



Pushing the Pace in a Resurgent Sri Lanka

Vision

To be a world-class Sri Lankan Bank.

Mission

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

Values

Integrity

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

Care

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

Passion

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

Teamwork

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

Service

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



Pushing the Pace in a Resurgent Sri Lanka

Sri Lanka is clearly on a well-defined path of development. As the country's foremost development oriented commercial bank, we play a vital role in facilitating development across the country.

Our understanding of Sri Lanka, and our ability to move swiftly to seize opportunities, has enabled us to push the pace in a resurgent Sri Lanka.

In this report we have focused on presenting the facts and figures that you need to know, giving you a clear picture of where we were in 2014 and the strategies we plan to implement in the years ahead to reach our goals. The report also relates how the Bank will deploy strengths, qualities and resources in adding colour to life and fulfilling the aspirations of the people and the nation alike.





06**About this Report****08****Highlights of the Year****10****Letter from the Chairman****14****Chief Executive Officer's Review****19****Business Model**

Organizational Profile	20
Operating Environment	21
Strategic Direction	27
Stakeholders	28
Translating Values into Practice	34
Materiality and Value Creation	35
Management Approach	36

37**Management Discussion and Analysis****Deriving Value 38****Internal Capital Formation 38**

- Financial Capital 38

- Institutional Capital 62

Delivering Value 66**External Capital Formation 66**

- Investor Capital 66

- Customer Capital 67

- Employee Capital 82

- Social & Environmental Capital 93

Registered Name: National Development Bank PLC

Trade Name:  **NDB bank**

Company Registration No: PQ 27

Rating AA-(Ika) / Stable Outlook
by Fitch Ratings Lanka Ltd.

We are proud to acknowledge that all people featured in the visuals throughout this report are our own employees.

99

Stewardship

Board of Directors	100
Senior Management Team	104
Group Management Team	106
Bank Management Team	107
Corporate Governance Report	108
Board Committee Reports	166
Risk Management	176

223

Investor Relations

243

Recognition

249

Financial Reports

Financial Calendar	250
Annual Report of the Board of Directors on the State of Affairs of National Development Bank PLC	251
Directors' Interests in Contracts with National Development Bank PLC	259
Statement of Directors' Responsibilities for Financial Reporting	261
Directors' Statement on Internal Control Over Financial Reporting	263
Independent Assurance Report	265
Sustainability Assurance Report	266
Chief Executive Officer's and Chief Financial Officer's Responsibility Statement	267
Independent Auditors' Report	268
Statement of Profit or Loss	270
Statement of Comprehensive Income	271
Statement of Financial Position	272
Statement of Changes in Equity	273
Statement of Cash Flow	275
Notes to the Financial Statements	277
Compliance with the Disclosure Requirements of the Central Bank of Sri Lanka	377
Capital Adequacy	380

385

Corporate Information Supplement

Corporate Milestones	386
Branch Network	388
Group Network	394
Correspondent Relationships	395
GRI Content Index	396
Glossary of Financial and Banking Terms	400
Notice of Meeting	403
Corporate Information	404
Form of Proxy	(enclosed)
Investor Feedback Form	(enclosed)
Circular to Shareholders	(enclosed)
Request Letter	(enclosed)

Report Structure

This Annual Report 2014 of National Development Bank PLC ('Bank') is an integrated report, one which builds further on the new approach to reporting that we adopted in the previous year. As an integrated report, it communicates more coherently and concisely the relationships and interdependence of the many aspects of our business - such as strategy, governance, financial inclusion, performance and prospects - in the context of creating value over time.

We have used digital technology effectively to balance the need to be brief and yet comprehensive, while serving the information needs of our multiple stakeholders. The traditional print version is thus complemented by a more detailed and interactive Online Annual Report [www.ndbbank.com/], a summary report for smart phones as well as a video.

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

- Global Reporting Initiative Sustainability Reporting Guidelines GRI G4 (2013) [www.globalreporting.org/];
- The International Integrated Reporting Framework (2013) [www.theiirc.org/]; and
- The Smart Integrated Reporting Methodology™ [www.smart.lk/].

Integrated Reporting Framework

The Bank's integrated reporting methodology (acknowledged above) hinges on a few basic concepts, summarized below.

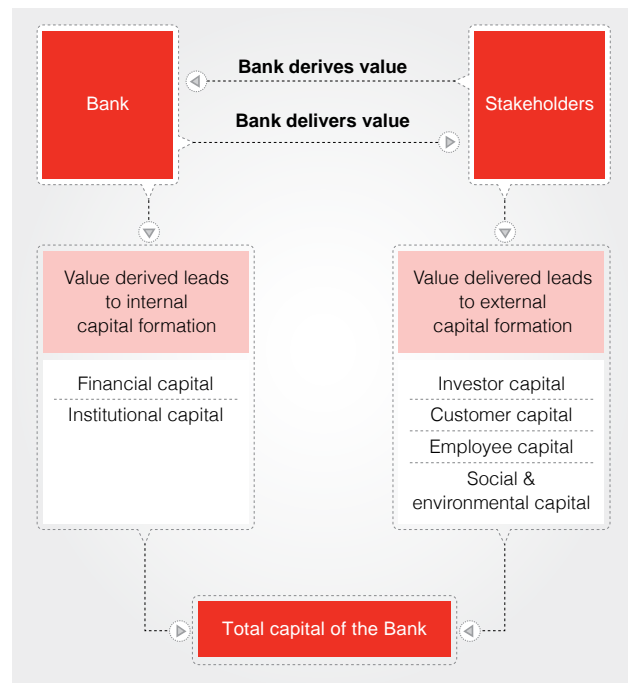
The central role of stakeholders: We distinguish between the Bank and its stakeholders, and identify which ones are important to the Bank, understand why the Bank is important to them, and tailor our business model accordingly to create value over time.

Duality of value creation: Value creation lies at the core of all what we do. It is a two-way process. For the Bank to create sustainable value for itself it must also create value for its stakeholders. They go hand in hand.

Capital as a store of value: Value creation leads to capital formation, which may be financial or non-financial, internal or external to the Bank.

Deriving value and internal capital formation: The Bank derives value through the dynamic interaction between its external capital and its own internal capital over time. Our internal capital comprises financial capital and institutional capital. The former is what is reported in the Financial Statements, while the latter are intangibles such as integrity, corporate culture, specialized knowledge and processes, brand image and the like.

Delivering value and external capital formation: The Bank delivers value, both financial and non-financial, to its stakeholders. As stores of value, they comprise investor capital, customer capital, employee capital and social & environmental capital.



Value creation is a dynamic process with flows taking place between the various forms of capital all the time. Although the Bank does not 'own' any of its external forms of capital it has access to and uses them, and along with its own internal forms of capital, creates value for itself (deriving value) and for its stakeholders (delivering value).

Our reporting, particularly the Management Discussion and Analysis, is thus structured along these lines.

Report Boundary and Materiality

The overall boundary of this Annual Report comprises National Development Bank PLC ('Bank') and its group companies (together referred to as the 'Group'). Consistent with the framework adopted in the previous year, key financial aspects are discussed in the context of the Bank as well as the Group, while non-financial aspects are discussed in the context of the Bank.

Our reporting focuses on aspects that are material or important. It is an assessment based on the extent to which they may substantively affect the Bank's ability to create value over the short, medium and long-term. The materiality determination process is discussed under Materiality and Value Creation commencing on page 35, which also reflects the two sides of value creation noted previously.

Compliance

The Bank's Annual Report 2014 covers the 12-month period from 1 January to 31 December 2014 and is consistent with our usual annual reporting cycle for financial and sustainability reporting. The latter is in accordance with the core criteria of GRI G4 guidelines and subject to independent assurance (page 266).

There are no significant changes from previous reporting periods in the scope and aspect boundaries. The most recent previous Annual Report, dated 13 February 2014, covered the 12-month period ended 31 December 2013. It is available on our website <http://www.ndbbank.com/>.

There are no restatements of information provided in previous reports.

The information contained in this report, as in the past, is in compliance with all applicable laws, regulations and standards as well as guidelines for voluntary disclosures. Details are given in the Corporate Governance Report (pages 108 to 163), Chief Executive Officer's and Chief Financial Officer's Responsibility Statement (page 267) as well as Independent Assurance Report (page 265) and Independent Auditors' Report (page 268).

Precautionary Principle

The Bank applies a precautionary principle across the Group with regard to social and environmental sustainability. We are aware of the social and environmental impacts of our actions. Before embarking upon new ventures and initiatives we take necessary steps to assess any impacts through adequate risk management processes, which are discussed on pages 176 to 222.

Queries

We welcome your comments or questions on this report. You may contact Mr Dhanan Senathirajah, Vice President - Finance & Planning at National Development Bank PLC.

No. 40, Navam Mawatha, Colombo 2.
(email: dhanan.senathirajah@ndbbank.com)

Corporate website:



You may also follow us on:



www.facebook.com/ndbbankplc



www.twitter.com/NDBBank



www.linkedin.com/company/ndbbank



www.youtube.com/user/NDBBankSL



plus.google.com/+ndbbank



Financial Highlights

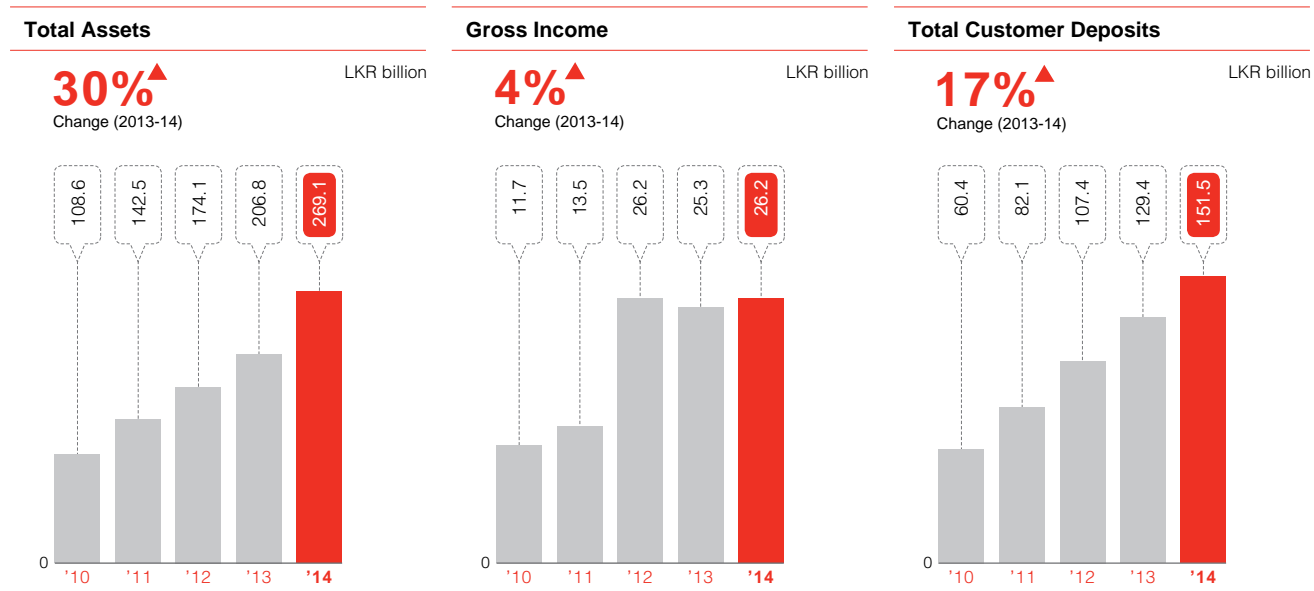
	BANK			GROUP		
	2014 LKR '000	2013 LKR '000	Change %	2014 LKR '000	2013 LKR '000	Change %
Operating results for the year						
Gross income	24,961,945	29,656,420	(16)	26,204,626	25,303,305	4
Operating profit before tax on financial services	5,786,773	9,682,512	(40)	6,526,732	4,724,401	38
Taxation	2,368,709	1,959,276	21	2,378,034	2,061,393	15
Profit after tax	3,418,064	7,723,236	(56)	4,245,972	2,712,228	57
Profit attributable to shareholders	3,418,064	7,723,236	(56)	4,133,932	2,641,925	56
Gross dividends for the year	1,815,963	1,648,489	10	1,815,963	1,648,489	10
Revenue to government	2,241,816	1,764,828	27	2,272,691	1,871,263	21
Assets and liabilities						
Customer deposits	151,823,715	129,830,029	17	151,485,201	129,421,813	17
Loans and receivables	180,500,550	141,650,632	27	180,561,253	141,710,813	27
Total assets	262,729,146	201,258,628	31	269,129,605	206,817,121	30
Total liabilities	240,490,954	181,638,150	32	240,331,186	181,455,467	32
Shareholders' funds	22,238,192	19,620,478	13	27,875,773	24,513,806	14
Profitability (%)						
Net interest margin	3.31	3.74	(12)	3.33	3.68	(10)
Cost to income ratio	45.53	31.16	46	45.59	48.18	(5)
Non-performing loans ratio	2.51	2.48	1	2.51	2.48	1
Return on assets	1.47	4.24	(65)	1.74	1.39	25
Return on equity	16.33	44.69	(63)	15.78	10.7	47
Total leverage (times)	11.81	10.26	15	9.65	8.44	14
Investor information (LKR)						
Net asset value per share	134.70	119.13	13	169.35	148.85	14
Market value per share - as at 31 December	250.00	160.50	56	250.00	160.50	56
Earnings per share - basic	20.72	46.96	(56)	25.14	16.48	53
Earnings per share - diluted	20.70	46.95	(56)	25.11	16.47	52
Price earnings (times)	12.07	3.42	253	9.95	9.74	2
Dividend per share	11.00	10.00	10	-	-	-
Dividend cover (times)	1.88	4.70	(60)	2.29	1.65	39
Dividend yield (%)	4.40	6.23	(29)	4.40	6.23	(29)
Regulatory ratios (%)						
Tier I - (minimum ratio of 5%)	10.09	12.05	(16)	12.92	15.15	(15)
Tier I & II - (minimum ratio of 10%)	14.68	17.87	(18)	17.55	21.04	(17)
Statutory liquid asset ratio						
DBU	23.85	26.22	(9)	-	-	-
FCBU	25.18	26.06	(3)	-	-	-

* The financial highlights for the year 2013 include a one-off equity income earned by the Bank amounting to LKR 6,031 million.

Financial Goals and Achievements

Financial indicators - Bank	Goals	Achievements				
		2014*	2013*	2012	2011	2010
Return on assets (%)	Over 1.6%	1.47	1.14	1.94	1.50	1.52
Return on equity (%)	Over 18%	16.33	14.38	21.17	15.01	13.47
Growth in total operating income (%)	Over 20%	19.00	11.55	31.00	15.45	(5.41)
Growth in profit after taxation (%)	Over 25%	64.00	(29.00)	60.00	31.52	(6.30)
Growth in total assets (%)	Over 20%	31.00	23.00	18.00	31.61	8.00
Dividend per share (LKR)	Over 10.00	11.00	10.00	15.00	7.50	8.50
Capital adequacy ratios:						
Tier I (%) - Minimum requirement 5%	Over 8%	10.09	12.05	11.14	9.98	12.72
Tier I & II (%) - Minimum requirement 10%	Over 13%	14.68	17.87	12.38	11.26	14.76

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



Highlights of the Year from a Stakeholder Perspective

		2014	2013
Investors	Total shareholder return (%)	63	31
	Market capitalization rank at the Colombo Stock Exchange	16	20
Customers	Growth in number of deposits and advances accounts (%)	17	19
	Number of customer touch points		
	- Branches	83	78
	- ATMs	83	74
Employees	Total number of employees	1,744	1,583
	Average hours of training per employee per year	7.7	7.9
	Employee attrition rate (%)	6.6	4.9
Business partners	Number of correspondent relationships	64	62
Government	Taxes paid to the government (LKR million)	2,241	1,765
Community	Donations (LKR million)	12.5	14.4

Operational Highlights

The sole global awardee at The Banker's Financial Inclusion Award 2014 held in UK, for the Cinnamon to the World project

Successfully raised USD 200 million via syndication loan facilities, to be infused primarily to the SME sector of the country

Opened the Bank's first ever digitized branch at the Kandy City Centre

Euromoney magazine of UK picked NDB Investment Bank Ltd. Sri Lanka & NDB Capital Ltd. Bangladesh as top winners for investment Banking in the respective countries in 2014

The Bank was the awardee for Excellence in Core Banking Technology at the 5th Annual Retail Banker International Asia Trailblazer Awards

Group operations expanded with the launch of The Emerald Sri Lanka Fund, the largest private equity fund dedicated to Sri Lanka



Scan to view the online version
ndbbank2014.annualreports.lk/report/letter_from_the_chairman.html

The banking industry is shifting to a different landscape, where its constituents' readiness to change, agility to adapt, and competence to thrive beyond survival, are being tested.

Dear Stakeholders,

Your Bank is well poised to meet these challenges, and the results to prove it, as you will see in the pages that follow.

The Global Backdrop

The global economy grew at 3.3% in 2014, at the same pace as it did in 2013. Advanced economies grew at 1.8% in 2014, ahead of its growth rate of 1.3% in 2013. Emerging market and developing economies grew at 4.4% in 2014, which was lower than the growth rate of 4.7% achieved by this region in 2013.

One of the major events which tuned global economic performance during 2014 was the deflation of global oil prices, and its impact reflected across multiple economies around the world. In the US, economic growth rebounded ahead of expectations, with unemployment rates declining further and inflation pressure more muted. China however, recorded lower economic growth than the previous year, with a growth rate of 7.4% in 2014 (2013: 7.8%), with a decline in investment growth and a few other leading economic indicators. Slower growth in this emerging economic giant will have important regional effects and will be reflected in the growth rates of connected economies.

The global oil price reduction will have a positive impact on the Balance of Payment (BOP) of Sri Lanka with reduced expenditure on crude oil. If the oil price reduction is accurately matched within the economy, the cost of living and inflation will also decline. However, policy makers need to be mindful of the resultant dollar appreciation which may pose alternate threats to the BOP with increased cost of imports. The negative impact of the declining oil prices on the oil exporting economies may also impact Sri Lanka's exports to those countries.

A Buoyant National Economy

Widely benefiting from political stability, investor confidence, and a relatively favourable climate for doing business in post-war Sri Lanka, the country achieved many economic goals that were set for 2014. The per capita GDP reached USD 3,654 (estimated) in 2014 (2013: USD 3,280), affirming Sri Lanka's potential to reach the USD 7,000 plus target by 2020. The national economy grew at a rate of 7.8% (projected), positioning Sri Lanka as the fastest growing nation in South Asia.

Economic growth was largely driven by net exports and investments. The Incremental Capital Output Ratio also improved in 2014, maintaining a similar trend

since 2009, reflecting the improved capital productivity of the economy in relation to its growth.

Inflation continued at benign mid-single digit levels despite adverse weather conditions-led supply disruptions and relatively high fuel prices during the first half of the year. Other major economic indicators such as the trade deficit, current account balance and gross official reserves also showed resilience and positive movements during the year.

Sri Lanka has enjoyed a positive atmosphere in the global markets frontier as well, despite continued sanctions on trading partners such as Russia and Iran and the weakening of some economies that import our produce.

The Colombo Stock Exchange (CSE) flourished during the year with the All Share Price Index crossing the 7,000 mark in August 2014 for the first time in three years. The CSE achieved a number of other performance milestones during 2014, such as the S&P SL 20 index crossing the 4,000 mark for the first time since its launch and the CSE daily turnover recording LKR 8.2 billion, on 19 August 2014, the highest since 16 March 2012. The CSE also had several equity IPOs, debt IPOs and an equity introduction, all of which further reiterate the keen investor confidence placed in the Sri Lankan economy.

Furthermore, in a bid to improve the risk management framework within the secondary market and to offer a stable environment in the form of efficient trading, clearing and settlement systems in the CSE, the Securities and Exchange Commission (SEC) embarked on setting up an integrated Central Counter Party mechanism jointly with the Central Bank of Sri Lanka and the CSE. Such a measure indicates the convergence of trading with global best practices, and will further strengthen investor confidence placed in the Sri Lankan security trading market.

Banking Industry Landscape

The low interest rate regime continued during the year in line with the Central Bank's monetary policy measures to stimulate domestic credit growth. However, credit growth amongst banks remained a challenge with low credit demand from the private sector.

The asset quality of banks improved towards the latter part of the year, reversing an increasing trend in Non-Performing Loan (NPL) ratios seen in early 2014. Provision coverage also continued to improve largely due to the reduction in NPLs.

The industry continued to respond to the sector consolidation programme of the Central Bank of Sri Lanka towards creating a banking industry that will be structurally robust and capable of financially energizing the needs of the growing economy. Several institutions undertook the preliminary discussions and steps towards such consolidation, amongst which your Bank together with its counterpart DFCC Bank PLC were two key activists.

Return to Shareholders

The national economy posted good results during the year and provided growth opportunities to the banking sector participants. The Bank and the Group too recorded exceptional performance all round. Group profit attributable to shareholders grew by a resounding 56% to LKR 4,134 million. This was matched by an interim dividend of LKR 7.00 per share paid to shareholders in November 2014, which will be followed by a final dividend of LKR 4.00 per share payable by 9 March 2015. Key shareholder indicators, as discussed under Investor Capital (page 66), indicate strong growth in the value created for shareholders.

New Approaches to Reporting

For us, there is excitement in communicating with you, showing how well your Bank is delivering value to its key stakeholders, and vice versa. We produced our very first integrated annual report last time, for the year 2013.

Your Bank fully recognizes the confluence and interdependence of economic, environmental and social aspects in creating value over time, and they are duly reflected in our business model. In our reporting for 2013 we had adopted a new approach to sustainability reporting. It was one that seamlessly discussed sustainability aspects right across our new reporting structure, while adopting the Global

Reporting Initiative GRI G4 Sustainability Reporting Guidelines. We have further refined these approaches in reporting for 2014, while going one step further by voluntarily reporting the Bank's carbon footprint for the first time, calculated in accordance with the GHG Protocol Corporate Standard.

Governance that Goes Beyond Compliance

Good governance is a reigning principle at your Bank's board room and all aspects of business, a virtue that is instilled in the mindset of all our employees as well. As detailed in the section on Stewardship later in this Annual Report, your Bank is run within a comprehensive and transparent corporate governance framework that is in accordance with applicable rules and regulations governing the banking industry, with systems in place to ensure total compliance thereof.

Resolute in Strategy

The Board, with the active participation of staff, devised a medium term Strategic Plan 2014-2018 which brought into nexus the key elements that were essential in taking the Bank to new levels of performance. Being resolute in strategy, execution through systematic tracking has enabled the Bank to achieve a more coherent, logical, and strong operational model, and has set the Bank on a strong growth platform.

Focused on the Future

Times of exciting change lie ahead for your Bank. As reported in our Annual Report 2013, the Central Bank of Sri Lanka has encouraged the consolidation of the banking and finance sector in the country. The ongoing discussions between your Bank and DFCC Bank PLC, yet another development banking stalwart in Sri Lanka, will be promoted in the best interests of shareholders and other stakeholders, while implementation is subject to the passage of required legal and regulatory approvals. A considerable amount of preparatory work relating to the proposed amalgamation has been undertaken during the year under review. The Bank will await further policy guidelines on this matter from the regulators before deciding on the next steps.

We reiterate our focus on organic business growth till such consolidation is effected, and our readiness to realign our endeavours at the times needed, to be a part of a larger entity which certainly will deliver enhanced returns to all our stakeholders.

In Appreciation

A year of excellent performance could not have been achieved if not for the collective contribution of many important individuals and groups. I wish to express my heartfelt gratitude to my fellow Board members of the Bank who bring to the table years of expertise, business acumen and inspiring leadership. Our shareholders and customers are also acknowledged with great appreciation for the trust and confidence they have placed in us. I also thank the employees of the Bank led by the Chief Executive Officer Mr Rajendra Theagarajah and all subsidiaries for their unity, perseverance and loyalty in raising the NDB Group to the heights it has reached today. I also thank the regulators for their professional guidance and support rendered at all times.

Pushing the Pace in a Resurgent Sri Lanka

Sri Lanka is surging ahead in an economic renaissance not seen ever before. Despite a change in political leadership subsequent to the Presidential Election of Sri Lanka that was concluded in early January 2015, we are firmly convinced that the country's growth momentum is heading at the right pace in the right direction with the '100 day programme' of the new government.

Your Bank too is pushing its pace to play a pivotal role in the resurgent economy.



Sunil G Wijesinha
Chairman

13 February 2015



Scan to view the online version
ndbbank2014.annualreports.lk/report/ceos_review.html

**We said it before last year.
Change is in the air; more
relevant now than ever before.**

Within this context, the Bank propounds a redefinition of 'development banking'.

It is about the fruits of development reaching the citizenry and every man and woman having access to banking services. In short, it is one that balances economic growth and environmental stewardship with social equity.

Seeing the Big Picture

Development oriented commercial banking per se, means many things to many people. To us, it is a broad canvas. It begins with an appreciation of an individual's basic needs such as access to affordable housing finance, the ability to own personal transportation and access to finance for education. As one moves up the hierarchy of needs, the Bank too is there all the way, from micro financing to get a fledgling business off the ground to an array of innovative savings solutions to fit any wallet. These go beyond mere finance, as a host of complementary support services are very much part of the package we offer to the micro and small & medium enterprise sector.

Further up the ladder, we continue to nurture thousands of enterprises in the middle market segment to thrive and grow. At the top end of the pyramid, we provide a full suite of commercial, development and investment banking products and services through the Bank and its Group companies. In fact, it is this synergy that enables us to seamlessly bundle and deliver customized financial solutions of value right across the board...whatever the size of business, wherever it is located in whichever economic sector.

It is a far-sighted philosophy that goes beyond only making profits or being the best in our industry, but one that illustrates the importance of seeing the big picture...a picture that depicts the interdependency between the twin goals of deriving and delivering value across a broad spectrum of stakeholders. Indeed, a unique value proposition that provides a true developmental flavour to our enterprise.

Walking the Talk

It is said painting is self-discovery, but just seeing the big picture is not enough. Leadership is demonstrated through both seeing that picture and by ensuring that others also see it. We worked on this home truth during the year by building a shared vision across all employees of the Bank.

Our vision to be a world-class Sri Lankan bank is underpinned by five core corporate values, namely, integrity, care, passion, teamwork and service. Going beyond mere corporate window dressing, we chose to bring life to these core values through real life action. It's the sort of acid test that makes good companies great and great companies legends. The launch of 'The NDB Spirit Achievers Programme' during the year was the beginning of such a journey.

This is an award scheme designed to recognize members of staff who actively demonstrate that such values are at the very heart of the Bank's business through their actions, behaviour, responses in times of difficulty and engagement with fellow staff, customers and wider communities.

The Programme is thus an exciting new dimension to managing our talent. It complements our usual approaches to training, development, compensation and retention and further asserts the incomparable value we place on our human capital.

Building Relationships that Create Value

We make every effort to effectively engage with our broad spectrum of stakeholders, map their expectations and ours to identify mutually important aspects and develop strategies and action plans that create value.

Investor relations received special focus during the year. It was a full calendar of activity across a multitude of channels including social media. We reached every segment of the investor community including institutional investors, fund managers and research analysts via meetings, webinars, investor forums, group engagement, road shows and more, across financial centres of the world including Singapore, Rotterdam and New York. There was an overarching purpose behind this.

The Bank ventured overseas and raised a total of USD 250 million in short and medium-term funding at competitive rates of interest from a diverse group of lenders from Europe as well as the International

Finance Corporation of the World Bank Group. It was our first such significant foray overseas and a valuable learning experience that gives us the confidence to raise funds of this nature in the future as well. During the latter quarter of 2014, the NDB Group launched the Emerald Sri Lanka Fund, which is the largest private equity fund dedicated to Sri Lanka. This completes the supply chain of financing solutions we offer to our customers, ranging from basic bank debt and pre-IPO equity to syndicated debt and IPO facilitation.

Pushing the Envelope

We said it was our best year last time when reporting on 2013. Well, we need to say it again this time as well. Year 2014 was one of solid performance in our core banking business as well as complementary businesses through our subsidiary companies, locally and in Bangladesh.

The Bank earned a profit after tax of LKR 3,418 million for the year under review as against LKR 7,723 million in 2013. Whilst on the face of it, this indicates a year-over-year decline of 56%, in actuality, the Bank's profit for the year grew by 64%, if the one-off capital gain earned as a consequence of the divestment of AVIVA NDB Insurance PLC is discounted. All segments of the NDB Group contributed robustly to fuel this result.

Group profit attributable to shareholders grew by 56%, crossing the LKR 4 billion mark to reach LKR 4,134 million (2013: LKR 2,642 million). This impressive growth was driven by enhanced performance from both our core banking operations as well as by the capital markets cluster.

The Bank's total assets expanded by 31%, nearing LKR 263 billion, setting ambitious growth targets for the coming year. Customer deposits increased to LKR 152 billion, a 17% growth compared to the previous year. Your Bank maintained sound portfolio quality with a low NPL ratio of 2.5% by year end. We have always championed the efficient management of costs and were rewarded with a cost to income ratio of 45% for the year. These performance indicators are well ahead of industry ratios of 4.8% and 52%

respectively, based on industry data as at 30 November 2014.

The NDB Group has maintained one of the best Capital Adequacy Ratios in the industry and has benefited from a Capital Base that has grown in a steady and robust manner. The close of the year saw the Group's Core Capital Base rising to LKR 26,952 million, a 9% growth from end December 2013, while the Total Capital base recorded LKR 36,611 million, a 7% growth. This solid Capital Base strengthens your Bank's capability to expand its business operations sustainably to generate higher revenue, while being able to withstand any potential downside shocks.

If I were to identify the main drivers of such exemplary results, I would say it was the result of an agile management team coupled with a compulsion across all areas of the Bank to outperform our previous very best. It's what we call pushing the envelope - to move past the limits of what has already been done or whatever that is accepted as the current standard.

Maintaining a Balanced Scorecard

Going beyond financial performance, the Bank did well on many other fronts. We championed new product development in retail banking, deepened our portfolio in renewable energy financing, invested in technology to enhance productivity and customer convenience, opened our first digitized branch at the Kandy City Centre and ventured into private equity through a new subsidiary set up in Mauritius.

Our approach to corporate social responsibility is structured. The Bank's strategic CSR activities during the year continued with ongoing programmes that covered education and healthcare. We partnered a novel philanthropic CSR project during the year to set up palmyra bio-fencing, initially on a pilot basis, to address the human-elephant conflict.

The Bank spearheaded a new national venture - 'Cinnamon to the World' - to revive the local export crop and over time, create a national brand akin to Ceylon Tea.

Our efforts did not go unnoticed. They were recognized through numerous global awards across the Bank and the Group and are summarized on pages 243 to 245. While winning is not our ultimate goal, it does tell us we are heading in the right direction.

Going Forward

Ours is a strategy-driven performance driven by an engaged Board. The Bank's medium-term Strategic Plan 2014-2018, developed in-house, provides the basis for alignment and direction across all business units. The Plan is systematically executed through a best in class 'Strategy Tracker', which provides space for feedback and corrective measures where necessary. Some of the planned activities are now on hold, on account of the ongoing merger discussions with DFCC Bank, a topic that is discussed in the Chairman's Message.

We see 2015 as a year of opportunity despite the possibility of General Elections following the Presidential Elections of January 2015. Our twin areas of focus would be in accelerating the growth of current and saving accounts (CASA) to further improve our net interest margins and increasing the contribution from fee-based income as a proportion of the total operating income of the Bank. The above strategies will be ably supported by multiple initiatives relating to digital banking and electronic payments which will make financial inclusion a viable business proposition and become a strong anchor of the sustainability of our business model.

In conclusion, I would like to thank the Chairman and the Board of Directors for their guidance and counsel, all staff for their unstinted effort and commitment, our customers for their loyal patronage and all other stakeholders whose interactions with us we value highly. We bade farewell to our Chief Operating Officer Indrajith Wickramasinghe during the year. We are grateful for his contribution to the Bank and on behalf of all staff, I wish him well for the future.

It was an eventful year at the Bank. Ongoing activities were fine tuned, new initiatives were welcomed, while more ideas were under incubation. Change is indeed in the air. If I may paraphrase George Bernard Shaw, progress is impossible without change and those who cannot change their minds cannot change anything.



Rajendra Theagarajah
Chief Executive Officer

13 February 2015

Business Model

We have access to and make use of our internal and external forms of capital in creating value for the Bank and our stakeholders through our business model.



Scan to view the online version
ndbbank2014.annualreports.lk/report/business_model.html

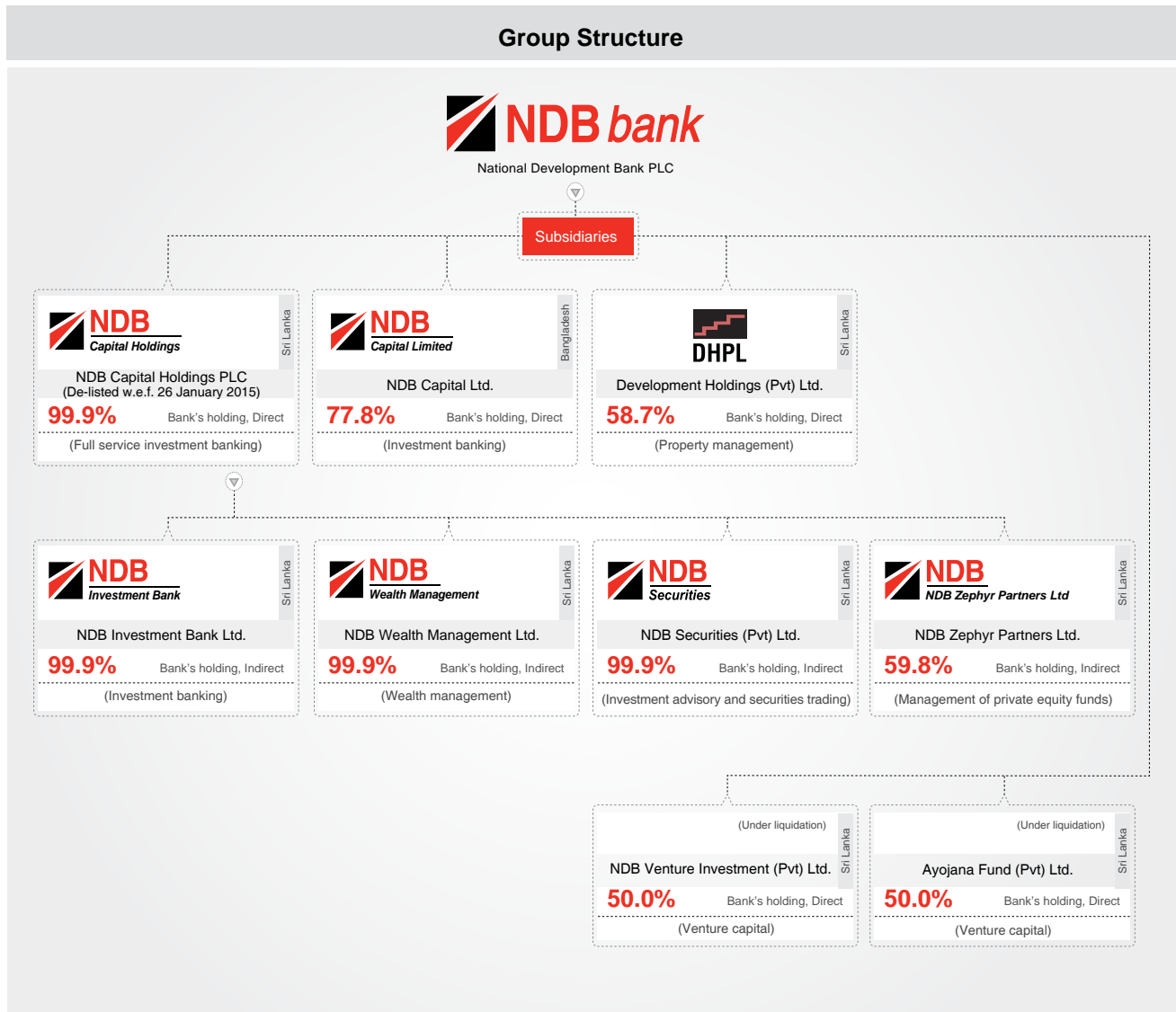
Organizational Profile

The Bank

Commencing business in 1979 as a state-owned development bank, National Development Bank PLC ('Bank') today operates under the Companies Act No. 7 of 2007, and as a Licensed Commercial Bank it is regulated under the Banking Act No. 30 of 1988 (see Corporate Information, page 404). The Bank is listed on the Colombo Stock Exchange (stock code: NDB.N0000), and its 8,014 shareholders comprised 95% individual and 5% institutional shareholders, accounting for 20% and 80% of shareholding respectively as of 31 December 2014 (see Investor Relations, page 227).

Group Companies

The main activities of the Bank and its group companies ('Group') encompass retail banking, small and medium enterprise (SME) banking, corporate banking, project and infrastructure financing, investment banking, leasing, housing finance, investments advisory and securities trading, wealth management, management of private equity funds, property management and bancassurance. They are delivered through the core activities of the Bank and its Group companies as summarized below.



Markets Served

The Group's significant operations are located within Sri Lanka, with services delivered through locally domiciled entities. The Group is also engaged in fee-based businesses in Bangladesh through NDB Capital Ltd., and private equity through NDB Zephyr Partners Ltd., Mauritius that was set up in 2014 in partnership with the US-based Zephyr Management LP.

The Bank operates a network of 83 branches (2013: 78) that are categorized into eight Regions. They cover 22 of the 25 administrative districts in the nine provinces of the country, and serve a broad spectrum of clientele ranging from individuals, micro enterprises, SMEs, emerging and large corporates to state-owned enterprises and multinational companies. In addition, the Bank reaches out to its customers through automated distribution systems such as ATMs, Internet banking, a virtual presence in a host of leading social interaction sites, telemarketing, a call centre, a mobile commerce application (MPOS) and a unique 'Feet on the Street' sales force. More details are given under Customer Capital, beginning on page 67.

Scale of Operations

Total operating income of the Group increased by 12% during FY 2014 to LKR 12,966 million, with profit attributable to shareholders increasing in tandem by 56% to LKR 4,134 million. Total assets of the Group grew by 30% to LKR 269,130 million during the year, largely driven by enhanced volume growth across all business segments.

The Bank's market capitalization stood at LKR 41,273 million as at 31 December 2014, and ranked 16th (2013: 20th) amongst the 282 listed companies on the Colombo Stock Exchange.

By end 2014 the Sri Lankan banking industry comprised 25 licensed commercial banks and nine licensed specialized banks, with 34 players in total (2013: 33 banks). In terms of market share and ranking within the industry, the Bank accounted for:

- 4.7% of loans and receivables and ranked 8th (2013: 3.8%, ranked 9th)
- 3.3% share of customer deposits and ranked 9th (2013: 2.9%, ranked 9th) and
- 3.9% share of total assets and ranked 8th (2013: 3.2%, ranked 9th).

The Bank's staff strength increased by 10% to 1,744 persons by end 2014 to support business growth, with 79% employed in the permanent cadre.

Operating Environment

The Global Economy

World output grew by 3.3% in 2014, on par with the growth in 2013. The key developments shaping the global economy during the year were:

- The sharp decline of over 50% in oil prices from mid-2014 largely due to unexpected demand weaknesses in some of the major economies, surging production in the US and a more sanguine view of geopolitical risk.
- Stronger than expected recovery in the US while economic performance in all other major economies, most notably Japan, fell short of expectations.
- Appreciation of the US dollar, while the euro and the yen depreciated along with many emerging market currencies, particularly those of commodity exporters.
- Increased interest rates and risk spreads in many emerging market economies, notably commodity exporters and risk spreads on high-yield bonds and other products exposed to energy prices.
- Decline in long-term government bond yields in major advanced economies, reflecting safe haven effects and weaker activity in some, while global equity indices in national currency have remained broadly unchanged since the third quarter of 2014.

Key Performance Indicators

(Percentage changes unless noted otherwise)	Year over Year			Projections	
	2012	2013	2014	2015	2016
World Output*	3.4	3.3	3.3	3.5	3.7
Advanced Economies	1.2	1.3	1.8	2.4	2.4
Emerging Market and Developing Economies**	5.1	4.7	4.4	4.3	4.7
Commodity Prices (U.S. dollars)					
Oil***	1.0	(0.9)	(7.5)	(41.1)	12.6
Non-fuel (average based on world commodity export weights)	(10.0)	(1.2)	(4.0)	(9.3)	(0.7)
Consumer Prices					
Advanced Economies	2.0	1.4	1.4	1.0	1.5
Emerging Market and Developing Economies**	6.1	5.9	5.4	5.7	5.4
London Interbank Offered Rate (percent)					
On U.S. Dollar Deposits (six month)	0.7	0.4	0.3	0.7	1.9
On Euro Deposits (three month)	0.6	0.2	0.2	0.0	0.1
On Japanese Yen Deposits (six month)	0.3	0.2	0.2	0.1	0.1

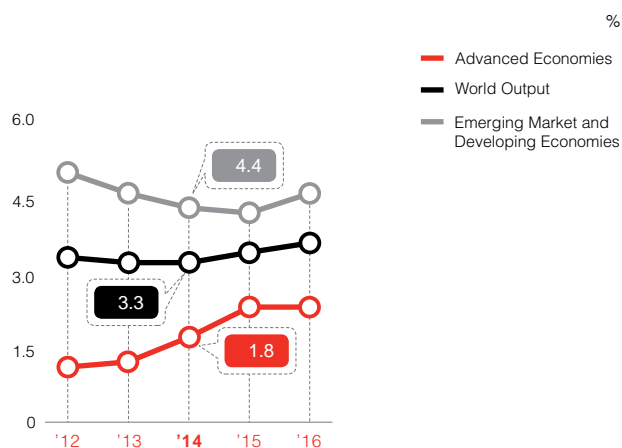
* The quarterly estimates and projections account for 90 percent of the world purchasing-power-parity weights.

** The quarterly estimates and projections account for approximately 80 percent of the emerging market and developing economies.

*** Simple average prices of UK, Brent, Dubai Fateh and West Texas intermediate crude oil.

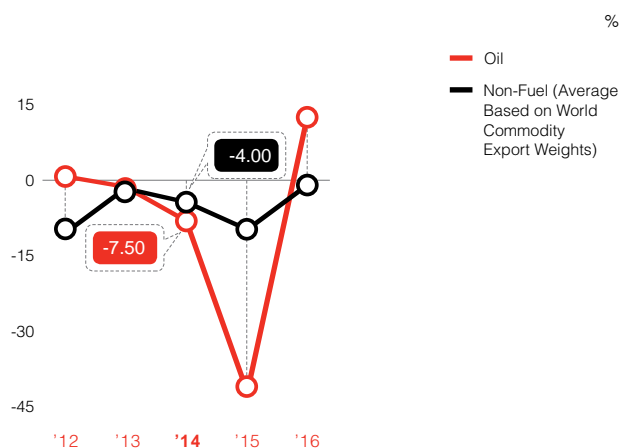
Source: World Economic Outlook of IMF January 2015 and October 2014.

Global Economic Growth



Source: World Economic Outlook of IMF January 2015 and October 2014.

Change in World Consumer Prices



Source: World Economic Outlook of IMF January 2015 and October 2014.

Analysis of the Economic Performance of Selected Economies of the World

	Projections			
	2013	2014	2015	2016
Advanced Economies				
United States	1.3	1.8	2.4	2.4
Euro Zone	2.2	2.4	3.6	3.3
Japan	(0.5)	0.8	1.2	1.4
Emerging Market and Developing Economies*				
China	1.6	0.1	0.6	0.8
	4.7	4.4	4.3	4.7
	7.8	7.4	6.8	6.3

*The quarterly estimates and projections account for approximately 80 percent of the emerging market and developing economies.

Source: World Economic Outlook of IMF January 2015.

Outlook

Although global growth will receive a boost from lower oil prices, it is projected to be more than offset by negative factors, including investment weakness as adjustment to diminished expectations about medium-term growth continues in many advanced and emerging market economies.

Global growth in 2015 and 2016 are projected at 3.5% and 3.7% respectively following downward revisions in January 2015 by the IMF. The revisions reflect a reassessment of prospects in China, Russia, the Euro Zone and Japan as well as weaker activity in some major oil exporters because of the sharp drop in oil prices. The United States is the only major economy for which growth projections have been raised.

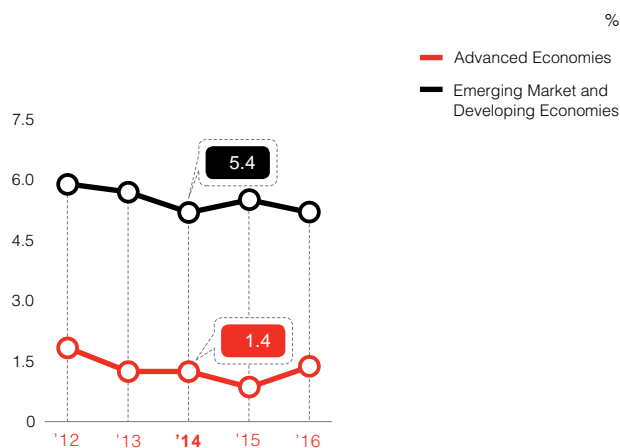
The Sri Lankan Economy¹

Economic Growth

The Sri Lankan economy recorded a healthy growth of 7.8% (projected as at December 2014). Strengthening domestic economic activity and improving external demand contributed to the growth momentum.

The Agriculture sector grew only by 0.2% during the first quarter of 2014 due to adverse weather conditions, but the sector rebounded to record a growth of 6.4% in the second quarter, resulting in a growth of 3.1% in the first half of the year. The Industry sector grew by 12.4% with continued high performance in construction, mining and quarrying and manufacturing sub sectors; while the Services sector grew by 6.1% with improved performance in the wholesale and retail trade, transport and communication, and hotels and restaurants sub sectors.

Change in World Consumer Prices

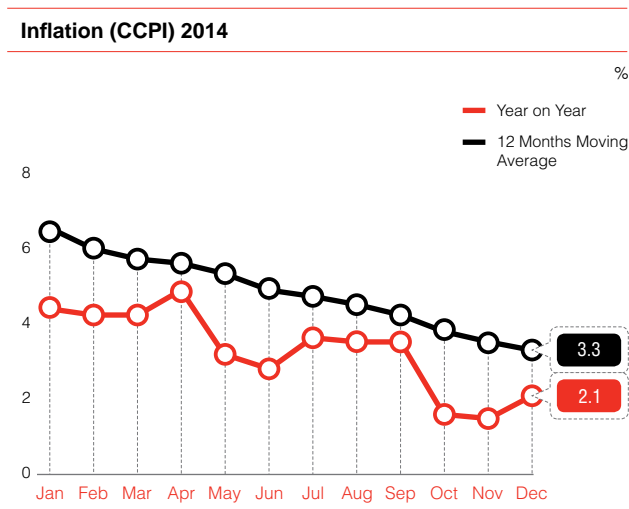


Source: World Economic Outlook of IMF January 2015 and October 2014.

¹ Extracts/sources: Central Bank of Sri Lanka - Recent economic developments: Highlights of 2014 and prospects for 2015, Department of Census & Statistics

Inflation

Year on year inflation measured by the Colombo Consumer Price Index (CCPI) remained below 5% during the year. Headline inflation (year-on-year) continued to record single digit levels, while core inflation remained equally subdued, indicating well contained demand driven inflationary pressures. Depicted below is the movement of the YoY inflation and the 12 months moving average inflation during the year as measured by the CCPI.



Balance of Payment (BOP) and Official Reserves

The BOP recorded a surplus of USD 1,954 million during the first half of 2014 as against a deficit of USD 169 million recorded during the corresponding period of 2013. Improved trade balance, other inflows to the current account and enhanced inflows to the financial account contributed to this significant improvement in the BOP.

Sri Lankan Rupee and the Exchange Rate

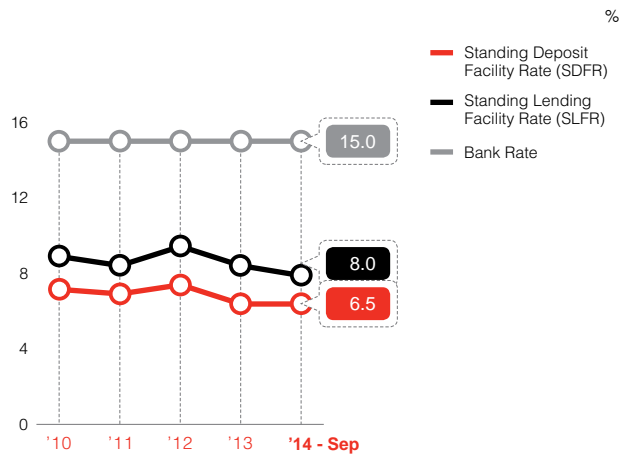
The Sri Lankan rupee remained stable against the Dollar during the first nine months of the year, appreciating by 0.3%. Continued inflow of foreign exchange by way of current, capital and financial flows helped maintain the stability of the rupee during this period. Reflecting the cross currency exchange rate movements, the Sri Lankan rupee appreciated against the Japanese Yen by 4.5%,

the Sterling Pound by 1.8% and the Euro by 9.1%, while depreciating against the Indian Rupee by 0.3% by end September 2014. The Central Bank intervention in the domestic foreign exchange market was mainly to absorb excess foreign exchange liquidity in order to prevent undue appreciation of the Sri Lankan rupee, particularly in the first eight months of the year. Accordingly, the Central Bank purchased USD 985 million from the domestic foreign exchange market on a net basis during the first nine months of 2014.

Monetary Sector

The monetary policy stance remained relatively eased during the first eight months of 2014 supported by benign inflation levels, which reflected well contained demand pressures as well as improved supply conditions. The Central Bank of Sri Lanka established a Standing Rate Corridor (SRC) in place of the policy rate corridor while introducing Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) that replaced, respectively, the Repurchase rate and the Reverse Repurchase rate of the Central Bank.

Behaviour of Policy Rates



The Financial Sector

The financial sector expanded and remained stable during the period under review. The overall soundness of financial institutions improved with adequate capital and liquidity levels and an enhanced regulatory and risk management framework. The deceleration of credit growth however, impacted on the profitability of financial institutions. The financial sector consolidation process that was announced at the beginning of the year progressed well, and is expected to enhance the stability of the financial sector with strong and dynamic financial institutions.

Future Prospects

The Sri Lankan economy is projected to grow at a rate of around 8% in 2015, with all sectors contributing to this growth. Inflation is expected to remain below 5% during the medium term. Sri Lanka's external sector performance is expected to strengthen further in 2015, enhancing resilience to external shocks. The Sri Lankan economy is expected to move along a higher, non-inflationary growth path in the medium term, with the vastly improved physical infrastructure, improving social infrastructure, efforts to enhance overall productivity of the economy and the recovery of the global economy.

Sri Lankan Banking Sector Performance

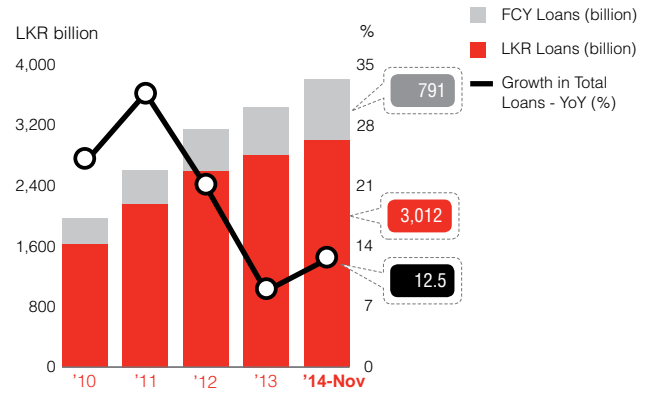
Total Assets

The Sri Lankan banking sector reached a total asset size of LKR 6,780 billion (as at November 2014), recording a 14% growth over the LKR 5,941 billion of December 2013. The growth trend was somewhat stagnant during the first nine months of the year, but escalated during the last quarter.

Total Loans

Total loans (LKR and FCY in total) reached LKR 3,803 billion as at end November 2014. Although the loan growth indicated a dip in early 2014 due to low credit appetite of the private sector, growth picked up during the second half of the year, recording a 11% growth for end November 2014, compared to December 2013.

Trend in Loans

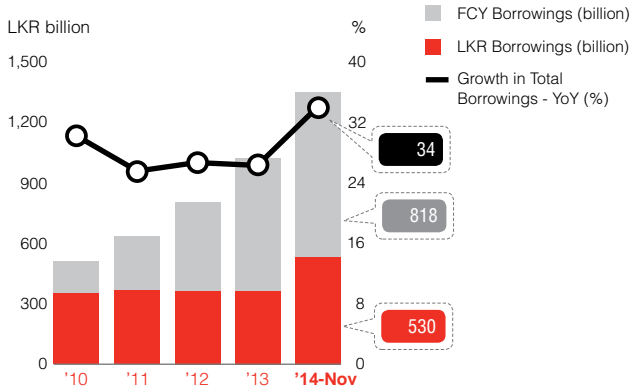


Sources of Funding

In terms of raising funds within the industry, there was greater focus in raising funds via rupee and foreign currency borrowings. Within total borrowings greater reliance was on foreign currency borrowings. By November 2014 the Sri Lankan banking sector had raised LKR 530 billion via rupee borrowings and LKR 818 billion via foreign currency borrowings.

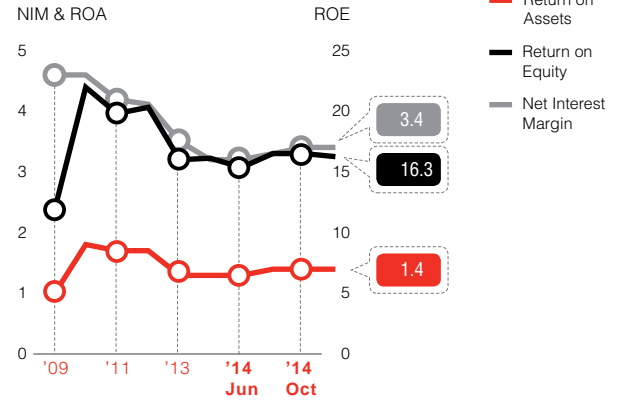
Deposits grew at moderate levels hovering around the 12% mark. The reduced interest rate environment that prevailed during the year made bank deposits less attractive to investors, causing a shift of funds from the banking and finance sector to capital market products and other asset classes. This is well reflected in the deposit growth rate of 10% as at November 2014 in comparison to December 2013.

Trend in Borrowings

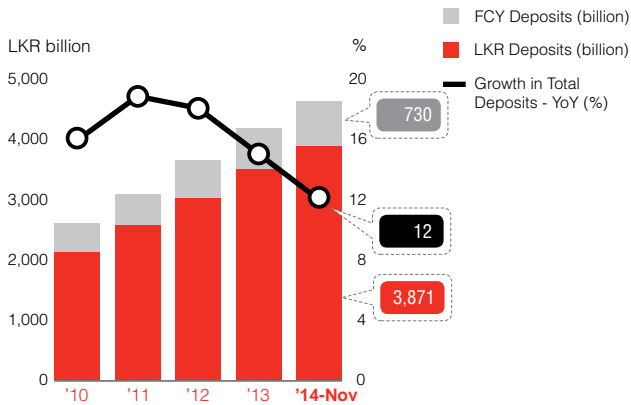


Behaviour of Industry Profitability

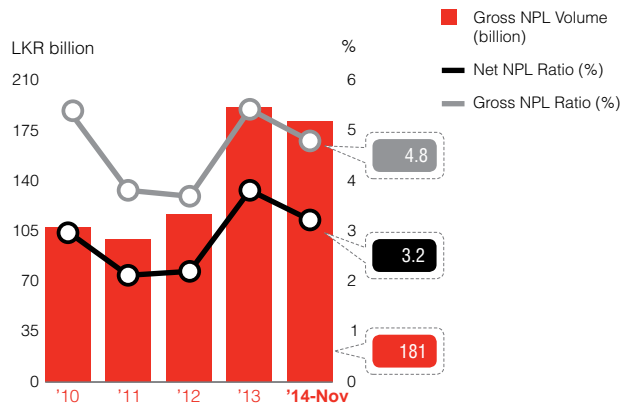
Industry Profitability



Trend in Deposits



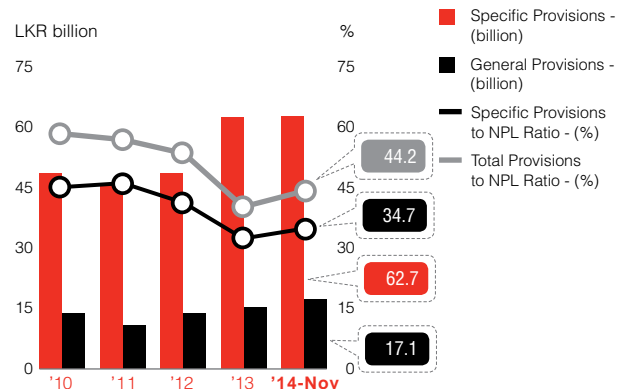
Trend in Non-Performing Loans



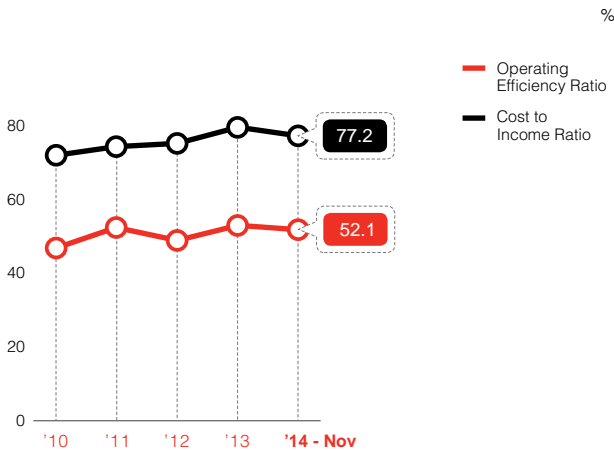
Profitability

Profits during the first eleven months of 2014 improved compared to corresponding period of 2013 due to the lag effect in reducing interest rates on interest income compared to interest expenses, gains made on investments securities and lower level of provisions with improved NPL levels.

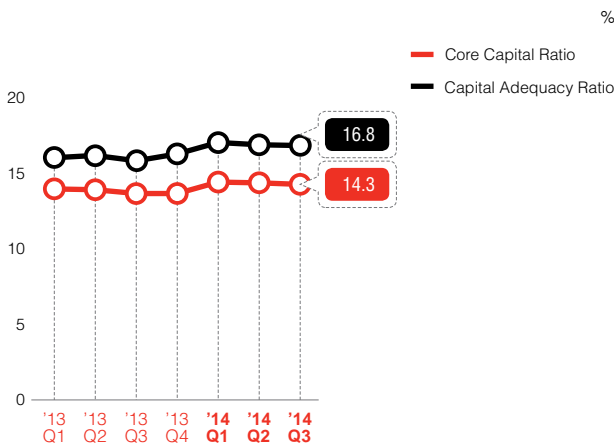
Trend in Provisions



Efficiency Ratios



Capital Adequacy Ratios



Banking Sector Consolidation

In 2013, the Central Bank of Sri Lanka, in its Road Map for the Banking & Financial Sector of Sri Lanka highlighted the need for at least five Sri Lankan banks with LKR 1 trillion or more assets by 2016. The need for such larger systemically important banks within the industry was triggered by the mammoth development projects that were being carried out in the country. The Road Map also brought to light the need for a large development focused bank which provides substantial impetus to development banking activities of the country.

Considering the development financing business embodied within the Bank and its counterpart DFCC Bank PLC, (together with DFCC Vardhana Bank PLC) the two entities were identified for the establishment of a significantly larger development focused commercial banking entity. In this context the two banks jointly engaged in a series of discussions during 2014, with Boston Consulting Group (India) Private Ltd. acting as consultants to advise the banks on the amalgamation process.

Thus far, there have been no definite decisions on any aspects of such consolidation and the final decision would be dependent on factors such as arrangements being agreed whilst safeguarding the interest of the investors, customers, employees and other stakeholders of the banks. Moreover the consolidation of the banks will be dependent on regulatory approvals and the passage of facilitative legislation.

Strategic Direction of the Bank

The Bank is prepared to evolve and be a part of the larger national thrust through the establishment of a significantly larger banking entity, to provide the much needed development focused commercial banking support to a resurgent Sri Lankan economy.

Our Seven Pillars of Strategy

The Bank's business model is underpinned by seven pillars of strategic execution, duly backed by a strong corporate governance framework (page 111) and a structured approach to corporate social responsibility (pages 93 to 98). The five-year strategic plan 2014-2018, prepared in-house, is thus driven by the very people who will deliver the results, and contains the following key elements:

- **Profitable balance sheet growth**

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

- **Operational excellence**

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

- **Strong sales culture**

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

- **Growth in fee-based income**

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

- **Cost optimization**

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

- **Best in class, engaged and inspired team**

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

- **Exemplary governance, transparency and compliance**

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

Stakeholders

How the Bank Identifies its Stakeholders

It is a truism that value is not created by or within the Bank alone, but is created through relationships with many important stakeholders. Accordingly, the Bank places great emphasis in the identification and timely engagement of key stakeholders who significantly contribute towards the value creation process of the Bank.

We define stakeholders as being entities or individuals that can reasonably be expected to be significantly affected by the Bank's activities, products, and services; and whose actions can reasonably be expected to affect the ability of the Bank to successfully implement its strategies and achieve its objectives.

Stakeholder Engagement Methodology

We will next provide insights on the nature and quality of the Bank's relationships with its key stakeholders, and to what extent the Bank understands, takes into account and responds to their legitimate needs and interests.

Investors*			
Method of engagement	Frequency of engagement	Key topics and concerns raised	How the Bank responded to such topics and concerns
Annual Report	Annually	<ul style="list-style-type: none"> Financial performance of the Bank and the Group Business overview, business strategy and challenges Business growth targets and sources of growth Asset quality of the Bank Operational strategy of the Bank and operational efficiencies Strategic focus and the activities carried out by the Group companies Prospects of the proposed merger between the Bank and DFCC Bank PLC Governance and risk framework Effective tax rate of the Bank The Bank's role in the evolving industry scenarios 	We maintain a high level of accessibility to the senior management of the Bank in engaging investors.
Annual General Meeting	Annually		
Extraordinary General Meeting	As and when required		
Interim financial statements	Quarterly		We maintain transparency, consistency, clarity and openness to scrutiny in investor engagements.
Press releases on financials	Quarterly		
Investor presentations on financials	Quarterly		More details on individual engagement activities are given in the Investor Relations section of this report (pages 223 to 242).
Email notifications on quarterly result releases	Quarterly		
Announcements made to the Colombo Stock Exchange	As and when required		
One to one investor meetings	As and when required		
Investor forums/investor webinars	Quarterly		
Earnings calls	As and when required		
Road shows	As and when required		
Participation in international investor forums	As and when required		
Prospectus	As and when required		
Investor relations web page within the NDB Corporate website	Ongoing		

*Investor relations at the Bank covers current shareholders as well as potential investors (local and foreign), stock brokers, analysts, rating agencies, media and regulators.

Customers

Method of engagement	Frequency of engagement	Key topics and concerns raised	How the Bank responded to such topics and concerns
Customer satisfaction survey	Annually	<ul style="list-style-type: none"> • Level of customer service and quality of customer interactions through key touch points. • Availability of branches, ATMs and other physical touch points • Types of products and services • Product pricing (interest rates, other fees and charges) • Efficiency of relationship staff • Appearance of the Bank in leading social media sites 	<p>A dedicated 24-hour call centre and a Customer Relationship Management Unit promptly attend to Customer enquiries and concerns.</p> <p>Customers may raise their feedback through the Branch Network (Branch Managers are the dedicated service ambassadors), 24-hour Call Centre and via Online messages/by e-mailing us at contact@ndbbank.com or by writing to The Manager - Customer Relationship Management, National Development Bank PLC, No. 40, Navam Mawatha, Colombo 02. Such feedback from customers is taken into consideration when simplifying Bank's processes and developing new products and services.</p> <p>The Bank's corporate website explains our complaints handling procedure, including the escalation process for redressing through the Financial Ombudsman.</p> <p>As per the Customer Charter and CBSL regulations all interest rates and Key Fact Documents related to the Bank's products are published in the corporate website and also displayed within the branch premises across the network.</p>
Brand health tracker	Annually		
Mystery customer survey	As and when required		
Branch and ATM network	Ongoing		
Virtual presence	Ongoing		
<ul style="list-style-type: none"> • NDB Bank corporate Facebook page • NDB <i>Shilpa</i> Facebook page • Cinnamon to the world Facebook page • Salary Max Facebook page • NDB Corporate Youtube channel • NDB Twitter 			
Research on products/ services usage and needs	As and when required		
Research on marketing communication effectiveness	As and when required		
Extended banking hours	Ongoing		
Customer suggestion boxes	Ongoing		
Customer visits	Ongoing		
Customer get-togethers	As and when required		
Customer workshops	As and when required		
Print and electronic media	As and when required		
NDB Bank corporate website	Ongoing		
Online messages (NDB Bank Online)	Ongoing		
Contact@ndb.com	Ongoing		
Contact Centre	Ongoing		

Employees

Method of engagement	Frequency of engagement	Key topics and concerns raised	How the Bank responded to such topics and concerns
Employee Surveys <ul style="list-style-type: none"> Employee Satisfaction Survey HR ISO Survey Internal Department Survey 	Annually Annually Annually	<ul style="list-style-type: none"> Introducing the staff to the Bank's corporate values Inducting the staff to the Bank's corporate culture Inclusion and geo-functional engagement Updating the staff of the latest developments within the Bank Development of the individual's knowledge, skills and competencies Achieving work life balance and advocating health and well-being Skills development and training for employees' children Rewards and recognition for significant achievements 	<p>The employees of the Bank are highly engaged via the host of activities described herein. Our employees are recognized for their competencies and achievements, making our culture one based on meritocracy.</p> <p>The management maintains a high level of accessibility via an 'open door policy', where the employees may talk to the senior management, on any area that is a concern for him/her.</p>
Cultural Induction Programmes <ul style="list-style-type: none"> Employee Induction Programme 'In Retrospect' Programme Soft Skills Training Programme 	Quarterly Quarterly Ongoing		
Periodic Staff Meetings <ul style="list-style-type: none"> Town hall meetings The Leadership Team meetings Business Review meeting Branch Conference Regional Managers meeting Branch Managers meeting Department meetings 	Quarterly Weekly Monthly Annually Monthly Quarterly Ongoing		
Staff Societies <ul style="list-style-type: none"> Recreation Club Toastmasters Club Cross Functional Staff Committees 	Ongoing Ongoing Ongoing (Annual calendar of staff events)		
Technologically Driven Platforms <ul style="list-style-type: none"> Idea Xpress (online suggestion scheme) Human Resource Information System (HRIS) NDB Cloud (Bank's Intranet) E-Notice Board (Staff Email Notices) 	Ongoing		
Bank Policies <ul style="list-style-type: none"> Whistle-blowing policy Open door management policy 			
Recognition Schemes <ul style="list-style-type: none"> Retail Banking Awards 'Spirit of Achievers' (NDB Value based recognition) Staff Talent Programmes 	Annually Quarterly Ongoing		
Welfare Agenda <ul style="list-style-type: none"> Employee Volunteerism Programmes (Sustainability & CSR agenda) HR Welfare Programmes (covering staff and their family members) 			

Suppliers

Method of engagement	Frequency of engagement	Key topics and concerns raised	How the Bank responded to such topics and concerns
Supplier visits	As and when required	<ul style="list-style-type: none"> • Treating suppliers as a key success partner of the business • Ensuring that supplier labour and environmental practices are acceptable to the criteria of the Bank • Fair pricing • Ensuring supplier satisfaction with the Bank's engagement 	<p>The Bank has a Procurement Policy in place with a view to ensure that the Bank sources its requirements from the most preferred suppliers.</p> <p>The Bank maintains a supplier database.</p> <p>The Bank also actively engages itself with the suppliers in ensuring a sound business relationship and value for money, for both parties.</p>
Supplier meetings	As and when required		

Society and Environment

Method of engagement	Frequency of engagement	Key topics and concerns raised	How the Bank responded to such topics and concerns
Sponsorships	As and when required	<ul style="list-style-type: none"> • Strategic corporate social responsibility initiatives • Inculcating the virtues of thriftiness amongst individuals (e.g. <i>Ithuru Karana Maga</i> programme) • Prompt assistance to victims of various natural hazards • Financial inclusion and affordable financing • Community empowerment and livelihood development 	<p>The Bank conducts its CSR initiatives under Strategic CSR, Philanthropic CSR and Operational CSR.</p> <p>The dedicated CSR Committee ensures that the Bank identifies and responds to societal and environmental needs on a timely and effective manner.</p> <p>In addition to the strategic and planned CSR initiatives, the Bank responds rapidly to provide relief to victims of unexpected natural disasters.</p> <p>The Bank also places great emphasis on financial inclusion as a business concern as well as a social responsibility.</p>
Relief programmes in crisis situations	As and when required		
CSR initiatives	Ongoing		
Environmental protection initiatives	Ongoing		
Financial inclusion initiatives	Ongoing		
Training programmes aimed at livelihood development	As and when required		
Press releases	As and when required		
Media briefings	As and when required		
Participation in forums/conventions/summits	As and when required		
Online Social Media	Ongoing		
Bank's corporate website	Ongoing		

Regulators and Government Authorities

Method of engagement	Frequency of engagement	Key topics and concerns raised	How the Bank responded to such topics and concerns
Submission of returns/ Information	Ongoing	<ul style="list-style-type: none"> • Update on the regulatory requirements affecting the Bank • Adherence to the laws and acts relevant to the banking/ financial sector • Adherence and compliance to all applicable regulations of the Central Bank of Sri Lanka, The Colombo Stock Exchange and other regulatory bodies • Awareness of developing regulatory and governance practices (e.g. Basel III) • Adherence to provisions of the Inland Revenue Department • Meeting legislative requirements in respect of consumer protection and engaging with the Financial Ombudsman of Sri Lanka to resolve customer grievances 	<p>The Bank prioritizes on maintaining the highest level of compliance with all legislation, regulations and rules applicable to its business.</p> <p>The Bank functions within a comprehensive compliance framework, overlooked by a dedicated Compliance Department.</p> <p>Compliance training and awareness across all employees play a key role in sustaining a culture of compliance within the Bank and in mitigating compliance risk.</p> <p>Training is delivered through various means, including staff induction programmes, e-learning, face-to-face training and focused activities such as explanatory notes and e-flyers.</p> <p>The Bank contributes to the development of policy, legislation and regulation through submissions of our comments and views to technical committees and associations we are a part of within the banking industry as well as through regular engagement with regulators.</p> <p>The Bank has in place a comprehensive core-banking system which facilitates and ensures accurate and timely regulatory reporting.</p> <p>Furthermore, the Bank maintains open and continuous dialogue with the regulatory bodies on matters of concern.</p>
Directions, circulars and guidelines	As and when required		
On-site visits	As and when required		
Consultations and meetings	As and when required		
Announcements to the Colombo Stock Exchange	As and when required		

External Initiatives

The Bank participates in several activities through memberships and affiliations.

The Chartered Institute of Management Accountants (CIMA) is a professional body with which the Bank has a training partnership. As a Corporate Training Partner, employees are entitled to attend training programmes which inculcate competencies required to drive business and individual success, and networking events facilitated by world renowned speakers.

The Bank works closely with the Institute of Bankers of Sri Lanka (IBSL). Customised and off-the-shelf programmes which include Certificate courses, Diploma courses and other subject specific seminars are conducted exclusively for the Bank's employees in-house and at IBSL as required.

A similar relationship exists with the Institute of Environmental Professionals - Sri Lanka (IEPSL). During a four-year relationship, IEPSL has undertaken education and training of Bank employees in environmental conservation for sustainable development in appraising businesses prior to lending.

The Bank is a member of the Association of Compliance Officers of Banks Sri Lanka (ACOB) which provides a forum for Compliance Officers of Banks in Sri Lanka to freely discuss issues related to the execution of their duties and to network and educate themselves on issues of compliance. ACOB maintains a close co-operative working relationship with regulators and offers assistance in the review of relevant laws, procedures and best practice.

Two officers from the Risk Management Department represent the Bank at the Association of Banking Sector Risk Professionals. This forum facilitates the promotion of best practices in risk management, solving of any issues with the regulator, educating the industry in areas of risk management and sharing of information across the industry.

Treasury officers of the Bank hold membership in the Sri Lanka Forex Association.

The Bank joined the 'Sri Lanka - China Business Council' during the year to get closer to the Chinese business community. The Bank is also represented at the sub-committee for Corporate Social Responsibilities at the American Chamber of Commerce.

Translating Values Into Practice

The Bank's core values based on integrity, care, passion, teamwork and service underpin its vision to be a world-class Sri Lankan bank. They cut across all aspects of daily life, including relationships with investors, customers, employees, regulators, local communities and other stakeholders.

The values of the Bank are instilled in several ways. At the time of induction, employees learn how values impact on the Bank's core competencies, while these are reinforced during day-to-day work as well as formal performance evaluations.

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

A higher degree of onus and expectation is placed on the Senior Management Team for the achievement of the Bank's core competencies within the values framework. While we emphasize service excellence and business growth that lead to value creation for shareholders, we ensure that these are achieved within our values by upholding ethical and transparent business practices.

Materiality and Value Creation

As explained in the section Report Boundary and Materiality (page 7), the Bank has determined certain aspects as material to the Bank and its stakeholders through an identification process.

Material Aspects

We regard an aspect to be material if it substantively affects the Bank's ability to create value over the short, medium and long term. Relevance and significance of an aspect determine its materiality as high, medium or low, with significance being decided based on both the magnitude of the impact as well as probability of occurrence.

An aspect can be important from two different perspectives, namely, the Bank and its stakeholders. This is depicted through a two-dimensional diagram, known as the materiality matrix. The Bank has thus identified and classified the economic, social and environmental aspects as being important along these two dimensions, which are represented in the materiality matrix shown below.

Materiality Matrix

Importance to stakeholders	High		16	1, 2, 6, 7, 9, 10, 11, 12, 13, 20, 21
	Medium		3, 4, 5, 8, 14, 15	17, 19
	Low		18	
		Low	Medium	High
		Importance to the Bank		

Rating of Material Aspects

No.	Aspect	GRI Indicator	Importance to the Bank	Importance to stakeholders
1	Economic performance	G4-EC1	High	High
2	Market presence	G4-EC6	High	High
3	Indirect economic impact	G4-EC7	Medium	Medium
4	Energy	G4-EN3	Medium	Medium
5	GHG emissions	G4-EN15 G4-EN16 G4-EN17	Medium	Medium
6	Employment	G4-LA1 G4-LA2 G4-LA3	High	High
7	Labour management relations	G4-LA4	High	High
8	Occupational health and safety	G4-LA6	Medium	Medium
9	Training and education	G4-LA9 G4-LA10 G4-LA11	High	High
10	Diversity and equal opportunity	G4-LA12	High	High
11	Equal remuneration for women and men	G4-LA13	High	High
12	Labour practices grievance mechanisms	G4-LA16	High	High
13	Non-discrimination	G4-HR3	High	High
14	Freedom of association and collective bargaining	G4-HR4	Medium	Medium
15	Human rights grievance mechanisms	G4-HR12	Medium	Medium
16	Local communities	G4-SO1	Medium	High
17	Anti corruption	G4-SO3	High	Medium
18	Compliance	G4-SO8	Medium	Low
19	Product and service labelling	G4-PR3 G4-PR5	High	Medium
20	Marketing communications	G4-PR7	High	High
21	Customer privacy	G4-PR8	High	High

Management Approach

The location of an aspect mapped on the materiality matrix determines its relative importance in affecting the Bank's ability to create value over time. The various forms of capital which represent stores of value change from time to time, based on the business strategy and activities undertaken. The Bank has access to and makes use of these forms of capital in creating value for itself (deriving value) and its stakeholders (delivering value) through its business model.

The Management Discussion and Analysis that follows explains why we consider an aspect to be material, what we do to manage them and how we evaluate our approach and results. They are elaborated further with supporting indicators and measures where applicable.

Management Discussion & Analysis

Our approach to integrated reporting largely reflects integrated thinking and the way we do business. This leads us to view 'sustainability' as a mindset that cuts across the Group and all our functions.



Scan to view the online version
ndbbank2014.annualreports.lk/report/mdaa.html

Internal Capital Formation

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

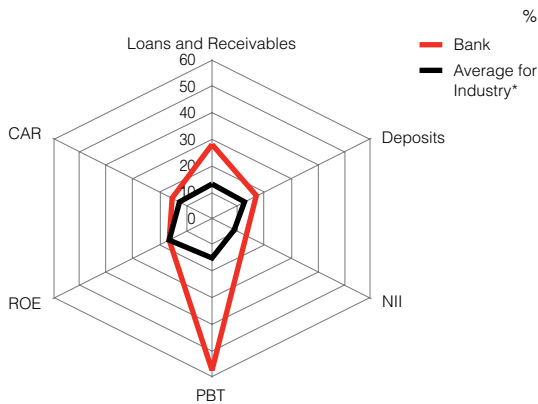
Financial Capital

Financial Review

We achieved sound growth in business volumes and maintained commendable profitability, while staying ahead of industry performance. The precise execution of a carefully articulated strategy by a team of dedicated, customer-centric and competent professionals, within an atmosphere of good governance and total compliance has enabled superior performance that has made the Bank one of the most respected entities within the industry.

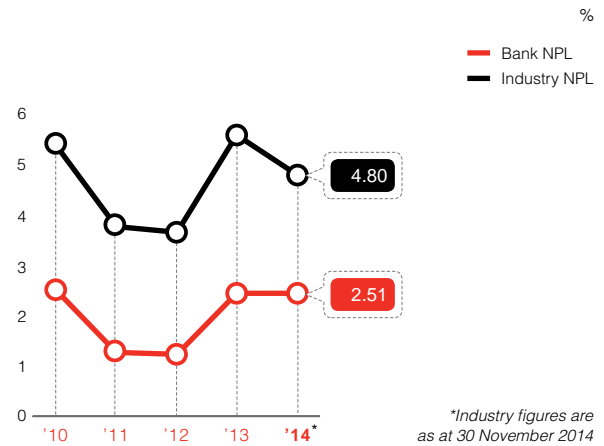
The following radar chart and graphs show how the Bank's KPIs have performed in relation to the industry.

Key Performance Indicators

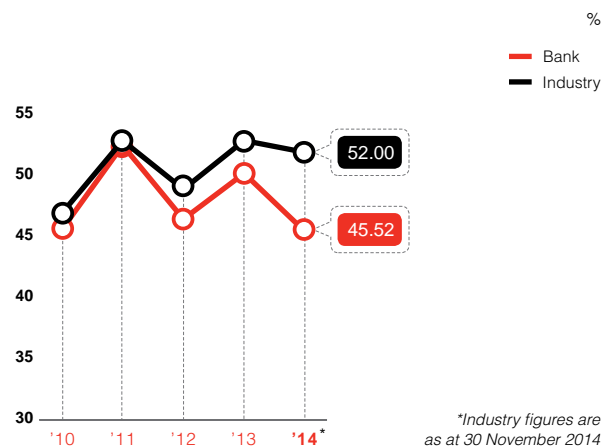


*Industry figures are as at 30 November 2014

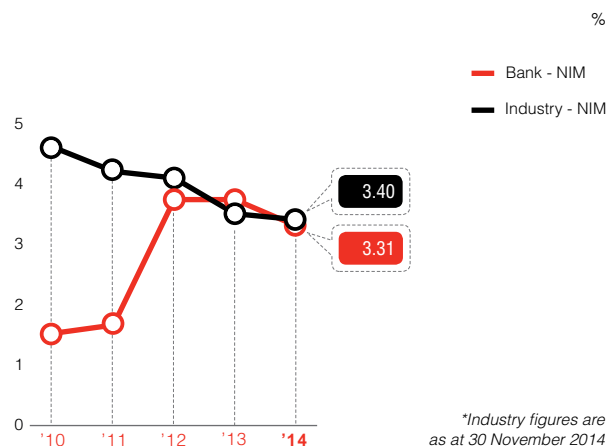
Non-Performing Loans (NPL) Ratio



Cost to Income Ratio



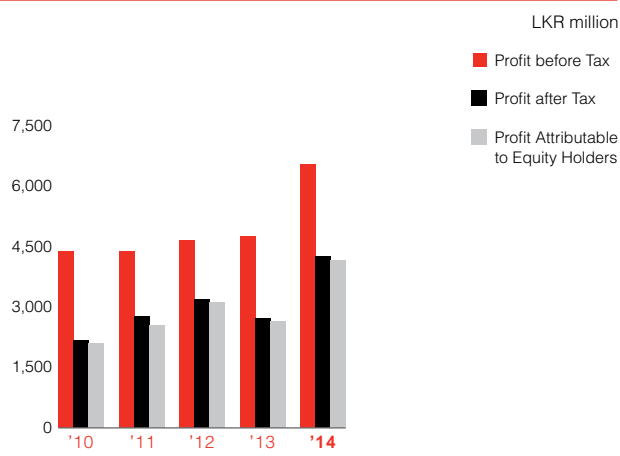
Net Interest Margin (NIM)



Profitability

Note: The financial performance of the Bank and the Group for the year ended 31 December 2014 ('year under review' or '2014') is discussed in comparison with the financial results for the year ended 31 December 2013 ('2013'). The Group's subsidiary, NDB Capital Holdings PLC (NCAP) earned an exceptional equity income of LKR 6,031 million through the strategic divestment of AVIVA NDB Insurance PLC to American International Assurance (AIA) Company Limited of Hong Kong in December 2012, which was transferred to the Bank from the Group in March 2013 via a share buyback agreement with NCAP. Accordingly, the financial performance of the Bank in the comparative period (2013) is inclusive of this one-off equity income, and where necessary, the performance of the comparative period will be referred to excluding the one-off equity income.

Group Profitability Over the Past Five Years



Statement of Profit or Loss

Key Indicators

	Bank				Group			
	2014 LKR million	2013* LKR million	Change in LKR million	Change %	2014 LKR million	2013 LKR million	Change in LKR million	Change %
Gross income	24,962	23,625	1,337	6	26,205	25,303	902	4
Net interest income	7,675	6,812	863	13	7,914	7,012	902	13
Total operating income	11,662	9,834	1,828	19	12,966	11,549	1,417	12
Impairment for loans and receivables and other losses	566	1,238	(672)	(54)	529	1,261	(732)	(58)
Operating expenses	5,309	4,944	365	7	5,911	5,564	347	6
Operating profit before tax on financial services	5,787	3,651	2,136	59	6,527	4,724	1,803	38
Share of profit from associate companies	—	—	—	—	97	49	48	98
Profit after tax	3,418	2,079	1,339	64	4,246	2,712	1,534	57
Profit attributable to shareholders	—	—	—	—	4,134	2,642	1,492	56

*Excluding the one-off equity income of LKR 6,031 million, earned by the Bank.

Financial Inclusion

We are driven by a compulsion to 'leave no one behind' in terms of access to banking and financial solutions in life and enterprise. Our two pronged approach to this subject falls within two branded initiatives - *Divi Aruna* (Awakening Lives) and *Jeewana* (Life). **Our Cinnamon to the World Project seeks to 'awaken the lives' of those in the cinnamon industry** - growers, peelers, processors and exporters. Beyond financial support we look at facilitating the imparting of technical knowhow as well.

Profit for the Year

The Bank's profit for the year was LKR 3,418 million, compared to LKR 7,723 million for the year 2013. Though the reported numbers indicate a decline of 56%, it must be noted that the Bank's profit for the year grew by 64% if the one-off equity income earned during the year 2013 was excluded.

At the Group level, profit for the year increased by 56% from LKR 2,712 million in 2013 to LKR 4,246 million in 2014, indicating robust growth across all segments.

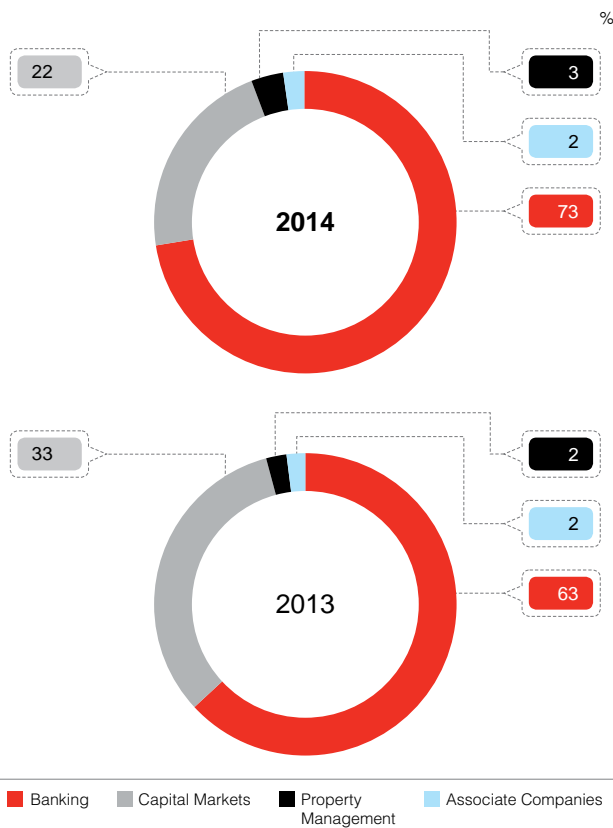
Profit Attributable to Shareholders (PAS)

PAS crossed the LKR 4 billion mark to reach LKR 4,134 million, an impressive growth of 56% over the LKR 2,642 million recorded in 2013. This significant growth was achieved through increased performance of both core banking operations and the capital market cluster of the Group.





Composition of Profit Attributable to Shareholders Based on Business Segments



Gross Income

Gross income, comprising of interest income, net fee and commission income, net gains/(losses) from trading, net gains/(losses) from financial investments and other operating income recorded a 4% increase at Group level to reach LKR 26,205 million for the year. The Bank's gross income for the year was LKR 24,962 million, a growth of 6% over the previous year, excluding the one-off equity income noted previously.

Net Interest Income (NII)

The NII of the Bank increased by 13% to LKR 7,675 million during the year, in comparison to LKR 6,812 million of the previous year. The growth rate compares well with the industry NII growth rate, in a low interest rate environment coupled with less than anticipated credit growth from the private sector. The Bank's focus on the strategic structuring of the balance sheet and skilful asset and liability management, amidst these challenges contributed to this success.

Within NII, the interest income of the Bank increased by 2% due to the increase in the interest generating asset base, despite reduction in interest yields, whilst Interest expenses declined by 4%, resulting from the effective management of the borrowing composition of the Bank to support asset growth.

Total Operating Income

Total operating income comprising of net interest income, net fee and commission income, net gains/(losses) from trading, net gains/(losses) from financial investments and other operating income grew by 12% at the Group level from LKR 11,549 million in 2013 to LKR 12,966 million in 2014. At the Bank level, total operating income showed a decline of 26% due to the one-off equity income included in the performance for 2013, which if excluded, records a 19% growth over 2013.

Net Fee and Commission Income

Apart from NII, the Bank also earns fees and commission income from lending, deposit mobilising, trade finance activities, card operations, remittance services, bancassurance, etc. The Bank's fee and commission income recorded a commendable growth of 16% over the comparative year to reach LKR 1,866 million for the year, due to the increased business volumes during the year.

The NDB subsidiaries, which primarily carry out fee-based capital market businesses and rental based property management, also contributed significantly to the Group's fee and commission income during the year. The Group's fee and commission income grew by 6% to reach LKR 2,564 million during the year. With the revamping of our card operations and a strategic focus on cross selling within the business units of the Bank and the Group, we expect the Group's fee and commission income to be scaled up further, in the years to come.

Net Gains/(Losses) from Trading

The income from trading activities primarily consists of forex profits, both trading and sales, which declined by 5% to reach LKR 910 million in 2014. The decline is mainly due to the LKR/USD swap cost of funding being absorbed during the year,

the benefits of which are reflected in the NII. The net trading income/(losses) excluding the swap cost shows a 6% increase over the previous year.

Net Gains/(Losses) from Financial Investments

The low interest rate environment that prevailed in 2014 enabled the Bank to benefit from volatilities in the securities trading market. As a result, the Bank's marked to market profits increased by 125% over the previous year's LKR 318 million to reach LKR 717 million for the year under review.

Impairment for Loans and Receivables and Other Losses

Impairment for loans and receivables and other losses for the year ended 31 December 2014 was LKR 566 million and compares with a charge of LKR 1,238 million in 2013. The significant decline in the impairment charge over the comparative period was primarily due to one-off provisions made for a few significantly impaired loan facilities during the last quarter of 2013. This impairment charge represents the Bank's sound judgment in assessing the fair value of the impaired loans, based on objective evidence of future recoveries and is in accordance with the Bank's stringent risk management policies.

The Bank applies its risk management framework for the risk assessment of individual loans and for collective provisions, which considers past due status, loss data and the economic factors relevant to each portfolio segment. The Bank continuously makes improvements to the methodology adopted for the impairment computation process. There were no significant adjustments to the provisions as a result of such changes/improvements during the year.

The Bank follows the Sri Lanka Accounting Standards LKAS 32 - 'Financial Instruments: Presentation', LKAS 39 - 'Financial Instruments: Recognition and Measurement', and a Board approved impairment policy in arriving at the impairment provision.

There are no additional impairment charges for loans and advances for Group subsidiaries as their portfolios contain only staff loans, which are recovered through the payroll.

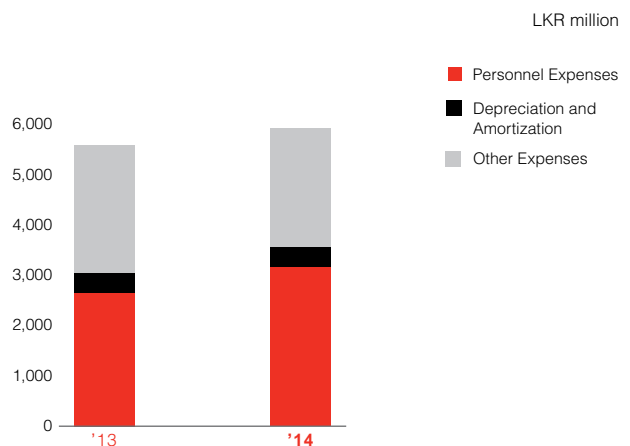
Summary of Impairment for Loans and Receivables to Other Customers

	2014 LKR million	2013 LKR million
Impairment allowance for loans and receivables to other customers	5,014	4,187
Total loans and receivables to other customers	180,501	141,009
Percentage of impairment allowance (%)	2.78	2.97

Total Operating Expenses

Total operating expenses of the Group increased by 6% from LKR 5,564 million in 2013 to LKR 5,911 million during the year. Total operating costs at the Bank level too increased by 7% from LKR 4,944 million in 2013 to LKR 5,309 million in 2014. The increase in operating costs was amidst aggressive business expansion across the Bank and the Group, the benefits of which will accrue over the coming years.

Operating Expenses



Operational excellence and cost optimization are two strategic priorities of the Group. Benefiting from the synergies of these two complementing imperatives, the Bank and the Group recorded one of lowest cost to income ratios (CIR) within the industry. The Bank's CIR for 2014 was 45.52% compared to 50.12% in 2013 after excluding the one-off equity income.

The Bank and the Group operate one of the leanest and efficient operating structures, with a host of support functions centralized. Such a set-up allows the Group to further improve its CIR in the future.

Operating profit before Tax on Financial Services

The Group's operating profit before tax on financial services recorded a 38% increase to LKR 6,527 million, compared to LKR 4,724 million for the year 2013. The corresponding results for the Bank indicated a growth of 59% over the previous period to reach LKR 5,787 million for the year, when the one-off equity income is excluded, as explained previously.

Taxation

The overall effective tax rates for the Bank and the Group for income taxes and taxes on financial services were 40.9% and 36.4% respectively, and compares with the total statutory effective tax rate of 42%. The lower effective tax rate for the Group was primarily due to the fee-based nature of the principal activities of the subsidiaries and the investment income on unit trusts being exempt from Income Tax.

The Bank's contribution to the Government of Sri Lanka via Income Tax and Taxes on financial services increased by 27% to LKR 2,242 million in 2014, from LKR 1,765 million in 2013.

Statement of Financial Position

Key Indicators

	Bank				Group			
	2014 LKR million	2013 LKR million	Change in LKR million	Change %	2014 LKR million	2013 LKR million	Change in LKR million	Change %
Total assets	262,729	201,259	61,470	31	269,130	206,817	62,313	30
Gross loans and receivables	180,501	141,650	38,851	27	180,561	141,711	38,850	27
Investments	69,138	52,242	16,896	32	72,971	55,691	17,280	31
Total liabilities	240,491	181,638	58,853	32	240,331	181,455	58,876	32
Customer deposits	151,824	129,830	21,994	17	151,485	129,422	22,063	17
Borrowings	80,134	46,557	33,577	72	80,104	46,527	33,577	72
Shareholders' funds	22,238	19,620	2,618	13	27,876	24,514	3,362	14

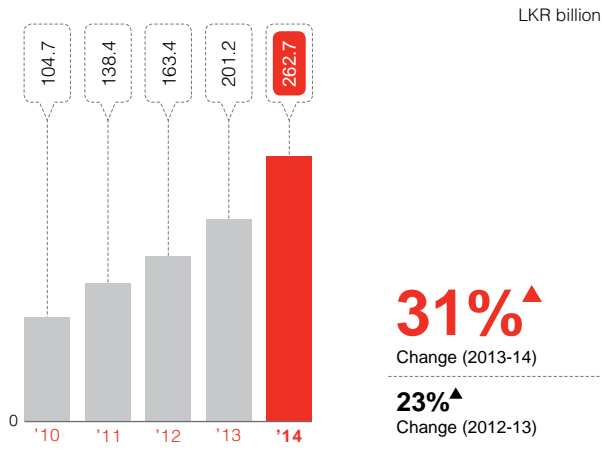
Total Assets

Total assets of the Bank grew by a commendable 31% in 2014 to reach LKR 262,729 million, from LKR 201,259 million in 2013. This growth level is well above the average industry asset growth rate and has been achieved amidst a challenging industry climate of reduced credit growth. The asset book of the Bank grew by 27% over the year 2013, across all business lines including corporate loans, project and infrastructure financing loans, retail loans and micro and SME loans. The growth in each individual business line is a strong affirmation of the Bank's commitment in nourishing and nurturing the country's growing and demanding economy.

The Bank's financial investments, which are primarily in government securities (and categorized as loans and receivables, available for sale, held for trading or held to maturity), also contributed towards the increase in the asset base by recording a 32% growth.

The Bank revised its accounting policy on the valuation of the land and buildings during the year from a 'cost' model to a 'revaluation model', in line with Sri Lanka Accounting Standards 18 - 'Property, Plant & Equipment', resulting in a revaluation surplus of LKR 1,084 million to the Bank's asset base.

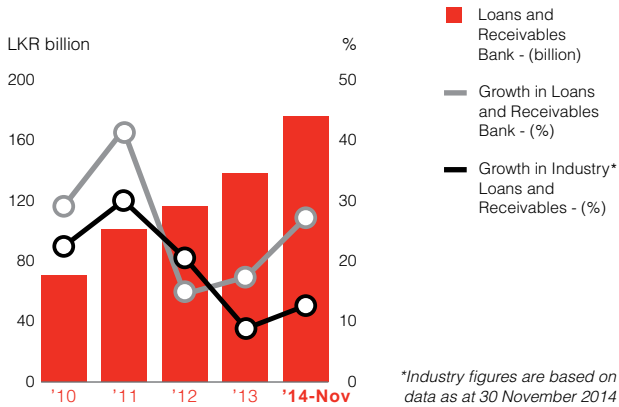
Total Assets



Gross Loans and Receivables

Gross loans and receivables grew by 27% during the year under review to reach LKR 180,501 million from LKR 141,650 million as at 31 December 2013. This growth rate is also well above the industry average.

Loans and Receivables to Customers



Asset Quality

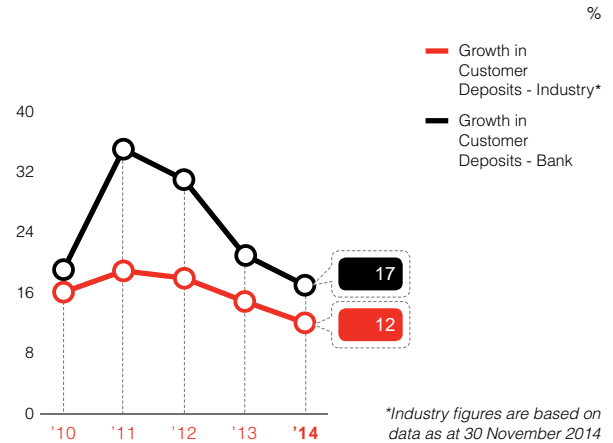
The Non-Performing Loan ratio (NPL) of the Bank as at 31 December 2014 was 2.51% and was marginally higher than the ratio of 2.48% recorded in the previous year. The NPL ratio of the Bank has remained well below the industry norms.

Customer Deposits

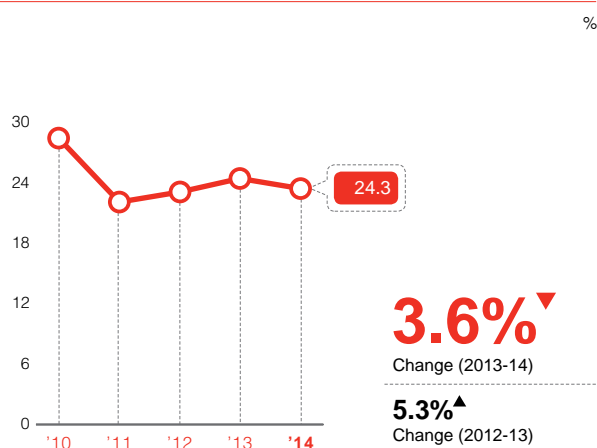
Customer deposits grew by 17% during the year to LKR 151,824 million (end 2013: LKR 129,830 million). Customer deposits contributed 65% of the total funding base as at 31 December 2014.

It is noteworthy to mention that the CASA ratio declined only marginally from 25% to 24% during the year despite the low interest rate environment in the country.

Customer Deposits



CASA Ratio



Loans to Deposits Ratio

The Bank's Loans to Deposits Ratio was 119% as at 31 December 2014 (2013: 109%). The Bank utilized the approval given by the Central Bank of Sri Lanka for licensed commercial banks to borrow up to USD 50 million and the specific approval given to National Development Bank PLC to borrow up to USD 250 million in excess of the 15% of the Bank's capital by direction dated 17 April 2013. Accordingly the Bank raised USD 200 million during the year through a syndication facilitated by International Finance Corporation (IFC). With the said borrowing and the stagnant trend in deposit growth experienced in the industry, improving the Bank's Loans to Deposit Ratio remains challenging.

The Bank continues to manage and ensure an effective mix of advances and deposits, to maximize profitability and maintain a sound liquidity position at all times.

Debt Securities Issued and Other Borrowed Funds

Debt securities and other borrowed funds comprise of institutional borrowings (both foreign and local), securities sold on repurchase agreements and money market borrowings. The borrowings portfolio is managed and used for both short term and long term funding needs of the Bank. The portfolio increased by LKR 37,535 million during the year.

The funds raised through the syndication facilitated by the IFC, included under debt securities issued and other borrowed funds, were infused to the SME sector of the country and other sectors that contribute towards national development. The syndication saw several leading international banks and development financial institutions lending to the Bank (with some of them lending to Sri Lanka for the first time), which reflects the growing confidence the international financial fraternity has placed in the Bank as well as Sri Lanka at large.



Composition and Growth of Borrowings

	Bank				Group			
	2014 LKR million	2013 LKR million	Growth in LKR million	Percentage growth	2014 LKR million	2013 LKR million	Growth in LKR million	Percentage growth
Due to banks	7,029	10,453	(3,424)	(33)	7,029	10,453	(3,424)	(33)
Debt securities and other borrowed funds	61,956	24,421	37,535	154	61,926	24,391	37,535	154
Subordinated term debts	11,149	11,683	(534)	(5)	11,149	11,683	(534)	(5)
Total borrowings	80,134	46,557	33,577	72	80,104	46,527	33,577	72

Subordinated Term Debts

Subordinated term debts comprise Redeemable Subordinated Rated Quoted Debentures of LKR 10 billion, having maturity periods ranging from 5 to 12 years, and subordinated institutional debt, which also contributes to the working capital requirements of the Bank. These subordinated debts qualify for Tier II capital of the Bank, and provide ample capital buffer for a sustainable business in the long-term.

Capital Adequacy

The Group has long benefited from a strong bedrock of capital which has provided much stimulus in achieving solid business growth and resilience. The Tier I capital base of the Bank was LKR 19,888 million (2013 - LKR 18,350 million), while the Tier I capital ratio was 10.09% (2013 - 12.05%). The total (Tier I & Tier II) capital base of the Bank was LKR 28,932 million as at 31 December 2014 (2013: LKR 27,220 million). The total capital adequacy ratio (Tier I & Tier II) of the Bank, as at 31 December 2014 was 14.68% (2013: 17.87%).

At a Group level as at 31 December 2014, the core capital base and the total capital base were LKR 26,952 million (2013 - LKR 24,736 million) and LKR 35,267 million (2013 - LKR 34,343 million) respectively, while the core capital ratio (Tier I) and the total capital ratio (Tier I and Tier II) were 12.92% (2013 - 15.15%) and 17.55% (2013 - 21.04%) respectively.

Capital adequacy is discussed in detail on pages 380 to 384.

Liquidity

The Bank's statutory Liquid Assets Ratio for the Domestic Banking Unit and the Foreign Currency Banking Unit were 23.85% and 25.18% respectively as at 31 December 2014, which are well above the statutory minimum ratio of 20%. Deposit mobilization efforts and the strong credit growth experienced by the Bank have resulted in an effective mix of the assets and liabilities of the Bank, while maintaining adequate liquid funds.

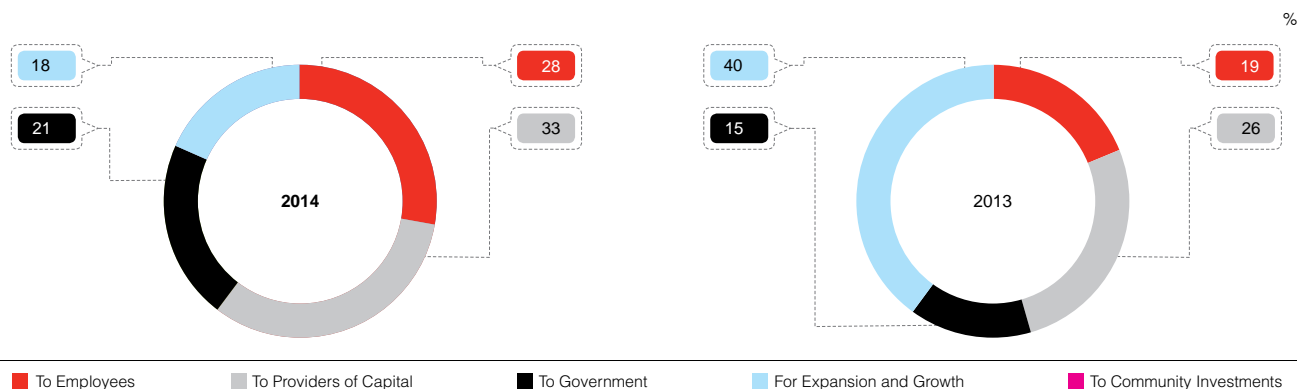
Financial Value Added

The Bank aims to create sustainable financial value over time. The value so created is distributed to stakeholders, while a portion is retained in the business for growth and contingencies. A five-year analysis of the Bank's value addition and distribution is given on page 48.

Value Addition and Distribution

For the year ended 31 December	2014 LKR million	2013 LKR million	2012 LKR million	2011 LKR million	2010 LKR million
Value Added					
Income from banking services	24,518	23,556	19,448	13,306	11,296
Cost of services	(14,048)	(15,858)	(13,038)	(8,282)	(7,003)
Value added by banking services	10,470	7,698	6,410	5,023	4,292
Non banking income	444	6,100	754	228	424
Loan losses and provisions/impairments	(566)	(1,238)	(106)	(68)	172
Total value added	10,348	12,560	7,058	5,184	4,888
Distribution of Value Added					
To employees					
Salaries and other benefits	2,873	2,389	2,173	1,838	1,326
To providers of capital					
Dividend to shareholders	1,978	3,222	657	880	983
Interest to debenture holders	1,378	95	-	-	-
Total to providers of capital	3,356	3,317	657	880	983
To to Government					
Income tax	1,213	854	1,023	792	937
Financial Services VAT	882	911	622	505	805
Nation Building Tax	147	-	-	-	-
Corporate Insurance Levy	(26)	77	-	-	-
Total to government	2,216	1,842	1,645	1,297	1,742
For expansion and growth					
Retained profit	1,440	4,501	2,267	951	546
Depreciation/amortisation	323	302	265	227	191
Deferred taxation	127	194	38	(17)	83
Total for expansion and growth	1,890	4,997	2,570	1,160	820
To community investments					
Donations	13	14	13	9	18
Total to community	13	14	13	9	18
Total distributed	10,348	12,560	7,058	5,184	4,888

Composition of Value Addition and Distribution



Economic Value Added

Economic Value Added (EVA) is an estimate of the Bank's 'economic' profit, as distinct from 'financial' profit. It is the value created in excess of the required return of the Bank's investors, who comprise shareholders and debt holders. Given the importance the Bank places on creating superior shareholder value, the Bank's EVA computation is given below for the past five accounting periods.

Computation of Economic Value Added

For the year ended 31 December	2014 LKR million	2013* LKR million	2012 LKR million	2011 LKR million	2010 LKR million
Invested equity					
Shareholders' funds	22,238,192	19,620,478	14,942,400	12,675,139	11,606,990
Add: Cumulative loan loss provision/ provision for impairment	5,120,877	4,378,973	2,971,622	3,029,397	1,869,996
Total	27,359,069	23,999,451	17,914,022	15,704,536	13,476,986
Earnings					
Profit after tax and dividend on preference shares	3,418,062	7,723,235	2,923,957	1,830,818	1,529,376
Add: Impairment provisions and other losses	566,003	1,238,202	106,112	67,789	(171,541)
Less: Loan losses written off	(63,869)	(76,345)	(66,769)	(6,031)	(206)
Total	3,920,196	8,885,093	2,963,300	1,892,576	1,357,629
Cost of equity (Based on 12 months weighted average T-bill rate plus 2% for risk premium)	10.24%	12.63%	14.02%	9.50%	10.59%
Cost of average equity	2,629,556	2,646,836	2,356,661	1,386,122	1,406,704
Economic value added	1,290,641	6,238,257	606,639	506,454	(49,075)

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

Performance of Business Units

The discussion thus far looked at the overall performance of Bank and the Group as a whole in deriving value. Given below is a more detailed review of the financial performance of the Bank's principal lines of business - both core banking (Corporate, Retail, SME and Treasury) and the financial performance of the Group companies in the context of financial capital formation.

Corporate Banking

The Bank's corporate banking business focuses on two areas, namely, Commercial Banking and Project & Infrastructure Financing (PIF). The commercial banking business has grown at a rapid pace and has become a significant provider of working capital for large and middle market businesses in the country. On the other hand, PIF, with its broad experience in all industry segments spanning a period exceeding three decades, finances large scale, long term projects. These two business units together effectively address the short and long term needs of the large and middle market customers across the country.

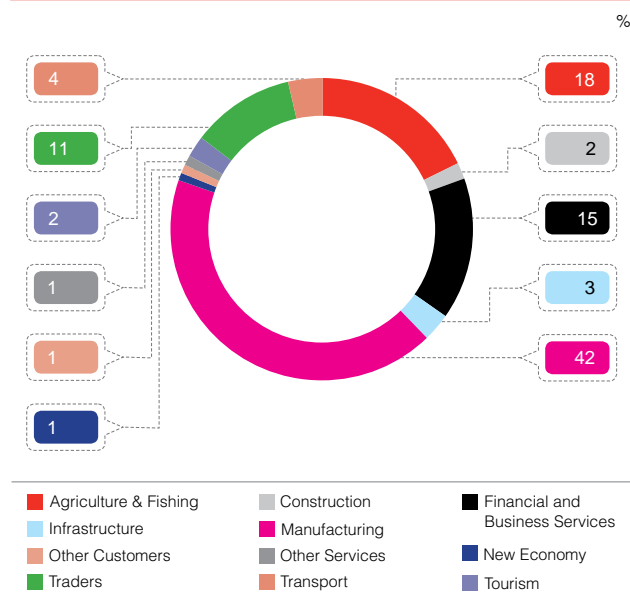
Commercial Banking

Business Domain

The Commercial Banking Unit is equipped with a range of traditional as well as innovative products to suit the varying needs of the market. They include import and export related products, guarantees, overdrafts, short term loans and treasury products. Coupled with seamless processes and a professional relationship management team, the business caters to the growth of existing as well as new customers.

Commercial Banking KPIs	2014	2013	Growth in 2014
Loans and receivables (LKR million)	76,128	67,711	12%
Customer deposits (LKR million)	29,356	26,234	12%
Banking revenue (LKR million)	3,370	3,305	2%
NPL ratio	0.8%	1.8%	

Commercial Banking - Sectoral Composition of Portfolio



The low interest regime that prevailed during the year together with limited credit growth and excess liquidity in the market compelled the Bank to focus on volume growth in the midst of rapidly reducing interest margins. The commercial banking asset portfolio grew by 12% during 2014 (2013: 20%), while the liability base grew by 12% (2013: 20%), with the CASA ratio maintained at 35%. The Unit's revenue grew by 2% in 2014 (2013: 11%).

In line with national growth strategies, the Bank's commercial banking lending covered several projects in sectors such as construction, agriculture (including tea, paddy and related crops), chemicals, pharmaceuticals and tourism during the year. Going beyond the traditional large and medium sectors the Bank also introduced Distributor Financing and Supplier Financing to the Bank's product range during the year. This initiative extends our commercial banking reach indirectly to the rural sector through our branch network by facilitating financial solutions down the entire value chain.

