trade-offs that are not easy to reconcile. Heavy subsidies on fuel, power and fertilizers, the pricing of utilities below costs and the performance of some state-owned enterprises, put increasing burdens on the government budget and allow less discretion in the financing of the budget gap. In these circumstances it is difficult to find resources for investment in infrastructure, which are necessary and desirable.

Recent developments have shown that productivity gains and a boost in output can be expected from the port, telecommunication, financial and construction sectors. The ability to commit financial resources for investment in these sectors on a sustainable basis is not easy. It is a challenging enough task to keep the government budget within manageable limits. However, there are areas which can be tapped to achieve economic benefits extending beyond government budgets. They are mainly the sale of idle and unproductive government assets and the inflow of technology through foreign investment. The country can in this way acquire funds, skills and networks, which are key stepping stones in the development process.

Turning to our own activities, I am pleased to report that the planned merger of NDB with NDB Bank Ltd. was successfully completed on 1 August 2005, after the two institutions had obtained several statutory, regulatory and shareholder approvals and endorsements. Development banks in the Asian region have been moving over from traditional project lending into universal banking. These changes have been prompted not only to take advantage of the synergies that are available in the banking and financial sectors but also to raise standards and to ready themselves to compete in the expanding markets in the region and globally. In Sri Lanka, NDB has been the first to move along this path.

The NDB Group has completed a very good year with the Group's profit before tax increasing by 58 per cent from Rs 1,287 mn in 2004 to Rs 2,037 mn in 2005. This was mainly due to the strong performance shown by all the NDB Group companies. The after-tax Group profit for 2005 was Rs 1,453 mn compared to Rs 805 mn in 2004, an increase of 80 per cent. The Bank's own profits for the year were Rs 1,243 mn before tax and Rs 806 mn after tax. The rate of tax on the Bank's own profits in the year under review was 52 per cent. With the increases imposed in the 2006 budget on corporate tax from 30 per cent to 35 per cent and the special VAT on banking profits from 15 per cent to 20 per cent, the overall rate of tax on the Bank's profits will rise to over 60 per cent. This is too high. The banking sector in Sri Lanka, taken as a whole, is troubled with a large pool of non-performing assets and their balance sheets need to be strengthened. Capital has to be found to meet the minimum regulatory requirements, for expenditure on information technology, for ensuring adequate returns to shareholders and other stakeholders and to provide a better service to customers. Among other challenges, Sri Lankan banks must be competitive with regional and foreign banks. I would, therefore, urge the authorities to take another look at the tax policy applicable to the banking sector.

I wish to record a significant event which took place on 1 February 2006, after the conclusion of the Bank's financial year. This was the sale by Capital Development & Investment Company Ltd. (CDIC), of 58.44 per cent of its shares in NDB Finance Lanka (Pvt) Ltd., which in turn, held 87.27 per cent of the shares of Eagle Insurance Company Ltd., to Aviva International Holdings Ltd., the oldest and the sixth largest insurance company in the world. This sale led to Aviva effectively acquiring a 51 per cent shareholding in Eagle. The consideration paid by Aviva was Rs 2.7 bn which resulted in a capital gain of Rs 1.6 bn to CDIC, in which NDB has a 75.6 per cent shareholding.

The major changes that have taken place in our structure and operations during the past year could not have been achieved without the assistance of the Central Bank and the Ministry of Finance. I express my sincere thanks to the officials of these institutions for their advice and support.

During 2005 we bade farewell to Dr A G Karunasena, Assistant Governor of the Central Bank, who submitted his resignation from the Board of Directors when we commenced operations as a commercial bank. Mrs. S Cooray, the Government's representative on our Board, also resigned from the Board towards the end of last year. I would like to express our grateful appreciation to them for the invaluable contributions they made to the progress of the Bank. I extend a warm welcome to Mr S T Nagendra and Mr R B Thambiayah who have joined the Board of Directors.

In conclusion, I wish to convey my sincere appreciation to my colleagues on the Board for their valued advice and unstinted support. I also wish to express my grateful thanks to the staff at all levels, whose hard work helped us to achieve these excellent results.



S K Wickremesinghe

10 March 2006

Evolving through the years

Milestones

- 1979** State-owned National Development Bank of Sri Lanka (NDB) established, funded by the Government of Sri Lanka and multilateral agencies
- 1979** World Bank appoints NDB apex refinancier for its SMI credit lines
- 1989** NDB moves to its own building at Navam Mawatha, Colombo
- 1992** NDBS Stockbrokers and NDB Venture Investments set up
- 1993** Privatization: 67 percent of NDB equity now in private hands and listed on the Colombo Stock Exchange
- 1996** First branch opens in Negombo
- 1997** Full privatization
- 1997** NDB Investment Bank established
- 1997** Eagle Insurance acquired
- 1999** NDB partners with Zurich Insurance and Eagle Insurance
- 1999** NDB Housing Bank set up
- 2001** NDB Bank Ltd. launched and the business of ABN Amro Bank NV taken over by NDB Bank Ltd.
- 2005** NDB converts from an incorporated body to a Public Company under the Companies Act
- 2005** NDB Bank Ltd. merges with NDB to create a new, expanded National Development Bank Ltd. (NDB Bank)
- 2006** NDB Bank partners with Aviva Insurance on Eagle Insurance





Chief Executive's Review

2005 heralded a period of great change both for the banking industry in Sri Lanka, and for the NDB Group.

The Banking industry in Sri Lanka faces many opportunities as well as challenges in the coming years.

There are two opportunities that I would highlight in particular. Firstly, Sri Lanka is immensely fortunate to be located in a region which is experiencing both unprecedented economic growth, and the steady demolition of barriers to regional trade and investment. For Sri Lankan banks, this presents a real chance to compete in the huge markets at our doorstep, outside the narrow confines of Sri Lanka, but if, and only if, we can raise our standards to be competitive regionally and globally. This is the major challenge which local banks face.

Secondly, within our own much smaller market, banking penetration, as measured by the ratio of Broad Money (M2) to GDP, is surprisingly low by regional standards, despite our relatively higher per capita income. This under-banked sector which is largely represented by those at the bottom of the economic pyramid living outside the Western Province, is the next, perhaps the final, frontier for banks in Sri Lanka. However,

to access this sector profitably, both banks as well as policy makers need to work together to rethink radically, the way that banking business is conducted. The present banking model will not meet changing future needs.

There are three specific drivers of structural change in the industry.

Firstly, capital. Capital requirements are increasing rapidly e.g. the minimum regulatory capital level is to be increased five-fold shortly to Rs 2.5 bn. Basel II compliance in 2007 or 2008 will put additional pressure on banks to raise new equity in order to expand in Sri Lanka, as will tighter provisioning rules and accounting standards. New equity capital will only be forthcoming however, if the return on shareholders' funds meets shareholder expectations. Capital raising and equity returns are two sides of the same coin.

Secondly, competition. The emerging competition from global banks will force domestic banks to reduce margins and costs, and increase productivity. Barriers to entry are being removed under WTO and regional trade pacts such as CEPA. IT driven global and regional banks with economies of scale supporting back offices in Chennai, and with low-cost front offices in

Sri Lanka, are the new competition. Local banks will need to build scale and reduce costs, if they are to stay competitive.

Banks need to face the new realities of increased capital and regional competition. The present banking industry paradigm of high costs and high margins are at risk of being swept away by the winds of the globalized economy. They need to operate with lower margins, but higher returns, and to world-class standards, if they are to take on world-class competition at home or abroad.

Thirdly, ownership and governance. Banks are different from any other commercial organisation in at least one crucial respect. i.e. they are mainly funded not by shareholders, but by thousands of individual depositors, who have neither the access to information, nor the power nor the voice, to protect their own interests. Banks and regulators, therefore, have an overriding, fiduciary responsibility to ensure that depositors' rights are looked after, above all else.

The regulatory choice of the ownership model of banks i.e. whether ownership should be concentrated or diversified, is a critical decision in terms of depositor protection. If share ownership of banks is concentrated in the hands of a few shareholders, resulting in Board control, a potential conflict could arise between their own interests and those of the depositors, for whom they act as trustee. Strong and well enforced governance rules need to be in place to avoid the problem of conflicts of interest. However, especially after the experience of the East Asian banking crisis of 1997, regulators in most countries including Sri Lanka, have addressed the issue by choosing the concepts of a diversified ownership model, backed by strong codes of governance and ethics for Directors and Management. It is how this policy decision is implemented in

practice which will determine, to a large extent, the future shape and direction of the banking industry in this country. We are at the cross roads.

NDB Group

NDB's aspiration is based on a recognition of these changing realities, and is encompassed simply in its vision statement to become a world-class Sri Lankan Bank.

Ambition must be supported by a strategic framework, and a commitment not merely to change, but to transformation. It will take time, resources and dedicated hard work to convert vision to reality. There will be difficult trade offs to be made between short term costs and long term gains. The path forward may not be short or easy. However, standing still is not an option, as the environment changes around us, and the old assumptions and certainties rapidly disappear. The rewards of success for all our numerous stakeholders as we achieve world-class standards and take on world-class competition, will be great.

NDB and NDB Bank Ltd. legally merged their operations on 1 August 2005. This was the culmination of an extremely complex exercise, involving regulatory and shareholder approvals, as well as the challenging task of combining the two organizations, their people, operations and systems. I am pleased to report that this was successfully accomplished.

NDB Group's legal franchise is now at long last on par with every other bank. We can now build on our strengths. These include strong capitalization, which is an immense competitive advantage as we seek to expand, an asset portfolio of high quality, modern IT systems, a growing distribution system and product offering, and a high quality professional workforce. This is indeed a formidable foundation for growth.

It is worth emphasizing that one of the principal reasons for NDB Bank to adopt a wider business strategy to include commercial banking, is related to liquidity. Significant repayments of principal on long term lines of credit, which funded project lending in the past, are now falling due. While NDB Bank has built up sufficient liquidity from internally generated sources to service these repayments, it is using its newly acquired commercial banking capabilities to build a sustainable funds base, from deposits and market sources, in order to fund its future business needs.

The Group is now implementing a sustainable business strategy for the medium term, based on vigorous expansion in the following sectors:

In the Corporate Sector, we will supplement our project loan product with the full range of commercial banking offerings to a wider customer segment. Secondly, we will recognize the special needs of Small and Medium enterprises, the beating heart of the economy. Thirdly, the growing affluence in the country has given rise to attractive opportunities in consumer finance. Deposit mobilization and provision of housing, vehicle and personal finance among others, will form a core element of our strategy. Its implementation will transform the way we do business, as well as our image and brand. Fourthly, we intend to build on the lead position that we have established in Sri Lanka's growing capital markets, and provide for our customers a choice of debt and equity products. Fifthly, we believe that the insurance market is an area of strong growth in this country. However, since this is not an area of core competence for the Bank, we have brought to our very profitable insurance subsidiary Eagle Insurance Co. Ltd., much needed international expertise, as well as synergies with the

Bank, through a partnership with the global insurance giant Aviva, in February 2006. NDB Bank will maintain a large minority shareholding in Eagle Insurance.

The challenge now for the Group is not just of vigorous growth in selected business sectors, but to work the synergies between them in order to maximize revenues on the same fixed cost base.

In order to achieve these objectives, we need to build a distribution base together with a consumer sales and service culture. We also need to construct an enterprise-wide risk management process which will encompass new business risks, and integrate it with our existing processes. The consumer brand must be built. Our IT systems must enable the achievement of our changing ambitions. Management information system must provide the data we need to manage business units and people. Operations need to be centralized and streamlined to maximize efficiencies. We need to invest in the people on whom we will depend to achieve our goal.

Our direction is clear, and we are confident of achieving success over our planned time horizon. We will then be uniquely positioned to play the lead role in the financial sector in this country for the benefit to all our stakeholders.

Operations and Financials

2005 was a very successful year for the Bank, both in terms of making the structural changes which are needed to achieve our goals and achieving a significant increase in profitability. The financials for the year and operations are reviewed in detail elsewhere in this Report. After the merger, the combined bank accelerated the pace of its business operations, especially in relation to the expansion of its distribution network, consumer finance products and branding. A comprehensive strategic

study is underway in the SME sector, which is regarded as a key growth area for the Bank. Organizational and leadership changes have occurred. Risk management, back office and IT processes and strategies are being reviewed in order to raise them to global standards. Many new people were hired to support our business expansion.

Despite this intense change, management activity, which will continue through 2006 and beyond, the financial performance of the NDB Group improved strongly. Thus, profit attributable to shareholders increased by 73 per cent to Rs 1,216 mn, compared with the previous year. It should be noted however, that the Bank will need to make substantial investments in business expansion if it is to achieve its over-arching long-term strategic vision. Such investment will need to be continued for the next few years, with substantial gains resulting only thereafter.

These results reflect the strength of the diversification of the businesses of the NDB Group, resulting in revenues from the mature project lending sector being supplemented by vigorous growth in commercial banking, capital markets and insurance areas.

For the Bank, the loan book grew satisfactorily, as did net interest income and non-interest earnings. Meanwhile, the quality of earnings therefrom also improved. Thus, non-performing assets (NPAs) declined from Rs 4 bn at 31 December 2004, to Rs 2.6 bn a year later. Gross NPAs as a percentage of total loans improved from 9.9 per cent to 4.2 per cent during this period, while NPAs net of provisions improved from 3.19 per cent to 0.73 per cent.

Overheads, which had been kept relatively flat for four years, grew by 67 per cent over the previous year, largely reflecting

investment in business expansion. If NDB Bank is to achieve its over-arching long-term strategic vision, such investment will have to continue over the next few years, with sustainable gains resulting only thereafter.

The performance of Eagle Insurance Co. Ltd., was noteworthy, with its own profit increasing by 103 per cent over the previous year from Rs 254 mn to Rs 515 mn. NDB Investment Bank Ltd. has established a pre-eminent position in the debt and equity markets, which was reflected in its financial results. NDBS Stockbrokers (Pvt) Ltd., and NDB Housing Bank Ltd., also performed strongly.

None of this would have been possible, without the commitment, hard work and understanding of our employees, as we manage transformational change and operational growth simultaneously. I am very confident that their dedicated support which is the foundation of all our plans, will be forthcoming as we face the challenges of the future.

I would also like to commend, in particular, the team of employees who gave of their time and effort to make possible the relief provided to the fisher folk, who were victims of the tsunami. NDB Bank takes great pride in this project.

I take this opportunity to thank the Chairman and Board for their support and guidance, as we take the Group forward in a particularly complex and challenging period of its history. We rely on their continuing support.



N S Welikala

10 March 2006

small &

Expertise gained
from long experience
in the SME sector

Medium

With over 25 years of experience in this sector, acting both as an SME direct lender and a re-financier for small and medium-sized enterprise borrowers utilizing international and Sri Lankan development credit lines, NDB Bank continued to focus on development even as it grows as a commercial and corporate bank.

As a direct lender, NDB Bank supported 844 SME projects in 2005 with Rs 2,425 mn in credit approvals. It also refinanced 1,342 projects in 2005, helping create 4,042 new employment opportunities.

Social Responsibility Report

Making our mark in the community





Corporate Social Responsibility

As reported in last year's National Development Bank Annual Report, the NDB Bank responded quickly to the impact of the 2004 tsunami disaster.

In the immediate aftermath of the tragedy, many different kinds of assistance were required. The NDB Bank felt that it was necessary to focus efforts where they would do the most good. As a development financier, it had long

been involved in funding and participating in programmes aimed at helping people establish and improve a means of livelihood. To the Bank, this experience pointed the way forward.

The NDB Fishermen's Relief Trust Fund was set up by NDB Bank immediately after the tsunami disaster. The Fund has assisted 1,839 families in 9 of 11 tsunami-hit districts in the South and the East, by the end of December 2005.

Project Summary

District	No. of equipment	Total Assistance	
		Amount Rs	No. of Families Benefited
Colombo	12	544,010	7
Matara	126	13,428,630	384
Galle	145	16,617,711	366
Trincomalee	161	8,884,611	405
Batticaloa	73	2,427,547	75
Ampara	158	17,597,800	410
Kalutara	5	627,500	6
Gampaha	1	60,940	1
Hambantota	108	13,690,200	185
Total	789	73,878,949	1,839

Fund Summary as at 10 March 2006

	Rs
Total Funds Disbursed	73,878,949
Funds Committed for Disbursement	27,162,827
Total Funds collected	101, 041,776

The NDB Fishermen's Relief Trust Fund

The tsunami had a catastrophic impact on the livelihoods of fishing communities along the affected coasts, with effects that would be felt for years to come if no remedial measures were taken. Feeling itself competent to engage in a programme aimed at re-establishing community livelihoods (given its long record of such work), the Bank set up the NDB Fishermen's Relief Trust Fund on 4 January 2005.

Following the merger of the NDB with NDB Bank Ltd., the administration and funding of the Fishermen's Relief Trust Fund was taken over by NDB Bank. We are pleased to report that, in the year since its inception, the Fund has achieved considerable progress in helping fishing communities around the coasts of Sri Lanka recover their means of livelihood.

The object of the Fund is to provide funds for independent



Matara - Boats awaiting to be distributed



Kappalthurai - Canoes afloat

fishermen in order to help them repair or replace boats, engines and fishing-tackle damaged or lost as a result of the tsunami. The fisheries sector had suffered

massive destruction: a total of 9,500 out of 12,500 boats and canoes were lost or damaged, with correspondingly heavy losses in terms of engines, nets and other

necessities. The cost of making good these losses (excluding losses of or damage to larger, 'multi-day' fishing boats or small trawlers) was estimated at Rs 1 bn.

A village by the lagoon

Kappalthurai is a tiny village by the lagoon that lies east of Trincomalee town. Here, ninety families from different ethnic groups live in harmony. Two kilometres across very rough country from the nearest road is as far as you can go by car; the rest of the journey to Kappalthurai must be made on foot.

This remote hamlet seems sunk in poverty and backwardness, forgotten by the world. Yet the tranquil waters of the lagoon, the glowing sunshine, the lavish greenery and the taste of fresh air offer compensation unavailable to city dwellers.

The main economic activity of Kappalthurai is fishing. The community is drawn from many parts of the island and includes several families displaced by the war. The events of 26 December overwhelmed the villagers, destroying their only means of livelihood: their canoes or *oru* and fishing gear.

The villagers never owned the canoes individually. A village organization called the Star Co-operative Society, in which each family held membership, owned the 16 canoes and the gear. The fisherfolk of Kappalthurai rented the canoes in rotation. The rent, a nominal sum, helped the co-operative in its task of caring for the welfare of the villagers.

Without the canoes, the community could no longer support itself. It was possible to salvage and repair only one of the canoes, and this became the villagers' sole means of support. With one canoe shared among many, most villagers were unable to fish, and their attempts to eke out an income some other way proved equally unsuccessful. While other tsunami-affected villages drew relief teams, supplies and succour, no team found its way to Kappalthurai. Dependent on their one canoe, they were desperate.

Three months after the tsunami, the President of the Star Co-operative learnt of the NDB Fishermen's Relief Trust Fund. He met the Bank's field officer of Trincomalee and invited him to visit the village.

The rest is history. Kappalthurai application was accepted unanimously by the Fund Committee, who decided to equip the villagers with 15 new canoes and suitable fishing gear at a total cost of Rs 824,000. Soon the boatyard set up by NDB Bank at Trincomalee was busy with the order. On 15 May 2005, the boats and nets were handed over at a simple ceremony. The children of the village gratefully garlanded the members of the Committee. The festive decorations that bedecked Kappalthurai indicated the villagers' joy at being able to resume their traditional livelihood and have their home fires burn merrily once more.



Nilanka receiving his boat from CEO

Nilanka's battle with the sea

'It is hard to believe the same gentle waves that washed our feet everyday could turn into furies that swept away so many lives and destroyed so many homes', a traumatized Nilanka Prasad told the visiting NDB Bank relief team. 'The same ocean that provided us with our livelihood has marked us with grief and broken our hearts.'

Nilanka's wife was returning home from the village well when she witnessed the first of the giant waves approaching, violently tossing small boats and bigger fishing-vessels out of its way. Dropping the load of laundry she had just finished washing, she ran homeward. Her husband and children, watching television, had only a second's warning before the wave crashed into the hut, smashing it to splinters. The family huddled together and held tight to one another. The backwash from the first wave sucked them all towards the sea. As they rushed past the upper branches of a still-rooted tree, Nilanka grabbed a trailing bough and held on for dear life. Still clinging together, the family made haste to find a hold among the branches.

Suddenly Nilanka's little daughter shrieked, let go the tree and began floating away. 'I let go of my own branch,' he recalls, 'and managed to catch her. As I got hold of her hand, the second wave came and tumbled us all back landwards. I thought we were all going to die'. The waters around them were black and full of dangerous debris. Nilanka saw a small canoe amidst the flotsam and managed to capture it. The family held on as the wave carried them over the shells of ruined buildings that had

once been their neighbourhood. The canoe grounded on a large concrete slab and came to a stop. Two people who had already found refuge on the slab pulled Nilanka and his family out of the water. As Nilanka let go the canoe, it filled with water and sank.

The slab, as they discovered when the waters had receded, was all that was left of the second floor of the village post office.

Returning to where their home once stood, the family found that their possessions had all been washed away. Nilanka's canoe, the family's only means of livelihood, was smashed in two. Still, Nilanka felt less sense of loss than he did relief, for his family had all come through the ordeal safely.

Nilanka told the story of his trial by water to members of the NDB Bank relief team. When the tale was complete, the head of the team informed the young fisherman that his application had been approved, and that the fund would replace his destroyed canoe and fishing gear with new ones. Nilanka was overjoyed. He called out to his wife and children and together, the family expressed their gratitude in heartfelt terms.

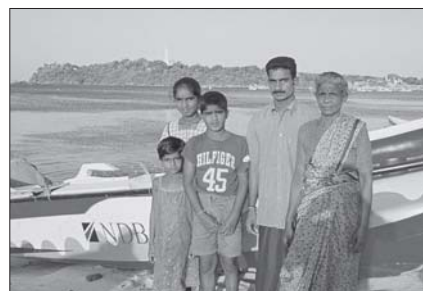
'Now I can go back to fishing and earn back all I lost!'

Nilanka said proudly, turning to face the ocean with renewed hope and courage.

Nilanka Prasad received the new boat and the set of nets at a simple ceremony on 22 April 2005.



Weligama - A boat on its maiden voyage



Trincomalee - Radha Mohan & family with their new boat

NDB Bank commenced the Fund with a seed capital of Rs 20 mn, and the following objectives:

1. To raise Rs 100 mn, i.e. an additional Rs 80 mn from local and foreign donors, and
2. To disburse the funds collected to small scale fishermen who had lost their livelihoods due to the tsunami.

All administrative and other costs relating to the Fund, such as advertising and human resources, are borne by the NDB Bank. No drawings are made upon the Fund itself for such purposes. Human resource needs are met by Group staff members wherever possible. Where external human resources are demanded, they are retained and paid for by the Bank. A sum of Rs 267,500 has been paid as remuneration to the two field officers retained.

How the Fund works

Any fisherman who owned a day boat and who lost his livelihood due to the tsunami was eligible for

assistance by the Fund.

Applications were entertained during 2005 at every NDB Bank branch as well as by specially-appointed representatives of the Bank. Some supporting documentation was required to establish the applicants' identities and bona fides. While this involved a certain amount of inconvenience to beneficiaries, the documentation was necessary in order to avoid false claims and other malpractice.

A scoring model was applied to the application details to identify the needs and prioritize the applications. A minimum score conferred eligibility. Selected applicants were further investigated by field officers appointed by the Trust and Bank officers to verify their claims and establish eligibility. Finally, applicants were selected on a priority basis determined by the allocation of funds for the area concerned.

Selected applicants received new boats, engines, tackle, etc. - from

pre-identified suppliers. Whenever possible repairs were done on damaged boats and engines.

The suppliers were chosen based on quotations for supply.

Transportation of boats and other equipment to the locality of the applicant is carried out by Fund representatives. At no time are applicants granted monetary assistance.

Setting up of Boatyards

One of the main constraints faced was the lack of boatyards in the Eastern region and the cost of transporting boats from the Western Province was very high. To overcome this, two boatyards were set up in the Trincomalee and Ampara Districts. The Bank provided them with working capital to commence operations. They were initially contracted to build boats exclusively for the Trust Fund. Now they have expanded their operations and are running very successful boat yards. These suppliers have guaranteed the

quality of their work. Any defects to boats will be rectified by them free of charge.

The process is entirely transparent. Its progress is tracked on the Fund website, <http://relief.ndbbank.com>. Owing to the overwhelming response from local and foreign donors the Trust reached its target of Rs 100 mn by the end of November 2005.

The table on page 16 gives a breakdown of Fund activities. In all, a total of Rs 101 mn has been raised, while Rs 73.88 mn has been disbursed. A total of 789 boat engines and nets have been replaced or repaired. In all, a total of 1,839 fishing families around the island have been benefited.

It is intended to complete the project by 30 April 2006.

The Prevention of Child Abuse Trust

This is a long-standing corporate social responsibility commitment of NDB Bank, which it is committed to support into the future.

The Prevention of Child Abuse Trust was set up in response to a tragic and urgent need. Expert studies indicate that the number of Sri Lankan children facing physical, emotional or sexual abuse runs into the thousands. Eradicating such abuse is a complex, long-term process involving numerous people: committed individuals, social workers, development professionals and the government. All these people need to be supported and their activities co-ordinated. The costs of doing so are substantial.

The Prevention of Child Abuse Trust was instituted by ABN Amro Bank in late 1997. It was an outgrowth of an earlier public

service initiative launched by that bank, which helped reveal the frightening extent of the problem. The object of the Trust was 'to channel funds towards the detection, prevention and rehabilitation of victims of child abuse.' Administered by a distinguished Board of Trustees, the Fund was seeded by ABN Amro Bank with an initial donation of Rs 1mn.

NDB Bank Ltd. took over the administration of the Trust when it acquired the Sri Lankan operations of ABN Amro Bank in October 2001.