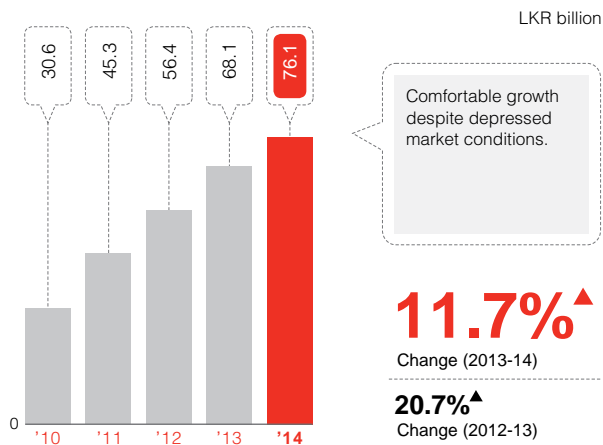
The pie chart depicts the commercial banking loans & receivables portfolio across the various sectors of the economy during the year.

The overall global economic and political conditions, particularly in the Middle Eastern and former Soviet bloc countries, had a negative impact on the export sector resulting in delays in collections. The local economy was also affected by extended credit, leading to stretched working capital cycles.

Despite these adverse conditions, our commercial banking loan portfolio has always maintained better than industry Non-Performing Loan (NPL) ratios due to excellent credit origination methods and proactive credit administrative procedures that identify warning signals well in advance. The NPL ratio of the Bank's commercial banking portfolio has been below 2% for over five years, and it stood at 0.8% by end 2014.

The adaptation of Sri Lanka Accounting Standards 39: 'Financial Instruments Recognition and Measurement' which regulates the impairment of loans and advances has further enabled the Bank to identify the early warning signals along many angles while maintaining a proactive approach in addressing possible delays and non-repayment of loans.

Commercial Banking - Loans & Receivables



The Future

Along with the financial services sector of the country we too will adjust our business model to adapt to the changes that take place in the micro as well as the macro environment. While exploiting new business opportunities, the focus will be on the exports, construction and agriculture sectors.

Further, in an environment of reducing interest rates and thinning net interest margins, a concentrated effort would be required to boost fee-based income.

Certified by ISO 9001: 2008 for Corporate Banking and Trade Finance Departments, implementation of the 5-S methodology, a state of the art electronic banking system and an expanded correspondent banking network, the Bank's commercial banking business looks forward to 2015 with optimism.

Project & Infrastructure Financing

Business Domain

The strategic plan of the Bank set the platform for the Project & Infrastructure Financing (PIF) focus. With a rich legacy of being one of the premier development financiers in the country for over three decades, PIF saw profitable and aggressive asset growth during the year, particularly in the construction, power & energy and leisure sectors. We also identified business opportunities, such as offshore project financing, which has opened new markets that will be explored further.

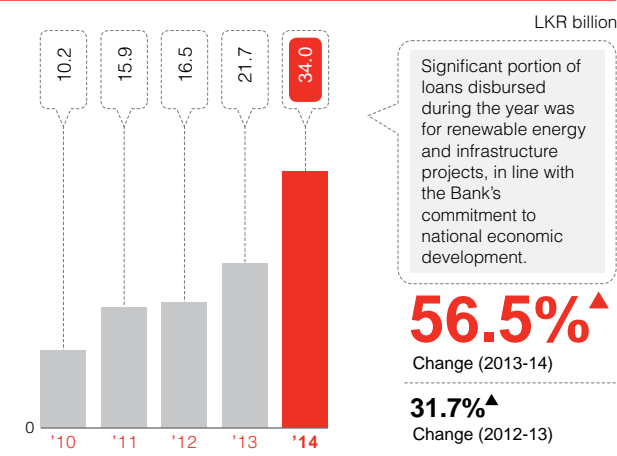
The product and service portfolio of PIF is structured to facilitate the long term funding requirements of clients across the diverse business requirements of different industries. The main products are medium term and long term loans, project loans and securitization of future receivables. In addition, PIF selectively invests in debentures and preference shares to support the growth needs of customers.

Although PIF does not offer advisory services as a separate product/service, the division's clients are benefited by the technical expertise and advisory services provided by the vastly experienced personnel of PIF.

Financial Performance

PIF KPIs	2014	2013	Growth in 2014
Loans, receivables and investments (LKR million)	34,023	21,742	56%
Banking revenue (LKR million)	838	652	29%
NPL ratio	1.7%	0.8%	

PIF Division - Assets Portfolio



The period under review was challenging as the excess liquidity in the market kept lending rates under pressure. In addition, lower than anticipated private sector credit growth fuelled stiff competition among the industry players. Despite this scenario, PIF recorded an impressive 56% growth in assets in 2014, further building on the healthy 32% growth achieved in 2013.

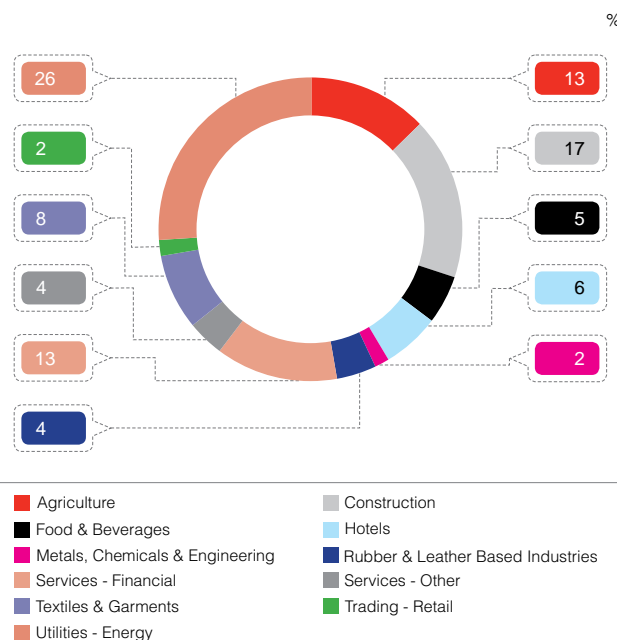
Although strict monitoring and recovery practices ensured that the NPL ratio was maintained below 1% throughout most of the year, two large facilities which were classified during the last quarter of 2014 saw the PIF NPL ratio rise to 1.7% as at year end.

Term loans and securitizations of future receivables accounted for about 80% and 14% respectively of the total PIF asset portfolio by end of 2014, while investments in debentures accounted for the balance 6%.

Component	Year				
	2014	2013	2012	2011	2010
Loans and securitizations	94%	92%	100%	100%	100%
Debentures and preference share investments	6%	8%	0%	0%	0%

In terms of industry sectors utilities, agriculture, construction and financial services topped the list and accounted for 26%, 13%, 17% and 13% respectively of the PIF asset portfolio.

PIF Division - Sectoral Composition of Asset Portfolio



Banking revenue of PIF increased by a satisfactory 29% during the year to reach LKR 838 million (2013: LKR 652 million), although not commensurate with the asset growth of 56% due to the squeeze on margins noted earlier.

PIF facilities exceeding LKR 38.6 billion approved during the year partly contributed to the asset growth seen in 2014, while it will also fuel asset growth in the next few years as disbursements take place. This includes a novel project in the manufacturing industry and a landmark mixed development project which is considered to be the country's largest ever private sector development project. In the energy sector, realizing the value of renewable energy both in terms of the global environmental impact as well as the nation's expenditure on fossil fuel, the Bank took a lead role in financing a 20 MW wind power project in the Northern Province. In addition,

we financed one of the first few commercial scale biomass projects in the country, a 6 MW plant that became operational in May 2014, making the Bank a financier of green energy generation in true spirit.

Continuing from the previous year's foray into the Bangladesh market, financial closure for a large scale PIF facility for a new energy project in Bangladesh was completed during the year. In addition, further steps were taken towards establishing funding opportunities in overseas ventures, with steady headway being made to capitalize on business prospects in the energy sector in the African region.



Wind Power Project site of Joule Power (Pvt) Ltd. - one of the first wind power projects set up in Pullopalai, Killinochchi was funded by the Bank

The Future

The future offers unique opportunities as well as challenges considering the anticipated continuation of the growth momentum. Further large scale funding opportunities are envisaged in infrastructure development, leisure and property development projects and the Bank will selectively focus on furthering its reach into regional markets to leverage its expertise in project and infrastructure financing. In an environment where the net interest margins are stressed further, the Bank will seek sustainable growth through the promotion of financial inclusion by supporting projects in less developed areas, while reaping synergies by cross selling products and services between different business units as well as Group companies.

Retail Banking

Business Domain

The Bank ventured into retail banking with the acquisition of the business of ABN Amro Bank Colombo in 2001. From this modest beginning the Bank has made vast strides in providing retail banking services to all segments of customers in the country, while seamlessly complementing other products and services offered by the Bank and the Group. Given its appeal to a broader customer base, the Retail Banking Unit often serves as the 'face' of the Bank, taking forward the NDB brand name to all parts of Sri Lanka.

Financial Performance

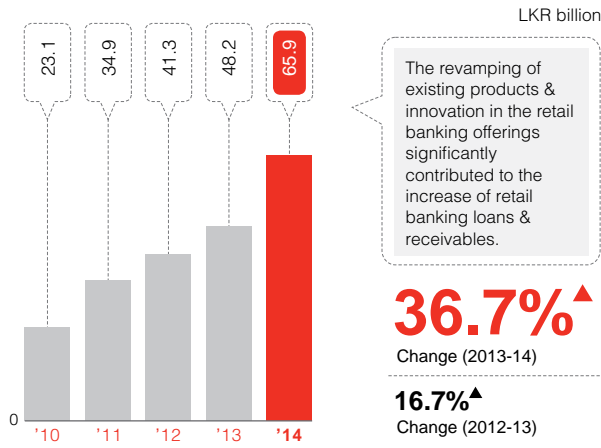
Retail Banking KPIs	2014	2013	Growth in 2014
Loans and receivables (LKR million)	44,906	32,630	38%
Customer deposits (LKR million)	109,278	95,450	14%
Banking revenue (LKR million)	2,927	2,989	-2%
NPL ratio	2.3%	3.0%	

Retail banking total assets grew by 38% to LKR 44,906 million during the year, with a corresponding 14% growth in deposits that reached LKR 109,278 million by 31 December 2014.

The year saw a host of retail banking asset products and deposit products being revamped, re-launched and reinvented during the year, which directly contributed towards the growth of the asset base. More details on these new product developments are found under Customer Capital in pages 69 to 72.

The five year growth in the loans and receivables of the Retail Banking Unit is depicted below. The asset base has grown robustly and consistently over the years.

Retail Banking - Loans & Receivables



The Future

Retail banking market penetration and innovation will take precedence over mere geographic expansion in the years to come. This would also mean smarter application of digital technology that opens up numerous channels with better customer appeal, while not confining oneself to traditional expansion through brick and mortar branches.

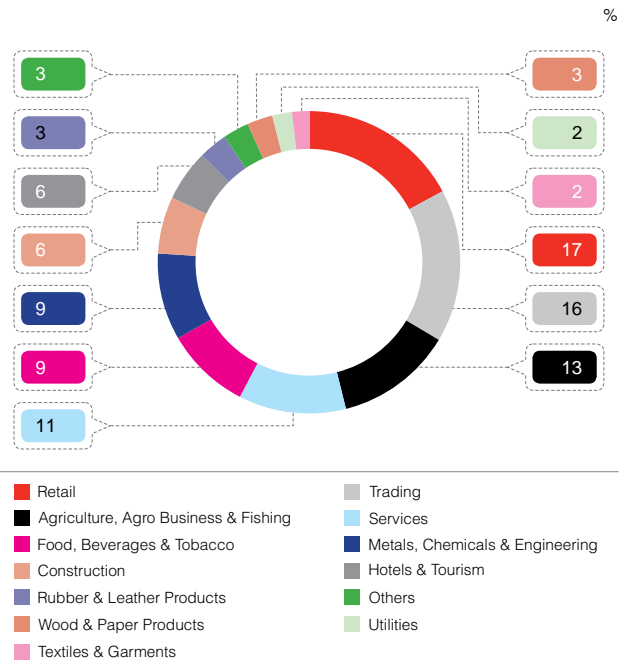
SME and Micro Financing

SME Financing

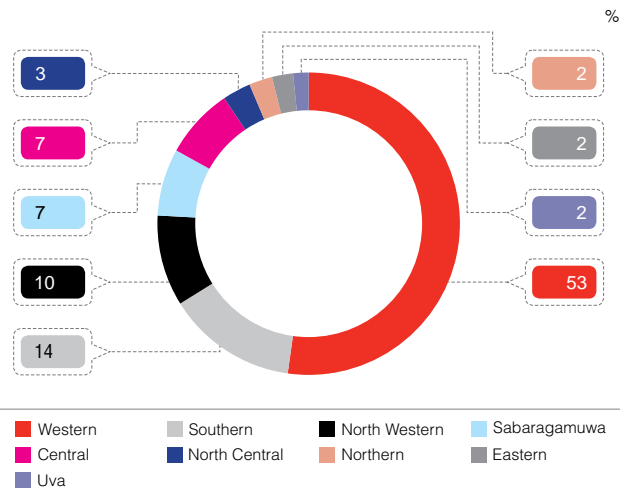
Business Domain

The year under review saw the resurgence of the Small and Medium Enterprise (SME) sector in line with the significant emphasis placed by the government towards the revival of the backward economies. Sustaining the post-war growth, the Bank too prioritized its emphasis on the sector which resulted in a growth of 35% of the SME portfolio during the year in the backdrop of a severely competitive environment and moderate credit growth.

SME Portfolio - Sectoral Composition



SME Portfolio - Distribution by Province



The USD 200 million funding line obtained from IFC during the year enabled the Bank to offer affordable long term financing for the SME sector. In addition,

the Bank continued to extend concessionary funding through other financial institutions and its own banking network by playing the role of an apex organization to support the much needed capital of the micro, small and medium enterprises in the country. The Bank continued its participation in refinancing schemes operated by the Central Bank of Sri Lanka and other lending agencies. The resources for the apex operations were mobilized from multi-lateral and bi-lateral international organizations with the initiation and active support received from the Government of Sri Lanka.

The Future

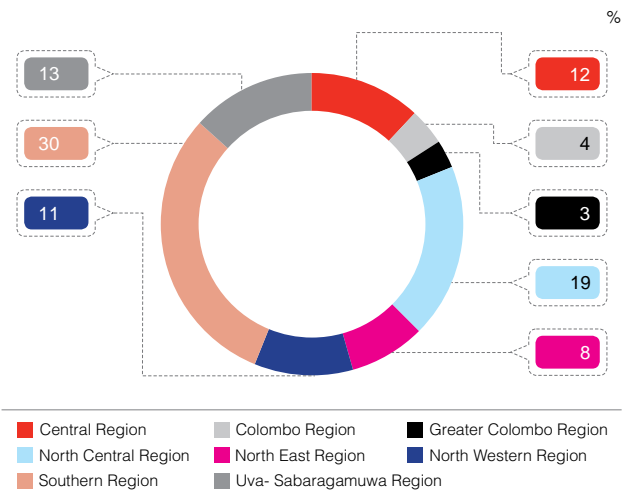
As in many other countries, SMEs in Sri Lanka account for a significant proportion of employment creation, and serve as the backbone of the country's rural as well as urban economy. The Bank's years of active engagement with the SME sector has borne fruit through strong customer loyalty and geographic reach. Going forward, emphasis will be placed in exploiting new avenues and value propositions outside the generic SME financing with more concentration on product bundling, delivery mechanisms and value chain financing.

Micro Financing

Business Domain

Financial inclusion has been an integral component of the Bank's purpose of doing business since its inception. The Bank's micro-finance strategy adopts a two-pronged approach in targeting unserved and underserved economies of the country. One approach focuses on empowerment and capacity building of such communities, whilst the other predominantly focuses on livelihood development financing. These are discussed further under Customer Capital beginning on page 67.

Micro Finance - Total Portfolio Region-wise



The Future

The micro finance strategy for 2015 will focus primarily on empowerment and livelihood development, which will lead to financial literacy and inclusion to a great extent. The Bank will replicate the success experienced in establishing loyalty groups at grass root level, and take it forward to uplift small scale industrialists to the next level of entrepreneurship. Heavy thrust will be placed on end to end financing of the supply chain, with emphasis on collaborations with top corporates with supplier arrangements at the micro level.

SME & Micro Financing KPIs	2014	2013	Growth in 2014
Loans and receivables (LKR million)	21,078	15,600	35%
Banking revenue (LKR million)	1,284	1,216	5.6%
NPL ratio	4.8%	4.9%	

Treasury

Business Domain

As a significant market maker amongst the local commercial banks, the Bank's Treasury Unit is a specialized service provider catering to corporate, institutional and individual investors. Treasury operations comprise of two aspects, one which covers foreign exchange, money market and Asset and Liability Management (ALM) operations to generate profit, whilst the other taking on the responsibility for interest rate risk, foreign exchange risk and liquidity risk of the Bank.

The stable exchange rate regime adopted by the Central Bank of Sri Lanka provided the backdrop for the provision of FX products and advisory services. Spot and forward contracts, swaps, options and dual currency deposits were the main product streams through which the FX desk provided its expertise.

Asset and Liability Management

Managing the Bank's Statement of Financial Position within the prescribed risk and return parameters saw sound results in a declining yield curve environment. Funding an aggressive growth of the Statement of Financial Position by utilizing an optimal mix of resources through capital planning, credit lines, demand deposits and money market operations was important in this respect. Government debt trading presented the best opportunity during the year due to the declining yield curve, while repurchase and reverse repurchase contracts, corporate debt securities, money markets and tailor made structured deposits comprised the complete arsenal used for ALM purposes.

Financial Performance

The arbitrage opportunities presented were tapped fully to maximize revenue, while the spot, forward, swap and options contracts were utilized to manage proprietary trading positions and to cover client transactions which paid rich dividends. Increased customer volumes contributed significantly to the bottom line of the FX desk that saw revenue increase by 5.7% to LKR 1,008 million in 2014 (2013: LKR 953 million).

Strategic accumulation of government securities in 2013 provided the impetus for the success of the ALM Unit in 2014, with securities trading yielding gains of LKR 569 million. Further, the strategic positioning of liquidity and interest rate gaps provided an additional net interest income of LKR 998 million.

The Future

A gradual acceleration of credit demand in the last quarter of 2014 coupled with anticipated increase in consumer spending is expected to exert pressure on the consumer price index, and in turn on the yield curve. Mitigating factors to be considered are the global decline in oil prices which have a significant impact on Sri Lanka's oil dependent economy. The expectations are that an upward shift in the yield curve could be witnessed toward the third and fourth quarters of 2015. Balance sheet planning and ALM will receive close attention in the light of medium term forecasts. The exchange rate is expected to remain stable and stay within the 5% p.a. depreciation witnessed in the past few years.

Planning and execution of an optimal funding strategy with due focus on surplus liquidity management until disbursement is of paramount importance. In an era of financial consolidation, Treasury aims to maximize Group synergies in order to contribute an even greater share of revenue in the coming years.

Treasury KPIs (LKR million)	2010	2011	2012	2013	2014
FX Sales	232.5	315.9	274.3	304.3	318.3
FX Trading	302.1	443.8	702.1	648.7	690.3
FX Total	534.6	759.7	976.4	953.0	1,008.6
Net Interest Income:					
- G Sec NII	554.8	338.6	271.1	-	-
- G Sec Trading	145.0	(43.8)	33.8	213.0	569.0
- ALM	-	-	-	222.0	998.0

Performance of Group Companies

Given below is a discussion on the financial performance and the future prospects of each of the Group companies which complements the Bank's core banking operations, enabling the Group to provide a wide range of financial services and products across a varied cross section of customers.

NDB Capital Holdings PLC

Business Domain

NDB Capital Holdings PLC (NCAP), formerly known as Capital Development and Investment Company PLC (CDIC), was formed in 1983 as a venture capital company. CDIC was subsequently listed on the Main Board of the Colombo Stock Exchange in 1996. Following a restructuring within the Group in mid-2012, CDIC was transformed into a full service investment bank and rebranded as NDB Capital Holdings PLC, which has since been de-listed with effect from 26 January 2015.

NCAP and its subsidiaries (collectively referred to as the Investment Banking Cluster) are uniquely positioned to facilitate the economic development and growth of the capital market of Sri Lanka.

NCAP's fee-based operations are carried out through its subsidiaries, NDB Investment Bank Ltd. (NDBIB), NDB Wealth Management Ltd. (NWM), NDB Securities (Pvt) Ltd. (NDBS) and NDB Zephyr Partners Ltd. (NDBZ). The fund based activities of NCAP are carried out directly by the company itself, which include investments in private equity, listed equities, fixed income securities and proprietary trading.

NDBIB is the market leader in both debt and equity capital markets and corporate advisory services. NCAP provides wealth management services to clients through NWM, the largest private sector wealth management company in Sri Lanka. NCAP's stock broking operations are through NDBS, a full-member firm of the Colombo Stock Exchange which offers high-end research and brokerage services to both local and foreign investors in the Colombo Stock Exchange. NCAP completed its missing link in the product portfolio when it floated NDBZ in December 2014, a 60% owned subsidiary based in Mauritius that provides private equity management services.

Financial Performance

The Investment Banking Cluster reported excellent results in 2014. NCAP launched Sri Lanka's first largest private equity fund during the year with its first closing amounting to USD 42.5 million in partnership with U.S. based Zephyr Management LP, one of the leading emerging market private equity fund managers. Several leading international development finance institutions such as International Finance Corporation (IFC), Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) and Nederlandse Financierings- Maatschappij Voor Ontwikkelingslanden N.V. (FMO) participated in this pioneering initiative. In parallel, a new 60%-owned subsidiary of NCAP was floated in Mauritius as a joint venture private equity management company in partnership with Zephyr Management LP, which brings with it years of expertise in managing private equity investments in emerging markets. NCAP has committed USD 12 million to the said private equity fund which would be called over the next five years.

NCAP made a successful structured equity investment in the listed space during the year. NCAP together with ACL Cables PLC and Trydan Partners (Pvt) Limited acquired a 75% stake in Resus Energy PLC (formerly known as Hemas Power PLC) in December 2014. Trydan Partners (Pvt) Limited is a special purpose vehicle backed by the management team of Resus Energy PLC. This investment is expected to yield attractive returns with planned capital restructuring of Resus Energy PLC and implementation of new power projects that are in the pipeline. NCAP is presently in the process of creating a portfolio of structured equity investments especially through its commitment to the private equity fund to provide long term sustainable returns to shareholders.

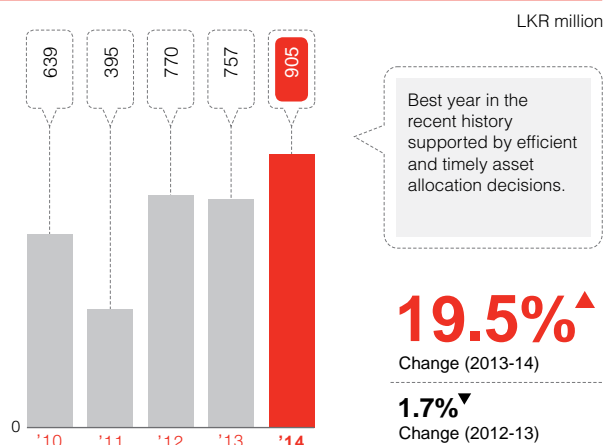
The Investment Banking Cluster was recognized internationally by bagging a total of 21 global awards including that from Euromoney (details given under Recognition on pages 243 to 245). In fact, the Group achieved the rare feat of being the only Asian investment bank to be recognized as the 'Best Investment Bank' in two countries simultaneously, namely Sri Lanka and Bangladesh, thus firmly establishing the Group as a regional investment banking player of stature.

As a knowledge and people driven industry, the Investment Banking Cluster places special emphasis on developing its human capital. Our staff underwent leadership development training as well as technical training on relevant specialities, both in Sri Lanka and overseas. This enabled us to produce a pool of future leaders to drive business growth.

During the year, NCAP awarded scholarships to ten deserving undergraduate students as a part of our Corporate Social Responsibility. These students were selected from the Medical and Law faculties of the University of Colombo, Management faculty of the University of Sri Jayewardenepura and Engineering faculty of the University of Moratuwa. In addition to the financial assistance, NCAP plans to guide and nurture the recipients of the scholarships by way of career guidance and counselling to prepare them for the future job market.

The consolidated Profit Attributable to Shareholders (PAS) of the capital market cluster for the year was LKR 905 million, a 20% increase over 2013 (after adjusting for LKR 175 million impact on profit due to the investment income earned from the capital gain which resulted from the divestiture of AVIVA NDB Insurance PLC).

Consolidated Profit After Tax



Note: The 2012 profit and net asset value are adjusted for the one-off capital gain reported from the divestiture of AVIVA NDB Insurance PLC (ANI) while that of 2013 is adjusted for the impact on profits due to the investment income earned from the aforesaid capital gain resulted from the divestiture of ANI.

KPIs of NCAP	2014	2013
Investments (LKR million)	1,169	1,551
Profit after tax (LKR million)	905	757
Return on equity	15%	14%
Operating profit margin	63%	66%
Net profit margin	64%	59%

The Future

The Investment Banking Cluster will focus on consolidating and building on its leadership position, particularly by seeking opportunities to optimize synergies across the Cluster and the Bank to create competitive products and services in the market. Further, NCAP will work on creating a diversified investment portfolio that would ensure steady and attractive returns to shareholders during the next three to four years.

NDB Investment Bank Ltd.

Business Domain

NDBIB provides fee-based corporate advisory services and performs capital raising activities for clients including large corporates, financial institutions and high net worth individuals.

As the market leader, NDBIB's core strength lies within its people. A stringent recruitment process complemented by a strong focus on on-the-job training and continuous skills development has ensured that NDBIB possesses the best pool of talent within the industry.

The plethora of debenture issues fuelled by tax concessions in the preceding year, where NDBIB spearheaded the market, remained somewhat subdued. The excess liquidity in the market, availability of low cost short term funding and speculation surrounding the low interest rate regime dampened the appetite for long term debt instruments. In this scenario, NDBIB secured debt financing of over LKR 21 billion mainly through a mix of debentures, securitizations, long term facilities and commercial paper.

Noteworthy transactions include the following.

- Marking a momentous leap in the capital markets, was instrumental in structuring and initiating the launch of the 'Emerald Sri Lanka Fund', Sri Lanka's largest and first private equity fund with participation from multi-lateral agencies, which will be managed by NDB Zephyr Partners Ltd.
- In partnership with NDB Capital of Bangladesh, arranged a syndicated term loan of approximately USD 50 million for a dual fuel power plant in Bangladesh promoted by a leading Sri Lankan corporate in the power and energy sector
- Secured a USD term loan facility for a company listed in the printing industry
- Managed the year's largest IPO to open for subscription on the Colombo Stock Exchange, that of Alumex PLC, with the issue being oversubscribed on the opening day and continued trading above the IPO price as at the end of the year
- Structured and facilitated the acquisition of a leading power and energy company through a consortium of investors
- Secured a mandate to act as the financial advisor and manager of Sri Lanka's first listed debenture in the construction industry
- Ventured in to Islamic banking products by successfully structuring and placing a Wakala Islamic banking facility for a company in the power and energy sector

Despite the growth in returns witnessed by the market, the demand for fresh equity capital remained low as investors' desire for new projects failed to grow in similar proportions, possibly on the expectation of more resilient market conditions in the forthcoming year.

NDBIB's continued support towards Central Bank of Sri Lanka's Financial Sector Consolidation Plan was evident in the several assignments carried out by the Corporate Advisory Division during the year. This included mergers and acquisitions amongst finance sector companies listed on the CSE, rights issues and advising clients on mandatory offers. Our involvement in this multi-phased process - from identifying acquisition targets to the final amalgamation - has given NDBIB significant insight and opportunity to play a major role as a total solutions provider for its clients.

Our contribution towards the Sri Lankan capital market has not gone unnoticed, with NDBIB winning the 'Best Investment Bank in Sri Lanka' award for the third consecutive year at the Awards for Excellence 2014 by Euromoney, the world's premier financial markets magazine. During the year NDBIB was also honoured with several more awards, as detailed on pages 243 to 245.

Financial Performance

KPIs of NDBIB	2014	2013
Funds raised LKR billion	24.52	42.20
Profit after tax LKR million	60.33	179.11
Operating profit margin	35.95%	62.28%
Net profit margin	35.37%	48.89%
Return on equity after tax	11.63%	42.67%

The Bank successfully managed to raise LKR 24.5 billion despite subdued market conditions due to excess liquidity in the market, availability of low cost short-term funding and speculation surrounding the low interest rate regime.

The Future

The year saw continued foreign participation coupled with improved corporate earnings and a low interest rate environment that pushed the equity market to heights unseen in the recent past. Such factors have reignited investor confidence in Sri Lanka, and is expected to continue in the coming year. Having secured mandates for some innovative deals and a promising pipeline of both debt and equity deals, NDBIB will seek to build on its true potential and enjoy a fruitful year in 2015.

NDB Wealth Management Ltd.

Business Domain

NWM offers three distinct services, namely, Discretionary Portfolio Management which is focused on large institutions such as insurance companies, provident funds and corporates; Private Wealth Management catering to high net worth individuals; and several risk rated Mutual Funds to meet the wealth planning needs of the retail mass market, with the last mentioned fulfilling the vision articulated by the Securities & Exchange Commission of Sri Lanka of "taking the capital market to the masses".

The use of technology to deliver superior investment research and manage portfolios of institutional clients, together with an approach which blends individual decision making and creative thinking with teamwork while adhering to high standards of compliance have contributed to superior performance and client satisfaction.

Financial Performance

While the year 2014 was largely a period of consolidation, NWM increased assets under its management, a key parameter for measurement of success in wealth management, by 34% to a value of LKR 86.8 billion during the year. In turn, the increase in profit after tax of 99% to LKR 172.1 million and a return on equity of 39% serve to complement an excellent year for NWM.

KPIs of NWM	2014	2013	Growth in 2014
Total assets under management, LKR billion	86.8	64.8	34%
Profit after tax, LKR million	172.1	86.6	99%
Return on equity	39%	27%	44%

Ending the year on a high note, NWM emerged as a leader in the country's wealth management business in 2014, duly recognized through the 'Best Investment Manager' award from World Finance and 'The Best Asset Management Company' award from Global Banking and Finance Review.

The Future

We believe the future of personal financial services in Sri Lanka will be defined by the convergence of capital markets and retail banking. NWM is well positioned to be the trend setter in this process.

NDB Securities (Pvt) Ltd.

Business Domain

The market sentiment improved in the year 2014 with the All Share Price Index (ASPI) crossing a two-year high of 7,500 with an average daily turnover of LKR 1.3 billion. The growth in corporate performance

supported by the continued decline in the interest rates resulted in the market gaining momentum during the second half of the year. Retail activity saw an improvement in comparison to 2013, while foreign buying topped an all-time high of LKR 105 billion. The market capitalization crossed LKR 3 trillion.

With continued integration within the Group, NDBS increased its reach through the Bank's branch network by penetrating into regions and communities that were hitherto untapped. Awareness creation and investor relations programmes were conducted in several parts of the country, duly supported by our dedicated investment advisors specialized in multidisciplinary fields. The year saw our diverse client base - ranging from institutional and high net worth to retail investors - increasing by 5.8% to 51,822 accounts.

Research plays a vital role in the investment recommendations made by our advisory team. Our research coverage was expanded during the year with more frequent trilingual publications. In terms of performance, returns on our research recommendations have continued to outperform the benchmark ASPI for the past three years and has been amongst the best as evident by the rankings given by Bloomberg.

Financial Performance

KPIs of NDBS	2014	2013	Growth in 2014
Profit after tax (LKR million)	26	7	271%
Net profit margin	15.6%	6.5%	140%
Return on equity	8.4%	2.4%	258%

NDBS raised client servicing levels through enhanced IT applications. The NDBS website was revamped with responsive design and technological advances such as automated document filing and easy access to research material. The Internet trading platform was upgraded for greater customer convenience, while NDBS became the first and only stockbroking company to offer an SMS portal with instant updates on account movements.

The Future

With the expected economic growth rates and the continuation of a low interest rate regime in the coming years, the capital market is poised to grow and play a bigger role. Our primary focus during 2015 will be to expand the high net worth and the foreign investor segments, while growing the retail segment through existing networks. The application of technology will be further enhanced in line with improvements in the industry such as a system of delivery versus payment as well as an enhanced risk management framework through the central counterparty system.

NDB Capital Ltd. (Bangladesh)

Business Domain

NDB Capital Ltd. (NDB Capital) is the investment banking arm of the Group in Bangladesh. With the strength of the Group's strong knowledge and placement capabilities in investment banking, NDB Capital is offering innovative products to the capital market of Bangladesh.

NDB Capital has been successful in establishing a unique brand identity by carrying out a number of landmark investment banking transactions in the capital market of Bangladesh. The product range offered includes the following.

Fund Raising	Corporate Advisory	Portfolio Management
<ul style="list-style-type: none"> ● Commercial papers ● Bonds ● Syndications ● Preference shares ● Convertible securities ● IPOs ● Private equity ● Sukuk 	<ul style="list-style-type: none"> ● Financial/balance sheet restructuring ● Equity valuations ● Feasibility studies ● Organizational/financial restructuring ● Mergers & acquisitions 	<ul style="list-style-type: none"> ● Discretionary portfolio management

The focus during the year was on the cross border business and investments between Sri Lanka and Bangladesh. NDB Capital successfully raised USD 50 million for a dual fuel power plant in Bangladesh promoted by a leading Sri Lankan energy company. This transaction clearly showed the Group synergies where NDB Capital and NDBIB acted as joint arrangers, while the Bank participated in the

deal with financing. In addition, NDB Capital was instrumental in facilitating the entry of a leading Sri Lankan finance company and a construction company into Bangladesh. NDB Capital arranged a number of meetings with prospective joint venture partners, regulators and other industry stakeholders for the two companies. In addition, NDB Capital is presently working on a mandate to raise debt finance from Sri Lankan banks for a leading footwear manufacturer in Bangladesh with a guarantee from a local bank.

These efforts won recognition in no small measure. NDB Capital was picked as 'The Best Investment Bank in Bangladesh 2014' by Euromoney, World Finance & Global Banking and Finance Review magazines.

The Future

Managing diversified and innovative transactions has created a unique brand image for NDB Capital Ltd. in the Bangladesh capital market. With this competitive advantage, the team is chasing ambitious targets for mandates in sectors such as energy, steel, construction and real estate through targeted products and services. NDB Capital views the future with confidence and the expectation of even better performance in the years to come.

NDB Zephyr Partners Ltd. (Mauritius)

Business Domain

NDB Zephyr Partners Ltd. (NDBZ) is jointly owned by NDB Capital Holdings PLC (60%) and Zephyr Management LP (40%), a New York-based global emerging markets investment firm. Set up in 2014, NDBZ is the Fund Manager of the Emerald Sri Lanka Fund which will make private equity investments in small and mid-sized businesses seeking expansion capital in Sri Lanka.

NDBZ believes that Sri Lanka provides excellent conditions for growth by small and mid-sized companies. These conditions include political stability, a rapidly growing economy and an educated labour force. Sri Lankan SMEs currently have limited equity raising options until an IPO. However, many SMEs are not ready for an IPO, due to their small size, lack of management depth and inadequate governance.

NDBZ will assist its portfolio companies in areas such as strategic planning, management development, improving financial management, corporate governance and operational efficiencies. The Fund Manager will also help the portfolio companies in accessing international markets and optimizing their capital structures. Exits will be generated via the IPO market or through trade sales to domestic or international buyers.

The Future

The investment team of NDBZ will draw on the capabilities and experience of the Fund Manager's parent companies, NDB Capital and Zephyr Management LP. The investment team of the fund will benefit from NDB Capital's deep understanding and experience in the Sri Lankan market. Zephyr Management will provide the Emerald investment team with expertise regarding the investment process, including deal evaluation, portfolio management and exits.

Development Holdings (Private) Ltd.

Business Domain

Development Holdings (Private) Ltd. (DHPL) is engaged in the business of renting out a 16-storied high rise commercial property in the heart of Colombo, popularly known as the NDB-EDB tower. The management of the property is jointly carried out by the Bank and the Sri Lanka Export Development Board (EDB).

Sri Lanka Export Development Board and several departments including the Navam Mawatha Branch of the Bank are housed in the NDB-EDB tower, along with many other renowned local and global institutions. The NDB-EDB Tower is a state of the art modern commercial property, with many facilities. It has a fully-fledged auditorium with seating capacity for 250 people, ample and convenient parking space, a cafeteria which can accommodate 200 people at a time and a balcony lobby area with a magnificent view of the Beira Lake.

The Future

DHPL will continue to provide a strategic location for its diversified tenants. The property is being upgraded and modified whenever possible to maintain its stature and prominence.

Institutional Capital

Institutional capital covers a broad spectrum of non-financial components that are, like financial capital, internal to the Bank and the Group. It is a collection of intangibles that includes aspects such as corporate culture and values, business ethics and integrity, brand value, organizational knowledge, systems, processes, intellectual property and so on.

Organizational Values

The five core values of the Bank comprising integrity, care, passion, teamwork and service are incorporated into daily work, be it in dealing with colleagues, subordinates and supervisors or customers and potential customers of the Bank. These values are articulated through specific competencies which are internalized through recruitment, training, performance management and other human resources-related activities.

Business Ethics and Integrity

Sound business ethics and integrity are aspects that are well understood and reinforced in all our activities. As discussed in the Corporate Governance Report (pages 108 to 163) and elsewhere, several frameworks, codes and control mechanisms are in place which are reviewed from time to time and upgraded based on need. What is more, we have brought our business partners too into this circle through a Sustainable Supply Chain Management process that takes into account an assessment of suppliers in the context of environmental, labour and social factors. The Bank is proud of its unblemished record in this sphere.

Brand Equity

Having transformed from a state-owned, credit line dependent, development financing institute to a privately-owned, commercial banking conglomerate offering a gamut of financial services under one roof, the Bank endeavours to financially empower individuals and communities, while continuing to strengthen the infrastructure development and production capabilities of the country - thus contributing to national economic development.

The current positioning of the NDB Bank brand therefore is rather distinct, where the Bank is positioned as a financial institution that extends and expands its widespread financial expertise to shape the lives of a diverse clientele that includes individuals, professionals, entrepreneurs as well as large scale corporates and projects. The Bank has thus successfully evolved into a household name and has been listed amongst the top 20 brands in Sri Lanka over the past 5 years. Within the banking and financial services industry, 'NDB' stands at the 8th position in terms of brand ranking with a brand value of LKR 5.6 billion and a rating of A+ (Brands Annual 2014 by Brand Finance).

During the year under review, we continued to establish and strengthen this brand positioning by engaging with its diverse clientele; conducting mass-scale retail product advertising for individuals, organizing workshops and training programmes for grass root level micro-industrialists and SME entrepreneurs and through events and sponsorships that aimed to strengthen relationships with large corporates and premium clients. The 'De Lanerolle Brothers Live in Concert', Toccata Musical Productions - UK, and NDB-RCGC Inter-school Golf Tournament were some of the key highlights of such strategic sponsorships. Further in 2014, the Bank continued to reinforce its brand presence online, while meaningfully engaging with the emerging segment of tech-savvy youth customers and prospects through its many social media platforms including Facebook, Twitter, Youtube and LinkedIn.

Systems, Processes and Policies

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

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

Targeting the SME sector the Bank developed a Receivables Management System and a Purchase Order Management System, both of which were fully operationalized in 2013. This was part of a larger reorganization that brought all support functions - Central Processing, Trade Finance, Treasury Operations, Human Resources and Administration - under the umbrella of the Operations Department.

We concluded the revamping of our staff Performance Development System with the full involvement of employees during the year. The system was reengineered to cater to the rapid expansion of the Bank and its scope of operation and the consequential rise in the number of staff. The process is aimed at providing career progression to employees depending on abilities, commitment and performance. With a longer term focus on staff retention, the Bank regularly reviews its Equity Linked Compensation Plan with new criteria that also aims to draw in a larger section of employees.

Procurement Policy

The Bank is governed by a comprehensive Procurement Policy, towards achieving the twin strategic goals of cost optimization and operational excellence. This Procurement Policy is aimed at enhancing the transparency of the Bank's procurement process, minimizing delays and obtaining financially the most advantageous and qualitatively the best goods and services to the Bank.

The Procurement Policy prescribes standards, specifications, rules, regulations and good governance in the procurement process, whilst providing fair, transparent, equal and maximum opportunity for eligible interested parties to participate in the Bank's procurement process. The overall procurement process is driven by a CEO-appointed Procurement Committee that may also seek external consultant expertise whenever required. It is executed while maintaining the highest levels of ethics including confidentiality and the avoidance of corruption, abusive use of power and conflict of interest.

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

Outsourcing Policy

Outsourcing is often viewed as contracting out a business function performed in-house, to an external service provider for a fee. The Bank's Outsourcing Policy ensures an optimal balance between the quality of human resources engaged and costs for the same.

The Board Audit Committee-approved Outsourcing Policy is driven by an Outsourcing Committee. The Committee inter alia ensures that adequate risk mitigation controls are in place and all outsourcing activities comply with the Bank's Outsourcing Policy and the Banking Act Direction No. 2 of 2012 issued by the Central Bank of Sri Lanka on outsourcing business operations of a Licensed Commercial Bank.

The Outsourcing Policy has been instrumental in yielding considerable cost savings to the Bank through specialized resources which carry the strategic advantage of being outsourced rather than being performed in-house.

Information Technology

The Bank's core banking system, implemented in 2013, served to integrate multiple applications into one seamless platform. Its front to back office software platform powers the retail, corporate and universal banking operations of the Bank, running 24/7 and in real-time across all branches. This has greatly enhanced customer service as well as management information and report generation capabilities.

Combined with an open architecture and tooling this integration enables the Bank to shift its IT investment from maintenance to innovation. This was showcased by the introduction of a range of asset and liability products such as 'Shilpa', 'Salary Max' and 'NDB Educator' during the year. We also upgraded the core banking system and other interfaces to enable

Islamic banking services that targets a growing market segment, developed in-house an e-Remittance System and upgraded the ATM switch for the launch of the NDB Good Life Credit Card and the NDB Travel Card.

The Bank established connectivity with the Lanka Clear Common Payment Switch, a national development initiative which will greatly support the proposed consolidation of the banking and financial services industry, allowing greater reach, service offering and convenience to customers through a common platform. In addition, it offers significant savings in foreign exchange to the country as every LankaPay ATM transaction is channelled through a domestic network.

The Bank opened its first digitized branch, 'NDB Connect', at the Kandy City Centre during the year. This landmark venture endorsed a new digital banking experience for customers which included interactive touch screens, laser key boards and the like.

As a strategy for IT procedural efficacy and value enhancements the Bank adopted VoIP technology to enhance communication services across the Bank's network. This has enabled data integration, unified communication, collaboration and multi-party conferencing. Webinar is one such resulting product which is effectively used by the Bank for Investor Relations.

To enhance the Bank's risk management capabilities, an automated credit scoring system was introduced for optimized lending. Further, two full scale disaster recovery simulations were successfully conducted during the year, in line with the Bank's business continuity plan.

Transactional and Institutional Banking

The newly set up Transactional and Institutional Banking Unit became fully operational during the year. Its scope include cash management, corporate electronic banking, correspondent banking, worker remittances, trade & treasury marketing and managing financial institution relationships.

Cash management focuses on providing solutions to high end corporate clients on their complex day-to-day payments and collections requirements, in addition to supporting their capital market activities. As a result, in 2014 we have successfully served as bankers for several debenture and rights issues of corporate clients, and plan to widen our scope of work in 2015 to include facilitating EPF and ETF payments and processing of dividends.

The Bank's electronic banking platform, 'e-Window', was upgraded in 2014 to incorporate many customer-centric features. This also helped in encouraging the SME sector to make use of such channel to enhance their banking experience. An overall outcome was a 20% increase in the Bank's e-Window System, which is expected to grow further in the years to come as part of our long-term strategy.

Cash management also worked on developing new customer segments which are strategically important to the country. In supporting this initiative, the Bank will consider providing specialized counters and language expertise to service these client segments.

A strong correspondent banking franchise allows the Bank to prudently access international markets and maintain adequate levels of relationships and limits for domestic and overseas banking transactions to support the business units. During 2014 negotiations with specific correspondents produced new links for potential business from bid bonds, performance bonds, advance payment bonds etc., including making inroads into the Chinese market through leading Chinese banks.

The Bank's e-Remittance system was upgraded in 2014 to facilitate instant processing of inward remittances to ensure that funds are credited to beneficiaries within minutes of origination of transactions via an automated straight through process. The system improvements will continue in 2015 as part of our efforts to further enhance the quality of our services and attract more remittance throughput via the Bank.

Compliance

The Bank's legal services have not been informed of or have pursued any actions where any fines were imposed on the Bank in relation to non-compliance with laws & regulations relating to corruption, anti-competitive behaviour, anti-trust, monopoly practices or laws & regulations concerning the provision and use of products and services and related matters during the year. There were no fines charged or non-monetary sanctions for non-compliance with laws & regulations.

External Capital Formation

The value created by the Bank for stakeholders through activities, relationships and linkages lead to the formation of capital external to the Bank.

They reside within our stakeholders, but the Bank has access to and makes use of these and its own internal capital in driving its business. Our discussion will now focus on the Bank's external capital formation, the material ones being, investor capital, customer capital, employee capital and social & environmental capital.

Investor Capital

The Bank's investors both institutional and individual, provide financial capital with the expectation of a return. The capital provided may be equity or debt, with the expected return typically covering a mix of short, medium and long term. These investors are of value to the Bank, and through the interaction of the various forms of financial and non-financial capital the Bank drives future earnings to derive value for itself and deliver value to its stakeholders.

Investor Relations

Shareholder Profile

As detailed under Investor Relations (commencing on page 223) about 80% of the Bank's share capital is held by institutions, which account for about 5% of our 8,014 shareholders. Residents, both institutional and individual, hold about 67% of the number of shares in issue, and account for 98% of all shareholders.

Engagement

Satisfying this diverse mix of investors and their expectations is a strategic management responsibility that integrates finance, communications, marketing and compliance to create an effective two-way

communication between the Bank, investors and other constituencies (see Stakeholder Engagement, page 29). Such engagement contributes towards our securities achieving fair valuation, which in turn helps investors to make informed buy or sell decisions, while providing market intelligence to the Bank's corporate management. Our engagement includes other connected stakeholders such as analysts, media and regulatory authorities, as we believe that well-informed market participants are important for the functioning of an efficient capital market and the stability of the financial system as a whole.

Share Price Movement

The Bank's share price closed at LKR 250 on 31 December 2014, after trading at LKR 266 on 3 October 2014. The total market capitalization of the share largely improved during the year, and was ranked 16th on the Colombo Stock Exchange (2013: ranked 20th). More information is given under Investor Relations commencing on page 223.

Return to Shareholders

All shareholder return indicators soared during the year, indicating sound value generated for shareholders.

The Group Earnings per Share (EPS) for the year ended 31 December 2014 was LKR 25.14 with a 53% increase over the previous year, while Return on Equity (ROE) was 15.8%, up from 10.7% in 2013. Likewise, Total Shareholder Return (TSR) for the year ended 2014 was 63% (2013: 31%), which indicates the value created to shareholders through dividends and share price appreciation. The resultant Price Earning (PE) Ratio was 10 times as at 31 December 2014.

More details are given under Investor Relations commencing on page 223.

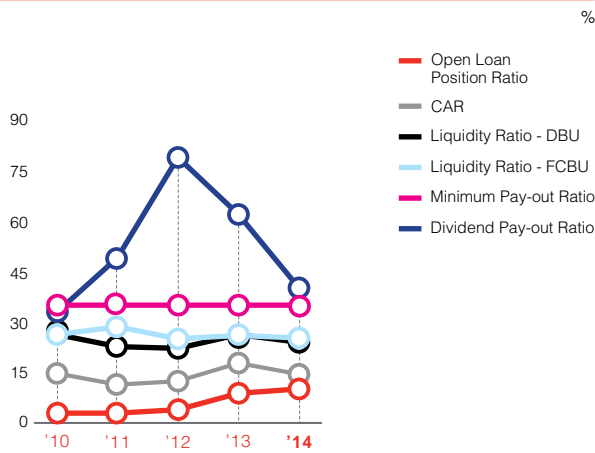
Dividend Policy

The Bank strives to provide shareholders with consistently high returns through profitable performance. The policy specifies that dividends gradually increase corresponding with growth in profits while taking account of inflation and future cash needs

for sustainable operations. The latter requires striking a balance between a healthy payout with prudent ratios, as specified below:

Ratio	Policy guideline
Dividend payout ratio	>35%
Capital adequacy	>12%
Open loan position	<40%
Liquidity	>20%

Dividend Payout Ratio



Customer Capital

Our Portfolio

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

Core Banking Products and Services

Commercial Banking

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

Project and Infrastructure Financing

- Term loans
- Securitization
- Debentures
- Syndications
- Preference share investments
- Guarantee facilities
- Advisory services

Retail Banking

- Current accounts
- Privilege Select, Privilege banking
- Savings accounts, Children's savings accounts
- NDB Salary Max
- NRFC/RFC accounts
- Fixed deposits
- Housing loans
- Education loans
- Personal loans



Vibrant Infrastructure Financing

Funding of over LKR 20 billion was disbursed to approved facilities in critical areas of infrastructure development.

We ‘lent colour’ to the landscape of economic growth in the Northern Province, including support for a substantial wind power generation project. Green energy generation was further enhanced with funding for a commercial-scale biomass energy generating project.

- Leasing and hire purchase facilities
- NDB credit cards, debit cards
- Pawning
- Remittances, money transfer services
- Internet banking
- Bancassurance
- Safe deposit lockers

SME Banking

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

Capital Markets Products and Services

- Investment banking
- Securities management
- Wealth management
- Management of private equity funds

New Product Launches and Re-launches

Innovation and new product development primarily take place through value addition to existing products, taking into account consumer needs and changing preferences. The Bank launched eight new retail banking products during the year under review, while several more were re-launched or modified for greater customer value and convenience.



NDB Salary Max



The year commenced with the launch of NDB Salary Max, a new proposition exclusively designed for salaried individuals. The NDB Salary Max current and savings accounts are designed to help account holders to maximise the returns on their monthly salary, with account holders encouraged to open a savings account to inculcate a savings habit. While being a critical tool in developing the CASA accounts of the Bank, account holders have access to a fast track loan scheme against the net salary remitted to the Bank.

Solar-vantage Loans



This is a concessionary loan scheme to encourage consumers to minimize their dependence on grid electricity by switching to solar power. With net metering regulations in place, this shift towards environmentally-friendly solar PV serves to reduce the demand for fossil fuel based energy from the national grid while providing cost savings to the consumer.

NDB Shilpa



On the theme of supporting the education of young children, the Bank reformulated its approach to 'Children's Savings' based on a focus group research carried out in 2013. The resulting NDB *Shilpa* minors' savings account goes beyond enticing parents to deposit money and giving away freebies. Rather, the account is positioned to support the educational aspects and aspirations of account holders. It provides a measure of support to the child in the event the guardian is unable to fulfil the financial needs of the child while also rewarding the child for educational performance. Life insurance for the guardian is an important aspect, while the child gets education-related material as rewards for savings. Scholarships to top performing students are also an aspect of this product.



As a part of educating and sharing knowledge amongst children NDB Shilpa Peya programmes were conducted during the year in many parts of the country

NDB Home Loans Re-launch



Following a period of going slow for two years the Bank aggressively re-entered the home loans market in 2014 to make good use of the conducive market factors. Supported by the theme 'Freedom is having a home of your own', the product is targeted at salaried and self-employed individuals. The Bank also entered into strategic tie ups with reputed builders to complement this drive.

NDB Home Loan Max



This new and unique product allows additional loans and overdrafts against the available collateral already held by the Bank for an existing Home Loan facility extended by the Bank. Thus, it does not require additional security, while being fast and hassle-free product for the customer.

NDB TravelPal Cards



Overseas travel was simplified with the introduction of NDB TravelPal travellers' card, a prepaid Visa-accredited foreign currency card that enables customers to switch between up to 15 currencies loaded onto the card. This choice reduces exchange loss through multiple currency conversions and further reinforces the Bank's commitment in providing value to customers.

NDB Good Life Credit Cards

The Bank rolled out a new suite of credit cards - dubbed 'Good Life' - available in five categories comprising Silver, Gold, Platinum, Signature and Infinite, during the year. Each type is designed with unique benefits and rewards to fulfil diverse lifestyle requirements of a wide range of customers. In parallel, a low interest 'balance swap' promotion was carried out to attract new customers who were weighed down by high interest rates on other credit cards.



The new suite of credit cards launched by the Bank during the year

NDB Educator Loan



NDB Educator is a tailor-made education loan designed to help aspiring youth to make their education and career dreams a reality. It is positioned as a convenient loan scheme where the student pays only the interest at a low rate during the study period, and repays the loan capital once the study course is completed. The product was launched during the year through many accredited Sri Lankan universities.

New Marketing Services and Campaigns

Islamic Banking



Alive to market trends in Sri Lanka, the Bank ventured into Islamic banking in August 2014. Branded as 'NDB Shareek' as yet another new Commercial Banking product, initial offerings were current accounts, Mudarabah savings and term deposits, Murabahah financing for local purchase and imports, Diminishing

Musharakah for working capital financing, housing, vehicle and project financing, and Ijarah (leasing) for vehicle and equipment finance. Islamic banking is currently concentrated amongst corporate clients, but will expand to include SMEs through our branch network and relationship management teams of the Bank. We are fully equipped with a team that is both well trained and experienced in the area of Islamic banking. All Islamic banking operations are in accordance with the Central Bank of Sri Lanka guidelines and in conformity with Shariah principles, duly guided by a well-respected team of Shariah scholars.

Privilege Select and Privilege Banking



Catering to high net worth clients, key initiatives during the year included sponsorship of the NDB Interschool Golf Tournament and a show featuring the best of West End and Broadway by the world-famous Tocata Musical Productions (UK) for Privilege members.



A participant at the NDB Interschool Golf Tournament held at the Royal Colombo Golf Club

NDB Savings Campaign

The *Ithuru Karana Maga* savings drive was re-launched in October 2014 with a new look and feel across the country. The handy savings booklet that carries numerous tips and advice to inculcate the savings habit while improving one's quality of life proved to be popular across varied segments of the population.

Bundling of Products and Services

The Bank and its subsidiaries continually look for opportunities to bundle stand alone banking products and services offered by investment banking, wealth management and insurance with those coming from core banking, including micro and SME financing. Such bundling ensures a seamless integration of the wide range of financial solutions offered by the Group and provides a one-stop shop experience to customers.

Micro and Small & Medium Enterprises Development

Forming the backbone of Sri Lanka's economy and as the principal source of employment creation, the Micro and Small and Medium Enterprises (MSME) sector has been an integral component of the Bank's business since its founding. It has been a role that goes beyond the mere provision of financing.

Micro Finance

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

A special feature of the Awakening Lives loan scheme is that facilities are granted without the need for collateral. Loan approval is based on the Bank's assessment of the applicant's capabilities and success of the enterprise, coupled with safety nets such as regular savings and insurance which are often new concepts to grass root level entrepreneurs.

Cinnamon to the World

Cinnamon has long held a significant position in Sri Lankan culture and economy, its earliest mention going back over two thousand years. Despite cinnamon's potential to take on the world as a major export crop, its supply chain had not received the

financial backing required to elevate the industry to the next level. The Bank ventured into this space in January 2014 through a national initiative that aims to empower the cinnamon industry in the country.

Through the 'Awakening Lives' programme of the Bank's micro finance arm, we serve even the most remote village in any of the five cinnamon-growing districts of the country, encompassing the total supply chain from home garden cinnamon growers and tappers to product processors and exporters.

Loans - mainly for land preparation for cultivation and working capital - are tailor made for the cinnamon industry, ensuring that even the poorest will qualify for financial assistance. Coupled with building a strong credit culture among the beneficiaries, the Bank's role includes provision of technical knowledge and extension services, often in collaboration with government institutions. The latter include Ministry of Minor Export Crop Promotion, Department of Export Agriculture and regional Cinnamon Research Institutions.

Our venture into this sector also saw the opening of the Bank's 80th branch at Uragasmanhandiya, a bustling centre of action for cinnamon. Going forward, the Bank intends to team up with appropriate corporates to scale up access to global markets and ensure a viable, sustainable industry that takes Sri Lankan cinnamon to the world.



The Bank takes pride in supporting the efforts of cinnamon growers, processors and exporters as a part of its 'Cinnamon to the World' project

Urban Micro Financing

A pilot project under the Bank's 'Awakening-Lives' programme was launched during the year targeting street food vendors at Colombo's Galle Face Green. Strikingly, the loans have recorded 100% on-time repayments, with vendors also maintaining healthy cash build-ups on their savings accounts. Going the extra mile, the Bank has tied up with the Public Health Unit of the Colombo Municipal Council to conduct workshops and awareness campaigns on good hygienic practices relating to food handling.

Empowering the Rural Economy

Promoting self sufficiency at grass root level, the Bank spearheaded the financing of seed paddy farmers in Polonnaruwa in 2014. This initiative saw resurgence with Farmer Federations in the area repaying loans ahead of maturity, and paving the way for individual farmers to obtain financial facilities on their own accord.

Several tie ups were made with corporate and high-end SMEs to finance their grass root level suppliers, particularly small scale tea plantations and suppliers of liquid milk. Yet another success story was the financing of rural women in Gampola, who were the contracted suppliers of a large-scale soft toy manufacturer to international markets. Likewise, the Bank financed several small scale floriculturists in the Gampaha District and established partnerships between growers and exporters with the collaboration of the Sri Lanka Export Development Board.

The Bank conducted several financial literacy programmes for garment factory workers in Kilinochchi and Polonnaruwa, educating them on the basics of financial management, personal budgeting, investment options and savings.



As testimony to the Bank's commitments for true financial inclusion the Bank was recognized as the sole global awardee at the Banker Magazine Awards - Financial Inclusion 2014

Small & Medium Enterprises

The Bank's SME portfolio is well balanced across a wide range of sectors, as depicted on page 54 under Financial Capital. SME financing during the year receive special emphasis on project financing (typically infrastructure as well as tourism, agriculture, transportation and health care sectors).

As discussed previously (pages 54 and 55, Financial Capital) the Bank plays a key role in providing concessionary loans to the SME sector, both directly through its network as well as indirectly in its capacity as an apex bank for participating financial institutions.

Our SME product range includes trade financing services, channel financing, overdrafts, packing credit, bills discounting in addition to the traditional long term financing. A specialized product that stands out is the NDB trademark product suite that targets the tea manufacturing sector under the Tea Manufacturing Finance Programme. This gathered momentum during the year under review with several awareness creation programmes that were conducted by the Bank in several tea growing townships.

Empowering Entrepreneurship

Asia Pacific Entrepreneurship Awards (APEA) is a regional recognition programme for outstanding entrepreneurs across Asia. The purpose of this Award programme is to cultivate a culture of honest, fair and responsible entrepreneurship across Asia. Enterprise Asia, a non-governmental organization for entrepreneurship based in Malaysia, is the owner and organizer of the APEA. Enterprise Asia, in association with Sri Lanka Malaysia Business Council (SLMBC) of the Ceylon Chamber of Commerce organized this event in Sri Lanka in 2012 and 2013, with great success. The Bank partnered with Enterprise Asia and SLMBC as the principal sponsor of both events signifying our commitment for building an entrepreneurial culture in Sri Lanka.



The Bank was the principal sponsor at the APEA Awards, signifying its commitment for building an entrepreneurial culture in Sri Lanka

Provincial Engagement

Over 70% of the Bank's SME portfolio is concentrated in the Western, Southern and North Western Provinces, largely reflecting population density, access to markets and business opportunity. However, things are changing fast with the massive infrastructure development taking place in the country. The Bank is alive to such changes and is proactively reaching out to support SMEs in other provinces through branch expansion and other means.

The Bank regularly engages with the SME community through workshops and seminars across the country, often supported by academic staff and industry experts. During the year 2014 such events were conducted in 8 administrative districts of the country. They attracted a total of 1,136 local participants who benefited from knowledge transfer, exposure to best practices and new insights.

The year 2014 saw the establishment of the first 'customer loyalty group', located in Kaduruwela - Polonnaruwa, with the active enrolment of over 150 small and micro entrepreneurs. Under the auspices of the Polonnaruwa Divisional Secretariat and the North Central Regional Office of the Central Bank of Sri Lanka, the Bank initiated a strong and loyal customer base as the initial step towards supporting income generating and livelihood development activities of grass root level entrepreneurs. It was an initiative which was much appreciated by the local community.

Delivery Channels

Our delivery channels include 83 branches, all LANKAPAY enabled ATMs around the country and VISA enabled ATMs around the globe. In addition customers have access through the Internet, mobile phones and card-based systems.

Branches

The Bank opened new branches in Balangoda, Urugasmanhandiya, Kandy City Centre, Old Moor Street - Colombo and Katunayake, thus expanding the network from 78 to 83 during the year. Our entry into Urugasmanhandiya is noteworthy, as this complemented our 'Cinnamon to the World' initiative (page 72) by establishing a presence at the heart of the cinnamon growing area of the country. In addition to the five new branches opened during the year, five branches located in Negombo, Boralesgamuwa, Ratmalana, Athurugiriya and Narahenpita were relocated to more spacious premises, with emphasis on customer convenience. Of these five, four were extension offices which were upgraded to full service branches to cater to rising customer demand from the localities.

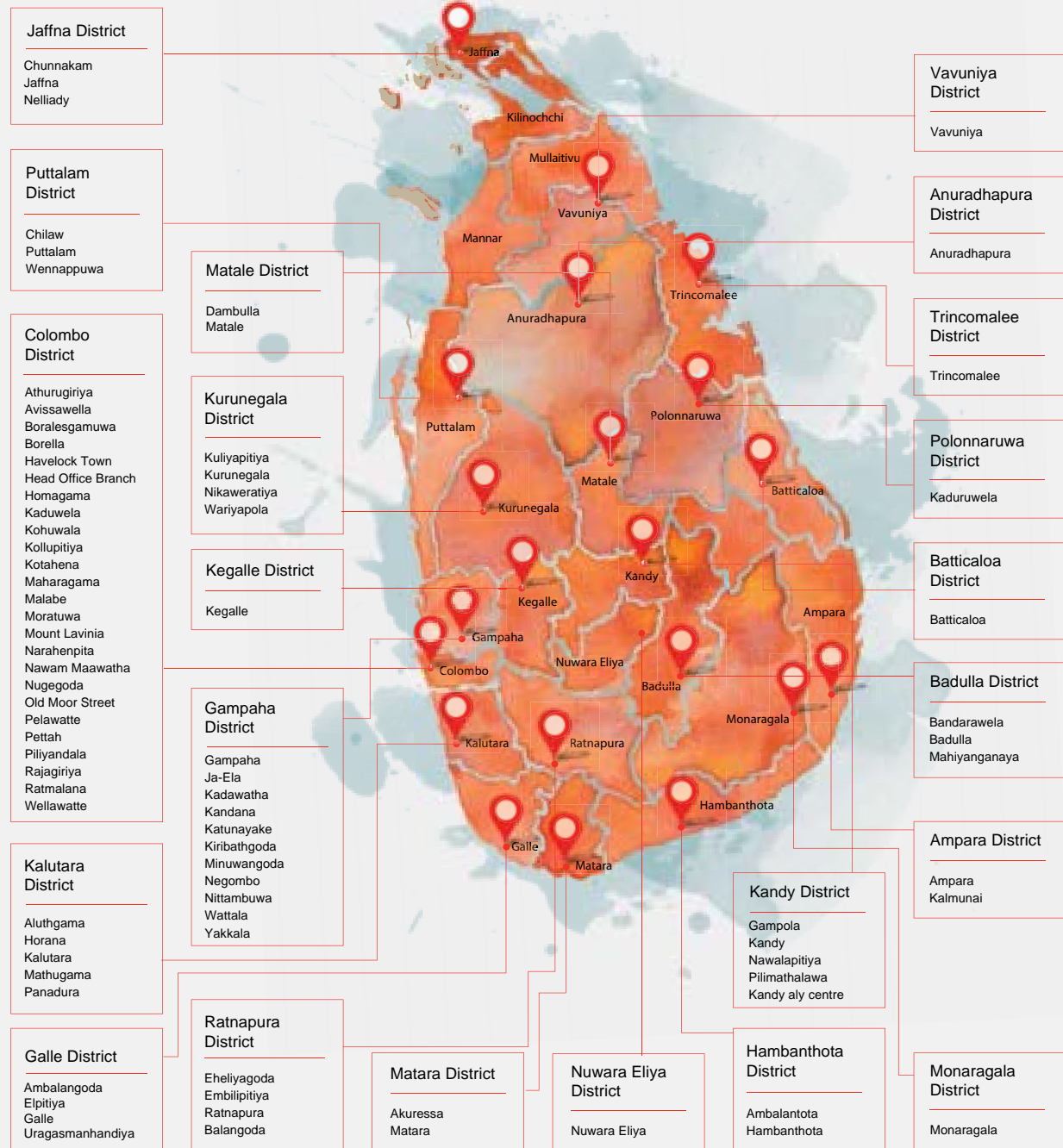


A gift being presented by the Branch Manager to a minor account holder at the Katunayake branch opening

Regional Centres

Eight Regional Centres were established in 2013 to support the Bank's growth. They continue to provide oversight over duly assigned branch clusters while ensuring the same excellence in service that customers associate with the NDB brand.

Branch Network of the Bank



365 365 day banking
Havelock Town - 9 a.m. - 6 p.m. Mount Lavinia - 9 a.m. - 8 p.m.
Rajagiriya - 9 a.m. - 8 p.m.

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

- Regions & Regional Offices**
- ① Colombo - Borella
 - ② Greater Colombo - Rajagiriya
 - ③ Southern - Matara
 - ④ North Western - Ja-Ela
 - ⑤ North Central - Kurunegala
 - ⑥ Central - Kandy
 - ⑦ Uva-Sabaragamuwa - Ratnapura
 - ⑧ North Eastern - Jaffna

Details of the Bank's island-wide branch network and Regional Offices are available in the Corporate Information Supplement.

Network of NDB Group Companies



NDB Wealth Management Ltd.
 No.42 , NDB EDB Tower,
 Navam Mawatha, Colombo 02
 Mr Laknada De Mel
 Tel: 011-2303232 / 077-7767499
 E-mail: laknada@ndbinvestors.com



NDB Investment Bank Ltd.
 No.40 , Navam Mawatha, Colombo 02
 Mr Darshan Perera
 Tel: 011-2300385-90 / 077 -3224924
 E-mail: darshan@ndbib.com



NDB Capital Holdings PLC
 No.40 , Navam Mawatha, Colombo 02
 Mr Kusal Jayawardena
 Tel: 011-2300385-90 / 071 450 4556
 E-mail: kusal@ndbib.com



Development Holdings (Pvt) Ltd.
 No.42, NDB EDB Tower (2nd floor)
 Navam Mawatha, Colombo 02
 Mr D M Janitha Dissanayake
 Tel: 011- 2300174/077-2217216
 E-mail: mgrdhpil@gmail.com



NDB Zephyr Partners Ltd.
 No.40 , Navam Mawatha, Colombo 02
 Mr Senaka Kakiriwaragodage
 Tel: 011-2300385-90 /071-481 4033
 E-mail: senaka@ndbib.com



CSE
 04-01, West Tower, Echelon Square, Colombo 01
 Ms Shiromi De Silva
 Tel: 011 2335054
 E-mail: shiromi@ndbs.lk



Jaffna
 1st Floor, NDB Bank, 62/6,
 Stanley Road, Jaffna
 Mr S Vibushan
 Tel: 021 5671155
 E-mail: vibushan@ndbs.lk



Gampaha
 153, Colombo Road, Gampaha
 Mr S H Gayan Sanjeewa
 Tel: 033 2231117
 E-mail: gayan.sanjeewa@ndbs.lk



Ampara
 103F, D S Senanayake Street, Ampara
 Mr Ravi de Mel
 Tel: 063 2224245
 E-mail: ravi@ndbs.lk



Kiribathgoda
 No. 139/1, Kandy Road, Kiribathgoda
 Mr Gayan Pathirana
 Tel: 011 2907515
 E-mail: gayan@ndbs.lk



Kalutara
 290, Galle Road, Kalutara South
 Mr Ranganath Wijethunga
 Tel: 034 2221589
 E-mail: ranganath@ndbs.lk



Galle
 1/A, Abeysekera Building,
 Wakwella Road, Galle
 Mr Upul Hettiarachchi
 Tel: 091 2225447
 E-mail: upul@ndbs.lk



NDB Wealth Management Ltd



NDB Investment Bank Limited



NDB Capital Holdings PLC



Development Holdings (Pvt) Limited

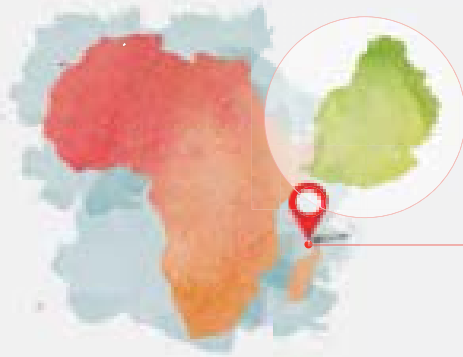


NDB Zephyr Partners Limited



NDB Securities (Pvt) Ltd

Network of NDB Group Companies



NDB Zephyr Partners Ltd.

The Group's private equity business NDB Zephyr Partners Ltd. was incorporated in Mauritius in December 2014, in partnership with the US - based Zephyr Management LP.

Mr Senaka Kakiriwaragodage
Tel: 0112-300885-90 / 071-4814033



NDB Capital Holdings PLC Bangladesh

Bilquis Tower (5th floor), Plot - 06
Gulshan 2, Dhaka 1212, Bangladesh
Mr Kanti Kumar Saha
Tel: +880 2 9888626 / +880 1755645460
E-mail: kanti@ndbcapital.com



NDB Group partnered with Zephyr Management LP, a New York based global emerging markets investment firm, to set up the Emerald Sri Lanka Fund, Sri Lanka's largest country dedicated private equity fund

Going Digital

Our first digitized branch was set up at the Kandy City Centre during the year. Aptly known as NDB Connect, it is equipped with modern digital touch screens and self-banking features that make day-to-day banking much more convenient. At NDB Connect customers have instant access to a wide array of information not only confined to banking products but also on savings and investment tools, house purchase and construction, vehicle purchase, education as well as entertainment features to engage children who visit the branch. The content is hosted in Sinhala, Tamil and English to cater to our diverse clientele.



A customer using the digital information portals at NDB's first digitized branch at the Kandy City centre

Enhanced ATM Access

In line with a national initiative, the Bank established connectivity with the Lanka Clear Common Payment Switch during the year. This common platform greatly increased the number of ATMs that our customers may use countrywide, from 74 in 2013 to 83 by end 2014.

Branchless Banking

This service is tailored towards the busy customer. The Bank agent visits the customer and provides basic banking services during normal working hours. The project is under testing and is expected to be fully launched in 2015.

Redefining Our Online Presence

As a part of our efforts to make the NDB brand more relevant in emerging market segments, the Bank continued to strengthen its online presence through its corporate website and social media engagement.

NDB Facebook

Making our entry into the social media platform with the launch of the NDB Facebook fan page in February 2013 (www.facebook.com/ndbbankplc), we ended 2014 with over 100,000 fans. Encouragingly, the Bank received two awards of excellence for the 'Best use of Facebook' and the 'Best use of Social Networks' at the 5th CMO Asia Awards for Excellence in Branding and Marketing held in Singapore. The awards recognized the great strides made by the Bank in the social and digital media marketing space in the banking industry within a short period of less than two years.

The NDB Facebook fan page provides the Bank with an opportunity to engage with a growing online community, while building brand awareness amidst a predominantly youthful audience. It is now the second-most viewed Facebook fan page in the Sri Lankan financial services industry; with an average of over 20,000 engagements per month and an average PTA (People Talking About) over 10,000, which is a phenomenal achievement for a FB page in the financial services industry.

The Bank also maintains individual product pages on Facebook to share relevant content with each type of audience the products are targeted at. NDB Salary Max Facebook page, published in January 2014, focuses on educating young executives on making the most of the salary they draw. 'Cinnamon to the World', also published in January, is a venture to promote Sri Lanka's cinnamon industry. The page discusses the virtues, health benefits, historical details and vendor details of cinnamon while sharing cinnamon inspired food recipes in a venture to create awareness about the home grown cinnamon and its uses amongst local and global communities. The third individual page, published in March 2014, is *NDB Shilpa*. It is a page aimed at educating parents, parents-to-be and young adults on the saving habits for children and general tips on upbringing children.

Since the launch of the Facebook page the Bank has continuously strengthened its position across many other popular social media platforms including Twitter, LinkedIn, Youtube and Pinterest; sharing educative and stimulating content. The social and digital media presence of the Bank complements our communications strategy which also includes mass media, ground promotions and regional capacity building programmes.

Customer Surveys

The Bank conducted annual customer satisfaction surveys through Lanka Market Research Bureau (LMRB) in the past, the ratings received being 69.76% (2008), 75.40% (2009) and 75.43% (2010). This was replaced by a comprehensive research programme executed in 2012/13, also through LMRB. The mystery shopper results of the survey revealed that branch ambience was friendly and inviting with neatly displayed material and helpful staff.

Market research is carried out from time with particular focus on products, services, brand equity and the like, and the results are used for corrective action as well as seizing opportunities. For example, product insights received through a focus group discussion with customers of Children's Savings Deposit product in 2013 resulted in changes and a re-launch in 2014 under the name *NDB Shilpa*.

Welcome Call Survey

A Call Out Programme was implemented in 2014 to gauge customer perception on the service levels maintained at the time of being newly introduced to the Bank. Customers to be contacted were picked from Bank's core banking system and a sample 354 customers were contacted for the first phase of the survey.

Key findings indicated that 74% of the customers gave a rating of 8 and above (out of 10) to the officer who served them while 79% mentioned that they are very likely to recommend the Bank to others. The feedback

received from the survey was shared with the relevant branches and front line service units for future action.

Customer Service

A dedicated customer service officer monitors service delivery and identifies gaps across all touch points of the Bank. Recommendations for service recovery and their implementation are monitored from end to end.

The Bank maintains a comprehensive online complaint management system where the complaints are resolved within a stipulated frame of time based on the nature and complexity of the complaint. Customers may also contact the Bank via email (contact@ndbbank.com which is also displayed on the website) with feedback, queries or suggestions.

Routine call outs are made to new customers who open new accounts or obtain loans from the Bank to assess the level of satisfaction at the point of delivery. Such feedback received is fed in to the relevant system (complaints/suggestions) and escalated to the customer service officer as well as the business heads in order to take corrective action, if any.

Continuous improvement is introduced based on the feedback received in customer surveys and ongoing customer feedback on the products and services. Several cross functional teams have been appointed from within the Group to identify strategic initiatives for value creation, product innovations and synergizing the Group in building the NDB Brand. These teams play a pivotal role in triggering the overall Group strategy through the implementation of key initiatives across customer segments with customised products and channels while leveraging the Banks' competitive strengths and market dynamics.

Internally, the Bank encourages continuous innovation through its automated, suggestion generating system named 'IdeaXpress'. It is an IT tool which can be accessed by all employees in the Bank to share innovative ideas and customer insights. The Bank also maintains a complaint management system for resolving customer complaints and grievances.



Everyone Empowered

We believe that financial empowerment must flow equally for high-net-worth corporates as well as micro entrepreneurs and everyone in between. **Every member of the society has a right to financial well-being and it is a strategic priority of the Bank.** That is why our *Ithuru Karana Maga* savings philosophy is so close to our heart. It is as good an example as any, of our will to encourage the savings habit amongst *all* Sri Lankans.

Product Responsibility

Product and Service Labelling

In this technologically savvy, data-driven society, customers demand clear information and transparency before making a purchase. Furthermore, with the popularity of social media and other online sources there are several avenues for dissatisfied customers to air their grievances, or even take legal action if product information had been misleading. Accordingly, the Bank takes care in providing accurate and relevant information in a manner that can be understood by a layman. Details of products and services offered are easily accessible in the form of printed material as

well as through the Bank's website. Contact details of relevant staff handling the products and services are displayed for additional information, while one may also inquire through the Bank's 24-hour customer service hotline where trained customer service personnel are on hand.

Customer Charter

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

Communications Policy

The Bank adheres to the regulations stipulated on the Customer Charter of the Central Bank of Sri Lanka in addition to the general rules and regulations of the country that govern the advertising and communications industry as a whole.

The Bank's communications policy is structured within these parameters, and duly approved by the Board of Directors. It governs the objectives, division of responsibilities and general guidelines for communicating with various target groups, and covers the following aspects:

- The communication of public and non-public information
- Communications with media, shareholders, regulators and other stakeholder groups
- Business communication and usage of email, etc.
- Social media activity
- Confidentiality and protecting of confidential information
- Fraud

The communications policy is reviewed and supervised annually by the Board Audit Committee of the Bank.

There were no reported incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship during the year under review.

Customer Privacy

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

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

Employee Capital

All for One

At the heart of our success lie our people: all driven by one common vision to build a world-class Sri Lankan bank. In turn the Bank is one that serves all its employees equitably and transparently through clearly articulated corporate values that underscore our human resource development agenda. It's all about how the Bank builds its employee capital by attracting the best of talent, nurturing and moulding their development and rewarding performance.

Staff Strength

By end 2014, 1,744 people worked at the Bank, an increase of 10.17% over the previous year's total of 1,583 persons. Women form well over one third of our workforce, including management grades; while the NDB Bank family is proud to say that it comprises people from diverse social backgrounds, ethnicities, religions and ages. The Bank draws on this diversity as inherent strengths to deliver big results.

Workforce by Grade and Gender

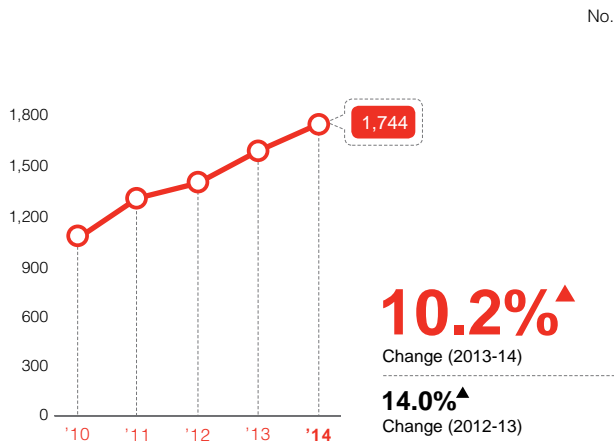
Grade	Number			Composition, %	
	Female	Male	Total	Female	Male
Senior management	16	27	43	37	63
Management	66	143	209	32	68
Executive	77	194	271	28	72
Non-executive	435	504	939	46	54
Specialized sales force	25	177	202	12	88
Trainees and others	48	32	80	60	40
Total	667	1,077	1,744	38	62

Workforce by Employment Type and Gender

Employment type	Number			Composition, %	
	Female	Male	Total	Female	Male
Permanent	552	833	1,385	40	60
Contract	49	48	97	51	49
Specialized sales force	20	174	194	10	90
Trainee banking assistants	42	17	59	71	29
Internships	4	5	9	44	56
Total	667	1,077	1,744	38	62

Employees in the permanent cadre accounted for 79% of the total workforce by end 2014 (2013: 82%). In order to optimize business efficiencies, certain tasks are outsourced and critical aspects in respect of these tasks are carried out by contract cadre employees of the Bank. Contract cadre employees are also engaged for incentivized jobs such as the Specialised Sales Force.

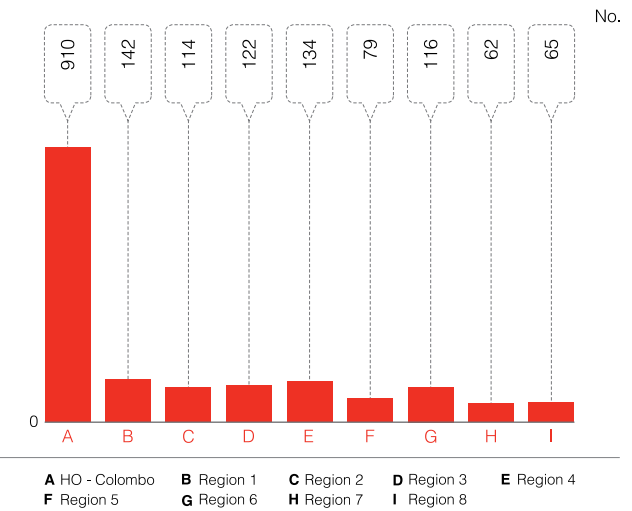
Workforce Growth



Workforce by Location and Gender

Location	Number			Composition, %	
	Female	Male	Total	Female	Male
Head Office - Colombo	390	520	910	43	57
Region 1 - Colombo	57	85	142	40	60
Region 2 - Greater Colombo	47	67	114	41	59
Region 3 - Southern	32	90	122	26	74
Region 4 - North Western	44	90	134	33	67
Region 5 - North Central	25	54	79	32	68
Region 6 - Central	36	80	116	31	69
Region 7 - Uva-Sabaragamuwa	16	46	62	26	74
Region 8 - North Eastern	20	45	65	31	69
Total	667	1,077	1,744	38	62

Workforce by Location



Recruitment and Retention

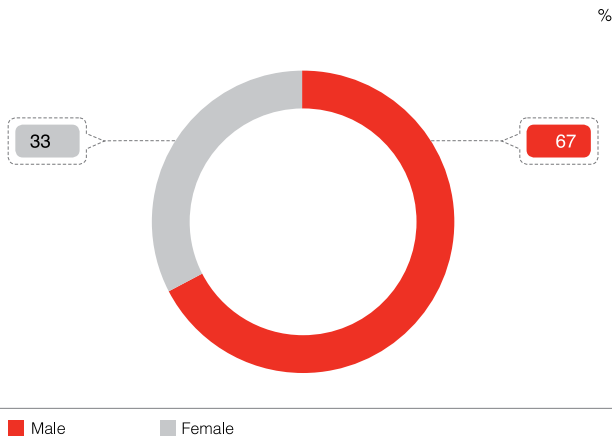
Whilst fostering organic growth, duly supported by training, development and succession planning, the Bank also welcomes new thinking that comes with new blood.

A transparent procedure is in place for all staff recruitment, which is followed by induction and absorption. As an employer of choice, the Bank adopts some of the best industry practices in retaining staff. In addition to providing an attractive remuneration package, other aspects focused on retention include regular employee engagement, training and development, career progression, equal opportunity, parental leave, benchmarked compensation including share-based incentives and short-term variable bonus schemes.

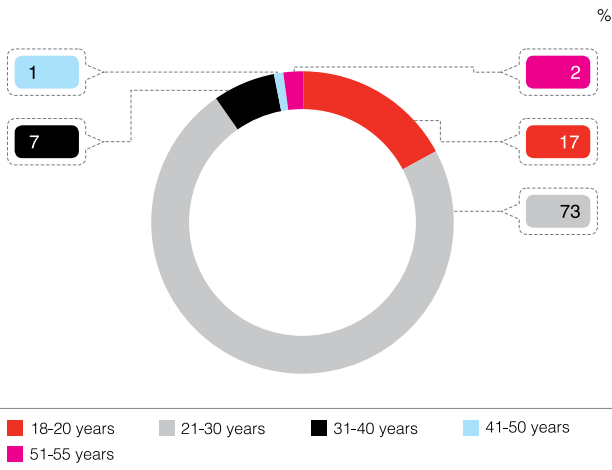
Recruitment

The Bank recruited a total of 379 persons during the year, with males (67%), the age group 21 to 30 years (73%) and those from Head Office (69%) accounting for the largest proportion of new entrants.

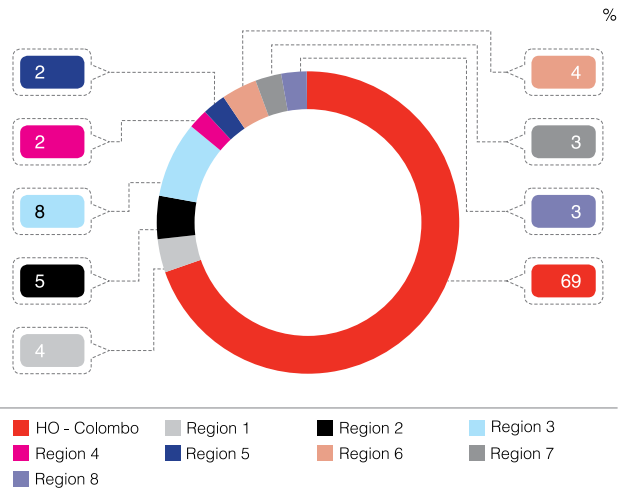
Recruitment by Gender



Recruitment by Age Group



Recruitment by Location

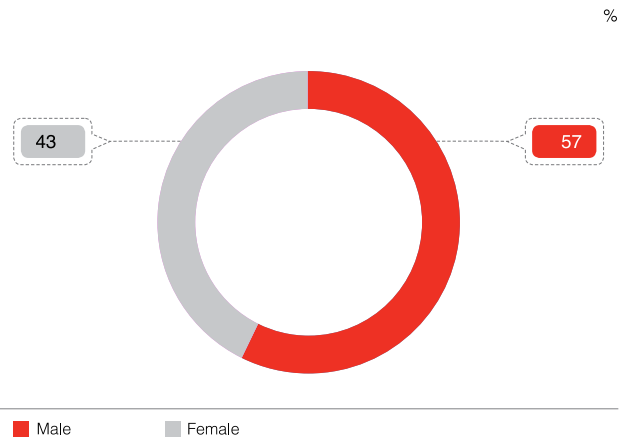


Employee Turnover

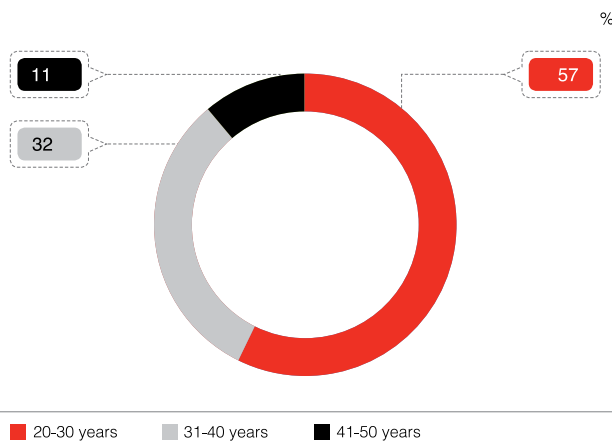
A total of 91 permanent employees resigned from the Bank during the year, with males (57%), the age group 20 to 30 years (57%) and those from Head Office (59%) accounting for the largest proportion of leavers.

The overall employee attrition rate during the year, measured as the percentage of employees leaving the Bank (excluding those retiring) amounted to 6.6% (2013: 4.9%). The Head Office had the highest number of resignations by virtue of the numbers employed.

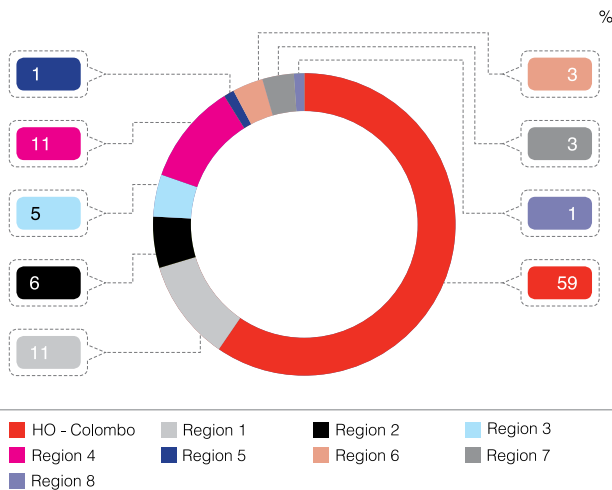
Employee Turnover by Gender



Employee Turnover by Age Group



Employee Turnover by Location



Parental Leave

Only female employees are entitled to parental (maternity) leave, and hence male employees are excluded in computing the return to work and retention rate statistics given below.

Return to work: Employees returning to work out of those due to return in 2014 - 73%

Retention rate: Employees who stayed on at least 12 months out of those due to return in 2013 - 23%

Defined Employee Benefit Plans

Employees of the Bank are entitled to a gratuity payment on resignation after having served a period of five years at the Bank. Whilst the Bank does not provide for a pension plan, a small proportion of employees who were employed by National Development Bank prior to the merger of 1 August 2005 remain eligible to a non-contributable private pension plan.

Employees are eligible for Employees' Provident Fund (EPF) contributions (10% by employee, 15% by Bank), and Employees' Trust Fund (ETF) contributions (3% by Bank) in accordance with the respective statutes and regulations.

Senior management staff may also participate in an Equity Linked Compensation Plan, subject to certain limits, terms and conditions.

Details of the above plans and professional actuarial valuations for Employee Benefit Liabilities are given in Note 40 to the Financial Statements on page 325.

Benefits to Full-time Employees

The table below summarizes the benefits available to full-time employees, who may be either permanent employees or contract employees.

Compensation	Permanent employees	Contract employees
Fixed compensation	Applicable	Applicable
Variable compensation	Applicable	Applicable
Long-term share based schemes	Applicable	Not Applicable
Other perquisites	Permanent employees	Contract employees
Subsidized loan benefits	Applicable	Not Applicable
Retirement benefits	Applicable	Applicable
Reimbursable expenses	Applicable	Not Applicable
Other benefits	Applicable	Applicable

Empathetic Responsibility

To be fully aware of one's placement in society and environment...to respond therefrom with an empathetic understanding of one's responsibilities to needs as a right thinking entity...this lies at the Bank's core. Our response is three pronged:

- operationally, we seek to add value to all stakeholders in all we do
- strategically we have identified with furthering the education of the young, filling a national need
- philanthropically, we chose to support healthcare and prevention of child abuse as two key national priorities.

Training and Development

Employees are at the core of our business, and we invest in their continuous training and development. The programmes are geared towards identifying, developing and retaining talent whilst catering to the business needs and long-term goals of the Bank. Training needs are identified through staff performance reviews, assessment feedback and regular discussions with line managers. Training programmes are prioritized depending on operational urgencies and discussions with line management to identify and close competency gaps.

During the year, the Bank provided a total of 101,076 hours of training (2013: 95,695 hours) across all categories of staff.





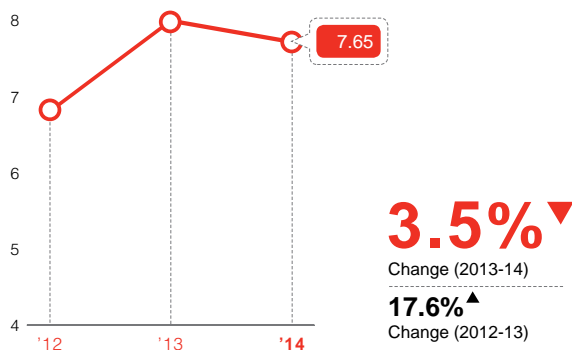
Average Training Hours

Training is made available to staff based on needs and is independent of gender. The average duration of training per employee during 2014 was 7.65 person days overall, with 59.37 hours for females (2013: 65.72 hours) and 50.17 hours for males (2013: 55.86 hours).

Designation	Band	Average of Hours			
		2011	2012	2013	2014
Vice-President/Chief Executive Officer/Chief Financial Officer/Chief Operating Officer	1	47.56	36.27	28.09	36.20
Assistant Vice-President	2	40.88	54.10	27.03	29.65
Manager 1	3	25.60	48.88	26.50	17.86
Manager 2	4	47.58	37.64	27.45	25.58
Deputy Manager	5	26.48	58.43	31.58	29.12
Assistant Manager	6	32.47	54.21	29.75	38.28
Officer	7	124.12	56.27	50.05	45.40
Senior Associate	8	34.72	58.42	53.12	49.89
Associate 1	9	20.22	34.14	45.51	44.11
Associate 2	10	14.95	24.35	38.69	36.24
Assistant	11	0.00	0	6.00	2.00
Others	0	83.14	85.31	172.90	133.99

Training Days per Person

No. of Days



Self-Learning

Employees are encouraged to supplement externally provided training with self-learning and take control of their professional development. The Bank supports this through our investment in e-learning, which now has 30 modules.

In collaboration with the Institute of Bankers Sri Lanka and the Centre for Banking Studies we have continued to facilitate training programmes for staff. The former conducts in-house Certificate and Diploma programmes for employees, thus advancing their career prospects and contribution to the Bank.

As another facet of personal development, we initiated the NDB Toastmasters Club in 2013 and joined the Global Toastmasters fraternity. This has helped in unleashing the hidden potential of employees, not only in oral communications but also giving them confidence to participate in professional forums.

Managing Career Endings

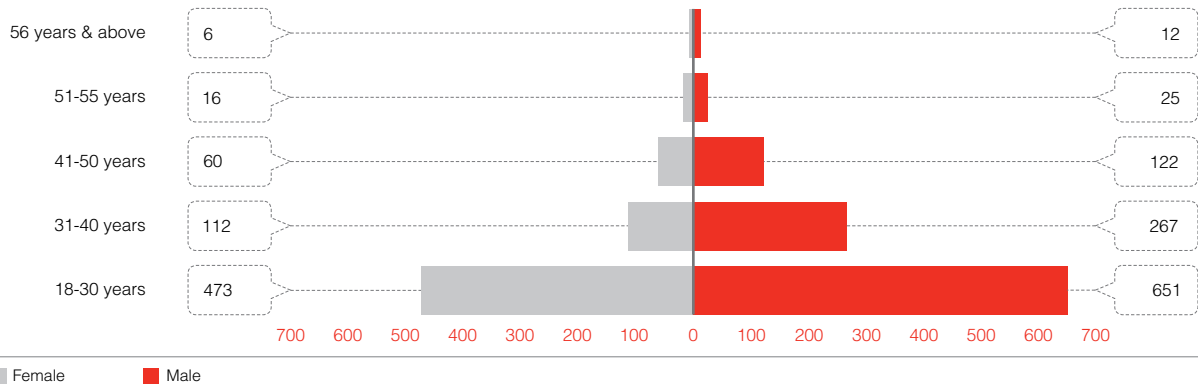
As part of our welfare initiatives, the Bank provides a range of training and assistance that supports lifelong learning and transition support. These programmes develop knowledge, competencies and learning that collectively benefit our employees.

Diversity and Equal Opportunity

As an equal opportunity employer we recognize that diversity in terms of ethnicity, gender, race, religion and age serve to strengthen the collective human talent of the Bank. While they serve to enrich our human capital, diversity arising from hiring locally helps the Bank to better align its business model to effectively meet the needs of local communities.

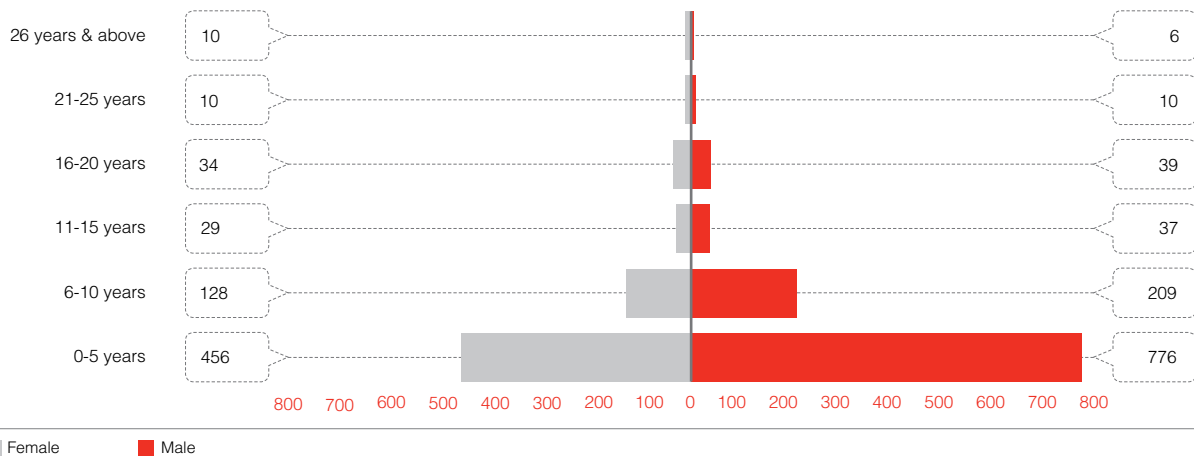
Age Analysis

No.



Service Analysis

No.



Employee Engagement

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

Driving Excellence

The Bank's internal human resource strategies are based on four pillars:

- being an employer of choice
- creating value through human endeavour
- continuous engagement with employees
- achieving operational excellence in serving employees.



Christmas party organized by the NDB Staff Recreation Club for the children of employees of the Bank



The Bank takes pride in organizing a programme 'Talent Within', to recognize children of employees of the Bank who obtained all 'A' grade results at their GCE O/L and A/L examinations

These are aimed at driving and supporting superior employee performance that complement the Bank's seven pillars of business strategy (pages 27 to 28).

Feeling the Pulse

The Bank conducts two Employee Satisfaction Climate Surveys each year. The ISO Employee Satisfaction Survey seeks to obtain information on the services provided by the Human Resources Department of the Bank and identifies ways in which processes may be strengthened in accordance with the four pillar strategy described above.

In the year 2013, the Bank undertook the Great Places to Work Survey which provided comprehensive information into the employee engagement levels of the Bank.

Welcoming Feedback

All employees are entitled to raise a grievance in relation to their employment at the Bank within 30 days of the occurrence of a given event. It may be raised through informal or formal channels. The latter would include weekly meetings held by the Leadership Team, Branch Managers meetings, Regional Manager Conferences and Quarterly Town Hall Meetings held for the executive cadre. It is also possible for a grievance to be directly referred to the CEO.

There were no material grievances from employees including grievances on human rights reported during the year.

Collective Bargaining

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

Rewarding Performance

We reward employees based on performance with absolutely no bias based on gender or any other divisive factor. A new Performance Development System (PDS) with improved performance measurement metrics, objectivity and transparency was launched in 2013 and further refined during the year under review. To ensure buy-in and transparency the PDS was developed through a bottom up approach with feedback obtained from employees at various levels.

With long-term staff retention in mind, we reviewed and revamped the Bank's Equity Linked Compensation Plan in 2013, and have subsequently introduced a Special Merit Bonus Scheme to cover a larger number of employees.

Performance Reviews

Individual performance is assessed through a formal appraisal process against agreed objectives and targets, and is benchmarked against industry norms. All employees, irrespective of grade, are subject to this review process. The review process entails a mid-year review and a final review at the end of the performance cycle.

Gender Equity

The remuneration mechanism at the Bank recognizes and rewards individuals according to their performance, irrespective of gender. Promotions and performance appraisal principles are free of gender bias and are applied to both male and female employees.

The ratio of the weighted average basic salary by gender, female:male for the Bank overall during the year was 0.9 :1. The corresponding ratios across grades were:

	F	M
Senior management	0.7:	1
Management	1.1:	1
Executive	1.1:	1
Non-executive	0.9:	1
Specialized sales force	1.2:	1
Trainees & other	0.3:	1
Overall	0.9:	1

Human Rights

We believe in the dignity of every human being and respect individual rights as set forth in the UN Global Compact (UNGC) concerning human rights, labour, the environment and anti-corruption principles. The Bank adheres to these principles.

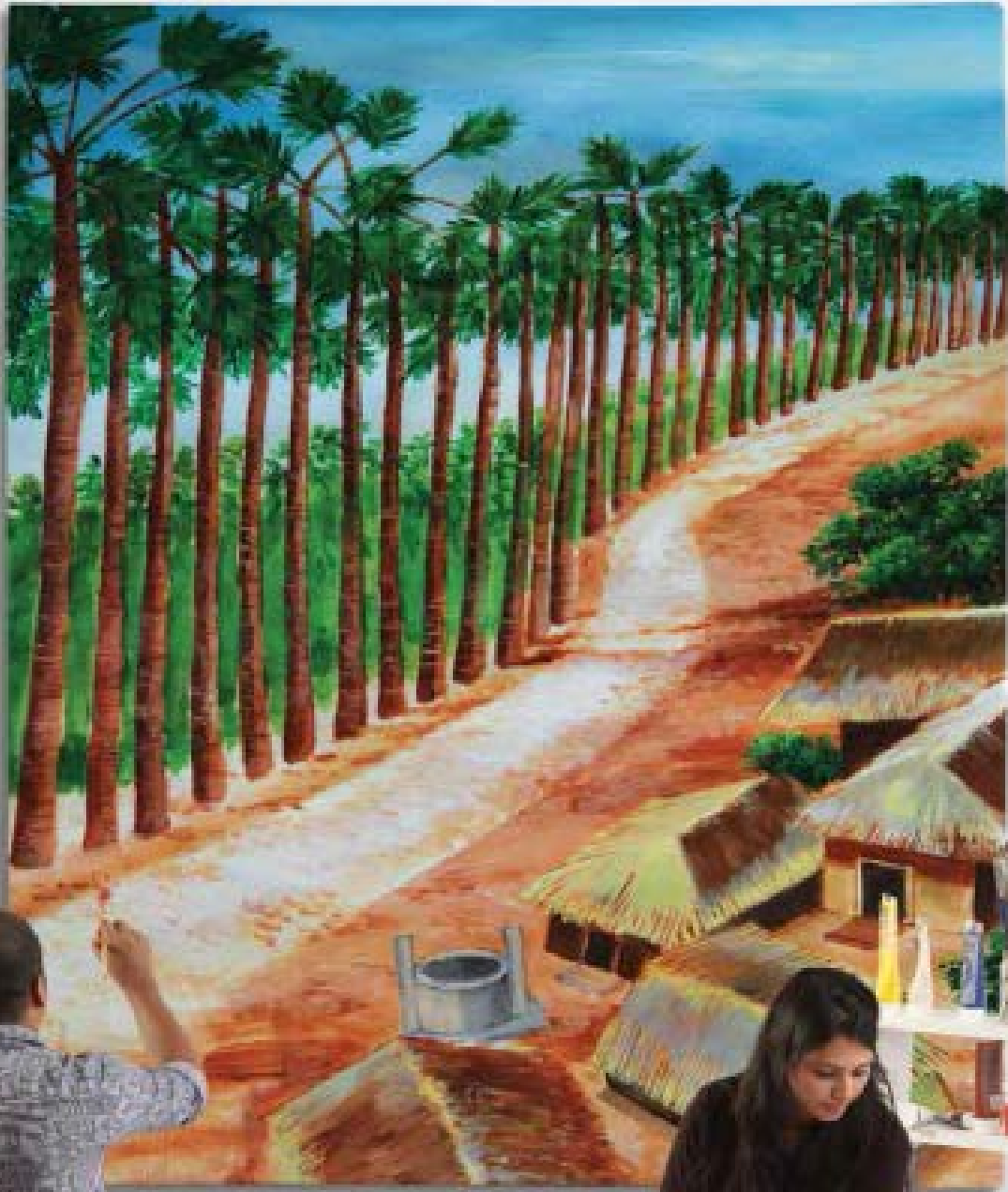
There were no incidents of any form of discrimination reported during the year.

Likewise, there were no incidents of child labour, forced and compulsory labour reported during the year.

Occupational Health and Safety

The Bank recognizes the importance of providing a healthy work environment as well as the need to balance one's demands of work and family. Accordingly, Corporate Wellness Programmes are conducted from time to time while Corporate Fitness Centre facilities are offered to all employees. In addition, there are 44 trained first aid officers and 24 trained psychological first aid officers who are available at all times to assist staff while on duty.

During the year, three incidents related to occupational health and safety were reported (2013: 2) and duly addressed. The total number of days lost in relation to these incidents was 146 person days (2013: 101 person days).



Social & Environmental Capital

Striking a Balance

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

Harmonious Habitats

Elephants in Sri Lanka have been known to exist for over 25 centuries. Today, the biggest threat faced by the Sri Lankan elephant population is from the rapidly increasing human population encroaching into elephant habitats. **The Bank takes pride in being the first corporate entity to be a part of the palmyra bio-fencing project**, in order to help alleviate the human-elephant conflict in Sri Lanka. This long-term and futuristic project will see the creation of a palmyra fence which will eventually replace the electric fences. While preventing elephants from venturing from their natural habitats to neighbouring villages and areas of cultivation, the palmyra fence will be a source of income.

Operational CSR

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

Market Presence

A broad geographical presence is important for business segments such as SME financing and retail fund mobilization. The benefits are mutual: local hires improve the diversity within the management team; they provide fresh insights on local needs that help us to tailor our products and services more effectively, while the local community too enhances its human capital. The Bank has consistently expanded its market position through organic growth in the past, and is represented in every province and 22 districts of the country (see page 75 for details).

Proportion of Local Staff by Location

Location by region	Employees in executive grade and above		
	Total staff in the region	Total executive staff in the region	% From locality
Head Office - Colombo	910	353	39
Region 1 - Colombo	142	31	22
Region 2 - Greater Colombo	114	24	21
Region 3 - Southern	122	19	16
Region 4 - North Western	134	29	22
Region 5 - North Central	79	19	24
Region 6 - Central	116	23	20
Region 7 - Uva-Sabaragamuwa	62	15	24
Region 8 - North Eastern	65	10	15
Overall	1,744	523	30

When placing employees in regions, priority is given to the hometown of each employee.

MSME Development

The Bank, since its founding, has been active in the development of the Micro and Small & Medium Enterprises (MSME) sector, a role that encompasses the provision of finance and much more.

Our approach to micro financing has two goals: (i) target underserved communities of the economy through empowerment and capacity building (the 'Jeevana' or 'Life' programme), and (ii) promote livelihood development through financing (the 'Divi Aruna' or 'Awakening of Lives' programme). Both programmes inculcate a business orientation that instills a strong credit culture, weaning the beneficiaries away from a dependency mindset.

The establishment of five dedicated SME Centres in the provinces, equipped with state-of-the-art facilities to support entrepreneurs bears further testimony to the Bank's commitment to this sector. The Centres provide access to a wide array of information and online training modules, while also organizing seminars and workshops targeting the rural entrepreneur.

An account of the financial and non-financial impacts of our MSME development work is given under Financial Capital (pages 54 to 55) and Customer Capital (pages 72 to 74) respectively.

Indirect Economic Impacts

In addition to direct value creation and distribution through our own operations (page 48), the Bank's investments and market presence impact on the local communities in many ways. They include jobs created or supported in the supply chain, development of local skills and knowledge, attracting investment and so on. The Bank's strategic planning and management of its economic performance thus support a sustainable business that also makes a positive impact on the society and environment in which it operates. In short, they encapsulate the dual aspects of sustainable value creation (page 6).

Environmental and Social Safeguards

The Bank's Environmental and Social Management System (ESMS) serves to identify environmental and social risks in the projects and companies the Bank

finances; and to take action to avoid, or failing, to minimize or to compensate for adverse impacts on the environment, workers and affected communities.

Our ESMS is an internally approved document that is an integral part of the Credit Policy and Credit Evaluation Process of the Bank for long term lending. It is available to all executives of the Bank. The ESMS requires clients to fulfil all national regulations in relation to environmental and social aspects. These include community consultations and impact assessments, with the depth of study depending on the nature of the project. The Central Environmental Authority (as the national regulatory body for environmental aspects) reviews applicable projects prior to granting approval for implementation.

The ESMS thus also serves to inculcate sound management practices on environmental and social aspects in client companies.

The Bank maintains a list of activities that are excluded for funding. Compliance is monitored on several fronts. A five-member cross functional team is responsible for the day-to-day operations of ESMS. The team includes an Environmental & Social Coordinator and a Technical Champion, both having received training in these fields. In addition, relationship managers in relevant departments, who have been trained in the day-to-day operation of the ESMS, follow up on the client's environmental licences annually and visit project sites at least once in every two years for monitoring.

Materials Usage and Disposal

Resource savings are achieved through continuous process improvements. For instance, automated document workflows minimize paper usage while improving turnaround time. An example is the Bank's automated credit approval system, which is an online process that does away with paper based approvals, disbursements, memos etc.

Similarly, employees are encouraged to use electronic communications, online approvals and other web-based applications as much as possible, while documents are printed only if hard copies are strictly necessary. Waste paper generated in day-to-day

operations is sent to a recycler. Used toner cartridges from printers, mobile phones and batteries no longer required and similar items are sent to authorized collectors who are equipped to handle hazardous waste. Obsolete assets such as computers and furniture that are still in working condition are donated to deserving institutions, while those beyond use or repair are disposed of responsibly through authorized collectors.

Our Carbon Footprint

This is our first attempt at measuring and reporting our greenhouse gas (GHG) emissions. It is based on the most recent version of WBCSD/WRI Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (2004) and Calculation Tools (2014).

The boundary is limited to the Bank, which is also consistent with most of the aspects discussed in the Annual Report. Our reporting of GHG emissions under Scope 3, which is optional, is limited to sources that are material and measurable.

Scope	Source	GHG Emissions	
		tCO ₂ e	%
1	Combustion in stationary sources	22.2	0.6
1	Combustion in mobile sources	233.3	6.4
1	Fugitive emissions from air conditioning equipment	99.9	2.8
Subtotal, Scope 1		355.4	9.8
2	Purchased electricity (CEB)	1,990.6	54.9
Subtotal, Scopes 1 and 2		2,346.0	64.7
3	Combustion in stationary sources	52.1	1.4
3	Purchased electricity (CEB)	1,181.2	32.6
3	Employee air travel	47.4	1.3
Subtotal, Scope 3		1,280.7	35.3
Total, all Scopes		3,626.7	100.0

The Bank's total carbon footprint amounted to 3,627 tonnes carbon dioxide equivalent (tCO₂e), with Scopes 1 and 2 together accounting for 2,346 tCO₂e or 65% of the total.

Purchased electricity was by far the largest source of GHG emissions, with 1,991 tCO₂e coming from premises owned or controlled by the Bank together with another 1,181 tCO₂e from premises rented by branches. Taken together, purchased electricity accounted for 88% of the total carbon footprint of the Bank. The high proportion of electricity in the GHG emissions mix is to be expected considering the nature of our business and reliance on air conditioning in the climatic conditions under which we operate.