Objectives

The objectives of the Trust are:

1. to foster the protection of children's rights as enunciated in the UN Convention on the Rights of the Child
2. to prevent the abuse of children
3. to rehabilitate the victims of child abuse

Over the past few years, the Trust has undertaken a number of initiatives in pursuance of these objectives. These included the funding of training programmes for children's-rights workers and of selected projects carried out by reputable charities such as the Sri Lanka Anti-Narcotics Association.

Currently, the Trust is involved in organizing a child-abuse awareness programme through schools, focusing on the dangers to children during their commute to and from school. Parents and teachers are targeted by the programme as well as children. The School Van Awareness Programme, as it is known, commenced with a pilot project at Bandaranaike College, Gampaha, on 17 March 2005. It is now ongoing.

The Trust continues to entertain applications from organizations, groups and individuals active in the fields of child protection, child abuse prevention and victim rehabilitation.

Entrepreneur Training

The Bank continues to partner authorized CEFE (Competency-based Economies for Formation of Enterprise) agents in the conduct of entrepreneurship-development programmes using the well-known CEFE training module. This social responsibility initiative harmonizes closely with NDB Bank's activities in SME lending and re-finance.

In 2005, the Bank funded a training programme for thirty selected entrepreneurs from the Maharagama and Nugegoda DSS Divisions of the Colombo District. The funding was obtained under the German Government's KfW Grant Complementary Measures Component.



A **blend** of project financing
and commercial banking
expertise



In its first year of operation as a merged entity, NDB Bank successfully combined the corporate banking resources and experience of the National Development Bank of Sri Lanka with its own commercial banking expertise. Numerous operational

synergies resulted; these were leveraged considerably in the year under review, but the future is likely to see even greater benefits resulting from the merger. NDB Bank now plays on a broader stage, multiplying its roles through greatly enhanced scope of operations.

Human Resources

Year 2005 saw the realization of the merger between NDB and NDB Bank Ltd. The key focus this year was on ensuring that this would be above all a merger with a focus on people. The importance of strategically managing our Human Capital at this crucial time of change was paramount, with much attention being paid to the right integration of structures, systems, processes and people.

In the light of the above focus, the period leading up to the merger saw many initiatives being taken by the Bank to ensure that our team would retain its quality and calibre in the face of change.

The Integration of Structures, Systems and Processes

The need for harmonization of differing organization structures, systems and processes whilst ensuring that each and every one of our team would be treated equitably was of foremost concern. Towards this aim, independent HR consultants were enlisted to provide expertise on remodelling the organization, job and compensation structures of NDB

and NDB Bank Ltd. Extensive market surveys, interviews with our staff and objective job evaluations were conducted by the consultants, to ensure that the job and compensation structure of the merged bank would embody both internal and external equity. Additionally, pro-active policies with regard to compensation and service conditions were also established and made applicable to the entire NDB Bank Team.

A Synergized Team

The merger also created the need for a concentrated effort in ensuring that our team would stay synergized and motivated with no disruption to the Bank's service standards and productivity. Hence, efforts were made to ensure that our employees were placed in the correct job positions and where needed provided with additional training. The training and development of our staff focused on equipping them with the skills and knowledge needed to face the new corporate strategy of the Bank, with additional emphasis on providing programmes and events that assisted in the integration of

two organization cultures into one dynamic culture.

The concept of change management was introduced through a series of programmes on dealing with change, stress management, etc. Attention was focused on training staff in consumer-banking needs and procedures, while cross-functional training was offered on all aspects of commercial banking i.e., trade finance, foreign exchange, credit risk management, etc. A special Branch Manager Development Programme was held, consisting of a suite of training modules covering entrepreneurship, risk management, the social role of the branch and its manager and other relevant areas. Training programmes focused on sharpening technical skills - such as negotiating and selling skills - continued in the year under review. The expansion of the product portfolio was accompanied by training in the relevant areas for the relevant employees. Of particular interest in the current year was a series of programmes supporting the Bank's recent move into leasing.



Outdoor team building programme

An interactive outdoor team-building programme held for all employees of both NDB and NDB Bank Ltd. focused on further facilitating the process of the harmonization of two different organization cultures as well as in inculcating the NDB Group Values.

Moreover, a communication strategy was mapped out and was launched with the participation of the Bank's Senior Management to keep our staff abreast of the implications of the merger, decisions made that would affect them and the reasoning behind such decisions. This accessibility to management and the open communication culture also provided staff with the opportunity to provide feedback on decisions that affected them and clarify other issues related to the merger. Furthermore, the Employee Satisfaction Survey held this year, assisted in evaluating the concerns of our team post-merger with analytical comparisons made with results of the survey in pre-merger years.

A Unique Merger

In retrospect, it is felt that the people-focused initiatives taken by the Bank in ensuring the transition into a merged entity succeeded in achieving our final objective of retaining and building a high performing team that would enable the Bank to ultimately achieve its vision of being a world-class Sri Lankan Bank. Our merger is unique as it was one that was not encumbered by any legal or industrial disputes and succeeded in retaining our team. Employee turnover was low and of those who left, only 8 per cent joined competing financial institutions.

A New Bank - A New Strategy

Once merged, the Bank's attention focused on expanding its branch network which had resulted in the need for recruitment of over 100 new employees. Moreover, The Trainee Banking Assistant pool created in 2004 proved to be a pro-active measure as this enabled a faster response to staffing needs created by the Bank's rapid expansion.

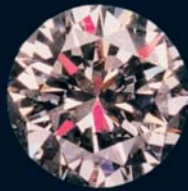
NDB Bank is now in the process of implementing a strategy that will enable our team to perform at greater heights. Initiatives have been taken to map a new training, recruitment, and performance management strategy. Additionally, a Human Resources Information System is also in the process of being implemented with the aim of empowering our staff with information that directly concerns them.

NDB Bank now looks towards a horizon filled with opportunities for growth while continuing to develop as a key player in both the local and global financial industry. It is our conviction that our integral, passionate, service-oriented team will facilitate the achievement of these aspirations.

A full-service retail bank for demanding Sri Lankans

Across Sri Lanka, more and more people are turning to NDB Bank for their personal banking needs. A wide and constantly expanding branch network brings conventional retail banking services closer to hand with added professionalism and convenience, while a wide range of innovative products serves customers' needs

and helps attract more of them to the Bank. Our staff backed by state-of-the-art technology and a constant drive to improve both products and service levels are building a world-class Bank satisfactory to Sri Lankan consumers.



- Current Accounts ■ Savings Accounts ■ Fixed Deposits ■ Housing Loans ■ Call Deposits ■ Foreign Currency Accounts
- Personal Loans ■ Privilege Banking ■ Minors' Savings Accounts ■ Safe Deposit Lockers ■ Internet Banking
- VISA Electron ATM/Debit Cards ■ Phone Banking ■ 24-hr ATM Facility

Management Discussion & Analysis

Operations Review

In this, its first year of operation as a merged entity, NDB Bank successfully combined the resources and experience of the National Development Bank, Sri Lanka's leading project and enterprise-finance institution, with its own commercial banking expertise. Numerous operational synergies resulted and the financial results have been gratifying. The following discussion and analysis are designed to provide an overview of NDB Bank's undertakings and achievements in the financial year ended 31 December 2005. The analysis has been structured by area of operations.

Corporate Banking

Corporate banking is divided into two segments i.e. commercial banking and project financing. commercial banking deals with granting short-term working capital facilities, while project finance deals with long-term financing.

Commercial Banking

In Sri Lanka, the term 'provision of finance for corporate customers' covers an unusually wide range of customer groups and associated activities. Segmentation and accurate targeting are key to success in the field. Experience must then be combined with innovation to produce solutions attractive to customers within each of these segments. For example, the large and large-to-medium segments are peopled with sophisticated customers who understand this concept and are highly demanding of their banker. In the lower-medium segment, by comparison, financial knowledge is limited and the challenge for the relationship manager is often to render a non-transparent financial operation intelligible. At the

lowest end of the sector, the assessment and acceptance of risk are critical factors, assessed according to strict criteria.

In a highly segmented market of this kind, in which every customer has essentially unique needs and demands, the Bank's philosophy of relationship management, involving staff who combine specialized and detailed knowledge of particular business sectors with a general understanding of business and the business and regulatory environment, gives us a strong - indeed, decisive - competitive advantage.

Portfolio Performance A confident, yet intelligent approach to this highly differentiated field has

Commercial Banking Portfolio Growth

Year Ended	Total Direct Outstandings Rs mn	Total Contingents Rs mn
31 Dec. 2004	14,458	5,219
31 Dec. 2005	18,606	6,612
YoY Growth (per cent)	29	27

In this, its first year of operation as a merged entity, NDB Bank successfully combined the resources and experience of the National Development Bank, Sri Lanka's leading project and enterprise-finance institution, with its own commercial banking expertise.

resulted in another year of strong performance. The overall loans and advances portfolio grew 30 per cent over the previous year, reaching a value of Rs 11,994 mn. This was in line with our projections, despite pressure on margins and the increased competition in the market.

Commercial banking loans portfolio remains well diversified, avoiding excessive exposure to any particular sector. The

accompanying chart presents a breakdown of the portfolio by sector.

Electronic Banking The Bank's electronic banking service is an integral part of an effective cash and treasury management service, which is a world-class electronic delivery solution. This delivery channel has proved a success, with some 40 per cent of customers utilizing the system to outsource transactions.

Project Finance Overview

The Bank continues to focus on project financing, which continues to be a core business activity. The gross direct loan portfolio of the Bank's project finance divisions remained more or less constant at Rs 20 bn. Unlike working capital loans of commercial banks, which tend to grow at the pace of nominal GDP growth, a project loan portfolio reduces each year because of planned repayments of capital by customers, which is offset by disbursements of new project loans.

Sector Classification of Portfolio of Commercial Banking

Sector	2005		2004	
	Rs mn	per cent	Rs mn	per cent
Food, Beverage & Tobacco	2,525	21.06	2,120	22.94
Agriculture, Agro Products and Fisheries	220	1.83	170	1.84
Textiles & Garments	1,699	14.17	1,426	15.43
Wood & Paper Products	100	0.83	87	0.95
Rubber & Leather Products	1,582	13.19	1,368	14.81
Metals, Chemicals & Engineering	2,107	17.57	1,712	18.53
Hotels & Tourism	10	0.08	20	0.22
Services	3,746	31.23	2,335	25.27
Other	5	0.04	1	0.01
Total	11,994	100.00	9,239	100.00

Approvals and disbursements of direct facilities of the Project Financing (Corporate Banking) section for the year were Rs 9,141 mn and Rs 11,051 mn respectively.

The Bank participated in a number of securitization exercises structured by its subsidiary, NDB Investment Bank.

Project Finance Portfolio In keeping with the national economic picture, services accounted for the largest share of the project finance portfolio

(34 per cent) and grew by 23 per cent as compared to end 2004. This growth was primarily due to increases in financial services and energy sub-sectors.

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. During the period under consideration, the Bank approved funding to implement three mini-hydropower projects

aggregating to Rs 507 mn.

To date, the Bank has funded 18 mini-hydro projects with an aggregate capacity of 58 MW.

The metals, chemicals and engineering sector accounted for 16 per cent of the project finance portfolio. A greater demand for products under this sector such as steel, cement, tiles, glass, paints, cables and PVC products is expected in 2006 as well.

The food, beverage and tobacco sector is an active and growing one for both project finance and

Sector Classification of Direct Credit Portfolio of Project Finance

As at December	2005		2004	
	Rs mn	per cent	Rs mn	per cent
Food, Beverage & Tobacco	1,964	9.76	1,723	8.46
Agriculture, Agro Business & Fisheries	2,964	14.74	3,490	17.13
Textiles & Garments	1,091	5.42	1,297	6.37
Wood & Paper Products	398	1.98	434	2.13
Rubber & Leather Products	1,611	8.01	1,741	8.55
Metals, Chemicals & Engineering	3,181	15.81	3,965	19.46
Hotels & Tourism	514	2.55	694	3.41
Services	6,786	33.74	5,523	27.11
Others	1,605	7.99	1,505	7.38
Total	20,114	100.00	20,372	100.00

commercial banking. During the period, the project finance portfolio of this sector grew by 14 per cent consequent to disbursements made of around Rs 1.1 bn for six companies.

During the year, facilities to regional plantation companies in the agriculture sector were granted in the form of loans under the ADB's dedicated credit line and as subscriptions to the securitization instruments.

Small and Medium Enterprise Financing

The Bank has deep roots in small and medium-scale enterprise financing. We continue to be heavily involved in this area through direct lending to SMEs and refinancing through participatory credit institutions.

Direct Lending to SMEs

Direct lending to small and medium-sized enterprises continues through the Bank's Colombo Head Office and the provincial branch network. Several

of these branches were converted to commercial banking branches to provide commercial banking services as well following the merger, except Gampaha and Puttalam. These two branches will also commence commercial banking activity in the near future.

Direct credit approvals for the year through the SME branches stood at Rs 2,425 mn for 844 projects, an increase of 26 per cent over the previous year's figure of Rs 1,917 mn for 794 projects. The average size of an SME facility offered was Rs 2.9 mn, as against Rs 20 mn (approximately) for larger corporates at Head Office.

The credit portfolio of the SME branches and Head Office SME unit was Rs 4,127 mn in 2005, an increase of 14 per cent over the previous year's figure of Rs 3,608 mn. The implementation of new credit lines, among them SMILE III, E-Friends II and KfW V, is expected to further improve the SME credit portfolio in 2006.

The 2004 tsunami disaster affected operations during the year under review. Some clients at the Bank's Galle, Kalutara and Matara branches were affected by the disaster. For these customers, facilities were rescheduled for practical and compassionate reasons. Affected clients were in many cases granted new facilities under the Susahana credit line.

In addition, the Bank's Galle branch was physically damaged by the tsunami waves, but has now been renovated and re-opened.

NDB Bank with the assistance of international consultants, is comprehensively reviewing its strategy for the SME sector with a view to integrating its newly acquired ability to extend short-term facilities, with its existing project capability and to do so with increased scale and profitability. This exercise is expected to be completed in 2006.

Re-Finance Operations

NDB Bank acts as a re-finance institution to commercial lenders who operate loan schemes for SMEs. Nearly all commercial and development banks operating in Sri Lanka participate in such schemes, including NDB Bank itself. Funds for refinancing are drawn largely from facilities offered by International Lenders.

Four re-finance schemes are currently in operation. Two of these - the Asian Development Bank (ADB) funded Southern Province Rural Economic Advancement Project (DASUNA), supports the development of enterprises in the Southern Province, and the Aquatic Resources Development and Quality Improvement Project (Miridiya Sampath) Credit Line, intends to promote development of inland fisheries and aquaculture. Small & Micro Industries Leader & Entrepreneur Promotion Project (SMILE I Revolving Fund and SMILE II) funded by the Japan Bank for

International Co-operation (JBIC) supports the development of small and micro-enterprises.

A total of Rs 4,147 mn in refinance was approved under these re-finance schemes since their inception, supporting a total of 6,719 projects. New employment opportunities for 28,569 were created, majority in rural areas. Estimated capital formation was Rs 11.6 bn. A tabulated breakdown of approvals and disbursements for the year 2005 appears in the accompanying table.

The Bank is also channelling funds for two more Credit Lines funded by the German Bank for Development (KfW)- viz. KfW III & KfW V, where only the network of SME Branches of NDB Bank are engaged in lending. The KfW III scheme operates to help small and micro-enterprises in all economic sub-sectors. The KfW V funds are channelled towards small as well as large enterprises.

NDB Bank also acted as a participating credit institution under several other credit lines. 'Susahana', a Government credit line for the tsunami affected enterprises, came into operation in February 2005. This was followed in mid 2005 by two other credit lines, SMILE III & E-Friends II. A total of 192 projects amounting to Rs 490 mn were approved under these credit lines during the year.

Japan Social Development Fund (JSDF) In 2003, the World Bank arranged a grant of Rs 100 mn from the JSDF to assist impoverished women in the Hambantota District as well as in

the North and East of the country. NDB Bank manages this project for the Government in association with the Women's Development Federation and the Sewalanka Foundation. Following the 2004 tsunami, the grant was increased by Rs 89 mn to support relief and reconstruction work. An agreement to this effect was signed in March 2005.

Allocations from the grant were originally made for social mobilization, training and development of local infrastructure and micro-loans for underprivileged women. Following the tsunami and the increased grant, a wider range

of relevant initiatives was supported. Among these were the revival of livelihood activities, the reconstruction of damaged business premises, day care centres and banks, nutrition programmes, social training programmes and care for community orphans. By the end of FY 2005, a total of Rs 30.4 mn had been disbursed for the Hambantota District and Rs 26.2 mn for the Northern and Eastern Provinces.

Consumer Banking

Business performance in what we regard as a key growth area for the future, was good. There was impressive expansion in both the Deposits and Loans portfolio, the former growing by 26 per cent.

Signs for the future are extremely positive. NDB Bank is rapidly developing a meaningful competitive advantage in the area of customer service. Accessibility to customers is a key determinant of this, hence our ongoing branch network extension programme.

Re-Finance Approvals & Disbursements for the year 2005

	Approvals		Disbursements	
	No. of Projects	Amount (Rs mn)	No. of Projects	Amount (Rs mn)
DASUNA	1,053	248.00	1,212	254.10
SMILE I Revolving	134	69.40	136	55.30
SMILE II	39	35.00	83	60.00
MIRIDIYA	66	38.10	41	27.00
Total	1,292	390.50	1,472	396.40
KfW III	50	19.30	44	16.60
KfW V	73	839.90	31	118.70

The Bank added eight new branches in 2005, bringing the total number of branches marketing consumer banking products to 22. The Bank's branches are consumer oriented in the true sense of the word, staffed by customer-interface personnel with a strong service orientation. Back-office operations have been centralized. Thus, branch staff are no longer involved in routine processing, ensuring that their focus on the customer is maintained without distraction. The Bank's relative youth as an organization, has ensured that we are not saddled with legacy systems, which has enabled the Bank to adapt to new technology.

Improved Customer Awareness

The merged Bank's brand name NDB Bank was re-launched with a more dynamic look and a change in colours. The advertising and publicity campaign accompanying the merger has raised the Bank's profile among customers and

potential customers. Brand recall levels have risen. The Bank's customer focus is emphasized in the campaign, which is based on three 'pillars': customer service, one-window banking and technology. Exemplifying the last of these are a number of products launched in the last two years, including an Internet solution that enables customers to bank from anywhere in the world and the VISA enabled NDB BankLink ATM/debit card.

Other Products

Privilege Banking, NDB Bank's private banking service for high-net-worth customers, continued to show healthy growth both in terms of its customer base and portfolio growth. This unit while building a very successful portfolio has been strengthening its offerings and skills in wealth management.

Supported by a dynamic direct-sales team, the Bank's

personal loan product, Dream Maker, has shown excellent results in this, its first full year in operation exceeding its budgeted figures. The product was effectively marketed to employees of corporates who already had a relationship with the Bank. This enabled the maximization of the synergies between corporate banking and consumer banking.

Savings Drive

The Bank also launched a major savings drive in two phases, one in April and the other in September. The instrument, a savings account-based sweepstake promotion, helped to increase the rupee savings deposits by 53 per cent over the previous year.

Housing

2005 was a successful year for our housing products, which recorded approval volumes of Rs 905 mn, an increase of 33 per cent over the volumes achieved in the last

financial year. Disbursements for the year amounted to Rs 762 mn, an increase of 32 per cent over 2004. As a result, NDB Housing Bank increased its housing loan portfolio by 70 per cent; on 31 December 2005 the portfolio stood at Rs 1.6 bn compared to Rs 945 mn in the previous year. Margins, however, were affected by interest rate volatility and a very competitive sector environment. Looking further ahead, prospects for growth in this sector are very strong and profitability is expected to increase significantly with strong portfolio growth over the medium term.

Auto Finance

During the year, 345 facilities, amounting to a total of Rs 738 mn, were approved, causing the Auto Finance portfolio to grow by 140 per cent, reaching a figure of Rs 845 mn. Vigorous expansion in this sector is expected.

Treasury Operations

The Treasury plays a dual role in the Bank's revenue-generating activities. It functions as an independent profit centre, trading in foreign currency positions and Government debt. It also provides assistance to Bank's other business units, by managing their cash flows and exposures in different currencies and quoting rates for foreign exchange, loan and deposit products.

Forex Trading

Foreign exchange trading earned a proportionately high profit this year when compared to customer-based forex transactions, demonstrating the competence of Bank's dealers.

Government Debt

Rising interest costs drastically affected the revenue from the Government Debt Trading business. The Bank booked a small capital loss during the first quarter of the year in reducing the duration of the debt trading

portfolio. This strategy saved the Bank a much larger potential mark to market loss which would have had to be provided if the portfolio was maintained during the year, at the original maturity mix.

Other Operations

The Treasury is also responsible for managing the Bank's multi-currency cash flows and asset-liability mismatches in the Balance Sheet. During the year, exposure to the money market averaged Rs 1 bn, which was easily covered by available inter-bank facilities. The Treasury also took advantage of favourable pricing opportunities to raise funds from a number of other market participants.

An important deficiency was remedied in 2005 with the purchase of a sophisticated asset-liability management software solution, which will allow the Treasury to manage Balance Sheet risk more accurately and scientifically in the future.

Equity Investments

Non-Quoted Equity Portfolio

The Bank's non-quoted equity portfolio as at 31 December 2005 amounted to Rs 370 mn, net of provisions, comprising Rs 150 mn in ordinary shares and Rs 220 mn in preference shares. The respective figures for the preceding year were Rs 165 mn and Rs 396 mn.

Divestiture of investments in three companies during the course of the year resulted in the capital gains of Rs 2 mn. Preference share investments amounting to Rs 124 mn were redeemed during the period.

Dividend income during the year amounted to Rs 58 mn (2004 - Rs 49 mn) from the ordinary equity portfolio and Rs 40 mn (2004 - Rs 101 mn) from the preference equity portfolio.

Quoted Equity Portfolio

The All Share Price Index at the Colombo Stock Exchange stood at 1,507 points at the beginning of the year, while the Milanka Index

was 2,074. The indices continued their upward momentum, reaching a peak on 16 November 2005 of 2,551 (ASPI) and 3,374 (Milanka). The market closed in December with the ASPI at 1,922 and the Milanka Index at 2,451.

The quoted ordinary share portfolio of the Bank stood at Rs 20 mn (at cost) at the end of December. Its market value was Rs 324 mn.

Dividend income from the quoted portfolio amounted to Rs 31 mn (2004 - Rs 37 mn). Capital gains from the quoted portfolio amounted to Rs 330 mn (2004 - Rs 63 mn).

Information Technology & Operations

Improved processing efficiencies in the Bank's Operations Department, coupled with a cost-effective IT environment have helped the Bank deliver enhanced services to a much larger number of branches, and an increasingly differentiated customer base, without

compromise on service standards, and a minimum of enhancements to our IT infrastructure.

Following the NDB and NDB Bank Ltd. merger and the amalgamation of the best of breed core banking solutions of Flexcube and Globus, the most important development of the year was the centralization of back-office operations for all NDB Bank branches. The centralization and rationalization of IT infrastructures and operations will continue through 2006, realizing further synergies.

The Bank's team developed its own in-house pawnbroking package, enabling the Bank to enter a new and growing area of business without excessive outlay on IT. An asset-and-liability management solution was also implemented during the year from a leading vendor in this segment.

Following the merger, the Bank is now positioned to handle large, complex trade transactions for its

customers. A well-distributed and effective correspondent banking network continues to support the Bank in its international trade-finance business.

NDB Investment Bank

NDB Investment Bank (NDBIB) continued its aggressive and pioneering activities in the domestic capital markets. Its most memorable achievement during the year was the Initial Public Offer (IPO) of Dialog Telekom Ltd., the largest ever on the Colombo Stock Exchange (CSE), raising over Rs 8.5 bn. This landmark IPO established several milestones: largest ever IPO on the CSE; highest number of applications received (53,881); highest funds raised (Rs 56 bn); first (and only) listed company to exceed a market capitalization of Rs 100 bn.

NDBIB's growth and potential is reflected in its IPO activities. Over the past two years, it successfully concluded the two largest IPO's in

Sri Lanka. These are significant achievements: NDBIB is the only investment bank in Sri Lanka to successfully conclude large IPOs without any foreign collaboration. It is now the investment banker of choice for large corporates seeking a CSE listing.

A niche market has also been developed for private placements, wherein NDBIB matches buyers and sellers of shares in illiquid listed companies. Two such transactions, aggregating to Rs 0.9 bn, were concluded during the year. Other capital market transactions concluded for listed issuers include a debt restructuring for Overseas Realty (Ceylon) Ltd., recommended share swap ratios for the merger between Nations Trust Bank and Mercantile Leasing Ltd.

In addition to equity market transactions, NDBIB offers advisory services, including valuations for private and public companies,

structuring employee share ownership plans, corporate governance, investor relations etc.

NDBIB's debt unit concluded deals (debentures, debt securitizations, syndications, and other disintermediated debt instruments) exceeding Rs 5.6 bn in 2005.

In aggregate, NDBIB concluded deals in excess of Rs 18.7 bn in 2005. Over the years, it has developed a qualified and trained employee base - an essential prerequisite for success in a highly skilled services sector - and has established a solid base for future growth.

NDBS Stockbrokers (NDBS)

NDBS had its best year ever, through an improvement in market share and a buoyant stock market. NDBS further enhanced its profitability by working closely with the Group's investment bank and parent company, significantly contributing towards the two

largest Initial Public Offerings ever made in this country. The Company has positioned itself to maximize returns on any future upturn in the share market through a combination of its own activities and leveraging on the resources of the Group.

Eagle Insurance

Corporate Performance

Eagle Insurance recorded an impressive performance for the year under review. Overall Gross Written Premium grew by 14 per cent to Rs 4,043 mn with Life Insurance accounting for 70 per cent of the business and Non-life 30 per cent. The Net Earned Premium increased to Rs 3,146 mn, recording a growth of 13 per cent. An overall favourable claims experience, higher investment income and a higher Life surplus transferred to shareholders, enabled the operating profit of the Group to be augmented by 98 per cent to Rs 528 mn. Overall profit

attributable to shareholders registered a similar growth of 103 per cent to Rs 515 mn.

Life Insurance business

The Life insurance business continued to maintain its strong market position by recording a Gross Written Premium of Rs 2,833 mn which was a 13 per cent growth over the previous year. This achievement was a result of a focused drive by the Life sales team towards achieving a Rs 1 bn target in the Annualised New Business Premium. In addition to the top line growth, Eagle was also successful in enhancing customer retention in line with the stipulated targets. During 2005, the Life Fund grew from Rs 8.0 bn to Rs 9.2 bn recording a 15 per cent growth. This value creation was possible due to the combined contribution of new business, retention and prudent investment strategies. The increase in average

policy value further reflected the Company's efforts towards improving its quality of business.

Benefits, losses and expenses of the Life business increased by 63 per cent primarily due to high policy maturities and gratuity payments reported in the early part of the year. This was partially offset by a growth of 31 per cent in investment income, attributed mainly to the equity portfolio. Stretching beyond its insurance liabilities, the Company made a premium grant of three months to the most deserving tsunami affected Life policyholders.

The Life surplus transferred to the shareholders increased appreciably by 50 per cent to Rs 375 mn as against Rs 250 mn during the previous year.

Non-life Insurance business

The Non-life written premiums recorded a growth of 14 per cent over 2004 to Rs 1,211 mn with

significant contribution coming from property, motor and surgical and hospitalization classes of business. The clamour for market positions impelled insurers to adopt pricing as a mechanism for business acquisition and growth, and compromise on several underwriting best practices. This resulted in all key property accounts being reviewed with pressure for downward revision in rates. Nevertheless, Eagle's property portfolio recorded a significant growth in 2005. The Motor business growth too is significant in the backdrop of discounted premiums and special product offerings becoming more common in the market place.

The Net Earned Premium grew by 15 per cent over the previous year to Rs 465.8 mn. Prudent investment strategies within a volatile market enabled the business to earn high returns mainly from the equity portfolio.

The investment income for 2005 was Rs 126.6 mn - a 39 per cent increase over 2004.

The Non-life net claims experience was favourable compared to the previous year. Total net claims - Rs 252.2 mn was 19 per cent less than 2004. In keeping with the policy announced to the public on settlement of tsunami motor claims, the Company made prompt settlement to the Non-life motor customers who were affected. Special focus on minimizing the claims leakage helped maintain positive overall ratios.

Financial Review

Overview

All areas of the National Development Bank Ltd. and the Group performed well in the year of the merger with NDB Bank Ltd. The merger was finalized on 1 August 2005.

The profit before tax of the Bank increased by 35 per cent from Rs 921 mn in 2004 to Rs 1,243 mn in 2005. The profit after tax increased by 19 per cent from Rs 679 mn in 2004 to Rs 806 mn in 2005.

Group profit before tax of Rs 2,037 mn was an increase of 58 per cent over last year and profit after tax of Rs 1,453 mn was 80 per cent over 2004. The profit attributable to the equity shareholders also increased by 73 per cent from Rs 703 mn in 2004 to Rs 1,216 mn in 2005.

There were strong performances from the Group companies during 2005. Eagle Insurance Company Ltd's consolidated revenue for the

year was Rs 4,276 mn reflecting a growth of 15 per cent over the previous year. The net profit after tax of Rs 515 mn, a growth of 103 per cent over 2004, was due to focused management strategies and higher investment income from the Life Fund.

NDB Investment Bank Ltd. and NDBS Stockbrokers (Pvt) Ltd. also contributed significantly to the profit growth of the Group due to increased capital market operations and improved market conditions. In the recent past, NDB Investment Bank Ltd. was responsible for the two largest ever Initial Public Offers (IPOs) on the Colombo Stock Exchange. These massive IPOs were undertaken on behalf of LIOC and Dialog.

In addition, the results of NDB Housing Bank Ltd., Development Holdings (Pvt) Ltd. and NDB Venture Investments (Pvt) Ltd., representing the spectrum of Group businesses have also been consolidated.

Net Interest Income (NII)

Net Interest Income of Rs 1,595 mn for the year compares with Rs 1,177 mn for the last year. This was primarily due to the increase in the commercial banking lending portfolio of Rs 2.8 bn over the previous year and a significant reduction in non-performing loans as explained later in this review. The increase was also partly due to the commercial banking income being accounted in the Bank column from 1 August 2005 as a result of the transfer of NDB Bank Ltd's net assets to the Bank on that date.

Consequently, interest income has increased by 22 per cent over last year. However, interest expenses increased by only 12 per cent over the last year.

At the Group level, NII increased by 20 per cent due to increased income from surplus funds invested by Eagle Insurance Company Ltd.

Net Other Income

The Bank's net other income excluding provisions for equity losses increased by 20 per cent during the year. This was mainly due to the commercial banking fee and commission income and forex income earned by the Bank after the merger and an increase of 20 per cent in equity income (dividends and capital gains) over the previous year. The increase was however affected by capital losses of Rs 35 mn incurred on the sale of government securities during the year when compared with gains of Rs 94 mn for last year, an adverse swing of Rs 129 mn. It is expected that the "other income" component of the Bank would form an increasing proportion of income in the future as the Bank is now a fully fledged commercial bank with trade finance and forex activities cross selling a range of products to its customers.

The Bank's equity income increased by 20 per cent over the previous year. This was mainly due

to increased capital gains from quoted investments.

At Group level, net other income excluding provisions for security losses increased by 43 per cent mainly due to the improved performance of Eagle Insurance Company Ltd. and the increased fee income from NDB Investment Bank Ltd. and NDBS Stockbrokers (Pvt) Ltd.

Operating Expenses Excluding Provisioning

The operating expenses excluding provisioning increased by 67 per cent over the previous year. This was primarily due to the increased expenses incurred as a result of the merger, and the consequent expansion of operations, such as the increased number of branches from 13 at the beginning of the year to 24 at the year-end, increases in the staff numbers of commercial banking operations, one off merger related expenses and a selective voluntary retirement scheme. This increase is

reflected in the cost income ratio of the Bank moving up to 41.3 per cent for the year as compared with 32.2 per cent for the previous year. The increased cost income ratio is still well below the industry standard in Sri Lanka.

However, at Group level operating expenses excluding provisioning increased by only 20 per cent when compared with the previous year.

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

The Bank continued to reduce the level of its non-performing loans, leases and advances which amounted to Rs 1,591 mn at the year-end compared with Rs 2,431 mn at the end of 2004, Rs 2,700 mn at end of 2003, Rs 3,683 mn at the end of 2002 and Rs 4,064 mn at the end of 2001. The ratio of NPLs to the total lending portfolio was also down to 4.2 per cent at the end of the year compared with 9.9 per cent at the end of 2004, 10.9 per cent at the end of 2003, 14.0 per cent at the

end of 2002 and 13.6 per cent at the end of 2001.

The Central Bank mandated specific provisions at the year-end amounted to Rs 1,310 mn compared with Rs 1,601 mn as at the previous year-end. The percentage of such specific provisions to NPLs increased from 64 per cent to 82 per cent 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 1,854 mn compared with Rs 1,917 mn as at the previous year-end. Total specific and general provisions together amounted to Rs 2,018 mn at the year-end compared with Rs 2,088 mn at the previous year-end. The cumulative general provision amounted to Rs 165 mn at the year-end and the effective rate of general provisioning worked out to 0.51 per cent compared to 1.02 per cent at the end of 2004. General provisions are made on a voluntary basis and are not mandated by the Central Bank of Sri Lanka.

The Bank's open loan exposure, being NPLs net of Central Bank mandated specific provisions against NPLs, as a percentage of shareholders' funds reduced to 3.6 per cent as compared with 10.7 per cent at the end of 2004.

The charge for the year amounted to Rs 165 mn as compared with Rs 365 mn for the previous year.

Taxation

The Bank's corporate taxation for the year increased significantly over the previous year. The effective overall tax rates inclusive of the VAT on financial services charge was 35 per cent for the year and 26 per cent for the previous year. The tax rate on banking income is 52 per cent compared to 40 per cent in 2004 due to the impact of the VAT on financial services. The increased tax charge was primarily due to the reduction in the tax claim on specific provisions during the year and a drop in the release of deferred taxation due to a decline in the

lease portfolio in 2004. However, with the rate of income tax increasing from 30 per cent to 35 per cent and the VAT on financial services increasing from 15 per cent to 20 per cent in 2006, there will be a significant tax charge in 2006.

The overall tax rate of the Group inclusive of the VAT charge was 29 per cent for the year and 37 per cent for last year.

Capital Adequacy

The Tier 1 Capital Adequacy Ratio of the Bank declined from 28.44 per cent to 18.87 per cent due to the inclusion of the net assets of NDB Bank Ltd. from 1 August 2005. The Tier 1 and 2 ratios improved from 13.63 per cent to close at 13.97 per cent as at 31 December 2005. The reason for the Tier 1 and 2 ratios being lower than the Tier 1 ratio was due to the deduction of investments made in financial subsidiaries and associates from the Tier 1 capital in arriving at the Tier 2 capital.

The ratio for the Group improved from 17.11 per cent to 18.87 per cent for Tier 1 and from 16.91 per cent to 18.53 per cent for Tier 1 and 2.

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

Regulatory Developments

The 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, increased substantially to Rs 22.49 as compared with Rs 13.08 for the previous year, an increase of 72 per cent. The Group's return on equity for the year increased to 14.23 per cent compared with 8.64 per cent in 2004 while its return on average assets increased to 1.97 per cent for the year compared with 1.57 per cent for the previous year.

Eagle Insurance Company Ltd., NDB Investment Bank Ltd. and NDBS Stockbrokers (Pvt) Ltd. mainly contributed towards the improved performance.

Share Price

The Bank's share price closed at Rs 215 as compared with Rs 160 at the end of 2004. The All Share Price Index increased during the year from 1,507 to 1,922 (an increase of 28 per cent). The price/book value (PBV) at the year-end was 1.50 as compared with 1.10 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

On 1 February 2006, Capital Development and Investment Company Ltd., a subsidiary of the Bank disposed 58.44 per cent of its holding in its fully owned subsidiary, NDB Finance Lanka (Pvt) Ltd. to Aviva International Holdings Ltd. The current holding of Capital Development and Investment Company Ltd. in NDB Finance Lanka (Pvt) Ltd. is 41.56 per cent.

NDB Finance Lanka (Pvt) Ltd. holds 87.27 per cent of Eagle Insurance Company Ltd., thus giving Aviva International Holdings Ltd., a 51 per cent stake in Eagle Insurance Company Ltd. The consideration paid by Aviva International Holdings Ltd. was Rs 2.7 bn which resulted in a capital gain of Rs 1.6 bn to Capital Development and Investment Company Ltd., in which the Bank has a 75.6 per cent shareholding.

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

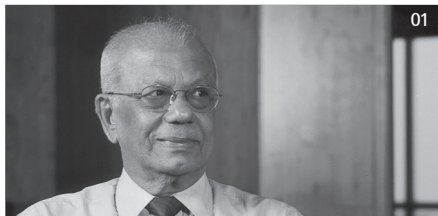
The Bank acquired a further 15 per cent holding in NDB Housing Bank Ltd. in February 2006 making its current holding 95 per cent.

A market leader in capital markets

NDB Investment Bank, the investment banker of choice raised Rs 8.5 bn for Dialog Telekom - the biggest IPO ever floated in Colombo - while undertaking major projects for several other top Sri Lankan companies: divestitures for Hayleys MGT and Ceylon Glass, debt

restructuring for Overseas Realty and advising in the merger of NDB and NDB Bank Ltd. Meanwhile, NDBS Stockbrokers had its best year ever, leveraging group synergies by acting as broker to the IPOs, initiated by the investment bank.





Board of Directors

01 SK Wickremesinghe

Chairman

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 Ltd., Ceylon Tobacco Company, Chemical Industries (Colombo), CTC Eagle and SriLankan Airlines.

02 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 Chief Executive of NDB on 1 January 2002. He is also a Director of several NDB Group companies.

03 HDS Amarasuriya

Director

Mr Amarasuriya brings to NDB Bank an impressive range of management, marketing and business skills from his tenure as Chairman of the industrial conglomerate Singer Sri Lanka, and his experience on the Boards of such companies as Regnis Lanka, Commercial Leasing, Bata Shoe Company & First Capital. He also brings with him substantial experience in international management as a Vice President of Singer N.V. He is also involved in regional management and human resource development programmes across the Asian region.

04 SR 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 Regional Adviser to Employers' Bureau in Geneva. From August 2001 to July 2003 he was Senior Adviser to the International Organization of Employers (IOE), 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.

05 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). 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 Ltd. and Language Skills Development (Pvt) Ltd. He is a Director of a number of NDB Group companies including Eagle Insurance. He is Co-Chairman of the Trade & Tariff Cluster of NCED. He has served as Chairman of the Ceylon National Chambers of Industries, as President of the Federation of Chambers of Commerce & Industry and as President of the Sri Lanka Institute of Marketing. Mr de Mel 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).



06 G C B Wijeyesinghe

Director

Mr 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, and on the External Audit Committee of the IMF. He is currently a Member of the Sri Lanka Accounting & Auditing Standards Monitoring Board, Council Member of the Commonwealth Association of Corporate Governance and holds directorates in other public quoted companies. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka, and a Fellow of the Association of Authorized Public Accountants - UK. and a Fellow of the Society of Chartered Management Accountants.

07 Mrs S Cooray

Director

Mrs Sujatha Cooray is the Director General of the External Resources Department of the Ministry of Finance, since 2002. She holds B.A.(Hons) and B. Phil degrees from the University of Colombo and a M.A. in Economic Development from ISS, the Netherlands. She has extensive experience in the field of mobilizing external financing from multilateral and bilateral agencies for development projects. She has also led the Sri Lankan team on many international loan negotiations.

Mrs Cooray has represented Sri Lanka at many regional and international fora relating to economic development. She has served on the Boards of the Lanka Electricity Company Pvt. Ltd., Sri Lanka Tourist Board and Board of Investment. Mrs Cooray resigned from the Board of the Bank with effect from 30 December 2005.

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 seventeen years overseas where he worked for several years with Coopers & Lybrand in Zambia and Botswana. He then joined the Lloyds 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.

09 Alessandro A Pio

Director

Mr Pio is Country Director of the Asian Development Bank (ADB) Sri Lanka Resident Mission. He recently completed 12 years of service at ADB, including three years with the Strategy and Policy Department, and almost six years working at the

Vietnam desk, first as Senior Economist and later as Principal Programmes Economist in Hanoi. He was Country Economist for Sri Lanka in 1997-1998, and prepared the 1998 Sri Lanka Country Operational Strategy. Prior to joining ADB he taught macro economics and development economics and carried out research on Latin American development for nine years at Bocconi University in Milano, Italy. He earlier worked at the United Nations Economic Commission for Latin America in Santiago, Chile, and with UNICEF in Peru and Argentina and UNDP in the Dominican Republic. Mr Pio has an undergraduate degree in Economics from Bocconi University, and a Masters degree in Community and Regional Planning from the University of Texas at Austin (USA).

10 S T Nagendra

Director (Appointed on 11.11.2005)

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.

Senior Management

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 as the Deputy General Manager in January 1999. He assumed duties as the General Manager of NDB on 1st January 2002. He is also a Director of several NDB Group Companies.

Eran Wickramaratne - Deputy Chief Executive

Mr Wickramaratne is currently Deputy Chief Executive of the NDB Bank. Prior to the merger of the National Development Bank and NDB Bank Ltd., he functioned as Director/Chief Executive Officer of the NDB Bank Ltd. From 1999 to 2001 he held the post of Assistant General Manager, NDB and was 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 holds a degree in Economics and Politics and a Masters in Economics from the University of London. Mr Wickramaratne is an Eisenhower Fellow.

Ranjit Bibile - Vice President

Head of Corporate Banking

He is an Associate Member of the Institute of Bankers, UK. Prior to joining the NDB Bank, he served the 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 36 years.

Russell De Mel - Vice President

Head of Risk Management & Special Projects

His service at NDB Bank which spans over 25 years, has been in the Corporate Banking field. An Associate of the Chartered Institute of Management Accountants (UK), Mr De Mel has been with several private sector organizations prior to joining NDB Bank.

Manilka Fernando - Vice President

Head of SME Banking & Organizational Development

He holds a Master's Degree in Business Administration from the University of Georgia, USA and is a Fellow of the Institute of Chartered Accountants, Sri Lanka. Before joining NDB Bank, Mr Fernando worked at Mashreq Bank, Dubai, UAE as Assistant Vice President, Strategic Planning & Finance and at Citibank, Colombo as Financial Controller. He has been in Banking and Finance for over 25 years.

Nilam Jayasinghe - Vice President

Head of Audit & Compliance

Mr Jayasinghe joined the NDB Bank 9 years ago and is currently the Head of Audit and Compliance. He is a Fellow of the Chartered Institute of Management Accountants (CIMA), UK. Before joining NDB Bank, he served Aitken Spence & Co as its Group Treasurer and Director of Aitken Spence Corporate Finance Ltd., prior to which he worked as Finance and Commercial Manager, Lanka Tiles Ltd. Mr Jayasinghe is a Past President of the CIMA Sri Lanka Division. He counts over 20 years experience in Finance and Treasury.

Chrisanthi Jayawardena - Vice President
Head of Legal

She is an Attorney-at-Law. Before joining NDB Bank she was employed at Messrs F J & G De Saram, Attorneys-at-Law. Mrs Jayawardena counts over 23 years experience at the National Development Bank.

Nimal Ratnayake - Vice President
Head of Treasury

He is an Associate of the Chartered Institute of Bankers, UK. Before joining NDB Bank 10 years ago, he held the position of Treasurer at the National Development Bank. He also served the Commercial Bank of Ceylon Ltd. in the capacity of Chief Dealer/Senior Manager, Treasury and has to his credit over 27 years banking experience.

Kumar Weerasuriya - Vice President
Head of Operations & IT

Prior to joining NDB Bank he was with several local and international banks, more recently with Standard Chartered Bank and MasterCard International. He counts over 30 years experience in Banking and Finance.

Indrajit Wickramasinghe - Vice President
Head of Consumer Banking & Marketing

He holds a Master's Degree in Business Administration from the University of Sri Jayawardenapura. He is also a Member of the Chartered Institute of Marketing, UK. Before joining the NDB Bank 5 years ago he held the position of Head of Marketing at Reckitt & Colman of Ceylon Ltd. Mr Wickramasinghe has over 16 years experience in the FMCG and Financial Service Sectors.

Ajith Wickremaratne - Vice President
Corporate Banking

Mr Wickremaratne is an Engineering Degree holder of the University of Peradeniya and a Postgraduate Diploma holder in Business and Financial Administration of the Institute of Chartered Accountants, Sri Lanka. He has been with NDB Bank for over 18 years and his work experience at NDB Bank ranges from project/infrastructure financing to investment banking and venture capital financing. Presently he is responsible for Project Finance Operations of the Bank. Mr Wickremaratne also holds corporate memberships of the Institute of Civil Engineers, UK and Institute of Engineers, Sri Lanka.

Risk Management

The year 2005 saw several challenges to the Bank arising from the process of merging with its Commercial Banking arm. Preparations were successfully made to meet these challenges well in advance. The focus of main functional areas, Risk Management among them, was changed from a company-specific one to a comprehensive Group orientation. This facilitated the smooth transition of operations during a period of change.

The prime objective of the Risk Management Division is to prepare the ground for staff to carry out banking operations in a manner that enhances stakeholder expectations, thus managing the volatility of returns.

Credit Risk

Credit risk can be defined as the potential loss arising from the failure of a counterparty to perform according to contractual arrangements with the Bank. Such failures include the non-repayment of capital or interest in full within the agreed time frame, at the agreed rate of interest and in the agreed currency.

The Bank has a well-defined credit policy, approved by the Board of Directors. This policy defines the credit culture of the Bank and specifies the target market to which the Bank wishes to lend to, as well as those areas that it should avoid. Implementation of the policy is effected through a credit process with clear guidelines and procedures. The Risk Management & Control Unit ensures the comprehensiveness of the credit process and maintenance of the quality of the Bank's credit portfolio.

The Bank focused attention on managing credit risk over the past few years, developing various risk assessment and measurement procedures as well as a set of practices effective at minimizing/managing risk. Comprehensive credit evaluation, group and sector limits, client ratings, risk-based pricing, remedial management, prudent provisioning, credit

administration and credit audits complemented by an early warning system and a loan classification process are a few of these measures. By constantly updating processes and procedures, the Bank had successfully maintained a balanced portfolio during the past few years. The table below indicates the success of the processes that have been developed over the years.

Credit approvals in the Project Finance Division are delegated to various authority levels, with adequate control measures built into the process. In the commercial banking area, credit decisions are taken by the Credit Committee under authority delegated by the Board. In both areas, credit risk management plays a vital role in maintaining a healthy portfolio. Additionally, credit approvals are independently scrutinized by the Credit Administration Unit on a post-approval

Portfolio Indicator					
	2001	2002	2003	2004	2005
NPL Ratio %	13.6	14.0	10.9	9.9	4.2

basis. This ensures that all disbursements are made in accordance with the terms and conditions of the approved proposal and with the Bank's policies and procedures.

The two Internal Credit Committees (ICCs) continue to function separately for the Commercial Banking and Project Finance Divisions in the merged entity. The heads of Group Risk Management and Corporate are members of both Committees facilitating synergies between Project Finance and Commercial Banking. The Board Credit Committee (BCC), which comprises of five Non-Executive Directors (two resigned during the year), is kept informed of portfolio quality, large and unusual exposures, provisioning, movement of NPLs, decisions taken by the ICC, etc. The BCC has the authority to change or propose new policies and procedures in order to maintain a sound risk management framework. Neither the BCC nor the Board originate loans.

A 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. The Bank follows a conservative provisioning policy, which exceeds the minimum requirements of the Central Bank of Sri Lanka.

During the year, the Risk Management Division was also associated with the launch of new retail products of the Bank. Considering the need for expeditious services required to meet market needs, these products were introduced based on specific Product Programmes with predetermined target markets, Risk Acceptance Criteria etc.

The 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, high-quality portfolio. Quarterly review reports on the credit portfolio are submitted to the Board.

During the year, the Risk Management Division was instrumental in identifying

knowledge gaps and recommending appropriate training for the staff, with a view to strengthening this philosophy.

The challenge for Risk Management in the future would be to maintain the credit discipline and portfolio quality on an enterprise-wide basis, amidst growing competition and varied customer demand. In an environment where business would focus on product innovation, diversified market segments, speed of credit delivery and voluminous transactions, Risk Management faces the extra challenge to bring about a balance between business aggression and credit quality. Allocation of scarce resources such as capital in a prudent manner balancing risk against reward, also remains a high priority. Increased levels of empowerment with efficient processes and MIS to track and control volatility of unexpected losses will be a key mandate for Risk Management in the future.

Preparing for Basel II

In preparation for the implementation of Basel II regulations, the Bank has taken steps to create awareness among

the staff by organizing training sessions, seminars etc. Basic infrastructure for the project is presently being mapped out.

Operational Risk

This category encompasses those risks arising as a result of processing errors, systems and procedural failures, human error, fraud, natural disasters and non-compliance with internal policies, external laws and regulations. While operational risk can never be fully eliminated, the Bank endeavours to minimize it by continuously assessing and refining the systems of internal controls. An effective compliance function is also designed to ensure adherence to both internal policies and regulations and external regulatory and statutory requirements.

The internal audit function, which is an integral part of this control framework, assists in identifying, evaluating and mitigating operational risks. The Internal Audit Department through the CEO, reports to the Board Audit Committee, which is a Board sub-committee entirely composed of Non-Executive Directors. The Committee is independent of the

Bank's operations, thereby enabling the Internal Audit Department to provide proper assurance to the Committee on the quality and effectiveness of the system of internal controls. The Committee reviews internal and external audit plans and findings, then makes recommendations for appropriate action.

Legal Risk

This is the risk arising from the inability to enforce contracts, from unexpected lawsuits or from adverse judgments that cause material, unforeseen financial loss to the Bank. Inadequate documentation, legal or regulatory incapacity and other factors may result in the unenforceability of contracts (including security documents) with counterparties. Such risks are managed through the use of advice obtained from the Bank's Legal Department, as well as the legal officers allocated to or retained for each unit or branch of the Bank. The advice of external counsel is obtained in appropriate circumstances.

The Bank has complied with and continues to update and maintain a detailed list of all the statutory and

other legal requirements it is obliged to fulfil as a bank, taxpayer, employer and listed company. Such compliance is also monitored at Board level.

Treasury Risk

Balance Sheet Risks

Balance Sheet risks arise as a result of mismatches between related interest bearing or foreign currency assets and liabilities in the Balance Sheet. These mismatches occur as it is practically not possible to create matching sets of assets and liabilities with every transaction. Managing the Balance Sheet mismatch risk is the responsibility of the Asset and Liability Management Committee (ALCO) of the Bank. ALCO comprises of the CEO, Heads of Business Units, Finance, Treasury and Risk Management, and meets at fixed calendar dates or more often, if required. Balance Sheet risks can be categorized into Interest Rate, Liquidity and Exchange Rate risks.

Interest Rate Risk

Interest Rate risks arise when matching assets and liabilities do not re-price (re-set) at the same interval and therefore either the asset or the liability has to be

repriced at prevailing market rates, which may be detrimental to the Bank. The Bank manages its interest rate risks in the following manner:

- a. Placing limits on mismatches between interest bearing assets and liabilities maturing at various time 'buckets', that correspond to the risk appetite of the Bank under a given interest rate volatility.
- b. Incorporating suitable penalty conditions on premature uplifting of time deposits and fixed tenor loans.
- c. Avoiding use of different benchmarks in pricing assets and liabilities to overcome the basis risk.
- d. Treating large business lines' interest rate risks (such as the Government Debt Trading operation) in a focused manner by having separate ALCO approved mismatch limits placed on such business.