When related to an activity level, our GHG emissions intensity in 2014 was 311 kg CO₂e per LKR million of the Bank's total operating income. Going forward, we will further refine measurement procedures, benchmark results and consider expanding the boundary to include local subsidiaries. These are positive steps that will not only make the Bank and the Group more environmentally responsible, but also lead to cost savings through effective and efficient use of resources.

Consumption of Paper in 2014

The Bank in collaboration with an accredited recycler makes every effort to collect the waste paper generated in its day-to-day operations for recycling. The Bank carries out a waste reduction and recycling drive through which waste paper amounting to 21,639 kg was recycled during the year, resulting in an estimated reduction in GHG emissions of 21.6 tCO₂e and saved:

368 trees

37,976 litres of oil

86,556 kWh of electricity

687,687 litres of water

65 cubic metres of land fill

Strategic CSR

Education, particularly competency in a global language; and likewise, screening programmes to improve health of the people, are both important factors that contribute to the nation's economic growth in the long term. While these are also well aligned with the Bank's own business focus and strategy, 'education' lies at the core for our strategic CSR initiatives.

Project	English Communication Programme for secondary school teachers
Objective	Enhance the standard of English in Sri Lanka
Partner	British Council, Colombo
Sustainability	<ul style="list-style-type: none"> Teachers from 74 participating schools covering 7 provinces are well equipped to teach students who come under their purview. All 200 trained teachers are linked with the British Council, and thus have access to assistance whenever required.

Project	Schools Environment Awareness Programme
Objective	<ul style="list-style-type: none"> • Invest in environmental capacity building by educating students • Prevent environmental degradation through awareness raising
Partner	Biodiversity & Elephant Conservation Trust
Sustainability	<ul style="list-style-type: none"> • Conducted awareness programmes on environmental conservation and biodiversity in 150 schools • Revived Nature Clubs in 15 schools
Project	Chronic Kidney Disease (CKD) Screening Programmes
Objective	<ul style="list-style-type: none"> • Addressing a national issue and improving health of the people • Early detection of kidney disease thereby preventing loss of life
Partner	Kidney Protection Foundation, Renal Unit, Teaching Hospital, Anuradhapura
Sustainability	<ul style="list-style-type: none"> • Screening of over 1,500 participants in 6 rural villages in Anuradhapura • Over 150 individuals detected with CKD and referred to the Renal Unit for treatment • Public awareness raised in 6 rural villages in Anuradhapura
Project	Schools Library Project
Objective	<ul style="list-style-type: none"> • Improve language skills through reading • Improve communication skills in the English language • Provide high quality English language books which are not freely available or affordable to most schools
Partner	Asia Foundation
Sustainability	Upgraded over 200 school libraries in all provinces of the country (to date) by providing high quality English language books. The project was commenced in 2008 and continues to date.



Chief Executive Officer Mr Rajendra Theagarajah addressing a forum of 179 English teachers from over 87 government schools around the country who were awarded the 'English for Teaching' qualification validated by the British Council.



Chronic Kidney Disease Screening Programme at Anuradhapura

Philanthropic CSR

Philanthropic CSR initiatives are based on the identified needs at national level. The Bank has selected 'Cancer Aid' and 'Prevention of Child Abuse' as two areas for support, with assistance channelled through two Trusts set up for this purpose. In addition, the Bank partnered with an innovative bio-fencing project during the year that aims to alleviate an ongoing human-elephant conflict in some parts of the country.

Project	NDB Cancer Aid Trust Fund
Objective	Provide assistance through the Cancer Hospital, Maharagama to patients who are unable to afford vital therapeutic items.
Partner	Cancer Hospital, Maharagama
Sustainability	LKR 8 million worth of donations made from inception of the Trust in 2008 onwards to date consisting of essential therapeutic items for patients as well as surgical items for the hospital
Project	Prevention of Child Abuse Trust
Objective	<ul style="list-style-type: none"> • Make our communities a better and safer place for our nation's children. • Prevent child abuse and protect children by creating awareness of child abuse and how to prevent it amongst caregivers as well as children.
Partner	Department of Probation and Child Care
Sustainability	To date the Trust has conducted over 90 awareness programmes benefiting over 7,500 parents, 1,900 students, and 585 principals. In addition special awareness programmes have been conducted for 1,126 trainee teachers in seven national colleges of education. Over the years the Trust has also conducted special programmes for probation officers and caregivers.
Project	Palmyra bio-fencing Project
Objective	Prevent wild elephants from entering areas of human habitat and causing destruction by planting palmyra palms as a barrier, while serving as a resource for palmyra based products in the long-term.
Partner	Janathakshan, Sri Lanka (an NGO)
Sustainability	This is a pilot project limited to 1 km of fencing. Funding for the balance 21 km will be considered based on the lessons learnt.



Prevention of child abuse awareness programme conducted for the trainee teachers of Pasdunrata National College of Education.



In an initiative to alleviate the human-elephant conflict in Sri Lanka staff members of the Bank were joined by volunteers from the village, including school children in the Palmyrah-bio fencing project conducted in Palugolla village in Nikaweratiya Pradeshiya Sabha of the Kurunegala District

Stewardship

We believe that setting the 'tone from top' is key to building an effective culture of governance across the Group. Identifying and managing risks material to our business is also at the core of our day-to-day activities.



Scan to view the online version
ndbbank2014.annualreports.lk/report/stewardship.html

Trevine Jayasekera 4
Director

Anura Siriwardena 7
Director



9 Sujeewa Rajapakse
Director

8 G D Chandra Ekanayake
Director

10 Indrani Sugathadasa
Director

11 Shehani Ranasinghe
Assistant Vice-President/
Secretary to the Board

2 Ashok Pathirage
Director/Deputy Chairman

6 Kimarli Fernando
Director



5 Sarath Wikramanayake
Director

1 Sunil G Wijesinha
Director/Chairman

3 Rajendra Theagarajah
Director/Chief Executive Officer

1. Sunil G Wijesinha Director/Chairman

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

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

He is currently Managing Director of BizEx Consulting (Pvt) Ltd., Chairman, Watawala Plantations PLC, Chairman, United Motors Lanka PLC, Director, Siyapatha Finance PLC, Director, Sampath Centre Ltd. and Director National Institute of Business Management. He is also the Immediate Past Chairman, Employers' Federation of Ceylon and Immediate Past President, National Chamber of Commerce of Sri Lanka. He serves as a member of the National Labour Advisory Council.

Mr. Wijesinha has served the Bank for over a year as a Director.

2. Ashok Pathirage Director/Deputy Chairman

Mr Pathirage is one of the co-founders of Softlogic and was appointed as Chairman of Softlogic in 2000. He was appointed as Deputy Chairman of National Development Bank PLC in 2011. He is also Chairman/Managing Director of Asiri Hospital chain, Softlogic Capital PLC, Softlogic Finance PLC, Asian Alliance Insurance PLC and Odel PLC which are listed in addition to the private companies of the Group operating in Leisure and Restaurants, Retail, Automobile and ICT industries. Due to his business acumen and corporate leadership he is one of the top business leaders in the country.

Mr Pathirage has served the Bank for over four (4) years as a Director.

3. Rajendra Theagarajah Director/ Chief Executive Officer

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

Mr Theagarajah counts over 30 years of experience in banking, including overseas experience. He had been with Chase Manhattan Bank (now known as JP Morgan Chase) in London and had served in the European, Middle Eastern and African Area Office.

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

His contribution and expertise has also been extended through many professional bodies. He was a past Chairman of Sri Lanka Banks' Association (Guarantee) Ltd., Chairman of Asian Banks Association and a former Director of the Colombo Stock Exchange. He was the first Sri Lankan to assume chairmanship of the Asian Banks' Association from November 1, 2010 for a two-year tenure.

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

Mr Theagarajah has served the Bank for over a year as a Director/Chief Executive Officer.

4. Trevine Jayasekera Director

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

Mr Jayasekera has served the Bank for over four (4) years as a Director.

5. Sarath Wikramanayake Director

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

Mr Wikramanayake has served the Bank for over four (4) years as a Director.

6. Kimarli Fernando Director

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

Counting over 25 years of experience in the banking industry in Sri Lanka and in Germany, Mrs Fernando was seconded to Deutsche Bank, Frankfurt and thereafter worked at Standard Chartered Bank. She joined Pan Asia Bank as a Director in March 2008 and functioned as the Chief Executive Officer of the Bank until 2009 when she was also Director of Lanka Clear (Pvt) Ltd., Director and Management Committee member of Waters Edge and member Sri Lanka Bankers' Association. Currently, whilst serving as a Director of National Development Bank PLC, she also serves as a Director of L B Finance PLC, Valibel One PLC and Delmege Ltd.

Mrs Fernando has served the Bank for over four (4) years as a Director.

7. Anura Siriwardena Director

Mr Siriwardena holds a B.Sc. in Biological Sciences from the University of Kelaniya and an MBA from the Postgraduate Institute of Management of the University of Sri Jayewardenepura, Sri Lanka.

He is a member of numerous professional bodies, including the Sri Lanka Institute of Marketing, the Sri Lanka Institute of Biology and the Sri Lanka Association for the Advancement of Sciences.

Mr Siriwardena was the past Chairman and Chief Executive Officer of the Independent Television Network Ltd., and has been the Secretary to the Ministry of Co-operatives and Internal Trade, the Ministry of Coconut Development and Janatha Estate Development and Ministry of Industry and Commerce of the Government of Sri Lanka.

He currently functions as a management consultant. Mr Siriwardena is a Platinum Honour Awardee of the Postgraduate Institute of Management Alumni Association for his outstanding performance in the field of Management. In 2014 he received the University of Kelaniya outstanding Government Services Appreciation award in recognising the service rendered to the nation.

Mr Siriwardena has served the Bank for over four (4) years as a Director.

8. G D Chandra Ekanayake Director

Ms Ekanayake is the nominee of the Ministry of Finance and Planning. She has been a Member of the Sri Lanka Administrative Service since 1984. Presently, she is the Director General of the Department of National Budget of the Ministry of Finance and Planning. Previously, she has held several senior managerial positions in the Treasury as Director - Economic Affairs, Controller of Insurance, Additional Director General - Department of External Resources and Director General - Department of Trade, Tariff and Investment Policy over a span of about 25 years of her service.

Ms Ekanayake holds a Science Special Degree from the University of Kelaniya, an MBA from the Postgraduate Institute of Management (PIM) Sri Lanka and Postgraduate Diploma in the fields of Development Planning Techniques (ISS, The Hague), International Relations (BCIS, Colombo) and Economic Development (University of Colombo).

Ms Ekanayake has served the Bank for over three (3) years as a Director.

9. Sujewa Rajapakse Director

Mr Rajapakse is the Managing Partner of BDO Partners, a firm of Chartered Accountants and counts over 31 years of experience with the firm. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka and holds a Master's in Business Administration from the Postgraduate Institute of Management of the University of Sri Jayewardenepura.

Mr Rajapakse is the immediate past President of The Institute of Chartered Accountants of Sri Lanka (ICASL). He is currently serving as a Non-Executive Independent Director at Asian Alliance PLC, Haycarb PLC and Dipped Products PLC, Sanken PB Developers (Pvt) Ltd. and as the Deputy Chairman of The Finance Company PLC. He is also the Chairman of NDB Capital Ltd, Bangladesh and a Director of Development Holdings (Pvt) Ltd.

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

Mr Rajapakse has served the Bank for over three (3) years as a Director.

10. Indrani Sugathadasa Director

Mrs Sugathadasa was appointed as a Director of the Bank in the year 2013.

Mrs Sugathadasa had an illustrious career in the public service, having joined the Sri Lanka Administrative Service in the year in 1977 and reaching the helm in the service as a Permanent Secretary.

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

Mrs Sugathadasa, a past pupil of Musaeus College, Colombo has a Bachelor of Social Sciences Degree from the University of Colombo and Master's Degree (MPA/MBA) from Monash University, Australia.

She was awarded the prestigious Hubert H Humphrey Fellowship (Fulbright) by the United States Government in 1990 and was attached to the City University of New York during her Fellowship period of one year.

She has received many accolades, including the Australian Alumni Excellence Award in 2013.

Mrs Sugathadasa has participated in numerous conferences and consultancies both locally and internationally and is a sought-after speaker in the domains of Women's Affairs, Plantations and Insurance.

Mrs Sugathadasa is a Trustee of Musaeus College and the current President of the Sri Lanka Association of Australia Awards Alumni (SLAAAA).

Mrs Sugathadasa has served the Bank for over a year as a Director.

11. Shehani Ranasinghe Assistant Vice-President/ Secretary to the Board

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



5 **Dhanan Senathirajah**
Vice President - Finance & Planning

3 **Mancius Paiva**
Vice President -
Administration & Services

Ishani Senaweera
Vice President -
Human Resources **8**

Ruwani De Silva
Assistant Vice President -
Internal Audit **6**

12 **Nirmala Rayen**
Vice President -
Group Risk Management

9 **Raj Aboobucker**
Vice President -
Transactional & Institutional Banking

15 **Darshana Ratnayake**
Assistant Vice President -
Products & New Product Development

Sujeewa Dissanayake
Vice President -
Information Technology **10**



Niran Mahawatte 7
Vice President - Treasury

Delrene Seneviratne 11
Assistant Vice President -
Network Management

Buwanekabahu Perera 4
Vice President -
Corporate Banking

Sanjaya Senarath 14
Assistant Vice President -
Sales & Marketing

Melody Wickramanayake 13
Assistant Vice President - Legal

Rajendra Theagarajah 1
Director/Chief Executive Officer

Faizan Ozman 2
Group Chief Financial Officer

Kanti Kumar Saha

8 Managing Director/
Chief Executive Officer
NDB Capital Ltd.

Mancius Paiva

9 Vice President - Administration & Services
National Development Bank PLC

Prabodha Samarasekera

5 Chief Executive Officer
NDB Wealth Management Ltd.

Vajira Kulatilaka

2 Director/Chief Executive Officer
NDB Capital Holdings PLC

Darshan Perera

4 Director/Chief Executive Officer
NDB Investment Bank Ltd.

Senaka Kakiriwaragodage

7 Managing Director
NDB Zephyr Partners Lanka (Pvt) Ltd.

Faizan Ozman

3 Group Chief Financial Officer
National Development Bank PLC

Rajendra Theagarajah

1 Director/Chief Executive Officer
National Development Bank PLC

Prasansani Mendis

6 Chief Executive Officer
NDB Securities (Pvt) Ltd.



Dayani Algama

Assistant Vice President - Human Resources

Gehan Biyanwila

Assistant Vice President - Asset and Liability Management

Gehan Dias

Assistant Vice President - Cards

Lalith Fernando

Assistant Vice President - Information Technology

Priyantha Gamage

Assistant Vice President - Operational Risk

Kumar Gunawardena

Assistant Vice President - Administration

Chandana Guniyangoda

Assistant Vice President - Finance, Strategic Planning and Business Support

Shera Hassen

Assistant Vice President - Privilege Select Banking

Nishantha Hettiarachchi

Assistant Vice President - Information Technology

Shareen Jayasuriya

Assistant Vice President - Group Risk Management

Vidisha Jayawardena

Assistant Vice President - Legal

Sunil Karunaratne

Assistant Vice President - Treasury Sales and Marketing

Sanjeev Kulendran

Assistant Vice President - Group Risk Management

Suvendrini Muthukumarana

Assistant Vice President - Finance and Planning

Rivindu Nanayakkara

Assistant Vice President - Trade Finance

Ishani Palliyaguru

Assistant Vice President - Project Finance

Sumith Peiris

Assistant Vice President - Centralized Recoveries

Shehani Ranasinghe

Assistant Vice President - Board Secretary

Indika Ranaweera

Assistant Vice President - SME/Micro Finance

Damitha Samaranyake

Assistant Vice President - Treasury Trading

Anushca Saranapala

Assistant Vice President - Corporate Banking

Harshini Satharasinghe

Assistant Vice President - Project Finance

Ajith Senadheera

Assistant Vice President - Leasing

Camy Somasunderam

Assistant Vice President - Cash Management

Niranjan Thangarajah

Assistant Vice President - Corporate Banking

K V Vinoj

Assistant Vice President - Correspondent and Institutional Banking

Ganga Wanigaratne

Assistant Vice President - Branch Operations

Amal Yapa

Assistant Vice President - Corporate Banking

Reshanka Abayasekara

Head - Correspondent and Institutional Banking

Manique Kiriella Bandara

Compliance Officer

Dear Stakeholders,

Corporate Governance can be defined as the process used to direct and manage the business and affairs of the Bank with the objective of balancing the attainment of corporate objectives, the alignment of corporate behaviours with the expectations of society whilst being accountable to its shareholders.

At the Bank, we believe that setting the 'tone from the top' is key to building an effective culture of governance across the Group. The Group has maintained its reputation as a stable and professionally run financial services group over the past 35 years. On its journey from a development financial institution to a financial services group offering a vast array of financial services from commercial banking, retail banking, project financing, investment banking, advisory services, wealth management and stock brokering, the Group effectively managed the constant changes and challenges faced by it through continuous strengthening of processes and governance practices.

Our governing principles are based on our core values of Integrity, Care, Passion, Teamwork and Service which are shared and willingly embraced by our employees. Our expectations of our employees are further articulated in the Bank's Code of Conduct which is reviewed and updated periodically to reflect both best practices and industry norms.

It is said a successful organization requires Governance and Leadership to work hand in hand. If you have leadership without governance, you risk tyranny and fraud. If you have governance without leadership, you risk atrophy, bureaucracy and indifference.

Therefore in addition to promulgating strong governance, compliance and risk management practices, the Directors are conscious that strategy formulation, effective execution of strategy and leadership development are key responsibilities of the Board. In this regard, a great deal of emphasis is placed on ensuring that the Bank remains focused on both the compliance and performance aspects of business in order to add value to all its stakeholders.

We believe that at the Bank our balance of good governance with effective leadership have paid dividends in 2014.

The Board closely monitors progress of the implementation of the strategic plan and budgets approved by it through

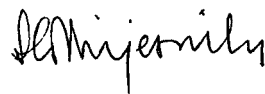
a formal quarterly review of performance against strategy, financial budgets and key result areas.

We wish to reinforce the fact that the Directors bring a wealth of knowledge and experience that complement the Group's strategy and future direction and we practice a culture of openness, effective debate and contribution from all members of the Board. The Board values the need for diversity, not only with regard to qualifications, gender and knowledge but also with diversity and independence of thought. The Board values the willingness to challenge one another, willingness to question one another but in a highly mutual and collaborative manner while marching in the same direction.

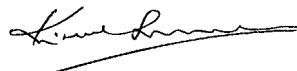
This report covers the 'Factual Findings Report' submitted by External Auditors in relation to compliance with the Corporate Governance Directions issued by the Central Bank of Sri Lanka (CBSL).

As required by the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission (SEC) of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka in 2013 (the Code), We hereby confirm that, we are not aware of any material violations of any of the provisions of the Code of Business Conduct and Ethics (as embodied in the Internal Code of Corporate Governance applicable to Directors and Key Management Personnel of the Bank as the case may be) by any Director or Key Management Personnel of the Bank.

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



Sunil G Wijesinha
Chairman



Kimarli Fernando
Chairperson
Corporate Governance and Legal Affairs Committee

13 February 2015

The following developments in 2014 enhanced the Groups' corporate governance framework:

- Established a Related Party Transactions Review Board Sub-Committee constituted by a majority of Independent Directors of the Board and developed a comprehensive Board approved Related Party Policy detailing the process of identifying, approving, monitoring and reporting transactions with related parties of the Bank under CBSL regulations, SEC regulations and LKAS 24.
- Reviewed and updated the Business Continuity Plan (BCP) of the Bank to ensure readiness and identify any gaps that need to be addressed.
- Launched an E-Learning module which was mandatory for all staff across the Bank covering key aspects of the Compliance Policy and Code of Conduct requirements to ensure staff are trained and made aware of regulatory requirements and the Bank's internal policies on an ongoing basis.
- Relunched the Bank's core values and introduced the "NDB Spirit Achievers Programme", an award scheme designed to recognize employees who demonstrate the true spirit of the Bank through the Bank's five core values. The NDB Spirit Achievers Programme seeks to reward those people who bring to life the Bank's core values and actively demonstrate that our values are at the very heart of our business through their actions, behaviour, responses in times of difficulty and their engagement with clients and colleagues and wider communities thereby reinforcing the Bank's commitment to good corporate governance.
- Reinforced our commitment to adopt best corporate governance practices by formally reviewing and updating the charters of all Board Sub-Committees.
- Streamlined and broadened the scope of the Directors annual declaration and compliance statement.
- Enhanced resources and scope of the annual compliance programme to ensure compliance with applicable laws and regulations and that any non-compliances/deviations are escalated on a timely basis.
- NDB Capital Holdings PLC (de-listed), NDB Investment Bank Ltd., NDB Securities (Private) Ltd., NDB Wealth Management Ltd. and NDB Bangladesh Ltd. adopted revised and updated compliance policies and codes of conduct thereby strengthening our corporate governance framework across the Group.

Corporate Governance Framework

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

The Board is collectively responsible for upholding and ensuring the highest standards of corporate governance and inculcating ethics and integrity across the Bank.

Ensuring compliance with the provisions of the Banking Act Direction No. 11 of 2007 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka, the Bank's Internal Code of Corporate Governance and the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka is fundamental to the Board's corporate governance strategy.

The Role of the Board

The Board directs the Bank in the conduct of its affairs and ensures that corporate responsibility and ethical standards underline the conduct of the Groups' business. It bears ultimate responsibility for the Bank's governance, strategy, risk management and financial performance.

The Board believes that it is important to have a corporate culture instilled with the principles of corporate governance and to this end, seeks to ensure that a robust corporate governance framework is in place to promote transparency, fairness and accountability throughout the Bank.

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

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

The Board provides effective leadership within a framework of prudent and effective controls for the operations of the Bank. It has implemented appropriate policies on internal control and reviewed the adequacy and integrity of such systems and seek regular assurance from management that the system is functioning effectively.

There is a formal schedule of matters which is reserved for approval by the Board. This includes the approval of the Groups' strategy, approval of risk appetite, major changes to the Bank's corporate structure, approval of annual budgets, the Board structure, size and composition, including appointments and removals and such other matters specifically reserved for the approval of the Board under law and regulation.

Board Composition and Independence

The Board comprised of ten Directors as at end December 2014, of whom, nine including the Chairman are Non-Executive Directors. Of the nine Non-Executive

Directors, five are Independent Directors. The Chief Executive Officer of the Bank, functions as the only Executive Director on the Board.

There is a strong independent element on the Board, with the Independent Directors making up more than two-thirds of the Board. The number of Independent Directors exceeds the requirements set out in the Internal Code of Corporate Governance, the SEC Code and Banking Regulations. This ensures that the Board is able to exercise objective judgment on corporate affairs independently.

The Board is of an appropriate size and functions effectively as it comprises of individuals not only with the right skills and expertise, but also with the personal qualities required to be effective stewards of the business. The Directors provide the Bank with the knowledge, mix of skills and experience required. The Board is aware of the other commitments of its Directors and is satisfied that all Directors allocate sufficient time to enable them to discharge their responsibilities effectively.

Structure and composition of the Board as at 31 December 2014 and the attendance of each Director is set out in the table below:

Name of Director	Areas of Expertise	Independent/ Non-Independent under CBSL Direction	Independent/ Non-Independent under SEC/ICASL Code	No. of Board Meetings held in 2014	No. of Meetings Attended
Sunil G Wijesinha (Chairman)	Engineering, Finance & Management	Independent	Independent	12	12
Ashok K Pathirage (Deputy Chairman)	Management, IT & Business Skills	Non-Independent	Non-Independent	12	12
Rajendra Theagarajah (CEO)	Banking, Finance & Management	Non-Independent	Non-Independent	12	12
Trevine Jayasekara	Banking & Finance	Independent	Independent	12	11
Sarath Wikramanayake	Finance, Insurance & General Management	Non-Independent	Non-Independent	12	12
Kimarli Fernando	Law, Banking & Management	Independent	Independent	12	11
Anura Siriwardena	Management	Independent	Independent	12	12
Chandra Ekanayake	Finance, Public Policy & Management	Non-Independent	Independent	12	11
Sujeewa Rajapakse	Finance & Management	Non-Independent	Non-Independent	12	12
Indrani Sugathadasa	Insurance, Capital Markets, Human Resources & Management	Independent	Independent	12	12

The Role of the Chairman and the CEO

The Bank’s leadership model espouses a clear division of responsibilities between the Chairman and the CEO, which ensures an appropriate balance of power, increased accountability and enhanced independence in decision-making. The Chairman and the CEO are not related.

The Chairman provides clear and distinct leadership to the Board with respect to the Groups’ strategic growth. The Chairman maintains open lines of communication with senior management, and acts as a sounding board on strategic and operational matters.

The Chairman oversees the setting of the agenda of Board meetings in consultation with the CEO to ensure that there is sufficient information and time to address all agenda items, and promotes open and frank discussions by all Directors at Board meetings. As the Chairman also sits on a majority of the Board committees, he plays an important role in managing the business of the Board and supervising the activities of such Board committees.

The CEO oversees the execution of the Bank’s strategy and is responsible for managing its day-to-day operations.

The Chairman encourages and facilitates constructive dialogue between shareholders, Board members and management at shareholders meetings.

Delegation by the Board

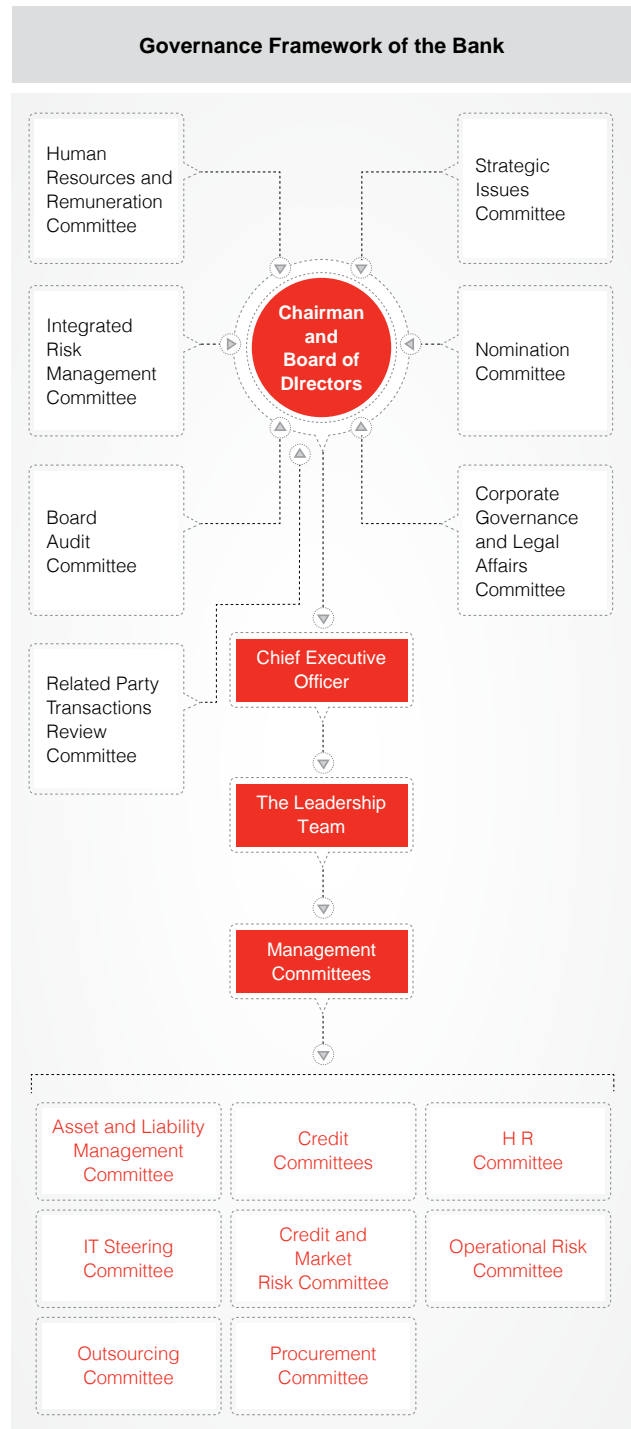
To enable the Board to discharge its stewardship and fiduciary responsibilities effectively, it delegates authority to Board committees to oversee specific responsibilities based on clearly defined terms of reference.

It is to be noted that the Board does not delegate any matters to a Board committee, the CEO, or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.

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

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

The Governance Framework of the Bank is broadly depicted below:



Information, Induction and Professional Development

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

A comprehensive and tailored induction is arranged as part of the on-boarding programme for every new Director to familiarize such Director with the discharge of duties and to introduce the Groups' businesses, governance practices and arrangements, amongst others.

All Directors are encouraged to attend the Directors Symposium organized by Central Bank of Sri Lanka each year and such other seminars and workshops that are held throughout the year, at the cost of the Bank.

The Board recognizes the value of providing Directors with training as and when required, by external professionals and management, to keep them abreast of legal, regulatory, corporate governance and economic developments which are relevant to the businesses and operations of the Group. To this end, adequate time is allocated during Board meetings to inform and update the Directors on latest developments locally and internationally.

Further, the Chairman and Directors propose topics for discussion/training at either Board or committee meetings which requests are facilitated through the Chairman.

In 2014, the topics discussed and training opportunities afforded to Directors ranged from leadership programmes, labour law, Board room dynamics, corporate governance, gamification, digital banking to current economic trends. All Directors receive accurate, timely, clear and pertinent information, in particular about the Bank's performance, to enable the Board to take sound decisions, monitor effectively and provide advice to promote the success of the Bank.

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

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

Managing Conflicts of Interest

Each Board member has a responsibility to determine whether he/she has a potential or actual conflict of interest arising from external associations, interest in material matters and personal relationships which may influence his/her judgment. If a Director of the Bank has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, such matters are disclosed and discussed at Board meetings, where Independent Non-Executive Directors who have no material interest in the transaction, are present.

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

Performance Evaluation

In accordance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka, the Board annually assesses the effectiveness of the Directors' own governance practices and to that end the Board has adopted a scheme of self-assessment to be undertaken by each Director annually. The evaluation covers a range of issues including Board composition, timeliness and the quality of information provided to the Board. As part of the assessment for 2014, each Director completed a Board self-assessment questionnaire and returned it to the Chairman.

The Chairman and Deputy Chairman review the responses of the Directors to the self-assessment questionnaire and report to the Board on any identified weaknesses and lapses and recommend an action plan for approval to the Board.

In addition, commencing from 2014, all Board committees will carry out a self-evaluation process to determine the effectiveness of their performance and areas of improvement.

Code of Conduct

The Bank's Compliance Policy and Code of Conduct governing all employees is an integral part of the governance framework of the Bank. The said Code provides a general outline of the standards of professional and ethical conduct that all employees of the Bank are expected to conform to including areas such as general conduct and competence, confidentiality and misuse of material confidential information, managing conflicts of interest situations and insider dealing provisions. The Bank's Compliance Policy also has a bribery and anti-discrimination policy. The Bank has zero tolerance towards bribery, including giving or receiving bribes and making of facilitation payments. Further, the Bank applies an equitable standard of fair treatment to all of its employees. It also

conducts its business dealings in a non-discriminatory manner and employs persons of varied backgrounds based upon their qualifications, without regard to age, gender, national origin, marital status, race, religion, disability etc.

Engagement with Stakeholders

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

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

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

Board Committees

Certain functions of the Board have been delegated to Board committees, enabling Directors forming part of respective committees to focus on their designated areas of responsibility and impart knowledge in areas where they have the greatest expertise. This permits the Board to provide effective oversight and leadership focus on key issues and prioritize its time and resources.

Appointment of the members to Board committees is decided by the Board. The terms of reference for each Board committee stipulate the responsibilities of the committee, quorum and voting requirements, as well as qualifications for Board committee membership. Each Board committee has direct access to management. Therefore, this framework provides the Board with a structured way to collaborate with management on specific issues. Changes to the terms of reference for any Board committee require Board approval.

The Board has appointed seven Board committees - viz, the Board Audit Committee, Integrated Risk Management Committee, Human Resources and Remuneration Committee, Nomination Committee, Strategic Issues Committee, Corporate Governance and Legal Affairs Committee and the newly constituted Related Party Transactions Review Committee.

Notwithstanding the functioning of the Board committees, the Board of Directors is collectively responsible for the decisions taken by these Board committees. The Board is kept up to date on the activities of the committees and minutes of each

committee are placed at the next Board meeting and the recommendations, and any matters of concern, are taken up for decision/discussion by the Board.

The committees, the structure and composition, frequency of meetings, attendance and other details are provided in each of the Board committee reports found on pages 166 to 175.

The extent of the adherence by these committees to the Corporate Governance Directions issued by CBSL and the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission is given in subsequent sections of this Report.

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

Rule No.	Rule	Compliance Status
3 (1)	Responsibilities of the Board	
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:	Complied.
	(a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;	The Bank's strategic objectives and corporate values have been approved by the Board. The objectives, vision, mission statements and corporate values are communicated to all members of the staff at communications meetings, at various structured forums, via e-mails and through the Bank's intranet 'NDB Cloud' and have been displayed at head office and all branches of the Bank.
	(b) Approve the overall business strategy of the Bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years;	Complied. The Board approved an overall five year business strategy containing measurable goals for the period 2014-2018 after detailed discussions had with the senior management of the Bank in October 2013. Risk management policies and procedures have been approved as required by the Direction.
	(c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Complied. The Board is responsible for the overall risk framework of the Bank. The Board constituted the Integrated Risk Management Committee (IRMC) and tasked the IRMC to define the risk appetite of the Bank, identify key risks, set governance structures and implement systems to measure, monitor and manage principal risks. The following reports provide further insights in this regard. - Risk Management Report on pages 176 to 222. - The Board Risk Management Committee Report on pages 171 to 172.
	(d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied. The Bank has in place a Board approved Communication Policy which was revised and updated in 2014 aimed at encouraging effective communications with all stakeholders including staff, customers, creditors, shareholders, partners, general public and regulators which is communicated to all members of staff through the 'NDB Cloud'.

Rule No.	Rule	Compliance Status
	(e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems;	<p>Complied.</p> <p>The Board reviews the adequacy and integrity of the Bank's internal control system by way of internal audit reports submitted to the Board through the Board Audit Committee on a quarterly basis.</p> <p>The Bank has in place a Management Information Systems Policy which was approved by the Board. The implementation of the policy and the integrity and effectiveness of the Bank's Management Information Systems were reviewed by the Internal Audit Department and discussed with the Board Audit Committee in October 2014. Thereafter the Board at its meeting held in February 2015 reviewed the adequacy of the Bank's Management Information Systems based on the monthly MIS pack submitted to the Board each month and the integrity of the Management Information Systems based on the process audit carried out by Internal Audit Department.</p>
	(f) Identify and designate Key Management Personnel, as defined in the International Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	<p>Complied.</p> <p>Key Management Personnel of the Bank have been identified by the Board having considered the Banking Act determination No. 3 of 2010 on officers performing executive functions of the Bank, the International Accounting Standards and the Sri Lanka Accounting Standards and presently include the following:</p> <ol style="list-style-type: none"> 1. Board of Directors 2. The Leadership Team 3. Company Secretary 4. Compliance Officer 5. Employees holding Director positions in subsidiaries
	(g) Define the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel;	<p>Complied.</p> <p>Areas of authority and key responsibilities of the Directors have been set out in the Bank's Internal Code of Corporate Governance.</p> <p>Areas of authority and key responsibilities of Key Management Personnel are defined in the Job Descriptions and selection criteria which were reviewed at the Nomination Committee and noted by the Board.</p> <p>Further, delegations of authority levels have been clearly defined by the Board for Key Management Personnel.</p>

Rule No.	Rule	Compliance Status
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;	<p>Complied.</p> <p>Oversight by the Board over Key Management Personnel takes place at Board meetings and through Board Committees. Key Management Personnel make regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas. Key Management Personnel responsible for the areas of Risk, Internal Control and Compliance attend every meeting of the Integrated Risk Management Committee and the Board Audit Committee.</p>
	(i) Periodically assess the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and Key Management Personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	<p>Complied.</p> <p>The effectiveness of the Board's governance practices are reviewed periodically. Please refer page 113 of this Report for details on the assessment process.</p> <p>The Board has in place a Board approved 'Procedure for Selection and Appointment of Directors' which the Nomination Committee (NC) follows with regard to the selection, nomination and election of Directors. The Human Resources and Remuneration Committee and the NC follow a Board approved policy and process with regard to the selection and appointment of Key Management Personnel.</p> <p>The process adopted for the management of Conflicts of Interest is detailed on page 112 of this Report. Directors' interests are disclosed to the Board and Directors who have a particular interest abstain from voting and are not counted in the quorum.</p> <p>The Board appraises its own performance by responding to a self-assessment questionnaire by each Director. The responses are collected by the Company Secretary and submitted to the Chairman and Deputy Chairman for their review who then discuss areas of weaknesses and recommend changes where necessary at detailed discussions at a Board meeting pursuant to the self-evaluation. The process was followed in 2013 and is ongoing for the year 2014.</p>

Rule No.	Rule	Compliance Status
	(j) Ensure that the Bank has an appropriate succession plan for Key Management Personnel;	During 2014, the Bank announced its intention to enter into merger discussions with DFCC. During the merger implementation it was expected that a new organizational chart for the destination bank together with a succession plan would be formalized by the new Board and hence, the Board deliberated and deferred the finalization of an appropriate succession plan for Key Management Personnel. An interim succession plan was however approved by the Nomination Committee and Board.
	(k) Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied. Key Management Personnel regularly present or are called in for discussions at the meetings of the Board and its sub-committees on policy and other matters relating to their areas. Progress towards corporate objectives is a regular agenda item for the Board and Key Management Personnel are regularly involved in Board level discussions on the same.
	(l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	Complied. Directors are briefed about developments in the regulatory environment at Board meetings and are provided with a quarterly update of all directions issued by the Central Bank of Sri Lanka in order to ensure that the Board is updated regularly to facilitate the effective discharge of their responsibilities. In addition, the Directors, the Chief Executive Officer and Key Management Personnel of the Bank maintain a dialogue with the regulators on an ongoing basis.
	(m) Exercise due diligence in the hiring and oversight of External Auditors.	Complied. The Board Audit Committee carries out the necessary due diligence regarding the hiring of the External Auditor and makes recommendations to the Board. Oversight of the External Auditor is carried out by the Board Audit Committee and the Board is briefed of any concerns in this regard if the necessity arises.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	Complied. The Board has appointed the Chairman and the Chief Executive Officer (CEO) and has approved their functions. There is a clear division of responsibilities between the Chairman and the CEO maintaining the balance of power between the two roles. Functions and responsibilities of the Chairman and CEO are included in the Board approved Internal Code of Corporate Governance in line with this Direction.

Rule No.	Rule	Compliance Status
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	<p>Complied.</p> <p>There have been 12 routine Board meetings during 2014.</p> <p>The attendance of Directors for Board and Committee meetings is set out in the table on page 110.</p> <p>17 Circular Resolutions were passed during the year 2014. Circulation of Board papers to obtain Board's consent is minimized and resorted to only when absolutely necessary. These decisions are in any event tabled at the immediately succeeding Board meeting.</p>
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	<p>Complied.</p> <p>The Internal Code of Corporate Governance includes a provision to indicate that all Directors are entitled to include such matters and proposals in the agenda for Board meetings. In practice all Directors are able to include matters and proposals in the agenda for regular Board meetings and they can present their proposals at the meetings. During the year 2014 Directors have requested for discussions on matters and same have been minuted.</p>
3 (1) (v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	<p>Complied.</p> <p>Notice of meetings, the agenda and Board papers related to each Board meeting is circulated to all Directors at least 7 days in advance of the Board meeting. Therefore, adequate notice is given to Directors providing them with an opportunity to attend.</p>
3 (1) (vi)	The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	<p>Complied.</p> <p>The Company Secretary monitors the attendance register to ensure compliance. All Directors have attended at least two thirds (2/3) of the meetings held during 2014 and no Director has been absent from three consecutive meetings during 2014.</p>
3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	<p>Complied.</p> <p>The Board has appointed a Company Secretary who is an Attorney-at-Law and who satisfies the provisions of Section 43 of the Banking Act. She is responsible to the Board for ensuring that Board procedures are followed and that applicable laws, rules and regulations are complied with.</p>

Rule No.	Rule	Compliance Status
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	<p>Complied</p> <p>All Directors have access to the advice and services of the Company Secretary. For the year 2014, the Company Secretary has provided assistance to the Directors when requested. The Bank's Internal Code of Corporate Governance also includes this provision.</p>
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	<p>Complied.</p> <p>The Company Secretary maintains detailed Board minutes and circulates minutes to all Directors. The minutes are approved at the subsequent Board meetings. The Bank's Internal Code of Corporate Governance also provides that minutes are open for inspection at any reasonable time, on reasonable notice by any Director. Additionally, copies have been provided of previous meetings to Directors when requested.</p>
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	<p>Complied.</p> <p>The minutes contain adequate details appropriate to the matters dealt with. The minutes are read together with the corresponding Board papers, which supplement the information in the minutes. All matters required to be minuted in terms of 3 (1) (x) (a) - (f) are recorded in minutes.</p>

Rule No.	Rule	Compliance Status
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.	Complied. Independent professional advice is available, on request, to all Directors at the expense of the Bank. The Bank's Internal Code of Corporate Governance has put in place a procedure which enables independent professional advice to be obtained jointly or severally by a Director or Directors where such advice is necessary to enable the fulfilment of the obligations imposed on a member of the Board. The Directors have obtained professional advice during the year.
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board meeting, where Independent Non-Executive Directors [refer to Direction 3 (2) (iv) of these Directions] who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied. The Directors are conscious of their obligation to deal with situations where there is a conflict of interest in accordance with the Articles of Association of the Bank and the Corporate Governance Direction No. 11 of 2007 (as amended). The Bank's Internal Code of Corporate Governance has put in place a procedure to ensure that Directors avoid conflicts of interest, or the appearance of conflicts of interest. Accordingly, any interests are disclosed at the Board meeting and duly minuted. Directors abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest. Additionally, such Director is not counted in the quorum in such instances.
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied. A formal schedule of matters has been specifically reserved for the decision of the Board and detailed in the Bank's Internal Code of Corporate Governance.
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	The Bank is aware of the requirement but the situation has not arisen within the year. A Solvency Statement is prepared quarterly and tabled at the IRMC and the Board.
3 (1) (xv)	The Board shall ensure that the Bank is capitalized at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied. Monthly and quarterly compliance reports have been submitted to the Board which contains the Capital Adequacy Ratio (CAR). The Bank is fully-compliant with the Capital Adequacy requirements stipulated by the Central Bank of Sri Lanka.

Rule No.	Rule	Compliance Status
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	This requirement is complied with by this Report.
3 (1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied. The Board has in place an annual scheme of self-assessment which is undertaken by each Director annually and records are maintained with the Company Secretary. The Chairman and Deputy Chairman discuss relevant matters, with a specific Director (if required) and the entire Board.
3 (2)	The Board's Composition	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied. The composition as required under this Direction was met during the year 2014. The Bank's Board comprised of 10 Directors during the year 2014.
3 (2) (ii)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied. All Directors comply with this requirement.
3 (2) (iii)	An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Complied. The Chief Executive Officer is the only employee on the Board. Accordingly, the number of Executive Directors do not exceed one-third of the Directors on the Board.

Rule No.	Rule	Compliance Status
3 (2) (iv)	<p>The Board shall have at least three Independent Non-Executive Directors or one-third of the total number of Directors, which ever is higher. This sub-direction shall be applicable from 1 January 2010 onwards. A Non-Executive Director shall not be considered independent if he/she:</p> <p>(a) has direct and indirect shareholdings of more than 1% of the Bank;</p> <p>(b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the Bank;</p> <p>(c) has been employed by the Bank during the two-year period immediately preceding the appointment as Director;</p> <p>(d) has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a 'close relation' shall mean the spouse or a financially dependant child;</p> <p>(e) represents a specific stakeholder of the Bank;</p> <p>(f) is an employee or a Director or a material shareholder in a company or business organization:</p> <p>i. which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10% of the regulatory capital of the Bank or</p> <p>ii. in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or</p> <p>iii. in which any of the other Directors of the Bank have a transaction as defined in Direction 3 (7) of these Directions, exceeding 10% of regulatory capital in the Bank.</p>	<p>Complied.</p> <p>There are 9 Non-Executive Directors on the Board as at 31 December 2014. Of them 5 are Independent Non-Executive Directors. Non-Executive Directors are detailed on page 110 of this Report. Accordingly, the number of Independent Non-Executive Directors exceeds one-third of the total number of Directors on the Board.</p> <p>The Board assesses the independence or non-independence of each Non-Executive Director based on a declaration made by each Director to the Company Secretary each year.</p>

Rule No.	Rule	Compliance Status
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applies to the Independent Director.	<p>Complied.</p> <p>No formal alternate Directors have been appointed. Directors appoint alternate Directors within the Rules and Articles of the Bank as and when required for a particular meeting and the persons so appointed during the year 2014 have met the criteria to ensure that the independent profile of the respective Director is met.</p>
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	<p>Complied.</p> <p>The Non-Executive Directors of the Bank are persons with credible track records and have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources. Please refer the profiles of the Non-Executive Directors detailed on pages 102 to 103 of this Report. The Bank has a documented Board approved process in place for appointing Directors.</p>
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one-half (1/2) of the number of Directors present at such meeting are Non-Executive Directors.	<p>Complied.</p> <p>Attendance of Directors is monitored by the Company Secretary and is strictly observed. It was noted that more than one-half (1/2) of Directors present at each meeting of the Board convened in the year 2014 were Non-Executive Directors.</p>
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report.	<p>Complied.</p> <p>The Independent Non-Executive Directors are expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors are given on page 110 of this Report.</p>
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	<p>Complied.</p> <p>The Board has established a Nomination Committee in conformity with the requirements of this Direction. All new appointments and re-election of Directors are on the recommendations of the Nomination Committee. Central Bank approval is obtained in terms of the Banking Act for the appointment of a new Director. The Bank has a documented Board approved process in place for appointing Directors.</p>

Rule No.	Rule	Compliance Status
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	<p>Complied.</p> <p>Appointment to fill a casual vacancy is made by the Board on the recommendations of the Nomination Committee. A person so appointed would stand for re-election at the next Annual General Meeting in accordance with the Articles of Association.</p> <p>No Directors were appointed in 2014 to fill casual vacancies.</p>
3 (2) (xi)	<p>If a Director resigns or is removed from office, the Board shall: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and</p> <p>(b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p>	<p>Complied.</p> <p>Resignations of Directors and the reasons are informed to the regulatory authorities and shareholders as per CSE requirements together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders. No Directors resigned during 2014.</p>
3 (2) (xii)	A Director or an employee of a bank shall not be appointed, elected or nominated as a Director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	<p>Complied.</p> <p>The Bank's Compliance Policy and Code of Conduct (Chapter 7) states that employees cannot engage in any other trade/business or be a Director etc. without the specific written approval of the CEO.</p> <p>Further, the CBSL regulatory framework (declaration and affidavit required to be submitted by all Directors annually to CBSL before the AGM) has restrictions in place for Directors to be appointed as Directors of another bank.</p> <p>None of the Directors are either employees or Directors of other banks.</p>
3 (3)	Criteria to Assess the Fitness and Propriety of Directors	
3 (3) (i)	The age of a person who serves as Director shall not exceed 70 years.	<p>Complied.</p> <p>There are no Directors who are over 70 years of age.</p>
3 (3) (ii)	A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of Subsidiaries or Associate companies of the Bank.	<p>Complied.</p> <p>No Director holds directorships of more than 20 companies.</p>

Rule No.	Rule	Compliance Status
3 (4)	Management Function Delegated by the Board	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied. The Board periodically reviews and approves the delegation arrangements in place and ensures that the extent of delegation address the needs of the Bank whilst enabling the Board to discharge their functions effectively.
3 (4) (ii)	The Board shall not delegate any matters to a Board committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Delegation papers are prepared in detail and presented to the Board. Terms of Reference of each of the Board Committees which are incorporated in the respective charters of each Board Committee are approved by the Board.
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	In addition, it is to be noted that by delegating, the Board does not lose the authority to deal with matters that have been delegated when necessary.
3 (5)	The Chairman and Chief Executive Officer	
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied. The roles of Chairman and Chief Executive Officer of the Bank are held by separate individuals. In addition, there is a clear division of responsibilities between the Chairman and the Chief Executive Officer thereby maintaining the balance of power between the two roles.
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Complied. The Chairman is a Non-Executive, Independent Director and therefore, the appointment of an Independent Director as the Senior Director does not arise.
3 (5) (iii)	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied. There is a process in place which requires all Directors to declare to Board any relationship/s they may have with the Chairman, the CEO or among members of the Board. Based on the above declarations the Board can state that no relationship/s (including financial, business, family or other material/relevant relationships) exist between the Chairman and Chief Executive Officer and among the other members of the Board other than Directors who sit together on some of the Boards of the Bank's subsidiaries.

Rule No.	Rule	Compliance Status
3 (5) (iv)	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	<p>Complied.</p> <p>The Chairman is responsible for the running of the Board, preserving order and ensuring that proceedings at meetings are conducted in a proper manner. Further, he ascertains the views of the Directors on the issues being discussed before decisions are taken. The self-evaluation process carried out by the members of the Board each year assists the Chairman in effectively carrying out his responsibilities by providing him the required feedback.</p>
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	<p>Complied.</p> <p>The Chairman draws up the agenda for Board meetings in consultation with the Chief Executive Officer and Company Secretary which ensures that management viewpoints are included. The Bank's Internal Code of Corporate Governance also casts this responsibility with the Chairman.</p>
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	<p>Complied.</p> <p>The Directors are adequately briefed in the course of discussions by the Chairman, Chief Executive Officer and Officers of the management in respect of matters that are taken up by the Board. The following procedures are in place to ensure this: Board papers are circulated in advance among the Directors, relevant Key Management Personnel are on hand for explanations and clarifications. Management information is provided on a regular basis to enable Directors to assess the performance and stability of the Bank and Directors are able to seek independent professional advice on a needs basis at the Bank's expense.</p>
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	<p>Complied.</p> <p>The Chairman ensures that all members effectively participate as a team in Board decisions and Directors' concerns and comments are duly recorded in the minutes.</p>
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between executive and Non-Executive Directors.	<p>Complied.</p> <p>9 of the 10 Board members are Non-Executive Directors which encourages active participation by the Non-Executive Directors. All Non-Executive Directors participate in Board Committees providing further opportunity for active participation.</p> <p>In addition, the self-evaluation process carried out by the Board assesses the contribution of Non-Executive Directors as well.</p>

Rule No.	Rule	Compliance Status
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied. The Chairman is a Non-Executive Director and not involved in the day-to-day operations of the Bank
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied. The Chairman together with the CEO ensures effective communication with shareholders through investor's forums held each year and through continuous engagements with our institutional investors. Members of the Board are apprised of the views of major investors and other key stakeholders pursuant to these meetings.
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied. The Chief Executive Officer is responsible for providing the leadership, expertise and professional environment within the Bank for the implementation of the Board's policies and the achievement of the Bank's goals and objectives. The operations of the Bank are carried out in conformity to this requirement.

3 (6) Board Appointed Committees

3 (6) (i)	Each bank shall have at least four Board Committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a Secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each committee, on their duties and roles at the Annual General Meeting.	<p>The Board has established a Corporate Governance and Legal Affairs Committee, a Strategic Issues Committee and a Related Party Transactions Review Committee in addition to the four Board Committees required in terms of this Direction namely, Audit Committee, Human Resources and Remuneration Committee, Nomination Committee and Integrated Risk Management Committee.</p> <p>Recommendations of such committees are addressed directly to the Board for decision and minutes of Committee meetings are tabled and discussed at the main Board meetings.</p> <p>This Annual Report includes individual reports of each such committee (except of the Related Party Transactions Review Committee as the same was constituted in December 2014) on pages 166 to 175 which reports include a summary of duties, roles and performance of each of the committees.</p>
-----------	--	--

Rule No.	Rule	Compliance Status
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:	
	(a) The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied. Mr. T L F W Jayasekera is the Chairman of the Board Audit Committee (BAC) and is an Independent Non-Executive Director who possesses the required qualifications and experience. The members of the Board Audit Committee are detailed on page 173 of this Report.
	(b) All members of the Committee shall be Non-Executive Directors.	Complied. All members of the Board Audit Committee are Non-Executive Directors.
	(c) The Committee shall make recommendations on matters in connection with: <ul style="list-style-type: none"> i. the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; ii. the implementation of the Central Bank guidelines issued to auditors from time to time; iii. the application of the relevant accounting standards; and iv. the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. 	Complied. The matters referred to in this section are reviewed and appropriate recommendations are made by the BAC. <ul style="list-style-type: none"> i. Appointment of the External Auditor for audit services has been recommended by the BAC. In addition, the BAC has discussed the audit plan and methodology with the External Auditors. ii. BAC has discussed the implementation of the Central Bank Guidelines issued to Auditors from time to time. iii. The application of the relevant accounting standards. iv. The external audit partner was rotated in 2013 as per the five year rotation requirement, in order to ensure the independence of the Auditor and to comply with the requirements of this Direction. <p>External Auditor's fee has been discussed at the BAC and agreed to recommend the fee to the Board for approval.</p> <p>Refer the 'Report of the Board Audit Committee' given on pages 173 to 175.</p>
	(d) The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied. The BAC obtains representations from the External Auditor on their independence and that the audit is carried out in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs).

Rule No.	Rule	Compliance Status
	<p>(e) The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider:</p> <ul style="list-style-type: none"> i. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services; ii. whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and iii. whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor. 	<p>Complied.</p> <p>A policy for 'Engaging the External Auditor for non-audit services' is in place which covers all aspects stated in this section.</p>
	<p>(f) The Committee shall, before the audit commences, discuss and finalize with the External Auditors the nature and scope of the audit, including:</p> <ul style="list-style-type: none"> i. an assessment of the Bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; ii. the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and iii. the co-ordination between firms where more than one audit firm is involved. 	<p>Complied.</p> <p>The BAC charter requires the BAC to discuss and finalize the nature and scope of the audit. In order to comply, the External Auditors make a presentation at the BAC meeting with details of the proposed audit plan and the scope. Members of the BAC obtain clarifications in respect of the contents of the presentation, if deemed necessary, prior to finalizing the audit plan, methodology and scope.</p>

Rule No.	Rule	Compliance Status
	<p>(g) The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on:</p> <ul style="list-style-type: none"> i. major judgmental areas; ii. any changes in Accounting Policies and Practices; iii. significant adjustments arising from the audit; iv. the going concern assumption; and v. the compliance with relevant accounting standards and other legal requirements. 	<p>Complied.</p> <p>Quarterly Financial Statements as well as year end Financial Statements are reviewed and discussed at BAC meetings. Once the members of the BAC have obtained required clarifications in respect of all aspects included in the Financial Statements, such Financial Statements are recommended for approval of the Board.</p>
	<p>(h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.</p>	<p>Complied.</p> <p>The BAC discusses issues, problems and reservations arising from the interim and final audits with the External Auditor. The Committee met the External Auditors twice during the year (in October and December 2014) without the presence of the Executive Management.</p>
	<p>(i) The Committee shall review the External Auditor's Management Letter and the management's response thereto.</p>	<p>Complied.</p> <p>During the year, the BAC reviewed the Management Letter for the year ended 2013 and concerns raised by the External Auditors have been addressed.</p>

Rule No.	Rule	Compliance Status
(j)	<p>The Committee shall take the following steps with regard to the internal audit function of the Bank:</p> <ol style="list-style-type: none"> i. Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work; ii. Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department; iii. Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department; iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; v. Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; vi. Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. 	<p>Complied. (Except iii below)</p> <p>The BAC has oversight of the Internal Audit Department (IAD) of the Bank and carries out the following duties:</p> <ol style="list-style-type: none"> i. Reviews and discusses with the Head of Internal Audit (HIA) the annual audit plan of the IAD, the adequacy of the scope and functions and the resources of the IAD; ii. The audit progress in line with the approved audit plan is tabled at the BAC every quarter. The BAC reviews the internal audit programme and results of the audits and ensures that appropriate actions are taken on the recommendations of the IAD in relation to all high and medium audit findings. All audit findings are sent to Operational Risk Department for inclusion in the Risk Grid; iii. Reviews of the performance of the HIA for 2014 is to be carried out by BAC with input from the Chief Executive Officer; iv. No senior appointments were made to the IAD in 2014. All outsourced arrangements of the IAD are recommended by the BAC and approved by the Board; v. Ensures that the BAC is appraised of resignations of senior staff members of the IAD and provides an opportunity to the resigning senior staff members to submit reasons for resignation; (However, there have been no resignations of Senior Staff of the IAD during the year 2014); vi. Ensures that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. The IAD reports directly to the HIA who in turn reports directly to the BAC.
(k)	<p>The Committee shall consider the major findings of internal investigations and management's responses thereto.</p>	<p>Complied.</p> <p>The BAC has reviewed the major findings of IAD and management's responses thereto. It has also ensured that the recommendations of such investigations are implemented.</p>

Rule No.	Rule	Compliance Status
	(l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board Members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied. The Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Operating Officer (COO) and Head Internal Audit (HIA) attend BAC meetings as permanent invitees. Members of the Leadership Team and the Compliance Officer attend meetings upon invitation of the BAC. The External Auditor also attends the meetings on invitation. During the year the External Auditor met the BAC twice, without the presence of the Executive Director.
	(m) The Committee shall have: i. explicit authority to investigate into any matter within its terms of reference; ii. the resources which it needs to do so; iii. full access to information; and iv. authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied. The charter of the BAC clearly defines the authority and terms of reference of the Committee which complies with this guideline.
	(n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied. The BAC has scheduled regular quarterly meetings and additional meetings are scheduled as and when required. Accordingly, the BAC met 9 times during the year. Members of the BAC are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by HIA who functions as the Secretary to the BAC.
	(o) The Board shall disclose in an informative way; i. details of the activities of the Audit Committee; ii. the number of Audit Committee meetings held in the year; and iii. details of attendance of each individual Director at such meetings.	Complied. Please refer 'Board Audit Committee Report' on pages 173 to 175 for the details of the activities of the BAC and the number of meetings held in the year. Attendance of the Committee members at each of these meetings is given in the table on page 173 of the Annual Report.
	(p) The Secretary of the Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the Committee meetings.	Complied. The HIA functions as the Secretary to the BAC and maintains detailed minutes of all meetings. Copies of these minutes have been tabled at Board meetings.

Rule No.	Rule	Compliance Status
	(q) The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	<p>Complied.</p> <p>The Bank has in place a Board approved Whistle-Blowing Policy where the employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.</p>
3 (6) (iii)	Human Resources and Remuneration Committee - Composition and Responsibilities	<p>Complied.</p> <p>Please refer page 167 for the composition and responsibilities of the Human Resources and Remuneration Committee (HRRC). The Terms of Reference of the HRRC was most recently reviewed and updated in November 2014.</p>
	(a) Determine the remuneration policy relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank	<p>Complied.</p> <p>The Board has established a HRRC that makes recommendations on remuneration payable to Directors and Key Management Personnel of the Bank.</p> <p>There is in place a Board approved Remuneration Policy and process for Directors, Chief Executive Officer and Key Management Personnel.</p>
	(b) Set goals and targets for the Directors, CEO and the Key Management Personnel.	<p>Complied.</p> <p>The Board approved strategy was cascaded for the year 2014 to the CEO and Key Management Personnel. The goals and targets set for the CEO and Key Management Personnel were reviewed and approved by the HRRC and noted/approved by the Board.</p> <p>Goals and targets for the Directors, for the year 2014 have been deliberated in detail at Board and HRRC level. The Board has noted that specific goals and targets for Directors could not be set for 2014 due to the discussions that commenced with DFCC and DFCC Vardhana Bank on a proposed merger and taking into account the level of extensive involvement of the Board in this matter. The Board decided that a list of achievements/work carried out in the year 2014 will be tabulated to record these developments.</p>

Rule No.	Rule	Compliance Status
	(c) Evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance based incentives.	Complied. The performance of Key Management Personnel against set goals and targets are evaluated by the HRRC in March of every year and recommendations are then discussed and approved by the full Board. The Chief Executive Officer's performance will be evaluated by the full Board.
	(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied. The Chief Executive Officer was present at all meetings and has stepped out when matters relating to the Chief Executive Officer were discussed.
3 (6) (iv)	Nomination Committee - Composition and Responsibilities	
	(a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	Complied. The Nomination Committee (NC) has implemented a procedure to select new Directors. A Board approved procedure to select CEO and KMPs has been in place since December 2008.
	(b) The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Complied. The NC determines the Directors who will be re-elected every year pursuant to taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities. The Committee has considered and recommended the re-election of current Directors.
	(c) The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	Complied. The NC has set a procedure to assess eligibility including criteria such as qualifications, experience and key attributes, for appointment or promotion to Key Management Positions including the position of the CEO. The Committee is guided by applicable statutes in considering the suitable criteria for each appointment/promotion.
	(d) The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes.	Complied. The annual declarations from Directors and Key Management Personnel are submitted to the NC to ensure that they are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes was obtained for 2015 and submitted to the NC.

Rule No.	Rule	Compliance Status
	(e) The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	<p>The NC considers Board vacancies based on the expertise required by the Bank and recommends suitable candidates when necessary in accordance with the Board approved procedure for selection and appointment of Directors.</p> <p>The NC also approves the succession plans for Key Management Personnel. During 2014, the Bank announced its intention to enter into merger discussions with DFCC and it was expected that during the ongoing merger implementation, a new organizational chart for the destination bank together with a succession plan would be formalized by the new Board. An interim succession plan for Key Management Personnel has however been approved by the NC and Board.</p>
	(f) The Committee shall be Chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	<p>Complied.</p> <p>The NC is chaired by the Chairman of the Bank who is an Independent Director and is constituted by a majority of Independent Directors. The CEO is present only if invited.</p>
3 (6) (v)	Integrated Risk Management Committee - Composition and Responsibilities	<p>Please refer page 171 for the composition and responsibilities of the Integrated Risk Management Committee (IRMC). The Terms of Reference of the IRMC was reviewed and updated in 2014.</p>
	(a) The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories - i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	<p>Complied.</p> <p>The composition of the IRMC complies with the provisions of this Direction. Please see detailed Report of the IRMC on pages 171 and 172 of this Report.</p>
	(b) The Committee shall assess all risks - i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on a Bank basis and Group basis.	<p>Complied.</p> <p>The IRMC assesses all risks of the Bank and Group on a monthly basis through Key Risk Indicators, Risk Dashboards and through the quarterly risk assessment report done for the Bank and its Group as well. The Bank has formed seven management committees to assess risks on a monthly basis and their findings are submitted to the IRMC and the summary of the minutes of the IRMC and quarterly risk assessment reports are submitted to the main Board.</p>

Rule No.	Rule	Compliance Status
	(c) The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	The adequacy of effectiveness of all management level committees was carried out for the year 2014 by all members carrying out self-assessments. The feedback was reviewed by the Chairman of the respective management committee and a report based on the review together with an action plan was submitted to the IRMC for discussion and follow up.
	(d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied. The IRMC takes prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the IRMC on the basis of the Bank's policies and regulatory and supervisory requirements. The Key Risk Indicators designed by the IRMC was approved by Board.
	(e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied. The Committee has met 5 times in the year 2014.
	(f) The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Complied. At the Bank specific risks and the limits are identified by relevant Committees such as ALCO, Credit Committee etc. and as such decisions are taken collectively and appropriate action taken as per the Bank's Human Resources policy.
	(g) The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific Directions.	Complied. A detailed report is submitted to the Board subsequent to the IRMC meeting seeking the Board's views, concurrence and/or specific directions.

Rule No.	Rule	Compliance Status
	(h) The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	<p>Complied.</p> <p>The Bank has appointed a Compliance Officer who is a Key Management Personnel to carry out the compliance function of the Bank.</p> <p>The compliance function assesses the Bank's compliance with laws and regulations and the Bank's internal controls, policies, product programme guides and business operations against applicable laws and regulations and the compliance function reports quarterly to the IRMC.</p> <p>The Compliance Officer in consultation with the IRMC agrees on the annual compliance programme which includes but is not limited to the review of products, accuracy of statutory returns, all product programme guides to determine the Bank's compliance with applicable regulations. A detailed quarterly report indicating the status of compliance of the Bank is submitted to the IRMC and the Board. A quarterly compliance sign-off from all business unit heads is obtained and submitted to the Committee. In 2014, the Compliance Department carried out a review of the Internal Audit Department.</p>

3 (7) Related Party Transactions

3 (7) (i)	<p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purposes of this Direction:</p> <ol style="list-style-type: none"> Any of the Bank's Subsidiary companies; Any of the Bank's Associate companies; Any of the Directors of the Bank; Any of the Bank's Key Management Personnel; A close relation of any of the Bank's Directors or Key Management Personnel; A shareholder owning a material interest in the Bank; A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest. 	<p>Complied.</p> <p>Steps have been taken by the Board to avoid any conflicts of interest that may arise in terms of this Direction.</p> <p>Using information submitted to the Bank by Directors and by information obtained from the Secretarial Department and HR Department, the Bank maintains a register of the names of Related Parties set out in the Direction and this list is circulated to all relationship managers of all business units and to all branch staff in terms of the Bank's internal circular on related party transactions which has been introduced to ensure that the Bank avoids 'Conflicts of Interest' which may arise from any transaction of the Bank with any person, particularly with 'Related Parties'.</p> <p>A documented Related Party Transaction Policy was approved by the Board in 2014 which lays down processes to identify, approve, monitor and disclose all related party transactions of the Bank coming within these guidelines.</p>
-----------	--	---

Rule No.	Rule	Compliance Status
3 (7) (ii)	<p>The type of transactions with related parties that shall be covered by this Direction shall include the following:</p> <ol style="list-style-type: none"> a. The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation; b. The creation of any liabilities of the Bank in the form of deposits, borrowings and investments; c. The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank; d. The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. 	<p>Complied.</p> <p>All transactions defined in this Directions come within the scope of the Related Party Transaction Policy of the Bank</p>
3 (7) (iii)	<p>The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business. In this context, 'more favourable treatment' shall mean and include treatment, including the:</p> <ol style="list-style-type: none"> (a) Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction: <ol style="list-style-type: none"> i. 'Accommodation' shall mean accommodation as defined in the Banking Act Directions No. 07 of 2007 on Maximum Amount of Accommodation. ii. The 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more. 	<p>Complied.</p> <p>No 'more favourable treatment' has been given to related parties of the Bank in 2014. All transactions entered into with related parties are to be reported to the Compliance Department and Compliance Department carries out random checks to determine if 'more favourable treatment' has been granted. The monitoring process will be strengthened on an ongoing basis.</p>

Rule No.	Rule	Compliance Status
	(b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty;	
	(c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;	
	(d) Providing services to or receiving services from a related party without an evaluation procedure;	
	(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	
3 (7) (iv)	A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied. The Board ensures compliance with this Direction when accommodation is granted to Directors and their Close Relations or any concerns in which the Director/Close Relations has a substantial interest.
3 (7) (v)	(a) Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied. Prior to the appointment of a new Director the Company Secretary obtains a declaration/affidavit from the proposed individual requiring the disclosure of all interests they may have with the Bank. The situation did not arise in 2014 as no appointments were made in 2014. The employees of the Bank are informed to obtain necessary security as set out by the Monetary Board if the need arises.

Rule No.	Rule	Compliance Status
	<p>(b) Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.</p>	
	<p>(c) Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.</p>	
	<p>(d) This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.</p>	
3 (7) (vi)	<p>A Bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.</p>	<p>Complied.</p> <p>No favourable treatment or accommodation is provided to Bank employees other than staff benefits. Employees of the Bank are informed through operational circulars to refrain from granting favourable treatment to other employees or their close relations or to any concern in which an employee or close relation has a substantial interest.</p>
3 (7) (vii)	<p>No accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.</p>	<p>Complied.</p> <p>Such a situation has not arisen in the Bank to date.</p>

Rule No.	Rule	Compliance Status
3 (8)	Disclosures	
3 (8) (i)	The Board shall ensure that: (a) Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards; and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied. The Financial Statements for the year ended 31 December 2014 and Quarterly Financial Statements are in conformity with all rules and regulations. These statements have been published in the newspapers in all three languages.
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	(a) A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied. Compliance with applicable accounting standards and regulatory requirements has been reported under the 'Directors' Responsibility for Financial Reporting' on pages 261 and 262, the 'CEO's and CFO's Responsibility Statement' on pages 267 and 268 and Note No. 1.4 (Statement of Compliance) to the Financial Statements on page 278.
	(b) A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied. Directors' Report on the effectiveness of the internal control system over financial reporting is given under the 'Statement of Internal Control' on pages 263 and 264.
	(c) The Assurance Report issued by the Auditors under "Sri Lanka Standard on Assurance Engagements on SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control".	Complied. The Assurance Report issued by the External Auditor on the Internal Control over Financial Reporting based on the auditing framework issued by ICASL which is detailed on page 265 of this Report.
	(d) Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.	Complied. Please refer 'Board of Directors' on page 110. 'Directors' Interest in Contracts with NDB' on pages 259 to 260 and page 256 for Directors' Remuneration.

Rule No.	Rule	Compliance Status
	(e) Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Complied. The net accommodation granted to related parties as a percentage of the Bank's regulatory capital is 0.31.
	(f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied. The aggregate value of transactions of the Bank with its Key Management Personnel are disclosed below: Compensation - LKR 282.9 million Accommodation - LKR 76.2 million Deposits and investments - LKR 450.9 million The aggregate values of transactions involving entities controlled/jointly controlled by Directors and Close Relations are disclosed below: Deposits and investments - LKR 575.6 million
	(g) A confirmation by the Board of Directors in its Annual Corporate Governance Report that all the findings of the 'Factual Findings Reports' of Auditors issued under 'Sri Lanka Related Services Practice Statement 4750' have been incorporated in the Annual Corporate Governance Report, provide that Auditors confirm to the Director of Bank Supervision to this effect.	Complied. Certification has been provided by the External Auditors as required by the Direction.
	(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Complied. There were no material non-compliance to prudential requirements, regulations, laws and internal controls affecting the Bank.
	(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Complied. There were no supervisory concerns on lapses in the Bank's risk management system or non-compliance with this Direction that has been pointed out by the Director of the Bank Supervision Department of the CBSL and requiring disclosure to the public.

NDB's adherence with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) is detailed below with explanatory comments as follows:

Corporate Governance Principle	Rule	Details of Compliance
A. The Board Directors		
Principle A. 1 Every public company should be headed by an effective Board, which should direct, lead and control the Company.	A.1.1 Board meetings should be held at least once in every quarter of a financial year.	Complied. The Bank is headed by an effective Board of Directors who are responsible and accountable for the functions of the Bank. The Board usually meets on monthly intervals, but meets more frequently whenever it is necessary. The Board met twelve (12) times during the year. Scheduled Board and Committee meetings were arranged well in advance and all Directors were expected to attend each Board meeting. The attendance at Board meetings held in 2014 is set out on page 110.
	A.1.2 Role of the Board - provide entrepreneurial leadership within a framework of prudent and effective control risks to be assessed and managed.	Complied. The Board is responsible for setting strategy, policies and for monitoring performance against agreed goals and Key Performance Indicators. A five year business strategy is in place and has been detailed under Section 3(1)(i)(b) of the CBSL table on page 115 of this Report.
	<ul style="list-style-type: none"> • formulation and implementation of a sound business strategy;. 	Complied.
	<ul style="list-style-type: none"> • the Chief Executive Officer (CEO) and management team possess the skills, experience and knowledge to implement the strategy 	The Human Resources and Remuneration Committee (HRRC) ensures that the CEO and Key Management Personnel have the required skills, experience and knowledge to implement strategy. The CEO and the Senior Management Team consist of senior bankers with an average experience of 20 years in the field of banking and finance.
<ul style="list-style-type: none"> • the adoption of an effective CEO and Key Management Personnel succession strategy; 	Complied. Please see our comments on the succession strategy detailed under Section 3 (1) (i) (j) of the CBSL table on page 118 of this Report.	

Corporate Governance Principle	Rule	Details of Compliance
	<ul style="list-style-type: none"> An effective system to secure integrity of information, internal controls, business continuity and risk management; 	<p>Complied.</p> <p>There is in place an adequate system of internal control. Policies relating to securing information, business continuity and risk management have been approved by the Board. These policies have been reviewed by either Integrated Risk Management Committee or Board Audit Committee. Our Business Continuity Plan was rehearsed twice during the year. Refer Directors' Statement on Internal Control, Board Audit Committee Report and Integrated Risk Management Committee Report.</p>
	<ul style="list-style-type: none"> compliance with laws, regulations and ethical standards; 	<p>Complied.</p> <p>There is a separate Compliance Department which reports directly to the Board Integrated Risk Management Committee.</p> <p>There is a procedure in place where every head of department provides the Compliance Officer with a comprehensive sign off at the end of each quarter on the status of compliance with laws and regulations impacting the Bank. The annual compliance programme of the Bank is approved by the Integrated Risk Management Committee at the beginning of each year. The compliance team carries out reviews, assessments on the Bank's products and the accuracy of regulatory returns based on the annual programme to determine the Bank's compliance with laws and regulations and ethical standards. The Compliance Officer submits a status report to the Integrated Risk Management Committee setting out the laws and regulations complied and any breaches that have occurred at the end of each quarter.</p> <p>There is also in place a Board approved Compliance Policy and Code of Conduct.</p>

Corporate Governance Principle	Rule	Details of Compliance
	<ul style="list-style-type: none"> all stakeholder interests are considered in corporate decisions 	<p>Complied.</p> <p>The Board of Directors consider the views/ impact on all stakeholders of the Bank when decisions are made at Board meetings.</p>
	<ul style="list-style-type: none"> recognising sustainable business development in Corporate Strategy, decisions and activities; 	<p>Complied.</p> <p>Sustainable business development is one of the key areas of focus considered by the Board when taking decisions.</p>
	<ul style="list-style-type: none"> Board approved accounting and compliance with financial regulations; 	<p>Complied.</p> <p>The Board Audit Committee and the Board review accounting policies annually to ensure that they are in line with the business model of the Bank and evolving international and local accounting standards and industry best practices. The Board ensures that the approved accounting standards and financial regulations are complied with when Financial Statements are being prepared.</p>
	<ul style="list-style-type: none"> fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned 	<p>Complied.</p> <p>The Board is committed to fulfilling their functions in line with the laws, regulations and good governance practices adopted by the Bank.</p>
	A.1.3 Approved procedure of the Board to seek independent professional advice	<p>Complied.</p> <p>Independent professional advice is available, on request, to all Directors at the expense of the Bank. The Board approved Internal Code of Corporate Governance contains the procedure to be followed where a Director or Board wishes to obtain independent professional advice on any matter. Independent professional services were sought on matters during the year in accordance with the above provision.</p>
	A.1.4 All Directors of the Board to have access to the advice and services of the Company Secretary	<p>Complied.</p> <p>All Directors have access to the advice and services of the Company Secretary. For the year 2014, the Company Secretary has provided assistance to the Directors when requested.</p>

Corporate Governance Principle	Rule	Details of Compliance
	A.1.5 All Directors to bring independent judgment to matters submitted to the Board for its decisions.	Complied. All Directors bring their independent judgement to matters discussed at Board meetings. Details of Directors deliberations are contained in the minutes maintained by the Company Secretary.
	A.1.6 Every Director to dedicate adequate time and effort to matters of the Board <ul style="list-style-type: none"> • sufficient time before a meeting to review Board papers. • facilitate call for additional information and clarification. • follow up on issues consequent to the meeting. • This should be supplemented by a time allocation for familiarization with business changes, operations, risks and controls. 	Complied. Board Papers are circulated to the Board at least seven days prior to each Board meeting. Any requests for additional information is made to the Company Secretary. Relevant member of staff is informed by the Company Secretary and the requisite information is forwarded. All matters that require follow up are discussed at the immediately succeeding Board meeting under 'Matters Arising'. Business Heads regularly update the Board on developments in their respective fields. The CEO on a regular basis updates the Board on business changes, operational risks and controls relevant to the Bank.
	A.1.7 Training for New and Existing Directors	Complied. New Directors are provided with a comprehensive induction pack on appointment to the Board and an induction programme is conducted to facilitate their introduction to the business, activities and senior management of the Bank. Please refer page 112 of this Report for more details.

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle A.2 There are two key tasks at the top of every public company - conducting the business of the Board, and facilitating executive responsibility for management of the Company's business. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.</p>	<p>A.2.1 There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.</p>	<p>Complied.</p> <p>The posts of Chairman and CEO of the Bank are held by two separate persons and there is a clear division of responsibilities between them, thereby maintaining the balance of power between the two roles.</p>
<p>Principle A.3 The Chairman's role in preserving good Corporate Governance is crucial. As the person responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions.</p>	<p>A.3.1 The Chairman should conduct Board proceedings in a proper manner and ensure, inter-alia, that:</p> <ul style="list-style-type: none"> • the effective participation of both Executive and Non-Executive Directors are secured; • all Directors are encouraged to make an effective contribution, within their respective capabilities, for the benefit of the Company; • a balance of power between Executive and Non-Executive Directors is maintained; • the views of Directors on issues under consideration are ascertained; and • the Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders. 	<p>Complied.</p> <p>The Board approved Internal Code of Corporate Governance formally details the role of the Chairman. The Chairman ensures that the affairs of the Board are conducted in an effective manner. He encourages Directors to share their views on matters discussed, ensures the participation of both Executive and Non-Executive Directors and maintains a balance of power between Executive and Non-Executive Directors.</p>

Corporate Governance Principle	Rule	Details of Compliance
Principle A.4 The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	A.4.1 Financial Acumen and Knowledge.	Complied. 6 of the 10 Directors of the Board have a finance background and as such there is sufficient financial acumen and knowledge on the Board.
Principle A.5 It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-taking.	A.5.1 Non-Executive Directors - The Board should include at least two Non-Executive Directors or such number of Non-Executive Directors equivalent to one-third of total number of Directors, which ever is higher.	Complied. 9 of the 10 Directors on the Board are Non-Executive Directors.
	A.5.2 - A.5.5 Independent Non-Executive Directors - Two or one third of Non-Executive Directors appointed to the Board of Directors whichever is higher should be 'Independent'. For a Director to be 'Independent', such Director should be Independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment A Declaration to be obtained from each Non-Executive Director against the criteria set out in the Code of Best Practice issued by ICASL and the SEC. Based on the said declaration and other information available to the Board, the Board is required to annually make a determination as to the independence or non-independence of each Non-Executive Director. The Board should specify the criteria not met and basis of its determination in the Annual Report.	Complied. Annual declarations of independence or non-independence have been obtained from the Directors for 2014. Based on the annual declarations, there are 9 Non-Executive Directors on the Board as at 31st December 2014. Of them 5 are Independent Non-Executive Directors in terms of the criteria set out in this Code. The Non-Executive Directors are detailed on page 110 of this Report. Accordingly, the number of Independent Non-Executive Directors exceeds one-third of the total number of Directors on the Board.

Corporate Governance Principle	Rule	Details of Compliance
	<p>A.5.6 Alternate Directors - Executives of the Bank shall not be appointed as alternate Directors of Non-Executive Directors of the Bank.</p> <p>Any alternate of an Independent Director should also meet the criteria of independence.</p> <p>The minimum number of Independent Directors should be be complied with</p>	<p>Complied.</p> <p>No formal alternate Directors have been appointed. Directors appoint alternate Directors within the rules and Articles of the Bank as and when required for a particular meeting. An alternate Director of an Independent Director is also Independent.</p>
	<p>A.5.7-A.5.8</p> <p>The appointment of a Senior Independent Director - A Senior Independent Director is required to be appointed where CEO and Chairman are one and the same person.</p> <p>Such a Senior Independent Director should make himself available for discussions with other Directors.</p>	<p>The CEO and Chairman are not one and the same person. As such there is no requirement to appoint a Senior Independent Director.</p>
	<p>A.5.9 Chairman to meet only with Non-Executive Directors as necessary and at least once each year.</p>	<p>Complied.</p> <p>If required, the Chairman has discussions with/ meets Non-Executive Directors.</p>
	<p>A.5.10 Recording of a dissenting view - Any dissenting view to be minuted where a matter is not resolved unanimously.</p>	<p>Complied.</p> <p>Dissenting views are recorded in the minutes in detail.</p>
<p>Principle A.6 Supply of Information</p> <p>The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.</p>	<p>A.6.1 The Board to be provided appropriate and timely information by management.</p>	<p>Complied.</p> <p>The management provides comprehensive information including both quantitative and qualitative information for the monthly Board meetings generally 7 days prior to the Board/Committee meetings. The Directors also have access to management to obtain further information or clarify any concerns they may have. As described above, they also have the right to seek independent professional advice at the Bank's expense.</p>

Corporate Governance Principle	Rule	Details of Compliance
	A.6.2 Agenda, Board Papers and Minutes of previous meetings to be circulated 7 days in advance of a meeting.	Complied. Papers are circulated at least 7 days in advance of each meeting of the Board.
Principle A.7 Appointments to the Board There should be a formal and transparent procedure for the appointment of new Directors to the Board.	A.7.1 and A.7.2 A Nomination Committee to be established to make recommendations on new appointments.	Complied. The Board has established a Nomination Committee to make recommendations on new appointments to the Board. There is in place a board approved policy and process for appointments of Directors to the Board. Please refer Page 169 for the Report of the Nomination Committee
	A.7.3 Disclosure to shareholders on new appointments to the Board.	Complied. Disclosures are made to shareholders in terms of the Listing Rules issued by the Colombo Stock Exchange (CSE)
Principle A.8 Re-election All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.	A.8.1 Non-Executive Directors should be appointed for specified terms and re-election should not be automatic. A.8.2 Re-election of Non-Executive Directors	Complied. As per the Articles, one-third of the Directors (except for the CEO and any Nominee Director of the Ministry of Finance) should retire at each Annual General Meeting and be subject to re-election. Such Directors who retire are those who held office for the longest time period since the election/reappointment. In accordance with this provision, the following Directors retire and offer themselves for re-election. Mrs Kimarli Fernando Mr Trevine Jayasekera
Principle A.9 Appraisal of Board Performance Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.	The Board should annually appraise itself on its performance and that of its sub-committees	Complied. The Board annually appraises its own performance to ensure that it is discharging its responsibilities satisfactorily. The Board has in place a self assessment process which has been detailed under Section 3 (1) (i) (i) of the CBSL table on page 117 of this Report. Commencing from 2014 all Board Committees carried out a self-evaluation process to determine the effectiveness of their performance and areas for improvement.

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle A.10 Disclosure of Information in Respect of Directors</p> <p>Principle A.10 Shareholders should be kept advised of relevant details in respect of Directors.</p>	<p>A.10.1 Disclosures on Directors in the Annual Report -</p> <p>The Annual Report of the Company should set out the following information in relation to each Director:</p> <ul style="list-style-type: none"> • name, qualifications and brief profile; • the nature of his/her expertise in relevant functional areas; • immediate family and/or material business relationships with other Directors of the Company; • whether Executive, Non-Executive and/or Independent Director; • names of listed companies in Sri Lanka in which the Director concerned serves as a Director; • names of other companies in which the Director concerned serves as a Director, provided that where he/she holds directorships in companies within a Group of which the Company is a part, their names need not be disclosed; it is sufficient to state that he/she holds other directorships in such companies; • number/percentage of Board meetings of the Company attended during the year; • the total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an executive or non-executive capacity; • names of Board Committees in which the Director serves as Chairman or a member; and • number/percentage of committee meetings attended during the year. 	<p>Please refer pages 102 and 103 for Directors' Profiles.</p> <p>Details of directorship held by each Director are found on page 255 under the Directors' Report.</p> <p>Attendance of Directors at Board meetings are given on page 110 of this Report.</p> <p>Attendance of Directors at sub-committee meetings are detailed in the respective sub-committee reports found on pages 166 to 175.</p>

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle A.11 Appraisal of Chief Executive Officer (CEO)</p> <p>Principle A.11 The Board should be required, at least annually, to assess the performance of the CEO.</p>	<p>A.11.1 Setting annual targets and the appraisal of performance of the CEO</p>	<p>Complied.</p> <p>At the beginning of 2014 the Board discussed and set financial and non-financial targets to be achieved during the year by the CEO with reference to the short, medium and long-term objectives of the Bank at the beginning of 2014. The targets for 2015 have also been set at the time of reporting. The entire Board evaluated the performance of the CEO for 2013.</p>
<p>B. Directors' Remuneration</p>		
<p>Principle B.1 - B.2</p> <p>Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors.</p>	<p>Remuneration Policy for Directors and Key Management Personnel</p>	<p>Complied.</p> <p>The Board has established a Human Resources and Remuneration Committee (HRRC) to develop policy and determine remuneration for the Directors and Key Management Personnel. There is in place, a Board approved Remuneration Policy for Directors and Key Management Personnel. Additionally the HRRC makes recommendations on remuneration payable to Directors and Key Management Personnel of the Bank.</p> <p>Please refer pages 166 and 167 for the Report of the HRRC.</p>
<p>B.3 Disclosure of Remuneration</p>	<p>Principle B.3 The Bank's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.</p>	<p>Complied.</p> <p>Please refer page 256 of the Annual Report for Directors' Remuneration and page 166 for the Statement of Remuneration Policy.</p>

Corporate Governance Principle	Rule	Details of Compliance
C. Relations With Shareholders		
C.1 Constructive use of the Annual General Meeting (AGM) and conduct of general meetings to communicate.	C.1.1 Companies should count all proxy votes and should indicate the level of proxies lodged on each resolution and the balance for and against the resolution and withheld, after it has been dealt with on a show of hands, except where a poll is called.	Complied. All proxy votes lodged together with the votes of shareholders present at the AGM are considered for each resolution and duly recorded in the minutes.
	C.1.2 Separate resolutions to be obtained for substantially separate issues and adoption of Annual Report and Accounts.	Complied. Separate resolutions are obtained for substantially separate issues.
	C.1.3 Chairpersons of all Board sub-committees to be available to respond to questions of any shareholder at AGM.	Complied. All the Directors of the Board are present at the AGM in order to respond to questions raised at the AGM.
	C.1.4 - C.1.5 Adequate notice of all meetings to Shareholders together with the summary of the procedure to be adopted by shareholders.	Complied. Notice to shareholders and relevant papers are circulated to shareholders in compliance with the provisions for notice under the Companies Act No. 7 of 2007.
	Principle C.2 The Board should implement effective communication with shareholders.	C.2.2 - C.2.3 The Company to disclose the policy and methodology for communication with shareholders and how it is implemented. The process for responding to shareholder matters should be formulated by the Board and disclosed.
	C.2.4 The Company to disclose to shareholders the contact person for communication with shareholders. There should be a process to make all Directors aware of major issues and concerns of shareholders, and this process has to be disclosed by the Company.	Complied. Shareholder correspondence on major issues are handled by the Chairman who will communicate to the Board of Directors as and when necessary.

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle C.3 Further to complying with the requirements under the Companies Act, Securities and Exchange Commission Law and Colombo Stock Exchange (CSE) Regulations; as applicable, Directors should disclose to shareholders, all proposed material transactions, which if entered into, would materially alter/vary the Company's net asset base or in the case of a company with subsidiaries, the consolidated group net asset base.</p>	<p>C.3.1 Disclosure of major and material transactions</p>	<p>During 2014, there were no Major Transactions as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affected the Bank's net asset base.</p> <p>Further, all material transactions will be disclosed in the Quarterly/Annual Financial Statements as well as the disclosure made to the CSE.</p>

D. Accountability and Audit

D.1 Financial Reporting

Principle D.1 The Board should present a balanced and understandable assessment of the Company's Financial Position, Performance and Prospects.

D.1.1 The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.

Complied.

Please refer pages 251 to 258 of this Report.

Corporate Governance Principle	Rule	Details of Compliance
	<p>D.1.2 The Directors' Report, which forms part of the Annual Report, should contain declarations by the Directors to the effect that:</p> <ul style="list-style-type: none"> • the Company has not engaged in any activity, which contravenes laws and regulations; • the Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested; • the Company has made all endeavours to ensure the equitable treatment of shareholders; • the business is a going concern, with supporting assumptions or qualifications as necessary; and • they have conducted a review of the internal controls, covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence therewith, and, if it is unable to make any of these declarations, to explain why it is unable to do so. 	<p>Complied.</p> <p>Please refer pages 251 to 258 of this Report</p>
	<p>D.1.3 The Annual Report to contain a report/statement</p> <p>(i) setting out the responsibilities of the Board for the preparation and presentation of Financial Statements, together with a Statement by the Auditors about their reporting responsibilities; and</p> <p>(ii) on Internal Control.</p>	<p>Complied.</p> <p>Please refer pages 261 and 262 of this Report</p> <p>Please refer page 268 for Independent Auditors' Report</p> <p>Please refer pages 263 and 264 for Directors' Statement on Internal Control</p>

Corporate Governance Principle	Rule	Details of Compliance
	<p>D.1.4 The Annual Report should contain a 'Management Discussion & Analysis', discussing, among other issues:</p> <ul style="list-style-type: none"> • industry structure and developments; • opportunities and threats; • risks and concerns; • internal control systems and their adequacy; • social and environmental protection activities carried out by the Company; • financial performance; • material developments in human resource/industrial relations; and • prospects for the future. 	<p>Complied. Please refer pages 37 to 98 of this Report</p>
	<p>D.1.5 The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.</p>	<p>Complied. Please refer pages 251 to 258 of this Report</p>
	<p>D.1.6 In the event the net assets of the Company fall below 50% of the value of the Company's shareholders' funds, the Directors shall forthwith summon an Extraordinary General Meeting (EGM) of the Company to notify shareholders of the position and of remedial action being taken.</p>	<p>Likelihood of such occurrence is remote. However, should the situation arise, an EGM will be called for and shareholders will be notified.</p>

Corporate Governance Principle	Rule	Details of Compliance
	<p>D.1.7 The Board should adequately and accurately disclose the related party transactions in its Annual Report:</p>	<p>Complied.</p> <p>Please see Note 55 on pages 372 to 376 of this Report</p>
	<ul style="list-style-type: none"> • Each related party should submit signed and dated declaration quarterly mentioning whether they have related party transactions with the Company as defined in this Code; 	<p>A declaration is obtained from related parties quarterly.</p>
	<ul style="list-style-type: none"> • It should be the responsibility of the Company Secretary to keep a record on related party transactions and make necessary disclosures accordingly; 	<p>The Finance Department at the Bank keeps a record of all related party transactions and discloses the same to the Company Secretary.</p>
	<ul style="list-style-type: none"> • There should be a process to capture related parties and related party transactions. This process needs to be operationalized and related party transactions should be properly documented. Further, a report should be presented by the Audit Committee to the Board on identified related parties and related party transactions on a regular basis; 	<p>A detailed Board approved documented process is available and has been circulated to all staff through the NDB Cloud for compliance.</p>
	<ul style="list-style-type: none"> • A record/register either in hard or soft form on related party and related party transaction should be maintained by the Company; 	<p>In addition to the interest register maintained by the Company Secretary, a system generated related party transaction report is available at the Finance Department. Finance Department uses this report for disclosure purposes.</p>
	<ul style="list-style-type: none"> • This record should ensure that the Company captures information to comply with the respective related party disclosure requirements imposed by SEC/Accounting Standards/Auditing Standards and similar regulations. 	<p>The Bank has in place an internal system to capture information relating to related party transactions, in line with SEC and ICASL requirements.</p>

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle D.2 The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets. Broadly, risk management and internal control is a process, affected by a company's Board of Directors and management, designed to provide reasonable assurance regarding the achievement of the Company's objectives.</p>	<p>D.2.1 Directors to conduct an annual review of Internal Controls through the Board Audit Committee.</p>	<p>Complied.</p> <p>The Board's Statement on the effectiveness of Bank's Internal Control Mechanism as reviewed by the Board Audit Committee is presented under the caption "Directors' Statement on Internal Control" in this Annual Report on pages 263 and 264. The Board also reviewed the External Auditors' assurance report in this regard, pursuant to the independent audit conducted by them in accordance with Sri Lanka Standards on Assurance Engagement SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control as given in the Annual Report on page 265</p>
	<p>D.2.2 The Bank should have an internal audit function.</p>	<p>Complied.</p> <p>The Bank has a fully-fledged Internal Audit Department which reports to the Board Audit Committee.</p>
	<p>D.2.3 The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls and to document to the Board and Board takes the responsibility for the disclosures on internal controls.</p>	<p>Complied.</p> <p>The Board Audit Committee Report and the Integrated Risk Management Committee Report on pages 171 to 175 specified the process carried out in relation to reviewing the effectiveness of Risk Management and Internal Control.</p>
	<p>D.2.4 The Schedule K to this document contains guidance on the responsibilities of Directors in maintaining a sound system of internal control and the contents of the Statement of Internal Control.</p>	<p>Complied</p> <p>Please refer the Board Audit Committee Report and the Directors Statement on Internal Control in relation to compliance with this requirement.</p>
<p>Principle D.3 The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Bank's External Auditors.</p>	<p>D.3.1 Composition of Audit Committee</p>	<p>Complied.</p> <p>All members of the Board Audit Committee, including the Chairman are Non-Executive Directors.</p> <p>Please refer page 173 for the Board Audit Committee report which details the composition.</p>

Corporate Governance Principle	Rule	Details of Compliance
	D.3.2 The duties of the Audit Committee	<p>Complied.</p> <p>As stated in the Report of the Board Audit Committee of the Bank on pages 173 to 175 of the Annual Report, Board Audit Committee regularly reviews the scope, results and effectiveness of the audits carried out. It also ensures the balance amongst objectivity, independence and value for money of the services provided by the Bank's External Auditors, with special attention to provision of non-audit services by the External Auditors.</p>
	D.3.3 Terms of Reference of the Audit Committee	<p>Complied.</p> <p>Terms of Reference of the Board Audit Committee is clearly defined in the Charter of the Audit Committee approved by the Board of Directors, which was last revised and updated in 2014. This clearly explains the purpose of the Committee, its duties and responsibilities together with the scope and functions of the Committee. The Committee mainly deals with the matters pertaining to statutory and regulatory compliance in financial reporting and matters with regard to the External Auditors and Internal Audit.</p>
	D.3.4 Disclosures regarding Audit Committee.	<p>Complied.</p> <p>Please refer pages 173 to 175 for the Board Audit Committee report.</p>
Principle D.4 Companies must adopt a Code of Business Conduct & Ethics for Directors and Key Management Personnel and must promptly disclose any waivers of the Code for Directors or others	D.4.1 Code of Conduct to be developed for Directors and Senior Management.	<p>Complied.</p> <p>The Board approved Internal Code of Corporate Governance details matters relating to Directors and Key Management Personnel and best practices relating to their business conduct and ethics.</p> <p>In addition the Board approved Compliance Policy and Code of Conduct ensures that the Bank stays ahead of best practice related to business conduct and ethics.</p>
	D.4.2 Affirmative declaration by Chairman of compliance with Code of Business Conduct & Ethics.	Is complied by this Report.

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle D.5 Corporate Governance Disclosures</p> <p>Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.</p>	D.5.1 Disclosure of Corporate Governance	<p>Complied.</p> <p>The requirement is met through the presentation of this Corporate Governance Report.</p>
<p>E. Institutional Investors</p>		
<p>Principle E.1 Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.</p>	E.1 Shareholders voting	<p>Complied.</p> <p>The Annual General Meeting is used as an effective channel to create a dialogue between the shareholders and the Board of Directors. Also The Chairman and CEO have regular structured meetings with institutional shareholders. Board members are briefed about the matters discussed at such meetings.</p>
<p>Principle E.2 When evaluating Companies' Governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.</p>	E.2 Evaluating the Corporate Governance initiatives	<p>Complied.</p> <p>Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition</p>
<p>F. Other Initiative</p>		
<p>Principle F.1 Individual shareholders, investing directly in shares of companies should be encouraged to carry-out adequate analysis or seek independent advice in investing or divesting decisions.</p>	F.1 Investing/Divesting decisions	<p>Complied.</p> <p>The Annual Report contains sufficient information for a potential investor to carry out his/her own analysis. Further, Interim Financial Statements provided each quarter, provides sufficient information to enable the retail investors to make informed judgements regarding the performance of the Bank.</p> <p>Additionally, there is a separate part of the Bank's website dedicated to Investor Relations which provides this information online to all investors/shareholders.</p>
<p>Principle F.2 Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.</p>	F.2 Shareholder Voting	<p>Complied.</p> <p>Individual shareholders are encouraged to participate at the Annual General Meeting and exercise their voting rights.</p>

Corporate Governance Principle	Rule	Details of Compliance
G. Sustainability Reporting		
Principle G.1.1 The principle of Economic Sustainability Governance recognizes how organizations take responsibility for impacts of their strategies, decisions and activities on Economic Performance and Corporate Citizenship in their sphere of influence (including geographic) and how this is integrated throughout the organization.	G.1.1 Economic Sustainability	Complied. Please refer pages 37 to 98 for details.
Principle G.1.2 Environmental Governance of an organisation should adopt an integrated approach that takes into consideration the direct and indirect economic, social, health and environmental implications of their decisions and activities, including pollution prevention, sustainable resource use, climate change, protection of environment, bio-diversity and restoration of national resources.	G.1.2 Environmental Governance	Complied. Please refer pages 93 to 98 for details.
Principle G.1.3 Labour Practices Governance of an organisation encompass all policies and practices relating to work performed by or on behalf of the organization.	G.1.3 Labour Practice	Complied. Please refer pages 82 to 92 for details.
Principle G.1.4 Society Governance encompasses support for and building a relationship with the community and striving for sustainable development including responsible public policy participation, fair competition and responsible community involvement.	G.1.4 Society Governance	Complied. Please refer pages 93 to 98 for details.

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle G.1.5 Product Responsibility Governance includes manufacturing quality products and distributing them and ensuring that the products are safe for the consumers and the environment and also communicating clearly with consumers so that they can make an informed choice including factual unbiased information and fair contractual practices and consumer data protection and privacy.</p>	G.1.5 Product Responsibility	<p>Complied.</p> <p>Please refer pages 67 to 81 for details.</p>
<p>Principle G.6 Stakeholder Identification, Engagement & Effective communication. Internal and external stakeholder groups should be identified in relation to the Company's sphere of influence, impact and implication. Communications should be proactive and transparent. The communication with stakeholders should include reporting on economic, social and environmental issues and be relevant, material, comparable with past performance and should be well presented focusing on substance over form.</p>	G.1.6 Stakeholder identification, engagement & effective communication	<p>Complied.</p> <p>Please refer pages 28 to 36 for details.</p>
<p>Principle G.7 Sustainable Reporting and Disclosure should be formalized as part of the Company's reporting processes and take place on a regular basis.</p>	G.7 Sustainable Reporting and Disclosures	<p>Complied.</p> <p>Please refer pages 37 to 98 and pages 396 to 399 for details.</p>





Good Governance

Good governance is all about performance with accountability - accountability to all the stakeholders. Since good governance will lead to sustainable performance, it is in our own interest that we institute good governance. We in fact have done so in line with the spirit of the law.

Composition of the Human Resources and Remuneration Committee of the Board

The Board appointed Human Resources and Remuneration Committee comprised of seven (7) Board members as set out below and the CEO has been present at meetings by invitation of the Committee except when matters relating to the CEO were discussed.

Chairman	Mr Sunil G Wijesinha
Members	Mr Ashok Pathirage, Mr Sujeewa Rajapakse, Mrs Kimarli Fernando, Mr Anura Siriwardena, Mr Trevine Jayasekera and Mrs Indrani Sugathadasa

Brief profiles of each member are given on pages 102 and 103.

Charter of the Human Resources and Remuneration Committee

The Committee carries out the following duties and responsibilities:

- The Committee determines and periodically reviews the Remuneration Policy (salaries, allowances and other financial payments and perquisites) relating to Executive and/or Non-Executive Directors, the CEO and Key Management Personnel (KMPs) of National Development Bank PLC (the Bank).
- The Committee shall periodically review the Remuneration policy relating to Executive and/or Non-Executive Directors, the CEO and KMPs of the Bank.
- The Committee recommends to the Board the apportionment of the remuneration perquisites and benefits of the Non-Executive Directors including the Chairman out of a total sum determined for the purpose by the shareholders in terms of the Bank's articles.
- The Committee recommends to the Board the remuneration payable to the Executive Director(s) and CEO of the Bank in terms of the Remuneration Policy/the Bank's articles.
- The Committee reviews and recommends to the Board in consultation with the Nomination Committee, personnel considered fit and proper for appointment to KMP positions of the Bank.
- The Committee will be responsible to set and review goals and targets for Directors, CEO and KMPs and determine their periodic revision.
- The Committee evaluates the performance of the CEO and KMPs against the set goals and targets periodically and determines the basis for revising remuneration, benefits and other payments of performance based incentives.
- The Committee considers the succession plans and proposals recommended by the Senior Management of the Bank for all existing KMP positions of the Bank and makes necessary recommendations for the approval of the Board.

- The Committee discusses and analyzes with the Management the overall remuneration expenditure on all staff and their distribution among different categories and obtains information on the remuneration and benefits paid/given to consultants engaged by the Bank.
- The Committee receives information on the role and activities of the Human Resources Department and makes recommendations for the strengthening of the role of the said department if necessary.
- The Committee reviews the recommendations made by the Senior Management on appropriate incentives/awards to achieve objectives such as rewarding performance and retaining KMPs, including the review/recommendation of share option schemes for employees of the Bank.
- The Committee prepares a report on its performance, duties and roles which has to be presented at the Annual General Meeting in terms of Banking Act Directions.
- The Committee reviews and recommends to the Board, in the event termination payments are proposed to be paid to Directors, the CEO and/or KMPs and ensures that such payments are in terms of the remuneration policy of the Bank and are approved in accordance with applicable statutes, rules and regulations.
- The Committee may invite such officers, Directors, employees of the Bank or professionals from outside, from time to time, if the need arises, to attend meetings of the Committee and/or assist the Committee in its deliberations.

Human Resources and Remuneration Committee Guiding Principles

The Overall focus of the Committee:

- Setting guidelines and policies to formulate compensation packages, which are attractive, motivating and capable of retaining qualified and experienced employees in the Bank. In this regard, the Committee sets the criteria such as qualifications, experience, skills and competencies required which are to be considered for appointment or promotion to the post of CEO and to KMPs.
- Setting guidelines and policies to ensure that the Bank upholds and adheres to the provisions of the Laws of the Land, particularly those provisions of the Banking Act No. 30 of 1988, including the Directions issued by the Monetary Board/Director of Bank Supervision in accordance of the provisions of such Act.
- Providing guidance and policy direction for relevant matters connected to general areas of Human Resources Management of the Bank.
- Ensuring that the performance related element of remuneration is designed and tailored to align employee interests with those of the Bank and its main Stakeholders which ensure sustainable growth.
- Structuring remuneration packages of KMPs to ensure that a significant portion of the remuneration is linked to performance which builds a pay for performance culture.

- Promoting a culture of regular performance reviews to enable staff to obtain feedback from their superiors in furtherance of achieving their objectives and development goals.
- To develop a robust pipeline of rising talent capable and available to fill key positions in the Bank.

Human Resources and Remuneration Committee Meetings

Name of Board Committee Member	Directorship Status	Membership Status	Number of Meetings Attended
Sunil G Wijesinha	Non-Executive Independent	C	06/06
Ashok Pathirage	Non-Executive Non-Independent	M	05/06
Trevine Jayasekera	Non-Executive Independent	M	04/06
Kimarli Fernando	Non-Executive Independent	M	05/06
Anura Siriwardena	Non-Executive Independent	M	03/06
Sujeewa Rajapakse	Non-Executive Non-Independent	M	05/06
Indrani Sugathadasa	Non-Executive Independent	M	05/06

C - Chairman M - Member I - On invitation

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

Methodology Used by the Human Resources and Remuneration Committee

The Committee recognised rewards as one of the key drivers influencing employee behaviour, thereby impacting business results. Therefore, the reward programmes are designed to attract, retain and to motivate employees to deliver results by linking performance to demonstrable performance based criteria. In this regard, the Committee evaluates the performance of the CEO and KMPs against the pre-agreed targets and goals that balance short and long-term financial and strategic objectives.

The Bank's variable (bonus) pay plan is determined according to the overall achievements of the Bank and pre-agreed individual targets, which are based on various performance parameters. The level of variable pay is set to ensure that individual rewards reflect the overall performance of the Bank, the particular business unit and individual performance. The Committee makes appropriate adjustments to the bonus pool in the event of over or under achievement against pre-determined targets. In this regard, the Committee can seek external independent professional advice on matters falling within its purview.

The Committee has as a practice ensured that the Bank organizes and takes part in compensation surveys every two years and has utilized such feedback to ascertain that compensation practices are benchmarked to the 'best practices' and are relevant and current as far as possible. Moreover, the Committee also ascertains the engagement levels of staff through Staff Engagement Surveys.

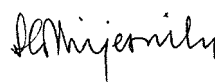
For the Committee broadening the leadership base in the Bank is a strategic priority. Development areas were focused, having followed up from the '360-degree Evaluation' done previously for the leadership team of the Bank. This intervention was to ensure the Bank's leadership is adequately developed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

Further, the Committee reviewed the succession plans and the talent management process in respect of the senior management of the Bank. Succession planning within the Bank also incorporates diagnostic tools and methods for assessing the developmental readiness of employees for particular experiences and roles. The Committee also advised the management to identify a set of customer service competencies and train the front line staff, based on those competencies.

Summary of Activities

During the preceding year, the Committee carried out the following:

- Recommended to the Board, the dissolution of the National Development Bank PLC (NDB) - ESOP Trust and the distribution of the shares held by the Trustee to the employees of the Bank in accordance with the Transitional provisions of the Listing Rules of the Colombo Stock Exchange as well as the rules in the Trust Deed pertaining to the Trust.
- Reviewed the performance of the KMPs of the Bank for the year 2013 and recommended to the Board of Directors of the Bank the increments and the bonuses for the said personnel.
- Recommended to the Board of Directors a special merit bonus scheme for the senior management of the Bank in lieu of an Equity Linked Compensation Plan.
- Reviewed the overall principles with regard to increments/ bonuses and promotions for the year 2014 based on the compensation survey carried out by Messrs Ernst & Young.
- Revised the Charter of the Committee.
- Reviewed and set the goals and targets for the KMPs of the Bank and reviewed the goals and targets for the Directors of the Bank for the year 2014.
- Reviewed the structure and function of the Human Resources Department of the Bank.



Sunil G Wijesinha
Chairman - Board Human Resources and Remuneration Committee
Colombo

13 February 2015

Composition of the Corporate Governance and Legal Affairs Committee as at 31 December 2014

Chairperson	Mrs Kimarli Fernando
Members	Mr Sunil G Wijesinha Ms G D Chandra Ekanayake Mr Anura Siriwardena Mrs Indrani Sugathadasa Mr Rajendra Theagarajah

Charter of the Corporate Governance and Legal Affairs Committee

The Board of Directors of National Development Bank PLC (the Bank) has adopted the Charter for the Corporate Governance and Legal Affairs Committee which describes the Committee's composition, responsibilities and operations, as well as the manner in which the Committee would be carrying out its role.

The Corporate Governance and Legal Affairs Committee which was formed in the year 2007 is mandated with the task of assisting the Board in ensuring compliance with the Companies Act No. 07 of 2007, the Banking Act Directions on Corporate Governance, the Bank's internal Corporate Governance Code, the Colombo Stock Exchange Listing Rules and all rules, regulations and guidelines issued by regulatory authorities relating to corporate governance for licensed commercial banks. The Committee on a continuous basis reviews the overall corporate governance of the Bank including its Constitution, the CGLA Charter and the Corporate Governance Code and recommends improvements as appropriate.

Committee's Guiding Principles

The principal purposes of the Committee are to assist the Board of Directors of the Bank in defining the Governance Role, improving Board processes and ensuring effective Governance.

Committee Meetings

The Committee held three meetings during the year under review.

Name of Board Committee Member	Directorship Status	Membership Status	Number of Meetings Attended
Kimarli Fernando	Non-Executive Independent	C	3/3
Sunil G Wijesinha	Non-Executive Independent	M	3/3
Anura Siriwardena	Non-Executive Independent	M	3/3
G D Chandra Ekanayake	Non-Executive Non-Independent	M	3/3
Indrani Sugathadasa	Non-Executive Independent	I	1/3
Rajendra Theagarajah	Executive Director	M	3/3

C - Chairman M - Member I - On invitation

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


Methodology used by the Committee

The Committee meets on a regularly scheduled basis at least twice a year, or more frequently as circumstances dictate in order to ensure effective governance.

Summary of Activities

The Committee has carried out the following key activities in the year 2014:

Whilst endeavouring to ensure a solid corporate governance culture within the Bank, the Committee made significant improvements in several areas connected to corporate governance. During the year, the Committee reviewed the format of the Annual Declaration form to be submitted by the Directors and also made several recommendations to improve the Board processes as well as the processes followed by the Board Sub-Committees at sub-committee meetings. The procedure for selection and appointment of Directors to the subsidiary companies were also reviewed by the Committee. In addition, the Committee reviewed the Communications Policy of the Bank and the Related Party Policy. The Committee also gave suggestions on the procedure to be followed for the exercising of the ELCP options by employees. The Committee recommended improvements to the monitoring of the related party transactions effected by all Directors and Key Management Personnel. The Corporate Governance and Legal Affairs Committee Charter was reviewed and necessary amendments were suggested to the Board.



Kimarli Fernando

Chairperson

Corporate Governance and Legal Affairs Committee

13 February 2015

Composition of the Nomination Committee of the Board

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

Chairman	Mr Sunil G Wijesinha
Members	Mr Ashok Pathirage, Mr Sujeewa Rajapakse, Mr Anura Siriwardena, Mr Trevine Jayasekera

Brief profiles of each member are given on pages 102 and 103.

Charter of the Nomination Committee

The Committee carries out the following duties and responsibilities:

1. Implements procedures to select/appoint new Directors, CEO and Key Management Personnel (KMPs).
2. Considers and recommends the re-election of current Directors, taking into account the performance and contribution made by the Director/s concerned towards the overall discharge of the Board's responsibilities.
3. Sets out the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the KMPs.
4. Ensures that Directors, CEO and KMPs are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks
5. Implements procedure to set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment to select/appoint fit and proper persons as the Nominee Directors to the Boards of National Development Bank PLC (the Bank) Group Companies.
6. Considers and recommends from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and KMPs.