Due to the narrowing interest margins in business, even marginal interest movements could cause a significant impact on revenue due to re-pricing mismatches in assets and liabilities. The Bank acquired a state-of-the-art Asset and Liability Management Software

Solution during the last quarter of the year. It is now in a position to accurately measure liquidity and repricing gaps in the Balance Sheet and resultant revenue implications that will enable the Bank to take timely corrective action.

Liquidity Risk

A liquidity risk arises when the Bank is unable to meet payment obligations for want of funds. Bank's 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 the Bank through various providers, at an agreed confidence level. The 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.

Foreign Exchange Risks

The Bank exposes itself to foreign exchange risks when assets and liabilities denominated in numerous currencies it deals with do not match one to one in value. The Bank's Treasury manages the

exposure of each currency separately and also in aggregate with all currencies, within a series of limits approved by the Board. These limits are structured to manage the foreign exchange risks of the Bank within its risk appetite while giving a reasonable degree of flexibility to the traders to exploit market opportunities in full.

Reputation Risk

An organization's reputation is its greatest asset. If impacted, the consequences on financial performance and licence to operate can be detrimental.

In order to maintain the Bank's reputation and preserve the confidence of its various stakeholders, the Bank has in place an effective compliance system. The Compliance Officer monitors adherence by the Bank of all applicable laws, regulations and statutory requirements and makes quarterly submissions to the Board and the Board Audit Committee.

A compliance policy and code of conduct has also been issued to all employees to ensure that the highest ethical behaviour is maintained at all times.

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 interest of all stakeholders, while maintaining high standards of industrial and professional ethics.

NDB Bank, in its endeavour to maintain a high degree of commitment to Corporate Governance practices, has adopted amongst others, the following strategies and techniques:

- 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 controls systems including internal, external audits 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 the Bank.
- Appropriate financial and managerial incentives tied to accountability and responsibility.

The NDB Bank as a responsible corporate citizen, fully supports the recommendations of the Committee on Financial Aspects of Corporate Governance initiated by the Institute of Chartered Accountants of Sri Lanka, including the aspects referred to by the SEC. Accordingly, this section sets out the Bank's responses to these recommendations and the

governance practices followed by the Bank in general.

The Board of Directors

Directors are representatives of all shareholders and stakeholders, including depositors and ensure that corporate management acts in their best interest. 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 the 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 Nominations Sub-Committee of the Board. The Directors of NDB Bank are professionals and eminent personalities 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. In addition to the basic

governance issues, the Board lays strong emphasis on transparency, accountability and integrity of transactions, in line with some of the recent papers issued on sound governance practices by the Central Bank and the Basel Committee on Banking Supervision. While the Board is entrusted with the responsibility of providing leadership in terms of the 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 eleven times for this year. Matters considered at these meetings include reviewing of corporate strategy, budgets and forecasts, operational and financial performance, including portfolio quality and reporting to shareholders.

Board Sub-Committees

To facilitate focused attention on specific areas of review, the Board of NDB Bank has appointed five sub-committees that are deemed necessary for effective discharge of their duties. They are the Audit Committee, Credit Committee, Nomination Committee, Strategic Issues Committee and the Human Resource Committee. The minutes of these meetings are tabled at the Board Meeting for ratification.

Audit Committee

The Audit Committee serves as a means of communication between the Board of Directors, the External Auditors, the Internal Auditors and the management of the Bank. The Bank has an effective Internal Audit Department which through the CEO reports to the Audit Committee and which continuously monitors the internal controls, systems and processes of the Bank and makes recommendations to improve the processes where necessary. This enables the Internal Audit Department to provide reasonable assurance to the Audit

Committee on the quality and effectiveness of the system of internal controls prevalent within the organization. The Audit Committee approves the audit plans in advance and provides a forum for discussion of issues and recommendations highlighted in the audit reports.

The Audit Committee has a Chairman and two members who are Non-Executive Directors of the Bank. The Audit Committee Charter clearly lays down the authority, responsibilities and the specific duties of the Audit Committee. The Head of Internal Audit acts as its Secretary and the convener. The Audit Committee assists the Board in providing an independent review of financial reporting, the effectiveness of the internal controls and the sufficiency of the internal and external audits and the compliance with Legal/Statutory requirements. The Committee met eight times during the year. The Audit Committee complies with most guidelines for Audit and Audit Committees of listed companies,

released by the Securities and Exchange Commission to be adopted on voluntary basis.

Credit Committee

The Credit Committee comprises of five Non-Executive Directors (two resigned during the year) while the Head of Risk Management acts as its Secretary (see also Risk Management Report on pages 50 to 53). The Credit Committee is empowered to approve principles, policies, strategies, processes and control framework for the management of risk. The Credit Committee reviews the quality of the portfolio, large credit exposures, adequacy of provisioning and impact of macro economic changes.

Nomination Committee

The Nomination Committee is headed by the Chairman of the Bank and has three Non-Executive Directors serving on it. They evaluate the requirements of the Board of Directors and are responsible for the identification of suitable persons to be

recommended by the Board of Directors to the shareholders to be appointed at the AGM and, whenever a vacancy arises.

Strategic Issues Committee

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

Human Resources Committee

This Committee is responsible for the Bank's market oriented remuneration policy for its staff and thereby attracting and retaining quality staff with proven business experience and quality. 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 for the Bank. The Committee has a Chairman and three Non-Executive Directors serving on it.

Structure and Composition of the Board Committees during 2005

Name of Director	Audit Committee	Credit Committee	Strategic Issues Committee	Human Resources Committee	Nomination Committee
S K Wickremesinghe			*✓		*✓
A G Karunasena *		*✓			
H D S Amarasuriya			✓	*✓	✓
G C B Wijeyesinghe	*✓	✓			✓
L de Mel			✓	✓	✓
S R de Silva	✓			✓	
S Cooray*		✓		✓	
A A Pio		✓	✓		
A R Gunasekera	✓	✓	✓		

* Indicates Chairman of the Sub-Committee

* Resigned w.e.f. 15 June 2005

* Resigned w.e.f. 30 December 2005

Compliance

The Bank has a process to ensure compliance with applicable laws and regulations and reports to the Board Audit Committee. Monthly and Quarterly Compliance Reports are submitted to the Central Bank of Sri Lanka confirming the Bank's compliance with Central Bank guidelines and regulations. Quarterly Compliance Reports are submitted to the Board Audit Committee of the Bank on compliance with statutory requirements and with the NDB Bank's internal Compliance Policy and the Code of Conduct. Monthly and Quarterly Compliance Reports are also circulated to the Board of Directors for their information.

The Compliance Officer ensures compliance with regulatory requirements and with internal policies. Regulatory compliance ensures compliance with Central Bank regulations and guidelines, Inland Revenue statutes, Securities and Exchange

Commission of Sri Lanka and the Colombo Stock Exchange regulations, Labour Laws of Sri Lanka, The Banking Act, Companies Act, Civil Procedure Code, Mortgage Act, Parate and Debt Recovery Acts and other applicable laws and regulations.

There is a strong culture of internal compliance, which ensures compliance with the Compliance Policy Code of Conduct, Anti-Money Laundering Policy, IT Security Policy, Credit Policy and the HR Policy. Each year the Bank strengthens its Know Your Customer (KYC) and Anti-Money Laundering practices and frontline staff are given appropriate training in this area.

As a Bank, we are conscious of our responsibilities to the shareholders, customers and other stakeholders and therefore ensure our commitment to the highest standards of ethical behaviour in our organization.

NDB Group Companies as at 31 December 2005

Ayojana Fund (Private) Ltd.

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

Cost of NDB Bank's	
Investment	Rs 0.1 mn
Profit after Tax	Rs 14 mn
Net Assets under management	Rs 77 mn

Directors: Ms R L Nanayakkara,
G C B Wijeyesinghe,
D S P Wickramanayaka,
Ms Anne Maree Byworth

Eagle Insurance Company Ltd.

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

Cost of NDB Group's	
Investment	Rs 1,783 mn
Profit after Tax	Rs 515 mn
Net Assets	Rs 1,467 mn

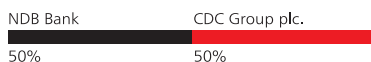
Directors: H D S Amarasuriya
(Chairman), C Jayaratne (Managing
Director), N S Welikala, R L Juriansz,
S N P Palihena, D S P Wickramanayaka,
L de Mel

NDB Housing Bank Ltd.

712, Galle Road, Colombo 3
Tel: +94 11 2552552

Cost of NDB Group's	
Investment	Rs 570 mn
Profit after Tax	Rs 31 mn
Net Assets	Rs 640 mn

Directors: S K Wickremesinghe,
N S Welikala, R V S Rao,
I A Wickramasinghe,
D S P Wickramanayaka, W D Barnabas



NDB Venture Investments (Private) Ltd.

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

Cost of NDB Bank's Investment	Rs 138 mn
Profit after Tax	Rs 21 mn
Net Assets	Rs 250 mn

Directors: Ms R L Nanayakkara,
G C B Wijeyesinghe,
D S P Wickramanayaka,
Ms Anne Maree Byworth



NDB Investment Bank Ltd. (Formerly Citi National Investment Bank Ltd.)

40, Navam Mawatha, Colombo 2
Tel: +94 11 2300385

Cost of NDB Bank's Investment	Rs 32 mn
Profit after Tax	Rs 80 mn
Net Assets	Rs 120 mn

Directors: S K Wickremesinghe,
N S Welikala, E Wickramaratne,
L de Mel, A Wickremeratne,
V Kulatilleke (CEO and Ex-Officio
Director)



NDBS Stockbrokers (Private) Ltd.

40, Navam Mawatha, Colombo 2
Tel: +94 11 2314170

Cost of NDB Bank's Investment	Rs 27 mn
Profit after Tax	Rs 50 mn
Net Assets	Rs 118 mn

Directors: S K Wickremesinghe,
N S Welikala, S N Jayasinghe,
L de Mel, D S P Wickramanayaka



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

04-01 Aage,
12, Boduthakurufaanu Magu,
Male 20-094
Tel: +(960) 315605 / 315606

Cost of NDB Bank's Investment	Rs 165 mn
Profit after Tax	Rs 43 mn
Net Assets	Rs 580 mn

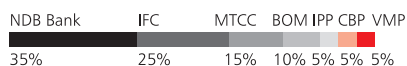
Directors: N S Welikala,
S Senanayake, Abdul Mushin Abdulla,
Nadiya Hassan (Chairperson), Rifaath Jaleel,
Hussain Afeef, Moosa Zameer,
D Soosaipillai (Ex-Officio Director/CEO)

**Capital Development and Investment
Company Ltd.**

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

Cost of NDB Bank's Investment	Rs 1,169 mn
Profit after Tax	Rs 51 mn
Net Assets	Rs 1,724 mn

Directors: N S Welikala,
K Dharmasiri, S N Jayasinghe,
D S P Wickramanayaka



Development Holdings (Pvt) Ltd.

42, Navam Mawatha, Colombo 2
Tel: +94 11 2436279

Cost of NDB Bank's Investment	Rs 428 mn
Profit after Tax	Rs 72 mn
Net Assets	Rs 684 mn

Directors: N S Welikala,
S N Jayasinghe, A R Gunasekara,
D S P Wickramanayaka,
B A S Angunawela, T M Wijesinghe



Financial Reports

Contents

62	Report of the Directors
65	Statement of Directors' Responsibilities
66	Audit Committee Report
67	Report of the Auditors
68	Income Statement
69	Balance Sheet
70	Cash Flow Statement
73	Statement of Changes in Equity
74	Significant Accounting Policies
81	Notes to the Financial Statements

Financial Calendar 2005

Interim Quarterly Unaudited Reports for 2005

March	22 May 2005*
June	20 August 2005*
September	30 November 2005*
December	21 February 2006*

Annual Reports and Accounts

2003	25 March 2004
2004	12 April 2005
2005	4 April 2006

Meetings

Eleventh Annual General Meeting	10 April 2003
Twelfth Annual General Meeting	20 April 2004
Thirteenth Annual General Meeting	6 May 2005
First Annual General Meeting for National Development Bank Ltd.	26 April 2006

Dividends

Final Dividend 2002	22 April 2003
Final Dividend 2003	20 April 2004
Final Dividend 2004	6 May 2005
Final Dividend 2005	3 May 2006**

* Published in the newspapers

** Subject to approval by the Shareholders

The Directors of the National Development Bank Ltd. have pleasure in presenting their Report and the audited Financial Statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Bank and the Group are described under Note 1 to the Financial Statements on page 81.

Details of the group companies indicating the Bank's own holding in key companies is shown on pages 58 and 59.

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, contain a detailed description of the operations of the Bank during the year ended 31 December 2005 and contain a fair review of the Bank's affairs.

MERGER

The Bank took over the assets and liabilities of its subsidiary, NDB Bank Ltd. NDB Bank is issued with a commercial banking licence with effect from 29 July 2005. This makes the Bank a fully fledged commercial bank offering a wide range of commercial banking products to its customers in addition to its core competence of project financing.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 17 of 1982 and the Banking Act No. 30 of 1988 (as amended).

The Directors are satisfied that the Financial Statements, presented on pages 68 to 112 inclusive, give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2005 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 the Bank including the establishment and maintenance of the Bank's systems of internal financial control. Internal control systems are designed to meet the particular needs of the organization concerned, and the risks to which it is exposed and by their nature they can provide reasonable but not absolute assurance against material misstatement or loss. The Directors are satisfied that a strong control environment is prevalent within the Bank and that the internal control systems referred to above are effective.

A description of the Bank's Corporate Governance practices is set out on pages 54 to 57.

PROFITS, RESERVES AND DIVIDENDS

The Group's profit before taxation including that of its subsidiaries and its share of profit from associate companies amounted to Rs 2,037 mn (compared to Rs 1,287 mn in 2004). After deducting Rs 585 mn (compared to Rs 481 mn in 2004) for taxation, the profit after tax for the year amounted to Rs 1,453 mn (compared to Rs 805 mn in 2004). Details are given in the Income Statement on page 68.

The figures relating to the operations of the Bank are summarized as follows:

	2005	2004
	Rs mn	Rs mn
Profit before tax	1,243	921
Less tax	437	242
Profit after tax	806	679

The Directors propose that a final dividend of Rs 6.00 per share be paid out of the profits of the Bank for the year 2005. The Bank paid a final dividend for the previous year of Rs 6.00 per share.

Details of the reserves are shown in the Statement of Changes in Equity on page 73.

BRANCH EXPANSION

In keeping with the Bank's Branch expansion scheme 8 branches were opened during the year thereby bringing the total number of branches to 24.

CORPORATE SOCIAL RESPONSIBILITY

The report on the Corporate Social Responsibility of the Bank is given on pages 15 to 21 of the Annual Report.

PROPERTY/EQUIPMENT AND DEPRECIATION

Details of the property and equipment of the Bank, additions made during the year and the depreciation charges for the year are shown in Note 29 to the Financial Statements on pages 97 and 98.

DONATIONS

No donations to external charitable or political organizations were made by the Bank during the year, except for funds contributed for rehabilitation of tanks.

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. Apart from making specific provisions for identified bad and doubtful debts, in accordance with Central Bank rules, the Bank carries a general provision on the performing portfolio based on the risk rating model. This results in the Bank's cumulative provision exceeding the minimum provisioning levels required under the Central Bank's directions.

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 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 the amounts written off or provided for portfolio losses in the accounts of the Group.

POST BALANCE SHEET EVENTS

On 1 February 2006, Capital Development and Investment Company Ltd., a subsidiary of the Bank disposed of 58.44% of its holding in its fully owned subsidiary, NDB Finance Lanka (Pvt) Ltd. to Aviva International Holdings Ltd. The current holding of Capital Development and Investment Company Ltd. in NDB Finance Lanka (Pvt) Ltd. is 41.56%. NDB Finance Lanka (Pvt) Ltd. holds 87.27% of Eagle Insurance Company Ltd. thus giving Aviva International Holdings Ltd. a 51% stake in Eagle Insurance Company Ltd. On 2 February 2006 the Bank purchased a 5% stake in Eagle Insurance Company Ltd. from James Finlay and Company (Colombo) Ltd., at the same effective price per share as paid by Aviva International Holdings Ltd. Consequently, the Bank's original and current effective holdings in Eagle Insurance Company Ltd. are 65.98% and 32.42% respectively.

The Bank acquired a further 15% holding in NDB Housing Bank Ltd. in February 2006, making its current holding 95%.

In the opinion of the Directors, no other item, transaction or any other material event of an unusual nature has arisen in the interval between the end of the financial year and the date of this report, which would affect substantially the results of the operations of the Bank or of the Group for the financial year in respect of which this report is prepared.

SHARE CAPITAL

The authorized share capital of the Bank at the beginning and end of the year under review was Rs 2,000 mn. The issued share capital which was Rs 537.5 mn at the beginning of the year, increased to Rs 545.7 mn due to the issue of 820,257 new shares to the shareholders of NDB Bank Ltd., at a ratio of 1 share for every 5.6 shares held in NDB Bank Ltd., as the consideration for the transfer of the assets and liabilities of NDB Bank Ltd. to the Bank.

DIRECTORS AND THEIR INTERESTS

In terms of the provisions of the Memorandum and Articles of Association of National Development Bank Ltd., the Board of Directors, as at 30 December 2005, consists of eleven Directors, including the Chairman, made up as follows:

- Eight Directors appointed as the first Directors of National Development Bank Ltd.
- Out of the said eight Directors, one Director is nominated by the Government of Sri Lanka.
- The Chief Executive Officer is an ex-officio Director, with voting rights.
- Two Directors appointed on casual vacancies.

In terms of the provisions of the Memorandum and Articles of Association of the Bank, one-third of the elected Directors shall retire from office and new Directors will be elected at each Annual General Meeting of the Bank.

Directors' Interests in contracts with the Bank, both direct and indirect, are disclosed in Notes 45 and 46 to the Financial Statements on pages 108 to 110. These interests have been declared at and recorded in the minutes of the relevant Board meetings and such Directors have not taken part in any deliberation or decisions of the Board with respect to such contracts.

The Directors who held office during the year under review are shown on the Inner Back Cover.

MAJOR SHAREHOLDERS

The 20 largest shareholders of the Bank as at 31 December 2005 are given on page 115 together with an analysis of the shareholdings. As at that date the Bank had 6,952 shareholders.

BOARD SUB-COMMITTEES

There are five permanent sub-committees of the Board, namely the Audit Committee, the Strategic Issues Committee, the Human Resources Committee, the Credit Committee and the Nominations Committee. Members of these five committees during the year are given on the Inner Back Cover.

DIRECTORS' SHAREHOLDINGS

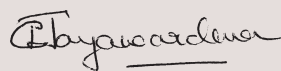
Shareholdings of the Directors in the Bank as at the year-end and their corresponding holdings as at the end of the previous year are as shown below:

Name	As at 31.12.05	As at 31.12.04
S K Wickremesinghe	300	300
H D S Amarasuriya	3,950	3,950
A R Gunasekara	589	500
Mrs S Cooray	—	—
Dr A G Karunasena	—	—
P M Nagahawatte	—	—
G C B Wijeyesinghe	—	—
A A Pio	—	—
N S Welikala	—	—
S R de Silva	—	—
Lal de Mel	10,361	10,300
U L Kadurugamuwa	—	—
S T Nagendra	3,050	—

AUDITORS

The Financial Statements for the year ended 31 December 2005 have been audited by M/s. Ernst & Young, Chartered Accountants. The said Auditors have indicated their willingness to offer themselves for reappointment. A resolution appointing M/s. Ernst & Young as Auditors and authorizing the Directors to fix their remuneration will be proposed at the first Annual General Meeting.

By Order of the Board



C L Jayawardena

Secretary to the Board

16 February 2006

Statement of Directors' Responsibilities

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

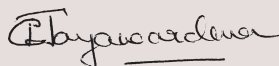
It is also the responsibility of the Directors to ensure that the NDB Bank maintains proper accounting records and to take reasonable steps as far as practical to ensure the accuracy and reliability of accounting records and to prepare Financial Statements using appropriate accounting policies applied consistently and supported by reasonable and prudent judgment and estimates in compliance with the Sri Lanka Accounting Standards, the Banking Act No. 30 of 1988 (as amended) 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 the NDB Bank and 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. 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 66 of this Report.

Ms. Ernst & Young (Chartered Accountants) have been made available with all records of the 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 67 of this Report.

By Order of the Board



C L Jayawardena

Secretary to the Board

16 February 2006

Audit Committee Report

The Audit Committee is empowered to review and monitor the financial reporting process of the 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 three non-executive members of the Board. The CEO/Deputy CEO, Vice President (Audit & Compliance), Head of Internal Audit, Internal 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 the 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 suggests 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 the Bank's compliance with the applicable laws and regulations and ensure adherence to the Bank's Compliance Policy/Code of Ethics by all employees. The Compliance Officer reports to the Audit Committee and the Board of Directors, and submits a quarterly statement on the status of the 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.

Based on the reports submitted by the External Auditors, Internal Auditors and the risk reviews performed by the Bank, the Audit Committee is of the view that the control environment prevalent within the Bank is satisfactory and provides reasonable assurance that the financial position of the 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 reappointed as Auditors for the financial year ending 31 December 2006 subject to the approval of the shareholders at the Annual General Meeting.



G C B Wijeyesinghe
Chairman

Board Audit Committee

9 February 2006



■ **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 : cysl@lk.ey.com

AUDITORS' REPORT TO THE MEMBERS OF NATIONAL DEVELOPMENT BANK LTD. AND SUBSIDIARIES

We have audited the Balance Sheet of National Development Bank Ltd. as at 31 December 2005, the Consolidated Balance Sheet of the Bank and its Subsidiaries as at that date and the related Statements of Income, Cash Flows and Changes in Equity for the year then ended, together with the Accounting Policies and Notes as set out on pages 68 to 112.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. 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 books of account for the year ended 31 December 2005, and to the best of our information and

according to the explanations given to us, the said Balance Sheet and related statements of Income, Cash Flows, Changes in Equity and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and the Banking Act No. 30 of 1988 and amendments thereto and give a true and fair view of the Bank's state of affairs as at 31 December 2005 and of its Profit and Cash Flows for the year then ended.

In our opinion, the Consolidated Balance Sheet and Statements of Income, Cash Flows, Changes in Equity and the Accounting Policies and Notes thereto have been properly prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and the Banking Act No. 30 of 1988 and amendments thereto and give a true and fair view of the state of affairs as at 31 December 2005 and of its Profit and Cash Flows for the year then ended of the Bank and its Subsidiaries dealt with thereby, so far as concerns the members of the Bank.

Directors' Interest in Contracts with the Bank

According to the information made available to us, Directors of the Bank were not directly or indirectly interested in contracts with the Bank during the year ended 31 December 2005, except as stated in Notes 45 and 46 to these financial statements.

(Sgd)

Ernst & Young
Chartered Accountants

Colombo
10 February 2006

■ **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 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 ACA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA

NDB Bank
Annual Report 2005
Income Statement

		BANK		GROUP	
<i>For the year ended 31 December</i>		2005	2004	2005	2004
	Note	Rs '000	Rs '000	Rs '000	Rs '000
INCOME	2	4,288,138	3,538,694	7,116,094	5,868,917
Interest Income	3	3,454,199	2,833,109	5,035,347	4,397,908
Interest Expenses	4	1,859,555	1,656,333	2,342,038	2,151,822
NET INTEREST INCOME		1,594,644	1,176,776	2,693,309	2,246,086
Other income	5	808,034	663,984	2,054,842	1,429,408
Income from operating leases		25,905	41,601	25,905	41,601
Depreciation - operating leases		(19,845)	(29,473)	(19,845)	(29,473)
NET OTHER INCOME		814,094	676,112	2,060,902	1,441,536
NET INCOME		2,408,738	1,852,888	4,754,211	3,687,622
OPERATING EXPENSES	6				
Personnel costs		475,230	340,666	1,087,928	879,319
Staff retirement benefits	7	24,078	17,141	43,579	36,966
Other administrative and general expenses	8	494,490	238,713	1,411,726	1,161,495
Amortization of goodwill		—	—	41,737	75,917
Total operating expenses		993,798	596,520	2,584,970	2,153,697
OPERATING PROFIT BEFORE PROVISIONS		1,414,940	1,256,368	2,169,241	1,533,925
Provision for bad and doubtful debts and for fall in value of securities	9	171,786	335,858	153,461	278,584
OPERATING PROFIT		1,243,154	920,510	2,015,780	1,255,341
Share of associate companies' profit before taxation	10	—	—	21,665	31,261
PROFIT BEFORE TAXATION		1,243,154	920,510	2,037,445	1,286,602
Taxation	11	(437,327)	(241,058)	(584,529)	(481,146)
PROFIT FOR THE YEAR		805,827	679,452	1,452,916	805,456
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS		805,827	679,452	1,216,331	703,022
PROFIT ATTRIBUTABLE TO MINORITY SHAREHOLDERS		—	—	236,585	102,434
		805,827	679,452	1,452,916	805,456
Earnings per share (in Rs)	13	14.90	12.64	22.49	13.08

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 74 to 112 are an integral part of these Financial Statements.

10 February 2006

NDB Bank
Annual Report 2005
Balance Sheet

		BANK		GROUP	
As at 31 December		2005	2004	2005	2004
	Note	Rs '000	Rs '000	Rs '000	Rs '000
ASSETS					
Cash and short-term funds	14	1,288,970	462,831	2,098,775	2,020,016
Balances with Central Bank	15	818,660	–	818,660	543,214
Investment in sinking fund	16	2,396,305	1,993,605	2,396,305	1,993,605
Investments held for trading	17	5,012,588	274,280	5,291,110	3,942,978
Investments held for maturity	18	1,590,658	2,497,888	8,384,961	11,125,347
Securities purchased under resale agreement		–	–	2,931,816	–
Commercial paper		97,181	–	97,181	109,887
Bills of exchange	19	970,797	–	970,797	943,407
Loans and advances	20	33,849,732	21,839,305	35,167,150	31,814,528
Lease rentals receivable	21	731,303	535,676	731,303	535,676
Interest receivable	22	94,915	34,549	106,650	92,537
Investments in subsidiary companies	25	2,363,966	3,606,219	–	–
Investments in associate companies	26	165,562	165,562	241,216	225,128
Group balances receivable	27	64,799	78,201	25,309	38,750
Other assets	28	795,575	667,468	2,963,239	2,406,803
Property, plant & equipment	29	713,923	243,779	1,622,262	1,658,018
Goodwill	30	–	–	872,719	1,535,071
Total assets		50,954,934	32,399,363	64,719,453	58,984,965
LIABILITIES					
Deposits	31	13,953,729	–	13,953,729	11,085,134
Borrowings	32	22,705,464	23,612,171	23,273,095	23,965,077
Securities sold under repurchase agreement		4,525,758	–	4,525,758	2,916,096
Non-life insurance reserve		–	–	858,759	485,828
Long-term insurance fund		–	–	9,238,184	7,985,381
Other liabilities	33	1,635,552	853,516	2,846,951	2,770,131
Group balances payable	34	35	6,399	–	–
Deferred taxation	35	95,294	90,119	95,294	121,572
Taxation		191,220	74,377	220,429	178,540
Dividends payable		7,996	7,454	7,996	7,454
Total liabilities		43,115,048	24,644,036	55,020,195	49,515,213
FUNDS EMPLOYED					
Share capital	36	545,703	537,500	545,703	537,500
Share premium reserve	37	214,377	91,667	214,377	91,667
Statutory reserve fund	38	545,703	537,500	545,703	546,485
Revaluation reserve		–	–	–	86,156
Revenue reserves	39	6,534,103	6,588,660	7,418,996	7,114,703
Shareholders' funds		7,839,886	7,755,327	8,724,779	8,376,511
Minority interests		–	–	974,479	1,093,241
Total funds employed		7,839,886	7,755,327	9,699,258	9,469,752
Total liabilities and funds employed		50,954,934	32,399,363	64,719,453	58,984,965
Commitments and contingencies	41	8,925,857	3,734,862	9,025,490	10,003,641

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 74 to 112 are an integral part of these Financial Statements.

Approved for and on behalf of the Board of Directors on 10 February 2006.



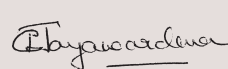
S K Wickremesinghe
Chairman



N S Welikala
Chief Executive Officer



G C B Wijeyesinghe
Director



C L Jayawardena
Secretary to the Board

Cash Flow Statement

		BANK		GROUP	
<i>For the year ended 31 December</i>		2005	2004	2005	2004
	Note	Rs '000	Rs '000	Rs '000	Rs '000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		3,274,573	2,698,630	4,980,879	4,511,200
Fee based income received		143,114	67,126	275,827	73,052
Dividend income received		277,836	386,794	104,849	213,458
Other income received		113,535	145,918	2,394,120	3,201,819
Lease rentals received		159,934	322,808	159,934	322,808
Lease disbursements		(469,769)	(346,843)	(469,769)	(346,843)
Interest paid		(1,764,714)	(1,719,756)	(2,056,393)	(2,333,047)
Personnel costs paid		(398,480)	(311,757)	(671,747)	(490,325)
General expenses paid		(416,268)	(171,098)	(2,058,168)	(1,907,337)
VAT paid		(207,699)	(139,770)	(256,865)	(186,635)
Income taxes paid		(143,377)	(271,537)	(217,921)	(394,948)
Net (increase)/decrease in other receivables		(79,585)	(208,845)	(25,920)	(216,503)
Net increase/(decrease) in other liabilities		(163,713)	(310,385)	134,373	(308,961)
Net cash provided by operating activities		325,387	141,285	2,293,199	2,137,738
CASH FLOWS FROM INVESTING ACTIVITIES					
Net increase in investments					
Acquisition of subsidiaries	c	(390,000)	(1,344,104)	(273,000)	3,112,523
Redemption of preference shares held in a subsidiary		90,000	—	—	—
Government treasury bills and bonds		535,490	338,906	2,487,447	287,542
Change in other investments		(41,799)	215,190	(3,746,960)	(5,302,624)
Securities sold under repurchase agreements		50,026	(1,457,160)	73,926	1,458,936
Transfer of assets and liabilities of NDB Bank Ltd.	b	1,405,736	—	—	—
Net increase in loans and advances		(1,838,704)	(1,472,361)	(2,134,395)	(3,785,634)
Deposits from customers		2,752,470	—	2,555,764	2,470,945
Net due to /(from) related companies		7,037	29,580	5,870	20,281
Expenditure on property, plant & equipment		(75,862)	(22,328)	(163,646)	(122,146)
Proceeds from sale of property, plant & equipment		330	14,355	330	17,526
Net cash provided by investing activities		2,494,724	(3,697,922)	(1,194,664)	(1,842,651)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net (decrease)/increase in borrowings		(832,111)	(454,159)	(303,568)	(3,364,397)
Dividend paid		(321,958)	(306,187)	(375,525)	(431,726)
Net cash used in financing activities		(1,154,069)	(760,346)	(679,093)	(3,796,123)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
		1,666,042	(4,316,983)	419,442	(3,501,036)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR					
		441,308	4,758,291	2,474,425	5,975,461
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	a	2,107,350	441,308	2,893,867	2,474,425

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 74 to 112 are an integral part of these Financial Statements.

NDB Bank
Annual Report 2005
Cash Flow Statement

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
NOTE A				
RECONCILIATION OF CASH AND CASH EQUIVALENTS				
Cash and short-term funds	1,288,970	462,831	2,098,775	2,020,016
Balances with Central Bank	818,660	–	818,660	543,214
Less: Bank overdraft	(280)	(21,523)	(23,568)	(88,805)
	2,107,350	441,308	2,893,867	2,474,425

NOTE B

TRANSFER OF ASSETS AND LIABILITIES OF NDB BANK LTD. WITH EFFECT FROM 1 AUGUST 2005

	Rs '000
Cash and bank balances	1,405,736
Government securities	4,602,866
Loans and advances	10,178,948
Investment securities	314,990
Bills of exchange	1,010,823
Commercial paper	35,125
Other assets	94,959
Property, plant & equipment	526,233
Total assets	18,169,680
Deposits	11,200,461
Borrowings	4,530,574
Other liabilities	1,295,159
Total liabilities	17,026,194
Net assets	1,143,486
Goodwill on acquisition	529,681
	1,673,167
Discharged by:	
Issue of shares	130,913
Cost of earlier acquisition	1,542,254
	1,673,167

Analysis of outflow of cash and cash equivalents in respect of the transfer of assets and liabilities of NDB Bank Ltd. on 1 August 2005.

Cash and cash equivalents on acquisition	1,405,736
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NOTE C

ACQUISITION OF FURTHER HOLDING IN NDB HOUSING BANK LTD. ON 30 DECEMBER 2005

	Rs '000
Cash and bank balances	14,779
Loans and advances	1,596,764
Investment securities	29,878
Other assets	6,680
Property, plant & equipment	3,174
Total assets	1,651,275
Borrowings	928,693
Other liabilities	82,794
Total liabilities	1,011,487
Net assets	639,788
Minority interest	(127,958)
Consolidated revenue reserves	(11,936)
Goodwill on acquisition	70,106
	570,000
Discharged by:	
Cash consideration	390,000
Cost of earlier acquisition	180,000
	570,000
Analysis of outflow of cash and cash equivalents	
Cash outflow on acquisition	(390,000)
Consideration received from Capital Development and Investment Co. Ltd.	117,000
	(273,000)

Statement of Changes in Equity

For the year ended 31 December

	Share Capital	Share Premium	Statutory Reserve Fund	Revaluation Reserve	General Reserve	Retained Profit	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
BANK							
Balance as at 1 January 2004	537,500	91,667	537,500	–	5,805,707	412,563	7,384,937
Net profit for the year	–	–	–	–	–	679,452	679,452
Dividend paid	–	–	–	–	–	(309,062)	(309,062)
Balance as at 31 December 2004	537,500	91,667	537,500	–	5,805,707	782,953	7,755,327
Balance as at 1 January 2005	537,500	91,667	537,500	–	5,805,707	782,953	7,755,327
Issue of new shares	8,203	122,710	–	–	–	–	130,913
Net profit for the year	–	–	–	–	–	805,827	805,827
Transfer to statutory reserve fund	–	–	8,203	–	–	(8,203)	–
Treatment of goodwill in compliance with the Banking Act	–	–	–	–	–	(529,681)	(529,681)
Dividend paid	–	–	–	–	–	(322,500)	(322,500)
Balance as at 31 December 2005	545,703	214,377	545,703	–	5,805,707	728,396	7,839,886
GROUP							
Balance as at 1 January 2004	537,500	91,667	537,500	–	5,805,707	924,761	7,897,135
Brought forward from new subsidiary	–	–	8,985	86,156	–	(8,985)	86,156
Net profit for the year	–	–	–	–	–	703,022	703,022
Exchange gain from valuation of foreign associate	–	–	–	–	–	(740)	(740)
Dividend paid	–	–	–	–	–	(309,062)	(309,062)
Balance as at 31 December 2004	537,500	91,667	546,485	86,156	5,805,707	1,308,996	8,376,511
Balance as at 1 January 2005	537,500	91,667	546,485	86,156	5,805,707	1,308,996	8,376,511
Issue of new shares	8,203	122,710	–	–	–	–	130,913
Adjustment on disposal	–	–	(8,985)	(86,156)	–	(112,914)	(208,055)
Net profit for the year	–	–	–	–	–	1,216,331	1,216,331
Transfer to statutory reserve fund	–	–	8,203	–	–	(8,203)	–
Exchange gain from valuation of foreign associate	–	–	–	–	–	1,215	1,215
Treatment of goodwill in compliance with the Banking Act	–	–	–	–	–	(469,636)	(469,636)
Dividend paid	–	–	–	–	–	(322,500)	(322,500)
Balance as at 31 December 2005	545,703	214,377	545,703	–	5,805,707	1,613,289	8,724,779

1. GENERAL

1.1 Accounting Convention

The Financial Statements of the Bank and the Group, comprising the Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity, Accounting Policies and Notes to the Financial Statements are prepared on the basis of the historical cost convention other than certain investments as explained in 2.3 below and in conformity with generally accepted Accounting Principles and Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka. These principles and standards have been applied consistently with that of the previous year.

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

1.2 Format of Accounts, prior year Figures and Phrases

The Financial Statements are presented in accordance with the format of accounts prescribed by the Central Bank of Sri Lanka.

Certain prior year figures and phrases are rearranged wherever necessary to conform to the current year's presentation.

1.2.1 Date of Authorization for Issue

The Financial Statements of National Development Bank Ltd. for the year ended 31 December 2005 were authorized for issue in accordance with a resolution of the Board of Directors on 10 February 2006.

1.3 Basis of Consolidation

1.3.1 The Group Financial Statements include the consolidated results, assets and liabilities of the Bank and its subsidiaries made up to the financial year-end. The results of subsidiaries are included from the date on which the 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 and Income Statement respectively under the heading of minority interests.

1.3.2 In the Group Financial Statements, investments in associate companies described in Note 26 to the Financial Statements, are accounted for under the equity method of accounting. Under the equity method of accounting, the Group's share of profits and losses of the associate companies made up to their respective year-ends is accounted for in the Consolidated Income Statement for the year. The carrying value of the investment in the Consolidated Balance Sheet is thereby increased or decreased to recognize the 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 the normal course of business the Bank sometimes takes a significant stake in the equity of companies which seek financial assistance from the Bank. Investments of this nature in companies which are not considered to be part of the Group, are accounted for in the manner described under 2.3 Investments.

1.3.4 In the Bank's 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.

1.3.5 Goodwill arising on consolidation was amortized to revenue over a period of 5 years commencing from the year in which the company was first consolidated or controlled up to 31 May 2005. With effect from 1 June 2005, the unamortized goodwill in the Balance Sheet up to 31 May 2005 will be tested for impairment annually in the first quarter of each financial year in accordance with Sri Lanka Accounting Standard No. 41, Impairment of Assets and the excess of the Bank's interest on the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination, if any will be recognized in the Income Statement. However, goodwill arising from the transfer of the assets and liabilities of NDB Bank Ltd., has been set off against appropriations of retained earnings and not in the Income Statement in determining the net profit or loss for the year as Section 22 of the Banking Act requires writing off such goodwill in full in order to declare dividends.

1.4 Foreign Currency Transactions

1.4.1 All foreign exchange transactions are translated to Sri Lanka Rupees at the rates of exchange prevailing at the time the transactions are effected. Assets and liabilities in foreign currencies, other than the liabilities referred to under 1.4.2 below, are translated at the rates of exchange prevailing at the Balance Sheet date. The resulting gains and losses are accounted for in the Income Statement.

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

1.4.3 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. The Bank pays a premium to the Government of Sri Lanka for bearing such risk.

1.5 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.

1.6 Taxation

1.6.1 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 at the rate of 30% (2004 - 30%).

1.6.2 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, at the rate of 30% on On-shore foreign currency transactions, and at 20% on Off-shore foreign currency transactions. (2004 - On-shore 30% 2004 - Off-shore 20%).

1.7 Deferred Taxation

Deferred tax provisions are made to provide for the tax incidence arising from the timing difference between income for income tax purposes and income for financial accounting purposes. Such tax incidence arises due to the difference between the periods over which an item is included for financial accounting purposes on the one hand and tax accounting purposes on the other. The benefit arising from the timing difference is carried forward as a provision and reversed in line with the reducing timing difference.

Deferred tax has been provided for on a full liability basis.

Deferred tax assets are recognized only if, in the opinion of the management, the asset is likely to reverse in the foreseeable future.

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 the 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.

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 the 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. However, in the case of Eagle Insurance Company Ltd., these are stated at cost and interest is accrued up to the end of the year.

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. However, in the case of Eagle Insurance Company Ltd., these are stated at market value.

2.3.2 Investments held to Maturity

Investments held to maturity are regarded as long-term investments and comprise of investments in treasury bonds, 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. In the case of Eagle Insurance Company Ltd. unit trusts are stated at market value. 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 The cost of property, plant & equipment is the cost of purchase or construction together with any incidental expenses thereon. Property, plant & equipment are accounted for at cost less accumulated depreciation which is provided for on the bases specified below:

2.4.2 Depreciation

The provision for depreciation is calculated on the cost of property, plant & equipment so as to write off such costs over the estimated useful lives of the assets by equal annual instalments as follows:

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

Depreciation is provided proportionately for the completed number of months the asset is in the books of the Bank, if it is purchased or sold during the financial year.

Leasehold assets are amortized over the lease period of the respective assets.

2.5 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.

2.6 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, and investing activities have been recognized.

3. LIABILITIES AND PROVISIONS

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

3.2 Pensions and Retirement Benefits

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

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. The Bank contributes 15% and 3% of gross salaries of employees to the 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 other liabilities.

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 as revenue on a straight line basis over the term of the lease. However, no accrued income is recognized where the rental is in arrears for three 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 is recognized on an accrual basis in the period in which the dividend is declared.

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.

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 Non-Life Insurance Business

4.2.1 Gross Written Premium (Revenue)

Gross written premium relates to business which commenced during the year and includes an estimate for business written up to the year end but not yet booked, less an allowance for cancellations.

4.2.2 Reinsurance Premium

Reinsurance premium expense is accounted for in the same accounting period as the gross written premium to which it relates.

4.2.3 Unearned Premiums

Unearned premiums are the portion of gross written premiums and reinsurance premiums written in the current year in respect of risk related to subsequent periods. Unearned premiums are calculated on the 24ths basis in accordance with the Control of Insurance (Miscellaneous Provisions) Regulations 1987.

4.2.4 Unexpired Risks

Provision is made where appropriate for the estimated amount required over and above unearned premiums to meet future claims and related expenses on the business in force as at 31 December.

4.2.5 Deferred Acquisition Expenses

Deferred acquisition expenses represent commission related to unearned premiums and calculated on the 24ths basis in accordance with the Control of Insurance (Miscellaneous Provisions) Regulations 1987.

4.2.6 Claims

Claims incurred include provisions for the estimated cost of claims and related handling expenses in respect of incidents up to 31 December, including those which had not been notified. Anticipated reinsurance and other recoveries have been netted off.

Significant Accounting Policies

The provision in respect of Claims Incurred But Not Reported (IBNR) is actuarially valued to ensure a more realistic estimation of the future liability.

Whilst the Directors consider that the provision for claims net of related reinsurance recoveries are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustments to the amounts provided. Such adjustments are reflected in the Financial Statements for that period. The methods used, and the estimates made, are reviewed regularly.

4.3 Life Insurance Business

The profits from life insurance business are accounted for based on an actuarial valuation of the life insurance fund as at the end of the financial year.

4.4 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.

The 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. CASH FLOW

The cash flow has been prepared by using the "Direct Method". Cash and cash equivalents include cash balances, time deposits and treasury bills and bonds. Cash and cash equivalents are presented net of bank overdrafts for the purpose of the Cash Flow Statement.

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 Group.

1. INCORPORATION AND PRINCIPAL ACTIVITIES

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, saved except for certain provisions contained therein.

NDB Bank Ltd. was an associate of the Bank in which the Bank held 22.82% as at 1 January 2004. The Bank acquired further holdings of 37.22%, 19.41%, 11.10% and 1.97% in NDB Bank Ltd. on 23 April 2004, 26 April 2004, 16 June 2004 and 30 July 2004 respectively which resulted in NDB Bank Ltd. becoming a subsidiary of the Bank. The holding in NDB Bank Ltd. by the Bank was 92.52% as at 31 December 2004. At an Extraordinary General Meeting held on 15 July 2005, the shareholders of the Bank approved the issue of up to 823,258 (final allotment 820,257) new shares to the minority shareholders (7.48%) of NDB Bank Ltd. at a ratio of 1 share for every 5.6 shares held in NDB Bank Ltd. as a consideration for the transfer of the assets and liabilities of NDB Bank Ltd. to the Bank. Accordingly, the Bank took over the assets and liabilities of NDB Bank Ltd. with effect from 1 August 2005.

The Bank's holding in NDB Housing Bank Ltd. which was 41.34% (direct holding of 30% and 15% through Capital Development and Investment Company Ltd.) was increased to 80% during the last quarter of the year by the acquisition of the shares held by Capital Development and Investment Company Ltd., and some of the minority shareholders at a price of Rs 13 per share. The Bank's holding was further increased to 95% in February 2006.

The principal activities of the 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 the Bank as at 31 December 2005 was 643 (2004 - 342).

The number of branches of the Bank as at 31 December 2005 was 24 (2004 - 13).

The growth in number of staff and branches are as a result of the transfer of the assets and liabilities of NDB Bank Ltd. with effect from 1 August 2005 and the consequent expansion in the commercial banking activities.

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
2. INCOME				
Gross income	4,288,138	3,538,694	7,116,094	5,868,917
Interest income (Note 3)	3,454,199	2,833,109	5,035,347	4,397,908
Other income (Note 5)	808,034	663,984	2,054,842	1,429,408
Income from operating leases	25,905	41,601	25,905	41,601
	4,288,138	3,538,694	7,116,094	5,868,917
3. INTEREST INCOME				
Loans and advances	2,914,000	2,274,977	3,485,580	2,494,599
Treasury bills and bonds and placements with other banks	540,199	558,132	1,549,767	1,903,309
	3,454,199	2,833,109	5,035,347	4,397,908

Notes to the Financial Statements

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
4. INTEREST EXPENSES				
Long-term borrowings	1,086,236	1,179,600	1,095,699	1,179,188
Other term borrowings	527,773	432,384	768,519	710,381
Quoted debentures	–	44,349	–	44,349
Deposits	245,546	–	477,820	217,904
	1,859,555	1,656,333	2,342,038	2,151,822
5. OTHER INCOME				
Dividend income from securities				
- Quoted investments	31,006	36,574	62,130	48,896
- Non-quoted investments	98,134	150,410	103,272	160,810
Dividend income from subsidiaries/associates				
- Quoted investments	74,752	81,846	–	–
- Non-quoted investments	73,944	117,964	–	–
Gain/(loss) from dealing securities	330,060	63,161	330,060	63,161
Gain/(loss) from investment securities	(30,936)	32,442	(30,936)	40,542
Gain/(loss) from group companies	–	–	27,000	–
	576,960	482,397	491,526	313,409
Net gain/(loss) from government securities	(35,217)	93,757	(71,408)	112,017
Fee and commission income	116,332	–	235,301	128,694
Income from other fee-based activities	28,386	52,698	399,860	385,526
Net insurance income	–	–	416,289	251,926
Exchange gain/(loss)	104,274	–	221,652	98,641
Income from other activities	17,299	35,132	361,622	139,195
	808,034	663,984	2,054,842	1,429,408

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

6. OPERATING EXPENSES

Operating expenses include the following:

Employees' Provident Fund	27,525	20,082	59,848	55,198
Employees' Trust Fund	5,717	4,038	12,253	11,245
Gratuity	6,226	4,984	25,969	33,803
Pension contribution	17,851	12,156	17,851	12,156
Auditors' remuneration	2,000	636	7,426	3,636
Depreciation - Own assets	112,437	70,562	261,274	251,596
Chairman's emoluments	811	665	811	665
Emoluments of twelve Directors paid over Rs 50,000 each per annum (2004 - 12 Directors)	3,138	2,302	4,396	4,225
Emoluments of other Directors paid less than Rs 50,000 each per annum	–	20	–	20
Legal charges including merger related legal expenses	11,093	3,271	16,932	6,910

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 2005. Accordingly, the pension fund benefit expense for the year was Rs 18 mn.

Provisions for retirement gratuities have been made based on the actuarial valuation carried out as at 31 December 2005. Accordingly, gratuity benefit expense for the year was Rs 6 mn.

Both the Pension Plan and Gratuity have been fully funded as confirmed by the actuarial valuation.

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 10% and 10% respectively.

With respect to Eagle Insurance Company Ltd., provision for retirement gratuity is made by way of two insurance policies. An actuarial valuation is carried out annually and the last valuation was carried out as at 31 December 2005 using the projected unit credit method.

In the case of other subsidiaries, provisions are made for gratuity in accordance with Payment of Gratuity Act No. 12 of 1983, based on half month's salary for each completed year of service.

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
8. OTHER ADMINISTRATIVE AND GENERAL EXPENSES				
Premises, equipment and establishment expenses	203,918	77,501	553,195	444,525
Depreciation - Own assets	112,236	70,562	261,274	251,596
Other overhead expenses	178,336	90,650	597,257	465,374
	494,490	238,713	1,411,726	1,161,495
9. PROVISIONS FOR BAD AND DOUBTFUL DEBTS AND FOR FALL IN VALUE OF SECURITIES				
Bad and doubtful debts	164,594	365,001	146,269	305,212
Fall in value of non-quoted securities	7,192	(29,143)	7,192	(26,628)
	171,786	335,858	153,461	278,584

Notes to the Financial Statements

		GROUP	
	Percentage Holding	2005 Rs '000	2004 Rs '000
10. SHARE OF ASSOCIATE COMPANIES' PROFIT BEFORE TAXATION			
Ayojana Fund (Pvt) Ltd.	50.00%	6,755	2,547
Maldives Finance Leasing Co. (Pvt) Ltd.	35.00%	14,910	11,343
NDB Bank Ltd. (up to 30 April 2004)	22.80%	–	17,371
		21,665	31,261

The share of profit/(loss) in respect of the above associate companies are based on the draft financial statements of those companies for the year ended 31 December 2005.

		BANK		GROUP	
		2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
11. TAXATION					
Provision for taxation					
On profit for the year	a	215,151	114,035	328,015	235,522
Tax on capital gains - 2004	a	–	33,000	–	38,478
Tax on capital gains - 2003		–	60,870	–	123,301
Transfer from deferred taxation		5,175	(55,071)	5,175	(71,736)
Over provision in prior years		–	(35,730)	–	(35,730)
VAT on financial services		217,001	123,954	251,339	186,935
On associate companies' share of profit		–	–	–	4,376
		437,327	241,058	584,529	481,146

	2005 Rs '000	2004 Rs '000
a. Reconciliation of Effective Tax Rate - Bank		
Profit before tax	1,243,154	920,510
Statutory tax at 20 per cent	2,026	–
Statutory tax at 30 per cent	369,907	276,153
Add : Effect of tax on non-deductible expenses	153,336	256,587
Less : Effect of tax on claimable expenses	310,118	385,705
Total tax	215,151	147,035

The Bank is liable to VAT on financial services at 15% (2004 - 15%).

NDB Investment Bank Ltd. is liable to taxation at 35% (2004 - 35%).

Ayojana Fund (Pvt) Ltd. is liable to taxation at 20% (2004 - 20%).

NDBS Stockbrokers (Pvt) Ltd. is liable to taxation at 32.5% (2004 - 32.5%).

In terms of Section 40 (A) of the Inland Revenue Act No. 38 of 2000 as amended by Act No.18 of 2002, profits earned by NDB Housing Bank Ltd. is liable to taxation at 20% (2004 - 20%).

The profits earned by Capital Development and Investment Co. Ltd. is liable to taxation at 35% (2004 - 35%). However, the Company was not liable to income tax for the year 2005 due to adjusted tax losses brought forward.

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 32.5% (2004 - 32.5%).

NDB Finance Lanka (Pvt) Ltd. is liable to income tax at 32.5% (2004 - 32.5%). 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% (2004 - 20%).

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

12. DIVIDENDS PAID AND PROPOSED

A first and final dividend of Rs 6.00 per share has been proposed for the year 2005. However, no provision is made in the accounts in accordance with Sri Lanka Accounting Standard No. 36 (2004 - Rs. 6.00 per share).

13. EARNINGS PER SHARE

The basic and diluted earnings per share for 2005 and 2004 have been calculated by dividing the profit after taxation and minority interests for each year by the number of ordinary shares in issue on a time basis as required by the Sri Lanka Accounting Standard No. 34 on Earnings per Share. Ordinary shares issued as part of the cost of the business combination are included in the weighted average number of shares from the acquisition date.