Committee Guiding Principles

The Nomination Committee is tasked with inter alia, identifying individuals qualified to become members of the Boards of the Bank and its Group Companies. The identification aforementioned is carried out by the Committee by determining the fit and proper nature of the Directors to be so appointed via the assessment of the experience, skills and expertise and competencies of such individuals being considered to be nominated against the needs of the Board/s and the relevant regulatory requirements and applicable statutes, if and when a vacancy exists and at such times the Committee considers appropriate.

Nomination Committee Meetings

The Committee held 4 meetings during the year under review.

Name of Board Committee Member	Directorship Status	Membership Status	Number of Meetings Attended
Sunil G Wijesinha	Non-Executive Independent	C	04/04
Ashok Pathirage	Non-Executive Non-Independent	M	03/04
Trevine Jayasekera	Non-Executive Independent	M	03/04
Anura Siriwardena	Non-Executive Independent	M	04/04
Sujeewa Rajapakse	Non-Executive Non-Independent	M	03/04

C - Chairman M - Member I - On invitation

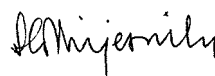
The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

Methodology Used by the Committee

The Committee meets as and when necessary in order to, inter alia, assess the suitability of individuals for appointment as Directors and KMPs of the Bank and its subsidiaries in the manner aforementioned as well as to conduct such other affairs which the Charter of the Committee mandates the Committee to carry out.

Summary of Activities

During the year the Committee recommended to the Board the re-election of Directors retiring by rotation and offering themselves for re-election at the Annual General Meeting. Additionally, the Committee further reviewed the appointment of one KMP to a subsidiary of the Bank and further recommended to the Board, suitable persons to be appointed as Directors to the subsidiary companies of the Bank.



Sunil G Wijesinha
Chairman - Board Nomination Committee
Colombo

13 February 2015

Composition of the Strategic Issues Committee of the Board

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

Chairman	Mr Sunil G Wijesinha
Members	Mr Ashok Pathirage Mr Trevine Jayasekera Mrs Kimarli Fernando Mr Sarath Wikramanayake Mr Sujeewa Rajapakse Mr Anura Siriwardena

Brief profiles of each member are given on pages 102 and 103.

Charter of the Strategic Issues Committee

The Committee is responsible for determining the following decisions:

1. Approving of all strategic investments and divestments and recommending the same to the Board.
2. Approving the periodical strategic plan (covering 3-5 years or more) and recommending the same to the Board.
3. Approving any significant amendments to the existing strategic plan and recommending the same to the Board.

The Committee additionally carries out the following duties and responsibilities:

1. Providing the strategic direction and strategic thinking of the Board to the management in the development and implementation of the Bank's strategic plan.
2. Developing the Bank's strategy and its implementation together with the management.
3. Reviewing and assessing the formulation and implementation of strategic plans developed by the management and approved by the Board.
4. Guiding and assisting the management in implementing strategic decisions taken by the Board.
5. Reviewing and evaluating strategic issues and plans of subsidiary companies of the NDB Group to ensure that the same are in line with the strategic initiatives and strategic direction of the Bank.

Committee Guiding Principles

The primary purposes of the Committee are the examination and evaluation of strategic issues of a regular as well as of an ad hoc nature whilst also recommending any action required to be taken by the Board of Directors of the Bank. The Committee serves as a catalyst as well as a monitor of the development and implementation of the Bank's business strategies and further assists the Board in maintaining an interactive strategic planning process with the management which includes the review

and assessment of business strategy plans developed by the management and approved by the Board.

Strategic Issues Committee Meetings

The Committee held one meeting during the year under review.

Name of Board Committee Member	Directorship Status	Membership Status	Number of Meetings Attended
Sunil G Wijesinha	Non-Executive Independent	C	01/01
Ashok Pathirage	Non-Executive Non-Independent	M	01/01
Trevine Jayasekera	Non-Executive Independent	M	01/01
Sarath Wikramanayake	Non-Executive Non-Independent	M	01/01
Kimarli Fernando	Non-Executive Independent	M	01/01
Anura Siriwardena	Non-Executive Independent	M	01/01
Sujeewa Rajapakse	Non-Executive Non-Independent	M	01/01

C - Chairman M - Member I - On invitation

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

Methodology Used by the Committee

The Committee meets as and when necessary in order to, inter alia, deliberate in detail on matters of strategic importance to the Bank and the NDB Group so as to advise the Board in a timely manner. The Committee meets to examine and evaluate any strategic issues that may arise and further to evaluate any changes to strategic plans/decisions already in place, as and when needed as well as to conduct such other affairs which the Charter of the Committee mandates the Committee to carry out.

Summary of Activities

At the Committee meeting held during the preceding year the Committee reviewed in detail and recommended to the Board of Directors of the Bank, the Budget for year the 2015 and several strategic initiatives for the year 2015.



Sunil G Wijesinha
Chairman - Board Strategic Issues Committee
Colombo

13 February 2015

Composition of the Integrated Risk Management Committee

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

Chairman	Mr Sarath Wikramanayake
Members	Mr Sunil G Wijesinha, Ms G D Chandra Ekanayake, Mr Rajendra Theagarajah, Mr Faizan Ozman (Group Chief Financial Officer), Ms Nirmala Rayen (Head - Group Risk Management), Ms Chamila Chandrapala (Head- Market Risk), Mr Priyantha Gamage (Head - Operational Risk)

Charter of the Integrated Risk Management Committee

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

The Charter of the IRMC was approved by the Board of Directors and is reviewed annually. As part of the annual review process, Committee reviewed the charter in May 2014 and there were no material changes made. As per the Charter, the scope of work include the following:

- Assess all risks of the Bank and Group on a monthly basis through appropriate risk indicators and management information.
- Submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.
- Review the work carried out and decisions made by all management level committees such as the Credit Committee, Asset-Liability Committee, Credit and Market Risk Policy Committee and the Operational Risk Policy Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits
- Take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee/Board on the basis of the Bank's policies and regulatory and supervisory requirements.
- Take appropriate action against the officers who fail to identify specific risks, and/or take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision. The course of action to be taken against staff would be governed by the HR disciplinary action procedure in force.

- Review and discuss the scope of work of the Group Risk Management Department.
- Receive copies of regulatory examination reports pertaining to matters that are within the purview of the Committee and Management's responses thereto.

Committee Guiding Principles

- Responsible to the Board of Directors and the Committee's role is one of oversight.
- Management is responsible for designing, implementing and monitoring an effective risk program.
- Line business managers are responsible for managing risks in the areas for which they are responsible.
- Each member of the Committee shall be entitled to rely in good faith on the integrity of those persons from whom he or she receives information.

Meetings

The Committee held four meetings, during the year under review to discuss the normal scope of work and one additional meeting to discuss the ICAAP Framework of the Bank. The attendance of Committee Members at meetings is given below:

The Committee reviews all key risks of the Bank such as Credit, Market, Liquidity, Operational Risks and the Key Risk Indicators of the Group Companies on a monthly basis through the monthly KRI statements. Group Companies covered are NDB Investment Bank, NDB Capital Holdings PLC, NDB Wealth Management Ltd., NDB Securities (Pvt.) Ltd., and NDB Capital Bangladesh.

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

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

Name of Board Committee Member	Directorship Status	Membership Status	Number of Meetings Attended
Sarath Wikramanayake	Non-Executive Director	C	05/05
Sunil G Wijesinha	Non-Executive Director	M	03/05
G D Chandra Ekanayake	Non-Executive Director	M	03/05
Rajendra Theagarajah	Executive Director	M	05/05

C - Chairman M - Member I - On invitation

Methodology Used by the Committee

- Work closely with Key Management Personnel and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.
- Assess all risks faced by the Bank, its subsidiaries and associate companies, through appropriate risk indicators and management information.
- Specify Risk Appetite and recommend prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the Committee on the basis of Bank's/Group's policies and regulatory and supervisory requirements.

Summary of Activities

Credit Risk

Reviewed and approved policies and operating guidelines related to impairment policy and Bank's Risk Management Policy on Exposure to Stock Market Activities.

Reviewed portfolio quality covering

- The amount, characteristics, concentrations and quality of the Bank's loan portfolio, large credit exposures, sector and geographical distribution of portfolio.
- Exposure to Stock Market Activities/Margin Trading Exposures Reports
- Pawning Portfolio/Raththaran Ithurum
- Collections and Recoveries
- Movements in Commodity Prices
- Portfolio Value at Risk
- Top Credit & Market Risks

Reviewed work carried out by the Executive Credit Committees (ECC), Credit and Market Risk Policy Committee by reviewing the decisions taken by each committee.

Operational Risk

Reviewed and approve, policies and operating guidelines related to Operational Risk Policy, Risk & Control Self Assessment & Key Operational Risk Controls, Key Risk Indicators Methodology Paper, Operational Risk Data Collection, Business Continuity Management.

Reviewed operational risk issues, including but not limited to:

- Significant Operational Risks, Risk breakdown by control type, KRIs related to HR, Operational Losses due to cash shortages and frauds, IT related incidents, Account Reconciliations and Compliance, Operational Losses

- The adequacy of the Bank's Business Continuity and Disaster Recovery planning including the review of test results

Review work carried out by the Operational Risk Policy Committee by reviewing the decisions taken by committee.

Liquidity and Market Risk

Reviewed and approved policies and operating guidelines related to Liquidity Risk Management Liquidity Contingency Funding Plan, Asset Liability Management, Investment Policy, Interest Rate Risk Management Policy, Treasury Dealing Room Limits, Individual Dealer & Authorisation Limits.

Reviewed information and monitored the effectiveness of the management of asset and liabilities, including local and foreign currency maturity mis-matches, price sensitivity, FX Risk Report, Country Risk Report, Debt/ equity/commodity exposure, Securities portfolio, MRM/ALM Limit Compliance Report.

Reviewed work carried out by the Asset Liability Committee (ALCO) by reviewing the decisions taken by Committee.

Compliance

Assessed the Bank's compliance with laws, regulations and regulatory guidelines, internal policies in all areas of business operations.

Reviewed and approved the annual work plan of Compliance function and assess work carried out.

Others

Review Risk Dashboards of the Group Companies through the monthly KRI statements and quarterly Risk Assessment Report.

Review and approve Annual Review of Internal Capital Adequacy Assessment Process (ICAAP) Document for 2014.

Review performance against Risk Appetite.

Review progress on Integrated Risk Management Framework Implementation and new guidelines issued on Stress Testing and Baseline Security Standard for Information Security Management.

Quarterly updates on the Regulatory Examination Report.



Sarath Wikramanayake
Chairman - Integrated Risk Management Committee
Colombo

13 February 2015

Composition of the Audit Committee

The Audit Committee comprised of six Non-Executive Directors as at the end of the year 2014 and is in line with the composition requirements specified in the Direction. The Chairman of the Audit Committee Mr Trevine Jayasekera is an Independent Non-Executive Director and a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, while the other members of the Committee are also from a specialist financial/auditing background.

The structure and composition of the Board Audit Committee for the year 2014 and the attendance of each Director is set out in the table below:

Name of the Director	Independent/Non-Independent under CBSL Directions	Independent/Non-Independent under ICASL/SEC Directions	No. of Meetings Attended/Scheduled
Mr Trevine Jayasekera	Independent	Independent	9/9
Mr Sarath Wikramanayake	Non-Independent	Non-Independent	8/9
Mr Sujeewa Rajapakse	Non-Independent	Non-Independent	6/9
Ms G D Chandra Ekanayake	Non-Independent	Independent	8/9
Mrs Kimarli Fernando	Independent	Independent	9/9
Mrs Indrani Sugathadasa	Independent	Independent	8/9

Brief profiles of the members are given on pages 102 and 103.

This report focuses on the activities of the Audit Committee for the year under review. A more general description of the Committee's functions is given under Corporate Governance on pages 128 to 134.

The Audit Committee Charter clearly defines the Terms of Reference of the Committee and is periodically reviewed and revised with the concurrence of the Board of Directors. This process ensures that new developments and concerns are adequately addressed. The Audit Committee Charter was last reviewed and approved by the Board of Directors in the last quarter of 2014.

Purpose and Terms of Reference

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

The roles and functions of the Committee, are set out in the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and its subsequent amendments (hereinafter referred to as the Direction), 'Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange' and 'Code of Best Practice on Corporate Governance' issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

Responsibilities of the Audit Committee

- Review the Interim Financial Statements and the Bank's annual Financial Statements in order to monitor the integrity of such statements prepared for disclosure, prior to submission to the Board of Directors.
- Ensure that efficient and sound financial reporting systems are in place and are well managed in order to provide accurate, appropriate and timely information to the Board of Directors, Regulatory Authorities, the Management and Other Stakeholders.

- Ensure the Bank has adopted and adhere to policies which firmly commits the Bank to achieve the highest standards of good corporate governance practice.
- Review the quality and the appropriateness of Accounting policies and their adherence to statutory and regulatory compliance requirements and applicable Accounting Standards.
- Review internal audit reports and liaising with Management in taking precautionary measures to minimise control weaknesses, procedure violations, frauds and errors.
- Review External Audit and Statutory inspection reports and follow up on their findings and recommendations.

Audit Committee Meetings

The Audit Committee met nine times during the year of which four meetings were to approve the Bank's quarterly and annual financial statements. Attendance of the Committee members for each of these meetings is given in the table under 'Audit Committee Composition' in this Report.

The Chief Executive Officer, the Head of Internal Audit, the Group Chief Financial Officer, Head of Group Risk and the Chief Operating Officer are permanent invitees. Other officials were invited to attend the meetings on a need basis. On the invitation of the Committee, the Bank's External Auditors, Messrs Ernst & Young attended all meetings during the year. The Audit Committee met the External Auditors twice during the year, without the presence of CEO and the Corporate Management, to ensure that the Auditors had the independence to discuss and express their opinions on any matter and also for the committee to have the assurance that the management has fully provided all information and explanations requested by the Auditors.

Summary of Activities

Financial Reporting

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

- The adequacy and effectiveness of the Internal Control Systems and Procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account.
- The effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders.

- The Bank's Financial Statements and Accounting Policies and practices.
- The processes by which compliance with Sri Lanka Accounting Standards (SLFRS/LKAS) and other regulatory provisions relating to financial reporting and disclosures are ensured.
- The Annual Report and Accounts, and the Interim Financial Statements prepared for publication together with the press releases prior to submission to the Board.

System of Internal Controls

During the year, the Committee reviewed the effectiveness of the Bank's Internal Control System and the CEO's quarterly confirmation on the internal control environment. Additionally, the Committee also assessed the effectiveness of the Bank's internal controls over financial reporting as of 31 December 2014, as required by the Banking Act Direction No. 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka, Subsection 3(8)(ii) (b), based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by The Institute of Chartered Accountants of Sri Lanka. The result of the assessment is given on page 263 and 264, in the "Directors' Statement on Internal Control" in the Annual Report. The External Auditors have also issued an Assurance Report on Directors' Statement on Internal Controls. The Report is given on page 265 of the Annual Report.

Internal Audit

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

With the concurrence of Board of Directors, the annual internal audit of Treasury and related areas for the year 2014 was outsourced to an audit firm from the list of firms approved by Central Bank of Sri Lanka. These outsourcing assignments were awarded in compliance with the Central Bank of Sri Lanka Outsourcing Direction No. 02 of 2012.

Compliance with the Revised Sri Lanka Accounting Standards

The adoption of the revised Sri Lanka Accounting Standards (SLFRS/LKAS) and the impact of the same on the Bank's Financial Statements have been independently validated by the External Auditors during their year-end audit and the process was continuously reviewed by the Committee.

Regulatory Compliance

The Internal Audit performs verifications covering applicable regulatory requirements during their process audits ensuring that systems and procedures are in place to ensure compliance with such requirements.

Internal Audit Charter and Audit Manual

The internal audit function is governed by the Internal Audit Charter which defines the scope, functions, authority, responsibility, reporting, external relationship management and ethics that assist and direct/guide the Internal Audit Department to discharge its function independently.

External Audit

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

During the audit, the External Auditor presented to the Committee their audit approach and procedures, including matters relating to the scope of the audit and Auditor's independence.

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

The Committee reviewed the Management Letter issued by the External Auditor and the management responses thereto.

The Audit Committee was of the view that the Non-Audit Services provided by the External Auditor were not within the category of services identified as prohibited under:

1. The guidelines issued by the Central Bank of Sri Lanka for External Auditors, relating to their statutory duties in terms of Section 39 of Banking Act No. 30 of 1988 and amendments thereto.
2. The guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.

In carrying out the overseeing responsibilities, the Committee adopted the overview principles of the External Audits of Banks, as recommended by the Basel Committee on Banking Supervision, issued in March 2014.

Re-appointment of External Auditor

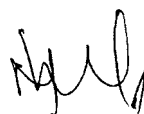
The Audit Committee performed an evaluation of the External Auditor based on certain defined criteria and recommends the reappointment of Messrs Ernst & Young, Chartered Accountants as their External Auditor to the Board of Directors for the financial year ending 31 December 2015, subject to the approval of the shareholders at the next Annual General Meeting.

Good Governance and Whistle Blowing Policy

The Bank's Whistle Blowing Policy is intended to serve as a channel of corporate fraud risk management. The policy will encourage any team member who has a legitimate concern on an existing or potential 'wrong doing', done by any person within the Bank, to come forward voluntarily, and bring such concern to the notice of an independent designated authority. Concerns raised are investigated and the identity of the person raising the concern is kept confidential.

Evaluation of the Audit Committee

The Audit Committee carried out a formal self-evaluation/appraisal on the effectiveness of the Committee and reported the results of same to the other members of the Board. The Board concurred that the Committee had carried out its responsibilities in an effective and satisfactory manner.



Trevine Jayasekara
Chairman of the Audit Committee

13 February 2015

As a provider of banking and financial services, risk is at the core of our day-to-day activities. The Bank's risk philosophy is that the risk should be taken in line with the Bank's risk appetite and it should fit in with the Bank's business strategy, assist the decision-making process and enhance management effectiveness and also optimize capital utilization.

Business of banking naturally entails assuming 'Risks' in all business transactions. As a result, 'Risk Management' remains to gain prominence as a key strategic focus in managing banks effectively in today's impulsive financial markets. The vision of Risk Management is to proactively assist the business in delivering superior shareholder value by ensuring an optimal trade-off between risks and rewards whilst upholding strong liquidity and adequate capital positions at all times combined with a robust asset quality. The operating model within the Bank ropes this vision and cascades the actions to fulfil same.

The changing nature of today's business world is increasing the scope and potential impact of the risks faced. The ability of a bank to take strategic initiatives within pre-defined and consistent risk framework can be considered as a speciality that can make a distinction for a bank to ensure safety to all stakeholders in today's competitive market scenario. Hence, the Bank has recognised the risk management capabilities as a 'journey' rather than a destination and is committed to maintain and continuously improve its risk management framework and capabilities through a number of initiatives including substantial investments in IT, training and development of human resources. The management of the risks inherent in the loan portfolio remained a focal point for the Bank in the current year, even as the Bank continued its strategy to expand the loan book to greater levels.

The objectives of the risk management framework are:

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

In addition to the main risks, the Bank has considered twelve other risks which are material to it. The decision is based on directions given by the Central Bank of Sri Lanka (CBSL) and self-assessment of most important risk categories which need a separate mention from an ICAAP perspective. These risk categories include, Liquidity Risk, Interest Rate Risk in the Banking Book, Underestimation of Credit Risk in Standardized Approach, Residual Credit Risk, Concentration Risk, Compliance Risk, Legal Risk, Strategic Risk, Model Risk, Group Risk, Settlement Risk and Reputational Risk.

Our risk culture is fundamental to the delivery of the Bank and Group's strategic priorities. It may be characterised as conservative, control-based and organized supported by a robust risk governance structure. The Bank's risk management framework is employed at all levels of the organization, and is instrumental in aligning the behaviour of individuals with the overall attitude to assuming and managing risk and ensuring that our risk profile is aligned to our risk appetite. In an attempt to cultivate risk-based decision-making by the business lines, the Group Risk Department plays an active role as a mentor and facilitator by instigating new ways of knowledge transfer, and it is one of the core values of the department's culture.

Playing an Active Role in Creating a Learning Culture

Keeping abreast with risk management concepts and having a broader view by various business lines have been understood as of pivotal importance by the Bank. When equipped with such knowledge the business

lines become sounder in their credit decisions. The Bank believes in grooming its own people by its own people. Therefore in order to broaden the business lines exposure to risk related areas the Group Risk Department has initiated a quarterly news bulletin. The bulletin titled 'Risk Analyst' was launched in September 2014 and has been published twice for the year 2014. For each periodical, the staff members contribute articles covering various aspects of risk such as new and emerging developments in risk management, clarifications on risk concepts, policies and procedures, case studies etc. The newsletter is

accessible in the Bank's e-library and in the intra-net. This initiative has enabled the Group Risk Department to grow personally and professionally and build fulfilling careers.

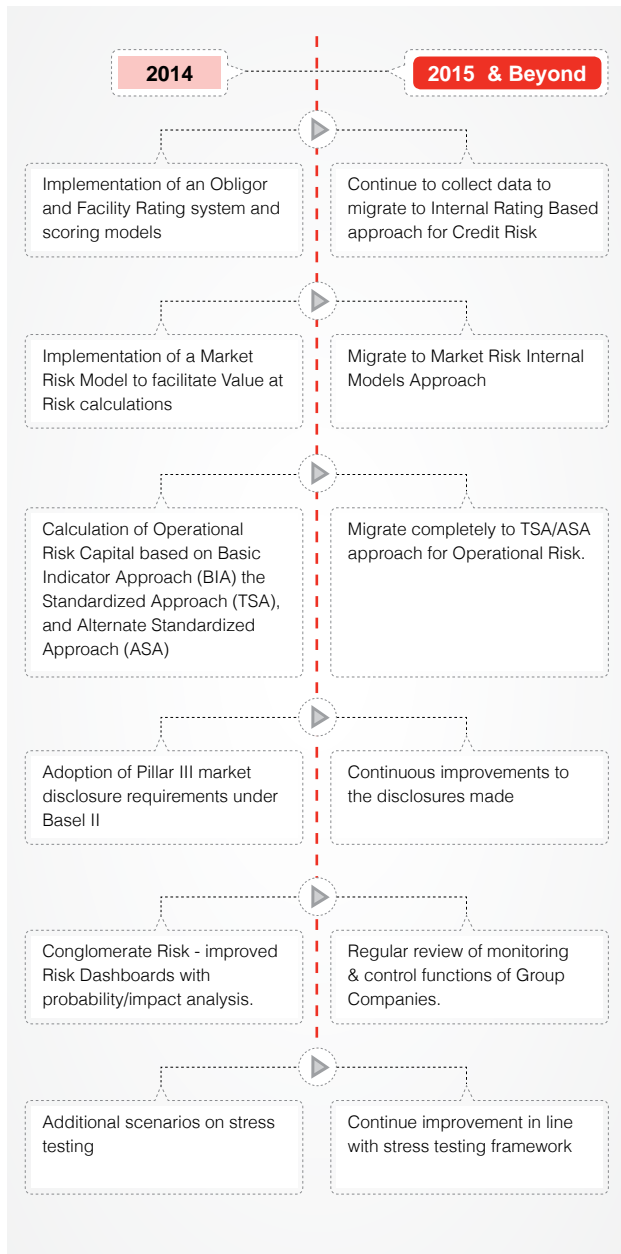
As an integral part of disseminating knowledge among staff, continuous training, advice and awareness programmes have also been considered as an element of the Group Risk Department. Throughout the year the staff members volunteered as resource persons for Bankwide trainings across all business lines at Head office and also at Regional offices.

The Risk Profile of the Bank at a Glance

Highly diversified and short tenor portfolio	<ul style="list-style-type: none"> i. We have a well-diversified portfolio of loans and advances and income streams across geographies, industry sectors and products ii. In Wholesale Banking 77% of loans and advances are short-term and we hold a diverse mix of collateral, valued conservatively iii. Our top 20 corporate exposures are stable as a proportion of capital resources and highly diversified iv. Our asset quality remains good
Strong capital and liquidity position	<ul style="list-style-type: none"> i. We remain well capitalised and our Statement of Financial Position (Balance Sheet) remains highly liquid ii. We remain a net provider of liquidity to interbank markets iii. Our customer deposit base is diversified by type and maturity iv. We have a substantial portfolio of liquid assets which can be realised if a liquidity stress occurs. Liquidity position acceptable even under stressed scenarios
Robust risk governance structure and experienced senior management team	<ul style="list-style-type: none"> i. We have a clear statement of risk appetite which is aligned to the Bank's strategy; it is approved by the Board ii. We continuously monitor our risk profile to ensure it remains within our risk appetite and regularly conduct stress tests iii. We review and adjust our exposures, underwriting standards and limits in response to observed and anticipated changes in the external environment and expectations iv. We have a very experienced Group Risk Department and our risk committees are staffed by experienced leaders v. We have a robust risk management framework which assigns accountability and responsibility for the management and control of risk. vi. We maintain a consistent and highly selective approach to large corporate credit underwriting

Risk Management Initiatives 2014, 2015 and Beyond

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



Risk Appetite, Objectives, Framework

Risk appetite is defined as the level and the nature of risk that the Bank is willing to take in order to pursue its articulated mission on behalf of its shareholders subject to constraints imposed by other stakeholders such as lenders, regulators and customers.

In the event, the risk appetite threshold has been breached, risk management and business controls are implemented to bring the exposure level back within the accepted range. Risk appetite, thus, translates into operational measures such as limits or qualitative checkpoints for the dimensions of capital, earnings volatility and concentration risk etc.

In order to effectively implement risk appetite the Bank has defined quantitative indicators (e.g., capital adequacy level and risk limits) or qualitatively embedded same in the policies and procedures (e.g., underwriting criteria).

The Bank has taken into account the following factors when defining its risk appetite:

Internal and External Input

The Bank assesses its risk appetite against both the internal & external environment it is facing. The risk appetite is not only consistent with business strategy and growth targets but is also in line with the interests of external stakeholders such as shareholders and regulators.

Internal Inputs Considered when Defining its Risk Appetite	External Inputs Considered when Defining its Risk Appetite
The Bank's overall business strategy	The interest of the regulatory agencies
The Bank's business growth target	The credit rating agencies
Stakeholder return objectives	Equity analysts
Cost of capital	Shareholders
	Other capital providers

Coverage of Risks

The Bank has formulated its risk appetite covering the following categories:

- Bankwide level
- Risk Category level
 - Credit Risk
 - Market Risk
 - Operational Risk
 - Concentration Risk
 - Liquidity Risk
 - Interest Rate Risk (in Banking Book)
 - Compliance Risk

The risk appetite framework and risk tolerance limits have been defined with the consultation and engagement of Board and the Senior Management of the Bank in line with the Bank's overall business strategy, providing clear direction to the business units for on-going operation and risk management.

The risk appetite is assessed at monthly intervals to check for any breaches and reported to the Senior Management and to the Board. In the event of a breach, appropriate management action is drawn to bring down the risk level within the risk appetite set.

Group Risk Management

Aggregating the risks of Group Companies remains a challenge due to their diverse business models and risk profiles. The Group Companies are engaged in investment banking, capital market activities, unit trust management and property management activities.

However, the Bank believes the 'Group Risk' is greatly mitigated as;

1. Possible financial impact to the Bank is limited to the amount invested in these companies in the form of equity, at the time the companies were incorporated.
2. NDB Capital Holding PLC (de-listed), the largest subsidiary by size, is listed, thereby regulated by the SEC as well.
3. There is representation by the Bank's Directors/Key Management Personnel on the Boards of Directors/ Board Audit, Risk & Compliance Committee of its subsidiaries, thereby ensuring full and sufficient knowledge of subsidiaries' operations and risk profiles.
4. Due to the governance structure mandated by the laws governing banking and limited liability companies, all inter-company transactions are at arms-length and full disclosure of such transactions are made.
5. Natural mitigation from the fact that the Bank is the holding company and owns the largest Statement of Financial Position in the Group.
6. NDB Securities Ltd., and NDB Wealth Management Ltd. being licensed stock brokers and Unit Trust Managers are regulated by the SEC.
7. Risk Reporting framework by the group companies to Centralised Group Risk Department of NDB/the Integrated Risk Management Committee (IRMC)/ Board for review/direction.

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

We are also focused on ensuring that we act proactively to identify potential macro-economic and regulatory changes and assess the possible impact on our business model or processes.

Emerging Risk Table

Risk	Risk Level	Description	Mitigants
Regulatory changes and compliance	Low	<ul style="list-style-type: none"> - The nature and impact of future changes in economic policies, laws and regulations are not predictable and may run counter to our strategic interests. These changes could also affect the volatility and liquidity of financial markets and more generally the way we conduct business and manage capital and liquidity - Although we seek to comply with all applicable laws and regulations, we may be subject to regulatory actions and investigations across our subsidiaries, the outcome of which is generally difficult to predict and could be material to the Group 	<ul style="list-style-type: none"> - We review key regulatory developments in order to anticipate changes and their potential impact on our performance - We respond both unilaterally and through our participation in industry groups to consultation papers and discussions initiated by regulators. The focus of these activities is to develop the framework for a stable and sustainable financial sector and economy - Internal Capital Adequacy Assessment Process (ICAAP) to analyse/assess our capital requirements under stressed scenarios to maintain stability
Financial markets instability	Moderate	<ul style="list-style-type: none"> - Financial markets volatility or a sudden dislocation could affect our performance, through its impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios or the availability of capital or liquidity - Financial markets instability also increases the likelihood of default by our corporate customers and financial institution counterparties 	<ul style="list-style-type: none"> - We assess carefully the financial position of our counterparties and their credit rating (IDR) according to their systemic importance, when setting limits and adjusting our exposure levels accordingly - Portfolio valuations are carried out through mark-to-market exercise and ensure the results are within our pre-defined risk appetite - We maintain robust processes to assess the suitability and appropriateness of products and services we provide to our clients and customers
Exchange rate movements	Low	<ul style="list-style-type: none"> - Changes in exchange rates affect the value of our assets and liabilities denominated in foreign currencies - Sharp currency movements can also impact trade flows and the wealth of clients, both of which could have an impact on our performance 	<ul style="list-style-type: none"> - We actively monitor exchange rate movements and adjust our exposure accordingly within our prudential limit framework. Stress tests are being performed to ensure least impact to the Financial Statements on a daily basis - Low exposure to the unhedged positions given internal policy and strengthened supervision by the regulators on minimizing open foreign currency positions - We assess the impact of exchange rate movements on our counter parties business and impact on meeting debt obligations

Risk	Risk Level	Description	Mitigants
Risk of adverse movements in interest rates	Moderate	<ul style="list-style-type: none"> - The risk of potential losses due to changes in the fixed income security portfolios - The sensitivity of the Statement of Financial Position due to a change in interest rates 	<ul style="list-style-type: none"> - The duration of the bond portfolio is monitored regularly to assess sensitivity of bond portfolio to interest rate changes. The impact of the Trading portfolio is minimal due to the Bank holding treasury bills and bonds with short-term maturities. Available-For-Sale (AFS) portfolio of bills and bonds is managed within the pre-defined risk parameters - The impact due to the change in interest rates is managed within the pre-defined limits to minimize the adverse impact on interest rate changes
Geopolitical events	Moderate	<ul style="list-style-type: none"> - We face a risk that geopolitical tensions or segments in our footprint could impact trade flows, our customers' ability to pay, and our ability to manage capital 	<ul style="list-style-type: none"> - We actively monitor the situations (e.g. Situation in Russia and Ukraine, ban on fish exports to EU, declining oil prices in the global market etc.) that could have an impact and conduct regular stress tests of the impact of such events on our portfolios, which inform assessments of risk appetite and any need to take mitigating action
Risk of fraud	Moderate	<ul style="list-style-type: none"> - The risk of fraud and other criminal activities is growing as criminals become more sophisticated and as they take advantage of the increasing use of technology in society 	<ul style="list-style-type: none"> - We have a broad range of measures in place to monitor and mitigate this risk. - Controls are embedded in our policies and procedures across a wide range of the Group's activities, such as origination, recruitment, physical and information security
Risk of Natural Disasters	Moderate	<ul style="list-style-type: none"> - Natural disasters can have an impact on the performance of the customers' operations and their ability to meet debt obligations - It can also have an impact on the Bank's operations and inability to continue business from current location 	<ul style="list-style-type: none"> - In situations of natural disasters (both local and overseas), stress tests are carried out to assess the impact of such events on the portfolio and appropriate action is taken to mitigate the risk - A formalized and tested Business Continuity Plan is in place and is able to switch over to the Disaster Recovery site
Active Share market operations	High	<ul style="list-style-type: none"> - This leads to frequent changes in share ownership and hence affects group structuring which could have an impact on credit concentrations and complying with regulations 	<ul style="list-style-type: none"> - Closely monitor share market movements - Internal policies on single/group borrower limits are stringent than regulatory requirements

Risk	Risk Level	Description	Mitigants
Risk arising from inability to meet maturing deposit liabilities	Low	<ul style="list-style-type: none"> - The Bank's liquidity position can affect the ability to meet liability requirements as they fall due - Low liquidity in the markets may result in unexpected stresses to the Bank 	<ul style="list-style-type: none"> - The Bank monitors a number of prudential liquidity ratios as per CBSL risk directions which are discussed at the Assets and Liabilities Committee (ALCO) and IRMC committees. Liquidity stress testing is carried out at regular intervals to identify any fall in Liquidity measures of the Bank. The Bank has maintained a healthy liquidity position throughout the year and has adhered to the Liquid Asset Ratio (LAR) above the statutory requirement - The Bank was least dependant on short-term interbank borrowings during the year

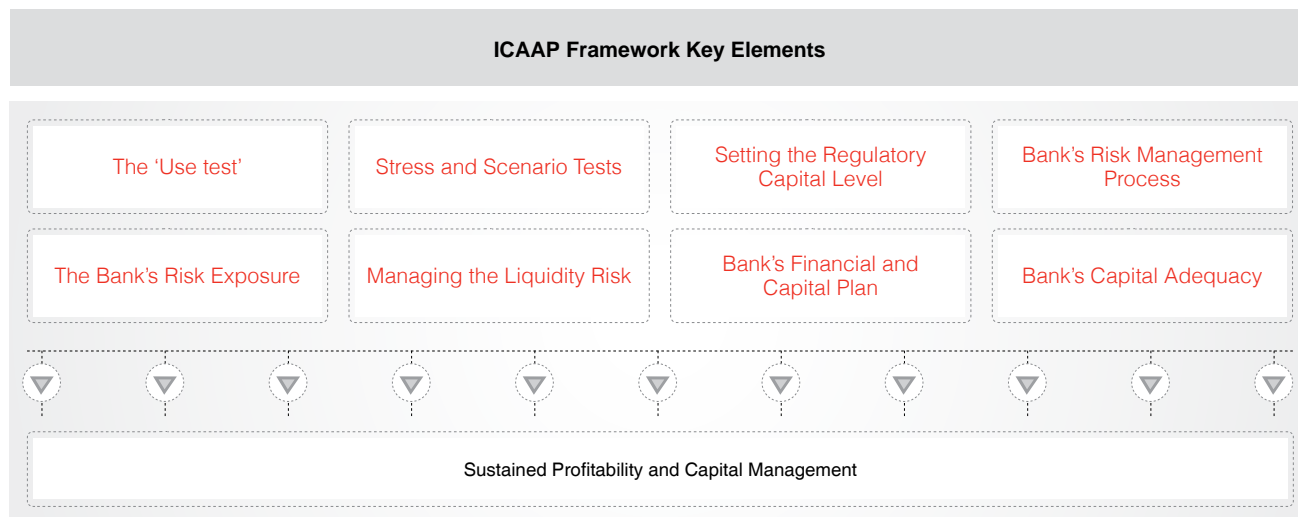
Sustained Profitability and Capital Management

The strategy of the Bank is ensuring sustained profitability through good times and bad times. The need of the economy is, resilient banks which create shareholder value. BASEL regulations have been introduced worldwide to ensure resilience of the individual banks as well as the banking system as a whole.

ICAAP Framework

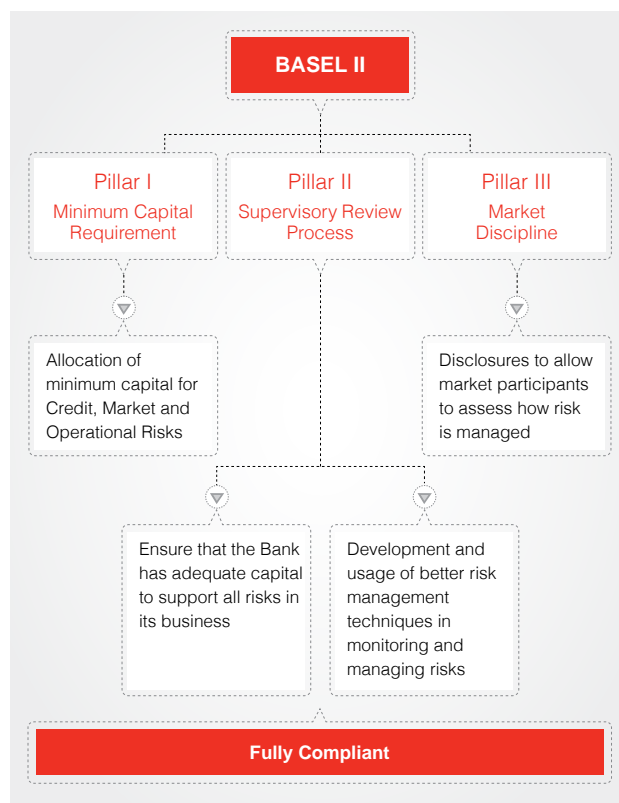
Capital helps protect individual banks from insolvency, thereby promoting safety and soundness in the overall banking system. Minimum regulatory capital requirements under Pillar 1 establish a threshold below which a sound bank's regulatory capital must not fall. The Pillar 2 (Supervisory Review Process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

The ICAAP would be in addition to a bank's calculation of regulatory capital requirements. The Bank has put in place an Internal Capital Adequacy Assessment Process and has adhered to same from January 2013. The Bank's ICAAP process strengthens the risk management practices and capital planning process.



BASEL II

The Bank is fully compliant with the BASEL II regulatory requirements. The Bank identifies and measures all material risks faced in its business and ensures that the Bank has adequate capital to support all risks at all times. The Bank also ensures that its capital is adequate to absorb losses even under stressed conditions. These details are disclosed to all stakeholders of the Bank to ensure awareness among them on how the Bank manages its risks.



Journey Towards Advanced Approaches of Pillar I

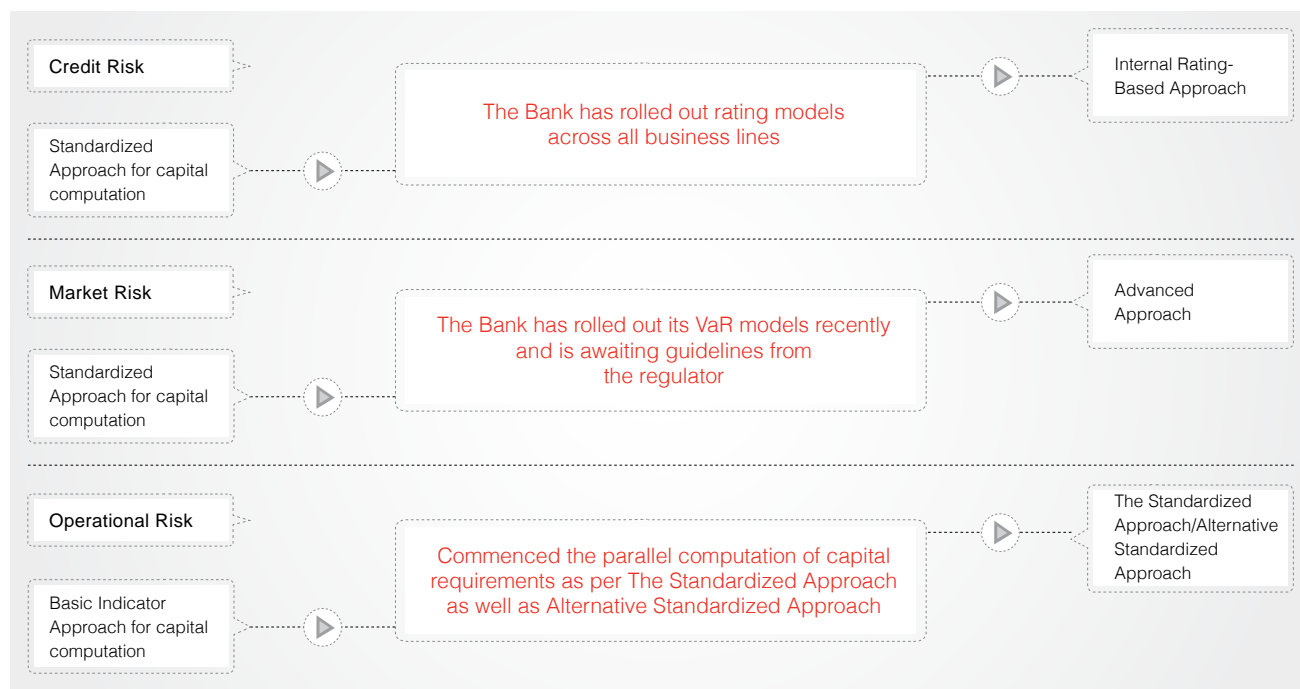
The Bank has already embarked on its journey towards advanced approaches of minimum capital computation under Pillar I in order to optimize on capital allocation. Thinking ahead, the Bank is in the process of automating its capital computation process in terms of Credit and Market Risk. This pioneering strategic move will help the Bank to optimize usage of shareholder capital, which will be critical in the next few years for all banks. The automation of manual processes will ensure accuracy and better conformance to guidelines.

Credit Risk - The Bank is currently using the Standardized Approach for the capital computation for Credit Risk. With the intention of moving to Internal Rating Based approaches, the Bank has rolled out

rating models with the assistance of CRIISIL Risk and Infrastructure Solutions Ltd., India. The system supports the Probability of default (PD) and Loss given default (LGD) computations.

Market Risk - The Bank uses The Standardized Approach for the capital computation for Market Risk. the Bank has already rolled out its Value at Risk (VaR) models and is awaiting guidelines from the regulator to move to advanced approach of capital computation for Market Risk.

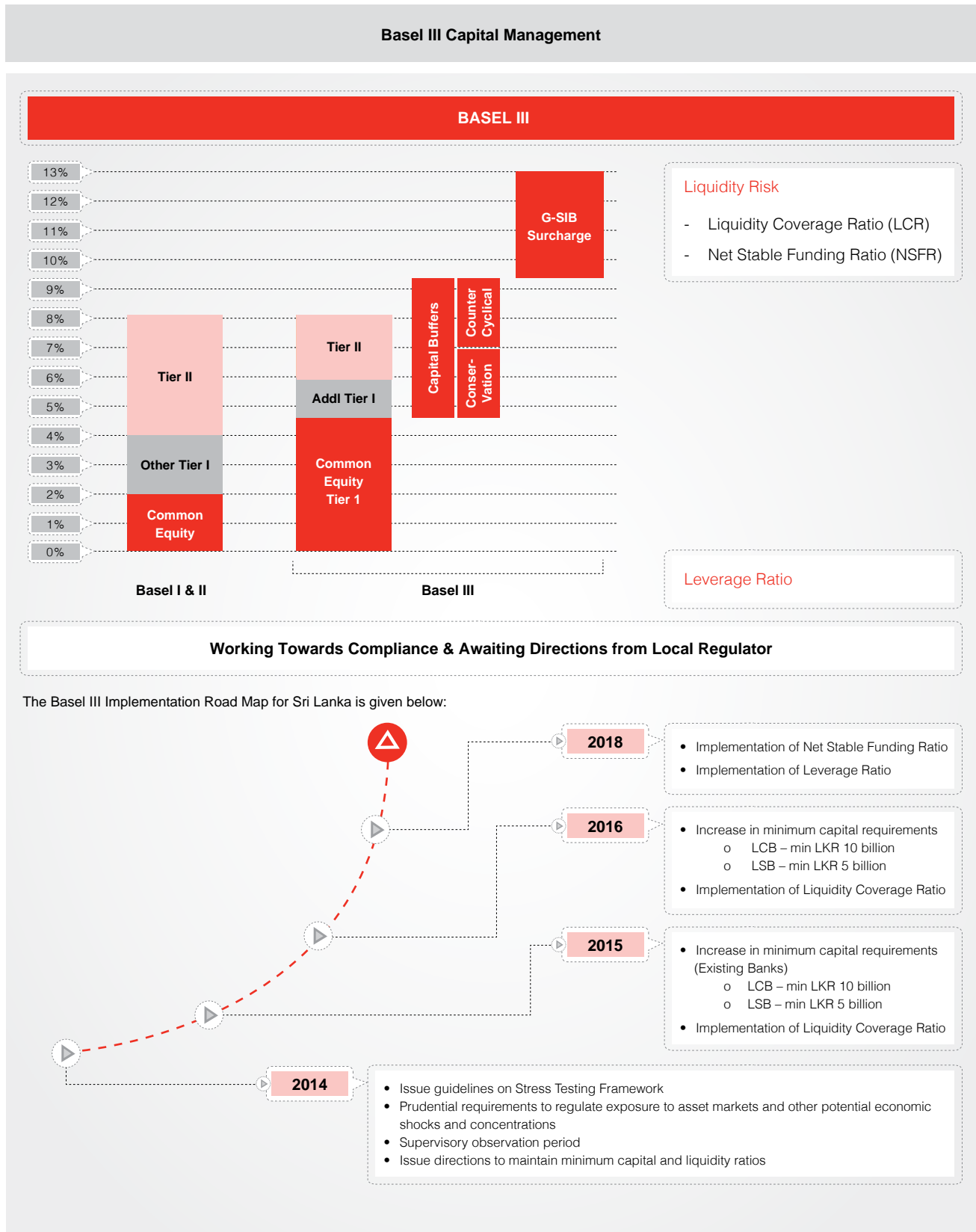
Operational Risk - The Bank is currently using the Basic Indicator Approach for the operational risk capital computation. The Bank has also commenced the parallel computation of capital requirements as per The Standardized Approach(TSA) as well as Alternative Standardized Approach (ASA).



BASEL III and Capital Management

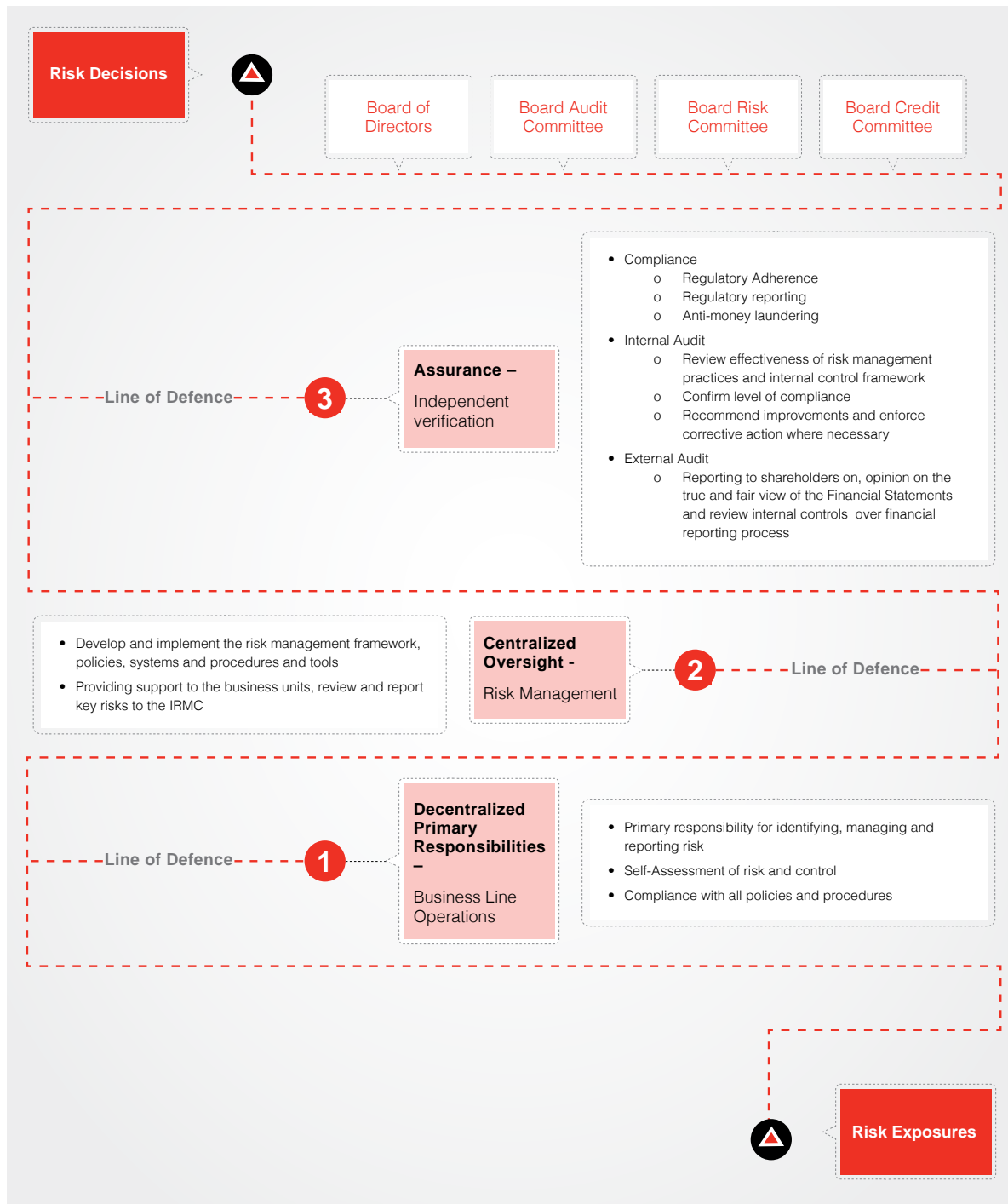
BASEL III is the new global regulatory standard on managing capital and liquidity of banks. With the introduction of BASEL III the capital requirements of banks will increase with an aim to raise the quality, quantity, consistency and transparency of capital base and improve the loss absorbing capacity.

The BASEL III implementation Road Map for Sri Lanka is given below:



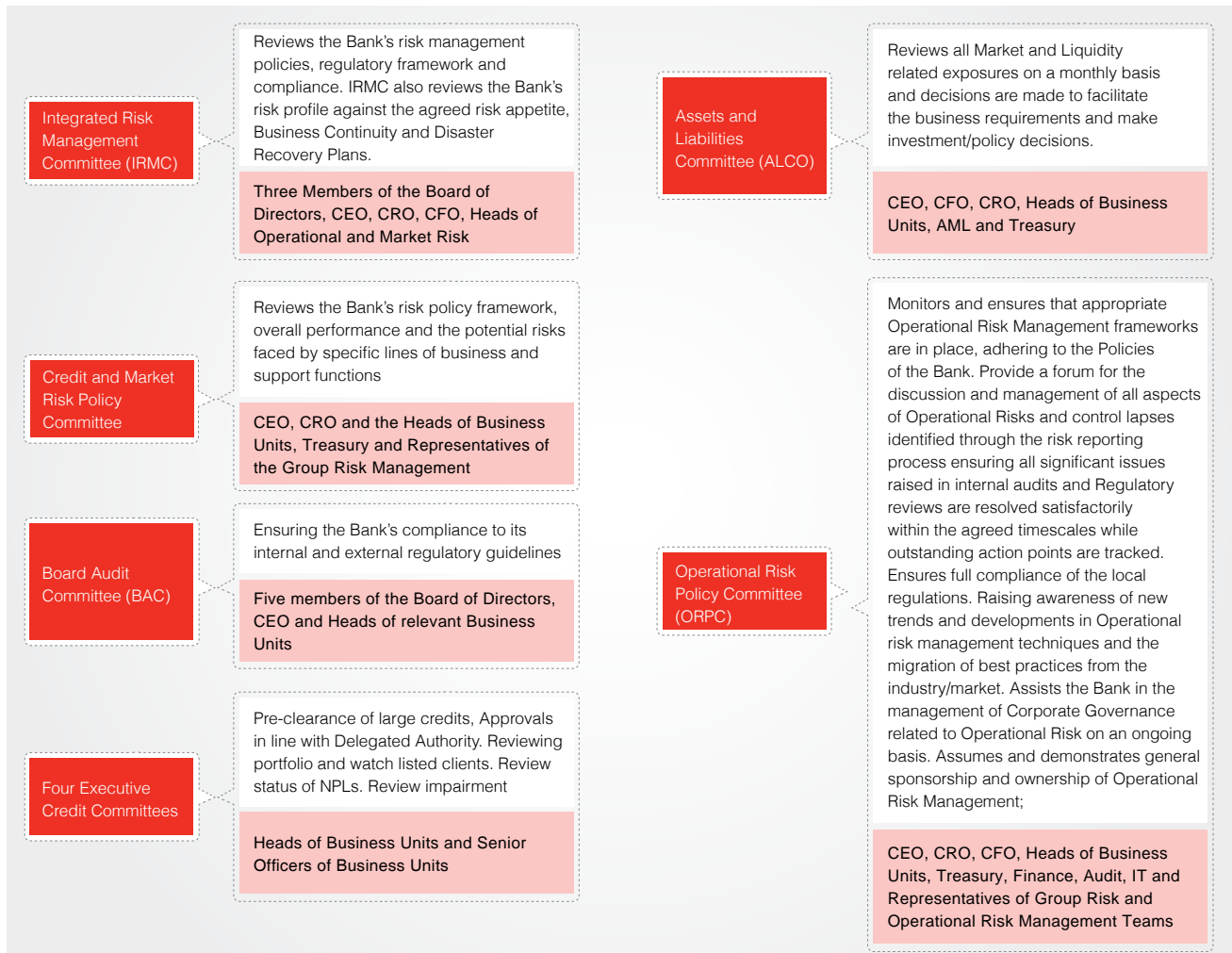
With the implementation of BASEL III the Banks will be required to increase and also improve the quality of capital. Considering the requirements, the Bank initiated steps to automate its capital computation process in terms of Credit and Market Risks which would help to optimize usage of shareholder capital. From a liquidity point of view, the Bank computes required the Liquidity ratios as per the BASEL III guidelines.

Integrated Risk Management at Bank



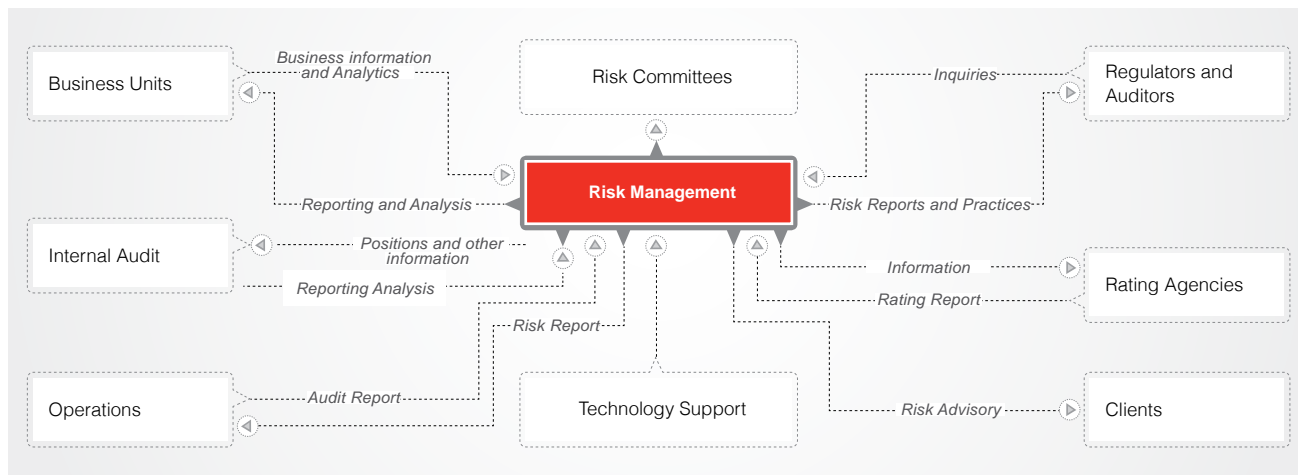
Risk Governance

The Bank's Board of Directors has the overall responsibility for risk management and sets the tone at the top for an effective management of risks through its risk appetite. In discharging its governance responsibility, it operates through two key committees, namely the Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC) which have been formed in compliance with the CBSL Direction No. 11 of 2007 on Corporate Governance. The Bank believes in combining the specialized knowledge of the business units and risk professionals in forming sub-committees for the management of risks.



Relationship With Other Units

The relationships between the risk management and other sections of the Bank and external parties are highlighted below:



Group Risk

The Group Risk Management Department is independent of the business units. It monitors and reports directly to the Integrated Risk Management Committee and the CEO. Several units within the Group Risk Department contribute to the management of risk and co-ordinates across the business lines to guarantee risk management is impeccably integrated into the Bank's corporate culture.

Credit Risk

Credit risk is the risk of a financial loss if a customer or counterparty to a financial instrument fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, and also from Off-balance sheet products such as letters of credit and guarantees. Credit risk generates the largest regulatory capital requirement of the risks we incur. The Bank manages the Credit Risk in the entire portfolio as well as individual credits or transactions.

Objectives of Credit Risk Management

- Ensure optimal risk-reward pay-off for the Bank and to maximise returns
- Maintain a quality portfolio by minimising the non-performing loans and probable losses
- Deliberately manage its risk asset portfolio to ensure that the risk of excessive concentration to any industry, sector or individual customer is minimized and thereby maintain a well-diversified portfolio
- Ensure that exposures to any industry or customer are determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines:
- Avoid all conflict of interest situations and report all insider-related credits to appropriate bodies

Process

At the Bank, credit risk management is considered to be a value addition activity rather than being confined only to a regulatory compliance function.

• Credit Policy

The Bank has a well-defined credit policy approved by the Board of Directors. It defines the

- Credit culture of the Bank
- Specify target markets for lending
- Specify prohibited lending which the Bank under no circumstances will entertain due to either the very high risks involved in such proposals and/or its negative social/ethical consideration
- Set acceptable risk parameters
- Set remedial and recovery actions

• Structured and Standardized Credit Approval Process

Depending on the nature of the project/product standardized formats have been designed and evaluations are carried out by competent staff. There are clear guidelines set to ensure that;

- Credit is extended only to suitable and well-identified customers and never where there is any doubt as to their ethical standards and record, where the source of repayment is unknown or speculative nor where the purpose/destination of funds is undisclosed,
- Never to take a credit risk where, the ability of the customer to meet obligations is based on the most optimistic forecast of events.
- Risk considerations shall have priority over business and profit considerations;
- Ensure that the primary source of repayment for each credit is from an identifiable cash flow from the counterparty's normal business operations or other financial arrangements; the realisation of security remains a fall-back option;

- Adopt a pricing mechanism that reflects variation in the risk profile of various exposures to ensure that higher risks are compensated by higher returns;
- The financial performance of borrowers is to be continuously monitored and frequently reviewed, as is the manner in which the borrower operates his accounts.

• Delegation of Authority

Final authority and responsibility for all activities that expose the Bank to credit risk rests with the Board of Directors and the Board of Directors has delegated approval authority to the CEO, with authority to re-delegate limits to the Executive Credit Committees and the Business Lines. All approval limits are name specific and are based on the individual experience, facility type, collateral in order to ensure accountability and to mitigate any judgmental errors.

- There are four Executive Credit Committees representing the four Business Lines and these Committees comprise senior officers of the business lines.
- The delegated authority limits are reviewed periodically and the Bank follows the four-eyes principle' (i.e. minimum of two officers signing a credit proposal).
- lending decisions are based on detailed credit evaluations carried out by Relationship Managers and reviewed/ approved by designated approving authority.

• Internal Risk Ratings of Obligor

The credit portfolio of the Bank is risk-rated using an internally-developed system that takes into account quantitative as well as qualitative factors. The rating scale ranges from Triple A to B4 and the ratings of every obligor is reviewed at least annually or more frequently if required. This rating system is used as a guide for account monitoring, provisioning/collective impairment, granting delegated authority and pricing.

During the year the Bank invested and rolled out the new Internal Risk Rating system which runs on a sophisticated work flow based software and hosts obligor risk rating, facility risk rating and retail score cards to suit the diverse client portfolios of the Bank. This move facilitates accurate quantification of the expected loss of Bank's portfolio, and also complies with the Central Bank Direction No. 07 of 2011 on IRMC.

The Bank has deployed varying models to gauge the default risk associated with Large Corporate, Mid Corporate, SME and Non-Banking Financial Institutes. All of these models are structured in a manner incorporating both quantitative and qualitative parameters which contributes and reflects realistic probabilities of default in respective models. These models are structured broadly to measure risks arising out of industries the obligors are engaged with, financial position of the obligor, management capacity and specific business related risks. These models are fine tuned to reflect the underlying credit risks of the loan book. The ratings derived from different models are then mapped to a Bankwide single point indicator rating scale based on the underlying probability of default and various other factors including risks inherent to specific model population. The risk rating model implemented facilitates both obligor and facility rating. Whilst obligor rating will indicate the expected probability of default (PD), the facility rating indicates the expected loss given default (LGD). The expected probability of default takes into account the characteristics of the obligor assessed via industry, business, management and financial risk silos, whilst facility rating takes into account the type of the facility, nature of the collateral and realisability as well. Using the expected probability of default and the loss given default calculated via obligor rating and facility rating models, the system facilitates arriving at an expected loss for a specific credit.

- **Risk Scoring**

The Bank deploys custom made scorecards to underwrite consumer assets. These scorecards were developed using Bank's own data and re-weighted to align them for more recent economic conditions. Such scorecards take in to account the customer demographics together with credit worthiness of individuals and disposable income in deciding the level of accommodation of credit. In addition to above, the Bank also carries out a pre-screening of employers of salaried employees who seek consumer credit from the Bank in order to ensure that their level of income generation will not get interrupted in the foreseeable future. In this way the Bank acts more responsibly as such an approach would negate possibility of overspending by consumers based on uncertain future income.

- **Risk Pricing**

The Bank also views pricing for risk as fundamental to credit risk management. Thus steps have been taken to price the credit risk using more scientific methods and blending it with prevailing market sentiments to contain off-market operations. The newly implemented Internal Risk Rating system facilitates calculation of Risk Adjusted Return on Capital (RAROC). This enables the Bank to link capital to expected losses.

- **Post Sanction Review and Monitoring Mechanism**

Post sanction review and monitoring is carried out to ensure quality of credit is not compromised. Any deteriorating credits with emphasis on internal and external early warning signals are identified and such accounts are 'Watch Listed'. The watch listed clients are monitored closely with quarterly reports submitted to the Executive Credit Committees. Further, based on the watch lists the Bank assesses the Portfolio at Risk in the event, such accounts deteriorate further. Non-performing assets are identified at an early stage, enabling management to take action as appropriate.

• Prudential Limits

The industry and portfolio limits are set by the Board of Directors on the recommendation of the Group Risk Department. Credit Risk Management monitors compliance with approved limits. Desired diversification is achieved by setting maximum exposure limits on;

- Single/group obligor limits - limits are more stringent than the limits set by the regulator and on a prudential basis the Off-balance sheet items are considered at face value instead of credit equivalent of such exposures
- Prudential group exposure limit
- Substantial exposure limit
- Industry/economic sector limit

• Portfolio Management

Credit portfolio management is an important function within the overall credit risk management function. Need for such critical and objective portfolio management emanates from the need to optimize the benefits associated with diversification. It also helps the Bank to identify and address potential adverse impact of concentration of exposures. The Bank has a well-structured portfolio management mechanism which evaluates exposures on the basis of industry concentration, rating quality, internally established pre-specified early warning indicators apart from regulator imposed quantitative ceiling on single borrower and aggregate exposure. Based on the feedback from the credit portfolio management, the credit origination criterion is amended prudently to insulate portfolios from further deterioration. The portfolio management team also undertakes, apart from regular portfolio reviews, stress tests and scenario analysis when the external environment, both local and global, undergoes swift changes. Credit portfolio management envisages mitigating credit risks to a great extent by stipulating prudential risk limits on various risk parameters. As such, the Bank has established single borrower limit, limits for related party borrowings and aggregate limit for large exposures as prescribed by the regulators. Moreover the Bank has also established maximum exposure limits to different industry segments. Such

limits are clearly spelt out in the credit policy and the authority for permitting any deviations on an exceptional basis is also clearly documented. The Bank adopts a similar mechanism to assess the risks associated with Off-balance sheet exposures. As part of the credit portfolio management and monitoring procedures, the exposures in off-balance sheet products such as forward exchange contracts, guarantees and letters of credit are treated with utmost care.

KRIs supplement the overall portfolio management system, by providing a view of the credit risk of the portfolio as well as acting as an early warning system. Some of the KRIs monitored and reported to Board Integrated Risk Management Committee are given below:

Portfolio of the Bank	
Industry Portfolio	
Market Share	
NPLs of the Bank	To assess the trends in comparison with industry and measure performance against budgets/risk appetite
Industry NPLs	
NPL ratio of the Bank	
Industry NPL ratio	
Provision Cover of the Bank	
Industry Provision Cover	
Open Loan Position	
ROE %	
TIER I %	To assess compliance with regulatory limits and the Bank's risk appetite
TIER II %	

• Credit Risk Mitigation

The Bank adopts various mechanisms to mitigate the credit risk of the loans book.

- Ways out analysis - the primary source is established through a conservative evaluation of whether the borrower's realistic projected cash flows will be sufficient to repay their debts. This is further mitigated by a second way out in the event of unforeseen adverse circumstances and availability of collateral alone does not make an unacceptable proposal viable. Exemptions on collateral are allowed in the event the borrower demonstrates strong and reliable financial performance.

- Documentation of credit transactions with adequate terms, conditions and covenants in a comprehensive and legally enforceable basis.
- Obtaining of collateral in line with the Bank's policy and ensuring it is supported by enforceable documentation. Collateral policy differs from business line to business line according to the products offered.

The main types of collateral taken by the Bank are

- immovable and movable property mortgages,
- cash deposits,
- mortgages on stocks and book debts, and
- corporate and personal guarantees.

It is the Bank's policy to be on a *pari passu* status with other lenders. A decision to the contrary may be acceptable only where a *non pari passu* position is accepted due to unavailability of security as a result of the Bank being a late entrant to the relationship or is supported by strong financial position of the entity financed. Facilities under product programmes are governed by guidelines given in such individual programmes.

In instances where facilities are granted without collateral, the Bank ensures that its position will not be subordinated to other creditors' interests. In such instances, the Bank generally requires either

a negative pledge agreement not to encumber any assets without permission of the Bank or a *pari passu* clause, whereby the debtor will treat the Bank equally with respect to collateral with all current and future lenders.

The Bank has a panel of valuers who have been selected based on the criteria set out by the Central Bank of Sri Lanka. The Bank ensures that the valuations are carried out and reviewed as following:

Facilities in NPL:

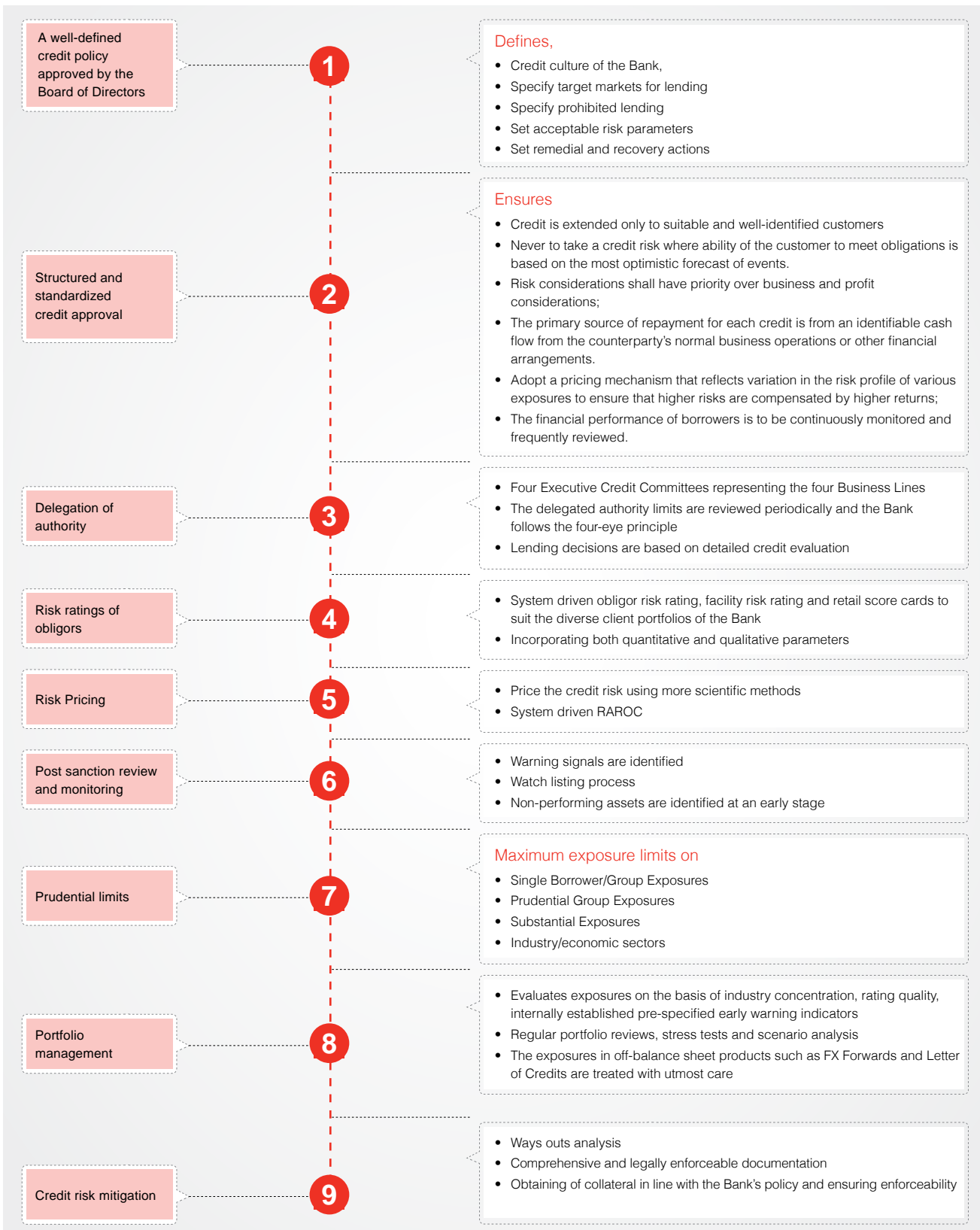
- For facilities granted against residential property occupied by the borrower for residential purposes: every four years
- For all other NPL facilities: every three years

Performing facilities:

- Watch listed clients with working capital facilities: every three years
- Single A rated clients with working capital facilities: every five years

No value is considered if valuations are not in line with the time frames set out as per the CBSL Guidelines.

Process of Sound Credit Risk Management



• Impairment Process

Impairment of Financial Assets

The Bank has in place a detailed impairment policy approved by the Board of Directors.

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. At each reporting date the Bank and the Group assesses whether there is objective evidence of a specific loss event. This means that losses are recognized when objective evidence of a specific loss event has been observed.

Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as default of payment
- Where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or other financial re-organization
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans, to name a few.

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis if there is any objective evidence of a loss based on the above. Items considered when determining allowance amounts include

- The sustainability of the counterparty's business plan,
- Its ability to improve performance if it is in a financial difficulty,
- projected receipts and the expected payout, should bankruptcy ensue,
- The availability of other financial support,
- The realisable value of collateral and the timing of the expected cash flows.

Impairment allowances are evaluated monthly.

Collectively Assessed Allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages,

Government debt and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to have been impaired.

The Bank generally bases its analyses on historical experience and economic factors. These factors include

Economic Factors	Historical Experience
Unemployment rates	Historical losses on the portfolio
Changes in laws	Levels of arrears
Changes in regulations	Credit utilisation
Other relevant consumer data	Loan to collateral ratios

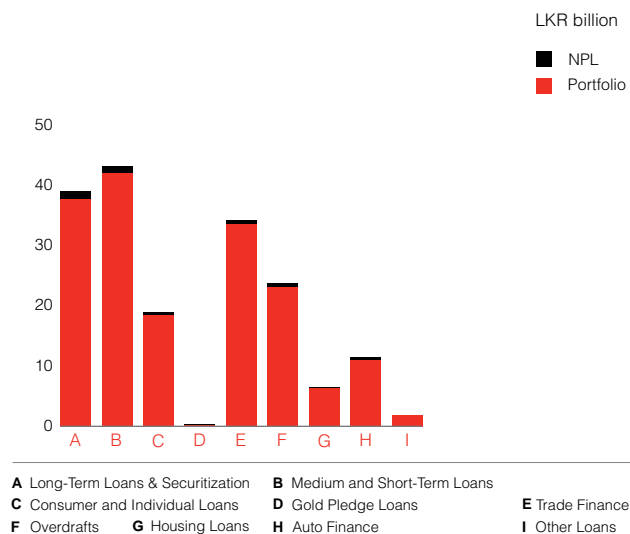
The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances. Allowances are evaluated separately at each reporting date with each portfolio.

Graphical Analysis

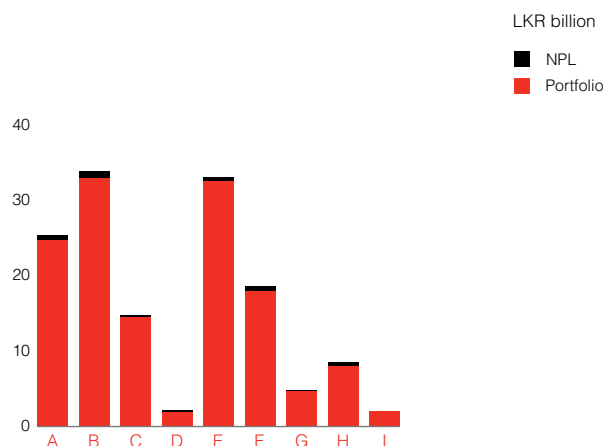
The graphical analysis given below depicts the extent of analysis and the quality of the portfolio.

Product Concentration

Product Concentration as at 31.12.2014



Product Concentration as at 31.12.2013

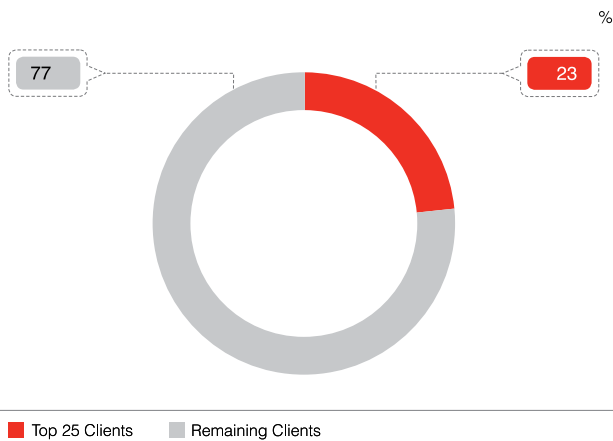


A Long-Term Loans & Securitization B Medium and Short-Term Loans
 C Consumer and Individual Loans D Gold Pledge Loans E Trade Finance
 F Overdrafts G Housing Loans H Auto Finance I Other Loans

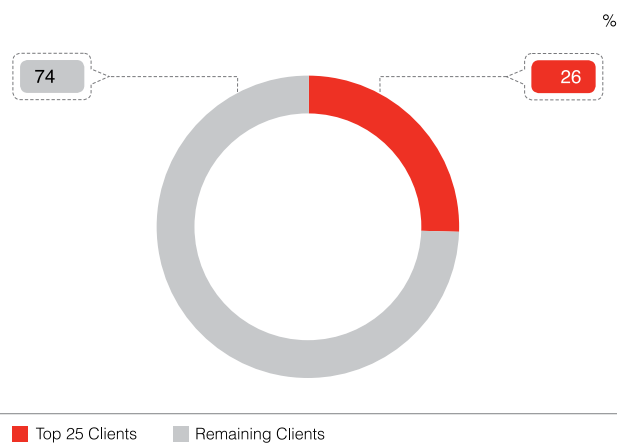
Group Concentration

- In compliance with the CBSL limits on group exposures and single borrowers.
- The substantial exposures of the Bank accounted for only 60.7% of the capital base and was well within the risk appetite of the Bank.
- The top 25 clients accounted for only 23.2% of the portfolio and the portfolio was not concentrated on a particular client or a group.

Group Concentration as at 31.12.2014

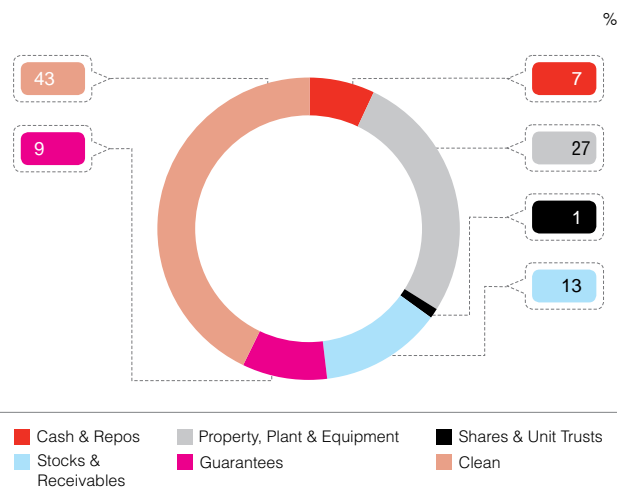


Group Concentration as at 31.12.2013



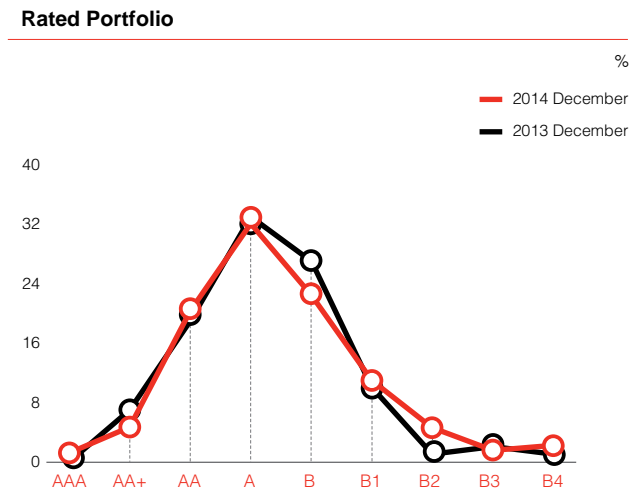
Collateral Concentration

Collateral Concentration 31.12.2014



Rated Portfolio

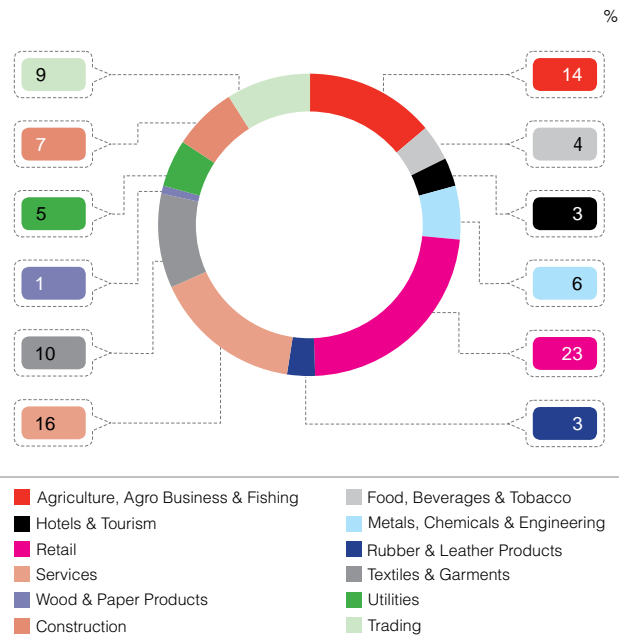
Portfolio distribution based on internal rating is as follows:



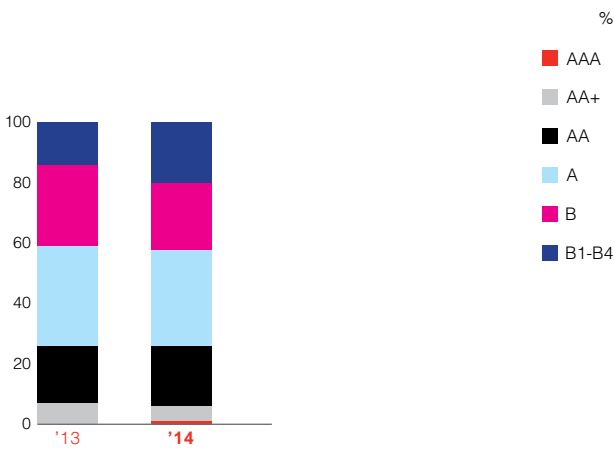
The portfolio continue to be concentrated on A rated clients and the composition was within the risk appetite of the Bank.

Bank was also in compliance with the minimum lending requirement of 10% to the Agricultural sector.

Sector-wise Distribution of Portfolio as at 31.12. 2014



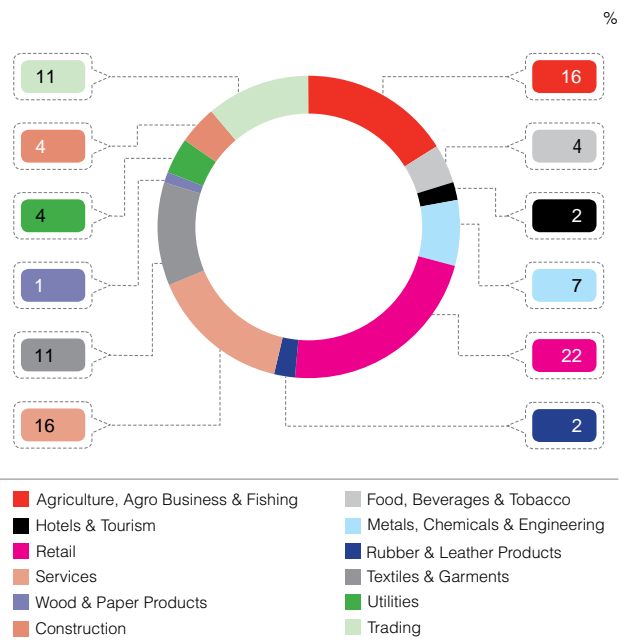
Concentration of Counterpart Exposure as at 31 December



Sector Concentration

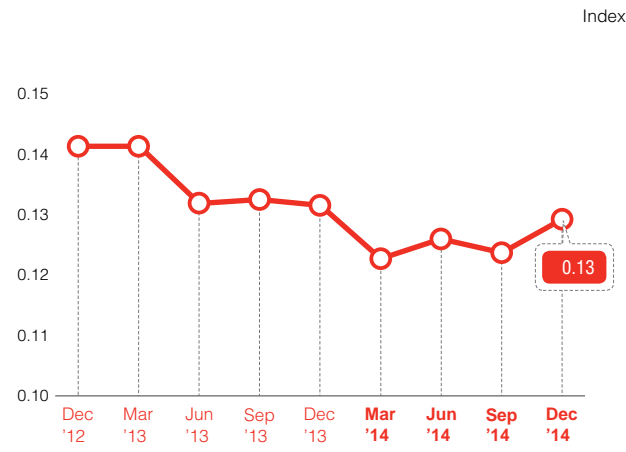
Bank analyses sector-wise NPL ratios and rating wise distribution of Borrowers in various Sectors to identify sector stresses in advance.

Sector-wise Distribution of Portfolio as at 31.12. 2013



Concentration measured using Herfindahl-Hirschman Index (HHI).

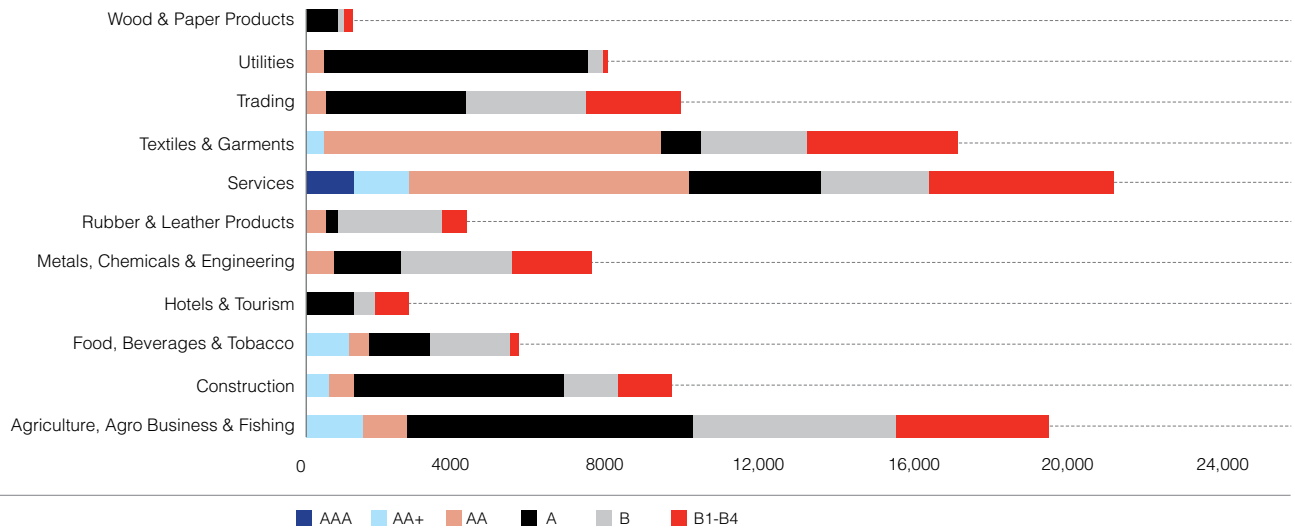
Concentration Measured using HHI



Sector-wise Rated Portfolio

Sector-wise Rated Portfolio as at 31.12.2014

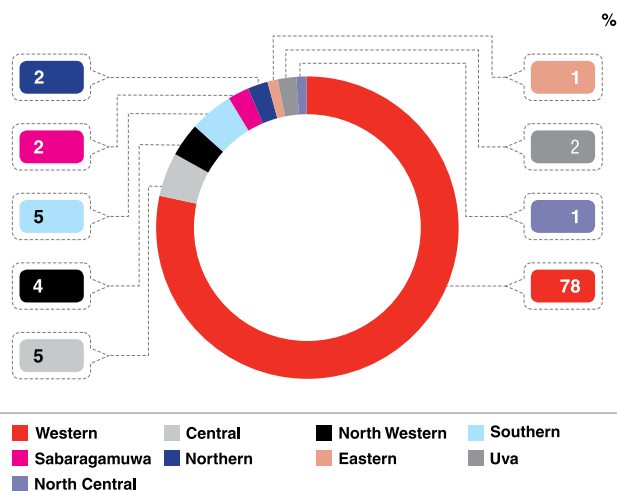
LKR million



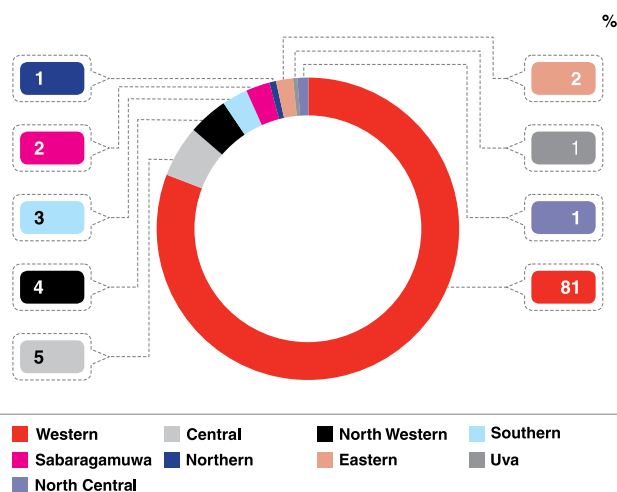
Geographical Concentration

Based on the economic activity highest concentration is in Western Province though the branch network is spread throughout the country. Concentration in Western Province declined during the year due to disbursement to infrastructure and power projects funded by the Bank.

Geographical Concentration of Portfolio as at 31.12.2014

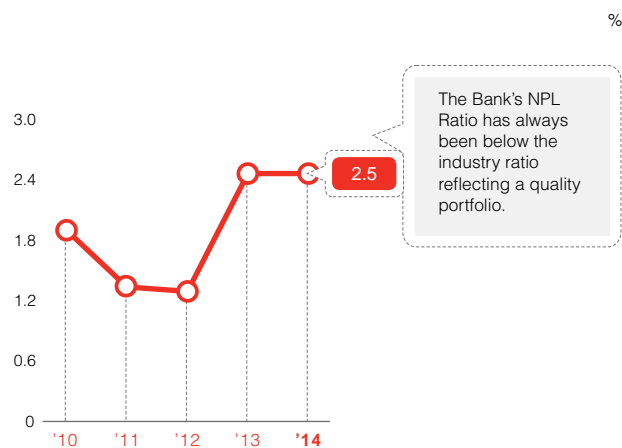


Geographical Concentration of Portfolio as at 31.12.2013



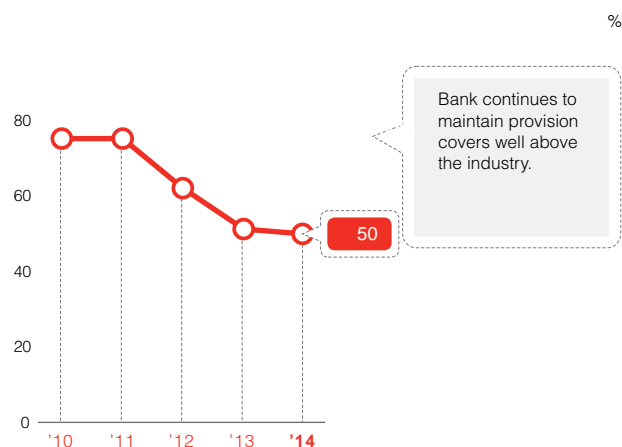
Non-Performing Loans

Gross NPL

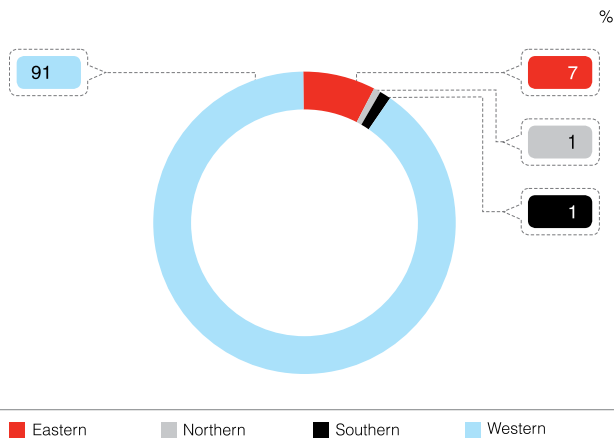


Provisioning and Impairment

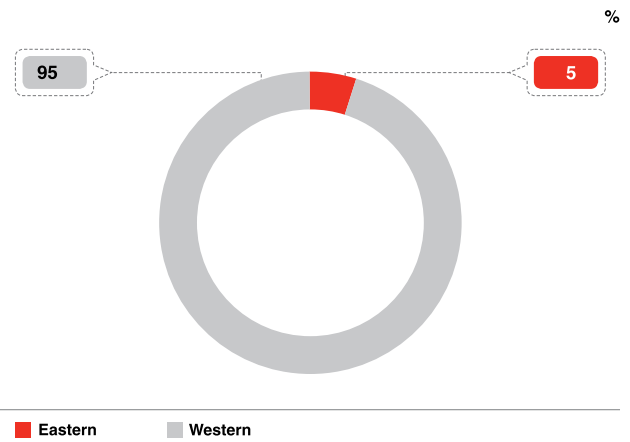
Specific Provision on NPLs



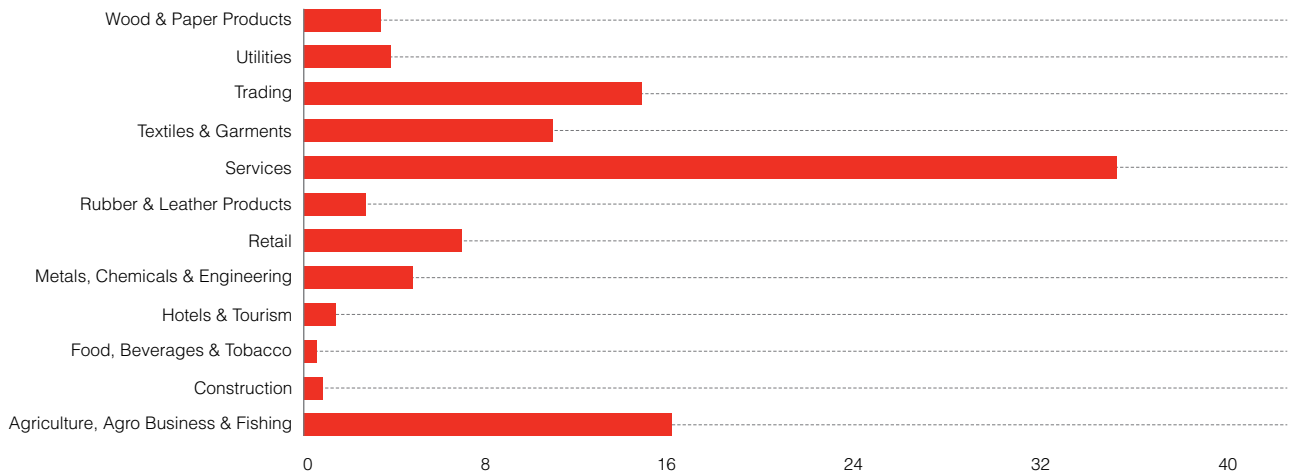
Individual Impairment - Geography-wise as at 31.12.2014



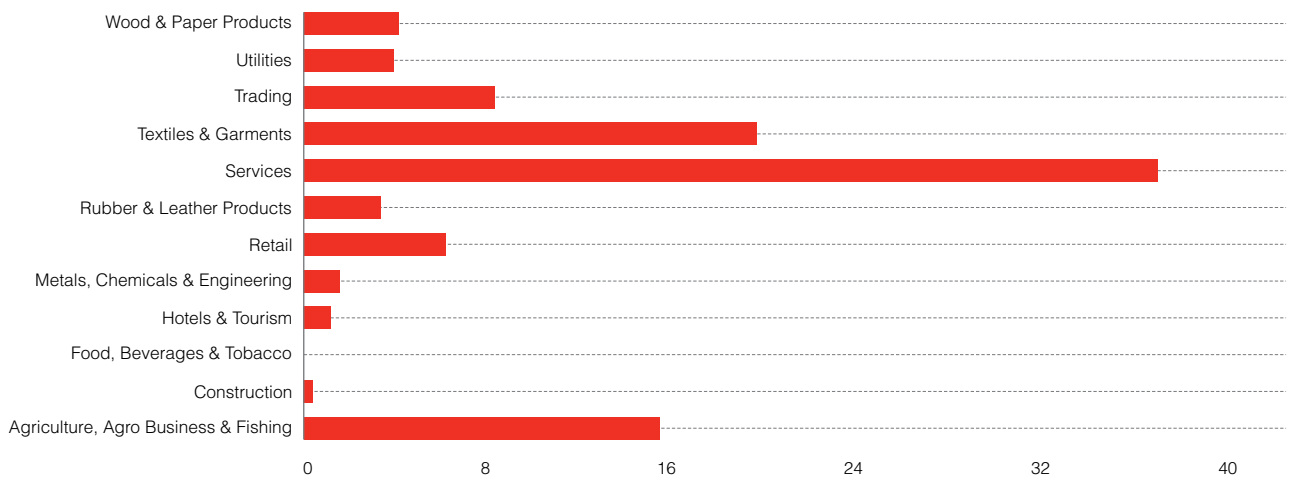
Individual Impairment - Geography-wise as at 31.12.2013



Individual Impairment - Sector-wise as at 31.12.2014



Individual Impairment - Sector-wise as at 31.12.2013



Market Risk

With the evolvement of Risk Management in Banks the management of Market Risk has become an important and a vital area. The Credit risk which was the main concern of risk managers/supervisors in the past have now changed the perception with increasing attention on Market Risk Management functions. The main reasons to focus the attention on Market Risk could be highlighted as follows:

- Banks are more exposed to risk of exchange rates, interest rate or prices as they deal more on trading activities to gain profits by the volatilities in the Financial markets.
- A sudden or unexpected economic condition could turn the whole organisation to a crisis situation within a very short period.
- The evolution of BASEL regulatory Guidelines has driven the Banks to strengthen on Market Risk Management processes and functions on an on-going basis.

In broader terms Market Risk is defined as the risk of losses in both On and Off-balance sheet positions caused by movements in prices or rates of foreign exchange, interest rates, equity, commodity, and credit spreads. When talking about Market Risk we cannot talk about it in isolation as Management of Liquidity Risk goes hand in hand with Market Risk Management.

Objective of Market Risk Management

The primary objectives of Market Risk Management is to ensure that the Business lines of a Bank optimise the risk-reward relationship within the Bank's pre-defined risk appetite and do not expose the Bank to unacceptable losses.

The establishment and monitoring of MRM/ALM exposures against limits is a key control function from the perspective of ensuring that the Bank keeps within the overall risk appetite set out by the Board and Senior Management.

The activities of the Market Risk Management are not directed purely at loss mitigation but also assist towards analysing the inter-relationship of risk, reward and capital. Thus, the focus is not on restricting the Business Units from taking risk, but assuring that risks are taken where it is most optimal given the rewards and capital consumption.

Policy Framework for Market Risk Management

Risk monitoring is guided by a well-defined policy framework and limit structure designed to suit the business model and the balance sheet structure reflecting the risk appetite of the Bank. The Board supported by Integrated Risk Management Committee (IRMC) approves the risk parameters as recommended by the Asset and Liability Management Committee (ALCO) and Market Risk Management to support the business need.

Bank's comprehensive risk management framework covers the Market, Liquidity, Asset and Liability Risks and proactively manages the exposures against the pre-defined risk parameters. Prudential internal limits have been defined for liquidity risks, price risks, exchange risks and asset/liability risks for close monitoring of exposures. All exposure limits are linked to the Bank's capital base to ensure adequate and efficient capital allocation/planning. These limits are subject to annual review and are monitored on a daily, weekly and monthly basis. Where limits are exceeded, Market Risk Management is responsible for identifying and escalating those excesses to the senior management on a timely basis.

Process

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

The key functions of Market Risk Management will include Policy formulation, Risk Measurement methodologies, systems and control, reporting and communication.

- Policy Formulation - Policy formulation/renewal will be carried out considering the regulatory concerns and material changes on MRM/ALM Limit monitoring process.
- Risk measurement methodologies - Limits are assessed and recommended to ALCO for approval (Asset Liability Management Committee).
- Risk Monitoring - All limits in force are monitored on a pre-defined time bands
- Risk Reporting Communication and Approval - MRM/ALM risk activities are identified and monitored on a timely basis. This includes timely investigation and reporting of limit excesses for approval.

Market Risk Measurement and Assessment

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

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

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

Selected KRIs are highlighted below which provide a view of the market risk indicators which are monitored and reported to Board Integrated Risk Management Committee:

Indicator	Limit	Position
Price Sensitivity of the balance sheet (LKR million) <i>- P/L impact for a 1% change in interest rate</i>	(500)	177
Mark to Market of Debt Trading Portfolio (LKR million)	(60)	5.18
Bank's Net Open Position +/- (USD million)	8	(0.73)
Stress testing results on Net Open Position (LKR million)	(170)	(5.11)

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

Market Risk Analytics

Open Exposure Position Monitoring

Daily foreign exchange (FX) open positions are monitored to ensure that the Bank is operating within the regulatory limits as well as internal prudential limits on open exposures. Bank's FX net open position is subject to daily stress testing to assess the ability to withstand adverse impacts to the exchange rate variations and is managed within the set parameters.

Position as at 31.12.2014 (USD '000)

Item	Foreign Exchange Transaction Categories								Total
	Cash	Tom	Spot	Forward	Options	Other Derivative Transactions	Receivables/Payables	Other Transactions	
Overall net position at the closing of the normal working hours of the previous day, Long (+)/Short(-)	-15,579	-31,249	-6,572	53,095					-305
Adjustment entries									
Overall net position at the beginning of the day, Long(+)/Short(-)	-15,579	-31,249	-6,572	53,095	0	0	0	0	-305
Transactions during the day									
Purchases/Receivables from	3,139		2,000	300					5,439
Central Bank of Sri Lanka									
Licensed Commercial Banks			2,000						2,000
Other Customers	3,139	0	0	300	0	0	0	0	3,439
Against Exports	292								292
SIA & Government Securities by Non-Resident Customers	17								17
Other	2,830			300					3,130
Sales/Payables to	5,515	0	0	409	0	0	0	0	5,924
Central Bank of Sri Lanka									0
Licensed Commercial Banks	2,000								2,000
Other Customers	3,515	0	0	409	0	0	0	0	3,924
Against Exports	2,155								2,155
SIA & Government Securities by Non-Resident Customers	101								101
Others	1,259			409					1,668
Net Position Long(+)/Short(-)	-2376		2000	-109	0	0	0	0	-485
Central Bank of Sri Lanka	0	0	0	0	0	0	0	0	0
Licensed Commercial Banks	-2,000	0	2,000	0	0	0	0	0	0
Other Customers	-376	0	0	-109	0	0	0	0	-485
Overall net position at the closing of the day, Long(+)/Short(-)	-17,955	-31,249	-4,572	52,986	0	0	0	0	-790
Applicable Net Open Position Limit Long(+)/Short(-)					9,000				

Sensitivity Analysis

Daily sensitivity analysis is carried out on major foreign currency Net Open Positions (NOP) giving positive and negative shocks to the spot rates to determine the impact of the profit or loss to the Bank's Statement of Profit or Loss. Bank's Statement of Financial Position too is subject to sensitivity analysis based on the duration of its interest sensitive assets and liabilities which is carefully managed within the set limit.

Exchange Rate Sensitivity of Major Foreign Currency Net Open Positions as at 31.12.2014

Spot Rate Shocks	LKR Depreciate ←				→ LKR Appreciate			
		-5%	-2.5%	-1%	Spot rate	1%	2.5%	5%
Currency	Net Open Position							
USD	924,352	6,100,724	3,050,362	1,220,145	132.00	(1,220,145)	(3,050,362)	(6,100,724)
GBP	28,032	287,942	143,971	57,588	205.44	(57,588)	(143,971)	(287,942)
EUR	68,560	550,456	275,228	110,091	160.58	(110,091)	(275,228)	(550,456)
JPY	(119,351,485)	(6,594,916)	(3,297,458)	(1,318,983)	1.11	1,318,983	3,297,458	6,594,916
AUD	3,924	21,245	10,622	4,249	108.27	(4,249)	(10,622)	(21,245)
Total		365,450	182,725	73,090		(73,090)	(182,725)	(365,450)

The possible impact of exchange rate movements on the major NOP of major Foreign Currency Positions is monitored to evaluate the impact on the P/L and ensure it is within acceptable levels.

Interest Rate Sensitivity of the Balance Sheet as at 31 December 2014

The price sensitivity of the Balance Sheet was managed within the pre-defined risk parameters whilst maximizing the market potential on interest sensitive assets and liabilities.

The maturity gap analysis of interest sensitive assets and liabilities distributed into a number of pre-defined time bands according to their residual time to maturity is given below:

	Up to 1 Month LKR '000	1-3 Months LKR '000	3-6 Months LKR '000	6-12 Months LKR '000	1-3 Years LKR '000	3-5 Years LKR '000	Over 5 LKR '000	Non Sensitive LKR '000	Total LKR '000
Assets									
Cash	1,844,434	-	-	-	-	-	-	-	1,844,434
Due from Banks	10,061,424	659,500	-	-	-	-	-	-	10,720,924
Investments - Current	14,023,109	27,939,933	1,019,261	13,969,801	2,834,673	4,076,310	18,667	4,439,675	68,321,428
Investments - Non-performing	-	-	-	-	-	-	-	-	-
Loans and receivables - current	56,317,364	29,513,274	11,244,174	11,449,579	31,537,502	18,309,530	15,329,869	-	173,701,292
Loans and receivables - Non-performing	-	-	-	-	-	-	-	2,171,671	2,171,671
Fixed Assets	-	-	-	-	-	-	-	2,180,626	2,180,626
Other Assets	-	-	-	-	-	-	-	3,905,410	3,905,410
Total Assets	82,246,331	58,112,707	12,263,435	25,419,380	34,372,174	22,385,840	15,348,536	12,697,382	262,845,785
Liabilities									
Total Capital Fund	-	-	-	-	-	-	-	22,298,046	22,298,046
Deposits	56,498,436	25,425,108	25,473,599	35,443,021	4,822,831	1,466,951	-	-	149,129,946
Borrowings	18,812,446	17,463,664	4,625,680	6,707,433	3,704,154	9,256,654	18,592,143	-	79,162,174
Other liabilities	483,164	636,735	756,219	571,848	259,035	74,707	-	9,473,910	12,255,618
Total liabilities	75,794,046	43,525,506	30,855,498	42,722,303	8,786,020	10,798,312	18,592,143	31,771,956	262,845,784
Period Gap	6,452,284	14,587,201	(18,592,063)	(17,302,923)	25,586,154	11,587,528	(3,243,607)	(19,074,574)	-

Mark to Market Exercise

Trading portfolios of Securities (Treasury Bills/Bonds), Equity and Foreign Currency Options are subject to mark to market exercise on a daily basis and are monitored against the set stop loss limits. Prompt management action is taken where necessary ensuring minimum loss situations to the portfolios.

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of securities borrowings and repurchase transactions, lending and investment commitments.

Effective liquidity-risk management is essential to maintain the confidence of depositors and counterparties as well as to ensure that the Bank's core businesses continue to generate revenue, even under adverse conditions.

Objective of Liquidity Risk Management

The objective of our liquidity framework is to ensure that all anticipated funding commitments can be met when due and allow us to withstand liquidity stresses whilst maintaining our business profile. It is designed to be adaptable to changing business models, market and regulations.

The liquidity position of the Bank further strengthened in 2014 with the funding from the Multi National funding agencies and inflows of customer deposits during the

year which resulted in an advance to core funding ratio of 98.0% as at 31 December 2014 reflecting the strong liquidity profile of the Statement of Financial Position. The Bank will continue to focus on liability generation, which will be a necessary pre-condition for significant asset growth.

Policy Framework for Liquidity Risk Management

The Bank maintains well-articulated liquidity risk management policies and procedures, which drive the level of liquidity risk exposures and determine the business size and maturities which ensure that it has at all times sufficient liquidity to meet its financial obligations at a fair market price.

The responsibility for the liquidity risk management of the Bank is carried out by ALCO. The Bank's Treasury/ALM units are responsible for executing the day-to-day liquidity management of the Bank within the parameters set by ALCO.

Also the Bank monitors key liquidity metrics on a regular basis, both on local currency and foreign currency balance sheets and prudential limits are set to better manage the liquidity profile of the Bank.

Process

Liquidity measurement could be measured through Stock approach or flow approach. Under the stock approach liquidity is measured in terms of key ratios which portray the liquidity stored in the Statement of Financial Position. In flow approach a statement of Maturities of Assets and Liabilities will be prepared placing all cash flows in time bands according to the residual time to maturity.

A satisfactory trade-off between liquidity and profitability is maintained by categorizing liquidity shortfalls in the Statement of Financial Position into suitable time buckets, placing exposure limits on each time bucket to monitor the liquidity mismatch gaps. These limits correspond to the liquidity available to the Bank through various fund providers, at an agreed level of confidence.

We have carefully assessed and revised our Statement of Financial Position maturity mismatch limits in order to optimize market opportunities which are being

effectively managed by our Asset Liability Management Desk. Separate gap limits are set for the local currency and foreign currency Statement of Financial Position based on the size and the nature of the Bank's Statement of Financial Position.

The Bank is equipped with a comprehensive Liquidity Contingency Funding Plan (LCFP) linked to the Business Continuity Plan, which is in line with the regulatory guidelines. The LCFP clearly defines the responsibilities of the Liquidity Management Team and ensures the business continuity through close monitoring of the Bank's liquidity position against the pre-defined liquidity risk trigger points. Trigger points have been defined taking into consideration the Bank specific and systemic triggers which would cause a liquidity crisis. Action Plans are set out under each level of liquidity crisis (Mild, Moderate, Severe) with responsibilities assigned to a Liquidity Management Team nominated from all areas of business to ensure that all stakeholders of the Bank are safeguarded. We have also entered into reciprocal liquidity funding agreements with identified counterpart bank to ensure stability.

Liquidity Risk Analytics Liquid Asset Ratio

Our principal mechanism for implementation of the liquidity policy is to maintain the Bank's liquid assets to liabilities ratio above the regulatory defined ratio of 20%. The internally set prudential liquidity limits/ratios would give us early warnings of any areas of concern. The Bank has maintained a healthy Liquid Asset Ratio throughout the year.