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
Profit attributed to ordinary shareholders	805,827	679,452	1,216,331	703,022
Ordinary shares in issue (Number)	54,092,917	53,750,007	54,092,917	53,750,007
Earnings per ordinary share (Rs)	14.90	12.64	22.49	13.08

Notes to the Financial Statements

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
14. CASH AND SHORT-TERM FUNDS				
Cash in hand	170,555	413	170,570	457
Dues from banks and other financial institutions	1,118,415	462,418	1,928,205	2,019,559
	1,288,970	462,831	2,098,775	2,020,016

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 No. 58 of 1949 (as amended) and contains the effects of cheques pending realization. The minimum cash reserve requirement was 10% of the rupee deposit liabilities as at 31 December 2005 and 2004. 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 the Bank and the Government of Sri Lanka for the latter to guarantee a US\$ 55 mn loan obtained by the Bank from the Industrial Bank of Japan, Nippon Life Insurance Company and the Asian Development Bank in 1997, the Bank has established a Sinking Fund to provide funds for the repayment of the loan.

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
17. INVESTMENTS HELD FOR TRADING				
Treasury bills	2,917,740	25,775	2,917,740	3,152,800
Treasury bonds	1,444,139	—	1,444,139	—
Tradable corporate securities	486,588	—	486,588	—
Dealing Securities (Note 17.1)	164,121	248,505	442,643	790,178
	5,012,588	274,280	5,291,110	3,942,978

17.1 Dealing Securities

Quoted shares (Note 17.2)	30,481	124,865	309,003	388,683
Quoted debentures (Note 17.3)	133,640	123,640	133,640	401,495
	164,121	248,505	442,643	790,178

Notes to the Financial Statements

	2005			2004		
	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000
17.2 Quoted Ordinary Shares						
Banks and Finance						
DFCC Bank Ltd.	133,333	15,141	29,333	133,333	15,141	28,000
		15,141	29,333		15,141	28,000
Diversified Holdings						
Hayleys Ltd.	60	4	6	44	4	6
John Keells Holdings Ltd.	52	2	7	44	2	6
		6	13		6	12
Footwear and Textiles						
Hayleys MGT Knitting Mills Ltd.	6,912,400	5,334	295,505	6,572,200	78,809	558,637
		5,334	295,505		78,809	558,637
Health Care						
Ceylon Hospitals Ltd.	–	–	–	369,400	8,759	8,021
					8,759	8,021
Power & Energy						
Lanka IOC Ltd.	–	–	–	450,000	12,150	20,588
					12,150	20,588
	2005			2004		
	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000	Number of Ordinary Shares	Cost Rs '000	Market Value Rs '000
Quoted Preference Shares						
Banks and Finance						
Commercial Bank of Ceylon Ltd.	1,000,000	10,000	10,000	1,000,000	10,000	10,000
Total as at 31 December - Bank		30,481	334,851		124,865	625,258
Investments in quoted shares by subsidiaries at market value		58,793			44,089	
Investments in quoted shares by subsidiaries at cost		219,729			219,729	
Total as at 31 December - Group		309,003			388,683	

Notes to the Financial Statements

	2005			2004		
	Number of Preference Shares	Cost Rs '000	Market Value Rs '000	Number of Preference Shares	Cost Rs '000	Market Value Rs '000
17.3 Quoted Debentures						
Commercial Bank of Ceylon Ltd.	50,000	50,000	50,000	50,000	50,000	50,000
Hatton National Bank Ltd.	60,000	6,000	6,000	60,000	6,000	6,000
Suntel Ltd.	50,140	50,140	60,168	50,140	50,140	60,168
Sampath Bank Ltd.	175,000	17,500	17,500	175,000	17,500	17,500
Seylan Bank Ltd.	100,000	10,000	10,000	–	–	–
Total as at 31 December - Bank		133,640	143,668		123,640	133,668
Investments in quoted debentures by subsidiaries at market value		–			277,855	
Total as at 31 December - Group		133,640			401,495	

Dealing securities of the Group consist of investments of Rs 383.85 mn valued at the lower of cost and market value and investments of Rs 58.79 mn valued at the market value.

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
18. INVESTMENTS HELD TO MATURITY				
Treasury bonds	1,045,224	1,279,544	7,060,529	9,664,977
Investment securities (Note 18.1)	545,434	1,218,344	1,324,432	1,460,370
	1,590,658	2,497,888	8,384,961	11,125,347
18.1 INVESTMENT SECURITIES				
Non-quoted shares (Note 18.2)	370,379	561,414	1,011,678	1,155,591
Non-quoted debentures (Note 18.3)	175,055	656,930	175,055	183,985
Unit trusts (Note 18.4)	–	–	137,699	120,794
	545,434	1,218,344	1,324,432	1,460,370

Notes to the Financial Statements

	2005			2004		
	Number of Shares	Cost	Net Realizable Value	Number of Shares	Cost	Net Realizable Value
		Rs '000	Rs '000		Rs '000	Rs '000
18.2 Non-Quoted Shares						
A. Ordinary Shares						
Anuradha Ceramics (Pvt) Ltd.	1,399	14	49	1,827	18	44
Arpitalian Compact Soles (Pvt) Ltd.	2,500,000	25,000	14,725	2,500,000	25,000	11,525
Associated Ceat (Pvt) Ltd.	–	–	–	500,000	5,000	5,680
Beico Link Carbons (Pvt) Ltd.	328,500	2,190	4,911	328,500	2,190	4,911
Ceylinco Developers (Pvt) Ltd.	250,000	2,500	8,078	250,000	2,500	8,078
Coats Thread Lanka (Pvt) Ltd.	374,574	9,785	89,549	374,574	9,785	89,456
Coats Thread Exports (Pvt) Ltd.	13,564	273	60,756	13,564	273	69,784
Credit Information Bureau of Sri Lanka	30,395	3,039	17,108	14,195	1,420	5,864
Fitch Ratings Lanka Ltd.	62,500	625	736	62,500	625	692
Hethersett Hotels Ltd.	1,500,000	15,000	18,480	1,500,000	15,000	9,120
Industrial & Commercial Development (Pvt) Ltd.	–	–	–	64,000	641	1,600
Lak Jaya Thrift & Credit Foundation Ltd.	50,000	500	355	50,000	500	338
Link Development (Pvt) Ltd.	150,000	750	4	150,000	750	5,105
Mahaweli Livestock Enterprises Ltd.	600,000	6,000	25,542	600,000	6,000	25,542
MPS Hotels Ltd.	180,000	900	7,513	180,000	900	7,349
Prime Carbons (Pvt) Ltd.	210,720	2,107	3,045	–	–	–
Sampath Centre (Pvt) Ltd.	1,000,000	10,000	18,510	1,000,000	10,000	10,960
South Asia Regional Fund	500	41	118	500	41	–
Suntel Ltd.	11,729,794	117,296	139,115	11,729,794	117,296	111,785
Wayamba Plantations (Pvt) Ltd.	2,750,000	25,000	34,457	2,750,000	25,000	34,760
Sub-total		221,020	443,051		222,939	402,593

Non-quoted ordinary shares which are fully provided for are not included in the above list. The total cost of such investments is Rs 59.65 mn (2004 - Rs 61.80 mn).

Notes to the Financial Statements

	2005			2004		
	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.	6,000,000	60,000	60,000	6,000,000	60,000	60,000
Aqua Gardens (Pvt) Ltd.	250,000	2,500	2,500	500,000	5,000	5,000
Champion Apparel Exports (Pvt) Ltd.	500,000	5,000	5,000	500,000	5,000	5,000
Holcim (Lanka) Ltd.	–	–	–	750	78,750	75,000
Jinasena New Technology Holdings (Pvt) Ltd.	–	–	–	3,000,000	30,000	30,000
Koggala Garments (Pvt) Ltd.	–	–	–	46,875	4,688	4,688
Sampath Centre (Pvt) Ltd.	22,000,000	220,000	220,000	22,000,000	220,000	220,000
South Asia Regional Fund	109	8,906	8,906	212	17,322	17,322
Techno Optics Lanka Ltd.	100,000	1,000	1,000	100,000	1,000	1,000
Texpro Industries Ltd.	–	–	–	5,546,427	55,464	55,464
Sub-total		297,406	297,406		477,224	473,474
Total		518,426	740,457		700,163	876,067
Less: Provision for losses		(148,047)			(138,749)	
Total as at 31 December - Bank		370,379			561,414	
Investments in non-quoted shares by subsidiaries net of provision		503,600			473,384	
Investments in non-quoted shares by subsidiaries at market value		137,699			120,793	
Total as at 31 December - Group		1,011,678			1,155,591	

Investment securities of the Group consist of investments of Rs 873.98 mn valued at the lower of cost and market value and investments of Rs 137.70 mn valued at the market value.

The redemption of the cumulative preference shares are due between 2006 and 2008.

	2005			2004		
	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						
NDB Bank Ltd.	–	–	–	631,875	631,875	631,875
Riverina Hotels Ltd. (31.03.2006)	5,540	55	55	5,540	55	55
Singer Sri Lanka Ltd. (18.11.2008)	250,000	25,000	25,000	250,000	25,000	25,000
Singer Sri Lanka Ltd. (15.09.2008)	1,500,000	150,000	150,000	–	–	–
Total as at 31 December - Bank		175,055	175,055		656,930	656,930
Investments in non-quoted debentures by subsidiaries		–			158,930	
Total as at 31 December - Group		175,055			183,985	

The redemption dates are shown within brackets.

Notes to the Financial Statements

18.4 Unit Trusts

The market value of the investments in Unit Trusts was based on the manager's buying price at the Balance Sheet date. Unit Trusts were carried at the lower of cost and market value determined on a portfolio basis.

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
19. BILLS OF EXCHANGE				
Export bills	933,656	—	933,656	922,959
Import bills	37,141	—	37,141	24,062
Less: Provision for bad and doubtful loans	—	—	—	(3,614)
Net loans and advances	970,797	—	970,797	943,407

	BANK	
	2005 Rs '000	2004 Rs '000
20. LOANS AND ADVANCES		
<i>(a) Bank</i>		
Project finance	20,113,975	20,372,407
Term loans	4,543,391	—
Refinance loans	2,737,648	3,278,664
Consumer loans	682,126	—
Overdraft	3,290,735	—
Packing credit loans	3,983,187	—
Staff loans	456,065	202,240
	35,807,127	23,853,311
Less: Provision for bad and doubtful loans (Note 20.1)	1,957,395	2,014,006
Net loans and advances	33,849,732	21,839,305

	Specific Rs '000	General Rs '000	2005 Total Rs '000	2004 Total Rs '000
20.1 Provision for Bad and Doubtful Loans				
At the beginning of the year	1,849,002	165,004	2,014,006	2,205,788
Resulting from the transfer of assets and liabilities of NDB Bank Ltd.	39,397	—	39,397	—
Amounts recovered/provisions written back	(263,447)	(9,166)	(272,613)	(280,631)
Amounts written off	(273,640)	—	(273,640)	(540,410)
Provision made during the year	450,245	—	450,245	629,259
At the end of the year	1,801,557	155,838	1,957,395	2,014,006

Notes to the Financial Statements

	GROUP	
	2005 Rs '000	2004 Rs '000
(b) Group		
Project finance	21,472,997	21,177,255
Term loans	4,543,391	2,897,544
Refinance loans	2,737,648	3,278,664
Consumer loans	682,126	163,167
Overdraft	3,290,735	2,659,647
Packing credit loans	3,983,187	3,374,811
Staff loans	456,065	364,947
	37,166,149	33,916,035
Less: Provision for bad and doubtful loans (Note 20.2)	1,998,999	2,101,507
Net loans and advances	35,167,150	31,814,528

	Specific	General	2005 Total Rs '000	2004 Total Rs '000
	Rs '000	Rs '000		
20.2 Provision for Bad and Doubtful Loans				
At the beginning of the year	1,927,054	174,453	2,101,507	2,238,521
Amounts recovered/provisions written back	(263,447)	–	(263,447)	(340,696)
Amounts written off	(275,274)	(9,166)	(284,440)	(693,679)
Provision made during the year	450,245	6,555	456,800	629,259
Brought forward from new subsidiaries	39,397	–	39,397	268,102
Adjustment on disposal of subsidiary	(50,818)	–	(50,818)	–
At the end of the year	1,827,157	171,842	1,998,999	2,101,507

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
21. LEASE RENTALS RECEIVABLE				
Total rentals receivable	1,034,721	784,373	1,034,721	784,373
Less: Provision for doubtful recoveries (Note 21.1)	61,069	73,675	61,069	73,675
Interest in suspense (Note 21.2)	13,900	19,641	13,900	19,641
Unearned income	228,449	155,381	228,449	155,381
Net rentals receivable	731,303	535,676	731,303	535,676

21.1 Provision for Bad and Doubtful Recoveries

At the beginning of the year	73,675	125,573	73,675	125,573
Amounts recovered/provisions written back	(13,731)	(3,087)	(13,731)	(3,087)
Amounts written off	(1,740)	(68,272)	(1,740)	(68,272)
Provision made during the year	2,865	19,461	2,865	19,461
At the end of the year	61,069	73,675	61,069	73,675

Notes to the Financial Statements

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
21.2 Interest in Suspense				
At the beginning of the year	19,641	70,692	19,641	70,692
Amounts written back to profit	(1,470)	(36,023)	(1,470)	(36,023)
Amounts written off	(8,918)	(397)	(8,918)	(397)
Transfer to interest in suspense	4,665	162	4,665	162
Transfer to loans	(18)	(14,793)	(18)	(14,793)
At the end of the year	13,900	19,641	13,900	19,641

	Up to 1 year Rs '000	1 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
21.3 Maturity of Lease Rentals Receivable of the Bank				
Total rentals receivable	432,893	604,008	5,705	1,042,606
Amounts collected in advance	(1,376)	(6,507)	—	(7,885)
	431,516	597,501	5,705	1,034,721
Provision for doubtful recoveries	(58,208)	(2,812)	(49)	(61,069)
Interest in suspense	(13,819)	(81)	—	(13,900)
Unearned income	(74,467)	(153,402)	(578)	(228,449)
Net rentals receivable	285,022	441,203	5,078	731,303

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
22. INTEREST RECEIVABLE				
Interest receivable	1,130,246	1,624,277	1,143,130	1,681,957
Less: Interest in suspense (Note 22.1)	1,035,331	1,589,728	1,036,480	1,589,420
	94,915	34,549	106,650	92,537
22.1 Interest in Suspense				
At the beginning of the year	1,589,728	1,484,804	1,589,728	1,484,804
Amounts written back to profit	(483,951)	(171,800)	(483,951)	(171,800)
Amounts written off	(835,835)	(509,156)	(835,835)	(509,439)
Transfer to interest in suspense	765,389	785,880	766,513	785,880
Brought forward/disposal of new subsidiary	—	—	25	(25)
At the end of the year	1,035,331	1,589,728	1,036,480	1,589,420

Notes to the Financial Statements

	BANK		GROUP	
	Loan Loss Provision Rs '000	Interest in Suspense Rs '000	Loan Loss Provision Rs '000	Interest in Suspense Rs '000
23. ANALYSIS OF PROVISION FOR LOAN LOSSES AND INTEREST IN SUSPENSE				
Loans and advances	1,957,395	1,035,331	1,998,999	1,036,480
Lease rentals receivable	61,069	13,900	61,069	13,900
	2,018,464	1,049,231	2,060,068	1,050,380

24. ASSET QUALITY INFORMATION

24.1 Concentration of Credit Risk

In granting credit facilities the Bank exposes itself to a credit risk. This concerns the Balance Sheet items, Loans and Advances and Lease Rentals Receivable. Concentration of the credit risk could result in a material loss for the Bank if a change in economic circumstances were to impinge upon a whole industry or the country. However, in order to maintain such risk at a manageable level the Bank has established prudent credit controls, such as predetermined sector and group exposure limits and Board and Management Credit Committees. Security is also invariably obtained when granting credit.

The Bank's exposure to credit risk is concentrated in companies domiciled in Sri Lanka. The Bank's lending portfolio is diversified covering all sectors of the economy. The total lending exposure of the Bank as at the Balance Sheet date, shows the following analysis:

	2005 %	2004 %
Food, beverage and tobacco	11.5	8.7
Agriculture, agro-business and fisheries	8.4	11.7
Textiles and garments	7.6	5.0
Wood and paper products	1.4	0.9
Rubber and leather products	8.3	7.0
Metals, chemicals and engineering	13.7	16.7
Hotels and tourism	1.5	2.6
Utilities	7.8	10.9
Financial services	17.8	17.2
Commercial services	5.0	6.4
Other services	4.1	6.7
Other	12.9	6.2
	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.

24.2 Non-Performing Loans, Advances and Leases

Non-performing loans, advances and leases are those balances where capital or interest is in arrears for 3 months or more. Interest is not accrued to revenue on these accounts. Non-performing loans, advances and leases that are rescheduled need to perform for 6 consecutive months before they can be reclassified. The capital balance outstanding on the non-performing accounts are as follows:

Bank	Loans and Advances Rs '000	Lease Capital Rs '000	2005 Total Rs '000	2004 Total Rs '000
Gross	1,561,454	29,582	1,591,036	2,430,815
Net of tangible securities and Central Bank mandated specific provisions	526,413	6,796	533,209	354,253

	2005 Percentage Holding	2005 Cost Rs '000	2005 Directors' Valuation/ Market Value Rs '000	2004 Percentage Holding	2004 Cost Rs '000
25. INVESTMENTS IN SUBSIDIARY COMPANIES					
Capital Development & Investment Co. Ltd.	75.60	1,169,336	1,894,785	75.60	1,169,336
Development Holdings (Pvt) Ltd. - ordinary shares	58.60	228,150	286,396	58.60	228,150
Development Holdings (Pvt) Ltd. - preference shares	—	200,000	200,000	—	290,000
NDB Bank Ltd. (from 1 May 2004 to 31 July 2005)	—	—	—	92.52	1,542,253
NDB Housing Bank Ltd.	80.00	570,000	624,000	41.34	180,000
NDB Investment Bank Ltd.	80.10	32,040	96,364	80.10	32,040
NDBS Stockbrokers (Pvt) Ltd.	100.00	26,940	117,675	100.00	26,940
NDB Venture Investments (Pvt) Ltd.	61.11	137,500	154,211	61.11	137,500
		2,363,966	3,373,431		3,606,219

The Bank has a 100% holding in NDB Industrial Estates (Pvt) Ltd., in which company, Rs 30 has been invested as share capital.

NDB Bank Ltd. was an associate of the Bank in which the Bank held 22.82% as at 1 January 2004. The Bank acquired further holdings of 37.22%, 19.41%, 11.10% and 1.97% in NDB Bank Ltd. on 23 April 2004, 26 April 2004, 16 June 2004 and 30 July 2004 respectively which resulted in NDB Bank Ltd. becoming a subsidiary of the Bank. The holding in NDB Bank Ltd. by the Bank was 92.52% as at 31 December 2004. At an Extraordinary General Meeting held on 15 July 2005, the shareholders of the Bank approved the issue of up to 823,258 (final allotment 820,257) new shares to the minority (7.48%) shareholders of NDB Bank Ltd. at a ratio of 1 share for every 5.6 shares held in NDB Bank Ltd. as a consideration for the transfer of the assets and liabilities of NDB Bank Ltd. to the Bank. Accordingly, the Bank took over the assets and liabilities of NDB Bank Ltd. with effect from 1 August 2005.

The Bank's holding in NDB Housing Bank Ltd. which was 41.34% (direct holding of 30% and 15% through Capital Development and Investment Co. Ltd.) was increased to 80% during the last quarter of the year by the acquisition of the shares held by Capital Development and Investment Co. Ltd. and some of the minority shareholders at a price of Rs 13 per share.

All subsidiary companies are audited by Ernst & Young, except for NDB Finance Lanka (Pvt) Ltd. and Eagle Insurance Company Ltd. which are audited by PricewaterhouseCoopers.

Notes to the Financial Statements

		2005	2005		2004
	Percentage Holding	Cost	Directors' Valuation	Percentage Holding	Cost
		Rs '000	Rs '000		Rs '000
26. INVESTMENTS IN ASSOCIATE COMPANIES					
(a) Bank					
Ayojana Fund (Pvt) Ltd.	50.00%	100	38,268	50.00%	100
Maldives Finance Leasing Co. (Pvt) Ltd.	35.00%	165,462	201,639	35.00%	165,462
		165,562	239,907		165,562

	As at 01.01.05	Exchange Gain on Valuation	Share of Profit Net of Dividend Received	As at 31.12.05
	Rs '000	Rs '000	Rs '000	Rs '000
(b) Group				
Ayojana Fund (Pvt) Ltd.	31,513	—	6,755	38,268
Maldives Finance Leasing Co. (Pvt) Ltd.	193,615	1,215	8,118	202,948
	225,128	1,215	14,873	241,216

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

All associate companies are audited by Ernst & Young.

	BANK		GROUP	
	2005	2004	2005	2004
	Rs '000	Rs '000	Rs '000	Rs '000
27. GROUP BALANCES RECEIVABLE				
Ayojana Fund (Pvt) Ltd.	25,000	38,750	25,000	38,750
Capital Development and Investment Co. Ltd.	32	—	—	—
Maldives Finance Leasing Co. (Pvt) Ltd.	309	—	309	—
NDB Industrial Estates Ltd.	39,458	39,451	—	—
	64,799	78,201	25,309	38,750

Notes to the Financial Statements

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
28. OTHER ASSETS				
Sundry receivables	598,878	476,101	2,034,096	1,684,558
Payments in advance	36,286	19,498	44,369	118,694
Employee Share Ownership Plan (ESOP)	160,411	171,869	160,411	171,869
Policy loans	–	–	724,363	431,682
	795,575	667,468	2,963,239	2,406,803

The ESOP represents the written down value of the NDB shares paid for by the Bank on behalf of a trust for the benefit of the employees. The total cost of Rs 229 mn is being amortized over a period of 20 years with effect from 1 January 2000.

	Land and Buildings Rs '000	Motor Vehicles Rs '000	Furniture and Equipment Rs '000	Total Rs '000
29. PROPERTY, PLANT & EQUIPMENT				
29.1 Bank				
Cost				
<i>Freehold Assets</i>				
As at 1 January 2005	202,710	234,613	276,653	713,976
Additions during the year	339,142	19,846	244,052	603,040
Disposals during the year	–	(1,304)	(1,649)	(2,953)
As at 31 December 2005	541,852	253,155	519,056	1,314,063
<i>Leasehold Assets</i>				
As at 1 January and 31 December 2005	19,881	–	–	19,881
As at 31 December 2005 (a)	561,733	253,155	519,056	1,333,944
Depreciation/Amortization				
<i>Freehold Assets</i>				
As at 1 January 2005	123,942	170,382	191,737	486,061
Charge for the year	19,342	30,610	82,129	132,081
On disposals	–	(734)	(1,605)	(2,339)
As at 31 December 2005	143,284	200,258	272,261	615,803
<i>Leasehold Assets</i>				
As at 1 January 2005	4,017	–	–	4,017
Charge for the year	201	–	–	201
As at 31 December 2005	4,218	–	–	4,218
Total as at 31 December 2005 (b)	147,502	200,258	272,261	620,021
Written down value as at 31 December 2005 (a)-(b)	414,231	52,897	246,795	713,923
Written down value as at 31 December 2004	94,632	64,231	84,916	243,779

Notes to the Financial Statements

	Land and Buildings Rs '000	Motor Vehicles Rs '000	Furniture and Equipment Rs '000	Work-in- Progress Rs '000	Total Rs '000
29.2 Group					
Cost					
<i>Freehold Assets</i>					
As at 1 January 2005	1,273,226	272,032	1,291,204	99,604	2,936,066
Additions during the year	339,142	21,882	259,679	46,089	666,792
Disposals during the year	–	–	(1,649)	–	(1,649)
Adjustment on transfer of fixed assets*	(349,999)	(5,737)	(388,735)	–	(744,471)
As at 31 December 2005	1,262,369	288,177	1,160,499	145,693	2,856,738
<i>Leasehold Assets</i>					
As at 1 January 2005	19,881	–	–	–	19,881
As at 31 December 2005 (a)	1,282,250	288,177	1,160,499	145,693	2,876,619
Depreciation/Amortization					
<i>Freehold Assets</i>					
As at 1 January 2005	222,843	202,886	868,183	–	1,293,912
Charge for the year	31,450	33,031	93,838	–	158,319
On disposals	–	–	(1,605)	–	(1,605)
Adjustment on transfer of fixed assets*	(3,857)	(3,780)	(192,850)	–	(200,487)
As at 31 December 2005	250,436	232,137	767,566	–	1,250,139
<i>Leasehold Assets</i>					
As at 1 January 2005	4,017	–	–	–	4,017
Charge for the year	201	–	–	–	201
As at 31 December 2005	4,218	–	–	–	4,218
Total as at 31 December 2005 (b)	254,654	232,137	767,566	–	1,254,357
Written down value as at 31 December 2005 (a)-(b)	1,027,596	56,040	392,933	145,693	1,622,262
Written down value as at 31 December 2004	1,066,247	69,146	423,021	99,604	1,658,018

* As a result of the transfer of the assets and liabilities of NDB Bank Ltd. to National Development Bank Ltd. on 1 August 2005.

29.3 Assets on Operating Leases

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

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
Cost as at 31 December	163,201	164,505	163,201	164,505
Less: Accumulated depreciation as at 31 December	(156,410)	(137,299)	(156,410)	(137,299)
Written down value as at 31 December	6,791	27,206	6,791	27,206

Notes to the Financial Statements

	GROUP	
	2005 Rs '000	2004 Rs '000
30. GOODWILL		
Goodwill arises on consolidation of the Bank's subsidiaries		
At the beginning of the year		
Gross amount	1,654,481	948,434
Accumulated amortization	(119,410)	(43,493)
	1,535,071	904,941
Movement during the year		
Recorded during the year	70,106	706,047
Realized on liquidation	(690,721)	–
Amortization (up to 31 May 2005)	(41,737)	(75,917)
Gross amount as at 31 May 2005	1,033,866	1,654,481
Accumulated amortization as at 31 May 2005	(161,147)	(119,410)
Net balance	872,719	1,535,071

Goodwill on consolidation was amortized to the Income Statement up to 31 May 2005. With effect from 1 June 2005, goodwill on consolidation as at date will be tested for impairment annually commencing from 1st quarter end 2006 and the excess of the Bank's identifiable assets, liabilities and contingent liabilities over the cost of the business combination if any, will be recognized in the Income Statement.

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
31. DEPOSITS				
Interest Bearing Deposits				
Savings deposits	2,035,756	–	2,035,756	1,846,095
Time deposits	8,905,031	–	8,905,031	6,943,179
Certificate of deposits	94,448	–	94,448	77,156
Demand deposits	2,562,599	–	2,562,599	2,107,893
Margins	355,895	–	355,895	110,811
	13,953,729	–	13,953,729	11,085,134

	2005 Rs '000	2004 Rs '000
32. BORROWINGS		
(a) Bank		
Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines	14,424,183	14,988,301
Other Government of Sri Lanka loans	177,000	236,000
Foreign borrowings	3,401,995	3,685,324
Local borrowings	4,702,006	4,681,023
	22,705,184	23,590,648
Dues to banks	280	21,523
	22,705,464	23,612,171

Notes to the Financial Statements

	Up to 1 year Rs '000	1 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
(a.1) Maturity of Borrowings				
Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines	2,179,973	6,397,580	5,846,630	14,424,183
Other Government of Sri Lanka loans	59,000	118,000	–	177,000
Foreign borrowings	188,085	3,213,910	–	3,401,995
Local borrowings	3,657,371	1,044,633	–	4,702,006
Dues to banks	280	–	–	280
	6,084,711	10,774,123	5,846,630	22,705,464

	2005 Rs '000	2004 Rs '000
(b) Group		
Government of Sri Lanka loans under ADB, IDA, KfW and JBIC credit lines	14,424,183	14,988,301
Other Government of Sri Lanka loans	177,000	245,888
Foreign borrowings	3,401,995	3,685,324
Local borrowings	5,246,349	4,956,759
	23,249,527	23,876,272
Dues to banks	23,568	88,805
	23,273,095	23,965,077

	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	2,179,973	6,397,580	5,846,630	14,424,183
Other Government of Sri Lanka loans	59,000	118,000	–	177,000
Foreign borrowings	188,085	3,213,910	–	3,401,995
Local borrowings	3,568,898	1,078,026	599,425	5,246,349
Dues to banks	23,568	–	–	23,568
	6,019,524	10,807,516	6,446,055	23,273,095

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
33. OTHER LIABILITIES				
Interest payable	366,077	394,272	392,777	481,054
Accrued expenses	174,632	98,476	211,451	159,170
Other liabilities	1,094,843	360,768	2,242,723	2,129,907
	1,635,552	853,516	2,846,951	2,770,131

Notes to the Financial Statements

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
34. GROUP BALANCES PAYABLE				
Development Holdings (Pvt) Ltd.	–	4,019	–	–
NDB Bank Ltd.	–	2,350	–	–
NDB Housing Bank Ltd.	35	30	–	–
	35	6,399	–	–

35. DEFERRED TAXATION				
Balance as at 1 January	90,119	145,190	121,572	145,190
Acquisition/(disposal) of a subsidiary	–	–	(31,453)	52,594
Charge/(release) for the year	5,175	(55,071)	5,175	(76,212)
Balance as at 31 December	95,294	90,119	95,294	121,572

	Number	Par Value Rs	BANK & GROUP	
			2005 Rs '000	2004 Rs '000
36. SHARE CAPITAL				
Authorized				
200,000,000 ordinary shares of Rs 10 each			2,000,000	2,000,000
Issued and fully paid				
Balance as at 1 January	53,750,000	10	537,500	537,500
Issue of new shares	820,257	10	8,203	–
Balance as at 31 December			545,703	537,500

The increase in the issued share capital was due to the issue of 820,257 new shares to the shareholders of NDB Bank Ltd. at a ratio of 1 share for every 5.6 shares held in NDB Bank Ltd. as a consideration for the transfer of the assets and liabilities of NDB Bank Ltd. to the Bank on 1 August 2005.

	BANK & GROUP	
	2005 Rs '000	2004 Rs '000
37. SHARE PREMIUM RESERVE		
Balance as at 1 January	91,667	91,667
Transfers resulting from the issue of new shares	122,710	–
Balance as at 31 December	214,377	91,667

The Share Premium Reserve of Rs 91.7 mn arose in 1997 from the early conversion of the Government held convertible debentures into ordinary shares. During 2005, a further share premium arose on the issue of 820,257 new shares to the shareholders of NDB Bank Ltd. as explained in Note 36 above.

Notes to the Financial Statements

38. STATUTORY RESERVE FUND

A 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.

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
Balance as at 1 January	537,500	537,500	546,485	537,500
Brought forward from subsidiary	–	–	–	8,985
Issue of new shares	8,203	–	8,203	–
Adjustment on disposal	–	–	(8,985)	–
Balance as at 31 December	545,703	537,500	545,703	546,485

	General Reserves Rs '000	Retained Profit Rs '000	Total Rs '000
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39. REVENUE RESERVES

(a) Bank

As at 1 January 2005	5,805,707	782,953	6,588,660
Profit after taxation	–	805,827	805,827
	5,805,707	1,588,780	7,394,487
Dividends paid	–	(322,500)	(322,500)
Transfer to statutory reserve fund	–	(8,203)	(8,203)
Treatment of goodwill in order to comply with the Banking Act*	–	(529,681)	(529,681)
As at 31 December 2005	5,805,707	728,396	6,534,103

(b) Group

As at 1 January 2005	5,805,707	1,308,996	7,114,703
Exchange gain from valuation of foreign associate	–	1,215	1,215
Profit after taxation	–	1,216,331	1,216,331
	5,805,707	2,526,542	8,332,249
Dividends paid	–	(322,500)	(322,500)
Transfer to statutory reserve fund	–	(8,203)	(8,203)
Adjustment on disposal of NDB Bank Ltd. as a subsidiary	–	(112,914)	(112,914)
Treatment of goodwill in order to comply with the Banking Act*	–	(469,636)	(469,636)
As at 31 December 2005	5,805,707	1,613,289	7,418,996

* Arising from the transfers of assets and liabilities of NDB Bank Ltd.

40. MATURITY ANALYSIS

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

	Up to 3 months Rs '000	3 to 12 months Rs '000	1 to 3 years Rs '000	3 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
Interest Earning Assets						
<i>Cash and Short-Term Funds</i>						
Cash in hand and with banks	170,555	–	–	–	–	170,555
	170,555	–	–	–	–	170,555
<i>Investments held for Trading</i>						
Treasury bills	2,917,739	–	–	–	–	2,917,739
Treasury bonds	1,444,139	–	–	–	–	1,444,139
Other securities	486,588	–	–	–	–	486,588
	4,848,466	–	–	–	–	4,848,466
<i>Bills of Exchange</i>	916,640	54,157	–	–	–	970,797
<i>Commercial paper</i>	97,181	–	–	–	–	97,181
<i>Investments held to Maturity</i>						
Sinking fund investments (Note 24.4)	–	–	2,396,305	–	–	2,396,305
Treasury bonds	–	316,248	628,976	100,000	–	1,045,224
	–	316,248	3,025,281	100,000	–	3,441,529
<i>Loans and Advances</i>						
Direct loans (Gross)	12,070,215	5,054,235	8,353,187	2,733,732	1,111,310	29,322,679
Refinance loans (Gross)	286,048	560,110	868,660	452,360	570,470	2,737,648
Staff loans	16,174	54,714	137,794	98,346	149,037	456,065
Overdraft	3,290,735	–	–	–	–	3,290,735
Provisions for bad and doubtful debts	(1,957,395)	–	–	–	–	(1,957,395)
	13,705,777	5,669,059	9,359,641	3,284,438	1,830,817	33,849,732
Interest receivable	94,915	–	–	–	–	94,915
Lease rentals receivable	78,296	206,726	323,282	117,921	5,078	731,303
Non-Interest Earning Assets						
Balances with Central Bank	818,660	–	–	–	–	818,660
Dues from banks	1,118,415	–	–	–	–	1,118,415
	1,937,075	–	–	–	–	1,937,075

Notes to the Financial Statements

	Up to 3 months Rs '000	3 to 12 months Rs '000	1 to 3 years Rs '000	3 to 5 years Rs '000	More than 5 years Rs '000	Total Rs '000
Quoted shares	30,481	–	–	–	–	30,481
Quoted debentures	133,640	–	–	–	–	133,640
Non-quoted shares/debentures	–	–	395,055	–	150,379	545,434
	164,121	–	395,055	–	150,379	709,555
Investments in subsidiaries & associates	–	–	–	–	2,529,529	2,529,529
Group balances/other assets	700,418	11,004	22,916	22,916	103,121	860,374
Property, plant & equipment	–	60,651	–	21,575	631,697	713,923
As at 31 December 2005	22,713,444	6,317,845	13,126,175	3,546,850	5,250,621	50,954,934
As at 31 December 2004	5,394,450	5,048,613	11,009,126	5,041,059	5,906,115	32,399,363

Interest Bearing Liabilities

Borrowings

Government of Sri Lanka loans

under ADB, IDA, KfW and JBIC credit lines	908,170	1,271,810	3,563,870	2,833,710	5,846,630	14,424,190
Other Government of Sri Lanka loans	29,500	29,500	118,000	–	–	177,000
Foreign borrowings	187,775	305	3,212,690	1,220	–	3,401,990
Local borrowings	1,719,165	1,938,209	1,042,632	2,000	–	4,702,006
	2,844,610	3,239,824	7,937,192	2,836,930	5,846,630	22,705,186

Securities purchased under

repurchase agreements	3,528,401	988,206	9,150	–	–	4,525,757
Deposits	11,124,445	2,497,590	116,885	45,660	–	13,784,580
Dues to banks	280	–	–	–	–	280
	14,653,126	3,485,797	126,035	45,660	–	18,310,618
	17,497,736	6,725,620	8,063,227	2,882,590	5,846,630	41,015,803

Non-Interest Bearing Liabilities

Accrued interest	169,148	–	–	–	–	169,148
Group balances/sundry creditors	1,635,587	–	–	–	–	1,635,587
Taxation	191,220	–	–	–	–	191,220
Dividends payable	7,996	–	–	–	–	7,996
Deferred taxation	–	–	–	–	95,294	95,294
	2,003,951	–	–	–	95,294	2,099,245
As at 31 December 2005	19,501,687	6,725,620	8,063,227	2,882,590	5,941,924	43,115,048
As at 31 December 2004	3,130,976	2,890,226	10,324,732	3,041,228	5,256,874	24,644,036

Notes to the Financial Statements

41. COMMITMENTS AND CONTINGENCIES

41.1 Business Commitments

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

These commitments are quantified below:

	BANK		GROUP	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
Undisbursed financing commitments	1,517,824	2,453,000	1,617,457	2,508,466
Guarantees	3,277,187	786,062	3,277,187	3,465,929
Commitments on account of letters of credit	2,509,857	495,800	2,509,857	2,462,670
Forward exchange contracts	349,473	–	349,473	208,020
Acceptances	1,198,846	–	1,198,846	1,276,103
Travellers cheques	72,670	–	72,670	82,453
	8,925,857	3,734,862	9,025,490	10,003,641

41.2 Litigation against the Bank

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

42. SEGMENTAL ANALYSIS - GROUP

	Banking Income		Equity Income		Property Investment		Insurance		Others		Consolidated	
	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000	2005 Rs '000	2004 Rs '000
Revenue												
External income	4,739,806	3,901,036	480,973	337,106	104,489	92,244	1,521,655	1,177,356	210,513	410,777	7,057,436	5,918,519
Inter-segment income	–	–	–	–	14,228	9,657	10,545	8,630	14,040	86,864	38,813	105,151
Total income	4,739,806	3,901,036	480,973	337,106	118,717	101,901	1,532,200	1,185,986	224,553	497,641	7,096,249	6,023,670
Segment expenses	(3,325,344)	(2,878,332)	(63,423)	(201,835)	(42,111)	(58,577)	(1,008,893)	(954,901)	(174,985)	(307,064)	(4,614,756)	(4,400,709)
Inter-segment expenses	–	–	–	–	(14,228)	(9,657)	(10,545)	(8,630)	(14,040)	(86,864)	(38,813)	(105,151)
Segment results	1,414,462	1,022,704	417,550	135,271	62,378	33,667	512,762	222,455	35,528	103,713	2,442,680	1,517,810
Unallocated expenses											(426,900)	(262,469)
Operating profit											2,015,780	1,255,341
Share of associate companies' profit before taxation	14,910	28,714	6,755	2,547	–	–	–	–	–	–	21,665	31,261
Taxation											(333,190)	(294,211)
VAT on financial services											(251,339)	(186,935)
Profit after taxation											1,452,916	805,456
Other Information												
Segment assets	43,004,038	38,096,115	1,293,543	627,004	617,271	622,380	12,208,632	9,800,924	4,879,259	6,208,217	62,002,743	55,354,640
Investment in associates	202,948	193,615	38,269	31,513	–	–	–	–	–	–	241,217	225,128
Unallocated corporate assets											2,475,493	3,405,196
Consolidated total assets											64,719,453	58,984,964
Segment liabilities	40,214,748	35,849,271	715,272	933,352	21,676	20,779	11,191,943	8,957,037	822,563	1,073,355	52,966,202	46,833,794
Unallocated corporate liabilities											2,053,993	2,681,419
Consolidated total liabilities											55,020,195	49,515,213

Notes to the Financial Statements

43. 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 the 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 the Bank, is maintained as a buffer to absorb credit losses.

Basis of Computation

The risk weights assigned to the on and off Balance Sheet assets and composition of capital are prescribed by Central Bank of Sri Lanka. Consolidated Financial Statements are used for this computation.

Capital Base as at 31 December	2005 Rs '000	2004 Rs '000
Tier 1: Core Capital		
Paid-up ordinary shares	545,703	537,500
Share premium	214,377	91,667
Statutory reserve fund	545,703	546,485
Published retained profits	1,613,289	1,308,996
General & other reserves	5,805,707	5,805,707
Minority interest	974,479	1,093,241
	9,699,258	9,383,596
Deductions		
Goodwill	872,719	1,535,071
ESOP	–	171,869
Total Tier 1 capital	8,826,539	7,676,656
Tier 2: Supplementary Capital		
Revaluation reserve	–	86,156
General provision	180,637	190,676
Total Tier 2 capital	180,637	276,832
Total Tier 1 & Tier 2 capital	9,007,176	7,953,488
Deductions		
Investments in capital of other banks and financial associates	344,077	364,578
Capital Base	8,663,099	7,588,910

Notes to the Financial Statements

Risk Weighted Assets and Off-Balance Sheet Exposure

	2005 Rs '000	2004 Rs '000	Risk Weights %	2005 Rs '000	2004 Rs '000
Cash, treasury bills & other securities with Central Bank	17,739,759	13,968,063	—	—	—
Loans secured against Sri Lanka Government guarantee	167,324	193,119	—	—	—
Loans secured by Provident Fund	98,882	16,573	—	—	—
Loans against cash deposits & gold	132,261	—	—	—	—
Loans guaranteed by OECD incorporated banks	23,436	—	20	4,687	—
Dues from banks abroad	1,077,972	—	20	215,594	—
Placements with and loans to other banks and financial institutions	1,652,873	4,267,548	20	330,575	853,510
Loans secured by primary mortgage	291,034	150,553	50	145,516	75,277
Other loans and advances	34,837,579	31,929,751	100	34,837,579	31,929,751
Other investments (excluding items deducted against from total capital)	2,150,802	2,111,098	100	2,150,802	2,111,098
Property and equipment	1,622,260	1,658,018	100	1,622,260	1,658,018
Finance leases and other receivables	3,728,701	2,809,399	100	3,728,701	2,809,399
Total assets	63,522,883	57,104,122		43,035,715	39,437,052

Off Balance Sheet Exposure

	Credit Conversion Factor, %	2005 Rs '000	2004 Rs '000	Risk Weights %	2005 Rs '000	2004 Rs '000
Direct credit substitutes						
General guarantees of indebtedness	100	1,770,388	3,351,816	100	1,770,388	3,351,816
Performance bonds & bid bonds	50	300,561	—	100	150,281	—
Trade related contingencies	20	1,198,846	—	20	239,769	—
Shipping guarantees	20	1,206,238	109,906	100	241,248	21,981
Documentary letters of credit	20	2,509,857	4,029,246	100	501,971	805,849
Other commitments with an original maturity up to 1 year	20	72,670	—	20	14,534	—
Undrawn term loans	50	1,406,157	1,989,473	100	703,079	994,737
Others - Refinance loans	50	211,300	523,200	100	105,650	261,600
FX contracts - Banks	2	349,473	—	20	1,398	—
Total Off Balance Sheet exposure		9,025,490	10,003,641		3,728,317	5,435,983

Total risk weighted assets and Off Balance Sheet exposure

46,764,032 44,873,035

Risk Weighted Capital Ratios

Tier 1 (required statutory minimum ratio is 5%)

18.87 17.11

Tier 1 & Tier 2 (required statutory minimum
ratio is 10%)

18.53 16.91

44. POST BALANCE SHEET EVENTS

On 1 February 2006, Capital Development and Investment Company Ltd. a subsidiary of the Bank disposed of 58.44% of its holding in its fully owned subsidiary NDB Finance Lanka (Pvt) Ltd. to Aviva International Holdings Ltd. The current holding of Capital Development and Investment Company Ltd. in NDB Finance Lanka (Pvt) Ltd. is 41.56%. NDB Finance Lanka (Pvt) Ltd. holds 87.27% of Eagle Insurance Company Ltd., thus giving Aviva International Holdings Ltd. a 51% stake in Eagle Insurance Company Ltd. On 2 February 2006 the Bank purchased a 5% stake in Eagle Insurance Company Ltd. from James Finlay and Company (Colombo) Ltd. Consequently the Bank's original and current effective holdings in Eagle Insurance Company Ltd. are 65.98% and 32.42% respectively. The consideration paid by Aviva International Holdings Ltd. was Rs 2.7 bn which resulted in a capital gain of Rs 1.6 bn to Capital Development and Investment Company Ltd., in which the Bank has a 75.6% shareholding.

The Bank acquired a further 15% holding in NDB Housing Bank Ltd. in February 2006 making its current holding 95%.

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

45. DIRECTORS' INTERESTS IN CONTRACTS WITH THE BANK

The interest of each Director, direct or indirect in all financing and other arrangements have been disclosed to the Bank in accordance with Article 97 of the Memorandum and Articles of Association of National Development Bank Ltd. and the Companies Act No. 17 1982. All such interests are disclosed under Note 46, Related Party Disclosures.

46. RELATED PARTY DISCLOSURES

46.1 S K Wickremesinghe, H D S Amarasuriya, L de Mel, S R de Silva, G C B Wijeyesinghe, A R Gunasekara, A A Pio and N S Welikala were Directors of the Bank from 1 January 2005 to 31 December 2005.

P M Nagahawatte, Dr A G Karunasena and Mrs S Cooray resigned from the Board with effect from 11 March 2005, 15 June 2005 and 30 December 2005 respectively.

U L Kadurugamuwa and S T Nagendra were appointed to the Board on 12 November 2005.

The Bank had the undermentioned financial dealings during the year with the following associates of the Bank. The following Directors who held office as described above were also Directors of the Group companies of the Bank as indicated below:

Company	Name of Director/Officer	Position	Details of Financial Dealings
Ayojana Fund (Pvt) Ltd.	N S Welikala	Director	The Bank contributed a sum of Rs 200 mn in the previous financial years to Ayojana Fund (Pvt) Ltd., set up jointly with the Commonwealth Development Corporation. This was structured in the form of an interest free loan in terms of the shareholders' agreement. The balance outstanding as at 31 December 2005 was Rs 25 mn.
	G C B Wijeyesinghe	Director	

Certain officers of the Bank are also nominated Directors on some client companies' Boards. However, these appointments are held purely to safeguard the interests of the Bank.

46.2 In addition to the above, certain Directors of the Bank are also either a Director and/or a shareholder of the following entities which have financing arrangements with the Bank in the normal course of business:

Name of Director and Relationship	Company	Accommodation Details		Nature of Transaction	Security
		Limit	Balance as at 31.12.2005		
		Rs '000	Rs '000		
S K Wickremesinghe					
Director	CIC Fertilizers Ltd.	140,000	138,542	Term Loan	Leasehold right over the warehouse property
		500,000	121,065	Letter of Credit/ Post Import Finance	Negative pledge over stocks & book debts
		(500,000)	329,500	Sub Limits Short-Term Loan	Negative pledge over stocks & book debts
		(100,000)	779	Overdraft	–
N S Welikala					
Director	Lakjaya Thrift and Credit Foundation Ltd.	10,000	6,125 500	Term Loan Ordinary Shares	–
Director	Lanka Hospitals (Pvt) Ltd.	300,000	251,564	Term Loan	Primary concurrent mortgage over movable and immovable property/International Financial Corporation guarantee
H D S Amarasuriya					
Chairman	Commercial Leasing Co. Ltd.	517,500	517,500	Securitization	Mortgage over the selected portfolio of the lease receivable of the Company.
		100,000	95,000	Short-Term Loan	–
		100,000	37,500	Medium Term Loan	–
		(5,000)	257	Sub Limits Overdraft	–
Chairman	Regnis (Lanka) Ltd.	90,000	90,000	Short-Term Loan	Corporate guarantee from Singer (Sri Lanka) Ltd
		87,623	52,633	Term Loan	Corporate guarantee from Singer (Sri Lanka) Ltd
		100,000	25,942	Letter of Credit	Corporate guarantee from Singer (Sri Lanka) Ltd
			39,475	Shipping Guarantee	Corporate guarantee from Singer (Sri Lanka) Ltd
Chairman	Singer (Sri Lanka) Ltd.	(75,000)	20,000	Sub Limits Short-Term Loan	Corporate guarantee from Singer (Sri Lanka) Ltd
		(100,000)	86,208	Post Import Loan	Corporate guarantee from Singer (Sri Lanka) Ltd
		200,000	50,000	Short-Term Loan	Negative pledge over assets
		655,000	409,302	Term Loan	Negative pledge over assets
Director	Bata Shoe Co. of Ceylon Ltd.	140,000	11,434	Letter of Credit	–
		20,000	20,470	Overdraft	–
			175,000	Non-Quoted Debenture	–
		28,000	28,000	Short-Term Loan	Primary mortgage over raw material stocks
		628	Overdraft	Primary mortgage over raw material stocks	
L de Mel					
Director	Cisco Speciality Packaging (Pvt) Ltd.	70,000	63,636	Term Loan	Primary mortgage of project assets & Secondary mortgage over land & building
S R de Silva					
Director	Lanka Walltiles Ltd.	8,332	4,029	Operating Lease	Absolute ownership over the lease vehicles
Director	Lanka Tiles Ltd.	6,000	3,074	Term Loan	Primary mortgage of project assets

Notes to the Financial Statements

Name of Director and Relationship	Company	Accommodation Details	Nature of Transaction	Security	
		Limit Rs '000	Balance as at 31.12.2005 Rs '000		
G C B Wijeyesinghe					
Director	Regnis (Lanka) Ltd.	90,000	90,000	Short-Term Loan	Corporate guarantee from Singer (Sri Lanka) Ltd.
		87,623	52,633	Term Loan	Corporate guarantee from Singer (Sri Lanka) Ltd.
		100,000	25,942	Letter of Credit	Corporate guarantee from Singer (Sri Lanka) Ltd.
			39,475	Shipping Guarantee	Corporate guarantee from Singer (Sri Lanka) Ltd.
				Sub Limits	
		(75,000)	20,000	Short-Term Loan	Corporate guarantee from Singer (Sri Lanka) Ltd.
		(100,000)	86,208	Post Import Finance	Corporate guarantee from Singer (Sri Lanka) Ltd.
Director	Singer (Sri Lanka) Ltd.	200,000	50,000	Short-Term Loan	Negative pledge over assets
		655,000	409,302	Term Loan	Negative pledge over assets
		140,000	11,434	Letter of Credit	—
		20,000	20,470	Overdraft	—
			175,000	Non-Quoted Debenture	
Director	Hapugastenne Plantations Ltd.	396,062	277,885	Term Loan	Primary mortgage over the leasehold rights of 6 estates
Director	Udapussellawa Plantations Ltd.	210,826	80,887	Term Loan	Primary mortgage over the leasehold rights of 4 estates
Director	Central Finance Co. Ltd.	400,000	400,000	Short-Term Loan	Legal agreement to mortgage book debts arising from specific lease contracts up to LKR 150 mn & irrevocable Power of Attorney for LKR 180 mn
Director	Ceylon Trading Co. Ltd.	7,000	4,101	Overdraft	Lien over treasury bills of Rs 8 mn
S T Nagendra					
Director	Acme Printing & Packaging Ltd.	40,000	37,386	Letter of Credit	—
		10,000	14,237	Overdraft	—
Director	Lanka Aluminium Industries Ltd.	75,000	27,733	Letter of Credit	—
				Sub Limits	
		(50,000)	4,896 50	Short-Term Loan Guarantee	— —
Director	Texlan (Lanka) Ltd.	71,470	22,201	Letter of Credit	Primary mortgage over land & building & other immovable assets
		71,470	66,318	Overdraft	Primary mortgage over land & building & other immovable assets
			9,441	Shipping Guarantee	Primary mortgage over land & building & other immovable assets
			15	Guarantee	Primary mortgage over land & building & other immovable assets
				Sub Limits	—
Director	Filotex (Lanka) Ltd.	(20,420)	435	Letter of Credit	Primary mortgage over land & building & other immovable assets
U L Kadurugamuwa (Resigned with effect from 23 January 2006)					
Chairman	Shan Teas (Pvt) Ltd.	14,000	12,900	Term Loan	Primary mortgage over warehouse
		26,000	30,834	Pre-export financing	Primary mortgage over stocks & book debts
			500	Guarantee	Joint & several guarantees of Directors for Rs 16 mn
Senior Partner	F.J. & G. De Saram	8,950	5,853	Overdraft	Secured by cash deposits
		15,000	14,440	Term Loan	Secured by cash deposits
			4,920	Legal Fees Paid	

46.3 A A Pio, Director of the Bank, was appointed by the Asian Development Bank which has extended credit lines to the Bank.