Statutory Liquid Asset ratio (LAR)

As at 31 December 2014	2014	2013
Domestic Banking Unit	23.85	26.22
Foreign Currency Banking Unit	25.10	26.06

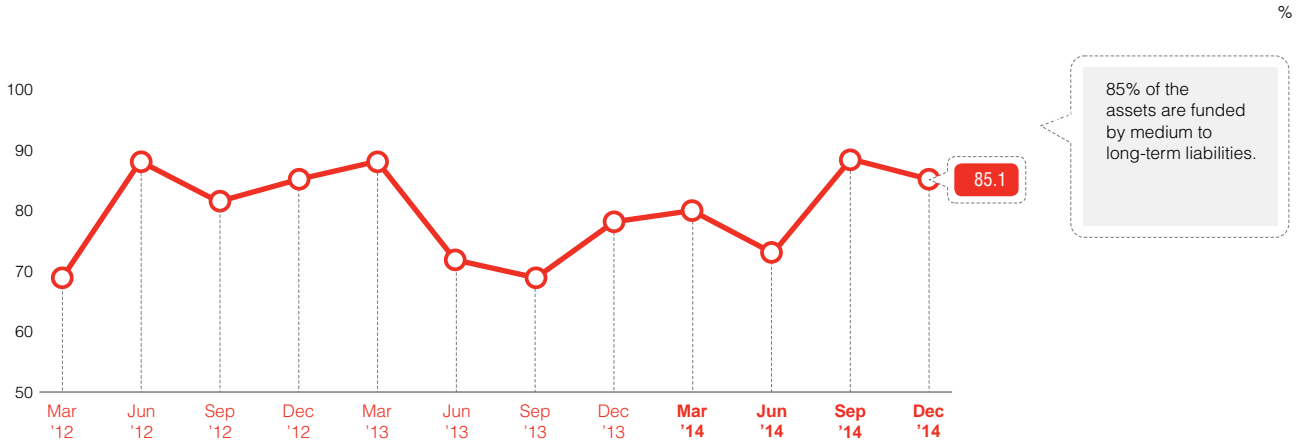
Advances to Deposits Ratio

This is defined as the ratio of total loans and advances to customers relative to deposits available which has been maintained within the set parameters. The increasing trend in customer deposits in line with the advances has proven the positive trend in Statement of Financial Position growth.

Medium Term Funding (MTF) Ratio

Healthy MTF ratio throughout the year represents the stable funds available for the Bank to fund the long-term assets of the Statement of Financial Position.

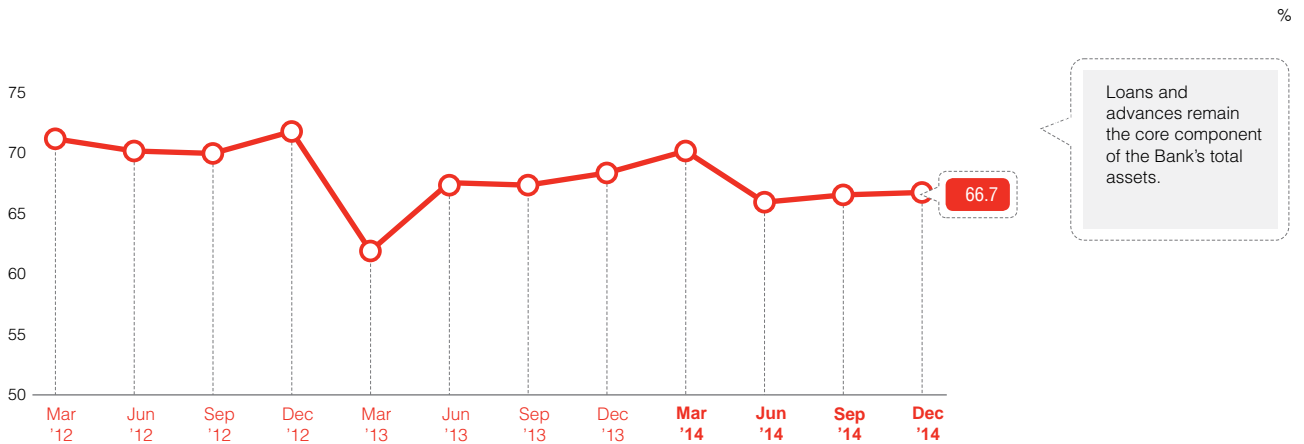
Medium-Term Funding Ratio



Net Loans to Total Assets Ratio

The consistency in the net loans to total assets ratio of the Bank reflects that the Bank has maintained the share of loans and advances in total asset base focusing mainly on loans and advances.

Net Loans to Total Assets Ratio



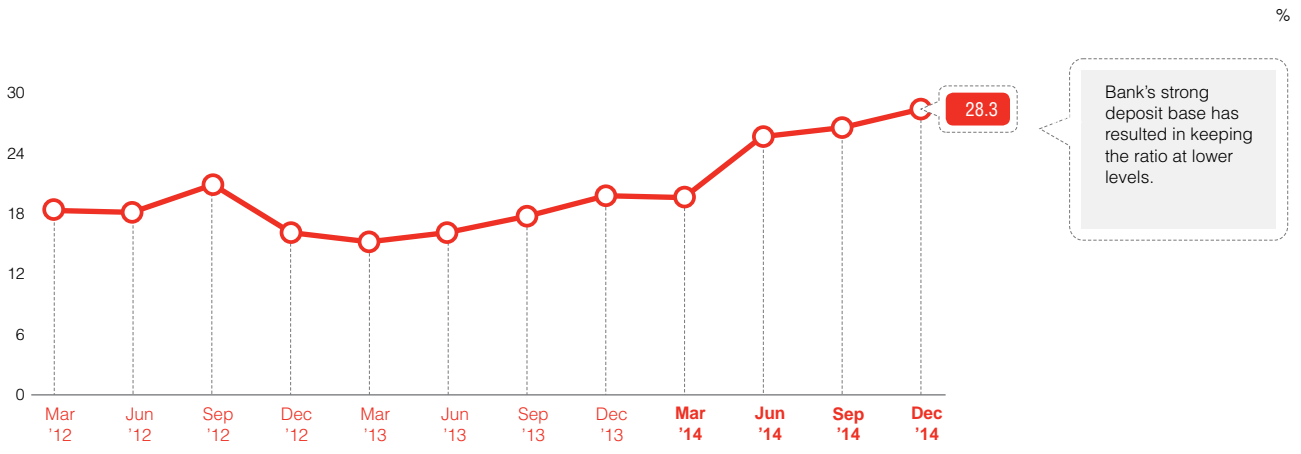
Liquid Assets to Short-Term Liabilities

The statutory liquid asset ratio has been maintained above the regulatory requirement at all times. Hence the Liquid Assets to Short-term liabilities (< one year) would definitely result a higher ratio than the statutory level. The Bank maintained this ratio at a prudent level whilst meeting the commitments on a daily basis.

Purchased Funds to Total Assets

The Bank has maintained the purchased funds to total assets ratio below 30% throughout the year. The ratio has increased in relation to the expansion of the Asset base during the period.

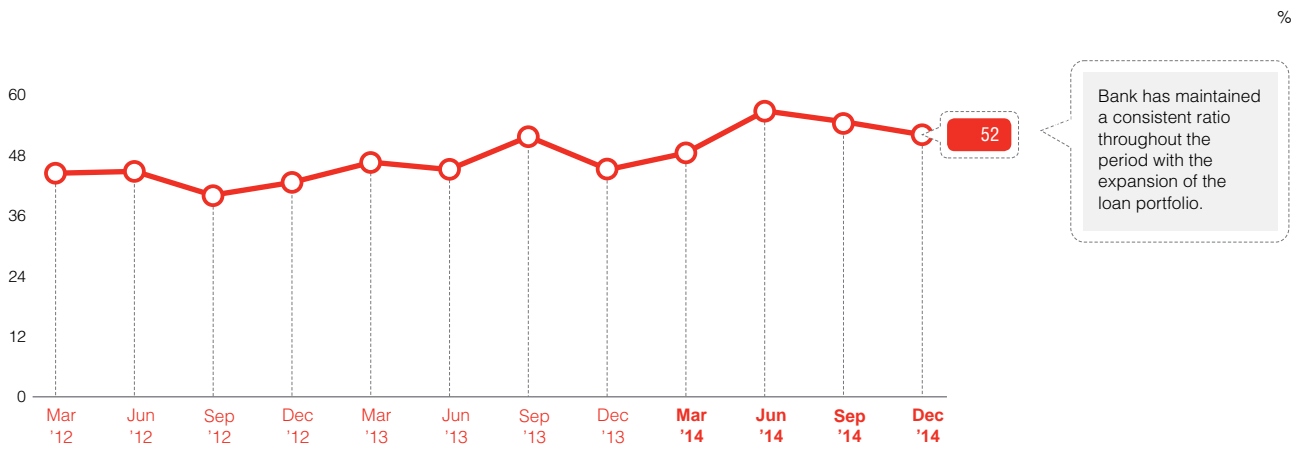
Purchased Funds to Total Assets Ratio



Commitments to Total Loans

With the expansion of the Statement of Financial Position the Bank's total loan portfolio has increased during the year. A parallel shift in the Commitments and the Commitments to total loans ratio has been evident during the period.

Commitments to Total Loans Ratio



Key Risk Indicators

Selected KRIs are highlighted below which provide a view of the Liquidity Risk indicators where regulatory/ internal limits are set and monitored on pre-defined intervals, which provides early warning signals on liquidity position of the Bank.

Indicator	Limit	Position
Statutory Liquid Asset Ratio	20	25.91
Advances to Deposit Ratio	111	98.0
Medium-term Funding Ratio	110	85.11
Commitment Limit - LKR billion	100	93.93

Liquidity Gap Analysis of Foreign Currency Denominated Assets and Liabilities

The gap analysis of foreign currency denominated assets and liabilities will provide the cash flow obligations which will assist in managing the foreign exchange liquidity in a prudential manner.

Liquidity Gap Analysis for Foreign Currency Denominated Assets and Liabilities - as at 31 December 2014.

In USD 000	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
Total Assets	154,478	100,140	34,123	17,281	80,469	37,707	136,875	561,072
Total Liabilities	56,703	156,500	46,369	111,583	24,365	46,426	119,124	561,071
Net Liquidity Gap	97,774	-56,360	-12,246	-94,302	56,104	-8,719	17,750	0

Segregation of Duties

Clear segregation of duties has been established between different business units ensuring prudent control and monitoring mechanisms. The Treasury Front Office reports to the Chief Executive Officer and Treasury Back Office reports to Head of Operations. The Market Risk Unit reports directly to the Head of the Group Risk Department who is a member of Bank's Assets and Liabilities Committee (ALCO). All senior level staff attached to the Market Risk Unit, the Treasury Front Office and the Treasury Back Office have obtained the internationally recognised ACI qualification offered by the Financial Markets Association, as required by the CBSL directives and are competent in their job profile.

The ALCO comprising the senior management from the Treasury, Risk Management, Finance and all business units of the Bank together with the Market Risk Management Unit is responsible for the supervision and management of market risks. The ALCO meets on a monthly basis and whenever circumstances demand. Its main responsibilities are:

- to decide on the required maturity profile and mix of incremental assets and liabilities;
- to monitor the structure and composition of the Bank's assets and liabilities and decide on product pricing for deposits and advances;
- to articulate the interest rate view of the Bank and decide on future business strategy;
- to review and articulate funding policy;
- to decide the transfer pricing policy of the Bank;
- to evaluate risks involved in launching new products.

ALCO is the governing body for market risk, liquidity risk and asset liability risk management and the implementation of the Bank's risk management policies, procedures and systems is delegated to the Head of Market Risk Management who reports to the Head of the Group Risk Department. Market and liquidity risks are addressed at ALCO on a monthly basis and at the Board IRMC level on a monthly and quarterly basis.

The market risk management in the Bank is evolving very fast and there is greater emphasis on strengthening systems and people with adequate training and system support.

Market and Liquidity Risk Reporting

Risk reporting creates transparency on the risk profile and facilitates the understanding of the core market and liquidity risk drivers to all levels of the organisation. The Board, Senior Management and Risk Management Committees receive regular reporting, as well as ad hoc reporting as required, on market risk, liquidity risk, regulatory capital and stress testing. Senior Risk Committees receive risk information at a number of frequencies, including weekly, monthly or quarterly.

Additionally, Market Risk Management produces daily and weekly market risk specific reports and daily limit excess reports for management review and action. Such reports include:

- Daily market risk report on foreign exchange/debt trading to Treasury, Finance, CEO and GRM
- Daily limit exception report to Treasury and GRM
- Weekly/monthly liquidity risk report on internal/external liquidity trends/analysis to ALCO and IRMC
- Monthly market risk reports on foreign exchange, liquidity, deposit concentration, country exposure reports to ALCO
- Monthly ALM reports to ALCO
- Quarterly market, ALM and liquidity reports to CMRPC and IRMC
- Quarterly risk assessment report to the Board

The risk management is ever evolving and demands greater transparency and increased accountability when it comes to risk measures, risk management processes and their underlying systems. The banks should always try to stand ahead on those areas in order to win competitive advantages.

Operational Risk

Operational risk consists of losses incurred due to the inadequacy or failure of the internal processes, human errors, systems or external events such as natural disasters including legal risk. The Bank has developed frameworks, management tools and a control infrastructure to enhance the management and control of the operational risks that are inherent to its various activities across the Group.

Objectives of Operational Risk Management

The Operational Risk Management Unit (ORMU) is established within Group Risk Management Department and works towards the following objectives:

- Reduce losses from operational failure and in particular to avoid potentially large or catastrophic losses;
- Ensure better control of operations through increased understanding of risk activities within various business units, the Board and Senior Management will lead to improvements in the control of operations and the emergence of a more proactive operational risk management culture;
- Provide early warning signals of deterioration in the Bank's internal control system - raise awareness of operational risk in the Bank from top to bottom through the implementation of an enterprise-wide operational risk approach.
- Improve performance measurement by way of improved understanding of its operational risk profile shall enable appropriate allocation of risk and economic capital to individual lines of business, which would allow improved performance measurement and evaluation of activities.

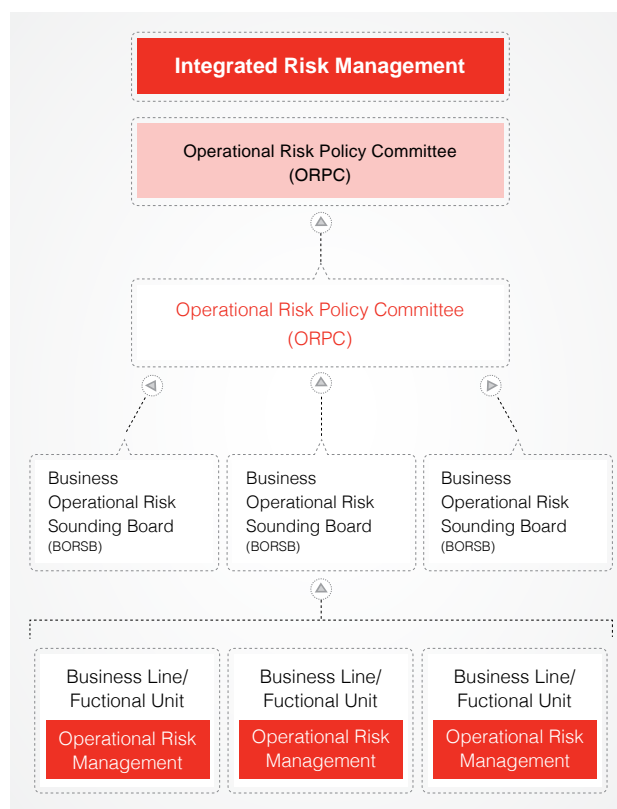
Operational Risk Governance

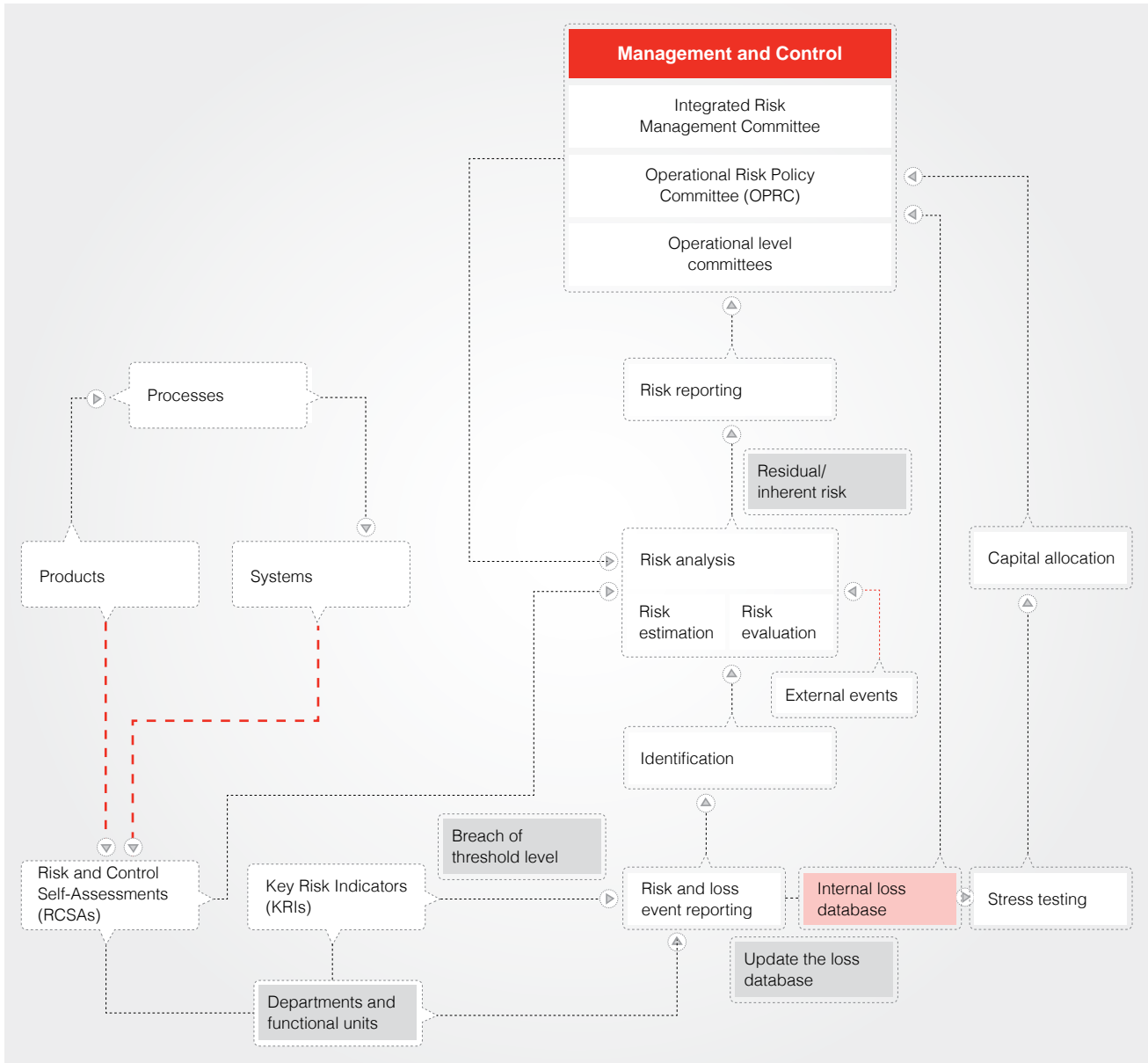
Staff at all levels is accountable for directing and controlling the operational risks in his/her area of responsibility. Board of Directors is responsible for the overall risk levels and in ensuring risks are managed appropriately and the management is vested with the required authority to implement the related control framework. The IRMC submits regular operational risk assessments to the Board, seeking its views, concurrence or specific directions.

The Operational Risk Policy Committees headed by the CEO, which has been set up at Bank level provide a forum for the discussion and management of all aspects of operational risks/losses and control lapses, monitor and ensure that appropriate operational risk management frameworks are in place, adhering to the policies of the Bank.

Business Operational Risk Sounding Boards (BORSB) have been setup at key business function and support function levels to discuss operational risk matters encompassing responsibilities such as:

- Provide a forum for the identification, assessment, mitigation and subsequent monitoring of business level operational risk trends and issues.
- Ensure that there is full compliance with internal policies and relevant regulations, as well as the Bank's Operational Risk Management Framework.
- Promote and sustain a high level of operational risk management discipline culture within the business or Support function.
- Review the business or function's operational risks and ensure appropriate ownership, actions for closure within the agreed target date and progress for all risks.





Operational Risk Management Process

While the ORMU functions as the command and control centre in managing operational risks, Operational Risk Managers (ORMs) have also been appointed in the Business and Supporting units under the authority of the Bank’s Head of Operational Risk. The ORMs operate from the respective business units/ support functions, collaborating closely with the business/support function heads and responsible for implementing the Bank’s procedures and guidelines, monitoring and managing operational risks, with the

support of the staff. The Bank has implemented a software-based solution to assist in the management of operational risk.

The Operational Risk Management Unit is notably responsible for:

- Devising and implementing the Bank's operational risk policy in co-operation with the business units and support functions.
- Promoting an operational risk culture throughout the Group
- Defining at Group level, methods for identifying, measuring, managing and monitoring operational risk, in co-operation with the Business units and Support functions.
- Maintaining the Bank's Business Continuity Plan (BCP) and Crisis Management Policy, managing the policy and coordinating its implementation.

The Bank has been guided by the Basel II Regulations (the Capital Requirements Directive and 'sound practices for the effective management and supervision of operational risk) in the design and implementation of the broad framework to manage operational risks. This is a comprehensive end-to-end process encompassing risk identification, assessment, reporting, management and control.

Sound frameworks, techniques and toolsets have been implemented to ensure the effectiveness of the above process. They notably include:

- Risk and Control Self-Assessment (RCSA)
- Key Risk Indicators (KRI)
- Gathering of Internal Data on Operational Risk Events and Losses
- Scenario Analysis and Stress Testing
- Business Continuity Planning and Crisis Management

Risk and Control Self-Assessment (RCSA)

Risk and Control Self-Assessment (RCSA) is a framework designed to identify, estimate and assess the Bank's exposure to operational risks arising out of routine adherence to procedure and processes inherent to the various business lines and functional units of the Bank. Controls and mitigants that

adequately counteract the risks are introduced thereby minimizing the impact and incidence of losses.

Its objectives are as follows:

- Identifying and assessing the major operational risks to which each business unit or support function is inherently exposed (the 'intrinsic' risks), while disregarding prevention and control systems.
- Assessing the quality of major risk prevention and mitigation measures, including their effectiveness in detecting and preventing major risks and/or their capacity to reduce their financial impact.
- Assessing the major risk exposure of each business unit or support function that remains once the risk prevention and mitigation measures are taken into account (the 'residual' risk), while disregarding insurance coverage.
- Correcting any deficiencies in risk prevention and mitigation measures and implementing corrective action plans.

As part of this exercise, major risks of a given scope are described using a double scale of impact and probability.

Inherent Risk

Impact	Probability				
	Rare	Unlikely	Possible	Likely	Almost Certain
Very High					
High					
Medium	1		3	1	
Low		7	8		
Very Low					

Residual Risk

Impact	Probability				
	Rare	Unlikely	Possible	Likely	Almost Certain
Very High					
High					
Medium					
Low	2	3			
Very Low	13	2			

*The values inside the heat map indicate the number of risks.

Key Risk Indicators (KRI)

KRIs supplement the overall operational risk management system, by providing a dynamic view of changes in business line risk profiles as well as an early warning system to identify potential events that affect the day-to-day business activities and consequently have an impact on the entire Bank. Some of the KRIs monitored are given below:

System	Core Banking System Downtime
	ATM Downtime
	No. of cyber attacks
HR	Staff turnover
	No. of disciplinary actions
Finance	Reconciliations not submitted
Compliance	Issues raised by external professional bodies
Operational losses	Severity of losses
	Number of fraud incidents

KRIs that may have a significant impact on the entire Bank is reported to the Operational Risk Policy Committee and the Board Integrated Risk Management Committee.

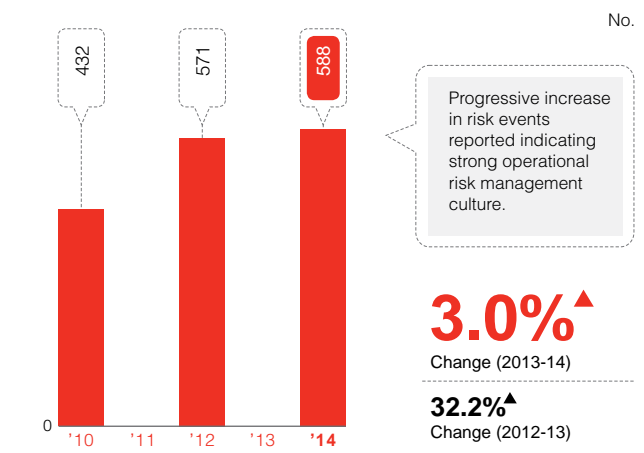
Internal Risk Events and Loss Data Collection

The Bank has been compiling a database of risk events and loss data reported since 2010 and maintained centrally to supplement the effectiveness of the operational risk management function. It has served to:

- Facilitate meeting capital adequacy requirements for operational losses set by the regulator.
- Identify trends in loss events and achieve a deeper understanding of risk areas.
- Enable operational staff to define and implement appropriate corrective actions.
- Sharpen the existing operational risk management concepts and tools.

Risk events reporting by the business units and support functions indicates the inculcating of a strong Operational risk culture through the line ORMs well-supported by the respective heads of units.

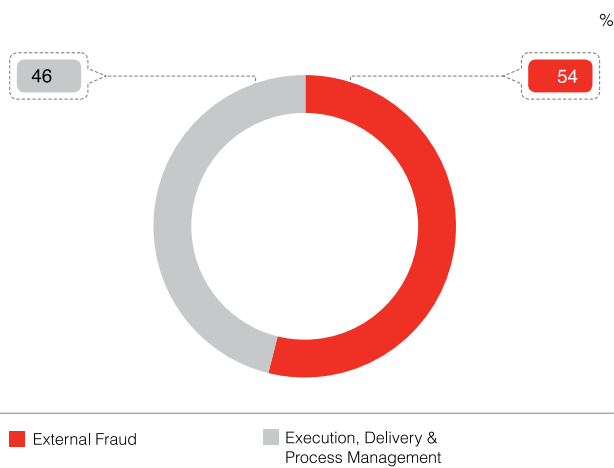
Risk Events Reported



The operational loss recognition follows a formal approval process defined in the Operational Risk Policy where both Gross and Net losses are recorded in the General Ledger and such losses above the value of LKR 100,000/- are reported to the Board Integrated Risk Management Committee on a monthly basis and losses over LKR 500,000/- are reported to the regulator on a quarterly basis.

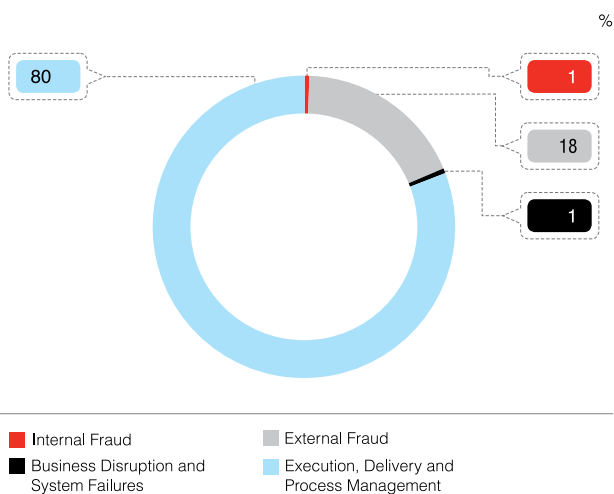
The Bank's classification of operational losses in seven Basel event categories is the cornerstone of its risk modelling, ensuring consistency throughout the system and enabling analysis across the Bank.

Operational Losses as per Basel II Loss Classification 2014



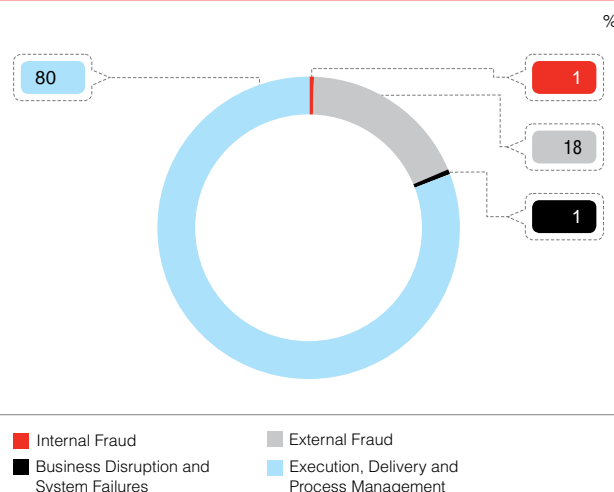
Operational Losses reported were pertaining to Retail Banking, Payment and Settlements and Trading and Sales.

Operational Losses as per Basel II Loss Classification 2013



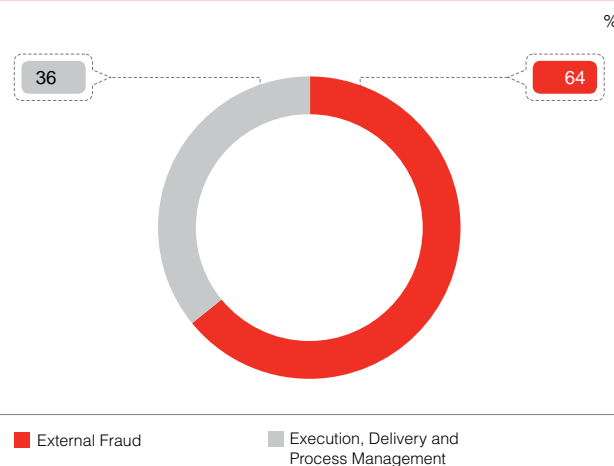
Operational Losses reported were pertaining to Retail Banking, Commercial Banking, Payment and Settlements and Trading and Sales.

Operational Losses as per Basel II Loss Classification (Retail Banking) 2013



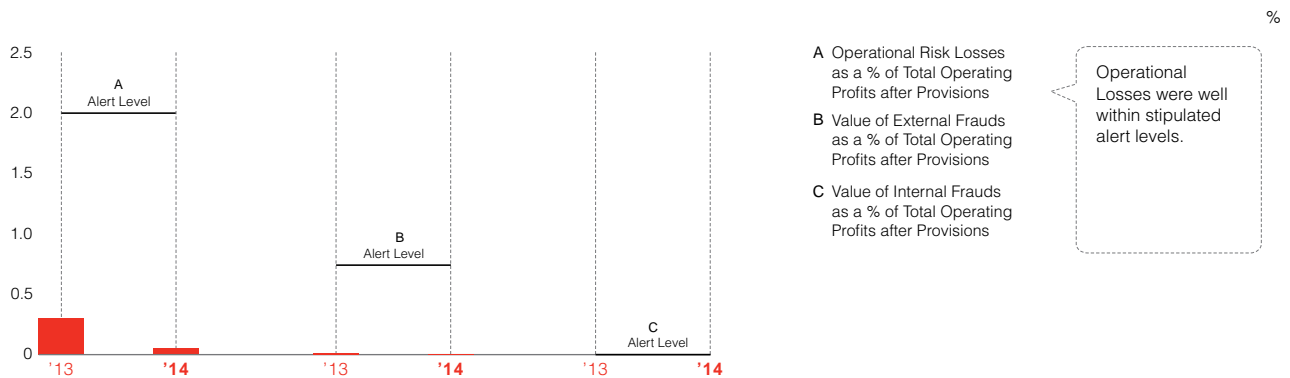
Losses reported under business lines, Commercial Banking and Payment and Settlement fall under 'Business Disruption and System Failures' while Trading and Sales losses fall under 'Execution, Delivery and Process Management'.

Operational Losses as per Basel II Loss Classification (Retail Banking) 2014



All losses reported under business lines, Payment and Settlement and Trading and Sales fall under Basel loss category 'Execution, Delivery and Process Management'.

Actual Operational Losses against Alert Levels



Business Continuity Planning and Crisis Management

In order to cover the risks of crisis that threaten the safety of staff, customers and service providers, the security of assets, the continuity of operations and confidence in the Bank's reputation, the Bank's Business Continuity Management Policy requires that a full set of up-to-date and exercised plans be in place encompassing a minimum of: Crisis Management Plan (CMP), Business Continuity Plan (BCP) and IT Disaster Recovery Plan (IT DRP) amongst other relevant plans including a Pandemic Plan.

These plans are drawn upon integrating Enterprise Risk Management (ERM) Framework and effective Business Impact Analysis (BIA) processes and methodologies which anticipates all forms of threats and/or crisis that are inherent in the Business Environment.

Communications, Security and Safety and other Emergency Response Teams and exercised plans are all part of the Banks' business continuity management commitment that is showcased undoubtedly within this framework.

The Governance of business continuity management is steered through the Crisis Management Team comprising of senior most management and co-ordinated by the Banks' Business Continuity Manager.

BCP Drills are carried out on a predetermined schedule which includes minimum of two full functional drills which includes all critical business units which is over and above the stipulated guidelines by the Central Bank of Sri Lanka. The statuses of drills are monitored at the Operational Risk Policy Committee and the Board Integrated Risk Management Committee.

Insurance Cover in Operational Risk Management

The Bank has a comprehensive insurance policy as a measure to mitigate risks. This falls within the framework of risk mitigation and control which in turn is an integral component of the risk management framework of the Bank. This policy will be reviewed and further enhanced in the near future.

Description of Coverage

General Risks

Building and their contents, including IT equipment, are insured at their replacement value. Liability other than professional liability (i.e., relating to operations, Directors, vehicles, etc.) is covered by insurance policies.

Risks Arising from Operations

Insurance is only one of the measures to offset the consequences of the risks inherent in the Bank's activity. It complements the risk monitoring policy led by the Bank and also by its internal controls.

Theft/Fraud

These risks are included in the 'Bankers Indemnity Cover' policy that insures all the Bank's financial activities around the country. Fraudulent actions by an employee or by a third party acting on its own or with the aid of an employee with the intent to obtain illicit personal gain or through malice are covered.

Professional Liability

The consequences of any legal action against staff or managers as a result of their professional activity are insured under the Bank's Bankers Indemnity Policy (BID).

Operating Losses

The consequences of any accidental interruptions to activity are insured under a Bank wide policy. This policy supplements the business continuity plans. The amounts insured are designed to cover losses incurred between the time of the event and the implementation of an emergency solution.

Computer Crime

The adverse consequences surfacing while using computer systems and software are covered by the Bank's BID policy. The policy covers fraudulent input and modification via computer systems, electronic computer programmes, electronic data and media, computer viruses, electronic and telefacsimile communications, electronic transmissions, electronic securities and voice incinerated transfers.

Outsourcing

The Bank is concerned and committed to ensuring that the outsourced parties continue to uphold and extend the high standard of customer care and service excellence that has become synonymous with the Bank. Hence due diligence tests are routinely carried out to assess the performance of these outsourced parties through a sub-committee established to monitor outsourced activities for the Bank.

Operational Risk Capital Measurement

Current Practice

Since 2009, the Bank has used the Basic Indicator Approach (BIA) as proposed by the Capital Requirements Directive, to measure operational risk. This approach notably makes it possible to:

- Gain an understanding of the risk exposures.
- Identify the impact on the Bank's risk profile and determine the overall capital requirements.
- Enhance the Bank's operational risk culture and overall management, by introducing a virtuous cycle of risk identification, management and mitigation.

The Bank holds capital for operational risk equal to the average over the previous three years of a 15% of positive annual gross income.

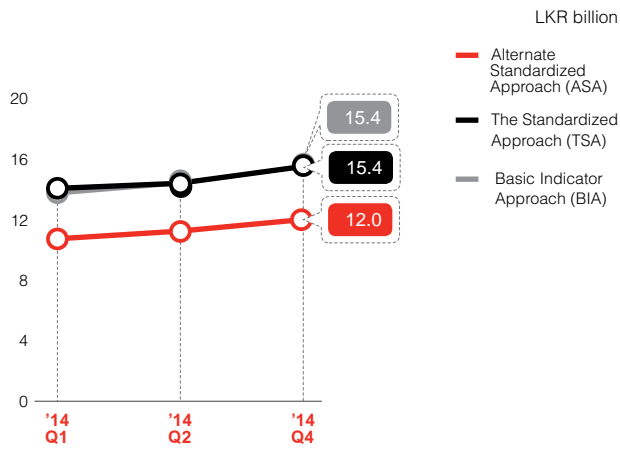
The Bank's regulatory capital requirements for operational risks within the scope of BIA (Basic Indicator Approach) requirements are calculated using the above stated formula. The Bank's capital requirements for operational risks were LKR 15.48 billion. at the end of 2014. The Bank has been conducting parallel computation of capital in terms of The Standardised Approach (TSA) with effect from December 2011 in line with the Draft Guidelines.

Future Outlook

With the issuance of new direction in 2014, Central Bank of Sri Lanka has awarded Banks that use BIA the option of moving to either the Standardized Approach (TSA) or the Alternate Standardised Approach (ASA) in order to improve the quality of operational risk management and to enhance the effectiveness of internal capital adequacy requirements.

As such, Bank has evaluated all 3 approaches in terms of relevance, economy and appropriateness to the risk profile. We remain committed to embrace any change that will serve the organization well in terms of improved quality of operational risk capital calculation and reporting.

Capital Charge Comparison



New Developments and Initiatives

Ebola Virus Disease

Circular/Instructions issued by the Ministry of Health on Ebola Virus Disease (EVD) have been circulated to all staff to educate them on transmission, symptoms, diagnosis and prevention even though any alerts pertaining to EVD outbreak for South Asian region has not been announced by the World Health Organization or any other Government institution. However, from Business Continuity Management perspective a 'Pandemic Plan' which consists of detailed response phases based on alerts from relevant authorities providing internal information and guidelines was drafted.

Other Risks

There may be other risks such as model risk, settlement risk and group risk, which may be relevant to the Bank but not captured in the risk appetite framework. The reasons for non-inclusion of same for the risk appetite framework are as follows:

Strategic Risk

Strategic risk is the most fundamental of business risks and at its very basic, can be defined as the current and prospective risk to earnings and viability arising from,

- Adverse changes in business environment with respect to the economy, political landscape, regulations, technology actions of competitors.
- Adverse business decisions.
- Improper implementation on at decisions.
- Lack of responsiveness to changes in the business environment.

Strategic risk for a bank like NDB can manifest itself through lack of well-defined long-term strategy but more importantly because of failure to appropriately communicate and implement the strategy or due to unforeseen changes in the socio-political, economic or business environment. Drawing of appropriate response plans to tweak the strategy to suit the changes in the business environment is essential to management of strategic risk.

The Bank has a well-formulated 5-year strategic plan, which is articulated by the Board and the corporate management. The strategic plans are drawn at various level of granularity e.g. a branch level strategy will detail the growth targets at branch level whereas a department level strategy will feature the achievement metrics at that level. The implementation of strategy is checked through monthly meetings where variances from the growth targets are analyzed and corrective actions recommended.

The strategic plan is also linked to individual employee performance through a goal setting process and periodic performance reviews are carried out to motivate employees and create a performance culture to ensure that business goals and objectives are achieved, thus mitigating strategic risk.

Reputational Risk Management

Reputation risk is risk of indirect loss (current or prospective) arising from one or multiple stakeholders adverse experience while dealing with the institution or which resulted in an adverse perception of the institution. It can also be understood as the potential that negative publicity regarding the Bank's business practices, whether true or not, will cause a decline in customer base, costly litigation or revenue reduction.

Reputation risk management and mitigation aspects are embedded in the Bank's policies and procedures, training programmes, the business continuity plan and through the Audit and Board Risk Management Committees.

The Bank monitors its reputation risk profile through a set of early warning indicators based on the reputation risk drivers and the factors within the reputation risk scorecard ensure that the overall reputation risk profile remains low. The risk mitigation and control processes for reputation risk at the Bank are designed to consider appropriate response actions to address the risks identified. A Customer Complaint Handling Process has been established under which the customers have a range of options through which they can forward their grievances to the Bank, by way of letters, using our public help line that is manned on a 24 - hour basis, through the Bank website or social media.

Legal Risk

Legal risk is understood more from its consequences, which is incurrance of penalties, fines and sometimes loss of reputation due to the institution being on the other side of law. Legal risk may vary from institution to institution depending on the manner in which it conducts its business and the documentation it follows and is closely related to compliance and regulatory risk.

Legal risk in the Bank can manifest itself through:

- Business not being conducted in accordance with applicable laws.
- Inadequate legal documentation of securities and collateral accepted for credit risk mitigation.

- Legal repercussions of lacunae in documents, forms, advertisements.
- Other modes of conduct and communication adopted by the Bank.
- Intellectual property not being adequately protected.

Legal risk is owned and managed by the Legal Department and the Legal Department is assisted by third party lawyers as and when necessary to obtain an independent opinion.

Compliance Risk

Very closely related with reputation and legal/regulatory risk, compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation and integrity an institution may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organizational standards, and codes of conduct applicable to its business activities. Bank is compliant with all CBSL regulations and thus the compliance risk is minimal.

The Bank has a well laid out Board approved Compliance Charter, which defines the fundamental principles, roles and responsibilities of the compliance function within the organisation as well as its relationship with senior management, the Board of Directors and the business and operational functions.

Model Risk

The Bank has just rolled out the new rating models for all business lines at both obligor and facility level and is in the process of rating the clients using the models. The Bank has also automated computation of Value at Risk (VaR) numbers for Market Risk. Similarly, the Bank intends to migrate to an Operational Risk VaR computation system in the future. Hence, with time, measures will be adopted to validate the models. Based on the above, the Bank would, assess the model risks once the Bank starts using models and advanced approaches in the future.

Settlement Risk

Settlement Risk refers to the risk arising on account of failed trades with counterparty banks in the foreign currency transactions. Settlement Risk arises from possible losses when the Bank is in a foreign exchange transaction pays the currency it sold but does not receive the currency it bought. Forward Contract settlement failures can arise from counterparty default, operational problems, and other factors. Settlement risk exists for any traded product. Currently, the Bank has a procedure for regular monitoring of limit utilisation, failed trades & excess monitoring. Settlement Risk is currently controlled by way of prudent allocation and monitoring of counterparty limits including Maximum Daily Delivery Risks (MDDR) limits for counterparties.

Stress Testing Methodology and Results

Item	Amount LKR million
Regulatory Capital	
Core Capital	19,888
Capital Base	28,932
Calculation of Risk-weighted Amount	
Credit Risk	172,070
Market Risk	9,596
Operational Risk	15,481
Calculation of Capital Adequacy Ratios (%)	
Core Capital	10.09
Total Capital Ratio	14.68
Stressed Capital Ratio	12.30

Credit Risk

Stress testing is the process of determining the effect of a change to a portfolio due to extreme realistic events. Management reviews the outcomes of the stress tests and where necessary determines, appropriate mitigating actions such as reviewing and changing risk appetite in order to manage the risks identified by potential stresses.

Credit Risk Scenarios

The Bank has implemented stress tests to measure the resilience of its lending portfolio to adverse movements by applying low, moderate and high impact shocks on hypothetical scenarios.

1. An increase in the NPLs in the loan book

Revised CAR %

2. A negative shift in NPL categories on the Bank's credit portfolio

Revised CAR %

3. Fall in FSV of mortgaged collateral in credit portfolio

Revised CAR %

Market Risk

Losses beyond the confidence level are not captured by certain models, which therefore gives no indication of the size of unexpected losses in these situations. This is complemented by regular stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books. The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs. Stress scenarios are regularly updated to reflect changes in risk profile and economic events. ALCO considers the results of stress tests as part of its supervision of risk appetite. Regular stress test scenarios are applied to interest rates, liquidity ratios, exchange rates, commodity prices and equity prices. Ad hoc scenarios are also prepared reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.

Scenario 1	Scenario 2	Scenario 3
5% Increase	10% Increase	20% Increase
14.6	14.5	14.3

Scenario 1	Scenario 2	Scenario 3
50% Increase	80% Increase	100% Increase
14.5	14.4	14.4

Scenario 1	Scenario 2	Scenario 3
10% Decline	20% Decline	40% Decline
14.7	14.6	14.6

Bank's Foreign Currency Net Open Position Stress Test Results As At 31 December 2014

Bank's net foreign currency position is tested on a daily basis under four stressed scenarios giving adverse shocks of 5%, 10%, 15% and 25% to the exchange rate to arrive at the maximum loss scenarios the Bank is exposed to and is monitored against the limits set.

Limit is set at the minimum level of shock (Scenario 1) as an early warning where the Bank will take action to ensure that it does not surpass the first level of shock and reach worse case scenarios.

As at 31 December 2014

	Net Position	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Magnitude of Shock (adverse)		5%	10%	15%	25%
Spot Rate movement	132.00	138.60	145.20	151.80	165.00
Position Profit/loss (LKR)	(774,327)	(5,110,556)	(10,221,112)	(15,331,668)	(25,552,781)

The stress results of the Bank's Overnight Net Open Position is managed well within the risk limit and monitored on a daily basis.

Liquidity Stress Test Results as at 31 December 2014

Liquidity stress testing is carried out under three different scenarios which covers Bank specific and system specific conditions, where different magnitudes of shocks are given to individual and or total Liquid Liabilities. The results are monitored against the limit and the minor level of result (at 5%) will be considered as the management action point.

The Bank managed to maintain a healthy Liquid Asset Ratio well above the internal limit which is more stringent than the regulatory limit even under the stressed scenarios.

Stress Testing for Liquidity Risk - December 2014

Banks average Liquid Asset Ratio for the month	25.91
--	-------

Stress testing on Liquid Asset Ratio

Scenario No.	Stress Scenarios	Magnitude of Shocks on Liquid Asset Ratio.		
		5%	10%	15%
		Revised LAR. after relevant shocks.		
1.	Adverse impact on MM and Institutional Borrowings/Drop in Market Liquidity	24.99	24.04	23.08
2.	Run down on CASA and Time Deposits	23.24	20.37	17.28
3.	Impact on Total Liquid Liabilities	22.25	18.21	13.73

Operational Risk

Scenario analyses primarily serve the purposes of contributing towards the capital calculation to cover operational risks and informing the Bank about potentially significant areas of risk. For the calculation of capital requirements, the Bank uses stress tests to measure its exposure to potential losses.

The Bank does its operational risk stress testing using two approaches:

- Operational Risk Value at Risk (OpVaR) based Stress Testing

This is calculated based on the Bank's internal loss data and using the Monte-Carlo simulation; however, the capital requirement based on OpVaR is less than operational risk capital calculated based on BIA approach. Hence, no additional capital is allocated.

- BIA - based Stress Testing

Stress scenario considers that 18% of stress has been applied on gross income and while comparing the same with BIA capital, 3% of additional stressed capital is required.

Investor Relations

Active engagement with our investors is key to us, as it is they who, through trust, loyalty and confidence, give us strength in our journey of 'pushing the pace'.



Scan to view the online version
ndbbank2014.annualreports.lk/report/investor_relations.html

The Bank recognizes investors as one of the prime most stakeholders in its success journey. The long-standing trust, loyalty and confidence that our valued shareholders have placed on us has been an immense strength to us. The Bank takes conscious efforts to actively engage our shareholders in open dialogues and forums and keep them well-informed of significant developments of the Bank.

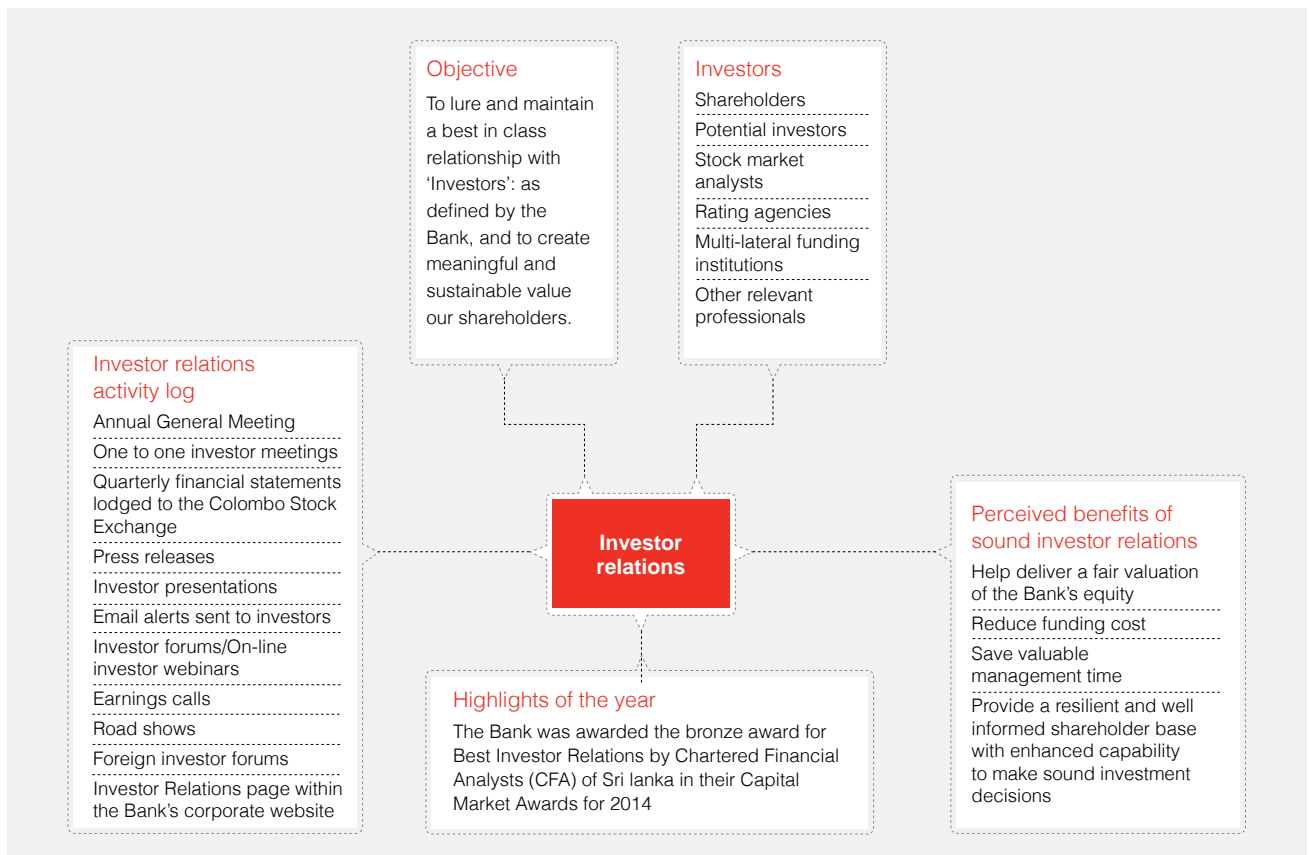
Considering the relevance and valid contribution made towards sound investor relations, our “Investor Relations” scope encompasses a range of other stakeholders in addition to shareholders. Investor engagement is done through a comprehensive range of investor relation activities, at certain instances with the aid of advance technological support, such that we are accessible to investors overseas as well.

2014 had an action packed schedule in the investor relations frontier, where we executed a number of interactive, comprehensive and open engagement activities. A highlight of the year was the Bank being recognized with a bronze award for best investor relations activities, by Chartered Financial Analysts (CFA) of Sri Lanka in their Capital Market Awards for 2014.



At the head table of the Investor Forum held in August 2014 (from left: Mr Rajendra Theagarajah - CEO of NDB, Mr Sunil G Wijesinha - Chairman of NDB, Mr Faizan Ozman - Group CFO of NDB and Mr Vajira Kulatilleke - CEO of NDB Capital Holdings PLC)

Investor Relations at the Bank



Investor Relations Activity Log - 2014

Activity	Description
Annual General Meeting	The Bank hosts its Annual General meeting as per the regulatory requirements for the same.
One to one investor meetings	There is high accessibility to the senior management of the Bank for local and foreign investors. The Bank hosted over twenty one-to-one meetings during the year in Colombo with foreign investors.
Quarterly/Annual Financial Statements lodged to the Colombo Stock Exchange	The Bank ensures timely lodging of quarterly and annual financials to the Colombo Stock Exchange (CSE), within the statutory deadlines for such lodgings.
Email alerts sent to investors on financial results released	Our investors are notified of financial results released, immediately after the results are lodged with the CSE, each quarter. The notification is done via an email along with the quarterly financials and a performance commentary. An investor presentation is also uploaded to the Bank's corporate website subsequently.
Quarterly and annual press releases on the financial performance of the Bank and the Group	A press release on the financial performance of the Bank and the Group is featured in three newspapers (in Sinhala, Tamil & English) subsequent to the release of quarterly and annual financial accounts to the CSE.
Investor Forums/On-line investor webinars	The Bank hosts an investor webinar and/or an investor forum as suitable for each quarter and financial year end, on the financial performance for the period under consideration. The Bank hosted two investor forums and three on-line investor webinars in Colombo during 2014.
Earnings calls	The Bank participates in earnings call as and when requested by individual investors. The Bank participated in one earnings call during the year.
Foreign Investor Forums	The Bank was one of the participants in Sri Lanka's first ever capital markets investor forum "Invest Sri Lanka – Investor Forum" held in New York in September 2014.
Investor Relations webpage within the Bank's corporate website	This webpage provides our target audience with a full spectrum of valuable information regarding the Bank's equity and debt securities and other important aspects.

Shares of NDB Bank

1. Share Details

NDB Bank Shares	Quoted Ordinary Shares
Listed exchange	Colombo Stock Exchange (CSE) – Main Board
Featured stock indices	All Share Price Index (ASPI) S&P (SL) 20 Index Bank Finance and Insurance (BFI)
CSE Stock symbol	NDB.N0000
ISIN	LK0207N00007
Bloomberg newswire code	NDBB
Reuter's newswire code	NBLK

2. Share Performance 2014

2.1 Performance of the Colombo Stock Exchange - 2014

During 2014, the All Share Price Index (ASPI) grew by a significant 23.4% and closed at 7,298.95 on the 31 December 2014 while the Standard & Poor's Sri Lanka 20 Index (S&P SL20) recorded a significant increase of 25.3% over the same period. Many milestones were achieved during the year with the S&P SL20 crossing the 4,000 mark for the first time since its inception, the ASPI crossing the 7,500 mark after a period of three and a half years and the market capitalization reaching LKR 3 trillion to close at LKR 3,104.9 million as at 31 December 2014. Additionally, the daily average turnover grew by approximately 71.0% over the year from LKR 828 million in 2013 to record LKR 1.415 billion in 2014.

The notable uptick in the market was mostly as a result of the dip in the treasury yields which reached an all-time low with the country's objective to encourage private sector credit growth. This initiative increased investor preference to the share market due to higher returns in comparison to deposit rates.

Furthermore, expected economic development in the country over the past five years with the cessation of the civil war has attracted many foreign investors to the country. Foreign purchases reached an all-time high of LKR 105,812.5 million as at 31 December 2014.

Approximately LKR 77.7 billion was raised through debt and equity Initial Public Offerings (IPOs), rights issues, and private placements indicating that the primary market was commendably active during the year. During the course of 2014 there have been five Equity IPOs, one Equity Introduction, and 20 Debt offerings. The total raised from the five IPOs touched a three year high, with the total funds collected amounting to LKR 2,693.8 million.

Furthermore, the country's market is performing positively in comparison to global markets; ranking among the top six best performing markets internationally and within the five best performing markets in the region, in lieu of the ASPI's 23.4% growth figure recorded for the year.

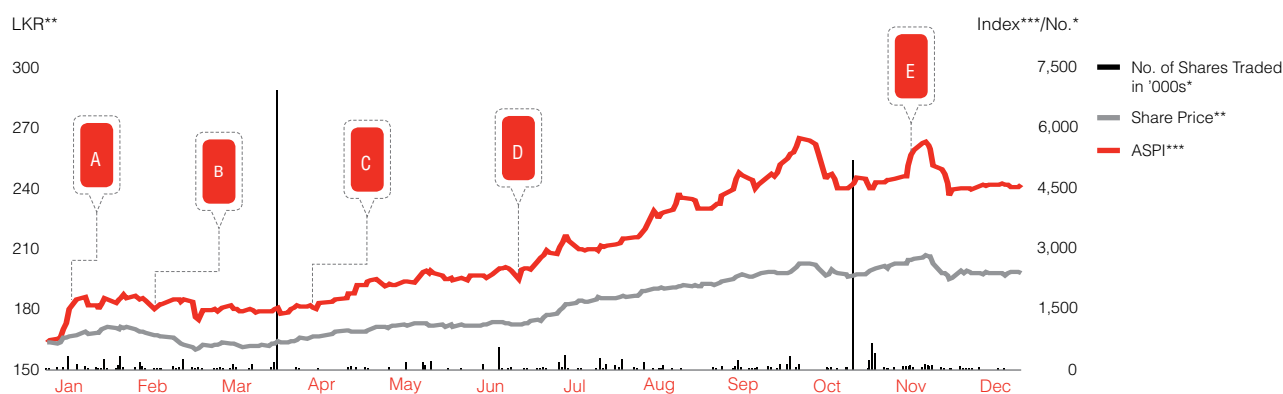
2.2 NDB Bank Share Performance - 2014

The NDB Bank share price surged by 55.8% during the year to close at LKR 250 as at 31 December 2014 from LKR 160.50 in the previous year, outperforming the ASPI by almost two times. During the year, the share reached a high of LKR 266 (in October 2014) and a low of LKR 160.50 (in January 2014). Additionally, 400,888 new shares were issued during the year through the Equity Linked Compensation Plan which did not have a significant impact on the market price.

The final dividend for 2013 of LKR 5.00 per share was announced in February 2014 and was paid in March 2014 while an interim dividend for 2014 of LKR 7.00 per share was announced in November 2014 and was paid in December 2014.

Behaviour of the NDB Bank Share Price in Response to Key Events

Share Price Movement



- A** Joint announcement made by DFCC Bank and National Development Bank PLC on the commencement of the preliminary discussions concerning the consolidation of banking business between the two banks
- B** Final dividend announcement (FY 2013)
- C** Divestment of Maldives Finance Leasing Company (Pvt) Ltd.
- D** Exit offer to purchase remaining ordinary shares of NDB Capital Holdings PLC before de-listing
- E** Interim dividend announcement (FY 2014)

3. Analysis of Ordinary Shareholders as at 31 December 2014 as per Rule 7.6 (x) of the Listing Rules of the Colombo Stock Exchange

3.1 Distribution of Shareholders

Shareholding Range	As at 31 December 2014				As at 31 December 2013			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
1 – 1,000	5,039	62.88	1,693,820	1.03	5,212	67.73	1,760,740	1.07
1,001 – 10,000	2,536	31.64	8,047,949	4.87	2,048	26.61	6,352,964	3.86
10,001 – 100,000	351	4.38	9,678,179	5.86	346	4.50	10,076,661	6.12
100,001 – 1,000,000	59	0.74	18,393,531	11.14	61	0.80	20,039,880	12.17
Over 1,000,000	29	0.36	127,280,443	77.10	28	0.36	126,462,789	76.78
Total	8,014	100.00	165,093,922	100.00	7,695	100.00	164,693,034	100.00

3.2 Resident/Non-Resident Shareholding

Shareholding	As at 31 December 2014				As at 31 December 2013			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Resident	7,865	98.14	111,113,993	67.30	7,529	97.84	115,337,647	70.03
Non-resident	149	1.86	53,979,929	32.70	166	2.16	49,355,387	29.97
Total	8,014	100.00	165,093,922	100.00	7,695	100.00	164,693,034	100.00

3.3 Individual/Institutional Shareholding

Shareholding	As at 31 December 2014				As at 31 December 2013			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Individual	7,604	94.88	32,875,619	19.91	7,243	94.13	30,769,120	18.68
Institutional	410	5.12	132,218,303	80.09	452	5.87	133,923,914	81.32
Total	8,014	100.00	165,093,922	100.00	7,695	100.00	164,693,034	100.00

4. 20 Largest Registered Shareholders of the Bank as at 31 December 2014 as per Rule No. 7.6 (iii) of the Listing Rules of the Colombo Stock Exchange

Twenty Largest Registered Shareholders as at 31 December 2014 Name	2014		2013*	
	No of Shares	%	No of Shares	%
1. Bank of Ceylon No. 1 Account	16,371,076	9.92	16,371,076	9.94
2. Employees' Provident Fund	16,010,248	9.70	16,010,248	9.72
3. Sri Lanka Insurance Corporation Ltd. - General Fund	9,388,488	5.69	9,388,488	5.70
4. HSBC International Nominees Ltd. - SNFE - NTAsian Discovery Master Fund	8,973,856	5.44	8,432,154	5.12
5. Dr. S Yaddehige	8,669,000	5.25	8,669,000	5.26
6. Sri Lanka Insurance Corporation Ltd. - Life Fund	7,805,426	4.73	7,805,426	4.74
7. HSBC International Nominees Ltd. - BPSS LUX - Aberdeen Global Asia Pacific Equity Fund	5,715,450	3.46	5,715,450	3.47
8. Employees' Trust Fund Board	5,303,700	3.21	5,303,700	3.22
9. BNY-CF Ruffer Investment Funds: CF Ruffer Pacific Fund	4,850,000	2.94	3,000,000	1.82
10. HSBC International Nominees Ltd. - MSNY - BAY Pond Partners L.P.	4,501,200	2.73	4,501,200	2.73
11. HSBC International Nominees Ltd. - BP2S London - Aberdeen Asia Pacific Equity Fund	4,294,800	2.60	0	0.00
12. Hatton National Bank PLC A/C No. 01	4,282,200	2.59	4,282,200	2.60
13. Asian Alliance Insurance PLC - Account Number 03/Life Shareholders' Fund	3,450,977	2.09	3,450,977	2.10
14. Mr. A K Pathirage	2,970,000	1.80	2,970,000	1.80
15. Asian Alliance Insurance PLC - General Fund Account No. 01	2,540,977	1.54	2,540,977	1.54
16. Asiri Hospital Holdings PLC	2,411,583	1.46	2,411,583	1.46
17. Asian Alliance Insurance PLC - A/C 02 (Life Fund)	2,159,746	1.31	2,159,746	1.31
18. HSBC International Nominees Ltd. - MSNY - BAY Pond Investors (Bermuda) LP	2,045,200	1.24	2,045,200	1.24
19. DFCC Bank A/C 1	2,000,000	1.21	2,000,000	1.21
20. HSBC International Nominees Ltd. - BP2S London - Aberdeen Asia Smaller Companies Investment Trust	1,683,000	1.02	1,683,000	1.02
Total	115,426,927	69.92	108,740,425	66.03

*Comparative shareholdings as at 31 December 2013 is of the twenty largest shareholders as at 31 December 2013.

5. Public Shareholding

	2014	2013
Percentage of shares held by the public*	90.25%	75.62%
Number of public shareholders**	7,982	-

*The increase in the public holding percentage as at 31 December 2014 is largely owing to the change in the definition of the 'public holding' in the Listing Rules of the Colombo Stock Exchange with effect from the year 2014.

** As per the Listing Rules of the Colombo Stock Exchange applicable in the year 2013 there was no requirement to disclose the number of public shareholders as at the end of the said year.

6. Directors' Interest in Shares of the Bank

Name	As at 31 December 2014 No. of Shares	As at 31 December 2013 No. of Shares
Sunil G Wijesinha	880	880
Ashok Pathirage	3,993,000*	3,993,000*
Rajendra Theagarajah	126	126
Trevine Jayasekera	-	-
Kimarli Fernando	-	-
Anura Siriwardana	-	-
Sarath Wikramanayake	-	-
G D Chandra Ekanayake	-	-
Sujeewa Rajapakse	-	-
Indrani Sugathadasa	-	-

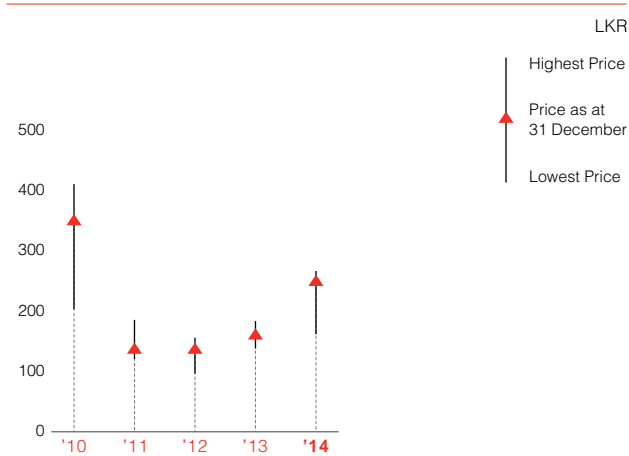
*Includes shares held in slash account

7. Information on Share Trading

7.1 Share Price Movement Trend over the Past Five Years

Year	2014	2013	2012	2011	2010
Highest price	266.00	182.50	155.00	186.00	410.00
Lowest price	160.50	138.00	96.00	120.00	202.00
Price as at 31 December	250.00	160.50	137.90	138.10	349.50
Total number of shares in issue	165,093,922	164,693,034	164,201,902	164,201,902	82,100,951

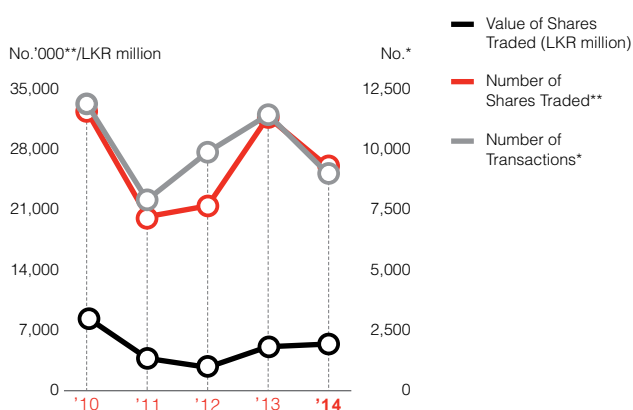
Share Price Movement Trend over the Past Five Years



7.2 Information on Share Trading

Year	2014	2013	2012	2011	2010
(a) Number of transactions	8,917	11,406	9,854	7,906	11,862
(b) Number of shares traded	25,871,855	31,631,020	21,406,492	20,108,047	32,390,146
(c) Value of shares traded (LKR million)	5,452	5,112	2,676	3,737	8,514

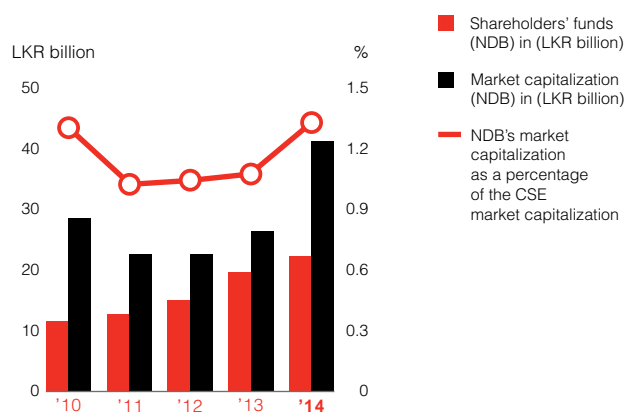
Information on Share Trading



7.3 Information on Market Capitalization, Shareholder Funds and Beta Measurement of the NDB Share

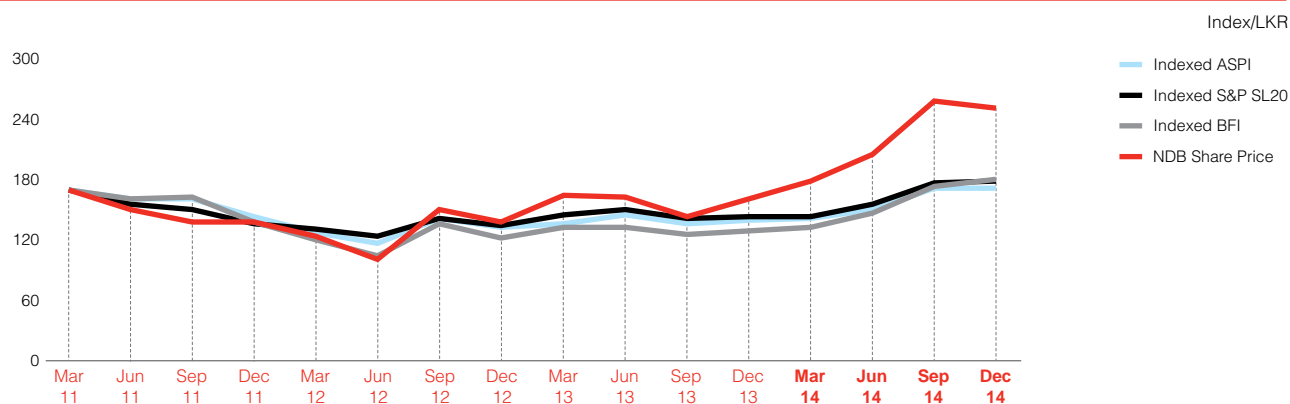
Year	2014	2013	2012	2011	2010
Shareholder funds (NDB) in LKR million	27,876	24,514	24,883	16,925	15,281
Market capitalization (NDB) in LKR million	41,273	26,433	22,643	22,676	28,694
Market capitalization (CSE) in LKR million	3,104,864	2,422,985	2,167,581	2,213,873	2,210,452
NDB's market capitalization as a percentage of CSE market capitalization	1.33%	1.09%	1.04 %	1.02%	1.30%
Market capitalization rank of NDB	16	20	22	23	20
Beta values against ASPI	1.30	0.97	0.73	0.86	1.18
Beta values against S&P SL20	1.23	1.22	1.01	0.92	1.00

Information on Market Capitalization



7.4 NDB Share Performance in Comparison with Selected Indices

NDB Share Price Movement in Comparison to CSE Indices

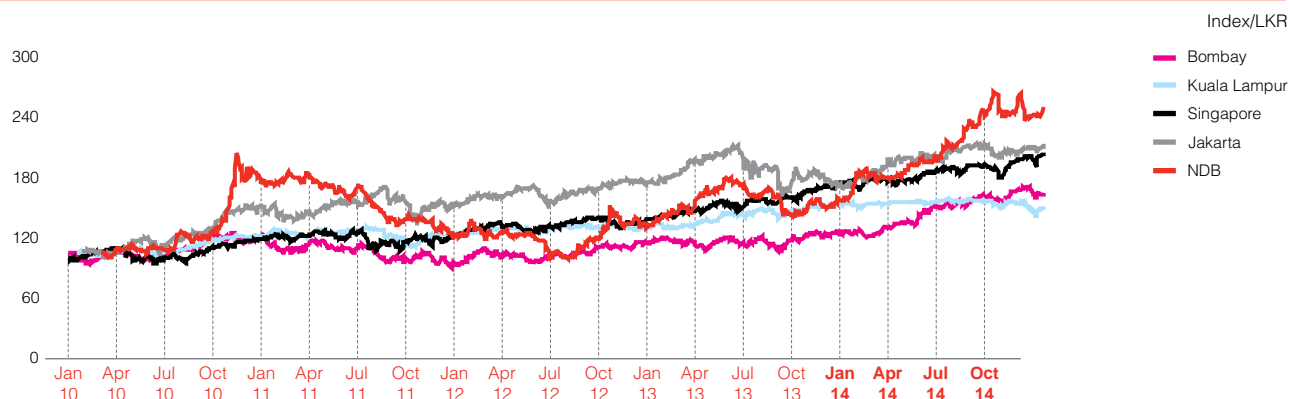


ASPI : All Share Price Index

S&P SL20: Standard & Poors Sri Lanka 20 Index

BFI: Bank Finance & Insurance Index

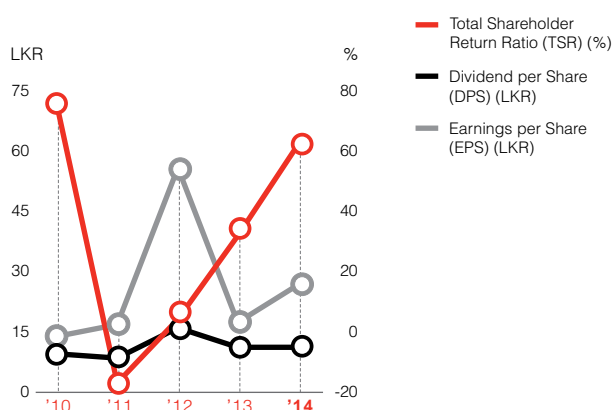
NDB Share Price Movement in Comparison to Key Regional Indices



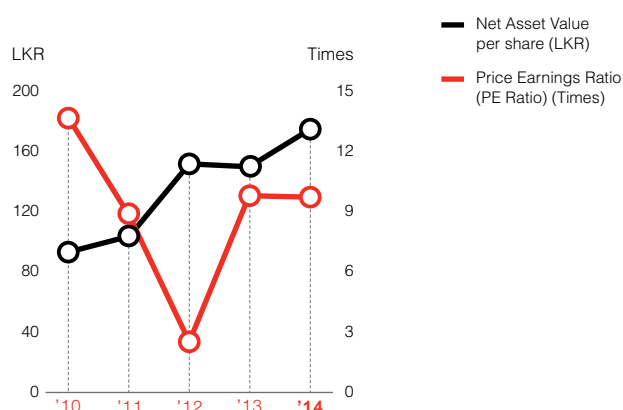
7.5 Key Shareholder Metrics Behaviour over the Past Five Years

Year	2014	2013	2012	2011	2010
Return on equity (%)	15.78	10.70	42.35	15.69	14.72
Earnings per share (EPS) (LKR)	25.14	16.48	55.31	15.79	12.82
Dividend per share (DPS) (LKR)	11.00	10.00	15.00	7.50	8.50
Dividend yield (%)	4.40	6.23	10.88	5.43	4.86
Dividend payout ratio (%)	44.00	62.0	79.0	49.0	33.0
Net asset value per share (LKR)	169.35	148.85	151.54	103.08	93.06
Price earnings ratio (PE ratio) (Times)	9.94	9.74	2.49	8.75	13.63
Price to book value (Times)	1.44	1.08	0.91	1.34	1.88
Total shareholder return ratio (TSR) (%)	63.23	30.89	2.75	(18.68)	75.49

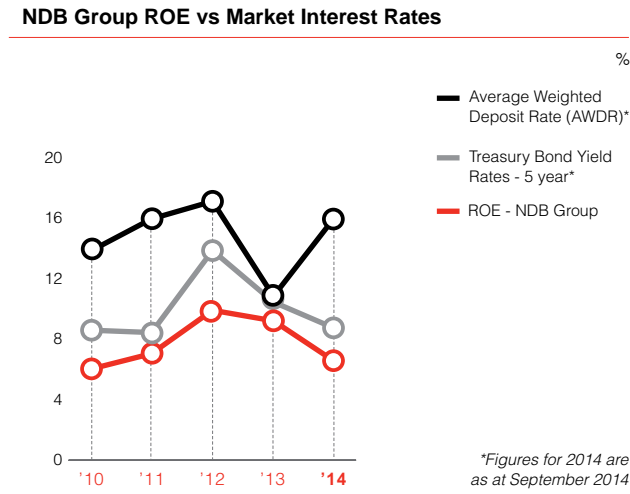
Shareholder Returns



Net Asset Value per Share & PE Ratio



7.6 Return on Equity Compared with Market Interest Rates



7.7 Equity-Linked Compensation Plan (ELCP)

On 30 March 2010, shareholders of the Bank approved an Equity Linked Compensation Plan (ELCP), to enable the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. As per the ELCP, the eligible members of the staff have exercised share options amounting to 400,888 shares during the year ended 31 December 2014. Accordingly, the said share issue resulted in the increase of the stated capital of the Bank from LKR 1,172.9 million to LKR 1,225.16 million and the number of shares in issue from 164,693,034 to 165,093,922 as at 31 December 2014.

7.8 Employee Share Option Schemes (ESOS)

The Colombo Stock Exchange (CSE), by Listing Rule 5.6 has amended the rules relating to Employee Share Option Schemes (ESOS) and Employee Share Purchase Schemes (ESPS) by mandating that such schemes should result in the shares being offered to eligible employees for 'purchase' or 'subscription' in the case of ESOS and 'acquisition' in the case of ESPS, specifically prohibiting open ended schemes. In compliance with this ruling and the Transitional Provisions thereto, the Board of Directors of National Development Bank PLC (NDB) approved the dissolution of the NDB ESOP Trust and the distribution of the ESOP shares amounting to 4,133,726 to the eligible employees of NDB.

Debentures of NDB

8. Types of Debentures

8.1 Listed Debenture - NDB.B000

In December 2013, the Bank issued by way of a public offer, one hundred million (100,000,000) rated, unsecured, subordinated, redeemable debentures (RUSRD) of the par value of rupees one hundred (LKR 100/-) each aggregating to the value of rupees ten thousand million (LKR 100,000,000,000/-).

The proceeds of these debentures were utilized to support the Bank's Tier II capital.

8.1 (a) Key Features of the RUSRD-NDB.B000

Type of Debentures	Debenture Code	ISIN	Nominal Interest Rate per Annum	Annual Effective Rate per Annum	Redemption (from the Date of Allotment)	Interest Payment Frequency	Interest Payment Dates
Type A	NDB/BC/19/12/18A13	LK0207D20998	13.00%	13.42%	60 months (5 years)	Semi-Annually	30 June & 31 December
Type B	NDB/BC/19/12/18B13.4	LK0207D21012	13.40%	13.40%	60 months (5 years)	Annually	31 December
Type C	NDB/BC/19/12/23C13.9	LK0207D21038	13.90%	13.90%	120 months (10 years)	Annually	31 December
Type D	NDB/BC/19/12/25D14	LK0207D21053	14.00%	14.00%	144 months (12 years)	Annually	31 December

8.1 (b) Trading Details of the RUSRD-NDB.B000 for the year ended 31 December 2014

Type of Debenture	CSE Listing	Interest payable frequency	Balance as at 31 December 2014 LKR million	Market Value			Interest Rate		Interest rate of Comparable Security %	Interest Yield %	Yield To Maturity %
				Highest LKR	Lowest LKR	Quarter End LKR	Coupon Rate %	Effective Annual Yield %			
Fixed Rate											
A - Dec. 2013/Dec. 2018	Listed	Semi Annually	1,243	119.53	100.00	119.53	13.00	13.42	9.78	7.25	7%
B - Dec. 2013/Dec. 2018	Listed	Annually	1,529	112.26	111.28	112.26	13.40	13.40	9.78	9.58	10%
C - Dec. 2013/Dec. 2023	Listed	Annually	3,638	118.1	112.5	117.38	13.90	13.90	11.00	10.78	10.78
D - Dec. 2013/Dec. 2025	Listed	Annually	3,590	119.95	119.23	119.95	14.00	14.00	11.39	10.90	10.9
Total Debentures			10,000								

8.2 Unlisted - Privately Placed Debentures

In 2011, the Bank privately placed rated subordinated unsecured unlisted debentures having an aggregate face value of LKR 400,000,000/-. The proceeds of these debentures were utilized for re-lending purposes. The details of the said debentures are as follows:

8.2. (a) Key Features of the Unlisted - Privately Placed Debentures

Date	Amount LKR	Number of Debentures	Value LKR	Redemption	Rate of interest
30 June 2011	1,000/- each	110,000	110,000,000	30 June 2016	03 month gross TBR* + 1.00% per annum
22 July 2011	1,000/- each	290,000	290,000,000	30 June 2016	03 month gross TBR* + 1.00% per annum

*Treasury Bill Rate.

8.2. (b) Other Information of the Unlisted - Privately Placed Debentures

Type of Debenture	CSE Listing	Interest payable frequency	Balance as at 31 December 2014 LKR million	Coupon Rate %	Effective Annual Yield %	Interest rate of Comparable Security %
Floating Rate						
2011- 2016 (3 month TB* rate (gross)+1% p.a.)	Unlisted	Quarterly	400	11.43	11.93	7.78
Total Debentures			400			

* Three months Treasury Bill rate before deducting 10% Withholding tax as published by the Central Bank of Sri Lanka has been used.

9. Information on Debentures of the Bank (as per Rule No. 7.6 x (i) of the Listing Rules of the Colombo Stock Exchange)

	2014	2013
Debt Equity Ratio (Times)	10.43	8.99
Interest cover (Times)	1.58	1.49
Liquidity Assets Ratio (%) – Domestic Banking Unit	23.85	26.22
Liquidity Assets Ratio (%) – Foreign Currency Banking Unit	25.18	26.06

10. Directors' Interest in Debentures (NDB.B0000) as at 31 December 2014

Name	As at 31 December 2014 No of Debentures	As at 31 December 2013 No of Debentures
Sunil G Wijesinha	10,000	10,000
Ashok Pathirage	–	–
Rajendra Theagarajah	–	–
Trevine Jayasekera	–	–
Kimarli Fernando	–	–
Anura Siriwardana	–	–
Sarath Wikramanayake	–	–
G D Chandra Ekanayake	–	–
Sujeewa Rajapakse	–	–
Indrani Sugathadasa	–	–

Bank's Credit Ratings

11. Ratings Summary of the Bank - 2014

11.1	Rating entity	Fitch Ratings
	Date of report	23 June 2014
	National long-term rating	AA- (Ika)/Stable outlook
	Outstanding subordinated debentures	A+ (Ika)
	Long-term foreign currency & local currency issuer default ratings (IDR)	B+/Stable outlook
	Short-term foreign currency IDR	B
	Viability rating	b+
	Support rating	4
	Support rating floor	B
11.2	Rating entity	Standard & Poor's Ratings Services
	Date of report	27 June 2014
	Counterparty Credit Rating	B+/Stable/B
	Counterparty Credit Ratings History (26 June 2013)	B+/Stable/B

There have been no changes to the ratings issued in 2014 in comparison to ratings issued in the prior year. Please refer our Investor Relations web page within the NDB Corporate website on <http://www.ndbbank.com> to read full rating reports of Fitch Ratings and Standard and Poor's Rating Services.

Other Information

12. Financial Statements in USD

12.1 Statement of Profit or Loss

For the year ended 31 December	BANK			GROUP		
	2014 US\$ '000	2013 US\$ '000	Change %	2014 US\$ '000	2013 US\$ '000	Change %
Gross income	190,870	229,672		200,372	195,960	
Interest income	160,381	159,250	1	161,737	160,503	1
Interest expenses	101,698	106,597	(5)	101,228	106,309	(5)
Net interest income	58,683	52,653	11	60,509	54,194	12
Fee and commission income	14,270	12,476	14	19,606	18,674	5
Net gains/(losses) from trading	6,958	7,383	(6)	6,958	7,383	(6)
Net gain/(loss) from financial investments	5,479	2,446	124	10,173	7,086	44
Other operating income	3,782	47,666	(92)	1,897	1,928	(2)
Total operating income	89,172	122,623	(27)	99,143	89,264	11
Impairment for loans and receivables and other losses	4,328	9,570	(55)	4,043	9,745	(59)
Net operating income	84,844	113,053	(25)	95,100	79,519	20
Less: Operating expenses						
Personnel expenses	21,966	18,466	19	24,257	20,562	18
Other expenses	18,630	19,748	(6)	20,938	22,442	(7)
Total operating expenses	40,596	38,214	6	45,195	43,004	5
Operating profit before tax on financial services	44,248	74,839	(41)	49,905	36,515	37
Tax on financial services	(7,870)	(7,037)	12	(7,870)	(7,037)	12
Operating profit after tax on financial services	36,378	67,802	(46)	42,035	29,478	43
Share of associate companies' profits/(losses)	–	–	–	744	380	96
Profit before taxation	36,378	67,802	(46)	42,779	29,858	43
Taxation	(10,242)	(8,106)	26	(10,313)	(8,895)	16
Profit for the year	26,136	59,696	(56)	32,466	20,963	55
Profit attributable to:						
Equity holders of the parent	26,136	59,696	(56)	31,610	20,420	55
Non-controlling interests	–	–	–	856	543	58
	26,136	59,696	(56)	32,466	20,963	55

12.2 Statement of Comprehensive Income

For the year ended 31 December	BANK			GROUP		
	2014 US\$ '000	2013 US\$ '000	Change %	2014 US\$ '000	2013 US\$ '000	Change %
Profit for the year	26,136	59,696	(56)	32,466	20,963	55
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods						
Exchange differences on translation of foreign operations	–	–	–	4	(86)	100
Net gains and losses on available-for-sale investments	(268)	1,147	(123)	(168)	1,620	(110)
Gains and losses on cash flow hedges	3,042	–	100	3,042	–	100
Other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods						
Revaluation of freehold land & buildings	8,290	–	100	8,290	–	100
Actuarial losses on defined benefit plans	(1,068)	(276)	286	(1,068)	(274)	289
Total other comprehensive income	9,996	871	1,048	10,100	1,259	702
Less: Tax expenses relating to components of other comprehensive income	(1,377)	(295)	367	(1,377)	(429)	224
Other comprehensive income for the year, net of taxes	8,619	576	1,396	8,723	830	949
Total comprehensive income for the year	34,755	60,270	(42)	41,189	21,793	89
Attributable to:						
Equity holders of the parent	34,755	60,270	(42)	40,331	21,250	90
Non-controlling interest	–	–	–	858	534	61
	34,755	60,270	(42)	41,189	21,793	89

12.3 Statement of Financial Position

As at 31 December	Note	BANK			GROUP		
		2014 US\$ '000	2013 US\$ '000	Change %	2014 US\$ '000	2013 US\$ '000	Change %
Assets							
Cash and cash equivalents		23,536	19,970	18	24,822	20,407	22
Balances with Central Bank		51,104	40,834	25	51,104	40,834	25
Placements with banks		20,636	1,000	1,964	20,636	1,000	1,964
Derivative financial instruments		14,434	8,792	64	14,434	8,792	64
Financial assets held-for-trading		21,117	81,994	(74)	45,706	108,559	(58)
Loans and receivables to banks		2,359	4,907	(52)	2,359	4,907	(52)
Loans and receivables to other customers		1,328,091	1,046,436	27	1,328,551	1,046,896	27
Financial investments - loans and receivables		290,390	121,128	140	293,279	128,426	128
Financial investments - available-for-sale		129,343	45,755	183	136,906	47,170	190
Financial investments - held-to-maturity		68,013	134,625	(49)	77,084	141,190	(45)
Investments held for sale		140	–	100	252	–	100
Investments in subsidiary companies		15,165	15,584	(3)	–	–	–
Investments in associate companies		–	474	(100)	–	587	(100)
Investment property		–	–	–	11,719	10,583	11
Intangible assets		1,919	1,992	(4)	2,252	2,269	(1)
Property, plant & equipment		14,613	6,676	119	17,078	8,998	90
Other assets		11,021	9,097	21	14,224	11,157	28
Total assets		1,991,881	1,539,263	29	2,040,406	1,581,775	29
Liabilities							
Due to banks		53,293	79,947	(33)	53,293	79,947	(33)
Derivative financial instruments		5,028	6,251	(20)	5,028	6,251	(20)
Due to other customers		1,151,052	992,964	16	1,148,485	989,842	16
Debt securities issued and other borrowed funds		469,715	186,775	151	469,491	186,545	152
Tax liabilities		6,268	2,035	208	6,112	2,296	166
Deferred tax liabilities		4,696	2,390	97	4,624	2,481	86
Employee benefit liabilities		1,873	1,300	44	2,199	1,643	34
Other liabilities		46,828	28,189	66	48,309	29,448	64
Subordinated term debts		84,529	89,351	(5)	84,529	89,351	(5)
Total liabilities		1,823,282	1,389,202	31	1,822,070	1,387,805	31
Equity							
Stated capital		9,289	8,971	4	8,683	7,218	20
Statutory reserve fund		7,663	7,331	5	7,663	7,331	5
Retained earnings		141,209	119,719	18	183,820	158,561	16
Other reserves		10,438	14,040	(26)	11,174	14,377	(22)
Total equity to equity holders of the Bank		168,599	150,061	0	211,340	187,486	18
Non-controlling interests		–	–	–	6,996	6,484	8
Total equity		168,599	150,061	12	218,336	193,971	13
Total liabilities and total equity		1,991,881	1,539,263	29	2,040,406	1,581,775	29
Commitments and contingencies		1,752,416	1,355,260	29	1,752,455	1,355,260	29

USD Accounts

The Statement of profit or loss, Statement of Comprehensive Income and the Statement of Financial Position given in USD are solely for the shareholders, investors and any other users of financial information and do not form part of the audited Financial Statements.

13. Interim Financial Performance

13.1 Statement of Profit or Loss

BANK LKR '000	Quarter 4 31.12.2014	Quarter 3 30.09.2014	Quarter 2 30.06.2014	Quarter 1 31.03.2014	Quarter 4 31.12.2013	Quarter 3 30.09.2013	Quarter 2 30.06.2013	Quarter 1 31.03.2013
Net interest income	1,893,935	2,011,647	1,973,188	1,795,831	1,811,582	1,811,528	1,793,005	1,575,021
Other operating income	889,176	909,803	898,997	1,289,390	831,892	779,357	747,425	6,517,490
Total operating income	2,783,111	2,921,450	2,872,185	3,085,221	2,643,474	2,590,885	2,540,430	8,092,511
Impairment for loans and receivables and other losses	242,428	101,449	193,633	28,493	1,012,095	77,202	98,735	50,171
Net operating income	2,540,683	2,820,001	2,678,552	3,056,728	1,631,379	2,513,683	2,441,695	8,042,340
Total operating expenses	1,393,055	1,378,336	1,229,405	1,308,396	1,330,607	1,281,566	1,177,257	1,154,773
Profit from operations	1,147,628	1,441,665	1,449,147	1,748,332	300,772	1,232,117	1,264,438	6,887,567
Share of associate companies' profit	-	-	-	-	-	-	-	-
Profit before taxation	1,147,628	1,441,665	1,449,147	1,748,332	300,772	1,232,117	1,264,438	6,887,567
Taxation	(547,209)	(502,867)	(769,134)	(549,500)	(131,775)	(538,804)	(672,704)	(618,375)
Profit for the period	600,419	938,798	680,013	1,198,832	168,997	693,313	591,734	6,269,192
Profit attributable to:								
Equity holders of the parent	600,419	938,798	680,013	1,198,832	168,997	693,313	591,734	6,269,192
Non-controlling interests	-	-	-	-	-	-	-	-
	600,419	938,798	680,013	1,198,832	168,997	693,313	591,734	6,269,192
Basic earnings per share (in LKR)	3.64	5.69	4.02	5.78	1.03	4.21	3.60	38.18
Diluted earnings per share (in LKR)	3.63	5.68	4.01	5.78	1.03	4.21	3.60	38.18

INVESTOR RELATIONS

GROUP LKR '000	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	31.12.2014	30.09.2014	30.06.2014	31.03.2014	31.12.2013	30.09.2013	30.06.2013	31.03.2013
Net interest income	1,952,090	2,064,925	2,033,432	1,862,959	1,782,679	1,858,010	1,836,605	1,608,231
Other operating income	1,341,065	1,309,395	1,035,734	1,366,455	1,443,552	1,067,697	1,089,447	865,197
Total operating income	3,293,155	3,374,320	3,069,166	3,229,414	3,226,231	2,925,707	2,926,052	2,473,427
Impairment charges for loans and other losses	222,964	85,776	94,385	125,584	1,055,348	83,201	98,735	23,480
Net operating income	3,070,191	3,288,544	2,974,781	3,103,830	2,170,883	2,842,506	2,827,317	2,449,948
Total operating expenses	1,605,584	1,522,422	1,349,455	1,433,155	1,524,781	1,408,122	1,309,853	1,322,364
Profit from operations	1,464,607	1,766,122	1,625,326	1,670,675	646,102	1,434,384	1,517,464	1,127,584
Share of associate companies' profit	-	-	-	97,274	9,562	28,980	8,210	2,468
Profit before taxation	1,464,607	1,766,122	1,625,326	1,767,949	655,664	1,463,364	1,525,674	1,130,051
Taxation	(527,635)	(514,722)	(772,596)	(563,080)	(155,537)	(558,259)	(718,646)	(630,088)
Profit for the period	936,972	1,251,400	852,730	1,204,869	500,127	905,105	807,028	499,964
Profit attributable to:								
Equity holders of the parent	857,660	1,242,340	843,045	1,190,885	445,319	891,961	797,753	506,888
Non-controlling interest	79,312	9,060	9,685	13,984	54,808	13,144	9,275	(6,924)
	936,972	1,251,400	852,730	1,204,869	500,127	905,105	807,028	499,964
Basic earnings per share (in LKR)	5.68	7.75	5.24	7.41	2.78	5.42	4.98	1.06
Diluted earnings per share (in LKR)	5.34	7.62	5.24	7.41	2.77	5.41	4.99	1.07

13.2 Statement of Financial Position

BANK LKR '000	As at	As at	As at	As at	As at	As at	As at	As at
	31.12.2014	30.09.2014	30.06.2014	31.03.2014	31.12.2013	30.09.2013	30.06.2013	31.03.2013
Cash and cash equivalents	12,566,872	19,509,158	9,162,267	8,361,127	8,080,826	8,746,703	15,224,455	16,863,330
Net loans and receivables	175,486,347	164,951,727	153,743,532	145,414,432	153,300,614	138,392,710	129,713,266	124,412,209
Investments	69,137,785	64,784,042	66,953,926	50,778,802	36,361,300	33,490,390	31,097,184	28,680,784
Other assets	5,538,140	5,603,313	3,522,678	2,884,388	3,393,034	2,595,732	4,257,589	3,484,992
Total	262,729,144	254,848,240	233,382,403	207,438,749	201,135,774	183,225,534	180,292,494	173,441,316
Customer deposits	151,823,715	150,515,133	139,500,487	135,282,343	129,830,029	118,489,102	117,639,980	110,091,898
Borrowings	80,134,243	74,010,835	66,633,874	47,287,695	46,556,578	39,878,258	36,845,563	36,879,823
Other liabilities	8,532,996	7,408,478	6,660,594	4,964,604	5,093,626	4,682,789	6,404,693	7,721,034
Shareholders Funds	22,238,190	22,913,794	20,587,448	19,904,106	19,655,542	20,175,384	19,402,258	18,748,561
Total	262,729,144	254,848,240	233,382,403	207,438,749	201,135,774	183,225,533	180,292,494	173,441,316
Net asset value	134.70	138.84	124.77	120.84	119.13	122.50	118.16	114.18

GROUP LKR '000	As at 31.12.2014	As at 30.09.2014	As at 30.06.2014	As at 31.03.2014	As at 31.12.2013	As at 30.09.2013	As at 30.06.2013	As at 31.03.2013
Cash and cash equivalents	12,736,516	19,593,374	9,356,993	8,464,024	8,138,013	8,794,081	15,285,968	17,108,941
Net loans and receivables	175,547,049	164,945,855	153,767,778	145,472,939	137,523,341	138,663,070	130,152,065	125,004,814
Investments	72,970,512	68,607,489	70,575,810	54,259,369	55,690,627	36,401,141	33,578,308	30,834,571
Other assets	7,875,528	7,690,060	5,474,132	4,856,066	5,465,140	4,448,933	6,200,663	5,315,740
Total	269,129,605	260,836,778	239,174,713	213,052,398	206,817,121	188,307,225	185,217,004	178,264,066
Customer deposits	151,485,202	150,211,397	139,226,384	134,984,443	129,421,813	118,094,538	117,290,318	109,742,736
Borrowings	80,104,583	74,026,906	66,605,559	47,257,695	46,526,578	39,841,559	36,800,553	36,850,288
Other liabilities	8,741,401	7,536,486	6,926,198	5,219,171	5,507,076	4,819,685	6,560,392	7,940,684
Shareholders' funds	27,875,773	28,218,815	25,582,366	24,730,358	24,513,808	24,757,448	23,785,039	22,926,435
Non-controlling interests	922,646	843,174	834,206	860,731	847,846	793,995	780,702	803,923
Total	269,129,605	260,836,778	239,174,713	213,052,398	206,817,121	188,307,225	185,217,004	178,264,066
Net asset value	169.35	175.92	159.51	154.00	148.85	150.32	144.85	139.62

14. Ten Years at a Glance (Group Performance)

14.1 Statement of Profit or Loss

LKR million	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Income										
Net interest income	2,693	2,853	3,522	3,787	4,233	4,163	4,910	5,896	7,012	7,913
Other operating income	2,081	2,133	1,474	1,662	2,560	2,785	3,012	9,042	4,537	5,053
Total operating income	4,774	4,986	4,997	5,449	6,793	6,948	7,922	14,938	11,549	12,966
Impairment for loans & receivables and other losses	153	13	65	116	373	(172)	(88)	51	1,261	529
Net operating income	4,621	4,972	4,932	5,333	6,420	7,119	8,010	14,887	10,288	12,437
Less Operating Expenses										
Personnel costs	1,132	830	949	1,151	1,300	1,567	2,118	2,333	2,660	3,172
Other operating costs	1,645	929	1,104	1,237	1,370	1,496	1,863	2,163	2,904	2,738
Total operating expenses	2,777	1,760	2,053	2,388	2,670	3,063	3,981	4,496	5,564	5,910
Operating Profit before Share of associate Companies profit before tax	1,844	3,213	2,879	2,945	3,750	4,056	4,030	10,391	4,724	6,527
Share of associate Companies profit	22	214	179	172	526	295	331	439	49	97
Profit before taxation	1,866	3,427	3,058	3,118	4,276	4,351	4,361	10,830	4,773	6,624
Taxation	(593)	(1,220)	(1,421)	(1,409)	(2,154)	(2,175)	(1,597)	(1,898)	(2,061)	(2,378)
Profit after taxation	1,273	2,207	1,637	1,708	2,121	2,176	2,764	8,932	2,712	4,246
Minority interest	(237)	(176)	(115)	(103)	(37)	(73)	(235)	(78)	(70)	(112)
Profit attributable to equity holders of the parent	1,036	2,030	1,521	1,605	2,085	2,103	2,528	8,854	2,642	4,134

14.2 Statement of Financial Position

LKR million	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Assets										
Liquid assets	2,917	6,042	7,748	5,883	8,243	5,586	7,651	13,269	8,139	12,737
Investments	19,078	12,170	14,701	18,509	32,128	20,021	27,359	32,499	55,614	72,971
Loans and receivables	36,976	42,418	49,818	54,589	54,107	78,452	102,019	124,311	137,523	175,547
Investments in associate companies	241	1,179	1,210	1,393	1,724	1,763	1,797	33	77	-
Property, plant & equipment	1,162	691	804	781	806	918	1,504	1,541	1,473	2,550
Investment property	1,041	1,200	1,200	1,200	1,200	1,200	1,296	1,296	1,384	1,546
Other assets	3,006	1,276	661	925	1,075	691	962	1,154	2,608	3,780
Goodwill	873	-	-	-	4	4	-	-	-	-
Total Assets	65,295	64,977	76,143	83,280	99,286	108,635	142,588	174,103	206,818	269,130
Liabilities										
Borrowings	27,799	29,204	34,147	34,993	29,561	28,631	38,973	36,630	47,344	80,104
Deposits with customers	13,954	21,161	25,624	31,091	49,948	60,533	82,094	107,394	129,423	151,485
Non-life insurance reserves	859	-	-	-	-	-	-	-	-	-
Long-term insurance fund	9,238	-	-	-	-	-	-	-	-	-
Taxation	220	640	522	352	560	633	397	713	625	1,416
Other liabilities	2,855	2,091	2,750	3,614	4,334	2,826	3,286	3,657	4,062	7,326
Total Liabilities	54,925	53,096	63,043	70,050	84,403	92,623	124,750	148,394	181,454	240,331
Shareholders' Funds										
Stated capital	760	1,033	1,033	1,033	1,033	864	864	864	944	1,145
Statutory reserves	546	819	819	819	819	879	879	879	959	1,011
Other reserves	-	-	-	-	-	-	387	924	1,880	1,474
Retained earnings	7,850	8,715	9,833	10,811	12,345	13,552	14,796	22,216	20,733	24,246
Total shareholders' funds	9,155	10,567	11,685	12,662	14,197	15,295	16,926	24,883	24,516	27,876
Minority interest	1,215	1,314	1,415	568	687	717	913	826	848	923
Total funds employed	10,370	11,881	13,100	13,230	14,883	16,012	17,838	25,709	25,364	28,799
Total liabilities & funds employed	65,295	64,977	76,143	83,280	99,286	108,635	142,588	174,103	206,818	269,130

14.3 Share Information

Market price per share (LKR)	215.00	201.00	170.00	86.00	206.00	174.50	138.10	138.10	161.50	250.00
Basic earnings per share (LKR)	11.20	12.40	9.30	9.80	12.75	12.81	15.79	55.31	16.48	25.14
Interim dividends per share (LKR)	-	-	-	-	-	4.00	3.50	5.00	5.00	7.00
Final dividends per share (LKR)	6.00	4.00	6.00	6.75	8.00	4.50	4.00	10.00	5.00	4.00
Total dividends per share	6.00	4.00	6.00	6.75	8.00	8.50	7.50	15.00	10.00	11.00
Dividend cover (Times)	3.21	6.20	3.72	3.27	3.77	2.19	2.05	3.69	1.65	2.29
Price earnings ratio (Times)	9.95	8.10	9.14	4.39	8.08	13.63	8.97	2.56	9.74	9.94
Book value per share (LKR)	79.80	64.54	71.38	77.35	86.72	93.15	103.08	151.54	148.85	169.35

15. Compliance Report in Terms of Section 7.6 - Contents of the Annual Report in Terms of the Listing Rules of the Colombo Stock Exchange

Tabulated below is how we complied with the Contents of the Annual Report as specified in Section 7.6 of the Listing Rules issued by the Colombo Stock Exchange. The table provides the disclosure requirements of Section 7.6, the compliance level of the Bank and where you will find the respective disclosures within this Annual Report.

Rule No: Disclosure Requirement	Cross Reference within the Report (page/s)
7.6 (i) Names of persons, who during the financial year, were Directors of the Entity	102 and 103
7.6 (ii) Principal activities of the Entity and its subsidiaries during the year and any changes therein	20 and 277
7.6 (iii) The names and the number of shares held by the 20 largest holders of voting shares and the percentage of such shares held	228
7.6 (iv) The Public Holding percentage	228
7.6 (v) A statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of the financial year	228
7.6 (vi) Information pertaining to material foreseeable risk factors of the Entity	176 to 222
7.6 (vii) Details of material issues pertaining to employees and industrial relations of the Entity	82 to 91 and 93 to 98
7.6 (viii) Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	313 to 319
7.6 (ix) Number of shares representing the Entity's stated capital	331 to 332
7.6 (x) A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	227
7.6 (xi) Ratios and Market Price Information <ul style="list-style-type: none"> • Equity: Dividend per share, Dividend payout, Net asset value per share, Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year); • Debt: Interest rate of comparable Government Security, debt/equity ratio, quick assets ratio, market prices and yield during the year. • Any changes in the credit rating (for the entity or any other instruments issued by the entity), if applicable. 	229 and 231 233 and 234 234
7.6 (xii) Significant changes in the Entity's or its subsidiaries fixed assets and the market value of land, if the value differs substantially from the book value	313 to 319
7.6 (xiii) Details of the funds raised either through a public issue, Rights Issue or private placement; <ul style="list-style-type: none"> • A statement as to the manner in which the proceeds of such issue has been utilized. • If any shares or debentures have been issued, the number, class and consideration received and the reason for the issue; and • Any material change in the use of funds raised through an issue of Securities. 	331 253 253
7.6 (xiv) Employee share option scheme details Employee share purchase schemes	332
7.6 (xv) Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules.	The Bank is exempted from Section 7.10 of the CSE Listing Rules thus not applicable
7.6 (xvi) Related party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	Not applicable

16. Shareholder Enquires and Communications

Investor Relations Team

Ms. Suvendrini Muthukumarana
Assistant Vice-President

Tel.: + 94 112 448 448 / Ext. 3817

Fax: + 94 112 341 047

Email: investor.relations@ndbbank.com

Address: National Development Bank PLC, No. 40, Navam Mawatha, Colombo 02, Sri Lanka.

Company Secretariat

Ms. Shehani Ranasinghe
Company Secretary

Tel.: + 94 112 448 448 / Ext. 3080

Fax: + 94 112 341 050

Email: shehani.ranasinghe@ndbbank.com

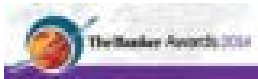
Recognition

Our efforts were recognized through numerous local and global awards during the year as we strive to keep pace with best industry practices.



Scan to view the online version
ndbbank2014.annualreports.lk/report/recognition.html

The Bank and the Group completed yet another successful year, winning several local and global awards and accolades across multiple criteria and thus reaffirming our leading position within the industry.



Banker Financial
Inclusion Award 2014

Conferred by the Banker Magazine of UK to just one global winner each year, the Award recognized the Bank's efforts towards promoting financial inclusion, particularly our innovative and comprehensive efforts in promoting livelihood development at grass root level through aggressive geographic expansion and extending meaningful micro-financing solutions.



Most Trusted Bank in
Sri Lanka - 2014
Bank of the Year -
2014

The Acquisition International Magazine of UK acknowledged the Bank's contribution towards financial empowerment of individuals as well as national economic development at large through two titles at the International Finance Awards.



Gold Award for
Business Excellence
in the Banking sector
Excellence in
Performance
Management

Winning double awards at the 2014 National Business Excellence Awards – an annual competition conducted by the National Chamber of Commerce in Sri Lanka – the Bank demonstrated excellence in business whilst contributing to the economic progress of the country.



Best Investment Bank
in Sri Lanka
Most Innovative
Investment Bank in
Sri Lanka
Best Asset-Backed
Securitisation
Sri Lanka

The triple recognition of NDB Investment Bank for the second successive year by Global Banking and Finance Review of UK served to acknowledge our continued leadership in the Sri Lankan capital market, which was further reinforced through the 'Best Investment Banking Services Sri Lanka 2014' Award for our range of debt and equity products and corporate advisory services within the country.











Best Investment Bank
in Sri Lanka
Best Investment Bank
in Bangladesh

Euromoney magazine of UK picked NDB Investment Bank, Sri Lanka and NDB Capital Ltd., Bangladesh as top winners in their respective countries, making NDB Group, the only local investment banking group in Asia to be named as the best simultaneously, in two countries.



Domestic Retail Bank
of the Year - Sri Lanka
SME Bank of the Year
- Sri Lanka

Collecting twin recognition for the second consecutive year at the Asian Banking and Finance Retail Banking Awards held in Singapore, the Bank also won a third award for 'Core Banking System Initiative of the Year - Sri Lanka'.

	Excellence in Core Banking Technology	The Bank's strategic move to converge multiple core-banking applications into a single system was acknowledged in the Service Providers' category at the 5 th Annual Retail Banker International Asia Trailblazer Awards Ceremony.
	Recognised Leader in Banking - Sri Lanka - 2014	The Bank won recognition at the Finance Awards, UK for its excellence, best practice and innovation in all aspects of the finance industry.
	Best use of Facebook Best use of Social Networks	The 5 th CMO Asia Awards for Excellence in Branding and Marketing held in Singapore acknowledged the great strides made by the Bank in the social and digital media marketing space within a short period.
	Brands Annual 2014	The NDB brand was ranked at the 18 th position and secured an 'A' rating in Brand Finance's latest valuation of Sri Lanka's leading brands for 2014.
	Bronze award for Best Investor Relations	The Chartered Financial Analysts Society of Sri Lanka recognized the Bank for its innovative efforts in Investor Relations at the CFA Sri Lanka Capital Market Awards ceremony.
	Top 25 Corporates in Sri Lanka	The Bank was ranked 18 th in the Business Today 'Top 25' ranking of Sri Lanka's best performing public listed corporate entities in 2013-14.
	Best use of CSR Practices Best use of Media and Other Recruitment Method	The Bank was recognised with two awards at the Asia Pacific Human Resources Congress 2014. The award for the 'Best Use of CSR Practices' recognized the Bank for the employee-volunteered CSR activities initiated by the Bank, while the second award for 'Best use of media and other recruitment methods' acknowledged the strategies used by the Bank in attracting and retaining superior skills.
	Winner of Corporate Debate for better workplaces at the National Symposium 2014	The debating team that represented the Bank emerged the winner of the corporate debate held at the 'National Symposium 2014' organized by the Employers' Federation of Ceylon.





Transparency

We respect our stakeholders' desire to be informed with more and better information.

As you would read throughout this report, we have revealed a lot about ourselves with clarity and candour. We believe that it will help you to understand us better.



Financial Reports

In order to provide our investors and all other stakeholders a cohesive and transparent view of our finances, we have prepared the financial statements in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs) issued by the Institute of Chartered Accountants of Sri Lanka and other best practices



Scan to view the online version
ndbbank2014.annualreports.lk/report/financial_reports.html

Financial Calendar 2014/2015

Annual General Meetings

	Date
10th Annual General Meeting for presenting the Annual Report for 2014	30 March 2015
9th Annual General Meeting for presenting the Annual Report for 2013	28 March 2014

Dividend Payments

	Amount per share	Date
Final dividend payment for 2014	LKR 4/-	25 February 2015
Interim dividend payment for 2014	LKR 7/-	25 November 2014
Final dividend payment for 2013	LKR 5/-	25 February 2014

Interim Financial Statements

	Released to the CSE	Published/to be published in the newspapers
Q4/For the twelve months ended 31.12.2014	13 February 2015	10 March 2015
Q3/For the nine months ended 30.09.2014	14 November 2014	18 November 2014
Q2/For the six months ended 30.06.2014	31 July 2014	11 August 2014
Q1/For the three months ended 31.03.2014	13 May 2014	20 May 2014
Q4/For the twelve months ended 31.12.2013	13 February 2014	21 February 2014

Annual Financial Statements

	Released to the CSE	Published/to be published in the newspapers
Annual Financial Statements for 2014	4 March 2015	10 March 2015
Annual Financial Statements for 2013	5 March 2014	24 March 2014

Investor webinars/forums

Investor forum for the financial year 2014	10 March 2015
Investor webinar for Q4 2014	16 February 2015
Investor webinar for Q3 2014	18 November 2014
Investor forum for H1 2014	11 August 2014
Investor webinar for Q1 2014	26 May 2014
Investor forum for the financial year 2013	20 February 2014
Investor webinar for the financial year 2013	20 February 2014

Proposed Financial Calendar 2015/2016

Interim Financial Statements

	To be released to the CSE	To be published in the newspapers
Q1/For the three months ending 31.03.2015	14 May 2015	19 May 2015
Q2/For the six months ending 30.06.2015	13 August 2015	18 August 2015
Q3/For the nine months ending 30.09.2015	12 November 2015	19 November 2015
Q4/For the twelve months ending 31.12.2015	12 February 2016	23 February 2016

Annual Financial Statements

	To be released to the CSE	To be published in the newspapers
Annual Financial Statements for 2015	4 March 2016	10 March 2016

General

The Directors of National Development Bank PLC (the Bank) have pleasure in presenting to the shareholders this Report together with the Audited Financial Statements and the Audited Consolidated Financial Statements for the year ended 31 December 2014 of the Bank and the Group and the Auditors' Report on these Financial Statements, conforming to the requirements of the Companies Act No. 07 of 2007, Banking Act No. 30 of 1988 and amendments thereto and the Directions issued thereunder.

The Bank, originally established by an Act of Parliament in 1979 as the National Development Bank of Sri Lanka was incorporated as National Development Bank Ltd. in 2005 pursuant to the provisions of the National Development Bank of Sri Lanka (consequential provision) Act No. 01 of 2005. National Development Bank Ltd. was thereafter re-registered under the Companies Act No. 07 of 2007 as National Development Bank PLC and was accorded with the registration No. PQ 27.

Principal Activities of the Bank and its Group Companies

The principal activities of the Bank and the Group are described in the Business Model on pages 19 to 36 of our Annual Report.

Vision, Mission and Values

The vision, mission and values of the Bank are given on the inner front cover of this Report. The Bank and the Group practice high ethical standards in carrying out its business activities in line with the vision of the Bank.

Registered Office and Head Office

The registered office and head office of the Bank is situated at No. 40, Navam Mawatha, Colombo 2.

Review of Business

A review of the operations of the Bank and the Group is given in the Chairman's Message (pages 11 to 13), the Chief Executive Officer's Review (pages 16 to 18) and the Management Discussion and Analysis (pages 37 to 98). These reports form an integral part of the Annual Report of the Board of Directors.

Future Developments

An overview of the future developments of the Bank and the Group is given in the Letter from the Chairman (pages 11 to 13), the Chief Executive Officer's Review (pages 16 to 18) and the Management Discussion and Analysis (pages 37 to 98). These reports form an integral part of the Annual Report of the Board of Directors.

Financial Statements

These Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) and are given in detail on pages 270 to 376 of this Annual Report.

The Financial Statements of the Bank and the Group for the year ended 31 December 2014 are duly signed by the Vice-President - Finance and Planning, the Group Chief Financial Officer, two Directors and the Company Secretary in accordance with Section 168 (1) (b) of the Companies Act No. 07 of 2007 and are given on pages 270 to 376.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Bank and the Group to reflect a true and fair view of the state of their affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 (as amended), the Listing Rules of the Colombo Stock Exchange and the Mandatory Code on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka.

The Directors are satisfied that the Financial Statements, presented on pages 270 to 376 inclusive, give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2014 as well as the profit for the year then ended.

The Statement of Directors' Responsibility for Financial Reporting is given on pages 261 and 262 and forms an integral part of the Annual Report of the Board of Directors.

Auditors' Report

The Bank's Auditors, Messrs Ernst & Young, carried out an audit on the Financial Statements of the Bank and the Consolidated Financial Statements of the Group for the year ended 31 December 2014 and their Report on those Financial Statements is given on page 268 of this Annual Report.

Significant Accounting Policies

The Significant Accounting Policies adopted in the preparation of the Financial Statements are given on pages 277 to 376. The significant changes to Accounting Policies adopted if any, in the preparation of the Financial Statements are given on pages 270 to 376.

Going Concern

The Board of Directors is satisfied that the Bank has adequate resources to continue the business activities in the foreseeable future. Therefore, the Bank has adopted the going concern basis in preparing these Financial Statements.

Financial Performance

The Group's Operating Profit Before Tax on Financial Services and Taxation including that of its subsidiaries and its share of profit from associate companies amounted to LKR 6,624 million (compared to LKR 4,774 million in 2013). After deducting LKR 2,378 million (compared to LKR 2,061 million in 2013) for Tax on Financial Services and Taxation, the Profit After Tax for the year amounted to LKR 4,246 million (compared to LKR 2,712 million in 2013). The Group profit attributable to shareholders amounted to LKR 4,134 million (compared to LKR 2,642 million in 2013).

The Bank's Profit Before Tax on Financial Services and Taxation amounted to LKR 5,787 million (compared to LKR 9,683 million in 2013). After deducting LKR 2,369 million (compared to LKR 1,959 million in 2013) for tax on Financial Services and Taxation, the Profit After Tax for the year amounted to LKR 3,418 million (compared to LKR 7,723 million in 2013).

Details are given in the Statement of Profit or Loss on page 270.

Total Operating Income

The Total Operating Income of the Group for 2014 was LKR 12,966 million (as compared with LKR 11,549 million for 2013), while the Bank's Total Operating Income was LKR 11,662 million (as compared with LKR 15,865 million for 2013). An analysis of the income is given in Note 4 to the Financial Statements on page 284.

Taxation

The income tax rate applicable on the Bank's domestic operations and FCBU on-shore and off-shore banking operations is 28% (2013 - 28%). The Bank's profit is also liable for Value Added Tax on Financial Services at the rate of 12% (2013 - 12%) and Nation Building Tax of 2% (2013 - Nil).

Deferred Tax is provided for all known temporary differences based on the Liability Method in accordance with Sri Lanka Accounting Standards (LKAS 12) on 'Income Taxes'.

Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments in relation to the Government and the employees have been made up-to-date.

Reserves

The Reserves of the Bank and the Group including retained earnings consist of the following:

	Bank		Group	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Capital	1,225,162	1,172,904	1,145,353	943,746
Statutory Reserve Fund	1,010,785	958,527	1,010,785	958,527
General Reserve	5,805,707	5,805,707	5,805,707	5,805,707
Revaluation Reserve	853,456	-	853,456	-
Investment Fund Account	-	1,706,751	-	1,706,751
Available-for-Sale Reserve	105,250	106,669	162,355	150,614
Share-based Payment Reserve	20,243	22,367	60,147	22,367
Cash flow hedge Reserve	397,852	-	397,852	-
Retained Earnings	12,819,737	9,847,553	18,440,118	14,926,094
Total	22,238,192	19,620,478	27,875,773	24,513,806

Dividends

An interim dividend of LKR 7.00 per share (2013 - LKR 5.00 per share) was paid on 25 November 2014 to the shareholders of the Bank for the financial year 2014.

The Directors authorized and approved a final dividend of LKR 4.00 per share (2013 - LKR 5.00 per share) to be paid for the financial year ended 31 December 2014.

In declaring the dividends, the Directors ensured due compliance by the Bank of the solvency provisions contained in the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange (CSE). The Board provided the Statement of Solvency to the Auditors and obtained Certificates of Solvency from the Auditors which were submitted to the Colombo Stock Exchange in respect of each dividend payment conforming to the statutory provisions.

These dividends were partly paid out of dividend income received and partly out of operational profits, the latter being subject to withholding tax.

Accordingly, LKR 2.03 per share was paid out of dividend income and LKR 8.97 per share was paid/will be paid out of operational profits.

Capital Expenditure and Commitments

Total capital expenditure incurred by the Bank and the Group on acquisition of investment property, property, plant & equipment, intangible assets and work-in-progress amounted to LKR 392 million and LKR 480 million, respectively (2013 - Bank - LKR 355 million and Group - LKR 364 million).

Property, Plant & Equipment

The details of property, plant & equipment are given in Note 34 to the Financial Statements.

Market Value of the Properties

The net book values of freehold land and buildings owned by the Bank and the Group as at 31 December 2014 are included in the Financial Statements at LKR 1,443 million and LKR 1,727 million respectively (2013 - Bank - LKR 387 million, and Group - LKR 691 million).

An independent valuer carried out the revaluation of the Bank's freehold land and buildings in 2014. The details of freehold land and buildings owned by the Bank are given in Note 34.2 to these Financial Statements.

Donations

The Bank made donations amounting to LKR 12.5 million for the year 2014 (2013 - LKR 14.4 million), in terms of the resolutions passed at the last Annual General Meeting. The information given above forms an integral part of the Annual Report of the Board of Directors in terms of Section 168 (1) (g) of the Companies Act No. 07 of 2007.

Pending Litigations

In the opinion of the Directors and the Bank's lawyers, pending litigations against the Bank disclosed in Note 48 to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

Events Occurring after the Date of the Statement of Financial Position

The events occurring after the date of the Statement of Financial Position are disclosed in Note 53 to the Financial Statements.

Stated Capital and Debentures

The stated capital of the Bank at the beginning of the year was LKR 1,172,903,620/- and at the end of the year was LKR 1,225,161,546/- and comprised of 164,693,034 ordinary shares at the beginning of the year and 165,093,922 ordinary shares at the end of the year.

During the period of January 2014 to December 2014, a total number of 400,888 shares were issued by the Bank to eligible employees of the Bank as share options in terms of the Equity Linked Compensation Plan (ELCP) of the Bank approved by the Board of Directors and shareholders of the Bank in March 2010.

In December 2013, the Bank, by way of a public offer, issued one hundred million (100,000,000/-) rated, unsecured, subordinated, redeemable debentures of the par value of Sri Lanka Rupees one hundred (LKR 100/-) each aggregating to the value of Sri Lanka Rupees ten thousand million (LKR 10,000,000,000/-). The proceeds of these debentures were utilized for lending purposes and these debentures supported the Bank's Tier II Capital.

The details of the said debentures are disclosed in Note 42 to the Financial Statements.

In 2011, the Bank privately placed rated, unsecured, unlisted redeemable debentures having an aggregate face value of LKR 400,000,000/-. The proceeds of these debentures were utilized for lending purposes. The details of the said debentures are also disclosed in Note 42 to the Financial Statements.

Share Information

The information relating to earnings, dividends, net assets and market price per share is given in the Financial Highlights on page 8 of the Annual Report. Information on the distribution of the number of holders in each class of equity securities and the percentage of their holdings as per the CSE Listing Rules are given in Investor Relations on pages 223 to 242 of this Annual Report.

Ratios and Market Price Information

The ratios relating to dividends, net asset value, market value per share and ratios relevant to debt securities are disclosed in Investor Relations on pages 223 to 242 of this Annual Report.

Substantial Shareholdings

The Bank had 8,014 registered new shareholders as at 31 December 2014 (2013 - 7,695). The distribution, public holding, 20 largest shareholders and the share price during 2014 are set out on page 228 of this Annual Report.

The Board of Directors

In terms of the provisions of the Articles of Association of the Bank, the Board of Directors, as at 31 December 2014, consisted of ten (10) Directors, including the Chairman and was made-up as follows:

- Eight (08) Directors have been appointed by the shareholders;
- One Director has been appointed as a representative of the Ministry of Finance in terms of the Articles of Association of the Bank; and
- The Chief Executive Officer is an ex-officio Director, with voting rights.

The list of Directors who held office during the year under review and changes thereto are given on pages 102 and 103.

In terms of the provisions of the Articles of Association of the Bank, one-third of the elected Directors (i.e. - excluding the representative of the Ministry of Finance and the ex-officio Executive Director) shall retire from office and new Directors will be elected by the shareholders at each Annual General Meeting of the Bank. The Directors to retire by rotation at an Annual General Meeting shall be those who (being subject to retirement by rotation) have been longest in office since their election or appointment. If one-third of the Directors eligible for retirement by rotation is not a multiple of three, the nearest to but not greater than one-third shall retire. As such, Mr Trevine Jayasekera and Mrs Kimarli Fernando will retire and stand for re-election by the shareholders at the Annual General Meeting of the Bank.

Compliance by the Board of Directors of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka is set out on pages 115 to 163

of this Annual Report. In terms thereof the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2014 is given below:

Name of Director	Independent/ Non-Independent	Executive/ Non-Executive
Mr Sunil G Wijesinha	Independent	Non-Executive
Mr Ashok Pathirage	Non-Independent	Non-Executive
Mr Rajendra Theagarajah (CEO)	Non-Independent	Executive
Mr Trevine Jayasekera	Independent	Non-Executive
Mr Sarath Wikramanayake	Non-Independent	Non-Executive
Mrs Kimarli Fernando	Independent	Non-Executive
Mr Anura Siriwardena	Independent	Non-Executive
Ms G D Chandra Ekanayake	Non-Independent	Non-Executive
Mr Sujeewa Rajapakse	Non-Independent	Non-Executive
Mrs Indrani Sugathadasa	Independent	Non-Executive

In terms of an approval received from the Board of Directors of the Colombo Stock Exchange on 30 March 2010, Licensed Commercial Banks have been granted a total exemption from the requirement to comply with Section 7.10 (Corporate Governance) of the Continuing Listing Requirements under the CSE Listing Rules with effect from 1 January 2010.

Compliance by the Board of Directors of the Code of Best Practice on Corporate Governance 2013 issued by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka is set out in pages 242 and 377 to 379 of the Annual Report. In terms thereof, the classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 December 2014 is given below:

Name of Director	Independent/ Non-Independent	Executive/ Non-Executive
Mr Sunil G Wijesinha	Independent	Non-Executive
Mr Ashok Pathirage	Non-Independent	Non-Executive
Mr Rajendra Theagarajah (CEO)	Non-Independent	Executive
Mr Trevine Jayasekera	Independent	Non-Executive
Mr Sarath Wikramanayake	Non-Independent	Non-Executive
Mrs Kimarli Fernando	Independent	Non-Executive
Mr Anura Siriwardena	Independent	Non-Executive
Ms G D Chandra Ekanayake	Independent	Non-Executive
Mr Sujeewa Rajapakse	Non-Independent	Non-Executive
Mrs Indrani Sugathadasa	Independent	Non-Executive

Directors of Group Companies

The Directors of the Group companies are set out on page 404 of the Annual Report.

Other Directorships of Directors

Information of the other Directorships of the Directors of the Bank as at 31 December 2014 is given below:

Name of Director	Other Directorships
Mr Sunil G Wijesinha	Watawala Plantations PLC Siyapatha Finance PLC Sampath Centre Ltd. United Motors Lanka PLC Unimo Enterprises Ltd. Orient Motor Company Ltd. TVS Lanka (Pvt) Ltd. TVS Automotives (Pvt) Ltd. UML Property Developments Ltd. UML Agencies & Distributors (Pvt) Ltd. BizEx Consulting (Pvt) Ltd. National Chamber of Commerce of Sri Lanka National Institute of Business Management
Mr Ashok Pathirage	Softlogic Holdings PLC Asiri Hospital Holdings PLC Asiri Surgical Hospital PLC Asiri Central Hospitals PLC (de-listed) Central Hospital (Private) Ltd. Asiri Hospital Kandy (Private) Ltd. Softlogic Retail (Private) Ltd. Ceysand Resorts Ltd. Softlogic Finance PLC Softlogic Capital PLC Asian Alliance Insurance PLC NDB Capital Holdings PLC (de-listed) Softlogic Properties (Private) Ltd. Softlogic Australia (Private) Ltd. Softlogic City Hotels (Private) Ltd. Abacus International Lanka (Private) Ltd. Asian Alliance Insurance General Ltd. Softlogic Brands (Private) Ltd. Odel PLC

Name of Director	Other Directorships
Mr Rajendra Theagarajah	NDB Capital Holdings PLC (de-listed) NDB Wealth Management Ltd. NDB Securities (Pvt) Ltd. NDB Investment Bank Ltd. Development Holdings (Pvt) Ltd. Carson Cumberbatch PLC NDB Capital Ltd. - Bangladesh Emerald Sri Lanka Fund I Ltd. NDB Zephyr Partners Ltd. NDB Zephyr Partners Lanka (Pvt) Ltd.
Mr Trevine Jayasekera	Brandix Lanka Ltd. John Keells Hotels PLC
Mr Sarath Wikramanayake	NDB Capital Holdings PLC (de-listed) NDB Wealth Management Ltd. NDB Investment Bank Ltd. Orient Finance PLC Bartleet Finance PLC
Mrs Kimarli Fernando	LB Finance PLC Vallibel One PLC Delmege Ltd.
Mr Anura Siriwardena	Nil
Ms G D Chandra Ekanayake	Nil
Mr Sujeewa Rajapakse	Asian Alliance Insurance PLC Dipped Products PLC Haycarb PLC Cornucopia Lanka (Pvt) Ltd. Lanka Holdings (Pvt) Ltd. Development Holdings (Pvt) Ltd. The Finance Company PLC Sanken PB Developers (Pvt) Ltd. NDB Capital Limited - Bangladesh
Mrs Indrani Sugathadasa	Kalubovitiyana Tea Factory Ltd.

Appraisal of Board Performance

The Bank has in place a robust scheme whereby the Directors perform a self-assessment of the Board's conduct and performance annually by answering a Self-assessment Questionnaire. The responses to the Self-assessment Questionnaire are evaluated by the Chairman and Deputy Chairman and any action, recommendations and/or concerns are discussed with the Board and accordingly noted and action taken where deemed appropriate.

Directors' Interest Register

The Bank, as per the Companies Act No. 07 of 2007, maintains the Interest Register. All Directors have made declarations as provided for in Section 192 (2) of the Companies Act aforesaid. The related entries were made in the Interest Register during the year under review on share disposals, Directors' interest in contracts, remuneration paid to the Directors etc. the Interest Register is available for inspection as required under the Companies Act.

Directors' Interests in Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 259 and 260 of this Annual Report. These interests have been declared at Directors' meetings. As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

Insurance and Indemnity

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

Directors' Interests in Shares

Shareholdings of the directors in the Bank as at the year-end and their corresponding holdings as at the end of the previous year are as shown on page 228 of this Annual Report.

Directors' Interests in Debentures

Directors' holdings in debentures of the Bank as at 31 December 2014 are set out on page 234 of this Annual Report.

Related Party Transactions

The Board of Directors has adopted an amended Related Party Transaction Policy and formed a Related Party Transaction Review Committee in December 2014 in compliance with the provisions contained in Section 9 of the Listing Rules of the Colombo Stock Exchange, the Sri Lanka Accounting Standards (LKAS 24) and the Directions issued by the Central Bank of Sri Lanka.

The Directors and Key Management Personnel of the Bank have disclosed transactions, if any, that could be classified as related party transactions in terms of LKAS 24 - on 'Related Party Disclosures' which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 55 to the Financial Statements.

Directors' Emoluments

Directors' fees and emoluments in respect of the Bank and the Group for the financial year ended 31 December 2014 are as follows:

	2014 LKR million	2013 LKR million
Directors' fees and emoluments		
- Bank	74.8	65.9
- Group	79.3	69.5

Equity-Linked Compensation Plan

In 2010, the Board of Directors and the shareholders of the Bank approved an Equity-Linked Compensation Plan (ELCP), to enable the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. A total quantum of 2,455,661 shares of the Bank which is equivalent to a maximum of 3% of the present voting share capital of the Bank was to be issued to the ELCP. Half of such shares were to be awarded as Share Options and the other half as Share Grants in equal proportions. The issue of shares for the ELCP was to take place over five years commencing July 2010. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

The details of the grants given and options exercised, the grant price and the grants and options cancelled or lapsed and outstanding as at 31 December 2014 are given in Note 43.2 to the Financial Statements.

Environmental Protection

The Bank and the Group have not engaged in any activity that is detrimental to the environment, and have complied with the environmental laws and regulations at all times.

Risk Management and System of Internal Control

The Bank has an on going process to identify, evaluate and manage the risks. The Board of Directors continuously monitors and reviews this process through the Board Integrated Risk Management Committee. The process adopted by the Bank to manage risks for banking and non-banking activities is discussed in detail in the Bank's Risk Management review on pages 176 to 222 of this Annual Report.

Directors' Statement of Internal Control

The Board has issued a report on the internal control mechanism of the Bank as per Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 on Corporate Governance. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, and the preparation of the Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report which forms an integral part of the Report of the Board of Directors is given on pages 263 and 264 of the Annual Report.

The Board has obtained an Assurance Report from the External Auditors on the Directors' Statement on Internal Control which is given on pages 263 and 264 of this Annual report.

Operational Excellence

To increase efficiency and reduce operating costs, the Bank has ongoing initiatives to drive policy and process standardization and to optimize the use of existing technology platforms.

Corporate Governance

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

The Directors declare that the Bank complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations confirm compliance in each quarter to the Board Integrated Risk Management Committee. All endeavours have been made to ensure that shareholders in each category have been treated equitably in accordance with the original terms of issue.

A description of the Bank's Corporate Governance Practices is set out on pages 108 to 163.

Board Sub-Committees

There are seven permanent committees of the Board, namely, Integrated Risk Management Committee, Audit Committee, Strategic Issues Committee, Human Resources and Remuneration Committee, Nomination Committee, Corporate Governance and Legal Affairs Committee and the Related Party Transactions Review Committee (Details of the members of these committees are given on pages 166 to 175) The Related Party Transaction Review Committee was formed in December 2014 and as a result a report or details of activities as at 31 December 2014 have not been set out in this Annual Report).

Material Foreseeable Risk Factors (As per Rule No. 7.6 (vi) of the Listing Rules of the Colombo Stock Exchange)

Information pertaining to the material foreseeable risk factors, that require disclosures as per the Rule No. 7.6 (vi) of the Listing Rules of the Colombo Stock Exchange are discussed in the Risk Management Review on pages 176 to 222.

Material Issues Pertaining to Employees and Industrial Relations Pertaining to the Bank (As per Rule No. 7.6 (vii) of the Listing Rules of the Colombo Stock Exchange)

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be disclosed.

Appointment of Auditors

The Financial Statements for the year ended 31 December 2014 have been audited by Messrs Ernst & Young, Chartered Accountants.

The Auditors have indicated their willingness to offer themselves for reappointment. The Board Audit Committee and the Board of Directors have recommended the reappointment of the Auditors.

A resolution appointing Messrs Ernst & Young as Auditors and authorizing the Directors to fix their remuneration will be proposed at the Annual General Meeting.

Auditors' Remuneration

The fees paid to the Auditors during the year for the Bank and the Group was LKR 8.4 million and LKR 10.5 million respectively. (2013 - Bank LKR 8.0 million and Group LKR 10.0 million). The fees paid for non-audit work during the year by the Bank LKR 5.0 million and the Group was LKR 5.4 million respectively (2013 - Bank LKR 18.2 million and the Group - LKR 18.2 million).

Second Integrated Annual Report

In 2013, the Bank took the initiative to present its Annual Report in accordance with the Integrated Reporting Guidelines issued by the International Integrated Reporting Council (IIRC). Integrated reporting brings together material information about the Bank's strategy, governance, performance and prospects in a way that reflect the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how the Bank demonstrates stewardship and how it creates and sustains value.

Continuing the adoption of these global reporting principles for annual reporting, the Bank has presented its Annual Report for the year ended 31 December 2014 as per the Integrated Reporting Guidelines. Accordingly the Bank's 2014 Annual Report is its second integrated Annual Report.

Annual General Meeting

In complying with the good governance practices, the Annual Report of the Bank is dispatched as soon as possible after the end of the financial year and completion of the audit.

A data base has been developed based on the requirements of shareholders and accordingly, in compliance with the Colombo Stock Exchange Listing Rules, the Annual Reports have been distributed in the form of a CD-ROM (a Soft copy) as well as in the form of a Printed Report as and when required by shareholders.

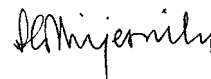
Notice of Meeting

The 10th Annual General Meeting will be held at 10.00 a.m. at the Auditorium of Development Holdings (Pvt) Ltd., 3rd Floor, NDB EDB Tower, No 42, Navam Mawatha, Colombo 2 on 30 March 2015. The Notice of Meeting is given on page 403 of this Annual Report.

Acknowledgement of the Contents of this Report

As required in terms of Section 168 (k) of the Companies Act No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of the Annual Report.

For and on behalf of the Board,



Sunil G Wijesinha
Chairman



Rajendra Theagarajah
Chief Executive Officer



Shehani Ranasinghe
Secretary to the Board

13 February 2015

	Relationship	Accommodation Granted, Deposits and Investments	Balance Outstanding as at 31.12.2014 LKR '000	Balance Outstanding as at 31.12.2013 LKR '000
(a) Mr Ashok Pathirage				
Softlogic Holdings PLC	Chairman/ Managing Director	Deposits & Investments	289	3,143
Softlogic Retail (Pvt) Ltd.	Chairman/ Managing Director	Deposits & Investments	2,685	4,190
		Loans/Advances	–	52,508
Asiri Central Hospitals PLC (de-listed)	Chairman/ Managing Director	Loans/Advances	–	13,750
Softlogic Capital PLC	Chairman	Deposits & Investments	11	12
Asian Alliance Insurance PLC	Chairman	Deposits & Investments	87	17
NDB Capital Holdings PLC (de-listed with effect from 26 January 2015)	Chairman	Deposits & Investments	24,716	13,388
Odel PLC	Chairman	Deposits & Investments	4	–
(b) Mrs Kimarli Fernando				
L B Finance PLC	Director	Deposits & Investments	224,091	30,617
		Loans/Advances	–	11,200
(c) Mr Sarath Wikramanayake				
NDB Wealth Management Ltd.	Director	Deposits & Investments	3,494	1,503
NDB Investment Bank Ltd.	Director	Deposits & Investments	41,202	40,606
		Loans/Advances	–	1
NDB Capital Holdings PLC (de-listed with effect from 26 January 2015)	Director	Deposits & Investments	24,716	13,388
Orient Finance PLC	Director	Deposits & Investments	–	519
		Loans/Advances	323	390,000

	Relationship	Accommodation Granted, Deposits and Investments	Balance Outstanding as at 31.12.2014 LKR '000	Balance Outstanding as at 31.12.2013 LKR '000
(d) Mr Sujeewa Rajapakse				
Asian Alliance Insurance PLC	Director	Deposits & Investments	87	17
Development Holdings (Pvt) Ltd.	Director	Deposits & Investments	300,412	265,948
Dipped Products PLC	Director	Deposits & Investments	5,008	16,136
Haycarb PLC	Director	Deposits & Investments	2,115	2,094
(e) Mr Sunil G Wijesinha				
Watawala Plantations PLC	Chairman	Deposits & Investments	335	18,334
Siyapatha Finance PLC	Director	Deposits & Investments	–	322
		Loans/Advances	226,911	275,000
United Motors Lanka PLC	Chairman	Deposits & Investments	22,241	69,568
		Off-Balance Sheet Accommodations	199,336	78,996
Unimo Enterprises Ltd.	Chairman	Deposits & Investments	28,503	7,728
		Loans/Advances	–	91,000
		Off-Balance Sheet Accommodations	–	46,296
Orient Motor Company Ltd.	Chairman	Deposits & Investments	10	–
		Loans/Advances	–	80,024
		Off-Balance Sheet Accommodations	–	310,979
TVS Lanka (Pvt) Ltd.	Director	Deposits & Investments	1,834	255
		Loans/Advances	200,000	150,000
		Off-Balance Sheet Accommodations	416,317	–
(f) Mr Rajendra Theagarajah				
NDB Capital Holdings PLC (de-listed with effect from 26 January 2015)	Director	Deposits & Investments	24,716	13,388
NDB Wealth Management Ltd.	Director	Deposits & Investments	3,494	1,503
NDB Securities (Pvt) Ltd.	Chairman	Deposits & Investments	87,865	41,961
		Loans/Advances	–	35
NDB Investment Bank Ltd.	Director	Deposits & Investments	41,202	40,606
		Loans/Advances	–	1
Development Holdings (Pvt) Ltd.	Director	Deposits & Investments	300,412	265,948

This statement sets out the responsibility of the Directors in relation to the Financial Statements of National Development Bank PLC (the Bank) and the Consolidated Financial Statements of the Bank and its subsidiaries (the Group). The Directors are required by relevant statutory provisions to prepare and send to the shareholders, such Financial Statements as may be necessary, which give a true and fair view of the state of affairs of the Bank and the Group.

It is also the responsibility of the Directors to ensure that the Bank maintains proper accounting records and to take reasonable steps as far as practical to ensure the accuracy and reliability of accounting records and to prepare Financial Statements using appropriate Accounting Policies applied consistently and supported by reasonable and prudent judgment and estimates in compliance with the Sri Lanka Accounting Standards, the Banking Act No. 30 of 1988 (as amended), the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange. Changes in the Accounting Policies where applicable and the rationale for the changes have been disclosed in the 'Notes to the Financial Statements'.

Accordingly the Directors confirm that the Financial Statements of the Bank and the Group give a true and fair view of-

- (a) the financial position of the Bank and the Group as at the Reporting Date; and
- (b) the financial performance of the Bank and the Group for the financial year ended on the Reporting Date.

The Financial Statements of the Bank and the Group have been certified by the Vice-President - Finance and Planning and the Group Chief Financial Officer, the officers responsible for their preparation, as required by the Companies Act. In addition, the Financial Statements of the Bank and the Group have been signed by two Directors and the Company Secretary of the Bank on 13 February 2015 as required by the Companies Act and other regulatory requirements. The Directors are also responsible for ensuring that proper accounting records which correctly capture, record and explain the Bank's transactions are maintained and that the Bank's financial position, with reasonable accuracy, at any point of time is determined by the Bank, enabling preparation of the Financial Statements, in accordance with the Act to facilitate proper audit of the Financial Statements.

The Financial Statements for the year 2014, presented in this Annual Report have been prepared based on the new Sri Lanka Accounting Standards (SLFRS) which came in to effect from 1 January 2012 and are in agreement with the underlying books of account and are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

In addition, these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual Financial Statements of Licensed Commercial Banks.

The Directors have been responsible for taking reasonable measures and care to safeguard the assets of the Bank and the Group and to prevent and detect frauds and other irregularities. The Directors have instituted an effective and comprehensive system of internal controls and an effective system of monitoring its effectiveness, internal audit being one of them. The Directors' Statement on Internal Control is given on pages 263 and 264 of this Annual Report. The Board has been provided additional assurance on the reliability of the Financial Statements through a process of independent and objective review performed by the Audit Committee. Please refer the Audit Committee Report on pages 173 and 175 of this Report.

Messrs Ernst & Young, Chartered Accountants, who were appointed in terms of the Companies Act and in accordance with a resolution passed at the last Annual General Meeting, have been made available with all records of the Bank including the Financial Statements by the Board of Directors and provided every opportunity to undertake the inspections they considered appropriate all of which they have examined and have expressed their opinion which appears as reported by them on page 268 of this Report.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report. The Directors confirm that in preparing the Financial Statements exhibited on pages 270 to 376 including, appropriate Accounting Policies selected and applied based on the new financial reporting frame work on a consistent basis, while reasonable and prudent judgements have been made so that the form and substance of transactions are properly reflected.

The Board of Directors wishes to confirm that, as required by the Section 56 (2) of the Companies Act No. 07 of 2007, they have authorized distribution of the dividends paid upon being satisfied that the Bank would satisfy the solvency test after such distributions are made in accordance with Section 57 of the Companies Act No. 07 of 2007 and have obtained in respect of dividends paid, necessary certificates of solvency from the External Auditors.

Accordingly the solvency certificates have been filed with the CSE.

The Board of Directors also wishes to confirm that, as required by the Sections 166 (1) and 167 (1) of the Companies Act they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Bank, who have expressed desire to receive a printed copy or to other shareholders a soft copy each in a CD ROM containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) of Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange. The Directors also wish to confirm that all shareholders have been treated equitably in accordance with the original terms of issue.

Further, the Board of Directors wishes to confirm that the Bank has met all the requirements under the Section 07 on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange, where applicable.

The Bank has also complied with the prudential requirements, regulations, laws and internal controls and there were no material non-compliances.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Bank and the Group, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group, and all other known statutory dues as were due and payable by the Bank and the Group as at the Reporting Date have been paid or, where relevant, provided for, except as specified in Note 48 to the Financial Statements on 'Litigation against the Bank' on page 337 The Directors further confirm that after considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the 'Code on Corporate Governance' issued jointly by the ICASL and the SEC, the Directors have a reasonable expectation that the Bank and the NDB Group possess adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the Going Concern basis in preparing the Financial Statements. The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,



Shehani Ranasinghe
Secretary to the Board

13 February 2015

Responsibility

In line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (ii) (b), the Board of Directors presents this report on Internal Control over Financial Reporting.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the internal control mechanism in place at National Development Bank PLC ('the Bank'). In considering such adequacy and effectiveness, the Board recognizes that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and the Group and this process includes enhancing the system of internal controls over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board in line with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal controls over financial reporting taking in to account principles for the assessment of the internal control system as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key Features of the Process Adopted in Applying and Reviewing the Design and Effectiveness of the Internal Control System over Financial Reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various Committees are established by the Board to assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit Department are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Department, the External Auditors, regulatory authorities and the management and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Board Audit Committee meetings are forwarded to the Board of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on pages 173 to 175.
- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. The assessment did not include subsidiaries of the Bank.

- The Bank adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The processes and procedures initially applied to adopt the aforementioned accounting standards were further strengthened during the years 2013 and 2014 based on the feedback received from the External Auditors, Internal Audit Department, Regulators and the Board Audit Committee. The Bank will continue to further strengthen the processes such as impairment of Loans and Advances and Financial Statement Disclosures related to Risk Management based on the feedback received from External Auditors and as per Best Practices. The Bank has also recognized the need to introduce an automated financial reporting process in order to comply with the requirements of recognition, measurement, classification and disclosure of the financial instruments more effectively and efficiently. The assessment did not include subsidiary companies of the Bank.

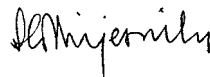
Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

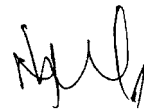
Review of the Statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on internal control over financial reporting included in the Annual Report of the Bank for the year ended 31 December 2014 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank.

By Order of the Board,



Sunil G Wijesinha
Chairman



Trevine Jayasekara
Chairman, Audit Committee



Rajendra Theagarajah
Chief Executive Officer

13 February 2015



**Building a better
working world**

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

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

HMAJ/WDPL/SSG

TO THE BOARD OF DIRECTORS OF NATIONAL DEVELOPMENT BANK PLC

Introduction

We were engaged by the Board of Directors of National Development Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2014.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by The Institute of Chartered Accountants of Sri Lanka.

Our Responsibilities and Compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

13 February 2015

Colombo



Building a better
working world

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

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

Independent Assurance Report to the Board of Directors of National Development Bank PLC on the Sustainability Reporting Under the Integrated Annual Report - 2014

Introduction and Scope of the Engagement

The management of National Development Bank PLC ('the Bank') engaged us to provide an independent assurance on the following elements of the Sustainability Reporting indicators under the Annual Report - 2014 ('the Report').

- Reasonable assurance on the information on financial performance as specified on pages 48 and 49 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' - Core guidelines.

Basis of Our Work and Level of Assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by The Institute of Chartered Accountants of Sri Lanka ('CA Sri Lanka').

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI G4 'In accordance' - Core guidelines publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

Management of the Bank's Responsibility for the Report

The management of the Bank is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustaining reporting process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's Responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' - Core guidelines. This Report is made solely to the Bank in accordance with our engagement letter dated 09 January 2015. We disclaim any assumption of responsibility for any reliance on this Report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting

our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CA Sri Lanka.

Key Assurance Procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant personnel of the Bank to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Bank on a sample basis through recalculation.
- Reconciling and agreeing that the data on financial performance are properly derived from the Bank's audited financial statements for the year ended 31 December 2014.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative G4 'In accordance' - Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and Considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that-

- The information on financial performance as specified on pages 48 and 49 of the Report is properly derived from the audited financial statements of the Bank for the year ended 31 December 2014.
- Nothing has come to our attention that causes us to believe that other information presented in the Report is not fairly presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from GRI-G4 - 'In accordance' - Core Sustainability Reporting Guidelines.

Chartered Accountants

20 February 2015
Colombo

The Financial Statements of the National Development Bank PLC (the Bank) and the Consolidated Financial Statements of the Bank and its Group Companies (the Group) as at 31 December 2014 are prepared and presented in compliance with the following regulatory requirements:

- i. Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka
- ii. Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- iii. Companies Act No. 07 of 2007
- iv. Banking Act No. 30 of 1988 and amendments thereto
- v. Directions, circulars and guidelines issued to licensed commercial banks by the Central Bank of Sri Lanka including but not limited to Banking Act Direction No. 11 of 2007 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka on corporate governance
- vi. Listing Rules of the Colombo Stock Exchange
- vii. The Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (2013)

The formats used in the presentation of the Financial Statements and disclosures are in compliance with the specified formats for the preparation of Annual Financial Statements of Licensed Commercial Banks, issued by the Central Bank of Sri Lanka.

The Accounting Policies of the Bank and the Group are in compliance with Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka, which came into effect from 1 January 2012. The Accounting Policies are consistently applied by the Group. Significant Accounting Policies and estimates that involve a high degree of judgment and complexity were discussed with the Board Audit Committee and the External Auditors. Comparative information has been reclassified wherever necessary to comply with the current year's presentation. All significant items have been disclosed and explained by way of Notes to the Financial Statements. We confirm to the best of our knowledge, that the Financial Statements presented herewith give a true and fair view of the financial position, Statement of Profit or Loss and the cash flows of the Bank and the Group for the year. We also believe that the Bank and the Group have adequate resources to continue its operations in the foreseeable future and accordingly adopt the going concern basis for the preparation of the Financial Statements.

The Board of Directors and the management of the Bank and the Group accept responsibility for the integrity and the objectivity of the Financial Statements. The estimates and judgments relating to the Financial Statements were made on a reasonable and prudent basis; in order that the Financial Statements reflect a true and fair view; the form and the

substance of transactions and that the state of affairs of the Bank and the Group is reasonably presented. To ensure this, the Bank and the Group have taken proper and sufficient care in implementing internal control systems, with the use of a comprehensive core banking system, for safeguarding assets and for preventing and detecting fraud as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. The Internal Auditor of the Bank and the Group has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank and the Group are consistently followed. However, there are inherent limitations that should be recognized in weighing the assurance provided by any system of internal control and accounting.

The Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its group companies were audited by Messrs Ernst & Young, Chartered Accountants. The Report issued by them is available on page 268 of this Report. The audit and non-audit services provided by Messrs Ernst & Young are approved by the Board Audit Committee, to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka or impair Messrs Ernst & Young's independence.

The Board Audit Committee reviews the adequacy and effectiveness of the Internal Control Systems including the effectiveness of the internal controls over financial reporting to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account and the processes by which compliance with Sri Lanka Accounting Standards including SLFRS/LKAS and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on pages 173 to 175 To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance.

We confirm to the best of our knowledge that -

- The Bank and the Group have complied with all applicable laws, rules, regulations and guidelines;
- There is no material non-compliance;
- There is no material litigation against the Bank and the Group other than those disclosed in Note 48 on page 337 of the Financial Statements section of this Report;
- All taxes, duties, levies and all statutory payments by the Bank and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group as at the reporting date have been paid, or where relevant provided for.



Rajendra Theagarajah
Chief Executive Officer



Faizan Ozman
Group Chief Financial Officer

13 February 2015



Building a better
working world

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

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

HMAJ/WDPL/SSG

TO THE SHAREHOLDERS OF NATIONAL DEVELOPMENT BANK PLC

Report on the Financial Statements

We have audited the accompanying financial statements of National Development Bank PLC, ('the Bank'), and the consolidated financial statements of the Bank and its subsidiaries ('Group'), which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss and comprehensive income, statement of changes in equity and, statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 270 to 376.

Board's Responsibility for the Financial Statements

The Board of Directors ('Board') is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal controls as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on other legal and regulatory requirements

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) In our opinion :
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank
 - The financial statements of the Bank give a true and fair view of the financial position as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards,
 - The financial statements of the Bank and the Group, comply with the requirements of Section 151 and 153 of the Companies Act No. 07 of 2007.

13 February 2015

Colombo

Financial Statements - Table of Contents

	Page No.
Financial Statements	
Statement of Profit or Loss	270
Statement of Comprehensive Income	271
Statement of Financial Position	272
Statement of Changes in Equity	273
Statement of Cash Flow	275
Notes to the Financial Statements	
1 Corporate Information	277
2 Basis of Preparation of Financial Statements	278
3 General Accounting Policies	280
Statement of Profit or Loss	
4 Gross Income	284
5 Net Interest Income	284
6 Fee and Commission Income	285
7 Net Gains/(Losses) from Trading	286
8 Net Gains/(Losses) from Financial Investments	286
9 Other Operating Income	287
10 Impairment for Loans and Receivables and Other Losses	287
11 Personnel Expenses	288
12 Other Expenses	289
13 Tax on Financial Services	289
14 Share of Associate Companies' Profits/(Losses)	290
15 Taxation	290
16 Earnings Per Share on Profit	292
17 Dividend Per Share	292
Statement of Financial Position: Assets	
18 Analysis of Financial Instruments by Measurement Basis	293
19 Cash and Cash Equivalents	295
20 Balances with Central Bank	296
21 Placements with Banks	296
22 Derivative Financial Instruments	296
23 Financial Assets Held-for-Trading	300
24 Loans and Receivables to Banks	300
25 Loans and Receivables to Other Customers	301
26 Financial Investments - Loans and Receivables	307
27 Financial Investments - Available-for-Sale	308
28 Financial Investments - Held-to-Maturity	309
29 Investments - Held-for-Sale	309
30 Investments in Subsidiary Companies	310

	Page No.
31 Investments in Associate Companies	311
32 Investment Property	313
33 Intangible Assets	314
34 Property, Plant & Equipment	315
35 Other Assets	319
Statement of Financial Position: Liabilities	
36 Due to Banks	320
37 Due to Other Customers	320
38 Debt Securities issued and Other Borrowed Funds	322
39 Deferred Tax Liabilities	323
40 Employee Benefit Liabilities	325
41 Other Liabilities	329
42 Subordinated Term Debts	330
Statement of Financial Position: Equity	
43 Capital	331
44 Statutory Reserve Fund	333
45 Retained Earnings	333
46 Other Reserves	334
47 Non-Controlling Interests	336
Other Financial Disclosures	
48 Commitments and Contingencies	337
49 Fair Value of Financial Instruments	338
50 Risk Management	347
51 Maturity Analysis	366
52 Segmental Analysis - Group	369
53 Events Occurring after the date of the Statement of Financial Position	371
54 Comparative Information	371
55 Related Party Disclosures	372

For the year ended 31 December	Note	Page No.	BANK			GROUP		
			2014 LKR '000	2013 LKR '000	Change %	2014 LKR '000	2013 LKR '000	Change %
Gross income	4	284	24,961,945	29,656,420	(16)	26,204,626	25,303,305	4
Interest income	5.1	284	20,974,578	20,603,610	2	21,151,976	20,765,842	2
Interest expenses	5.4	285	13,299,977	13,791,503	(4)	13,238,571	13,754,264	(4)
Net interest income	5	285	7,674,601	6,812,107	13	7,913,405	7,011,578	13
Fee and commission income	6	285	1,866,242	1,614,106	16	2,564,095	2,411,273	6
Net gains/(losses) from trading	7	286	910,027	953,325	(5)	910,027	953,325	(5)
Net gains/(losses) from financial investments	8	286	716,507	318,303	125	1,330,407	914,968	45
Other operating income	9	287	494,591	6,167,076	(92)	248,121	257,897	(4)
Total operating income			11,661,968	15,864,917	(26)	12,966,055	11,549,041	12
Impairment for loans and receivables and other losses	10	287	566,003	1,238,202	(54)	528,708	1,260,765	(58)
Net operating income			11,095,965	14,626,715	(24)	12,437,347	10,288,276	21
Less: Operating expenses								
Personnel expenses	11	288	2,872,738	2,389,144	20	3,172,387	2,660,281	19
Other expenses	12	289	2,436,454	2,555,059	(5)	2,738,228	2,903,594	(6)
Total operating expenses			5,309,192	4,944,203	7	5,910,615	5,563,875	6
Operating profit before tax on financial services			5,786,773	9,682,512	(40)	6,526,732	4,724,401	38
Tax on financial services	13	289	(1,029,250)	(910,500)	13	(1,029,250)	(910,500)	13
Operating profit after tax on financial services			4,757,523	8,772,012	(46)	5,497,482	3,813,901	44
Share of associate companies' profits/(losses)	14	290	–	–	–	97,274	49,220	98
Profit before taxation			4,757,523	8,772,012	(46)	5,594,756	3,863,121	45
Taxation	15	290	(1,339,459)	(1,048,776)	28	(1,348,784)	(1,150,893)	17
Profit for the year			3,418,064	7,723,236	(56)	4,245,972	2,712,228	57
Profit attributable to equity holders of the parent			3,418,064	7,723,236	(56)	4,133,932	2,641,925	56
Non-controlling interests			–	–	–	112,040	70,303	59
			3,418,064	7,723,236	(56)	4,245,972	2,712,228	57
Earnings Per Share on Profit	16	292						
Basic Earnings Per Share (in LKR)			–	–	–	25.14	16.48	53
Diluted Earnings Per Share (in LKR)			–	–	–	25.11	16.47	52
Dividend Per Share (in LKR)	17	292	11.00	10.00	–			

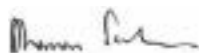
The Notes to the Financial Statements disclosed from pages 277 to 376 are an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

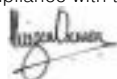
For the year ended 31 December	Note	Page No.	BANK			GROUP		
			2014 LKR '000	2013 LKR '000	Change %	2014 LKR '000	2013 LKR '000	Change %
Profit for the year			3,418,064	7,723,236	(56)	4,245,972	2,712,228	57
Other comprehensive income/(expenses)								
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods								
Exchange differences on translation of foreign operations			–	–	–	481	(11,158)	(104)
Net gains on available-for-sale investments			(35,110)	148,151	(124)	(21,950)	209,186	(110)
Gains and losses on cash flow hedges	22.1(c)	299	397,852	–	100	397,852	–	100
Other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods								
Revaluation of freehold land & buildings	46.1	334	1,084,185	–	100	1,084,185	–	100
Actuarial losses on defined benefit plans	40.2(d)	329	(139,735)	(35,443)	294	(139,735)	(35,443)	294
Total other comprehensive income			1,307,192	112,708	1,060	1,320,833	162,585	712
Less: Tax expenses relating to components of other comprehensive income			(180,141)	(38,110)	373	(180,141)	(55,200)	226
Total other comprehensive income for the year, net of taxes			1,127,051	74,598	1,411	1,140,692	107,385	962
Total comprehensive income for the year			4,545,115	7,797,834	(42)	5,386,664	2,819,613	91
Attributable to:								
Equity holders of the parent			4,545,115	7,797,834	(42)	5,274,475	2,750,522	92
Non-controlling interests			–	–	–	112,189	69,091	62
			4,545,115	7,797,834	(42)	5,386,664	2,819,613	91

As at 31 December	Note	Page No.	BANK			GROUP		
			2014 LKR '000	2013 LKR '000	Change %	2014 LKR '000	2013 LKR '000	Change %
Assets								
Cash and cash equivalents	19	295	3,104,391	2,611,075	19	3,274,036	2,668,262	23
Balances with Central Bank	20	296	6,740,590	5,339,000	26	6,740,590	5,339,000	26
Placements with banks	21	296	2,721,891	130,751	1,982	2,721,891	130,751	1,982
Derivative financial instruments	22	296	1,903,781	1,149,541	66	1,903,781	1,149,541	66
Financial assets held-for-trading	23	300	2,785,277	10,720,689	(74)	6,028,558	14,194,141	(58)
Loans and receivables to banks	24	300	311,144	641,628	(52)	311,144	641,628	(52)
Loans and receivables to other customers	25	301	175,175,203	136,821,532	28	175,235,906	136,881,713	28
Financial investments - loans and receivables	26	307	38,302,428	15,837,455	142	38,683,476	16,791,701	130
Financial investments - available-for-sale	27	308	17,060,302	5,982,450	185	18,057,852	6,167,450	193
Financial investments - held-to-maturity	28	309	8,970,963	17,602,249	(49)	10,167,325	18,460,591	(45)
Investments held for sale	29	309	18,525	-	100	33,301	-	100
Investments in subsidiary companies	30	310	2,000,290	2,037,585	(2)	-	-	-
Investments in associate companies	31	311	-	61,967	(100)	-	76,744	(100)
Investment property	32	313	-	-	-	1,545,693	1,383,693	12
Intangible assets	33	314	253,132	260,425	(3)	297,070	296,678	0
Property, plant & equipment	34	315	1,927,496	872,890	121	2,252,647	1,176,491	91
Other assets	35	319	1,453,733	1,189,391	22	1,876,335	1,458,737	29
Total assets			262,729,146	201,258,628	31	269,129,605	206,817,121	30
Liabilities								
Due to banks	36	320	7,029,342	10,453,086	(33)	7,029,342	10,453,086	(33)
Derivative financial instruments	22	296	663,186	817,310	(19)	663,186	817,310	(19)
Due to other customers	37	320	151,823,715	129,830,029	17	151,485,201	129,421,813	17
Debt securities issued and other borrowed funds	38	322	61,955,460	24,420,818	154	61,925,802	24,390,818	154
Tax liabilities			826,687	266,128	211	806,220	300,196	169
Deferred tax liabilities	39	323	619,467	312,432	98	609,935	324,451	88
Employee benefit liabilities	40	325	247,011	170,008	45	301,219	214,830	40
Other liabilities	41	329	6,176,647	3,685,665	68	6,360,842	3,850,289	65
Subordinated term debts	42	330	11,149,439	11,682,674	(5)	11,149,439	11,682,674	(5)
Total liabilities			240,490,954	181,638,150	32	240,331,186	181,455,467	32
Equity								
Capital	43	331	1,225,162	1,172,904	4	1,145,353	943,746	21
Statutory reserve fund	44	333	1,010,785	958,527	5	1,010,785	958,527	5
Retained earnings	45	333	18,625,444	15,653,260	19	24,245,824	20,731,801	17
Other reserves	46	334	1,376,801	1,835,787	(25)	1,473,811	1,879,732	(22)
Total equity to equity holders of the Bank			22,238,192	19,620,478	13	27,875,773	24,513,806	14
Non-controlling interests	47	336	-	-	-	922,646	847,848	9
Total equity			22,238,192	19,620,478	13	28,798,419	25,361,654	14
Total liabilities and total equity			262,729,146	201,258,628	31	269,129,605	206,817,121	30
Commitments and contingencies	48	337	231,143,633	177,200,240	30	231,148,862	177,200,240	30
Net Asset value per share (LKR)			134.70	119.30		169.35	148.85	

We certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

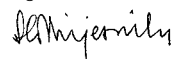


Dhanan Senathirajah
Vice-President - Finance & Planning



Faizan Ozman
Group Chief Financial Officer

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



Sunil G Wijesinha
Chairman



Rajendra Theagarajah
Chief Executive Officer



Shehani Ranasinghe
Company Secretary

13 February 2015

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 277 to 376 are an integral part of these Financial Statements.

For the year ended 31 December	Attributable to Equity Holders of the Parent											Total Equity LKR '000
	Capital	Statutory Reserve Fund	Available- for-Sale Reserve	Revaluation Reserve	General Reserve	Investment Fund Account	Share Based Payment Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total	Non- Controlling Interests	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
BANK												
Balance as at 1 January 2013	1,093,095	878,718	-	-	5,805,707	924,332	-	-	6,240,549	14,942,401	-	14,942,401
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	-	7,723,236	7,723,236	-	7,723,236
Other comprehensive income net of tax	-	-	106,669	-	-	-	-	-	(32,071)	74,598	-	74,598
Total comprehensive income for the Year	-	-	106,669	-	-	-	-	-	7,691,165	7,797,834	-	7,797,834
Transactions with equity holders, recognized directly in equity												
Issue of shares	79,809	-	-	-	-	-	-	-	-	79,809	-	79,809
Transfer to investment fund account	-	-	-	-	-	782,419	-	-	(782,419)	-	-	-
Fair value of share options	-	-	-	-	-	-	22,367	-	-	22,367	-	22,367
Transfer to statutory reserve fund	-	79,809	-	-	-	-	-	-	(79,809)	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	(3,221,933)	(3,221,933)	-	(3,221,933)
Balance as at 31 December 2013	1,172,904	958,527	106,669	-	5,805,707	1,706,751	22,367	-	9,847,553	19,620,478	-	19,620,478
Balance as at 1 January 2014	1,172,904	958,527	106,669	-	5,805,707	1,706,751	22,367	-	9,847,553	19,620,478	-	19,620,478
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	-	3,418,064	3,418,064	-	3,418,064
Other comprehensive income before tax	-	-	(35,110)	1,084,185	-	-	-	397,852	(139,735)	1,307,192	-	1,307,192
Tax on other comprehensive income	-	-	33,691	(230,729)	-	-	-	-	16,897	(180,141)	-	(180,141)
Total comprehensive income for the year	-	-	(1,419)	853,456	-	-	-	397,852	3,295,226	4,545,115	-	4,545,115
Transactions with equity holders, recognized directly in equity												
Issue of shares (Note 43)	52,258	-	-	-	-	-	-	-	-	52,258	-	52,258
Transfer from investment fund account	-	-	-	-	-	(1,706,751)	-	-	1,706,751	-	-	-
Fair value of share options	-	-	-	-	-	-	(2,124)	-	-	(2,124)	-	(2,124)
Transfer to statutory reserve fund	-	52,258	-	-	-	-	-	-	(52,258)	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	(1,977,535)	(1,977,535)	-	(1,977,535)
Balance as at 31 December 2014	1,225,162	1,010,785	105,250	853,456	5,805,707	-	20,243	397,852	12,819,737	22,238,192	-	22,238,192

For the year ended 31 December	Attributable to Equity Holders of the Parent											Total Equity
	Capital	Statutory Reserve Fund	Available- for-Sale Reserve	Revaluation Reserve	General Reserve	Investment Fund Account	Share Based Payment Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total	Non- Controlling Interests	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
GROUP												
Balance as at 1 January 2013	863,937	878,718	-	-	5,805,707	924,332	-	-	16,410,347	24,883,041	826,411	25,709,452
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	-	2,641,925	2,641,925	70,303	2,712,228
Other comprehensive income net of tax	-	-	150,614	-	-	-	-	-	(42,017)	108,597	(1,212)	107,385
Total Comprehensive Income for the Year	-	-	150,614	-	-	-	-	-	2,599,908	2,750,522	69,091	2,819,613
Transactions with equity holders, recognized directly in equity												
Issue of shares	79,809	-	-	-	-	-	-	-	-	79,809	-	79,809
Transfer to investment fund account	-	-	-	-	-	782,419	-	-	(782,419)	-	-	-
Fair value of share options	-	-	-	-	-	-	22,367	-	-	22,367	-	22,367
Transfer to statutory reserve fund	-	79,809	-	-	-	-	-	-	(79,809)	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	(3,221,933)	(3,221,933)	(34,645)	(3,256,578)
Effect of change in holding in a group company	-	-	-	-	-	-	-	-	-	-	(13,009)	(13,009)
Balance as at 31 December 2013	943,746	958,527	150,614	-	5,805,707	1,706,751	22,367	-	14,926,094	24,513,806	847,848	25,361,654
Balance as at 1 January 2014	943,746	958,527	150,614	-	5,805,707	1,706,751	22,367	-	14,926,094	24,513,806	847,848	25,361,654
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	-	4,133,932	4,133,932	112,040	4,245,972
Other comprehensive income before tax	-	-	(21,950)	1,084,185	-	-	-	397,852	(139,403)	1,320,684	149	1,320,833
Tax on other comprehensive income	-	-	33,691	(230,729)	-	-	-	-	16,897	(180,141)	-	(180,141)
Total Comprehensive Income for the year	-	-	11,741	853,456	-	-	-	397,852	4,011,426	5,274,475	112,189	5,386,664
Transactions with equity holders, recognized directly in equity												
Issue of shares (Note 43)	52,258	-	-	-	-	-	-	-	-	52,258	-	52,258
Transfer from investment fund account	-	-	-	-	-	(1,706,751)	-	-	1,706,751	-	-	-
Adjustment for reversal of ESOP consolidation	229,158	-	-	-	-	-	-	-	(161,059)	68,099	-	68,099
Adjustment to share based payment reserves	(79,809)	-	-	-	-	-	37,781	-	(13,302)	(55,330)	-	(55,330)
Fair value of share options	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to statutory reserve fund	-	52,258	-	-	-	-	-	-	(52,258)	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	(1,977,535)	(1,977,535)	(37,391)	(2,014,926)
Balance as at 31 December 2014	1,145,353	1,010,785	162,355	853,456	5,805,707	-	60,148	397,852	18,440,117	27,875,773	922,646	28,798,419

Accounting Policy

The Statement of Cash Flow has been prepared by using 'The Direct Method', whereby gross cash receipts and gross cash payments of operating, investing and financing activities have been recognized. For the purpose of the preparation of the Statement of Cash Flow, cash and cash equivalents include cash and cash equivalents, balances with Central Bank and placements with banks net of unfavourable Nostro balances, as presented in the Statement of Financial Position.

For the year ended 31 December	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Cash flows from operating activities				
Interest received	20,919,252	20,603,610	21,111,971	20,841,634
Fee and commission income received	1,856,202	1,623,266	2,319,114	1,982,017
Dividend income received	339,962	718,461	(13,856)	45,116
Other income received	1,671,597	1,449,324	1,671,965	1,672,511
Interest paid	(13,195,780)	(13,791,503)	(13,197,274)	(13,791,743)
Personnel costs paid	(2,857,404)	(2,469,540)	(2,857,404)	(2,714,920)
General expenses paid	(2,267,278)	(2,040,890)	(2,351,710)	(2,057,470)
Operating profit before changes in operating assets and liabilities	6,466,551	6,092,728	6,682,806	5,977,145
Net increase in loans and receivables	(38,496,570)	(21,548,181)	(38,496,570)	(21,548,181)
Net increase due to other customers	22,505,047	22,229,446	22,505,047	22,229,446
Net (increase)/decrease in other receivables	(570,535)	406,097	(375,769)	409,522
Net increase/(decrease) in other liabilities	2,266,544	(616,508)	2,042,163	(585,420)
Net cash inflow/(outflow) from operating activities before taxation	(7,828,963)	6,563,582	(7,642,323)	6,482,512
VAT on Financial Services paid	(840,240)	(806,647)	(840,240)	(806,647)
Income taxes paid	(652,006)	(1,244,414)	(699,930)	(1,293,080)
Net cash provided by/(used in) operating activities (Note a)	(9,321,209)	4,512,521	(9,182,493)	4,382,785
Cash flows from investing activities				
Net changes in financial investments	(17,009,180)	(23,389,900)	(16,959,756)	(17,292,330)
Disposal of subsidiaries/associates	147,068	5,954,774	147,068	(13,016)
Expenditure on property, plant & equipment	(392,997)	(308,681)	(443,312)	(309,257)
Proceeds from sale of property, plant & equipment	14,765	3,981	14,765	3,981
Net cash used in investing activities	(17,240,344)	(17,739,826)	(17,241,235)	(17,610,622)
Cash flows from financing activities				
Issue of shares	52,258	–	52,258	–
Net proceeds from issue of subordinated debts	–	9,488,350	–	9,488,350
Interest paid on subordinated debts	(1,573,625)	(282,446)	(1,573,625)	(282,446)
(Decrease)/increase in other borrowings	34,403,497	2,547,719	34,403,501	2,547,719
Dividends paid to non-controlling interests	–	–	(25,377)	(96,867)
Dividends paid to shareholders of the parent Company	(1,966,761)	(3,430,480)	(1,966,755)	(3,430,480)
Net cash provided by/(used in) financing activities	30,915,369	8,323,143	30,890,002	8,226,276
Net increase in cash and cash equivalents	4,353,816	(4,904,162)	4,466,274	(5,001,561)
Cash and cash equivalents at the beginning of the year	8,077,934	12,982,096	8,135,121	13,136,682
Cash and cash equivalents at the end of the year	12,431,750	8,077,934	12,601,395	8,135,121

For the year ended 31 December	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	3,104,391	2,611,075	3,274,036	2,668,262
Balances with Central Bank	6,740,590	5,339,000	6,740,590	5,339,000
Placements with banks	2,721,891	130,751	2,721,891	130,751
	12,566,872	8,080,826	12,736,517	8,138,013
Amount due to foreign banks	135,122	2,892	135,122	2,892
	12,431,750	8,077,934	12,601,395	8,135,121

The balances with Central Bank represent the reserve for the rupee deposits of the Bank and it is not available to finance the Bank's day-to-day operations.

For the year ended 31 December	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Note a				
Reconciliation of operating profit				
Operating profit before value added tax on financial services	5,786,773	9,682,512	6,526,732	4,724,401
Non-cash items included in the profit	679,784	(3,589,784)	156,076	1,252,745
Net increase in loans and receivables	(38,496,570)	(21,548,181)	(38,496,570)	(21,548,181)
Net increase in due to other customers	22,505,047	22,229,446	22,505,047	22,229,446
Net (increase)/decrease in operating receivables	(570,535)	406,098	(375,771)	409,519
Net increase/(decrease) in operating liabilities	2,266,538	(616,510)	2,042,162	(585,418)
VAT on financial services paid	(840,240)	(806,647)	(840,240)	(806,647)
Income taxes paid	(652,006)	(1,244,413)	(699,929)	(1,293,080)
Net cash provided by/(used in) operating activities	(9,321,209)	4,512,521	(9,182,493)	4,382,785

The Notes to the Financial Statements disclosed from pages 277 to 376 are an integral part of these Financial Statements.

1. Corporate Information

1.1 Reporting Entity

The National Development Bank of Sri Lanka was incorporated under the National Development Bank of Sri Lanka Act No. 2 of 1979. In 2005, pursuant to the provisions of the National Development Bank of Sri Lanka (consequential provisions) Act No. 1 of 2005, a company by the name of 'National Development Bank Ltd.' was incorporated for the purposes of taking over the business of National Development Bank of Sri Lanka. Accordingly, on 15 June 2005, the National Development Bank Ltd. was incorporated and with effect from that date, the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed except for certain provisions contained therein.

In terms of the new Companies Act No. 07 of 2007, the name of the Bank was changed as 'National Development Bank PLC' ('The Bank'). The Bank was re-registered in terms of the new Companies Act on 4 July 2007 and was assigned with PQ 27 as the new Registration Number.

The Bank is listed on the Colombo Stock Exchange. The Registered Office of the Bank and its principal place of business are situated at No. 40, Navam Mawatha, Colombo 2.

The number of branches of the Bank as at 31 December 2014 was 83 (2013 - 78) and the number of staff employed as at 31 December 2014 was 1,744 (2013 - 1,583).

1.2 Principal Activities of the Bank and the Group

Bank

The principal activities of the Bank consist of retail banking, small and medium enterprise (SME) banking, corporate banking, project and infrastructure financing, investment banking, leasing, housing finance, cash management, correspondent banking, remittance services, margin trading, pawning, treasury and investment services, bancassurance and card operations.

Group

The principal activities of the Group companies comprising of the subsidiaries and the associate companies are summarised below:

Name of Group Company	Country of Incorporation	Holding % - 2014		Holding % - 2013		Principal Activities
		Direct	Indirect	Direct	Indirect	
Subsidiaries						
NDB Capital Holdings PLC (de-listed with effect from 26 January 2015)	Sri Lanka	99.9		99.6		Full service investment banking
NDB Investment Bank Ltd.	Sri Lanka	-	99.9	-	99.6	Investment banking
NDB Wealth Management Ltd.	Sri Lanka	-	99.9	-	99.6	Wealth management
NDB Securities (Pvt) Ltd.	Sri Lanka	-	99.9	-	99.6	Investment advisory and securities trading
Development Holdings (Pvt) Ltd.	Sri Lanka	58.7		58.7		Property management
NDB Capital Ltd.	Bangladesh	77.8		77.8		Investment banking
NDB Zephyr Partners Ltd.	Mauritius	-	59.8	-	-	Management of private equity funds
Associate Companies						
Ayojana Fund (Pvt) Ltd. (under liquidation)	Sri Lanka	50		50		Venture capital
NDB Venture Investments (Pvt) Ltd. (under liquidation)	Sri Lanka	50		50		Venture capital

1.3 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2014 comprise of the Bank (parent company) and the subsidiaries and associate companies.

The Bank does not have an identifiable parent company and is the ultimate parent of the NDB Group.

1.4 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank as at 31 December 2014 which comprise the Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow, Accounting Policies and Notes, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKASs, hereinafter referred to as 'SLFRSs') issued by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007. The presentation of Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the listing rules of the Colombo Stock Exchange.

1.5 Functional and Presentation Currency

The Financial Statements of the Bank and the Group are presented in Sri Lankan Rupees which is the currency of the primary economic environment in which the Bank and the Group operates. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

1.6 Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank and the Group, in compliance with the provisions of the Companies Act No. 07 of 2007 and SLFRSs.

The Board of Directors acknowledge their responsibility as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors Responsibility' and the certification given on the 'Statement of Financial Position' on pages 251 to 258, pages 261 and 262 and page 272 respectively.

These Financial Statements include-

- The Statement of Profit or Loss and a Statement of Comprehensive Income providing information on the performance for the year under review (Refer pages 270 and 271).
- Statement of Financial Position providing the information on the financial position of the Bank and the Group as at the year end (Refer page 272).
- Statement of Changes in Equity providing the movement in the shareholders' funds during the year ended under review for the Bank and the Group.
- Statement of Cash Flow providing the information to the users, on the ability of the Bank and the Group to generate cash and cash equivalents and the needs for entities to utilize those cash flows (refer pages 275 and 276); and
- Notes to the Financial Statements, which comprise of the Accounting Policies and other explanatory notes and information (Refer pages 277 to 376).

1.7 Approval of the Financial Statements

The Financial Statements of the Bank and the Group for the year ended 31 December 2014 (including comparatives) have been approved and authorized for issue by the Board of Directors on 13 February 2015.

2. Basis of Preparation of Financial Statements

2.1 Preparation of Financial Statements

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position:

- Investment properties which are measured at fair value
- Financial Investments - Available-for-sale which are measured at fair value
- Derivative financial instruments which are measured at fair value
- Financial assets and liabilities held-for-trading which are measured at fair value
- Freehold land and building which are measured at fair value
- Liabilities for defined benefit obligations which are recognized at the present value of the defined benefit obligations less the net totals of plan assets and unrecognized past service cost

2.2 Presentation of Financial Statements

The Bank and the Group presents their Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery and settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 51 to the Financial Statements.

2.3 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standards - LKAS 01 on 'Presentation of Financial Statements', each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position of the Bank and the Group only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Income and expenses are not offset in the Statement of Profit or Loss of the Bank and the Group unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the Notes to the Financial Statements of the Bank and the Group.

2.4 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries and associates for the year ended 31 December 2014. The Financial Statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank, using consistent Accounting Policies.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements.

Subsidiaries are fully-consolidated from the date on which, control is transferred to the Bank.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the Consolidated Statement of Profit or Loss and within equity in the Consolidated Statement of Financial Position, but separate from Parent shareholders' equity.

2.5 Foreign Currency Translation

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates the transactions were affected.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the middle exchange rate of the functional currency ruling at the date of the Statement of Financial Position. The resulting gains and losses are accounted for in the Statement of Profit or Loss.

- (a) Non-monetary assets and liabilities that are measured on a historical cost basis in foreign currency are translated using the exchange rates prevailing at that date. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.
- (b) Transactions of the Foreign Currency Banking Unit have been recorded in accordance with Note (a) above. Net gains and losses are dealt within the Statement of Profit or Loss.
- (c) Forward exchange contracts are valued at the forward market rates prevailing at the date of the Statement of Financial Position. Profits or losses on such transactions are dealt within the Statement of Profit or Loss.
- (d) As at the reporting date, the assets and liabilities of overseas subsidiaries/associates are translated into the Bank's presentation currency at the rate of exchange ruling at the date of the Statement of Financial Position and their profits and losses are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity.
- (e) On disposal of a foreign subsidiary/associate, the deferred cumulative amount recognized in equity relating to that particular foreign subsidiary/associate is recognized in the Statement of Profit or Loss in 'other operating expenses' or 'other operating income', respectively.

2.6 Going Concern

The Board of Directors of the Bank and its Group companies has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the ability of the Bank and its Group companies to continue as a going concern. Therefore, the Financial Statements of the Bank and the Group continue to be prepared on the going concern basis.

3. General Accounting Policies

3.1 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Bank and the Group the management is required to make judgments, which may have significant effects on the amounts recognized in the Financial Statements. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation of uncertainty at the date of the Statement of the Financial Position that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

The key significant accounting judgments, estimates and assumptions involving uncertainty for each type of assets, liabilities, income and expenses along with the respective carrying amounts of such items are given in the Notes to the Financial Statements, on pages 277 to 376.

3.2 Financial Instruments

Initial Recognition Date

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Bank and the Group become a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Classification and Subsequent Measurement of Financial Assets

At inception, a financial asset is classified into one of the following categories:

- At fair value through profit or Loss
 - Held-for-trading; or
 - Designated at fair value through profit or loss
- Loans and Receivables
- Available-for-Sale or
- Held-to-Maturity

The subsequent measurement of the financial assets depends on their classifications.

Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as 'Held-for-Trading' if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category includes derivative financial instruments entered into by the Bank and the Group that are not designated as hedging instruments in hedge relationships as defined in LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Gains or losses on liabilities held-for-trading are recognised in the Statement of Comprehensive Income.

The Bank and the Group has not designated any financial liabilities upon recognition, at fair value through Profit or Loss.

Other Financial Liabilities

Financial instruments issued by the Bank and the Group that are not designated at fair value through profit or loss, are classified as 'other financial liabilities', where the substance of the contractual arrangement results in the Bank and the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Other financial liabilities include, amounts due to banks, due to other customers, debt securities and other borrowed funds and subordinate debts.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the Effective Interest Rate (EIR).

Derecognition of Financial Assets and Financial Liabilities

(a) Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when -

- The rights to receive cash flows from the asset have expired,
- The Bank and the Group have transferred their rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either,

- The Bank and the Group have transferred substantially all the risks and rewards of the asset, or
- The Bank and the Group have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When the Bank and the Group have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, and have neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank and the Group could be required to repay.

(b) Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the Statement of Profit or Loss.

Re-classification of Financial Assets and Liabilities

The Bank and the Group reclassify non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Bank and the Group are permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset with a fixed maturity, reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognized in Equity is amortized to the Statement of Profit or Loss over the remaining life of the asset using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. In the case of a financial asset does not have a fixed maturity, the gain or loss is recognized in the Statement of profit or loss when

such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Statement of Comprehensive Income.

The Bank and the Group may reclassify a non-derivative trading asset out of the 'held-for-trading' category and in to the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank and the Group have the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank and the Group subsequently increase their estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate. Reclassification is at the election of management, and is determined on an instrument-by-instrument basis.

The Bank and the Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the Bank and the Group does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

3.3 Impairment of Non-Financial Assets Other than Goodwill

The Bank and the Group assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank and the Group make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank

and the Group estimate the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss.

3.4 Business Combinations and Goodwill

Investments in subsidiary companies are accounted for using the purchase method of accounting in the Consolidated Financial Statements. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition (negative goodwill) is recognized directly in the Statement of Profit or Loss in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

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

Carrying amount of the goodwill arising on acquisition of subsidiaries is presented as an intangible asset and the goodwill on an acquisition of an equity accounted investment in investment in associates is included in the carrying value of the investment.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortized goodwill is recognized in the Statement of Profit or Loss.

3.5 New Accounting Standards that Became Effective during the Year

LKAS 1 - Presentation of Items of Other Comprehensive Income - Amendments to LKAS

The amendments to LKAS 1 introduce a grouping of items presented in Other Comprehensive Income. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of freehold land and buildings). The amendments affect presentation only and have no impact on the Bank's or Group's financial position or performance.

SLFRS 7 - 'Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities'

Amendments to SLFRS 7 requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with LKAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with LKAS 32. The necessary disclosures required by the new amendment have been included in the Notes to the Financial Statements.

SLFRS 10 - 'Consolidated Financial Statements' and LKAS 27 - 'Separate Financial Statements'

SLFRS 10 establishes a single control model that applies to all entities including special purpose entities. SLFRS 10 replaces the parts of previously existing LKAS 27 Consolidated and Separate Financial Statements that dealt with Consolidated Financial Statements and SIC - 12 Consolidation - Special Purpose Entities. SLFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its

power over the investee. To meet the definition of control in SLFRS 10, all three criteria must be met, including:

- (a) an investor has power over an investee;
- (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

SLFRS 10 had no impact on the consolidation of investments held by the Bank and the Group.

SLFRS 11 - 'Joint Arrangements' and LKAS 28 - 'Investment in Associates and Joint Ventures'

SLFRS 11 replaces LKAS 31 - 'Interests in Joint Ventures' and SIC - 13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. SLFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under SLFRS 11 must be accounted for by using the equity method. SLFRS 10 had no impact on the consolidation of investments held by the Bank and the Group.

SLFRS 12 - 'Disclosure of Interests in Other Entities'

SLFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Necessary disclosures required by the new Standard have been included in the Notes to the Financial Statements.

SLFRS 13 - 'Fair Value Measurement'

SLFRS 13 - establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted. The application of SLFRS 13 has not materially impacted the fair value measurements carried out by the Bank and the Group.

SLFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including SLFRS 7 - 'Financial Instruments: Disclosures'. Necessary disclosures required by the new Standard have been included in the Notes to the Financial Statements.

3.6 Standards Issued But Not Yet Effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Bank and Group financial statements are disclosed below. The Bank and the Group intend to adopt these standards, if applicable, when they become effective.

(i) SLFRS 9 - Financial Instruments: Classification and Measurement

SLFRS 9, reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

This standard was originally effective for annual periods commencing on or after 01 January 2018. However the effective date has been deferred subsequently.

(ii) SLFRS 14 -Regulatory Deferral Accounts

The scope of this standard is limited to first-time adopters of SLFRS that already recognise regulatory deferral account balances in their financial statements. Consequently, the financial statements of rate regulated entities that already apply SLFRS, or that do not otherwise recognise such balances, will not be affected by this standard. This standard is effective for the annual periods beginning on or after 01 January 2016.

(iii) SLFRS 15 -Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and International Financial Reporting Interpretations Committee (IFRIC) 13 Customer Loyalty Programmes. This standard is effective for the annual periods beginning on or after 01 January 2017.

None of these new standards and interpretations is expected to have an effect on the Consolidated Financial Statements of the Bank and the Group Financial Statements of the Company, except for SLFRS 9 and 15. Pending the detailed review of such standards and interpretations, the extent of the impact has not been determined by the management.

4. Gross Income

Accounting Policy

Gross income is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the Group and the revenue can be reliably measured. The specific recognition criteria, for each type of gross income, are given under the respective income notes.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Interest Income	20,974,578	20,603,610	21,151,976	20,765,842
Fee and commission income	1,866,242	1,614,106	2,564,095	2,411,273
Net gains/(losses) from trading	910,027	953,325	910,027	953,325
Net gains/(losses) from financial investments	716,507	318,303	1,330,407	914,968
Other operating income	494,591	6,167,076	248,121	257,897
Total	24,961,945	29,656,420	26,204,626	25,303,305

5. Net Interest Income

Accounting Policy

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income or expense is recorded using the Effective Interest Rate (EIR).

The carrying amount of the financial assets or financial liabilities is adjusted if the Bank and the Group revise their estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR. The Amortized cost is calculated by taking into account any discount or premium on an acquisition and fees and costs that are an integral part of the EIR. The change in the carrying amount is recorded as 'Interest income' for financial assets and 'interest expenses' for financial liabilities.

Once the recorded value of financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
5.1 Interest Income				

5.1 Interest Income

Loans and receivables - to banks	36,175	68,735	36,175	68,735
Loans and receivables - to other customers	16,771,450	17,006,117	16,738,861	16,437,695
Placements with banks	139,101	683,723	147,687	686,785
Financial assets - held-for-trading	397,010	821,202	397,010	821,202
Financial investments - held-to-maturity	725,817	1,064,839	870,688	1,652,929
Financial investments - available-for-sale	890,669	53,649	890,669	53,649
Financial investments - loans and receivables	1,759,359	790,575	1,759,359	926,606
Other interest income	254,997	114,770	311,527	118,241
Total Interest Income (a)	20,974,578	20,603,610	21,151,976	20,765,842

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
5.2 Interest Income from Sri Lanka Government Securities				
Interest income	3,397,890	3,346,578	3,397,890	3,346,578
5.3 Interest Income on Impaired Financial Assets				
Interest income on impaired loans and receivables to other customers	217,067	147,702	217,067	147,702
5.4 Interest Expenses				
Due to banks	204,532	260,403	216,832	312,341
Due to other customers	8,748,429	10,462,783	8,748,429	10,462,783
Debt securities issued and other borrowed funds	2,794,957	2,749,268	2,721,251	2,660,091
Subordinated term debts	1,552,059	319,049	1,552,059	319,049
Total Interest Expenses (b)	13,299,977	13,791,503	13,238,571	13,754,264
Net Interest Income (a)-(b)	7,674,601	6,812,107	7,913,405	7,011,578

6. Fee and Commission Income

Accounting Policy

Income from Financial Guarantees

In the ordinary course of business, the Bank and the Group issue financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the Financial Statements (within 'other liabilities') at fair value, being the premium received.

Subsequent to the initial recognition, the Bank's and the Group's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the Statement of Profit or Loss and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the Statement of Profit or Loss in 'Fee and Commission Income' on a straight-line basis over the lifetime of the guarantee.

Income from Fee-based Activities

Fees for underwriting, advisory work, loan syndication, management of funds and all other fees and commissions are recognized on an accrual basis.

Rental Income

The rental income is recognized on an accrual basis.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Cards	74,322	75,860	74,322	75,860
Due to other customers	133,983	142,707	133,983	142,707
Guarantees	267,216	270,596	267,216	270,596
Loans and receivables to other customers	522,602	347,139	522,602	347,139
Remittances	195,189	173,329	195,189	173,329
Trade finance	567,054	543,888	567,054	543,888
Bancassurance	64,622	44,638	64,622	44,638
Fees related to investment banking and wealth management	–	–	411,026	521,309
Brokerage	–	–	130,119	122,042
Rental income	10,040	9,160	143,529	133,709
Others	31,214	6,789	54,433	36,056
Total	1,866,242	1,614,106	2,564,095	2,411,273

7. Net Gains/(Losses) from Trading

Accounting Policy

Net gains/(losses) from trading represent income from foreign exchange and include gains and losses from spot and forward contracts and other currency derivatives.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Income from foreign exchange				
- With Banks	591,484	648,588	591,484	648,588
- With Customers	318,543	304,737	318,543	304,737
Total	910,027	953,325	910,027	953,325

8. Net Gains/(Losses) from Financial Investments

Accounting Policy

All gains and losses from changes in fair value and dividend income from investments 'held-for-trading' or as 'available-for-sale' are included under Net Gain/(Losses) from Financial Investments.

'Equities' income includes the results of buying and selling, and changes in the fair value of equity securities.

'Debt Securities' income includes the realized and unrealized gains of debt securities.

'Unit Trusts' income includes change in the fair value of unit trust investments.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Equities	–	–	108,502	877
Debt Securities	568,573	213,227	568,573	213,434
Unit Trusts	147,934	105,076	653,332	700,657
Total	716,507	318,303	1,330,407	914,968

9. Other Operating Income

Accounting Policy

Other Operating income includes capital gains/(losses), dividend income, foreign exchange gains, gains from property, plant & equipment and gains from investment properties.

Dividend Income

Dividend income from group investments in subsidiary companies and associate companies and other investments in shares held for other than trading purposes, are recognized when the Bank's and the Group's right to receive the payment, is established.

Capital Gains

Capital gains from the sale of securities and from the sale of group investments represent the difference between the sales proceeds from sale of such investments and the carrying value of such investments.

The change in exchange rate differences arising from the valuation of the retained profits held in foreign currency is included under 'foreign exchange gains'.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Dividend income from securities				
- Quoted investments	348	–	348	17,969
- Non-quoted investments	17,637	18,258	17,637	41,864
Dividend income from group investments				
- Quoted investments	275,767	659,136	–	–
- Non-quoted investments	46,200	41,067	–	–
Capital gains from sales of securities	7,500	9,685	7,500	43,194
Capital gains from sale of group investments	96,125	5,372,060	–	–
Foreign exchange gains	33,494	60,449	33,494	60,449
Gains on sale of property, plant & equipment	15,951	2,408	19,451	2,408
Gains on investment properties	–	–	162,000	88,000
Others	1,569	4,013	7,691	4,013
Total	494,591	6,167,076	248,121	257,897

10. Impairment for Loans and Receivables and Other Losses

Accounting Policy

The Bank and the Group recognize the changes in the impairment provisions for loans and receivables to banks and other customers, which are assessed as per the LKAS 39 - Financial Instruments: Recognition and Measurement. The methodology adopted by the Bank and the Group is explained in Note 25.5 to these Financial Statements. The Bank also makes provisions/write-backs for impairment of investments in subsidiary and associate companies and other financial assets when there is a permanent diminution in the carrying value of these investments.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Loans and receivables				
- To other customers	464,839	1,184,420	464,839	1,184,420
- Capital write-offs	63,869	76,345	63,869	76,345
	528,708	1,260,765	528,708	1,260,765
Investments in subsidiaries	37,295	20,879	-	-
Investments in associates	-	(43,442)	-	-
Total	566,003	1,238,202	528,708	1,260,765

11. Personnel Expenses

Accounting Policy

Personnel expenses include salaries and bonus, terminal benefit charges, share-based payments and other related expenses. The provisions for bonus is recognized when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in accordance with the respective statutes and regulations. The Bank contributes 15% and 3% of gross salaries of employees to the Bank's Employees' Provident Fund and the Employees' Trust Fund respectively. Group Companies contribute 12% and 3% to Central Bank of Sri Lanka for eligible employees for Employees' Provident Fund contributions and Employees' Trust Fund contributions respectively.

Contributions to defined benefit plans are recognized in the Statement of Profit or Loss based on an actuarial valuation carried out for the gratuity liability and the pension fund of the Bank in accordance with LKAS 19 - 'Employee Benefits'.

Share-based payments represent the Bank's cost on the Equity Linked Compensation Plan and the Employee Share Option Plan, which is more fully described in Note 43.2 and 46.4 to these Financial Statements.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Salary and bonus	2,212,888	1,895,144	2,542,696	2,138,517
Contribution to Employees' Provident Fund	187,917	164,154	200,146	181,132
Contribution to Employees' Trust Fund	37,583	32,835	38,702	36,488
Contribution to defined benefit plan				
- Pension Fund	7,163	5,449	7,163	5,449
- Gratuity (Note 40.1)	44,101	40,990	53,487	42,370
Share-based payments	46,504	32,323	46,504	32,323
Others	336,582	218,249	283,689	224,002
Total	2,872,738	2,389,144	3,172,387	2,660,281

12. Other Expenses

Accounting Policy

Operating expenses are recognized in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to the Statement of Profit or Loss in arriving at the profit for the year.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Directors' emoluments	32,360	28,586	36,870	32,191
Auditors' remuneration	8,388	8,019	10,872	10,008
Non-audit fees to auditors	6,262	18,176	6,262	18,176
Professional and legal expenses	58,571	33,295	72,051	42,716
Office administration and establishment expenses	1,000,622	938,032	1,176,810	999,135
Depreciation of property, plant & equipment	246,400	223,297	291,140	293,571
Amortization of intangible assets	77,190	78,807	94,050	91,068
Deposit insurance expenses	127,935	117,530	127,935	117,530
Others	878,726	1,109,317	922,238	1,299,199
Total	2,436,454	2,555,059	2,738,228	2,903,594

Directors, emoluments include fees paid to Non-Executive Directors. Remunerations paid to Executive Directors are included under salary and bonus in Note 11.

13. Tax on Financial Services

Accounting Policy

Taxes on Financial Services include Value Added Tax on Financial Services and Nation Building Tax. The base for the computation of Value Added Tax on Financial Services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on the prescribed rates. The current regulatory tax rate is 12% (2013 - 12%).

The same base is also applied for the computation of the Nation Building Tax which was effective from 1 January 2014 and the regulatory tax rate is 2%.

	BANK & GROUP	
	2014 LKR '000	2013 LKR '000
Value Added Tax on Financial Services	882,444	910,500
National Building Tax on Financial Services	146,806	-
Total	1,029,250	910,500

14. Share of Associate Companies' Profits/(Losses)

The Group's share of profit/(loss) of an investment in an associate company which is recognized as per the equity method, is shown on the face of the Statement of Profit or Loss. This is the profit/(loss) attributable to equity holders of the associate company and, therefore, is profit/(loss) after tax and non-controlling interests in the subsidiaries of the associate.

	Percentage Holding 2014/2013	GROUP	
		2014 LKR '000	2013 LKR '000
Maldives Finance Leasing Co. (Pvt) Ltd. (Note 31.1)	35.00%	97,274	49,220
Total		97,274	49,220

15. Taxation

Accounting Policy

As per the Sri Lanka Accounting Standard - LKAS 12 - 'Income Taxes', the tax expense/tax income is the aggregate amount included in determination of profits or loss for the year in respect of income tax and deferred tax. The tax expense/income is recorded in the Statement of Profit or Loss except to the extent it relates to items recognized directly in Equity or Statement of Comprehensive Income (OCI), in which case it is recognized in OCI.

The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The regulatory income tax rate for the year was 28% (2013 - 28%).

The components of the income tax expense for the years ended 31 December 2014 and 2013 are:

	Note	BANK		GROUP	
		2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Income tax expense					
Current year		1,128,858	982,551	1,171,176	1,088,985
Adjustment in respect of current income tax of prior years		83,708	(128,223)	72,265	(128,223)
	a	1,212,566	854,328	1,243,441	960,762
Deferred tax expense					
Temporary differences	b	126,893	194,448	105,343	190,131
Total tax charged to the Statement of Profit or Loss		1,339,459	1,048,776	1,348,784	1,150,893
Effective tax rate (%)		23	11	24	24

	Note	BANK		GROUP	
		2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Reconciliation of the total tax expense					
a. Income Tax					
Profit before tax		5,786,773	9,682,512	6,526,732	4,724,401
Income tax for the year (accounting profit @ applicable tax rate)		1,620,260	2,711,103	1,838,144	1,318,486
Tax effect of exempt income		(446,132)	(1,881,884)	(661,795)	(392,927)
Adjustment in respect of current income tax of the prior year		83,708	(128,223)	72,265	(127,691)
Add: Tax effect of expenses that are not deductible for tax purposes		1,138,532	1,210,519	1,180,876	1,235,509
(Less): Tax effect of expenses that are deductible for tax purposes		(1,186,083)	(1,049,995)	(1,198,531)	(1,065,423)
Tax effect of leasing/tax losses		2,281	(7,192)	12,482	(7,192)
Tax expenses for the year		1,212,566	854,328	1,243,441	960,762

Notional Tax Credit on Secondary Market Transactions

Any company which derives income from secondary market transactions involving any security or treasury bonds or treasury bills on which the income tax has been deducted at the rate of 10% at the time of issue of such security, is entitled to a notional tax credit at 10% of the grossed up amount of net interest income from such secondary market transactions to an amount of one ninth of the same. Accordingly, the net interest income earned by the Bank from such transactions has been grossed up in the Financial Statements for the year ended 31 December 2014 and the notional tax credit amounts to LKR 293.8 million (2013 - LKR 224.5 million).

b. Deferred Tax

The following table shows the deferred tax expense recorded in the Statement of Profit or Loss and the Statement of Comprehensive Income due to the changes in the deferred tax assets and liabilities:

	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Statement of Comprehensive Income	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Statement of Comprehensive Income
	2014 LKR '000	2014 LKR '000	2014 LKR '000	2014 LKR '000	2013 LKR '000	2013 LKR '000	2013 LKR '000	2013 LKR '000
BANK								
Provisions	(6,455)	-	34,988	-	(41,443)	-	(34,452)	-
Revaluation of financial investments available-for-sale	-	7,791	-	(33,691)	-	41,482	-	41,482
Other temporary differences	(146,304)	764,434	91,905	213,832	(109,846)	422,239	228,900	(3,372)
Total	(152,759)	772,225	126,893	180,141	(151,289)	463,721	194,448	38,110
GROUP								
Provisions	(6,455)	-	34,988	-	(41,443)	-	(34,452)	-
Revaluation of financial investments available-for-sale	-	24,881	-	(33,691)	-	58,572	-	58,572
Other temporary differences	(176,234)	767,742	70,355	213,832	(116,749)	424,071	224,583	(3,372)
Total	(182,689)	792,623	105,343	180,141	(158,192)	482,643	190,131	55,200

16. Earnings Per Share on Profit

Accounting Policy

The Group presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) - 'Earnings per Share':

	GROUP	
	2014	2013
Amount used as the numerator		
Profit attributed to ordinary shareholders (LKR '000)	4,133,932	2,641,925
Amount used as the denominator		
Ordinary shares in issue for basic EPS calculation	164,600,914	160,559,308
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	164,469,003	160,316,441
Weighted average basic Earnings per Share (LKR)	25.14	16.48
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	164,469,003	160,316,441
Effect of outstanding share option schemes	148,971	54,847
Number of ordinary shares including share options	164,617,974	160,371,288
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for diluted EPS calculation	164,617,974	160,371,288
Weighted average diluted Earnings per Share (LKR)	25.11	16.47

	BANK & GROUP			
	Dividend per Share LKR	2014 LKR '000	Dividend per Share LKR	2013 LKR '000
Interim dividend paid for the prior year	–	–	5.00	823,465
Final dividend paid for the prior year	5.00	824,245	10.00	1,642,019
Interim dividend paid for the current year	7.00	1,155,587	5.00	823,465
Gross dividends paid during the year	12.00	1,979,832	20.00	3,288,949
Reversal of dividends declared in prior years	–	(2,298)	–	(67,016)
		1,977,534		3,221,933

17. Dividend Per Share

Interim dividend paid for the prior year	–	–	5.00	823,465
Final dividend paid for the prior year	5.00	824,245	10.00	1,642,019
Interim dividend paid for the current year	7.00	1,155,587	5.00	823,465
Gross dividends paid during the year	12.00	1,979,832	20.00	3,288,949
Reversal of dividends declared in prior years	–	(2,298)	–	(67,016)
		1,977,534		3,221,933

The Board of Directors of the Bank has recommended the payment of a final dividend of LKR 4.00 per share for the year ended 31 December 2014.

	2014 LKR	2013 LKR
Dividend per share	11.00	10.00

18. Analysis of Financial Instruments by Measurement Basis

	Held-for-Trading LKR '000	Held-to-Maturity LKR '000	Loans and Receivables LKR '000	Available- for-Sale LKR '000	Total LKR '000
(a) Bank - Current Year (2014)					
Assets					
Cash and cash equivalents	–	–	3,104,391	–	3,104,391
Balances with Central Bank	–	–	6,740,590	–	6,740,590
Placements with banks	–	–	2,721,891	–	2,721,891
Derivative financial instruments	1,903,781	–	–	–	1,903,781
Financial assets held-for-trading	2,785,277	–	–	–	2,785,277
Loans and receivables to banks	–	–	311,144	–	311,144
Loans and receivables to other customers	–	–	175,175,203	–	175,175,203
Financial investments - loans and receivables	–	–	38,302,428	–	38,302,428
Financial investments - available-for-sale	–	–	–	17,060,302	17,060,302
Financial investments - held-to-maturity	–	8,970,963	–	–	8,970,963
Other financial assets	–	–	54,450	–	54,450
Total Financial Assets	4,689,058	8,970,963	226,410,097	17,060,302	257,130,420

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
Liabilities			
Due to banks	–	7,029,342	7,029,342
Derivative financial instruments	663,186	–	663,186
Due to other customers	–	151,823,715	151,823,715
Debt Securities issued and other borrowed funds	–	61,955,460	61,955,460
Subordinated term debts	–	11,149,439	11,149,439
Other financial liabilities	–	2,423,677	2,423,677
Total Financial Liabilities	663,186	234,381,633	235,044,820

	Held-for-Trading LKR '000	Held-to-Maturity LKR '000	Loans and Receivables LKR '000	Available- for-Sale LKR '000	Total LKR '000
--	------------------------------	------------------------------	--------------------------------------	------------------------------------	-------------------

(b) Group - Current Year (2014)

Assets

Cash and cash equivalents	–	–	3,274,036	–	3,274,036
Balances with Central Bank	–	–	6,740,590	–	6,740,590
Placements with banks	–	–	2,721,891	–	2,721,891
Derivative financial instruments	1,903,781	–	–	–	1,903,781
Financial assets held-for-trading	6,028,558	–	–	–	6,028,558
Loans and receivables to banks	–	–	311,144	–	311,144
Loans and receivables to other customers	–	–	175,235,906	–	175,235,906
Financial Investments - loans and receivables	–	–	38,683,476	–	38,683,476
Financial investments - available-for-sale	–	–	–	18,057,852	18,057,852
Financial investments - held-to-maturity	–	10,167,325	–	–	10,167,325
Other financial assets	–	–	54,450	–	54,450
Total Financial Assets	7,932,339	10,167,325	227,021,493	18,057,852	263,179,009

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
Liabilities			
Due to banks	–	7,029,342	7,029,342
Derivative financial instruments	663,186	–	663,186
Due to other customers	–	151,485,201	151,485,201
Debt securities issued and other borrowed funds	–	61,925,802	61,925,802
Subordinated term debts	–	11,149,439	11,149,439
Other financial liabilities	–	2,423,677	2,423,677
Total Financial Liabilities	663,186	234,013,461	234,676,647

	Held-for-Trading LKR '000	Held-to-Maturity LKR '000	Loans and Receivables LKR '000	Available-for-Sale LKR '000	Total LKR '000
--	------------------------------	------------------------------	--------------------------------------	--------------------------------	-------------------

(a) Bank - Previous Year (2013)

Assets

Cash and cash equivalents	–	–	2,611,075	–	2,611,075
Balances with Central Bank	–	–	5,339,000	–	5,339,000
Placements with banks	–	–	130,751	–	130,751
Derivative financial instruments	1,149,541	–	–	–	1,149,541
Financial assets held-for-trading	10,720,689	–	–	–	10,720,689
Loans and receivables to banks	–	–	641,628	–	641,628
Loans and receivables to other customers	–	–	136,821,532	–	136,821,532
Financial investments - loans and receivables	–	–	15,837,455	–	15,837,455
Financial investments - available-for-sale	–	–	–	5,982,450	5,982,450
Financial investments - held-to-maturity	–	17,602,249	–	–	17,602,249
Total Financial Assets	11,870,230	17,602,249	161,381,441	5,982,450	196,836,370

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
--	------------------------------	-------------------------------	-------------------

Liabilities

Due to banks	–	10,453,086	10,453,086
Derivative financial instruments	817,310	–	817,310
Due to other customers	–	129,830,029	129,830,029
Debt securities issued and other borrowed funds	–	24,420,818	24,420,818
Subordinated term debts	–	11,682,674	11,682,674
Other financial liabilities	–	701,912	701,912
Total Financial Liabilities	817,310	177,088,519	177,905,829

	Held-for- Trading LKR '000	Held-to- Maturity LKR '000	Loans and Receivables LKR '000	Available- for-Sale LKR '000	Total LKR '000
(b) Group - Previous Year (2013)					
Assets					
Cash and cash equivalents	-	-	2,668,262	-	2,668,262
Balances with Central Bank	-	-	5,339,000	-	5,339,000
Placements with banks	-	-	130,751	-	130,751
Derivative financial instruments	1,149,541	-	-	-	1,149,541
Financial assets held-for-trading	14,194,141	-	-	-	14,194,141
Loans and receivables to banks	-	-	641,628	-	641,628
Loans and receivables to other customers	-	-	136,881,713	-	136,881,713
Financial investments - loans and receivables	-	-	16,791,701	-	16,791,701
Financial investments - available-for-sale	-	-	-	6,167,450	6,167,450
Financial investments - held-to-maturity	-	18,460,591	-	-	18,460,591
Total Financial Assets	15,343,682	18,460,591	162,453,055	6,167,450	202,424,778

	Held-for- Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
Liabilities			
Due to banks	-	10,453,086	10,453,086
Derivative financial instruments	817,310	-	817,310
Due to other customers	-	129,421,813	129,421,813
Debt securities issued and other borrowed funds	-	24,390,818	24,390,818
Subordinated term debts	-	11,682,674	11,682,674
Other financial liabilities	-	701,912	701,912
Total Financial Liabilities	817,310	176,650,303	177,467,613

19. Cash and Cash Equivalents

Accounting Policy

Cash and cash equivalents for the purpose of reporting in the Statement of Financial Position, comprise of cash in hand and balances with banks. The cash in hand comprises of both local currency and foreign currency.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Local currency in hand	1,775,925	1,737,799	1,776,011	1,794,986
Foreign currency in hand	68,510	125,169	68,518	125,169
Balances with banks	1,259,956	748,107	1,429,507	748,107
Total	3,104,391	2,611,075	3,274,036	2,668,262

20. 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.

The minimum cash reserve requirement was 6.0% of the Rupee deposit liabilities as at 31 December 2014 (6.0% as at 31 December 2013). This reserve requirement is not applicable for the foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Statutory balances with Central Bank of Sri Lanka	6,740,590	5,339,000	6,740,590	5,339,000
Total	6,740,590	5,339,000	6,740,590	5,339,000

21. Placements with Banks

Accounting Policy

Placements with Banks include short-term deposits placed in banks and are subjected to insignificant risk of changes in fair value, and are used by the Bank and the Group in the management of its short-term commitments. They are recorded in the Financial Statements at their face values or the gross values, where appropriate.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Money Market Placements - in Sri Lanka	2,721,891	130,751	2,721,891	130,751
Total	2,721,891	130,751	2,721,891	130,751

22. Derivative Financial Instruments

Accounting Policy

Derivatives are financial instruments that derive their values in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorized as 'trading' unless they are designated as hedging instruments.

The Bank and the Group use derivatives such as currency SWAPs, forward foreign exchange contracts and currency options. Derivatives are recorded at fair value and recorded as assets when their fair value is positive and as liabilities when their fair value is negative. The derivatives are valued using valuation techniques which consider current market interest rates, forward interest rates and spot and forward exchange rates. Where the initially recognized fair value of a derivative contract is based on a valuation model that uses inputs that are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities.

The changes in the fair value of derivatives are included in 'Net Gains/(Losses) from financial investments'.

It is assumed that the SWAP arrangement that the Bank has, with Central Bank of Sri Lanka, would be renewed annually.

All derivatives are initially recognized and subsequently measured at fair value with all revaluation gains recognized in the Statement of Profit or Loss (except where cash flow of the net investment hedging has been achieved in which case the effective portion of changes in fair value is recognized within Other Comprehensive Income).

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Bank only has hedges of highly probable future cash flows attributable to a recognized asset or liability or a forecast transaction (cash flow hedge).

Hedge Accounting

Hedge Accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception, the Bank and the Group document the transaction, the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank and the Group also document their assessment, both at the inception of the hedge and on an ongoing basis, if the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash Flow Hedge

The effective portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the Statement of Profit or Loss.

The amounts accumulated in Equity are reclassified to the Statement of Profit or Loss in the periods in which the hedged items, affect, Profit or Loss. When a hedging instrument is expired or is sold, or when a hedge no longer meets the criteria for hedge accounting. Any cumulative gain or loss existing in Equity at that time remains in Equity and is recognized when the forecast transaction is ultimately recognized in the Statement of Profit or Loss. When a forecast transaction is no longer expected to occur, the cumulative gains or losses that were reported in Equity are immediately transferred to the Statement of Profit or Loss.

The Derivatives that do not Qualify for Hedge Accounting

The changes in the fair value of any derivative instrument which do not qualify for hedge accounting are recognized immediately in the Statement of Profit or Loss.

	BANK & GROUP			
	Financial Assets 2014 LKR '000	Financial Liabilities 2014 LKR '000	Financial Assets 2013 LKR '000	Financial Liabilities 2013 LKR '000
Currency options	1,556	1,556	5,895	5,895
Forward foreign exchange contracts	908,197	609,153	1,143,646	811,415
Currency SWAPs	994,028	52,477	–	–
Total	1,903,781	663,186	1,149,541	817,310

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts.

The notional amounts indicate the volume of transactions outstanding as at 31 December 2014 and are indicative of neither the market risk nor the credit risk.

		BANK & GROUP					
		Assets 2014 LKR '000	Liabilities 2014 LKR '000	Notional Amount 2014 LKR '000	Assets 2013 LKR '000	Liabilities 2013 LKR '000	Notional Amount 2013 LKR '000
Currency options	- Sales	–	1,556	579,708	–	5,895	5,134,238
	- Purchases	1,556	–	579,708	5,895	–	5,134,238
Forward foreign exchange contracts	- Sales	782,496	78,599	83,183,409	976,108	119,739	79,844,817
	- Purchases	125,701	530,554	83,573,782	167,538	691,676	80,102,293
Currency SWAPs	- Sales	–	–	–	–	–	–
	- Purchases	994,028	52,477	131,250	–	–	–
Total		1,903,781	663,186	168,047,857	1,149,541	817,310	170,215,586

22.1 Currency SWAPs

The Bank raised USD 125 million on 16 April 2014 through foreign borrowings for a period of one year and 7 years, against which a SWAP arrangement has been entered into with the Central Bank of Sri Lanka for 75 percent of the borrowing value with the same maturity on 15 January 2021.

The Bank has also raised USD 75 million on 21 July 2014 through foreign borrowings for a period of seven years, against which a SWAP arrangement has been entered into with the Central Bank of Sri Lanka for 50 percent of the borrowing value with the same maturity on 15 July 2021.

As per Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition & Measurement), the Bank has identified this particular transaction as a 'Cash Flow Hedge' after documenting the hedge relationship.

The objective of the hedge is to reduce the variability of the cash flows of a foreign currency denominated above mentioned borrowing (only the capital portion) attributable to changes in LKR/USD exchange rate.

A brief description of the hedge is give below:

22.1 (a) SWAP Agreement - 01

Details	Description of the Hedge								
Hedged instrument	SWAP contract Counterparty - Central Bank of Sri Lanka Notional Amount - USD 93.75 million - 75 percent of the total hedge items.								
Hedged item	1 year USD denominated borrowing - USD 105 million with an option to roll over for a maximum 12 months period. Capital is repayable in full on 31 March 2015. 7 year USD denominated borrowing - USD 20 million with a grace period of 5 years, repayment periods are as follows: <table border="1"> <tr> <td>15 July 2019</td> <td>USD 5 million</td> </tr> <tr> <td>15 January 2020</td> <td>USD 5 million</td> </tr> <tr> <td>15 July 2020</td> <td>USD 5 million</td> </tr> <tr> <td>15 January 2021</td> <td>USD 5 million</td> </tr> </table>	15 July 2019	USD 5 million	15 January 2020	USD 5 million	15 July 2020	USD 5 million	15 January 2021	USD 5 million
15 July 2019	USD 5 million								
15 January 2020	USD 5 million								
15 July 2020	USD 5 million								
15 January 2021	USD 5 million								
The periods when the cash flows are expected to occur	16 April 2015								
The amount recognized in Other Comprehensive Income during the year	LKR 299 million credit to the cash flow hedge reserve								
Fair value of the Hedged item as at 31 December 2014	LKR 16,487.5 million								
Fair value of the Hedged instrument as at 31 December 2014	LKR 116.29 million								
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur	None								
The amount that was reclassified from equity to profit or loss as a reclassification adjustment	None								

22.1 (b) SWAP Agreement - 02

Details	Description of the Hedge																								
Hedged instrument	SWAP contract - Renewable every year Counterparty - Central Bank of Sri Lanka Notional Amount - USD 37.5 million. 50 percent of the total hedge items.																								
Hedged item	7 year USD denominated borrowing - USD 15 million with a grace period of 3.5 years. Repayment periods are as follows: <table border="1"> <tr><td>15 January 2018</td><td>USD 1.875 million</td></tr> <tr><td>15 July 2018</td><td>USD 1.875 million</td></tr> <tr><td>15 January 2019</td><td>USD 1.875 million</td></tr> <tr><td>15 July 2019</td><td>USD 1.875 million</td></tr> <tr><td>15 January 2020</td><td>USD 1.875 million</td></tr> <tr><td>15 July 2020</td><td>USD 1.875 million</td></tr> <tr><td>15 January 2021</td><td>USD 1.875 million</td></tr> <tr><td>15 July 2021</td><td>USD 1.875 million</td></tr> </table> 7 year USD denominated borrowing - USD 60 million with a grace period of 5 years. Repayment periods are as follows: <table border="1"> <tr><td>15 July 2019</td><td>USD 15 million</td></tr> <tr><td>15 January 2020</td><td>USD 15 million</td></tr> <tr><td>15 July 2020</td><td>USD 15 million</td></tr> <tr><td>15 January 2021</td><td>USD 15 million</td></tr> </table>	15 January 2018	USD 1.875 million	15 July 2018	USD 1.875 million	15 January 2019	USD 1.875 million	15 July 2019	USD 1.875 million	15 January 2020	USD 1.875 million	15 July 2020	USD 1.875 million	15 January 2021	USD 1.875 million	15 July 2021	USD 1.875 million	15 July 2019	USD 15 million	15 January 2020	USD 15 million	15 July 2020	USD 15 million	15 January 2021	USD 15 million
15 January 2018	USD 1.875 million																								
15 July 2018	USD 1.875 million																								
15 January 2019	USD 1.875 million																								
15 July 2019	USD 1.875 million																								
15 January 2020	USD 1.875 million																								
15 July 2020	USD 1.875 million																								
15 January 2021	USD 1.875 million																								
15 July 2021	USD 1.875 million																								
15 July 2019	USD 15 million																								
15 January 2020	USD 15 million																								
15 July 2020	USD 15 million																								
15 January 2021	USD 15 million																								
The periods when the cash flows are expected to occur	As given above																								
The amount recognized in Other Comprehensive Income during the year	LKR 98.8 million credit to the cash flow hedge reserve																								
Fair Value of the Hedged item as at 31 December 2014	LKR 9,892.5 million																								
Fair Value of the Hedged instrument as at 31 December 2014	LKR 825.26 million																								
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur	None																								
The amount that was reclassified from equity to profit or loss as a reclassification adjustment	None																								

22.1 (c) Total amount recognized in the Statement of Comprehensive Income relating to the currency SWAPs.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
SWAP Agreement 01	98,836	–	98,836	–
SWAP Agreement 01	299,016	–	299,016	–
Total	397,852	–	397,852	–

22.1 (d) The expected impact to the Statement of Profit or Loss on the Hedge is as follows:

	Less than One Year LKR million	More than One Year LKR million
Forecast receivable cash flow	17,265	–
Forecast payable cash flow	(14,473)	(19,284)
	2,792	(19,284)

23. Financial Assets Held-for-Trading

Accounting Policy

Financial assets held-for-trading consist of quoted equity securities, Unit Trust Investments and Government Debt Securities, that have been acquired principally for the purpose of selling or repurchasing in the near term, and are recorded at fair values using assumptions that a market participant would make, when valuing such instruments. The quoted equity securities and the Unit Trust Investments are valued using the market prices published by the Colombo Stock Exchange. Government Debt Securities are valued using discounted cash flow techniques which incorporate market interest rates for investments in Government Securities.

The changes in the fair value are recognized in 'Net Gain/(Loss) from financial investments'. Dividend income is recorded in 'Net Gain/(Loss) from financial investments' according to the terms of the contract, or when the right to receive the payment has been established.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Sri Lanka Government Securities - Treasury Bills	51,534	5,061,675	51,534	5,061,675
Sri Lanka Government Securities - Treasury Bonds	480,732	4,053,939	480,732	4,053,939
Equity Securities	–	–	713,868	336,293
Investment in Unit Trusts	2,253,011	1,605,075	4,782,424	4,742,234
Total	2,785,277	10,720,689	6,028,558	14,194,141

Financial assets held-for-trading pledged as collateral amounted to LKR 532 million as at 31 December 2014 (2013 - LKR 9,115 million).

24. Loans and Receivables to Banks

Accounting Policy

Loans and receivables to Banks include refinance lending to other banks with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables to banks are subsequently measured at amortized cost using the EIR, less allowance for impairment. The amortization is included in 'interest income' in the Statement of Profit or Loss.

The losses arising from impairment are recognized in the Statement of Profit or Loss as 'impairment for loans and receivables and other losses'.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Gross loans and receivables - Refinance loans in local currency	311,144	641,628	311,144	641,628
(Less): Allowance for impairment charges	–	–	–	–
Net loans and receivables - Refinance loans in local currency	311,144	641,628	311,144	641,628

25. Loans and Receivables to Other Customers

Accounting Policy

Loans and receivables to other customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank and the Group intend to sell immediately or in the near term and those that the Bank and the Group, upon initial recognition, designate as at fair value through profit or loss.
- Those that the Bank and the Group, upon initial recognition, designate as available-for-sale.
- Those for which the Bank and the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 'loans and receivables to other customers' are subsequently measured at amortized cost using the EIR, less allowance for impairment. The amortization is included in 'interest income' in the Statement of Profit or loss. The losses arising from impairment are recognized in the Statement of Profit or Loss as 'impairment for loans and receivables and other losses'.

Write-off of Loans and Receivables

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security.

Rescheduled Loan Facilities

Where possible, the Bank and the Group seek to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. The management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Collateral Valuation

The Bank and the Group seek to use collateral, where possible, to mitigate their risks on loans and receivables to other customers. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and other credit enhancements.