47. DISCLOSURE IN COMPLIANCE WITH SLAS 25, BUSINESS COMBINATIONS (REVISED 2004)

The initial accounting for business combinations was determined provisionally as at 31 December 2005 in which the combination was effected as the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities was accounted for by using provisional values. The Bank will recognize any adjustments to those provisional values as at 31 December 2005 commencing first quarter end 2006.

Bank

NDB Bank Ltd. which carries on the business of commercial banking and related services was an associate of the Bank in which the Bank held 22.82% as at 1 January 2004. The Bank acquired further holdings of 37.22%, 19.41%, 11.10% and 1.97% in NDB Bank Ltd. on 23 April 2004, 26 April 2004, 16 June 2004 and 30 July 2004 respectively which resulted in NDB Bank Ltd. becoming a subsidiary of the Bank. The holding in NDB Bank Ltd. by the Bank was 92.52% as at 31 December 2004. At an Extraordinary General Meeting held on 15 July 2005, the shareholders of the Bank approved the issue of up to 823,258 (final allotment 820,257) new shares to the minority shareholders (7.48%) of NDB Bank Ltd. at a ratio of 1 share for every 5.6 shares held in NDB Bank Ltd. as a consideration for the transfer of the assets and liabilities of NDB Bank Ltd. to the Bank. Accordingly, the Bank took over the assets and liabilities of NDB Bank Ltd. with effect from 1 August 2005.

Net Assets	Fair Value Rs '000
Cash and bank balances	1,405,736
Government securities	4,602,866
Loans and advances	10,178,948
Investment securities	314,990
Bills of exchange	1,010,823
Commercial paper	35,125
Other assets	94,959
Property, plant & equipment	526,233
Total assets	18,169,680
Deposits	11,200,461
Borrowings	4,530,574
Other liabilities	1,295,159
Total liabilities	17,026,194
Net assets	1,143,486
Goodwill on acquisition	529,681
	1,673,167
Discharged by:	
Issue of shares	130,913
Cost of earlier acquisition	1,542,254
	1,673,167
	Rs '000
Revenue of the combined entity for the year on the basis that the business combination was effected at the beginning of the year	5,270,019
Profit of the combined entity for the year on the basis that the business combination was effected at the beginning of the year	881,521

The profit of NDB Bank Ltd. (acquiree bank) from 1 August 2005 to 31 December 2005 is not disclosed as it has not been tracked separately.

Notes to the Financial Statements

Group

The Bank's holding in NDB Housing Bank Ltd. which was 41.34% (direct holding of 30% and 15% through Capital Development and Investment Company Ltd.) was increased to 80% during the last quarter of the year by the acquisition of the shares held by Capital Development and Investment Company Ltd. and some of the minority shareholders at a price of Rs 13 per share.

Net Assets	Fair Value Rs '000
Cash and bank balances	14,779
Loans and advances	1,596,764
Investment securities	29,878
Other assets	6,680
Property, plant & equipment	3,174
Total assets	1,651,275
Deposits	—
Borrowings	928,693
Other liabilities	82,794
Total liabilities	1,011,487
Net assets	639,788
Minority interest	(127,958)
Consolidated revenue reserves	(11,936)
Goodwill on acquisition	70,106
	570,000
Discharged by:	390,000
Cash consideration	180,000
Cost of earlier acquisition	570,000

Statement of Value Added

	2005	%	2004	%
VALUE ADDED				
Gross Income	4,288,138		3,538,694	
Cost of Borrowings and Services	(2,241,608)		(1,824,484)	
Provision for Losses	(171,786)		(335,858)	
	1,874,744		1,378,352	
DISTRIBUTION OF VALUE ADDED				
To Employees				
Remuneration and Benefits	499,308	27	357,807	26
To Government				
Income Tax	437,327	18	241,058	18
To Providers of Capital				
Dividend to Shareholders	322,500	22	309,063	22
Retained in the Business				
Retained Profit	483,327	26	370,389	27
Depreciation	132,282	7	100,035	7
	615,609	33	470,424	34
	1,874,744	100	1,378,352	100

1. Stock Exchange

The Consolidated Income Statement for the year ended 31 December 2005 and the Balance Sheet of the Bank and the Group as at that date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

2. Ordinary Shareholders as at 31 December 2005

		Resident			Non-Residents			Total		
No. of Shares	No.	Shares	%	No.	Shares	%	No.	Shares	%	
Individuals										
0 - 500	4,997	815,985	1.50	41	8,109	0.01	5,038	824,094	1.51	
501 - 5,000	1,400	1,831,774	3.36	27	52,554	0.10	1,427	1,884,328	3.45	
5,001 - 10,000	64	456,645	0.84	2	14,142	0.03	66	470,787	0.86	
10,001 - 20,000	23	300,373	0.55	–	–	–	23	300,373	0.55	
20,001 - 30,000	10	247,448	0.45	1	20,535	0.04	11	267,983	0.49	
30,001 - 40,000	2	66,906	0.12	–	–	–	2	66,906	0.12	
40,001 - 50,000	2	88,678	0.16	–	–	–	2	88,678	0.16	
50,001 - 100,000	2	149,550	0.27	–	–	–	2	149,550	0.27	
100,001 - 1,000,000	1	175,000	0.32	–	–	–	1	175,000	0.32	
1,000,001 Over	–	–	–	–	–	–	–	–	–	
SUB-TOTAL	6,501	4,132,359	7.57	71	95,340	0.18	6,572	4,227,699	7.73	
Not Registered	–	–	–	1	3,341,400	6.12	1	3,341,400	6.12	
Corporate										
0 - 500	174	29,088	0.05	3	701	0.00	177	29,789	0.05	
501 - 5,000	111	197,959	0.36	3	3,471	0.01	114	201,430	0.37	
5,001 - 10,000	26	196,073	0.36	1	8,289	0.02	27	204,362	0.37	
10,001 - 20,000	9	128,857	0.24	1	18,000	0.03	10	146,857	0.27	
20,001 - 30,000	8	189,915	0.35	2	48,000	0.09	10	237,915	0.44	
30,001 - 40,000	3	103,852	0.19	–	–	–	3	103,852	0.19	
40,001 - 50,000	–	–	–	–	–	–	–	–	–	
50,001 - 100,000	2	86,674	0.16	5	400,007	0.73	7	486,681	0.89	
100,001 - 1,000,000	6	2,085,452	3.82	8	3,058,900	5.61	14	5,144,352	9.43	
1,000,001 Over	11	25,664,051	47.03	4	10,695,150	19.60	15	36,359,201	66.63	
SUB-TOTAL	350	28,681,921	52.56	27	14,232,518	26.09	377	42,914,439	78.64	
Not Registered	2	4,086,719	7.48	–	–	–	2	4,086,719	7.48	
TOTAL	6,853	36,900,999	67.61	99	17,669,258	32.39	6,952	54,570,257	100.00	

3. Share Valuation

The market value of the National Development Bank Ltd. ordinary shares on 30 December 2005 was Rs 215.00 per share. The highest and lowest values recorded during this 12 month period were Rs 244.50 on 22 September 2005 and Rs 152.50 on 22 February 2005 respectively.

4. Directors' Interest in Shares of NDB Bank as at 31 December 2005

Name	No. of Shares
S K Wickremesinghe	300
H D S Amarasuriya	3,950
A R Gunasekara	589
Mrs S Cooray	—
Dr A G Karunasena	—
G C B Wijeyesinghe	—
A A Pio	—
N S Welikala	—
S R de Silva	—
Lal de Mel	10,361
U L Kadurugamuwa	—
S T Nagendra	3,050

5. Twenty Largest Shareholders as at 31 December 2005

Name	No. of Shares	%
Bank of Ceylon	5,457,133	10.00
Goldquest International Ltd.	5,401,400	9.90
Actis NDB Investments Ltd.	2,761,500	5.06
Employees' Provident Fund	2,625,000	4.81
National Insurance Corporation Ltd. A/C No. 1	2,604,415	4.77
Bank of Ceylon (subject to approval)	2,384,767	4.37
Sri Lanka Insurance Corporation Ltd. – General Fund	1,950,696	3.57
Capital Alliance Holdings Ltd.	1,912,735	3.51
SBL/Janashakthi Ltd.	1,559,182	2.86
Renuka Hotels Ltd.	1,540,450	2.82
HSBC Intl Nominees Ltd.-Aberdeen Far East Emerging Economies Unit Trust	1,431,600	2.62
Renuka Consultants & Services Ltd.	1,421,705	2.61
NDB - ESOP	1,374,950	2.52
Renuka City Hotels Ltd.	1,364,200	2.50
HSBC Intl Nominees Ltd.-BPSS LDN-GC BOI Asia Pacific Fund LB06	1,100,650	2.02
Employees' Trust Fund Board	994,700	1.82
HSBC Intl Nominees Ltd.-SSBT-Aberdeen Global Asia Pacific Fund QM11	916,500	1.68
National Insurance Corporation Ltd. A/C No. 3	836,120	1.53
HSBC Intl Nominees Ltd./SNFE/CMG First State Global Umbrella Fund	500,000	0.92
Cargo Boat Development Company Ltd.	445,250	0.82
Total	38,582,953	70.71

Percentage of Shares held by the Public - 83.08%

NDB Bank
Annual Report 2005
Ten Year Summary

Group Income Statement

Rs mn	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Income										
Total Income	2,861.3	3,565.5	4,053.0	4,600.2	5,512.2	6,525.5	5,971.3	6,071.0	5,868.9	7,116.0
Interest Income	2,722.9	3,234.4	3,560.6	4,183.3	4,896.4	5,810.3	5,041.3	4,666.5	4,397.9	5,035.3
Interest Expenses	1,773.3	2,128.0	2,492.0	3,219.3	3,662.2	4,369.7	3,380.6	2,465.4	2,151.8	2,342.0
Net Interest Income	949.6	1,106.4	1,068.6	964.0	1,234.2	1,440.6	1,660.7	2,201.1	2,246.1	2,693.3
Other Income	138.4	331.1	492.4	417.0	615.8	715.2	930.0	1,404.5	1,471.0	2,080.7
Net Income	1,088.0	1,437.5	1,561.0	1,380.9	1,850.0	2,155.8	2,590.7	3,605.6	3,717.1	4,774.0
Less: Operating Expenses										
Personnel Costs	103.5	124.8	199.9	247.8	289.0	382.1	412.7	588.0	916.3	1,131.5
Provision for Bad & Doubtful Debts and Fall in Value of Investments	(4.6)	156.0	159.9	19.0	547.9	526.8	476.8	787.0	278.6	153.5
Other Administrative & General Expenses	89.3	116.6	187.1	243.0	300.1	534.4	520.9	817.6	1,266.9	1,473.3
Total Operating Expenses	188.2	397.4	546.9	509.8	1,137.1	1,443.3	1,410.5	2,192.5	2,461.8	2,758.3
Less: Exceptional Items	—	—	—	—	—	—	—	—	—	—
Operating Profit	899.8	1,040.1	1,014.1	871.1	712.9	712.4	1,180.2	1,413.1	1,255.4	2,015.7
Share of Associate Companies Profit	15.3	19.2	32.3	106.5	124.8	72.4	113.7	113.2	31.3	21.7
Profit Before Taxation	915.1	1,059.3	1,046.4	977.6	837.7	784.8	1,293.9	1,526.3	1,286.6	2,037.4
Taxation	(295.9)	(332.0)	(232.5)	(232.9)	(281.9)	(226.2)	(251.0)	(305.2)	(481.1)	(584.5)
Profit After Taxation	619.2	727.3	813.9	744.7	555.8	558.6	1,042.9	1,221.1	805.5	1,452.9
Minority Interest	—	(4.0)	(11.3)	(31.4)	(6.7)	40.1	(112.3)	(98.0)	(102.4)	(236.6)
Profit Attributable to Group	619.2	723.3	802.6	713.3	549.1	598.7	930.6	1,123.1	703.0	1,216.3
Earnings per Share	11.5	13.5	14.9	13.3	10.2	11.1	17.3	20.9	13.1	22.4
Dividends (Rs mn) - Proposed/Paid	96.3	232.9	232.9	241.9	241.9	456.9	295.6	309.1	309.1	322.5
Dividends per Share - Proposed/Paid	5.5	6.5	6.5	4.5	4.5	8.5	5.5	5.8	5.8	6.0
Dividend Cover	6.4	3.1	3.4	2.9	2.3	1.3	3.1	3.6	2.3	3.8

NDB Bank
Annual Report 2005
Ten Year Summary

Group Balance Sheet

Rs mn	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Assets										
Cash & Short-Term Funds	1,550.7	4,304.5	1,379.4	745.6	1,305.8	3,037.7	5,937.7	12,440.7	14,101.5	2,098.8
Balances with Central Bank	—	—	—	—	—	—	—	—	—	818.7
Investments	2,536.0	2,889.4	3,940.7	4,154.1	4,093.3	5,016.0	3,828.6	5,726.0	5,633.6	19,004.2
Bills of Exchange	—	—	—	—	—	—	—	—	943.4	970.8
Loans & Advances	14,735.5	17,044.0	23,749.4	28,692.0	29,514.7	27,035.4	24,364.4	20,783.2	31,833.4	35,371.0
Lease Rentals & Receivables	840.2	804.1	1,050.6	1,711.3	4,253.4	3,504.3	2,884.7	573.3	609.4	731.3
Investments in Associate Companies	274.9	821.8	677.3	977.3	410.2	454.0	798.6	413.1	225.1	241.2
Property & Equipment	118.9	143.2	207.3	315.0	1,646.1	1,747.1	1,667.8	1,166.5	1,658.0	1,622.3
Other Assets	93.8	577.6	782.3	982.8	965.6	1,815.7	889.0	1,865.4	2,445.6	2,988.5
Intangible Assets	—	(3.6)	36.4	27.9	(53.4)	(43.6)	2.9	904.9	1,535.1	872.7
Total Assets	20,150.0	26,581.0	31,823.4	37,606.0	42,135.8	42,566.5	40,373.7	43,873.1	58,985.0	64,719.5
LIABILITIES										
Borrowings	14,295.7	19,694.0	24,616.9	29,813.3	33,129.7	32,506.0	30,250.4	25,847.6	26,881.2	27,798.9
Deposits with Customers	—	—	—	—	—	—	—	—	11,085.1	13,953.7
Non-Life Insurance Reserves	—	—	—	—	—	—	—	420.8	485.8	858.8
Long-Term Insurance Fund	—	—	—	—	—	—	—	6,612.8	7,985.4	9,238.2
Taxation	379.6	456.8	336.6	333.7	480.2	401.0	550.1	350.8	300.1	315.7
Other Liabilities	1,127.3	1,439.4	1,171.9	1,258.1	1,807.1	2,259.6	1,397.2	1,997.5	2,770.1	2,847.0
Dividend Payable	96.6	236.1	234.2	243.5	244.1	245.8	300.2	4.6	7.5	8.0
Total Liabilities	15,899.2	21,826.3	26,359.6	31,648.6	35,661.1	35,412.4	32,498.0	35,234.1	49,515.2	55,020.3
SHAREHOLDERS' FUNDS										
Share Capital	175.0	358.3	358.3	358.3	537.5	537.5	537.5	537.5	537.5	545.7
Convertible Stock	275.0	—	—	—	—	—	—	—	—	—
Share Premium	—	91.7	91.7	91.7	91.7	91.7	91.7	91.7	91.7	214.4
Statutory Reserves	—	—	358.3	358.3	537.5	537.5	537.5	537.5	546.5	545.7
Revaluation Reserve	—	—	—	—	—	131.7	131.7	—	86.2	—
Revenue Reserves	3,650.8	4,141.2	4,352.5	4,824.0	4,654.3	4,839.7	5,524.8	6,730.5	7,114.7	7,418.9
Total Shareholders' Funds	4,100.8	4,591.2	5,160.8	5,632.3	5,821.0	6,138.1	6,823.2	7,897.1	8,376.5	8,724.7
Minority Interest	150.0	163.5	303.0	325.1	653.7	1,016.0	1,052.6	741.9	1,093.2	974.5
Total Funds Employed	4,250.8	4,754.7	5,463.8	5,957.4	6,474.7	7,154.0	7,875.8	8,639.0	9,469.8	9,699.2
Total Liabilities & Funds Employed	20,150.0	26,581.0	31,823.4	37,606.0	42,135.8	42,566.5	40,373.7	43,873.1	58,985.0	64,719.4
Return on Assets and Equity										
Return on Average Assets (%)	3.4	3.1	2.8	2.2	1.4	1.3	2.5	3.2	1.6	2.0
Return on Equity (%)	16.1	16.6	16.5	13.3	9.7	10.0	14.4	15.3	8.6	14.2
Book Value per Share (Rs.)	76.29	85.42	96.02	103.34	108.30	114.20	126.94	146.92	155.84	159.87

Notice of Meeting

Notice is hereby given that the First (1st) Annual General Meeting of the National Development Bank Limited (NDB Bank) will be held at the "Oak Room", Cinnamon Grand Hotel (formerly "Colombo Plaza Hotel"), Colombo at 11.00 a.m. on the Twenty Sixth (26th) day of April, Two Thousand and Six (2006) and the business to be brought before the meeting will be:

1. To lay before the Shareholders to be received and adopted by them the Report of the Directors of NDB Bank, the Balance Sheet, the Income Statement and the Auditors' Report relating to the year ended 31 December 2005.
2. To re-elect Mr Sarath Kusum Wickremesinghe who pursuant to Section 182 of the Companies Act No. 17 of 1982 retires at the conclusion of this meeting, being above the age limit specified in Section 181 of the said Companies Act and to adopt the following resolution so that the said age limit does not apply to Mr Wickremesinghe.

"IT IS HEREBY PROPOSED THAT Mr Sarath Kusum Wickremesinghe of No. 8, Claessen Place, Keppitipola Mawatha, Colombo 5, who is above the age limit specified in Section 181 of the Companies Act No. 17 of 1982, be re-elected as a Director of National Development Bank Ltd. in terms of Section 182 of the said Companies Act and it is further proposed that the age limit referred to in Section 181 of the said Companies Act, does not apply to Mr Sarath Kusum Wickremesinghe."

3. To re-elect Mr Gamini Christopher Bernard Wijeyesinghe who pursuant to Section 182 of the said Companies Act retires at the conclusion of this meeting, being above the age limit specified in Section 181 of the said Companies Act and to adopt the following resolution so that the said age limit does not apply to Mr Wijeyesinghe.

"IT IS HEREBY PROPOSED THAT Mr Gamini Christopher Bernard Wijeyesinghe of No. 8A, Gregory's Road, Colombo 7, who is above the age limit specified in Section 181 of the Companies Act No. 17 of 1982, be re-elected as a Director of National Development Bank Ltd. in terms of Section 182 of the said Companies Act and it is further proposed that the age limit referred to in Section 181 of the said Companies Act, does not apply to Mr Gamini Christopher Bernard Wijeyesinghe."

4. To re-elect Mr Lal de Mel who retires at the Annual General Meeting in terms of Section 87 of the Memorandum and Articles of Association of National Development Bank Limited.
5. To re-elect Mr S R de Silva who retires at the Annual General Meeting in terms of Section 87 of the Memorandum and Articles of Association of National Development Bank Limited.
6. To elect Mr S T Nagendra as a Director in terms of Section 94 of the Memorandum and Articles of Association of National Development Bank Limited.
7. To elect Mr R B Thambiayah as a Director in terms of Section 94 of the Memorandum and Articles of Association of National Development Bank Limited.
8. To declare a Dividend as recommended by the Directors.
9. To reappoint Messrs Ernst & Young, Chartered Accountants, as Auditors of the Bank and authorize the Board of Directors to determine their remuneration.
10. To determine the remuneration payable to the Directors.

By Order of the Board

C L Jayawardena

Secretary to the Board

16 February 2006

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead.
2. A proxy need not be a Shareholder of NDB Bank. The Form of Proxy is sent herewith.
3. The instruments appointing proxies 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 71 of the Memorandum and Articles of Association of National Development Bank Limited.
4. Shareholders/Proxies attending the meeting are requested to bring their National Identity Cards.

NDB Bank
Annual Report 2005
Form of Proxy

NATIONAL DEVELOPMENT BANK LIMITED

I/We.....

(NIC/ s of

..... being a member/members of

National Development Bank Limited (the "NDB Bank") hereby appoint

1.

Holder of NIC No.

or failing him/her

2. S K Wickremesinghe (Chairman of NDB Bank) of Colombo or failing him 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 First Annual General Meeting of NDB Bank to be held on 26 April 2006 and at any adjournment thereof.

As witness I/We have set my/our hand/s hereunto this day of Two Thousand and Six (2006).

.....
Signature of the Member/Members

.....
Common Seal
(If applicable)

Instructions for Completion of the Form of Proxy

1. In order to appoint a proxy, this form duly completed together with any Power of Attorney under which it is signed, must be deposited at the Registered Office of the Bank, at No. 40, Navam Mawatha, Colombo 2, not later than forty-eight (48) hours prior to the time appointed for the holding of the meeting.
2. The proxy appointed need not to be a shareholder of the Bank.
3. In the case of a corporate shareholder, the proxy must be executed under its common seal 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 shareholder appointing the proxy should be legibly entered in the Form of Proxy.

Corporate Information

Name

National Development Bank Ltd.
(formerly National Development Bank of Sri Lanka)

Legal Form

Incorporated in Sri Lanka under the Companies Act No. 17 of 1982 on 15 June 2005 and also regulated under the Banking Act No. 33 of 1988 as amended from time to time.

Statutory Status

The National Development Bank of Sri Lanka was originally set up as a wholly state-owned institution by an Act of Parliament in January 1979. Following a change of ownership structure in 1993, 61% of the share capital of NDB was transferred to private ownership. In 1997 NDB was privatized further by the early conversion of its convertible debentures and the disposal of the resulting shares. This reduced the Government's direct shareholding to 12.2%. Thereafter, a further 2.56% was allocated for the Employee Share Option Scheme. In April 2000 NDB 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 of June 2005, the National Development Bank Ltd. was incorporated and with effect from that date the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed save and except for certain provisions contained therein.

On 29 July 2005 the Central Bank of Sri Lanka granted a commercial banking licence to the new Company whilst withdrawing the specialized banking licence that was held by it and on 1 August 2005 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. The shares of the Bank are continued to be quoted on the Colombo Stock Exchange.

Head Office/Registered Office

40, Navam Mawatha, Colombo 2
Tel: 2448448, 2437701,
2437350, 2323966
Fax: 2341044, 2440262
Telex: 21399 NDB CE

Board of Directors

S K Wickremesinghe
H D S Amarasuriya
Dr A G Karunasena (Resigned w.e.f. 15 June 2005)
G C B Wijeyesinghe
Lal de Mel
S R de Silva
A A Pio
Mrs S Cooray (Resigned w.e.f. 30 December 2005)
A R Gunasekara
S T Nagendra (Appointed w.e.f. 11 November 2005)
U L Kadurugamuwa (Appointed w.e.f. 11 November 2005)
Resigned w.e.f. 23 January 2006)
R B Thambiyah (Appointed w.e.f. 6 February 2006)
P M Nagahawatte (Resigned w.e.f. 11 March 2005)
N S Welikala (Chief Executive)

Audit Committee

G C B Wijeyesinghe (Chairman)
A R Gunasekara
S R de Silva

Human Resources Committee

H D S Amarasuriya (Chairman)
Mrs S Cooray (Resigned w.e.f. 30 December 2005)
S R de Silva
Lal de Mel

Nomination Committee

S K Wickremesinghe (Chairman)
Lal de Mel
H D S Amarasuriya
G C B Wijeyesinghe

Credit Committee

Dr A G Karunasena (Chairman)
(Resigned with effect from 15 June 05)
Mrs S Cooray (Resigned w.e.f. 30 December 2005)
A A Pio
A R Gunasekara
G C B Wijeyesinghe

Strategic Issues Committee

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

Subsidiary Companies as at 31.12.2005

Capital Development & Investment Co. Ltd.
Development Holdings (Pvt) Ltd.
NDB Housing Bank Ltd.
NDB Industrial Estates (Pvt) Ltd.
NDBS Stockbrokers (Pvt) Ltd.
NDB Venture Investments (Pvt) Ltd.
NDB Investment Bank Ltd.
NDB Finance Lanka (Pvt) Ltd.

Associate Companies as at 31.12.2005

Ayojana Fund (Pvt) Ltd.
Maldives Finance Leasing Co. Pvt. Ltd.

Stock Exchange Listing

The shares of the 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 Bank
Citibank
Deutsche Bank Trust Company
HSBC Bank
HypoVereinsbank Group
Standard Chartered Bank

Senior Management

Director/Chief Executive
N S Welikala

Deputy Chief Executive

E Wickramaratne

Vice President - SMI and SME Development & Auto Finance

A L Somaratne

Vice President - Corporate Banking

R Bibile

Vice President - Risk Management and Special Projects

N I R De Mel

Vice President - Finance, Planning & Human Resources

(Up to 31 December 2005)

Vice President - SME Banking & Organizational Development

(From 1 January 2006)
A C M Fernando

Vice President - Internal Audit and Compliance

S N Jayasinghe

Vice President - Legal & Company Secretary

C L Jayawardena

Vice President - Treasury

N Ratnayake

Vice President - IT and Operations

K Weerasuriya

Vice President - Consumer Banking & Marketing

I A Wickramasinghe

Vice President - Corporate Banking

A Wickremaratne



www.ndbbank.com