To the extent possible, the Bank and the Group use active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

Leasing and Hire Purchases

Assets leased to customers under agreements that transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Lease and Hire purchase rentals receivable in the Statement of Financial Position include total lease and hire purchase payments due net of unearned interest income not accrued to revenue and allowance for impairment.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Gross loans and receivables to other customers	180,189,406	141,009,004	180,250,109	141,069,185
(Less): Allowance for impairment charges for loans and receivables (Note 25.5) (a)	5,014,203	4,187,472	5,014,203	4,187,472
Net loans and receivables to other customers	175,175,203	136,821,532	175,235,906	136,881,713

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
25.1 Loans and Receivables to Other Customers - By Product				
Long-term loans	39,723,175	25,231,706	39,723,697	25,231,706
Medium and short-term loans	43,261,887	33,566,630	43,261,887	33,566,630
Overdrafts	24,275,911	18,459,862	24,259,447	18,443,398
Trade finance loans	34,177,923	32,776,432	34,177,923	32,776,432
Consumer loans	18,934,195	14,620,469	18,934,195	14,620,469
Leasing and hire purchases (Note 25.6)	11,612,539	8,428,409	11,612,539	8,428,409
Housing loans	6,403,174	4,764,297	6,403,174	4,764,297
Pawning	416,594	2,232,748	416,594	2,232,748
Staff loans	1,052,993	928,451	1,129,638	1,005,096
Islamic loans	331,015	-	331,015	-
Total	180,189,406	141,009,004	180,250,109	141,069,185

25.2 Loans and Receivables to Other Customers - By Currency

Sri Lanka Rupee	135,682,065	107,171,530	135,742,768	107,231,710
United States Dollar	43,330,879	32,632,514	43,330,879	32,632,514
Sterling Pound	5,213	264,378	5,213	264,378
Euro	1,146,721	918,679	1,146,721	918,679
Australian Dollar	1,798	1,921	1,798	1,921
Others	22,730	19,982	22,730	19,983
Total	180,189,406	141,009,004	180,250,109	141,069,185

	BANK			
	2014		2013	
	LKR '000	%	LKR '000	%
25.3 Loans and Receivables to Other Customers - By Industry				
Food, beverages and tobacco	7,352,472	4.1	6,147,979	4.4
Agriculture, agro-business and fisheries	25,825,680	14.3	23,822,627	16.9
Textiles and garments	18,576,296	10.3	15,762,846	11.2
Wood and paper products	1,712,788	1.0	1,411,804	1.0
Leather and plastic products	3,421,065	1.9	2,068,823	1.5
Metals, chemicals and engineering	9,951,950	5.5	10,464,249	7.4
Hotels and tourism	5,637,670	3.1	3,442,992	2.4
Utilities	9,707,923	5.4	4,968,585	3.5
Constructions and housing finance	18,950,619	10.5	11,500,264	8.2
Services	24,338,304	13.5	17,081,395	12.1
Transport	5,137,648	2.9	3,778,090	2.7
Consumer	33,568,891	18.6	24,792,450	17.6
Trading	15,958,787	8.9	15,725,082	11.2
Others	49,313	0.0	41,818	0.0
Total	180,189,406	100.0	141,009,004	100.0

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
25.4 Loans and Receivables to Other Customers - By Province				
Western Province	157,093,779	124,579,550	157,154,482	124,639,731
Southern Province	4,985,666	3,632,923	4,985,666	3,632,923
North-Western Province	4,266,750	3,404,250	4,266,750	3,404,250
Central Province	4,372,669	2,932,843	4,372,669	2,932,843
Northern Province	3,151,333	906,496	3,151,333	906,496
Sabaragamuwa Province	2,741,651	2,113,614	2,741,651	2,113,614
North-Central Province	1,447,569	1,195,847	1,447,569	1,195,847
Eastern Province	1,022,989	1,515,788	1,022,989	1,515,788
Uva Province	1,107,000	727,693	1,107,000	727,693
Total	180,189,406	141,009,004	180,250,109	141,069,185

The province-wise disclosure is made based on the location of the branch from which the facilities have been disbursed.

25.5 Allowance for Impairment Charges for Loans and Receivables to Other Customers Accounting Policy

The Bank and the Group assess at each Reporting date, whether there is any objective evidence that loans and receivables to other customers are impaired. Loans and receivables to other customers are deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loans and receivables that can be reliably estimated.

The Bank and the Group review their individually-significant loans and receivables at each reporting date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, the management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and receivables to other customers that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes into account data from the loan portfolio such as, loan ownership types, levels of arrears, industries etc. and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation rate, interest rates, and exchange rates).

Individually Assessed Loans and Receivables to other Customers

The criteria used to determine that there is such objective evidence includes:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realization; and
- a significant downgrading in credit rating by an external credit rating agency.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the Statement of Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Such interest income is recorded as part of 'interest income'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collectively Assessed Loans and Receivables to other Customers

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the credit risk characteristics such as asset type, industry, past-due status and other relevant factors.

Impairment is assessed on a collective basis in two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- For homogeneous groups of loans that is not considered individually significant.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

25.5 (a) Allowance for Impairment Charges for Loans and Receivables to Other Customers

	BANK & GROUP									
	Long-term Loans LKR '000	Medium and Short-term Loans LKR '000	Overdrafts LKR '000	Trade Finance Loans LKR '000	Consumer Loans LKR '000	Leasing & Hire Purchases LKR '000	Housing Loans LKR '000	Pawning LKR '000	Staff Loans LKR '000	Total LKR '000
As at 1 January 2014	803,478	913,571	1,231,378	620,062	359,588	84,441	36,698	128,688	9,568	4,187,472
Charges/(reversals) for the year	500,618	289,444	91,205	(209,658)	175,772	64,942	(4,273)	(59,310)	61	848,801
Amounts written-off	-	-	(22,070)	-	-	-	-	-	-	(22,070)
As at 31 December 2014	1,304,096	1,203,015	1,300,513	410,404	535,360	149,383	32,425	69,378	9,629	5,014,203
Individual impairment	268,304	910,763	788,786	261,757	-	1,085	-	49,741	9,154	2,289,590
Collective impairment	1,035,792	292,252	511,727	148,647	535,360	148,298	32,425	19,637	475	2,724,613
Total	1,304,096	1,203,015	1,300,513	410,404	535,360	149,383	32,425	69,378	9,629	5,014,203
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	3,222,626	6,341,040	1,880,602	5,849,401	-	191,551	-	179,955	9,154	17,674,329
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	1,450,046	1,753,998	896,769	1,141,446	-	7,370	-	128,766	9,154	5,387,549
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	1,181,742	843,235	107,983	879,689	-	6,285	-	79,025	-	3,097,959

BANK & GROUP										
	Long-term Loans LKR '000	Medium and Short-term Loans LKR '000	Overdrafts LKR '000	Trade Finance Loans LKR '000	Consumer Loans LKR '000	Leasing & Hire Purchases LKR '000	Housing Loans LKR '000	Pawning LKR '000	Staff Loans LKR '000	Total LKR '000
As at 1 January 2013	930,383	449,089	797,844	359,060	280,155	49,735	42,763	7,947	6,146	2,923,122
Charges/(reversals) for the year	204,151	464,482	433,534	261,002	79,433	34,706	(6,065)	120,741	3,422	1,595,406
Amounts written-off	(331,056)	-	-	-	-	-	-	-	-	(331,056)
As at 31 December 2013	803,478	913,571	1,231,378	620,062	359,588	84,441	36,698	128,688	9,568	4,187,472
Individual impairment	194,309	717,745	552,936	340,580	-	3,233	-	10,134	9,128	1,828,065
Collective impairment	609,169	195,826	678,442	279,482	359,588	81,208	36,698	118,554	440	2,359,407
Total	803,478	913,571	1,231,378	620,062	359,588	84,441	36,698	128,688	9,568	4,187,472
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	2,356,833	2,635,835	1,049,859	1,780,766	-	178,814	-	14,886	9,128	8,026,121
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	705,826	1,278,155	661,878	600,480	-	8,084	-	14,886	9,128	3,278,437
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	511,517	560,410	108,942	259,900	-	4,851	-	4,752	-	1,450,372

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000

25.5 (b) Movements in the Allowances for Individual and Collective Impairment Charges during the year for Loans and Receivables to Other Customers

Individual Impairment

As at 1 January	1,828,065	979,186	1,828,065	979,186
Charge/(reversals) to Statement of Profit or Loss	461,525	1,179,935	461,525	1,179,935
Write-off during the year	-	(331,056)	-	(331,056)
As at 31 December	2,289,590	1,828,065	2,289,590	1,828,065

Collective Impairment

As at 1 January	2,359,407	1,943,936	2,359,407	1,943,936
Charge/(reversals) to Statement of Profit or Loss	387,276	415,471	387,276	415,471
Write-off during the year	(22,070)	-	(22,070)	-
As at 31 December	2,724,613	2,359,407	2,724,613	2,359,407
Total	5,014,203	4,187,472	5,014,203	4,187,472

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
25.6 Leasing and Hire Purchases				
Gross lease and hire purchase rentals receivables	14,671,685	10,468,941	14,671,685	10,468,941
Less: Unearned income	3,059,146	2,040,532	3,059,146	2,040,532
Total lease and hire purchase rentals receivables	11,612,539	8,428,409	11,612,539	8,428,409
(Less): Allowance for impairment charges [Note 25.6.(a)]	149,383	84,441	149,383	84,441
Total	11,463,156	8,343,968	11,463,156	8,343,968

	BANK & GROUP	
	2014 LKR '000	2013 LKR '000
25.6 (a) Allowance for Impairment Charges		
As at 1 January	84,441	49,735
Charges for the year	64,942	34,706
As at 31 December	149,383	84,441
Individual impairment	1,085	3,233
Collective impairment	148,298	81,208
Total	149,383	84,441
Gross amount of loans individually determined to be impaired, before deduction of the individually assessed impairment allowance	191,551	178,814
Gross amount of loans individually impaired, before deduction of the individually assessed impairment allowance	7,370	8,084
Gross amount of loans individually impaired, after deduction of the individually assessed impairment allowance	6,285	4,851

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000

25.6 (b) Movements in Individual and Collective Impairment Provision during the year for Lease & Hire Purchase Rentals Receivables

Individual Impairment

As at 1 January	3,233	–	3,233	–
Charge to Statement of Profit or Loss	(2,148)	3,233	(2,148)	3,233
As at 31 December	1,085	3,233	1,085	3,233

Collective Impairment

As at 1 January	81,208	49,735	81,208	49,735
Charge/(write back) to Statement of Profit or Loss	67,090	31,473	67,090	31,473
As at 31 December	148,298	81,208	148,298	81,208
Total	149,383	84,441	149,383	84,441

25.7 Maturity of Leasing and Hire Purchases

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
25.7(a) Gross Lease and Hire Purchase Rentals Receivables within One Year				
Total rental receivables	602,767	412,692	602,767	412,692
(Less): Allowance for impairment charges	(48,123)	(29,265)	(48,123)	(29,265)
Interest in suspense	(82,559)	(68,242)	(82,559)	(68,242)
Unearned income	(22,829)	(11,848)	(22,829)	(11,848)
Net rentals receivables within one year	449,256	303,337	449,256	303,337
25.7(b) Gross Lease and Hire Purchase Rentals Receivables after One Year				
Total rental receivables	14,197,184	10,164,395	14,197,184	10,164,395
(Less): Allowance for impairment charges	(101,260)	(55,176)	(101,260)	(55,176)
Interest in suspense	(45,707)	(39,904)	(45,707)	(39,904)
Unearned income	(3,036,317)	(2,028,684)	(3,036,317)	(2,028,684)
Net rentals receivables after one year	11,013,900	8,040,631	11,013,900	8,040,631
Total	11,463,156	8,343,968	11,463,156	8,343,968

26. Financial Investments - Loans and Receivables

Accounting Policy

Financial investments - Loans and receivables include government securities, unquoted debt instruments and securities purchased under resale agreements and quoted debentures. After initial measurement, these are subsequently measured at amortized cost using the EIR, less provision for impairment. The amortization is included in interest income in the Statement of Profit or Loss. The losses arising from impairment are recognized in the Statement of Profit or Loss in impairment charges for loans and other losses.

Securities Purchased Under Resale Agreements

The Bank and the Group purchase a financial asset and simultaneously enter into an agreement to resell the asset (or similar asset) at a fixed price at a future date. The arrangement is accounted for as a financial asset in the Financial Statements of the Bank and the Group, reflecting the transactions economic substance as a loan granted by the Bank and the Group. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method with the corresponding interest receivable being recognized in the Statement of Profit or Loss.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Sri Lanka Development Bonds	13,662,172	10,781,368	13,662,172	10,781,369
Redeemable cumulative preference shares	69,421	136,262	69,421	136,262
Securitized	-	-	-	91,698
Quoted debentures	-	-	381,048	854,943
Securities purchased under resale agreements	24,570,835	4,919,825	24,570,835	4,927,429
Total	38,302,428	15,837,455	38,683,476	16,791,701

There were no securities purchased under resale agreements which were pledged as collateral for borrowings under repurchase agreements as at 31 December 2014. (2013 - LKR 4,920 million).

27. Financial Investments - Available-for-Sale

Accounting Policy

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss.

Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Bank and the Group have not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealized gains and losses are recognized directly in equity (Other Comprehensive Income) in the 'Available-for-Sale Reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the Statement of Profit or Loss in 'net gain/(loss) from financial investments'. Where the Bank and the Group hold more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the Effective Interest Rate (EIR).

Dividends earned whilst holding available-for-sale financial investments are recognized in the Statement of Profit or Loss as 'other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the Statement of Profit or Loss in 'impairment for loans and receivables and other losses' and is removed from the 'Available-for-Sale Reserve'.

Impairment of Financial Investments - Available-for-Sale

The Bank and the Group review their debt securities classified as available-for-sale investments to assess whether they are impaired by performing a counter party risk assessment at each Reporting date.

The Bank and the Group also record impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank and the Group identify facilities which have been impaired for more than six months and considers impairment adjustments if the impairment is more than 20% of the carrying value of the investment.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Sri Lanka Government Securities - Treasury Bills	5,068,917	582,449	5,068,917	582,449
Sri Lanka Government Securities - Treasury Bonds	11,891,025	4,889,272	11,891,025	4,889,272
Sovereign Bonds	–	505,939	–	505,939
Quoted ordinary shares	–	–	812,550	–
Non-quoted ordinary shares	100,360	4,790	285,360	189,790
Total	17,060,302	5,982,450	18,057,852	6,167,450

Financial investments available-for-sale, pledged as collateral amounted to LKR 16,960 million as at 31 December 2014 (2013 - LKR 2,657 million).

The majority of non-quoted ordinary shares include share investments that have been made primarily for the regulatory purpose. Such investments are recorded at cost due to unavailability of information to value such investments at fair value.

28. Financial Investments Held-to-Maturity

Accounting Policy

Financial investments - held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank and the Group have the intention and ability to hold to maturity. After initial measurement, financial investments - held-to-maturity are subsequently recorded at amortized cost using the EIR, less impairment. The amortization is included in 'interest income' in the Statement of Profit or Loss.

If the Bank and the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as 'available-for-sale'. Furthermore, the Bank and the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Sri Lanka Government Securities - Treasury Bills	–	5,620,318	–	5,620,318
Sri Lanka Government Securities - Treasury Bonds	7,052,992	10,379,471	7,052,992	10,379,471
Debentures	1,917,971	1,602,460	3,114,333	2,460,802
Total	8,970,963	17,602,249	10,167,325	18,460,591

Financial Investments held-to-maturity, pledged as collateral amounted to LKR 7,052 million as at 31 December 2014 (2013 - Nil).

29. Investments - Held-for-Sale

Accounting Policy

Non-current assets and disposal groups (including both the assets and liabilities of the disposal groups) are classified as Investments - 'held-for-sale' when their carrying amounts will be recovered principally through sale, they are available-for-sale in their present condition and their sale is highly probable. Non-current assets held-for-sale and disposal groups are measured at the lower of their carrying amount and fair value less cost to sell, except for those assets and liabilities that are not within the scope of the measurement requirements of SLFRS 5 - 'Non-current Assets Held-for-Sale and Discontinued Operations' such as deferred taxes, financial instruments, investment properties, insurance contracts and assets and liabilities arising from employee benefits. These are measured in accordance with the accounting policies described above. Immediately before the initial classification as 'held-for-sale', the carrying amounts of the asset (or assets and liabilities in the disposal group) are measured in accordance with applicable SLFRSs. On subsequent remeasurement of a disposal group, the carrying amounts of the assets and liabilities noted above that are not within the scope of the measurement requirements of SLFRS 5 are remeasured in accordance with applicable SLFRSs before the fair value less costs to sell of the disposal group is determined.

Investments - Held-for-Sale includes the investment in NDB Venture Investment (Pvt) Ltd., an associate company, which is under liquidation. A special resolution has been passed by the Board of Directors of the Company to wind up the affairs voluntarily and appointed the liquidator, for the distribution of the assets during the year 2015. The amount shown in the Statement of Financial Position is the fair value of the investment which the Bank will receive at the disposal date an impairment provision has not been made as sufficient liquidity assets are available in the Financial Statements of the Company as at 31 December 2014.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
NDB Venture Investments (Pvt) Ltd.	18,525	–	33,301	–
Total	18,525	–	33,301	–

30. Investments in Subsidiary Companies

Accounting Policy

Investments in subsidiaries are accounted at cost less impairment in the Financial Statements of the Bank. The net assets of each subsidiary company are reviewed at each Reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognized to the extent of its net assets loss.

Corporate Status	Percentage Holding %	2014 Cost LKR '000	Percentage Holding %	2013 Cost LKR '000	
30.1 Bank					
NDB Capital Holdings PLC	de-listed	99.9	1,748,141	99.6	1,748,142
Development Holdings (Pvt) Ltd.	Non-quoted	58.7	228,150	58.7	228,150
NDB Capital Ltd.	Non-quoted	77.8	130,673	77.8	130,673
Less: Allowance for impairment of investments (Note 30.2)			(106,674)		(69,380)
Total			2,000,290		2,037,585

NDB Capital Holdings PLC was officially de-listed from the Colombo Stock Exchange on 26 January 2015. Accordingly the change in the name of the Company would come into effect upon the issuance of the new certificate of Incorporation from the Registrar of Companies.

	2014 LKR '000	2013 LKR '000
30.2 Movement in the Allowance for Impairment of Investments		
As at 1 January	69,380	48,500
Charge to Statement of Profit or Loss	37,294	20,880
As at 31 December	106,674	69,380

30.3 Summarized Financial Information of the NDB Group's Investments in Subsidiaries

	Total	NDB Investment Bank Ltd.	NDB Capital Ltd.	NDB Capital Holdings PLC	NDB Securities (Pvt) Ltd.	Development Holdings (Pvt) Ltd.	NDB Wealth Management Ltd.
2014							
Total assets	10,082,798	564,784	47,917	6,167,361	516,325	2,215,899	570,512
Total liabilities	437,375	32,378	17,555	70,187	201,212	69,004	47,039
Net assets	9,645,423	532,406	30,362	6,097,174	315,113	2,146,895	523,473
Gross income	1,797,518	169,912	22,872	755,126	166,539	335,746	347,323
Profits	1,159,406	60,329	(51,901)	664,864	25,555	288,449	172,110
2013							
Total assets	9,633,423	602,217	98,563	5,745,245	779,609	2,006,019	401,770
Total liabilities	759,964	107,017	16,992	46,403	489,151	59,994	40,407
Net assets	8,873,459	495,200	81,571	5,698,842	290,458	1,946,025	361,363
Gross income	1,802,517	376,290	58,666	784,331	107,744	256,211	219,275
Profits	1,151,031	176,671	6,279	681,216	6,764	193,484	86,617

30.4 The Bank has a 100% holding in NDB Industrial Estates (Pvt) Ltd., in which company, LKR 30 has been invested as share capital. The Company is currently under liquidation.

30.5 NDB Capital Holdings PLC entered into a shareholders' agreement with NDB Zephyr Partners Ltd. on 15 December 2014 to invest LKR 49.61 million in 60% ordinary shares and 60% redeemable preference shares in NDB Zephyr Partners Ltd., a Management Company based in Mauritius, which manages Sri Lanka's largest country dedicated private equity fund. Accordingly, the equity investment took place on 2 January 2015.

31. Investments in Associate Companies

Accounting Policy

The Group's investments in its associate companies are accounted for using the equity method. An associate is an entity in which the Group has significant influence. Under the equity method, the investment in the associate is carried in the Statement of Financial Position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Statement of Profit or Loss reflects the Group's share of the results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the Statement of Changes in Equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Financial Statements of the associate companies are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the Accounting Policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Group determines at each Reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of associate companies profits/(losses)' in the Statement of Profit or Loss.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the Statement of Profit or Loss.

	Corporate Status	Percentage Holding %	2014 Cost LKR '000	Percentage Holding %	2013 Cost LKR '000
31.1 Bank					
Maldives Finance Leasing Co. (Pvt) Ltd.	Non-quoted	–	–	35	165,462
NDB Venture Investments (Pvt) Ltd.	Under liquidation	–	–	50	18,525
Ayojana Fund (Pvt) Ltd.	Under liquidation	50	100	50	100
Less: Allowance for impairment of investments (Note 31.2)			(100)		(122,120)
Total			–		61,967

The Board of Directors of the Bank, at its meeting held on 20 March 2014, approved the divestiture of its investment in 224,875 shares amounting to 35% of the shares in Maldives Finance Leasing Company (Pvt) Ltd. to Tree Top Investments (Pvt) Ltd., a company incorporated in the Republic of Maldives. Accordingly, the divestment took place during April 2014. The net realized gain by the Bank on the divestment amounted to LKR 96 million.

	2014 LKR '000	2013 Cost LKR '000
--	------------------	--------------------------

31.2 Movement in the Allowance for Impairment of Investments

As at 1 January	122,120	165,562
Reversal to Statement of Profit or Loss	(122,120)	(43,442)
As at 31 December	–	122,120

	Corporate Status	Percentage Holding %	As at 31.12.2014 LKR '000	As at 31.12.2013 LKR '000
--	------------------	----------------------	------------------------------	------------------------------

31.3 Group

Maldives Finance Leasing Co. (Pvt) Ltd.	Non-quoted	35	–	43,443
NDB Venture Investments (Pvt) Ltd. (under liquidation)	Non-quoted	50	–	33,301
Total			–	76,744

	2014 LKR '000	2013 Cost LKR '000
--	------------------	--------------------------

31.4 Summarized Financial Information of the NDB Group's Investments in its Associate companies

Total assets	–	397,232
Total liabilities	–	206,497
Net assets	–	190,724
Gross income	–	116,204
Profits	–	49,220

32. Investment Property

Accounting Policy

Distinction Between Investment Properties and Owner-Occupied Properties

The Bank and the Group determine whether a property qualifies as an investment property by considering whether the property generates cash flows largely independently of the other assets held by the entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Bank and the Group account for the portions separately. If the portions cannot be sold separately, the property is accounted for as an investment property only if as an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. The Bank and the Group consider each property separately in making its judgment.

Valuation of Investment Properties

The Land and Building of Development Holdings (Pvt) Ltd., which is held to earn rental income and for capital appreciations have been classified as an 'investment property', and is reflected at fair value.

Investment properties are initially recognized at cost. Subsequent to the initial recognition, the investment properties are stated at fair values. The Bank and the Group engage an External Independent Valuer, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, to determine the fair value of land and building. In estimating the fair values, the Independent Valuer considers current market prices of similar assets, so as to reflect market conditions at the Reporting date. Gains or losses arising from changes in the fair values are included in the Statement of Profit or Loss, in the year in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Investment properties are derecognized when disposed of or permanently withdrawn from use because no future economic benefits are expected. Any gains or losses on retirement or disposal are recognized in the Statement of Profit or Loss in the year of retirement or disposal.

	GROUP	
	2014 LKR '000	2013 LKR '000
As at 1 January	1,383,693	1,295,693
Change in the fair value during the year	162,000	88,000
As at 31 December	1,545,693	1,383,693

Basis of Valuation

Investment properties are stated at fair value, which has been determined based on valuations performed by a Professional Valuer Mr A A M Fathihu, B.Sc. (Hons.), EMV, FIV Sri Lanka.

The income approach using the current market rent including passing rents has been used as the methodology by the valuer to value the Investment Property as recommended by SLFRS 13 - 'Fair Value measurements'.

Significant Assumptions Used for the Valuation

- Outgoing at 40% of estimated rent (2013 - 40%)
- Capitalize YP at 16% (2013 - 6.35%)

33. Intangible Assets

Accounting Policy

The intangible assets of the Bank and the Group include the value of computer software and software under development. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank and the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the year ended 31 December 2014 and 2013 is given below.

Computer software - 5 years.

Intangible assets are derecognized on disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is included in the Statement of Profit or Loss in the year in which the asset is derecognized.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
33.1 Computer Software				
Cost/Valuation				
As at 1 January	507,344	485,769	572,407	548,728
Additions during the year	67,330	23,330	92,138	25,573
Disposals during the year	(4,129)	(1,755)	(5,844)	(1,894)
Transfers/adjustments	(5,539)	–	(5,539)	–
As at 31 December	565,006	507,344	653,162	572,407
Depreciation/Amortization				
As at 1 January	292,128	213,455	320,938	230,004
Charge for the year	77,190	78,807	94,050	91,068
Disposals during the year	(3,966)	–	(5,418)	–
Transfers/Adjustments	–	(134)	–	(134)
As at 31 December	365,352	292,128	409,570	320,938
Net book value as at 31 December (a)	199,654	215,216	243,592	251,469

33.2 Software Under Development

Cost/Valuation

As at 1 January	45,209	–	45,209	–
Additions during the year	63,621	48,285	63,621	48,285
Transfers/Adjustments	(55,352)	(3,076)	(55,352)	(3,076)
As at 31 December (b)	53,478	45,209	53,478	45,209
Net book value of total intangible assets (a) + (b)	253,132	260,425	297,070	296,678

34. Property, Plant & Equipment

Accounting Policy

Change in the Accounting Policy

Revaluation of Freehold Land and Buildings (Property, Plant & Equipment)

The Bank and the Group reassessed their accounting policy for property, plant & equipment with respect to measurement of certain classes of property, plant & equipment after initial recognition. The Bank and Group have previously measured all property, plant & equipment using the 'cost model' as set out LKAS 16.30, whereby after initial recognition of the asset classified as property, plant & equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

However, during the current year the Bank and the Group elected to change the method of accounting for freehold land and buildings classified under property, plant & equipment to the 'revaluation model', since the Bank and Group believe that the revaluation model, more effectively demonstrates the financial position of freehold land and buildings.

After the initial recognition, the Bank and the Group use the revaluation model, whereby, land and buildings will be measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Bank and the Group applied the exemptions in LKAS 8; 'Accounting Policies and changes in Accounting Estimates and Errors', which exempts this change in accounting policy from retrospective application and extensive disclosure requirements.

Basis of Recognition

Property, plant & equipment are recognized, if it is probable that future economic benefits associated with the asset will flow to the Bank and the Group and the cost of the asset can be reliably measured.

Basis of Measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the assets and subsequent cost as explained below. The cost of self-constructed assets includes the cost of the materials and direct labour, any other cost directly attributable to bringing the assets to a working condition for its intended use and cost of dismantling and removing the old items and restoring site on which they are located. Purchased software which is integral to the functionality of the related equipment is capitalized as part of computer equipment.

Cost Model

The Bank and the Group apply the 'Cost Model' to all property, plant & equipment other than freehold land and buildings and record at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Bank and the Group adopted the revaluation model for the entire class of freehold land and buildings for measurement during the year 2014. Such properties are carried at revalued amounts, being their fair value at the reporting date, less any subsequent accumulated depreciation on land and buildings and any accumulated impairment losses charged subsequent to the date of the valuation.

Freehold land and buildings of the Bank and the Group are revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the Reporting date.

The Bank and the Group engage an Independent Valuer to determine the fair value of freehold land and buildings. In estimating the fair values, the Independent Valuer considers current market prices of similar assets.

Subsequent Cost

There are costs that are recognized in the carrying amount of an item if it is probable that the future economic benefits embodied within that part will flow to the Bank and the Group and it can be reliably measured.

Derecognition

An item of property, plant & equipment is derecognized upon disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss in the year, the asset is derecognized.

Useful Life Time of Property, Plant & Equipment and Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from when the assets are available for use, since this method closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The Bank and the Group review the residual values, useful lives and methods of depreciation of property, plant & equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

The estimated useful lives of the assets for the year ended 31 December 2014 and 2013, are as follows:

Buildings/improvements	20 years
Motor vehicles	4 years
Furniture and office equipment	5 years
Computer equipment	5 years

The depreciation rates are determined separately for each significant part of the assets and depreciation is provided proportionately for the completed number of months the asset is in use, if it is purchased or sold during the financial year.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and is adjusted, as appropriate.

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

	Freehold Land LKR '000	Freehold Buildings LKR '000	Computer Equipment LKR '000	Motor Vehicles LKR '000	Office Equipment & Furniture LKR '000	Capital Work-in-Progress LKR '000	Total LKR '000
34.1 The Movement in Property, Plant & Equipment - Bank							
(a) Cost or Valuation							
As at 1 January 2013	165,016	618,746	540,223	172,492	453,446	–	1,949,923
Additions during the year	–	50,332	56,350	53,669	76,369	46,997	283,717
Disposals during the year	–	–	(4,827)	(22,095)	(235)	–	(27,157)
Transfers/adjustments	–	(362)	(136)	–	2,384	(43,574)	(41,688)
As at 31 December 2013	165,016	668,716	591,610	204,066	531,964	3,423	2,164,795
Additions during the year	–	30,913	89,567	198	81,566	59,802	262,046
Disposals during the year	–	(1,429)	(7,543)	(19,159)	(6,066)	–	(34,197)
Revaluation adjustment during the year	266,484	817,701	–	–	–	–	1,084,185
Transfers/adjustments	–	(301,216)	–	–	–	(44,173)	(345,389)
As at 31 December 2014	431,500	1,214,685	673,634	185,105	607,464	19,052	3,131,440
(b) Depreciation/Amortization							
As at 1 January 2013	–	398,550	314,746	88,433	291,997	–	1,093,726
Charge for the year	–	49,062	76,172	38,059	60,004	–	223,297
On disposals	–	–	(5,434)	(20,417)	(209)	–	(26,060)
Transfers/adjustments	–	(502)	(136)	–	1,580	–	942
As at 31 December 2013	–	447,110	385,348	106,075	353,372	–	1,291,905
Charge for the year	–	57,361	80,525	39,896	68,618	–	246,400
On disposals	–	(605)	(7,526)	(19,159)	(5,855)	–	(33,145)
Transfers/adjustments	–	(301,216)	–	–	–	–	(301,216)
As at 31 December 2014	–	202,650	458,347	126,812	416,135	–	1,203,944
Net book value as at 31 December 2014	431,500	1,012,035	215,287	58,293	191,329	19,052	1,927,496
Net book value as at 31 December 2013	165,016	221,606	206,262	97,991	178,592	3,423	872,890

Location	Extent (Perches)	Cost or Revaluation of Land LKR '000	Buildings (Square Feet)	Cost or Revaluation of Buildings LKR '000	Total Value LKR '000	Accumulated Depreciation LKR '000	Written Down Value LKR '000	As a % of Total Cost
Head Office - Dharmapala Mawatha No. 103A, Dharmapala Mawatha, Colombo 7	20.00	420,000	41,143	320,166	740,166	2,583	737,583	54.1
Head Office - Navam Mawatha No. 40, Navam Mawatha, Colombo 02	1.43	11,500	95,343	621,981	633,481	6,522	626,959	45.9
	21.43	431,500	136,486	942,147	1,373,647	9,105	1,364,542	100.0
Add: Improvement to buildings of the Bank branches					272,538	193,545	78,993	
Net book value as at 31 December 2014					1,646,185	202,650	1,443,535	

34.3 Freehold Land & Buildings on a Cost Basis

The carrying amount of Bank's revalued freehold land and buildings that would have been included in the Financial Statements and the assets being carried at cost less depreciation is as follows:

Location	Cost 2014 LKR '000	Accumulated Depreciation 2014 LKR '000	Net Book Value 2014 LKR '000	Cost 2013 LKR '000	Accumulated Depreciation 2013 LKR '000	Net Book Value 2013 LKR '000
Class of assets						
Freehold land	165,016	–	165,016	165,016	–	165,016
Freehold buildings	698,200	500,887	197,313	668,716	447,110	221,606
Total	863,216	500,887	362,329	833,732	447,110	386,622

	Freehold Land LKR '000	Freehold Buildings LKR '000	Computer Equipment LKR '000	Motor Vehicles LKR '000	Office Equipment & Furniture LKR '000	Capital Work-in- Progress LKR '000	Total LKR '000
--	------------------------------	-----------------------------------	-----------------------------------	-------------------------------	--	---	-------------------

34.4 The Movement in Property, Plant & Equipment - Group

(a) Cost or Valuation

As at 1 January 2013	165,016	923,053	581,802	233,305	590,109	–	2,493,285
Additions during the year	–	50,525	61,360	54,120	77,426	46,997	290,428
Disposals during the year	–	–	(4,827)	(22,095)	(235)	–	(27,157)
Transfers/adjustments	–	(362)	(136)	–	2,375	(43,574)	(41,697)
As at 31 December 2013	165,016	973,216	638,199	265,330	669,675	3,423	2,714,859
Additions during the year	–	30,913	98,210	41,424	93,768	59,802	324,117
Disposals during the year	–	(1,429)	(10,816)	(19,159)	(4,506)	–	(35,910)
Revaluation adjustment during the year	266,484	817,701	–	–	–	–	1,084,185
Transfers/adjustments	–	(301,216)	–	–	–	(44,173)	(345,389)
As at 31 December 2014	431,500	1,519,185	725,593	287,595	758,937	19,052	3,741,862

(b) Depreciation/Amortization

As at 1 January 2013	–	398,550	347,887	117,220	407,128	–	1,270,785
Charge for the year	–	50,115	81,971	47,976	113,509	–	293,571
On disposals	–	(1,372)	(5,434)	(20,417)	(209)	–	(27,432)
Transfers/adjustments	–	–	(136)	–	1,580	–	1,444
As at 31 December 2013	–	447,293	424,288	144,779	522,008	–	1,538,368
Charge for the year	–	77,586	86,019	51,965	75,570	–	291,140
On disposals	–	(605)	(10,731)	(20,339)	(7,402)	–	(39,077)
Disposals during the year	–	(301,216)	–	–	–	–	(301,216)
As at 31 December 2014	–	223,058	499,576	176,405	590,176	–	1,489,215
Net book value as at 31 December 2014	431,500	1,296,127	226,017	111,190	168,761	19,052	2,252,647
Net book value as at 31 December 2013	165,016	525,923	213,911	120,551	147,667	3,423	1,176,491

34.5 Fully Depreciated Property, Plant & Equipment

The initial cost of fully depreciated property, plant & equipment as at 31 December 2014, which are still in use as at 31 December 2014 are as follows:

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Computer equipment	247,999	209,304	278,814	218,254
Buildings	119,357	195,573	119,550	208,073
Motor vehicles	37,050	33,758	45,882	33,758
Office equipment and furniture	256,062	224,556	353,140	232,081
Total	660,468	663,191	797,386	692,166

35. Other Assets

Accounting Policy

The Bank and the Group classify all their other assets as 'other financial assets' and 'other non-financial assets'. Other assets mainly comprises of deposits and prepayments, unamortized staff costs and sundry receivables. Deposits are carried at historical cost less provision for impairment. Prepayments are amortized during the period in which they are utilized and are carried at historical less provision for impairment.

As all staff loans granted at below market interest rates, are recognized at fair value, the difference between the fair value and the amount disbursed was treated as day 1 difference. The Day 1 difference is classified as 'unamortized staff cost' and is amortized over the loan period by using the EIR. The staff loans are subsequently measured at amortized costs.

Other financial assets and other non-financial assets included under other assets are summarised below:

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Other financial assets (Note 35.1)	54,450	–	54,450	–
Other non-financial assets (Note 35.2)	1,399,283	1,189,391	1,821,885	1,458,737
Total	1,453,733	1,189,391	1,876,335	1,458,737

35.1 Other Financial Assets

Investment control account	54,450	–	54,450	–
	54,450	–	54,450	–

35.2 Other Non-Financial Assets

Sundry receivables	635,310	333,160	994,923	591,602
Deposits and prepayments	232,286	244,312	273,269	301,886
Unamortized staff cost (Note 35.3)	529,883	541,525	551,889	565,249
Employees Share Ownership Plan (Note 35.4)	–	68,747	–	–
Others	1,804	1,647	1,804	–
Total	1,399,283	1,189,391	1,821,885	1,458,737

35.3 Unamortized Staff Cost

As at 1 January 2014	541,525	445,842	565,249	466,562
Add: Adjustment for new grants and settlements	66,059	168,728	68,757	178,290
Charged to personnel expenses	(77,701)	(73,045)	(82,117)	(79,603)
As at 31 December 2014	529,883	541,525	551,889	565,249

35.4 The Colombo Stock Exchange (CSE), by Listing Rule 5.6 amended the rules relating to Employee Share Option Schemes (ESOS) and Employee Share Purchase Schemes (ESPS), by mandating that such schemes should result in the shares being offered to eligible employees for 'purchase' or 'subscription' in the case of ESOS and 'acquisition' in the case of ESPS, specifically prohibiting open ended schemes. In compliance with this ruling and the Transitional Provisions thereto, the Board of Directors of National Development Bank PLC (Bank) approved the dissolution of the NDB Employee Share Option Plan (ESOP) and the distribution of the ESOP shares amounting to 4,133,726 to the eligible employees of the Bank. Accordingly the unamortized cost on the ESOP has been charged to the Statement of Profit or Loss.

36. Due to Banks

Accounting Policy

Due to banks include call money borrowings and credit balances in Nostro accounts. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on these dues are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Borrowings from local banks	6,498,487	9,053,574	6,498,487	9,053,574
Due to foreign banks	530,855	1,399,512	530,855	1,399,512
Total	7,029,342	10,453,086	7,029,342	10,453,086

36.1 Due to Banks - By Currency

Local currency	3,450,598	505,918	3,450,598	505,918
Foreign currency	3,578,744	9,947,168	3,578,744	9,947,168
Total	7,029,342	10,453,086	7,029,342	10,453,086

37. Due to Other Customers

Accounting Policy

Due to other customers include non-interest bearing deposits, savings deposits, term deposits, margins and other deposits. Subsequent to initial recognition, deposits are measured at their amortized cost using the EIR method. Interest paid/payable on deposits are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000

37.1 Due to Other Customers - By Products

Savings deposits	24,056,643	20,737,295	24,056,642	20,737,295
Time deposits	115,167,079	97,457,473	114,866,084	97,100,708
Demand deposits	12,291,825	11,099,605	12,254,307	11,048,154
Margins	237,751	489,251	237,751	489,251
Other deposits	70,417	46,405	70,417	46,405
Total	151,823,715	129,830,029	151,485,201	129,421,813

	BANK				GROUP			
	2014 LKR '000	%	2013 LKR '000	%	2014 LKR '000	%	2013 LKR '000	%

37.2 Due to Other Customers - By Currency

Local Currency Deposits

Savings deposits	18,291,268	12	14,419,607	11	18,291,268	12	14,419,607	11
Time deposits	86,689,126	57	76,149,198	59	86,388,131	57	75,792,434	59
Demand deposits	10,073,086	7	9,081,419	7	10,035,568	7	9,029,968	7
Margins	181,050	-	462,539	-	181,050	-	462,539	-
Other deposits	29,031	-	16,681	-	29,030	-	16,680	-
Sub total	115,263,561	76	100,129,444	77	114,925,047	76	99,721,228	77

Foreign Currency Deposits

Savings deposits	5,765,375	4	6,317,688	5	5,765,375	4	6,317,688	5
Time deposits	28,477,953	19	21,308,275	16	28,477,953	19	21,308,275	16
Demand deposits	2,218,739	1	2,018,186	2	2,218,739	1	2,018,186	2
Margins	56,701	-	26,712	-	56,701	-	26,712	-
Other deposits	41,386	-	29,724	-	41,386	-	29,724	-
Sub total	36,560,154	24	29,700,585	23	36,560,154	24	29,700,585	23
Total	151,823,715	100	129,830,029	100	151,485,201	100	129,421,813	100

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000

37.3 Due to Other Customers - By Province

Western Province	137,661,581	118,274,186	137,323,068	117,865,969
North-Western Province	3,400,871	2,819,643	3,400,871	2,819,644
Southern Province	2,681,806	2,104,254	2,681,806	2,104,254
Central Province	2,683,919	2,374,189	2,683,919	2,374,189
Sabaragamuwa Province	2,596,387	1,926,321	2,596,387	1,926,321
Eastern Province	671,416	617,021	671,416	617,021
Northern Province	850,963	657,371	850,963	657,371
North-Central Province	524,847	544,081	524,847	544,081
Uva Province	751,925	512,963	751,924	512,963
Total	151,823,715	129,830,029	151,485,201	129,421,813

38. Debt Securities Issued and Other Borrowed Funds

Accounting Policy

Debt Securities issued and other borrowed funds represent the funds borrowed by the Bank and the Group for long-term and short-term liquidity funding requirements and include borrowings from concessionary credit lines, institutional borrowings, securities sold under repurchase agreements and non-quoted debentures. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on debt securities and borrowed funds are recognized in the Statement of Profit or Loss, under 'Interest Expenses'.

Securities Sold Under Repurchase Agreements

The Bank and the Group sell a financial asset and simultaneously enter into an agreement to repurchase the asset (or similar asset) at a fixed price at a future date. Such an arrangement is accounted for as a financial liability and the underlying asset continues to be recognized in the Financial Statements of the Bank and the Group, as the Bank and the Group retain substantially all risks and rewards of ownership. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method with the corresponding interest paid/payable being recognized in the Statement of Profit or Loss, under 'Interest Expenses'.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Concessionary credit lines	2,343,544	3,553,877	2,343,544	3,553,877
Refinance borrowings	3,398,459	3,460,599	3,398,459	3,460,599
Foreign borrowings	31,155,496	5,207,343	31,155,496	5,207,343
Securities sold under repurchase agreements	24,630,586	11,771,598	24,630,928	11,771,598
Local borrowings	27,290	27,290	27,290	27,290
Non-quoted debentures - (Note 38.1)	400,085	400,111	370,085	370,111
Total	61,955,460	24,420,818	61,925,802	24,390,818

38.1 Non-quoted Debentures

Non-quoted debentures consist of 400,000 unlisted unsecured redeemable debentures of LKR 1,000/- each issued by the Bank in 2011 of which details are given below:

	Interest Payable Frequency	Issue Date	Maturity Date	BANK		GROUP	
				2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Floating Rate Debenture							
2011-2016 - 3 month TB rate (Gross) +1% p.a.	Quarterly	30.06.2011	30.06.2016	110,000	110,000	110,000	110,000
2011-2016 - 3 month TB rate (Gross) +1% p.a.	Quarterly	18.07.2011	30.06.2016	50,000	50,000	50,000	50,000
2011-2016 - 3 month TB rate (Gross) +1% p.a.	Quarterly	19.07.2011	30.06.2016	40,000	40,000	40,000	40,000
2011-2016 - 3 month TB rate (Gross) +1% p.a.	Quarterly	21.07.2011	30.06.2016	200,085	200,111	170,085	170,111
				400,085	400,111	370,085	370,111

The maturity of the non-quoted debentures are given below:

Due within one year	85	111	85	111
Due after one year	400,000	400,000	370,000	370,000
Total	400,085	400,111	370,085	370,111

39. Deferred Tax Liabilities

Accounting Policy

Deferred tax is provided on temporary differences at the date of the Statement of Financial Position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply for the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the Statement of Financial Position.

Reconciliation of Net Deferred Tax Liability	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Deferred Tax Liabilities				
Accelerated depreciation for tax purposes	80,670	71,502	83,977	73,334
Revaluation of surplus on freehold buildings	230,729	–	230,729	–
Finance leases	453,037	350,737	453,037	350,737
Gains on financial investments - available-for-sale	7,791	41,482	24,881	58,572
Total	772,227	463,721	792,624	482,643
Deferred Tax Assets				
Defined benefit plans	69,273	47,603	76,577	46,915
Carry forward loss on leasing business	64,929	62,243	64,929	62,243
Loss on other operations	–	–	22,625	7,591
Deferred expenses to be claimed in income tax liability of future years	12,103	–	12,103	–
Allowance for impairment charges	6,455	41,443	6,455	41,443
Total	152,760	151,289	182,689	158,192
Net deferred Tax Liability	619,467	312,432	609,935	324,451

Deferred tax charge to the statement of Profit or Loss and the statement of Comprehensive Income	Statement of Profit or Loss				Statement of Comprehensive Income			
	BANK		GROUP		BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Deferred tax charge to the Statement of Profit or Loss and the Statement of Comprehensive Income								
Deferred Tax Liabilities								
Accelerated depreciation for tax purposes	9,167	14,489	10,643	15,999	–	–	–	–
Revaluation of buildings at fair value	–	–	–	–	230,729	–	230,729	–
Finance leases	102,298	112,169	102,298	112,169	–	–	–	–
Gains on financial investments - available-for-sale	–	–	–	–	(33,691)	41,482	(33,691)	58,572
Total	111,465	126,658	112,941	128,168	197,038	41,482	197,038	58,572
Deferred Tax Assets								
Defined benefit plans	(4,772)	(10,017)	(12,765)	(8,253)	(16,897)	(3,372)	(16,897)	(3,372)
Carry forward loss on leasing business	(2,686)	42,026	(2,686)	42,026	–	–	–	–
Loss on other operations	–	70,233	(15,034)	62,642	–	–	–	–
Deferred expenses to be claimed in income tax liability of future years	(12,103)	–	(12,103)	–	–	–	–	–
Provision for impairment losses	34,988	(34,452)	34,988	(34,452)	–	–	–	–
Total	15,427	67,790	(7,600)	61,963	(16,897)	(3,372)	(16,897)	(3,372)
Net impact	126,892	194,448	105,341	190,131	180,141	38,110	180,141	55,200

40. Employee Benefit Liabilities

Accounting Policy

Employee benefit liabilities include the provisions made for retirement gratuity and pension fund.

Retirement Gratuity

The costs of retirement gratuities are determined by a qualified actuary using projected unit credit method. Actuarial gains and losses are recognized as income or expense in the Statement of Comprehensive Income during the financial year in which it arose.

Pension Fund

The Bank operates an approved employee non-contributory pension fund for the payment of pensions to members of its permanent staff who qualify for such payments when retiring. Employees who joined since 1999 are not covered under the said pension scheme. These employees are entitled to retirement gratuity. Up to 31 December 2002, annual contributions to the pension fund was payable by the Bank based on a percentage of gross salaries, as stipulated in the pension deed. However, following the formulation of a revised pension deed, which has been approved by the Department of Inland Revenue, the contributions in subsequent years are determined on the basis of an actuarial valuation carried out each year.

Basis of Measurement

The cost of the defined benefit plans (retirement gratuity and pension fund) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The assumptions used to arrive in defined benefit obligation is given in Note 40.1 (b) and 40.2 (b).

In determining the appropriate discount rate, the Management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and the Bank's and the Group's policy on salary revisions.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
40.1 Provision for Retirement Gratuity				
As at 1 January	170,008	122,191	214,830	165,633
Provision made during the year				
Statement of Profit or Loss [Note 40.1 (a)]	44,101	40,990	53,487	42,370
Statement of Comprehensive Income [Note 40.1 (a)]	60,348	12,042	60,348	12,042
Contribution made for retirement gratuity	104,449	53,032	113,835	54,412
Benefits paid by the plan	(27,446)	(5,215)	(27,446)	(5,215)
As at 31 December	247,011	170,008	301,219	214,830
40.1 (a) Contribution Made for Retirement Gratuity				
Current service cost	25,400	23,246	25,400	23,246
Interest cost	18,701	17,744	28,087	19,124
Amount recognised in the Statement of Profit or Loss	44,101	40,990	53,487	42,370
Recognition of transitional liability/(asset)	38,540	25,672	38,540	25,672
Liability experience loss/(gain)	21,808	3,942	21,808	3,942
Liability loss/(gain) due to changes in assumptions	–	(17,572)	–	(17,572)
Amount recognised in the Statement of Comprehensive Income	60,348	12,042	60,348	12,042

40.1 (b) Assumptions and the sensitivity of the assumptions used for the provision of retirement gratuity

An actuarial valuation of the retirement gratuity liability was carried out as at 31 December 2014 and 31 December 2013 by Messrs Piyal S Goonetilleke and Associates, a professional actuary.

The valuation method used by the Actuary to value the Liability is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

	31 December 2014	31 December 2013
Actuarial Assumptions		
Discount rate	9%	11%
Salary increment rate	7%	8%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age or age on valuation date, if greater	Normal retirement age or age on valuation date, if greater

Sensitivity of Assumptions Used in the Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Statement of Profit or Loss and the Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

		BANK			
		2014		2013	
Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment Rate	Sensitivity Effect on the Statement of Profit or Loss Increase/(Reduction) in Results for the year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million	Sensitivity Effect on Statement of profit or loss Increase/(Reduction) in results for the year LKR million	Sensitivity Effect on Employment Benefit obligation Increase/(Decrease) in the Liability LKR million
1%		21.79	(21.79)	15.47	(15.47)
(-1%)		(25.27)	25.27	(17.93)	17.93
	1%	(24.78)	24.78	(17.75)	17.75
	(-1%)	21.76	(21.76)	15.58	(15.58)

40.1 (c) The expected Benefit Payout in the future years for Retirement Gratuity

	2014 LKR '000	2013 LKR '000
Within the next 12 months	18,052	15,108
Between 2 and 5 years	176,414	132,492
Beyond 5 years	325,703	278,448

The expected benefits are estimated based on the same assumptions used to measure the benefit obligation of the Bank at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation is 12.5 years (2013 - 12.5 years).

40.2 Pension Fund

The amount recognized in the Statement of Financial Position is as follows:

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Present value of funded obligation as at 31 December	604,818	533,685	604,818	533,685
Fair value of plan assets as at 31 December	(670,398)	(634,172)	(670,398)	(634,172)
Retirement Benefit (Asset)/Liability*	(65,580)	(100,487)	(65,580)	(100,487)

* The over payment is recognized as pre-paid expenses in Other Assets.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
40.2 (a) Contribution made to the Pension Fund				
Current service cost	18,753	18,233	18,753	18,233
Interest cost	(11,590)	(12,784)	(11,590)	(12,784)
Amount recognized in the Statement of Profit or Loss	7,163	5,449	7,163	5,449
Assets loss/(gain) arising during the year	23,508	5,928	23,508	5,928
Liability experience loss	10,612	6,313	10,612	6,313
Liability loss/(gain) due to changes in assumptions	16,751	11,160	16,751	11,160
Difference between the return on plan assets	(6,391)	-	(6,391)	-
Effect of net assets recognition in the pension fund	34,907	-	34,907	-
Amount recognised in the Statement of comprehensive Income	79,387	23,401	79,387	23,401

40.2 (b) Assumptions and the sensitivity of the assumptions used for the Pension Fund

An actuarial valuation of the Pension Fund was carried out as at 31 December 2014 and 31 December 2013 by Messrs Piyal S Goonetilleke Associates, a professional actuary.

The valuation method used by the Actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

	2014	2013
Actuarial Assumptions		
Discount rate	10%	11%
Salary increment	6%	8%
Annual return on assets rate	7%	10%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age	Normal retirement age

Sensitivity of Assumptions Employed in the Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Statement of Profit or Loss and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate and the life expectancy on the profit or loss and employment benefit obligation for the year.

BANK					
Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment Rate	2014		2013	
		Sensitivity Effect on Statement of profit or loss Increase/(Reduction) in Results for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million	Sensitivity Effect on Statement of Profit or Loss Increase/(Reduction) in Results for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million
1%		54.73	(54.73)	47.87	(47.87)
(-1%)		(64.26)	64.26	(56.13)	56.13
	1%	(21.03)	21.03	(20.31)	20.31
	(-1%)	19.57	(19.57)	18.77	(18.77)

Increase/(Decrease) in Life Expectancy	2014		2013	
	Sensitivity Effect on Statement of profit or loss Increase/(Reduction) in Results for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million	Sensitivity Effect on Statement of Profit or Loss Increase/(Reduction) in results for the year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million
+ 1 Year	(7.81)	7.81	(3.19)	6.19
- 1 Year	8.10	(8.10)	6.43	(6.43)

The major categories of plan assets of the fair value of the total plan assets are as follows:

	2014 LKR '000	2012 LKR '000
Investments in Government Securities	537,270	515,276
Investment in fixed deposits	113,500	112,893
	650,770	628,169

40.2 (c) The Expected Benefit Payout from the Pension Fund in the Future Years

Within the next 12 months	32,866	33,958
Between 2 and 5 years	202,991	156,983
Beyond 5 years	432,625	321,421

The expected benefits are based on the same assumptions used to measure the Bank's and the Group's benefit obligation at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation is 24 years as at 31 December 2014 (2013 - 26.6 years).

40.2 (d) The total amount recognised in the Statement of comprehensive Income relating to the Employee Benefit liability.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Retirement Gratuity [Note 40.2 (a)]	79,387	23,401	79,387	23,401
Pension Fund [Note 40.1 (a)]	60,348	12,042	60,348	12,042
Total	139,735	35,443	139,735	35,443

41. Other Liabilities

Accounting Policy

Other liabilities include other financial liabilities and other non-financial liabilities. Other non-financial liabilities include fees, expenses and other amounts payable for deposit insurance, dividend payable and other provisions. These liabilities are recorded at amounts expected to be payable at the reporting date.

Provisions are recognized when the Bank and the Group have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Board of Directors.

Other financial liabilities and other non-financial liabilities included under other liabilities are summarised below:

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Other financial liabilities (Note 41.1)	2,423,677	701,912	2,423,677	701,912
Other non-financial liabilities (Note 41.2)	3,752,970	2,983,753	3,937,165	3,148,377
Total	6,176,647	3,685,665	6,360,842	3,850,289

41.1 Other Financial Liabilities

Unpresented cheques/pay orders	2,387,210	667,182	2,387,210	667,182
Others	36,467	34,730	36,467	34,730
Total	2,423,677	701,912	2,423,677	701,912

41.2 Other Non-Financial Liabilities

Accrued expenses	571,246	575,079	772,389	631,942
Provision for deposit insurance	34,250	34,500	34,500	34,500
Dividend payable (Note 41.3)	51,428	40,656	51,428	40,656
Other liabilities	3,096,046	2,333,518	3,078,848	2,441,279
Total	3,752,970	2,983,753	3,937,165	3,148,377

	BANK & GROUP	
	2014 LKR '000	2013 LKR '000
41.3 Dividend Payable		
Balance as at 1 January	40,656	249,201
Interim dividend declared for the prior year	–	821,010
Final dividend declared for the prior year	824,245	1,642,019
Interim dividend declared for the current year	1,155,587	823,465
Reversal of dividends declared in prior years [Note 41.3.1 (a)]	(2,298)	(64,560)
Dividend paid	(1,966,762)	(3,430,479)
As at 31 December	51,428	40,656

41.3 (a) Reversal of Dividends Declared in Prior Years

Reversal of dividends declared in previous years represents unclaimed dividends which are written back after six years and cancellation of dividends of unregistered shareholders.

42. Subordinated Term Debts

Accounting Policy

Subordinated term debts represent the funds borrowed by the Bank and the Group for long-term and short-term funding requirements and include foreign institutional borrowings and quoted debentures. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on subordinated debts are recognized in the Statement of Profit or Loss. The direct costs attributable to these term debts are amortized over the term of the loan and are offset, in the presentation of the subordinate term debts in the Statement of Financial Position.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
As at 1 January	11,682,674	2,188,350	11,682,674	2,188,350
Additions during the year	–	9,954,542	–	9,954,542
Redemptions during the year	(563,082)	(511,650)	(563,082)	(511,650)
Balance before adjusting for amortized interest	11,119,592	11,631,242	11,119,592	11,631,242
Net effect on amortized interest payable	29,847	51,432	29,847	51,432
As at 31 December (Note 42.1)	11,149,439	11,682,674	11,149,439	11,682,674

42.1 Subordinated Term Debts - by Products

Repayment Terms	Issued Date	Maturity Date	Rate of Interest %	Amount in FCY	BANK		GROUP		
					2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	
42.1 (a) Term Loans									
Nederland's Financierings Maatschappij Voor Ontwikkelingslanden N.V. (FMO)									
FMO Loan I	Semi Annually	20 Jan. 2006	1 Oct 2015	AWDR +5%	EUR 7,500,000	190,797	384,467	190,797	384,467
FMO Loan II	Semi Annually	18 Dec. 2007	15 Oct 2017	Avg (6 months AWDR, 6 months T Bill rate) + 3%	USD 15,000,000	1,000,911	1,343,665	1,000,911	1,343,665
Total (a)						1,191,708	1,728,132	1,191,708	1,728,132

Interest Payable Frequency	Issued Date	Maturity Date	BANK		GROUP		
			2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	
42.1 (b) Debentures							
Fixed Rate Debenture							
Type A - 13.0% - (60 Months)	Semi Annually	19 December 2013	18 December 2018	1,242,526	1,237,065	1,242,526	1,237,065
Type B - 13.40% - (60 Months)	Annually	19 December 2013	18 December 2018	1,522,148	1,521,968	1,522,148	1,521,968
Type C - 13.90% - (120 Months)	Annually	19 December 2013	18 December 2023	3,620,874	3,620,995	3,620,874	3,620,995
Type D - 14.00% - (144 Months)	Annually	19 December 2013	18 December 2025	3,572,183	3,574,514	3,572,183	3,574,513
Total (b)				9,957,731	9,954,542	9,957,732	9,954,542
Total subordinated term debts (a)+(b)				11,149,439	11,682,674	11,149,439	11,682,674

The maturity of the subordinated term debts are given below:

Due within one year	511,650	511,650	511,650	511,650
Due after one year	10,637,789	11,171,024	10,637,789	11,171,024
	11,149,439	11,682,674	11,149,439	11,682,674

	BANK				GROUP			
	Number of Shares	2014 LKR '000	Number of Shares	2013 LKR '000	Number of Shares	2014 LKR '000	Number of Shares	2013 LKR '000
Issued and fully paid	164,693,034	1,172,904	164,201,902	1,093,095	160,559,308	943,746	164,201,902	1,093,095
Adjustment on Employee Share Ownership Plan	-	-	-	-	4,131,850	229,158	(4,133,726)	(229,158)
Adjustment on Equity Linked Compensation Plan	-	-	-	-	(491,132)	(79,809)	-	-
Issue of shares under the Equity Linked Compensation Plan (Note 43.2)	400,888	52,258	491,132	79,809	400,888	52,258	491,132	79,809
Total	165,093,922	1,225,162	164,693,034	1,172,904	164,600,914	1,145,353	160,559,308	943,746

43. Capital

	BANK & GROUP			
	2014 Number of Shares	2014 LKR '000	2013 Number of Shares	2013 LKR '000
43.1 Stated Capital	165,093,922	1,225,162	164,693,034	1,172,904

43.2 Issue of Shares Under the Equity Linked Compensation Plan (ELCP)

The Bank obtained approval of the shareholders at an Extraordinary General Meeting held in April 2010, to enable the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. Accordingly, the ELCP created a maximum of 3% of the ordinary voting shares, half of such shares are to be awarded as share options and the other half as share grants in equal proportions. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

43.2 (a) The details of the share grant and the share options made available to the relevant staff members are given below:

	2014	2013
Share Grant		
Award 01 - (01 July 2010) - vested on 30 June 2013		
Numbers of ordinary shares awarded	491,132	491,132
Award 04 - (01 July 2013) - to be vested on 30 June 2016		
Numbers of ordinary shares awarded	491,132	491,132
Total number of shares granted under the share grant scheme	982,264	982,264
Share Option		
Award 01 - (01 July 2010) - exercisable from 1 July 2011 to 30 June 2014		
Number of shares allocated at a price of LKR 124.21	491,132	491,132
Number of shares exercised at a price of LKR 124.21	337,146	-
Number of shares cancelled	153,986	-
Award 04 - (01 July 2013) - exercisable from 1 July 2014 to 30 June 2017		
Number of shares allocated at a price of LKR 162.86	491,132	491,132
Number of shares exercised at a price of LKR 162.86	63,742	-
Number of shares to be exercised	427,390	-
43.2 (b) Expense arising from ELCP recognised in the Statement of Profit or Loss	46,504	32,323

43.2 (c) The following tables list the inputs to the models used for the award 4 (option plan)

Expected volatility (%) -	2%
Risk-free interest rate (%)	7.50%
Expected life of share options (years)	3
Exercise share price	162.86

43.2 (d) Number of shares issued to the eligible staff members during the year as per the ELCP is given below:

	BANK & GROUP			
	2014 Number of Shares	2014 LKR '000	2013 Number of Shares	2013 LKR '000
Award 01 - (1 July 2010)	337,146	41,877	491,132	79,809
Award 04 - (1 July 2013)	63,742	10,381	-	-
Total	400,888	52,258	491,132	79,809

44. Statutory Reserve Fund

The Statutory Reserve Fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of said reserve fund is equal to the stated capital of the Bank.

The balance in the Statutory Reserve Fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
As at 1 January	958,527	878,718	958,527	878,718
Transferred from retained earnings (Note 45)	52,258	79,809	52,258	79,809
As at 31 December	1,010,785	958,527	1,010,785	958,527

	2014			2013		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
As at 1 January	5,805,707	9,847,553	15,653,260	5,805,707	6,240,549	12,046,256
Total comprehensive income for the year	–	3,295,225	3,295,225	–	7,691,165	7,691,165
Transferred from/(to) Investment Fund Account	–	1,706,751	1,706,751	–	(782,419)	(782,419)
Transferred to Statutory Reserve Fund	–	(52,258)	(52,258)	–	(79,809)	(79,809)
Dividends paid and reversals of dividends of prior years	–	(1,977,534)	(1,977,534)	–	(3,221,933)	(3,221,933)
As at 31 December	5,805,707	12,819,737	18,625,444	5,805,707	9,847,553	15,653,260

45. Retained Earnings

(a) Bank

	2014			2013		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
As at 1 January	5,805,707	9,847,553	15,653,260	5,805,707	6,240,549	12,046,256
Total comprehensive income for the year	–	3,295,225	3,295,225	–	7,691,165	7,691,165
Transferred from/(to) Investment Fund Account	–	1,706,751	1,706,751	–	(782,419)	(782,419)
Transferred to Statutory Reserve Fund	–	(52,258)	(52,258)	–	(79,809)	(79,809)
Dividends paid and reversals of dividends of prior years	–	(1,977,534)	(1,977,534)	–	(3,221,933)	(3,221,933)
As at 31 December	5,805,707	12,819,737	18,625,444	5,805,707	9,847,553	15,653,260

	2014			2013		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
As at 1 January	5,805,707	14,926,094	20,731,801	5,805,707	16,410,347	22,216,054
Total comprehensive income for the year	–	4,011,426	4,011,426	–	2,599,908	2,599,908
Transferred from/(to) Investment Fund Account	–	1,706,751	1,706,751	–	(782,419)	(782,419)
Adjustment on Employee Share Ownership Plan	–	(161,060)	(161,060)	–	–	–
Adjustment on Equity Linked Compensation Plan	–	(13,301)	(13,301)	–	–	–
Transferred to Statutory Reserve Fund	–	(52,258)	(52,258)	–	(79,809)	(79,809)
Dividends paid and reversals of dividends of prior years	–	(1,977,535)	(1,977,535)	–	(3,221,933)	(3,221,933)
As at 31 December	5,805,707	18,440,117	24,245,824	5,805,707	14,926,094	20,731,801

(b) Group

	2014			2013		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
As at 1 January	5,805,707	14,926,094	20,731,801	5,805,707	16,410,347	22,216,054
Total comprehensive income for the year	–	4,011,426	4,011,426	–	2,599,908	2,599,908
Transferred from/(to) Investment Fund Account	–	1,706,751	1,706,751	–	(782,419)	(782,419)
Adjustment on Employee Share Ownership Plan	–	(161,060)	(161,060)	–	–	–
Adjustment on Equity Linked Compensation Plan	–	(13,301)	(13,301)	–	–	–
Transferred to Statutory Reserve Fund	–	(52,258)	(52,258)	–	(79,809)	(79,809)
Dividends paid and reversals of dividends of prior years	–	(1,977,535)	(1,977,535)	–	(3,221,933)	(3,221,933)
As at 31 December	5,805,707	18,440,117	24,245,824	5,805,707	14,926,094	20,731,801

	BANK			GROUP		
	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000

46. Other Reserves

46. (a) Current Year 2014

Revaluation Reserve (Note 46.1)	–	853,456	853,456	–	853,456	853,456
Available-for-Sale Reserve (Note 46.2)	106,669	(1,419)	105,250	150,614	11,741	162,355
Investment Fund Account (Note 46.3)	1,706,751	(1,706,751)	–	1,706,751	(1,706,751)	–
Share Based Payment Reserve (Note 46.4)	22,367	(2,124)	20,243	22,367	37,781	60,148
Cash Flow Hedge Reserve [Note 22.1 (c)]	–	397,852	397,852	–	397,852	397,852
Total	1,835,787	(458,986)	1,376,801	1,879,732	(405,921)	1,473,811

	BANK			GROUP		
	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000

46. (b) Previous Year 2013

Available-for-Sale Reserve (Note 46.2)		106,669	106,669	–	150,614	150,614
Investment Fund Account (Note 46.3)	924,332	782,419	1,706,751	924,332	782,419	1,706,751
Share Based Payment Reserve (Note 46.4)	–	22,367	22,367	–	22,367	22,367
Total	924,332	911,455	1,835,787	924,332	955,400	1,879,732

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000

46.1 Revaluation Reserve

Surplus on revaluation of freehold land and building	1,084,185	–	1,084,185	–
Deferred tax effect on revaluation surplus on freehold building	(230,729)	–	(230,729)	–
Net Revaluation Reserve	853,456	–	853,456	–

46.2 Available-for-Sale Reserve

As at 1 January	148,151	–	209,186	–
Net gains/(losses) on re-measuring financial investments - available-for-sale	459,062	148,151	472,222	209,186
Reclassification of retained earnings to Available-for-Sale Reserve	(494,172)	–	(494,172)	–
As at 31 December	113,041	148,151	187,236	209,186
Less tax on Available-for-Sale Reserve	(7,791)	(41,482)	(24,881)	(58,572)
Net Available-for-Sale Reserve	105,250	106,669	162,355	150,614

46.3 Investment Fund Account

As proposed in the 2011 Government Budget, as and when taxes are paid after 1 January 2011, licensed banks must make transfers to the Investment Fund Account to build up a permanent fund within the Bank. Accordingly, such account has been established and operated based on the guideline on the operation of the investment fund account issued by Central Bank of Sri Lanka on 29 April 2011 with the concurrence of the Commissioner General of Inland Revenue.

- (i) 8% of the profit calculated for the payment of Value Added Tax (VAT) on Financial Services on dates as specified in the VAT Act for payment of VAT.
- (ii) 5% of the profit before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payment of tax.

However, as per the circular issued by the Central Bank of Sri Lanka dated 31 July 2014, the operation of the Fund ceased with effect from 01 October 2014 and therefore the balance available in the Investment Fund Account was transferred to the retained earnings by the Bank on this date.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
As at 1 January	1,706,751	924,332	1,706,751	924,332
Transferred from retained earnings	124,983	782,419	124,983	782,419
Transferred to retained earnings	(1,831,734)	–	(1,831,734)	–
As at 31 December	–	1,706,751	–	1,706,751

Loans Granted by Utilizing the Funds in the Investment Fund Account

The loans disbursed by utilizing the Investment Fund Account balance, are included under Long-term loans in Note 25, Loans and Receivable to Other Customers.

	BANK & GROUP							
	Interest Rates	Tenure Years	Number of Loans Granted	2014 Total	Interest Rates	Tenure Years	Number of Loans Granted	2013 Total
	%			LKR '000	%			LKR '000

Sector

a. Cultivation of agriculture/ plantation crops	9.0 - 18.0	5 - 7	25	89,558	11.0 - 18.0	5 - 7	29	124,039
b. Factory/mills modernization			35	159,134			39	215,022
c. Small and medium enterprises			285	1,169,271			253	1,226,571
d. Information technology and BPO			–	–			1	1,514
e. Infrastructure development			1	497			2	3,125
f. Education			1	2,308			1	3,295
i. Construction of hotels			10	42,994			15	103,255
			357	1,463,762			340	1,676,821

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
46.4 Share Based Payment Reserve				
As at 1 January	22,367	–	22,367	–
Adjustments	(2,124)	22,367	(2,124)	22,367
Transferred during the year	–	–	39,905	–
As at 31 December	20,243	22,367	60,148	22,367

The share based payment reserve represents the fair value of the options available as per the Equity Linked Compensation Plan (Refer Note 43.2).

47. Non-Controlling Interests

Accounting Policy

Non-controlling interests represent the portion of profit and loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if this resulting in a deficit balance. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of net assets acquired is recognized as equity. Therefore no goodwill is recognized as a result of such transactions.

	GROUP	
	2014 LKR '000	2013 LKR '000
NDB Wealth Management Ltd.	1,989	1,373
NDB Capital Holdings PLC (de-listed)	23,169	21,663
NDB Capital Ltd.	6,740	17,336
Development Holdings (Pvt) Ltd.	887,528	804,486
NDB Securities (Pvt) Ltd.	2,023	1,901
NDB Investment Bank Ltd .	1,197	1,089
Total	922,646	847,848

48. Commitments and Contingencies

Accounting Policy

All discernible risks are accounted for in determining the amount of all known liabilities.

Commitments and contingencies represent possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured.

To meet the financial needs of customers, the Bank and the Group enter into various irrevocable commitments and contingent liabilities. These consist of the financial guarantees, letters of credit and forward foreign exchange contracts and other undrawn commitments to lend. The letters of credit and guarantees commit the Bank and the Group to make payments on behalf of customers in the event of a specific act, generally related to import or export of goods. The guarantees and standby letters of credit carry a similar credit risk to loans/contingent liabilities and are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
48.1 Business Commitments				
Undisbursed financing commitments	93,937,028	63,999,574	93,940,238	63,999,574
Guarantees	15,584,522	15,723,292	15,586,541	15,723,292
Performance and bid bonds	6,503,688	3,930,319	6,503,688	3,930,319
Letters of credit	7,521,595	7,287,156	7,521,595	7,287,156
Forward foreign exchange contracts	100,448,034	79,844,817	100,448,034	79,844,817
Acceptances	7,148,766	6,415,082	7,148,766	6,415,082
Total	231,143,633	177,200,240	231,148,862	177,200,240

48.2 Capital Commitments

The capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements is as follows:

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Approved and contracted for	85,240	57,700	85,240	57,700
Approved and not contracted for	104,160	–	104,160	–
Total	189,400	57,700	189,400	57,700

48.3 Litigation against the Bank

In the normal course of business, the Bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their loan agreements. As of the date of the Statement of Financial Position, twenty six clients have filed cases against the Bank. The Bank's legal counsel is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or the future operations of the Bank.

49. Fair Value of Financial Instruments

Accounting Policy

The following is a description of how fair values are determined for financial instruments and non-financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's and the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Financial Instruments

Derivatives - Assets and Liabilities

Derivative products are foreign exchange contracts and foreign exchange options which are valued using market observable inputs.

Financial Assets – Held-for-Trading

Financial assets - held-for-trading are measured at fair value and include government securities, equity securities and investments in unit trusts. The government securities are valued based on the market rates published by the money brokers. For equity securities, the Bank uses quoted market prices in active markets as at the reporting date. The unit trust investments are valued at unit prices published in active markets.

Financial Investments – Available-for-sale

Financial investments - Available-for-sale consist of non-quoted equities and government securities. The government securities are valued based on the market rates of the money brokers as at the reporting date and non-quoted equities are valued using valuation techniques available for similar investments.

Non-Financial Instruments

Property, Plant & Equipment

Valuation Model

The fair value of the freehold land and building presented in the Financial Statements is provided by an independent valuer based on the valuations carried out at the reporting date of 30 September 2014.

Freehold land - valuations performed by the valuer are based on the market approach (direct comparison method), for similar properties in the same location and conditions.

Freehold buildings - valuations performed by the valuer are based on the cost approach (current replacement cost).

Valuation Framework

The freehold land and buildings of the Bank and the Group are revalued every three years to ensure that the carrying amount does not differ materially from the fair values at the reporting date.

Fair Values of Financial Instruments and Non-Financial Instruments are determined according to the following hierarchy:

Level 1 - quoted market price (unadjusted): financial instruments with quoted prices in active markets

Level 2 - valuation techniques using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.

Level 3 - valuation techniques with significant unobservable inputs: This category includes all instruments valued using valuation techniques where one or more significant inputs are unobservable.

49. (a) Determination of Fair Value of Financial Instruments by Hierarchy

The following table shows an analysis of financial instruments recorded at fair value by the level of the fair value hierarchy:

31 December 2014	BANK Fair Value Measurement Using			Total LKR '000
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	
Financial Assets				
Derivative Financial Instruments				
Currency options	–	1,556	–	1,556
Forward foreign exchange contracts	–	908,198	–	908,198
Currency SWAP	–	–	994,028	994,028
Financial Assets – Held-for-Trading				
Treasury bills	51,534	–	–	51,534
Treasury bonds	480,732	–	–	480,732
Investment in unit trusts	2,253,011	–	–	2,253,011
Financial Investments – Available-for-Sale				
Treasury bills	5,068,917	–	–	5,068,917
Treasury bonds	11,891,025	–	–	11,891,025
Non-quoted ordinary shares	–	100,360	–	100,360
Total Financial Assets	19,745,219	1,010,114	994,028	21,749,361
Financial Liabilities				
Derivative Financial Instruments				
Currency options	–	1,556	–	1,556
Forward foreign exchange contracts	–	609,153	–	609,153
Currency SWAP	–	–	52,477	52,477
Total Financial Liabilities	–	610,709	52,477	663,186

31 December 2013	BANK				Total LKR '000
	Fair Value Measurement Using				
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000		
Financial Assets					
Derivative Financial Instruments					
Currency options	–	5,895	–		5,895
Forward foreign exchange contracts	–	1,143,646	–		1,143,646
Financial Assets - Held-for-Trading					
Treasury bills	5,061,675	–	–		5,061,675
Treasury bonds	4,053,939	–	–		4,053,939
Investment in unit trusts	1,605,075				1,605,075
Financial Investments - Available-for-Sale					
Treasury bills	582,449	–	–		582,449
Treasury bonds	4,889,272	–	–		4,889,272
Non-quoted ordinary shares	–	4,790	–		4,790
Sovereign bonds	505,939	–	–		505,939
Total Financial Assets	16,698,349	1,154,331	–		17,852,680
Financial Liabilities					
Derivative Financial Instruments					
Currency options	–	5,895	–		5,895
Forward foreign exchange contracts	–	811,415	–		811,415
Total Financial Liabilities	–	817,310	–		817,310

31 December 2014	GROUP			Total
	Fair Value Measurement Using			
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	LKR '000
Financial Assets				
Derivative Financial Instruments				
Currency options	–	1,556	–	1,556
Forward foreign exchange contracts	–	908,198	–	908,198
Currency SWAP	–	–	994,028	994,028
Financial Assets - Held-for-Trading				
Treasury bills	51,534	–	–	51,534
Treasury bonds	480,732	–	–	480,732
Equity securities	713,868	–	–	713,868
Investment in unit trusts	4,782,424	–	–	4,782,424
Financial Investments - Available-for-Sale				
Treasury bills	5,068,917	–	–	5,068,917
Treasury bonds	11,891,025	–	–	11,891,025
Quoted ordinary shares	812,550	–	–	812,550
Non-quoted ordinary shares	–	100,360	185,000	285,360
Total Financial Assets	23,801,050	1,010,144	1,179,028	25,990,192
Financial Liabilities				
Derivative Financial Instruments				
Currency options	–	1,556	–	1,556
Forward foreign exchange contracts	–	609,153	–	609,153
Currency SWAP	–	–	52,477	52,477
Total Financial Liabilities	–	610,709	52,477	663,186

31 December 2013	GROUP				Total LKR '000
	Fair Value Measurement Using				
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000		
Financial Assets					
Derivative Financial Instruments					
Currency options	–	5,895	–		5,895
Forward Foreign Exchange contracts	–	1,143,646	–		1,143,646
Financial Assets - Held-for-Trading					
Treasury bills	5,061,675	–	–		5,061,675
Treasury bonds	4,053,939	–	–		4,053,939
Equity Securities	336,293	–	–		336,293
Investment in unit trusts	4,742,234	–	–		4,742,234
Financial Investments - Available-for-Sale					
Treasury bills	582,449	–	–		582,449
Treasury bonds	4,889,272	–	–		4,889,272
Sovereign bonds	505,939	–	–		505,939
Non-quoted ordinary shares	–	4,790	185,000		189,790
Total Financial Assets	20,171,801	1,154,331	185,000		21,511,132
Financial Liabilities					
Derivative Financial Instruments					
Currency options	–	5,895	–		5,895
Forward foreign exchange contracts	–	811,415	–		811,415
Total Financial Liabilities	–	817,310	–		817,310

49. (b) Movements in Level 3 Financial Instruments and Non-Financial Instruments Measured at Fair Value

The level of the fair value hierarchy of financial instruments and non-financial instruments is determined at the beginning of each reporting period. The following table shows a reconciliation of the opening and closing amounts of Level 3 financial instruments and non-financial instruments which are recorded at fair value.

		BANK				
Included in		At 1 January 2014 LKR '000	Additions/ Disposals during the year LKR '000	Total gains/ (Losses) Recorded in Statement of Profit or Loss LKR '000	Total Gains/ (Losses) Recorded in Equity LKR '000	At 31 December 2014 LKR '000
Financial Assets						
Currency SWAP	Derivative financial instruments	–	596,176	–	397,852	994,028
Non-Financial Assets						
Freehold land	Property, plant & equipment	165,016	–	–	266,484	431,500
Freehold building	Property, plant & equipment	221,606	(27,272)	–	817,701	1,012,035
		386,622	568,904	–	1,482,037	2,437,563
Financial Liabilities						
Currency SWAP	Derivative financial instruments	–	52,477	–	–	52,477
		–	52,477	–	–	52,477
		GROUP				
31 December 2014	Included in	At 1 January 2014 LKR '000	Additions/ Disposals during the year LKR '000	Total gains/ (Losses) Recorded in Statement of Profit or Loss LKR '000	Total gains/ (Losses) Recorded in Equity LKR '000	At 31 December 2014 LKR '000
Financial Assets						
Currency SWAP	Derivative financial instruments	–	596,176	–	397,852	994,028
Non-Financial Assets						
Freehold land	Property, plant & equipment	165,016	–	–	266,484	431,500
Freehold building	Property, plant & equipment	525,923	(47,497)	–	817,701	1,296,127
Investment property	Investment property	1,383,693	–	162,000	–	1,545,693
Financial Assets						
Non-quoted equity Securities	Financial investments - available-for-sale	185,000	–	–	–	185,000
		1,955,325	568,894	162,000	1,482,037	4,168,256
Financial Liabilities						
Currency SWAP	Derivative Financial Instruments	–	52,477	–	–	52,477
		–	52,477	–	–	52,477

Unobservable Inputs Used in Measuring the Fair Value

The table below sets out information about significant unobservable inputs used at 31 December 2014 in measuring non-financial instruments categorized as Level 3 in the fair value hierarchy:

BANK					
Type of Instrument	Fair Values at 31 December 2014	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Navam Mawatha					
Land	LKR 11.5 million	Direct comparison method	Per perch value	Per perch - LKR 8 million	Positive impact to the fair value
Building	LKR 612.5 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 13,500 per square feet and discount factor - 0.48	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	LKR 420 million	Direct comparison method	Per perch value	Per perch - LKR 7 million	Positive impact to the fair value
Building	LKR 320 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 12,500 per square feet and discount factor - 0.62	Positive impact to the fair value from both factors
GROUP					
Type of Instrument	Fair Values at 31 December 2014	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Navam Mawatha					
Land	LKR 11.5 million	Direct comparison method	Per perch value	Per perch - LKR 8 million	Positive impact to the fair value
Building	LKR 612.5 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 13,500 per square feet and discount factor - 0.48	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	LKR 420 million	Direct comparison method	Per perch value	Per perch - LKR 7 million	Positive impact to the fair value
Building	LKR 320 million	Current replacement cost	Replacement cost/ Depreciation Factor Rate	LKR 12,500 per square feet and discount factor - 0.62	Positive impact to the fair value from both factors
Navam Mawatha					
Investment Property	LKR 1,850 million	Income approach	Rent per square feet	Rentable area at LKR 148/- Non-rentable area at LKR 88.50	Positive impact to the fair value

49. (c) Fair Value of the Financial Assets and Financial Liabilities that are Not Carried at Fair Value

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial assets and liabilities that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	Fair Value Classification	BANK			
		2014		2013	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets					
Cash and cash equivalents	Note 49 (d)	3,104,391	3,104,391	2,611,075	2,611,075
Balances with Central Bank	Note 49 (d)	6,740,590	6,740,590	5,339,000	5,339,000
Placements with banks	Note 49 (d)	2,721,891	2,721,891	130,751	130,751
Loans and receivables to banks	Level 2	311,144	313,781	641,628	650,235
Loans and receivables to other customers	Level 2	175,175,203	177,054,711	136,821,532	140,694,797
Financial investments - loans and receivable	Level 2	38,302,428	38,302,428	15,837,455	15,837,455
Financial investments - held-to-maturity	Level 1	8,970,963	8,903,391	17,602,249	17,440,886
Other financial assets	Note 49 (d)	54,450	54,450	-	-
Total Financial Assets		235,381,060	237,195,633	178,983,690	182,704,199
Financial Liabilities					
Due to banks	Note 49 (d)	7,029,342	7,029,342	10,453,086	10,453,086
Due to other customers	Level 2	151,823,715	149,393,839	129,830,029	130,000,256
Debt securities issued and other borrowed funds	Level 2	61,955,460	61,955,460	24,420,818	24,420,818
Subordinated term debts	Level 2	11,149,439	11,149,439	11,682,674	11,682,674
Other financial liabilities	Note 49 (d)	2,423,677	2,423,677	701,912	701,912
Total Financial Liabilities		234,381,633	231,951,757	177,088,519	177,258,746

49. (d) Basis of Measurement for the Fair Value of Financial Assets and Liabilities Not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements:

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Fixed Rate Financial Instruments

The fixed rate financial instruments include the Loans and receivables to banks and other customers, Financial Investments - loans and receivables and Due to customers, Due to banks, Debt securities issued and other borrowed funds and Subordinated term debts.

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognized.

Financial Investments Held-to-Maturity

The fair value of financial investments held-to-maturity is estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

	Fair value Classification	GROUP			
		2014		2013	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets					
Cash and cash equivalents	Note 49 (d)	3,274,036	3,274,036	2,668,262	2,668,262
Balances with Central Bank	Note 49 (d)	6,740,590	6,740,590	5,339,000	5,339,000
Placements with banks	Note 49 (d)	2,721,891	2,721,891	130,751	130,751
Loans and receivables to banks	Level 2	311,144	313,781	641,628	650,235
Loans and receivables to other customers	Level 2	175,235,905	176,994,008	136,881,713	140,694,797
Financial investments - loans and receivable	Level 2	38,683,476	38,683,476	16,791,701	16,791,701
Financial investments - held-to-maturity	Level 1	10,167,325	10,099,754	18,460,591	18,421,094
Other financial assets	Note 49 (d)	54,450	54,450	-	-
Total Financial Assets		237,188,817	238,881,986	180,913,646	184,695,840
Financial Liabilities					
Due to banks	Note 49 (d)	7,029,342	7,029,342	10,453,086	10,453,086
Due to other customers	Level 2	151,485,201	149,055,326	129,421,813	130,000,256
Debt securities issued and other borrowed funds	Level 2	61,925,802	61,925,802	24,390,818	24,390,819
Subordinated term debts	Level 2	11,149,439	11,149,439	11,682,674	11,682,674
Other financial liabilities	Note 49 (d)	2,423,677	2,423,677	701,912	701,912
Total Financial Liabilities		234,013,461	231,583,586	176,650,303	177,228,747

50. Risk Management

Introduction

Taking risks is inherent in any bank's strategic plan but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Bank's and the Group's risk strategy focuses on managing principal risks faced by the Bank and the Group while striking a fair balance between the risk return trade-off and the efficient capital allocation across the risk exposures.

The Bank and the Group are mainly exposed to credit risk, liquidity risk, market risk and operational risk. Market risk could be further subdivided into trading and non-trading risks. Exposure to country risk and any risks due to changes in environment, technology and industry is managed through the Bank and the Group's strategic planning process.

Risk Management Framework of the Bank

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has delegated its authority to the Integrated Risk Management Committee (IRMC) for the overall risk management approach and for approving the risk management strategies and principles. IRMC meets quarterly to review and assess the Bank's overall risks and to focus on policy recommendations and strategies in an integrated manner and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank and the Group to set appropriate risk limits and controls and to monitor adherence to established limits.

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

The Credit and Market Risk Policy Committee and Operational Risk Policy Committee are in operation to formulate policies and to focus more clearly on defined risk areas. The membership of these committees comprises of the Chief Executive Officer, Group Chief Financial Officer, the Heads of Business Units, Treasury and representatives of the Group Risk Management.

The Committees meet regularly to review the Bank's risk policy framework, overall performance and the potential risks faced by specific lines of business and support functions.

The Bank's treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Risk Measurement and Reporting

Monitoring and controlling risks is primarily performed based on limits established by the Bank which reflects the business strategy and market environment of the Bank as well as the Bank's risk appetite.

Information compiled is examined and processed in order to analyze, control and identify risks on a timely basis. The compiled information is presented to the IRMC, Credit and Market Risk Policy Committee, and the Board of Directors receives a risk report once a quarter which covers all necessary information to assess and conclude on the risks of the Bank. The information analyzed include the following:

- Portfolio quality analysis covering, product and business line wise concentration, group/single borrower concentrations, sector concentrations, NPL analysis, main impaired accounts, watch listed portfolio, details of facilities rescheduled/restructured.
- Reports on decisions taken by the respective management committees such as Executive Credit Committees, ALCO, Operational Risk Policy Committee, Credit and Market Risk Policy Committee.
- Market and liquidity risk analysis.

Risk Mitigation

As part of its overall risk management, the Bank obtains various types of collateral and establishes maximum prudential limits.

50.1 Credit Risk

Credit Risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual/group counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established by the use of an internally designed Credit Risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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

- defines the credit culture of the Bank
- specifies target markets for lending
- specifies prohibited lending which the Bank under no circumstances will entertain
- sets acceptable risk parameters
- sets remedial and recovery actions

Impairment Assessment

Impairment of Financial Assets

The Bank has in place a detailed impairment policy which was approved by the Board of Directors.

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. At each reporting date the Bank and the Group assess whether there is objective evidence of a specific loss event.

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or receivable on an individual basis if there is any objective evidence of a loss based on the above. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy arise, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows.

Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively Assessed Allowances

Allowances are assessed collectively for losses on loans and receivables that are not individually significant (including personal loans, leases and pawning) and for individually significant loans and receivables that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience and market factors. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations and other relevant consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as loan types, industry codes, and level of arrears).

Credit Related Commitment Risks

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the accessibility and valuation of each type of collateral.

The main types of collateral obtained are as follow:

- for commercial lending - mortgages over immovable and movable fixed assets, inventory, trade receivables, corporate and personal guarantees
- for retail lending - mortgage over residential property, gold stocks, personal guarantees

Credit Quality

Analysis of Gross Exposure on Credit Risk and Impairment

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's and the Group's classification of assets. The amounts presented are gross of impairment allowances.

The Bank and the Group consider that any amount uncollected one day or more beyond their contractual due date is 'past due'.

Maximum Exposure to Credit Risk**Bank**

Products	As at 31 December 2014 - LKR '000	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
Balances with Central Bank	6,740,590	6,740,590
Placements with banks	2,721,891	2,721,891
Derivative financial instruments	1,903,781	1,903,781
Financial assets – held-for-trading	2,785,277	2,785,277
Loans and receivables to banks	311,144	311,144
Loans and receivables to other customers		
Corporate lending	105,745,797	51,597,695
Branch lending	22,798,330	4,259,230
Consumer lending	36,695,622	26,961,574
Residential mortgages	6,351,011	–
Others	3,584,443	1,612,297
	175,175,203	84,430,796
Financial investments - loans and receivables	38,302,428	13,731,594
Financial investments – available-for-sale	17,060,302	17,060,302
Financial investments – held-to-maturity	8,970,963	8,970,963
Other financial assets	54,450	54,450

Products	As at 31 December 2013 - LKR '000	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
Balances with Central Bank	5,339,000	5,339,000
Placements with banks	130,751	130,751
Derivative financial instruments	1,149,541	1,149,541
Financial assets – held-for-trading	10,720,689	10,720,689
Loans and receivables to banks	641,628	641,628
Loans and receivables to other customers		
Corporate lending	88,178,349	39,992,851
Branch lending	17,630,781	2,909,105
Consumer lending	25,542,828	12,754,869
Residential mortgages	4,708,688	–
Others	760,886	177,144
	136,821,532	55,833,969
Financial investments - loans and receivables	15,837,455	10,917,630
Financial investments – available-for-sale	5,982,450	5,982,450
Financial investments – held-to-maturity	17,602,249	17,602,249

Group

As at 31 December 2014 - LKR '000		
Products	Maximum Exposure to Credit Risk	Exposure Net of Collateral
Balances with Central Bank	6,740,590	6,740,590
Placements with banks	2,721,891	2,721,891
Derivative financial instruments	1,903,781	1,903,781
Financial assets – held-for-trading	6,028,558	6,028,558
Loans and receivables to banks	311,144	311,144
Loans and receivables to other customers		
Corporate lending	105,745,797	51,597,695
Branch lending	22,798,330	4,259,230
Consumer lending	36,695,622	26,961,574
Residential mortgages	6,351,011	–
Others	3,645,146	1,612,297
	175,235,906	84,430,796
Financial investments - loans and receivables	38,683,476	14,112,642
Financial investments – available-for-sale	18,057,852	18,057,852
Financial investments – held-to-maturity	10,167,325	10,167,325
Other financial assets	54,450	54,450

As at 31 December 2013 - LKR '000		
Products	Maximum Exposure to Credit Risk	Exposure Net of Collateral
Balances with Central Bank	5,339,000	5,339,000
Placements with banks	130,751	130,751
Derivative financial instruments	1,149,541	1,149,541
Financial assets – held-for-trading	14,194,141	14,194,141
Loans and receivables to banks	641,628	641,628
Loans and receivables to other customers		
Corporate lending	88,178,349	39,992,851
Branch lending	17,630,781	2,909,105
Consumer lending	25,542,828	12,754,869
Residential mortgages	4,708,688	–
Others	821,067	161,397
	136,881,713	55,818,222
Financial investments - loans and receivables	16,791,701	11,864,272
Financial investments – available-for-sale	6,167,450	6,167,450
Financial investments – held-to-maturity	18,460,591	18,460,591

Concentrations of Credit Risk

Concentration by Sector

The Bank and the Group analysis of credit risk concentration by sector is shown in the table below:

Bank

As at 31 December 2014	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	-	-	-	-	-	3,104,391	-	-	-	3,104,391
Balances with Central Bank	-	-	-	-	-	-	-	6,740,590	-	6,740,590
Placements with banks	-	-	-	-	-	2,721,891	-	-	-	2,721,891
Derivative financial instruments	-	-	-	-	-	1,903,781	-	-	-	1,903,781
Financial assets - held-for-trading	-	-	-	-	-	-	-	526,888	2,258,389	2,785,277
Loans and receivables to banks	-	-	-	-	-	311,144	-	-	-	311,144
Loans and receivables to other customers	24,152,261	7,257,860	15,753,429	9,823,887	40,273,565	28,792,112	18,337,256	-	30,784,833	175,175,203
Financial investments - loans and receivables	-	-	-	-	-	-	-	38,233,007	69,421	38,302,428
Financial investments - available-for-sale	-	-	-	-	-	-	-	16,655,702	404,600	17,060,302
Financial investments - held-to-maturity	-	833,521	204,729	-	-	879,721	-	7,052,992	-	8,970,963
Other financial assets	-	-	-	-	-	-	-	-	54,450	54,450

*Government refers to the investments held with Central Bank of Sri Lanka and the current account balance with Central Bank of Sri Lanka.

As at 31 December 2013	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	-	-	-	-	-	2,611,075	-	-	-	2,611,075
Balances with Central Bank	-	-	-	-	-	-	-	5,339,000	-	5,339,000
Placements with banks	-	-	-	-	-	130,751	-	-	-	130,751
Derivative financial instruments	-	-	-	-	-	1,149,541	-	-	-	1,149,541
Financial assets - held-for-trading	-	-	-	-	-	1,605,075	-	9,115,614	-	10,720,689
Loans and receivables to banks	-	-	-	-	-	641,628	-	-	-	641,628
Loans and receivables to other customers	22,609,177	6,062,225	15,505,743	10,318,290	29,894,257	20,568,529	15,542,980	-	16,320,331	136,821,532
Financial investments - loans and receivables	-	-	-	-	74,235	-	-	15,763,220	-	15,837,455
Financial investments - available-for-sale	-	-	-	-	-	4,790	-	5,977,660	-	5,982,450
Financial investments - held-to-maturity	-	520,000	-	-	-	842,819	-	15,999,789	239,641	17,602,249

*Government refers to the investments held with Central Bank of Sri Lanka and the current account balance with Central Bank of Sri Lanka.

Group

As at 31 December 2014	Agriculture & Fishing LKR '000	Food & Beverages LKR '000	Trading LKR '000	Metals, Chemicals & Engineering LKR '000	Retail LKR '000	Services LKR '000	Textiles & Garments LKR '000	Government* LKR '000	Others LKR '000	Total LKR '000
Cash and cash equivalents	-	-	-	-	-	3,274,036	-	-	-	3,274,036
Balances with Central Bank	-	-	-	-	-	-	-	6,740,590	-	6,740,590
Placements with banks	-	-	-	-	-	2,721,891	-	-	-	2,721,891
Derivative financial instruments	-	-	-	-	-	1,903,781	-	-	-	1,903,781
Financial assets – held-for-trading	-	-	-	-	-	-	-	526,888	5,501,670	6,028,558
Loans and receivables to banks	-	-	-	-	-	311,144	-	-	-	311,144
Loans and receivables to other customers	24,152,261	7,257,860	15,753,429	9,823,887	40,273,565	28,792,112	18,337,256	-	30,845,536	175,235,906
Financial investments - loans and receivables	-	-	-	-	-	-	-	38,233,007	450,469	38,683,476
Financial investments – available-for-sale	-	-	-	-	-	-	-	16,655,702	1,402,150	18,057,852
Financial investments – held-to-maturity	-	833,521	204,729	-	-	879,721	-	7,052,991	1,196,363	10,167,325
Other financial assets	-	-	-	-	-	-	-	-	54,450	54,450

*Government refers to the investments held with Central Bank of Sri Lanka and the current account balance with Central Bank of Sri Lanka.

As at 31 December 2013	Agriculture & Fishing LKR '000	Food & Beverages LKR '000	Trading LKR '000	Metals, Chemicals & Engineering LKR '000	Retail LKR '000	Services LKR '000	Textiles & Garments LKR '000	Government* LKR '000	Others LKR '000	Total LKR '000
Cash and cash equivalents	-	-	-	-	-	2,668,262	-	-	-	2,668,262
Balances with Central Bank	-	-	-	-	-	-	-	5,339,000	-	5,339,000
Placements with banks	-	-	-	-	-	130,751	-	-	-	130,751
Derivative financial instruments	-	-	-	-	-	1,149,541	-	-	-	1,149,541
Financial assets – held-for-trading	-	-	-	-	-	5,078,527	-	9,115,614	-	14,194,141
Loans and receivables to banks	-	-	-	-	-	641,628	-	-	-	641,628
Loans and receivables to other customers	22,609,177	6,062,225	15,505,743	10,318,290	29,894,257	20,568,529	15,542,980	-	16,380,512	136,881,713
Financial investments - loans and receivables	-	-	-	-	74,235	91,699	-	15,763,220	862,547	16,791,701
Financial investments – available-for-sale	-	-	-	-	-	4,790	-	5,977,660	185,000	6,167,450
Financial investments – held-to-maturity	-	520,000	-	-	-	842,819	-	15,999,789	1,097,983	18,460,591

*Government refers to the investments held with Central Bank of Sri Lanka and the current account balance with Central Bank of Sri Lanka.

Commitments and Contingencies

The table below shows the Bank's and the Group's maximum credit risk exposure for commitments and contingencies.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank and the Group would have to pay if the guarantee is called upon.

Bank

LKR '000	2014	2013
Guarantees and bonds	17,719,368	15,529,639
Shipping guarantees	3,503,056	2,162,432
Advance docs endorsed	865,787	1,961,540
Letters of credit	7,521,595	7,287,156
Acceptances	7,148,766	6,415,082
Undrawn overdrafts and credit cards	10,745,651	7,004,968
Commitments	83,191,376	56,994,606
Forward foreign exchange contracts	100,448,034	79,844,817
Total	231,143,633	177,200,240

Group

LKR '000	2014	2013
Guarantees and bonds	17,721,386	15,529,639
Shipping guarantees	3,503,056	2,162,432
Advance docs endorsed	865,787	1,961,540
Letters of credit	7,521,595	7,287,156
Acceptances	7,148,766	6,415,082
Undrawn overdrafts and credit cards	10,745,651	7,004,968
Commitments	83,194,587	56,994,606
Forward foreign exchange contracts	100,448,034	79,844,817
Total	231,148,862	177,200,240

50.2 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices. The Bank's market risk exposures are classified into trading and non-trading portfolios and are managed separately. Sensitivity analysis of portfolios is carried out together with mark to market valuations and duration analysis that reflects the portfolio sensitivity to the market volatility.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on trading and non-trading books of the Bank. The Bank's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of fixed income securities (treasury bills and bonds), with all other variables held constant in the Bank's Statement of Profit or Loss.

Sensitivity of the Financial Assets – Held-for-Trading

2014

	Increase/ Decrease in Basis Points	Sensitivity of Profit or Loss Bank LKR. '000	Sensitivity of Profit or Loss Group LKR. '000
Trading Portfolio	+100/(100)	(846)/846	(846)/846

2013

	Increase/ Decrease in Basis Points	Sensitivity of Profit or Loss Bank LKR. '000	Sensitivity of Profit or Loss Group LKR. '000
Trading Portfolio	+100/(100)	(46,151)/46,151	(46,151)/46,151

The AFS portfolio fair value is recognized in the Statement of Comprehensive Income - until the asset is derecognized in which case the price sensitivity does not have a direct impact to the Bank's Statement of Profit or Loss.

Sensitivity of the Financial Investments – Available-for-Sale

2014

	Increase/ Decrease in Basis Points	Sensitivity on Bank LKR. '000	Sensitivity on Group LKR. '000
AFS Portfolio	+100/(100)	(226,776)/226,776	(226,776)/226,776

2013

	Increase/ Decrease in Basis Points	Sensitivity on Bank LKR. '000	Sensitivity on Group LKR. '000
AFS Portfolio	+100/(100)	(170,221)/170,221	(170,221)/170,221

The sensitivity of the Statement of Profit or Loss is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the interest rate sensitive assets and liabilities as at 31 December 2014.

Interest Rates Sensitivity Analysis

Bank

As at 31 December 2014	On Demand LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Non-Interest Bearing LKR '000	Carrying Amount LKR '000
Assets							
Cash and balances with Central Bank	9,550,989	–	–	–	293,992	–	9,844,981
Placements with banks	–	2,721,891	–	–	–	–	2,721,891
Loans and receivables to banks	6,601	61,023	152,275	91,245	–	–	311,144
Loans and receivables to other customers	33,811,194	56,653,959	21,861,701	48,127,074	14,721,275	–	175,175,203
Financial assets - loans and receivables	–	37,304,647	997,781	–	–	–	38,302,428
Financial assets – available-for-sale	–	17,060,302	–	–	–	–	17,060,302
Financial assets – held-to-maturity	–	2,502,329	3,472,619	2,996,015	–	–	8,970,963
Other financial assets	–	54,450	–	–	–	–	54,450
Total Financial Assets	43,368,784	116,358,601	26,484,376	51,214,334	15,015,267	–	252,441,362
Liabilities							
Due to banks	–	7,029,342	–	–	–	–	7,029,342
Due to other customers	26,815,563	43,909,914	62,228,206	6,621,823	–	12,248,209	151,823,715
Debt securities issued and other borrowed funds	6,033,773	24,169,613	10,810,104	9,535,818	11,406,152	–	61,955,460
Subordinated term debts	–	–	538,460	3,424,990	7,185,989	–	11,149,439
Other financial liabilities	2,423,677	–	–	–	–	–	2,423,677
Total Financial Liabilities	35,273,013	75,108,869	73,576,770	19,582,631	18,592,141	12,248,209	234,381,633
Total Interest Sensitivity Gap	8,095,771	41,249,732	(47,092,394)	31,631,703	(3,576,874)	(12,248,209)	18,059,729

Bank

As at 31 December 2013	On Demand LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Carrying Amount LKR '000
Assets						
Cash and balances with Central Bank	7,830,399	–	–	–	119,676	7,950,075
Placements with banks	–	130,751	–	–	–	130,751
Loans and receivables to banks	13,617	111,837	263,486	252,643	45	641,628
Loans and receivables to other customers	30,610,642	47,022,378	17,091,779	34,870,695	7,226,038	136,821,532
Financial assets - loans and receivables	–	5,502,693	130,750	10,067,750	136,262	15,837,455
Financial assets – available-for-sale	–	641,634	1,305,810	485,103	3,549,903	5,982,450
Financial assets – held-to-maturity	–	4,992,124	4,251,453	8,358,671	–	17,602,248
Total Financial Assets	38,454,658	58,401,417	23,043,278	54,034,862	11,031,924	184,966,139
Liabilities						
Due to banks	–	8,491,836	1,961,250	–	–	10,453,086
Due to other customers	42,950,979	39,212,301	44,975,018	2,691,731	–	129,830,029
Debt securities issued and other borrowed funds	5,202,125	4,524,708	3,981,776	9,180,630	1,531,579	24,420,818
Subordinated term debts	–	–	–	4,487,165	7,195,509	11,682,674
Other financial liabilities	701,912	–	–	–	–	701,912
Total Financial Liabilities	48,855,016	52,228,845	50,918,044	16,359,526	8,727,088	177,088,519
Total Interest Sensitivity Gap	(10,400,358)	6,172,572	(27,874,766)	37,675,336	2,304,836	7,877,620

Group

As at 31 December 2014	On Demand LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Non-Interest Bearing LKR '000	Carrying Amount LKR '000
Assets							
Cash and balances with Central Bank	9,720,726	–	–	–	293,900	–	10,014,626
Placements with banks	–	2,721,891	–	–	–	–	2,721,891
Loans and receivables to banks	6,601	61,023	152,275	91,245	–	–	311,144
Loans and receivables to other customers	33,811,194	56,670,911	21,866,104	48,130,280	14,757,417	–	175,235,906
Financial assets - loans and receivables	–	37,304,647	997,781	381,048	–	–	38,683,476
Financial assets – available-for-sale	997,550	17,060,302	–	–	–	–	18,057,852
Financial assets – held-to-maturity	–	2,502,328	3,576,430	4,088,567	–	–	10,167,325
Other financial assets	–	54,450	–	–	–	–	54,450
Total Financial Assets	44,536,071	116,375,552	26,592,590	52,691,140	15,051,317	–	255,246,670
Liabilities							
Due to banks	–	7,029,342	–	–	–	–	7,029,342
Due to other customers	31,771,208	38,371,906	62,228,206	6,621,823	–	12,492,058	151,485,201
Debt securities issued and other borrowed funds	6,034,114	24,169,614	10,810,104	9,505,818	11,406,152	–	61,925,802
Subordinated term debts	–	–	538,460	3,424,990	7,185,989	–	11,149,439
Other financial liabilities	2,423,677	–	–	–	–	–	2,423,677
Total Financial Liabilities	40,228,999	69,570,862	73,576,770	19,552,631	18,592,141	12,492,058	234,013,461
Total Interest Sensitivity Gap	4,307,072	46,804,690	(46,984,180)	33,138,509	(3,540,824)	(12,492,058)	21,233,209

Group

As at 31 December 2013	On Demand LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Assets						
Cash and balances with Central Bank	7,887,586	–	–	–	119,676	8,007,262
Placements with banks	–	130,750	–	–	–	130,750
Loans and receivables to banks	13,617	111,837	263,486	252,643	45	641,628
Loans and receivables to other customers	34,798,115	42,834,905	17,151,959	34,870,695	7,226,039	136,881,713
Financial assets - loans and receivables	141,300	5,502,693	130,750	10,655,695	361,263	16,791,701
Financial assets – available-for-sale	185,000	641,634	1,305,810	485,103	3,549,903	6,167,450
Financial assets – held-to-maturity	17,493	4,992,124	4,251,454	9,199,520	–	18,460,591
Total Financial Assets	43,043,111	54,213,943	23,103,459	55,463,656	11,256,926	187,081,095
Financial Liabilities						
Due to banks	–	8,491,836	1,961,250	–	–	10,453,086
Due to other customers	42,898,458	38,946,017	44,975,018	2,602,320	–	129,421,813
Debt securities issued and other borrowed funds	5,202,125	4,524,708	3,981,776	9,150,630	1,531,579	24,390,818
Subordinated term debts	–	–	–	4,487,165	7,195,509	11,682,674
Other financial liabilities	701,912	–	–	–	–	701,912
Total Financial Liabilities	48,802,495	51,962,561	50,918,044	16,240,115	8,727,088	176,650,303
Total Interest Sensitivity Gap	(5,759,384)	2,251,382	(27,814,585)	39,223,541	2,529,838	10,430,792

Mark to Market Valuation

Trading portfolios of fixed income securities (treasury bills and treasury bonds) and foreign currency options are subject to mark to market exercise on a daily basis to derive the economic value of portfolios and are monitored against the set stop loss limits. Prompt management action is taken where necessary to ensure minimum loss situations to the portfolios.

Mark to Market results are being monitored against the Board approved stop-loss limits on a daily basis and is reviewed at the monthly Assets Liability Committee Meeting and the Integrated Risk Management Committee on a quarterly basis to assess the portfolio performance and investment decisions.

Currency Risk

Currency risk is the risk that the value of a financial instrument denominated in foreign currency will fluctuate due to changes in exchange rates other than the functional currency in which they are measured. Board approved limits are in place on currency positions and are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The table below indicates the currencies to which the Bank had significant exposure as at 31 December 2014 and 2013 on its currency exposures. The analysis calculates the sensitivity of each currency position to the increase in the exchange rate against the LKR (functional currency) with all other variables held constant on the Statement of Profit or Loss and Statement of Changes in Equity. A negative amount in the table reflects a potential net reduction in Statement of Profit or Loss, Statement of Changes in Equity, while a positive amount reflects a net potential increase depending on the side of the currency position.

With regard to the Group companies, there are no direct open exposures in foreign currency other than in the functional currency. An equivalent decrease in the currencies shown below against the LKR would have resulted in an equivalent but an opposite impact.

Change in Currency Rates in %

Currency	Spot Rate Shock %	Effect on Profit 2014 LKR '000	Effect on Equity 2014 LKR '000	Effect on Profit 2013 LKR '000	Effect on Equity 2013 LKR '000
USD	2.50	3,050	3,050	6,493.96	6,493.96
GBP	2.50	144	144	(825.41)	(825.41)
EUR	2.50	275	275	(544.64)	(544.64)
JPY	2.50	(3,297)	(3,297)	127.23	127.23
AUD	2.50	11	11	(1,700.01)	(1,700.01)

Price Risk

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available-for-sale.

The following table demonstrates the sensitivity to a reasonably possible change in quoted equity indices, with all other variables held constant of the Bank's and the Group's Statement of Profit or Loss:

2014

Magnitude of Shock and the Fall in Value of Equities - LKR '000				
Entity	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	-	-	-	-
Group	1,526,419	72,346	144,692	283,253

2013

Magnitude of Shock and the Fall in Value of Equities - LKR '000				
Entity	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	-	-	-	-
Group	336,293	16,815	33,629	50,444

Sensitivity of the Unit Trust Investments

The Bank's and the Group's investment in unit trusts could have the following impact due to an adverse impact in the unit trust prices. The impact is monitored under three scenarios mid moderate and adverse conditions.

2014

Magnitude of Shock and the Fall in Value of Equities - LKR '000				
Entity	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	2,253,417	112,671	225,342	338,013
Group	4,782,830	239,141	478,283	717,424

2013

Magnitude of Shock and the Fall in Value of Equities - LKR '000				
Entity	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	1,606,969	80,348	160,697	241,045
Group	4,744,128	237,206	474,413	711,619

Commodity Price Risk

The Bank's investment on the gold buffer stock could have the following impact due to an adverse impact in the gold prices in the market. The mark to market impact on the Statement of Profit or Loss is monitored and the sensitivity of the portfolio is monitored under three scenarios mid moderate and adverse conditions:

2014

Change in Value due to Decrease in Market Price - LKR '000					
ITEM	No. of Units	Present Value at Market Price	Scenario 1 2%	Scenario 2 5%	Scenario 3 8%
Coin	411	16,019	15,699	15,219	14,738
Biscuit	106	53,173	52,110	50,515	48,919

2013

Change in Value due to Decrease in Market Price - LKR '000					
ITEM	No. of Units	Present Value at Market Price	Scenario 1 2%	Scenario 2 5%	Scenario 3 8%
Coin	386	15,199	14,895	14,439	13,983
Biscuit	102	51,689	50,656	49,105	47,555

Country Risk

Country Risk is the risk that an occurrence within a country could have an adverse effect on the Bank and the Group directly by impairing the value of the Bank and the Group or indirectly through an obligor's ability to meet its obligations to the Bank and the Group. Generally, these occurrences relate but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non-market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

Concentration by Country

Geographical Analysis - Bank

31 December 2014	Sri Lanka LKR '000	Europe LKR '000	America LKR '000	Asia LKR '000	Middle East LKR '000	Australia- New Zealand LKR '000	Total LKR '000
Cash and cash equivalents	1,927,075	314,878	386,484	395,711	6,686	73,557	3,104,391
Balances with Central Bank	6,740,590	-	-	-	-	-	6,740,590
Placements with banks	2,721,891	-	-	-	-	-	2,721,891
Derivative financial instruments	1,903,781	-	-	-	-	-	1,903,781
Financial assets – held-for-trading	2,785,277	-	-	-	-	-	2,785,277
Loans and receivables to banks	311,144	-	-	-	-	-	311,144
Loans and receivables to other customers	175,175,203	-	-	-	-	-	175,175,203
Financial Investments - loans and receivables	38,302,428	-	-	-	-	-	38,302,428
Financial Investments – available-for-sale	17,060,302	-	-	-	-	-	17,060,302
Financial Investments – held-to-maturity	8,970,963	-	-	-	-	-	8,970,963
Other Financial Assets	54,450	-	-	-	-	-	54,450
Total Financial Assets	255,953,104	314,878	386,484	395,711	6,686	73,557	257,130,420

Geographical Analysis - Bank

31 December 2013	Sri Lanka LKR '000	Europe LKR '000	America LKR '000	Asia LKR '000	Middle East LKR '000	Australia- New Zealand LKR '000	Total LKR '000
Cash and cash equivalents	1,904,820	178,290	241,868	278,833	583	6,681	2,611,075
Balances with Central Bank	5,339,000	-	-	-	-	-	5,339,000
Placements with banks	130,751	-	-	-	-	-	130,751
Derivative financial instruments	1,149,541	-	-	-	-	-	1,149,541
Financial assets held-for-trading	10,720,689	-	-	-	-	-	10,720,689
Loans and receivables to banks	641,628	-	-	-	-	-	641,628
Loans and receivables to other customers	136,821,532	-	-	-	-	-	136,821,532
Financial Investments - loans and receivables	15,837,455	-	-	-	-	-	15,837,455
Financial Investments – available-for-sale	5,982,450	-	-	-	-	-	5,982,450
Financial Investments – held-to-maturity	17,602,249	-	-	-	-	-	17,602,249
Total Financial Assets	196,130,115	178,290	241,868	278,833	583	6,681	196,836,370

Geographical Analysis - Group

31 December 2014	Sri Lanka LKR '000	Europe LKR '000	America LKR '000	Asia LKR '000	Middle East LKR '000	Australia- New Zealand LKR '000	Total LKR '000
Cash and cash equivalents	2,096,720	314,878	386,484	395,711	6,686	73,557	3,274,036
Balances with Central Bank	6,740,590	-	-	-	-	-	6,740,590
Placements with banks	2,721,891	-	-	-	-	-	2,721,891
Derivative financial instruments	1,903,781	-	-	-	-	-	1,903,781
Financial assets held-for-trading	6,028,558	-	-	-	-	-	6,028,558
Loans and receivables to banks	311,144	-	-	-	-	-	311,144
Loans and receivables to other customers	175,235,906	-	-	-	-	-	175,235,906
Financial Investments - loans and receivables	38,683,476	-	-	-	-	-	38,683,476
Financial Investments – available-for-sale	18,057,852	-	-	-	-	-	18,057,852
Financial Investments – held-to-maturity	10,167,325	-	-	-	-	-	10,167,325
Other financial assets	54,450	-	-	-	-	-	54,450
Total Financial Assets	262,001,693	314,878	386,484	395,711	6,686	73,557	263,179,009

Geographical Analysis - Group

31 December 2013	Sri Lanka LKR '000	Europe LKR '000	America LKR '000	Asia LKR '000	Middle East LKR '000	Australia- New Zealand LKR '000	Total LKR '000
Cash and cash equivalents	1,962,007	178,290	241,868	278,833	583	6,681	2,668,262
Balances with Central Bank	5,339,000	-	-	-	-	-	5,339,000
Placements with banks	130,751	-	-	-	-	-	130,751
Derivative financial instruments	1,149,541	-	-	-	-	-	1,149,541
Financial assets held-for-trading	14,194,141	-	-	-	-	-	14,194,141
Loans and receivables to banks	641,628	-	-	-	-	-	641,628
Loans and receivables to other customers	136,881,713	-	-	-	-	-	136,881,713
Financial Investments - loans and receivables	16,791,701	-	-	-	-	-	16,791,701
Financial Investments – available-for-sale	6,167,450	-	-	-	-	-	6,167,450
Financial Investments – held-to-maturity	18,460,591	-	-	-	-	-	18,460,591
Total Financial Assets	201,718,523	178,290	241,868	278,833	583	6,681	202,424,778

Liquidity Risk

Liquidity risk is defined as the risk that the Bank and the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank and the Group might be unable to meet their payment obligations when they fall due under both normal and stress circumstances. Liquidity mismatch limits are set based on the structure and the Statement of Financial Position size to manage the funding requirements.

In accordance with the risk management policy, the liquidity position is assessed/stressed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market and specific to the Bank and the Group. This ensures the maintenance of the liquid asset ratio at required levels. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale.

Liquidity Risk

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's and the Group's financial assets and liabilities as at 31 December 2014 and 2013.

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities - Bank

As at 31 December 2014	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Financial Assets							
Cash and bank balances with Central Bank	9,844,981	-	-	-	-	-	9,844,981
Less: Restricted balance	(6,894,073)	-	-	-	-	-	(6,894,073)
Placements with banks	1,514	-	2,722,129	-	-	-	2,723,643
Financial assets held-for-trading	-	-	2,478,362	300,471	23,682	-	2,802,515
Derivative financial instruments	-	1,903,781	-	-	-	-	1,903,781
Loans and receivables to banks	6,601	-	65,999	160,919	98,842	-	332,361
Loans and receivables to other customers	33,287,108	-	60,564,939	29,523,471	63,603,525	29,298,052	216,277,095
Other financial assets classified as loans and receivables	-	-	37,520,022	1,013,643	-	-	38,533,665
Financial assets – held-to-maturity	-	-	2,812,753	3,746,953	3,541,716	2,303	10,103,725
Financial assets – available-for-sale	-	-	2,244,399	11,672,535	4,097,513	17,824	18,032,271
Other financial assets	-	-	54,450	-	-	-	54,450
Total Undiscounted Financial Assets	36,246,131	1,903,781	108,463,053	46,417,992	71,365,278	29,318,179	293,714,414
Financial Liabilities							
Due to banks	135,123	-	6,885,049	11,757	-	-	7,031,929
Derivative financial instruments	-	663,186	-	-	-	-	663,186
Due to other customers	38,954,053	-	43,293,873	63,132,602	7,688,653	-	153,069,181
Debt securities issued and other borrowed funds	-	-	30,349,058	12,064,680	13,976,722	12,475,550	68,866,010
Subordinated term debts	-	-	687,381	1,305,658	8,822,023	12,268,598	23,083,660
Other financial liabilities	2,423,677	-	-	-	-	-	2,423,677
Total Undiscounted Financial Liabilities	41,512,853	663,186	81,215,361	76,514,697	30,487,398	24,744,148	255,137,643
Net Undiscounted Financial Assets and Liabilities	(5,266,722)	1,240,595	27,247,692	(30,096,705)	40,877,880	4,574,031	38,576,771

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities - Bank

31 December 2013	On Demand LKR '000	Trading Derivative LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Financial Assets							
Cash and bank balances with Central Bank	7,950,075	-	-	-	-	-	7,950,075
Less: restricted balance	(5,554,021)	-	-	-	-	-	(5,554,021)
Placements with banks	-	-	130,751	-	-	-	130,751
Financial assets held-for-trading	-	-	3,627,615	7,492,096	-	-	11,119,711
Derivative financial instruments	-	1,149,541	-	-	-	-	1,149,541
Loans and receivables to banks	-	-	135,990	284,635	272,450	45	693,120
Loans and receivables to other customers	33,889,211	-	46,016,531	20,745,936	47,905,028	11,736,540	160,293,246
Other financial assets classified as loans and receivables	-	-	5,326,689	133,103	10,248,955	136,263	15,845,010
Financial assets – held-to-maturity	-	-	5,147,025	4,782,287	9,032,200	-	18,961,512
Financial assets – available-for-sale	-	-	774,888	1,459,526	1,699,655	4,685,905	8,619,974
Total Undiscounted Financial Assets	36,285,265	1,149,541	61,159,489	34,897,583	69,158,288	16,558,753	219,208,919
Financial Liabilities							
Due to banks	2,891,711	-	8,492,120	1,987,691	-	-	13,371,522
Derivative financial instruments	-	817,310	-	-	-	-	817,310
Due to other customers	39,879,905	-	41,028,338	49,014,929	3,772,088	-	133,695,260
Debt securities issued and other borrowed funds	-	-	9,837,505	4,083,836	9,180,630	1,531,579	24,633,550
Subordinated term debts	-	-	123,029	1,901,570	10,191,683	13,215,124	25,431,406
Other financial liabilities	701,912	-	-	-	-	-	701,912
Total Undiscounted Financial Liabilities	43,473,528	817,310	59,480,992	56,988,026	23,144,401	14,746,703	198,650,960
Net Undiscounted Financial Assets and Liabilities	(7,188,263)	332,231	1,678,497	(22,090,443)	46,013,887	1,812,050	20,557,959

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities - Group

As at 31 December 2014	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Financial Assets							
Cash and bank balances with Central Bank	10,014,626	-	-	-	-	-	10,014,626
Less: Restricted balance	(6,894,073)	-	-	-	-	-	(6,894,073)
Placements with banks	1,514	-	2,722,129	-	-	-	2,723,643
Financial assets held-for-trading	-	-	5,721,643	300,471	23,682	-	6,045,796
Derivative financial instruments	-	1,903,781	-	-	-	-	1,903,781
Loans and receivables to banks	6,601	-	65,999	160,919	98,842	-	332,361
Loans and receivables to other customers	33,287,108	-	60,582,233	29,525,642	63,605,667	29,301,063	216,301,713
Other financial assets classified as loans and receivables	-	-	37,520,022	1,013,643	-	222,838	38,756,503
Financial assets – held-to-maturity	-	-	2,812,753	3,746,953	3,645,527	664,816	10,870,049
Financial assets – available-for-sale	14,775	-	2,244,399	11,672,535	4,097,513	17,824	18,047,046
Other financial assets	-	-	54,450	-	-	-	54,450
Total Undiscounted Financial Assets	36,430,551	1,903,781	111,723,628	46,420,163	71,471,231	30,206,541	298,155,895

As at 31 December 2014	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Financial Liabilities							
Due to banks	135,123	–	6,885,049	11,757	–	–	7,031,929
Derivative financial instruments	–	663,186	–	–	–	–	663,186
Due to other customers	38,615,539	–	43,293,873	63,132,602	7,688,653	–	152,730,667
Debt securities issued and other borrowed funds	341	–	30,349,058	12,064,680	13,976,722	12,445,550	68,836,351
Subordinated term debts	–	–	687,381	1,305,658	8,822,023	12,268,598	23,083,660
Other financial liabilities	2,423,677	–	–	–	–	–	2,423,677
Total Undiscounted Financial Liabilities	41,174,680	663,186	81,215,361	76,514,697	30,487,398	24,714,148	254,769,470
Net Undiscounted Financial Assets and Liabilities	(4,744,129)	1,240,595	30,508,267	(30,094,534)	40,983,833	5,492,393	43,386,425

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities - Group

31 December 2013	On Demand LKR '000	Trading Derivative LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Financial Assets							
Cash and bank balances with Central Bank	8,007,262	–	–	–	–	–	8,007,262
Less: restricted balance	(5,554,021)	–	–	–	–	–	(5,554,021)
Placements with banks	–	–	130,751	–	–	–	130,751
Financial assets held-for-trading	–	–	7,101,067	7,492,096	–	–	14,593,163
Derivative financial instruments	–	1,149,541	–	–	–	–	1,149,541
Loans and receivables to banks	–	–	135,990	284,635	272,450	45	693,120
Loans and receivables to other customers	33,889,211	–	46,016,531	20,806,116	47,905,028	11,736,540	160,353,426
Other financial assets classified as loans and receivables	–	–	5,467,989	133,103	10,836,900	361,263	16,799,255
Financial assets – held-to-maturity	–	–	5,164,518	4,782,287	9,873,049	–	19,819,854
Financial assets – available-for-sale	–	–	959,888	1,459,526	1,699,655	4,685,905	8,804,974
Total Undiscounted Financial Assets	36,342,452	1,149,541	64,976,734	34,957,763	70,587,082	16,783,753	224,797,325
Financial Liabilities							
Due to banks	2,891,711	–	8,492,120	1,987,691	–	–	13,371,522
Derivative financial instruments	–	817,310	–	–	–	–	817,310
Due to other customers	39,827,624	–	40,761,814	49,014,929	3,682,677	–	133,287,044
Debt securities issued and other borrowed funds	–	–	9,837,505	4,083,836	9,150,630	1,531,579	24,603,550
Subordinated term debts	–	–	123,029	1,901,570	10,191,683	13,215,124	25,431,406
Other financial liabilities	701,912	–	–	–	–	–	701,912
Total Undiscounted Financial Liabilities	43,421,247	817,310	59,214,468	56,988,026	23,024,990	14,746,703	198,212,744
Net Undiscounted Financial Assets and Liabilities	(7,078,795)	332,231	5,762,266	(22,030,263)	47,562,092	2,037,050	26,584,581

Contractual Maturities for Commitments and Contingencies

The table below summaries the maturity portfolio of the commitments and contingencies of the Bank and the Group as at 31 December 2014 and 2013.

Bank

31 December 2014	On Demand LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Undisbursed financing commitments	93,937,028	–	–	–	–	93,937,028
Guarantees	452,895	7,638,665	9,138,647	4,853,652	4,351	22,088,210
Commitments on account of letters of credit	329,071	6,551,102	641,422	–	–	7,521,595
Forward foreign exchange contracts	–	51,856,305	48,432,484	159,245	–	100,448,034
Acceptances	–	4,956,445	2,164,754	27,567	–	7,148,766
	94,718,994	71,002,517	60,377,307	5,040,464	4,351	231,143,633

Bank

31 December 2013	On Demand LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Undisbursed financing commitments	63,999,574	–	–	–	–	63,999,574
Guarantees	944,260	3,845,894	6,814,099	3,921,125	4,128,233	19,653,611
Commitments on account of letters of credit	736,312	5,589,470	961,374	–	–	7,287,156
Forward foreign exchange contracts	9,331,460	38,813,787	31,699,570	–	–	79,844,817
Acceptances	230,023	4,096,632	2,088,427	–	–	6,415,082
	75,241,629	52,345,783	41,563,470	3,921,125	4,128,233	177,200,240

Group

31 December 2014	On Demand LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Undisbursed financing commitments	93,940,238	–	–	–	–	93,940,238
Guarantees	454,914	7,638,665	9,138,647	4,853,652	4,351	22,090,229
Commitments on account of letters of credit	329,070	6,551,102	641,423	–	–	7,521,595
Forward foreign exchange contracts	–	51,856,304	48,432,484	159,246	–	100,448,034
Acceptances	–	4,956,445	2,164,754	27,567	–	7,148,766
	94,724,222	71,002,516	60,377,308	5,040,465	4,351	231,148,862

Group

31 December 2013	On Demand LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Undisbursed financing commitments	63,999,574	–	–	–	–	63,999,574
Guarantees	944,260	3,845,894	6,814,099	3,921,125	4,128,233	19,653,611
Commitments on account of letters of credit	736,312	5,589,470	961,374	–	–	7,287,156
Forward foreign exchange contracts	9,331,460	38,813,787	31,699,570	–	–	79,844,817
Acceptances	230,023	4,096,632	2,088,427	–	–	6,415,082
	75,241,629	52,345,783	41,563,470	3,921,125	4,128,233	177,200,240

50.1 Capital Management

The Bank realises the importance of managing capital as it restricts the business growth unlike any other commercial organization. All large credit proposals are evaluated with the capital charge and lending decisions are taken on the basis of sufficient return on capital. Even the expansion projects in terms of new buildings and software purchases are evaluated against sufficient return on capital. The Bank always maintains a relatively higher level of free capital which will be utilised for lending activities thereby improving the net interest income of the Bank. Further, the Bank also maintains an effective balance between dividend payment and retention of profits ensuring sufficient plough back of profits.

51. Maturity Analysis

Maturity Gap Analysis as at 31 December 2014 - Bank

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

	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	3,104,391	–	3,104,391
Balance with Central Bank	6,474,384	266,206	6,740,590
Placements with banks	2,721,891	–	2,721,891
Derivative financial instruments	1,903,781	–	1,903,781
Financial assets held-for-trading	2,785,277	–	2,785,277
Loans and receivables to banks	219,900	91,244	311,144
Loans and receivables to other customers	112,326,853	62,848,350	175,175,203
Financial investments - loans and receivables	38,302,428	–	38,302,428
Financial investments – available-for-sale	17,060,302	–	17,060,302
Financial investments – held-to-maturity	5,974,947	2,996,016	8,970,963
Investments – held-for-sale	18,525	–	18,525
Investments in subsidiary companies	–	2,000,290	2,000,290
Intangible assets	–	253,132	253,132
Property, plant & equipment	–	1,927,496	1,927,496
Other assets	661,902	791,831	1,453,733
Total Assets	191,554,581	71,174,565	262,729,146
Liabilities			
Due to banks	7,029,342	–	7,029,342
Derivative financial instruments	663,186	–	663,186
Due to other customers	145,201,892	6,621,823	151,823,715
Debt securities issued and other borrowed funds	41,013,490	20,941,970	61,955,460
Tax liabilities	826,687	–	826,687
Deferred tax liabilities	–	619,467	619,467
Employee benefit liabilities	–	247,011	247,011
Other liabilities	4,397,536	1,779,111	6,176,647
Subordinated term debts	538,460	10,610,979	11,149,439
Total Liabilities	199,670,593	40,820,361	240,490,954
Net	(8,116,012)	30,354,204	22,238,192

Maturity Gap Analysis as at 31 December 2013 - Bank

	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	2,611,075	–	2,611,075
Balance with Central Bank	5,226,954	112,046	5,339,000
Placements with banks	130,751	–	130,751
Derivative financial instruments	1,149,541	–	1,149,541
Financial assets held-for-trading	10,720,689	–	10,720,689
Loans and receivables to banks	388,941	252,687	641,628
Loans and receivables to other customers	95,959,296	40,862,236	136,821,532
Financial investments - loans and receivables	5,633,443	10,204,012	15,837,455
Financial investments – available-for-sale	5,982,450	–	5,982,450
Financial investments – held-to-maturity	9,243,577	8,358,672	17,602,249
Investments in subsidiary companies	–	2,037,585	2,037,585
Investments in associate companies	–	61,967	61,967
Intangible assets	–	260,425	260,425
Property, plant & equipment	–	872,890	872,890
Other assets	328,864	860,527	1,189,391
Total Assets	137,375,581	63,883,047	201,258,628
Liabilities			
Due to banks	10,453,086	–	10,453,086
Derivative financial instruments	817,310	–	817,310
Due to other customers	126,919,836	2,910,193	129,830,029
Debt securities issued and other borrowed funds	13,762,024	10,658,794	24,420,818
Tax liabilities	266,127	–	266,127
Deferred tax liabilities	288,532	23,900	312,432
Employee benefit liabilities	–	170,008	170,008
Other liabilities	1,981,974	1,703,691	3,685,665
Subordinated term debts	563,082	11,119,593	11,682,675
Total Liabilities	155,051,971	26,586,179	181,638,150
Net	(17,676,390)	37,296,868	19,620,478

Maturity Gap Analysis as at 31 December 2014 - Group

	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	3,274,036	–	3,274,036
Balance with Central Bank	6,474,384	266,206	6,740,590
Placements with banks	2,721,891	–	2,721,891
Derivative financial instruments	1,903,781	–	1,903,781
Financial assets held-for-trading	6,028,558	–	6,028,558
Loans and receivables to banks	219,900	91,244	311,144
Loans and receivables to other customers	112,348,461	62,887,445	175,235,906
Financial investments - loans and receivables	38,302,428	381,048	38,683,476
Financial investments – available-for-sale	18,057,852	–	18,057,852
Financial investments – held-to-maturity	6,078,758	4,088,567	10,167,325
Investments – held-for-sale	33,301	–	33,301
Investment property	–	1,545,693	1,545,693
Intangible assets	–	297,070	297,070
Property, plant & equipment	–	2,252,647	2,252,647
Other assets	1,084,508	791,827	1,876,335
Total Assets	196,527,858	72,601,747	269,129,605
Liabilities			
Due to banks	7,029,342	–	7,029,342
Derivative financial instruments	663,186	–	663,186
Due to other customers	144,863,378	6,621,823	151,485,201
Debt securities issued and other borrowed funds	41,013,831	20,911,971	61,925,802
Tax liabilities	806,220	–	806,220
Deferred tax liabilities	–	609,935	609,935
Employee benefit liabilities	–	301,219	301,219
Other liabilities	4,581,732	1,779,110	6,360,842
Subordinated term debts	538,460	10,610,979	11,149,439
Total Liabilities	199,496,149	40,835,037	240,331,186
Net	(2,968,291)	31,766,710	28,798,419

Maturity Gap Analysis as at 31 December 2013 - Group

	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	2,668,262	–	2,668,262
Balance with Central Bank	5,226,954	112,046	5,339,000
Placements with banks	130,751	–	130,751
Derivative financial instruments	1,149,541	–	1,149,541
Financial assets held-for-trading	14,194,141	–	14,194,141
Loans and receivables to banks	388,941	252,687	641,628
Loans and receivables to other customers	96,019,476	40,862,236	136,881,712
Financial investments - loans and receivables	6,496,565	10,295,136	16,791,701
Financial investments – available-for-sale	6,167,450	–	6,167,450
Financial investments – held-to-maturity	9,261,070	9,199,521	18,460,591
Investments in associate companies	–	76,744	76,744
Investment property	–	1,383,693	1,383,693
Intangible assets	–	296,678	296,678
Property, plant & equipment	–	1,176,491	1,176,491
Other assets	598,210	860,527	1,458,737
Total Assets	142,301,361	64,515,759	206,817,120
Liabilities			
Due to banks	10,453,086	–	10,453,086
Derivative financial instruments	817,310	–	817,310
Due to other customers	126,601,031	2,820,782	129,421,813
Debt securities issued and other borrowed funds	13,762,025	10,628,793	24,390,818
Tax liabilities	300,196	–	300,196
Deferred tax liabilities	298,033	26,418	324,451
Employee benefit liabilities	–	214,830	214,830
Other liabilities	2,146,599	1,703,690	3,850,289
Subordinated term debts	563,082	11,119,592	11,682,674
Total Liabilities	154,941,362	26,514,105	181,455,467
Net	(12,640,001)	38,001,654	25,361,653

52. Segmental Analysis - Group

Accounting Policy

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Senior Management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Group has identified four operating segments based on products and services, as follows:

- Banking
- Capital Markets
- Property Investment
- Others

Income taxes are managed on a group basis and are not allocated to operating segments. Interest income is reported net, as management primarily relies on net interest revenue as a performance measure, not the gross income and expense. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2014 or 2013.

For the year ended 31 December	Banking		Capital Markets		Property Investment		Others		Consolidated	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Revenue										
External income	25,176,348	24,608,797	678,249	469,772	252,080	145,468	–	–	26,106,677	25,224,037
Inter-segment income	–	–	56,130	23,319	41,818	55,949	–	–	97,948	79,268
Total income	25,176,348	24,608,797	734,379	493,091	293,898	201,417	–	–	26,204,625	25,303,305
Segment expenses	(19,076,472)	(20,008,519)	(560,674)	(496,230)	(40,748)	(74,154)	–	–	(19,677,894)	(20,578,903)
Segment results	6,099,876	4,600,278	173,705	(3,139)	253,150	127,263	–	–	6,526,731	4,724,402
Share of associate companies profit before taxation	–	–	–	–	–	–	97,274	49,220	97,274	49,220
Taxation									(1,348,784)	(1,150,893)
VAT on financial services									(1,029,250)	(910,500)
Profit after taxation									4,245,970	2,712,229
Other information										
Segment assets	262,689,239	201,189,884	4,796,767	4,091,993	1,610,299	1,458,500	–	–	269,096,305	206,740,377
Investment in associates	–	–	–	–	–	–	33,301	76,744	33,301	76,744
Consolidated total assets									269,129,606	206,817,121
Segment liabilities	24,011,008	181,192,251	155,925	207,262	64,257	55,956	–	–	240,331,190	181,455,469
Consolidated total liabilities									240,331,190	181,455,469
Segmental cash flows										
Cash flows from operating activities	(9,321,209)	4,512,521	15,158	(226,615)	123,558	96,879	–	–	(9,182,493)	4,382,785
Cash flows from investing activities	(17,240,344)	(17,739,829)	6,939	189,301	(7,830)	(60,097)	–	–	(17,241,235)	(17,610,622)
Cash flows from financing activities	30,915,369	8,323,143	62,211	(60,088)	(87,578)	(36,779)	–	–	30,890,002	8,226,276

53. Events Occurring after the Date of the Statement of Financial Position

- (a) The Boards of Directors of DFCC Bank (DFCC), DFCC Vardhana Bank PLC and National Development Bank (NDB) in pursuance of the policies announced by the Government encouraging the consolidation of certain banking businesses, have commenced preliminary discussion with a view to achieving such consolidation. The consolidation of these three entities however, will be dependent on regulatory and stakeholder approvals and possibly, passage of facilitative legislation.
- (b) On 13 February 2015, the Bank declared a final dividend of LKR 4.00 per share for the financial year 2014. (2013- final dividend of LKR 5.00 per share) This will be paid out of the operational profits of the Bank and it will be liable to a dividend tax at 10%.
- (c) NDB Capital Holdings PLC entered into a shareholders agreement with NDB Zephyr Partners Ltd on 15 December 2014 to invest LKR 49.61 million in 60% ordinary shares and 60% redeemable preference shares in NDB Zephyr Partners Ltd, the Management Company based in Mauritius, which manages Sri Lanka's largest country dedicated private equity fund. Accordingly, the equity investment took place on 2 January 2015.
- (d) As per the Interim Budget 2015, which was passed in the Parliament of Sri Lanka on 7 February 2015, an additional one-off tax of 25% has been imposed on the profits of the groups which have earned in excess of LKR 2,000 million for the year of assessment 2013/2014. The estimated tax liability, based on the current understanding for the Group on their Group taxable income would amount to LKR 846 million.

54. Comparative Information

The classification of the following items in the Statement of Profit or Loss and the Statement of Financial Position were amended to ensure proper presentation in the Financial Statements:

		BANK		GROUP	
As reported Previously	Current Presentation	2014 LKR '000	2014 LKR '000	2013 LKR '000	2013 LKR '000
Profit or Loss					
Net gains/(losses) from Trading	Net gains/(losses) from financial investments (Note 8)	716,507	1,330,407	318,303	914,968
Assets					
Securities purchased under resale agreements	Financial Investments - loans and receivables (Note 26)	-	-	4,919,825	4,927,429
Lease rentals receivables	Loans and Receivables to other customers (Note 25)	-	-	8,428,409	8,428,409
Investments in associates	Investments held-for-sale (Note 29)	18,525	33,301	-	-
Liabilities					
Securities sold under repurchase agreements	Debt Securities issued and other borrowed funds (Note 38)	-	-	11,771,598	11,771,598

55. Related Party Disclosures

55.1 Parent and Ultimate Control Party

The Bank does not have an identifiable Parent of its own.

55.2 Terms and Conditions

The Bank carries out transactions with Key Management and their related concerns and other related entities in the ordinary course of its business on an arms length basis at commercial rates except the loans that the key management have availed under the loan schemes uniformly applicable to all the staff.

55.3 Key Management Personnel of the Bank

Related parties include Key Management Personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Bank and its subsidiaries. Key Management Personnel include the members of the Board of Directors of the Bank, including the Chief Executive Officer.

	2014 LKR '000	2013 LKR '000
55.3.1 Compensation to Key Management Personnel of the Bank		
Short-term employee benefits	69,860	62,496
Post-employment benefits (defined benefit plan)	4,968	3,399
	74,828	65,895

The amounts disclosed above are the amounts recognized as expenses during the reporting period relating to Key Management Personnel. In addition to the remuneration, the Bank has also provided non-cash benefits for Key Management Personnel in line with the approved benefit plan of the Bank.

55.3.2 Key Management of the Bank and their close family members had the following transactions with the Bank:

	Limit		Outstanding Balance		Average Balance	
	31.12.2014 LKR '000	31.12.2013 LKR '000	31.12.2014 LKR '000	31.12.2013 LKR '000	31.12.2014 LKR '000	31.12.2013 LKR '000
Items in the Statement of Financial Position						
Assets						
Loans and receivables	–	–	–	–	3	1,408
Credit cards	1,000	1,000	–	–	65	20
	1,000	1,000	–	–	68	1,428
Liabilities						
Deposits			222,346	155,987	187,543	99,126
Investment in debentures and Repo investments			82,936	1,000	58,190	1,000
			305,282	156,987	245,733	100,126
Items in the Statement of Profit or Loss						
Interest income			–	64		
Interest expenses			30,142	15,614		
Fee and commission income			16	–		
Dividends paid			47,939	81,363		

Key Management of the Bank and their close family members have invested in 3,994,906 ordinary shares as at 31 December 2014 (3,994,906 ordinary shares as at 31 December 2013) which includes shares held in a slash account.

55.3.3 Transactions involving entities which are controlled/jointly controlled by the Key Management Personnel and their close family members.

	Outstanding Balance		Average Balance	
	31.12.2014 LKR '000	31.12.2013 LKR '000	31.12.2014 LKR '000	31.12.2013 LKR '000
Items in the Statement of Financial Position				
Assets				
Loans and receivables	35	1,967,742	26,732	1,460,456
	35	1,967,742	26,732	1,460,456
Liabilities				
Deposits	343,123	685,903	264,476	465,872
Repo investments	232,500	–	68,292	47,442
	575,623	685,903	332,768	513,314
Off-Balance Sheet Items				
Commitments and contingencies	–	549,317	19,954	678,652
Forward foreign exchange contracts	–	1,307,500	–	1,521,119
	–	1,856,817	19,954	2,199,771
Limits approved on facilities	–	3,609,085		
Items in the Statement of Profit or Loss				
Interest income	7,804	234,578		
Interest expenses	34,431	60,989		
Fee and commission income	607	19,134		
Capital expenditure and services rendered	75,846	79,104		

55.4 Transactions with the Government of Sri Lanka and its Related Entities

A number of entities in which the Government of Sri Lanka has an interest have a significant interest in the Bank.

55.4.1 The Bank enters into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities. The financial dealings on a collective basis for the year and as at the date of the Statement of Financial Position are as follows:

	Outstanding Balance		Average Balance	
	31.12.2014 LKR '000	31.12.2013 LKR '000	31.12.2014 LKR '000	31.12.2013 LKR '000
Items in the Statement of Financial Position				
Assets				
Loans and receivables	7,973,433	2,546,153	5,975,747	1,713,866
	7,973,433	2,546,153	5,975,747	1,713,866
Liabilities				
Deposits	3,621,031	57,534	2,441,659	56,720
Repo investments	2,658,000	2,294,000	1,269,894	5,524,252
Borrowings	2,569,000	1,546,000	355,317	546,663
Debentures	2,623,950	2,455,890	2,623,950	2,455,890
Concessionary credit lines	5,621,028	6,389,534	6,946,460	7,602,061
	17,093,009	12,742,958	13,637,280	16,185,586
Off-Balance sheet items				
Guarantees and letters of credit	286,422	67,066	134,022	90,700
Forward foreign exchange contracts	902,029	4,214,929	2,457,811	6,498,736
	1,188,451	4,281,995	2,591,833	6,589,436
Items in the Statement of Profit or Loss				
Interest income	2,122,017	1,164,400		
Interest expenses	989,889	1,014,397		
Fee and commission income	41,067	5,466		

55.4.2 Further transactions as detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities:

- Investment in Treasury Bills, Treasury Bonds, Development Bonds and money market placements
- Payment of statutory rates and taxes
- Payment for utilities mainly comprising of telephone, electricity and water
- Payment for employment retirement benefits - ETF

55.4.3. Individually Significant Transactions

The Bank uses internal assessments methodology in order to identify significant transactions with the Government of Sri Lanka and Government related entities. Accordingly individually significant transactions are reported below:

55.4.3.1 The Bank raised USD 125 million on 16 April 2014 through foreign borrowings for a period of one year and seven years, against which a SWAP arrangement has been entered into with the Central Bank of Sri Lanka for 75% of the borrowing value with the same maturity on 15 January 2021. The Bank has also raised USD 75 million on 21 July 2014 through foreign borrowings for a period of seven years, against which a SWAP arrangement has been entered into with the Central Bank of Sri Lanka for 50% of the borrowing value with the same maturity on 15 July 2021.

55.4.3.2 The Bank utilized the approval given by the Central Bank of Sri Lanka for licensed commercial banks to borrow up to USD 50 million and the specific approval given to National Development Bank PLC to Borrow up to USD 250 million in excess of the 15% of the Bank's capital by direction dated 17 April 2013, circular Ref 2/19/150/0104/001. Accordingly the Bank raised USD 224 million as at 31 December 2014.

55.5 Transactions with Related Entities

55.5.1 The Bank had the undermentioned financial dealings during the year and as of the date of the Statement of Financial Position with the subsidiaries and associates of the Bank are as follows:

	Subsidiaries of the Group*				Associates of the Group*			
	Outstanding Balance		Average Balance		Outstanding Balance		Average Balance	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Items in the Statement of Financial Position								
Assets								
Loans and receivables	1	1	4	1	-	-	-	-
Group company receivables	1,804	1,646	24,435	63,242	-	-	-	-
Investment in ordinary shares net of provisions for impairment	2,000,291	2,037,585	2,030,019	2,136,408	18,525	61,968	53,873	22,146
Disposal of investments	-	582,714	-	582,714	165,462	-	165,462	-
Liabilities								
Deposits	457,689	289,937	366,116	216,264	-	-	-	-
Other payables	-	204	-	17	-	-	1,802	-

	During the Year		During the Year	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Items in the Statement of Profit or Loss				
Interest received/(paid) - Net	(61,406)	(44,476)	-	-
Rent and utilities received	20,525	20,136	-	-
Rent and utilities paid	18,627	18,305	-	-
Management fees received/ (paid) - Net	4,812	(23,120)	-	-
Bankassurance income	22	-	-	-
Share Brokerages paid	-	7,436	-	-
Dividends received	321,967	700,203	-	-
Capital gains	-	5,372,060	96,125	-

The Board of Directors of the Bank, at its meeting held on 20 March 2014, approved the divestiture of its investment in 224,875 shares amounting to 35% of the shares in Maldives Finance Leasing Company (Private) Ltd. to Tree Top Investments (Private) Ltd., a company incorporated in the Republic of Maldives. Accordingly, the divestment took place during April 2014, and the net realized gain to the Bank amounted to LKR 96 million.

* Refer Note 30 and Note 31 for details of subsidiary and associate companies.

55.5.2 The Bank had the undermentioned financial dealings during the year with the NDB Provident Fund.

	2014 LKR '000	2013 LKR '000
Deposits	40,264	51,661
Interest paid on deposits during the year	2,938	2,585
Contribution made by the Bank	187,974	163,732

55.5.3 NDB Wealth Management Ltd., a subsidiary of the Bank had the undermentioned financial dealings with the NDB Provident Fund.

	2014 LKR '000	2013 LKR '000
Portfolio under management	1,574,818	1,340,823

55.5.4 The Bank had the undermentioned financial dealings with the NDB Pension Fund during the year.

	2014 LKR '000	2013 LKR '000
Deposits	113,500	112,893
Interest paid on deposits during the year	11,977	16,348
Contribution made by the Bank	51,644	28,850

55.5.5 The Bank had the undermentioned financial dealings with the NDB Employee Share Ownership Plan during the year.

	2014	2013
No. of ordinary shares held	4,133,726	4,133,726
Distribution of ESOP shares to the eligible employees of the Bank	4,131,850	–
No. of ordinary shares pending transfer to an eligible employee	1,876	4,133,726
Dividends paid by the Bank (LKR '000)	20,718	82,675

The Colombo Stock Exchange (CSE), by listing Rule 5.6 has amended the rules relating to Employee Share Option Schemes (ESOS) and Employee Share Purchase Schemes (ESPS), by mandating that such schemes should result in the shares being offered to eligible employees for 'purchase' or 'subscription' in the case of ESOS and 'acquisition' in the case of ESPS, specifically prohibiting open ended schemes. In compliance with this ruling and the Transitional Provisions thereto, the Board of Directors of National Development Bank PLC (NDB) approved the dissolution of the NDB Employee Share Option Plan (ESOP) and the distribution of the ESOP shares amounting to 4,133,726 to the eligible employees of the Bank.

Compliance with Disclosure Requirements Specified by the Central Bank of Sri Lanka.

1. Information about the Significance of Financial Instruments for Financial Position and Performance

1.1 Statement of Financial Position

1.1.1	Disclosures on categories of financial assets and financial liabilities	Note 18 to the Financial Statements
1.1.2	Other disclosures -	
	i. Special disclosures about the financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and methods of measurement.	Note 49 - Fair value of financial instruments
	ii. Reclassifications of financial instruments from one category to another.	Not Applicable
	iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Note 50.1 to the Financial Statements
	iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Note 25.5 (a) to the Financial Statements
	v. Information about derivative financial instruments	Note 22 to the Financial Statements
	vi. Information about compound financial instruments with multiple embedded derivatives.	Not Applicable
	vii. Breaches of terms of loan agreements.	Not Applicable

1.2 Statement of Comprehensive Income

1.2.1	Disclosures on items of income, expense, gains and losses	Note 4 to Note 14 to the Financial Statements
1.2.2	Other disclosures -	
	i. Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.	Note 5.1 and 5.4 to the Financial Statements
	ii. Fee income and expense.	Note 6 to the Financial Statements
	iii. Amount of impairment losses by class of financial assets.	Note 10 to the Financial Statements
	iv. Interest income on impaired financial assets.	Note 5.3 to the Financial Statements

1.3 Other Disclosures

1.3.1	Accounting Policies for financial instruments	Accounting Policies for each type of Financial Instrument presented in the Statement of Financial Position is disclosed under the respective Notes on pages 280 to 376.
1.3.2	Information on hedge accounting	Note 22 to the Financial Statements
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with	
	i. Comparable carrying amounts.	Note 49 - Fair value of financial instruments
	ii. Description of how fair value was determined.	Note 49 - Fair value of financial instruments
	iii. The level of inputs used in determining fair value.	Note 49 - Fair value of financial instruments
	iv. Reconciliations of movements between levels of fair value measurement hierarchy, additional disclosures for financial instruments that fair value is determined using level 3 inputs.	Note 49 (b) - Fair value of financial instruments
	v. Information if fair value cannot be reliably measured.	Not Applicable

2. Information about the Nature and Extent of Risks Arising from Financial Instruments

2.1 Qualitative Disclosures

2.1.1	Risk exposures for each type of financial instrument	Note 50 - Risk Management of the Financial Statements
2.1.2	Management's objectives, policies and processes for managing those risks	Note 50 - Risk Management of the Financial Statements

2.1.3	Changes from the prior period	Not Applicable
2.2	Quantitative Disclosures	
2.2.1	Summary of quantitative data about exposure to each risk at the Reporting date	Note 50 - Risk Management of the Financial Statements
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.	Note 50 - Risk Management of the Financial Statements
	i. Credit Risk	} Note 50.1 - Risk Management of the Financial Statements
	a. Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	
	b. For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.	
	c. Information about collateral or other credit enhancements obtained or called.	
	d. For other disclosures, refer Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	
	ii. Liquidity Risk	} Note 50.2 - Liquidity Risk and Funding Management of the Financial Statements
	a. A maturity analysis of financial liabilities.	
	b. Description of approach to risk management.	
	c. For other disclosures, refer Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	
	iii. Market Risk	} Note 50.2 - Market Risk of the Financial Statements
	a. A sensitivity analysis of each type of market risk to which the entity is exposed.	
	b. Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.	
	c. For other disclosures, refer Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	
	iv. Operational Risk	Risk Management pages 210 to 222
	Refer Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	
	v. Equity Risk in the Banking Book	} Note 50.2 - Equity Price Risk of the Financial Statements
	a. Qualitative disclosures	
	- Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	
	- Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	

<p>b. Quantitative disclosures</p> <ul style="list-style-type: none"> - Value disclosed in the Statement of Financial Position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. - The types and nature of investments. - The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period. 	<p>} Note 50.2 - Equity Price Risk of the Financial Statements</p>
<p>vi. Interest Rate Risk in the Banking Book</p> <p>a. Qualitative disclosures</p> <ul style="list-style-type: none"> - Nature of interest rate risk in the banking book (IRRBB) and key assumptions. 	<p>Note 50.2 - Interest Rate Risk of the Financial Statements</p>
<p>b. Quantitative disclosures</p> <ul style="list-style-type: none"> - The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant). 	<p>Note 50.2 - Interest Rate Risk of the Financial Statements</p>
<p>2.2.3 Information on concentration of risk</p>	<p>Note 50.1 - Risk Management of the Financial Statements</p>
<p>3. Other Disclosures</p>	
<p>3.1 Capital</p>	
<p>3.1.1 Capital structure</p>	
<p>i. Qualitative disclosures</p> <p>Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.</p>	<p>Not Applicable</p>
<p>ii. Quantitative disclosures</p> <p>a. The amount of Tier 1 capital, with separate disclosure of</p> <ul style="list-style-type: none"> - Paid-up share capital/common stock - Reserves - Non-controlling interests in the equity of subsidiaries - Innovative instruments - Other capital instruments - Deductions from Tier I capital <p>b. The total amount of Tier II and Tier III capital</p> <p>c. Other deductions from capital</p> <p>d. Total eligible capital</p>	<p>} Pages 380 to 384 on Capital Adequacy</p>
<p>3.1.2 Capital adequacy</p>	
<p>i. Qualitative disclosures</p> <p>A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.</p>	
<p>ii. Quantitative disclosures</p> <p>a. Capital requirements for credit risk, market risk and operational risk</p> <p>b. Total and Tier I capital ratio</p>	<p>} Pages 380 to 384 on Capital Adequacy</p>

The Central Bank of Sri Lanka (CBSL) has prescribed the minimum risk sensitive capital, and effective from 1 January 2008, required the Bank to compute the minimum capital in accordance with the 'International Convergence of Capital Measurement and Capital Standards - a Revised Framework' (BASEL II). The aim is to ensure minimum capital, commensurate with risks assumed by the Bank, is maintained as a buffer to absorb credit, market & operational losses in the foreseeable future.

The core capital ratio is expressed as total Tier I capital as a percentage of total risk weighted assets.

The total capital adequacy ratio is expressed as total Tier I capital and Tier II capital as a percentage of total risk-weighted assets.

Basis of Computation

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

The Tier I capital of the Bank consists of the stated capital, retained earnings and other reserves after deducting intangible assets, 50 % of the investments in unconsolidated banking and financial subsidiaries and 50% investments in capital of other banks and financial institutions.

The Tier II capital of the Bank includes CBSL approved subordinated term debts, 50% of the revaluation reserve and the general loan loss provision after deducting 50% of the investments in unconsolidated banking and financial subsidiaries and 50% investments in capital of other banks and financial institutions.

In arriving at the Risk-Weighted Assets (RWA) of the Bank, the Standardized Approach for credit risk, Standardized Measurement Method for market risk and the Basic Indicator Approach for operational risk have been used.

Capital Base as at 31 December	BANK	
	2014 LKR '000	2013 LKR '000
Tier I: Core Capital		
Capital	1,225,162	1,172,904
Statutory Reserve Fund	1,010,785	958,527
Investment Fund Account	–	1,706,751
Available-For-Sale Reserve	105,250	106,669
Share Based Payment Reserve	20,243	22,367
Cash Flow Hedge Reserve	397,852	–
Revaluation Reserve net of tax	853,456	–
Retained Earnings	18,625,444	15,653,260
Total Equity	22,238,192	19,620,478
Less: Reserves not eligible for Tier I and charges to Statement of Comprehensive Income	1,201,649	74,598
Total equity considered for Tier I Capital	21,036,543	19,545,880
Deductions - Tier I		
Intangible assets	253,132	260,425
50% investments in unconsolidated banking and financial subsidiaries	886,070	904,717
50% investments in capital of other banks and financial institutions	9,263	30,984
	1,148,465	1,196,126
Total Tier I Capital	19,888,078	18,349,754

Capital Base as at 31 December	BANK	
	2014 LKR '000	2013 LKR '000
Tier II: Supplementary Capital		
General loan loss provision	786,362	641,815
Approved Revaluation Reserve	542,092	–
Approved subordinated term debts	8,610,732	9,163,692
	9,939,186	9,805,507
Deductions - Tier II		
50% investments in unconsolidated banking and financial subsidiaries	886,070	904,717
50% investments in capital of other banks and financial institutions	9,263	30,984
	895,333	935,701
Eligible Tier II Capital	9,043,853	8,869,806
Capital Base (Tier I + Tier II)	28,931,931	27,219,560

	BANK				
	Assets for Credit Risk		Risk Weights	Risk-Weighted Assets	
	2014 LKR '000	2013 LKR '000	%	2014 LKR '000	2013 LKR '000
Risk-Weighted Assets and Off-Balance Sheet Exposure					
Cash and claims on Central Government and Central Bank of Sri Lanka	57,012,321	43,974,128	0	–	–
Claims secured by cash deposits, gold and guarantees	16,178,539	11,507,606	0	–	–
Claims on banks	8,103,229	2,602,746	20-100	3,235,305	836,820
Claims on financial institutions	9,210,855	9,244,553	50-100	5,223,618	4,916,134
Loans secured by residential property	7,047,969	5,360,620	50	3,523,984	2,680,310
Past due loans	2,236,918	1,702,511	50-150	3,071,530	2,304,397
Retail claims and corporate claims	162,166,523	129,441,089	20-150	151,514,624	119,745,877
Property, plant and equipment	1,927,494	872,890	100	1,927,494	872,890
Other assets	3,573,443	2,554,940	100	3,573,443	2,554,940
Total Assets considered for Credit Risk	267,457,291	207,261,083		172,069,998	133,911,368

	BANK				
	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit Equivalent of Off-Balance Sheet Items	
	2014 LKR '000	2013 LKR '000		2014 LKR '000	2013 LKR '000
General guarantees of indebtedness	11,215,680	11,587,079	100	11,215,680	11,587,079
Standby Letters of credit relating to particular transactions	65,950	35,168	50	32,975	17,584
Performance bonds and bid bonds	6,503,688	3,909,259	50	3,251,844	1,954,630
Trade related acceptances and advance documents endorsed	8,014,553	8,301,839	20	1,602,911	1,660,368
Shipping guarantees	1,167,685	678,659	20	233,537	135,732
Documentary letters of credit	7,455,645	6,986,428	20	1,491,129	1,397,286
Undrawn term loans	10,120,524	2,882,331	0, 20 & 50	5,060,262	1,385,899
Foreign exchange contracts	97,569,796	62,235,214	2, 5 & 8	2,673,123	1,244,704
Undrawn overdrafts and credit lines	10,745,652	7,004,968	0	–	–
Other unutilized facilities	73,070,852	54,112,275	0, 20 & 50	51,643	88,206
Total Credit Equivalent of Off-Balance Sheet Items	225,930,025	157,733,220		25,613,104	19,471,488

	2014 LKR '000	2013 LKR '000
Capital Charge for Market Risk		
Capital charge for interest rate risk	362,267	85,493
Capital charge for equity securities and unit trusts	450,602	321,015
Capital charge for foreign exchange and gold	146,740	131,679
Total Capital Charge for Market Risk	959,609	538,187
Total Risk-Weighted Assets Equivalent for Market Risk	9,596,090	5,381,870
Capital Charge for Operational Risk		
Gross Income:		
Year 1	8,216,803	7,015,947
Year 2	10,842,463	8,216,803
Year 3	11,901,793	10,842,463
Average gross income	10,320,353	8,691,737
Total Capital Charge for Operational Risk at 15%	1,548,053	1,303,761
Total Risk-Weighted Assets Equivalent for Operational Risk	15,480,530	13,037,606
Total Risk-Weighted Assets	197,146,618	152,330,844
Capital Adequacy Ratios		
Tier I (Required statutory minimum ratio is 5%)	10.09%	12.05%
Tier I & Tier II (Required statutory minimum ratio is 10%)	14.68%	17.87%

Capital Base as at 31 December	GROUP	
	2014 LKR '000	2013 LKR '000
Tier I: Core Capital		
Capital	1,145,353	943,746
Statutory Reserve Fund	1,010,785	958,527
Investment Fund Account	–	1,706,751
Available-For-Sale Reserve	162,355	150,614
Share-Based Payment Reserve	60,148	22,367
Cash Flow Hedge Reserve	397,852	–
Revaluation Reserve net of tax	853,456	–
Retained Earnings	24,245,824	20,731,801
Non-controlling interests	922,646	847,848
Total Equity	28,798,419	25,361,654
Less: Reserves not eligible for Tier I and charges to the Statement of Comprehensive Income	1,269,861	129,169
Total Equity Considered for Tier I Capital	27,528,558	25,232,485
Deductions - Tier I		
Intangible assets	297,070	296,678
50% investments in the capital of other banks and financial institutions	279,762	199,153
	576,832	495,831
Eligible Tier I Capital	26,951,726	24,736,654
Tier II: Supplementary Capital		
General loan loss provision	786,362	641,815
Approved Revaluation Reserve	542,092	–
Approved subordinated term debts	8,610,732	9,163,692
	9,939,186	9,805,507
Deductions - Tier II		
50% investments in the capital of other banks and financial institutions	279,762	199,153
Eligible Tier II Capital	9,659,424	9,606,354
Capital base (Tier I + Tier II)	36,611,150	34,343,008

	GROUP				
	Assets for Credit Risk		Risk Weights	Risk-Weighted Assets	
	2014 LKR '000	2013 LKR '000	%	2014 LKR '000	2013 LKR '000
Cash and claims on Central Government and Central Bank of Sri Lanka	57,012,415	43,981,843	0	–	–
Claims secured by cash deposits, gold and guarantees	16,178,539	11,507,606	0	–	–
Claims on banks	8,386,190	2,775,499	20-100	3,332,205	909,136
Claims on financial institutions	9,936,776	10,175,395	20-100	5,566,363	5,281,526
Loans secured by residential property	7,047,969	5,360,620	50	3,523,984	2,680,310
Past due loans	2,236,918	1,702,511	50-150	3,071,530	2,304,397
Retail claims and corporate claims	163,634,509	130,116,473	20-150	152,755,397	120,056,895
Property, plant & equipment	3,798,342	2,612,330	100	3,798,342	2,612,330
Other assets	3,996,044	2,812,925	100	3,996,044	2,812,925
Total Assets considered for credit risk	272,227,702	211,045,202		176,043,865	136,657,519

Risk-Weighted Assets and Off-Balance Sheet Exposure

	GROUP				
	Principal Amount of Off-Balance Sheet Items		Credit Conversion Factor	Credit Equivalent of Off-Balance Sheet Items	
	2014 LKR '000	2013 LKR '000		2014 LKR '000	2013 LKR '000
General guarantees of indebtedness	11,217,699	11,587,079	100	11,217,699	11,587,079
Standby letters of credit relating to particular transactions	65,950	35,168	50	32,975	17,584
Performance bonds and bid bonds	6,503,688	3,909,259	50	3,251,844	1,954,630
Trade-related acceptances and advance documents endorsed	8,014,553	8,301,839	20	1,602,911	1,660,368
Shipping guarantees	1,167,685	678,659	20	233,537	135,732
Documentary letters of credit	7,455,645	6,986,428	20	1,491,129	1,397,286
Undrawn term loans	10,120,524	2,882,331	0, 20 & 50	5,060,262	1,385,899
Foreign exchange contracts	97,569,796	62,235,214	2, 5 & 8	2,673,123	1,244,704
Undrawn overdrafts and credit lines	10,745,652	7,004,968	0	–	–
Other unutilized facilities	73,074,062	54,112,275	0, 20 & 50	53,248	88,206
Total Off-Balance Sheet Exposure	225,935,254	157,733,220		25,616,728	19,471,488

	2014 LKR '000	2013 LKR '000
--	------------------	------------------

Capital Charge for Market Risk

Capital charge for interest rate risk	362,267	85,493
Capital charge for equity securities and unit trusts	1,009,140	969,583
Capital charge for foreign exchange and gold	146,740	131,679
Total Capital charge for Market Risk	1,518,147	1,186,755
Total Risk-Weighted Assets Equivalent for Market Risk	15,181,470	11,867,554

Capital Charge for Operational Risk

Gross Income:		
Year 1	9,255,352	8,180,934
Year 2	12,001,151	9,255,352
Year 3	13,588,231	12,001,151
Average gross income	11,614,911	9,812,479
Total Capital Charge for Operational Risk at 15%	1,742,237	1,471,872
Total Risk-Weighted Assets Equivalent for Operational Risk	17,422,370	14,718,719
Total Risk-Weighted Assets	208,647,705	163,243,792

Capital Adequacy Ratios

Tier I (Required statutory minimum ratio is 5%)	12.92%	15.15%
Tier I & Tier II (Required statutory minimum ratio is 10%)	17.55%	21.04%

Corporate Information Supplement



Scan to view the online version
ndbbank2014.annualreports.lk/report/corporate_information.html

Under and by virtue of the National Development Bank of Sri Lanka Act No. 2 of 1979 a bank was established with an authorized capital of LKR 2,000 million comprising 20 million ordinary shares of LKR 100.00 each. (which was subsequently subdivided into 200 million ordinary shares of LKR 10.00 each).

1979

NDBSL was privatized further by the early conversion of its convertible debentures, reducing the Government's direct shareholding to 12.2%.

A further 2.56% of the issued shares were purchased by NDBSL for an Employees Share Ownership Plan.

1997

As a part of its long-term plans, NDBSL incorporated a commercial bank under the Companies Act No. 17 of 1982 under the name 'NDB Bank Limited' (NBL) to take over the business and operations of ABN Amro NV Colombo Branch.

2001

1993

2000

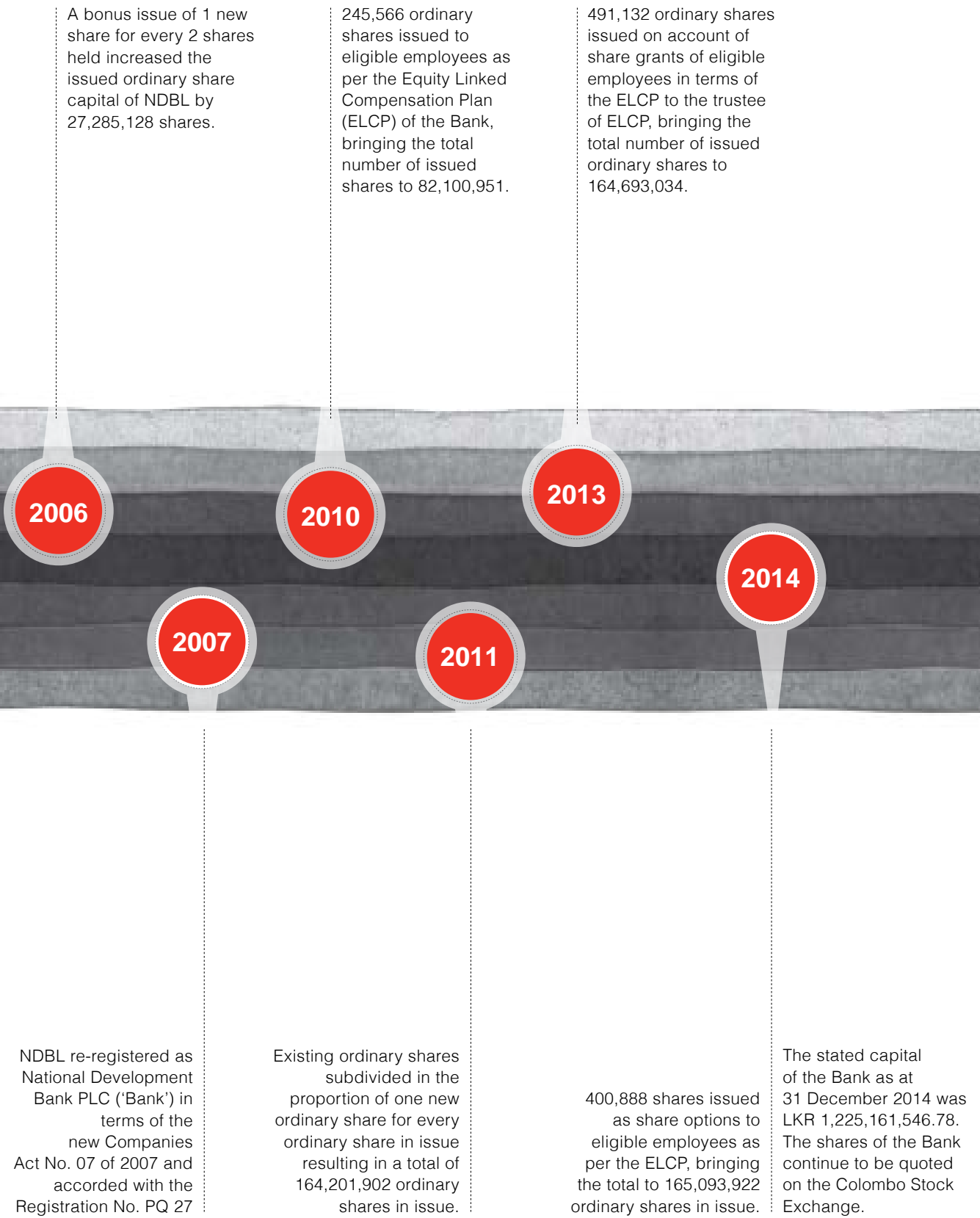
2005

61% of the share capital of the National Development Bank of Sri Lanka (NDBSL) transferred to private ownership through an IPO at LKR 50.00 per share.

A 1:2 bonus issue increased the number of shares in issue to 53,750,000.

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 Limited (NDBL) was incorporated in terms of the Companies Act No. 17 of 1982 (and was accorded with the Registration No. N (PBS) 1252) for the purposes of taking over the business of NDBSL on 15 June 2005 and the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed except for certain provisions contained therein.

NDBL acquired the business and operations of NBL. In view of this, the shareholders of NBL were issued with shares of NDBL at the ratio of 1 NDBL share for every 5.6 shares of NBL held by them. This resulted in the increase of the issued capital of NDBL to 54,570,257 shares. In order to facilitate this transition, on the date of such acquisition, the Central Bank of Sri Lanka granted a commercial banking licence to NDBL whilst withdrawing the specialized banking licence that was held by it.



No.	Region	Branch Name	Abbreviations	Branch Code	Address	District	Telephone: General
Central Province							
1	R 6	Kandy	KDY	002	No. 133, Kotugodella Veediya, Kandy	Kandy	081 2202776/7
2	R 6	Matale	MTL	046	No. 144, Main Street, Matale	Matale	066 2224405/6
3	R 6	Pilimathalawa	PLM	049	No. 239, Colombo Road, Pilimathalawa	Kandy	081 2579665/6
4	R 6	Gampola	GPL	050	No. 75, Nuwara Eliya Road, Gampola	Kandy	081 2354400/60
5	R 6	Nawalapitiya	NWP	061	No. 70B, Gampola Road, Nawalapitiya	Kandy	054 2223933/ 054 2223949
6	R 5	Dambulla	DMB	064	No. 42, Kurunegala Road, Dambulla	Matale	066 2285502/ 066 2285503
7	R 6	Nuwara-Eliya	NEW	076	No. 50/2, Siva Complex, Block C, Lawson Street, Nuwara-Eliya	Nuwara-Eliya	052 2235212/3
8	R 6	Kandy City Centre	KCC	080	L 1 - 3, Level 1, Kandy City Center, No. 05, Dalada weediya, Kandy	Kandy	081 2202893/4
North Central Province							
1	R 5	Anuradhapura	ANP	019	522/C, Maithreepala Senanayake Mawatha, New Town, Anuradhapura	Anuradhapura	025 4581142/3
2	R 5	Kaduruwela	KDR	060	No. 300/2, Sawmill Junction, Kaduruwela, Polonnaruwa	Polonnaruwa	027 2225193/ 027 2225103
Northern Province							
1	R 8	Jaffna	JAF	037	No. 62/6, Stanley Road, Jaffna	Jaffna	021 2221180/1
2	R 8	Vavuniya	VAV	041	No. 2, 1st Cross Street, Vavuniya	Vavuniya	024 2225780/1
3	R 8	Chunnakam	CNK	062	No. 30, K K S Road, Chunnakam	Jaffna	021 2242093/ 021 2242094
4	R 8	Nelliady	NDY	066	No. 109, Jaffna Road, Nelliady	Jaffna	021 2263402/3
Eastern Province							
1	R 8	Trincomalee	TRI	038	No. 91 & 93, North Coast Road, Trincomalee	Trincomalee	026 2226771/2
2	R 8	Batticaloa	BAT	039	No. 42/1, Trinco Road, Batticaloa	Batticaloa	065 2227944/5
3	R 7	Ampara	AMP	040	No. 103F, D S Sennanayake Street, Ampara	Ampara	063 2223209
4	R 8	Kalmunai	KLM	053	No. 165, Batticaloa Road, Kalmunai	Ampara	067 2225781/2
North Western Province							
1	R 5	Kurunegala	KUR	007	No. 6, Rajapihilla Mawatha, Kurunegala	Kurunegala	037 2231952/3
2	R 4	Chilaw	CHI	010	50-52, Skyline Building, Colombo Road, Chilaw	Puttalam	032 2220107/8
3	R 5	Puttalam	PUT	033	No. 104, Kurunegala Road, Puttalam	Puttalam	032 2265529
4	R 4	Wennappuwa	WEN	036	No. 56/C, Main Street, Wennappuwa.	Puttalam	031 2245431/2
5	R 5	Kuliyapitiya	KUL	042	No. 133, Main Street, Kuliyapitiya	Kurunegala	037 2281255/6
6	R 5	Wariyapola	WPL	056	Navinna Building, Puttalam Road, Wariyapola	Kurunegala	037 2267838/9
7	R 5	Nikaweratiya	NKW	069	No. 65, Puttalam Road, Nikaweratiya	Kurunegala	037 2260192/3

Telephone: Manager's Direct	Fax	ATM	Business Hours	Saturday/Sunday/365 days Banking
081 2202779	081 2202778	Yes	Monday to Friday 9.00am to 4.00pm	
066 2224403	066 2224407	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
081 2579660	081 2579899	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
081 2351370	081 2354388	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
054 2223858	054 2223696	Yes	Monday to Friday 9.00am to 4.00pm	
066 2285501	066 2285500	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
052 2235210	052 2235214	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
081 2202892	081 2202895	Yes	365-Day Banking (9.00pm to 7.00pm)	365-Day Banking (9.00pm to 7.00pm)
025 2234820	025 4581144	Yes	Monday to Friday 9.00am to 6.00pm	
027 2225243	027 2224483	Yes	Monday to Friday 9.00am to 4.00pm	
021 2221182	021 2221183	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
024 2225782	024 2225783	Yes	Monday to Friday 9.00am to 6.00pm	
021 2242092	021 2242095	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
021 2263400	021 2263399	Yes	Monday to Friday 9.00am to 4.00pm	
026 2226773	026 2226774	Yes	Monday to Friday 9.00am to 4.00pm	
065 2227946	065 2227947	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
063 2223191	063 2223216	Yes	Monday to Friday 9.00am to 4.00pm	
067 2225780	067 2225783	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
037 2231955	037 223 1954	Yes	Monday to Friday 9.00am to 6.00pm	
032 2222227	032 2220109	Yes	Monday to Friday 9.00am to 6.00pm	
032 2266031	032 2266030	Yes	Monday to Friday 9.00am to 4.00pm	
031 2245433	031 2245434	Yes	Monday to Friday 9.00am to 6.00pm	
037 2281260	037 2281264	Yes	Monday to Friday 9.00am to 4.00pm	
037 2267837	037 2267840	Yes	Monday to Friday 9.00am to 4.00pm	Sunday Banking from 9.00am to 1.00pm
037 2260191	037 2260196	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm

No.	Region	Branch Name	Abbreviations	Branch Code	Address	District	Telephone: General
Southern Province							
1	R 3	Matara	MAT	006	No. 60, Uyanwatte Road, Matara	Matara	041 2231542/3
2	R 3	Galle	GLE	021	1/A, Abeysekara Building, Wakwella Road, Galle	Galle	091 2224136-8
3	R 3	Ambalangoda	AMB	047	No. 333, Galle Road, Ambalangoda	Galle	091 2256562/3
4	R 3	Ambalantota	AMT	048	No. 127, Main Street, Ambalantota	Hambanthota	047 2225552/3
5	R 3	Hambanthota	HMT	057	No. 34, Wilmot Street, Hambanthota	Hambanthota	047 2222178/9
6	R 3	Akuressa	AKU	065	No. 21, Main Street, Akuressa	Matara	041 2284 541/2
7	R 3	Elpitiya	ELP	067	No. 23, Ambalangoda Road, Elpitiya	Galle	091 2290481/2
8	R 3	Uragasmanhandiya	UGM	081	No. 131, Main Street, Uragasmanhandiya	Galle	091 2264195/6
Uva Province							
1	R 6	Badulla	BAD	018	No. 242, Lower Street, Badulla	Badulla	055 2231419/20
2	R 6	Bandarawela	BDW	051	No. 317, Main Street, Bandarawela	Badulla	057 2233690/1
4	R 7	Moneragala	MNR	070	No. 29, Pothuwil Road, Moneragala	Moneragala	055 2277327/8
3	R 6	Mahiyanganaya	MGN	075	No. 02, New Town, Mahiyanganaya	Badulla	055 2051671/2
Sabaragamuwa Province							
1	R 7	Ratnapura	RAT	013	32 A, Zavia Road, Ratnapura	Ratnapura	045 2230910/1
2	R 6	Kegalle	KEG	017	261/1, Kandy Road, Kegalle	Kegalle	035 2232536/7
3	R 7	Embilipitiya	EBP	058	No. 67, Pallegama, Embilipitiya	Ratnapura	047 2261752/ 047 2261753
4	R 7	Balangoda	BLG	077	No 24 A, Barns Ratwatte Mawatha, Balangoda	Ratnapura	045 2289487/8
5	R 7	Eheliyagoda	ELG	078	No. 153, Main Street, Ehaliyagoda.	Ratnapura	036 2257321/ 036 2257322
Western Province							
1	R 1	Head Office Branch	HOB	100	103 A, Dharmapala Mawatha, Colombo 7	Colombo	011 2448448
2	R 1	Navam Mawatha	NMB	001	42 DHPL Building, Navam Mawatha, Colombo 02	Colombo	011 2314640/1
3	R 1	Havelock Town	HVL	003	117, Havelock Road, Colombo 05	Colombo	011 2591140/1
4	R 2	Nugegoda	NUG	004	152, Nawala Road, Nugegoda	Colombo	011 2820885/7
5	R 2	Rajagiriya	RAJ	005	505, Sri Jayawardanepura, Etul Kotte, Kotte	Colombo	011 2885790/ 011 2885792
6	R 1	Wellawatte	WEL	008	302, Galle Road, Colombo 6	Colombo	011 2361903/4
7	R 4	Negombo	NEG	009	No. 121, St. Joseph Street, Negombo	Gampaha	031 2220246/7
8	R 4	Wattala	WTL	011	378 A, Negombo Road, Wattala	Gampaha	011 2981519/20
9	R 2	Maharagama	MHG	012	108 A, Highlevel Road, Maharagama	Colombo	011 2745091/2
10	R 1	Kollupitiya	KPY	014	712, Galle Road, Colombo 3	Colombo	011 2504961/2
11	R 1	Moratuwa	MOR	015	255, Galle Road, Idama, Moratuwa	Colombo	011 2642021/2
12	R 3	Kalutara	KAL	016	290, Galle Road, Kalutara South	Kalutara	034 2229680-2
13	R 1	Mount Lavinia	MTL	020	270, Galle Road, Mt. Lavinia	Colombo	011 2739176/ 011 2737144
14	R 2	Pelawatte	PEL	022	730A, Pannipitya Road, Pelawatte, Battaramulla	Colombo	011 2786708/9

Telephone: Manager's Direct	Fax	ATM	Business Hours	Saturday/Sunday/365 days Banking
041 2231544	041 2231545	Yes	Monday to Friday 9.00am to 6.00pm	
091 2233752	091 2233751	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
091 2256561	091 2256517	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
047 2225551	047 2225554	Yes	Monday to Friday 9.00am to 4.00pm	
047 2222177	047 2222180	Yes	Monday to Friday 9.00am to 4.00pm	
041 2284540	041 2284543	Yes	Monday to Friday 9.00am to 4.00pm	
091 2290480	091 2290483	Yes	Monday to Friday 9.00am to 4.00pm	
091 2264019	091 2264016	Yes	Monday to Thursday 9.00am to 4.00pm / Friday 9.00am to 6.00pm	
055 2224573	055 2224627	Yes	Monday to Friday 9.00am to 4.00pm	
057 2233689	057 2233688	Yes	Monday to Friday 9.00am to 4.00pm	Sunday Banking from 9.00am to 1.00pm
055 2277326	055 2277329	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
055 2051670	055 2051673	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
045 2226022	045 2226042	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
035 2232532	035 2232571	Yes	Monday to Friday 9.00am to 6.00pm	
047 2261751	047 2261754	Yes	Monday to Friday 9.00am to 4.00pm	
045 2289486	045 2289489	Yes	Monday to Friday 9.00am to 6.00pm	
036 2257320	036 2257323	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 4796262	011 4796278	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2314643	011 2314642	Yes	Monday to Friday 9.00am to 6.00pm	
011 2591144	011 2591142	Yes	365-Day Banking (9.00am to 6.00pm)	365-Day Banking (9.00am to 6.00pm)
011 2820879	011 2820893	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2885794	011 2885793	Yes	365-Day Banking (9.00pm to 8.00pm)	365-Day Banking (9.00pm to 8.00pm)
011 2361906	011 236 1905	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
031 2220249	031 2220248	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2981522	011 2981521	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2745093	011 2745094	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2504964	011 2504963	Yes	Monday to Friday 9.00am to 6.00pm	
011 2642025	011 2642023	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
034 2236578	034 2236579	Yes	Monday to Friday 9.00am to 6.00pm	
011 2739717	011 2721249	Yes	365-Day Banking (9.00am to 8.00pm)	365-Day Banking (9.00am to 8.00pm)
011 2786710	011 2786711	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm

No.	Region	Branch Name	Abbreviations	Branch Code	Address	District	Telephone: General
15	R 2	Piliyandala	PIL	023	No 21, Second Cross Street, Piliyandala	Colombo	011 2604600
16	R 1	Kotahena	KOT	024	295, George R De Silva Mawatha, Colombo 13	Colombo	011 2436169/70
17	R 4	Kiribathgoda	KBG	025	139/1, Kandy Road, Kiribathgoda	Gampaha	011 2907511/2
18	R 4	Kadawatha	KDW	026	147, Kandy Road, Kadawatha	Gampaha	011 2926453/4
19	R 1	Horana	HOR	027	135, Panadura Road, Horana	Kalutara	034 2265171/2
20	R 4	Kandana	KDN	028	54, Negombo Road, Kandana	Gampaha	011 2228601/2
21	R 4	Gampaha	GAM	029	153, Colombo Road, Gampaha	Gampaha	033 2225051/2/3
22	R 2	Homagama	HOM	030	64 A, Highlevel Road, Homagama	Colombo	011 2894880/1
23	R 2	Malabe	MLB	031	760, New Kandy Road, Malabe	Colombo	011 2762345/6
24	R 2	Kohuwela	KOH	032	No. 118, S De S Jayasinghe Mawatha, Kohuwela	Colombo	011 2814224/5
25	R 7	Awissawella	AWL	034	No. 93, Ratnapura Road, Avissawella	Colombo	036 2233610/11
26	R 1	Panadura	PAN	035	No. 319, Galle Road, Panadura	Kalutara	038 2241893/4
27	R 1	Pettah	PET	043	No. 202, Main Street, Colombo 01	Colombo	011 2331204/5
28	R 4	Ja-Ela	JLA	044	No. 121, Colombo Road, Ja-Ela	Gampaha	011 2248982/3
29	R 3	Mathugama	MGM	045	No. 98, Agalawatta Road, Mathugama	Kalutara	034 2249509/10
30	R 1	Borella	BRL	052	No. 31/5, Dr. N M Perera Mawatha, Borella	Colombo	011 2694484/5
31	R 4	Nittambuwa	NTB	054	No. 496, Kandy Road, Nittambuwa	Gampaha	033 229 4931/2
32	R 2	Kaduwela	KWL	055	No. 501/2, Awissawella Road, Kaduwela	Colombo	011 2548571/2
33	R 3	Aluthgama	ALG	059	No. 267, Galle Road, Aluthgama	Kalutara	034 2275625/ 034 2275626
34	R 4	Minuwangoda	MNG	063	No. 49, Negombo Road, Minuwangoda	Gampaha	011 2280970/ 011 2280971
35	R 4	Yakkala	YAK	068	65/5 B, Kandy Road, Yakkala	Gampaha	033 2239395/6
36	R 2	Athurugiriya	ATU	071	70/20 C, Main Street, Athurugiriya	Colombo	011 2563325/ 011 2073244
37	R 2	Boralesgamuwa	BOR/BRG	072	No. 39, Kesbawa Road, Boralesgamuwa	Colombo	011 2509701/ 011 2150798
38	R 1	Ratmalana	RML	073	No. 151, Galle Road, Ratmalana	Colombo	011 2716684/5
39	R 1	Narahenpita	NAR	074	193, Kirula Road, Narahenpita, Colombo 5	Colombo	011 2369580/ 011 2369507
40	R 1	Old Moor Street	OMS	079	No. 311, Old Moor Street, Colombo 12	Colombo	011 2339902/3
41	R 4	Katunayake	KTN	082	No 745, Baseline Road, Aweriwatta, Katunayake	Gampaha	011 2254960/70

Regional Offices

Region code	Region	Regional Office	Regional Manager
1	Colombo Region	Borella	Sydney Downall
2	Greater Colombo Region	Rajagiriya	Indika Kudagamage
3	Southern Region	Matara	Chandima Alwis
4	North Western Region	Ja-Ela	Romesh Tissera
5	North Central Region	Kurunegala	Suresh Weerasinghe
6	Central Region	Kandy	Nalin Abeyrathne
7	Uva-Sabaragamuwa Region	Ratnapura	Sisira Herath
8	North Eastern Region	Jaffna	Thissaveerasingam Jeyarajasingam

Telephone: Manager's Direct	Fax	ATM	Business Hours	Saturday/Sunday/365 days Banking
011 2604685	011 2604800	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2436171	011 2436199	Yes	Monday to Friday 9.00am to 6.00pm	
011 2907514	011 2907513	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2926456	011 2926455	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
034 2265173	034 2265174	Yes	Monday to Friday 9.00am to 6.00pm	
011 2228603	011 2228604	Yes	Monday to Friday 9.00am to 6.00pm	
033 2234350	033 2234351	Yes	Monday to Friday 9.00am to 6.00pm	
011 2894882	011 2894883	Yes	Monday to Friday 9.00am to 6.00pm	
011 2762347	011 2762348	Yes	Monday to Friday 9.00am to 6.00pm	
011 2814226	011 2814227	Yes	Monday to Friday 9.00am to 6.00pm	
036 2233612	036 2233613	Yes	Monday to Friday 9.00am to 6.00pm	
038 2241895	038 2241896	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2331285	011 2331286	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2248981	011 2248984	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
034 2249379	034 2249513	Yes	Monday to Friday 9.00am to 4.00pm	Sunday Banking from 9.00am to 1.00pm
011 2694438	011 2694439	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
033 2294945	033 2294947	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2548569	011 2548573	Yes	Monday to Friday 9.00am to 6.00pm	
034 2275624	034 2275627	Yes	Monday to Friday 9.00am to 4.00pm	Saturday Banking from 9.00am to 1.00pm
011 2280969	011 2280995	Yes	Monday to Friday 9.00am to 6.00pm	Sunday Banking from 9.00am to 1.00pm
033 2239394	033 2239397	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2073243	011 2563326	Yes	Monday to Friday 9.00am to 4.00pm	
011 2150797	011 2509702	Yes	Monday to Friday 9.00am to 4.00pm	
011 2719361	011 2719377	Yes	Monday to Friday 9.00am to 4.00pm	
011 2369508	011 2369581	Yes	Monday to Friday 9.00am to 8.00pm	Saturday Banking from 9.00am to 1.00pm
011 2339901	011 2339904	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm
011 2254950	011 2254930	Yes	Monday to Friday 9.00am to 6.00pm	Saturday Banking from 9.00am to 1.00pm

Address	RM's Mobile Number	General Number
No. 31/5, Dr N M Perera Mawatha, Borella	0773 266675	011 2685712/3
No. 505, Sri Jayawardanepura Etul Kotte, Kotte	0777 418725	011 2078715/6
No. 60, Uyanwatta Road, Matara	0773 659373	041 2227161/3
No. 121, Colombo Road, Ja-Ela	0773 457422	011 2071493
No. 6, Rajapihilla Mawatha, Kurunegala	0773 876829	037 4692421
No. 133, Kotugodella Veediya, Kandy	0777 418714	081 2238786
No. 32 A, Zavia Road, Ratnapura	0772 017636	045 2223839
No. 62/6, Stanley Road, Jaffna	0773 494164	021 2217395

Branch/Location	Postal Address	Telephone Number	Email Address	Contact person
-----------------	----------------	------------------	---------------	----------------

NDBS Branch Network

Jaffna	1st Floor, NDB Bank, 62/6, Stanley Road, Jaffna	021 5671155	vibushan@ndbs.lk	Mr S Vibushan
Ampara	103 F, D S Senanayake Street, Ampara	063 2224245	ravi@ndbs.lk	Mr Ravi De Mel
CSE	04-01, West Tower, Echelon Square, Colombo 01	2335054	shiromi@ndbs.lk	Ms Shiromi De Silva
Gampaha	153, Colombo Road, Gampaha	033 2231117	gayan.sanjeewa@ndbs.lk	Mr S H Gayan Sanjeewa
Galle	1/A, Abeysekera Building, Wakwella Road, Galle	091 2225447	upul@ndbs.lk	Mr Upul Hettiarachchi
Kiribathgoda	139/1, Kandy Road, Kiribathgoda	2907515	gayan@ndbs.lk	Mr Gayan Pathirana
Kalutara	290, Galle Road, Kalutara South	034 2221589	ranganath@ndbs.lk	Mr Ranganath Wijethunga

NDB Wealth Management Ltd. - Contact Point

Navam Mawatha	No. 42, NDB EDB Tower, Navam Mawatha, Colombo 02	011 2303232 077 7767499	laknada@ndbinvestors.com	Mr Laknada De Mel
---------------	--	----------------------------	--------------------------	-------------------

NDB Investment Bank Ltd. - Contact Point

Navam Mawatha	No. 40, Navam Mawatha, Colombo 02	011 2300385-90 077 3224924	darshan@ndbib.com	Mr Darshan Perera
---------------	-----------------------------------	-------------------------------	-------------------	-------------------

NDB Capital Holdings PLC - Contact Point

Navam Mawatha	No. 40, Navam Mawatha, Colombo 02	011 2300385-90 071 450 4556	kusal@ndbib.com	Mr Kusal Jayawardena
---------------	-----------------------------------	--------------------------------	-----------------	----------------------

NDB Capital Ltd. (Bangladesh) - Contact Point

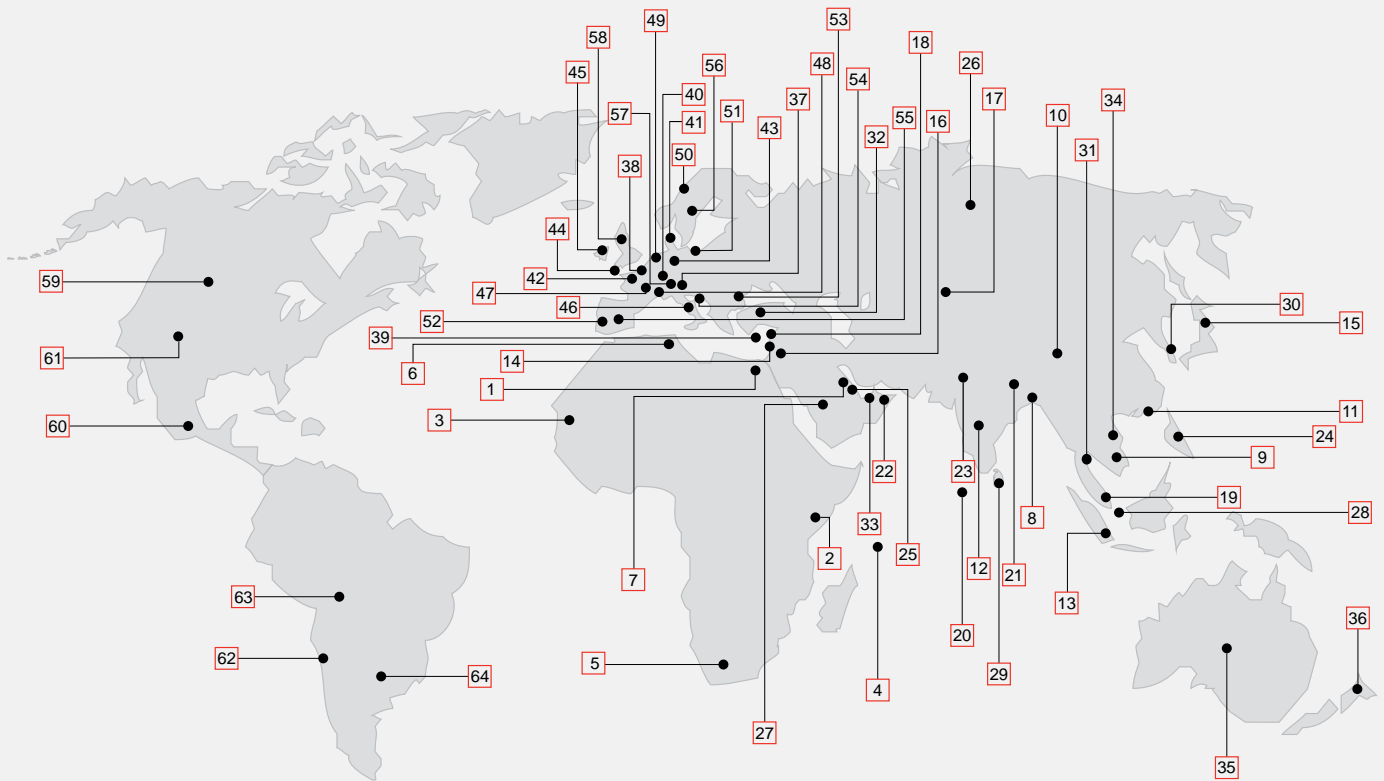
Bangladesh	'Bilquis Tower (5th floor), Plot - 06 Gulshan 2, Dhaka 1212, Bangladesh	+880 29888626 +880 1755645460	kanti@ndbcapital.com	Mr Kanti Kumar Saha
------------	--	----------------------------------	----------------------	---------------------

Development Holdings (Pvt) Ltd. - Contact Point

Navam Mawatha	No. 42, NDB EDB Tower, (2nd Floor) Navam Mawatha, Colombo 02	011 2300174 0772217216	mgrdhpl@gmail.com	Mr D M Janitha Dissanayake
---------------	---	---------------------------	-------------------	----------------------------

NDB Zephyr Partners Ltd. - Contact Point

Navam Mawatha	No. 40, Navam Mawatha, Colombo 02	011 2300385-90 071 4814033	senaka@ndbib.com	Mr Senaka Kakiriwaragodage
---------------	-----------------------------------	-------------------------------	------------------	----------------------------

**Africa**

1. Egypt
2. Kenya
3. Mauritania
4. Seychelles
5. South Africa
6. Tunisia

Asia

7. Bahrain
8. Bangladesh
9. Cambodia
10. China

11. Hong Kong

12. India
13. Indonesia
14. Israel
15. Japan
16. Jordan
17. Kazakhstan
18. Lebanon
19. Malaysia
20. Maldives
21. Nepal
22. Oman
23. Pakistan

24. Philippines

25. Qatar
26. Russian Federation
27. Saudi Arabia
28. Singapore
29. Sri Lanka
30. South Korea
31. Thailand
32. Turkey
33. UAE
34. Vietnam

Australia

35. Australia
36. New Zealand

Europe

37. Austria
38. Belgium
39. Cyprus
40. Czech Republic
41. Denmark
42. France
43. Germany
44. Guernsey

45. Ireland

46. Italy
47. Luxemburg
48. Monaco
49. Netherlands
50. Norway
51. Poland
52. Portugal
53. Romania
54. Slovenia
55. Spain
56. Sweden

57. Switzerland

58. UK

North America

59. Canada
60. Mexico
61. USA

South America

62. Argentina
63. Bolivia
64. Chile

Correspondent Relationships

2014: **64**2013: **62**

GRI Content Index: 'In accordance' with Core Criteria

GRI Indicator	Description	Reported in	Externally Assured	Page No./ Explanations
GENERAL STANDARD DISCLOSURES				
STRATEGY AND ANALYSIS				
G4-1	Statement from the Chairman	Letter from the Chairman	✓	12
ORGANIZATION PROFILE				
G4-3	Name of the Organization	Business Model	✓	20
G4-4	Primary Brands, Products and/or Services	Business Model	✓	67
G4-5	Location of Organization's Headquarters	Corporate Information	✓	404
G4-6	Number of countries where the Organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	Business Model	✓	21
G4-7	Nature of ownership and legal form	Business Model	✓	20
G4-8	Markets served	Business Model	✓	21
G4-9	Scale of the Reporting Organization	Business Model	✓	21
G4-10	Total workforce by employment type, employment contract, and region, broken down by gender	Employee Capital	✓	82
G4-11	Report the percentage of total employees covered by collective bargaining agreements	Employee Capital	✓	90
G4-12	Organization's supply chain	Business Model	✓	63
G4-13	Significant changes during the reporting period regarding size, structure or ownership	About this Report	✓	7
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization	About this Report	✓	7

GRI Indicator	Description	Reported in	Externally Assured	Page No./ Explanations
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	Business Model	✓	34
G4-16	List of membership of associations and national or internal advocacy organizations	Business Model	✓	34
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES				
G4-17	Operational Structure of the Organization	Business Model	✓	20
G4-18	Process for Defining Report Content	About this Report	✓	6
G4-19	Material Aspects identified for Report Content	Business Model	✓	35
G4-20	Aspect Boundary for identified Material Aspects within the organization	About this Report	✓	7
G4-21	Aspect Boundary for identified Material Aspects outside the organization	About this Report	✓	7
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	About this Report	✓	7
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	About this Report	✓	7
STAKEHOLDER ENGAGEMENT				
G4-24	List of stakeholder groups engaged by the Organization	Business Model	✓	29-33
G4-25	Basis for identification and selection of stakeholders with whom to engage	Business Model	✓	28
G4-26	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Business Model	✓	29-33
G4-27	Key topics and concerns raised through stakeholders engagement and how the Organization responded to them	Business Model	✓	29-33

GRI Indicator	Description	Reported in	Externally Assured	Page No./ Explanations
REPORT PROFILE				
G4-28	Reporting period	About this Report	✓	7
G4-29	Date of most recent previous report	About this Report	✓	7
G4-30	Reporting cycle	About this Report	✓	7
G4-31	Contact point for questions regarding the Report or its Contents	About this Report	✓	7
G4-32	Compliance with GRI G4 guidelines, GRI Content index and the External Assurance Report.	About this Report	✓	7
G4-33	Policy and current practice with regard to seeking external assurance for the Report	Sustainability Assurance Report	✓	266
GOVERNANCE				
G4-34	Governance Structure of the Organization, including committees under the highest governance body responsible for decision-making on economic, environment and social impacts	Corporate Governance	✓	111
ETHICS AND INTEGRITY				
G4-56	The values, principles, standards and norms of behaviour	Business Model	✓	34
SPECIFIC STANDARD DISCLOSURES				
G4 - DMA	Aspect and Materiality fulfilled	Business Model		36
CATEGORY: ECONOMIC				
Aspect Economic Performance				
G4-EC1	Direct economic value generated, distributed and retained	Financial Capital	✓	49
G4-EC3	Coverage of the Organization's defined benefit plan obligations	Employee Capital	✓	85
Aspect Market Presence				
G4-EC6	Proportion of senior management hired from the local community at locations of significant locations of operation	Social & Environmental Capital	✓	94

GRI Indicator	Description	Reported in	Externally Assured	Page No./ Explanations
Aspect Indirect Economic Impact				
G4-EC7	Development and impact of infrastructure investments and services supported	Social & Environmental Capital	✓	94
Aspect Procurement Practices				
G4-EC9	Proportion of spending on local suppliers at significant locations of Operations.	Social & Environmental Capital	✓	63
CATEGORY: ENVIRONMENT				
Aspect Materials				
G4-EN2	Percentage of materials used that are recycled input materials	Social & Environmental Capital	✓	95
Aspect Energy				
G4-EN3	Energy consumption within the organization	Social & Environmental Capital	✓	95
Aspect Emission				
G4-EN15	Direct greenhouse gas emissions (scope 1)	Social & Environmental Capital	✓	95
G4-EN16	Energy indirect greenhouse gas emissions (scope 2)	Social & Environmental Capital	✓	95
G4-EN17	Other indirect greenhouse gas emissions (scope 3)	Social & Environmental Capital	✓	95
CATEGORY: SOCIAL				
Labour Practices And Decent Work				
Aspect Employment				
G4-LA1	Total number and rate of new employee hires and employee turnover by age group, gender, and region	Employee Capital	✓	84-85
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Employee Capital	✓	85
G4-LA3	Return to work and retention rates after parental leave, by gender.	Employee Capital	✓	85
Aspect Labour/Management Relations				
G4-LA4	Minimum notice periods regarding operational changes including whether these are specified in collective agreements	Employee Capital	✓	90

GRI Indicator	Description	Reported in	Externally Assured	Page No./ Explanations
Aspect Occupational Health and Safety				
G4-LA6	Type of injury and rates of injury, occupational disease, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Employee Capital	✓	91
Aspect Training and Education				
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Employee Capital	✓	88
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Employee Capital	✓	88
G4-LA11	Percentage of employees receiving regular performance and career development reviews by gender and employee category	Employee Capital	✓	91
Aspect Diversity and Equal Opportunity				
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Employee Capital	✓	82, 89
Aspect Equal Remuneration for Women and Men				
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Employee Capital	✓	91
Aspect Labour Practices Grievance Mechanisms				
G4-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	Employee Capital	✓	90

GRI Indicator	Description	Reported in	Externally Assured	Page No./ Explanations
Human Rights				
Aspect Non-Discrimination				
G4-HR3	Total number of incidents of discrimination and corrective action taken	Employee Capital	✓	91
Aspect Freedom of Association and Collective Bargaining				
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk and measures taken to support these rights	Employee Capital	✓	90
Aspect Human Rights Grievance Mechanisms				
G4-HR12	Number of grievances about Human Rights impacts filed, addressed and resolved through formal grievance mechanisms	Employee Capital	✓	91
Society				
Aspect Local Communities				
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	Social & Environmental Capital	✓	96-98
Aspect Anti-Corruption				
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Risk Management	✓	211-213
Aspect Compliance				
G4-SO8	Monitory value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Business Model	✓	65
Aspect Anti-competitive Behaviour				
G4-SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	Business Model	✓	65

GRI Indicator	Description	Reported in	Externally Assured	Page No./ Explanations
Aspect Supplier Assessment for Impact on Society				
G4-S09	Percentage of new suppliers that was screened using criteria for impacts on society	Business Model	✓	63
Aspect Grievance Mechanisms for Impacts on Society				
G4-S011	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms		✓	65
Product Responsibility				
Aspect Product and Service labelling				
G4-PR3	Type of product & service Information required by the organization's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	Customer Capital	✓	81
G4-PR5	Results of surveys measuring customer satisfaction	Customer Capital	✓	79
Aspect Marketing Communication				
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes	Customer Capital	✓	81
Aspect Customer Privacy				
G4-PR8	Total number of substantial compliance breaches regarding breaches of customer privacy and losses of customer data	Customer Capital	✓	82
Aspect Compliance				
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Business model	✓	65

UNGC Principles - GRI Indicators Cross Reference

Issue Areas	GC Principles	Page/s
Human Rights	Principle 1	
	Businesses should support and respect the protection of internationally proclaimed human rights	91
	Principle 2	
	Businesses should make sure that they are not complicit in human rights abuses	91
Labour	Principle 3	
	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	90
	Principle 4	
	Businesses should uphold the elimination of all forms of forced and compulsory labour	91
	Principle 5	
Environment	Businesses should uphold the effective abolition of child labour	91
	Principle 6	
	Businesses should uphold the elimination of discrimination in respect of employment and occupation	91
	Principle 7	
	Businesses should support a precautionary approach to environmental challenges	7
Anti-Corruption	Principle 8	
	Businesses should undertake initiatives to promote greater environmental responsibility	95
	Principle 9	
	Businesses should encourage the development and diffusion of environmentally friendly technologies	95
Anti-Corruption	Principle 10	
	Businesses should work against corruption in all its forms, including extortion and bribery	65

A**Accounting Policies**

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Acceptances

Promise to pay, created when the drawee of a time draft, stamps or writes the word 'accepted' above his signature and a designated payment date.

Accrual Basis

Recognizing the effects of transaction and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Amortization

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortized Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal prepayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Asset and Liability Committee (ALCO)

A risk-management committee in a bank that generally comprises the senior management of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Bank's forecast and strategic balance sheet allocations.

Associate

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Available-for-Sale

A debt or equity security that is purchased with the intent of selling before it reaches maturity, or selling prior to a lengthy time period in the event the security does not have a maturity.

Amounts Due to Customers

Money deposited by account holders. Such funds are recorded as liabilities.

B**Bills for Collection**

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

C**Capital****Capital Adequacy Ratios**

The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capitals

Refer to any stock of value such as customer base, staff strength, relationships with the community etc. that will increase, decrease or transform through the activities of an organisation and that will help it generate earnings in future.

Cash Equivalents

Short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collectively Assessed Loan Impairment Provisions

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogenous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Typically assets within the Retail Banking business (Housing, personal, vehicle loans etc.) are assessed on a portfolio basis.

Commitments

Credit facilities approved but not yet utilised by the clients at the date of the Statement of Financial Position.

Contingencies

A condition or situation existing at the date of the Statement of Financial Position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Cost to Income Ratio

Operating expenses excluding impairment for loans and receivables and other losses as a percentage of total operating income.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Credit Risk

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Customers Deposits

Money deposited by account holders. Such funds are recorded as liabilities.

Cost Method

A method of accounting whereby the investment is recorded at cost. The Statement of Profit or Loss reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

D**Deferred Taxation**

Sum set aside for tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.

Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and receivables are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., an interest rate).

Derecognition

Removal of a previously recognized financial asset or financial liability from an entity's Statement of Financial Position.

Dividend Yield

Dividend earned per share as a percentage of its market value.

Documentary Credits

Commercial letters of credit provided for payment by a bank to the named beneficiary usually the seller of merchandise, against delivery of documents specified in the credit.

E**Earnings per Ordinary Share (EPS)**

Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

Effective Tax Rate

Provision for taxation including deferred tax divided by the profit before taxation.

Equity Method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Employee Share Ownership Plan (ESOP)

A method of giving employees shares in the business for which they work.

F**Fair Value**

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair Value Adjustment

An adjustment to the fair value of a financial instrument which is determined using a valuation technique (level 2 and level 3) to include additional factors that would be considered by a market participant that are not incorporated within the valuation model.

Fair Value Through Profit or Loss

A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of a short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract).

Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial Assets

Any assets that is cash, equity instrument of another entity, a contractual right to receive cash or contractual right to receive another financial asset from another entity.

Financial Liabilities

A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Foreign Exchange Profit

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last date of the Statement of Financial Position and the settlement/date of the Statement of Financial Position. Also arises from trading in foreign currencies.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G**Group**

A Group is a parent and all its subsidiaries and associates.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld.

H**Held-to-Maturity**

Investments and debt securities that a Company has the ability and intent to hold until maturity.

Held-for-Trading

Debt and equity investments that are purchased with the intent of selling them within a short period of time (usually less than one year).

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest rate, Prices and Commodities, etc.).

Historical Cost

Historical cost is the original nominal value of an economic item.

I**Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

Impairment charges for Loan Losses

Amounts set aside against possible losses on loans, receivables and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

Impaired Loans

Loans where identified impairment provisions have been raised and also include loans which are collateralized or where indebtedness has already been written down to the expected realizable value. The impaired loan category may include loans, which, while impaired, are still performing.

Impairment Allowances

Management's best estimate of losses incurred in the loan portfolios at the reporting date.

Integrated Reporting

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long term in its economic, social and environmental context.

Investment Property

A real estate property that has been purchased with the intention of earning a return on the investment (purchase), either through rent (income), the future resale of the property, or both

Interest Rate Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

J**Joint Control**

Joint control is the contractually agreed sharing of the control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Joint Venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

K**Key Management Personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity and key employees who are holding directorships in subsidiary companies and other key employees who meet the criteria mentioned above.

L**Liquid Assets**

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills and Bonds.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans and Receivables

Conventional loan assets that are unquoted (originated or acquired).

Loss Given Default ('LGD')

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

M**Market Capitalisation**

Number of ordinary shares in issue multiplied by the market value of a share as at a date.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

Minority Interest

The interest of individual shareholders, in a company more than 50% of which is owned by a holding company.

N**Net Assets Value per Ordinary Share**

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Net Interest Income (NII)

The difference between the amount a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

Net Interest Margins (NIM)

Net interest income expressed as a percentage of average interest earning assets.

Non-Performing Loans (NPLs)

A loan or an receivables placed on cash basis (i.e. Interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest.

Non-Performing Loans Cover (NPL Cover)

Cumulative loan provision as a percentage of total non-performing Loans (net of interest in suspense).

NPL Ratio

Total non-performing loans and receivables (net of interest in suspense) divided by total loans and receivables portfolio (net of interest in suspense).

Non-Controlling Interest

Equity in a subsidiary not attributable, directly or indirectly, to a Parent.

O**Open Credit Exposure Ratio**

Total net non-performing loans and advances expressed as a percentage of shareholders' fund.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P**Parent**

A parent is an entity that has one or more subsidiaries.

Price Earnings Ratio (P/E Ratio)

Market price of a share divided by earnings per share.

Provision Cover

Total provisions for loan losses expressed as a percentage of net non-performing loans and receivables before discounting for provisions on non-performing loans and receivables.

R**Related Parties**

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Return on Average Assets (ROA)

Profit after tax divided by the average assets.

Risk-Weighted Assets

On-Balance Sheet assets and the credit equivalent of off-Balance Sheet assets multiplied by the relevant risk weighting factors.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.

Return on Average Equity (ROE)

Net profit for the year, less preference share dividends, if any, expressed as a percentage of average ordinary shareholders' equity.

Retained Earnings

Reserves that are set aside for future distribution and investments.

Revaluation Reserve

Part of the shareholders' equity that arises from changes in the current value of property, plant and equipment.

S**Segmental Analysis**

Analysis of financial information by segments of an entity specifically, the different industries and the different geographical areas in which it operates.

Shareholders' Funds

Total of stated capital and capital and revenue reserves.

Single Borrower Limit (SBL)

33% of the regulatory capital base.

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Substance Over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Subsidiary

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the Parent).

Swaps

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Bank.

T**Tier I Capital**

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

U**Unit Trust**

An undertaking formed to invest in securities under the terms of a trust deed.

V**Value Added**

Value of wealth created by providing banking and other related services less the cost of providing such services.

Y**Yield-to-Maturity**

The discount rate at which a security's present value of future cash flows will be equal to the security's current price.

Notice is hereby given that the Tenth (10th) Annual General Meeting of National Development Bank PLC (the Bank) will be held at the Auditorium of Development Holdings (Pvt) Ltd., 3rd Floor, NDB EDB Tower, No. 42, Navam Mawatha, Colombo 2 at 10.00 a.m. on Monday, the Thirtieth (30th) day of March Two Thousand and Fifteen (2015) and the business to be brought before the meeting will be:

1. To lay before the shareholders for consideration, the Annual Report for the year ended 31 December 2014.
2. To re-elect Mrs Kimarli Fernando, as a Director in terms of Article 42 of the Articles of Association of the Bank.
3. To re-elect Mr Trevine Jayasekera, as a Director in terms of Article 42 of the Articles of Association of the Bank.
4. To reappoint Ernst & Young, Chartered Accountants, as Auditors of the Bank as set out in Section 154 of the Companies Act No. 07 of 2007 and Section 39 of the Banking Act No. 30 of 1988 (as amended) and to fix the fees and expenses of such Auditors.
5. To determine the aggregate remuneration payable to Non-Executive Directors including the Chairman in terms of Article 58 of the Articles of Association of the Bank and to authorize the Board of Directors to approve other remuneration and benefits to the Directors (including the remuneration of the Executive Director/s) in terms of Section 216 of the Companies Act No. 07 of 2007.
6. To authorize the Board of Directors to determine donations for the financial year 2015 under the Companies Donations Act No. 26 of 1951.

By Order of the Board,



Shehani Ranasinghe
Secretary to the Board

Colombo
13 February 2015

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy holder to attend and vote in his/her stead.
2. A proxy holder need not be a shareholder of the Bank.
3. The Form of Proxy is sent herewith. The completed Form of Proxy must be deposited at the Head Office of the Bank, at No. 40, Navam Mawatha, Colombo 2 not later than 24 hours prior to the time appointed for the holding of the meeting in accordance with Article 29 of the Articles of Association of the Bank.
4. Shareholders/proxy holders attending the meeting are requested to bring their National Identity Cards.

Name

National Development Bank PLC (The Bank was registered under the Companies Act No. 17 of 1982 and subsequently re-registered under the Companies Act No. 07 of 2007 on 4 July 2007).

Registration No.

PQ 27

Registered Logo:**Legal Form**

Incorporated in Sri Lanka under the Companies Act No. 07 of 2007 and also regulated under the Banking Act No. 30 of 1988 as amended from time to time.

Head Office/Registered Office

40, Navam Mawatha, Colombo 2
Tel: 2448448
Fax: 2341044, 2440262
SWIFT Code: NDBS LK LX
Web Page: www.ndbbank.com
E-mail: contact@ndbbank.com
VAT Registration No.: 409000266-7000
Accounting year-end: 31 December

Credit Rating: AA-(Ika)/Stable Outlook
Fitch Ratings Lanka Ltd.

Stock Exchange Listing

The shares of the Bank are listed on the Colombo Stock Exchange.

Board of Directors

Sunil G Wijesinha - *Chairman*
Ashok Pathirage - *Deputy Chairman*
Rajendra Theagarajah - *CEO*
Trevine Jayasekera
Sarath Wikramanayake
Kimarli Fernando
Anura Siriwardena
G D Chandra Ekanayake
Sujeewa Rajapakse
Indrani Sugathadasa

Company Secretary

Shehani Ranasinghe (Attorney-at-Law)

Compliance Officer

Manique Kiriella Bandara

Subsidiary Companies as at 31 December 2014**NDB Capital Holdings PLC**

(De-listed w.e.f. 26.01.2015)

Directors:

A K Pathirage - *Chairman*
D S P Wikramanayake
R Theagarajah
B A I A Rajakarier
W M De F Arasakularatna
C V Kulatilaka
I A Wickramasinghe
(Resigned w.e.f. 19.09.2014)

Development Holdings (Pvt) Ltd.

Directors:

B Egodage - *Chairman*
R Theagarajah
Dr Y K Maraikkar
S Weerakoon
P K Sumithrarachchi
S Rajapakse
M Paiva (Appointed w.e.f. 11.06.2014)
I A Wickramasinghe
(Resigned w.e.f. 19.09.2014)
D Seneviratne (Resigned w.e.f. 13.05.2014)
L de Mel (Resigned w.e.f. 11.06.2014)
A Siriwardena (Appointed w.e.f. 11.06.2014
and Resigned w.e.f. 27.10.2014)

NDB Securities (Pvt) Ltd.

Directors:

R Theagarajah - *Chairman*
C V Kulatilaka
B A I A Rajakarier (Appointed w.e.f. 01.04.2014)
S R de Silva (Resigned w.e.f. 16.06.2014)
I A Wickramasinghe
(Resigned w.e.f. 19.09.2014)

NDB Investment Bank Ltd.

Directors:

D S P Wikramanayake - *Chairman*
R Theagarajah
C V Kulatilaka
D G Perera
B Perera (Appointed w.e.f. 05.06.2014)
S Peiris (Resigned w.e.f. 03.06.2014)

NDB Capital Ltd. (Bangladesh)

Directors:

S Rajapakse - *Chairman*
(Appointed w.e.f. 22.01.2014)
R Theagarajah (Appointed w.e.f. 22.01.2014)
A M Khan
C M Alam
C V Kulatilaka
K Jayawardana
Z Chowdhury
H F Choudhury
K K Saha - *Managing Director*

NDB Wealth Management Ltd.

Directors:

D S P Wikramanayake - *Chairman*
C V Kulatilaka
R Theagarajah

NDB Zephyr Partners Ltd.

Directors:

T C Barry
R Theagarajah
C V Kulatilaka
M Gulati
D Rajabalee
R B Mandary

Associate Companies as at 31 December 2014

NDB Venture Investments (Pvt) Ltd.
(Under Liquidation)
Ayojana Fund (Pvt) Ltd. (Under Liquidation)

Auditors

Ernst & Young
201, De Saram Place, Colombo 10

Bankers

Hongkong & Shanghai Banking Corporation PLC
Citibank
Deutsche Bank AG
Standard Chartered Bank
ANZ
ICICI Bank
Uni Credit Bank AG
Nordea Bank Norge ASA
Bank of New Zealand
Commerz Bank AG

Registrar to the LKR 10 billion Rated Unsecured Subordinated Redeemable Debentures Issue - December 2013

S S P Corporate Services (Pvt) Ltd.
No. 101, Inner Flower Road, Colombo 03

Trustees to the LKR 10 billion Rated Unsecured Subordinated Redeemable Debentures Issue - December 2013

Bank of Ceylon
No. 1, BOC Square,
Bank of Ceylon Mawatha,
Colombo 01

National Development Bank PLC

I/We
 (NIC/s) of

..... being a member/members of National Development Bank PLC ('the Bank') hereby appoint

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

- 2. Mr Sunil G Wijesinha (Chairman of the Bank) of Colombo or failing him,
- Mr Ashok Pathirage (Deputy Chairman of the Bank) of Colombo or failing him,
- Mr Trevine Jayasekera of Colombo or failing him,
- Mr Sarath Wikramanayake of Colombo or failing him,
- Mrs Kimarli Fernando of Colombo or failing her,
- Mr Anura Siriwardena of Colombo or failing him,
- Ms G D Chandra Ekanayake of Colombo or failing her,
- Mr Sujeewa Rajapakse of Colombo or failing him,
- Mrs Indrani Sugathadasa of Colombo or failing her,
- Mr Rajendra Theagarajah (CEO/Director of the Bank) of Colombo

as my/our proxy to represent me/us and to vote for me/us and on my/our behalf at the Tenth Annual General Meeting of the Bank to be held on Monday the thirtieth (30th) day of March 2015 and at any adjournment thereof and at every poll which may be taken in consequence thereof. I/we the undersigned hereby authorize my/our proxy to vote on my/our behalf in accordance with the preferences indicated below:

	For	Against
1. To re-elect Mrs Kimarli Fernando, as a Director in terms of Article 42 of the Articles of Association of the Bank.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr Trevine Jayasekera, as a Director in terms of Article 42 of the Articles of Association of the Bank.	<input type="checkbox"/>	<input type="checkbox"/>
3. To reappoint Ernst & Young, Chartered Accountants, as Auditors of the Bank as set out in Section 154 of the Companies Act No. 07 of 2007 and Section 39 of the Banking Act No. 30 of 1988 (as amended) and to fix the fees and expenses of such Auditors.	<input type="checkbox"/>	<input type="checkbox"/>
4. To determine the aggregate remuneration payable to Non-Executive Directors including the Chairman in terms of Article 58 of the Articles of Association of the Bank and to authorize the Board of Directors to approve other remuneration and benefits to the Directors (including the remuneration of the Executive Director/s) in terms of Section 216 of the Companies Act No. 07 of 2007.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorize the Board of Directors to determine donations for the financial year 2015 under the Companies Donations Act No. 26 of 1951.	<input type="checkbox"/>	<input type="checkbox"/>

As witness I/We have set my/our hand/s hereunto this day of
 Two Thousand and Fifteen (2015).

.....
 Signature of the Member/Members

Instructions for Completion of the Form of Proxy

1. In order to appoint a proxy holder, kindly complete the Form of Proxy. The full name and the registered address of the member appointing the Proxy should be legibly entered in the Form of Proxy and should be signed and dated by the member. The duly completed Form of Proxy must be deposited at the Registered Office of the Bank, at No. 40, Navam Mawatha, Colombo 2.
2. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy if the Power of Attorney has not already been registered with the Bank.
3. If you wish to appoint a person other than the Chairman, Deputy Chairman or a Director of the Bank as your Proxy, please insert the relevant information in the Form of Proxy.
4. The proxy holder appointed need not be a shareholder of the Bank.
5. In case of a corporate member, the proxy must be executed under its common seal (if applicable) or in such other manner prescribed by the Articles of Association or other constitutional documents.
6. The first joint holder shall have the power to sign the Form of Proxy without the concurrence of the other joint holder/s.
7. Please indicate an "X" in the cage provided regarding how your proxy should vote on each Resolution. If no indication is given, or if there is, in the view of the proxy holder, any doubt (by reason of the manner in which the instructions contained in the proxy have been completed) as to the way in which the proxy holder should vote, the proxy holder in his/her discretion may vote as he/she thinks fit.

To request information or submit a comment/query to the Bank, please provide the following details and return this page to:

Secretary to the Board
 National Development Bank PLC
 No. 40, Navam Mawatha
 Colombo 02
 Sri Lanka

Name : _____

Permanent Mailing Address : _____

Contact Number/s
 - Tel : _____
 - Fax : _____
 - E-Mail : _____

Name of Company (if applicable) : _____

Designation (if applicable) : _____

Company Address (if applicable) : _____

Queries/Comments

Please mark (x) in the appropriate box

Yes No

Would you like to receive soft copies of the Bank's Interim Reports via e-mail?

Would you like to receive news and press releases of the Bank via e-mail?

Would you like to receive any news on our products/services?

Would you like the Bank to directly deposit/transfer any future dividends to a bank account designated by you?

If 'Yes', please provide your bank account details in the space provided above and also instruct your stockbroker regarding your above instructions. Kindly also forward a certified copy of your National Identity Card when you return this form to the Secretary to the Board.



This Annual Report is Carbon Neutral

This National Development Bank PLC annual report has been produced by Smart Media The Annual Report Company, a certified carbon neutral organisation. Additionally, the greenhouse gas emissions resulting from activities outsourced by Smart Media in the production of this annual report, including the usage of paper and printing, are offset through verified sources.

This is an Integrated Annual Report

This National Development Bank PLC annual report has been prepared using the Smart Integrated Reporting Methodology™ of Smart Media The Annual Report Company.



www.smart.lk



www.carbonfund.org



NATIONAL DEVELOPMENT BANK PLC

40, Navam Mawatha, Colombo 2, Sri Lanka.

Tel: +94 11 244 8448

Fax: +94 11 234 1044

SWIFT Code: NDBS LK LX

Web: www.ndbbank.com

E-mail: contact@ndbbank.com



Scan to view the HTML version
www.ndbbank2014.annualreports.lk